

THE INTERNATIONAL SEMINAR ON COMMODITIES
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Yang Berhormat Datuk Paul Leong, Menteri Perusahaan Utama; Dif-Dif Kehormat; Tuan-tuan dan Puan-puan.

Saya amat berbangga kerana dijemput oleh pihak penganjur Seminar untuk berucap di Majlis pada pagi ini dan seterusnya untuk merasmikan Seminar Antarabangsa ini.

2. Seminar ini adalah lanjutan kepada Seminar Kebangsaan yang diadakan pada bulan April yang lalu. Pada kali ini bidangnya diperluaskan untuk menyentuh lebih banyak lagi barangan utama serta penyertaan oleh pakar-pakar dari lain-lain negara. Masalah yang kita hadapi ialah harga barangan yang telah menurun dan keadaan yang tidak stabil dan lembab di dalam pasaran komoditi antarabangsa. Kesemua ini menyebabkan negara-negara membangun yang menjadi pengeluar barangan utama menghadapi pelbagai masalah. Adalah menjadi harapan saya Seminar ini akan membincangkan dengan mendalam segala perihal menyentuh komoditi dan menghasilkan ketetapan yang berfaedah.

Ladies and Gentlemen,

3. The World Development Report 1985 published by the World Bank states that average per capita real incomes in most of Africa are no higher than they were in 1970; and in much of Latin America they are back to the levels of the mid 1970s. In other words the clock of economic progress for these countries has actually stopped in the last few years so that dozens of countries have lost a decade or more of development. In the case of ASEAN countries, we have been more fortunate although there is no escaping from the effects of falling demand and prices of exports of primary commodities, petroleum and gas, and simple manufactured goods. In the past Malaysia's diversified range of export commodities had stood in good stead against the fluctuations in the commodity markets and the vagaries of the world economy. But this careful hedging by Malaysia has failed as a constellation of forces has driven down the prices of virtually all primary commodities produced and exported not only by Malaysia and other ASEAN countries but by the whole world. At the same time, the terms of trade have increasingly favoured the developed industrialised countries. The appreciation of the currencies of the developed countries has aggravated the situation further.

4. Obviously, the falling prices of commodities affect the commodity dependent developing countries most. The developed commodity producers balance their earnings through their exports of manufactured goods, which actually fetch better prices. The disparity between the developed and the developing countries increases as their revenues and foreign exchange earnings, their level of employment and their GNP plunge. In terms of their own currencies the debt burdens increase even if they cease to borrow. But they cannot stop borrowing. Their inflated debts mean that many are now borrowing in order to pay their

debts.

5. What is it that is happening to the commodities trade? Obviously it is not the usual down swing in the cyclical changes that have always been a feature of the market. For many years now, commodities have been suffering a steady shrinkage both in terms of market growth and in some cases, of actual market demands. Thus the demand for tin for example has in the past decade or so, been reduced from about 250,000 tons per annum to about 150,000 tons. Some commodities like indigo have for practical purposes disappeared from the scene. Most metals have been ailing for quite some time and there seems to be nowhere the demands can go but down.

6. Occasionally there would be a surge in demands but they have always been muted and certainly they have never been sustained. After a short flurry the prices are likely to fall below the starting point. The slide then continues until the next little frenzy of demands.

7. The pattern therefore is one of continuous downhill slide if we ignore the little recoveries. Increases in price did seem to take place so as to almost compensate for decreased demands. But this is mainly due to currency fluctuations. Thus the gradual rise in the price of tin prior to the collapse was quite meaningless to Malaysia because the Malaysian Ringgit appreciated against the pound sterling, the main currency used by the London Metal Exchange, the principal market place for tin. The rise was actually a market manifestation of the devaluation of the British pound.

8. The gradual slide in demand as well as prices can be coped by the producers to a certain extent. They can diversify and reduce their dependence on a single commodity. Malaysia, which for a long time depended on tin and rubber saw the signs and systematically shifted emphasis to palm oil, cocoa, timber and petroleum. The diversification paid fairly handsome dividends. Certainly, it cushioned the effect of diminishing revenues from tin and rubber.

