Malaysia: Beset by Speculation and Battles Over Oil

The Malaysian economy continues to be determined by the speculative gains or losses of its five major export commodities: tin, rubber, palm oil, petroleum and timber. Although prices for all five have generally increased, it has only been on the basis of speculation on the world's commodity markets, the reflationary policy pursued by the U.S. and the ferocious export drive of Japan which accounts for a full 86 per cent increase in exports to Japan. None are likely to be sustained in the coming period.

It is the desire for stable commodity prices under an expanding world economy that has shaped Malaysia's internal economic policies and its determined commitment to bringing about a new world economic order. This is particularly clear in the government's petroleum policy, as well as in the "Bumiputra" (or New Economic Policy) calling for 30 per cent Malay participation in foreign companies in particular, the nation's rubber plantations and tin-mining. Like Indonesia, Malaysia had come under pressure from the foreign oil companies led by Exxon and the multinationals.

The recent speculative rise in tin prices caused by the opposition to the International Tin Agreement by Bolivia, the second largest tin producer after Malaysia, has created concern in Malaysia that consumer countries will turn to tin substitutes. A closer look at why rubber prices have increased gives further cause for worry. London Commodity brokers Lewis and Peat report that the strong prices for rubber in the past year were mainly influenced by currencies — more specifically, speculation against the British pound — not supply and demand.

It is in this context that the Malaysian government holding company Pernas sought more Asian representation on the board of directors of British-owned Sime Darby several weeks ago. Holding assets of $300 million in rubber plantations and palm oil industries, Sime had a reputation for mistreating and underpaying its workers, who referred to it as "Swine Bobby" (slang for pig feed) or "Slime Darby." Pernas has accused the firm of using profits drawn from Malaysia for speculative investments in Europe and elsewhere.

Significantly, the Malaysians with the help of the Rothschilds merchant bankers and in cooperation with other Southeast Asian businessmen, were able to get seven Asians onto Sime Darby's board. Chairman James Bywater, a British-born engineer, was replaced with Tun Tan Siew Sin, a former Malaysia finance minister.

Oil Battle

But the most dramatic developments involve the oil companies. The Malaysian state oil company Petronas, modeled after Indonesia's Pertamina, has been carrying on a fight with the foreign oil companies led by Exxon. At issue are new contracts and the controversial "management shares" clause of the government's Petroleum Development Authority Act; the shares would have given Petronas greater control of the oil companies' down stream development.

Employing the same tactics as in Indonesia, the oil companies stopped all their exploration and expansion programs, cut back production, and even withheld data on oil reserves. But the deliberate stalling of new contract agreements by Exxon brought enormous financial pressures to bear on Prime Minister Hussein Onn's government, which is already shouldering heavy payments on a new tanker fleet scheduled to come on stream early this year, a project dependent on the government's share of oil revenues.

The government was forced to amend the Petroleum Development Authority Act, deleting the "management shares" clause, but was able to secure a 70-30 split in the government's favor in the new production sharing contracts.

Despite this setback, Petronas recently announced that it will market its own share of the oil so as not to be dependent on the multis. They are therefore seeking state-to-state agreements along the same lines as recently negotiated Eruo-Arab deals. In addition the government plans to develop its own down-stream activities in refining and local distribution.

Vietnam to Greatly Expand Relations with West

The sixth session of the Vietnamese national assembly opened Jan. 11, with the major topic of business the nation's Second Five year development plan (1976-80), approved by the Vietnamese Communist Party's fourth Party Congress last December. The key to realizing the plan will be a large expansion of foreign trade and other forms of economic cooperation with Western nations, particularly transfers of technology but even including foreign investments.

The Second Five Year Plan states that foreign trade will be "a crucial part" of Vietnam's efforts to transform its war-torn and predominantly rural economy into a formidable industrial power in the region. "The aim of imports and exports," the report says "is to acquire for ourselves the modern techniques of the world and to bring higher economic results to production and labour in the country... Exports must be stepped up to counterbalance imports and create conditions for further expanding imports."

Even in the past year, Vietnam's trade with Western countries and Japan has for the six months of 1976 hit 1.6 million pounds, up from 513,000 pounds for the corresponding period last year. Trade with Japan doubled over the same period.

