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Joseph W. White II

University of Nebraska at Omaha

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THE UNITED STATES AND MALAYA: 1945 - 1953

A Thesis

Presented to the

Department of History

and the

Faculty of the Graduate College

University of Nebraska at Omaha

In Partial Fulfillment

of the Requirements for the Degree

Master of Arts

by

Joseph W. White, II

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THESIS ACCEPTANCE

Accepted for the faculty of The Graduate College of the University of Nebraska at Omaha, in partial fulfillment of the requirements for the degree Master of Arts.

Graduate Committee	<u>William R. Peterson</u>	<u>History</u>
	Name	Department
	<u>Joseph Guobuhung</u>	<u>political science</u>

Harold A. Palstrom
Chairman History
November 19, 1976
Date

PREFACE

Historical investigation is a self-justifying effort. The discovery of the forgotten event or a different view of a circumstance or condition contributes to the total body of knowledge and needs no further defense. However, in this instance, there is a benefit in briefly tracing the ruminations that lead to this particular study. In short, the historical significance of the post-World War II American-Malayan relationship is hardly self-evident. The obvious questions: why this subject and wherein lies the value?

The long, tortuous involvement of the United States of America in what can be called, in an extended sense, the Indochina Wars, has precipitated a fascination in the story of America's post-World War II involvement in Southeast Asia.¹ In the main, the objective has been to fathom the root causes for the American travail of the Sixties and Seventies in Vietnam, Laos, and Cambodia. Understandably, the retrospective efforts proceed with a singleness of

¹The term, Southeast Asia, is used throughout in the contemporary context. It apparently first came into use during World War II; e.g., the creation of a South-East Asian Command (SEAC) in 1943. Prior to the war, the British commonly referred to the area as part of South Asia; Americans usually spoke in terms of the Far East.

reference and emphasis; the subcontinent, Southeast Asia, is viewed through the optics of Indochina. As a result, terms are often casually interchanged, adding to the conceptual muddle; Vietnam is Indochina is Southeast Asia. Rarely are Southeast Asia or a specific nation outside of Indochina subjects in themselves. Often obscured or ignored is the fact that in addition to Indochina, Southeast Asia is Burma, Thailand, Malaysia, Indonesia, and the Philippines, an area of mainland and island inhabited by diverse people. However, the extra-Indochina American experience is often relegated to footnote status. The total region and its parts are treated only insofar as they are relevant to the American involvement in Indochina. This general observation suggested a question; does the American-Southeast Asia story change in its essentials when viewed from a vantage point other than Indochina? Assuming that the Indochina involvement was motivated, more or less, by a desire to halt the spread of Asian communism, the question can be asked another way. Does that motive explain American interest, influence, and actions elsewhere in Southeast Asia?

Post-World War II British Malaya suggested itself as a subject for investigation for several reasons. First, the Malayan experience contains elements which presumably might have drawn American attention in view of the general thrusts of American foreign policy as it took shape during

World War II, and as it evolved in the post-war period. For example, Malaya reverted to British colonial status in September 1945 at a time when an accepted tenet of American foreign policy favored progress toward independence for colonial peoples. Though Great Britain had made a commitment in 1943 to the post-war preparation of Malaya for self-government, progress toward that goal was frustrated. The first step proved false; the plan for reorganizing Malaya into a union of states, initiated in October 1945, drew resistance from the very people the British had traditionally sought to protect, the Malays. The second attempt at a "first step," the formation of the Federation of Malaya in 1948, was threatened within months by a savage, insurgent communist activism that threatened both the British attempt to set Malaya on the path of self-government, and the then fragile sense of Malayan nationalism so necessary to an achievement of home rule. By that time, the emphasis of American foreign policy had shifted from anticolonialism to anticommunism.

This study suggests that, although American foreign policy addressed itself to both colonialism and communism, neither concern adequately explains the American interest or influence in regard to Malaya. Malaya's status as a British colonial possession was never seriously questioned by the United States; therefore, the preparation of Malaya

for self-governing status and the task of meeting the communist threat remained British responsibilities. However, America did have an interest; prewar Malaya had been the world's largest producer of natural rubber, a material needed by both consumer and defense industries. In 1942, with the closure of Southeast Asia by the Japanese, ninety per cent of the world's rubber-producing capacity had been cut off; more than half of that capacity lay within Malaya. Under the pressures of war, the United States Government built a giant synthetic rubber industry where none had previously existed, an industrial miracle often described as second only to the atom bomb. By 1945, America was producing rubber at a rate equal to the total prewar world capacity. The implications for the future were obvious. The American rubber products manufacturing industry would have a national source of supply independent of all foreign areas and the American military would never again be threatened by the precipitous loss of a strategic material. On the other hand, British Malaya was economically dependent upon the world's rubber markets and America had historically constituted half of that market; therefore, the post-war recovery of Malaya, the progress toward self-government and, after 1948, the survival of Malaya in the rising tide of Asian communism would all depend to a large degree upon her ability to produce and market rubber.

The purpose of this study is twofold: (1) to examine the American view of British Malaya at the end of World War II; and (2) to recount the post-war Malayan experience and search for the tracks of America's interest and influence. Evidence emerges that there were two American perceptions of Malaya. The first recognized Malaya as the largest producer of natural rubber. In this context, Malaya was at once the source of a critical commodity and a potential threat to an infant, strategic industry. The second perception hazily distinguished Malaya in the regional context of Southeast Asia, an area beset with confused efforts to maintain the colonial systems, and communist efforts to subvert both the colonial systems and progress toward non-communist systems of self-government.

A question persists among students of America's Post-World War II foreign affairs: did the United States have a Far Eastern policy? Writing at the close of the Korean War, Edwin O. Reischauer put the question in the form of challenge in his work, Wanted: An Asian Policy.² Writing some twelve years later in the midst of deepening

²Edwin O. Reischauer, Wanted: An Asian Policy (New York: Alfred A. Knopf, 1955), pp. 181, 257. For example: Dr. Reischauer takes issue with both the absence of clear policy, and the bankruptcy of policy in evidence; e.g., the reluctance of the United States to take the lead in solving colonial problems as a matter of policy and the reluctance to provide economic aid versus military aid to Asian nations.

American entanglement in Vietnam, Richard S. Kirkendall observed that although American post-World War II policy in Europe was clear, ". . . a similar clarity was not to be found regarding American interests in the Far East."³ As a contribution toward an understanding of the condition, this study claims value.

The selection of the end-date of the period under study requires some explanation. The year 1953 was chosen for reasons to be found in events, both in Malaya and the United States. By 1953, the British and Malayan forces under British leadership had turned the corner in the military struggle to contain communist insurgency. Though the threat remained for years to come, the heat had gone out of what was termed with typical British reserve, "the Emergency." In America, 1953 saw the end of the administration of President Harry S. Truman and the stewardship of his second term Secretary of State, Dean A. Acheson. Admittedly a somewhat arbitrary point in the continuum of American foreign affairs, the end of the Truman-Acheson period is a convenient place to take stock. Though the change in American leadership from the Democratic to the Republican Party did not result in a major shift in foreign policy, it

³Richard S. Kirkendall, The Truman Period As A Research Field (Columbia, Missouri: University of Missouri Press, 1967), p. 63.

did reflect the political differences concerning government involvement in the business affairs of the Nation. In 1953, the United States Government withdrew from the synthetic rubber business.

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CHAPTER I

POST-WAR AMERICAN POLICY DEVELOPMENT:

THE MAINSTREAM

At the time of the Japanese surrender in August 1945, the United States Department of State had already settled upon a policy of nonintervention in British Malaya.¹ However, that policy cannot be explained in the context of Malaya; neither can it be described as an American disposition toward the peoples of Malaya nor a conscious recognition of a specifically Malayan condition or circumstance. It was, rather, a reiteration in the specific of a larger decision to follow a noninterventionist course in the European colonial areas of Southeast Asia.

The noninterventionist policy of 1945 might suggest that there had been a retreat from the earlier American policy which had championed the cause of self-government as

¹U.S. Department of State, "An Estimate of Conditions in Asia and The Pacific At The End of The War in The Far East and The Objectives and Policies of The United States" (hereafter cited as "Conditions in Asia and The Pacific and Objectives and Policies of The U.S."), Foreign Relations of The United States (hereafter cited as FRUS): Diplomatic Paper 1945, Vol. VI, The British Commonwealth And The Far East (Washington, D.C.: Government Printing Office, 1969), pp. 570-573.

set forth in the United Nations Declaration of January 1942 which embodied the principle of " . . . the right of all people to choose the form of government under which they will live."² Although the contrast between the return of colonialism in 1945 and the democratic ideals of 1942 might seem a lightning rod to charges of abandonment, such judgments are neither accurate nor sustainable. The world of 1945 was a complex place with events moving at breathtaking speed. The problems of war were quickly to be replaced by the problems of peace, and the purposes of rather heady principles set down amidst the urgency of 1942 simply had to give way to the realities of the moment. The first priority was the conclusion of the war, a priority soon to be replaced by the restoration of order to large portions of the world which existed in the chaotic vacuums left by the defeated axis powers. To a large degree, policy was subjected to the pressures of changing priorities and the rush of events. It is more accurate to say that the principles of 1942 were not consciously abandoned; rather, they were, of necessity, deferred. Inasmuch as the American policy statement concerning British Malaya was no more than a

²U.S., Congress, Senate, Atlantic Charter, A Decade of American Foreign Policy: Basic Documents, 1941-1949, 81st Congress, 1st Session (Washington, D.C.: Government Printing Office, 1950), p. 1.

reflection of the larger decision governing the colonial areas of Southeast Asia, it is necessary to outline the evolutionary process from the United Nations Declaration of 1942 to the British return to Singapore in September 1945.

Beyond the westernmost island of the Philippine Commonwealth, the United States had limited pre-World War II interests or direct involvement in Southeast Asia. The focus and motive of contact in the European colonial areas had been trade, primarily the American importation of rubber and, to a lesser extent, tin.³ The relative importance and the degree of mutual dependency between the colonial areas and America were about equal. The United States consumed about half of the world's rubber and approximately forty per cent of the tin; Southeast Asia produced ninety per cent of the world's rubber and sixty per cent of the tin. America took these materials, not available elsewhere in the quantities required, and, in return, provided approximately thirty per cent of the area's total export earnings.⁴ However, the

³In four of the five years preceding 1941, natural rubber was the highest value commodity imported by the United States. See New York Times, November 5, 1946, p. 38.

⁴See Henry Brodie, "The Post-War Patterns of Trade," in South Asia In The World Today, Phillips Talbot, ed. (Chicago: University of Chicago Press, 1950), pp. 125-126. The approximate value of exports from Indonesia, Malaya and Indochina in 1936 was \$816.7 million; the value of exports to the United States was \$239.3 million. The year 1936 was selected by Brodie as representative of normal prewar trade because of the minimum effect of distortion caused by the Depression prior to 1936 and the changes in trade and

American contact and involvement did not extend to the more dramatic historical contexts of territorial acquisition or intervention as had been the case in the Philippines and China. Though American interest sharpened in the strategic context during the preliminaries to the Japanese conquest of 1941 and 1942, that interest was refocused with the loss of the Philippines and remained peripheral throughout the Pacific War.

The development of the American view of what European colonial Southeast Asia should be when World War II ended was, to a large degree, a reflection of the thinking of President Franklin D. Roosevelt. Beginning with the Atlantic Charter drafted by Roosevelt and Prime Minister Winston Churchill, Roosevelt pushed forward the concept that colonialism must pass from the modern scene. Throughout the war until his death in April 1945, Roosevelt continued to express his thoughts concerning the future of colonial areas; however, there is indication that his enthusiasm was not matched by consistency, or a facility in the subject of Southeast Asia--including the Philippines. Roosevelt's Secretary of War, Henry L. Stimson, once observed that the

currency values between 1936 and 1942. Figures are attributed to the U.S. Department of State, Division of Research, Far East. Brodie, Special Assistant to the Chief, Division of Research, Far East, presented these figures at the University of Chicago's Harris Foundation Lecture Seminar in 1949.

President was "all mixed up" in his understanding of the location of the various Philippine Islands.⁵

Though Roosevelt was a devotee of Wilsonian principles concerning self-determination, he was not without human failings in his selection of those who violated the principles. In Southeast Asia, he succumbed to judgments of good and bad colonialists. The French were "bad," and he was insistent that the United States make no offer of substantive assistance to the Free French in any effort to reclaim Indochina.⁶ In the 1930s, Roosevelt had been appalled at the viciousness with which the French colonial fonctionnaires had suppressed all native opposition to their rule.⁷ The rapid collapse of France before the German armies in 1940 and the acquiescence of the Vichy Government to Japanese requests for air and naval facilities in Indochina in 1941 added to Roosevelt's conviction that France was no longer a great nation worthy of a share in the responsibilities of

⁵Quoted in Russel H. Fifield, Americans In Southeast Asia: The Roots of Commitment (New York: Thomas Y. Crowell Company, 1973), p. 37.

⁶"Memorandum by President Roosevelt to the Secretary of State, October 16, 1944," FRUS 1945, Vol. III, The British Commonwealth and Europe (Washington, D.C.: Government Printing Office, 1965), p. 777.

⁷Elliot Roosevelt, As He Saw It (New York: Duell Sloan, and Pearce, 1946); and Victor Purcell, "Lessons From Malaya," The Nation, Vol. 178 (June 12, 1954), p. 500.

world leadership.⁸ He believed that Indochina should be given complete independence as soon as possible following the war and that, until prepared, a trusteeship should be established. At the Conferences at Teheran and Cairo in 1943, Roosevelt had personally raised the issue and received at least passive agreement for the concept from Joseph Stalin and Chang Kai-shek.⁹ Churchill did not support the idea; trusteeship had far too obvious an application to the British colonial area. The Free French and the British, therefore, supported each other in resistance to the plan and quietly worked to influence the American Department of State to support recognition of the French claim to Indochina.¹⁰ However, Roosevelt remained committed and again raised the proposal to Stalin at the Yalta Conference of February 1945.¹¹ In March, General Charles De Gaulle attempted to

⁸Gary R. Hess, "Franklin Roosevelt and Indochina," Journal of American History, Vol. LIX (September 1972), p. 353; also Walter La Feber, "Roosevelt, Churchill, and Indochina: 1942-45," The American Historical Review, Vol. 80 (December 1975), p. 1285.

⁹Hess, "Roosevelt and Indochina," p. 357.

¹⁰Ibid., pp. 355, 358; "An Estimate of Conditions in Asia and The Pacific and The Objectives and Policies of the U.S.," p. 568; and La Feber, "Roosevelt, Churchill, and Indochina," p. 1272.

¹¹FRUS: The Conferences at Malta and Yalta (Washington, D.C.: Government Printing Office, 1955); p. 770; and Fifield, Americans In Southeast Asia, p. 41.

dissuade Roosevelt, warning that the loss of Indochina and the economic effect of that loss could weaken France's ability to resist communism.¹² At the time of his death, Roosevelt remained insistent that Indochina not be handed back to France and that the French should reenter Indochina only in the status of trustee.¹³ Although an Indochina trusteeship was discussed at the highest level, there is evidence that it was either not clearly understood or not accepted as policy within the Department of State.¹⁴

With less concrete justification than he had for his opinion of the French, Roosevelt judged the Dutch to be "good" colonialists, the record of heavy-handed rule in the Netherlands East Indies notwithstanding. The only explanation for the judgment appears to have been a rather shallow knowledge of the Dutch rule in the East Indies, and his personal admiration and friendship for the Dutch royal family. Though he made no specific proposal for post-war

¹²Hess, "Roosevelt and Indochina," p. 364; Fifield, Americans In Southeast Asia, p. 38; and La Feber, "Roosevelt, Churchill, and Indochina," p. 1293.

¹³Hess, "Roosevelt and Indochina," p. 365. La Feber marks the change in Roosevelt's insistence that the French not reenter Indochina, to an allowance that they might reenter but only as trustee, as a significant change to his original position in "Roosevelt, Churchill, and Indochina," p. 1293.

¹⁴Fifield, Americans In Southeast Asia, pp. 45-46; and La Feber, "Roosevelt, Churchill, and Indochina," p. 1292.

trusteeship for the Dutch possessions, Roosevelt apparently believed that the American example set in the Philippines was a suitable model to be emulated and that the Dutch shared his view.¹⁵

The British did not escape Roosevelt's advice on the future of colonial people; however, the issue seems to have been raised in muted terms, perhaps a reflection of the closeness of the Anglo-American alliance, the friendship of the two leaders, and the sheer weight of the priorities of war which occupied their attention. At the Quebec Conference of 1943, Roosevelt did suggest that the British offer Burma immediate independence within the Commonwealth as an incentive for the people of Burma to stiffen their resolve against the Japanese. The proposal was received coolly; the British were satisfied that the ruthless activities of the occupying Japanese secret police would provide sufficient stimuli.¹⁶ However, Roosevelt did not pursue the proposal for Burma's independence as he did the Indochina trusteeship. In fairness, the British had made efforts between the wars of 1914 and 1939 in establishing an intent to prepare the

¹⁵Elliot Roosevelt, As He Saw It, pp. 223-224.

¹⁶John F. Cady, "The Historical Background of U.S. Policy in SEA," in Southeast Asia: Problems of United States Policy, ed. by William Henderson (Cambridge, Massachusetts: Massachusetts Institute of Technology, 1963), p. 16.

Eastern Empire for self-governing status. The British promise, laid out in the Montagu Declaration and set in motion by the Montagu-Chelmsford Reforms enacted by Parliament in 1917, applied specifically to India, and implicitly to Burma, but did not encompass Malaya.¹⁷ (As will be seen, Malaya posed quite special problems.)

In December 1943, the British Secretary for the Colonies announced in the House of Commons that:

The main aim of the Government as regards the political future of Malaya after its liberation will be the development of its capacity for self-government within the Empire.¹⁸

The announcement is curious both in its timing and urgency. First, apparently no articulated planning preceded the announcement; in fact, a detailed proposal was not made

¹⁷Burma was considered administratively a part of India until 1937. The Montagu Declaration announced ". . . gradual development of self-governing institutions . . . responsible government in India as an integral part of the British Empire." Planning for Indian self-government continued into World War II. In May 1945, a British White Paper outlined measures leading to self-government for Burma and set a target date of 1949. See Saul Rose, Britain and South-East Asia (Baltimore: The Johns Hopkins Press, 1969), pp. 77-79; and John C. Campbell, and others, The United States In World Affairs 1947-1948 (New York: Harper and Brothers, 1948), pp. 215-218 (hereafter works in the Council on Foreign Relations series are cited as USWA).

¹⁸395 H.C. Ded. 5s., 384, December 1, 1943, quoted in Lennox A. Mills, Malaya: A Political and Economic Appraisal (Minneapolis: University of Minnesota Press, 1958), p. 24.

public until October 1945.¹⁹ Second, there had been no prewar, popularly-based nationalist demand from the peoples of Malaya for an end to British rule. Several explanations for the 1943 policy statement are suggested. It was most probably a sop to the Malayan resistance force, the Malayan Peoples Anti-Japanese Army (MPAJA). The force consisted primarily of Chinese Malaysians, but leadership was dominated by Chinese members of the Malayan Communist Party (MCP). Prior to Russia's entry into the war, the MCP had been as anti-British as it had been anti-Japanese; however, after the Russian entry, the MCP moderated its view toward the "British Imperialist." In the same month as the announcement by the Colonial Secretary, an agreement was reached with the MPAJA wherein they would be supplied with the British arms; in return, the MPAJA was to harass the Japanese and to prepare to assist allied forces when the time came for liberation.²⁰ That the announcement was meant to secure the loyalty of the MPAJA and MCP is supported further by the fact that in May 1944 Admiral Lord Louis Mountbatten, Supreme Allied Commander, Southeast Asia Command (SEAC), recommended that the British Government transmit the specific post-war plan for Malaya to the MPAJA.²¹ His stated aim was

¹⁹See below, p. 67.

²⁰Rose, Britain and South-East Asia, pp. 126-128.

²¹Ibid., p. 127.

to blunt any precipitous MCP plan to seize control at the end of the war. However, the plan was not released because it was still in the formulative stages of preparation.²² The date of the announcement by the Colonial Secretary, following on the heels of the 1943 Quebec Conference, could also be taken as an attempt to soothe America's passion for dismantling the colonial system. In 1943, there was growing concern in England that Roosevelt might expand his insistence on trusteeship for Indochina to include the British colonial area.²³ The declaration concerning Malaya may therefore have been designed to serve a double purpose. It anticipated the possible problem of the MPAJA and MCP and it served to demonstrate an agreement in principle with Roosevelt's determined insistence that colonialism must end. By making the declaration, the British preempted Roosevelt; an alternative to trusteeship for Malaya was established before trusteeship could be proposed. In either event, placation of the MPAJA or Roosevelt, the announcement concerning Malaya set the last stone in place. Great Britain had established the intent to pursue preparations

²²Ibid.

²³La Feber, "Roosevelt, Churchill, and Indochina," p. 1279.

for self-government in the entire Eastern Empire.²⁴

Though President Roosevelt had quite definite ideas, if less definite plans for colonial Southeast Asia, it is an overstatement to describe them as firm, doctrinaire policy. Roosevelt's proposals are best described as preliminary soundings in search of commitment. They most nearly approached policy status in September 1944 when his Secretary of State, Cordell Hull, submitted a memorandum on the subject to Roosevelt. The paper proposed that the prewar colonial governments of Southeast Asia commit themselves to grants of independence or self-governing dominion status to the colonial areas as soon as practicable. Toward this end, the colonial powers should be urged to join in a regional commission and pledge trusteeship status for the colonies.²⁵ Hull did caution that such proposals would not be received with enthusiasm by the colonial powers, but he expressed the hope that the universal good to be realized would overbalance any short-term benefits to be gained by retention of colonies. Roosevelt was pleased with the memorandum; apparently, it was an accurate synthesis of his

²⁴That the Malayan declaration was prompted by immediate concern over the MPAJA is reasonably clear in the coincidence of the declaration and Anglo-MPAJA agreement occurring in December 1943. That it was prompted by British concern over the trusteeship plan is not directly evidenced; however, it is unlikely that the value of the declaration in that context was missed by the Foreign Office.

²⁵Cordell Hull, The Memoirs of Cordell Hull, Vol. II (New York: MacMillan and Company, 1948), pp. 1600-1601.

and Hull's thinking.²⁶

Hull's memorandum, suggesting a general proposal applicable to the three colonial powers, may have been prompted by a distrust of British post-war intentions. It had been decided at Quebec in 1943 that the liberation of Southeast Asia was to fall primarily to the British. With the exception of the northern portion of Indochina above the fifteenth parallel, the responsibility for liberation was assigned to SEAC under Mountbatten. Hull had since received "persistent" reports that the British were contemplating a "federation" arrangement in Southeast Asia under their "aegis if not control" to include Burma, Malaya, Thailand, and Indochina. Hull transmitted the substance of these reports and his evaluation to Roosevelt in September 1944.²⁷ The source of the report, several Burmese officers, was highly questionable and the evidence was inconclusive. Although London had denied the report, Hull saw a potential for danger in any American association should the British, in fact, be considering such a plan. The memorandum suggests several things that might have been on Hull's mind. First, given that the British would enter and retake Southeast Asia, their ability to influence events would be

²⁶ Ibid.

²⁷ "Memorandum from the Secretary of State to the President: Southeast Asia; British Attitudes, September 8, 1944," FRUS: The Conference at Quebec 1944 (Washington, D.C.: Government Printing Office, 1972), pp. 263-264.

unchallenged; i.e., there was little to be done short of intervention. Second, the British would arrive as the representative of the colonial powers. Hull believed that an American presence would be perceived by the people of Southeast Asia as supportive of colonialism; he therefore recommended that no American civil affairs officer be permitted to serve in the SEAC area.²⁸ The proposal for a regional, multi-nation trusteeship was apparently put aside. It was not discussed at the Conferences at Quebec in 1944 or Yalta in 1945; though as previously mentioned, the Indochina trusteeship was discussed at Yalta.

Within two weeks of Roosevelt's death, it became evident that opposition to his plans for Southeast Asia was not limited to the European colonialists but included some among the highest levels within the State Department. In mid-April, a memorandum was prepared within the Office of Far Eastern Affairs to be transmitted to the new President, Harry S. Truman. It was offered as a summary of Roosevelt's views on Southeast Asia:

President Roosevelt recognized the future importance to the United States of Southeast Asia. He saw the necessity of aiding the 150,000,000 people there to achieve improved social, economic and political standards. He realized that dynamic forces leading towards self-government were growing in Asia; that the United States - as a great democracy - cannot and must not try to retard this development

²⁸Ibid.

but rather act in harmony with it; and that social, economic, or political instability in the area may threaten the peace and stability of the Far East and indeed the world.²⁹

The memorandum was accurate as far as it went, but it did not alert the new President to the regional trusteeship scheme as agreed upon by Hull and Roosevelt in the preceding September, or of the soundings concerning Indochina taken as recently as the conference at Yalta in February.

At approximately the same time the Office of Far Eastern Affairs was drafting the memorandum on Southeast Asia, the Office of European Affairs was preparing a paper on specific plans for Indochina, also to be transmitted to President Truman. In the coordination process with Far Eastern Affairs, the basic point of disagreement between the Roosevelt view and that of the Department, plus an internal disagreement between the Offices of European Affairs and Far Eastern Affairs, crystalized. Both offices agreed not to raise the plan for trusteeship; however, Far Eastern Affairs modified the memorandum to include a policy insistence that the French pledge self-government for Indochina within the foreseeable future. This disagreement could not be resolved at the divisional level and was escalated for resolution to the Assistant Secretary of State for European, Far Eastern, Near Eastern, and African Affairs,

²⁹Quoted in Fifield, Americans In Southeast Asia, pp. 36-37.

James C. Dunn. Dunn took the matter to the Under Secretary of State, Joseph C. Grew, with a recommendation that the memorandum be scrapped and that the Indochina question be allowed to drift rather than accept Far Eastern Affairs' proposal to seek guarantees from France.³⁰

Despite the differences within the Department, circumstances did not allow the issue to remain unresolved. The Philippine liberation had been completed in February 1945 and in March, the Japanese had surrendered in Burma. Further military operations in Southeast Asia were imminent and the U.S. Department of War had requested policy guidance. In a June 1945 memorandum from the Secretary of State to the Secretary of War, policy and objectives representing the views of "the Department of State as a whole" were laid down with individual attention given to a general policy for colonial Southeast Asia and each of the colonial areas. The introduction stated that:

The United States Government may properly continue to state the political principle which it has frequently announced, that dependent people should be given the opportunity, if necessary after an adequate period of preparation, to achieve an increased measure of self-government, but it should avoid any course of

³⁰Recounted in *ibid.*, pp. 45-46, based on U.S. Department of Defense, United States - Vietnam Relations, 1945-1967, Book 8 (Washington, D.C.: Government Printing Office, 1961), pp. 1-25.

action which would seriously impair the unity of the major United Nations.³¹

In regard to Indochina, the statement left little doubt that the trusteeship proposal was dead:

The United States recognizes French sovereignty over Indochina. It is, however, the general policy of the U.S. to favor a policy which would allow the colonial people an opportunity to prepare themselves for increased participation in their own government with eventual self-government as the goal.

It was estimated that the French would make some concession to self-government and autonomy primarily to soften native opposition to their return, but also to "avoid unfriendly United States opinion." The estimate noted that the French would rely upon the British to support their interests inasmuch as the British were equally committed to insuring that no prewar colonial powers would "suffer diminution of power or prestige."³²

The Department of State analysis and estimates for the Netherlands East Indies took note of the fact that the Dutch Government would have two political problems with which to deal. First, there were old arguments, deferred by the war, concerning autonomy between the East Indies Dutch and the Netherlands Government. Second, there was the

³¹"An Estimate of Conditions in Asia and The Pacific and The Objectives and Policies of the U.S.," p. 556. (italics added).

³²Ibid., p. 568 (italics added).

question of how to deal with Indonesian nationalism.³³ Though sketchy, the Dutch plan was to convene a constitutional committee to work out solutions. The objective was to grant home rule to Indonesia and to keep the new nation within the Dutch Commonwealth. The Department of State estimated a "quiescent period" between liberation and the proposed constitutional conference. Policy was stated to be noninterventionist and favored progress toward self-government using the same language as that in the statement concerning Indochina. The statement concluded on an economic note that escapes precise interpretation:

Traditional Dutch policy is in agreement with the view of the United States which favors equal opportunity for all nations and their nationals.³⁴

This could have been an endorsement, in the context of Indonesia, of the Dutch system of rubber production which consisted largely of native, small holders who grew rubber as a second money-crop in contrast to the large, foreign-owned plantation system in British Malaya and Ceylon.

The State Department's analysis of British Malaya's prospects for recovery noted that the key would be the recovery of the rubber-producing industry.³⁵ The

³³Ibid., pp. 573-574. ³⁴Ibid., p. 574.