9. But the recent total collapse of all commodities is a new phenomenon. We should have foreseen this considering the slide that has been taking place in the commodities market. But we were lulled into a sense of security by the success of the diversification strategy. Despite the obvious trend with all commodities we felt that the fluctuations in the prices of different commodities would balance each other.

10. We have now learnt that all commodities can plunge at the same time no matter how rare or how much is the present demand for them. The single most important factor which has caused the downfall of the commodities is rapidly advancing technology. Admittedly technology has contributed in many ways towards the progress of commodities. But in some instances this very progress has been the cause of the decline and fall of the commodities.

11. New technology has for example enabled more of the particular commodity to be produced. Thus, today's rubber tree produces ten times more rubber than

the original rubber tree smuggled out of the Amazon forest. Similarly new tin fields are more easily found through satellite surveys and more sophisticated prospecting methods. But the increase in production simply means the market is more easily and more frequently flooded. The glut reduces price and will continue to do so until the less efficient are forced out of business.

12. But new technology has also reduced the usage of various commodities. Tin plating for example requires less now than in the past. New technology also results in a multitude of synthetic or natural substitute materials. Again tin can be cited as an example. The main use of tin is as tin plate in the food packaging industry. Now glass, paper, plastic and aluminium compete and displace tin. Copper is losing out to glass fibre. Aluminium and even titanium are gradually losing out to the new carbon fibers and synthetic composites in the manufacture of aircrafts and soon in motor cars. Ceramics are creating a whole new world in terms of materials for manufacturing which will render out of date numerous metals in the manufacture of engines and components.

13. Between over-production and displacement by substitutes, the commodities are being squeezed out of the market. When ceramics for example displace the metals, the dependence of some of the industrialised countries on imports of the metals from the developing countries will be reduced. The invention of the microchip on the other hand has reduced the need for metal conductors to almost nothing. If we can imagine the size of even a simple hand-held calculator if it were to use the old vacuum valves and circuitry, we will understand just how much this microchip invention has impoverished the metal producers.

14. The trend is for new technology to increase further the production of various commodities while reducing the need for them. What this means in commercial terms for the producers is that there is no future in commodities.

15. But new technologies are not the only problem for the commodity producers, especially the developing countries. Commodities are also produced by developed countries. Naturally, developed countries do not depend on their commodities to sustain a high level of economic performance. If they are produced, it is simply because they are there or the means of production such as vast acreage of land are there. A small proportion of the population of developed countries are involved in this production. But they have sufficient political clout to cause the Government to pander to their wishes.

16. Thus, the production of these commodities are often subsidised. The subsidy in itself stimulate more production. The excessive amount produced cannot be consumed domestically. The Governments then try to protect the domestic market. If still the product is not consumed then it is dumped into foreign markets. Or, worse still, it is used as an aid item for needy countries, which effectively deprives the competing products of developing countries of their markets. Soya bean oil, butter and beef are among the aid items which create havoc with the exports of many developing countries.

Ladies and Gentlemen,

17. It is well-known that some powerful developed countries are against price fixing and subsidies. They refuse to join commodity agreements because they negate free trade. They are against the operations of stockpiles which disturb market forces. Subsidies are also regarded as an unfair practice that artificially influences prices. To compete in their concept of a free market they have even suggested that low wages in developing countries are a form of subsidy. They devise 'countervailing duties' in order to jack up the price of cheap imports. But they conveniently forget this when they fix their prices, release their stockpiles and provide massive subsidies. Clearly for these countries there are two standards one for what they do and one for what others do.

18. The manipulation of prices is not done by Governments only. The traders in the developed countries contribute their share. Sometimes, of course, they benefit the producers, but more often than not the producers suffer as agents, brokers, traders and the operators of commodity exchanges speculate in commodities. Since the exchanges are owned and operated by these players, the rules can be adjusted as they deem fit. On several occasions when they appeared likely to lose large sums of money, they changed the rules so as to save their pockets. It is a sordid game that they play. I cannot say more.

