

of destructive wartime stripping and grossly inadequate maintenance for many years. Machinery and tool shortages were, and are, a serious obstacle to recovery. Replacement of the large numbers of repatriated Korean and Chinese laborers who had been impressed into service in pits, constituted a major initial problem. Although 130,000 Japanese were recruited as replacements by the spring of 1946, through intensive SCAP and Japanese Government efforts, labor turnover has been high and miners relatively unskilled. The decrease in working hours from ten- and twelve-hour shifts to eight hours resulted in a much greater loss in working time at the coal face. Output per worker has fallen from 17 tons per month for the period 1935-1938 to a present level of about 5.5 tons. Working conditions are the most hazardous of any major coal-producing country in the world, creating serious difficulties in maintaining a stable labor force."

"Recovery in iron and steel production has been critically handicapped by the coal shortage. Steel production has recovered from practically zero at the outset of the Occupation to a level of some 90,000 tons of ingot per month, or approximately one-third of minimum requirements. Steel output per unit of coal used is substantially below normal because of the low quality of iron ore and coal; this has been further aggravated by the low level of operation and consequent inefficient use of fuel."

"Production of chemicals has been confronted with the same short supplies as other basic industry, principally the lack of coal, salt, iron pyrites and, seasonally, electric power. Production of soda ash and caustic soda, basic to rayon and many other industries, remains so low as to constitute a major handicap to recovery. Fertilizer production has been maximized by SCAP action through concentration of production in and channelling of available materials to a small number of designated efficient plants. As a result, synthetic nitrogen fertilizer production has been quadrupled since early 1946. It is now running at more than 80% of former peak production but, due to the loss of imports from Korea, present output meets only some 50% of Japan's calculated requirements."

"Shortage of fats and oils is particularly acute in Japan in view of her dependence on soya beans as a source and in view of the fact that soya bean imports have been abysmally low, averaging less than 200 tons a month in 1946 compared with more than 75,000 tons a month in the pre-war period. As a result, the soap, paint, fatty acid, and similar industries are seriously prejudiced."

"The textile industry is the very heart of the Japanese economy. Japan in pre-war years led the world in volume of raw silk production, and manufactured cotton and rayon exports. Failure of these industries thus far to make a more substantial recovery has depressed the entire Japanese economy. Raw silk output, while more than doubling since early 1946, is currently operating at only one-sixth of the 1930 level. The silk industry virtually disappeared during the war by reason of the inaccessibility of Japan's markets, and reeling establishments came to a virtual standstill. Most important, however, this industry, which during its peak was able to sell annually over \$300 million worth of raw silk to the United States, is in effect a casualty to technological change, namely, the development and widespread use of synthetics."

"Shortages of raw wool have frustrated recovery in the woollen industry. Production in 1946 and 1947 has been undertaken on the basis of inventory stocks. However, substantial capacity is available and resumption of raw wool imports will permit a quick rise in productive activity."

"Rayon yarn and fabric output, one of Japan's best pre-war sources of foreign exchange, has been seriously handicapped because of deficiencies of caustic soda, rayon pulp, and coal."

"The production of machinery is limited by scarce supply of fuel, power, machinery and mechanical items of concentrated in accordance with priority coal mines and fertilizer production. The index is about the same as that for machinery constitutes one of Japan's reduced exports in textiles and raw materials necessarily have to be increased relative

RAILWAYS AND ROADS

(The information in the two following paragraphs is from the Japanese "Economic White Paper")

34. The total length of all the tracks and other fixed equipment is about 2,300,000 kilometres, and the average life of a rail is 30 years, the quantity of steel required for replacement, and for the maintenance and repair, is about 70,000 to 80,000 tons. The amount of steel required has however progressively decreased since 1946 (due to the reduced exports of steel), and the accumulated amount of steel to be replaced and other fixed equipment is approximately 250,000 tons.

35. Locomotives and passenger and freight cars are in need of renewal and repair. Thirty per cent of the electric locomotives now in use are over 10 years old. The corresponding figures for passenger cars and freight cars are 25% and 25%. The frequency with which locomotives and freight cars are replaced is five times the frequency of the pre-war years. The frequency of breakdowns of goods wagons, break-downs now occur, respectively, five times the frequency of the Government Railways back to the same level. In 1946, 750,000 tons of steel materials are required for the replacement of locomotives and rolling-stock, in addition to the steel required for the permanent way. The present condition of the Government railways regards railway tracks, locomotives, and rolling-stock is very poor.

36. Tramway systems throughout the country are in need of repair, and there are shortages of motor bus vehicles, and of tyres and gasoline. Over fifty per cent of the transport equipment in the country was destroyed during the war. In order to alleviate the shortage of motor vehicles, the Government has made for the release, for civilian use, of a large quantity of surplus stocks held by the Occupation Forces.

37. Roads, railway tracks, and bridges in need of repair from bombing during the war; but between 1945 and 1946, complete lack of road and street maintenance. In 1945, maintenance and repair work has been undertaken by the Occupation Forces; but much work still remains to be done on road surfaces and street paving to good condition.

and grossly inadequate maintenance for many stages were, and are, a serious obstacle to large numbers of repatriated Korean and impressed into service in pits, constituted by 130,000 Japanese were recruited as re-erected, through intensive SCAP and Japanese labor has been high and miners relatively working hours from ten- and twelve-hour shifts to eight-hour shifts with a consequent greater loss in working time at the coal mines. Output has fallen from 17 tons per month for the period 1939-40 to about 5.5 tons. Working conditions are the worst in the world-producing country in the world, creating a very unstable labor force."

Iron and steel production has been critically handicapped since the war. Production has recovered from practically zero to a level of some 90,000 tons of ingot per month, well below minimum requirements. Steel output has been further aggravated by the low quality of steel and inefficient use of fuel."

Japan has been confronted with the same short-coming principally the lack of coal, salt, iron pyrites and other minerals. Production of soda ash and caustic soda, and other chemical industries, remains so low as to constitute a serious handicap. Fertilizer production has been maximised by concentration of production in and channelling of output to a number of designated efficient plants. As a result fertilizer production has been quadrupled since 1946, but at more than 80% of former peak production. Imports from Korea, present output meets only some requirements."

This is particularly acute in Japan in view of her lack of a coal source and in view of the fact that soya bean oil, averaging less than 200 tons a month in 1946, 75,000 tons a month in the pre-war period. Nitric acid, and similar industries are seriously handicapped."

At the very heart of the Japanese economy. Japan's recovery in volume of raw silk production, and manufacturing. Failure of these industries thus far to recover has depressed the entire Japanese economy. Raw silk production, which has more than doubled since early 1946, is currently at a level below the 1930 level. The silk industry virtually at a standstill because of the inaccessibility of Japan's markets, has come to a virtual standstill. Most important, the silk industry, during its peak was able to sell annually over 100,000 tons to the United States, is in effect a casualty of the war. Consequently, the development and widespread use of raw silk has been frustrated recovery in the woollen industry."

Recovery has been undertaken on the basis of inventory of raw materials, capacity is available and resumption of raw material production has brought about a quick rise in productive activity." Output, one of Japan's best pre-war sources of raw materials, has been seriously handicapped because of deficiencies of coal."

"The production of machinery and mechanical equipment has been limited by scarce supply of fuel, power, and minerals. While Japan needs machinery and mechanical items of every type, production has been concentrated in accordance with priority programmes for the rehabilitation of coal mines and fertilizer production. Generally, the machinery production index is about the same as that for industry as a whole. However, since machinery constitutes one of Japan's main hopes for replacement of probably reduced exports in textiles and raw silk, the production of machinery will necessarily have to be increased relatively more than most other categories."

RAILWAYS AND ROAD TRANSPORT

(The information in the two following paragraphs is taken from the Japanese "Economic White Paper" published in July, 1947.)

34. The total length of all the tracks and sidings of the Government Railways is at present about 32,000 kilometres, and the total weight of steel in the rails and other fixed equipment is about 2,300,000 tons. On the assumption that the average life of a rail is 30 years, the quantity of steel required annually for rail replacement, and for the maintenance and repair of other fixed equipment, is from 70,000 to 80,000 tons. The amount of steel available for these purposes has however progressively decreased since 1939 (in 1944 it was less than 10,000 tons), and the accumulated amount of steel now required, if all worn-out rails are to be replaced and other fixed equipment restored to good condition, is approximately 250,000 tons.

35. Locomotives and passenger and freight rolling-stock are also very much in need of renewal and repair. Thirty per cent of the steam locomotives and 25% of the electric locomotives now in use are old and need to be replaced. The corresponding figures for passenger coaches and goods rolling-stock are 20% and 25%. The frequency with which locomotives now break down is three times the frequency of the pre-war years. In the case of passenger coaches and goods wagons, break-downs now occur, respectively, with more than twice the frequency, and nine times the frequency, of the pre-war years. In order to bring the Government Railways back to the same state of efficiency as before the war, 750,000 tons of steel materials are required for replacements and repair of locomotives and rolling-stock, in addition to the 250,000 tons required to restore the permanent way. The present condition of the privately-owned railways, as regards railway tracks, locomotives, and rolling-stock, is worse than that of the Government railways.

36. Tramway systems throughout the country are also in need of renewal and repair, and there are shortages of motor buses, motor trucks, and all other motor vehicles, and of tyres and gasoline. Over fifty per cent of the tramway and motor transport equipment in the country was destroyed or damaged during the war. In order to alleviate the shortage of motor transport, arrangements were recently made for the release, for civilian use, of a number of motor vehicles from surplus stocks held by the Occupation Forces.

37. Roads, railway tracks, and bridges in Japan suffered very little damage from bombing during the war; but between 1940 and 1945 there was almost complete lack of road and street maintenance and repair. Since the autumn of 1945, maintenance and repair work has been resumed under the direction of the Occupation Forces; but much work still needs to be done to restore all road surfaces and street paving to good condition.

MERCHANT SHIPPING

(The following two paragraphs is from the Japanese "Economic White Paper".)

of over 100 gross registered tons at present near-seas trade number 770, of a total gross 600 tons. Of these, 460 vessels of a total gross 600 tons are cargo ships; but about 80 of the vessels are transport of repatriates and for other special purposes of a total of 630,000 gross registered tons are cargo. Moreover, of the total of 460 cargo ships that were built during the war. Their engines develop engine and other defects, and they are long. Of the remaining 30 per cent, most are old and although they are of better construction they are now hardly fit for further service. The condition is difficult because of shortages of materials. The most suitable for coastwise trade there is only a few vessels suitable for ocean navigation is only

total weight of merchandise carried coastwise (mainly way sleepers to China and salt from China), in 1947, because of favourable weather, it has increased to 10,000 tons of merchandise monthly. It will be possible unless more vessels can be salvaged, damaged vessels already under construction can be completed, and in the meantime for the chartering of ships is urgently necessary; but the first three are necessary materials. It is estimated that if the materials could be provided, the present programme of building new vessels could be finished by April, 1951.

The information in the above two paragraphs shows that, on the Japanese coasts, a large number of vessels according to figures issued by the Research and Scientific Section of General MacArthur's Headquarters in January, 1947, 1,312,000 tons weight of cargo is carried, fairly regularly, to 1,945,000 tons carried

securing a larger output of coal in Japan. There is also difficulty about the transport of coal. It has always been carried coastwise. The railways are in an impaired condition, and the transport of coal by ships, is not practicable. Experts are of the opinion that to transport even the 30 million tons of coal produced in the year ending March, 1948, unless more vessels for the handling of coal are employed; and that the coal can best be obtained by chartering from the United States. Production increases by about 3 million tons and the chartering of foreign vessels will be still more

FINANCIAL CONDITIONS

Figures presented to the Allied Council for the Pacific War of Japanese repatriated from overseas since

the end of the war totalled 5,765,244 at October 23rd, and a total of about 840,000 remained to be repatriated. Repatriation, from Japan, of over 1,170,000 Chinese, Koreans, and Loo-Chooans had been completed. A census of population in Japan was begun on October 1st, 1947. It has not yet been completed, owing to disorganization in areas affected by the floods of September 1947 (mentioned in paragraph 8); but the following preliminary results have been reported:—The total population is estimated at 78,220,840, which is an increase of over 4 millions since April 26th, 1946, the census taken at that date, and recently corrected, having shown a total population of 74,024,000. In July and August, 1946, the number of marriages in Japan was 87,292; in the same two months of 1947 it was 138,355. Corresponding figures for births were 338,530 and 463,589, and for deaths, 260,351 and 203,098. The increases in the numbers of marriages and births are the result mainly of the repatriation of Japanese from abroad, and the decrease in the number of deaths is ascribed to the improved public health conditions introduced by the Occupation authorities. In September, 1947, officials of the Research and Statistics Division of the Economic and Scientific Section of General MacArthur's Headquarters estimated that the population of Japan was then increasing at an annual rate of 1¼ millions.

43. UNEMPLOYMENT. As the result of the elimination of Japan's war industries and of the low levels at which the peaceful manufacturing industries are at present operating, a large part of the industrial population is either unemployed or only partially employed. Many of the wholly unemployed have moved to the country districts where they help with agricultural work. The partially unemployed are those on the payrolls of industrial companies whose output is at present very much reduced, but who apparently hesitate to dismiss superfluous employees because of the opposition of the Labour Unions and the labour unrest that might ensue. In answers to questions in the Diet during July, 1947, the competent Minister estimated the number of wholly unemployed at 2,700,000, and the number of partially unemployed at between 7,900,000 and 8,100,000. A considerable appropriation has been made in the 1947-1948 Budget for public works for unemployment relief, which, according to statements in the Diet, may provide employment for 3 million workers in 1948. Obviously, however, there can be no complete solution of the present unemployment problem until much more progress has been made with all the measures of reconstruction and new development necessary for the rehabilitation of the Japanese economy and referred to in preceding paragraphs.

44. HOUSING. The Japanese War Damage Reconstruction Board recently calculated that, after deducting the number of houses rendered vacant by war deaths, there was, at the end of the war, a shortage of 3,730,000 dwelling houses, and that, in addition to the replacement of these, 670,000 more houses were required for the accommodation of Japanese repatriated from abroad. Between the end of the War and June, 1947, some 400,000 houses had been built, so that there was still a shortage in June, 1947, from war causes, of about 4 million houses. Over and above this shortage, there remained the need to replace the annual loss, from fire, flood, earthquake, etc., and natural decay, of some 100,000 houses, and also the need to build annually about 100,000 new houses to accommodate the natural increase of the population. In the course of a debate in the Japanese Diet in August, 1947, it was stated that the number of persons then without houses was 13 millions. The Japanese authorities were able to allocate, for the year ended March, 1947, sufficient timber for the building of only 250,000 wooden houses of small size. How soon this rate of allocation can be increased will depend on how quickly the present shortages of equipment in the forestry and timber industries, and the shortage of transport of all kinds, can be remedied. There are shortages also, at present, of paper, glass, nails, and other materials used in house building.

(The information in paragraphs 45 to 48 below is taken from the Japanese "Economic White Paper".)

45. HOUSEHOLD FUEL. If the index numbers for the annual average production of charcoal, firewood, and coal briquettes, which are the principal household fuels, be taken as 100, in each case, for the years 1930 to 1936, the index numbers for the annual average production of these in the two years 1945 and 1946 are found to be charcoal 65, firewood 66, briquettes 43. Transport difficulties hindered the distribution of these fuels, and at the end of 1946 the total quantity of all three that it was possible to distribute, in the six largest cities, had fallen, in terms of charcoal, to an average ration of only 14 bales of charcoal per household per annum. (The average Japanese household of two adults and three children normally consumes about 36 bales per annum.) During 1945 and 1946, owing to the shortage of coal, the gas supply in the cities was very inadequate, and increasing use was made of electric heaters for household use. Production and deliveries of charcoal, firewood, and coal briquettes during the three months of April to June, 1947, have been only about 60 per cent of the amounts planned for. It is expected that the continuing shortage of coal will make any increase in gas supplies during the coming winter very difficult, and it is expected also that there will be a greater shortage of electric current than during the winter of 1946-1947.

46. CLOTHING, FOOTGEAR, ETC. The consumption of textiles for clothing, which in the years before the war was about 10 lbs. per person per annum, declined to 6.2 lbs. in 1941, 5.3 lbs. in 1942, 3.4 lbs. in 1943, 1.3 lbs. in 1944, and 1.2 lbs. in 1945. In 1946 it was possible, by using textile materials previously held by the military and by other official bodies, and materials previously hoarded or otherwise concealed, to restore the consumption, temporarily, to 2.6 lbs. per head. During the present year, however, it will hardly be possible to find materials enough for an average consumption, per head of the population, of 2 lbs. of textiles, and as it will be necessary to allow somewhat more than 2 lbs. to agricultural workers, coal-miners, workers in other essential industries, pregnant mothers, and infants, the quantity available for the general public will hardly allow of a consumption of 1 lb. per head.

47. No increase in the consumption of textiles for clothing can be expected in the near future. Almost all silk, of which there is now a smaller production than in pre-war years, has to be exported in order to pay for imports of food and other necessities; the raw cotton imported is used mainly for the manufacture of piece goods for export; and no quick increase in the output of artificial silk is possible as long as the present shortage of coal and other necessary materials continues.

48. It is estimated that the materials available for the production of paper, soap, matches, and rubber-soled socks (as examples of daily necessities), will allow only for the supply of these at the following rates per person, for the present year:—7.5 lbs. of paper per annum; 2 cakes of soap of 50 grammes each, per annum; 4 matches per day; 1 pair of rubber-soled socks among seven persons, per annum. These rates are, respectively, only 28, 5, 40, and 34 per cent of the average supplies available during the years 1930 to 1936.

49. The Japanese Government, in August, 1947, made application to General MacArthur's Headquarters for permission to sell to the civilian population a quantity of used boots and shoes which had been supplied to the Japanese authorities by the United States Army in Japan, and permission was granted in October, 1947, for the sale of these boots and shoes to the farming population. At the same time permission was given for a 10 per cent increase of the small

quantity of cotton yarn allocated at present for civilian clothing.

50. PRICES, WAGES, ETC. When the rationing system was first effected it was the intention of the Occupying Powers that goods that had been reserved for military purposes and that had been turned into goods for civilian consumption should be made available and used for the production of consumers' goods such as food, clothing, and other necessities from which the rationing might be relieved. A directive to that effect was issued by General MacArthur's Headquarters in October, 1945, with the intention also that the rationing systems for food, clothing, and other commodities price controls, which apparently were to be continued. In the confused conditions that have prevailed since because the formerly ubiquitous Japanese rationing system in number and also deprived of many of its powers, the rationing systems broke down, and large quantities of goods were handed over but were concealed and hoarded, leading to high prices. These were the origins of the black market which exist as regards the distribution of foodstuffs and other commodities, black market in nearly all commodities, which

51. The Japanese authorities have not yet introduced a rationing system nor to put an end to black market. Rations of the staple food, rice, have often been distributed to Japanese of all classes, and including the police, and they buy in the black market in order that they can get enough to eat and to wear. Government orders for most commodities are issued periodically, but it is done in the black market that these orders are not effective. Shortages of commodities of all kinds and the high market prices have continued to rise. This has led to a rise in wages or for extra cash allowances. When the rationing is in most cases, so far, the natural result is that prices rise. This upward movement of prices has been accompanied by an increase in the total amount of money from 42,759 million yen at June 30th, 1946, to 50,000 million yen at June 30th, 1947.

52. Japanese Government expenditure for various kinds, including supplies required for the war, has increased. The Budget, including four supplementary budgets for the year 1946-1947 provided for a total expenditure of 38,300 million yen for Occupation costs and for the termination of the war. The original Budget for 1946 provided an expenditure of 114,503 million yen, including Occupation costs, etc., but in October, 1947, the Government issued a supplementary Budget which provided for an additional 39,000 million yen of which was generally expected that further supplementary budgets will be necessary.

53. The only quick remedy for the above mentioned shortages into Japan of foodstuffs, consumers' goods, and other commodities in short supply in Japan, in such large quantities, is by means of an effective system of rationing

country, the present needs of the population would be satisfied: Imports on this scale, however, and the restoration of an effective system of rationing and price control, seem at present remote possibilities.

FOREIGN TRADE

54. On a government-to-government basis, merchandise trade between Japan and the U.S.A., the United Kingdom, Hong Kong, Australia, Singapore, Ceylon, India, and a few other countries has been in operation since the autumn of 1945. It seems useful to give some account of this trade, because it indicates the kinds of commodities that it has been necessary to import into Japan, and which it will be necessary to import in future, to sustain the Japanese economy, and because it indicates also the kinds of commodities that Japan is already able to export, and should (with the possible exception of raw silk) be able to export in larger quantities in future, if economic recovery continues.

55. The principal commodities imported, so far, through government-to-government trade channels, have been of the same kinds as Japan has always had to import, namely foodstuffs (wheat, wheat flour, maize, sugar, cooking oils, salt); fertilizers (phosphate rock and potash); petroleum products; raw cotton and wool; rubber; tanning materials; salt, for industrial use. The principal exports have been raw silk and silk piece goods; cotton yarn and piece goods and other manufactures of cotton; rayon yarn (and some rayon fabrics); woollen fabrics (a small quantity); agricultural products (tea, tinned oranges, dried mushrooms); forestry products (timber, plywood, bamboo, camphor, furs); fishery products (tinned crab, dried fish and shell-fish, agar-agar, cultured pearls, seed oysters); ores, metals, and machines; pottery and porcelain; paper of special kinds; cellulose film; miscellaneous manufactured goods (bicycles, electric fans, clocks and watches, slide rules, safety matches); coal (please see paragraph 19). Statistics (preliminary estimates only) of the value of the merchandise trade between Japan and other countries, through government-to-government channels, were presented to the Allied Council for Japan by the Chairman and United States Member of the Council, on September 17th, 1947. The information contained in the following paragraphs is based on the statistical material presented to the Council.

56. The total value of the imports received by Japan in the year 1946 and the first four months of 1947 was 424 million U.S. dollars, made up as follows:

	<i>Millions of U.S. dollars</i>
Foodstuffs	226
Raw cotton	126
Fertilizers	33
Petroleum	19
Salt	9
Chemicals and medical supplies	6
Rubber	2
Other imports	3
	424

Practically all the above imports were from the U.S.A., the principal exceptions being salt from Red Sea and Mediterranean ports, rubber from Malaya, and some foodstuffs and other merchandise from Hong Kong, China, and Southern Korea. The United Kingdom share of imports into Japan was U.S. \$2.7 millions.

57. Exports from Japan during 1946 and of a total value of 171 million U.S. dollars

Raw silk	
Silk textiles	
Cotton yarn and textiles	
Rayon	
Woollen	
Ores, metals and machines	
Timber, bamboo, and paper	
Agricultural and fishery products	
Other exports, including pottery	
Coal	

Of the above exports, practically all the raw silk and a large part of the pottery and porcelain and fishery products went to the U.S.A. and the U.S. dollars. Exports to Southern Korea were 10 million U.S. dollars. The coal exports went mainly to Hong Kong, and to Singapore, of pottery and fishery products, yarn and textiles, electric machinery. Exports to the Netherlands East Indies were 10 million U.S. dollars. Exports to India, Burma, and Ceylon at U.S. \$10 million. Exports to the United Kingdom was U.S. \$2.7 million.

58. The raw silk exported from Japan during 1946 was valued at 171 million U.S. dollars, and this amount was 65% of the total value of Japanese exports for that year. In the first four months of 1947, the value of raw silk exports was only 3 million U.S. dollars, which was less than the value of raw silk exports in that period. There have been no raw silk exports since the beginning of 1946 to the U.S.A. In the past, purchased very much larger quantities of raw silk in the U.S.A. have remained unsold. It appears that the U.S.A. for manufactures of natural silk and rayon. Plans in the U.S.A. for an advertising campaign to stimulate the demand for goods made from natural silk. In the past, Japan earned very much more for the export of raw silk than from the export of any other silk products. In some years of cotton tissues, and the loss of the market for her most profitable export for recovery. Another profitable export for Japan is the export of tinned salmon and tinned crab from the Russians, on the coasts of Kamchatka, in the Okhotsk and Bering Seas. Only a small amount of raw silk can now be possible from the fishing areas of the Kamchatka waters, and it is doubtful whether exports will be possible.

59. It is estimated that up to the end of 1946 the value of about U.S. \$500 millions, and of about U.S. \$200 millions, were made through government-to-government trading still.

... would be satisfied: Imports on this effective system of rationing and price controls.

TRADE

... merchandise trade between Japan and Hong Kong, Australia, Singapore, Ceylon, has been in operation since the autumn of 1945. This trade, because it indicates the kinds of goods to import into Japan, and which it will be able to export in larger quantities, is of great importance to the Japanese economy, and because it indicates that Japan is already able to export (and will be able to export in larger quantities) goods which it will be able to export in larger quantities.

... so far, through government-to-government trade, of the same kinds as Japan has always imported: wheat flour, maize, sugar, cooking oils, cotton, petroleum products; raw cotton, salt, for industrial use. The principal exports are: cotton yarn and piece goods (and some rayon fabrics); woollen goods; tea, tinned oranges, dried fruits, plywood, bamboo, camphor, furs; shell-fish, agar-agar, cultured pearls, pottery and porcelain; paper of various kinds; manufactured goods (bicycles, electric matches); coal (please see paragraph 57 for the value of the merchandise exports through government-to-government trade). The information is based on the statistical material...

... by Japan in the year 1946 and the first four months of 1947 were of a total value of 171 million U.S. dollars, as follows:

	Millions of U.S. dollars
.. .. .	226
.. .. .	126
.. .. .	33
.. .. .	19
.. .. .	9
.. .. .	6
.. .. .	2
.. .. .	3
	<hr/>
	424

... the U.S.A., the principal exceptions are: rubber from Malaya, and some goods from Hong Kong, China, and Southern Korea. The value of the exports to Japan was U.S. \$2.7 millions.

57. Exports from Japan during 1946 and the first four months of 1947 were of a total value of 171 million U.S. dollars, as follows:

	Millions of U.S. dollars
Raw silk	87
Silk textiles	1
Cotton yarn and textiles	23
Rayon	3
Woollen	3
Ores, metals and machines	27
Timber, bamboo, and paper	3
Agricultural and fishery products	5
Other exports, including pottery and porcelain	7
Coal	12
	<hr/>
	171

Of the above exports, practically all the raw silk, most of the ores and metals, and a large part of the pottery and porcelain and of the agricultural, forestry, and fishery products went to the U.S.A. and were of a total value of 111 million U.S. dollars. Exports to Southern Korea amounted in value to U.S. \$21.5 millions. The coal exports went mainly to Hong Kong; and there were exports to Hong Kong, and to Singapore, of pottery and porcelain, clocks and watches, fishery products, yarn and textiles, electric fans, and other metal manufactures. Exports to the Netherlands East Indies were valued at U.S. \$9.8 millions, and exports to India, Burma, and Ceylon at U.S. \$2.4 millions. The value of the exports to the United Kingdom was U.S. \$3.6 millions.

58. The raw silk exported from Japan in 1946 was of a value of 84 million U.S. dollars, and this amount was 65% of the total value of all exports in that year. In the first four months of 1947, the raw silk exported was of a value of only 3 million U.S. dollars, which was less than 7½% of the total value of the exports in that period. There have been reports that much of the raw silk exported since the beginning of 1946 to the U.S.A., which has always, in the past, purchased very much larger quantities of Japanese raw silk than any other country, have remained unsold. It appears that the former large demand in the U.S.A. for manufactures of natural silk no longer exists, and that a preference for the manufactures of nylon and similar synthetic products has been established. Plans in the U.S.A. for an advertising campaign which it was hoped might revive the demand for goods made from natural silk seem to have been abandoned. In the past, Japan earned very much more foreign exchange from the export of raw silk than from the export of any other single commodity, with the exception in some years of cotton tissues, and the loss, if it is to be permanent, of the principal market for her most profitable export must seriously retard Japan's economic recovery. Another profitable export for Japan in the past was the annual shipment of tinned salmon and tinned crab from the Japanese fisheries, now lost to the Russians, on the coasts of Kamchatka, the Kurile Islands, and Saghalien, and in the Okhotsk and Bering Seas. Only a very reduced export of tinned crab will now be possible from the fishing areas remaining to the Japanese in northern waters, and it is doubtful whether exports of tinned salmon will be possible.