³⁵Ibid., pp. 571-572.

estimate concerning possible political difficulties missed the mark in that it predicted the source of dissatisfaction to be the Malayan Chinese who had traditionally been kept in a second class status by the British in deference to the Malays. This assumption, based on prewar conditions, was reasonable inasmuch as the estimate also noted that thus far the British Government had not revealed its plans for Malaya. It did take note of pressures being brought to bear upon the British Government by English business interests to recognize the claims of the Chinese and Indian Malaysians, and to abandon the protectionist policy which favored the Malays. (As will be seen later, it was the attempt to do just that which brought the British into conflict with the Malays in 1946, rather than the Chinese as predicted by the American Department of State.) As far as policy was concerned, the statement was clear if by now somewhat repetitive:

The United States is following a policy of non-interference in any British possession but we favor a policy which would allow colonial people an opportunity to prepare themselves for increased participation in their own government with eventual self-government as the goal. The United States favors a policy of equal economic and commercial opportunity for all nations.³⁶

The last statement concerning commercial opportunity suggests several explanations. It could have been a reference to

³⁶Ibid., p. 572.

the prewar British dominance of the Malayan rubber- and tin-producing industries to the near exclusion of all but British investors. It might also have been a reference to the British-inspired, prewar International Rubber Regulation Committee which had acted as a production and pricing cartel; or, a general reference to the imperial preference system of trade--or all of these.

The policy guidance given by the American Department of State calls forth several observations. Most importantly, the warning to avoid any action that could threaten the unity of the United Nations (stated in the introductory portion) sets the condition as the first priority. Having said that, all other statements of "policy to favor a policy" for preparing dependent people for eventual self-government pale.³⁷ Granted, the concept to pursue actively the cause of colonial independence was conceived by no less a level of authority than the Presidency and by September 1944, had reached the point of being a working paper consensus between Roosevelt and his Secretary of State. Still, the level of authorship does not necessarily guarantee that concepts continue to develop of their own momentum in the absence of the author. Changes in leadership create an atmosphere conducive to the abandonment of schemes unpopular within an agency, and

³⁷Above, pp. 16-18.

the resurrection of schemes kept chained in the dark by the old leadership.³⁸ In the last year of World War II, the changes in leadership were nearly continuous.³⁹ Secretary of State Hull left the Cabinet in November 1944 and was replaced by Edward R. Stettinius. In December, the Office of Under Secretary of State was created and manned by Joseph C. Grew. Stettinius could barely have settled in among such preoccupations as the coming climax of the War in Europe and the Yalta Conference when Roosevelt died and Truman was sworn in as President. In July, following the San Francisco Conference of the United Nations, Stettinius stepped down to be replaced by Truman's choice, James F. Byrnes. In August, Under Secretary Grew was replaced by Dean Acheson. Though necessitated by failing health, death, and politics, these rapid and continuous changes in personalities were hardly conducive to policy continuity or the growth of fragile concepts. This seems particularly valid when the personal style of conducting foreign affairs, which was Roosevelt's habit, is taken into account. When he departed and the guard changed, the continuity was broken and there was nothing for the newcomers to do but look to the institution for guidance; i.e., the Department of State.

³⁸A personal, though hardly novel, observation.

³⁹Dean Acheson, Present At The Creation: My Years in the State Department (New York: W. W. Horton and Company, 1969), p. 559.

As previously mentioned, it was upon the advice of James C. Dunn, Assistant Secretary of State, that the issue of Indochina's future, the focus of Roosevelt's plans, was cut adrift. In addition to Dunn, who was considered to be a "Europe-firster," the leadership above him following the last round of changes, did not share Roosevelt's personal interest in Southeast Asia. Grew, Byrnes, Acheson, and Truman were Europe-oriented. This is not to infer that they were pro-colonialism or consciously against independence for Southeast Asian colonies; rather, these subjects did not draw their attention. Given the speed and magnitude of events between Roosevelt's death and August 1945, it is not surprising that the future of Cambodia or Sumatra was absent from the list of urgent matters. The question of policy concerning Southeast Asia was left to the offices within the Department of State. In retrospect, given that the United States and her colonialist allies were still engaged in pursuing the defeat of Japan, the abandoning of Roosevelt's plans to secure firm pledges for an end to colonialism seems reasonable, if not unavoidable.⁴⁰ American pressure upon her allies to give up

⁴⁰An opposite view is defensible. For example, the United States could have recognized the changed situation and . . . "identified with nationalist groups." Instead, the United States chose to recognize "legalities" and "shoe-horned" the colonialists back into Southeast Asia. See Harold Issacs, "A Policy For the U.S." in South Asia in the World Today, Talbot (ed.), pp. 226-227. This view, while defensible inasmuch as it noted a failure to actively support nationalism, went too far in its implication that the United

their eastern empires could have resulted in an untimely divisiveness.

In the summer of 1945, the political future of Southeast Asia was secondary by comparison with the immediate requirements to see to the defeat of Japan and the civil administration of liberated areas. (Though somewhat akin to the pre-World War II colonial order, the wartime lines of division in Southeast Asia had been drawn according to the more pragmatic military necessity and reflected the various theaters of operations.) At the Potsdam Conference of July 1945, the final adjustments to the military theater areas were made. SEAC was expanded to include that portion of Indochina below the sixteenth parallel (the northern portion remained within the China Theater), and the remainder of the Dutch East Indies and British Borneo were added. Although there were zealous offers of increased Dutch military participation and movement of French troops from the Continent to assist in the liberation of their respective colonies, time ran out on August 14 with the Japanese surrender announcement. It was left to the British to liberate the area and take the surrender of the Japanese occupation forces. On the day Japan announced acceptance of the Potsdam surrender terms,

States took action to reestablish the prewar status quo. A more balanced description would state that the United States was passive, thus allowing the expected; i.e., the return of the colonial powers to their possessions.

SEAC forces landed in the Cochin area of Indochina. On August 30, a British Naval task force arrived in Hong Kong. Mountbatten accepted the surrender of Japanese southern forces at Singapore on September 12 and, on September 20, British and Dutch forces landed on Java. The British field commanders made it clear in the French and Dutch areas that they were acting on behalf of the legitimate colonial authorities. In Indochina, the Vietminh were ignored.⁴¹ In the Dutch East Indies, the nationalists under Dr. Achmed Sukarno would not be ignored and, after a Dutch refusal to discuss the future with the leaders of the newly-proclaimed republic, the British found themselves fighting Indonesians as proxy for the Dutch. Thus began a period of recurring violence which would last until 1949.⁴²

In the period between the end of World War II and Korea, the United States policy of nonintervention in colonial Southeast Asia was effective inasmuch as America largely

⁴¹Major General Douglas M. Gracey accepted the surrender in South Indochina and recalled; "I was welcomed . . . by the Vietminh . . . 'welcome'; and all that sort of thing . . . very unpleasant situation . . . and I promptly kicked them out." Quoted in Purcell, "Lessons From Malaya," p. 501.

⁴²On August 17, 1945, Indonesian nationalists under the leadership of Dr. Achmed Sukarno proclaimed a republic. On October 1, 1945, the Dutch Government refused to discuss the future of Indonesia with the group and within the month armed clashes occurred between the nationalists and British.

avoided direct involvement as an active supporter of one or the other side in disputes that seemed never ending. As a world leader, however, America was active in the roles of mediator, advisor, and intermediary. For example, the United States persuaded the British to abandon their earlier insistence that Thailand be treated as a defeated nation. America had chosen to virtually overlook the Thai-Japanese alliance of December 1941, and the Thai declaration of war issued in January 1942 against Great Britain and America. Britain, on the other hand, wished to exact reparations primarily in the form of needed rice and a concession to build a canal across the Kra Isthmus. In December 1945, the United States began repeated pleas to the Dutch Government and Indonesian nationalists to seek a peaceful solution to their dispute. In 1947, America offered to provide good offices to the belligerents and, in 1948, made the U.S.S. Renville available for the negotiations which did produce the first effective truce in the Indonesian dispute. In 1946, the French asked the United States and Great Britain to mediate her dispute with Thailand over Indochina territory seized by Thailand during the war.

To the colonial peoples of Southeast Asia, the American policy seemed, at best, ambivalent. Although America officially refrained from taking sides in the disputes between the colonialist and the colonialized, non-involvement invariably favored the stronger side, in most

cases the colonialist. After 1947, the United States was seen to have "leaned" toward the colonialists in recognition that the dependency relationship between the retention of the colonial areas might contribute to European economic recovery and the success of the Marshall Plan. The communist or nationalist activist seized upon the American passiveness as a demonstration that America's real interest was in the continuation of colonialism. And, of course, the colonial peoples were well aware of the concentration of American aid in Europe and that the little aid which did flow into Southeast Asia was filtered through the colonial governments.⁴³

Post-war British Malaya was initially tranquil by comparison with her colonial neighbors; however, she was of considerably more specific and immediate interest to the United States than her neighbors. But it was not the issues of borders or nationalism that drew America into importance and sometimes conflict in British Malaya. The point of tangency between a colonial area the size of Florida and the most powerful nation of the post-war world was the production and price of natural rubber. The short period between 1941 and 1945 had completely changed the relationship

⁴³Campbell, USWA: 1947-1948, p. 184. For a Southeast Asian's critique and evaluation of American policy in general agreement with Campbell, see "Address by Carlos P. Romulo" delivered at the Harris Foundation Lecture Seminar, 1949, in South Asia Today, Talbot, ed., p. 156ff.

between the prewar world's largest producer and its largest customer. Whereas Malaya had produced half the world's rubber and America had consumed that amount, the two were now potential competitors. In 1945, the United States produced synthetic rubber in amounts twice that of Malaya's prewar capacity and could deliver it to the American manufacturer at less than the price of the prewar Malayan product. The potential for self-destructive competition was, however, foreseen. Almost unnoticed in 1943, the Governments and businessmen of Great Britain and the United States had quietly begun to anticipate the problem.

CHAPTER II

MALAYA AND THE U.S.: A SPECIAL RELATIONSHIP

Given the condition of the European colonial nations at the close of World War II, a question arises. France and the Netherlands had been defeated, occupied, and exploited by Nazi Germany; England had narrowly escaped the same fate and had been nearly exhausted in the effort. All three had been isolated from their Southeast Asian empires which had been left to their own devices under Japanese rule. Continental Europe, in particular, had borne all the calamities of war. The interruption in industry and trade had all but ruined the economy. The destruction and deterioration of the industrial plant and the isolation of occupation left the prospects for recovery clouded for the immediate future.¹ Added to this were the simpler, humanitarian problems of

¹John C. Campbell and other, USWA: 1945-1947 (New York: Harper and Brothers, 1947), pp. 358-359. Spared the occupation and devastation visited upon Europe, Great Britain was nonetheless in dire economic straits. Between 1941 and 1945, the value of United Kingdom exports fell by half while import values rose by fifty per cent. The average annual trade deficit for 1942-44 was 918 million pounds sterling. At the same time, British foreign investments worth \$4.5 billion were sold or lost while foreign members of the sterling area accumulated sterling balances worth \$14 billion in London.

feeding and housing the war-weary. Given that the eastern empires were little better-off in terms of condition and prospects, the question is; why were the colonial nations so intent on shouldering the responsibilities for dependent areas and the immediate liability that those responsibilities represented? In short, what had been lost that had to be regained?

Prewar colonial Southeast Asia occupied a minority, but important position in the economic systems of the mother countries. The eastern empires are best portrayed as one corner of a triangle that described trade among Europe, colonial Southeast Asia, and the United States. Southeast Asia was primarily a supplier of raw materials to industrial Europe and America. The most significant items were the twentieth century strategic materials, rubber and tin.² Along the first side of the triangle, Southeast Asia exported raw materials to Europe and imported European-finished goods. Southeast Asia enjoyed an export balance in this trade on a

²Size and order of importance can be estimated in terms of the net trade surplus of South and Southeast Asia for 1936 (includes India and Ceylon). "Ores and metals" (primarily tin) and rubber accounted for 21 per cent and 34 per cent respectively of the total. Taken in the context of "raw materials" (which accounted for 64 per cent of the total net surplus) rubber and "metal and ores" accounted for 52 per cent and 33 per cent respectively. See Brodie, "Post-War Patterns of Trade," p. 128.

near two-to-one basis. However, it must be recognized that the exporters were, in the main, the same foreigners who drew off the export surplus earnings as returns on their investments; i.e., minus operating and colonial government expenses, surpluses were returned to Europe and the United Kingdom.

Along the second side of the triangle, Southeast Asia exported the largest part of her raw materials to the United States. In this trade, the Southeast Asian export balance was large, approximating a twelve-to-one advantage.³ Although the possible American market in Southeast Asia was relatively small, it was kept to a minimum through import tariff systems preferential to the colonial mother countries. As to the third side of the triangle, Europe was the largest market for American exports, primarily raw materials and agricultural products. Because of relative self-sufficiency, America enjoyed a favorable balance of trade with Europe and the United Kingdom. It was in this deficit trade with the United States that Europe was able to apply to advantage the surpluses earned in the Southeast Asia-American trade. The surpluses flowed to Europe and the United Kingdom in the form of profits to the mine and plantation owners:

³Ibid., pp. 125-126. The value of 1936 exports from Indonesia, Malaya and Indochina to the United Kingdom and other non-Asian countries was \$373.2 million; imports totaled \$197.7 million. In trade with the United States, the value of 1936 exports was \$239.3 million while imports totaled \$20.8 million.

There has been a continuous and substantial export balance of trade from Southeast Asia. In 1939, this excess amounted to about \$250,000,000 or approximately \$2.00 per capita for the entire population of the area. The primary cause of the excess was the necessity of paying the earnings upon landownership and other capital investments of foreigners, largely in England and the Netherlands although to a lesser extent in China, the United States, and Japan. Thus the export balance resulted in European credit in the United States, since much of the surplus export came here. With these credits, Europeans, including the British, were able to buy a considerable volume of goods from us [the United States] in excess of the value of goods which they sent directly to us.⁴

The surpluses served to double advantage in that the American dollars earned also represented a monetary advantage of providing dollar exchange to be applied to the deficit without forcing a continual and uncontrollable drain on the dollar currency holdings of the mother countries. Seen in the perspective of post-war 1945, the recovery of the colonial areas and their potential for producing raw materials, profits, and dollar exchange was of considerable importance to the three colonial nations.

The benefits of the triangular trade were greatest to Great Britain and Malaya in comparison to the French and Dutch areas and their mother countries. First, measured against the total value of exports from Malaya, Indochina,

⁴Roland S. Viles, "Southeast Asia in World Economics" in The New World of Southeast Asia, Lennox A. Mills, ed. (Minneapolis: The University of Minnesota Press, 1949), p. 357.

and Indonesia, Malaya exported forty per cent of the total. Second, measured against the value of exports to the United States, Malaya exported seventy-two per cent of the total value. Simply put, Malaya exported more than either the French or Dutch areas and a higher percentage of Malayan exports earned dollar exchange. Third, though Southeast Asia had a large balance in trade with the United States, Malaya's balance was greater than her colonial rivals; whereas the total value of American imports was equal to eight per cent of exports, the value of American imports into Malaya equaled only three per cent.⁵

In the period immediately preceding World War II, approximately thirty per cent of the total value of Malayan exports was earned in American markets. In return, in 1938, the United States took approximately fifty-five per cent of Malayan tin and forty-one per cent of the rubber.⁶ Though

⁵Brodie, "Post-War Patterns of Trade," pp. 125-126. The total value of 1936 exports from Indonesia, Malaya, and Indochina was \$816.7 million; the value of Malaya's exports was \$364.1 million. The value of exports from the three to the United States was \$239.3 million; the value of Malaya's exports was \$171.4 million. The value of imports among the three from the USA was \$20.8 million (8 per cent of exports to the USA); the value of imports from the USA to Malaya was \$5.4 million (3 per cent of exports).

⁶Lennox A. Mills, "Prewar Malaya" in Malaya, pp. 19-20. The year 1938 is a questionable index as it is the exception in the period 1935-1941 and shows America's share of Malaya exports down by sixteen per cent from those calculated for 1936 in ibid. However, 1938 is a dramatic demonstration of the directness of the linkage between Malayan export values and the American auto industry. The value of

rubber was the more valuable of the two, tin was also a main element of the export economy; however, tin was declining in importance as early as the 1930s and after 1945 was unable to regain its former importance. The post-war inability to recover was a result of combined and complex forces: heavy war damage and a shortage of needed recovery capital; prohibitive increases in production costs; the increase in competition developed during the war, such as the expansion of mining in Bolivia and the creation of a government-owned smelting industry in the United States; and the inescapable fact that Malayan ore was a diminishing resource.⁷

1937 rubber exported from the British area to America was \$125 million; in 1938, it fell to \$50 million. The American auto industry's annual absorption rate in early 1937 was 650,000 tons; a year later, it was down to 300,000 tons. The average of monthly indexes of American auto production for 1938 was fifty-four per cent of the 1937 average. See P. T. Bauer, The Rubber Industry: A Study In Competition and Monopoly (Cambridge: Harvard University Press for The London School of Economics and Political Science, 1948), pp. xi-xii, 133.

⁷In 1945, not a single tin dredge was operable. The unit replacement cost in 1947 was three times the prewar cost of about \$450,000. See Mills, Malaya, p. 200. Representative production figures are: 1940, 81,000 tons; 1946, 8,000 tons; 1955, 61,000 tons. By 1955, other factors had come into play to put a ceiling on the possible output; e.g., curtailed defense stockpiling. See "Table G, Rubber and Tin - Malayan Production and World Prices," in J. M. Gullick, Malaya, Revised (New York: Frederick A. Praeger, 1964), p. 248; Norton Ginsburg and Chester F. Roberts, Jr., Malaya (Seattle, Washington: The University of Washington Press, 1958), pp. 400-403, 405; James W. Gould, The United States and Malaysia (Cambridge, Massachusetts: Harvard University Press, 1969), p. 151; and U.S., Department of Commerce, "Malaya - Summary of Basic Economic Information," Business Information Service; World Trade Series, No. 597, June 1954,

The most significant prewar issue and irritant between British Malaya and the United States had been the price of natural rubber. Until 1910, eighty per cent of the world's rubber had come from Central and South America and the native hevea tree. The British had successfully transplanted the hevea tree first to Ceylon in the mid-nineteenth century and only later to Malaya. The demand for rubber after 1900 grew first with the bicycle, then with the automobile industry and the supporting tire industry. Two factors combined after 1910 to make Malaya the world's largest producer: the South American hevea was ruined by leaf blight, and the demand for automotive vehicles boomed. Both the expansion of the rubber plantation or estate system of Malaya and the demand for automotive tires were given impetus by World War I. By 1919, world consumption had risen to 300,000 tons per year, three times the consumption in 1914. However, because of the lead time required to increase capacity (the hevea requires five to six years growth before it can be tapped) and the inability to hedge market operations, prices do not mirror either supply or demand at

p. 7. For information on the American Government's smelting industry and the increase in Bolivian output see U.S., Congress, Senate, Committee On Currency And Banking, Maintenance Of The Domestic Tin Smelting Industry, S. Rpt. 263; 80th Cong., 1st. sess., 1947, Senate Miscellaneous Reports on Public Bills, Vol. II.

any given time. In periods of sharply increasing demand, the price will soar out of all proportion, but the lag in capacity can--as it did following 1919--produce a situation wherein production catches demand just as demand begins to fall. Following 1919 prices, which had ranged from U.S. \$.60 to over \$1.00 per pound in 1914-1919, fell to \$.17 in 1921-22. At that time, natural rubber production was almost a British monopoly.⁸

In an effort to break the boom or bust syndrome, the British implemented the Stevenson Rubber Restriction Plan in 1922.⁹ The plan was aimed at controlling supply, thereby controlling price through export tax rates which limited the amount a producer could profitably put on the world market. The plan was temporarily successful--prices rose to over \$1.00 in 1926-1927--but had to be abandoned in November 1928; it backfired badly. The artificial shortage raised prices; however, it also stimulated production outside of the

⁸See Paul Lamartine Yates, Forty Years of Foreign Trade (New York: MacMillan and Company), pp. 113-116; and Gould, The United States and Malaysia, pp. 66-67, 72. For world price, production and consumption statistics, 1910-1945, see U.S., Congress, Senate, Subcommittee on Banking And Currency, Rubber Production And Importation Policy Hearings, Hearings Before a Subcommittee of the Committee on Banking And Currency, Senate, on S.J. Res. 79, H.J. Res. 77, and S.J. Res. 83, 81st Cong., 1st. sess., 1947, pp. 54-48 (hereafter cited as Senate Hearings: Rubber Act of 1947).

⁹U.S., Congress, Senate Hearings: Rubber Act of 1947, pp. 13-14, 57; Ginsburg and Roberts, Malaya, p. 391; and Rose, Britain And South-East Asia, p. 66.

British-controlled area, most notably in Indonesia, but also in Indochina, Liberia, and South America. New plantings matured after 1928 and the resulting glut on the market started prices on a downward slide that accelerated after the Great Depression curtailed consumption in 1930. By 1933, prices had crashed to \$.02-3/8. The Stevenson Plan also changed the relationship of producers. In 1922, the British areas produced seventy per cent of the world's rubber; in 1928, the figure had slipped to fifty-two per cent. Between 1922 and 1928, Indonesia doubled capacity (by 1940, the Dutch were producing nearly as much as Malaya) while the British areas had increased by only forty per cent. However, though diminished, the British retained their majority status and the accompanying potential to affect prices. Because of that influence and the dependency of the Dutch and French on the processing and shipping facilities of Malaya's entrepot, the British assumed a position of leadership among the South-east Asian producers and initiated action to conclude an International Rubber Regulation Agreement (IRRA) in December 1934.¹⁰ Under the agreement signed by France, the Netherlands, Siam and Great Britain, an International Rubber

¹⁰For complete information on the IRRA see Bauer, "Part II, The Establishment of International Regulation," The Rubber Industry, pp. 75-110. This is claimed as the only documented work on the subject. See also, Ginsburg and Roberts, Malaya, pp. 413-414.

Regulation Committee (IRRC) was formed; the task was to estimate world demand and to restrict equally the amount each rubber producer would place on the market. Thus, the IRRC artificially created price competition among consumers. Long-range IRRC efforts included restrictions on new planting and replanting with high yield trees to reduce production costs. Whether or not the IRRC could solve the long-term problem became academic after the closure of Southeast Asia in 1942; however, the IRRC was able to raise and stabilize prices to just above \$.22 a pound in the three years prior to World War II.¹¹

The Stevenson Plan and the IRRA were thorns to the American rubber manufacturers who, with some justification, resented the unilateral British price manipulation under the former and subjugation to an international production-pricing cartel under the latter. As the major consumer, the industry felt denied of the influence that would have been theirs had it been a free market operation. The industry's resentment was not to be forgotten and was to color post-war American negotiations on rubber price and supplies.

Though the production capacity, supply, and price of rubber remained matters to be hammered out between the

¹¹"The Unpredictable Commodity - Rubber," United Nations World, Vol. 2 (July, 1948), p. 61; and U.S., Congress, Senate Hearings: Rubber Act of 1947, pp. 13-14, 57.

American industry and the IRRC until 1941, World War II introduced new, previously unconsidered factors. By mid-1942, the United States Government had taken complete control of American importation of natural rubber. By late 1943, the Government's synthetic rubber capacity exceeded Malaya's prewar natural capacity. If there had been any question about the future American role in determinations of supply and price policies, the dominant position of the United States Government after 1943 made the answer axiomatic.¹²

A brief summary of the United States entry into the rubber business is necessary here, if for no other reason than to spare the reader some of the confusion experienced by the United States Congress after 1945 in its efforts to remove Government controls. The urgency of war had resulted in hasty, sometimes redundant legislation, overlapping authority, and a proliferation of bureaus, boards, and offices.¹³

¹²Representatives of American industry had attended meetings of the IRRC but in a nonvoting "kibitzer" status. See "Unpredictable Commodity," pp. 61-62.

¹³In 1942, domestic allocation was given to the Rubber Reserve Board (RRB) under the Office of Production Administration, later absorbed by the Office of War Mobilization and Reconversion (OWMR). Purchase and foreign development of natural rubber remained under the Reconstruction Finance Corporation's (RFC) Rubber Reserve and Rubber Development Corporations. However, there were reorganizations and minor rubber "divisions" scattered about the Executive. By 1947, when Congress set about decontrolling rubber, the trail was lost and legislation to end allocations was written for the RFC; the State Department had to advise the

The Government's movement from a position of no involvement to one of complete control of the industry was slow and deliberate, but borne by necessity. By 1939, the pace of world rearmament had begun to increase the demand for rubber. In America, increasing rearmament efforts existed in an environment of business-as-usual. As both military and civilian demand increased, the national stocks of rubber, all privately owned, began to fall. The industry was to later charge that it need not have been so, if the IRRC had responded to requests to increase supplies. One estimate stated that the IRRC kept production at seventy per cent between 1934 and 1941 in the interest of price stability.¹⁴

In mid-1939, at the urging of the Department of War, the Government concluded an agreement by treaty with Great Britain wherein a half-million bales of American cotton were traded for 90,000 tons of rubber to be supplied outside of IRRC quotas.¹⁵ Both commodities were to be stockpiled for war emergency only and were not to be placed on the market

Senate Subcommittee that allocation was under RRB, under OWMR and, in turn, under the Office of Temporary Controls. See Senate Hearings: Rubber Act of 1947, pp. 112-113.

¹⁴"The Unpredictable Commodity," p. 61.

¹⁵For full text, debate, and amendment see U.S., Congress, Senate, 76th Cong., 1st. sess., July 6, 1939, Congressional Record, Vol. 84, Part 8, pp. 8681-8682.

without prior consultation. Delivery was slow and stocks continued to fall--the 1939 end-year level was half the average for the preceding eight years.¹⁶

In 1940, the alarm was taken up by the industry in the colorful person of John L. Collyer, President of the B. F. Goodrich Company, who launched a one-man campaign to warn of the dangers of foreign dependency. In presentations to members of the industry, he punctuated his message with moments of drama, such as the destruction by fire-cracker of a toy ship sailing on a map of the Far Eastern trade routes. Collyer caught the attention of the Senate Military Affairs Committee, was invited to testify, and called for a stockpiling program and the immediate development of a synthetic industry. (Goodrich was in the production development stage of synthetic manufacturing and offered to run the proposed government facility.)¹⁷ Under the National Defense Act of June 28, 1940, the Reconstruction Finance Corporation (RFC) was authorized to construct synthetic facilities with an annual capacity of 40,000 tons; the RFC was also authorized to purchase 800,000 tons of rubber for stockpiling and chartered the Rubber Reserve Corporation

¹⁶U.S., Congress, Senate Hearings On The Rubber Act of 1947, p. 15.

¹⁷"Trouble In Synthetic Rubber," Fortune, Vol. 35 (June 1947), pp. 156-157.

for that purpose. Progress was slow in both efforts and at the time of Pearl Harbor, America's total stock was 663,000 tons including 100,000 tons enroute on the high seas--the minimum wartime estimate called for 700,000 tons per year.¹⁸

In June 1942, under authority of the Second War Powers Act, the Government took total control of all sources and uses of rubber. Imports by private concerns were banned; the authorized synthetic capacity was raised to 805,000 tons; and domestic allocation of rubber was given to the Government's Rubber Reserve Board (RRB) as was authority to determine product specifications and use. The allocation of the small remaining supply of natural rubber among the Allies was given to the Anglo-American Combined War Resources Board. Prices to be paid by manufacturers were fixed by Anglo-American agreement: natural at the 1941 level of \$.22¼; and synthetic at \$.18½. The RFC chartered a second company, the Rubber Development Corporation, whose task was to encourage and finance increased natural capacity, primarily in Central America. The growing period of the hevea tree was the limiting factor and despite efforts to increase production, the total wartime supply was only 315,000 tons.¹⁹

¹⁸U.S., Congress, Senate Hearings On The Rubber Act of 1947, p. 15.

¹⁹Ibid., pp. 15-16.

In September 1942, a report by the Presidential-appointed Rubber Survey Committee chaired by Bernard M. Baruch concluded:

. . . Unless corrective measures are taken immediately this country will face both a military and a civilian collapse . . . Unless adequate new supplies (natural or artificial) can be obtained in time, the total military and export requirements alone will exhaust our crude stocks before the end of next summer.²⁰

Catastrophe was initially averted through conservation (35 mile per hour speed limit and gasoline rationing); tire rationing; increased use of reclaimed rubber; and strict limitation on the use of natural rubber. At a total Government investment cost of \$700,000,000, the production of synthetic rubber increased rapidly; from a privately-owned experimental capacity of 8,000 tons in 1941, production rose to 24,000 tons in 1942, to 234,000 in 1943, and to 763,000 in 1944. The capacity at war's end reached 1,100,000 tons, a figure which exceeded America's 1941 consumption of 775,000 tons.²¹

By 1943, it was clear that the American synthetic monopoly was growing in capacity and improving in quality and price into an obvious competitor for natural. The potential impact on post-war Malaya was not missed by the British,

²⁰Ibid., p. 15

²¹New York Times, March 31, 1945, p. 21.

and in late 1943, they seized upon the pending expiration of the IRRA as a cause for initiating discussions with the United States. On December 7, 1943, the British Minister in Washington submitted a memorandum to the State Department advising that neither the Dutch Government in exile nor the British (the two available signators) had any intention of renewing the IRRA which was to expire at the end of December 1943.²² The memorandum invited the United States to join in a new agreement; it also included a draft agreement which would establish an International Rubber Committee. The American response a week later was to decline, citing as the reason that the action as proposed was "too quick." The American counter proposal was a suggestion that the IRRA first be allowed to lapse, so as to assure all concerned that any new agreement had no connection with the IRRA.²³ Of itself, the British draft was inoffensive describing a committee without executive authority whose chief function would be to gather data and to study problems.

