

## **RICE TRADE AND CHINESE RICE MILLERS IN THE LATE-NINETEENTH AND EARLY-TWENTIETH CENTURIES**

The Case of British Malaya

~~~~~ Wu Xiao An

Rice is currently the second-largest-produced cereal in the world, and about 90 percent of the world's rice production and consumption, 50 percent of imports, and 72 percent of exports are concentrated in Asia. The global rice-export market is also very concentrated, although it consists of only 5 percent of total rice production. In line with postwar political and economic changes, many Asian countries have implemented rice self-sufficiency policies, while China and the United States have emerged as the two most important rice exporters. Over the last decade, Thailand was the largest exporter, accounting for around 25 percent of global trade. Vietnam ranked second (around 17 percent), and the United States was third (around 12 percent). China (4th), India, Pakistan, and Myanmar (10th) were also major exporters.<sup>1</sup> Within Southeast Asia, among the top rice-importing countries currently are Indonesia (1st), Philippines (8th), and Malaysia (9th).<sup>2</sup>

Historically, mainland Southeast Asia has been the major world rice exporter, with the rice-export market centered on three delta areas—the Irrawaddy in Burma, the Chao Phraya in Thailand, and the Mekong in Vietnam. As with other agricultural products such as pepper and other spices, regional and long-distance trade in rice and other commodities has always existed.<sup>3</sup> However, it was not until the 1850s that these delta areas started to emerge as major world rice-export centers, driven by the colonial expansion, the increasing demand (initially from Europe and later from India and Japan), the flows of immigrant labor, infrastructure improvement, and technological advancement. Besides faster demographic growth, one outstanding feature of Southeast Asia is that domestically, a clear division of labor was organized in line with ethnic boundaries. The indigenous people of Burma, Thailand,

and Vietnam became farmers while Indians migrated to the Irrawaddy delta to become wage laborers, moneylenders, and small businessmen, as did the Chinese in the Chao Phraya and Mekong deltas. Regionally, a clear division of labor was organized in line with national boundaries. The mainland Southeast Asian countries of Thailand, Burma, and Indochina functioned as the major rice exporters, accounting for four million tons each year (prior to the First World War), more than 90 percent of the world rice export and half the value of their total exports.<sup>4</sup> While the maritime Southeast Asian countries of British Malaya, the Dutch Indies, and the Spanish and American Philippines were the major rice importers, where the colonial economy depended on the tin-mining, rubber, and other cash-cropping plantations and immigrant Chinese, capital and labor also played a leading role.<sup>5</sup>

“Rice production and supplies have always ranked as a problem of first importance with the government because the rice situation dominates all other industries and it is necessary to the progress of the country,” as one prominent Chinese rice miller in Penang insightfully observed.<sup>6</sup> If rubber and tin were the two main props for the colonial economy of British Malaya, then rice and opium were another two main sources for maintaining labor and government. The prosperity of both the opium and rice economies resulted from the expansion of the tin and rubber economies. The immigrant labor was the core link between the production (rubber and tin) and consumption (rice and opium) economies. The prosperity of tin and rubber brought into Malaya a large number of immigrants, who came not as paddy producers, but as wage labor and rice consumers. This large new immigrant community not only provided an indispensable labor force for the colonial production economy, but also provided a huge new profitable market for the immigrant consumption economy.<sup>7</sup> As Carl Trocki’s research has shown, opium not only provided the main revenue source for the colonial government and for Chinese towkays, but also became a daily necessity for Chinese labor. Therefore, opium formed an integral part of the colonial social order and a capital accumulation for the beginnings of Chinese capitalism.<sup>8</sup> Just as labor was the mainstay of the colonial rubber, tin, and opium economies, so was rice. Cheap rice means cheap food; cheap food means cheap labor; while cheap labor means cheap costs, more profits, and continued economic prosperity for the interests of rubber planters, tin miners, and the government. The depressive tin and rubber market in turn also influenced the rice and labor situations, which brought social instability and even crisis. These could be the dynamics of the colonial political economy.<sup>9</sup>

However, although the rice-milling industry was a prosperous and profit-

able business in British Malaya, the Chinese did not engage in the commercialization of rice cultivation, which was left to the Malays. The colonial government did encourage Chinese capitalists for such commercial cultivation in the 1890s and 1930s, but was not successful. This is not only because tin-mining and rubber and other cash-crop plantings, such as sugar and coconut, were more profitable and attractive than rice cultivation itself, but also because cheap and good-quality rice from mainland Southeast Asia was usually available. Interestingly, besides rubber planting, the established rice millers in Penang—such as the Lim brothers, Cheng Teik and Cheng Law, and the Choong brothers, Lye Hock and Lye Hin—were also among the most important coconut-oil millers in early-twentieth-century Malaya. Of course, the founding fathers of established rice millers in Penang, such as Lim Leng Cheak and Choong Cheng Kean, were also the most important opium farmers in Kedah, which again confirms that the development of the Chinese rice-milling industry and of rubber planting was based on the capital accumulation of the revenue (opium) farms.<sup>10</sup>

Prior to the Second World War, British Malaya mainly depended on rice imports, which comprised over 60 percent of its total consumption. In the early 1950s, efforts were made, and British Malaya's domestic production of rice accounted for 55 to 60 percent of total requirements.<sup>11</sup> The production peaked around 90 percent in the late 1970s and about 85 percent in the early 1980s due to the Green Revolutions.<sup>12</sup> However, the Malaysian domestic rice supply was steadily declining, and Malaysia was becoming "the Asian country most reliant on rice imports."<sup>13</sup> Malaysian rice imports were projected to rise marginally from 1998 to 2005, as continued small declines in rice area were more than offset by rising yields resulting from the higher productivity.<sup>14</sup> These days, the Malaysian government targets 65 percent self-sufficiency in rice production, and it is believed that Malaysia remains dependent on rice imports for 30–40 percent of its supply. This is attributed to the impact of more profitable industrial crops such as palm oil and coconut, competition arising from the trade liberation driven by globalization and the implementation of the ASEAN Free Trade Agreement (AFTA), and urbanization.<sup>15</sup> It is no wonder that the Malaysian government deems rice a security issue, not only because it is the staple food for most Malaysians, but also because of their high dependence on international imports, which exposes the state's vulnerability in case of international political, economic, and nature-based turmoil. In fact, Malaysia has experienced such lessons many times in history due to wars, depressions, and natural disasters.

