Price cycles, speculation and commodity crises

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The tin slump of the 1870s

An economy built on two commodities lived with their price cycles. The tin industry experienced its first serious slump in the mid-1870s, just as the Residential system was being established. In Kuala Lumpur, Yap Ah Loy fell into severe financial difficulties when tin prices slumped. Only a rise in prices in 1879 restored his position.[1] The pattern of the Kapitan's fortunes would recur throughout the industry. A miner who borrowed against ore at high prices could not repay when prices fell, whereupon the merchant who had advanced the money found his own credit with the banks impaired.

The rubber share mania of 1910

The rubber boom produced the colony's first speculative mania in securities. Rubber prices peaked in 1910.[2] Contemporary reports from the London market speak of sales at up to eleven shillings a pound in March 1910 and of a flood of new rubber

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company flotations.[3] Shares of plantation companies changed hands in London, Singapore and Shanghai at prices that assumed the boom would last, although many of the estates had not yet produced a pound of rubber.

The mania collapsed within months, as such episodes usually do. The plantations survived it because the trees continued to grow and the motor industry continued to expand. Even so, the episode taught the colony's investors that a commodity whose supply responds to price only after a delay of several years is exposed to extreme swings. High prices drew new planting, which came into tapping years later and depressed the price. The cycle of overinvestment and glut became the central problem of the rubber economy for the next half century.

The slump of 1920–1922 and the Stevenson scheme

After the First World War demand fell and plunged Malaya into a post-war depression that Drabble dates to 1919–1922. The public finances of the Federated Malay States show its force. In 1920 revenue of $72.3 million faced expenditure of $100.4 million, while by 1922 revenue had fallen to $52.5 million.[4] Wong Lin Ken cites a contemporary trade commission report on "the Continued Depression in the Rubber Industry".[5]

The British planters' answer was restriction. The Rubber Growers' Association lobbied Winston Churchill, then Colonial Secretary, who set up a committee under Sir James Stevenson. On its recommendation the Federated Malay States passed the Export of Rubber (Restriction) Enactment in October 1922. The scheme limited each producer's exports to a percentage of an assessed "standard production", which was initially fixed at 60 per cent. A contemporary survey reports that it pivoted on a London price of one shilling and three pence a pound, which permitted estates to be maintained in good order. When the price fell below one shilling in May to July 1924, the exportable percentage was reduced to 55.[6]

The sources give different start dates. Drabble dates the scheme from 1 October 1922, while other accounts give 1 November 1922 as the date on which the Malayan enactment entered into force.[7] All agree that it ended on 1 November 1928. The

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scheme raised prices for a time, although it had two consequences its authors had not intended. The Netherlands Indies stayed outside it and expanded production. The United States, which consumed about three quarters of the world's rubber, reacted with hostility, while the expanding Dutch plantations captured much of the American market.

The Great Depression and international restriction

The world depression of 1929–1932 struck Malaya harder than most economies. By 1932 rubber sold on the London market for about one hundredth of its 1910 peak, and Malaya's export earnings fell by 73 per cent between 1929 and 1932.[8] Estates cut wages and repatriated Indian labourers, while Chinese miners were sent back to China. Merchants in Singapore who had financed produce at higher prices faced losses on their stocks and on their advances.

The governments of the producing countries turned to international agreements. Tin exports were restricted from 1931 to 1941. The International Rubber Regulation Agreement, which this time included the Netherlands Indies, came into force on 1 June 1934. Its parties were the United Kingdom, India, the Netherlands, France and Thailand, which together accounted for between 90 and 100 per cent of world production. Both agreements fixed export quotas for each producing territory and stabilised prices at the cost of limiting the growth of the most efficient producers. Malaya, where the schemes were most strictly enforced, paid for this in the long run.[9]

The tin crisis of 1985

The logic of commodity agreements outlived the colony. After the war, producing and consuming countries signed the International Tin Agreement in 1954, which the International Tin Council, formed in 1956, was to administer. The Council maintained a buffer stock that bought tin when prices fell and sold it when they rose. In the early 1980s it borrowed heavily from banks and brokers to defend a price that the market no longer supported. On 24 October 1985 it suspended its

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operations in the tin market, with gross commitments that the British Minister for Trade put at more than £800 million. Tin trading on the London Metal Exchange was halted.[10]

The price collapsed and pushed Malaysia's tin industry into a decline from which it never recovered. The episode closed a chapter that had begun in Larut in 1848. It also showed that the problem the colonial planters had faced in 1922 remained unsolved: an agreement can support a price for a time, yet when the support fails, the fall is all the steeper. Part H returns to the lessons of commodity failures for the financial centre in its discussion of the trading collapses of 2020.