59. It is estimated that up to the end of June, 1947, imports into Japan to the value of about U.S. \$500 millions, and exports from Japan to the value of about U.S. \$200 millions, were made through government-to-government trade channels. Government-to-government trading still continues, and in the summer of 1947

arrangements were made which allowed of the resumption, from September 1st, of trade between Japan and other countries through ordinary non-official trade channels also, except in the case of a few commodities still reserved for government-to-government trading. Since that date it has been possible for merchants of other countries to make business contracts with merchants in Japan either by telegram or letter or by making personal visits to Japan. At September 16th 1947 the number of merchants on visits to Japan was 102, of whom 51 were from the U.S.A. and 19 were from the United Kingdom. At the same date 25 representatives of banking, insurance and shipping companies, of whom 17 represented British companies, had arrived in Japan, and it is gradually becoming possible for them to resume business. Business transacted through non-official trade channels is subject to final approval, as regards price and other conditions, by General MacArthur's Headquarters. Up to September 16th 1947 approval had been given to purchases, by merchants visiting Japan, of Japanese goods of a total value of U.S. \$798,797, and purchases still waiting approval at that date were estimated to amount to U.S. \$1,071,944. The Japanese goods purchased, up to September 16th, were of the following kinds:—pottery and porcelain, tinned foods, furs, cultured pearls, silk textiles, chemicals, fishing tackle, toys and fancy goods.

60. Most of the merchants who have visited Japan since September 1st came as buyers, and not as sellers of goods to Japan. Generally speaking, they found business conditions difficult. As no commercial rate of exchange yet exists between the Japanese yen and the currency of any other country, a separate rate of exchange between the yen and the U.S. dollar, or other currency if convertible into U.S. dollars, had to be negotiated for each class of Japanese goods purchased for export, this rate being arrived at on the basis of the cost of production, in yen, in Japan, and current or pre-war selling prices of the same kinds of goods in other countries. In many cases business visitors found the resulting export prices for Japanese goods too high. They found also that, as the result of Japanese manufacturers and exporters having been out of touch with foreign markets since 1941, many of the goods offered for export were unsuitable for the markets for which they were intended. Another difficulty was that in many cases the Japanese manufacturers and exporters could not, because of shortages of materials in Japan, undertake to meet orders for future deliveries. Much of the merchandise that Japan has been able to export since the beginning of 1946 has been produced from materials that existed in the country when the war came to an end and which have meantime been exhausted.

61. When arrangements for the resumption of trade between Japan and other countries through ordinary trade channels were being considered in the summer of 1947, it became obvious that, because of the lack of materials in Japan for the production of goods for export, some method would have to be found of enabling Japan to import the necessary materials. The method adopted was the utilization, by the Supreme Commander for the Allied Powers, of approximately 137 million U.S. dollars worth of Japanese-owned gold and silver as security for loans to pay for the import into Japan of raw materials for the manufacture of goods for export, the profits from the exports then to be used to finance further imports of materials for the production of further exports, and this process to continue. It was estimated that by this method a revolving credit could be established which would eventually amount to approximately 500 million U.S. dollars. The security for the credit, called The Occupied Japan Export-Import Revolving Fund, was established as from August 14th, 1947.

62. The most recently reported developments in foreign trade have been the following:

Between the beginning of 1946 and the 263½ million linear yards of cotton piece goods distribution of these exports was:

To	
Aden .. .. .	.. .. .
Australia .. .. .	.. .. .
Ceylon .. .. .	.. .. .
Gold Coast .. .. .	.. .. .
Hong Kong .. .. .	.. .. .
India .. .. .	.. .. .
Kenya and Uganda .. .. .	.. .. .
Netherlands East Indies .. .. .	.. .. .
Nigeria .. .. .	.. .. .
Northern Rhodesia .. .. .	.. .. .
Philippine Islands .. .. .	.. .. .
Siam .. .. .	.. .. .
Singapore .. .. .	.. .. .
Sudan .. .. .	.. .. .
Sweden .. .. .	.. .. .
Tanganyika .. .. .	.. .. .
Turkey .. .. .	.. .. .
United Kingdom .. .. .	.. .. .
Other Destinations .. .. .	.. .. .

In September, 1947, contracts were made for quantities more or less the same as those above. The total value of these exports is approximately 90 per cent of the goods have been produced from the U.S.A.

A contract was made in September, 1947, for the purchase of 100 wooden tugboats and 75 barges. The Russian authorities contracted at the same time to supply 1,500 tons of wood-pulp, and 1,500 tons of coke.

At the beginning of October, 1947, contracts were made between the Japanese Board of Trade and a United States company for the supply to Japan of 900 tons of quebracho extract for use in the manufacture of lacquer and between the Japanese Board of Trade and a United States company for the supply to Japan of 800 tons of refined resin and varnish.

of the resumption, from September 1st, series through ordinary non-official trade commodities still reserved for government- it has been possible for merchants of acts with merchants in Japan either by visits to Japan. At September 16th 1947 the was 102, of whom 51 were from the U.S.A. At the same date 25 representatives companies, of whom 17 represented British is gradually becoming possible for them ed through non-official trade channels is e and other conditions, by General Mac- ber 16th 1947 approval had been given to of Japanese goods of a total value of U.S. approval at that date were estimated to ese goods purchased, up to September ttery and porcelain, tinned foods, furs, fishing tackle, toys and fancy goods.

visited Japan since September 1st came Japan. Generally speaking, they found commercial rate of exchange yet exists ncy of any other country, a separate rate S. dollar, or other currency if convertible r each class of Japanese goods purchased g the basis of the cost of production, in elling prices of the same kinds of goods iness visitors found the resulting export y found also that, as the result of Japanese a out of touch with foreign markets since port were unsuitable for the markets for iculty was that in many cases the Japanese because of shortages of materials in Japan, liveries. Much of the merchandise that e beginning of 1946 has been produced ntry when the war came to an end and

umption of trade between Japan and other els were being considered in the summer e of the lack of materials in Japan for the ethod would have to be found of enabling The method adopted was the utilization, ed Powers, of approximately 137 million old and silver as security for loans to pay s for the manufacture of goods for export, sed to finance further imports of materials and this process to continue. It was g credit could be established which would 0 million U.S. dollars. The security for n Export-Import Revolving Fund, was

elopments in foreign trade have been the

Between the beginning of 1946 and the end of August, 1947, approximately 263½ million linear yards of cotton piece goods were exported from Japan. The distribution of these exports was:

To	Million Yards
Aden	8
Australia	5
Ceylon	2
Gold Coast	2
Hong Kong	3
India	17
Kenya and Uganda	3
Netherlands East Indies	60
Nigeria	4
Northern Rhodesia	2
Philippine Islands	4
Siam	25
Singapore	8
Sudan	12
Sweden	12
Tanganyika	2
Turkey	28
United Kingdom	58
Other Destinations	8½
	<hr/>
	263½

In September, 1947, contracts were made for exports from Japan, to destinations more or less the same as those above, of 578 million linear yards of cotton piece goods, 35 million lbs. of cotton yarn, and 500,000 dozen cotton singlets. The total value of these exports is approximately 161 million U.S. dollars, and 90 per cent of the goods have been produced from raw cotton exported to Japan from the U.S.A.

A contract was made in September, 1947, between the Japanese Board of Trade and representatives of the Russian Government for the building in Japan of 100 wooden tugboats and 75 barges for use in Sakhalien. The Russian authorities contracted at the same time to deliver to Japan 25,000 tons of coal and coke, 1,500 tons of wood-pulp, and 4,000 tons of graphite.

At the beginning of October, 1947, contracts were made between the Japanese Board of Trade and a United States company for the export from Argentina to Japan of 900 tons of quebracho extract for the tanning of fishing nets and leather, and between the Japanese Board of Trade and the Belgian Government for the supply to Japan of 800 tons of refined resin for use in the manufacture of paints and varnish.

Part II

THE FUTURE DEVELOPMENT OF THE JAPANESE ECONOMY

63. Considerable progress (indicated in Part I) has been made towards the rehabilitation of the Japanese economy, particularly in the important matter of the restoration of Japan's foreign trade, and further good progress will be made as long as the present Military Occupation of Japan continues. There is much evidence that in agriculture, forestry, fishing, mining, and the manufacturing industries, the Japanese are being taught, by the experts of the Natural Resources and the Economic and Scientific Sections of General MacArthur's Headquarters, better methods of obtaining the optimum production from the natural resources of the country, and better methods of processing the materials obtained, and it seems certain that the longer the Occupation lasts, the more securely will the bases of a self-sustaining economy for Japan be established.

64. But although good progress in economic recovery has been and is continuing to be made, complete establishment of the necessary bases for a self-sustaining economy for Japan (as will be evident also from Part I) still requires the following:

- (a) the organization of a sufficient and well-distributed food supply. (All the Japanese with whom I have been able to discuss these matters insist that this is the first essential, and that, for the Japanese worker, no other foodstuff is an effective substitute for rice);
- (b) provision of sufficient supplies of clothing and footwear;
- (c) the building of about 4 million dwelling houses destroyed during the War and the rebuilding or repair of factories and factory equipment destroyed or damaged;
- (d) provision of sufficient and well-distributed supplies of coal, charcoal, wood, gas, and electric current for industry and for household heating, cooking, and lighting;
- (e) restoration of the railway and tramway systems and motor-bus, motor-truck and other forms of motor transport to pre-war standards of efficiency;
- (f) the restoration by salvage, repairs to damaged vessels and completion of vessels under construction, of a merchant shipping fleet of steel vessels sufficient for the coastwise trade of Japan, and the restoration of a ship-building and ship-repairing industry sufficient to maintain this fleet;
- (g) increased industrial development of Japan's natural resources in order that the peaceful needs of the Japanese people may be supplied, as far as possible, directly from these resources, and in order that the maximum possible quantities of products, not required for consumption in Japan, may be manufactured from these resources and exported from Japan;
- (h) the regular import into Japan of such quantities of foodstuffs and other commodities as it may be essential to import in order to supplement the supplies of these obtained by the increased development of Japan's natural resources;
- (i) the regular import into Japan of raw materials for processing in Japan and conversion into export commodities of higher values than the raw materials imported, in order that receipts from the sale abroad of these commodities, and any profits Japan may earn from invisible trade, may together make up the difference between the value of the exports indicated in (g) and the cost of the essential imports indicated in (h);

- (j) the rehabilitation of the peaceful Japanese and the establishment of new industries in Japan) to be indicated in (a) to (i);
- (k) the restoration of sound financial conditions and a stable commercial rate of exchange between the currencies of other countries;
- (l) the restoration of the overseas trade of Japan and the export and import trade indicated in (a) to (i).

65. All economic activity in Japan at present is being conducted through the departments of General MacArthur's Headquarters. The Japanese authorities concerned, towards meeting the requirements of the above paragraph, and the rehabilitation of the Japanese economy is being assisted by the Governments of several countries, before the war and which are now actively engaged in trade with Japan from their territories to Japan, and the importation of raw materials and products.

66. The progress so far made towards the rehabilitation of the Japanese economy has required the grant of a certain amount of U.S. dollars from the United States. It is estimated that between the autumn of 1945 and the autumn of 1947, Japan received imports, the greater part of which were financed shipments of food, fertilizers, petroleum, and other goods, to the value of somewhat over 500 million U.S. dollars, and that during this period were of a value of only a little over 300 million U.S. dollars on credit to Japan. The purpose of facilitating the import into Japan of goods for export, has been arranged for by the Japan Export-Import Revolving Fund (described in Part I), to which it is hoped financial institutions in Japan as well as those in the United States. Financial assistance will help the Japanese to deal with initial difficulties in the development of their overseas trade with some countries; it is hoped that this will seem likely to prevent the development of a trade barrier on any large scale in the near future.

67. Korea, China, including Manchuria, Formosa, and the East Indies, if they were peaceful and stable, would be able to purchase increasing quantities of many of the goods already produce, and would be able also to supply the foodstuffs and raw materials needed at present by Japan. If these countries are so disturbed that at present no trade between them and Japan is possible, and when peace is re-established in these countries in the future, it can be re-established in these countries in the future. In the Philippine Islands there has not yet been a surplus of rice from Siam and Burma, which in exchange for manufactured goods, is supplied to these countries. Japanese economists point to the rehabilitation of trade in South-east Asia as one of the greatest obstacles to the rehabilitation of the Japanese economy.

68. Recently there have been signs that the newly-established states of India and Pakistan, and the renewal of trade are, however, still unfavourable to Japan, which Japan had a considerable exchange of

II

DEVELOPMENT
THESE ECONOMY

in Part I) has been made towards the particularly in the important matter of and further good progress will be made on of Japan continues. There is much fishing, mining, and the manufacturing by the experts of the Natural Resources of General MacArthur's Headquarters, in production from the natural resources processing the materials obtained, and it operation lasts, the more securely will the Japan be established.

economic recovery has been and is continuing the necessary bases for a self-sustaining also from Part I) still requires the

well-distributed food supply. (All the able to discuss these matters insist that for the Japanese worker, no other foodstuff

clothing and footgear ;
dwelling houses destroyed during the War
factories and factory equipment destroyed or

distributed supplies of coal, charcoal, wood,
stry and for household heating, cooking,

way systems and motor-bus, motor-truck
to pre-war standards of efficiency ;

damaged vessels and completion of vessels
shipping fleet of steel vessels sufficient for
the restoration of a ship-building and ship-
maintain this fleet ;

of Japan's natural resources in order that
people may be supplied, as far as possible,
order that the maximum possible quantities
consumption in Japan, may be manufactured
from Japan ;

such quantities of foodstuffs and other com-
port in order to supplement the supplies
development of Japan's natural resources ;
raw materials for processing in Japan and
of higher values than the raw materials
from the sale abroad of these commodities,
from invisible trade, may together make up
of the exports indicated in (g) and the cost
in (h) ;

- (j) the rehabilitation of the peaceful Japanese industries (and possibly the establishment of new industries in Japan) to the levels necessary for the purposes indicated in (a) to (i) ;
- (k) the restoration of sound financial conditions in Japan and of a more or less stable commercial rate of exchange between the Japanese currency and the currencies of other countries ;
- (l) the restoration of the overseas trade of Japan to the extent necessary to allow of the export and import trade indicated in (g), (h), and (i).

65. All economic activity in Japan at present is being directed, by the appropriate departments of General MacArthur's Headquarters in co-operation with the Japanese authorities concerned, towards meeting the requirements outlined in the above paragraph, and the rehabilitation of the Japanese economy along these lines is being assisted by the Governments of several countries which traded with Japan before the war and which are now actively promoting exports of merchandise from their territories to Japan, and the import into their territories of Japanese products.

66. The progress so far made towards the rehabilitation of the Japanese economy has required the grant of a certain amount of financial aid to Japan by the United States. It is estimated that between the autumn of 1945 and the end of June, 1947, Japan received imports, the greater part of which consisted of United States financed shipments of food, fertilizers, petroleum, and cotton, of a total value of somewhat over 500 million U.S. dollars, and that Japan's exports in the same period were of a value of only a little over 200 million U.S. dollars. In effect therefore Japan received, up to June 30th, 1947, essential imports of a value of about 300 million U.S. dollars on credit terms. Further financial aid, for the purpose of facilitating the import into Japan of raw materials for the manufacture of goods for export, has been arranged for by the institution of the Occupied Japan Export-Import Revolving Fund (described in paragraph 61 in Part I) to which it is hoped financial institutions in other countries will contribute, as well as those in the United States. Financial aid on a substantial scale would help the Japanese to deal with initial difficulties in the way of the resumption of their overseas trade with some countries ; but there are other difficulties which seem likely to prevent the development of a Japanese export and import trade on any large scale in the near future.

67. Korea, China, including Manchuria, Formosa, Indo-China, and the Netherlands East Indies, if they were peaceful and prosperous, would at present be able to purchase increasing quantities of many of the commodities that Japan can already produce, and would be able also to supply in exchange a large part of the foodstuffs and raw materials needed at present in Japan. But conditions in these countries are so disturbed that at present only a very limited exchange of goods between them and Japan is possible, and whether prosperous economic conditions can be re-established in these countries in the near future is very doubtful. In the Philippine Islands there has not yet been much economic recovery, and the surplus of rice from Siam and Burma, which could normally be exported to Japan in exchange for manufactured goods, is still being allocated for use in other countries. Japanese economists point to the general disorganization in East and South-east Asia as one of the greatest obstacles to the recovery of Japan's foreign trade and to the rehabilitation of the Japanese economy.

68. Recently there have been signs that trade between Japan and the two newly-established states of India and Pakistan is recovering. Conditions for a renewal of trade are, however, still unfavourable in parts of the Middle East with which Japan had a considerable exchange of trade in the past. The same is true,

of course, of many countries in Europe with which Japan formerly traded. Other difficulties (mentioned in paragraph 58, Part I) are that Japan has lost, at any rate for the present, the market that formerly existed in the United States for large quantities of raw silk, and that the profitable exports of tinned salmon and tinned crab which Japan was formerly able to make, from fisheries in Russian waters, are not now possible. Finally there is the difficulty that some of the materials required (coal and iron and steel in particular) for the production of manufactured goods for export, are the same materials as are urgently required, and of which there is an insufficient supply, for reconstruction purposes in Japan itself.

69. In view of all these difficulties in the way of an increase in exports and imports in the near future, it seems unlikely that Japan can quickly accumulate supplies of foreign exchange through profits from foreign trade, and that progress towards the establishment of a self-sustaining economy for Japan through foreign trade alone can therefore only be very gradual. If quick progress is to be made, Japan must receive further financial aid in addition to the credits mentioned in paragraph 66, in order that she may quickly procure imports of the various materials and equipment at present lacking in Japan and necessary for economic reconstruction. But until final decisions have been reached regarding reparations to be made by Japan in the form of industrial equipment or in the form of goods currently produced by Japanese industries, and regarding the levels at which Japanese industries are to operate in the future, it will not be possible to calculate exactly what quantities of industrial equipment, or of raw materials for industry it will be necessary for Japan to import, nor to calculate, except approximately, what financial aid to Japan will be necessary. At present it appears that final decisions about reparations and future levels of industry will not be taken until a Peace Conference has assembled and has agreed upon the terms of a Peace Treaty for Japan.* It seems likely therefore that, until a Peace Treaty has been signed, no further credits will be accorded to Japan, except perhaps in the form of additional shipments of the kind mentioned in paragraph 66, i.e. United States financed shipments of food, etc., and that in the meantime economic conditions in Japan will continue to improve only gradually, as at present.

70. As the amount and nature of the reparations to be made by Japan, the future levels of the Japanese manufacturing industries and of Japanese merchant shipping, and the amount of financial assistance Japan may eventually receive from abroad are still unknown, and as the prospects for an early increase in the foreign trade of Japan are at present unfavourable, there are many aspects of the Japanese economy the future development of which it is not possible to foresee, but one can be reasonably sure, I think, about some developments.

71. The number of Japanese living in the four main islands of Japan is now greater, and is increasing at a higher annual rate, than ever before, and this increased and increasing population will have to depend for the means of subsistence, to a much greater extent than before, upon the natural resources of the islands. Under the present Military Occupation the Japanese population and the Japanese authorities concerned are being taught how to make better use of these resources than they did in the past. Responsible Japanese officials have stated that these better methods will be continued after the Occupation has ended, and that in particular the long range plans begun under the Occupation, for increased agricultural and forestry development will be carried out. They have stated also

*In the interim period the Far Eastern Commission has power to make policy decisions on such matters, and these decisions can be translated by the United States Government into directives to the Supreme Commander for the Allied Powers.

that the agricultural, forestry, and fishing industries will provide larger quantities of export products. The output of the textile industry and also the output of cement (which is at present so retarded that the possibility of future exports of cement, one of the natural resources of Japan, however, include iron and steel, copper, zinc, and other metals and of limestone for cement production) will be increased if there is a demand for them in foreign markets. The textile industry has sufficiently recovered.

72. The Japanese people in general appear to be making the best possible use of the natural resources of their country. A moderate standard of living may be maintained by the use of their resources and partly through an export trade in their resources. It is true that the Japanese record of use of their natural resources in the past—example—has not been an impressive one; but the Japanese are anything like the present increasing pressure of the four islands. In the new Japan the Japanese have no choice but to make the most of their natural resources. The increasing use of these, involving expansion of the textile and mining industries, will therefore, I feel, result in further developments in the Japanese economy in future years.

73. As to the future of other industries in Japan, the development, to the maximum possible extent, of the Japanese economy is to survive. Japan's various medium and small manufacturing industries, and the Japanese economy is to survive. The Japanese heavy industries may be eliminated or reduced, but the efforts on the development of the textile and mining industries, there has been much discussion of the subject. The suggestions for the establishment of small industries in addition to those in the cities. The medium course the pottery and porcelain industry, metal wares, light machinery and mechanical manufactures, and miscellaneous small articles. The products of the textile and medium and small industries are shown in the section Foreign Trade in Part I. The merchandise exported from Japan since the war

74. The visible foreign trade of Japan, as far as imports and exports, I think, on much the same lines, as it has followed since the autumn of 1945, and exports, as it has followed since the autumn of 1945, and exports will be of the kinds indicated in Part I. There has, however, recently been a change in the visible foreign trade of Japan for a considerable period in the future. The case of certain materials exported from Japan, and the practice for the authorities in the export of these materials, that a large percentage, or the whole, of the materials exported be converted into goods for export from Japan, and be sold to certain currency areas. The conditions for the export of raw cotton and raw wool exported to Japan, and the conditions for the export of other raw materials may be exported. There are indications however that the conditions for the export of other raw materials may be exported. There has been, for example, a statement in the

with which Japan formerly traded. Other (Part I) are that Japan has lost, at any time formerly existed in the United States for the profitable exports of tinned salmon and other products, from fisheries in Russian waters. There is the difficulty that some of the materials (steel in particular) for the production of the same materials as are urgently required, for reconstruction purposes in Japan

in the way of an increase in exports and it is unlikely that Japan can quickly accumulate profits from foreign trade, and that progress in raising economy for Japan through foreign trade will be gradual. If quick progress is to be made, in addition to the credits mentioned in paragraph 66, Japan must quickly procure imports of the various materials necessary for economic development in Japan and necessary for economic development. It has been reached regarding reparations in the form of industrial equipment or in the form of goods and services, and regarding the levels at which reparations will be made in the future, it will not be possible to calculate the amount of equipment, or of raw materials for industry, or to calculate, except approximately, the amount necessary. At present it appears that final levels of industry will not be taken until the Peace Treaty has agreed upon the terms of a Peace Treaty, and before that, until a Peace Treaty has been agreed to Japan, except perhaps in the form mentioned in paragraph 66, i.e. United States reparations in the meantime economic conditions will be gradually, as at present.

reparations to be made by Japan, the amount of reparations in the form of industrial equipment and of Japanese merchant shipping, and the assistance Japan may eventually receive in the form of the prospects for an early increase in the amount of reparations, there are many aspects of the amount of which it is not possible to foresee, and it is not possible to foresee, about some developments.

in the four main islands of Japan is now increasing at an annual rate, than ever before, and this increase will have to depend for the means of subsistence, upon the natural resources of the islands. The Japanese population and the Japanese government must make better use of these resources. Japanese officials have stated that these conditions will be met after the Occupation has ended, and that in the future, under the Occupation, for increased agricultural production to be carried out. They have stated also

the Commission has power to make policy decisions translated by the United States Government for the Allied Powers.

26

that the agricultural, forestry, and fishing industries must be developed so as to provide larger quantities of export products. Production in the metal-mining industry and also the output of cement (which is only about one quarter of the pre-war output) are at present so retarded that there has been no discussion of the possibility of future exports of cement, or of gold, silver, or copper. The natural resources of Japan, however, include considerable deposits of these three metals and of limestone for cement production, and exports should be possible, if there is a demand for them in foreign markets, when the Japanese mining industry has sufficiently recovered.

72. The Japanese people in general appear to realize that they must make the best possible use of the natural resources of the country in future, in order that a moderate standard of living may be maintained partly by the direct use of these resources and partly through an export trade based on the development of these resources. It is true that the Japanese record, as regards the development of the natural resources of their country in the past—the resources of the Hokkaido for example—has not been an impressive one; but at no time in the past was there anything like the present increasing pressure of population upon the resources of the four islands. In the new Japan the force of circumstances will leave the Japanese no choice but to make the most of Japan's natural resources, and increasing use of these, involving expansion of the agricultural, forestry, fishing, and mining industries, will therefore, I feel sure, be one of the most important developments in the Japanese economy in future.

73. As to the future of other industries in the new Japan, it is clear that development, to the maximum possible extent, of the textile industries and Japan's various medium and small manufacturing industries is essential if the Japanese economy is to survive. The Japanese recognize that in proportion as the heavy industries may be eliminated or restricted, they must concentrate their efforts on the development of the textile and medium and small industries, and there has been much discussion of the subject in the Japanese press, including suggestions for the establishment of small industries in the agricultural areas in addition to those in the cities. The medium and small industries comprise of course the pottery and porcelain industry, the industries manufacturing small metal wares, light machinery and mechanical appliances of various kinds, rubber manufactures, and miscellaneous small articles such as buttons, brushes, toys, etc. The products of the textile and medium and small industries have already (as shown in the section Foreign Trade in Part I) provided the greater part of the merchandise exported from Japan since the autumn of 1945.

74. The visible foreign trade of Japan, as far as one can foresee its future, will continue, I think, on much the same lines, as regards the nature of Japan's imports and exports, as it has followed since the autumn of 1945, that is to say the imports and exports will be of the kinds indicated in the section Foreign Trade in Part I. There has, however, recently been the following new development which I think must continue to be a special characteristic of the foreign trade of Japan for a considerable period in the future:—Since the autumn of 1945, in the case of certain materials exported from other countries to Japan, it has been the practice for the authorities in the exporting country to attach the condition that a large percentage, or the whole, of the raw materials supplied must be converted into goods for export from Japan, and that the goods exported must be sold to certain currency areas. The condition has been attached, so far, only to raw cotton and raw wool exported to Japan for the production of textiles for export. There are indications however that the practice may grow, and that from now on other raw materials may be exported to Japan on similar conditions. There has been, for example, a statement in the press to the effect that negotiations

27

are proceeding for the supply to Japan of iron ore, coking coal, and heavy oil, on condition that the Japanese iron and steel industry uses these materials to produce steel for export. The system has many advantages. On the one hand it provides the Japanese, on temporary credit terms, with raw materials which they are not in a position to purchase, and it relieves unemployment in Japan and assists rehabilitation of the Japanese industries. Japan benefits also either from being able to retain part of the manufactured goods for use in Japan or from earning, in foreign exchange, part of the difference between the cost of the raw materials and the prices obtained for the manufactured goods when exported. On the other hand there is the very great advantage that the system makes it possible to use the large and skilled labour force in Japan to produce such manufactured goods as may be urgently required from time to time in other countries. I expect therefore that this system of co-operation with the Japanese authorities for the "hiring of Japanese industry" (as it is sometimes described) will be continued, at least until a Peace Treaty for Japan has been signed, and that it will be extended to cover the export to Japan of various kinds of raw materials for the purpose of conversion into manufactured goods required in other countries.

75. After the signature of a Peace Treaty, while the rehabilitation of the Japanese economy is still proceeding, I think that maintenance of a close control over imports into Japan, by the Japanese authorities in co-operation with some form of Allied supervision of Japanese economic affairs, will be necessary in order that the imports obtained may be primarily those required for rehabilitation purposes. And since, as far as can be foreseen, these imports will be obtainable in the necessary quantities only as the result of financial assistance provided mainly by the U.S.A. but partly perhaps by other Allied countries, I think that it will follow, as a natural and reasonable result, that the Allied supervisory body, in co-operation with the Japanese authorities, will also exercise control over any exports that the Japanese may propose to make by using part of these imports for the production of export goods. Such control would naturally be exercised to ensure that the goods produced for export are of kinds urgently required from time to time in other countries and that they were exported to those countries.