## Rice Trade

For a long time, the world rice trade was dominated by the three mainland Southeast Asian countries of Siam, Burma, and Indochina.<sup>16</sup> Around 20 percent of world rice production originated in Southeast Asia from 1920 to 1990, but the region dominated the world market up to the Second World War with 80–90 percent of world rice exports.<sup>17</sup> Throughout most of Southeast Asia, the rice trade was dominated by the Chinese, and mostly by one clan, the Teochieu. They handled exports to Hong Kong, mainland China, Singapore, Malaya, and other Asian markets.<sup>18</sup> Although Indian and European merchants initially dominated this field in Burma, Chinese rice millers made substantial inroads during the 1930s.<sup>19</sup> The rice trade in British Malaya was no exception, and it was largely monopolized by Chinese merchants, who formed a close-knit trading network linked by credit, kinship, and guild associations. However, the Chinese rice traders were largely Hokkien and Teochieu.<sup>20</sup>

Malaya was the largest single rice importer among Southeast Asian countries. In 1920, for example, 69.9 percent of Malaya's total rice supply depended on imports; it was 66.7 percent in 1931, and 62.5 percent in 1941. Malaya imported 50 percent of its total rice imports from Siam, 43 percent from Burma, and 5 percent from Indochina.<sup>21</sup> Between 1918 and 1929, Malaya produced an annual average of 197,000 tons of rice, while it imported 408,000 tons of rice each year over the same period.<sup>22</sup> Singapore was the most significant entrepôt in the rice trade. Rice was imported from three mainland Southeast Asian countries and re-exported from Singapore to the Malay Peninsula and the Dutch Indies, from Hong Kong to Japan and the Philippines, as well as mainland China. Singapore handled up to 40 percent of Siam's exports. Over half the rice import, up to 80 percent in some years between 1871 and 1939, was re-exported from Singapore.<sup>23</sup> Prominent Singapore-based Chinese merchants such as Tan Kim Ching, Khoo Cheng Tion, and Tan Kah Kee owned large rice interests in Bangkok, Saigon, or Singapore.<sup>24</sup>

Within the Malay Peninsula, Penang, Malacca, and Kuala Lumpur were another three subregional distributing centers that functioned as secondary nodes. Unlike Singapore, Penang mostly imported rice from Rangoon, as well as very small quantities from other countries. Compared to Siamese rice, Rangoon rice was much cheaper and consumed by Hokkien Chinese, Malays, and some Tamils, which was in contrast with the other Chinese consumers in Singapore and the Dutch Indies, who preferred Siamese-quality

rice. The rice was exported from Burma to Penang and re-exported to Sumatra and the hinterlands of the Malay Peninsula. However, in 1920, due to the improvement of port facilities in Belawan (Deli), the greatest changes in Penang trade occurred when the Dutch took to shipping rice directly from Rangoon instead of importing through Penang as before. The Federated Malay States not only imported rice from Penang, but also got it by rail from Siam and Perak.<sup>25</sup>

### Rice Milling

The other pattern of rice trade concerned the local rice-milling business in northern Malaya.<sup>26</sup> These millers dealt mainly in local rice milling, rather than rice from mainland Southeast Asia. These millers were situated in or near the large rice-producing districts of Kedah, Province Wellesley, Penang, and north Perak (Krian). The local rice millers also sold rice to the rice dealers and merchants categorized above. However, there were usually two different systems of rice trade that functioned in their own respective areas without much direct interaction, with each influencing, complementing, and even competing with the other through market forces, such as supply and price elements. Unlike the rice industry in mainland Southeast Asia, where the expansion of rice cultivation and export was driven by the demand from the world market, both in Southeast Asia and beyond, the commercialization of the rice industry in Malaya was mainly due to the tin and rubber boom and immigrant labor, and oriented to the local market in the Malay Peninsula, although a small portion was exported to outside markets such as Sumatra and China.<sup>27</sup> Moreover, unlike mainland Southeast Asia, where the commercialization of rice cultivation and export was the predominant source of revenue, in the premier paddy-cultivation state of Kedah, rubber also became another important revenue item.