²²The Department of State record of the 1943-1944 discussions are contained in "Termination of The International Rubber Regulation Agreement; Participation of The United States In Exploratory Discussions For A New Agreement," U.S., Department of State, FRUS: Diplomatic Papers 1944, Vol. II, General: Economic and Social Matters (Washington, D.C.: U.S. Government Printing Office, 1967), pp. 950-987 (cited hereafter as Termination of The IRRA).

²³Dispatch: Secretary of State to the Ambassador In The United Kingdom, January 10, 1944, in ibid., pp. 950-951.

The British countered the American hesitation with an Anglo-Dutch offer to terminate formally the IRRA on April 31, 1944, the date on which the grace period for renewal expired.²⁴ Again, conclusion of an agreement prior to expiration was urged. The Americans advised that representatives of the Rubber Development Corporation were available to discuss the matter with the British Far Eastern Emergency Rubber Committee--in essence saying there was no immediate requirement to establish new international machinery.²⁵ In further exchanges, the British continued to press for an American commitment. In what appeared to be a studied slip of the tongue, the British added that any discussion could not confine itself to ". . . crude rubber only."²⁶ The Americans continued to insist on the expiration of the IRRA as a precondition to assure that nothing was done to confirm American industry's suspicion that the proposed new agreement was really ". . . the old one in disguise."²⁷ In what could

²⁴Ibid., p. 951.

²⁵Dispatch: Ambassador In The United Kingdom to the Secretary of State, January 14, 1944, in ibid., pp. 954-957.

²⁶Memorandum of Conversation Between the Director of The Office of Economic Affairs, Department of State, and The Commercial Secretary of The British Empire, Washington, D.C., March 18, 1944, in ibid., pp. 957-959.

²⁷Memorandum of Conversation By William T. Phillips, Commodities Division, Department of State, Washington, D.C., April 15, 1944, in ibid., p. 959.

have been a veiled threat to reconstitute the IRRA and IRRC, the British noted, in late April, that they and the Dutch also had their industries to contend with; and, with or without the Americans, Great Britain was committed to a new agreement with the Dutch.²⁸ After the April expiration of the IRRA, the Department of State advised the British informally that the matter had been discussed with representatives of the American industry who were highly suspicious of the proposed agreement.²⁹ However, the two Governments agreed to meet with the Dutch in London in August to discuss the matter further; the meeting was referred to as an "informal international rubber study group." The August meeting produced formal agreement to establish a permanent International Rubber Study Group (IRSG) and the first meeting was set for January 1945.³⁰

In December 1944, a curious incident occurred. The British Ministry of Supply was approached by representatives of the Provisional French Government who wished to join the

²⁸Letter: Colonial Secretary of The British Empire to The Office of Economic Affairs, Department of State, April 26, 1944, in ibid., pp. 962-963.

²⁹Memorandum of Conversation By William T. Phillips, Commodities Division, Department of State, Washington, D.C., May 4, 1944, in ibid., p. 965.

³⁰ibid., pp. 984-986; and U.S., Department of State, Department of State Bulletin, Vol. XI (September 24, 1944), p. 328.

IRSG at its first meeting. In support of their application for admittance, the French stated that there would be an estimated 200,000 tons of natural rubber available in Indochina at war's end. The British transmitted the French request to the Americans but recommended disapproval citing the provisional status of the French Government and the precedent that admittance could set for others wishing to join at this late date. Admittance for all interested parties was proposed for the future. The United States agreed and added that the French estimate of available rubber was probably "too high."³¹

The results of the first meeting of the IRSG was marked by but two observations: (1) it was agreed that the speculative information concerning the rubber-producing areas of Southeast Asia prevented accurate, future estimates; and (2), any estimates would be based for the present upon the assumption of "no new production capacity."³²

The timing of the 1943 British initiative to secure an agreement with the United States suggests additional

³¹Exchange of Dispatches Between the Second Secretary of The British Ministry of Supplies and The Office of Economic Affairs, December 14, 1944 and January 2, 1945, in Termination of The IRRA, pp. 296-297.

³²U.S., Department of State, "The RSG: Discussion And Appraisal of The Future Rubber Situation," Department of State Bulletin, Vol. XII (February 5, 1945), pp. 161-162.

motives beyond the obvious one of post-war planning. Prior to December 1943, plans had been sketched out at the first Quebec Conference for the liberation of Southeast Asia. Though the timetables were tentative, the inevitability of Allied victory was assumed. Given that the urgencies of the moment were yielding to concerns for the future, the British initiative of 1943 regarding rubber still seems premature. To the American Department of State, the urgency to replace the IRRA must have seemed odd at that particular moment; the French and Siamese were not available for consultations and the liberation of the areas was tentatively planned for sometime in 1946. The British could, however, have gained two advantages in an early Anglo-American agreement. First, the agreement would have been concluded without concern for two of the IRRA signators; i.e., the French and Siamese. In short, if an agreement favorable to the British and Dutch, who constituted 80 per cent of world capacity, could be worked out prior to liberation, the remaining two would be left to shift for themselves at war's end. If the fear was overcapacity, the British would certainly have been more comfortable not having to consider the requirements of France and Siam whose combined capacity could only have made a bad situation worse. There is also a possibility--if the suspicion concerning British plans for a federation had any truth--that the British were prepared to speak for

all.³³ That a British desire to avoid French and Siamese involvement and the advantage of dealing with a Dutch Government in exile was a factor is indicated by the fact that no overtures were made to the French after their liberation, and in the British recommendation of December 1944 that French membership in the IRSG be deferred. A second possibility cannot be ignored: the British may have perceived an advantage in discussing the future with the American Government, rather than with private American manufacturers. The British were aware that the Government-owned synthetic industry would be turned over to the private sector as soon as practicable after the war.³⁴ Should the matter be left to the post-war period, the British could face a difficult time with a cantankerous American industry motivated primarily by the concerns of business enterprise and the memories of the old IRRC price and production cartel. On the other hand, the United

³³Above, pp. 14-15. A British account (written without benefit of the American Government documents) recounts an initial plan among the British, Dutch and Indian Governments to extend the IRRA until eighteen months after the war's end. That scheme was rejected by the Colonial Office. However, it appears rejection came after the American response of mid-December 1944. See Bauer, Rubber Industry, pp. 307-308.

³⁴That the Government would not continue to "own" the industry after the war was a valid assumption. The synthetic patents were privately owned; the plants were under private management; and Government equipment was mixed with private. The discussions that followed V-J Day between industry and the Government proceeded from the assumption that the question was "when," not "if." See below, p. 105.

States Department of State might possibly be more sensitive to the plight of the British economy, the circumstance of the Malayan people, and concepts of free trade. In short, because of the international focus of interest, the United States Government might be persuaded to keep its synthetic industry in check. However, no agreement was concluded and the international discussions concerning the future were left to drift in the IRSG.

That no formal American commitment could be forced in 1944 was, at least in part, a result of the dearth of information concerning conditions in Southeast Asia; however, a speculative observation can be added. It would be reasonable to conclude that the American Department of State might have breathed a sigh of relief at being able to defer the issue. Several of the possible problems involved ran straight to the heart of American hopes and plans for a reordered system of world trade. Since the Reciprocal Trade Agreements of 1934, the United States had led the effort to liberalize trade; i.e., to do away with trade practices that restricted through tariff or quota the ability of nations to buy and sell to fair advantage. America had taken steps during the war to keep alive the objective of removing trade barriers. The Reciprocal Trade Agreements Act had been extended in 1940 and was again extended in 1943, 1945, and 1948.

Other steps were taken to prepare the way for the post-war removal of trade barriers. Though they were declarations of intent more than promises to act, Point Four of the Atlantic Charter and Article VII of the Mutual Aid Agreements [Lend Lease] helped set the stage. The latter, particularly, became a vehicle for some of the most important discussions of international economic cooperation. Without committing the British to end imperial preference--a favorite target of American trade policy--Point Four and Article VII pointed the way.³⁵

The IRRA aside, Malaya was an example of the imperial preference at work; e.g., cheap Japanese textiles, like American products, were kept out by tariff in preference to English goods; the export duties on tin were paid by all but the United Kingdom and Australia.³⁶

The possible dilemma of rubber could prove to be difficult: (1) if Malaya could quickly swing back to a pre-war level of production; and (2) if synthetic could not compete with natural in a free market. How then could America protect her Government synthetic industry short of protectionist trade restrictions? And if she chose to protect, who but the Dutch, British and their colonies would suffer from the lost market? The possible problems and solutions did not fit the plans for liberalizing trade. That the Department of State was aware of the difficulties is hinted at in a

³⁵Campbell, USWA: 1945-1947, p. 384.

³⁶Rose, Britain And South-East Asia, p. 66.

May 1945 letter to the Senate Committee on Agriculture and Forestry. The State Department successfully urged the defeat of a proposed bill that would have created a Federally-subsidized program to grow a natural rubber producing plant (kok-saghyz) as an alternative to the synthetic industry. The Department characterized the proposal as "premature," noting that the advantages could not be "properly evaluated" because of the uncertainties of post-war conditions. It added an observation that synthetic could prove to be both better and cheaper than any natural product.³⁷

The Department may also have been sensitive to rumblings of British dissatisfaction over the potential power of the United States to dictate the post-war terms of trade. In January 1945, a member of Parliament had asked in Commons if the United States was adhering to the terms of Lend Lease that had been imposed upon the recipients; i.e., was America insuring that the five tires on an exported automobile contained no more than ten per cent British rubber?³⁸ The issue was Lend Lease; however, the choice of the example (rubber) and the timing (a week after the first meeting of the RSG) is a provocative coincidence.

³⁷Letter From The Acting Secretary of State to The Chairman, Senate Committee On Agriculture and Forestry, May 19, 1945, in U.S., Congress, Senate, Providing And Insuring A Dependable Supply of Domestic Natural Rubber, S. Rept. 1912, 79th Cong., 2nd sess., 1946, Senate Miscellaneous Reports, Vol. 4, p. 3.

³⁸New York Times, January 31, 1945, p. 4.

The liberation of Malaya and the conditions of the plantations simultaneously occupied British concern. In July 1945, the British Government announced plans for the rehabilitation of the Malayan rubber industry. The Government would purchase all available rubber, and priority would be given to providing technical experts and necessary supplies to the estates.³⁹ So too did the subject of rubber apparently rise to a new level of interest in America. On September 7, 1945, two days after the first advance military units landed in Malaya, the Office of War Mobilization and Reconversion (OWMR) formed an Inter-Agency Policy Committee On Rubber.⁴⁰ Membership included representatives of the Departments of State, Justice, War, Navy and Commerce; the War Assets Commission; the Civilian Production Administration; and the RFC. Called the Batt Committee after its Chairman, William L. Batt, Vice Chairman of the OWMR, this group constituted formal recognition that the future had become the present, and that the time to begin coordinated planning had come.⁴¹ The

³⁹Ibid., July 23, 1945, p. 4.

⁴⁰Ibid., September 9, 1945, p. 39. The announcement gave the reason as "fears of serious surpluses" by 1946. The Committee produced two reports. See "Inter-Agency Policy Committee On Rubber, first and second reports" quoted in U.S., Congress, Senate Subcommittee Hearings On The Rubber Act of 1947, pp. 6-32, (hereafter cited as The Batt Committee, First (Second) Report).

⁴¹The inter-agency approach was presumably a result of the realization within the Executive of the necessity "to assure conformity between our foreign economic operations

Committee's charter included: maintenance of the synthetic capacity; encouragement of research to expand the possible markets; establishment of natural stockpiles; development of a Western Hemisphere natural capacity; and the establishment of " . . . mutually advantageous programs for import from the Far East."⁴² The Batt Committee was to become the Government's authority on, and the architect of, a post-war national rubber policy. Its two reports, published in February and July 1946, were to lead the way for Congressional action.

Before the Japanese surrender could be arranged, even before America appointed a post-war Consul, a rubber survey team, hastily assembled by the British Ministry of Supplies, had landed in Malaya. Among the members were three unofficial American representatives, buyers for the Goodyear and Firestone Companies, and an independent purchasing agent. It would seem that the British and American Governments and industries were holding their breath in anticipation of the group's findings.⁴³

and national foreign policy"; e.g., the creation of The Office of Foreign Economic Administration in 1942. See Acheson, Present At The Creation, p. 46.

⁴²The Batt Committee, First Report, February 19, 1946, p. 6.

⁴³The British group landed on September 8, 1945. The surrender was taken on the 12th, the same date the United States appointed its first post-war Consul to Singapore. See New York Times, September 9, 1945, p. 8; and U.S., Department of State, Foreign Service List January 1, 1946, Department of

The problems posed by the natural-synthetic dilemma were buried in complexity.⁴⁴ In one form or another, they touched upon at least three American policy issues. First, economic policy from the Atlantic Charter, through the Bretton Woods Act, to the American initiatives to create an International Trade Organization had established an intent to speed world economic recovery and to foster multilateral trade. Second, foreign policy towards British possessions was clearly noninterventionist. Third, there were growing pressures to reverse the war-time trend of Government involvement in and control of private enterprise. How then to serve all interests: national defense, business, free trade, the Malayan economic recovery? To attempt to serve all could be to serve none.

State Publication 2517 (Washington, D.C.: U.S. Government Printing Office, 1946).

⁴⁴For agreement with this summary see "Rationalizing Rubber," St. Louis Post-Dispatch, April 28, 1946, quoted in U.S., Congress, House of Representatives, Extension of Remarks by Representative John B. Sullivan, 79th Cong., 2nd. sess., April 28, 1946, Congressional Record, Vol. 92, Part 10, p. 2457.

CHAPTER III

POST-WAR PROSPECTS: THE UNION
AND ECONOMIC RECOVERY

Just as the relative position of British Malaya in the context of the prewar trading triangle makes her ill-suited to regional economic generalizations, so too is Malaya a poor choice for inclusion in a general discussion of colonial governments and post-war political developments. Though later subjected to pressures common among her neighbors, such as rising nationalism and communism, the uniqueness of the Malayan experience accounts for the differences between America's relationship to Malaya, and the French and Dutch colonial areas. Whereas the United States was drawn into the post-war, colonial affairs of the Dutch and French, she avoided any such entanglements in Malaya--albeit a result of the absence of cause, rather than conscious deliberation.

The British returned to Malaya amidst victory parades and triumphal arches. Though the return of the colonialists elsewhere may have been met with reactions ranging from hostile rifle fire to the whipped-dog snarls of those who saw no change save the exchange of masters, a large majority of the Malays were sincerely pleased to see the return of their British mentors and protectors. The reasons for this seeming

departure from the expected lay in the history of the British-Malayan experience, a history somewhat unusual among the annals of colonialism.

Although the English presence in Malaya dates to the late eighteenth century, British Malaya as it existed in 1941 was the product of a series of treaties concluded between the Malay Sultans and the Crown in the period 1874 to 1909. The British originally secured the treaties to halt civil wars among the Sultans and acts of piracy, both of which interfered with the orderly conduct of trade. However, the treaties were initiated before the first rubber plantation was established and before large scale, modern tin mining appeared. Whereas the treaties were intended to insure the security of trading activities, they later served to control and protect substantial capital investment in plantations and mines after 1900. Though the tin and rubber trades followed the ups and downs of the world economy, a general trend of economic development continued until 1942 at which time Malaya enjoyed a standard of living that was, by regional standards, the envy of her neighbors.¹ In part as a result of the mutual, if not equal, benefits of economic development,

¹The best examples were a higher per capita income, basic education, and better health services. See Ginsburg and Roberts, Malaya, pp. 363-367; and Mills, The New World of Southeast Asia, p. 181.

and partially as a result of the fact that the British ruled through the Sultans, the maintenance of colonial control required little use of force. The absence of the heavy hand produced a relationship founded in a considerable amount of mutual respect and a Malay tolerance for and trust in the British. Though not a relationship of equals, rather the relationship of a benevolent father for children, it did not contain that rawness of the master-servant relationship which breeds hatred and characterized the British elsewhere and the Dutch and French almost everywhere.

British Malaya is a deceptively simple term which fails to suggest what was, in fact, a most complex, pluralistic collection of states, colony, and people. In 1941, there were nine Malay States described in the jargon of the British Colonial Office as "protected states." Eight of the nine were located on the mainland: Kedah, Perak, Kelantan, Trengganu, Pahang, Selangor, Negri Sembilan, and Johore. The ninth, Brunei, was located in the central coastal area of British Borneo.² Four of the mainland states--

²Referred to by the American State Department in its 1945 estimates as "anomalous," British Borneo is a subject unto itself. It consisted of three units: (1) Sarawak was controlled by the English Brooke family who ruled as Rajas from the early nineteenth century; (2) Brunei, the British-protected state; and (3) North Borneo, owned by the North Borneo Company. Both Sarawak and North Borneo were handed over to the British in July 1946 and became Crown Colonies; repair of war damage was beyond the resources of private interests. Both were incorporated into Malaysia by 1963. Brunei

Perak, Selangor, Negri Sembilan and Pahang--had been loosely joined since 1896 as the Federated Malay States, which occupied the central portion of the Malay peninsula and included the richest tin and rubber producing areas. Each of the nine states was technically sovereign; however, under the treaties concluded with the Crown, Sultanic authority was limited to those matters concerning the Mohammedan religion (the faith of the Malay) and Malay custom. In all other matters, both foreign and domestic, the Sultans were bound to accept the advice of the Crown, the quid pro quo being British guarantees of Sultanic succession and a generous annual income.

The Straits Settlements (referring to the Malacca Straits) comprised the British Crown Colony of Malaya and consisted of: the island, port city of Penang and the adjacent coastal area, Province Wellesely; Port Swettenham; the city-port of Malacca; and the island, port city of Singapore. The essential difference between the "protected states" and the Crown Colony, other than the obvious degree and visibility of British rule, was citizenship. An individual born in the Straits Settlements was a British subject, while one born in the States was a British protected person.

remained a protected state. See Gould, The United States In Malaya, pp. 78-79; and Cady, History of Post-War Southeast Asia, p. 647.

In a descending hierarchal arrangement, the lines of British colonial authority differed slightly among States and Colony. The senior British authority for all of Malaya was the Colonial Governor of the Straits Settlements who ruled from Singapore. He was assisted in administering the Settlements by Legislative and Executive Councils. The power of the Legislative Council, however, was subject to the Governor in that membership was subject to his concurrence, as were legislative proposals. In regard to the Federated States, the Governor of the Straits Settlements also served as the High Commissioner for the Federated Malay States and, in this capacity, he presided over a Federal Council headquartered in Kuala Lumpur, the Federation Capital. Council membership consisted of a British Federal Secretary, the four British residents, and four unofficial Malay members nominated by the Secretary. In the Unfederated States, the British advisor served directly under the Governor and presided over councils which were variations of, and modeled on, the council system used in the Settlements.

During the war, the decentralized organization and assumptions of British colonial rule in Malaya were found adaptable for the purposes of the Japanese. Because of the feudal reverence and fealty of the Malay for his Sultan and the existence of a native civil service, the Japanese formulated no plans to alter substantially the arrangements;

i.e., whatever was required in the Malayan States would be worked out between the Japanese and the Sultans while Singapore, joined with Sumatra for a brief time, was ruled directly by Japan. The maintenance of the Sultans' sovereignty and the survival of the native civil services worked to great advantage in facilitating the post-war recovery process.

By comparison with the Dutch and French experience, then, the British return to Malaya was less traumatic for both the Malays and the British. In summary, the causes were: First, the British, like the Americans in the Philippines, were able to insert a military force sufficient in size to assure an orderly transfer of control, whereas the French and Dutch were incapable; second, as already mentioned, the basic structure of the prewar colonial arrangement remained intact; third and of primary importance, the Malay people had no desire to pursue the future without their British protectors. The most fundamental difference between Malaya and the rest of Southeast Asia was that the Malays or "people of the country" were a minority in their own land.³ As a result of the growth of the rubber and tin industries, and the need for a large labor force, Chinese and Indians had come to Malaya in the millions. Therefore, any scheme or desire for self-government would require a reckoning with the foreign

³P. T. Bauer, "Nationalism And Politics In Malaya," Foreign Affairs, Vol. 25 (April 1947), p. 515.

majority, a reckoning the Malays were unwilling to face.

The term "British protected" had originally meant protection of Malay from Malay and Malaya from external encroachment; however, the term had new meaning as early as 1920. The boom in rubber and tin had found the Malay people ill-suited by temperament, being farmers and fishermen by tradition, and insufficient in numbers to work the mines and plantations. To fill the void, the British had encouraged the immigration of Chinese and Tamil Indians. By 1941, the population, swelled by immigrants, had grown to an estimated five million, a four-fold increase over the estimated population at the turn of the century. Fifty-five per cent of that population was non-Malay, 45 per cent being Chinese and 10 per cent Indian. The Malay accounted for only 43 per cent. (The remaining 2 per cent were British, Europeans and Eurasians.) In the Federated and Unfederated States, the figures were slightly different: 38 per cent Chinese, 11 per cent Indian, and 49 per cent Malay. Most dramatic was the Chinese majority in Singapore: 77 per cent Chinese, 12 per cent Malay, and 7 per cent Indian. The population increased during the War, though at a retarded rate, to 5,849,000; but the ratio among the three Asian races remained unchanged.⁴

⁴These figures were published after formation of The Federation of Malaya in 1948; therefore, the populations of the Straits Settlements, other than Singapore, were included with the adjacent State; the total for Malaya is the sum of the populations of the nine States (including adjacent

The Chinese were the more successful of the immigrants. Many entered commerce and trade, and supervisory positions in the British and European-owned mines and plantations. Unlike the Indians, who usually stayed in Malaya for no more than three years, the Chinese remained indefinitely. Prior to 1911, the law of Imperial China viewed migration as illegal and the threat of punitive action discouraged return. In the inter-war period, the uncertainties caused by the Kuomintang rise to power in the 1920s, followed by the Sino-Japanese War of the 1930s, served both to encourage migration and discourage return. In addition, the conditions of instability gave rise to investment of capital by the Chinese in the more tranquil areas. By 1939, the Chinese investment in Malaya was estimated at \$200,000,000.⁵

The religious and social habits of the Chinese were considered by the Mohammedan Malay to be of a lower order bordering on the barbaric. (The only lower society was the Indians who were looked down upon by both the Chinese and

Straits Settlements) and Singapore. For complete analysis based on the Malayan Census of 1947 and 1955 see Ginsburg and Roberts, Malaya, pp. 47-63.

⁵The figure apparently refers to the capital worth of Chinese in Malaya, regardless of the original source of capital or citizen status, since the figure is given separately and is not included in estimates of total foreign investment. See Mills, New World of Southeast Asia, p. 184; and Rose, Britain and South-East Asia, pp. 81-82.

Malays.) This, coupled with Chinese success and superiority as petit bourgeois, gave rise to intense resentment among the Malays. The Chinese remained socially isolated and politically interested in Kuomintang China. Outright hostility and violence between Malay and Chinese races was, however, minimal prior to World War II, a tribute to the British ability to keep oil upon troubled waters.

The general theme of British rule was that the Crown governed at the request of the Malay people and, therefore, rule entailed by a responsibility to preserve the rights and primacy of the Malays, the true "people of the country." In the twenty years preceding 1941, there had been some inconclusive discussion of the future which generally spoke to the issue of eventual self-government in terms of the administrative mechanism of transition. The first step to precede any planning for self-government was to be the establishment of a capable civil service which would eventually emerge from a shadow status and become the nucleus of a Malayan government:

As this service developed, British administration would fade out by stages rather like the Cheshire cat. The British would first surrender their executive power and revert to the status of advisors as in the Unfederated States; then the main body would be withdrawn leaving departmental consultants; and finally there would be a complete transfer and even the smile would go.⁶

⁶Rose, Britain And South-East Asia, pp. 81-82.

Between the World Wars, two schools of thought developed around the question of whose "smile" would replace that of the British. The first, the pro-Malayan or devolutionist school, saw Malaya as a collection of states ruled by Sultans wherein the Malay had a position of privilege and the Chinese and Indians were but tolerated guests. The second, the pan-Malayan school, viewed the country as a multi-racial nation which came into existence after 1900 in which the Malays were but one of several races with no special claim to primacy over the Chinese-Indian majority. The pro-Malayan school was the more popular among the British colonials who, for the most, had a genuine fondness for the usually gentle, well-mannered Malay; the British colonial had a decided dislike for the more aggressive and often troublesome Chinese. The English sense of fair play favored the weaker race and saw little justice in any plan that would cast the Malays to an uncertain fate under the inevitable dominance of the numerically superior Chinese. There was also a businessman's argument for either school. For the pro-Malayan: the Malays were not business competitors of the Britisher whereas the Chinese were. For the pan-Malayan: the Chinese could provide acumen and leadership in business, industry and civil service at a fraction of the cost of English and Europeans charged with such tasks--if the Malays could be brought to accept subservience to the

Chinese.⁷ The pro-Malayan school remained the preferred approach among the Colonial Service administrators through the 1930s although no concrete plan for self-government emerged. It would seem, however, that the idea of self-government and the pro-Malayan view were mutually exclusive. To accept the one with the other was to doom the first to failure; i.e., a western style democracy ruled by an elite group selected from among a minority. At any rate, until World War II, the British had acted to protect the primacy of the Malays, and the Malays, with few exceptions, were content to have it so.

The Japanese interlude had served to intensify the racial animosity between Malay and Chinese. As the majority of overseas Chinese remained loyal to Kuomintang China, resistance to the Japanese was accepted as a proper Chinese activity. In turn, the Japanese viewed the Chinese Malaysians as enemies and treated them as such. On the other hand, the Japanese did not treat the Malays as conquered enemies. The Japanese propaganda ran thus: the Malays had been exploited by the British, an enemy defeated and driven from the country. The Malays had been equally exploited by the Chinese, a race still locked in combat with Japan. The intent was to whip up hatred for the British, and to capitalize on the latent Malay hatred and distrust of the Chinese merchant,

⁷Among others see ibid.; Gullick, Malaya, pp. 75-76; and Bauer, "Nationalism And Politics In Malaya," pp. 505-506.

money lender, and foreman.⁸ They failed in the former but succeeded in the latter with the unwitting aid of the Chinese.

The Chinese assumed the task of resisting the Japanese in Malaya. Malay participation was minimal and accounted for less than ten per cent of a force estimated to be six or seven thousand at its strongest. Other than rescuing a few Allied fliers and killing an occasional Japanese, the MPAJA spent most of its efforts in acts of banditry and extortion against Malayan villagers. To add a final twist in a seemingly unending tangle of circumstances, the MPAJA fell under the control of the MCP which owed its ideological foundations to the Chinese Communist Party. In addition to terrorizing the Malays, the MPAJA also turned their efforts to dealing with Kuomintang Chinese. When Mountbatten landed in September 1945, the first order of business was to suppress the civil disorder which had increased during the last weeks of Japanese rule. Malays were cutting the throats of their Chinese creditors in the urban areas, while MPAJA units freebooted about the countryside murdering Chinese and Malay alike, and settling old political and personal scores.

⁸By all accounts, the treatment of the Chinese during the war was a touchy subject. The Malays, particularly the police, cooperated to the point of collaboration while the Japanese brutalized the Chinese. See Gullick, Malaya, p. 90.

Although it took the remainder of 1945, general order was restored by SEAC forces.⁹

In October 1945, the British Colonial Secretary announced plans to reorganize Malaya into a Malayan Union, the first step in beginning the preparations of the country for self-government as promised in the December 1943 declaration of policy. The scheme sounded reasonable enough: the Federated and Unfederated States would be joined in a Malayan Union; the Straits Settlements (Singapore excepted) would be absorbed by the adjacent states; and Singapore would be retained as a Crown Colony (neatly dodging the problem of the overwhelming Chinese majority). There was to be a new Union citizenship for all born in the States, though those who held British citizenship by virtue of colonial status would retain it. To effect the reorganization, new treaties had to be negotiated with the Sultans " . . . which will enable His Majesty to possess and exercise full jurisdiction . . . [and] once done . . . [it is] intended in Order in Council to constitute the Malayan Union."¹⁰

Sir Harold MacMichael, a former High Commissioner for Palestine, was dispatched as Special Envoy to secure the treaties. In less than 90 days, MacMichael was back in

⁹See above, pp. 59-60.

¹⁰George Hall, Colonial Secretary, quoted in New York Times, October 11, 1945, p. 3.

London; apparently, there had been little negotiation. The Sultans were in no position to argue any proposal. All had remained on their thrones during the occupation, and British confirmation of their status was not guaranteed. Several of the Sultans had cooperated with the Japanese to the point of collaboration and were not anxious to test MacMichael's authority to press the matter. The treaties were formal renunciations of all nominal sovereignty; i.e., they formalized the de facto authority held under the old treaties. The important difference was that, to all effect, the status of the States changed from protected state to colony. The legality of the treaties was questionable: (1) because of the possible duress imposed by MacMichael; and (2) because two of the states, Johore and Trengganu, were constitutional monarchies whose Sultans were technically without authority to surrender sovereignty. However, the legal questions were ancillary to the outcry that came upon publication of MacMichael's report and the British White Paper of February 1946 that promulgated the Union. The report established as one purpose of the reorganization to give a new status to the Chinese and Indians:

Although the special position of the indigenous Malays needed to be safeguarded, reforms were overdue in the system of

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representation in order to permit the claims of other races . . . to receive reasonable satisfaction.¹¹

The White Paper proposed Union citizenship for all persons who had lived within Malaya for ten of the fifteen years preceding the establishment of the Union; thereafter, citizenship would require five years residency.