Notes

1. Wikipedia, "Yap Ah Loy" (accessed November 2026): tin prices slumped in the mid-1870s, causing him "severe financial difficulties"; a rise in tin prices in 1879 improved his finances. ↩
2. John H. Drabble, "The Economic History of Malaysia", EH.Net Encyclopedia, 31 July 2004: rubber prices peaked in 1910. ↩
3. Contemporary reports reproduced in *Papers Past* (National Library of New Zealand), March–May 1910, on London rubber prices of up to 11s per lb and the flotation of numerous rubber companies; later surveys put the peak at about 12s 8d to 12s 10d per lb. ↩
4. John H. Drabble, "The Economic History of Malaysia", EH.Net Encyclopedia, 31 July 2004: post-World War I depression of 1919–1922; strong growth in the mid- to late 1920s. Wikipedia, "Federated Malay States" (accessed November 2026), revenue table in Straits dollars: 1920 revenue $72,277,146, expenditure $100,433,471; 1922 revenue $52,494,110, expenditure $49,811,007. ↩
5. Wong Lin Ken, "Singapore: Its Growth as an Entrepot Port, 1819–1941", *Journal of Southeast Asian Studies*, vol. 9, no. 1, 1978, pp. 50–84, footnote 28 (as displayed on Cambridge Core), quoting the report of the 1921 Trade Commission on "the Continued Depression in the Rubber Industry". ↩

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6. Wikipedia, “Stevenson Plan” (accessed November 2026): Rubber Investigation Committee set up by Churchill and chaired by Sir James Stevenson; Federated Malay States passed the “Export of Rubber (Restriction) Enactment” in October 1922, effective 1 November; by 1 November 1928 the Act “was no longer in effect”; the United States consumed “about 75% of the rubber produced” in 1922. *A Survey of the Trade in Rubber Manufactured Goods*, digitised by EconBiz (ZBW), page 83: the scheme “pivoted on a London price of 1s. 3d. a lb. for raw rubber, which permitted estates to be maintained in good order”; “This assessment, known as ‘standard production’”; “The initial percentage was fixed at 60”; “In the May–July quarter, 1924, however, the price was below 1s, the Percentage was reduced to 55”. ↩

7. John H. Drabble, “The Economic History of Malaysia”, EH.Net Encyclopedia, 31 July 2004: the Stevenson scheme “lasted from 1 October 1922- 1 November 1928”. Wikipedia, “Stevenson Plan” (accessed November 2026): the enactment passed in October 1922 took effect on 1 November; the scheme was no longer in effect on 1 November 1928; the Dutch refused to join, and their expanding plantations later captured most of the US market; the United States consumed about 75 per cent of the rubber produced in 1922. ↩

8. John H. Drabble, “The Economic History of Malaysia”, EH.Net Encyclopedia, 31 July 2004: rubber on the London market in 1932 sold for about one one-hundredth of its 1910 peak; export earnings fell between 1929 and 1932 by 73 per cent in Malaya, 60 per cent in Sarawak and 50 per cent in North Borneo; tin exports were restricted from 1931 to 1941. ↩

9. Wikipedia, “International Rubber Regulation Agreement” (accessed November 2026): enacted on 1 June 1934; parties the United Kingdom, India, the Netherlands, France and Thailand; “covered between 90–100% of world producers of rubber”; in effect until the early part of 1942. Wikipedia, “Rubber industry in Malaysia” (accessed November 2026): the restrictions of the Stevenson Plan and the International Rubber Regulation Agreement were most strictly enforced in Malaya and harmed its economy over the long run. ↩

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10. Wikipedia, “International Tin Council” (accessed November 2026): the International Tin Agreement was signed in 1954 and the ITC formed in 1956; in October 1985 the ITC could no longer maintain the price. House of Commons, written answer of Leon Brittan, 29 October 1985 (Hansard, “Tin”): tin trading on the London Metal Exchange was halted after the ITC buffer stock manager became unable to support the market. HC Deb 7 March 1986, vol. 93, cc. 589–593: Alan Clark, Minister for Trade, on the “suspension by the ITC of its operations in the tin market on 24 October last” and “gross commitments exceeding £800 million”. ↩

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