Except for their own local paddy, Penang and Perak depended mainly on Kedah for their paddy supply. Paddy was imported from Kedah, and milled in Penang, Perak, and Province Wellesley. Besides a certain proportion consumed locally, the milled rice was exported to other Federated Malay States, northern Sumatra, even to Ceylon, and sometimes to Hong Kong and mainland China. At the local level of Kedah, the rice millers were concentrated in northern Kedah, centering on the Kota Star district. The rice and paddy trade route followed a course from west to east, then moved south to Penang and the southern state of Perak. The port of Kuala Kedah, near Alor Star, was the major loading point in the Muda region. Ports at Kuala Perlis, Langkawi, and Yen formed the hinterland collections of Kuala Kedah.<sup>28</sup> The rice miller

made both white rice and parboiled rice, with the latter especially prepared for the consumption of Indian estate labor.<sup>29</sup>

There were three types of commercial rice mills. The first comprised large and medium-sized commercial mills in Penang, Kedah, Province Wellesley, and Perak, which were controlled by a few Penang Chinese. The second type comprised small and medium-sized commercial mills, situated mainly in Kedah, partly in Penang, Province Wellesley, and Perak. Most of these mills were still dominated by Chinese, but with some Malay participation in Kedah, particularly in the 1930s. The third type comprised the government mills, namely Bagan Serai mill (built in 1919) and Kuala Kurau mill (acquired in 1924) in Perak, and Anak Bukit mill (built in 1940) in Kedah. The latter two types of mills mainly operated independently to compete with the first type of mill.

In communal terms, Chinese, mostly Hokkien and a few Hakka, dominated the rice milling, while Malays were mainly involved with rice cultivation. One prominent Penang Hokkien Chinese miller disclosed that rice milling was “almost entirely in the hands of the Chinese, who were originally pioneers in the trade. And in former years good profits were made by millers and the partners. Some of the Chinese rice-milling firms in Penang [had] acquired large fortunes in times past.”<sup>30</sup> In marketing terms, the rice-milling structure included two stages and seven channels. The rice mill was a core linkage between the production and consumption. The first stage of the paddy-collecting and rice-manufacturing process was from production to the mills. The second stage of the rice sale was from the mills to consumption. The Chinese shopkeeper usually advanced money to the Malay paddy farmers so that he could have their crops after harvest. The Chinese shopkeeper would be associated with a Chinese miller, from whom he got credit to finance the paddy.

### Rice Combine

The history of the rice-milling industry and community in northern Malaya (1880s–1941) features the following characteristics. First, there had been a rice-milling hierarchy that was controlled by a few Penang Chinese families. Second, Chinese rice millers made endless efforts to form a combine to coordinate the regional trading networks. Third, parallel to the rice combine was the change of the rice-milling community and its leadership. At the regional level, the hierarchy was controlled by a few of the interrelated Penang Chinese families, who formed a top layer of the Chinese rice millers’ pyramid. They were the Phuah (Lim) Hin Leong family, the Lim Leng Cheak

**Table 1** The Penang Chinese Families Controlling Regional Milling Interests, 1880s–1941

| No. | The First Generation | The Second Generation             |
|-----|----------------------|-----------------------------------|
| 1.  | Phuah Hin Leong      | Lim Cheng Teik<br>Lim Cheng Law   |
| 2.  | Lim Leng Cheak       | Lim Eow Hong<br>Lim Eow Thoon     |
| 3.  | Choong Cheng Kean    | Choong Lye Hock<br>Choong Lye Hin |

Source: Wu Xiao An, *Chinese Business in the Making of a Malay State, 1882–1941: Kedah and Penang* (London: RoutledgeCurzon, 2003), 128.

family, and the Choong Cheng Kean family.<sup>31</sup> These families' control over the rice-milling networks continued through the second generation, namely the brothers Lim Cheng Teik and Lim Cheng Law, of the Phuah (Lim) Hin Leong family; the brothers Lim Eow Hong and Lim Eow Thoon, of the Lim Leng Cheak family; and the brothers Choong Lye Hock and Choong Lye Hin, of the Choong Cheng Kean family (see table 1). The rice-milling business history of northern Malaya before the Second World War was basically their family history.<sup>32</sup>

The establishment of pioneer rice mills can be traced back as far as the 1880s. The first rice mill in Penang was Khie Heng Bee, which was jointly established by Phuah Hin Leong, Lim Leng Cheak, and Chuah Yu Kay. Some years later, the partnership was dissolved. Phuah Hin Leong took over the entire shareholdings of Khie Heng Bee. Lim Leng Cheak built up his own rice mill, Chop Chip Hong Bee, around the late 1880s. In 1889, Lim Leng Cheak had another rice mill, Chop Chip Bee, in Kedah. These two families controlled the regional rice-milling and -trade markets in the 1890s. In the late 1900s, Chuah Yu Kay built another rice mill in Penang, named Sin Khie Bee. In 1909, their scions brought together four Penang rice mills—Phuah Hin Leong's Khie Heng Bee, Lim Leng Cheak's Chop Chip Hong Bee, Chuah Yu Kay's Sin Khie Bee, and another mill named Joo Cheang Company—to form the Tai Chuan Company rice-milling ring.<sup>33</sup>

Tai Chuan Company may be considered the predecessor of the Rice Milling Agency, the regional milling organization that was formally opened in January 1913. There were altogether seven mills in the rice combine: four in Penang, one in Kedah, one in Parit Bundar (Perak), and one in Prai, Province Wellesley (see table 2).<sup>34</sup> Its Chinese name was Tai Yu Company, and it

**Table 2** Mills Controlled by Rice Milling Company, 1913

| Mill                   | Principal Owner | Place                   |
|------------------------|-----------------|-------------------------|
| Chip Hong Bee          | Lim Eow Thoon   | Penang                  |
| Khie Heng Bee          | Lim Cheng Teik  | Penang                  |
| Ban Hock Bee           | Choong Lye Hock | Penang                  |
| Joo Cheang and Company | Khoo Sin Hoh    | Penang                  |
| Chip Bee               | Lim Eow Hong    | Alor Star/Kedah         |
| Kwong Mee              | n/a             | Prai/Province Wellesley |
| Kwong Jin              | Heah Swee Lee   | Parit Bundar/Perak      |
|                        | Leong Fee       |                         |

Source: Wu Xiao An, *Chinese Business in the Making of a Malay State, 1882–1941: Kedah and Penang* (London: RoutledgeCurzon, 2003), 129.