76. Another very probable development in the economy of the new Japan will be, I think, an increase in foreign investment in industrial enterprises in Japan. Before the war, there was considerable foreign investment of this kind, by United States and United Kingdom companies. In 1940 United Kingdom companies had investments in seven manufacturing enterprises in Japan proper, the whole of the capital in three of these enterprises being British, while in the other four there was a small percentage of Japanese capital. There have been indications that the Japanese will welcome and indeed that they hope for capital investment of this kind on a much larger scale in the future, along with the other financial assistance they hope to receive from abroad. Some of the enterprises in which United Kingdom companies had investments were maintained in operation by the Japanese during the war and are still being operated, and they are, I think, the kinds of manufacturing enterprise that the Japanese would be glad to see established in larger numbers in Japan in future, i.e. enterprises in which modern foreign manufacturing appliances and technique are made available, by United States or British manufacturing companies. But besides manufacturing enterprises of these kinds, I think that foreign investment in any kind of enterprise that would assist economic recovery, especially if it were to provide more employment for large numbers of Japanese, will be welcomed. Some Japanese have suggested, in connection with the reparations question, that countries claiming reparations in the form of factory equipment would benefit more (as would also of course Japan) if they left the equipment *in situ* and if some of their industrialists

took over the operation of the factories. It has even been suggested that public should be taken over and operated by these utilities may be the more quickly a source of profit for foreign investors.

77. In the field of invisible trade, it is an enterprise in which the Japanese can expect to earn considerable revenue (as they did in the past), and I think they have good reasons to believe that peaceful conditions prevail in East Asia. Some time must elapse before conditions as a whole can be improved sufficiently to allow of any increase in passenger traffic by air between America and Japan, but much increased, and United States shipping lines will probably discontinue their passenger liner services to Japan. Japanese themselves, according to numerous reports in the press, are very ambitious and include the development of National Parks (12 in number, including the present system, with qualified park superintendents) during the next twenty-five years, with the construction of United States, of 135 hotels (17 in the United States), of foreign style hotels in Japan up to 207, of golf courses, swimming pools, yacht clubs, and mountain camps, and the reconstruction of new motor highways; and a five-year programme of modernized railway coaches, including the construction prepared by the Japanese Ministry of Transport.

78. In paragraphs 71 to 77 above I have mentioned a number of questions of reparations in which, although the questions of reparations are still undecided, I think the Japanese economy will develop in the future. The uncertainty about the merchant shipping industry in particular is a very great difference whether the large Japanese economy as a whole is likely to be able to obtain and the merchandise that Japan exports in Japanese ships, or whether the Japanese economy with a large expenditure, in foreign currencies,

79. There are of course other uncertainties about the future a fuller and freer movement of world trade would greatly benefit, and whether there will be food supplies to make it easy for Japan to obtain will be necessary if the increasing Japanese economy. The measures now being taken to increase food production (paragraph 4, Part I) cannot take effect in the quantities of food required by the growing Japanese economy should not be obtainable, labour unrest in the whole economy might result.

80. About the future of the Japanese economy there is a certain certainty that it is bound to be closely connected with the United States, as the result of all the assistance that will, it is clear, continue to give towards

Japan of iron ore, coking coal, and heavy oil, on and steel industry uses these materials to produce many advantages. On the one hand it provides, in many terms, with raw materials which they are not able to produce themselves. It relieves unemployment in Japan and assists other industries. Japan benefits also either from being able to produce manufactured goods for use in Japan or from earning, through the sale of manufactured goods when exported, a difference between the cost of the raw materials and the cost of the manufactured goods. On the other hand, it is an advantage that the system makes it possible to force in Japan to produce such manufactured goods from time to time in other countries. I expect that the operation with the Japanese authorities for the purpose of the (as it is sometimes described) will be continued, and that it will be extended to various kinds of raw materials for the purpose of producing goods required in other countries.

The Treaty, while the rehabilitation of the Japanese economy, I think that maintenance of a close control over imports and exports by the Japanese authorities in co-operation with some form of international economic affairs, will be necessary in order that the Japanese economy may be primarily those required for rehabilitation purposes. I think that these imports will be obtainable in the future as a result of financial assistance provided mainly by the United States and other Allied countries, I think that it will follow, that the Allied supervisory body, in co-operation with the Japanese authorities, will also exercise control over any exports that the Japanese authorities are using part of these imports for the production of goods which could naturally be exercised to ensure that the Japanese economy is able to export to those countries.

Development in the economy of the new Japan will be dependent on investment in industrial enterprises in Japan. I think that the possible foreign investment of this kind, by United States and other companies. In 1940 United Kingdom companies operating enterprises in Japan proper, the whole of the Japanese economy being British, while in the other four countries Japanese capital. There have been indications that indeed that they hope for capital investment in the future, along with the other financial assistance from abroad. Some of the enterprises in which investments were maintained in operation by the Japanese, and they are, I think, the enterprises that the Japanese would be glad to see established in the future, i.e. enterprises in which modern equipment and technique are made available, by United States and other companies. But besides manufacturing enterprises, foreign investment in any kind of enterprise, especially if it were to provide more employment, will be welcomed. Some Japanese have suggested, in the reparations question, that countries claiming reparations would benefit more (as would also countries in *in situ* and if some of their industrialists

took over the operation of the factories for a period of years, using Japanese labour. It has even been suggested that public utilities in Japan, railways for example, should be taken over and operated by foreign companies, primarily in order that these utilities may be the more quickly restored to efficient operation, but also as a source of profit for foreign investors.

77. In the field of invisible trade, it appears at present that the only profitable enterprise in which the Japanese can engage in the future will be the tourist trade. They expect to earn considerable revenue from this source in the future (as they did in the past), and I think they have good grounds for their optimism provided that peaceful conditions prevail in East Asia. Obviously, however, a considerable time must elapse before conditions as to food supply and transport in Japan can be improved sufficiently to allow of any tourist traffic. In the meantime, facilities for passenger traffic by air between America and Japan have recently been very much increased, and United States shipping companies are planning the resumption of their passenger liner services to Japan. The plans being made by the Japanese themselves, according to numerous and detailed statements in the Japanese press, are very ambitious and include the following:—Re-organization of Japan's National Parks (12 in number, including 2 in the Hokkaido) on the United States system, with qualified park superintendents and forest rangers, and the building during the next twenty-five years, with the help of financial assistance from the United States, of 135 hotels (17 in the Hokkaido), so as to bring the total number of foreign style hotels in Japan up to 207. The plans include also the construction of golf courses, swimming pools, yacht harbours, skating rinks, ski-ing grounds, and mountain camps, and the reconditioning of motorable roads and the building of new motor highways; and a five-year plan for the building of a large number of modernized railway coaches, including restaurant and observation cars, has been prepared by the Japanese Ministry of Transportation.

78. In paragraphs 71 to 77 above I have tried to indicate some of the directions in which, although the questions of reparations and future levels of industries are still undecided, I think the Japanese economy may reasonably be expected to develop in the future. The uncertainty as to the future level of the Japanese merchant shipping industry in particular makes it difficult to foresee how the Japanese economy as a whole is likely to develop, since obviously it will make a very great difference whether the large imports of materials that Japan will have to obtain and the merchandise that Japan may be able to export can both be carried in Japanese ships, or whether the Japanese economy will be burdened in the future with a large expenditure, in foreign currencies, for freight charges.

79. There are of course other uncertainties, e.g. whether one can expect in the future a fuller and freer movement of world trade generally, from which Japan would greatly benefit, and whether there will be a sufficient increase in world food supplies to make it easy for Japan to obtain the imports of foodstuffs that will be necessary if the increasing Japanese population is to be adequately fed. The measures now being taken to increase agricultural production (mentioned in paragraph 4, Part I) cannot take effect quickly enough to provide the increasing quantities of food required by the growing population, and if the necessary imports should not be obtainable, labour unrest and perhaps other disturbances of the whole economy might result.

80. About the future of the Japanese economy as a whole one can say with certainty that it is bound to be closely linked in future to the economy of the United States, as the result of all the assistance which that country is giving and will, it is clear, continue to give towards economic rehabilitation in Japan. This

will not mean that other countries, including those of the British Commonwealth, will fail to benefit. On the contrary, if rehabilitation of the Japanese economy continues to progress, Japan will again become a good market for materials which British territories exported to Japan in the past, for example, rubber, tin, and iron ore from Malaya; wool from Australia and New Zealand and perhaps South Africa; jute and cotton from India; nickel and other metals from Canada; and British territories will again be able to obtain from Japan the manufactured goods they previously imported. The exchange of trade between the United Kingdom and the new Japan will be very much less than it was before the war; but if the Japanese economy recovers, the United Kingdom will benefit indirectly from the trade between Japan and other countries in ways which I have tried to indicate in the next part of this Paper.

Part

OPPORTUNITIES FOR

A. MERCHANDISE

81. During the ten years 1930 to 1939 and manufactures of the United Kingdom £439 millions per annum, the average manufactures of the United Kingdom exported to Japan, Formosa, Korea, and Manchuria ten years, when the total value of the United Kingdom from all countries averaged £8.3 millions, and from Japan, Formosa, and Korea £8.3 millions.

82. The period 1930 to 1939 was one of increasing industrialization, and also of increasing industrialization, in Korea, and Manchuria, and it was, on the whole, a period of prosperity in all the four territories. The trade between the United Kingdom and Formosa, Korea, and Manchuria during the period, carried on not directly, but through Japan, was a part of the trade between Japan and the United Kingdom, and it is therefore that, in the future, the volume of trade between the United Kingdom and the new, truncated, and less developed Japan will be smaller than in the years 1930 to 1939. The resumption of normal commercial intercourse between the United Kingdom and Japan a moderate amount of merchandise trade should be possible, as follows:

Imports from

83. In the past, i.e. until 1939, the goods imported into the United Kingdom from Japan were mainly raw materials for the farming, forestry, and fishing industries, and these industries at present being improved and expanded, the demand for raw materials, as shown in Part II, pre-war, and expansion of these industries will continue to be large. In order to earn the maximum possible amount of foreign exchange, as much of the products of these industries as possible will be retained for home consumption. It appears that, if considered necessary, the United Kingdom will be able to obtain in the future, as in the past, supplies of the raw materials, such as silk waste, oak timber, plywood, bamboo, and other materials, in reduced quantities unless Japan obtains supplies of vegetable wax, fur skins, larch seed, and other raw materials. Vegetables and fruit will no doubt be obtained in Japan, or exported to Japan, for pacan nuts, and peas, in bulk, will be obtainable in

uding those of the British Commonwealth, if rehabilitation of the Japanese economy become a good market for materials which the past, for example, rubber, tin, and iron in and New Zealand and perhaps South nickel and other metals from Canada; and obtain from Japan the manufactured goods of trade between the United Kingdom as than it was before the war; but if the Kingdom will benefit indirectly from the es in ways which I have tried to indicate

Part III

OPPORTUNITIES FOR BRITISH TRADE

A. MERCHANDISE TRADE

81. During the ten years 1930 to 1939, when the total value of the produce and manufactures of the United Kingdom exported to all countries averaged £439 millions per annum, the average annual value of the produce and manufactures of the United Kingdom exported to Japan was only £4.2 millions, and to Japan, Formosa, Korea, and Manchuria together, £4.7 millions. In the same ten years, when the total value of the merchandise imported into the United Kingdom from all countries averaged £845 millions per annum, the average annual value of the merchandise imported into the United Kingdom from Japan was £8.3 millions, and from Japan, Formosa, Korea, and Manchuria together, £9.3 millions.

82. The period 1930 to 1939 was one of increasing industrialization in Japan, and also of increasing industrialization, carried out by the Japanese, in Formosa, Korea, and Manchuria, and it was, on the whole, a period of increasing commercial prosperity in all the four territories. Much of the exchange of merchandise between the United Kingdom and Formosa, Korea, and Manchuria was, during the period, carried on not directly, but indirectly via Japan, and formed a large part of the trade between Japan and the United Kingdom. It is to be expected therefore that, in the future, the volume of merchandise trade between the United Kingdom and the new, truncated, and less industrialized Japan will be very much smaller than in the years 1930 to 1939. It appears, however, that after the resumption of normal commercial intercourse between Japan and other countries, a moderate amount of merchandise trade in both imports from and exports to Japan should be possible, as follows:

Imports from Japan

83. In the past, i.e. until 1939, the greater part of the merchandise imported into the United Kingdom from Japan consisted of products of the Japanese farming, forestry, and fishing industries. Agriculture and forestry in Japan are at present being improved and expanded, as shown in paragraphs 4 and 9 of Part I, and, as shown in Part II, present indications are that improvement and expansion of these industries will continue. It will be necessary for Japan, in order to earn the maximum possible amount of foreign exchange, to sell abroad as much of the products of these industries as it is not absolutely essential to retain for home consumption. It appears therefore that, if such imports are considered necessary, the United Kingdom will be able to obtain from Japan in the future, as in the past, supplies of the following:—Raw silk, silk cocoons and silk waste, oak timber, plywood, bamboo, tea, camphor and camphor oil (in reduced quantities unless Japan obtains supplies from Formosa), menthol crystals, vegetable wax, fur skins, larch seed, and flower roots, plants, and trees. Tinned vegetables and fruit will no doubt be obtainable if sufficient tinsplate is produced in Japan, or exported to Japan, for packing them. It is less likely that beans and peas, in bulk, will be obtainable in the large quantities in which these were

formerly imported by the United Kingdom, because in future these crops will probably be used in larger quantities in Japan, as part of the food supply of the increasing population.

84. Products of the Japanese fisheries, namely tinned salmon and other fish, and tinned crab, fish oil, and agar-agar (made from seaweed), which together formed much the most important import, in £ sterling values, into the United Kingdom from Japan in the ten years 1930 to 1939, will not be available in the same large quantities as before, now that the Japanese are excluded from fishing operations in the Kurile Islands, Saghalien, the Okhotsk and Bering Seas, and on the coasts of Kamchatka, Siberia, and Korea. But smaller quantities of tinned fish and tinned crab (depending on supplies of tinplate and on the amount of the fish catch required for home consumption), fish oil, and agar-agar should be available, from the areas remaining to the Japanese fishing industry.

85. The factory or handicraft products formerly imported into the United Kingdom from Japan, in the order of their average annual import values in the period 1930 to 1939 were:—Various cheap manufactures of cotton, silk tissues, toys and fancy goods, buttons, pottery and porcelain, artificial silk tissues, paper of special kinds, celluloid, brushes, and matings and platings of straw, etc.

86. How the Japanese artificial silk and cotton textile industries will develop after the Military Occupation of the country has ended is difficult to foresee. It is possible that the production of these industries may be sufficient to meet only the requirements for cotton and rayon products in Japan, and in China, South East Asia, and other parts of the world where the purchasing power of the native peoples is low, and in that case, supplies of cheap cotton and rayon products from Japan, if it should be desired to import these into the United Kingdom, may not be available. In the case of real silk tissues, as in the case of raw silk, I have no doubt that Japan will manufacture for export as much as can be profitably sold abroad, in all markets. Supplies of the other commodities mentioned in paragraph 85 should also be available for export, provided that there is a larger output of coal in Japan in future. All export industries that depend on coal, or on electric power from coal-fired electricity generating plant, are at present without adequate coal supplies.

87. Exports have already been made from Japan of many of the commodities mentioned in paragraphs 83 to 86 above, and most of the commodities mentioned (but not tinned salmon), are included in the programme of Japanese exports for July, 1947—June, 1948, prepared by General MacArthur's Headquarters, and also in the list of Japanese goods available for export in August, 1947, which was specially compiled by General MacArthur's Headquarters in connection with the resumption of trade with Japan, through ordinary mercantile channels, from September 1st.

Exports to Japan

88. The greater part of the merchandise exported from the United Kingdom to Japan in the period 1930 to 1939 consisted, as one would expect, of iron and steel, machinery and other manufactures of iron and steel, machine and other tools, heavy chemicals, dyes, scientific instruments and appliances, electrical apparatus, non-ferrous metals and metal scrap of various kinds, arms, ammunition, and military and naval stores, and aircraft. Now that the Japanese no longer control and direct the industrialization of Manchuria, Korea, and Formosa and the import trade of these countries, and now that Japan itself is to have much less heavy industry, no armaments industry, and no aircraft industry, it is obvious

that the market in Japan in the future for the commodities mentioned above will be very much less than in the past. It seems almost certain also that the United Kingdom, if it comes, will not be able to afford the imports from Japan, for example high-linen fabrics, paper, leather goods, and exports from Japan were of an annual average value of over £100 million in the five years 1935 to 1939.

89. On the other hand, in the case of the commodities mentioned in the first part of the preceding paragraph, the United Kingdom will benefit in the future from the absence of competition from Japan, in the five years 1935 to 1939, when the value of exports to the United Kingdom, namely machinery and electrical apparatus, and dyes and chemicals, was the principal competitor of the United Kingdom in 1939.

90. In paragraph 2 (Part I) it was suggested that the new development in Japan might bring about a new competition. Provided that the United Kingdom can supply its requirements with those of American manufacturers, in connection with the rehabilitation of the Japanese coal-mining and other mining industries, merchant shipping, and possibly also in connection with the expansion of the farming and forestry industries.

91. If large quantities of iron and steel are available for reconstruction purposes, and if the level of the iron and steel industry and other industries concerned with rolling-stock, etc., are to operate in full capacity, it is possible for most of the necessary replacement of rolling-stock, coal-mining machinery, etc., to be effected in the course of the reconstruction of the iron and steel, machinery, etc., from abroad. It is not, I think, likely to increase quickly even if coal production did quickly increase in Japan in the near future, even if coal production did quickly increase in Japan, and of iron and steel also including the industries that can produce machinery. There are opportunities for the export, from the United Kingdom, of semi-finished products, or parts of them, for example the Japanese railways, coal mines, etc. The machinery and electrical generating equipment has been supplied from the United Kingdom in the past, and Japanese shipbuilders also supply supplies of mechanical equipment of various kinds for the vessels.

92. The plans being made for improvement of the farming and forestry industries have been mentioned in Part I. Japanese agriculture is already using pumps for irrigation purposes, other machinery, and tractors, of Japanese manufacture, and towards increased mechanization of agriculture and forestry has appointed

Kingdom, because in future these crops will be in Japan, as part of the food supply of the

eries, namely tinned salmon and other fish, agar (made from seaweed), which together import, in £ sterling values, into the United Kingdom in the years 1930 to 1939, will not be available in the future because the Japanese are excluded from fishing in the Saghalien, the Okhotsk and Bering Seas, and Korea. But smaller quantities of tinned supplies of tinsplate and on the amount of the (assumption), fish oil, and agar-agar should be available to the Japanese fishing industry.

products formerly imported into the United Kingdom of their average annual import values in the years 1930 to 1939, namely cheap manufactures of cotton, silk tissues, paper and porcelain, artificial silk tissues, paper and mattings and plaitings of straw, etc.

ilk and cotton textile industries will develop in the country has ended is difficult to foresee. It is doubtful if these industries may be sufficient to meet only the demand for such products in Japan, and in China, South America and elsewhere where the purchasing power of the native population is increasing. Supplies of cheap cotton and rayon products from the United Kingdom, may not be sufficient to meet the demand for these into the United Kingdom, may not be sufficient to meet the demand for these tissues, as in the case of raw silk, I have no doubt that for export as much as can be profitably sold of the other commodities mentioned in paragraph 89, provided that there is a larger output of the industries that depend on coal, or on electric generating plant, are at present without adequate

from Japan of many of the commodities mentioned above, and most of the commodities mentioned in the programme of Japanese exports for 1947, as approved by General MacArthur's Headquarters, and available for export in August, 1947, which was approved by General MacArthur's Headquarters in connection with the programme of Japanese exports through ordinary mercantile channels, from

Exports to Japan

merchandise exported from the United Kingdom in 1930 to 1939 consisted, as one would expect, of iron and steel, machines of iron and steel, machine and other electrical instruments and appliances, electrical scrap of various kinds, arms, ammunition, aircraft. Now that the Japanese no longer import from Manchuria, Korea, and Formosa and now that Japan itself is to have much of its own iron and steel industry, and no aircraft industry, it is obvious

that the market in Japan in the future for most of the United Kingdom exports mentioned above will be very much less than in the past, while for some it will have disappeared. It seems almost certain also that the new Japan, for many years to come, will not be able to afford the import of other goods formerly obtained from the United Kingdom, for example high-grade woollen and worsted, cotton, and linen fabrics, paper, leather goods, and expensive foods and liquors, which together were of an annual average value of over a million £ sterling in the years 1930 to 1939.

89. On the other hand, in the case of some of the exports mentioned in the first part of the preceding paragraph, United Kingdom exporters may perhaps benefit in the future from the absence of German competition. Germany's exports to Japan, in the five years 1935 to 1939, were of an average annual value of £8½ millions, and her principal exports to Japan were much the same as those of the United Kingdom, namely machinery and other manufactures of iron and steel, electrical apparatus, and dyes and chemicals. Of the European countries, Germany was the principal competitor of the United Kingdom in trade with Japan, before 1939.

90. In paragraph 2 (Part I) it was suggested that the process of reconstruction and new development in Japan might bring with it opportunities for British trade. Provided that the United Kingdom can supply the goods, and at prices competitive with those of American manufacturers, opportunities may, I think, occur in connection with the rehabilitation of the Japanese railway and tramway systems, the coal-mining and other mining industries, electricity generating installations, and merchant shipping, and possibly also in connection with the improvement and expansion of the farming and forestry industries.

91. If large quantities of iron and steel, produced in Japan, could be used for reconstruction purposes, and if the levels at which the Japanese machine-tools industry and other industries concerned in the production of machinery, railway rolling-stock, etc., are to operate in future were sufficiently high, it would be possible for most of the necessary replacement and repair of the Japanese railway tracks and rolling-stock, coal-mining machinery and equipment, merchant shipping, etc., to be effected in the course of the next few years without the import of iron and steel, machinery, etc., from abroad. Coal production in Japan however is not, I think, likely to increase quickly enough to allow of a large output of iron and steel in Japan in the near future, even if a large output were permitted. And even if coal production did quickly increase, it will be necessary for increasing amounts of coal, and of iron and steel also, to be allocated to many other industries, including the industries that can produce goods for export. There may therefore be opportunities for the export, from the United Kingdom, of some finished or semi-finished products, or parts of them, in connection with the rehabilitation of the Japanese railways, coal mines, etc. Railway, tramway, mining, and electricity generating equipment has been supplied from the United Kingdom to Japan in the past, and Japanese shipbuilders also obtained from the United Kingdom supplies of mechanical equipment of various kinds, and furnishings for passenger vessels.

92. The plans being made for improvement and expansion of the Japanese farming and forestry industries have been mentioned in paragraphs 4 and 9 in Part I. Japanese agriculture is already to a small extent mechanized. Small pumps for irrigation purposes, other machines driven by oil engines or electric power, and tractors, of Japanese manufacture, are in use. There is a movement towards increased mechanization of agriculture, and the Japanese Ministry of Agriculture and Forestry has appointed a Farming Mechanization Committee

and farmers' representatives, to investigate present methods of irrigation and the reclamation of land. Crop growing will involve the use of more machinery, and there will be need for replacement and repair of mechanical equipment, and there will be need for more land. It is possible that the iron and steel industry, at their future levels, may not be able to supply the needs of the farming and forestry industries and other industrial industries.

The new Japan will obviously be carried on more closely with the other members of the British Commonwealth than before the war. The United Kingdom, however, will be able to act to a greater extent as an entrepôt for trade between the British Commonwealth, and should benefit still more from this trade, as indicated in the following paragraphs.

VISIBLE TRADE

Banking, and particularly from the activities of British insurance companies, rather than from merchandise trade. It is to be expected that British shipping will benefit when normal commercial intercourse between the British Commonwealth has been restored.

British insurance companies were well represented in Japan before the war, and enabled them to maintain their position in the Japanese market created for them by the then militaristic Japanese Government. They made considerable profits although they had to compete with Japanese banking and insurance companies. Many of the British insurance companies in Japan (as in the case of the Japanese Government) such as the Mitsui, Mitsubishi, and others engaged in banking and insurance activities in Japan and in other countries with which Japan traded. In the Japanese territories formerly imposed on British banking and insurance companies, the authorities will have disappeared. The Mitsui, Mitsubishi, and other insurance companies were formerly such powerful companies in Japan and in other countries, but are now liquidated or are in process of liquidation. British insurance companies should therefore be able to resume business in Japan and to resume business in the Japanese territories. Offices of British insurance companies also are being re-established in Japan by a group of five British insurance companies who have recently returned to Japan and who have chartered Japanese vessels for invisible trade with Japan and chartered Japanese vessels in the Japanese territories, before the war. London firms of chartered accountants, and other firms, are being re-established in Japan only by British commercial companies and other nationalities also, and British chartered shipping will be able to operate freely in Japan again, when the Japanese economy is restored.

The United Kingdom from invisible trade, not only from visible merchandise trade between Japan and

other countries, but as a result also of the almost total destruction, during the war, of the Japanese merchant shipping fleet, are likely to be earned, I think, by British merchant shipping. Rehabilitation of the Japanese economy will no doubt include rehabilitation, to some extent, of the Japanese mercantile marine. To what extent has not yet been decided; but it seems a safe assumption that British passenger and cargo liner, and tramp shipping, will not have to operate in the future, as in the past, in conditions of severe competition from Japanese merchant shipping on all trade routes to and from Japan and in the world carrying trade generally. The overseas trade of the new Japan will obviously be very much less than that of the former Japanese Empire; but if the policy of the rehabilitation of a self-supporting economy for Japan is carried out, Japan will require imports, on a considerable scale, of the foodstuffs and the raw materials in which the country is deficient, and these imports will have to be balanced, as far as it may be possible for Japan to balance them, by exports. The sea routes along which these imports and exports will be carried will be mainly those between Japan and North America, and Japan and Europe, the Middle East, India, Malaya, and Australia and New Zealand; and also the routes between Japan and China and South East Asia, if and when there has been sufficient improvement in economic conditions in China, Indo-China, Siam, the Netherlands East Indies, and the Philippine Islands, to allow of a regular exchange of merchandise between these countries and Japan.

97. Until 1939, the vessels of seven British passenger and cargo liner companies, and British tramp shipping, carried passengers and cargo on all the routes mentioned in the preceding paragraph, both between Japan and the territories named, and between ports on the various routes; but no fewer than thirteen Japanese passenger and cargo liner companies also maintained services over the same routes, and their vessels, and those of Japanese tramp shipping companies, carried much more of the total traffic to and from Japan, and between ports, than did the vessels of the British companies. On other routes over which cargo was carried to and from Japan in the past, and will probably be carried again in the future, namely the routes between Japan and East, South, and West Africa, and the east and west coasts of South America, one of the largest Japanese passenger and cargo liner companies maintained regular services, but no regular services were maintained, on these routes, by British companies. No vessels other than Japanese were allowed to call at ports in the Japanese Mandated Islands in the Pacific, and Japanese vessels had almost a monopoly of the carrying trade on the short sea routes between Japan and the Loo-Choo Islands, Formosa, North China, Manchuria, Korea, and Eastern Siberia.

98. If the Japanese economy is to be restored, Japan must import, as in the past, considerable quantities of phosphate rock, for conversion into phosphatic fertilizers. The nearest sources of supply of phosphate rock, for Japan, are the phosphate islands of the Pacific, and many of these islands are in the Loo-Choo group and in the former Japanese Mandated Territory. From Angaur Island, in the latter Territory, the import of phosphate rock into Japan has already been resumed, and if the plans, mentioned in paragraph 4 (Part I) for increased agricultural production in Japan mature, larger quantities of phosphate rock, than in the past, may be imported into Japan. British shipping will presumably not be excluded, as it was before, from participation in most of this trade. At the moment, it is not possible to foresee whether any regular exchange of trade is likely to take place in the future between Japan and Formosa, North China, Manchuria, Korea, and Eastern Siberia, nor whether (the future level of the Japanese shipping industry being still undecided), Japanese vessels will ply between Japan and these territories. British merchant shipping is already carrying a large proportion of the merchandise at present being imported into and exported from Japan. Approximately one half of the salt cargoes, imported mainly from the

Red Sea area, which have now totalled over 400,000 tons, have been carried to Japan in British ships. Contracts have been made for further salt cargoes of about 400,000 tons, also mainly from the Red Sea area, and United Kingdom vessels will probably carry a large part of these cargoes also. Present indications are that salt from the Red Sea area will continue to be imported into Japan, for some years to come, at a rate of from 800,000 to 900,000 tons annually. A reliable estimate is that British ships have carried about two-thirds of all commercial cargo carried to Japan in the last eighteen months. British shipping companies, like British banking and insurance companies, already have their representatives in Japan, six companies being represented at present by nine resident British subjects. There are also resident in Japan, at present, four representatives of the Ministry of Transport who energetically supervise and assist the operations of British shipping.