The Union was a complete "volte face of the pro-Malayan policy, and aroused a storm of protest among the Malays." The result was the unplanned "miracle" of MacMichael's mission--it aroused a spirit of national identity among the previously disinterested Malays. Under the leadership of the British educated Dato Onn bin Jaafar, Mentir Besar (Chief Minister) to the Sultan of Johore, local Malay opposition groups sprang up in village and town throughout the peninsula. The reaction was the result of several factors. First, the four northern States had had a taste of autonomy during the war when the Japanese honored Thai claims to the area; neither had really bothered to rule. Second, the wartime activists of the predominantly Chinese MPAJA and their post V-J Day spree of terrorism had raised Malay anti-Chinese feelings to fever pitch. Third, the educated Malay civil servants and teachers who followed

¹¹Sir Harold MacMichael, "Report on a Mission to Malaya," Colonial No. 194, London: His Majesty's Stationery Office, February 1946, quoted in Bauer, "Nationalism In Malaya," p. 509.

Dato Onn realized the inescapable, that the citizenship plan would inevitably lead to Chinese domination. By April 1946, Dato Onn had organized the first viable, politically-oriented group in the Malay's history, the United Malay National Organization (UMNO). The UMNO was not without allies among the English. There was a considerable outcry against the Union from the old-hand, Colonial Service devolutionists. In November, the Labor Government conceded that the proposal was fatally flawed and proposed a constitutional conference to include the leaders of the UMNO and their advisors, plus leading members of the Union administration.¹²

The crystalization of a Malay cause celebre into a political force, in turn, caused the creation of a counter-force. When the British Government yielded to UMNO demands to withdraw the most controversial clause of the Union proposal, i.e. the citizenship scheme, non-Malay groups joined in opposition to the UMNO. Fearing a formalization of Malay dominance, numerous non-Malayan communal and ideological groups joined together to form the All Malayan Council of Joint Action (AMCJA).¹³ Before it shattered into pieces in

¹²For various accounts see ibid., pp. 508-510; Mills, Malaya, pp. 34-42; Rose, Britain And South-East Asia, pp. 129-130; Mills, New World of Southeast Asia, pp. 204-205; and Ginsburg and Roberts, Malaya, pp. 463-465.

¹³Among the groups joined in the AMCJA were the Malayan Democratic Union, Malayan Indian Congress, Pan-Malayan Federation of Trade Unions, and MPAJA-Ex-Service Comrades. The common strain was opposition to the UMNO while

the communist uprising of 1948, the AMCJA did participate in the drafting of a proposed Federal constitution in May 1947 that was to have some influence on the document which was finally adopted and established the Malayan Federation in January 1948.¹⁴

The attempted Union was not the only mistake made by the British Labor Government in their early post-war appraisal of the needs of Malaya. Unlike Churchill, the Government of Prime Minister Clement R. Attlee was not dogmatically opposed to communism in all its possible forms. Though well meant, but not exactly applicable in the nonindustrial Asian context, the Labor Government encouraged reconstruction and expansion of trade unionism in Malaya. In keeping with the then general strategy of world communism, MCP leaders directed their early post-war efforts to infiltrating and gaining control of the unions. The disbanded MPAJA and its civilian supportive arm, the MPAJA-Union, reformed into the MPAJA Ex-Service Comrades Association and The People's Democratic Movement. As the only effectively organized political group, the MCP members emerged as leaders of the General Labor Union (GLU) from its inception in late 1945. The first

the forces for dissension were a Chinese majority and attempts by the communists to dominate. See Ginsburg and Roberts, Malaya, pp. 464-465.

¹⁴Ibid.

test of strength came in February 1946 when the GLU called a general strike ostensibly a holiday honoring the MPAJA veterans. Mountbatten responded decisively, prohibiting the strike, but the British won this first confrontation as much a result of popular disinterest in the strike as they did through the government ban. Reviving a 1940 Trade Union Enactment Ordinance which required actual trade employment as a condition of holding union office, the British forced the breakup of the GLU, but it was soon reorganized into an equally communist-dominated Pan-Malayan Federation of Trade Unions (PMFTU). By mid-1948, the PMFTU controlled the majority of key positions in some 277 registered unions and was affiliated with the communist-led World Federation of Trade Unions.¹⁵

If the political events in Malaya into 1948 drew any particular interest from the United States, it was not apparent. Considering such events as those in progress in China and Indonesia, those taking shape in Indochina, and the relentless pressures in Europe, all of which were communist inspired if not directed by Moscow, it is understandable. To the American Department of State, the proposed Union; the

¹⁵For the best summary of the MPAJA's post-war transformation see *ibid.*, pp. 462-467. The degree of communist influence in the PMFTU became obvious after it and the MCP were declared illegal in 1948 and the number of unions dropped from 399 to 162.

formation of the UMNO and its opposition, the AMCJA; and the British policy of accommodation, demonstrated in the proposal for a constitutional conference, might have seemed one of the few situations in the world that was going well.¹⁶ The British were apparently in tune with the American policy to "favor a policy" leading to increased participation of dependent people in governing their own affairs.

Beyond the common experience of the Japanese presence, the trial of each of the Southeast Asian countries had varied considerably in the details and effects of conquest, occupation, and liberation. A few examples serve to illustrate. The Philippines, Burma, Malaya, and the Netherlands East Indies had been taken in 1941 and 1942 in military operations which involved the clash of Japanese and western and colonial forces. In contrast, Indochina fell within the Japanese ring through negotiation with Vichy France, and thus escaped the destructiveness of major combat operations. When the tide turned against the Japanese, Burma, the Philippines, and portions of Borneo again became battlefields in the death struggle between Japan and the West. However, Malaya and Indochina were spared the intense destructive battles of liberation by the precipitous Japanese collapse. Cities such

¹⁶One opinion is that the British attitude of conciliation and reasonableness was influenced by a desire to avoid action which might bring adverse American public opinion. T. H. Silcox, "Forces For Unity In Malaya," International Affairs, Vol. XXV (October 1949), p. 462.

as Saigon and Kuala Lumpur survived the War unscathed, whereas Manila was described as being the most devastated city of World War II, a distinction shared only with Warsaw.

The damage to Malaya had been extensive, though not fatal. The tin mines had fallen into ruin; mining equipment had been wrecked in the British retreat or wantonly destroyed by the Japanese. The tin smelters of Penang, the grandest in the prewar world, had met a similar fate. Bridges destroyed by the British remained down. Railroad tracks on the east coast had been ripped up and moved by the Japanese in an attempt to build a line to relieve Burma in 1943. By 1945, the rubber plantations had begun to recede into the jungles. The Japanese had literally choked on the riches of Malaya. Their industrial needs did not approach the world-supply capacities of their captive. Had the need existed, Japan had early-on lost both the security of the sea routes and the merchant fleet needed to move the materials. All the advancements, both social and economic, that had made Malaya a dynamic if primitive country, suffered under the inept management and stupidly destructive practices of the Japanese.

Prospects for economic recovery were mixed. The ability of the great entrepot ports of Singapore and Penang to become again centers of commerce and shipping would depend upon the reconstitution of world and regional markets and the ability of the mines and plantations to begin producing.

For the mainland Malay States, recovery would be tied directly to the recovery of rubber and tin.

The most immediate problem facing the British upon their return to Malaya was an acute rice shortage. Starvation was already a reality in some areas and malnutrition was widespread. Prewar Malaya had not made an attempt to match population growth with increased rice production, choosing to put farmland into the more profitable rubber tree and depending instead upon imports from the rice surplus countries of Thailand, Burma and Indochina. In 1939, Malayan rice production had been only forty per cent of annual consumption. At the time of liberation, Malaya's rice stocks were down to thirty-seven per cent of the 1940 level. Efforts by the British Military Authority, the interim government under SEAC, were able only to avert immediate disaster. Rationing was imposed and the British Government assumed responsibility for government-to-government purchases. Although widespread famine was narrowly averted, the problem of rice supplies and prices remained to plague Malaya into the 1950s. As supplies increased, controls were relaxed and prices increased at a rapid rate into 1948 when an approximate balance in supply and demand was achieved and prices began to stabilize in near free-market conditions. Though at a slowed rate of increase, prices continued to rise in the general inflationary environment. The high price of

rice became, and continued to be, a major factor in the inflationary push which was to cause continual labor demands for wage increases, an issue that later served as fertile ground for both anti-British and communist agitation.¹⁷

As previously explained, the recovery prospects of the tin industry were gloomy; however because it remained a shortage, strategic material, what tin could be produced was at least assured a market; and, as a result of later British and American military stockpiling programs, was assured price stability. Yet, due to the diminished size of the industry, it could not assume a leading role in the recovery effort.¹⁸ The reconstitution of the shipping industry of the entrepot had to overcome the war losses to British shipping, a matter complicated by the precipitous termination of Lend-Lease in August 1945. The problem was somewhat ameliorated by the charter of liberty ships on cash terms worked out with the United States.¹⁹

¹⁷Cady, in Southeast Asia, Henderson, ed., pp. 15-16; Gullick, Malaya, pp. 85-86; Mills, Malaya, pp. 31-32; and Rose, Britain And South-East Asia, p. 192. Thailand profited most from the Malayan rice shortage; Siam had a rice surplus and did not hesitate to sell at exorbitant prices. See James C. Ingram, "Thailand's Rice Trade And The Allocation of Resources" in The Economic Development of Southeast Asia, C. D. Cowan, ed. (New York: Frederick H. Praeger, 1964), pp. 105-107.

¹⁸See above, pp. 31-33, n. 7, p. 33.

¹⁹Campbell, USWA: 1945-1947, p. 348.

By mid-October, the survey of damage to the rubber areas was nearly complete and was encouraging; less than ten per cent of the more than 3,000,000 acres in hevea had been destroyed by the Japanese in their futile efforts to increase rice production. The trees had actually grown stronger during the rest period, though the nonproductive years represented a loss of over \$200,000,000. The British Ministry of Supply had located some 70,000 tons of rubber stored in Straits ports, and the first shipment left for England on September 16th.²⁰

Several long-range problems were to slow the recovery of rubber to full production. Bridges and railway lines had to be repaired to regain plantation-to-port transportation. The major problem, which would prove to be the limiting factor in the rate of recovery, was labor. The backbone of the plantation labor force had been the Indian immigrants who had moved back and forth between the two countries since 1910 with the rise and fall of rubber fortunes. During the war, thousands had been conscripted by the Japanese to build the "railway of death" into Thailand. The survival rate among the Indian rail workers had been one in three. The appalling mortality and general population dislocation which occurred

²⁰New York Times, September 17, 1945, p. 3; October 3, 1945, p. 9; and Mills, New World of Southeast Asia, p. 201.

during the occupation had reduced the plantation labor force by thirty to fifty per cent, depending on the area.²¹

The unsettled conditions immediately following the Japanese surrender were anticipated and, by Anglo-American agreement, the wartime controls of rubber procurement and allocation were unchanged. The two Governments continued to purchase for their domestic industries, the prices of natural and synthetic remained fixed at the wartime levels, and international allocation was determined by the Combined War Resources Board; however, the Board was to be terminated, at American request, on December 31, 1945.²²

Almost as soon as the first shipment of Malayan rubber left for England, the British producers began to call for a removal of the price ceiling. The RFC's Rubber Reserve Corporation was authorized to sell natural to the American consumers only at the set price of \$.22¼. The British producers

²¹Ginsburg and Roberts, Malaya, pp. 323; 329-330; John F. Cady, The History of Post-War Southeast Asia (Athens, Ohio: Ohio University Press, 1974), pp. 13-14; and New York Times, October 31, 1945, p. 9.

²²The process of decontrolling world trade was swift; however, certain strategic shortage items, notably rubber and tin, were placed under international allocation committees after the War Resources Board was dissolved; e.g., Combined Tin and Rubber Committees, European Coal Organization, International Emergency Food Council (IEFC). By mid-1947, other than the IEFC, only the Combined Tin Committee remained. See Campbell, USWA: 1945-1947, p. 352; New York Times, September 20, 1945, p. 33; and November 27, 1945, p. 10.

argued as early as September that the price was too low; that the British industry was already paying \$.30 for Ceylonese and South American rubber; and, in view of the need for dollar exchange, the British Government was being too cooperative in agreeing to sell to America based on the Rubber Reserve Corporation's break even price.²³ In what could have been a reference to the future of rubber price agreements, the Colonial Secretary in his announcement of the Union proposal, leveled a warning at the consumers of Malaya's resources as well as the owners of the mines and plantations.

The Secretary stated:

No one must rely upon privilege or regard Malaya simply as a source of material wealth . . . while it is to the advantage of all the world and not only Malaya that the production of her mineral and agricultural resources be restored and developed by industry and research, it is right that the Malayan people should be assured of their full share in the rewards of their industry.²⁴

Though part hyperbole--the majority of the mines and estates were owned by British interests--the "full share" could only have been a reference to an increase in the total price of the resources, thereby yielding a net increase in wage and revenue income of direct benefit to the people of Malaya. That is quite different from increasing the Malayan "share"

²³New York Times, September 25, 1945, p. 28.

²⁴Quoted in ibid., October 11, 1945, p. 3.

which would require a decrease in somebody else's share; the question being, whose? The return on privately invested capital must be paid, or capital retreats, and that return has a finite floor. An increase in wages, revenues and operating expenses must be accommodated by the only remaining variable in the equation: selling price.²⁵

In November, the IRSG met for the second time in London with France sitting as a new member. The basis for predictions was more solid than it had been in January: a minimal loss to Malayan capacity; no damage in Indochina; however, due to the inability of the Dutch to restore civil order, the extent of damage in Indonesia was still unknown. The IRSG concluded: the current price of rubber was too low to bring out Malayan rubber; the estimate for 1945 was two to three hundred thousand tons; and the cost of synthetic production was down to a level that would make it cost-competitive.²⁶ There were rumors, emphatically denied, that

²⁵Seventy per cent of the total (prewar) foreign investment in Malaya was British. There was considerable concentration: over half of the large rubber estates (over 100 acres) were owned by London's Guthrie & Company; a third of the tin mines were controlled by the London Tin Corporation. The prewar return on a total investment of approximately 100 million pounds sterling had been about ten per cent. See Rose, Britain And South-East Asia, pp. 63-64; and Mills, Malaya, pp. 19-20.

²⁶U.S., Department of State, "Report on The Second Meeting of The Rubber Study Group," The Department of State Bulletin, Vol. XIII (November 25, 1945), p. 840. For a British estimate of just how price-competitive synthetic was see Bauer, Rubber Industry, pp. 296-300.

the American State Department had come with "deals" to present to the producers, such as shutting down inefficient synthetic plants (thus reducing production) in return for natural price guarantees. The estimates of the IRSG would support the necessity for "deals" since the prediction was that the estimated total supply of natural and synthetic rubber would exceed 2,700,000 tons by 1948--twice the prewar world consumption rate. The official American response was that synthetic production was a domestic matter, not within the province of the IRSG, and a question that must wait for the Batt Committee's report.²⁷ Apparently as a result of the facts and figures then coming from Southeast Asia, the issue of synthetic production cooled for the moment. The most optimistic estimate put the date for natural's recovery into 1948; for the immediate future, rubber would remain a shortage material and all, both synthetic and natural, would be needed. On the occasion of the first arrival of Malayan rubber in New York, the RFC announced that the world allocation of natural would be determined by a six-nation Combined

²⁷New York Times, November 27, 1945, p. 10. In fact, the RFC was closing down some of the oldest, higher-costing operations, but the reason was inefficiency. High cost natural purchasing programs were also being ended; e.g., wild hevea hunting in the Congo and Amazon regions. See New York Times, January 17, 1946, p. 42; and Raymond Dennet and Robert Turner, eds., Documents On American Foreign Relations, Vol. VIII, July 1, 1945 - December 31, 1945 (Norwood, Massachusetts: Princeton University Press, 1948), p. 172.

Rubber Committee (Russia and China were to sit with the three producers and the United States).²⁸

The damage done to Malaya appeared to be repairable within a reasonable period of time, giving hope for a relatively rapid economic recovery. Part of the capital needed for recovery would come from prewar revenue surpluses worth \$216,000,000 and war damage compensation schemes designed to assist the rubber and tin industries.²⁹ In December 1945, the British Government announced a ten-year grant program for colonial areas of the Empire totaling about 120 million pounds sterling, five million of which was earmarked for Malaya. That the announcement was made, one day prior to passage of the Anglo-American Loan Agreement in the House of Commons with a flourished reference to the burden the program would place upon the meager financial resources of Great Britain begs a comment.³⁰

There are indications that some of the early post-war British decisions concerning or affecting Malaya were influenced in part by the proposed Loan Agreement; still approval of the Loan by the American Congress was not a certainty.

²⁸New York Times, December 25, 1945, p. 1.

²⁹Mills, Malaya, pp. 200-201.

³⁰The grant was announced on December 12, 1945; the Loan was approved in the House of Commons the next day. See New York Times, December 13, 1945.

It would, therefore, be reasonable to assume that British actions would be tailored to either support, or at least minimize objection to, the \$4.4 billion credit proposed in the Agreement.³¹ Accepting that view offers a possible, partial explanation for three British decisions. First, the British agreed to supply the United States with Malayan rubber at near bargain prices through the temporary continuation of the wartime agreements despite objections from the British producing industry.³¹ This suggests an unwillingness on the part of the British Government to engage in price haggling while the Loan was still uncertain. Second, the announcement of the grant to Malaya, though a small part of a large program, may have been designed to encourage speedy passage of the Loan through the American Congress. Given the condition of the British economy in December 1945, it would seem that the ability to meet the full commitment to the dependent colonial areas would hinge on securing the Loan. Third, the reasonable and accommodating response to the Malay opposition to the Union proposal, and the permissive approach to anti-British groups suggested to at least one observer that a partial explanation lay in the desire to avoid any action that could generate adverse American public opinion.³²

³¹See below, pp. 86-89, for price agreements prior to and following American approval of the Loan.

³²Silcox, "Forces For Unity In Malaya," p. 462.

This is not to say that there was a direct conscious connection between America and Malaya via the Loan, rather that the British view of Malaya was to some degree influenced by England's need to avoid any situation which could antagonize her potential creditor.

CHAPTER IV

MALAYAN RECOVERY AND THE RUBBER ACT OF 1947

The early post-war recovery effort in Malaya was launched with considerably more dispatch and success than in the Dutch and French areas. While the French and Dutch were forced to expend precious time and energy in restoring order, a necessary prelude to economic recovery, the British were able to concentrate their energies on restarting the income producing sector of the economic system.¹ The tin mining and processing industries having been badly crippled, the burden of recovery fell upon the virtually undamaged rubber-producing industry.² For the immediate future, at least until the pent up demand for rubber was met, a market for

¹By the end of 1946, the Dutch had managed only to restore a modicum of order in the urban areas of Java and Sumatra and the outer islands. The rubber-producing interior areas were left to nationalist guerilla factions. The Dutch insistence on regaining full political control remained the prime objective throughout the last all-out, unsuccessful Dutch police action in late 1948. See Cady, Post-War Southeast Asia, pp. 36, 46-48. By November 1946, the situation in Indochina had deteriorated to open fighting between French troops and Vietnamese communists. See ibid., pp. 50-52. For a graphic portrayal of the frequency of conflict in the two areas see "Chronology of Events" in Campbell, USWA: 1945-1947, pp. 557-565.

²See above, pp. 31-33 and n. 7, p. 33.

all that Malaya could produce was guaranteed. The remaining key variable in the rubber-recovery equation was the market price. The last time demand had so far exceeded supply had been in the years immediately prior to World War I at which time prices had soared to over \$3.00 a pound.³ Had there been a free market in 1945, there is little question that the price would have risen to a 1945-equivalent level. However, as a result of a continuation of war time cooperation between the Governments of America and Britain, the question of a free market was deferred. Paramount among the differences between 1945 and 1914 was the dominant position of the United States, a position secured by the dependency of the colonial nations upon America for assistance in their economic recovery. There was little the European colonial nations were capable of doing without American aid and cooperation and, therefore, agreement.

Because of the dominant place of rubber in the Malay-an recovery potential, and the dependency of rubber upon the American market, the relationship between the two was direct. A decision in Washington concerning the price of natural rubber, the specification of rubber used in a tire, or the production and price level of synthetic rubber had direct and immediate impact in Malaya. What the United States decided would affect levels of employment, wages and revenues, and

³Yates, Forty Years of Trade, p. 113.

the rate at which dollar exchange would flow through Malaya to London.

With the termination of the Anglo-American War Resources Board set for the end of 1945, new arrangements for distribution and pricing of natural rubber were required. Under Government-to-Government contracts negotiated in December 1945 and January 1946, it was agreed between the British and American Governments that the British Board of Trade would remain the sole authorized purchaser of Malayan rubber, and that the RFC would continue to pay the Board \$.20½ per pound.⁴ That level assured price stability for the American manufacturers at near the wartime level. The contract was good until the end of March 1946, temporary continuation of the wartime price level having been agreed to as being in the interests of all concerned until the prospects for recovery became clearer. At the same time, the six nation Combined Rubber Committee set the American quota at fifty per cent of Southeast Asia's production.⁵

The January agreement, good through March 1946, was later extended through June 1946 on the same terms. However, renewal of the contract at \$.20½ brought immediate protest

⁴New York Times, December 25, 1945, p. 1; and January 29, 1946, p. 28.

⁵Ibid., June 4, 1946, p. 36.

aimed at the British Board of Trade from London rubber interests.⁶ Again the Labor Government was criticized for allowing a source of dollar exchange to slip away. The London-headquartered British Rubber Growers Association stated that the price was too low to support both the cost of operations and the cost of the recovery effort which in their view was being "thwarted by low prices and politicians."⁶ In May, in a move to still growing producer resentment, the Board of Trade raised the price they would pay to \$.30¼ (equalling the price paid in Ceylon).⁷ London then called for a meeting with the Americans, Dutch and French to negotiate new price agreements.⁷ Though the British were forced, at least through the end of June, to sell to the United States at a loss, the Americans could be persuaded only to raise the price to \$.23½. In return, the RFC was authorized to make direct purchases of its allocated amounts, rather than buying through the Board of Trade's agents.⁸

⁶Ibid., April 8, 1946, p. 33; and April 26, 1946, p. 17. The protest was made through the British press, the Government having declined to comment perhaps due to the critical phase of the Loan's passage through Congress. The complaint had basis inasmuch as the price of rubber remained at the 1941 level while the price of rice was 5 to 10 times 1941 levels. See ibid., November 30, 1946, p. 23; and above, pp. 75-76.

⁷New York Times, May 7, 1946, pp. 28-29; and June 4, 1946, p. 36.

⁸Ibid., June 21, 1946, p. 31. The advantage was being able to select quota shares. The RFC bought through private agents under contract.

By August, authorities were predicting a recovery to seventy per cent of Malaya's prewar capacity by the end of 1946.⁹ For reason not precisely clear, the Rubber Growers Association requested that a free market be restored upon expiration of the British-American contract at the end of 1946. Though the Association admitted the probability that the price could fall, the reason given was that it was time for the price to "find its own level."⁹ There are several possible explanations for the apparently risky proposal by the Growers Association. They must have known that the American Government's stated commitment to the synthetic industry was limited to the maintenance of an on-line capacity sufficient to the national defense requirement, a capacity one-fourth the size of the million ton facilities built during the war and less than half the 1946 production level.¹⁰ The level of production had been and was to continue to be reduced as supplies of natural rubber became available; i.e., the level of synthetic production was being fitted to the demand situation as a supplement to natural. The great questions were; how much of the Government's national capacity

⁹Ibid., August 12, 1946, p. 32. Passage of the Loan in July, removing it as a cause for concern, may have emboldened the growers.

¹⁰The Batt Committee, Second Report was made public on July 28, 1946. See ibid., July 29, 1946, p. 25; and below, pp. 96-97.

would be absorbed by private industry, when, and at what level would they produce? If a privately-owned American synthetic industry was to compete with Malayan natural, other things being equal, then the choice would be based on price. In the conditions of 1946, the price of synthetic was lower than natural, the price of natural having been fixed by Anglo-American agreement.¹¹ If free market operations could be restored before the American Government began to divest itself of its synthetic monopoly, and natural was reduced to a price that rendered synthetic noncompetitive, American manufacturers would not step forward and absorb an unprofitable industry. In short, a price fall in natural in 1946 could cool private industries' interest and "scotch the synthetic snake."¹² On the other hand, the British producers may have meant exactly what they said; i.e., it was time to discover the worst. Supplies were increasing faster than originally anticipated. The Combined Rubber Committee's fourth quarter Malayan allocation to the United States had been met easily with a month to spare, and estimates showed that Malaya would produce more than had been allocated for

¹¹The wholesale RFC price to industry in August 1946 for synthetic and natural was \$.18½ and \$.25½ respectively. There was a \$.03½ premium in natural; i.e., it cost \$.03½ less to process than synthetic; natural, therefore, still cost \$.04 more than synthetic.

¹²"Trouble In Synthetic," p. 165.

the last quarter of 1946. As early as September 1946, then, Malaya was facing the threat of overproduction in terms of total allocated, or committed demand.¹³ Though the United States immediately agreed to take additional supplies in the fourth quarter, the Malayan Rubber Grower's Association (meeting for the first time in Singapore since 1941) asked; what action would the British Government take to assure absorption of the rising supplies?¹³ Before the question could be answered, stocks of rubber began to back up in Malaya, and Singapore banks suspended loan operations secured by unallocated rubber.¹⁴ The British Board of Trade immediately agreed to purchase all unallocated rubber; called for a meeting with the United States; and announced plans to restore free market operations by the end of the year.¹⁵ The Board of Trade was then quickly faced with a new problem. Because of the uncertainty of the moment, only the United States and Great Britain had taken delivery of their allocated share. The Board of Trade was now forced to absorb additional supplies with no guarantee that buyers could be found; i.e.,

¹³New York Times, August 12, 1946, p. 32; and August 23, 1946, p. 9. One problem ignored was the need and ability of the non Anglo-American consumers to absorb stocks. The consuming industries in Europe; e.g., Italy, had to be first brought into production.

¹⁴Ibid., September 9, 1946, p. 54.

¹⁵Ibid., September 26, 1946, p. 2.

the unsold allocated supply plus the unallocated supply were raising stocks in the United Kingdom.

At the September meeting between representatives of the Board of Trade and the State Department, the Americans drove a hard bargain, agreeing to purchase additional amounts of rubber but at \$.20½ rather than the earlier contract price of \$.23½.¹⁶ However, should the amounts not be available in Malaya, any shortage was to be made up from United Kingdom stocks but at the \$.20½ figure.¹⁷ Apparently, the American representatives blamed the British for the tangle; i.e., by allowing the growers to publicly raise the spectre of a free market, the British had forced the rest of the consumer world to adopt a wait and watch policy.¹⁸

The Board of Trade's problems were not yet over. In October, authority was given for London rubber brokers to contract for supplies to be delivered to countries other than America and Great Britain, and in November, the London Rubber Exchange in Mincing Lane was reopened.¹⁹ As a result, the unallocated supplies in Malaya were snapped up at just over \$.20½ and Malaya was unable to deliver on the September

¹⁶Ibid., September 25, 1946, p. 34.

¹⁷Ibid., October 2, 1946, p. 49.

¹⁸Ibid., October 7, 1946, p. 34.

¹⁹Ibid., October 11, 1946, p. 38; October 27, 1946, p. 41; and November 19, 1946, p. 46.

RFC contracts. Before the terms of the contract were met, using supplies from United Kingdom stocks, the British Government lost \$7,000,000.²⁰

If the Malayan rubber producers did not have enough to concern them, the American elections of November 1946 added to their worries. At the third meeting of the IRSG, held in November, the British expressed concern over the Republican majority that had been elected to the United States Congress. Would the traditional party of laissez-faire, high tariff and protectionism move to put synthetic into the private sector, and then protect the infant industry against cheap natural rubber?²¹ The answer to the British question would have to wait. The legislative authority for the United States Government to produce synthetic rubber as a Government monopoly was due to expire at the end of March 1947, and the task of proposing new legislation would fall to the new Congress.²²

Meanwhile in Washington, the Batt Committee had been at work since September 1945 attempting to develop an

²⁰Statement of Alan Grant, Senate Subcommittee Hearings On The Rubber Act of 1947, p. 125.

²¹New York Times, November 23, 1946, p. 26; and November 30, 1946, p. 26. At the third IRSG meeting, France announced an end to government purchase for January 1, 1947. The IRSG also invited any who wished to do so to attend further meetings.