held capital of \$1,000,000, which was divided into twenty shares. Its main purposes were to avoid competition and reduce risk on the one hand, and to monopolize the northern Malayan rice-milling and -trading market, on the other. Indeed, there were three other rice mills outside the combine that belonged to the same families in the milling syndicate. These were Choong Lye Hin's Ban Hin Bee and Lim Cheng Law's Cheng Law and Company in Penang, and the Kwong Hin Mill in Parit Bundar (Perak). This arrangement may have been a strategy to deal with public opinion and the government, as there was strong public debate in the local newspapers.<sup>35</sup> As one commentator observed, "It would appear to be a sort of family arrangement to work for mutual profit while keeping up a semblance of competition."<sup>36</sup>

The partnership agreement of the rice combine covered five years, till 1918. During this period, the combine closed three mills: one on Penang Island and two in Province Wellesley, of which two of the Penang mills had been put out of action by fire.<sup>37</sup> Therefore till the end of 1918, there were a total of eight large rice mills in the region. Another important development was the decision of the government to build mills in Kedah and Krian, which finally broke up the combine. In 1918, the partnership agreement terminated and the partners carried on business independently until 1919. In January 1919, the Rice Milling Company was again formed. In September 1919, the partners entered into a supplementary agreement and changed the name to the Central Milling Agency, with capital of \$1,650,000. The seven mills were controlled by the Central Milling Agency (see table 3). Former key member Lim Eow Thoon ceased to be a partner.<sup>38</sup> Another important member, Lim Cheng Teik, left in 1919 to take up the management of the government mill



**Table 3** Mills Controlled by Central Milling Agency, 1920

| Mill                  | Owner           | Place                   |
|-----------------------|-----------------|-------------------------|
| Ban Hock Bee          | Choong Lye Hock | Penang                  |
| Cheng Law and Company | Lim Cheng Law   | Penang                  |
| Ban Hin Bee           | Choong Lye Hin  | Penang                  |
| Ban Hin               | n/a             | Alor Star/Kedah         |
| Kong Foh              | n/a             | Kuala Kurau/Perak       |
| Kwang Hang            | Tan Lo Heong    | Parit Bundar/Perak      |
| Kong Mee              | n/a             | Prai/Province Wellesley |

Source: Wu Xiao An, *Chinese Business in the Making of a Malay State, 1882–1941: Kedah and Penang* (London: RoutledgeCurzon, 2003), 148.

at Bagan Serai, Perak. At this point, Choong Lye Hock and Choong Lye Hin started to play an important role in the milling ring, although there were other new members such as Cheng Law and Company.

The Central Milling Agency continued to operate until 1925, when it ceased to be registered in the Singapore and Malayan Directory.<sup>39</sup> Now the firm controlling the Chinese milling and buying ring in Kedah and Penang was Messrs. Hock Hin Bros., although there was no formal name for the combine organization (see table 4). The mills paralleled or competed with two government mills, one in Bagan Serai and one in Kuala Kurau.<sup>40</sup> In 1934, the daily capacity of the Choong family mills was 2,000 bags, with each bag weighing 170 katis, or 225 lbs., and this daily capacity equaled the total amount produced by all fourteen large and medium-sized mills in the state of Kedah at that time.<sup>41</sup> In 1938, the rice millers in Kedah, Penang, and Province Wellesley were again formally amalgamated and formed into a company with a capital of \$500,000. The primary object was “to buy paddy economically and to sell rice at a moderate and fair profit,” as the local press stated.<sup>42</sup> The rice combine referred to the controlling firm, Hock Hin Bros. Company.

#### Government Policy on Paddy Cultivation

In British Malaya, the government policy on paddy cultivation was determined by two main interrelated factors: the availability of cheap rice on the international market, on the one hand, and the continued prosperity of the rubber and tin-mining economy on the other. If this situation remained unchanged, any criticism of the government’s prewar food policy would be useless. There were two conflicting schools of thought on the subject of rice production during the colonial period. One held that rice production should

**Table 4** Rice Mills Belonging to the Choong Family in the 1930s

| Name         | Place                                |
|--------------|--------------------------------------|
| Ban Hock Bee | Penang                               |
| Ban Hin Bee  | Penang                               |
| Ban Heng Bee | Alor Star / Kedah                    |
| Ban Kean Bee | Parit Bundar / Perak                 |
| Ban Eng Bee  | Nibong Tebal /<br>Province Wellesley |

Source: Wu Xiao An, *Chinese Business in the Making of a Malay State, 1882–1941: Kedah and Penang* (London: RoutledgeCurzon, 2003), 158.

be encouraged by all possible means so as to reduce dependence on external sources of supply. The other maintained that agricultural prosperity had been built on a foundation of rubber and tin exports, and that with the availability of cheap rice on the international market, large-scale effort and expenditure on domestic rice production could possibly lead to a loss of prosperity.<sup>43</sup> The government policy prior to 1930 generally followed the latter view, although there were some government efforts to promote paddy planting in the late 1890s and early 1910s. However, the government reconsidered its position after 1930, and the former view was subsequently pursued. The 1919 food crisis, the 1931 slump, and the Second World War no doubt contributed to this change of view.