99. The probability that there will be a larger field in the future, than in the past, for investments by United Kingdom companies in industrial enterprises in Japan has been mentioned in paragraph 76 of Part II. The extent to which it may be possible for United Kingdom companies to exploit this field, if it is in fact found to exist in the new Japan, will, of course, depend on how far funds available for foreign investment, which are at present lacking, may become available in the United Kingdom. In addition to the investment in industrial enterprises in Japan, there was, up to 1941, considerable investment, by United Kingdom residents, in the various loans issued by the Japanese Government and municipalities and by Japanese electric light and power companies. United Kingdom holdings of these loans have been estimated to amount to some £43 millions and the interest earned in the United Kingdom from these investments appears to have amounted, during the few years ended in 1941, to approximately £2 millions per annum. It is unlikely that Japan will be able to resume interest payments for a long time to come; but it would be in keeping with the Japanese character to resume payments as soon as foreign exchange becomes available for the purpose.

TOKYO,
November, 1947.

Crown Copyright Reserved

LONDON : PUBLISHED BY HIS MAJESTY'S STATIONERY OFFICE
To be purchased directly from H.M. Stationery Office at the following addresses:
York House, Kingsway, London, W.C.2; 13a Castle Street, Edinburgh, 2;
39-41 King Street, Manchester, 2; 1 St. Andrew's Crescent, Cardiff;
Tower Lane, Bristol, 1; 80 Chichester Street, Belfast
OR THROUGH ANY BOOKSELLER
1948

Price 9d. net.

Printed UNDER THE AUTHORITY OF HIS MAJESTY'S STATIONERY OFFICE
by Cheltenham Press Ltd.

STANDARD FORM NO. 64

CONFIDENTIAL*Office Memorandum* • UNITED STATES GOVERNMENT

TO : NA - Mr. Allison

DATE: October 23, 1948

FROM : FE - Mr. Butterworth

SUBJECT: Possible Inclusion of Japan Within the Orbit of ECA Operations

I happened to be in the Acting Secretary's outer office this morning when Mr. William Y. Elliott came in to see him and we had a talk about Japan. As you know, he is a prominent employee of the Foreign Affairs Committee of the House. He proposes to send me shortly for review an analysis of the Japanese situation, which I believe he already discussed with Mr. Kennan, who I think advised him not to press the matter at this time. Elliott is obviously plagued with the idea of coordinating the Korean, Chinese and perhaps, Japanese programs, and in this connection he asked me the direct question as to whether I would favor when the ECA legislation was commended for Korea to include the placing of the Japanese program under ECA as well. I refused to answer this question, indicating it was a highly complicated problem which had to be considered by various offices in the Department and later I informed Mr. Lovett of Elliott's query and my reply. Incidentally, in putting his query to me Elliott drew upon the analogy of Germany.

I think it behooves NA to give this matter serious consideration and formulate its views on the advantages and disadvantages of such a course of action, having in mind the recent National Security Council decisions. The question is almost certain to be raised in Mr. Eaton's Committee, no doubt in other quarters as well; in any case it is a pertinent question.

cc: NA - Mr. Fearey
NA - Mr. Green
CA - Mr. Magill

RM/R
Anal
Rev
Det

State Dept.
Far Eastern
Affairs Office
From Butterworth

CONFIDENTIAL

The Document must be Returned
to the RM/R Central Files

894.50/10-2348

CS/J

CONFIDENTIAL

894.50/10-2348

②
SECRET

Office
October 28, 1948

894 50/7-3047

S/P Mr. Kennan:

As you know, this Government proposed in May 1947 to the FEC a paper which is called FEC 230, setting forth in great detail a policy for the dissolution of excessive concentrations of economic power in Japan. In the course of time this paper has become regarded in this Department and in the Department of the Army as providing certain extreme and unwise procedures and as being unduly detailed in the circumstances. The paper was never adopted by the FEC and for many months has received no encouragement there from us. It is felt that in the meantime events have overtaken the need for any further policy directive to SCAP from the FEC on this subject. The fundamental objective of eliminating undesirable excessive concentrations of economic power in Japan has already been given to SCAP in his post-surrender directive from this Government and in the post-surrender policy paper which was adopted in 1947 by the FEC.

I believe that in view of the fact that FEC 230 no longer represents this Government's policy, some appropriate action should be taken to change its technical status in the FEC, namely its status as an expression of U. S. Government policy. It is the opinion of the Legal Adviser that such a paper may not be withdrawn from the FEC by the member who introduced it without the consent of the Commission. Consequently, it appears that the appropriate medium for changing the paper's technical status would be a statement by the U. S. Member that this Government withdraws its support of the paper for reasons stated. Such a statement has been drafted and is attached. Its text has been cleared within the Department and with the Department of the Army.

I should appreciate your comments as to the desirability of making such a statement in the FEC and as to the timing thereof.

Attachment:
Proposed Statement.

Charles E. Saltzman

cc: FE - Mr. Butterworth
E - Mr. Nitze
L

W.
O:CESaltzman;hjh

SECRET

894.50/10-2848

3757

STANDARD FORM NO. 64

CONFIDENTIAL

NA in Jeany

Office Memorandum • UNITED STATES GOVERNMENT

TO : FE - Mr. Butterworth

DATE: October 29, 1948

FROM : NA - Mr. Allison *ma*

SUBJECT: Possible Inclusion of Japan within the Orbit of ECA Operations.

This document must be returned to the RAIR Central File

With respect to your memorandum of October 23 on the above subject, copy attached, I am enclosing a copy of a memorandum on the same subject drafted in E for Mr. Nitze to send to Mr. Saltzman. I understand that when and if Mr. Nitze approves this memorandum a copy will be sent to you.

I have been thinking about this problem for some time as Harry Labouisse mentioned to me in the hall the other day the possible Congressional interest in this matter, somewhat along the same line as Mr. Elliott outlined to you. The E memorandum appears to set forward the various considerations in a straightforward manner and it closes with the recommendation that Mr. Saltzman call a meeting of representatives from FE, O and OFD to discuss the matter. I think we should agree to such a meeting, but I believe we should be very careful and be sure that the Department thinking on the matter is sound before we go ahead as suggested in the E memorandum with consultations with the Army Department, SCAP and ECA. I should like to draw special attention to paragraph 3 on page 2 with regard to the difficulties in the way of carrying out this project, and particularly to sub-paragraph 3b. I concur in the opinion expressed in paragraph 2a on page 1 of the E memorandum that transfer of responsibility for the Japanese aid program to ECA might make more easy the general policy proposed in paragraph 8 of NSC 13/2 concerning a shift of operating responsibilities to the Japanese Government and the consequent withdrawal of SCAP to a supervisory position.

894.50/10-2948

As to this I wd like to know more of the why's + where/nes
y

CSUC 894.50/10-2948

CONFIDENTIAL

RM/R

FE:NA:JMA11ison/pm

*State Dept
Northeast Asian
Affairs Division
From Allison*

CONFIDENTIAL

Confidential File

STANDARD FORM NO. 64

Mr W B - I prepared this memo on Nov 4 as you see, when this letter first came down for clearance. Rudlin recalled it that day, however, when he heard that the cable at the bottom of the file had been received. He has now started it around again.

Office Memorandum • UNITED STATES GOVERNMENT

TO : NA - Mr. Bishop

DATE: November 4, 1948

FROM : NA - R. Fearey *RAF*

SUBJECT: Clearance of Attached Letter Relating to FEC-230

I understand from Mr. Rudlin in Mr. Saltzman's office that this letter has been prepared at Mr. Saltzman's request to meet what he understands to be Mr. Butterworth's desire that a letter along these lines be sent to Mr. Draper. On looking it through the following considerations occur to me:

There is no doubt but that it would be desirable to know precisely what the Deconcentration Review Board's terms of reference are, and just what standards are being applied by it in Japan, so that we would be in no danger of ~~our~~ having to confess ignorance on any phase of the problem in the FEC or before Congress. On the other hand, there are several reasons why it might be considered inadvisable and unnecessary to press for further detailed knowledge on this problem at this time.

The first is the danger of "rocking the boat". Since the trend of developments during recent months in the deconcentration field has been entirely in the right direction it would seem undesirable to do anything which might reverse that trend. Too searching an inquiry into the DRB's terms of reference and actions might create the impression in Tokyo that we disapprove of its recent activities.

The second factor is the difficulty which those responsible for the deconcentration program in Japan would be likely to experience in telling us more precisely than they have to date what criteria they plan to apply in implementing the program. Execution of a program of this type necessarily involves the exercise of individual judgment and discretion varying with the particular circumstances of each case.

A third factor is that SCAP might with considerable justification claim that we were encroaching upon his implementing and operating responsibilities to an unwarranted extent. We have never, to my knowledge, required such detailed information regarding his implementation of any other of the occupation objectives. (*See last para of letter*)

It

Stamp: *W.B.*
Date: *Nov 5 1948*
Rev: _____
Dist: *2*

894.50/11-448

CS/J

894.50/11-448

- 2 -

It seems questionable also whether we do have any real need for more precise and detailed knowledge in this field than we already have from the DRB's recently published "four principles", the texts of the deconcentration legislation, and accounts given by recent visitors to Japan, such as Dr. Reid. By and large, I should think we already possess all the information anybody could reasonably expect us to have regarding the fine points of implementation of such a comprehensive program in Japan.

My personal view in light of the above is that we already have sufficient information on the matter for all probable needs and that it would be better not to request the large amount of additional detailed information recommended in the attached draft letter. I know that Mr. Butterworth feels differently on the subject, however, and you may wish to talk to him before taking action on the letter. If a letter of this type is sent, I think the information requested should be much more limited in scope, and that assurance should be given in any telegram to SCAP that we support his recent actions, understood based on the DRB's recommendations, in the field.

*State Dept.
Northeast Asian
Affairs Office
from Fearey
RAJ*

NA:RFearey:clh

*file here
Cap economic
recovery*

STANDARD FORM NO. 64

Office Memorandum • UNITED STATES GOVERNMENT

DATE: November 16, 1948

TO : EP - Mrs. Selma Kallis

FROM : IR - Raymond Vernon *RV*

SUBJECT: Comments on memorandum, October 18, 1948, from Mr. R. Reid of CAD to the Under Secretary of the Army on the subject of the Japanese recovery program.

The memorandum indicated above suggests approaches which should be taken when the request for additional EROA funds for Japanese recovery comes up for hearings in the 81st Congress. It assumes that Congress will look upon Occupation-imposed controls as hindrances to Japanese recovery and proceeds to outline approaches on specific questions which it expects will arise in the hearings. It concludes with the suggestion that a new American policy statement on Japan should be made in order to clarify our objectives and to remove uncertainties for Americans, Japanese and foreign business men.

Recent U.S. elections and the deteriorating Chinese situation may in one way or another influence the acceptance of these suggested approaches. Apart from these possibilities, however, there are additional considerations set forth below which should not be overlooked in presenting to Congress issues involved in the Japanese economy.

The Deconcentration Program

With respect to the possible Congressional criticism that the deconcentration program may wreck the industrial potential of Japan, the memorandum suggests that Congress should be promised that the Japanese antitrust laws will be amended "to ensure that they do not require conditions notably at variance with those implicit in comparable American legislation". (p. 4) The use of statutory provisions in force in the United States as measures of the appropriateness of legislation for Japan is unrealistic. The problems created by the structure and traditions of the Japanese economy are so completely different from anything that the United States has faced -- in terms of the degree of concentration of economic power and the misuse of that power -- that an attempt to judge which remedies Congress might devise if it were confronted with the same situation here would seem to be largely fruitless. Our own legislation in this field, fortunately for us, need only address itself to deviations from a long tradition of free competitive enterprise which goes back at least as far as the ancient common-law doctrines forbidding restraints on trade. U.S. legislation can be written in general terms and its interpretation and enforcement largely left to the

This Document Must Be Returned to
RM/R
Central
Files
894.50/11-1648
CS/W

DC/M
ADH 39
REV
CST 11

894.50/11-1648

etc
International
Resources
Division
From Rudolph

- 2 -

3

discretion of courts and commissions which are steeped in that competitive tradition. In addition to the support which common-law precedents provide, our statutes are supplemented by constant review of business behavior by Congressional investigations and private studies. It will probably be a long time, if ever, before free enterprise receives comparable spontaneous support in Japan. The proposition that what will preserve competitive enterprise here will be sufficient — in the form of bare statutory provisions — to reverse a quite different tradition in Japan seem highly suspect. The use of U.S. laws as a yardstick is rendered even more invalid by the probability that, thanks to the strength of our democratic institutions and the check provided by a strong labor movement and a large and stable middle class, we can tolerate consistently with democracy a higher degree of concentration of economic power in private hands than any other country. Even so, Congress is finding it increasingly necessary to devise new measures to check the concentration of economic power, such as the requirement that surplus government property be disposed of in a manner which will "strengthen and preserve the competitive position of small business concerns in an economy of free enterprise."

The factors above are also relevant to other of the suggested approaches. The memorandum believes the Congress may criticize the failure to provide a "fair" return to the owners of sequestered securities. (p. 5) Standards appropriate to this country's objectives in Japan and measures to fit the unique economic circumstances in Japan have to be used, and not those which we are accustomed to in America. Similarly, such standards and measures will need to be used if the objective of "the broadest possible stock ownership in Japan" is to be achieved. While it is undoubtedly true, as the memorandum points out, that economic recovery will provide the "best chance of achieving the desired broad distribution," (p. 5) genuine efforts by the Japanese Government to facilitate the availability of funds to the little men for stock purchases have not been made.

Foreign Investments

The memorandum believes that opening of Japan for foreign investments would prove helpful to the Japanese economy, provided that adequate safeguards are made against speculators (p. 8). By all means, such safeguards are necessary. But so are measures to assure equal protection to Japanese as well as foreign investors. Moreover, it is essential that the foreign investments are not accompanied by terms which are likely to become the subject of public resentment or detrimental to relations between Japan and foreign countries. Such investments are those which restrain competition in international trade or strengthen and extend international private monopolies and cartels.

ITP:IR:WNRudolph:bw

STANDARD FORM NO. 64

CONFIDENTIAL

file

Office Memorandum : UNITED STATES GOVERNMENT

DATE: 12/14/48

TO : FE - Mr. Butterworth
FE - Mr. Allison
FROM : NA - Mr. Bishop *MWB*

SUBJECT :

You may find Tokyo's dispatch No. 742, November 22, which Mr. Green has summarized, of interest. The bulky enclosures have been kept in NA.

A most interesting dispatch
JM

*What does act
on his recommendation
How does opening
a console?*

EW-894.52/11-22-48

FE:NA:MWBishop/pm

CONFIDENTIAL

9

STANDARD FORM NO. 64

CONFIDENTIAL

Office Memorandum • UNITED STATES GOVERNMENT

DATE: December 13, 1948

TO : NA - Mr. Bishop

FROM : NA - Mr. Green *mg.*

SUBJECT: Attached Tokyo's 742

Here is a lengthy report by Mr. Lawrence on his trip to Hokkaido, particular attention being paid to local Communist activities.

The report argues that potential sources of friction between the Japanese and the Soviets could be removed appreciably by the inclusion within Japan of Yotorofu, Kunashiri and Habomai Islands. This could be justified on the grounds that all these islands have long been Japanese possessions, a fact which was confirmed in 1855 by the Treaty of Shimoda. Hokkaido with its 3½ million population and undeveloped resources offers distinct possibilities for development, which is currently being impeded through reluctance of capital to invest in, and reluctance of Japanese to migrate to, an island which is considered in the immediate path of Soviet expansionism. Mr. Lawrence recommends that some overt action on the part of the United States, such as the establishment of a United States consulate in Hokkaido or of the construction of permanent air bases, would go far in allaying these fears. Admittedly the amount of consular work would be small, but the consulate could serve as an observation post of the Japanese island where Communism presents its greatest threat.

The revision of the National Public Service Law has been favorably received by almost all groups except organized labor. The general attitude in Hokkaido appeared to be that labor was given too many privileges and that the occupation should now rectify its mistakes before a peace treaty is signed. Many moderates in the trade union movement believe that union activities should be confined to economic matters and not include political objectives.

Communist activity in Hokkaido is at present directed from Tokyo but there are indications that the JCP is being reorganized to give the Hokkaido branch far greater control. In the connection the feeling seems to be general in Hokkaido that the Central Government fails to take into consideration such conditions in Hokkaido as the severe weather which

makes

CONFIDENTIAL

FW-894.50/11-2248

CONFIDENTIAL

- 2 -

makes work harder and requires a more generous distribution of fuel, food and clothing to Hokkaido workers. Disillusionment in intellectual circles over the revelations of the Showa Denko scandal has given the Communists fertile ground for claims that capitalism is a corrupt system. The Communists are also taking advantage of the GHQ ban on fraternization. As one high-ranking Japanese official stated, the Japanese are supersensitive on the subject of race (shades of the Exclusion Act), and their pride has been injured by the attitude of the occupation toward social contacts between Americans and Japanese. In contrast, repatriates from Soviet areas have made much of the fact that there is, allegedly, no racial discrimination in the USSR.

Military Government officials state that the Japanese police system is far too expensive and inefficient. It is their view that the Police Law has been based too much on the federalized American system without any effort to adapt it to local conditions. The Commanding Officer of the Hokkaido MG team remarked that, as a result, his team is often obliged to ignore the Police Law in order to get action.

Mr. Lawrence gives a number of illuminating examples of how uncertainties over reparations, deconcentration and the economic purge are adversely affecting business recovery in Hokkaido. His conclusions on these and other points closely conform to recommendations which we have made in the NSC paper.

Suggest circulating this to FE.

FE:NA:MGreen:clh

CONFIDENTIAL



OFFICE OF EUROPEAN AFFAIRS
MESSAGE CENTER
THE FOREIGN SERVICE
OF THE
UNITED STATES OF AMERICA

ACTION
is assigned to

[Handwritten signature]

American Embassy,
London, November 24, 1948

AIR MAIL 1949 FEB 23 PM 3 35

UNCLASSIFIED DEPT OF STATE

No. 2322

Subject: The Far East in Parliament

DIVISION OF
NORTHEAST ASIAN AFFAIRS

JAN - 5 1949

DEPARTMENT OF STATE

The Honorable
The Secretary of State,
Washington, D.C.

Sir:

I have the honor to report that the Far East attracted more attention than usual in the present session of Parliament. Following excerpts from the principal questions and answers, as recorded in Hansard.

Japan. November 4, 1948.

"Mr. Rhodes: . . . I had the privilege of being in Japan last October and November with the Parliamentary delegation which was sent out from this House. Since that time, I have taken a great deal of interest in the progress of the economic development of Japan. Some of that development, mainly textiles, concerns constituents of mine who work in cotton mills, the trade which I am engaged in, namely, the woollen trade, and also affects the rayon industry, real silk and the manufacture of it in Macclesfield.

"It might be a good thing in developing my point if I were, in some slight measure to go over the principal operation, the occupation of Japan, and what has happened since. When General MacArthur occupied Japan, after a series of brilliant victories in the Pacific, he had three main tasks: one, the occupation; two, the destruction of the military potential of Japan; and, three, the setting up of a new political entity and the introduction of democratic methods. The first--the occupation--was comparatively easy, because once the naval forces of Japan were destroyed, it was easy to separate the islands' control communications and take possession--so easy was it that when a force of 6,000 American Marines landed in Yokohama Bay there were 1,000,000 men under arms on the plains of Tokyo, and not a single violent incident happened.

"The Japanese troops were ordered by the Emperor to lay down their arms and to submit without a struggle. The demilitarisation of Japan was then carried out. In fact, the Japanese outdid the Americans in their enthusiasm to get rid of armaments and military

institutions/

894.50/11-2448

CS/A

894.50/11-2448

FEB. 25 1949

RECEIVED
DEPARTMENT OF STATE
18 DEC 10 AM 9 10

RECEIVED
DEPARTMENT OF STATE
18 DEC 10 AM 9 10

RECEIVED
DEPARTMENT OF STATE
18 DEC 10 AM 9 10

18-XPR
KR
64.9431
841.655

VR 740.00119
Control (Japan)
Com-ene
Tax

RECEIVED
DEPARTMENT OF STATE
18 DEC 10 AM 9 10

RECEIVED
DEPARTMENT OF STATE
18 DEC 10 AM 9 10

RECEIVED
DEPARTMENT OF STATE
18 DEC 10 AM 9 10

RECEIVED
DEPARTMENT OF STATE
18 DEC 10 AM 9 10

UNCLASSIFIED

Page 2.

Desp. No. 2322, November 24, 1948, from London

institutions. Immediately, Japan adopted a policy of non-violence on the lines advocated by Mahatma Gandhi in India. Indeed, it is true to say that since the occupation three years ago there have been only six known cases of violence against the American occupation troops. Very quickly the naval installations at places like Kure were closed down, and soon the Japanese war potential was destroyed.

XR 894 5043
"The third objective, the political objective, was not so easy. General MacArthur knew that it would not be easy; he was under no illusion before he went to Japan about the difficulty of his task, and under the circumstances he has done a really remarkable job in the way he has carried out the occupation. Before he landed General MacArthur was given certain White House directives. One of the first on his list was that trade unions should be established. Again, the Japanese jumped to it to carry out the wishes of the Americans. So much was it the case that within 12 months of General MacArthur's issuing the edict there were 23,370 unions in Japan. A family could be a union on application. There are large unions in Japan such as those of the transport industry, but the majority of the unions are very small.

"The Americans were rather handicapped in that they had nobody to explain trade union principles to the Japanese, so General MacArthur sent to America asking for volunteers from the unions in America to come out to Japan and help with trade union education. From that appeal they got one man, a gentleman called James S. Killan. It is rather significant to notice that James S. Killan is no longer there. In each of the three years since the occupation there has been the threat of a general strike in Japan. In each of those three years the strike has been tabooed by General MacArthur."

"... James S. Killan set up inside the economic and scientific section a small department, which is presided over by General Marquat. When we were there the number of personnel was very small in relation to the size of the job. The trades unions themselves were, in the first instance, set up on A.F. of L. and C.I.O. patterns, as in America. During that time various discussions took place between the Japanese trade unions leaders, the Government and S.C.A.P. regarding labour conditions, wages, the fixing of prices, inflation and so on. But most of the good intentions that so characterised the first two years of the occupation have now been lost sight of, because within the last few months collective bargaining in Japan has been banned. Evidently the reform period is over.

"We must take serious note of these things, because it is not a bit of use our going to workers in Lancashire and Yorkshire and inviting them to staff our mills unless at the same time we assume a

responsible/

UNCLASSIFIED

Page 3.

Desp. No. 2322, November 24, 1948, from London

responsible attitude to what is happening in Japan, and face the likelihood of competition and the difficulty the textile trades will be in when competition really begins. I shall show in a moment how it has begun.

"There can be two phases. First, the banning of collective bargaining automatically puts back the power into the hands of the people who had it before--the Zaibatsu. Since the beginning of the occupation they have never been far away. I will give one illustration to show what I mean. During our visit we went to Kyushu in the south, where we visited a coalfield. There were 4,760 workers engaged in that particular colliery. We scrambled over coal and went down shafts for the whole day, and at the end of the day the American officer asked us whether we would like something to eat. He asked us whether we would like to go to the welfare club connected with the mine. We were happy to accept the offer because we thought that we should meet some of the workers during their off-time.

"We went to a lovely house on top of a hill. After we had taken off our shoes, we saw an unusual man on the verandah. He was a very aristocratic-looking person, and someone whispered to us, 'That is Baron Mitsui.' As I was not keen to shake the hand of anyone connected with the Mitsui clan, I dodged the first introduction. But I noticed that it was not possible to sit down until Baron Mitsui had himself sat down. I was a bit puzzled where he came in. So I tackled a Japanese on my left and asked why Baron Mitsui was there. I was told that he was the head of the whole of the coal and fuel industry of Japan before the war, and that he had been purged. I asked why he was there if he had been purged. 'Oh,' said the Jap, 'he is now the welfare officer.' He was living in his own house, and to all intents and purposes was carrying on the supervision of his own business behind the scenes. The Zaibatsu are nearly back where they were.

"The position now is that potential competition is worse than before the war. Then the Japanese economy was at least spread over the whole range of manufactured products, whereas today it is confined almost entirely to textiles. The Communists in Japan number approximately 80,000. What can we expect to happen when a Trade union movement which started off with so much hope and promise suddenly finds itself cut off by the embargo on collective bargaining?

"It means that as soon as the Zaibatsu phase is finished other difficulties appear from the extreme Left. I really do not wish to discuss the political side at all, but the danger to our trade which can arise as a result of the present set-up in Japan. Textiles are the most important exports for Japan, everyone agrees, and we are trying to fall in with the American

plans/

UNCLASSIFIED

Page 4.

Desp. No. 2322, November 24, 1948, from London

plans as far as possible. We agree that Japan should be able to live, but how on earth we can forge a solid plan for Japan, with her increasing population at the rate of 1,800,000 a year, I really do not know. It takes all our time to plan for our almost static population, let alone devise a plan for a situation of that kind.

"The Japanese are a very disciplined race. It may be said that they would still have been a disciplined race if the Emperor had been removed, but I have thought all along that the retention of the Emperor was a very big mistake. . .

XR 894.655
"The Japanese are a very hard-working people, and they are a virile people. Despite the tremendous increase in population they are not losing their virility. During these last few days I have been given to understand that there is an increase in machinery development in Japan. The machinery potential there for textile machines is immense. There is one firm in Japan whose yearly production is equal to the maximum number of spindles installed by America in their peak year of 1937--namely, 732,000. Can we be told what is happening in this connection?

"Last year S.C.A.P. had a plan to set limits to textile production as follows: cotton, four million spindles; woollens, 753 cards. There was also a limit to the tonnage in the staple rayon and continuous filament industry. Since then they have shifted their ground, and I understand that during the past few months a new five-year plan has been evolved. That plan was announced on 17th May. Some of us wanted to know exactly what it was, and eventually an inquiry went back to General Marquat asking him about the new levels for rayon and cotton exports and woollen goods, which were very high. General Marquat replied that no proposals had been made by the Japanese Government for larger exports of rayon than the S.C.A.P. programme, or their prewar levels. He said that many of the erroneous reports had gained credence through repetition, and were without basis in fact. Our information was based on figures taken from an official hand-out to the Press in Tokyo, on 17th May.

"We understand, however, that the statement by General Marquat did not quite square with the facts as the five-year plan is now established. The five-year programme in respect of rayon, cotton and wool is very much in excess of the S.C.A.P. programme for last year. I would like to know whether this five-year programme is authentic or not? What are the export targets for the rayon industry? . . .

"Before sitting down, I should like to mention one other matter, and that is that some time ago an announcement was made to the trade that the most-favoured-nation treatment was being extended to Italy. That rather shocked a lot of people, particularly the people concerned with the rayon industry. The effects

of it/

UNCLASSIFIED

Page 5.

Desp. No. 2322, November 24, 1948, from London

1R
694.0031

of it have been seen since, not only in South Africa but in New Zealand and in Australia. At this juncture, under no circumstances should the most-favoured-nation treatment be accorded to Japan before the trade and the responsible people have had an opportunity to have a say in the matter and present their case. That is all I wish to say on that subject at the moment.

"With regard to the question of possible competition from other countries in the East in textiles, may I mention China. Some time ago we were apt to overlook the productive potential of China. While the new plan in Japan envisages 5.9 million spindles working three shifts, with a production of 170 pounds of cotton yarn per annum per spindle, it is interesting to note that present spindleage in China is in the region of four million. This year they are hoping to increase by a substantial amount exports of cotton goods to the United States, which last year were in the region of 30 million dollars. I would say to those responsible that that particular aspect needs watching as well.

"Mr. William Teeling: We realise when we are thinking of trade in the Far East that Hong Kong cannot really carry on without China, at least to no very great extent. Equally, China needs Japan. Japanese industries cannot carry on without China. As a market those two great countries and the small island of Hong Kong should be considered together in any plans and arrangements made by the British Government for trade development out there. In the years to come we can get from the Far East all sorts of things like oils and groundnuts, as we are trying to get from Africa, if only we can get some form of peace in China and for Japan.