²²See above, pp. 40-41.

integrated policy approach to the problems of natural and synthetic rubber. In the Committee's first report, published in February 1946, it was recognized that an interim approach was all that was possible for the moment; the still unsettled conditions in the Dutch and French areas and the sketchy picture of the rate of recovery in Malaya still clouded the future. The Committee's recommendations were more or less adopted as they were being formulated: continue high levels of synthetic production to keep the total supply and the demand of rubber in balance; continue international allocations as determined by the Combined Rubber Committee; maintain price stability (a free market would serve only to discriminate in favor of the United States); declare surplus that part of the synthetic industry excess to a capacity of 600,000 tons (the figure had double significance as the estimated minimum capacity for a sustained national emergency and the estimated consumption for 1946); maintain a Government stockpile of natural; continue domestic Government allocation and specification controls and request legislation to replace the Second War Powers Act, due to expire in March 1947; relax the controls on natural specification as supplies increased; and, study ways to secure private ownership of the synthetic industry.²³ As already noted, these recommendations

²³Batt Committee, First Report, pp. 22-31.

were reflected in the price and allocation agreements that were concluded in January, March and June of 1946, and the continuation of Government controls.

The second Batt Report, published in mid-July 1946, dealt in considerably more detail with the problems which were already beginning to take form. The Committee recognized that the time when synthetic would be forced into competition with natural was approaching faster than originally anticipated. Therefore, if in the interest of national security the synthetic industry had to be maintained at a given level of production, by what means and to what extent would the Government protect the industry? The dilemma was to legislate production and assure consumption of synthetic while at the same time retaining "conformity with our international obligations and economic foreign policy."²⁴ In short, how could America deny a portion of the world's rubber market to the Far Eastern producers and, at the same time, lead the way toward an end of trade preferences and the creation of a multilateral system of world trade?²⁴

In an effort to cover all possible alternatives, the Committee evaluated the traditional tools of protectionism, but categorically rejected each. Direct tariff was labeled

²⁴An example: prewar France was a prime user of discriminating import tariffs. In May 1946, the United States had persuaded France, in negotiations concerning a loan, to revise the tariff downward. See below, p. 100.

"a blunt instrument for the purpose desired" that would invite the complacency that infects protected industry, and would have a generally adverse effect on foreign and domestic trade.²⁵ Import quotas were found to be no more than another way to achieve the results of tariff, but with the added disadvantage of depressing world production.²⁶ Other methods considered included a domestic excise tax on natural products (forcing a synthetic preference); a vastly complicated certification plan whereby natural would be allocated on the basis of synthetic consumption; and a Government subsidy to the synthetic industry.²⁷ It is worth noting that in the solution evaluation-selection process of the Batt Committee's considerations, the assumption that synthetic was a quality and price competitor of natural was not fully accepted. On the contrary, in the rejection of the more radical proposals, such as import tariffs and quotas, the rationale included " . . . domestic consumer preference for natural rubber be ignored."²⁸

The Batt Committee's preferred solutions gave equal attention to the three major problems. First, maintain a minimum required level of synthetic production in the interest

²⁵Batt Committee, Second Report, pp. 44-45.

²⁶Ibid., p. 45. ²⁷Ibid., pp. 46-49.

²⁸Ibid., p. 44.

of national defense only, thus minimizing the adverse effects of forced consumption and Government monopoly of a consumer industry. Second, terminate the Government's natural purchasing monopoly as soon as possible in the interest of free trade. Third, get the synthetic industry into the hands of private ownership as soon as possible;²⁹ that would, in view of the Committee, require careful supervision. The Government should sell to private industry facilities capable of maintaining the national defense production level of 250,000 tons; or, if bidders could not be found, retain ownership and continue production under RFC direction. Sale, of course, assumed that the capacity could be marketed on a profit level acceptable to industry. An additional 350,000 ton capacity should be sold; or, if bidders could not be found, retained as Government assets and placed in a nonproducing, stand-by status for use in a national emergency.³⁰

Although the movers and shakers among the Batt Committee's membership cannot now be readily identified, it is reasonably apparent in the record of later Congressional

²⁹ Ibid., p. 50.

³⁰ Batt Committee, First Report, p. 26. The estimated requirement for synthetic production in 1947 was .35-.4 million tons based on the assumption of equal recovery rates in Malaya and in Indonesia. The estimate proved correct but for a different reason; Malaya exceeded expectations while Indonesia lagged.

examination of the rubber policy question that the State Department representatives championed the recommendations to terminate exclusive Government purchase, and rejection of the use of tariff or quota to protect synthetic. William T. Phillips and Donald D. Kennedy were the Department's experts.³¹

During 1946, there were two items high on the State Department's list of priorities which touched implicitly upon the issues being wrestled in the restricted context of the Batt Committee. The first was the on-going, wholly American initiatives to establish a multilateral system of world trade through establishment of a United Nations International Trade Organization (ITO).³² The second item was

³¹Phillips, Chief of the Commodities Division, participated in the Washington discussions with the British concerning termination of the IRRA in 1943-44. Kennedy, Chief of the International Resources Division, led the American delegations at the IRSG meetings and price talks in 1946. Both were alternate representatives of the State Department to the Batt Committee for their Chief, William L. Clayton, Assistant Secretary of State For Foreign Economic Affairs. Clayton's advocacy of Hull's ideas on multilateralism and the principles of free enterprises are reflected in his leadership during negotiation of the British Loan, the proposed International Trade Organization, and the General Agreements On Tariffs And Trade. Clayton's tempered opinion that the prewar British preferential system of trade should not be reconstructed must have filtered through Phillips and Kennedy into the deliberations of the Batt Committee. For a well-balanced summary of Clayton and his economic views see Richard N. Gardner, Sterling-Dollar Diplomacy: The Origins and the Prospects of Our International Economic Order, New Expanded Edition (New York and London: McGraw-Hill Book Company, 1969), pp. 195-199.

³²Gardner's "minimum" definition of a multilateral system is adopted: " . . . one in which barriers to trade

securing Congressional passage of the British Loan which, including formulative negotiations, took from September 1945 until July 1946. Each was dependent upon the other in one or another way. Two of the terms of the British Loan were directly influenced, if not dictated by, the ITO Proposals. On the other hand, progress of the ITO Proposals depended upon passage of the Loan since any meaningful international discussions of trade would be dependent upon Great Britain's financial state of health. Since both Britain's monetary position and the terms of international trade directly affected Malaya, and inasmuch as the State Department was the formulating agency for both American policies, it followed that the Department would seek to assure that the rubber policy to be enunciated by the Batt Committee would not conflict with either. By the time the Committee was well into its task, it had become increasingly evident that, due to the continued instability in the Dutch and French areas, the discussion of Far Eastern rubber was for all practical and immediate purposes a discussion of Great Britain's Malayan industry.

and payment are reduced to moderate levels and made nondiscriminatory in their application. In monetary policy . . . [it] does not require . . . elimination of all . . . exchange control . . . It does require the 'convertability' of currencies . . . In commercial policy . . . [it] does not mean the elimination, but only the reduction of tariffs and other trade barriers . . . Barriers remaining after this reduction must be non-discriminatory in . . . application." Ibid., p. 13.

In February 1946, the United States had submitted Proposals for Consideration by an International Conference on Trade and Employment to the United Nations Economic and Social Council which, in turn, adopted the proposals and established a Preparatory Committee to draft a convention for international consideration. The agenda for the committee, which did not meet until October due to delays in passage of the Loan, was based primarily upon the American Proposals. The Department of State had diligently sought to secure agreement for the principles embodied in the Proposals among the trading nations prior to the first meeting of the Preparatory Committee. For example, in the negotiations concerning the British Loan in the fall of 1945 (prior to submission of the Proposals to the United Nations), the British had been prevailed upon to indorse the Proposals as part of the conditions of the Loan.³³ In negotiations with the French in May 1946 concerning the conditions of a loan and settlement of Lend-Lease accounts, an agreement in principle had been elicited.³⁴

³³"Article 9: Import Arrangements," Financial Agreement Between The Governments Of The United States And The United Kingdom quoted in ibid., Appendix. For a brief account of British acceptance of the principles see Campbell, USWA: 1945-1947, pp. 384-385. For a complete discussion see Gardner, Sterling-Dollar Diplomacy, pp. 188-223.

³⁴The French expressed "complete agreement" and an intention to change duties to an ad valorem basis with no increase over prewar levels. See Campbell, USWA: 1945-1947, pp. 385-386.

Two principles of the Proposals were clearly reflected in the Batt reports. The first concerned the problem of surplus commodities. During American preparations for the ITO Preparatory Committee, there had been a difference in the approaches of the Departments of State and Agriculture. The State Department favored only selective, protective exclusion of certain surplus commodities (primarily foods) from the multilateral trading scheme envisaged for an ITO charter. The Department of Agriculture disagreed, favoring a protective commodity provision that would have committed the United States to buffer stock plans, two-price systems and comprehensive commodity agreements. The State Department objected on the grounds that the proposed, selective ITO rules, designed to handle only "burdensome surplus," would lose all meaning; and that use of devices, such as the buffer stock, could be subjected to political pressure from producer-interests to use them as a means of raising, rather than stabilizing, prices. Though the State Department's view prevailed, the issue between the two Departments was not resolved until the eleventh hour before the October meeting of the Preparatory Committee.³⁵

The second ITO issue related to the Batt Committee's deliberations was the use of quotas. Many countries, particularly the underdeveloped, wanted freedom to use quotas

³⁵Ibid., pp. 340-343.

expressly as a means to protect their infant industries. The Department of State prevailed in the debates in the Preparatory Committee and the ban on the use of quotas was accepted as the rule; although, as in the case of commodities protection, provisions for the exception were adopted.³⁶

Both principles are evident in the second Batt Committee report. There was no consideration of price stabilization devices for the natural rubber surpluses which were predicted to appear after 1948. That the ITO principles regarding surplus commodities were entering the status of operational policy was also reflected in the hard bargaining of the United States in September 1946, wherein America lowered the price to be paid for rubber in the face of the, albeit artificial and temporary, surpluses of Malayan rubber.³⁷ A second indication that the principles of the Proposals prevailed in the Batt Committee was the reportedly unanimous condemnation of continued Government purchasing as constituting a "price cartel" and a recommendation that the program be abandoned at the end of 1946.³⁸

³⁶Ibid., pp. 388-389. Examples included Australia, China and Latin American nations.

³⁷Above, pp. 99-100.

³⁸"Trouble In Synthetic," pp. 116-117; and U.S., Congress, The Rubber Act, H.J. Res. 118, 80th Cong., 1st. sess., March 17, 1947, Congressional Record, Vol. 93, p. 2151. There was later indication that the condemnation was less than unanimous. Batt had sent a letter to the Chief of the Rubber Reserve Board (RRB), the allocation authority, in which he solicited RRB's support for continued purchase

In the post-war 1945 negotiations concerning the British Loan, two points had direct relevance to the monetary relationship of England and British Malaya, and, therefore, an indirect relationship to American-Malayan trade. The first was the so called "sterling area dollar pool." During the war, London had secured voluntary agreement among the sterling area countries that all American dollars would be held in a common pool; i.e., no country was free to spend its dollar earnings. The pooled dollars were released by the British Government to best effect in the effort to control the huge, wartime imbalance in trade with America. Two effects were achieved: (1) dollars were conserved and spent only for items deemed essential to the war effort; and (2) the dollar holdings of Great Britain were kept at a level not otherwise possible.³⁹ The second point in the Loan negotiations was the maintenance of the "blocked sterling balances." Again a wartime expedient, the sterling area countries ran up considerable balances in the supply and provisioning of Great Britain (in short, British debts outstanding); however, these debts were not paid; rather, they were carried as balances, offset by reverse trade, to be settled at the end of the war.⁴⁰

before Congress. Batt wrote that by so doing "Government can wield an effective price influence on Far Eastern rubber markets." See Statement of Alan Grant, Senate Hearings: The Rubber Act of 1947, p. 124.

³⁹Gardner, Sterling-Dollar Diplomacy, pp. 214-215.

⁴⁰Ibid., p. 205.

The effect of the dollar pool and blocked sterling balances, if allowed to continue after the war, were incompatible with the goals of the proposed ITO. In the example of Malaya, the effect would have been a classic example of bilateralism. The dollars to be earned in rubber could not be spent by Malaya in dollar markets. The value of Malayan products sent to England would be paid for in the form of sterling balances, redeemable in reverse trade from England; or, if drawing was permitted at all, only in nonconvertible sterling currency--meaning that the best use of the currency would be within the sterling area. Such a system of trade would be open to America at one point and in one direction only. Malaya would export to the United States but would import from the sterling area. It would be a revised, stricter version of the prewar trade triangle with the added burden imposed of reconstituting British area markets in addition to earning dollars. Suffice it to say that it was the imperial preference achieved through monetary restriction rather than trade restriction. Under the terms of the Loan, however, the British agreed in principle to end both practices.⁴¹

In addition to its relationship to the ITO Proposals, the application of the two conditions of the Loan Agreement to this discussion of Malayan-American trade is important, though not critical, because the United States was to later

⁴¹Article 7 and 10, Financial Agreement, in ibid., Appendix.

question British compliance with the Agreement. It is a very involved issue clouded by the fact that neither nation ever agreed to the other's characterization of "pooling" and "blocking"; therefore, compliance was equally debatable.⁴² However, the American question was to be raised in the context of Malayan rubber because that trade was again to become the sterling area's largest earner of dollar surpluses, and Malaya was to build up a considerable sterling balance in the Bank of England.⁴³ Without getting any further afield, the point to be made here is that the Batt Committee's Reports indicate that the eyes of its State Department members were fixed on the ITO Proposals, that the State Department's view prevailed, and that the Committee's recommendations were structured and selected in large measure in accordance with their compliance with the principles of the ITO Proposals. It could be said that the rubber policy was an experimental application of the principles of multilateralism, rubber being a suitable laboratory subject inasmuch as it remained one of the few commodities under Government control.

Returning to August 1946 and the British growers' call for restoration of a free market for natural rubber, some

⁴²Gardner, Sterling-Dollar Diplomacy, pp. 214-215.

⁴³Andrew Roth, "Britain's Secret Sterling Balances," The Nation, Vol. 174 (February 23, 1952), pp. 174-175.

note must be taken of the reaction of the American manufacturers. Within a week of the British growers' proposal, Collyer of the B. F. Goodrich Co. answered with a public request for termination of exclusive RFC purchase by the end of 1946.⁴⁴ However, his request contained elements of a challenge; Collyer also called for an end to all controls and the sale of the synthetic industry to private interests. He noted that at the current price levels, Malayan rubber would have to fall from the August wholesale level of \$.25½ to less than \$.17 to be competitive with synthetic, and expressed confidence that synthetic could "stand on its own two feet."⁴⁵ Long a leading spokesman for an early return to a free market in natural, decontrol of the synthetic industry, and an end to Government ownership, Collyer was quickly joined by other industry leaders.⁴⁶ As one observer put it, "imitation . . . in the U.S. rubber industry has always been so prompt as to verge on the simultaneous."⁴⁷ Herbert E. Smith of the U.S. Rubber Co. added:

We favor free markets in both natural and synthetic . . . in applications totaling more than 250,000 tons [the National Defense minimum] . . . synthetic rubber today can hold its own in competition with natural on a price and quality basis.⁴⁸

⁴⁴New York Times, August 14, 1946, p. 33.

⁴⁵Ibid.

⁴⁶For Collyer-quotes spanning 1944-46 see "Trouble In Synthetic," p. 118.

⁴⁷Ibid., p. 157.

⁴⁸Ibid., p. 116.

The lines were straightening. The British producer was ready to endure the expected price drop presumably to reestablish a market and preference for natural before synthetic could try its wings. The American manufacturer was ready to take the synthetic industry out from under Government protection and use its capacity to meet current demand to depress the price of natural while simultaneously establishing a market for synthetic. That the British gauntlet was thrown prematurely was evident in the immediate market confusion which resulted in the September market glut and the price loss in the RFC contract to absorb the glut. Though not evident for several months following the American industry's challenge, it developed that the American call for free markets and free enterprise was also premature and badly miscalculated. By February, when Congressional hearings began to consider America's policy beyond expiration of the Second War Powers Act, the industry was to come before the House and Senate Committees and, almost to the man, ask for a continuation of Government controls including purchase as being in the best interests of National defense and the consuming public.

The "Big Four" of the American rubber industry had become convinced that the synthetic rubber products of 1946 were equal to the natural product of 1941; more importantly, the industry believed that the consumer was equally

convinced.⁴⁹ The Goodrich Co. had launched an extensive advertising campaign, initiated by competitors, designed to convince the public that a tire made mostly of American synthetic was superior to the prewar natural product. The first indication that all was not well came with reports of a "whisper" campaign among competing retailers implying that their product was actually 100% natural; sales reflected the amount of natural claimed. A faux pas by the well-intentioned President of Seiberling Rubber Co., J. Pennington Seiberling, caused an industry furor. Known in the trade as L'affaire Seiberling, he had publicly warned consumers not to drive over fifty miles an hour on synthetic tires during the coming warm months of 1946:

He was told [by his peers] he had committed a deplorable act that would trammel the hands of the U.S. delegation, about to go into bargaining with the British [the June 1946 meetings] on the price of the next batch of rubber.

A second blow fell in October in L'affaire DeVoto when Benard DeVoto, travel editor of a major American magazine, recounted how "he blew through 10,000 miles . . . and out through five brand-new synthetic tire casings." An industry marketing study confirmed the worst; " . . . 70 per cent of the public preferred natural rubber tires, and only 8 per cent synthetic . . ." The industry was faced with a real dilemma--if

⁴⁹The "Big Four" are B. F. Goodrich Co.; Firestone Tire and Rubber Co.; Goodyear Rubber Co.; and United States Rubber Co.

the Congress was to grant their August request for an end to Government controls. Should but one manufacturer break ranks and produce a natural-tire, competition would drive the others to follow suit, the price of natural would soar, and the infant synthetic industry would collapse:

There is no question that the boisterously free enterpriser of rubber would prefer to get out from under the umbrella held by government over the infant synthetic industry--if only they could be assured that synthetic would not fold up with the umbrella.⁵⁰

Congressional Hearings were conducted in February and March 1947 on Joint Resolutions To Strengthen The Common Defense By Maintaining An Adequate Domestic Rubber-Producing Industry, first in the House of Representative's Committee On Armed Services, then in the Senate's Committee On Banking And Currency. The Batt Committee's second report of July 1946 served as the legislative proposal and, with the exception of the recommendation to terminate the Government's purchase program, survived the mark-ups with little controversy. In the Hearings, the center of debate was whether or not the Title III of the Second War Powers Act, which provided for exclusive Government importation of natural, should be allowed to lapse at the end of March 1947. The two

⁵⁰The discovery of the consumer preference for natural and other blows to confidence in synthetic are recounted in "Trouble In Synthetic," pp. 116-118, 157.

Congressional Rubber Subcommittees followed the Batt Committee's lead to restrict the purpose of legislation to assure an American production capacity only insofar as the interests of national security required. However, the industry's representative argued strongly for acceptance of their newly-developed thesis that national security was threatened by a free, natural rubber market, and would impose an unfair burden upon the American consumer. The issues of patriotism and consumer interest were reenforced by ancillary arguments concerning charges of British manipulation of the market, and the threat of unemployment among American synthetic workers should the synthetic industry be curtailed in the face of mounting natural supplies. The industry claims concerning the past, and warnings for the future were found lacking when Government witnesses challenged some of Big Rubber's claims. First, since V-J Day, the industry had enjoyed significant expansion of their domestic market and profit margins over the prewar experience, the larger part of the profit increase being a direct result of the price stability insured by the Government's supply monopoly.⁵¹ In addition to unprecedented price stability, the industry had been able to abandon the prewar practice and cost of

⁵¹Estimates published in mid-1947 show sales among the Big Four rose from \$755 million in 1941 to over \$2 billion in 1946. Profit on sales rose from 4.9 per cent to 7.3 per cent. See "Trouble In Synthetic," pp. 118, 161-163.

carrying a five-month raw material inventory. Assured of supply by the RFC, they carried but two months.⁵² Second, the warnings of the vulnerability of national security to a repeat of the crisis of 1942 lost much of its impact when expert testimony was given that there had not been a critical shortage of rubber after 1942 other than new natural--wartime needs had been met with reclaimed and synthetic. In fact, after 1942, the tire shortage had been induced through rationing to curtail nonessential, private use as a means to reduce the consumption of gasoline.⁵³ Third, it had long been a claim that the RFC synthetic operation did not cost the Government anything; i.e., synthetic was sold at the break-even price. That was true in late 1946 with the phasing out of low-efficiency plants but had not been true for the majority of the history of synthetic. It was also claimed that the Government's purchase operation cost the tax payer nothing and that continuation would protect him because of its price influence. However, the chief of the Rubber Reserve Corporation's buying operation explained that such was true only on ex-dock sales. The practice was that the RFC held the stocks for sixty or more days until needed

⁵²See Statement of John C. Houston, Jr., Commissioner of The Civilian Production Administration, Senate Hearings: Rubber Act of 1947, p. 65.

⁵³Ibid., p. 66.

by the industry--the RFC bore the costs for maintaining over half the industry supply inventory. The practice could ". . . only be described as a sweet set-up for the industry and just the reverse for the American tax payer."⁵⁴

Representative Fred L. Crawford, Chairman of the House Subcommittee On Rubber, led the fight for termination of Government purchase. He pointed out that since the end of British purchase and allocation by the Combined Rubber Committee (both ended 1 January), Malayan rubber was flowing away from the United States. Faced by the RFC's maximum bid price of \$.20½, the Malayan dealers simply tried everybody else at \$.20-5/8 first, and they usually got it. Not only were supplies shrinking, but what did come to the RFC agents was inferior.⁵⁵ Crawford found an unexpected ally among rubber's Big Four when Harvey S. Firestone, Jr. of Firestone Tire and Rubber Co. supported termination. Firestone dismissed his peers stating, "they fear a price rise":

There is both a moral and economic issue . . .
Do we kill the Malayan goose, the golden egg
of the export market and throw the economy of
British Malaya and the Dutch East Indies out
of kilter?⁵⁶

⁵⁴Statement of Alan Grant in ibid., pp. 124-133.

⁵⁵Statement of The Honorable Fred L. Crawford in ibid., pp. 62-63.

⁵⁶Statement of Harvey S. Firestone, Jr. in ibid., pp. 168-170. It is worth noting that Firestone owned or controlled a 75,000 ton natural capacity in Liberia. The

In a strong letter in support of termination, Acting Secretary of State Dean Acheson dismissed industry charges that the British were out to recall the days of the IRRA:

On this point the British Government has stated . . . that there is no truth in allegations that there are any regulations 'which set up a seller's market or that the United Kingdom has any arrangement with the Dutch affecting the sale or price of natural' . . .⁵⁷

The advocates for continuation of the purchase plan asked for extension until at least September 1947 on the argument that by then Indonesia would be settled and the flow of rubber increased to a point which would dampen the expected price rise. This group included all of the major producers (except Firestone) and represented some seventy per cent of American consumption.⁵⁸ Though there was an attempt to amend the Bill in the House, the termination of Government purchase

only other American-controlled operation of significance was the U.S. Rubber Co.'s Malayan Rubber Co. which totaled only 20,000 acres.

⁵⁷Letter to the Committee from the Honorable Dean Acheson read by Robert C. Hill, in ibid., pp. 111-113.

⁵⁸The most vociferous advocate was Paul W. Litchfield of the Goodyear Tire And Rubber Co. Known in the trade as "Stability Litch," he leveled charges that the Far East producers were holding back stocks waiting for the free market, and predicted that if purchases were continued until September 1946 synthetic and natural would be in "settled competition" by March 1947. Testimony, ibid., pp. 94-102.

remained a key provision of the Act.⁵⁹ There was no concerted effort among the rubber interests to end the Government monopoly of synthetic. The advocates of free enterprise were not willing to take the capital risk necessary to purchase an industry that, for the moment, had little market security. The industry consensus was that if a natural tire was placed on the 1946 market " . . . the U.S. synthetic industry would last only a few weeks . . ." ⁶⁰ In addition to continued Government purchase, the industry also called for an increase in the required amount of synthetic to be used.⁶¹ This appears to have been an attempt to insure that a significantly large portion of the synthetic capacity was kept in operation against the day when synthetic gained consumer confidence, at which time the industry would be willing to buy the Government facilities rather than build their own. However, the Bill provided that the ratio would be adjusted

⁵⁹U.S., Congress, The Rubber Bill, H.J. Res. 118, 80th Cong., 1st. sess., March 17, 1947, Congressional Record, Vol. 93, pp. 2156-57.

⁶⁰"Trouble In Synthetic," p. 116.

⁶¹Specification had limited natural use; e.g., in 1944-45, the allowable percentage in a tire was 11 per cent; by 1947, the amount was about 23 per cent. Under the Act of 1947, specification would apply to synthetic only with a sliding minimum adjustable by the Executive to 25 per cent. The reason for the slow relaxation despite the rising rate of natural supplies was the phenomenal demand (tires were produced at a rate of 100 million per year by the first quarter of 1947).

as natural became available, but would not fall below a level which would insure consumption of 250,000 tons, the national defense figure. The argument was over what that figure should be; the Government estimated the lowest figure at 25 per cent based on a million ton consumption. The industry counseled 30 per cent.

Inasmuch as the question of Government purchase was answered, the future of the synthetic facilities remained the unknown. Since a capacity of at least 400,000 tons was estimated as needed until natural production fully recovered; and, inasmuch as the private industry expressed no desire to purchase the facilities, the question was deferred pending further Congressional study.⁶² The Rubber Act was, therefore, termed "interim legislation" with an expiration date of April 1, 1948. In the interim, the power to determine specification was delegated to the Executive, and the RFC retained ownership of facilities with a total capacity of 600,000 tons.

The Rubber Act of 1947 passed both houses of Congress by March 24th and was signed into law on March 31, 1947.

⁶²Statement of John L. Collyer in Senate Hearings: Rubber Act of 1947, pp. 82-85. Collyer was the exception and worked three sides of a triangle. He favored continued purchase for price stability; thirty per cent specification to insure the highest guarantee of synthetic consumption; and public sale of the synthetic facilities presumably because Goodrich had held the technological lead, held the largest part of the domestic market in special synthetic products, and operated a large share of the facilities. See above, pp. 40-41 and "Trouble In Synthetic," p. 157ff.

No case can be made that there was any discernable political partisanship involved in the Act; on the contrary, it was of little public or political interest. The issues were left to the experts.⁶³ Once the industry was heard and the Government's experts had reached a consensus, there was little expertise in any other quarter that could be brought to bear. Though there was a difference among both the industry's and Government's experts on the issue of continued purchase, that difference was blurred. In examination of the possibilities of disposing of the synthetic facilities, the Government noted the problem of "scrambled" Government and privately-owned equipment. Just so, the Government and private experts were "scrambled." Batt returned to Capitol Hill as the President of SKF Industries to support his Committee's recommendation for termination. Conversely, William J. Sears of the Rubber Division of the Office of Temporary Controls, and a former executive of the U.S. Rubber Co., testified for

⁶³The Batt Committee Reports remained the blue print for Congressional action. With the exception of the attempt to amend the Bill (H.J. Res. 118) in the House, the debates in both houses were uninspired and at times uninformed. Time in the House was yielded for a lengthy tribute to Saint Patrick and the discussion went to the comparative virtue of synthetic and natural golf balls on two occasions. In addition to the House Debate already cited see also U.S., Congress, Senate, Debate on H.J. Res. 118, 80th Cong., 1st. sess., March 24, 1947, Congressional Record, Vol. 93, pp. 2437-2448.

continued purchase, a position opposite to that of his Government superior.⁶⁴

Despite the fears of skyrocketing prices, the price of natural rubber remained relatively stable following passage of the Rubber Act of 1947. Harvey Firestone took credit for the return to free enterprise in newspaper ads, and was given credit for being correct in his prediction that the price would not go through the roof. What was not given any particular notice was the fact that the tire industry had overproduced prior to March 31st; by early June, the industry was reducing inventories by selling tires at a ten per cent discount, and had laid off some 3,000 rubber workers. The industry also curtailed new purchases of natural, a temporary method of controlling price as effective as any, while they waited for production to bring supply and demand into balance.⁶⁵

In a general comment covering the post-war period, The Council on Foreign Relations was to observe later that

⁶⁴Statement of William L. Batt, Senate Hearings: Rubber Act of 1947, p. 141; and U.S., Congress, House, Mr. Fred L. Crawford quotes Sears' testimony before House Armed Services Committee in debate on H.J. Res. 118, Congressional Record, Vol. 93, p. 2151.

⁶⁵Although the industry may have overproduced to ease the transition into a free market, it appeared that there was also some truth to claims that the Malayan growers were holding back. The result was that in June the price broke, falling from \$.21 to \$.15; a further drop to \$.10 was feared. See "Rubber, The Bad Old Times," Time, Vol. 49 (June 23, 1947), p. 86.

economic policy was " . . . more effected by special groups than any other phase of foreign policy."⁶⁶ The Council noted that legislation often reflected the " . . . the persuasiveness of those who stood to gain or lose rather than the over-all requirements of foreign policy." Since the decision to end Government purchase was a major policy determination affecting a high-value commodity, some judgment is necessary. In this case, the determination was guided by a very small group of legislators and administrators who accepted the view that the United States should not continue a course of positive action that would control a free market to the expressed advantage of an American industry. That the decision was in opposition to a large industry says something for the virtue of the legislative system.