As far as the local paddy-producing state of Kedah was concerned, two basic factors had to be taken into account in government policymaking. First, Kedah was the premier state for paddy cultivation in Malaya. Second, unlike other Unfederated Malay States (UMS), rubber planting in Kedah was the number one agricultural revenue source. Kedah government policy hence had to find a balance between the two crops. Two aims were consequently established: first, the Kedah government had to serve British strategic interests by supplying cheap food for the Straits Settlements and Federated Malay States (FMS); and second, it had to promote its own state interests of increasing state revenue, guaranteeing the food supply for its rubber-planting population, and ensuring the welfare of the Malay peasantry. Reflected in the paddy-cultivation policy was the role of the government in encouraging and supporting paddy cultivation, and the increase in the acres and amount of paddy crop. Reflected in the policy on rice milling and trading was its care-

ful watch and effective control over the movement of paddy and rice, and the issue of price and export duty.

#### Government and Chinese Rice Millers

The government policy on Chinese rice millers had two targets: one was the Penang rice combine, and the other, Chinese rice millers in general. In dealing with the former, the Kedah government cultivated competition by encouraging the Kedah Chinese milling industry to be independent of the Penang Chinese. The government tackled the Penang Chinese regional rice-milling monopoly by declaring the rice combine illegal, by getting a Chinese from Kedah to open a new mill, and by breaking up the rice-mill monopoly—previously granted by the sultan—of Lim Leng Cheak in Kedah. However, the government found itself in a conflict of interest where Malay paddy farmers were concerned.<sup>44</sup> The issue of price control was an irreconcilable problem between the state government and Chinese rice millers. The latter tried to enhance the price of rice and depress the price of paddy; while the state government, on the contrary, aimed to depress the price of rice and enhance the price of paddy. In order to achieve their respective aims, both state government and Chinese rice millers clashed in a showdown of control and anti-control. Chinese millers organized themselves as regional milling networks to coordinate the milling and trading market, reduce competition, and maximize profit. In competition with the Chinese millers, the state carried out a series of measures by establishing government mills, encouraging internal Chinese competition, setting up a credit society for the Malay peasantry, and initiating cooperative movements.

Central to the issues of price and export duty, the interaction between the state and Chinese millers had been subject to the interchanges between the government's administrative and political intervention, on the one hand, and the competition and free play of market forces on the other, with each influencing the other. These elements, which influenced the price of rice and paddy in Kedah and Penang, were subject to fluctuations in the international rubber and tin markets in general, and the rice market in particular. The price was also greatly influenced by natural and political conditions, including pests, cattle disease, and war. Whenever they occurred, paddy supplies decreased sharply, while demand rose. These special circumstances, in turn, further affected the government policy of liberal trade, which was replaced by market intervention in terms of food restriction and control (see table 5). In theory, prices eventually depended on the changing relationship of production and consumption, or supply and demand. But, as the

**Table 5** The Natural and Political Situations in Kedah for the Rice-Trading Policy, 1910–1940

| Year      | Cause                        | Policy       |
|-----------|------------------------------|--------------|
| 1910–1911 | Cattle disease               | Restriction  |
| 1911–1912 | Failure                      | Prohibition  |
| 1914–1915 | War                          | Prohibition  |
| 1919–1920 | Food crisis                  | Food control |
| 1920–1921 | Food crisis                  | Food control |
| 1923–1924 | Drought                      | Restriction  |
| 1925–1926 | Drought and pest             | Restriction  |
| 1927–1928 | Drought                      | Restriction  |
| 1929–1930 | Drought                      | Restriction  |
| 1936–1937 | Flood and stem rotting fungi | n/a          |
| 1939–1940 | War                          | Food control |

Source: Wu Xiao An, “Chinese Family Networks in the Making of a Malay State: Kedah and the Region, 1882–1941,” Ph.D. diss., University of Amsterdam, 1999, 268.

demand or consumption in Malaya had been certain and instant, the price of paddy, therefore, was mainly subject to one-sided change in the production and supply market. Basically, under normal circumstances, the price of paddy depended on two main factors: one was the cost of imported rice into Malaya; and the other was the abundance of local crops that influenced supplies of paddy for the mills in Kedah and Penang.