"Therefore, I should like to ask the hon. Gentleman who replies to tell us exactly what is happening with regard to our policy, from the point of view both of the Board of Trade and the Foreign Office. I know that the hon. Gentleman who is to reply cannot answer for the Foreign Office as such, but I would like a little assurance that the Foreign Office and the Board of Trade see eye to eye on all these problems. I have my doubts about it because I feel that the Foreign Office looks upon the question of a peace treaty with Japan rather on the lines that the healthier and stronger Japan is--I am not talking in the military sense--the better is it likely to be in the long run for the whole Far Eastern position. They are a little apt to be impatient of the feelings of nervousness in Australia and in Lancashire and Yorkshire.

"I have met even some English people in Japan and in the Far East who refuse to allow that Lancashire and Yorkshire have a proper case to put. That is a dangerous position from our point of view. It is absolutely vital that we should have a friendly agreement as well as a friendly trade agreement with Japan, but that we should, if possible not give away too

much/

UNCLASSIFIED

Page 6.

Desp. No. 2322, November 24, 1948, from London

much even if we are requested to do so by another great nation. The argument of the United States is that they have been pouring a lot of money into countries in Eastern Europe and elsewhere. Peace treaties have come, and the U.S. have left these countries, where Communism has since developed fast and furious. All their money, in a sense, has gone down the drain. If today they were to walk out of Japan after having poured much money into it, presumably there is a risk that the Communists would take over and that in some way Russia would gain control. That argument is strongly used by a large percentage of people in the United States, and indeed by an element in Japan at the present time.

"Another argument which is also used by the United States--this is more by business elements--is that they have poured money in and that until they can get some of that money back they have no intention of getting out. Others say, 'We are now pouring in this money and we must go on doing so, but if we do we see no reason why Japan should not have most-favoured-nation treatment in other parts of the world, which we are helping with the Marshall Plan.' From the United States point of view that is quite reasonable, but frankly I do not think that it is the idea of either General MacArthur or President Truman, and I am inclined to look hopefully at what has happened in the last few days in the United States from the point of view of the future peace treaty with Japan. I believe that this desire to look at the matter from an entirely financial point of view will possibly diminish, and that we may, in the not far distant future, find the United States more willing to agree with our ideas as regards peace.

"Exactly what are our ideas in that respect? Is it to be the Foreign Office idea of giving perhaps a little too much to Japan, or the Board of Trade idea--I hope it is the Board of Trade idea--of making sure that some agreement is made whereby in some way we in Lancashire and Yorkshire shall be protected as far as possible, or that at any rate something shall be done in the Far East which will help our own trade with Japan. Since 1946, Great Britain's position in Japan has considerably improved. It was pretty bad, in all conscience, in 1946, and was none too good in 1947 when some of this House were there. But it is gradually improving, slowly but surely. Whether the American position is not improving by that much more, so that we still remain relatively as far behind as previously I do not know, and I should like some enlightenment.

". . . I do not think that total peace is likely in the immediate future, but some kind of token peace could be brought about whereby the Japanese could again carry on, with reparations cleared up, and with definite arrangements made for the future regarding the repayment over a period of all the debts and loans of the past. I believe that Australia would like that.

We might/

UNCLASSIFIED

Page 7.

Desp. No. 2322, November 24, 1948, from London

We might even be able to get China to agree to it, and it is also possible, in the long run, even Russia. All these things are quite possible.

"Mr. John Paton: . . . I refer to the over-inflation of the Japanese textile industry which is taking place now. So far as one can see, that industry is scheduled for almost indefinite expansion. Last week I drew particular attention to this matter. Tonight I wish to re-emphasise it in relation to what has been said already. The present tendencies in Japan under the economic controls of the American control organisation show a desire to develop a textile industry that would be immensely greater than it was before the war, with all the menace that that would hold to the many countries in the world that suffered from Japanese competition. That would be the gravest possible dis-service to Japan itself, because it would result in a Japanese economic system which was completely unbalanced with, I think, about three-quarters of the entire economy of the country resting on the one industry of textiles and, therefore, liable at any time to the severest shocks from the movement of world trade.

"I have previously made reference to an idea which I believe to be wholly unfounded. It appears to be thought that this emphasis in Japan upon the development of the textile industry is necessarily bound up with American self-interest in expanding fields for the disposal of their own stocks of raw cotton. I think that is quite a wrong idea. I am sure, from my own observations in Japan, from my discussions with economic experts on the American staff and with similar experts who were themselves employed in the Japanese textile industry, and that idea is founded on a misconception.

"I think the explanation is far simpler. The American economic organisation in Japan is developing the textile industry, out of all relation to the rest of the Japanese economic system, more or less from pure necessity. They are striving in every conceivable way to reduce the extraordinary burden now being borne by the United States alone in sustaining the Japanese population in these difficult times, and they have naturally come, as we would come in that situation, to the easy development of textiles in an industry which has largely escaped the destruction of the war which other industries suffered, and for the products of which there is a ready market over great areas of the world. It is really from that purely expediency point of view that this over-development of the textile industry in Japan is going on; but that does not in any way diminish the dangers that such a policy holds for the Japanese economy itself, for our own economy and for the economies of every other textile country throughout the world.

"Here we have, undoubtedly, something of very great importance indeed. I think that, in our attitude to what has been happening in the Far East, we

have/

UNCLASSIFIED

Page 8.

Desp. No. 2322, November 24, 1948, from London

have been suffering very largely from the fact that our policies have been of a negative kind. We have never attempted, so far as any evidence that is available shows, to pursue a positive policy. I think we have been obsessed by the very apparent weaknesses of our position in the Far East. Anybody who has been in Japan and who has seen the inevitably overwhelming effect of the United States effort, against the tiny effect of any efforts that we can make, is very well aware of the position, but I think we have accepted the difficulties too readily. . . .

"Surely the answer is that no one on these Benches would ever attempt to suggest that we ought to try by special devices to cushion Lancashire against the effective competition of other textile countries in the world? I am sure that no textile representative on this side of the House would ever dream of making such a suggestion; but what Lancashire is wanting is some assurance that she will not be subjected, in the markets into which she is entering in the world, to the completely unfair competition which she could not by any device hope to meet, and to which she was subjected by Japanese textile manufacturers before the war.

"That was a competition not only based on the incredibly low standards of life of the Japanese labour force, but one that was bolstered and sustained by heavy State subsidies, by means of which prices were enabled to be cut in every part of the Western world, so that the textile industries of every advanced country found themselves unable to stand up against such competition. Lancashire has a right to expect protection from that kind of thing. I think that in the existing circumstances of Japan we now see the beginnings of an effective kind of protection. One of the results of the catastrophic destruction in Japan and of her occupation by American troops and our own has been that, in Japan now, there is, at least on paper, an extremely effective code of labour, welfare and social relations, with safeguards and regulations that ought to give to the Japanese workers, for the first time, the freest opportunity to organise and develop their collective power for the purpose of lifting and maintaining a good standard of life.

". . . The second thing, surely is this. Japan, in the new circumstances in which she is operating, will no longer find it possible to bolster her export goods with vast sums of public money which formerly constituted one of the factors in maintaining the competitive levels at which she operated throughout the world. On these two foundations, we ought now to be able to base the possibility and hope that Japan will no longer be able to exploit her people in the thoroughly merciless manner which she employed before the war, to the detriment of the other trading nations of the world.

But there/

UNCLASSIFIED

Page 9.

Desp. No. 2322, November 24, 1948, from London

"But there is a bigger factor than that to which I want to refer, and which for nearly three years I have already urged upon the Government on a number of occasions in this House, without ever yet having elicited any kind of effective answer. Surely, it ought to be obvious to the Government, as it is to anyone who studies the situation, that we cannot hope to build up or revitalise Japanese industry, as we must in order to allow the Japanese people to live, if we think of Japan in terms of a Far Eastern vacuum? The reorganisation of Japan, and the building up of such a level of industry in Japan as will give her people the opportunity of reasonable standards of life, cannot be done in isolation. They can only be done when Japan is viewed, as she ought to be viewed, as an integral part of a great Far Eastern economy affecting, for good or ill, every country in that vast area of the Pacific, and, indeed, every other industrial nation in the world.

"On every opportunity I have had in this House during the last three years, I have pleaded that, in the whole of this matter of the policies to be pursued towards Japan in the future we should, first, have a clearly perceived objective, and, secondly, a policy of sound planning which would integrate the new Japanese economy, at the level of industry considered sound and necessary, into the economies of all the countries around her, and which are so plainly affected by all her industrial and economic activities. It is only by that combination of central, long-sighted planning for the emergence of a Japan that will be economically viable, and, at the same time, no menace to her neighbours throughout the world, combined with the internal developments that I have mentioned, that we can find safeguards against unfair competition emerging once again from that territory.

XR
894.60
2

"There is one further point I wish to put to the Minister. It seems to me that, on this question of the level of industry in Japan, the discussions that have so far taken place have been discussions on a level that is altogether too low. The agreement that seems to have been reached by the Far Eastern Commission is that the future level to be aimed at in Japan is one roughly corresponding to that which obtained in the years 1930-34. Those years in Japanese economic history were years of depression, just as they were in every other country in the world. Therefore, they are not a fair test, so far as the welfare of the Japanese people is concerned. Yet those very years are taken as the standard for purposes of the level of industry. Let us think of one or two things which we ought always to keep in mind.

"The population of Japan at that time was 68 million. She had numerous colonies which she was ruthlessly exploiting for purposes of her own interests and her home population. Yet, in that year, as we all know, she had a deficit economy compelling her to import large quantities of food which could only be

purchased/

UNCLASSIFIED

Page 10.

Desp. No. 2322, November 24, 1948, from London

purchased by a continuous and expanding export of competitive goods. Today, the Japanese population is 78 million, in islands on which the agrarian economy is scarcely capable of any marked extension, in islands whose great fishing grounds, on which the people's food so much depends, have been greatly circumscribed as a result of defeat. Russia has closed one great prolific fishing area to her for ever. There, in those islands, with a population 10 million greater than it was in the period taken as the standard, and with colonies, and all the opportunities for their exploitation gone, we have now to make provision for that enhanced population which is increasing every year by nearly two million.

XR
894.5018

"It can only be done, if it is going to be a viable economy, knowing as we do that the possibilities of expansion of food production in Japan are strictly limited, along the lines I have suggested. It can only mean that any viable standard of industry in Japan must take account of the fact that she will now have to import greater quantities of foodstuffs and raw materials than she ever found it necessary to import in 1934. Therefore, she will find it necessary to export vastly greater quantities of competitive goods in order to keep her people and her industries alive. We must keep these factors in mind, because they have an enormous bearing on the central idea which I have been trying to insist on in this House, the need for clarity of objective and for skilled detailed planning as to the kind of industry permitted. That industry must be varied over a large range instead of being concentrated on one particular commodity. It is with that sort of treatment, thinking of Japan as the industrial centre of a great area, partly industrialised and with great potential industrial possibilities, a Japan integrated into the system of that area, that I want to see our Ministers concerning themselves.

"Mr. Bottomley (Secretary for Overseas Trade):

"A good deal of discussion has centred on Japan. Japan is a defeated enemy that ended the war in a state of economic collapse. Japanese production is still 50 per cent below the low period of 1934 production to which the hon. Member for Norwich (Mr. J. Paton) referred. May I say, in connection with the observations made by an hon. Member about most-favoured-nation treatment, that we certainly have not at the moment been committed to any such suggestion, and, if we were to be committed in the future, the House can be assured that there will be full discussion and consideration before there can be any decision upon that matter.

". . . Most-favoured-nation treatment is, of course, rather linked with the peace treaty, and there are no two views about the peace treaty. But peace treaty or no peace treaty, it is the determination of His Majesty's Government to look after United Kingdom interests, and that we shall do all the time.

I suppose/

UNCLASSIFIED

Page 11.

Desp. No. 2322, November 24, 1948, from London

I suppose that if Japan is to be a nation free from the difficulties mentioned this evening, she will have to build up her industrial capacity, and certainly restore her foreign trade. The Japanese are something like ourselves: they have to export to live; they cannot be, any more than we can, for ever dependent upon international charity or aid from the United States. The industrial development of Japan today is far from satisfactory. Her coal production in 1948 is not expected to be more than 36 million tons, which is about three-fifths of the pre-war level of production; iron and steel production is now running at an annual rate of about one million tons, which is roughly one-third of the pre-war production; cotton textile production, which before the war amounted to 45 million yards, is today only 720 million yards.

"Mr. Drayson: Is it 45 million yards? Surely it is 4--5,000 million yards. To what period is the hon. Gentleman referring?"

"Mr. Bottomley: The hon. Member is quite right; it is 4--5,000 million yards. If we take that figure, it means that today the Japanese are operating two million spindles compared with eight million before the war. In connection with textile production, it is of interest to note that whereas in 1930-34 exports averaged 1,200 million dollars per annum, in 1948 they will not reach 280 million dollars; the United States estimate that by 1953 they should reach a figure of just under 700 million dollars. I understand that figure is not likely to be reached, but even if it were it would be only seven-twelfths of the very low pre-war figure for the years 1930-34.

". . . To go back to the point I was making about the figure of seven-twelfths of the low pre-war production, and to pick up to some extent the point made by the hon. Member for Norwich, Japanese exports in 1947 were £44 million, which is less than one-third of her imports, and Japan really must pay for her imports if she is to do the trade which we want developed in the best interests of this country, of Japan and of the world generally. As I say, it is the intention of S.C.A.P. to try to make Japanese economy viable by 1953; but that viability means the pre-war low level to which the hon. Member for Norwich referred, and upon which there may be conflicting views. Yet in spite of tremendous efforts in the last three years, it has not been possible to get anywhere near the standard expected, and therefore, with the best will in the world, it will probably be physically impossible to reach a higher standard than the one I have mentioned.

"The hon. Member for Norwich asked about an agreement which had been reached. It is true that in August of this year, after rather long negotiations, there was a payments-agreement with the sterling group whereby

payments/

UNCLASSIFIED

Desp. No. 2322, November 24, 1948, from London

payments could be made in sterling although any deficit must be met in dollars. I am speaking only from memory, the House was not sitting then, but I think I can say that in the Board of Trade Journal and in information from trade associations that was made known in order that our own industry could take advantage of the situation. In connection with the other agreement to which the hon. Member referred, it is a fact that for the first time--and I think it is to be welcomed--the United Kingdom, the Colonies and the Commonwealth countries of Australia, New Zealand, South Africa and India have been negotiating to get a trade agreement for one year whereby we can have an opportunity to get a balanced trade. In this way, as long as we can send goods to Japan and can get goods in return, trade can be expanded to the fullest.

"I am not in a position tonight to announce the terms of that agreement, but I can, as a result of the invitation of the hon. Member for Brighton, say that we shall have in that agreement an exchange of goods. Raw wool, raw cotton, iron ore, some cereals, petroleum, rubber and other things will be going from the sterling area into Japan, and coming out from Japan will be cotton textiles, raw silk, industrial machinery, rolling stock, caustic soda and other things. My hon. Friend the Member for Norwich has obviously not been watching his Questions as carefully as usual, because the hon. Member for Brighton has been repeatedly asking when this agreement will be made public. Until the agreement has been reached it is impossible to make it public, but I think I can say that next week an announcement will be made--I hope that I shall not have to put off the hon. Member again.

". . . So far I have been talking about direct trade with Japan but I must also mention indirect trade. In Japan we have merchant houses that had a large stake in the development of Japanese exports. It took us a very long time to convince S.C.A.P. of the value of the services rendered by these British houses, but now, I am very glad to say, there is a more accommodating attitude. We now have between 25 and 30 firms re-established in Japan which are covering services, such as shipping, commercial banking, and other things of that nature. In addition, we have been able to get United Kingdom businessmen into the country. One hundred and thirty of these people have been in the country according to my last figures. I think we can say that these United Kingdom businessmen will do much to help the Japanese in the export trade, and at the same time will give some measures of assistance in regard to our own interests in Japan.

"We have also been able to appoint a commercial Minister in the country, and there has now been established an advisory committee made up of representatives of British business interests. Together with the Commercial Minister, they will be able adequately to protect British interests. My hon. Friend

the Member/

UNCLASSIFIED

Page 13.

Desp. No. 2322, November 24, 1948, from London

XR
600.9417

the Member for Ashton-under-Lyne talked a lot about the danger of Japanese competition. As has already been said on earlier occasions, we have to bear in mind that we have to make Japan's economy viable while watching to see that the Japanese no longer engage in pre-war methods of unfair competition. We have to enable Japan's economy to develop in order to give the Japanese a reasonable standard of living and enable them to take their place in the comity of nations, while at the same time preventing them from being the aggressive Power they were before and violently undercutting prices. Japanese trade is developing reasonably satisfactorily, and we hope that the trade arrangement which is to be announced in due course will be of mutual advantage to Japan and ourselves."

November 8, 1948.

"Mr. Prescott asked the Secretary of State for Foreign Affairs what instructions have been issued to our representative on the Far Eastern Commission in respect of the proposed formation of a standing Japanese army.

XR
894.20

"Mr. Mayhew: I am not aware of the existence of any proposal to form a standing Japanese army. There has been no question of sending instructions to our representative on the Far Eastern Commission on this issue and none has been sent. The Far Eastern Commission have decided that all measures necessary should be undertaken to prevent any revival of the Japanese army, navy, gendarmerie, secret police and their administrative organs, and my information is that Japan is now completely demilitarised."

November 10, 1948.

"Mr. Pritt asked the Secretary of State for Foreign Affairs what developments have recently been carried out at the Japanese naval base of Yokosuka; whether these developments have had the consent of His Majesty's Government and of the Far Eastern Commission; and how they are consistent with the policy of disarmament and demilitarisation of Japan.

"Mr. Mayhew (Under-Secretary of State for Foreign Affairs): The former Japanese naval base at Yokosuka has been used since the beginning of the occupation by the naval forces operating in support of the Supreme Commander for the Allied Powers in Japan. I am informed that there is no truth in reports that Yokosuka has been converted into a modern naval base, and that such limited modifications as have been made there have been solely for the purpose of maintaining the efficiency of the United States naval vessels and for servicing visiting ships. His Majesty's Government in the United Kingdom are fully satisfied that there has been no breach of the existing policies regarding the disarmament and demilitarisation of Japan and no

special/

UNCLASSIFIED

Page 14.

Desp. No. 2322, November 24, 1948, from London

special instructions have been issued to our representative on the Far Eastern Commission."

November 11, 1948.

"Mr. Prescott asked the President of the Board of Trade what proposals exist to grant most-favoured-nation facilities to Japan; to what extent discussions have taken place with U.S. and Dominion representatives concerning this matter; with what Dominions; when and where such discussions took place; and what is the attitude of His Majesty's Government to such proposals.

"Mr. H. Wilson (President, Board of Trade): "A discussion of the points which would be involved in according most-favoured-nation treatment to Japanese goods took place between officials of the United States and the Commonwealth Governments in London last week. The United States Government wished to ascertain what the attitude of Commonwealth Governments to such a proposal might be and it was agreed, as a matter of convenience, to hold preliminary discussions on the question while some of the officials attending the recent Commonwealth meeting were still in London. In addition to the United Kingdom, representatives of Canada, Australia, New Zealand, South Africa, India, Pakistan, Ceylon and Southern Rhodesia were present. The discussions were exploratory and non-committal. His Majesty's Government in the United Kingdom have not yet considered the report of these conversations and have not formulated any attitude towards the granting of most-favoured-nation treatment to Japan."

November 15, 1948.

"Mr. George Jeger asked the Secretary of State for Foreign Affairs what progress is being made in the negotiations with the Japanese Government for compensation to British subjects who suffered imprisonment and the loss of their household and personal property under Japanese occupation.

"Mr. McNeil (Minister of State): This is not a subject for negotiation with the Japanese Government, and consequently no such negotiations are in progress or in prospect. It will be for the Peace Conference to decide whether an obligation is to be imposed on the Japanese Government to meet individual claims in respect of loss or damage to property or for personal injury."

November 16, 1948.

"Mr. Erroll asked the President of the Board of Trade what consultations took place with the Lancashire cotton industry before the recent trade agreement with Japan was concluded.

"Mr. Bottomley: I understand that the Chairman of the Cotton Board has been aware of the negotiations leading up to the recent trade arrangement between a number of Commonwealth countries and the Supreme

Commander/

UNCLASSIFIED

Page 15.

Desp. No. 2322, November 24, 1948, from London

Commander for the Allied Powers in Japan. The National Production Advisory Council on Industry were also informed that negotiations were in progress, but no formal consultation with individual industries has taken place."

November 24, 1948,

"Mr. Piratin asked the President of the Board of Trade whether he will give an assurance that, in signing the recent trade agreement with Japan, His Majesty's Government gave consideration to its effect on our textile trade; and whether he will make a statement.

"Mr. Bottomley: The primary object of the Trade Arrangement recently negotiated between a number of Commonwealth countries and the Supreme Commander for the Allied Powers on behalf of Japan was to enable the participating countries to obtain essential supplies against payment in sterling and without recourse to dollars, but the possibility of its having an effect on our own industries was naturally very much in mind. Full information regarding this arrangement, including figures for the United Kingdom and Colonies, has already been released and I do not think it necessary for me to make a further statement.

"Mr. Piratin: Can the Minister say whether he had consultations with the textile industrialists in Lancashire and Yorkshire on this matter, and is it not the case that there has been much indignation as a result of this agreement in the Northern parts of the country?

"Mr. Bottomley: I am not aware of the indignation to which the hon. Member refers. In matters of this kind we always consult with interested parties, but the responsibility finally rests upon His Majesty's Government.

"Mr. Piratin: May I have an answer to my question? The question was specifically, did the Department actually consult with the textile industry? May I have an answer?

"Hon. Members: No.

"Mr. Erroll: Does the Minister now deny the statement he made last week to the effect that there was consultation with the textile industry?

"Mr. Bottomley: I am neither denying nor supporting this particular thing put in the way in which both hon. Members have questioned me. The answer is that consultations are always taking place with industry on these matters, but if they ask if particular consultations took place on this point, the answer is 'No.'

"Mr. Platts-Mills: As my hon. Friend says that His Majesty's Government must take full responsibility

for this/

UNCLASSIFIED

Page 15.

Desp. No. 2322, November 24, 1948, from London

Commander for the Allied Powers in Japan. The National Production Advisory Council on Industry were also informed that negotiations were in progress, but no formal consultation with individual industries has taken place."

November 24, 1948,

"Mr. Piratin asked the President of the Board of Trade whether he will give an assurance that, in signing the recent trade agreement with Japan, His Majesty's Government gave consideration to its effect on our textile trade; and whether he will make a statement.

"Mr. Bottomley: The primary object of the Trade Arrangement recently negotiated between a number of Commonwealth countries and the Supreme Commander for the Allied Powers on behalf of Japan was to enable the participating countries to obtain essential supplies against payment in sterling and without recourse to dollars, but the possibility of its having an effect on our own industries was naturally very much in mind. Full information regarding this arrangement, including figures for the United Kingdom and Colonies, has already been released and I do not think it necessary for me to make a further statement.

"Mr. Piratin: Can the Minister say whether he had consultations with the textile industrialists in Lancashire and Yorkshire on this matter, and is it not the case that there has been much indignation as a result of this agreement in the Northern parts of the country?

"Mr. Bottomley: I am not aware of the indignation to which the hon. Member refers. In matters of this kind we always consult with interested parties, but the responsibility finally rests upon His Majesty's Government.

"Mr. Piratin: May I have an answer to my question? The question was specifically, did the Department actually consult with the textile industry? May I have an answer?

"Hon. Members: No.

"Mr. Erroll: Does the Minister now deny the statement he made last week to the effect that there was consultation with the textile industry?

"Mr. Bottomley: I am neither denying nor supporting this particular thing put in the way in which both hon. Members have questioned me. The answer is that consultations are always taking place with industry on these matters, but if they ask if particular consultations took place on this point, the answer is 'No.'

"Mr. Platts-Mills: As my hon. Friend says that His Majesty's Government must take full responsibility

for this/

UNCLASSIFIED

Page 16.

Desp. No. 2322, November 24, 1948, from London

for this agreement, is he now saying that New Zealanders actually wanted a bargain whereby they were forced to take this Japanese trash made by sweated labour in preference to British textiles?

Mr. Bottomley: The responsibility of the United Kingdom applies to our own part of trade arrangements. Other commonwealth countries were concerned, and New Zealand was a party to the arrangement."

China. November 4, 1948.

"Mr. William Teeling (Conservative, Brighton): Perhaps we might be told a little more about the present position in Hong Kong generally and about its position vis-a-vis China. I remember that an hon. Member in the previous Session who was in China at the same time that I was in Japan made what I considered a rather strong speech on the subject of smuggling from Hong Kong. We ought to be intensely proud of Hong Kong, which has done extremely well since the war and has kept our flag flying in the East. All the talk about smuggling with China is deeply resented out there. We know that there is a black market attempting to evade Chinese customs and regulations--or there is supposed to be--but we should realise also that Hong Kong is doing everything it possibly can to assist the Chinese Government to carry out their own regulations. Hong Kong has introduced controls to regulate the imports of Chinese produce which are passed through Hong Kong. She has stopped the import of Chinese currency and has done other things to support the Chinese authorities. She has agreed to an inspection service operating in Hong Kong territory and territorial waters so as to prevent smuggling.

"I believe that I am right in saying that nowhere else in the world can it be shown that the Government of a territory have gone so far to assist the Government of another and neighbouring territory in the enforcement of their own regulations. It is time that we gave a bit of credit for what is being done in that matter instead of making criticisms and suggestions about smuggling and the black market, which show a grave lack of fairness. The economic and political instability in China has undoubtedly attracted to Hong Kong a large number of Chinese people, something like one million people. Some part of the entrepot trade which was formerly carried on in Shanghai has been diverted to Hong Kong. But it is wrong to think that instability in China is in Hong Kong's interest. That is not the case. The long-term prosperity of Hong Kong will always march together with that of China as a whole.

"Mr. Bottomley: In the case of China we are doing everything possible to revive and develop the healthy links which once existed, but our opportunities are very limited. The Government in 1946 sent an

official/

XR
6469.93244XR
893.5151

UNCLASSIFIED

Page 17.

Desp. No. 2322, November 24, 1948, from London

official trade mission to the country and we received an extremely useful report. That report was published in January of this year. I regret to say that our prospects of further trade are limited until normal conditions are restored. The country at the moment is in the throes of civil war. The Chinese have been for a long time fighting inflation, and therefore I am afraid trade on normal lines has been more or less impossible. In spite of these difficulties, when we take the export figures for China for the year 1946 we find that our exports were £7.8 million; in 1947, £12.8 million and for the eight months of this year £8.4 million which, if the same rate of development continues, will mean an annual rate of £12.6 million. This compares with exports of £4.4 million in 1938.

XR
641.9331

"If we take imports we find that in 1946 imports from China were £2.7 million; in 1947, £7.1 million, and for the first eight months of this year £5.6 million, which, if continued, will make an annual rate of £8.5 million as compared with imports of £7.1 million in 1938. The Chinese Government, like many others, including our own, have their balance of payments difficulties and for that reason they have had to limit many imports--goods that were normally sent to China, and which we would still like to send. Consequently we have not such a wide market as we would wish. Indeed, China has an unfavourable balance with the United Kingdom, but she has a favourable balance with the sterling area as a whole. We are receiving tea, tung oil, oil seeds, bristles, etc., and in return, although unable to send some of the goods we should like to send, we have found a substantial market for wool tops, iron and steel manufactures, electrical machinery and reasonable supplies of what are known as 'less essential goods.' The prospects of economic stability in China do not look as bright as they did a little time ago, and until we can see more clearly how things are going to develop the outlook for future expansion of trade with China is not as good as we would wish.

XR
641.46931

"The hon. Member for Brighton, in connection with China's trade position, mentioned Hong Kong. As he rightly said, the interests of Hong Kong are closely connected with those of China for trade. The physical trade done between the United Kingdom and Hong Kong shows a deficit on the part of Hong Kong. Imports for January to August, 1948, were £81 million approximately, while Hong Kong only exported £60 million. To examine the figures only in that way would not be correct, because Hong Kong renders very valuable services, such as shipping, banking, and insurance, and by that means gets an overall balance. I agree with the observation made by the hon. Member and repeat this for the record, as he wished me to do."

November 17, 1948.

"Mr. Vernon Bartlett asked the Secretary of State for Foreign Affairs the estimated value of British

investments/

UNCLASSIFIED

Page 18.

Desp. No. 2322, November 24, 1948, from London

investments in Shanghai; and whether he has consulted or will consult the U.S. Government with a view to taking an immediate decision to send an Anglo-American force to that city should the situation in China continue to deteriorate.