19. Between the various factors that I have mentioned the commodities trade has been almost completely destroyed. The various attempts to bring order to the market have failed. The Rubber Agreement, the International Tin Agreement, and other commodity agreements have all failed. Perhaps it is unreasonable to expect consumers to prop up prices. But even agreements between producers have not succeeded. The latest casualty is OPEC. Common sense dictates that their members should curtail production and respect agreement on quotas. But apparently each member would rather produce more and earn less.

20. The commodities trade has obviously declined. Further more the decline is not cyclical. Even the spurts in the demand reflect the declining trend. There seems little doubt that for some commodities the end is near. The question that must be asked now is whether anything can be done if not to reverse the trend, at least to arrest or slow the rate of decline.

21. It is unthinkable that the world, particularly the manufacturing world, can do without commodities altogether. What is happening is declining demands which result in declining prices. The obvious answer to a decline in demand is to reduce the supply. If agreement between different nations to reduce production is unable to work then the next best thing is for the high cost producers to get out of the business altogether.

22. The problem is how to discourage the traditional or new producers from once again increasing the supply when the price swings upwards due to reduced supply. My belief is that, it is important for the efficient producers to avoid large profit margins. In the long term narrow profit margins are always safer for business, any business including the commodities trade.

23. Research among producers should be very closely related to the market.

Higher yield through new technology by itself is likely to be detrimental to producers. More important is the research on increasing usage. The latter is usually done by consumers. It is about time that producers actively collaborate, finance and actually participate through their own scientists in the research projects on newer uses.

24. The producer developing countries have always regarded research as of secondary importance. They are very unwilling to set aside funds for this purpose. To finance research on application rather than on production is anathema to them. But the fact is that newer uses for their products must mean increasing demands. Perhaps they can even invest in the new application so as to get some benefit from the research results.

25. They should also actively participate in the search for substitutes. All would not be lost if they have a slice of the business of either producing or using the substitutes.

26. For a long time, Malaysia has strenuously kept out synthetic rubber. This has not stopped others from using synthetic. Possibly, it would have been more profitable to Malaysia if it had invested in areas which will maximise its profits from synthetic while nursing its natural rubber industry.

Ladies and Gentlemen,

27. The situation facing the commodities trade is serious. It is, of course, more serious for the commodity-dependent developing countries than for the developed countries. If the commodities business breaks down there will be a lot of repercussions in the financial world. Already we have the example in the fate of the International Tin Agreement. Other commodity producing countries are going to be put on the chopping block. Debts cannot be paid. The developed countries and their banks are going to pay a heavy price as countries default on their payments. Then trade in manufactures are going to suffer, as less money is available to certain commodity producers to buy manufactured goods.

28. The commodity trade problem cannot be viewed in isolation. It is closely related to all trading and financial activities on which the economic health of the world depends. The developed countries eventually will lose as much as the developing countries unless they help out over this problem.

29. The world is interdependent. We will learn how very interdependent it is during a depression such as this. The short term gains of some individuals or companies or countries should not lull them into thinking this is someone else's problem. It is everyone's problem. Unless we solve this problem we will all have to pay.

30. It is for the purpose of taking a hard look at the various problems facing commodities and how to overcome them that Malaysia is organising this International Seminar on Commodities. Invariably, the problems affecting commodity markets and prices are interlinked with a host of other economic issues, some technological in nature and others having a political flavour, and, of

course, unpredictable elements like climate and weather and nature' s own Pandora Box which can sharply alter commodity forecasts and prices.

31. Having said all that I have said, I would now leave it to the experts and the many distinguished participants of the Seminar to deliberate in depth on the pressing issues and problems and to let us have their ideas and recommendations.

Ladies and Gentlemen,

32. Now I have great pleasure in declaring open this International Seminar on Commodities.