### The Price

The government also attempted to compete with the rice combine by erecting a government rice mill at Alor Star. The state council invited J. Reid, a managing partner in a very large rice mill in Rangoon, to visit Alor Star and report on the situation there. In February 1914, Reid submitted a detailed report, recommending the erection of a government mill and expressing confidence in its success.<sup>45</sup> However, the preparations and discussions took a long time.<sup>46</sup> In 1918, the high commissioner informed the British adviser in Kedah that he should advise the state council to take over management of the Alor Star rice mill at once. Legislation was then passed giving the government power to take over the mill. The scheme was estimated to cost \$368,600 and would take eighteen months to complete. However, the problem was how to get access to the relevant experienced management and trading networks. In particular, if the object was “to reduce the cost of rice

to the consumer, the most detailed elaboration is required,” as the British adviser reported.<sup>47</sup> This scheme was eventually set aside. It was only in 1939 that the government rice mill was put into action at Anak Bukit. Once it was completed on 23 July 1940, the Kedah government took it over.<sup>48</sup> The Perak government made a similar attempt, between 1917 and 1920, to oppose the Chinese rice combine through the establishment of government rice mills in the Krian district. Two mills were built: one at Bagan Serai and the other at Kuala Kurau. The Bagan Serai mill was erected by the government, while the Kuala Kurau mill was formerly owned and operated by Chinese. From 1 September 1924, the Kuala Kurau mill was taken over by the government, but it was closed down in 1926 for lack of paddy supply.<sup>49</sup>

As the establishment of government rice mills was to influence the paddy price, both the governments of Kedah and Perak maintained good coordination on this issue. In discussing a food-decontrol proposal in the beginning of 1921, the government mill in Perak was prepared to offer \$4.30 per picul for Kedah paddy delivered at Bagan Serai railway station, while the Central Milling Agency would not commit to any statement as to price. Four Chinese shops were appointed agents for the government mill with a total paddy supply of 18,000 piculs.<sup>50</sup> However, in March 1921, the Kedah Agent Food Control requested the sum of \$10,000 for the purpose of buying from the *raiat*s [peasants] through the medium of *penghulus* of *mukims* [heads of villages] and forwarding it to the Bagan Serai government mill. The principal object was to eliminate the “middleman,” who bought paddy from the *raiat*s and sold it to the mills at a good profit. They said that the middleman made a profit of about \$5 per kuncha when exporting to the Perak government mill. Before long, a further \$10,000 was again requested by the Agent Food Control.<sup>51</sup> After the Kuala Kurau mill was acquired by the government in 1924, the manager immediately wrote to the British adviser in Kedah, requesting that the *penghulus* and paddy planters be informed that government mills in Perak were prepared to purchase any paddy. The paddy might be delivered either at Bagan Serai by rail or at Kuala Kurau by junk.<sup>52</sup> Under the arrangement of both governments, the prominent Kedah Chinese merchant Goh Soon Leong was appointed the buying agent, serving between 1924 and 1928.<sup>53</sup>

In order to raise the price in Kedah, H. W. Jack, economic botanist of the Straits Settlements and the FMS, suggested in his report of 1928 that the Kedah government should “have an arrangement with the FMS government mills in Krian, whereby whenever the price of paddy fell below a certain figure, they would purchase paddy in large quantities at an agreed fair

**Table 6** Paddy and Rice Export in Kedah, 1913–1939

| Year      | Paddy     | Percentage (%) | Rice     | Percentage (%) |
|-----------|-----------|----------------|----------|----------------|
| 1913–1914 | 11,915.3* |                | 2,308.3* |                |
| 1914–1915 | 13,290.4  |                | 2,171.2  |                |
| 1915–1916 | 15,968.8  |                | 2,854.4  |                |
| 1916–1917 | 17,156.8  |                | 2,672.0  |                |
| 1919–1921 | —         |                | —        |                |
| 1931–1932 | 19,204**  | 42.8           | 25,662** | 57.2           |
| 1932–1933 | 20,627    | 40.5           | 30,298   | 59.5           |
| 1933–1934 | 20,998    | 44.2           | 26,553   | 55.8           |
| 1934–1935 | 23,858    | 38.9           | 37,486   | 61.1           |
| 1935–1936 | 20,027    | 34.8           | 37,520   | 65.2           |
| 1936–1937 | 12,880    | 26.1           | 36,451   | 73.9           |
| 1937–1938 | 9,513     | 24.3           | 29,625   | 75.7           |
| 1938–1939 | 15,923    | 41.0           | 22,910   | 59.0           |

\* unit = gantang

\*\* unit = ton

Source: Wu Xiao An, “Chinese Family Networks in the Making of a Malay State: Kedah and the Region, 1882–1941,” Ph.D. diss., University of Amsterdam, 1999, 268.

price and thus create the necessary competition.”<sup>54</sup> A special rate by railway transportation was also arranged on rice and bran between Alor Star and Taiping in 1931–1932. Nevertheless, according to a local Kedah official, the government mills in Perak did not affect the prices in Kedah too much.<sup>55</sup> For example, it was disclosed that in 1933–1934, all the millers in Kedah agreed among themselves that they would not buy paddy above a certain price. Hence the Kedah paddy planters were forced to sell their produce to the government mills in Perak at a lower price, instead of to their local mills.<sup>56</sup>

### The Export Duty

With regard to paddy and rice export, there was structural change in Kedah probably from the late 1920s (see table 6). For a long time, Kedah had been exporting much more paddy than rice to Penang and the FMS. In the normal years prior to 1922, the export of paddy and rice averaged the equivalent of 10,200,000 gantangs of rice. Of this quantity, 15 percent was exported as rice and the remaining 85 percent as paddy.<sup>57</sup> At least from 1930 on, the export of rice outstripped that of paddy. This development was attributed to the government policy of encouraging the rice-milling industry in Kedah since

1910, which led to the emergence of many new rice mills in Kedah, particularly from the late 1920s.<sup>58</sup>