"Mr. Mayhew: The value in 1941 of British investments in Shanghai has been estimated at £107 million; and their present replacement value is probably still not less than that figure. Inter-governmental consultations of the kind suggested have not taken place, nor are they contemplated by His Majesty's Government. . . .

"Sir Ronald Ross: In view of the advantage that might accrue to the Chinese as well as to British interests in Shanghai, is the only policy the Government are contemplating at present the evacuation of British personnel rather than protecting Shanghai?

"Mr. Mayhew: No, Sir. I should make clear that when I said plans were being made, I meant for the protection and not the evacuation of British and United States nationals in China."

Hong Kong. November 24, 1948.

"Mr. Fitzroy Maclean asked the Secretary of State for the Colonies what steps have been taken to prevent the use of Hong Kong by Chinese Communists as a safe base for their activities against the Chinese Government.

"Mr. Creech Jones (Secretary of State for the Colonies): The activities of the Chinese Communists in Hong Kong are closely watched and deportation proceedings are in train in several cases where it has been found that Communists were attempting to use Hong Kong as a base for activities against the Chinese Government. . . .

Mr. John Paton: Will my right hon. Friend see that the greatest care is exercised not to restrict the right of asylum for Chinese liberals and democrats as well as Communists so long as they conform to the law of the Colony?"

Korea. November 1, 1948.

"Mr. Stanley Prescott asked the Secretary of State for Foreign Affairs if he will make a statement on the position in Korea and the attitude of His Majesty's Government.

"Mr. F. Maclean asked the Secretary of State for Foreign Affairs whether he will make a statement regarding the present situation in Korea.

"Mr. Mayhew: In North Korea the Russian occupation forces are said to intend withdrawing from their

zone/

4R740.00119
Control (Korea)

UNCLASSIFIED

Desp. No. 2322, November 24, 1948, from London

zone by 1st January next. It appears that North Korea has established diplomatic relations with the Soviet Union, and with certain fellow-satellite governments.

"In South Korea there has recently been a Communist-inspired rising, accompanied by great barbarity. Order has now been restored, though some guerrilla groups have yet to be suppressed. The American authorities have not been involved in the suppression of this rising; and have proceeded with the transfer of power which began with the termination of the American occupation in August.

"As I stated on 20th September, His Majesty's Government do not think their attitude towards the question of recognition can be decided until the Report of the United Nations Temporary Commission has been considered by the General Assembly. This is expected to take place shortly."

Philippines. November 4, 1948.

"Mr. Teeling: . . . One area which is never discussed or talked about is the Philippine Islands, which have a population of more than 13 million. They were under the United States until about 10 years ago. They got their independence more or less on commonwealth lines and today they are completely independent. The United States have, of course, got them inside the dollar area, and trade with them very considerably. The Philippines have a tremendous possibility. They have gold mines and a number of things vitally necessary for the whole of the world. The United States are not willing to put too much money into them and are not responsible for all that is going on there.

"I am not at all happy about what Great Britain is doing. I feel that she is not paying enough attention to those islands and to the possibilities that can be realised there. France is doing far more. Do we realise that the quickest way by far to the Philippine Islands is to go by Air France? Yet to do so, one has to start from England. One can get there in half the time taken by any British line. The French are very proud of this arrangement and are now talking of the possibility of some arrangement being come to with Indo-China whereby they will practically hand over Indo-China to the Indo-Chinese, getting one small town on the coast not very far from Hong Kong. They intend to turn that town into a second Hong Kong, as a second great trading centre. They are hoping to trade with the Philippines from there and with Siam. Are we watching that development to see what is happening? . . .

"Mr. Bottomley: I should like to say a few words about the Philippines. That country is a desirable market, and we would like to do much more trade with it. The country is a hard currency market, but does not afford us the best opportunity for trade with it. For instance, the Philippines have a preferential

tariff/

UNCLASSIFIED

Page 20.

Desp. No. 2322, November 24, 1948, from London

XR
641.9631

tariff whereby goods from the United States enter duty free for the next eight years, and for 20 years thereafter enter at a diminishing rate of preference. But so that we can facilitate trade we have sent a Minister to the Philippines. We have told him how important we consider that country, and he is now preparing a report on the export trade. When that report is ready we shall see that United Kingdom manufacturers have a chance of trying to expand trade with that country. Although our imports have decreased compared with pre-war, our exports have gone into the Philippines at an encouraging rate though not, of course, as large as we should wish. There will be a chance of developing trade when opportunities are more favourable. We hope that the new import licensing restrictions in that country will not be too obstructive. They are a sovereign Power, but in due course our Minister will make representations illustrating how trade can be developed by removing restrictions and obstructions as far as possible."

Malaya. November 1, 1948.

"Mr. Pickthorn asked the Secretary of State for Foreign Affairs to what period he referred when, on 15th September in the House, he said that the workers in Malaya followed official advice, that there was no chance for Communists to influence them in their ordinary work and that few or no strikes took place.

"Mr. Rees-Williams (Parliamentary Under-Secretary for the Colonies): I have been asked to reply. My right hon. Friend was referring to the period immediately prior to the armed attacks. What he said must be read in its context. As his remarks show, he was indicating the course of the Communist challenge to the authority of Government which, in its earlier stages, was directed to engineering organised strikes on a large scale. The failure of that attempt was due in a large measure to the increasing response of the trade unions to the advice of Malayan Government officials and experienced British trade unionists."

November 8, 1948.

"Mr. W. Fletcher asked the Secretary of State for Foreign Affairs whether the final amounts due from Malayan property found in Japan have now been agreed; and when they will be paid.

+ 8846 e. 6354
846 e. 6176

"Mr. Mayhew: The hon. Member is no doubt referring to Malayan tin and rubber. The final amounts due have not yet been agreed. Identification of the origin and ownership of the property must of course precede agreement on payment. Identification of the tin is taking time because of the innumerable small lots in which it was discovered and handled. Nearly all the rubber has been identified and negotiations over the price to be paid are now proceeding."

November/

UNCLASSIFIED

Page 21.

Desp. No. 2322, November 24, 1948, from London

November 10, 1948.

"Mr. Pickthorn asked the Secretary of State for the Colonies how many strikes there were in Malaya in the period of six months immediately prior to the armed attacks; and how many trade unions were under Communist influence.

"Mr. Creech Jones: During the six months from December to May 1948, there were 140 strikes in the Federation of Malaya. It is reported that probably 130 of the 335 trade unions come under Communist influence, while there is some doubt in respect of of 70 others."

On November 10 there was also a long debate (taking up practically the whole of Hansard for the Lords on that day) in the House of Lords on the subject of Malaya. The debate was participated in by Lord Mancroft, Viscount Swinton, Lord Milverton, Viscount Marchwood, the Lord Bishop of Truro, Viscount Elibank, Lord Mountevans, the Earl of Scarborough, and Lord Harlech, and the questions asked were replied to in two speeches by the Earl of Listowel, Minister of State for the Colonies. While the Malayan problem was obviously being used as a club with which to beat the present (Socialist) Government of Britain, the debate as a whole presents a very good picture of British conservative and governmental thinking on the problem of Malaya. The debate was much too long to be included in this despatch, and therefore, copies of the official Report are attached, as of possible interest to those in the Department associated with South-East Asian affairs.

November 17, 1948.

"Mr. Erroll asked the Secretary of State for the Colonies what are the countries of origin of the arms captured from the Malayan terrorists.

"Mr. Rees-Williams: The majority of the arms captured from the bandits in Malaya are of British, though some are of Japanese, origin. In addition, a few Dutch and American weapons, the former from the campaigns of 1941-42, the latter from Force 136, have also been recovered and one old Bren gun made in Czechoslovakia bearing the emblem of Nationalist China from which it probably came.

"Mr. Awbery: Is my hon. Friend aware that we dropped arms to these insurgents when they were resisters, and is he satisfied that the arms now captured are the arms dropped to them from the air?

"Mr. Rees-Williams: Yes, Sir, substantially I am.

"Mr. Gamman asked the Secretary of State for

the Colonies/

UNCLASSIFIED

Page 22.

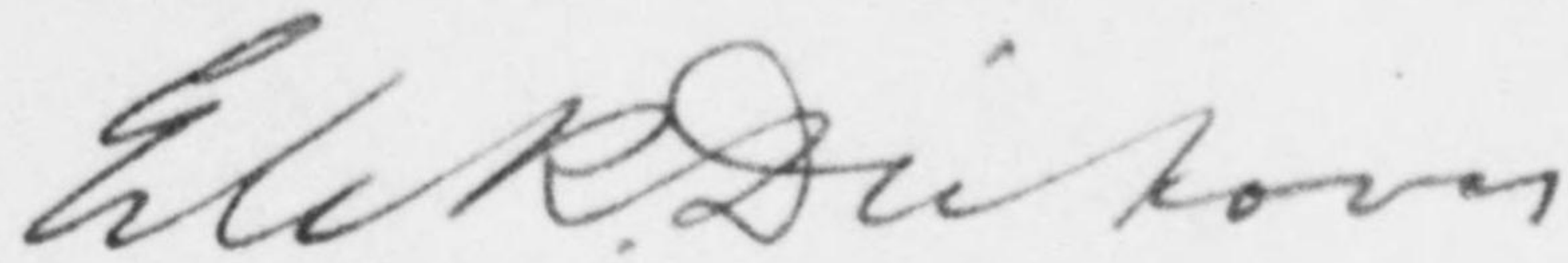
Desp. No. 2322, November 24, 1948, from London

the Colonies what was the tonnage of rubber bought from Malaya in October by the U.S.S.R. and Great Britain respectively; and what are the total purchases by the U.S.S.R. this year as compared with the corresponding period of last year.

"Mr. Rees-Williams: Exports to Russia in October were 17,332 tons, and to the United Kingdom 9,240 tons. Total exports to Russia in the first ten months of 1948 were 87,738 tons, compared with 29,249 tons for the corresponding period of 1947."

Respectfully yours,

For the Ambassador:



Erle R. Dickover
Counselor of Embassy

(Original and hectograph to the Department)

Enclosure: *att*
5 copies Hansard November 10, 1948.

ERDickover/wg

2.13.0

whether this omission will be rectified at any future occasion of a similar nature.]

THE MINISTER OF CIVIL AVIATION (LORD PAKENHAM): My Lords, the number of Territorial Army Units is so large that it was not a practical proposition to allot seats to commanding officers and their wives. I cannot at present predict what may be the arrangements at any future review of the Territorial Army.

VISCOUNT LONG: While thanking the noble Lord for his reply, may I ask whether he is aware that the Territorial Army consider as an insult the non-allotment of seats to them at this review? Further, is he aware that there were two stands filled with people other than serving Territorial officers, and is this not another indication of the need for a Territorial representative in the War Office?

LORD PAKENHAM: To describe what occurred as an insult to the Territorial Army is, in my opinion, a gross abuse of language. I would add that on this occasion there was a standing enclosure for Territorial Army personnel.

VISCOUNT LONG: I am aware of that, but is it not a fact that there were two stands filled with other than Territorial Army personnel?

LORD PAKENHAM: I have no doubt that the noble Viscount will raise this and other matters with my honourable friend the Secretary of State for War when he comes to a Committee Room to address members of your Lordships' House.

LORD LLEWELLIN: Would it not be better if in future some of the Territorial commanding officers and other people actually in the Territorial Army were allotted seats, rather than that the seats should all be occupied by Regular soldiers from the War Office, as happened on this occasion?

LORD PAKENHAM: Perhaps the noble Lord would care to pursue the matter with me privately, when we could investigate in greater detail the distribution of seats. I do not, however, accept as accurate the statement which he has just made.

H.L. 40 D 5

SUNDAY ENTERTAINMENTS ACT,
1932

BOROUGH OF SOUTHGATE ORDER;
URBAN DISTRICT OF CHIGWELL ORDER;
URBAN DISTRICT OF SKIPTON ORDER;
RURAL DISTRICT OF SEVENOAKS ORDER.

LORD WALKDEN: My Lords, I beg to move that these Orders be approved.

Moved, That the Orders made under the Act by the Secretary of State for the Home Department, for extending Section one of the Act to the said areas, be approved.—(Lord Walkden.)

On Question, Motion agreed to.

MALAYA

2.46 p.m.

LORD MANCROFT rose to call attention to the situation in Malaya; and to move for Papers. The noble Lord said: My Lords, the wording of my Motion is of necessity formal. I am in point of fact moving to draw the attention of His Majesty's Government to the state of affairs in Malaya—and if, by that, His Majesty's Government imagine that I am implying that all is not well with the policy pursued by them in the conduct of affairs in Malaya, their imaginations are not running away with them. Some courtesies have already been exchanged across the floor this afternoon. I hope the noble Earl will acquit me of any discourtesy or brusqueness if I say at the outset that in my opinion the policy of the noble Earl, and of His Majesty's Government, with regard to Malaya has been vacillating, complacent and unrealistic. Of course, I am not making any personal attack against the noble Earl. He has taken the trouble to go out himself to Malaya to see what was happening; and he has, as always, been helpful, courteous, friendly—and seriously misinformed.

We have recently welcomed back into this country the Commissioner-General in the Far East, Mr. Malcolm MacDonald—and we were very glad to take the opportunity of congratulating Mr. MacDonald on the sterling work he is doing in very difficult circumstances. He made a report, a very encouraging report—I hope it will not prove over-encouraging. Clearly, there has been an improvement in the state of affairs in Malaya within the last few weeks—and a very welcome improvement too. It can be put down, I think,

[Lord Mancroft.]
to two reasons. One was the invoking of emergency powers this summer—which in the opinion of many was long overdue. The second is the very determined and skilful performance put up by the Army in Malaya, consisting of British and Gurkha troops, the Malay Regiment and police; and also by the courage of the planters and miners themselves. I do not think the people of this country quite realise what the planters have been going through and how much we owe them. They have had a very thin time indeed; many of them have already been subjected to three and a half years' imprisonment and worse; many are no longer young men. They had a stiff enough task, in all conscience, to rebuild their homes and rehabilitate their estates; and now, just as they have got their lives and their work properly reorganised, along comes this trouble. If the planters had given in, or if the Communist attack had been more skilful, Malaya would have gone down in chaos, because if the planters had left their posts hundreds of thousands of labourers would have been left to wander over Malaya without leadership, and without protection. That, I think, is something which we in this country forget. We pay too little tribute to them. They are startled and angry when they realise that the only attention that this country pays to them is to level at them unfounded accusations of exploitation.

Those accusations are adequately refuted by the Report published recently in Kuala Lumpur by Mr. Awbery and Mr. Dalley. We also praise the energy and enthusiasm with which they are rebuilding Malaya, turning her into the biggest dollar-earning agency of the British Empire, and then hurl abuse at that very private enterprise of which they themselves are a splendid example. The planters in Malaya view with a sharp and candid eye the policy which His Majesty's Government have pursued, and which they themselves believe has seriously aggravated the difficulties. What exactly is that policy? That is not a rhetorical question. I do not know the answer myself, and I do not really believe that His Majesty's Government know the answer. A post-mortem is never a very satisfactory procedure, certainly for the corpse, but I think that in this case we might examine the history

of His Majesty's Government's conduct in Malaya.

There is no getting away from the fact that His Majesty's Government have asked for trouble in Malaya. It is no good blaming the Communists entirely for what has happened in the last three years. My only surprise is that the Communists have not been more successful. As regards the Communists, half a dozen Russian-educated men have been enabled to gain control of a large undisciplined body, and to turn it to terrible advantage. That should be a lesson to us here at home. I had an opportunity of talking to several of the men who have been captured in the recent sweeps, and they did not strike me as being Communists in the way we might possibly understand the word. Few of them, I suspect, knew as much about dialectical materialism as do your Lordships. The Communists have got hold of the guerrillas, the squatters and young hooligans who have been running loose for three and a half years, not knowing the meaning of law and order. They are simply Oriental spivs. Communism is not, therefore, wholly responsible.

We ourselves have made further serious mistakes. First and foremost there is our failure to round up all the arms and ammunition which we ourselves poured into the country during the war. We could quite easily have got most of them back. We demobilised the local Forces much too soon. We have been very lax in training and recruiting for the police—particularly in providing ammunition and wireless. We then imposed upon the country a complicated system of trade unionism for which Malaya was totally unprepared, with the result that trade unionism soon fell into the wrong hands. By May of this year, over 60 per cent. of the unions were controlled by Communists, for the Communist Party was not banned until July of this year.

It is untrue to say that the present movement in Malaya is in any way Nationalist or anti-British. There is, naturally, as the result of the war, a greater feeling of Nationalism in the country, but to paint a picture of rising indignation against British rule is totally untrue. We also failed to round up the large numbers of notorious "bad hats." Whilst this was going on, and before the country had been completely cleaned up,

we attempted to launch there an ambitious scheme of social reform using the word "we"; I do not know what is meant by "we." I do not know what should be the apportionment of blame between His Majesty's Government—although His Majesty's Government are, of course, ultimately responsible—and the late Sir Edward Gent.

It is an easy and contemptible thing to heap abuse upon the memory of a dead man, but I believe that Sir Edward Gent is not so responsible for what happened as is generally believed. Certainly, when he went out of the country to Malaya, he saw eye to eye with the Government. When he was there and tried to solve on the spot the problems which were all too easily solved on paper, in Whitehall, he changed his views. It was through his experience that he realised that the Colonial Office realise that they had changed his views which caused administrative confusion in Malaya. It was not in any way shaking the Government's optimism and complacency at His Majesty's Government are not clearly responsible for several of the things they withheld from Sir Edward. They withheld from Sir Edward the power of banishment, which his predecessors had always needed for the maintenance of law and order. They withheld the system whereby secret societies could be established their *bona fides* could be legalised. There are many matters that I could quote as examples of the curious ways in which Sir Edward tried to solve the Malayan problem.

Perhaps I may give one small example which will illustrate what I am trying to say. Clause 7 (3) of the Trades Union (Amendments) Bill, as before the Malayan Legislature for consideration in May of this year, clause lays down that no man shall hold office in a trade union until he has held office for three years in that particular office or calling. That is a reasonable provision, one would have thought, for some extraordinary reason, Sir Edward ordered Kuala Lumpur to strike that clause out of the Bill. Why? On the face of it, to the suspicion that certain members of the Cabinet at home were more than a little uneasy about a provision which insisted that a man should be qualified for his job before he could be appointed to a high office. That principle may have caused uneasiness in Cabinet circles.

His Majesty's Government's conduct in Malaya.

There is no getting away from the fact that His Majesty's Government have been responsible for trouble in Malaya. It is not fair to blame the Communists entirely for what has happened in the last three years. My only surprise is that the Communists have not been more successful. Towards the Communists, half a dozen uneducated men have been enabled to get in control of a large undisciplined force and to turn it to terrible advantage. That should be a lesson to us here. I had an opportunity of talking to several of the men who have been arrested in the recent sweeps, and they do not strike me as being Communists in any way we might possibly understand the word. Few of them, I suspect, knew anything about dialectical materialism as taught by our Lordships. The Communists got hold of the guerrillas, the leaders and young hooligans who have been running loose for three and a half years, not knowing the meaning of law and order. They are simply Oriental Communism is not, therefore, responsible.

Our Lordships have made further serious mistakes. First and foremost there is our failure to round up all the arms and ammunition which we ourselves poured into the country during the war. We should have quite easily have got most of them. We demobilised the local Forces too soon. We have been very lax in training and recruiting for the police, particularly in providing ammunition wirelessly. We then imposed upon the country a complicated system of trade restrictions for which Malaya was totally unprepared, with the result that trade soon fell into the wrong hands. In the first half of this year, over 60 per cent. of the trade unions were controlled by Communists, for the Communist Party was not even legal until July of this year.

It is untrue to say that the present movement in Malaya is in any way nationalist or anti-British. There is, naturally, as the result of the war, a feeling of Nationalism in the country, but to paint a picture of rising indignation against British rule is totally untrue. We also failed to round up the numbers of notorious "bad hats." This was going on, and before the country had been completely cleaned up,

we attempted to launch there an over-ambitious scheme of social reform. I use the word "we"; I do not quite know what is meant by "we." I do not know what should be the apportionment of blame between His Majesty's Government—although His Majesty's Government are, of course, ultimately responsible—and the late Sir Edward Gent.

It is an easy and contemptible thing to heap abuse upon the memory of a dead man, but I believe that Sir Edward Gent is not so responsible for what happened as is generally believed. Certainly, when he went out from this country to Malaya, he saw eye to eye with the Government. When he got there and tried to solve on the ground problems which were all too easy to solve, on paper, in Whitehall, he radically changed his views. It was the difficulty that he experienced in making the Colonial Office realise that he had changed his views which caused so much administrative confusion in Malaya, without in any way shaking the Government's optimism and complacency at home. His Majesty's Government are themselves clearly responsible for several things. They withheld from Sir Edward Gent the power of banishment, which his predecessors had always needed for the maintenance of law and order. They revoked the system whereby secret societies had to establish their *bona fides* before they could be legalised. There are many other matters that I could quote as examples of the curious ways in which Whitehall tried to solve the Malayan problem.

Perhaps I may give one small example which will illustrate what I am trying to say. Clause 7 (3) of the Malayan Trades Union (Amendments) Bill was before the Malayan Legislature for consideration in May of this year. That clause lays down that no man may hold office in a trade union until he has served for three years in that particular trade or calling. That is a reasonable enough provision, one would have thought, but, for some extraordinary reason, London ordered Kuala Lumpur to strike that clause out of the Bill. Why? One is led to the suspicion that certain members of the Cabinet at home were more than a little uneasy about a provision which insisted that a man should be qualified in his job before he could be appointed to a high office. That principle may have caused uneasiness in Cabinet circles at

H.L. 40 D 7

home. I believe, in short, that His Majesty's Government have misappreciated the dangers of the situation in Malaya for the whole of the last three years.

I should like to give your Lordships one final example. Your Lordships will remember that we were told upon July 1 of this year that the civil authorities in Malaya had at their disposal in the country all the armed forces that were necessary for the maintenance of law and order. Since that date, Malaya has seen the arrival of no fewer than five battalions of British infantry. Not even this Government ought to be that wrong! This conflict may or may not have been avoidable. Certainly, we have aggravated it by our policy. A certain amount of forethought and courage would have mitigated the trouble considerably. This trouble in Malaya, so far, has cost us 250 killed. It will cost us more. It has also cost us £3,000,000 of money. It will cost us more. For all the optimism exercised by high officials, there is still a long and bitter conflict ahead before even the Asian population can be protected against intimidation.

We have heard and read in the newspapers how unfortunate this campaign is, in view of the fact that at the moment Malaya earns the largest number of dollars in the British Empire. I would say categorically, however, that my primary interest in Malaya, and my anxiety, are in no way connected with the question of dollars or dividends. I am concerned with the lives and the safety of His Majesty's subjects in Malaya. Therefore, we assure His Majesty's Government that they will have our complete support in any proposals that they put forward to end this campaign and to reduce the bloodshed. If the problems in the past have been difficult, those of the future are no easier. What, for instance, is to prevent Malaya from becoming a second Palestine? The pattern is now all too familiar: Ulstermen and the Southern Irish, Hindu and Moslem, Arab and Jew—and now Chinese and Malay. The two peoples joggled along comfortably enough before the Second World War, but the Japanese did everything they could to drive a wedge between them, and met with a fair measure of success.

The Chinese have not come well out of this present campaign of terror. Nearly

[Lord Mancroft.]
all the bandits are Chinese, and nearly all the forces of law and order are Malay. Over 20,000 Malaysians have joined the police since the trouble began, and only 400 Chinese. Nevertheless, all the money, initiative, enterprise and trade come from the Chinese. They are multiplying fast. They are rapidly overtaking the Malays. Our debt of loyalty is to the Malays. It is not a sufficient answer merely to say that because Malaya has been Malayan for 4,000 years, it must stay Malayan. That is an unrealistic answer. Some *modus vivendi* must be found. The Chinese, unfortunately, are looking over their shoulders to China. Their roots are not deep enough in Malaya. They are looking back to a chaotic and Communist-ridden China—a China which has no love for us. The Chinese are perfectly prepared to be loyal to us in Malaya provided it is worth their while, and provided they see something concrete to which they can give their loyalty. Some are doubting that at the moment.

The first question I would ask His Majesty's Government is, therefore: What is His Majesty's policy with regard to the rift between the Chinese and the Malaysians? How do they envisage enabling these two peoples, both of whom are worth so much, to settle down to some happy form of life? Some form of constitutional revision must inevitably be involved. The history of the Constitution in Malaya has not been a happy one; it has been one of muddle and confusion. I suppose the trouble was that priorities were wrong in the planning stage. It is, of course, easy to be wise after the event, but I should have thought it would have been wise to use the old Constitution which worked well, and so get the country out of the chaos. Instead, however, we took out a prefabricated Constitution and fastened it on the country while chaos still reigned. The Malayan Union was all right in its way. The Constitution itself, as far as it went, was not so bad. It had some good points. But it was the way in which we tried to force it down the throats of the Malays which was wrong. It amounted almost to sharp practice—certainly the Sultans thought so, and certainly the Malays thought so. Then we were forced, almost in the face of serious trouble, to retract completely and try

H.L. 40 D 8

and introduce some form of federation; and that displeased the Chinese as much as the Malayan Union had displeased the Malays. Both sections now have an impression of vacillation, of uncertainty. They do not know what we are going to do next.

How do we envisage the future Constitution of the Malayan Peninsula? It is, as I have said, confused. The noble Lord, Lord Killearn, with his organisation, has now left. That still leaves, however, three separate organisations. At the top—at least, I think it is at the top—there is the Commissioner-General, Mr. Malcolm MacDonald, who is there in an advisory capacity, in a co-ordinating capacity, but who has no executive authority. He is, in fact, the ultimate authority without any authority. He is the man to whom decisions must be referred, but who is unable to decide. He is the one thing which is anathema to the oriental mind—the ruler who cannot rule. Then, under him, we have the Federation of Malaya, with a High Commissioner and a large staff, a Colonial Secretary, a Chief Justice, and all the administrative trimmings; and then just across the Johore Causeway, we find the Customs House between Johore and Singapore—that fine monument to Socialist imperialism. Then we come to Singapore, where we have a Harbour Board to look after the Docks, the Admiralty concerning itself with the naval dockyard in the north, a city council looking after the government of the city in an island the size of the Isle of Wight, and, on top of all that, another Governor, Council, and Colonial Secretary with all his trimmings.

The astonishing thing is that, despite this excess of Excellencies, despite this gubernatorial gallimaufry, Singapore appears to be tolerably well governed. How much longer can we allow this ridiculous situation to go on? Surely it must be possible to devise some sort of amalgamation which will allow the Commissioner-General to govern, which will not allow the predominantly Chinese influence of Singapore to outweigh the whole of the Malay feeling in the rest of the country. Can we not stop thinking about the Federation of Malaya and Colony of Singapore, and think of Malaya as a country? What is His Majesty's Government's idea of the future of Malaya? How do they envisage

the country in five or ten years to How do they see orderly progress towards Dominion status—or do they favour the delight of the Chancellor of the Exchequer in the pending liquidation of the British Empire? I cannot think, if I may say so with respect, that the Chancellor of the Exchequer in no way helping the situation when he made that deplorable speech. Must the people in Malaya think that a responsible Minister of the Crown, Minister of the Crown to whom many of us now look for sanity, judgment and common sense) indulges in a piece of catchpenny clap-trap like that? What effect must that have in Malaya?

If His Majesty's Government are seriously considering promoting the evacuation of the British from Malaya, they are doing that country no service. Neither the Chinese nor the Malays are competent to run the country without British help, and they are not aware of it. The Chinese are far more interested in making money every day than in running a country. The Malays are not political animals; they are loyal, honest, friendly and simple. They lack, in fact, every quality of a rising politician. There are few politicians in Malaya and fewer statesmen. There are all too few men of the quality of Dato Onn Bin Ja'afar, the Prime Minister of Johore.

