The State and Peasant Innovation in Rural Development:
The Case of Malaysian Rubber

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In the study of economic development it has become fashionable to impute initiation of the development process to certain 'marginal men' or 'leading enterprises'. By virtue of ascribed characteristics, these 'marginal' or 'leading' producers are typically seen as innovators in the mobilization of capital, the application of new techniques or the searching out of new markets, culminating in critical increases in productivity. Considerable emphasis in contemporary development literature has been laid on the economic role of these innovators, the conditions that give rise to social 'marginalism' and the mechanisms for transmitting 'leader's' gains to laggard sections of economic society. However it may be argued that developmental innovation need not involve a 'marginal' or 'leading' few, but may represent the realizable aspirations of a broad-based economic sector whose fulfillment is frustrated by legal or institutional barriers. Indeed it is the contention of this paper that Malaysian rural development was rooted in a smallholding peasantry able and willing to innovate, so that as legal-institutional barriers were progressively removed and as government adopted a more positive developmental role, real gains resulted in rubber productivity.

From the First World War onwards, natural rubber obtained from the latex of the tree *hevea brasiliensis* has been virtually synonymous with the prosperity of the Malayan peninsula.
As the economic mainstay of Malaysia, natural rubber generates about a quarter of the country's national income and has been largely responsible for its impressive growth performance. During the turbulent years between the World Wars Malaysian natural rubber sales to the United States earned as much gold-dollar exchange as all domestic British exports combined, earning for the-then colony the appellation, 'Dollar Arsenal of the Sterling Area'. Malaysian rubber was of global significance as well, with more than half the world's supply of this vital commodity over the inter-war period coming from her plantations.

The Malaysian rubber industry has been from its inception divided structurally into two sectors, the estate and smallholding. Whereas British-owned companies dominated the estate sector, nearly 40 per cent. of Malaya's pre-World War Two acreage consisted of peasant smallholdings. Precise statistics are unavailable, but it may be estimated that about half the interwar smallholding acreage was Malay-owned, 40 per cent. Malayan Chinese and the remainder Malayan Indian, Eurasian or other Asian. (3) Significantly, the average size of the Chinese or Indian smallholding was almost twice the Malay average of 3.2 acres. Over 98 per cent. of all Malay smallholdings were less than 25 acres, while more than a quarter the Chinese and a third the Indians held between 25 and 100 acres. All told smallholdings produced some 40 per cent. of total Malaysian rubber output through the 1930s, though even this was hardly
indicative of their true comparative efficiency. For most of
the inter war period Malayan rubber was beset by restrictive
regulation heavily weighted in favour of the larger estates,\(^{(4)}\)
notwithstanding the fact that smallholdings were the lower-cost
sector.

**Table 1**

<table>
<thead>
<tr>
<th>Years</th>
<th>Estate (000 acres)</th>
<th>Smallholding (000 acres)</th>
<th>Per cent Smallholding of Total</th>
<th>Total Malaysian (000 acres)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1925</td>
<td>1480</td>
<td>975</td>
<td>40</td>
<td>2455</td>
</tr>
<tr>
<td>1932</td>
<td>1939</td>
<td>1276</td>
<td>40</td>
<td>3215</td>
</tr>
<tr>
<td>1940</td>
<td>2113</td>
<td>1351</td>
<td>39</td>
<td>3464</td>
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<td>1580</td>
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<tr>
<td>1960</td>
<td>1942</td>
<td>1960</td>
<td>50</td>
<td>3848</td>
</tr>
<tr>
<td>1962</td>
<td>1933</td>
<td>2061</td>
<td>52</td>
<td>3994</td>
</tr>
<tr>
<td>1966</td>
<td>1813</td>
<td>2529</td>
<td>58</td>
<td>4342</td>
</tr>
</tbody>
</table>

*Source: Rubber Statistical Bulletins, Adapted.*

* West Malaysia—Malaya only

Despite discriminatory policies, rubber remained an emi-
nently suitable peasant crop capable of yielding satisfactory
economies of scale on smallholdings.\(^{(5)}\) Its non-seasonal
character rendered rubber smallholding relatively free from
the social evils traditionally associated with peasant
indebtedness, foreclosure and absentee landlordism. Rubber smallholding in Malaya therefore combined comparative efficiency with the creation of a relatively stable, prosperous and independent peasantry, a promising formula for rural development.

Despite the social and economic prospects for rubber smallholding, official attitudes and policies in colonial Malaya strongly favoured the estate sector at the expense of peasant producers. To British expatriate officers of the colonial bureaucracy rubber was virtually identified with the British estate companies. Evidence to the contrary aside, British estates were deemed the more efficient sector so that the goal of colonial policy became that of achieving the "economic benefits" of estate rubber production albeit "without its admitted social ills". (6) This predilection for estate agriculture on the part of the British colonial bureaucracy reflected an ingrained bias in favour of neat, well-ordered Western-style plantations, exemplified by large British estates, as against the alien character of peasant smallholdings.