Long discussions took place between the Kedah government and Chinese millers with regard to export duty. The export duty of paddy and rice in Kedah was fixed by the Treaty of 1869, and had been maintained for a long time. Paddy was \$4 per koyan and rice \$8 per koyan (see table 7). In 1911, the state council decided to raise the duty beginning in 1912. However, the right to collect export duty on paddy and rice was given to the Penang farmer Lim Cheng Teik, the eldest son of the pioneering miller Phuah Hin. It was initially intended that the government should collect all the duty itself and pay the farmer his due portion, but this was strongly opposed by Lim Cheng Teik. An agreement was later reached to the effect that, first, the state council would allow Lim Cheng Teik to collect the duty, but any duty in excess of the amount fixed in the old farm contract should be handed over to the government; second, Lim Cheng Teik should appoint Malay clerks and keep all accounts in Malay at every place; and third, all clerks and revenue officials should be selected and placed under the control of the harbormaster.<sup>59</sup> The export duty was raised to \$5 per koyan for paddy and \$10 per koyan for rice.<sup>60</sup> However, owing to paddy failure, the government exerted an export-restriction policy for 1912, out of which there was five months' absolute prohibition. This caused Lim Cheng Teik a great loss. With the intervention of the high commissioner, the state council acceded to Lim Cheng Teik's request for a remission of the farm rent for five months.<sup>61</sup>

With the expiry of the rice and paddy farm at the end of 1918, the government undertook the collection of the export duty itself. The government also abolished the system of collecting measure, and introduced a system of collecting by weight. The duty was increased with the rice-to-paddy ratio of 2:1. During the food-control period, from 1919 to 1921, no paddy was allowed for export without special permission from the state council. A duty of 100 percent would be charged if such special permission was obtained.<sup>62</sup> When the food control was removed in 1921, the old rate of 1919 was resumed. The rate was 20 cents per picul on paddy and 50 cents per picul on rice. The difference between the paddy and rice duties constituted a serious setback to the Kedah rice millers in their competition with the millers of the Straits Settlements and the FMS. On the petition of the Kedah rice millers in March 1923, the government approved a reduction of the duty by 10 cents, to 40 cents, in order to encourage the milling industry in Kedah.<sup>63</sup> When the Kedah rice millers continued to petition for a reduction of export duty for the same concern in 1924, the government refused their claims on the

**Table 7** The Export Duty of Paddy and Rice in Kedah, 1869–1934

| Year                | Rice | Paddy | Unit              | Rate:<br>Rice:Paddy |
|---------------------|------|-------|-------------------|---------------------|
| 1869–1913           | 8    | 4     | \$/K <sup>i</sup> | 2:1                 |
| 1913–1919           | 10   | 5     |                   | 2:1                 |
| 1919–1921           | —    | 100   | C/P <sup>ii</sup> | —                   |
| 1923–1927           | 50   | 20    |                   | 2.5:1               |
| 1927–Dec. 1930      | 40   | 20    |                   | 2:1                 |
| Dec. 1930–Feb. 1931 | 35   | 20    |                   | 1.75:1              |
| Feb. 1931–1934      | 25   | 20    |                   | 1.25:1              |
| 1934                | 10   | 10    |                   | 1:1                 |

i. \$/K = \$/koyan

ii. C/P = cent/pikul

Source: Wu Xiao An, “Chinese Family Networks in the Making of a Malay State: Kedah and the Region, 1882–1941,” Ph.D. diss., University of Amsterdam, 1999, 269.

grounds that the duty rate was “substantially fair.”<sup>64</sup> The higher duty on rice as opposed to that on paddy continued to place Kedah rice millers at a disadvantage in competition with external millers. In 1927, the Kedah rice millers again petitioned Tunku Ibrahim, regent of Kedah, to reduce the rice export duty. According to the going rate at the time, it was estimated that the export duty for 100 piculs of paddy was \$20, while the total export duty on rice and by-products from 100 piculs of paddy amounted to \$29.22. It was suggested that the rice millers in Kedah were paying about \$10 more to export rice and by-products manufactured from 100 piculs of paddy than to export paddy itself for manufacture by millers outside Kedah, but the state council refused to change its stance after consulting with the Perak government mills.<sup>65</sup>

However, the situation regarding the rice market changed before long. In the international market, supplies of cheap Rangoon rice were available, and local rice could be purchased at \$7.50 per bag. Many estates had already made six- to twelve-month contracts, chiefly with Messrs. Mohamed Kasim and Company for Rangoon parboiled rice at prices of about \$8.40 per bag. The 1930–1931 season witnessed the largest harvest in Kedah in ten years, with a yield of 73,446,000 gantangs (compared to 69,280,000 gantangs in 1920–1921).<sup>66</sup> But the prices of paddy and rice were very low, in fact the lowest for many years. As they were afraid that they could not compete with the low-priced Rangoon rice, all the Penang buyers, the large mills, and the government rice mills were holding back from buying. The price of the



new paddy crop was \$1.70 to \$1.80 per picul and \$10 per kuncha (160 gantang). Paddy at \$1.80 per picul could be landed in Penang at \$2.10 per picul. It cost 84 cents to ship a bag of rice from Kedah to Penang, of which 59 cents was export duty.<sup>67</sup>

Under these circumstances, the state council had to reconsider the export duty, which was reduced twice in the space of a few months. From 21 December 1930 onward, the state council decided to temporarily reduce the rice export duty from 40 cents to 35 cents.<sup>68</sup> The reduction of export duty had the desired effect, causing the Penang Hock Hin Bros. Company to immediately arrange a large rice-supplying contract with a well-known Indian rice-importing company and the local estates as well. Nevertheless, paddy prices fell further, with the millers offering about \$1.40 per picul. In order to encourage mills to reopen and to keep up the prices of paddy, the state council again reduced the export duty by 10 cents, to 25 cents, and paddy from 20 cents to 10 cents.<sup>69</sup> This reduction came into effect on 18 February 1931. However, in half a month, a petition was again submitted to the state council asking for a further reduction of the export duty on paddy. The request was made through the Choong family agent in Alor Star and manager of Ban Heng Bee, Kang Cheng Wan.<sup>70</sup>

### The Malay Peasantry

To enhance the paddy price and depress the rice price, the government also attempted to break the Chinese rice millers' financial ties with the Malay peasantry, who were predominantly rice cultivators, through the commonly practiced advance sale of paddy, known as "paddy kunca." The majority of the paddy planters had fallen into the clutches of Chinese paddy dealers owing to their debt relationship with the latter. At the beginning of every planting season, through paddy dealers, the rice miller advanced loans to most of the Malay cultivators. The miller would provide the cash loans in exchange for paddy at harvest time. The practice was heavily criticized for its exploitative nature, as the Malay cultivators were required to pay back their loan to the miller in paddy at a price under market rates, and at exorbitant interest rates.<sup>71</sup>