Just as significant as the expansion of trade has been the discussion of foreign participation, including direct private investment, in the newly united Vietnam. According to the Japanese daily, the *Asahi Evening News* Jan. 7, diplomatic sources report that Hanoi is about to release a foreign investment code, liberal and broad in scope and designed to facilitate a rapid transfer of technology and resources. The provisions call for:

1) Joint ventures in three categories including: (a) Mineral resources development, including oil, with capital and technology to be provided by Western partners under production sharing contracts. (b) Up to 49 per cent foreign participation in joint companies engaged in general areas of business including the agricultural and industrial sectors. *(c)* Capital shares in joint ventures for export purposes which will be fixed on a case by case basis with a possible approval of 100 per cent foreign ownership.

2) Guarantees that joint ventures will not be nationalized for at least ten to fifteen years and then only with adequate compensation. In addition, ventures in certain areas will be spared taxes or have reduced tax rates for a specified period of time. Remittance of profits would be allowed after taxes and internal reserves are taken out.

Though American corporations cannot invest in Vietnam because of the current trade embargo, Europeans and Japanese are moving rapidly to extend aid and negotiate private investments. This is most readily seen in the oil sector, where discussions and negotiations have been held with Britain, Japan, France, Italy, Norway, Canada, and even U.S. oil companies (on an unofficial basis). The French company Compagnie Maritime d'Expertise (Comex) has already signed a contract to provide technical advisors for an oil logistics base at Vung Tau, 90 miles outside of Ho Chi Minh City. The Norwegian state oil company has concluded a $45 million service contract employing a Norwegian off shore rig to drill six wells, and is conducting seismic investigations and technical training programs. The Japanese Kaiyo Oil company and the French state-owned Elf Aquitaine are also beginning negotiations with the Vietnamese. These companies had a joint concession under the U.S.-puppet Saigon regime in 1971:

The most dramatic intervention into the Vietnamese reconstruction effort has been that of Japan. This February, a delegation of the powerful Federation of Economic Organisations (Keidanren) will be arriving in Hanoi to discuss Japanese cooperation in development of agricultural and petrochemical industries. This follows nearly two years of broad discussions between the two countries on various levels. The Japanese government granted Vietnam over $44.5 million in aid for 1976. A seven member Vietnamese oil mission headed by the chief of the Oil and Gas Directorate, Mr. Nguyen Van Bien, visited Japan last October to inspect off shore oil development projects and refining complexes. Japanese involvement in offshore oil developments in the Mekong were said to have been discussed.

Looking towards the future, the Vietnamese are eager for Japanese technical and capital assistance in state corn farms, including construction and farm machinery. Over the course of the second five year plan corn acreage is to increase threefold to five million tons of corn a year, most of it for export. (The Japanese now import 10 million tons, primarily from the United States).

In an effort to acquire a maximum amount of assistance, the Vietnamese have joined the World Bank and International Monetary Fund as well as the Asian Development Bank. The World Bank sent a five man mission to Vietnam this month as a first step towards an internationally financed program to help in reconstruction. The Asian Development Bank had earlier sent a seven-member mission in Dec. to discuss financing of various projects started under the previous regime. Most recently the IMF granted Vietnam a $36 million loan to compensate for loss of export earnings due to war damage. Significantly the U.S., a member of all three institutions, did not vote against the loans.

South Korea: Still on the "Most Troubled Nation" List

This time last year the immediate danger of a default by South Korea on its international debts was an open secret in the world financial community. But as a result of a huge rise in exports during the last year — chiefly to the United States — South Korea "was pulled right out of the hole," in the words of one Wall Street analyst.

The problem facing South Korea, and other export-oriented countries that rely heavily on the United States as a market, is that in the coming year it will be very difficult to maintain last year's favorable terms of trade and prevent a deterioration in their international payments position. This is particularly a problem for South Korea, as the leading international banks have acknowledged by keeping that country on their "most troubled nations" list. A decline in South Korea's terms of trade this year could easily bring it to the brink of default that it hovered over throughout 1975.

The overall improvement in South Korea's economy last year was based primarily on an increase in exports of manufactured goods (chiefly textiles and wood products) to the United States. Exports to the United States from January to July of 1976 came to $1.41 billion, an amount just shy of the *total* of $1.53 billion in exports sent to the U.S. during all of 1975. Of this $1.41 billion, which is a full 33 per cent of South Korea's total exports for the period, the dominant commodities involved were textiles and wood products, together with small electronics machinery. Production of these and other consumer oriented products makes up the major portion of the South Korean economy.

These increased sales to the United States were the chief factor in the significant reduction during 1976 of South Korea's chronic trade deficit which during the previous two years had been running upwards of $2 billion per year. With exports during the January through October, 1976 period at $6.21 billion (total ex-