⁶⁶Richard P. Stebbins and others, USWA: 1950 (New York: Harper and Brothers, 1951), pp. 85-86.

CHAPTER V

MALAYA IN TRANSITION AND THE RUBBER ACT OF 1948

By the end of 1947, Malaya was returning to normal. In the main, the potential for difficulties, posed by the Union reorganization initiated in 1946 had been defused through ongoing negotiations among the British Government and representatives of the Malayan races. Indications were that the proposed alternative to the Union, the Federated Malayan States, would provide the centralized organization necessary to the movement of Malaya toward increasing home rule, and would be acceptable to a majority of those who had opposed the Union. Of importance equal to the relative political calm was the success of the economic recovery borne on the recovery and expansion of the rubber-producing industry. However, modification to the terms and direction of prewar trade reduced the possible benefits of the recovery; i.e., each advantage was counterbalanced to a varying degree by a disadvantage.

By comparison with the Dutch and French areas, Malaya's recovery was phenomenal in terms of gross figures. In 1947, Malaya registered both an increase in the value of exports and an increase in her share of the area's exports

relative to prewar days. The value of 1947 exports from Malaya, Indonesia and Indochina was \$875,000,000; Malaya accounted for 70 per cent of the total. This startling dominance by Malaya was the net effect of opposite forces. Whereas Malaya registered gains in the value of exports over prewar days, Indochina and Indonesia registered losses. Measured against the value of 1936 exports, 1947 values showed that: Malaya's exports increased 59 per cent (\$612,500,000 over \$364,100,000); while Indonesia decreased 56 per cent; and Indochina decreased 64 per cent. In addition, the position of Indonesia and Indochina among regional traders had changed. In 1936, the order of magnitude among the five leading exporters had been: Malaya; Indonesia; Indochina; Ceylon; and Siam. In 1947, the order was: Malaya; Ceylon; Indonesia; Siam; and Indochina.¹

Because of the requirement to import manufactured goods (all three countries); food (Malaya and Indonesia); and industrial products for recovery (all three); the trade advantage of prewar days was lost. Again, however, Malaya was by far in the better condition. In 1947, Malaya's exports equaled 94 per cent of imports; Indonesia's exports were 67 per cent; and Indochina's exports were only 49 per cent of imports. A truer indication of just how bad conditions were

¹Brodie, "Postwar Patterns of Trade," pp. 125-126.

in Indonesia and Indochina emerges when it is noted that imports were also far below prewar levels.

Despite the value increases in Malayan exports, her trade advantage evaporated solely in the changes in her trade with the United States. There was little change in Malaya's trade with the rest of the world. Excluding the United States, Malaya's exports in 1936 amounted to 66 per cent of imports: imports consisted primarily of rice from the surplus areas of Southeast Asia, manufactured goods from England and Japan, and tin ore and rubber imported for reexport. In 1947, the figure actually improved to 70 per cent, a reflection of the general scarcities among traditional exporters. However, in trade with the United States, Malaya's imports increased from 3 per cent of exports in 1936, to 31 per cent in 1947. In short, the increased importation of goods from America had changed Malaya from a trader with a \$69,100,000 surplus in 1936 to a trader with a \$34,300,000 deficit in 1947.²

The source of strength for the Malayan recovery lay in the rubber production industry. More rubber was produced in 1947 (645,000 tons) than in 1940 (547,000 tons).³ However,

²Ibid. In South Asia, including India and Ceylon in addition to Southeast Asia, Siam was the only country to show a trade surplus and an increase in both exports and imports.

³The Federation of Malaya Annual Report, 1948, pp. 50, 67 cited in J. M. Gullick, Malaysia (New York: Frederick A.

the advantages of increased rubber production were somewhat offset by the slow recovery of tin production, which reduced the total possible export value; in 1947, tin production was only one-third of the 1940 level.⁴ The greatest disadvantage to Malaya was, however, the change in the terms of trade. The approximate loss in purchasing power to the South Asia region was 13 per cent, meaning that 13 per cent less could be purchased with each dollar earned in export than could have been purchased in 1936.⁵ However, the terms of trade were far worse for Malaya as an exporter of rubber and tin and an importer of rice:

The average export price of rubber in 1947 was only 113 per cent of the 1936 price; of tin, 162 per cent of 1936 . . . Prices of such major imports as textiles and grains, however, were roughly 400 and 425 per cent higher in 1947 than in 1936.⁵

In terms of the two key items in Malaya's trade, the loss was considerable. In the 1930s, a pound of rubber bought five pounds of rice; "the ratio was about one for one in the late 1940s."⁶ The total effect of the increase in rice costs plus the slow recovery of domestic production put

Praeger, Inc., 1969), p. 102. (Malaysia is a revised re-titled edition of Gullick's earlier Malaya.)

⁴Ibid.

⁵Brodie, "Postwar Patterns of Trade," p. 124.

⁶Gullick, Malaysia, p. 103.

the total 1947 supply at 50 per cent of the 1940 level.⁷ Though a simplification, suffice it to say that despite increases over prewar days of 59 per cent in the value of exports and 20 per cent in rubber production, Malaya was in deficit and still in a rice shortage. However, the trends were all in the proper direction giving promise of return to a surplus trade status in 1948.

The position of the United States in the economy of British Malaya had clearly changed. As the majority consumer of Malaya's largest trade item, the American manufacturer had an influence upon the price of rubber heretofore denied by the old IRRA. The price of rubber varied but slightly above the American bid. In addition, Malaya was now part of an expanding American market in the Far East but, because of its small size relative to total American export trade, Malaya had no influence on the price to be paid for American goods. As such things are measured, the conditions of trade were to the advantage of the United States and of considerable disadvantage to Malaya.⁸

⁷Total supply in 1940 was 970,000 tons; in 1947, it was 494,000 tons. Federation Annual Report, pp. 51-52 cited in ibid., p. 101.

⁸Brodie explained the causes as the changes in the debtor status of South Asia and the advantage of the United States to exploit the markets ahead of other sellers immediately after the war in "Postwar Patterns of Trade," pp. 132-133.

The Rubber Act of 1947 had done little to clarify the future prospects of natural rubber. Though natural was traded in a free market after April 1, 1947, the larger question of the future of the American synthetic industry was still unanswered, having been deferred. Despite the temporary price losses of June 1947, the general conditions of the market were stable and brought little audible complaint from the British producers. One Malayan planter, commenting on the American reduction in buying in the summer of 1946, recalled the days of the IRRA and the disadvantaged position of the Americans at that time, and allowed that the United States could not be blamed for "not wanting it to happen twice."⁹ Despite the lower price, the Malayan industry registered significant activity in 1947. Malaya exported 953,697 tons of rubber in 1947, over half of which went to the United States.¹⁰ Earlier estimates had predicted that the demand for rubber would slacken in mid-1947 as the pent-up demands of wartime were met; however, as seemed so often the case, the predictions were wrong and demand remained high, thus guaranteeing a market for Malaya natural, and the

⁹"Rubber: The Bad Old Times," p. 86.

¹⁰New York Times, January 10, 1948, p. 28. The total of Malayan exports was always higher than production would indicate because of entrepot imports, processing, and re-export. Indonesia was estimated to produce only about 350,000 tons in 1947, most of which went through the Malayan entrepot. See ibid., November 30, 1946, p. 23.

United States' synthetic capacity which was still producing above the national defense minimum. In fact, in anticipation of the predicted slackening of demand and the increasing supply of natural, the RFC began to curtail its synthetic operations, reducing the on-line capacity to about 400,000 tons. By early 1948, in the face of continued demand, the Government had to reimpose allocation controls on synthetic to insure an equitable distribution among manufacturers.¹¹

By early fall 1947, the price of natural had recovered from the summer slump to approximately \$.23. The total earnings for British rubber shipped to America for 1947 was \$339,000,000 and resulted in a dollar surplus to the British Commonwealth of approximately \$200,000,000. Malaya had again become the leading earner of dollars for the sterling area. If 1947 had been a good year for the Malayan production industry, it had been even better for the American manufacturing industry which exceeded \$3 billion in sales.¹²

In regard to the progress of Malaya toward self-government within the Commonwealth, the tactical errors of the Malayan Union were approaching correction in late 1947.

¹¹Ibid., February 14, 1948, p. 23.

¹²See Address by William T. Phillips to the Chemical Engineers Club of Washington, D.C. quoted in U.S., Congress, House, Extended Remarks of Fred L. Crawford, January 22, 1948, Congressional Record, Vol. 94, pp. A420-A421; and New York Times, January 2, 1948, p. 31.

During the constitutional conference of 1946, the British Colonial Office and the UMNO had agreed upon changes to the Union scheme. On the matter of general organization, it was agreed that the nine States would constitute the Malayan entity and that Singapore would remain a British Crown Colony. There were two key concessions granted to the Malays in the constitutional proposals of 1946. First, the citizenship rules were tightened to grant automatic citizenship only to those born in the area of the new Federation States. All others were required to apply for Federal citizenship and had to have resided in the Federation area for fifteen of the preceding twenty years. Second, the pre-Union prerogatives of the Sultans were reinstated and expanded. The British retained authority only in the areas of finance, national security, and foreign affairs. As observed by Gullick, the Sultans were no longer to be subject to advisors and residents, but would be subject to new pressures from the people working through the constitutional prerogatives of representative government.¹³

Before initiating the new Federation, the British wisely submitted the draft constitution to the various

¹³Gullick, Malaysia, pp. 105-108; and Ginsburg and Roberts, Malaya, p. 446. As a technical matter, the Union was formally created in April 1946, replacing the British Military Authority under Mountbatten with the Union headed by Sir Edward Gent. The Union organization proceeded without imposition of the citizenship rule.

communal associations for their perusal and advice so as to avoid the appearances of fait accompli which had been a factor in the reaction to the Union announcement. As mentioned earlier, the opposition to the UMNO and the reestablishment of the Anglo-Malay prerogatives consisted primarily of the AMCJA, a strange collection of political bedfellows consisting of racial groups, communists and various other assorted interests. The AMCJA demands included unification of Singapore and the States; an elected legislative body; equal rights for all residents of the country; a return of full sovereignty to the Sultans; Malay control of custom and official status for the Moslem religion, and programs to advance the economic development of the Malay community. These last three demands were a concession on the part of the Chinese-Indian majority to the Malay members of the AMCJA. Almost as soon as the British agreed to scrap the Union scheme in November 1946, the most influential Malay group, the Malay National Party (MNP), withdrew from the coalition and formed the Malay Council of Joint Action (MCJA). The dominance of the Chinese and Indian majority, and the strong influence of the MCP were more than the Moslem, Malay MNP could comfortably tolerate. The MCJA was short-lived as it was joined by other Malay anti-British or anti-UMNO groups and reformed into a Peoples' United Front (Pusat Tenga Ra'ayat or PUTERA). The AMCJA and PUTERA maintained a loose

alliance of expedience into 1948. By mid-1947, then, there was some clarity: the AMCJA-PUTERA coalition was united inasmuch as it opposed the proposed constitution of the Federation. However, the AMCJA was opposed on the grounds that the new constitution separated Singapore, and that the citizenship laws were unfavorable to the Chinese and Indians, while the PUTERA was more in opposition to the dominance of the elitist, civil servant, and Sultan characteristics of the UMNO.¹⁴

The opposition to the Federation plan was a failure.

The weakness of the AMCJA-PUTERA coalition was its inherently negative character. Its own program was an uneasy set of compromises between irreconcilable points of view which carried little conviction or popular appeal.

What appeal it might have had was undermined by the strong influence of the MCP, which had members in both factions and resorted to such heavy-handed tactics as strike and intimidation of any in opposition. An attempt to show strength and unity through a general strike in October 1947 showed the disarray within the coalition; ". . . the moderates in this coalition were not prepared metaphorically to man the barricades." The plan for Federation was, in fact, supported by the British, the Sultans, the Malay upper-class, and most of the Malay peasantry. The opposition was simply too

¹⁴Victor Purcell, Malaysia (New York: Walker And Company, 1965), p. 109; and Ginsburg and Roberts, Malaya, pp. 466-468.

factionalized to oppose successfully. Faced with British resolve to form the Federation in February 1948, the Malay PUTERA accepted the inevitable and the coalition dissolved.¹⁵

From 1945 until formation of the Federation, the MCP, working through its domination of the PMFTU, was producing increasing disenchantment among the British Labor Government. The policy of restraint, based on the hope that the Malayan labor movement would mature, gave little promise of fulfillment. The Labor Government went so far as to send representatives of the boiler-makers, printers, and railway men's unions to Malaya to advise the Commissioner. The English labor leaders were appalled at the propensity of the PMFTU and its affiliates to call strikes for little reason, though they paid no strike benefits.

Although a thorn to Malayan recovery, the MCP was unable to gain popular support, primarily because of the lack of a cause. True, the price of rice was terribly high and wages were an issue, but that was not enough. Attempts at raising the ire of the people against the British, even to the extent of digging up the question of British abandonment of Malaya in 1942, were unsuccessful. The Malays were for the most part indifferent to such issues and, after all, recovery was moving along, people were working, the Sultans

¹⁵Gullick, Malaysia, p. 109.

were on their thrones, and the British were proceeding with plans for increasing participation in government. Similarly, despite the AMCJA, the majority of the Chinese were still Kuomintang loyalists and therefore shunned the communist-infected AMCJA, being content to remain clear of Malayan politics.¹⁶

On January 21, 1948, the Sultans signed pacts with the Crown which ended the Union and established the Federation. The event was marred only by an ineffectual MCP-led protest strike of 30,000 Singapore workers on February 1, 1948, the day on which Sir Edward Gent was sworn in as the High Commissioner of the Federation of Malayan States at Kuala Lumpur.¹⁷

American interest in the events in Malaya in 1946-1947 was minimal, if any. The relative calm that accompanied the internal political maneuverings and the transition to the Federation were overshadowed by the deteriorating events elsewhere. The attempts by General George C. Marshall to gain a working truce between the Communists and Nationalists

¹⁶Hessell Tiltman, "Letter of The Week; Singapore New Deal," New Republic, Vol. 116 (April 21, 1947), p. 3ff; and Gullick, Malaysia, pp. 109-110. The AMCJA had one partial success in 1947 when it allied with the Singapore, Chinese Pan-Malayan Council For Joint Action to boycott city elections as a protest against the Federal constitution. Less than one-fifth of eligible Chinese cast ballots.

¹⁷New York Times, January 22, 1948, p. 16; and February 2, 1948, p. 7.

in China had been abandoned in early 1947 and by July, the Nationalists were in a state of full mobilization. In Indonesia, the hopes of the Cherbon Agreement, signed by the Dutch and the Republic of Indonesia, were shattered by a failure of the two to reach a working agreement. By July 1947, the Dutch mounted military operations against the Republic, and American attempts to provide good offices were abandoned a month later. In August, Ho Chi Minh rejected France's "last" offer to incorporate all of Vietnam into the French Union, France to retain control only in the areas of foreign policy and security. However, at the middle and lower levels of the United States Government, British Malaya, the rubber producer, was still under scrutiny as the House Armed Services Committee went to work on revisions to the Rubber Act of 1947 which was due to expire at the end of March 1948.

Within a month of passage of the Rubber Act of 1947, the Subcommittee of the House Armed Services Committee began preparations for consideration of replacement legislation. This time, however, the committee was to rely upon its own study and analysis, rather than those offered by the Executive as had been the case with Batt Committee's reports. Following informal meetings with Government and industry experts, which began in May 1947, the Subcommittee toured synthetic plants in Texas, Kentucky, and Ohio where hearings were conducted.

The questions posed by the Subcommittee were much the same as those posed in the earlier interim legislation: how much on-line synthetic production must be maintained and what should the standby capacity be; how was absorption of the on-line capacity to be assured; if the plants were to be turned over to industry, by what method; "What protection against foreign imports . . . should be established," and what effect would synthetic have on the world market?¹⁸

The unpredictable representatives of industry came before the Congress in considerable disagreement. There was Big Rubber, a majority of the production capacity; the reclaimed rubber industry, and local industry interests. In Texas, the Subcommittee heard an impassioned and chilling account of the effects of Government control. The reduced consumption of rubber following the glut of tires on the market in mid-1947 had led the RFC to begin reducing synthetic output. The decrease later proved to be temporary, a false indication that the predicted leveling of demand (which did not occur) was taking effect. As a result, curtailment of production had caused the lay-off of Beaumont workers; and, almost simultaneously, the price of natural, which bottomed

¹⁸U.S., Congress, Senate, Committee on Banking And Currency, National Rubber Policy, Hearings before a subcommittee of The Committee on Banking And Currency, on S. 2187 and H. Res. 5314, 80th Cong., 2nd. sess., February 24th and March 2nd, 1948, p. 15 (hereafter cited as Senate Hearings: Rubber Act of 1948).

at \$.14 in July, quickly rose to \$.23.¹⁹ In a slightly oblique attack on Government control, the representatives of the reclaimed rubber industry complained that use of synthetic depressed the use of reclaimed rubber.²⁰

In hearings conducted in Akron, Ohio, the Subcommittee joined by Representative Lyndon B. Johnson, ranking member of the full Committee, heard Big Rubber propose the selling of the RFC's facilities to those who wished to buy. The proposal was based on arguments that the time had come for the industry to take its place in the free enterprise system. The proposed method of plant disposal drew close questioning from Johnson, who displayed considerable animosity toward the "free enterprisers," noting for the record that three of the potential buyers, the Goodrich Rubber, Firestone, and General Rubber and Tire Companies, were under Federal indictment for price fixing in the tire business.²¹ The proposed method of disposal of the plants became capsulized in Johnson's lexicon as the "markdown, peel-off, and walkaway," a litany to be

¹⁹Statement of Judge J. M. Coombs in U.S., Congress, House, Committee On Armed Services, Synthetic Rubber, Hearings before a subcommittee of The Committee on Armed Services, H. Rpt. 220, 80th Cong., 1st. sess., November 7th and 15th, 1947, p. 500 (hereafter cited as House Subcommittee Hearings: Rubber Act of 1948).

²⁰Ibid., pp. 500-501. See also Statement of William Welch, Senate Hearings: Rubber Act of 1948, p. 36.

²¹House Subcommittee Hearings: Rubber Act of 1948, p. 5273.

repeated several times before a bill would be passed.²² The plants were to be written off and sold at bargain prices over a period of time as industry was disposed to absorb them, but should the venture prove unprofitable, the owner could abandon the facility as a bad investment. In short, Big Rubber was willing to take the RFC's facilities so long as there was no substantial capital risk involved. However, the proponents of sale also advocated the continued specification of synthetic use as the one sure means of keeping the national defense, minimum production capacity on-line. As Johnson was later to report on the floor of the House, ". . . what they wanted was for the Government to step out of their end, the producing end, while still keeping control over the consuming end."²³ Apparently, the "markdown, peel-off, and walkaway" proposal "closed out of town," for no such proposal came before the more formal hearings held in Washington.²⁴ However, Johnson's greatest objection was based upon his suspicion that the Big Four were the only ones capable of absorbing

²²Ibid., p. 5426.

²³U.S., Congress, House, The Rubber Act of 1948, H.R. 5314, 80th Cong., 2nd. sess., March 5, 1948, Congressional Record, Vol. 93, p. 2256 (hereafter cited as House Debate, Rubber Act of 1948).

²⁴U.S., Congress, House, Committee On Armed Services, Full Committee Hearings on H.R. 5314, To Strengthen National Security . . . By Providing For The Maintenance Of An Adequate Domestic Rubber Industry . . ., H. Rpt. No. 230, February 17, 1948, 80th Cong., 2nd. sess. The full committee approved the bill without change.

the plants, and by so doing would create a monopolized industry.

The House Subcommittee was chaired by Representative Paul Shafer who had chaired the Subcommittee in 1946-1947. Though Crawford, the sponsor of the Rubber Act of 1947 remained, Shafer took the reins and sponsored the proposed replacement legislation, H.R. 5314, A Bill to Strengthen National Security . . . By Providing For The Maintenance Of An Adequate Domestic Rubber-Producing Industry. The requirement for a synthetic production capacity as necessary to the national defense, and the minimum level of on-line and stand-by capacity were assumed. The questions at issue were: should specification and allocation be continued; and should the RFC's facilities be turned over to private industry?

The bill, as proposed by Shafer, incorporated all the needs of defense and the mechanisms to insure that they were met. However, in treating the question of plant disposal, the Shafer Bill authorized sale of the plants after April 1, 1948, but only with Congressional approval, such approval to be requested by the President upon recommendation of the National Security Resource Board. Shafer found himself meeting head-on with Johnson who was adamantly opposed to making any facility available to the industry. Johnson threatened to introduce counter-legislation that would prohibit sale

until after June 1950. Although he opposed sale on the grounds that it benefited the purchasers to the distinct disadvantage of the nonpurchasers, the proposed blocking legislation spoke of the need to "remain free of foreign dependency . . . [and to] be protected from crude [natural] rubber cartels . . . including excessive increases in price."²⁵ Though the Shafer Bill cleared the full committee with the disposal provision intact, an understanding must have been reached between Shafer and Johnson for Shafer amended the Bill on the floor of the House to include a two-year delay in plant disposal just prior to passage.²⁶

Unlike the Rubber Act of 1947, the consideration of H.R. 5314 was accompanied by a small measure of Government lobbying against the proponents of sale. Crawford gave the Congressional view. Noting the continuing disorder in Indonesia he predicted continued shortages of natural rubber. In support of the retention of the Government's facilities, he pointed to the price impact upon consumers of tires made with synthetic produced by other than the RFC and sold at other than a Government-fixed low price.²⁷ Admiral Charles E.

²⁵New York Times, January 31, 1948, p. 10.

²⁶House Debate, Rubber Act of 1948, p. 2265. For full text of H.R. 5314 see ibid., pp. 2261-2264.

²⁷Address by Honorable Fred L. Crawford to the Chemical Engineers Club of Washington, D.C., January 13, 1948 in U.S., Congress, House, Extension of remarks by Crawford, 80th Cong., 2nd. sess., January 1948, Congressional Record, Vol. 94, pp. A423-A424.

Braine, Chairman of The Army-Navy Munitions Board and spokesman for the national defense argument, stated that the United States did not wish to "ruin any country" by continuing Government production but warned that, regardless of the desire to cooperate, " . . . we must always be in a position where decisions regarding our national defense are in our hands."²⁸ Phillips of the Department of State spoke of the effect the rubber policy could have on world trade. His approach was slightly more articulated. Assuming the need to assure a minimum level of synthetic production, he warned of the need to keep mandatory consumption to an absolute minimum. He cited the gains being made in the establishment of the ITO but noted that restrictive trade agreements were creeping back into the system. Indicating a concern not previously raised, Phillips went on to caution against the use of Government stockpiles as a means of depressing price.²⁹ There was also some muted opposition to the proposed continuation of specification and allocation in the general context that Government control of any sort was "Socializing Industry."³⁰

²⁸Address by Rear Admiral C. E. Braine to the Chemical Engineers Club of Washington, D.C., in ibid., pp. A350-A352.

²⁹"International Implication of Our Rubber Policy," Address by William T. Phillips to the Chemical Engineers Club of Washington, D.C., in ibid., pp. A420-A421.

³⁰"The Trend: Socializing Industry," Business Week, No. 963 (February 14, 1948), p. 120.

The Shafer Bill passed in the House on March 5th, followed by hearings before the Subcommittee of the Senate Banking And Currency Committee. Although the industry mustered its biggest guns in an effort to delete the two-year delay on sale of the RFC's facilities, the only point of real discussion turned on a last moment of confusion among representatives of the Executive.³¹ In a letter to the Subcommittee Chairman, Senator John W. Bricker, Presidential Assistant John R. Steelman, formerly of the OWMR, requested that the authority of the legislation be granted "indefinitely" in lieu of the two-year period.³² The request was supported by the Department of Commerce suggesting a rekindling of the dispute between the Departments of State and Commerce over the use of commodity controls in the ITO Proposals.³³ However, upon the recommendation of Kennedy of the State Department and the RFC, the two-year delay was retained. Kennedy indicated that the Department favored Government control over the next two years to insure that synthetic was not used to depress the price of natural, but

³¹See statements of Harvey Firestone, Jr., J. P. Siberling, and Robert S. Wilson, officers of Firestone, Siberling and General Companies in Senate Hearings: Rubber Act of 1948, pp. 26ff, 31ff, and 43ff.

³²Ibid., p. 52.

³³Statement of Everett G. Holt, Advisor, Department of Commerce in ibid., p. 46. For a summary of the disagreement see New York Times, March 3, 1948, p. 33.

avored the June 1950 termination date as a means of insuring an "automatic review" of the rubber situation.³⁴

As passed by the Senate on March 23rd, the Rubber Act of 1948 was, in effect, a continuation and confirmation of the Act of 1947. The powers to produce, sell, specify and allocate synthetic were delegated to the Executive. However, the continuation of Government control of the synthetic industry, backed by the clear intent contained in the legislative history that the purpose of the Act was to insure only that the defense minimum capacity be maintained, gave assurance to the producers of natural rubber. The American synthetic capacity would not be set free to be used as a weapon to control prices. The British registered their pleasure with the Act of 1948, seeing it as a means of injecting stability into the price picture. It could "pave the way in further buying developments," a reference to increasing demand as a result of European rearmament and American plans to increase purchases of natural for military stockpiling purposes.³⁵ The matter of natural versus synthetic was apparently settled until June 1950. The prediction was that, by then, the full natural capacity would be restored and that improvements in natural production efficiency would allow a

³⁴Statement of Donald B. Kennedy, Senate Hearings: Rubber Act of 1948, pp. 75-76.

³⁵New York Times, April 5, 1948, p. 30.

decrease in price to a level capable of competing with synthetic. Though the Rubber Act of 1948 reflected a combination of defense consciousness, adherence to the principles of the ITO Proposals, and a slight distrust of Big Rubber's motives, it was a decision with potentially distinct advantages to the immediate economic future of the Malayan Federation in that it gave some stability to the general market picture.

CHAPTER VI

JUNE 1948 - JUNE 1950

Until mid-1948, the relationship of America to British Malaya can only be described as indirect, the effect of one upon the other being the result of causes not entirely connected to or aware of the effect. For example, the retention of the synthetic industry by the RFC was a result of concern for national defense; the effect upon Malaya was not intended, rather the opposite, as policy sought to minimize any effect. The withdrawal of the American Government from the rubber markets in 1947 resulted in a price decline for Malayan rubber; however, the intent was to adhere to the principles of the ITO Proposals. Part of the reason for the indirectness of the American-Malayan contact lay in the fact that as a possession, Malaya had voice only through Great Britain. The relationship was much the same as the relationship might have been between the United States and, for example, Wales. The interests of Malaya (or Wales) were subservient to the interests of the Empire; e.g., as suggested above, the British Government chose to refrain from official complaint concerning the American bid price for British rubber in 1946, so as to avoid the possibility of

jeopardizing or delaying Congressional passage of the much needed Loan.

Excluding the question of economic policy, the general foreign policy of the United States regarding the internal affairs of Malaya was in consonant with the 1945 policy statement which declared the principle of nonintervention in the British areas of Southeast Asia. However, the aura of American detachment towards Malaya must be characterized. It was nonintervention by permissive accident rather than by practiced, conscious effort. There simply was no crisis or threat of crisis in Malaya prior to 1948 which might have given rise to concern in the American Department of State. There was no occasion for the United States to suggest a course for the British, or to offer assistance. Even the near occasions of the sin of intervention, which sometimes accompanies the most humanitarian of aid, were avoided.¹ The British provided such aid as was needed in Malaya and did not request any special, American assistance. It could be argued that America provided indirect aid through the Loan; however, that view is to stretch a point. The Loan provided the British the means to aid Malaya; the terms of the Loan did not specify the use of proceeds.

¹Other than grains shipped immediately after the war under UNRRA, no American aid of note went to Malaya.

The uprising of the MCP in the spring of 1948 would suggest a reevaluation of the American view. That it did not requires comment.

The most generally accepted explanation for the communist rebellion in Malaya and the rest of Southeast Asia is that it was, in reality, a Soviet-directed attack on the economic recovery of western Europe which was then beginning to show promise under the stimulus of the Marshall Plan, the European Recovery Program (E.R.P.). It was presumed that the Soviet intent was to wreck the productive capacity of Southeast Asia; the desired effect was to deny to Europe the raw materials and dollar exchange flowing from the area. Malaya was a target of primary importance as it was already a thriving source of materials for England and America and the largest source of dollar exchange for the sterling area, whereas Indonesia and Indochina represented only the potential to imitate the success of Malaya.²

There were ancillary Soviet benefits to be gained by fishing in the troubled waters of Southeast Asia. First, by attacking colonial control in Southeast Asia, energy needed for European recovery could be bled-off in the colonialists'

²Among others see Harry Miller, A Short History of Malaysia (New York: Frederick A. Praeger, 1965), p. 173; Gullick, Malaysia, p. 111; and Cady, Post-War Southeast Asia, pp. 62-63. For a contemporary analysis see B. H. M. Velke, "Communism And Nationalism In South East Asia," International Affairs, Vol. XXV (April 1949), pp. 149-154.

effort to retain their possessions. Second, there was the possibility of adversely affecting relations between the United States and the colonial nations, if the colonialists' response could be made to appear as a heavy-handed suppression of nationalist aspirations. Third, in regard to non-colonial Southeast Asia, the pro-west, if not west-dependent, governments of the Philippines, Burma, and Thailand could also be discredited, weakened and subjected to communist pressure.³

The order for the Southeast Asian communists to go on the offensive was reportedly transmitted by the Cominform at the Southeast Asian Democratic Youth Conference, sponsored by the Communist World Federation of Trade Unions and held in Calcutta in February 1948. The resort to overt action was a shift from the post-war Soviet strategy of peaceful cooperation with and subversion of nationalist groups. As described earlier, this took the form in Malaya of first subverting the labor movement, and later, subversion of the political organizations which formed in opposition to the Union, the UMNO, and finally the Federation. Space here does not permit a full recounting of the uprisings of 1948; however, some

³Richard P. Stebbens and others, USWA: 1949 (New York: Harper and Brothers for The Council On Foreign Relations, 1950), pp. 423-431. See also "Peril For U.S. In Malayan Unrest," U.S. News And World Report, Vol. 25 (August 29, 1948), pp. 24-25.

analysis is necessary for, as in other matters, the Malayan experience is again unique.