The original idea of paddy kunca was to help and encourage poor Malay paddy cultivators on behalf of the sultan, and to guarantee the paddy supply market for the miller. In 1891, there was a debate over Lim Leng Cheak's rice mill in Kedah. The *Straits Independent and Penang Chronicle* charged Lim Leng Cheak with exploitative conduct for having entered into a contract with

the cultivators in advance, while the *Pinang Gazette and Straits Chronicle* argued that it saw “nothing particularly immoral” in it. On the contrary, the *Pinang Gazette and Straits Chronicle* argued that the result was that many more Malays were going into paddy planting, paddy cultivation was rapidly expanding, and Kedah was being developed. In 1893, when discussing a scheme to encourage paddy planting, the British were very interested in Lim Leng Cheak’s experience in providing monetary advances to the Malay peasantry. The colonial secretary W. E. Maxwell suggested that “some such system might with advantage be introduced in connection with the development scheme.”<sup>72</sup> When there was a famine and failure of paddy crops, Phuah Hin Leong took over from Lim Leng Cheak. At the request of the sultan, the new farmer pursued the same practice of giving cash advances to the cultivators. The same *Straits Independent and Penang Chronicle* admitted that the new farmer should assist the cultivators, otherwise the situation of the latter would become worse than before. Also, in his report to the Kedah government in 1928, H. W. Jack, the economic botanist of the Straits Settlements and the FMS, admitted that “the practice of borrowing cash from Chinese Milling Agents and others is a necessary one under prevailing conditions, for the cultivator must have some cash for the purchase of implements, matting, tongs, etc., while on the other side the Chinese must have paddy to keep their mills running and so competitive buying forces them to obtain a hold on the crops before they are cut.”<sup>73</sup>

An important consideration for government policy centered on the rivalry with Chinese rice millers for the control of the Malay peasantry. Measures such as the government loan scheme of 1910–1916, the credit society for paddy planters in the late 1910s and early 1920s, the Cooperative Movement in the 1920s, and the Week Fairs in the 1930s were aimed at destroying the Chinese intermediary roles with regard to the Malay peasantry. It was claimed that the government policy’s object was to “keep the Malay paddy-planters out of indebtedness to the Chinese paddy-dealers,” to “release them from the ditches of the ‘Rice Combine.’”<sup>74</sup> However, all these efforts failed in the end, although the government had boasted of its great success. As early as 1917, even the British district officer in Perak thought the government loan scheme was “a failure although it . . . gave some temporary relief.” The most serious defect was its fixed time for repayment in harvest. It made the paddy market situation even worse, as the paddy planters had to repay their loans in paddy crop to the government, Chinese paddy dealers, and native moneylenders (*chetties*) at the same time.<sup>75</sup> In the 1920s, there were

many reports that Malay paddy planters were unable to repay their government loans even by selling cattle.<sup>76</sup> Many of them were prosecuted by the government.<sup>77</sup> In 1935, a cooperative rice mill was formed with capital of \$50,000 authorized by the government. That mill was built in 1936 with a total membership of 1,081. Due to the strong monopolistic structure of the Chinese corporate business, it failed after a few years. That mill worked for only eighty-eight days per year. The British adviser to Kedah, J. D. Hall, admitted that its failure was due to the price-cutting strategy of the Chinese businessmen, sustained for a long period and facilitated by large capital support.<sup>78</sup>

In a word, the situation remained unchanged and most of the Malay peasantry continued to be indebted to Chinese paddy dealers, a fact that was confirmed in 1938 by the local Malay agricultural official H. H. Tunku Yaacob.<sup>79</sup> The Chinese continued to dominate the rice-milling industry and trading networks. As long as the government could not solve the issue of Malay poverty, the financial ties between the Chinese paddy dealers and the Malay paddy planters could not be broken up. Furthermore, as long as Malay participation in the dominant colonial economy continued to be marginal, the issue of Malay poverty could not be solved.

### Conclusion

As with the opium business, the commercialization of the rice industry in Southeast Asia, both in terms of production and consumption, was closely related to the colonial economy of tin and rubber and other cash crops, all of which were tied up in the world capitalist economy. Southeast Chinese capitalism was a feature of colonial expansion and the colonial economy, such that Chinese capital, labor, and trading networks were able to penetrate all essential aspects of the Southeast Asian colonial transformation. In Malaya, the large-scale commercial rice milling business emerged with the large influx of immigrant labor and the colonial Southeast Asian transformation in the late nineteenth century and early twentieth. If the rice-trade and -milling industries were interdependent with the tin-mining and rubber-planting economies on the one hand, then the international rice trade influenced and complemented the domestic rice milling trade. The Chinese dominated the rice milling business and trading networks, of which Penang, Kedah, Perak, and Province Wellesley comprised an integral chain. On the top level of the milling hierarchy were a few Penang Chinese families that had formerly been prominent revenue farmers. Centering on the rice-milling

business had been strong economic competition between the state and the Chinese millers on the issue of price. As the Malay peasantry were also brought into the struggle, this economic competition took on a political and ethnic dimension. Eventually, however, market forces prevailed in the form of the international and local rice markets, and the finance, management, and trading networks. Hence, under the complex economic, political, and ethnic circumstances of the time, the interaction between the state and Chinese milling society was a struggle that alternated between conflict and compromise, dependence and cooperation.

## Notes

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