What are His Majesty's Government doing to promote a greater sense of activity in Malaya? Are we to let the situation drift, as we have done often in the past, optimistically hoping that the people will find their feet and master the art of self-government? The road to self-government necessitates, more than anything, hard work; and we must get it out of our heads that the Malays can reach their goal otherwise than through this means there will be confusion and probably bloodshed. Whether we do it or not, we are now on trial in Malaya. Whether we like it or not, the Malays think that we let them down in 1946 when we failed to honour our bargain to protect and guard their country. They feel they should not be called upon to pay this £3,000,000 for a campaign in which, they say, was aggravated by the policy of His Majesty's Government. They say: "Why are His Majesty's Government not prepared to pay for the use of British troops in Malaya to

H.L. 40 D 9

introduce some form of federation; that displeased the Chinese as much as the Malayan Union had displeased the Malays. Both sections now have an admission of vacillation, of uncertainty. I do not know what we are going to do next.

How do we envisage the future Constitution of the Malayan Peninsula? It is, I have said, confused. The noble Lord Killlearn, with his organisation, has now left. That still leaves, however, three separate organisations. At the top—at least, I think it is at the top—there is the Commissioner-General, Malcolm MacDonald, who is there in an advisory capacity, in a co-ordinating capacity, but who has no executive authority. He is, in fact, the ultimate authority without any authority. He is the man to whom decisions must be referred, but who is unable to decide. He is the one thing which is anathema to the oriental mind—the ruler who cannot

Then, under him, we have the administration of Malaya, with a High Commissioner and a large staff, a Colonial Secretary, a Chief Justice, and all the administrative trimmings; and then just below the Johore Causeway, we find the House between Johore and Singapore—that fine monument to British imperialism. Then we come to Singapore, where we have a Harbour Board to look after the Docks, the Admiralty concerning itself with the naval dockyard in the north, a city council looking after the government of the island in an island the size of the Isle of Wight, and, on top of all that, another Governor, Council, and Colonial Secretary with all his trimmings.

The astonishing thing is that, despite the excess of Excellencies, despite this ornatorial gallimaufry, Singapore appears to be tolerably well governed. How much longer can we allow this precarious situation to go on? Surely it must be possible to devise some sort of amalgamation which will allow the Commissioner-General to govern, which will not allow the predominantly Chinese influence of Singapore to outweigh the whole of the Malay feeling in the rest of the country. Can we not stop talking about the Federation of Malaya and the Colony of Singapore, and think of Malaya as a country? What is His Majesty's Government's idea of the future of Malaya? How do they envisage

the country in five or ten years time? How do they see orderly progress towards Dominion status—or do they favour the delight of the Chancellor of the Exchequer in the pending liquidation of the British Empire? I cannot help thinking, if I may say so with respect, that the Chancellor of the Exchequer was in no way helping the situation when he made that deplorable speech. What must the people in Malaya think when a responsible Minister of the Crown (a Minister of the Crown to whom many of us now look for sanity, judgment and common sense) indulges in a piece of catchpenny clap-trap like that? What effect must that have in Malaya?

If His Majesty's Government are seriously considering promoting the evacuation of the British from Malaya, they are doing that country no good service. Neither the Chinese nor the Malays are competent to run the country without British help, and they are both aware of it. The Chinese are far too interested in making money ever to be interested in running a country. The Malays are not political animals; they are loyal, honest, friendly and simple. They lack, in fact, every quality of the rising politician. There are few politicians in Malaya and fewer statesmen. There are all too few men of the quality of Dato Onn Bin Ja'afar, the Prime Minister of Johore.

What are His Majesty's Government doing to promote a greater sense of civic activity in Malaya? Are we to allow the situation to drift, as we have done so often in the past, optimistically hoping that the people will find their feet and master the art of self-government? The road to self-government necessitates, more than anything, hard work; and until we get it out of our heads that the Malays can reach their goal otherwise than by this means there will be confusion and probably bloodshed. Whether we like it or not, we are now on trial in Malaya. Whether we like it or not, the Malays think that we let them down in 1942, when we failed to honour our bargain to protect and guard their country. They feel they should not be called upon to pay this £3,000,000 for a campaign which, they say, was aggravated by the policy of His Majesty's Government. They say: "Why are His Majesty's Government not prepared to pay for the use of British troops in Malaya to combat

H.L. 40 D 9

Communism when they are prepared to pay for them to do the same task in Greece?"

Why should our war damage contribution to the Malays, who still look with loyalty to the Crown, be so much less than our war damage contribution to the Burmese, who now look to the Kremlin for their guidance? They ask even whether it is in their interests to continue to allow us to derive the vast profit and advantage which we do from a Malaya which is able to earn more dollars than we can. They look in fact with a critical eye on the future conduct of His Majesty's Government. They are looking for firmness, and all they have had is Fabian flabbiness. They are looking for leadership, and all they get are lectures from the London School of Economics. His Majesty's Government must stop playing politics in Malaya. One suspects—but I am prepared to be contradicted—that the Colonial Office do not really understand what is happening there, and are not prepared to learn.

My Lords, Malaya is the last bulwark against Communism and chaos in the Far East. We have never had a better friend than Malaya, and now we are on trial in front of our friends. In two wars the Malaysians have poured out men and money to come to our aid in times of danger. The Malaysians themselves are now in danger. They look to us for help. They look to us to repay what they regard as a debt of loyalty. We, in our turn, look to His Majesty's Government to profit by their past mistakes. It is in the hope, therefore, that His Majesty's Government will forget their past ideas, repair their past mistakes and bend their minds to the task of leading Malaya back to the peace and prosperity which she once enjoyed, and which surely she has the right to enjoy again, that I beg to move for Papers.

3.10 p.m.

THE EARL OF LISTOWEL: My Lords, I am on my feet now at the request of the noble Viscount opposite. I am delighted to oblige him by providing a rather broader target than would otherwise have been available for his verbal shafts, because we welcome any criticism or advice which any noble Lord may wish to offer. We know that any criticism made in this House will be delivered without an undue dosage of Party

[The Earl of Listowel.]
 animus and with the sincere desire to help Malaya and to help us here to give the Malayan authorities the support which they need. The noble Viscount, I think, referred to me the other day as a useful, or potentially useful, man for contacts with different parts of the Commonwealth. That is exactly what I aspire to be. I spent a few weeks at the beginning of this year in Malaya, and I hope to give the House an accurate and fairly comprehensive picture of the situation there and of the events that led up to it. I shall also, of course, deal with policy. I venture to hope that there will be a wide measure of agreement between this side of the House and noble Lords opposite, because my story will consist largely of facts which I think have been to some extent misunderstood and, perhaps, on occasions, misrepresented.

I should like to remind the House that the present outbreak of violence in Malaya is part of a widespread epidemic of violence in South East Asia resulting from the war. There have been similar happenings in Indo-China and Indonesia, and they are all a direct result of the military measures that had to be taken by the Allied Forces to drive the Japanese out of occupied territory. When the Japanese occupied Malaya, it was the Chinese in Malaya who were mainly responsible for organised resistance. All sections of the Chinese community joined in the resistance movement, but the most powerful groups were the Communist-dominated Malayan People's Anti-Japanese Army and the Overseas Chinese Anti-Japanese Army organised by the Kuomintang. The high command was nominally shared by representatives of these two groups but, in fact, the Communist leaders retained control of the whole resistance movement and used this golden opportunity to indoctrinate the rank and file, drawn from the poorer classes of Chinese, in Communism. Thus it was that as long ago as that the Malayan Communist Party, during the three years in which the resistance movement was the sole organised opposition to the Japanese, had sufficient time to give the raw recruits to the guerrillas a thorough schooling in the theory and the practice of Communism. The jungle became what has been termed—picturesquely but accurately, I think in the Awbery-Dalley Report to which the noble

Lord referred—a forcing house for Communism. The young guerrillas not only studied Marxism and Leninism, but learnt the use of firearms and the technique of guerrilla warfare, terrorism and sabotage which they are practising at this moment.

The appetite of the Communists for power was whetted by the short interval between the surrender and the withdrawal of the Japanese, and the establishment of the British Military Administration, for during this time elements of the guerilla resistance forces assumed control of the administration in Malaya in certain areas. They regarded themselves as the successors of the Japanese and as the forerunners of the Malayan Communist Republic. But in August, 1945, the British Administration obtained effective control of the country. The guerrilla forces were ordered to disband their men, and to hand in the arms with which they had been equipped to fight the Japanese. We now know that instead of obeying these orders—as the noble Lord opposite has mentioned—they must have hidden large quantities of the arms and ammunition abandoned by the Japanese or dropped by Allied aircraft in the remoter parts of the country during the war. It is difficult to tell, in the circumstances prevailing at that time whether it would have been possible to avoid the concealment of large quantities of arms and ammunition in remote parts of the Malayan jungle. I have dwelt at some length on this remoter historical background of current events because it explains so much that is happening now. There are so many misunderstandings about the real cause of our present difficulties. The Far Eastern War left in its wake a small but highly dangerous section of the population soaked in Communist ideology, trained and disciplined in guerrilla tactics, and in possession of a substantial supply of arms and ammunition. I think everyone will agree that it was not the fault of the United Kingdom Government, or of the civil authorities in Malaya, that this powder magazine was inherited by the Civil Administration when they took over from the Military Government.

The war and the Japanese occupation strengthened the hands of the Communists in yet another way. We all know that Communism thrives on misery, and,

indeed, I think it was Karl Marx who objected to social reform in these countries because it lessens the suffering of the people. The Civil Administration was immediately faced on its return to the economic consequences of the disruption of trade and the virtual cessation of production in an immensely vast territory during the war years. There was a general and grave shortage of staples in the staple diet in Malaya, and food prices were soaring. The Government of the Federation decided, very wisely, in view of the position, to ration food and to control the price. Even in the early period after the liberation the daily ration amounted to only 3.3 ounces or less than one half of the present ration which everyone regards as a minimum—7.6 ounces in the Federation and 8.2 ounces in Singapore. Thousands of manual workers in the days, after the Japanese had been driven out, were kept on their feet only by rationing food at exorbitant prices on the market. This period of realisation among large sections of the population provided fresh grist for the Communist mill. It was the occupation and the distress that followed it that made the Communists so formidable in Malaya.

Now there have been, I think, two distinct and successive phases in Communist policy, since the liberation, imposing their will upon the people of the country. The first, which lasted from August, 1945, to May, 1948, was a phase of indirect action, of avoiding direct and organised violence and keeping within the fully and deliberately within the existing and constitutional framework, both in the Federation and in Singapore. At that time, the Malayan Communist Party set out to capture the trade unions by infiltrating into their membership and planting their cells wherever they found a large group of workers, organised or unorganised, and by linking them to their separate unions and cells of the General Labour Union. They hoped in this way to produce economic chaos and to be able thereafter to dictate their terms to the authorities.

In 1946, the General Labour Union of this Communist federation of unions captured all the unions in Singapore and was able to call a short general strike. But the Government of the Colony perceived the immense danger in the political use of this economic weapon

referred—a forcing house for Communism. The young guerrillas not only used Marxism and Leninism, but also the use of firearms and the technique of guerrilla warfare, terrorism and sabotage which they are practising at this moment.

The appetite of the Communists for power was whetted by the short interval between the surrender and the withdrawal of the Japanese, and the establishment of the British Military Administration. During this time elements of the guerrilla resistance forces assumed control of the administration in Malaya in certain areas. They regarded themselves as the successors of the Japanese and the forerunners of the Malayan Communist Republic. But in August, 1945, the British Administration obtained effective control of the country. The guerrilla forces were ordered to disarm, and to hand in the arms with which they had been equipped to fight the Japanese. We now know that instead of obeying these orders—as the noble opposite has mentioned—they must have hidden large quantities of the arms and ammunition abandoned by the Japanese or dropped by Allied aircraft in the remoter parts of the country during the war. It is difficult to tell, in the circumstances prevailing at that time, whether it would have been possible to prevent the concealment of large quantities of arms and ammunition in remote parts of the Malayan jungle. I have dwelt some length on this remoter historical background of current events because it explains so much that is happening now. There are so many misunderstandings about the real cause of our present difficulties. The Far Eastern War left in its wake a small but highly dangerous section of the population soaked in Communist ideology, trained and disciplined in guerrilla tactics, and in possession of a substantial supply of arms and ammunition. I think everyone will agree that it is not the fault of the United Kingdom Government, or of the civil authorities in Malaya, that this powder magazine was inherited by the Civil Administration when they took over from the Military Government.

The war and the Japanese occupation strengthened the hands of the Communists in yet another way. We all know that Communism thrives on misery, and,

indeed, I think it was Karl Marx who objected to social reform in capitalist countries because it lessens the misery of the people. The Civil Administration was immediately faced on its return by the economic consequences of the interruption of trade and the virtual cessation of production in an immensely rich territory during the war years. There was a general and grave shortage of rice, the staple diet in Malaya, and food prices were soaring. The Governments of the Federation decided, very wisely, I think, in view of the position, to ration rice and to control the price. Even so, in the early period after the liberation the daily ration amounted to only 3.3 ounces, or less than one half of the present ration which everyone regards as a bare minimum—7.6 ounces in the Federation and 8.2 ounces in Singapore. Many thousands of manual workers in the early days, after the Japanese had been driven out, were kept on their feet only by buying food at exorbitant prices on the black market. This period of real hunger among large sections of the population provided fresh grist for the Communist mill. It was the occupation and the distress that followed it that made the Communists so formidable in Malaya.

Now there have been, I think, two distinct and successive phases in Communist policy, since the liberation, for imposing their will upon the people of the country. The first, which lasted from August, 1945, to May, 1948, was the phase of indirect action, of avoiding overt and organised violence and keeping carefully and deliberately within the legal and constitutional framework, both in the Federation and in Singapore. At this time, the Malayan Communist Party set out to capture the trade unions by infiltrating into their membership, by planting their cells wherever they found a large group of workers, organised or unorganised, and by linking together their separate unions and cells in a General Labour Union. They hoped in this way to produce economic chaos, and to be able thereafter to dictate their terms to the authorities.

In 1946, the General Labour Union, this Communist federation of unions, had captured all the unions in Singapore and was able to call a short general strike. But the Government of the Colony perceived the immense danger in the political use of this economic weapon,

H.L. 40 D 11

and in March of that year—as long ago as March, 1946—decided to banish a number of the union leaders. This did not stop the process of infiltration into the trade unions. The success of this Communist campaign can be measured by the fact that in 1947 there were 360 strikes or labour disputes in the Federation alone, involving about 70,000 workers. During the investigation of these disputes many cases of intimidation, in which the workers were forced by threats of violence to strike, came to light, and there is no doubt that the power of the Communists in the Unions was not at any moment due to their numbers but to their blackmailing methods, which is something of which we have no experience in this country and which is hard to believe unless one has seen it at work.

We lack sufficient knowledge to be able to say exactly why the Communist Party in Malaya decided to switch over from indirect to direct action and to attempt the overthrow of the Government of the Federation by the organised violence and sabotage which began in June of this year. There were no doubt several factors which contributed to this change of mind. We cannot discount outside influence, which the pattern of Communist violence in South East Asia obviously suggests. It had also become clear that the two Governments were determined to break Communist influence in the unions and to see that organised labour developed on the normal lines of collective bargaining for economic objectives. Then the rehabilitation and economic recovery of the country was making large strides forward. Rice had become increasingly plentiful and constitutional advances in both Singapore and the Federation were attracting moderate opinion towards co-operation with the authorities. The prospect of advance towards self-government by orderly and gradual stages and of a steadily improving standard of life may well have convinced the Communists that their future was black.

Some or all of these considerations were no doubt in the minds of the Communist leaders when, acknowledging the failure of their efforts to get their way by constitutional means, they decided to impose their will by force upon the vast majority of the inhabitants of Malaya. What we

[The Earl of Listowel.]

now know is that it would have been impossible for the authorities in Malaya to anticipate the switch-over to direct action much in advance of the date when the outbreak began, because the decision was not taken by the Communist leaders themselves earlier than March of this year. From the moment it became evident that revolutionary violence had been adopted, the two Governments did not hesitate to take special powers, with the full support of my right honourable friend the Secretary of State, and to act with the utmost firmness to stamp out this campaign of murder and sabotage.

After five months of fighting in Malaya, it is not too early to say that the Communist bandits have failed, utterly and completely, to achieve their ends. They have not overthrown the established Government of the country; they have not paralysed its economic life, and they have completely failed to rally any substantial proportion of the peoples of Malaya to their side. Let me deal with my last point first. The population of the Federation and Singapore numbers about 6,000,000. The terrorist bands muster between 3,000 and 5,000 armed men and receive active support from a few thousand Communist supporters. It is evident from this that they, civilian and armed bandits taken together, represent only a minute fraction of the total population.

The movement is recruited almost entirely from the Chinese in Malaya. I am glad that the noble Lord, Lord Mancroft, made that point so abundantly clear. This is borne out strikingly by the latest figures of casualties amongst the bandits since the outbreak began. Of the total number killed and captured to date, 435 were Chinese, 15 were Malays, 2 were Indians and 6 were foreigners. This does not mean, of course—and it would be a great misfortune if anyone were to draw the wrong conclusion—that the Chinese community in Malaya is against us. On the contrary, the overwhelming majority of the Chinese are on our side. Many of them are British subjects who have lived for generations in Malaya, whereas a number of the Chinese Communists are recent immigrants whose loyalty is to China, and not to Malaya or the Commonwealth. Another indication of the fact that the

H.L. 40 D 12

trouble-makers are essentially a Chinese revolutionary movement is that their victims have been mainly not British or Malay officials or British business men, but the Chinese political opponents of the Chinese Communists. May I illustrate that again from the casualty figures? In the last five months, 262 civilian men, women and children have been murdered by the bandits. Of these, 20 were Europeans, 8 Indians, 38 Malays and 189, or about three times the number of all the other victims put together, were Chinese.

The conclusion which I think one can legitimately draw from these facts and figures is that the great majority of the population of the Malay Peninsula and the island of Singapore—European, Malay, Indian and Chinese—abhors the dastardly crimes that are being committed by a handful of violent men, and that their loyalty remains unshaken by the perverse ingenuity of Communist propaganda. The average inhabitant of every race is in fact co-operating splendidly with the authorities in their efforts to restore law and order at the earliest possible moment. Their support has been shown in deeds and in the personal risks they have accepted, as well as in words. Appeals have been made for auxiliary police and special constables to help in the protection of villages, estates, mines and other likely targets. The response from the local population was admirable and exemplary. Ten thousand auxiliary police and 25,000 special constables were raised without any substantial delay—every single man after the trouble had begun in June. In fact, the response was so good that the best men only were taken and many willing volunteers had to be turned away.

The bandits have also failed to paralyse the economic life of the country. They had hoped by murders and threats of killing to intimidate the labourers on the rubber estates and in the tin mines, on the railways and at the docks, so that the labour force throughout Malaya would be terrified into laying down their tools. This would have brought the trade and industry of the country to a complete standstill. But far from being intimidated by these armed gangs, which sprang out at them from their hiding places in the jungle, labour and management in many of the concerns on which the prosperity of Malaya has been built

carried on their jobs without morale or decrease in efficiency. For example, rubber production has splendidly maintained. Production in April of this year, a typical disturbance month, still reflecting the effects of recovery, was just over 66,000 tons. In September it had climbed to 64,000 tons, and at no time has it fallen fractionally below 50,000 tons.

In the case of other primary products the rise in production has been uninterrupted. Production of coconuts in April was 3,600 tons; in September it had risen to 4,300 tons. Coconut production in April was 4,000 tons; in September, well over 5,000 tons was produced. Tin production has increased steadily from 3,500 tons in April to nearly 4,000 tons in August, and a little less in September. The output of coal has increased from 27,000 tons in April to 31,500 tons in September. I apologise for wearying the House with a string of figures, but I think your Lordships will excuse me, because I am sure they will prove something of outstanding importance. I am sure your Lordships will agree that these figures are a testimony to the resolution and courage of the primary producers of Malaya.

I should like at this point to pay tribute, with which I am sure the House would wish to be associated, to the courage and determination of the body of men and women, many of whom are living in remote and isolated places, who have continued to do their normal work despite the ordeal of recent months. At the time they were under the shadow of this terror which lurked, day and night, in the jungle.

I have told your Lordships that the armed Communists do not number more than from 3,000 to 5,000 men. They are, of course, enormously outnumbered by our soldiers and armed police. They would be easily wiped out, or they would surrender, if they were operating in open country. But they have one peculiarity peculiar to the area in which they are fighting which we cannot destroy, which will undoubtedly prolong their resistance. This ally is the tropical jungle which covers most of the Peninsula. One who has travelled across it by air will forget the green sea of dense jungle growth, stretching from one side to the other, until it gives way to a narrow

H.L. 40 D 13

makers are essentially a Chinese revolutionary movement is that their have been mainly not British or officials or British business men, Chinese political opponents of the Communists. May I illustrate gain from the casualty figures? In last five months, 262 civilian men, and children have been murdered by bandits. Of these, 20 were European, 8 Indians, 38 Malays and 189, or three times the number of all the victims put together, were Chinese.

conclusion which I think one can draw from these facts and is that the great majority of the population of the Malay Peninsula and island of Singapore—European, Indian and Chinese—abhors the crimes that are being committed by a handful of violent men, and their loyalty remains unshaken by the perverse ingenuity of Communist propaganda. The average inhabitant of Malaya is in fact co-operating splendidly with the authorities in their efforts to restore law and order at the earliest possible moment. Their support has been shown in deeds and in the personal sacrifices they have accepted, as well as in

Appeals have been made for regular police and special constables to protect the villages, estates, and other likely targets. The response from the local population was prompt and exemplary. Ten thousand regular police and 25,000 special constables were raised without any substantial delay—every single man after the call had begun in June. In fact, the response was so good that the best men were taken and many willing volunteers had to be turned away.

Bandits have also failed to paralyse the economic life of the country. What had hoped by murders and threats to intimidate the labourers on rubber estates and in the tin mines, the railways and at the docks, so that the labour force throughout Malaya would be terrified into laying down their tools. This would have brought the trade and industry of the country to a complete standstill. But far from being intimidated by these armed gangs, which are driven out at them from their hiding places in the jungle, labour and management in many of the concerns on which the prosperity of Malaya has been built

carried on their jobs without loss of morale or decrease in efficiency. For example, rubber production has been splendidly maintained. Production in April of this year, a typical pre-disturbance month, still reflecting the tide of recovery, was just over 66,000 tons. In September it had climbed again to 64,000 tons, and at no time fell more than fractionally below 50,000 tons.

In the case of other primary products, the rise in production has been virtually uninterrupted. Production of palm oil in April was 3,600 tons; in September it had risen to 4,300 tons. Coconut oil production in April was 4,000 tons; in September, well over 5,000 tons was produced. Tin production has climbed steadily from 3,500 tons in April to nearly 4,000 tons in August, and very little less in September. The output of coal has increased from 27,000 tons in April to 31,500 tons in September. I apologise for wearying the House with a string of figures, but I think your Lordships will excuse me, because I am using them to prove something of outstanding importance. I am sure your Lordships will agree that these figures are solid testimony to the resolution and loyalty of the primary producers of Malaya.

I should like at this point to pay a tribute, with which I am sure the House would wish to be associated, to the courage and determination of the gallant body of men and women, many of them living in remote and isolated places, who have continued to do their normal work despite the ordeal of recent months. All the time they were under the shadow of this terror which lurked, day and night, in the jungle.

I have told your Lordships that the armed Communists do not number more than from 3,000 to 5,000 men. They are, of course, enormously outnumbered by our soldiers and armed police, and they would be easily wiped out, or forced to surrender, if they were operating in open country. But they have one ally peculiar to the area in which they are fighting which we cannot destroy, and which will undoubtedly prolong their resistance. This ally is the tropical jungle which covers most of the Peninsula. No one who has travelled across it by air will forget the green sea of dense jungle growth, stretching from one side to the other, until it gives way to a narrow

strip of open country running down the coast. The wooded rubber estates and wild jungle are ideal hiding places for these small bands of armed fanatics. They are careful not to operate with a large or concentrated military force, limiting their striking units to small groups of twelve to twenty men.

Each small band conducts its local campaign of killing, burning and sabotage. They choose their own time and place to ambush a car, raid a village or cut a railway track. When the job is done they retreat again to their jungle camps. When opposed, they never stand and fight. As soon as police or troops appear on the scene they escape into the immense expanse of trackless undergrowth, where they cannot be seen or followed by their pursuers. Of course, they would not survive long in the jungle without supplies of food, but unfortunately they are at present in a position to obtain the food they want from the thousands of squatters whose paddy fields and vegetable gardens lie close to their jungle encampments. Sometimes voluntarily, but usually under compulsion, these squatters feed and shelter the terrorists, and it is quite impossible for the police to watch every area in which these widely scattered settlements are placed. Some of their villages have been destroyed by our forces, and their inhabitants resettled in areas where they can be watched by the police. I can assure the House that we are carefully considering other measures to deal with the squatter problem, and that action will not be ineffective or delayed.

These are local conditions which make the rooting out of these armed bandits a slow and difficult process, and which enable them to strike back with isolated acts of murder and sabotage. But whatever advantage they may take of these opportunities of concealment and escape, we for our part—the Malayan authorities, and His Majesty's Government who are supporting them—shall continue our military action against the bandits until the last gang is broken up and the last bandit captured or destroyed. Our counter-measures have already altered the tactics of the bandits, who are now less ambitious in their choice of targets, confining themselves to those easiest to attack, such as single vehicles and unguarded communications.

[The Earl of Listowel.]

During the past month the bandits have carried out a number of attacks on railways and road communications. Our own activities have been widespread, and in Johore and the Sungei Siput area of Perak have been particularly successful. During the last week of October thirteen bandits were killed and two wounded, and thirteen enemy camps were located by our forces. In the week ending November 5—the last full week for which we have the figures—seven bandits were killed and four wounded, and four camps were destroyed, while between November 6 and November 8 ten more bandits were killed by the armed police—that is, in the last two days. The number and effectiveness of our operations will increase steadily with the stronger ferret forces which will be available as the training of military and police in jungle warfare progresses.

But it is not only by military measures that the authorities have set out to crush Communist violence in Malaya. Revolutionary violence and extreme political views are nourished by want and despair. They spread where material standards are low, where there is small prospect of their improvement by higher wages and better social conditions, and where the machinery for peaceful constitutional change in response to public opinion is defective or wholly absent. Our policy in Malaya, ever since the war ended (and I am prepared to defend it to the utmost, even though, I may add, that policy has not been the policy of any single Party, but the policy of a series of Governments, controlled by different Parties, in this country) has been to raise material standards and to encourage the movement towards political freedom, not only because these things are good in themselves, but because they are the best possible antidote to the Communist virus.

I have already mentioned the improved standard of life which has resulted from a more plentiful supply of rice for the average worker in the towns and in the countryside. To champion the worker's rights in his employment we have encouraged the growth of a vigorous democratic trade union movement, which has already secured many advantages for employees in different occupations, and has benefited employers by substituting stable, contractual relationships for the

constant menace of sudden stoppages, or even outbreaks of violence. We owe a great deal to the trade union advisers of both Governments, whose efforts to foster the healthy development of workers' organisations along the right lines have undoubtedly saved them from falling completely into the hands of the Malayan Communist Party. I think it is very important that there should be no misunderstanding about the contribution that healthy democratic trade unionism has made to prevent the sort of trade unionism dominated by the Communists, which has done so much damage in Malaya. When I was in Malaya I heard many tributes from Indian, Chinese and Malay trade union officials to the encouragement which they had received from the trade union departments of the Government, and I know that these tributes were thoroughly deserved.

I will cite only two examples—although many others might be given if time allowed—of what the authorities have done, and are doing, to improve the social services in Malaya. These two examples I will take from education and housing. A ten-year programme of educational development was prepared both in the Federation and in Singapore immediately after the return of the civil Government. The principal aim of this programme is universal literacy, by means of a system of free primary education for all children—the same type of system that we have in this country. There will be a gradual elimination of the present system of separate vernacular schools, and everyone will learn English. This, of course, will cover girls as well as boys, and the minimum primary course will last six years. The importance of this educational basis for racial understanding and co-operation—the need for which was emphasised, and rightly emphasised, by the noble Lord, Lord Mancroft—can hardly be exaggerated, and it is no less important for the intelligent use of the franchise in time to come.