The Communist-instigated risings of 1948-1951 in Southeast Asia, historically considered, were both ill-timed and ineffective. In most cases, the non-Communist elite still maintained a measure of faith in alternative social innovations and nonrevolutionary means of implementing political change.⁴

It appears now that the Soviet plan held little concern for the success of the rebellions; rather, the primary objective was to retard European recovery. In short, it was a spoiler's plan. The Southeast Asian communists were hurled into the breach with little concern for their chances of survival or success. The various rebellions of 1948, which broke out in Malaya, Burma, Siam and Indonesia, and the resurgence of communist efforts in Indochina and the Philippines received little else than moral and vocal support from the USSR. In the main, the revolutionaries lacked organization and popular support, and became primarily a disruptive but expensive nuisance. There were exceptions; e.g., the tenacious Viet Minh and the Burmese communists. However, the Viet Minh resistance to the French had long predated 1948, and the general chaos in Burma was as much a result of the Karen and Shan tribes minority problem, which simply provided an exploitable cause in the absence of British imperialism and

⁴Cady, Post-War Southeast Asia, p. 81.

was as good a vehicle as any to serve the purposes of driving the government to the left.⁵

Malaya was exceptional from at least two points of view. First, the MCP's avowed purposes of driving the British out and securing political dominance had, perhaps, the least promise of success. The terrorist forces consisted almost entirely of the former Chinese members of the MPAJA. A change in name, first to the Malayan Peoples' Anti-British Army (MPABA) and later to the Malayan Races Liberation Army (MRLA) altered nothing; the MRLA remained the Chinese enemy to the Malays. In addition, the rebels alienated the vast majority of the middle-class, urban Malayan Chinese who remained either the "Queen's Chinese" or Kuomintang loyalists. The announced objective of driving out the British had little popular appeal for either noncommunist Chinese or Malay. The Malays had no desire to risk dominance by the Chinese, let alone Chinese communists; and, the noncommunist peninsula Chinese were at least secure among the hostile Malays so long as the British remained. As a result, the MRLA was forced from the outset to rely upon whatever support could be secured through coercion, extortion, and terror. Suffice it to say that the MRLA was destructive and cost both the British and Federation Governments billions in military and

⁵The moderate government of Thakin Nu was forced to resign, January 20, 1949.

police actions; but, as a political movement, communism was unable to leave the sanctuary of its jungle hiding place. MRLA military efforts never advanced beyond the tactic of hit-and-run attacks against the mines and plantations. Though the enemy was the British, the victims of the terrorist attacks were more often Malays and Kuomintang Chinese employed as managers and overseers.⁶

The second unique aspect of the communist attack in Malaya was its tenacity and longevity despite its lack of appeal. Whereas, for example, the rebellion in Indonesia was quickly put down and the threat in the Philippines was contained, the substantial efforts of the British in Malaya did not yield results until after 1951.⁷ The initial strength of the communists in 1948 was approximately 5,000, but it grew until 1950 when it reached an estimated 8,000. The stubborn resistance of the MRLA was a result of a combination of factors: (1) the MRLA was able to continue to recruit from among young, unemployed, frustrated Chinese; (2) the MPAJA had laid plans and secreted weapons for just such an occasion following the Japanese collapse; and (3) the MRLA

⁶Gullick, Malaysia, pp. 112-117. The pattern of attacks; i.e., attacks against plantations and mines, was recognizably early. See "Malaya: Civil War," News Week, Vol. 32 (July 9, 1948), pp. 32-33.

⁷Though the Emergency officially lasted until July 1960, the rebellion was broken by 1953, primarily as a result of a program to resettle Chinese away from the jungle areas and the reign of extortion visited by the MRLA.

did not have to build a terrorist organization. It was merely a case of the MCP personnel moving to preappointed jungle hide-outs in May and June of 1948, taking up their arms, and resuming life as it had been under the Japanese.⁸

A final point is a question in equipoise. It is debatable as to which side, the MCP or the Labor Government, miscalculated to the other's advantage. The MCP had, until 1948, counted on a measured, restrained British response to their actions.⁹ There is some evidence to support the opinion that at the outbreak of the rebellion the British initiative was lost because the High Commissioner, Sir Edward Gent, was indecisive, thereby allowing the MCP sufficient time to go underground and reform as the MPABA. He did not react to the increases in labor strikes and acts of lawlessness, which occurred in April through June, despite the advice of his military chiefs to take decisive action. Gent preferred not to exercise extraordinary powers without express direction from Whitehall.¹⁰ One report has it that at the time of his death in an aircrash in July, while enroute to London, Gent was contemplating resignation.¹¹

⁸Gullick, Malaysia, pp. 117-119.

⁹New York Times, July 24, 1948, p. 4.

¹⁰"Malaya: Civil War," pp. 32-33.

¹¹New York Times, July 5, 1948, p. 1; and "Malaya: Civil War," p. 32.

However, any MPABA hope for confusion or hesitation on the part of the Labor Government quickly dissolved. The British sent reinforcements within a month of the June declaration of the Emergency; and, while it took several years to render the MRLA impotent, the rebels were unable to mount a decisive offensive operation or secure and hold a so-called liberated area. It was forced instead to spend most of its efforts in sustaining meager supply lines and defending itself against increasing numbers of Commonwealth regulars, and Malayan police and home guards.¹²

During the first year of the MCP's rebellion, the British mounted strong countermeasures and gave no hint that the situation would require aid from outside the Commonwealth. The British correctly concluded the inevitability of the MRLA defeat; though they initially underestimated the effectiveness of the guerilla tactic, and were forced to alter the countertactic several times.¹³ That the British did not

¹²Gullick reports 40,000 regulars, 70,000 police, and 225,000 home guards at the height of strength in 1950-1951, Malaysia, p. 112.

¹³Major General Charles H. Boucher acknowledged in early July 1948 that the rising had been expected. In late July, he admitted some rebel success, but added ". . . it won't last," and stated that compared to experiences in Greece and India the MPABA was the ". . . easiest I've ever tracked." See New York Times, July 6, 1948, p. 6; July 19, 1948, p. 32; and July 28, 1948, p. 2. By August, Boucher was predicting a two-phase, fifteen month operation. New York Times, August 6, 1948, p. 4.

request American aid requires some explanation. First, the decline of the eastern colonial empire had been rapid. India, Pakistan, Burma, and Ceylon had been granted independence by January 1948. There was political criticism at home that under the Labor Government the Empire was "running off almost as fast as the British Loan."¹⁴ Second, the MRLA challenge was a direct confrontation, a situation avoided in the freeing of the other areas; therefore, the British were forced to stand if prestige and authority were to be maintained before the rest of the Empire. Third, Malaya was of vital interest to Great Britain as the "golden goose" of the dollar-earning sterling area.¹⁵ The stand in Malaya is in contrast to British economy elsewhere; for example, the withdrawal from Greece in February 1947 and the granting of independence in January 1948 to Burma, which chose to remain outside the Commonwealth. In both instances, the cost of forcibly maintaining British dominance outweighed any gain to be secured

¹⁴Campbell, USWA: 1947-1948 (New York: Harper and Brothers, 1948), p. 218. As early as November 1948, James V. Forrestal, the American Secretary of Defense, was told by Churchill and the British Chiefs of Staff that should war break out in the Far East, the British were fully committed in Malaya and could make no further contribution. See Walter Millis, ed., The Forrestal Dairies (New York: The Viking Press, 1951), p. 525.

¹⁵Barbara Willingham-Jones, "Should Britain Quit Malaya?", The Contemporary Review, Vol. 178 (July 1950), pp. 14-18. Willingham-Jones concluded, "The interests of Malaya . . ., no less than dollar pressure, preclude any British Government from contemplating withdrawal at any foreseeable date." Ibid., p. 18.

by that effort. In Malaya, the stakes were high and the odds were right.

The American perception of events in Malaya is difficult to assess. There is little doubt that the United States accepted that the rebellions of 1948 were led by South-east Asian communists. That the United States accepted the claim that the rebellions were coordinated parts of a scheme being directed by Moscow as an attack on ERP is not so clear. In explaining the issuance of licenses for the export of small arms to protect the American-owned rubber plantations and the single American tin mine, the State Department stated that the applications were:

. . . approved in accordance with a policy of viewing the disorder as caused by outlaws rather than as a full-scale political revolt against the Government.¹⁶

There were opinions that the uprising in Malaya was inspired by the successes of Mao Tse-tung, if not directed by the Chinese Communist Party. Others opined that the uprising was a local decision explaining that the spread of rebellion elsewhere was a result of one local group being inspired by another. It appears that the United States did not

¹⁶New York Times, July 26, 1948, p. 12. The British made the requests for small arms direct to Pacific Tin Consolidated, owner of the single American mine, and the U.S. Rubber Co., subsidiary owner of the Malayan Rubber Co., thus avoiding the "red tape" of a government-to-government arms request. See also New York Times, July 24, 1948, p. 4; and August 26, 1948, p. 2.

categorically accept the world-plot explanation.¹⁷ By example, a Department of State summary of conditions in Malaya, written in 1953, gave the causes of the 1948 rebellion as the strong British reaction to the Communist-controlled PMFTU, and the frustration of the MCP in its inability to counter the establishment of the UMNO-dominated Federation. The immediate cause was cited as the Federation's order, issued in April, that all trade unions register with the Government and reveal the sources of their funds. There was no reference to the Calcutta Conference, or a Soviet plan to wreck the ERP through the destruction of the Malayan economy:

The Communists' specific objective now was to destroy the existing political organization of Malaya, drive the British out, and ultimately take control of the country for communism.¹⁸

Part of the explanation for the American reluctance to accept the claim that the Berlin blockade and the Malayan rebellion were all part of the same Soviet-directed world plan may lie in a belief that the British were using the communist world-plot thesis as a means to mask the repression of a

¹⁷Tillman Durdin, "Revolt In Malaya Local Red's Work," *ibid.*, August 1, 1948, p. 17.

¹⁸U.S., Department of State, Malaya: Trouble Spot In Southeast Asia: Background, Pub. 5061, Far Eastern Series, No. 57 (Washington, D.C.: Government Printing Office, 1953), pp. 2-3. For a like account by a Congressional source see U.S., Congress, House, Committee On Foreign Affairs, Special Study Mission To Southeast Asia And To The Pacific, reported by the Hon. Walter Judd, 83rd Cong., 1st sess. (Washington, D.C.: Government Printing Office, 1954), pp. 70-71.

Chinese-led, Pan-Malayan nationalist movement which sought only to hasten the British departure.¹⁹ Though this suspicion may have had some foundation, a judgment should be made; the evidence weighs for the Moscow-directed, Calcutta-ordered resort to rebellion.

As early as June 1947, at least one observer put the issues of rubber prices paid by the American industry and the survival of a noncommunist Malaya into a dependent relationship. "If the U.S. Lets The Rubber Market Go To Pieces - Kiss Malaya Goodby."²⁰ This rather pessimistic report saw Malaya as all "that was left" in Southeast Asia and placed the blame for the tenuous Malayan situation of June squarely on the United States for failing to recognize the realities of the day, and allowing the industry to keep the price of rubber at prewar levels. The United States Government, or at least its economic representatives, were apparently unmoved. In January 1948, under agreements worked out by the Economic Cooperation Administration (ECA), the United States had agreed to purchase rubber from the British Government for

¹⁹See Gullick, Malaysia, n. p. 111; Tillman, "Revolt in Malaya"; and "Malaya: Majority of Guns," Time, Vol. 53 (July 12), 1948, p. 33.

²⁰Gilbert Burck, "Report From Singapore: If the U.S. Lets The Rubber Market Go To Pieces - Kiss Malaya Goodby," Fortune, Vol. 37 (June 1948), pp. 92-95ff. Also see "Peril For U.S. In Malaya Unrest," U.S. News And World Report, Vol. 25 (August 27), 1948, pp. 24-25.

military stockpiling purposes. The purposes of the ECA agreement were twofold: first, the primary objective was to increase the flow of dollars to Europe; and, second, to stimulate the strategic materials production industries. The quid pro quo was to increase the available supplies of strategic materials and to increase the American defense stockpiles. The British made note of the need to give "full consideration of the producers in the colonies and the rubber market" and set the price at \$.27. The United States declined, and it was not until September that a bargain for 30,000 tons was struck, but at the market price of \$.22. The remainder of the United Kingdom stock of 88,000 tons was then taken off the market to be held in the British strategic reserve.²¹

In August 1948, an observer noted the interrelationship between the American policy and the British struggle in Malaya. This commentary focused upon the problem of Malayan wages which were being held down because of low rubber prices despite the sharp increase in the cost of living caused by the Emergency. Since April, the price of rice had increased by a factor of fifteen. The cause of part of the problem; i.e., the low price of rubber, was attributed to the United States policy and its continued

²¹New York Times, January 21, 1948, p. 41; September 4, 1948, pp. 4,13.

production of synthetic rubber.²² A muted criticism of the synthetic industry was also made by Malcom MacDonald, British Commissioner General for Southeast Asia, in November. However, his criticism included the British Government and industry for their failure to take any action to limit the increasing production of natural.²³

Despite the disruptions of 1948, Malaya maintained an increase in rubber production. It rose to the historical high of 697,000 tons and accounted for the major portion of Malaya's 1948 dollar earnings of \$130 million.²⁴ However, the volume increase in production was offset by declining prices. Malaya was repeating the mistake of the past: overproduction. In 1948, America's total consumption actually decreased by nearly 100,000 tons in comparison to 1947; the result was a decline in the price of natural to about \$.20 at year's end. A second reason for the decline in dollar earnings from rubber, totally unrelated to the United States, was the illegal shipment of rubber to "sterling grey

²²Andrew Roth, "Malaya: Besieged Dollar Arsenal," Nation, Vol. 167 (August 7, 1948), pp. 150-151. In addition to the rubber problem, Roth also notes the resistance of planters and mine owners to Gent's moderate, pre-Emergency policies, and the Soviet-Calcutta-MCP-ERP version of the uprising.

²³"Basic Problem Remains As Malaya Quells Communists," Foreign Policy Bulletin, Vol. XXVIII (November 12, 1948), pp. 18-20.

²⁴"Southeast Asia: A Glossary," Fortune, Vol. 39 (March 1949), p. 90; and New York Times, May 9, 1949, p. 33.

areas"; that is, the buying of rubber in Malaya with soft currency and the trans-shipment to nonsterling areas for resale in dollar markets.²⁵ However, the loss of dollar exchange remained, in the British mind, the fault of the United States.

After 1948, through the worst years of the Emergency and into the Korean War, the American contact with Malaya remained indirect and, with few exceptions, limited to a continuation of discussions concerning the effect of the American rubber policy. However, the continuing encouragements to restrain synthetic production to the advantage of natural rubber included the new incentive; i.e., to buy natural rubber at a price comparable to other commodities was to aid in the fight against communism.

By mid-1949, the price of rubber was down to \$.16. The British argument for American action to reverse the trend was articulated by the Leader of the Conservative Party, Anthony Eden, in May 1949. First, Moscow was categorically branded as the instigator of the Malayan rebellion. Second, the burden of the rebellion had driven the Malayan cost of living to such a level that plantation labor was demanding

²⁵For a complete explanation of how this yielded the trans-shipper a 5-15 per cent profit see Frederick Kozle, "Export-Import Problems In Southeast Asia," Southeast Asia In The Coming World, Philip W. Thoyer, ed. (Baltimore: The Johns Hopkins Press, 1953), pp. 113-125. Also see "The World Outlook In Rubber," U.S. News And World Report, Vol. 28 (January 6, 1950), p. 40.

wage increases of up to 200 per cent; at the same time, the price of rubber remained below prewar levels. In an argument containing a considerable amount of unassailable logic, the former Foreign Minister expressed a lack of " . . . enthusiasm for America's costly synthetic industry . . ." and added that " . . . if the price [of natural] were allowed to rise the U.S. might pay more for rubber but less for aid." Third, the stability of Southeast Asia was "indispensably" tied to the prosperity of Malaya. Malaya's success in the fight against communism could serve as " . . . a prop and guide" to her neighbors and the results would be to everyone's advantage " . . . including the U.S.". The key to success was a fair price for rubber, and " . . . a salient topic for discussion between Britain and America."²⁶

The statement at that particular moment gave some hint of the strain the Emergency continued to place on the British economy. It may also have been designed to serve as a signal to America that Great Britain was contemplating a request for direct assistance. Eden's reference to a higher price for rubber as an alternative to more foreign aid may have been aimed at that portion of American public opinion which was growing less generous in its view of costly foreign

²⁶Anthony Eden, "Asia's Welfare Is Held Vital To Southeast Asia: Current Price of Rubber Is Problem," New York Times, May 2, 1949, p. 8.

aid. In either event, the British had come to the realization that the Emergency was not going to be solved quickly and, within weeks of Eden's plea, the British Government had to float a bond issue to raise eight million pounds sterling for Malayan assistance.²⁷

The British appeal of May 1949 was apparently noted by Representative Shafer. In August, he had completed an examination of the operation of the rubber policy established by his Subcommittee in February 1948. It was his evaluation that the various parts of the Rubber Act of 1948 had become disconnected from each other through bureaucratic mismanagement and had become counterproductive, in several respects. In his view the intent of the Act to minimize the effect of the National defense objective upon the world's natural market had been circumvented. Shafer was surprised to learn that the Department of Commerce, which had assumed responsibility for allocation and specification from the OWMR in August 1948, was requiring synthetic consumption above the minimum defense level. In 1948, the mandatory level had been 54,000 tons above the minimum despite the voluntary consumption of an additional 167,000 tons by industry. In short, the RFC made and sold 221,000 tons more than was necessary under law; this amount constituted an equal loss to natural producers. In the summer of 1949, the Government was still

²⁷Ibid., May 9, 1949, p. 33.

requiring consumption at an annual rate of 46,000 tons in excess of the defense minimum. He further noted that in a period of declining natural prices, the Government had not seized the opportunity to purchase natural for stockpiling purposes. The stockpile was still below the desired level. Overproduction of synthetic; the failure to buy natural for the stockpile; the leveling of demand; and the summer low in demand caused by the industry's annual inventory liquidation; had combined to drive the price of natural to a new low of \$.16. The result was a lowering of the living standard in Malaya and an estimated loss of dollar exchange for Great Britain and Malaya of \$100,000,000. In consideration of the British dollar position and the struggle in Malaya, Shafer proposed an immediate suspension of all mandatory synthetic consumption and an acceleration of natural rubber purchases for the stockpile. He noted the threat to Southeast Asia posed by the successes of the communists in China, and the offsetting effects of gains made in Europe under ERP and losses in Asia, such as the tenuous situation in Malaya. The advantages to be gained by Shafer's proposal were: the strategic stockpile would be increased; the British dollar position would be improved; and, the increase in natural demand would "create a happier condition in the rubber countries." In the alternative of no action, he cautioned,

" . . . the U.S. could be called on for aid that could wreck the economy"; i.e., " . . . the financial strain of saving Asia."²⁸

Opponents of the Shafer proposal, most notably Senator Robert A. Taft, spurred by protests from among the industry leaders, could see little justification for curtailing the output of an American industry " . . . simply to assist Great Britain to get dollars from Malaya." In Taft's view, suspension of mandatory synthetic consumption would cause only unemployment among American workers and a rise in the price of natural rubber at a cost to the consumer.²⁹ In rebuttal, it was pointed out that America had a choice, "outright grants or trade"; to speak of aiding friends in the absence of a willingness to do either was to try to "have our cake and eat it too."³⁰ Shafer's plan was not adopted, most probably due to the controversial domestic aspects of suspending mandatory synthetic consumption. In addition, Taft's view was

²⁸U.S., Congress, House, Remarks and Report, "Our Rubber Policy" by the Hon. Paul W. Shafer, 81st Cong., 1st. sess., August 9, 1949, Congressional Record, Vol. 95, pp. 1136-39.

²⁹U.S., Congress, Senate, curtailment of requirements for synthetic rubber, 81st Cong., 1st. sess., September 23, 1949, Congressional Record, Vol. 95, pp. 13211-13. Though little can be made of it, Taft's comments on the proposal served his Ohio constituency as well as his general view of American assistance schemes which imposed costs upon the American public.

³⁰Senator Claude Pepper, ibid., p. 13211.

supported by the National Security Council whereas Shafer's proposal received support from the Department of State, which was more a hinderance than a help. The Department was coming under increasing criticism from Congress for the general management of foreign policy.³¹

Just prior to the presentation of Shafer's proposal, there was a report that Great Britain was preparing to ask the United States for aid for Malaya in the form of capital investment. Britain realized the improbabilities of anything approaching an Asian version of the Marshall Plan, but hoped to receive aid through the International Bank For Reconstruction and Development, or the Export-Import Bank under the principles of assistance outlined in the Point-Four program.³² Whether the request was discouraged and never formally made, or submitted and disapproved is not clear, but Britain may have abandoned the request having observed the reaction to Shafer's less ambitious proposal. The explanation for the disappearance of the British-proposed request for aid may also lay in the confusion that surrounded Point-Four. Following its announcement in January 1949, the Administration was repeatedly required to explain to Congress and expectant recipients of aid alike, that Point-Four was not

³¹Senator Taft, ibid., p. 13213.

³²Benjamin Welles, "British Want U.S. To Invest In Asia," New York Times, September 1, 1949, p. 10.

intended to be a massive, economic aid program comparable to ERP, rather it was to be aid in the form of limited technical assistance.³³

The British economic situation continued to worsen through 1949. In July, the United Kingdom, followed by the Commonwealth members, announced a restriction on dollar expenditures in an effort to conserve the United Kingdom's reserves which, by July, had fallen below the danger level. In September, in a move to increase the ability to earn dollars by decreasing the value of export items, the pound sterling was devalued. However, due to the intricacies of the world monetary system, the effect on Malayan rubber was less than hoped for although an improvement in rubber sales was a prime objective in the devaluation move. The idea was to reduce the price to a level which would stimulate American

³³Acheson described the "fourth point" of Truman's Inaugural Address of January 20, 1949 as the "hyperbole of inaugural oratory" which ignored the realities of the foreign aid budget. It was included in the Address as an after-thought without the State Department's knowledge. See Acheson, Present At The Creation, p. 265. It was misunderstood to be an ERP-type commitment and required clarification in the U.N. Economic and Social Council. See "Statement By William L. Thorpe," Department of State Bulletin, Vol. 20 (February 25), 1949, pp. 283-288. For a commentary and explanation see Annette Barker Fox, "The Fourth Point And The United Nations," United Nations International Conciliation, No. 452 (June 1949), pp. 459-503. Point-Four, administered by the Technical Cooperation Administration (TCA), was not funded until late 1950. For a summary of TCA through 1952 see U.S., Department of State, Point-Four: What It Is - How It Works, Pub. No. 4863, Economic Cooperation Series, No. 39, February 1953. Total aid to the Federation through 1952 was \$400,000 in road-building equipment and technical assistance.

buying on the theory that a price cut would reduce voluntary synthetic buying, the loss to be made up on volume. However, the devaluation of the pound sterling was offset by an almost equal, upward revaluation of the Malayan dollar. The net effect of all forces involved increased buying and raised the price to \$.17½; however, neither to the extent desired.³⁴

The issue of American foreign policy towards the Far East, rose to new levels of importance in 1950. Despite the successes in Europe, such as the breaking of the Berlin blockade, the advances of the ERP and the signing of the North Atlantic Treaty Alliance (NATO), all were diminished by the defeat of Nationalist China and the October 1949 establishment of the Peoples' Republic of China. The controversy that followed in America is beyond the scope of this paper; suffice it to recall that the Truman Administration and, in particular the Department of State, was subjected to criticism for the loss. At any rate, Asian policy took center stage and, in January and March 1950, Secretary of State Dean Acheson delivered two major addresses in an effort to explain America's commitment to securing the remainder of the area from communism.³⁵ First, the idea of massive military and

³⁴See John L. Collyer's explanation in "World Outlook On Rubber," p. 40.

³⁵U.S., Department of State, "Crisis In Asia - An Examination of U.S. Policy: Remarks by Secretary Acheson Before The National Press Club, Wash., D.C., Jan. 12, 1950,"

economic aid was dismissed. Neither, as Acheson pointed out, had saved China.³⁶ Second, America did not oppose communism on a purely ideological basis; rather, the United States saw communist expansion in Asia as a device of the new imperialism of Soviet Russia.³⁷ In defense of the charges that the State Department lacked a clear policy, Acheson explained that the complexities of the area; i.e., the diversity of people and histories, defied a single policy.³⁸ American policy must, therefore, be tailored to each circumstance. In a statement aimed at any advocate or potential recipient of American aid, Acheson made it clear that Asia must choose for itself, and that America would assist those who chose to resist communist attempts to dominate. "U.S. aid is good only when it is the missing component in a situation which might otherwise be solved . . . [The U.S.] can't make the engine, it can just provide the gas."³⁹ In a reference to Malaya, Acheson indicated American satisfaction with events there. "The British have and are discharging their responsibility harmoniously

Department of State Bulletin, Vol. XXII (January 23, 1950), pp. 111-118; and "United States Policy Toward Asia: Address by Secretary Acheson Before The Commonwealth Club of California, San Francisco, Calif., March 15, 1950," Department of State Bulletin, Vol. XXXIII (March 27, 1950), pp. 467-472.

³⁶Acheson, "Commonwealth Club Address," p. 471.

³⁷Acheson, "National Press Club Address," pp. 112-113.

³⁸Ibid., pp. 111-112.

³⁹Ibid., p. 113.

with the peoples of Malaya and are making progress."⁴⁰

Activity in the first half of 1950 regarding planning for future aid to Southeast Asia was limited to considering and selecting likely projects to receive Point-Four aid. In addition, Truman appointed Gordon Gray, a former Secretary of the Army, to conduct a survey of America's total, foreign economic policy.⁴¹

The continued resistance of the MRLA, which was now costing Great Britain and the Federation at a rate of 100 million pounds sterling per year, in combination with the

⁴⁰Ibid., p. 115.

⁴¹The Gray Report recommended a combination of private investment, public loans, technical assistance, and grants. See "Text of Summary of Recommendation In Gray's Report On Foreign Economic Policies," New York Times, November 13, 1950, p. 12ff. The opponents of foreign aid viewed the recommendations as an attempt to continue ERP-levels of aid beyond the termination date, 1951. See U.S., Congress, Senate, Senate Committee On Appropriations, Special Subcommittee On Foreign Economic Cooperation, Analysis of The Gray Report, Subcommittee Print, 82nd Cong., 1st. sess., 1951. For a typical opponent reaction see "The Gray Report Extends Crackpot Socialist Programs" in Senate, Extended Remarks of Senator George W. Malone, 81st Cong., 2nd. sess., 1950, Congressional Record, Vol. 96, p. A7865. There were two schools of thought concerning aid through capital investment: public; e.g., that contemplated by the British and preferred by potential recipients to avoid private interference in government; and private investment which business preferred, provided tax incentives and protection from expropriation were guaranteed by the American Government. See Richard P. Stebbins, and others, USWA: 1950 (New York: Harper and Brothers for The Council On Foreign Relations, 1951), pp. 87-88. For an interesting look at the issues see U.S., Department of State, Pacific Coast Conference On Private Investment In International Development: Summary of The Discussions, Pub. No. 4795, Economic Cooperations Series, No. 36 (Washington, D.C.: Government Printing Office, 1952).

weakened position of the British economy, forced the Labor Government to consider requesting American military assistance in the Malayan struggle. Following preliminary discussions between the British and Americans at a foreign ministers meeting in May 1950, the British were persuaded to abandon the request. A request for aid at that time, the British were told, had little hope for approval in the Congress and could prove to be a political embarrassment to the Administration. Congressional and public sentiment were running high against Great Britain as a result of that Government's January 1950 extension of de jure recognition to the Peoples' Republic of China.⁴² At the same time as aid for Malaya was denied, a French request for military aid to be used in Vietnam was granted; approval was secured, in part, by the French decision not to recognize Communist China so long as it continued to supply aid to the Viet Minh.⁴² As Acheson later implied, the decision to aid Indochina was made with little consideration of the future. "We could not think of a better course then or later . . . we tried to muddle through." The decision to aid Indochina was, in his view, the only alternative to the unacceptable choice, " . . . [to] do nothing."⁴³

⁴²Raymond Daniell, "Britain Not To Ask U.S. Aid In Malaya," New York Times, May 9, 1950, p. 2.