Smallerholders' capacity to produce rubber at prices below the profitability threshold of estates instilled in them an overpowering fear that the Malayan industry would 'go native'. This fear inspired leading British planters to utilize their access to colonial authority to obtain policies calculated to protect the capital values of the estate sector. (7) The international rubber restriction schemes, originally intended to maintain export prices, accordingly came to be applied in
colonial Malaya as a device for undermining the long-run competitive position of peasant smallholdings. Well after the expiration of the international rubber agreement, spokesmen for British estate interests still advocated the removal of peasants from rubber to other, non-competitive, less-remunerative crops.\(^{(8)}\)

The Malay aristocratic elite, through whom Britain had exercised indirect colonial rule, exhibited little enthusiasm for rubber smallholding. Rather padi, closely associated with traditional kempong (Malay village) culture, remained the ascribed crop for Malay peasant cultivation. Not only was padi farming identified with maintenance of the Malay culture, but total and exclusive Malay involvement in padi was further seen by the communal elite as a defence against the perceived threat of Chinese economic domination. This affinity for padi impelled the Malay aristocracy to join with British officialdom in measures designed to keep Malay peasants in rice and out of rubber.\(^{(9)}\) In their enthusiasm for padi the Malay communal leadership went so far as to urge the peasentry to forego incremental income in order to remain with traditional Malay 'way of life'. Professions for kempong economic betterment notwithstanding, some were even prepared to compel those Malays who had already responded to the attractions of rubber smallholding to return to arduous, impoverished padi.\(^{(10)}\)

As a result of this predisposition against rubber smallholding on the part of those with access to colonial political authority, Malayan rubber strategy aimed primarily at supporting
the estate pattern of plantation agriculture on the one hand, and upholding the traditional pattern of kampong life on the other. Rather than capitalize on the potentials of rubber smallholding for rural development, colonial policy deliberately stifled peasant innovation in pursuit of its pattern-maintenance goals. New entry into rubber growing was severely limited by a ban on new planting, which was unilaterally maintained in Malaya even after the expiration of the International Rubber Regulation Agreement. When the ban was finally lifted in 1947, the continuing refusal to alienate additional lands for smallholding rubber effectively restricted peasant entry into new rubber, whereas most larger estates already possessed adequate reserve lands to plant. Government agencies, such as the Rubber Research Institute of Malaya, directed the bulk of their activities towards the estate sector, to the virtual exclusion of the smallholdings who were thus required to finance the improvement of their immediate competitors. Moreover, rubber smallholders bore an extraordinarily heavy share of the public purse through the rubber export duty, in effect a severely regressive tax on peasant incomes. Restrictive regulations and discriminatory measures effectively served to undermine the efficiency and independence of colonial Malaya's rubber smallholdings. By the late 1940s the bulk of the smallholding acreage had already been forced into obsolescence.

Nevertheless rubber remained the most attractive crop for peasant producers. Those already engaged in rubber smallholding
enjoyed rewards far greater than for any alternative crop, even with the heavy taxation. Such was the appeal of rubber that a large, unsatisfied demand for land for new rubber planting persisted among the peasantry.\(^{(15)}\) Rural Malays in particular demanded entry into rubber smallholding as a means of social and economic betterment. When land was not forthcoming, many of the more venturesome peasants took to illicit planting, though with low-yielding, unselected seedlings. By the end of the colonial period an estimated 15 per cent. of smallholding acreage consisted of inferior stands of this type, planted in evasion of government restrictions. Other peasants turned instead to the insurgent Malayan Communist Party and its promise to eliminate colonial barriers to rubber smallholding-based rural development.\(^{(16)}\)

Colonial rubber policy not only threatened to extinguish peasant economic development, but by undermining the more efficient sector also jeopardised the competitive position of Malaysian rubber in world markets. Whereas Malayan rubber acreage remained virtually stagnant owing to restrictions on new planting, the Netherlands East Indies (which had not participated in the Stevenson Scheme) expanded its rubber acreage and output until it exceeded Malaya's production in 1941. Since most of Indonesia's rubber acreage consisted of smallholdings, they loomed as a major low-cost competitor for Malaya.
This was especially troubling since the rubber restrictions had effectively hampered progress in rubber technology, limiting the development of high-yielding natural rubber and its application on Malayan plantations. Technological stagnation in Malayan natural rubber contrasted poorly with the advances in synthetic production following the Second World War. Indeed some Americans even viewed the newly-established synthetic rubber industry as a convenient stick with which to beat the "few very powerful individuals who are the owners of rubber plantations" for their past efforts at cartelization, (17) punishing Malaya for the deeds of Mincing Lane. Be that as it may, synthetic rubber served to stabilize the world rubber market at relatively lower prices. Malayan rubber accordingly had to endure a competitive squeeze precisely when the demands on the industry were greatest, owing to the needs of post-war reconstruction, sterling area weakness and the rising economic expectations accompanying resurgent nationalism.

The unreality surrounding Malayan rubber policy was prolonged by the transient prosperity wrought by Sterling devaluation in 1947 and by the Korean War 'Boom'. Thus in early 1950 the colonial authorities could still "hope" that onsetting obsolescence would curtail Malayan rubber output and thereby maintain high prices. (18) High unit prices rather than efficiency, by implication estate company profits rather than Malayan national income, remained the professed aims of colonial rubber strategy. It required the post-Korea recession to impel
government at long last to take cautious steps towards increasing Malsyan rubber productivity. As prices slid the colonial authorities became acutely aware of the need to compete with Indonesian natural and American synthetics, and looked to replanting with high-yielding clones to achieve the desired improvements in productivity. New planting by smallholders remained, as before, effectively proscribed.

Malaya’s first Rubber Replanting Scheme was originally suggested during the Korean Boom as a counter-inflationary devise, but met with strenuous opposition from British estate interest. Following lengthy deliberations with estate representatives on the newly-created Rubber Producers Council, a mutually acceptable arrangement was worked out involving the establishment of separate schemes, Funds A and B, for estate and smallholding respectively, to be administered by an autonomous Rubber Industry (Replanting) Board. Finance for these schemes was to be derived from a cess on rubber exports, divided between the two Funds in proportion to the output of the respective sectors. The resource distribution for replanting the estate and smallholding sectors therefore reinforced existing inequalities in sectoral capacity instead of meeting their relative needs. Under the split scheme, estates received an automatic rebate of their cess payments upon proof of replanting, whereas smallholdings had to apply and then qualify for a Fund B grant. Since Federal proposals for large-scale block replanting of smallholders were rejected by State Governments jealous of their