

Why I said 'buy British last'
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by Tun Dr Mahathir Mohamad

I WAS surprised to be asked by a friendly Malaysian interviewer about Malaysia's tin cartel operations. I thought I had already explained in my memoirs about the tin trading which we carried out soon after I became prime minister.

I can understand the opposition describing what we did as a cartel. But apparently many Malaysians swallowed the accusations by the Western media that we had cornered the tin market.

I don't know whether people understand what a cartel is. The dictionary defines cartel as an association of competing firms formed to fix price.

The Malaysian government was never a member of any association with anyone to fix tin price. All we did was to appoint a Swiss firm Mark Rich to do the trading for us.

What was happening was that some shadowy tin traders were selling tin repeatedly in the London Metal Exchange in order to depress tin prices. They had no tin but as with short-selling shares, the tin they sold was not in their possession. In short-selling, the idea is to sell and sell so as to depress the price. When the price has gone down, the seller then buys the tin to deliver to buyers who had earlier bought at a higher price.

Tin in the early 80s was one of our main exports. We had not yet built up our exports of manufactured goods. Therefore the depressed tin price was hurting our economy.

As a big exporter of tin we knew the amount of tin being traded in the market was far bigger than physical tin. Due to the low prices we had a big stock of tin.

It is common practice to buy any commodity including currency in order to support price.

And so we bought the tin in the market to support the price. We also knew that the sellers would need physical tin to deliver when they have to fulfill their contracts.

And when that time comes they would have to buy the tin from us.

Sure enough the time came for the sellers to deliver the tin which they had sold at low prices. The tin they sold far exceeded the amount they could be holding. Then they would come to us. We could then name the price.

The sellers and buyers had entered into legal contracts. The sellers must deliver if they don't want to breach the contracts.

But when the time came for the sellers to deliver and they did not have the tin to fulfill their contracts, we were sure they would offer to buy the physical tin we had in our stock. We stood to make a good profit as the tin price in the market would go up. This would help us regain our earnings which we lost through the low prices caused by the short-selling operations of the market players.

But the London Metal Exchange ruled that the sellers need not deliver. Naturally we lost a lot of money as the tin which we had contracted to buy was not delivered to us. And the tin price remained low as we were carrying a lot of stock which we could not sell.

The London Metal Exchange justified their ruling by saying we had formed a cartel to fix the price of tin.

There was no hearing of our side of the story. And certainly there was no proof of any association or cartel formed by us. The high and mighty London Metal Exchange simply ruled that the tin need not be delivered. They saved the unprincipled market short-sellers who had expected to make tonnes of money from selling tin they did not have.

I was annoyed. The episode influenced my decision to buy British last and not to give contracts to British firms.

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