⁴³Acheson, Present At The Creation, p. 673.

The decision to deny Great Britain specific help in her struggle with the MPLA appears to be one of those incidents in diplomatic history which involves little mystery. The moment could not have been worse. To expect the Department of State to go before Congress with a request on behalf of England following that Nation's recognition of Red China was a political impossibility. The State Department was already on the defensive against the nonsense of Senator Joseph R. McCarthy and could ill-afford running the risk of inviting the additional wrath of those possessed by anti-British sentiment. On the other hand, the discouragement of the Malayan aid request also suggests a decision with little risk. There was nothing to suggest that the British were weakening in their resolve, or that the effort was in danger of collapse without American aid.⁴⁵ At any rate, though there is little to suggest a parallel between American involvement in Indochina and Malaya--should aid have been granted--the possibility of a similar course became a subject

⁴⁵In June 1950, the British promised more aid to Malaya but stressed the need to develop a long-range program for social and economic development. See statement of James P. Griffiths, Secretary of State For The Colonies, in the House of Commons in New York Times, June 22, 1950, p. 10. In October 1950, Britain announced the Colombo Plan for Economic Development in South and Southeast Asia, a cooperative program similar to Point-Four, for Malaya, North Borneo, Pakistan, India, and Ceylon. See U.S., Department of State, "The Colombo Plan: New Promise For Asia," by Wilfred Malenbaum, Pub. 4764, Economic Cooperation Series, No. 35 (Government Printing Office, Washington, D.C., 1952).

for hindsight history after May 1950. Beyond that date, Britain knew full well that her job as part of the American-led United Nations' battle against communism was to "muddle through" alone.

CHAPTER VII

THE AMERICAN RUBBER POLICY AND
THE RUBBER BOOM OF 1950 - 1952

In the interest of completeness it is necessary to recount the continued, but changed, application of the rubber policy, first formulated in 1947, and its effects upon Malaya, Great Britain, and the United States. As a result of the intensifying Cold War, world rearmament, and the Korean War, natural rubber was to rise to a level of importance after 1949 not seen since 1942, and was to bring America and Britain into arguments reminiscent of the old IRRC days. Inasmuch as the rubber policy reflected the principles of the ITO to a considerable degree, it is best to start with the American rejection of that blueprint for multilateralism. Between 1946 and 1950, a Charter had been drafted by the Interim Commission on ITO at meetings held in Switzerland, the United States and Cuba. At the time the Charter was submitted to Congress in April 1950 for the purposes of providing legislative authority for United States' participation in the ITO, only Australia and Liberia had formally ratified the Charter. The Administration's proposal had little chance from the outset in a recalcitrant Congress now divided into factions with varied axes to grind, all anti-Administration; e.g.,

the China Lobby, those opposed to free trade, and those who were distrustful of the Department of State. Whatever chance ITO might have had evaporated in the outbreak of the Korean War and America's shift to near full-scale mobilization. It is difficult to assign the failure to a single cause; perhaps it is simplest to say that in 1950, it was an idea whose time had passed. The American Congress of 1950 was taking a critical look at the effects of the work done by the Congresses of 1945 and 1947 and was in no mood to be rushed into a scheme which placed America on equal trade terms with all the nations of the world.¹ For one thing, the concerns of the early post-war period, respecting world trade, were changing. In 1947, the United States had had a trade surplus of \$11.5 billion, an improvement over the nearly \$13 billion figure for 1946, but still a clear indication that the restoration of world trade was lagging. However by 1949, primarily as a result of Marshall Plan aid, the trade surplus had declined to \$2.9 billion with signs of further reduction.² America

¹For descriptions of the factions, moods, and inconsistencies in the Congress see Richard Stebbins, USWA: 1950, pp. 45-57, 85-90. ITO participation was characterized by the opponents of multilateralism, and the egalitarian aspects of it, as American submission to ". . . domestic and foreign trade governed by 50 countries . . . [making] . . . the U.S. the same as Cuba or Siam." See, for example, Senator Malone's remarks and "The Gray Report Extends Crackpot Socialist Programs" in Congressional Record, Vol. 97, p. A7865.

²Joseph Loftus, "Foreign Aid Program Enters A New Phase," New York Times, November 19, 1950, p. iv.

had reached a point at which the focus of concern was beginning to swing back to the maintenance of America's trade strength, whereas it had previously been occupied with the weakness of others.

The Department of State made its last plea for the ITO in April 1950 in a statement delivered by Dean Acheson to the House Committee on Foreign Affairs. Having outlined the purposes to " . . . create conditions in the world in which the private trader can buy and sell where he pleases . . . to his best advantages," Acheson concluded:

The choice, therefore, which the Congress is about to make is not only whether the United States will accept membership in the International Trade Organization, but whether there will be an International Trade Organization.³

The question of ITO participation was overshadowed by the outbreak of war in Korea:

Upon completion of the hearings, no further action was taken on the measure . . . On December 6, 1950 the press reported that the United States decided 'to shelve indefinitely further plans for American participation [in ITO]' . . . Further, President Truman acting upon the recommendations of the Department of State had agreed that the proposed charter should not be resubmitted to the Congress.³

³Statement by the Secretary of State (Acheson) before the Committee on Foreign Affairs of the House of Representatives, April 19, 1950: Excerpts," Raymond Dennet and Robert K. Turner, ed., Documents On American Foreign Relations, Vol. XII, January 1 - December 31, 1950 (Binghamton, New York: Vail-Ballou Press, Inc., 1951), pp. 290-291. The shelving of ITO was a refusal to subject American trade to the authority of a world-governing body. However, efforts

The shift in commitment away from multilateralism, to the extent envisioned in the rejected ITO, was reflected in the post-1950 application of the national rubber policy. As noted by Shafer, there was a period of confusion, if not governmental neglect, between passage of the 1948 Act and its renewal in 1950. As mentioned earlier, the American demand for rubber had begun to level in 1948 while supplies of natural continued to rise. Following the Congressional criticism of the maintenance of mandatory synthetic above the level required for defense purposes and the lag in the purchase of natural for stockpiling, the requirement for synthetic consumption was eased downward toward that needed to maintain the defense minimum. The adjustment in the rising supply market of natural was only slight, and the price of natural remained below \$.20. At the beginning of 1950, the price was stable at about \$.19. However, despite the continued low price, the American Government failed to take advantage to bring the stockpile up to the desired level. Though the Executive was later to be criticized by Congress, there were at least two contributing causes: (1) the annual Congressional appropriations for stockpiling operations had been lower than

to reduce trade barriers continued with the extension of the Reciprocal Trade Agreements and the General Agreement On Tariffs And Trade. Though both had been viewed as interim measures pending the ITO, they remained usable tools and represented an improvement over the prewar methods of trade negotiation.

requested; and (2) the Government had an obligation to exercise caution when entering the market lest it raise the price. In addition to the lower than desired stockpile, the voluntary use of synthetic above the required level had declined to its lowest post-war level in January 1950.⁴ In fact, the RFC had made plans to take a 30,000 ton-capacity plant out of service in June. At the same time, NATO was beginning to receive assistance for rearmament through the Mutual Defense Assistance Act passed in October 1949. As a result of NATO rearmament programs, the demand for natural began to increase in 1950 at an accelerating rate. The American industry, presumably looking for bargains, had begun to negotiate with producers in Indonesia, which had at last been set free by the Dutch in December 1949 as the United States of Indonesia. However, the new Government devalued its currency by fifty per cent and the Indonesian rubber producers held their stocks off the market in the hopes of an upward stabilization. The Americans turned back to Malaya only to find themselves in competition with other nations, including Russia and China, for Malaya's rubber.⁵ When the

⁴Between 1947-1949, the demand for tires was insatiable. Inventories caught up in 1949 and the rubber supply went into surplus as the tire market fell off thirty per cent. See Paul W. Litchfield's explanation in "Rubber Needs For Peace and War," U.S. News And World Report, Vol. 28 (March 24, 1950), pp. 32-35.

⁵"Rubber Demands Outstrip Supply," New York Times, June 4, 1950, p. 8.

Korean War broke out in June, there was a general world rush to build up supplies. The result was a boom in Malayan rubber which saw the producers using destructive strip-tapping methods in an effort to meet demands, and a price rise that carried rubber from \$.19 in January 1950 to \$.85 in March 1951. Despite all its plans, America was caught short; the stockpile was low and synthetic production was down. It was in the presence of these conditions that the Rubber Act of 1948 was extended. There was nothing to do but to purchase heavily in a demand market and pay the skyrocketing price. It would be a year before the RFC's stand-by synthetic plants could be brought back into production.⁶

By the end of 1950, the shortages and high price of natural drove the United States Government to action that would have been unthinkable two years earlier and which had never been contemplated in the Rubber Act of 1948. Intent notwithstanding, the authority to control imports did exist in the authority delegated to the Executive; the authority really intended was the control of imports to prevent unfair

⁶For summary of rubber-related events and what the Government did and did not do, see U.S., Congress, Senate, "Synthetic Rubber Output Article by Charles Lucey," 82nd Cong., 1st. sess., June 19, 1951, Congressional Record, Vol. 97, pp. 2792-2793; and Congress, House, "John L. Collyer - Letter to Eric Johnson, Administrator, Economic Stabilization Agency dated March 3, 1951," Inflation and Government Policy, Extension of Remarks of Hon. William H. Ayres, March 22, 1951, Congressional Record, Vol. 97, pp. A1647-A1649.

competition against the American manufacturer who was forced by law to use synthetic. In December 1950, importation of natural rubber by private concerns was banned and the General Services Administration (GSA) became the sole authorized purchaser for the United States. Further, the authority to bring the stand-by synthetic plants back into operation was granted and capacity began to expand toward a level that was to approach 950,000 tons before the crisis passed in 1952. The effect of the reinitiation of Government purchase began to take effect in early 1951, following a brief American withdrawal from the market, and the price of natural started a gradual decline that was to take it back to near the 1949 level by the end of 1952. The GSA remained the sole purchaser until June 1952.⁷

⁷The demand market was extremely sensitive in 1950. Private purchase stopped in December 1950 and the price dropped to \$.66 as the GSA sold out of the stockpile. As soon as GSA entered the market, the price jumped \$.10. See "Government Price In Rubber Puzzle," New York Times, December 30, 1950, p. 3. The tactic evolved by the Government was to reduce natural purchase and increase synthetic production, in combination with strict controls on consumption. During 1951, the United States took only twenty-four per cent of Malaya's output compared to the historical, above-fifty per cent. The price remained high but in slow decline during 1951, a net effect of reduced American consumption offset to a degree by a rise in world consumption to nearly two million tons. In 1951, synthetic output was increased from 270,000 tons to over 900,000 tons. By June 1952, the price of natural was down to \$.28 and within \$.02 of synthetic which had been raised to \$.26 in 1951. Again, the natural supply, which had been expanded in the boom, was in surplus primarily as a result of Indonesian recovery (Indonesia was to surpass Malayan production in 1953). See Joseph Fromm, "Britain Has Her Korea Too," U.S. News And World Report, March 2, 1951,

The results of the rubber boom in Malaya proved to be far less beneficial to the Federation than the long-time British advocates of a "fair price" had assumed. Fortunes were made by speculators but the proceeds were invested overseas or sunk into land acquisition rather than in projects to expand the capital base.⁸ Wages rose rapidly. There could be no argument against wage increases as rubber prices continued to climb. However, as wages rose, so did prices, and the rate of inflation, already spurred by world inflation, soared. As a result, the rise in export values were eaten away in higher-living costs and taxes. When the boom collapsed in 1952, Malayan labor was unwilling to accept wage cuts, though they had agreed to a wage tied to the price of rubber at the beginning of the boom.⁹ A period of labor disputes followed--and the inevitable pleas for America to pay more for rubber.¹⁰

pp. 18-19; U.S., Congress, 82nd Cong., 1st. sess., March 22, 1951, Congressional Record, Vol. 97, pp. 2891-92; and "People Of The Week: Gen. Sir Gerald Templer," U.S. News And World Report, January 25, 1952, p. 65.

⁸New York Times, December 30, 1950, p. 3; and "The Atlantic Report On The World Today: Malaya," Atlantic, Vol. 187 (January 1951), p. 14.

⁹New York Times, July 1, 1952, p. 8.

¹⁰The High Commissioner to Malaya, General Sir Gerald Templer (successor to Sir Henry Gurney who was murdered by the MRLA in October 1951) criticized the United States' synthetic production in an address given in May 1952. However, the strongest verbiage which linked the fight against

The rubber boom had little tangible benefit in the short run and even less in the long term. Between 1945 and 1950, Malaya had been unable to reverse its trade balance. In 1949, as a result of the disruptions and expenditures caused by the Emergency, the deficit was \$53,246,721.¹¹ In 1950, the first year of the boom, the balance was reversed yielding a surplus of \$348,553,680; in 1951, the figure rose further to \$414,867,090. However, as export values rose, so did the value of imports: in 1950, that value increased to 157 per cent of the 1949 value; in 1951, the value was 256 per cent of the 1949 level. When the rubber boom collapsed, the value of exports dropped by nearly half while the value of imports remained well above the 1949 level. Compared to the boom year of 1951, 1952 exports dropped thirty-seven per cent while imports fell only nineteen per cent; the figures for 1953 showed exports down by fifty per cent while imports were down by only thirty-two per cent. The trade deficit for 1952 was \$16,986,684; for 1953, it increased to \$71,213,406. There can be no argument that the loss of the surplus balance

communism and economic problems to "protection by arbitrary government devices" was deleted from the draft by the Commissioner General. See New York Times, June 2, 1952, p. 4.

¹¹These and following trade figures are calculated from those in U.S., Department of Commerce, Bureau of Foreign Commerce, Business Information Service: World Trade Series, No. 597, Malaya - Summary of Basic Economic Information, 1953, Tables 1 and 2, p. 13a.

achieved in 1951-52 was a direct result of the United States Government's decision to use the nation's fifty per cent purchase position and the RFC synthetic industry to effect that reversal, a most unmultilateralistic use of a national production and buying cartel. However, in fairness, the pressures of war and domestic inflation mitigated the decision.

The rubber boom brought some American criticism of Great Britain in the form of charges that the British were exploiting the situation for profit.¹² However, such charges lacked conviction inasmuch as the price rise was a result of international competition in a demand market; i.e., true multilateralism. After all, the United States had been encouraged to raise the price in the supply market of 1948-49 in the interest of aiding Malaya and Britain and had refused. There hardly seemed much justice in now asking Malaya to lower its price because it was costing the American industry

¹²Annoyance with rising prices was not limited to the critics of the Administration's foreign policy. Among them was Senator Paul H. Douglas, a usual supporter of foreign aid, who attacked the "British . . . monopolies in tin and rubber." See New York Times, November 25, 1950, p. 22. More typical of the criticism was that of Senator Malone who charged that in Malaya, the British only "fight for profit." U.S., Congress, Senate, Debate On American Foreign Policy, 82nd Cong., 1st. sess., January 3, 1951, Congressional Record, Vol. 97, pp. 167-169. In 1950, Great Britain did improve her gold and dollar reserve position by \$1.4 billion; the improvement was attributed to the 1949 devaluation and the increase in American stockpiling. The dollar gap was reduced from \$3.3 billion to \$1.1. See Stebbins, USWA: 1950, pp. 299-300.

and consumer more.¹³ At any rate, the charge of exploitation was minimal in comparison to later charges that the British were increasing shipments to Russia and China and aiding both the instigators of the Emergency and the enemy in the field in Korea.

The charge of British aid to Russia and China actually originated in the British press in early 1952.¹⁴ The story noted with alarm that the tonnage of rubber shipped from the United Kingdom to Russia in June 1950 was eighteen tons while the figure for January 1952 was 12,260 tons; further, that rubber was still being shipped to China despite the United Nations' condemnation of China as an aggressor. The British Board of Trade's response was plausible.¹⁵ The

¹³U.S., Congress, House, Extension of remarks of the Hon. Joseph R. Bryson, April 3, 1951, 82nd Cong., 1st. sess., Congressional Record, Vol. 97, p. A1740. There were consumer complaints regarding conservation measures such as reducing the number of tires sold with a new automobile from five to four--a hardly compelling argument for Malaya to lower the price of rubber. There were also complaints about the restriction on the manufacture of white side-wall tires.

¹⁴"Sensational Rise In Vital War Export To Soviet - Stop This Rubber For Russia - June 1950, 18 Tons; January 1952, 12,260," Sunday Dispatch (London), March 16, 1952 in U.S., Congress, Senate, 82nd Cong., 2nd. sess., March 1952, Congressional Record, Vol. 98, p. 2795. That the article was seized upon in March 1952 as a vehicle for baiting the administration seems clear since Malone had raised the issue as early as January 1951. See Senate, Debate on American Foreign Policy, 82nd Cong., 1st. sess., January 11, 1951, Congressional Record, Vol. 97, pp. 167-169.

¹⁵See Reuter's news release containing comments of Peter Thorneycraft, President of The British Board of Trade, in U.S., Congress, Senate, May 2, 1952, 82nd Cong., 2nd. sess., Congressional Record, Vol. 97, pp. 9595-96.

explanation regarding shipments to Russia noted that the amounts of rubber had not increased; rather, the amounts shipped from the United Kingdom had increased by an almost equal amount. The rubber was exchanged for needed Russian timber and feed grains. With respect to the shipment of rubber to China, the Board of Trade had noted China's entry into the Malayan market in 1950. By 1951, it was clear that China was purchasing for military stockpiling purposes. Admittedly at the urging of the United States, Britain had ordered a halt to all Malayan shipments of rubber to China in April 1951. The device used was destination controls on shipping licenses. The embargo was imposed only for the remaining eight months of 1951; shipments were to be resumed in 1952 but only at that level determined necessary for nonmilitary purposes. Ceylon was requested to do the same. Beyond 1951, it would have been extremely difficult for Britain to have continued a complete embargo of rubber to China. In addition to the British interests in South and Southeast Asia, China posed a potential threat to the continued existence of Hong Kong as a Crown Colony. The Board of Trade's explanation for the shipments to China and Russia would suggest only that Britain was attempting to live in an imperfect and dangerous world.¹⁶

¹⁶While Britain could halt exports from Malaya to China by revoking general export licenses, it could only request that Ceylon do the same. Britain was obligated to

The charge of British perfidy received far more attention than did the explanation. In June 1952, the example of British shipments of rubber was cited as the prime example in support of a move in Congress, led by Senator James C. Kem, to amend the pending Mutual Security Act (MSA) of 1952.¹⁷ In effect, the Kem Amendment required that any country who traded with either Russia or China in strategic or strategic-related goods would be ineligible for aid under the Mutual Defense Assistance (MDA) Program. The Amendment allowed little room for interpretation to accommodate the realities of the trade requirements of the MDA recipients; e.g., it required cessation of trade and certification of cessation by the MDA recipient.¹⁸ Because of its specificity, the Kem Amendment could have threatened passage of the MSA and tied the hands of the Executive in its administration of the MDA program. Despite a reasoned attempt by Senator H. Alexander Smith to strike the Amendment following its approval by the

halt shipments for military purposes as a member of the United Nations (U.N.). Ceylon, an independent country within the Commonwealth, was not a member of the U.N. by Russian veto. See New York Times, August 15, 1952, p. 23ff. Ceylon continued to ship to China, and America stopped buying rubber in Ceylon until after the Korean settlement. See ibid., June 2, 1952, p. 32.

¹⁷Senator Herbert R. O'Connor speaking for the Kem Amendment, Congressional Record, Vol. 98, p. 2795.

¹⁸U.S., Congress, Senate, Debate On The Mutual Security Act Conference Report, June 9, 1952, 82nd Cong., 2nd. sess., Congressional Record, Vol. 98, pp. 6838-6849.

Senate and House Conference Committee, the Kem Amendment was retained.¹⁹ However, the Congressional commitment to it appears to have been more to passage of the MSA and a desire to avoid being on the wrong side of an emotional issue, than to Kem's demand that the British and all others cease trade with all communist countries. Implementation was simply ignored; on advice of the National Security Council, it was suspended pending clarification. Implementation was a practical impossibility; e.g., oil exploration equipment sold to the Netherlands was traded to Poland with State Department approval. In short, there were valid reasons for discretionary interpretation of trade with communist nations as in the example of Malayan rubber for Russian timber and grain.²⁰

In June 1952, the Rubber Act of 1948 came up for final renewal. In January 1952, the Administration had recommended an end to allocation and specification controls in

¹⁹Smith attempted to get Kem to withdraw the amendment; i.e., to withdraw that portion of the Conference Report. He proposed, instead, amendment of the Mutual Defense Assistance Control Act of 1951 (the Battle Act). The point was that the provisions of Title III of the Battle Act which provided for a cutoff of MDA when a recipient shipped " . . . to any nation . . . threatening . . . the United States including [USSR] and all . . . under its domination," was sufficient to Kem's purpose. See *ibid.*, p. 6844. At any rate, having failed to dissuade Kem, Smith voted for adoption of the Conference Report.

²⁰"Presidential Letter to The Chairman, Senate Committee On Foreign Affairs, April 22, 1952" in *ibid.*, p. 6844.

view of the world supply situation. However, extension of the Act, until 1954, was recommended to allow time for the formulation of plans to sell the RFC's synthetic capacity to private industry. The biggest change in the American situation was that the Nation was now independent of foreign supply, capacity having now approached a million tons; and, at long last, synthetic was a quality competitor to natural.²¹ The House passed a Bill in substantial compliance with the Administration's suggestion; however, the Senate disagreed and passed a Bill that limited extension to one year, and allowed sale and lease of some plants to private industry.²² Senator Lyndon Johnson, who was still suspicious of the threat of a synthetic monopoly, favored the two year extension and led the Senate conferees. A compromise was worked out wherein the Act was extended until March (rather than June) 1954, and required submission of an administration plan for disposal of the plants by March 1953.²³ The issue was no longer the

²¹U.S., Congress, House, Presidential Message: Recommendations Concerning The Synthetic Rubber Industry In The U.S., January 14, 1952, H. Doc. 326, 82nd Cong., 2nd. sess., House Miscellaneous Documents, Vol. 118.

²²See U.S., Congress, House, Extension of The Rubber Act of 1948, report to accompany H.R. 6787, H. Rept. 1513, March 13, 1952, 82nd Cong., 1st. sess., 1952, House Miscellaneous Documents, Vol. I; and Senate, Extension Of The Rubber Act of 1948, S. Rept. 1581, May 15, 1952, Senate Miscellaneous Reports, Vol. 2.

²³Johnson, who had spiked Big Rubber's attempt to get the plants in 1948, was now a member of the Senate Committee On Armed Services. As a member of the Conference Committee

survival of a private synthetic industry; all that remained was to insure that American Big Rubber was not permitted to monopolize the industry to the disadvantage of the rest of the industry. The question of natural rubber supply and demand was hardly mentioned as the prediction was that the natural demand would remain at a level sufficient to absorb the capacity of the Far East.

Though the problem of the inelastic production capacity of natural rubber and the accompanying price fluctuations were to remain after 1953, the impacts were dampened by a generally increasing world demand and advances in the efficiency of natural rubber production through restrictions on new plantings and the substitution of high-yield trees for older hevea.²⁴ In short, the price of Malayan rubber after

for resolution of the differences between the Senate and House versions of the extension act, he was apparently able to again delay sale of the plants. One can but wonder if the reason was in any way connected to the stability of RFC ownership, and the fact that a large portion of the RFC capacity was located in Texas. See U.S., Congress, House, Extension Of The Rubber Act: Conference Report, H. Rept. 2168, 82nd Cong., 2nd. sess., House Miscellaneous Reports, Vol. 3.

²⁴As a result of the destruction of hevea during the strip-tapping period of 1950-1952, and Federation programs for high-yield replanting of existing trees, production declined and supply went into a shortage in 1954 followed by a short-lived rubber boom in 1955-1958. Prices rose to about \$.40. See Willard A. Hanna, Sequel To Colonialism: The 1957-1960 Foundations For Malaysia (New York: American Universities Field Staff, Inc., 1965), p. 127. The trade surplus, lost in 1952, was regained in 1955-1956. See United Nations, Statistical Office, Yearbook Of International Trade: 1958 (New York: Office of Social and Economic Development, 1959), pp. 364-65.

1953 was no longer immutably and exclusively a function of the American bid or the competition of a United States', government-owned synthetic industry.

The actions of the United States to control the world price of rubber, though explainable in part as a result of the Korean War mobilization, was nonetheless a departure in principle from the earlier rubber policy. During the period March 1947 - December 1950, the Government had refrained from direct interference in the world's natural market; admittedly, that this was true was in part a result of the bureaucratic and Congressional neglect of the stockpile program. In addition, policy declared that the mandatory consumption of synthetic rubber should be kept at the minimum level for the specific purposes of avoiding interference in the free operation of the natural rubber market. The minor lag in the reduction of the mandatory level of synthetic consumption noted in 1948 notwithstanding the effect of synthetic was minimized; like the lag in stockpile building, the lag in synthetic reduction was inadvertent. The policy then, was in keeping with the principles of multilateralism--however, it was adherence to the best facet of multilateralism. It is painless to allow free market operation when one is the purchaser and the price is both low and relatively stable. It is quite a different story when the free market is in a demand condition and the price rises 400 per cent as did the

price of rubber between June and December 1950, It took little rationalization to view Malayan rubber as "British" rubber and to bring the full weight of the GSA's purchase monopoly and the RFC's production monopoly to bear. To protect the American consumer and taxpayer from exploitation by the British was one thing; to reject multilateralism in the rubber trade and to break the Malayan rubber boom was another. The United States chose the former and ignored the latter.

CHAPTER VIII

ANTICOLONIALISM, ANTICOMMUNISM AND

THE PRICE OF RUBBER

The relationship of the United States to Malaya during the early post-war period is best characterized by its indirectness and a sense of detachment. It was indirect inasmuch as the decisions of the United States, which had affect in Malaya, were not prompted by an American interest in, or specific concern for Malaya per se. For example, the rubber policy of 1947 was influenced primarily by the concern for a National defense capability independent of foreign suppliers, and the principles of the ITO Proposals. An even more indirect relationship is suggested in the British handling of the resistance to the Malayan Union proposal; i.e., the degree of accommodation demonstrated by the British may have been influenced by a desire to avoid a "bad press" while the British Loan was before the American Congress. Later, during the American Government purchase monopoly of 1951 - 1952, the American decision was driven by the requirements of the Korean War, and a retreat from the principles of multilateralism to the extent envisioned in the ITO Charter. To some degree, the decision was also influenced by American annoyance at British recognition of Red China. The American

relationship to Malaya was detached in the sense that events in Malaya did not call forth specific American decisions or actions in the context of the more visible foreign policy concerns such as colonialism, communism or economic assistance.

Malaya did fall within the scope of America's view of colonialism; however, as the events related in Chapter I indicate, Roosevelt's anticolonial sentiment was modified to a policy best described as a gradualist approach to the end of traditional colonialism. Once the return of the British, Dutch, and French to Southeast Asia was accepted, consonance with American policy required only that the colonialists recognize the justice of self-determination, and demonstrate a sincere effort to move their charges toward self-government. This is not to suggest that the policy was without commitment; the second Dutch police action against the supporters of an Indonesian Republic raised serious doubts about Dutch sincerity. The United States demonstrated its commitment to policy by joining in condemnation of the Dutch action before the United Nations' Security Council, and in the suspension of ECA aid to Indonesia. However, in Malaya, the British avoided any such action that would run counter to American policy. The Union proposal, though a false step, was a step in the proper direction. More importantly, the developing Malayan nationalist and politico was content with both the pace and direction of the British plan for the future. There

was no creditable charge of British repression. The progress and manner of British rule was acceptable to the majority of parties.

The communist uprising of 1948 in Malaya might have been the circumstance which could have served to bring the United States into closer contact with Malaya, if not directly, as a supplier of aid. However, the 1949 request for aid in the form of capital investment was discouraged. The British argument concerning the connection between the fight against communism, progress toward Malayan self-government, and American investment in British colonial business interests was specious at best. In 1950, the British request for military assistance to be used in Malaya was also discouraged; however, American unwillingness was primarily a result of Anglo-American relations, rather than an evaluation of the Malayan situation. The granting of aid in the face of the British recognition of Red China could have presented a potentially troublesome political issue to the Truman Administration. On the other hand, the refusal of aid did not present an immediate threat to Great Britain or Malaya; while the rebellion was costly, the British economy was improving, and the British showed no signs of losing control of the situation. Military assistance was not, as Acheson had earlier described the conditions for American aid, "the missing component in a situation which would otherwise be solved."

The American-Malayan contact remained, then, one of commerce and trade. The issues were those common to the buyer-seller relationship, which paid little attention to the issues of politics and ideology. Between 1947 and 1950, the trade relationship was primarily influenced by an American commitment to multilateralism. However, that commitment worked more to the advantage of America in the rubber trade as a result of the American domination of a buyer's market. After 1949, the commitment to free trade was modified. The pragmatism of America drew the line on multilateralism at that point where the market advantage went to the other fellow; i.e., the point at which the free market price was to the decided disadvantage of the United States.

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