The most significant advance in higher education is the acceptance of the recommendation of the Carr Saunders Commission that there should be a University of Malaya, with power to grant degrees equivalent to those given by any other university, and with the three faculties of Arts, Science and Medicine. There will, of course, be no bar to entry on the

grounds of race or religion, and extension of university education to sections of the population which have hitherto benefited according to their numbers should result in a more balanced social structure, with the Malays a full share in appointments to Government service and to the different professions. It is fortunate that the extension of Raffles College and the Edward VII College of Medicine in Singapore will provide a nucleus for the new university. The university is to be on a new site at Johore Bahru, but I had hoped to start degree courses in the buildings of the College of Medicine at Raffles College as early as October. The capital cost of this project is estimated to be between £3,000,000 and £4,000,000, of which £1,000,000 has been earmarked by the United Kingdom Government. When I was in Singapore I had the privilege of meeting Dr. Allen, who is Principal-designate of the new university, and I can assure your Lordships that the planning for its future could not be in the hands of any other or better or more experienced hands.

I should like to say something about housing, especially with reference to Singapore. No-one can have visited this great teeming city without being horrified by the congested living conditions of the Chinese population, and the high incidence of tuberculosis is, of course, largely the result of bad housing. The Singapore Housing Improvement Trust, set up by the Colonial Government, has already done good work in Singapore, and during the past year the building programme included four new housing projects and amounted to a total of 1,500,000 Straits dollars worth of new flats that have now been completed. They seemed to me to be thoroughly well constructed and well equipped, and they were immediately appreciated by their occupants. The Singapore Housing Committee, which is responsible for planning, has also recommended the creation of eight satellite towns of 50,000 inhabitants each on Singapore Island, outside the city. This is a most grandiose and ambitious housing scheme. The estimated cost of this long-term housing project is £35,500,000, spread over a period of twenty years. The noble Lord opposite seems to be slightly sceptical—

LORD HAWKE: I said, "Hear, hear," at the word "grandiose."

menace of sudden stoppages, or breaks of violence. We owe a debt to the trade union advisers of Governments, whose efforts to foster the development of workers' organisations along the right lines have not only saved them from falling into the hands of the Malayan Communist Party. I think it is very important that there should be no misunderstanding about the contribution that democratic trade unionism has made to prevent the sort of trade unionism dominated by the Communists, which has done so much damage in Malaya. When I was in Malaya I heard many reports from Indian, Chinese and Malay trade union officials to the effect that the Government which they had received had not taken care of the trade union departments of the Government, and I know that these criticisms are thoroughly deserved.

I can give only two examples—although many others might be given if time permitted. One of what the authorities have been doing, to improve the social conditions in Malaya. These two examples are the programme from education and housing. The long-term programme of educational development was prepared both in the Federation and in Singapore immediately after the return of the civil Government. The principal aim of this programme is to raise the level of literacy, by means of a system of primary education for all children in the country. There will be a gradual replacement of the present system of vernacular schools, and everyone will be taught in English. This, of course, will be for girls as well as boys, and the minimum primary course will last six years. The importance of this educational basis for mutual understanding and co-operation, which was emphasised, and which was emphasised, by the noble Lord, Lord Mancroft—can hardly be exaggerated, and it is no less important for the intelligent use of the franchise in time

The most significant advance in higher education is the acceptance of the recommendation of the Carr Saunders Commission that there should be a University of Malaya with power to grant degrees equivalent to those given by any other university, and with the three faculties of Law, Science and Medicine. There will, of course, be no bar to entry on the

grounds of race or religion, and the extension of university education to those sections of the population which have not hitherto benefited according to their numbers should result in a more balanced social structure, with the Malays taking a full share in appointments to Government service and to the different professions. It is fortunate that the existence of Raffles College and the King Edward VII College of Medicine in Singapore will provide a nucleus for the new university. The university is to be built on a new site at Johore Bahru, but it is hoped to start degree courses in the buildings of the College of Medicine and Raffles College as early as October, 1949. The capital cost of this project is estimated to be between £3,000,000 and £4,000,000, of which £1,000,000 has been earmarked by the United Kingdom Government. When I was in Singapore I had the privilege of meeting Dr. Allen, who is Principal-designate of the new university, and I can assure your Lordships that the planning for its future could not be in better or more experienced hands.

I should like to say something about housing, especially with reference to Singapore. No-one can have visited that great teeming city without being horrified by the congested living conditions of the Chinese population, and the high incidence of tuberculosis is, of course, largely a result of bad housing. The Singapore Housing Improvement Trust, set up by the Colonial Government, has already done good work in Singapore, and during last year the building programme included four new housing projects and amounted to a total of 1,500,000 Straits dollars. I saw some of the new flats that have been completed. They seemed to me to be thoroughly well constructed and equipped, and they were immensely appreciated by their occupants. The Singapore Housing Committee, which is responsible for planning, has also recommended the creation of eight satellite towns of 50,000 inhabitants each on Singapore Island, outside the city. This is a most grandiose and ambitious housing scheme. The estimated cost of this long-term housing project is about £35,500,000, spread over a period of twenty years. The noble Lord opposite seems to be slightly sceptical—

LORD HAWKE: I said, "Hear, hear" at the word "grandiose."

H.L. 40 D 15

THE EARL OF LISTOWEL: It is a very large scheme. I am certainly prepared to modify my epithet, in deference to the noble Lord. I am quite convinced, however, that only a large scheme can meet the needs of Singapore. I am convinced that the realisation of this programme will contribute more to the health and happiness of the people of Singapore than any other social service that has hitherto been undertaken by the Colonial Government.

As the noble Lord, Lord Mancroft, made particular reference to this subject, I should like to say something about the record and prospects of constitutional progress in the Federation and Singapore, and to persuade your Lordships—if persuasion be needed—that the record is good and the prospect fair. Our policy was laid down in the Federation of Malaya Agreement between the Malay Rulers and the late High Commissioner, Sir Edward Gent. This Agreement was foreshadowed in the White Paper of July, 1947, and I should like to remind your Lordships of the paragraph about the aim and the method of political evolution in Malaya. This paragraph records that it is the desire of His Majesty and Their Highnesses the Rulers that progress should be made towards eventual self-government, and that as a first step to that end, His Majesty and Their Highnesses have agreed that, as soon as circumstances and local conditions permit, legislation should be introduced for the election of members to the several Legislatures which were to be established under the Agreement. The institutions of government set up subsequently by the Federation Agreement represent a remarkable advance in the constitutional evolution of Malaya, and mark another stage on the road towards self-government. For the first time in the history of the Federation, a Legislative Council, in which all the communities of Malaya are represented, has power to legislate about matters of common concern to the peoples of the country. Of the seventy-five members of the Federal Legislative Council, only fourteen, besides the High Commissioner, are officials. There is thus an overwhelming unofficial majority drawn from all the different sections of the population.

[The Earl of Listowel.]

I had the good fortune to attend the opening session of this legislative body last February. I was particularly impressed by the breadth of vision and progressive spirit of the speeches of the leaders of the Chinese and Malay groups in this assembly. Both Dr. Ong Chong Keng, whose untimely death all who knew him will deplore, and Dato Onn Bin Ja'afar, emphasised the duty of every resident in the Peninsula to place loyalty to Malaya before loyalty to any section, however large, of its population. This, surely, is the answer to what the noble Lord, Lord Mancroft, said earlier. This is the spirit which will enable the Chinese and the Malays to live together in amity in time to come, and it is evidence that this spirit already exists. We are all aware of the statesmanlike qualities of Dato Onn, the leader of the United Malayan National Organisation, of his record of service as Mentri Besar of Johore, and of the pre-eminent part which he played in bringing about the wider outlook among the Malays required for support of the principle of Federation. I am delighted to see that he is present at this debate this afternoon. I can assure him that his services in the past, and during our present difficulties in Malaya, are greatly appreciated by all those who recognise his wise and inspiring leadership.

I think it should be stressed that the latest constitutional advance in the Federation is extremely recent and was completed only this year. It is essential that sufficient time should be allowed to elapse for the new system of government to get firmly established before any other step forward is taken. Apart from the necessity for allowing the new machine to be run in, I am sure your Lordships will appreciate that the present disorders, during which the main pre-occupation of the Administration must be the restoration of law and order, are bound to delay the next stage of constitutional development. For example, there can be no elections to the State and Federal Legislatures until the names of all Federal citizens have been entered and inscribed on an electoral roll. It is not possible, under present conditions, to carry out a registration of Federal citizens, and it follows that the legislation required for the election of members to

H.L. 40 D 16

these bodies will have to wait. Nevertheless, I should like to repeat, as our policy has been called in question by the noble Lord opposite, that it remains the firm intention of His Majesty's Government, of the Government of the Federation, and of Their Highnesses the Rulers of the States, that the policy recorded in the Federation Agreement to bring an elected element into the various Legislatures shall be carried out at the earliest possible moment.

In Singapore also there has been a considerable constitutional advance since the war. From April of this year, the first meeting of the first Legislative Council of the Colony to contain elected representatives took place. The first elections in the history of Singapore happened this year. This Council also has an unofficial majority. I would emphasise—because I am sure all noble Lords who give reflection to this point will agree—that it is no less desirable in the case of Singapore that the new machinery of government on an elective basis should be given a fair trial before we proceed to the next stage of democratic self-rule.

The noble Lord, Lord Mancroft, has complained about over-government in Malaya, and before I proceed to answer that criticism I should like, if I may, to thank him for the helpful and constructive note he struck in the speeches which he made during his short personal visit to Malaya. I wish to record our appreciation of his thoroughly helpful and altogether patriotic behaviour whilst he was in Malaya. I am also, needless to say, appreciative of his thoughtful speech to-day, and none the less because of the occasional barbed shafts which were, quite properly, aimed at the Government. The noble Lord referred particularly, I think, to over-government in Malaya and to the existence of Singapore as a separate Colony cut off from the mainland; and he emphasised the increased efficiency and considerable economies which would result from the entry of Singapore into the Federation. Our policy in this connection adheres to the terms of the White Paper of July, 1947. May I remind him of what was said in the concluding paragraph of this White Paper?

"It is no part of the policy of His Majesty's Government to preclude or prejudice in any way the fusion of Singapore and the Malayan

Union in a wider Union at a later date. It is to be considered that such a course is desirable."

This refers to an earlier official statement in the White Paper from which is quoted.

"His Majesty's Government still view and believe that the question of Singapore joining in a Federation should be considered on its merits and in the light of opinion at an appropriate time. The Governments and Legislatures in the two territories will be the appropriate authorities to consider any demand for the inclusion of Singapore within the Federation. . . . The question on which considerable differences of opinion exists in Malaya, but the Government of the new Federal Constitution will be without prejudice to the possibility of Singapore joining the Federation at some date."

I think the noble Lord will agree that this statement leaves it open for Singapore to enter the Federation by agreement between the two territories and that the United Kingdom would not put a finger to interfere with any such arrangement. At the same time it is to be recognised that the primary consideration should be the preservation of order and order should for the present take precedence of all other matters relating to the time and energy of the authorities in the Federation and Singapore.

I apologise for having spoken so long, but I have been doing my best to give as objective and faithful a picture as possible of the situation in Malaya. This is a grim, anxious and trying time for all Government servants in Malaya and the shadow of this terror still hangs over them. I think your Lordships will wish me to convey a message of sympathy and support from this House to the civil and military authorities and their subordinates in every rank and grade in the Civil Service, the Armed Services, the Police, both in the Federation and in Singapore. They are meeting the difficulties and dangers of the present situation in a spirit of service, with a courage and determination we all admire, and we know that we wish them the speediest and complete success that their devoted duty deserves.

3.57 p.m.

VISCOUNT SWINTON: My Lord, I think the noble Lord, Lord Mancroft, has put us all under a deep sense of obligation not only by introducing this Bill but by the masterly speech in which he opened it, a speech full of first

H.L. 40 D 17

Malaya 344

bodies will have to wait. Never-
I should like to repeat, as our
has been called in question by the
Lord opposite, that it remains the
attention of His Majesty's Govern-
of the Government of the Federa-
and of Their Highnesses the Rulers
States, that the policy recorded in
ederation Agreement to bring an
element into the various Legis-
shall be carried out at the earliest
moment.

Singapore also there has been a con-
stitutional advance since the
from April 1 of this year, the first
of the first Legislative Council of
to contain elected representa-
took place. The first elections in
history of Singapore happened this
This Council also has an unofficial
y. I would emphasise—because I
all noble Lords who give reflec-
this point will agree—that it is
desirable in the case of Singapore
the new machinery of government
elective basis should be given a fair
before we proceed to the next stage
ocratic self-rule.

noble Lord, Lord Mancroft, has
med about over-government in
and before I proceed to answer
criticism I should like, if I may, to
him for the helpful and con-
note he struck in the speeches
he made during his short personal
Malaya. I wish to record our
ation of his thoroughly help-
altogether patriotic behaviour
he was in Malaya. I am also,
to say, appreciative of his
ful speech to-day, and none the
cause of the occasional barbed
which were, quite properly, aimed
Government. The noble Lord re-
particularly, I think, to over-
ment in Malaya and to the
e of Singapore as a separate
cut off from the mainland; and
phasised the increased efficiency
siderable economies which would
om the entry of Singapore into the
on. Our policy in this connec-
eres to the terms of the White
July, 1947. May I remind him
was said in the concluding para-
this White Paper?

no part of the policy of His Majesty's
ent to preclude or prejudice in any
usion of Singapore and the Malayan

345 Malaya

[10 NOVEMBER 1948]

Malaya 346

Union in a wider Union at a later date should
it be considered that such a course were
desirable."

This refers to an earlier official statement
in the White Paper from which I have
quoted.

"His Majesty's Government still hold this
view and believe that the question of Singa-
pore joining in a Federation should be con-
sidered on its merits and in the light of local
opinion at an appropriate time. The new Gov-
ernments and Legislatures in the two territories
will be the appropriate authorities to consider
any demand for the inclusion of Singapore
within the Federation. . . . The question is
one on which considerable difference of
opinion exists in Malaya, but the establish-
ment of the new Federal Constitution will be
without prejudice to the possibility of Singa-
pore joining the Federation at some later
date."

I think the noble Lord will agree that
this statement leaves it open for Singa-
pore to enter the Federation by mutual
agreement between the two territories and
that the United Kingdom would not lift
a finger to interfere with any such
arrangement. At the same time it must
be recognised that the primary respon-
sibility of restoring and maintaining law
and order should for the present take
precedence of all other matters requiring
the time and energy of the authorities
in the Federation and Singapore.

I apologise for having spoken at this
length, but I have been doing my best
to give as objective and faithful a picture
as possible of the situation in Malaya.
This is a grim, anxious and trying time
for all Government servants in Malaya,
and the shadow of this terror still hangs
over them. I think your Lordships would
wish me to convey a message of sym-
pathy and support from this House to the
civil and military authorities and their
subordinates in every rank and grade of
the Civil Service, the Armed Services and
the Police, both in the Federation and
in Singapore. They are meeting the diffi-
culties and dangers of the present situa-
tion in a spirit of service, with a courage
and determination we all admire, and I
know that we wish them the speedy and
complete success that their devotion to
duty deserves.

3.57 p.m.

VISCOUNT SWINTON: My Lords, I
think the noble Lord, Lord Mancroft,
has put us all under a deep sense of obli-
gation not only by introducing this debate
but by the masterly speech in which he
opened it, a speech full of first-hand

knowledge and extremely wise and fair
in its appreciation. We are also much
obliged to the Minister of State for
following that speech so promptly and
for giving us, as indeed is right and
necessary, the Government's answer and
such information as he could give upon
this situation. I can assure the noble
Earl that not only do we all in this House
join in the expression of sympathy and
hope which he has just uttered, but also
in assuring His Majesty's Government of
the fullest support in any effective action
to suppress Communist terrorism and
insurrection and restore peace and
prosperity to that great land.

Our duty to-day in this debate is two-
fold. We are concerned to see how far
the present misfortunes—which the noble
Earl, the Minister of State, has not
underrated—could have been avoided by
truer appreciation of the situation and by
earlier action; and also to see what
further measures, if any, the Government
should take to bring these grave matters
to a more speedy conclusion. We must
consider the past because it has such a
definite bearing upon the present; indeed,
it is not merely that the present follows
it in time, but also that a great deal that
has happened is the direct consequence
of what has been done, and still more
of what has been left undone, in the
past. The Government were very com-
placent during, at any rate, the first two
years. I am going to justify that state-
ment presently. Certainly they ought to
have known the true facts, and ought to
have foreseen what would happen. They
knew from the very start—the noble Earl
has said so—that there were great
supplies of arms in the hands of these
Communists and guerrillas at the close of
the war. Were the officers of Force 136
asked where these arms were likely to
be found?

The Government had seen the whole
Communist pattern disclosed plainly in
Indonesia and in Indo-China, and they
knew from the very start that the Com-
munists were creating and controlling
these bogus trade unions. Yet, in the
face of that, in May, 1946, the noble
Viscount, Lord Hall, who was then
Secretary of State for the Colonies, when
asked about the position, admitted that
in Singapore there had been wholesale
intimidation of workers, shopkeepers and
coolies by subversive elements whose
efforts approached direct challenge to

[Viscount Swinton.]

Government. He said that there were isolated bands of robbers elsewhere. But he was quite hopeful that this was only a passing phase. He said that the situation had changed since November 15 (I do not know what happened on that date). When he was asked whether the military forces were sufficient—and we must remember that military forces have had to be sent out quarter by quarter since then—he replied:

“Military forces are engaged with police in dealing with these matters; and I am satisfied that this co-operation is bringing about a peaceful solution of the matter.”

If that is not a complete lack of appreciation of what the situation really was, it was undue complacency. I am quite sure the noble Lord would not have been complacent if he had appreciated what the situation was.

One charge against the Government is that they ought to have appreciated what the situation was. Indeed, the facts were known to them. And now, we have this Awbery-Dalley Report. As there are so few copies of this Report available, perhaps the House would bear with me if I made one or two quotations from it. We can see from it that the Communist menace was absolutely plain for anyone to see in September, 1945—three years ago. Let me read one or two passages from it. Here is one:

“... once in the jungle they found themselves in a veritable Communist forcing-house. Each control was a Communist cell with a military commander and a political commander on approved lines.”

They go on:

“The object of this education was frankly stated to be the preparation for a Communist republic of Malaya, and there is also the evidence of written documents. The methods to be used, naturally enough, included as a most important object the infiltration into all Labour movements and places of employment. . . . The most rigid discipline was enforced and all the guerrillas . . . were subject to direction from the Party in all aspects of their lives, and the evidence goes to show that they still are.”

Then, as the noble Lord has said, they refer to the fact that these guerrillas came down out of the jungle and established themselves as the Government for a short time before the Military Government came in.

The Report goes on to say—and this is very interesting:

H.L. 40 D 18

“They were to all intents and purposes the *de facto* Government of the country. Not unnaturally, they spread the legend that they had driven the Japanese out and thus gained an added prestige.”

It leads up to this: that the Government did all to establish freedom of speech and all the rest of it. The Report continues:

“The Malayan Communist Party, however, continued with their post-war plans—plans matured and drilled into the guerrilla groups during the Occupation, as already described. Long before the end of the year, indeed by the time the British Military Administration took over in September, 1945, they—

that is, the Communists—

“had set up ‘cells,’ dubbed ‘trade unions’ for every type of trader and worker from miners and rubber workers to cabaret girls. None of these were in the smallest degree representative or democratic; and the evidence is conclusive, both as regards their activities and the men appointed to hold office, that they were just mouthpieces of the Malayan Communist Party. Their organisation was well tried and powerful; they had money and they had contacts with other countries . . .”

Then the Report adds:

“The Malayan People’s Anti-Japanese Army itself was disbanded but it continued to exist (and still does) in the form of ex-Comrades Associations and there was little attempt to disguise the connection between these Associations and the controlled unions.”

Does not that show that, during the two years of complacency by the Government, it ought to have been, and it must have been, plain to them that there was this full-blooded Communist organisation in a common pattern?

Why should we be surprised at the way this has worked out? It is the common pattern the world over, under ruthless orders from top to bottom—terrorism, strikes, ample cash, ample arms and foreign contacts. Observe that this was in a country which was not liberated by the British Army defeating the enemy in the field in battles on the spot; hostilities came to an end because of victories won thousands of miles away. As the Awbery Report says, the Communists were not slow to spread the legend that it was they and not the British who had driven the Japanese out, and that they were the real conquerors. In the face of all that, why was not positive action taken at once, particularly in view of the fact which the noble Earl has pointed out to-day, that the Communist forces were told to disband and to lay down their arms, but did not do so. Apparently, that was the end of the matter.

What should have been done is the Communist organisation should immediately have been declared illegal. There should have been no question of freedom of speech. Here we were faced with terrorism to be followed by an armed force. The leaders were all Chinese, I think, apart from a few other aliens. Why should they have been deported. Why was the power of deportation used? It was absolutely necessary. I speak as one who for four years held the office of Secretary of State for the Colonies. Even in peaceful days, the power of deportation was absolutely necessary in Malaya, its Chinese secret societies often terrifying people, and with its vast alien population. But there were no deportations until 1947. This power of deportation, which dates, I think, from 1910, which the noble Lord said was so essential, was absolutely necessary in no times, as anybody who has been Secretary of State for the Colonies or Governor of Malaya will affirm. Why was this brave crisis did the Colonial Office prevent the Government from deporting

The local forces should have been maintained as far as possible. The police should have been reinforced and armed, and, above all, the arms should have been rounded up at the time when the officers of Force 136 knew—or at least had a very shrewd suspicion—where those arms were. The Awbery Report says in fact that it was plain what the whole picture was. Did the authorities really suppose that when the Government, whether military or civil, said “Will you please bring your arms in and hand them over?” the Communists were likely to do so? Have they done so anywhere in the world? Of course not. The Government should have followed that up and rounded up the arms. I observed that the noble Lord said to-day, as I think Mr. Awbery said, the author of this Report, said in another place: “We could not do anything against the Communists until they did something illegal.” Why not? In the face of this terrorism, why was not the Communist organisation at once declared illegal? We could have rounded up the arms. We could have deported the undesirable aliens. We could have made the bogus trade unions illegal.

Be sure that the Malays, who were to be loyal to us, watched what was going on and, when they saw that

H.L. 40 D 19

They were to all intents and purposes the *facto* Government of the country. Not naturally, they spread the legend that they driven the Japanese out and thus gained added prestige."

leads up to this: that the Government all to establish freedom of speech and the rest of it. The Report continues:

The Malayan Communist Party, however, continued with their post-war plans—plans and drilled into the guerrilla groups during the Occupation, as already described. Before the end of the year, indeed by time the British Military Administration over in September, 1945, they—

is, the Communists—

set up 'cells,' dubbed 'trade unions' every type of trader and worker from and rubber workers to cabaret girls. of these were in the smallest degree representative or democratic; and the evidence elusive, both as regards their activities the men appointed to hold office, that were just mouthpieces of the Malayan Communist Party. Their organisation was tried and powerful; they had money and had contacts with other countries . . ."

The Report adds:

the Malayan People's Anti-Japanese Army was disbanded but it continued to exist (all does) in the form of ex-Comrades and there was little attempt to the connection between these Associations and the controlled unions."

not that show that, during the two of complacency by the Government, it to have been, and it must have plain to them that there was this bod Communist organisation in ion pattern?

should we be surprised at the way worked out? It is the common the world over, under ruthless from top to bottom—terrorism, ample cash, ample arms and contacts. Observe that this was ntry which was not liberated by sh Army defeating the enemy in in battles on the spot; hostilities an end because of victories won s of miles away. As the Awbery says, the Communists were not spread the legend that it was not the British who had driven ese out, and that they were the uerors. In the face of all that, ot positive action taken at once, y in view of the fact which the l has pointed out to-day, that unist forces were told to dis- to lay down their arms, but o so. Apparently, that was the matter.

What should have been done is this: the Communist organisation should immediately have been declared illegal. There should have been no question of freedom of speech. Here we were faced with terrorism to be followed by an armed war. The leaders were all Chinese, I think, apart from a few other aliens. They should have been deported. Why was not the power of deportation used? It is absolutely necessary. I speak as one who for four years held the office of Secretary of State for the Colonies. Even in those peaceful days, the power of deportation was absolutely necessary in Malaya, with its Chinese secret societies often terrorising people, and with its vast alien population. But there were no deportations until 1947. This power of deportation, which dates, I think, from 1910, and which the noble Lord said was so exceptional, was absolutely necessary in normal times, as anybody who has been either Secretary of State for the Colonies or Governor of Malaya will affirm. Why in this brave crisis did the Colonial Office prevent the Government from deporting?

The local forces should have been maintained as far as possible. The police should have been reinforced and armed; and, above all, the arms should have been rounded up at the time when the officers of Force 136 knew—or at least had a very shrewd suspicion—where those arms were. The Awbery Report says in 1945 that it was plain what the whole picture was. Did the authorities really suppose that, when the Government, whether military or civil, said "Will you please bring your arms in and hand them over?" the Communists were likely to do so? Have they done so anywhere in the world? Of course not. The Government should have followed that up and rounded up the arms. I observed that the noble Earl said to-day, as I think Mr. Awbery himself, the author of this Report, said in another place: "We could not do anything against the Communists until they did something illegal." Why not? In the face of this terrorism, why was not this Communist organisation at once made illegal? We could have rounded up the arms. We could have deported the undesirable aliens. We could have made the bogus trade unions illegal.

Be sure that the Malays, who wanted to be loyal to us, watched what was going on and, when they saw that there

H.L. 40 D 19

was no action, they thought that we were afraid; and so there was a vicious circle. Those people who, as the noble Earl has said, are very often, against their will, compelled to comfort the King's enemies, are terrified to give evidence to us, although I agree that the vast majority of them hate these people. That vicious circle continued because the Government did not take firm action. Nobody knew where we were going. For all I know, a report may have been spread about that we were going to evacuate the country. That was what was done by the people in West Africa. When I was there during the late war. It was said that we were going to clear out. We soon made it quite plain that we were not going to clear out and that, if any clearing out was to be done, it was the people who spread those reports who were going to clear out. There is nothing more calculated to lose the confidence and co-operation of these loyal Malays than such inaction.

The Colonial Secretary, who is the most kind-hearted man, said in another place:

"We are determined to make Communism an ineffective political force in our territories." Communism is a great deal more than a political force; Communism is armed terrorist revolution. The Colonial Secretary seeks to excuse himself because the Communists did not resort to armed force until the spring of this year. The noble Earl said it to-day. He told us that at first, they tried all the subversive movements, and that it was only in the spring of this year, when they found that they could not get rid of the British Government and drive Malaya from the British Empire into Moscow, when they found that they could not do that by terrorism and beating up of good trade unionists (which is what they were doing), that they resorted to force and to open warfare. Why should we be surprised at that? Of course, they were going to attempt to get what they could without having to fight for it. That is the technique. Hitler did just the same. So long as he could get what he wanted without fighting, of course he did not wish to fight. But you ought to have known that this was the common picture and the common form as well as the Cominform. It is the same; it always proceeds according to plan.

The charge against the Government is that they must or should have known this

[Viscount Swinton.]
would be the Communist plan and pattern, and that the Communists had ample arms and organisation to fight with if it came to fighting. The Government should have rounded up the arms and dissolved the organisation at the very first blush of trouble. In fact, what has been tardily done in 1948 ought to have been done in 1945. It would have been much easier then. Our friends would have been rallied to us. The Malays hate these terrorists. As the noble Lord said, 20,000 Malays have joined the police. The majority of the Chinese, I agree, are not Communists. It is said that the Communists are only a minority. Of course they are. Communists are always only a minority, but that does not prevent them, if they get power and if they are not resisted with energy, from getting control of the majority whom they can terrorise and browbeat and, wherever necessary, shoot down. Many lives would have been saved, and more lives which will still be sacrificed might have been saved, if action had been taken, and the greatest dollar earning country in the British Commonwealth would now be peaceful and prosperous.

Ministers are not slow to boast that they have rediscovered the British Empire. Whether, if they have rediscovered it, they have done so in order to liquidate it or in order to develop it seems to be a matter still under discussion in the Cabinet. Why did they not discover what was happening in Malaya? Of course it is right to encourage the good, sound trade unions. I knew the value of them in West Africa. I even knew them in the old days long before, when I was Colonial Secretary. I know the good work which wise and great trade union leaders have given in all quarters to young and inexperienced trade unions, to build them up by what are sound methods. But that is not an answer to Communist terrorism and revolution. Indeed, I go further, and say that these sound trade unions cannot function unless revolution and terrorism are rooted out. My Lords, read this Awbery Report when you get the chance. You will see in one of the appendices (I think it is No. 7) a description of what happened. They say it is almost impossible for an ordinary English trade union to understand that these things could happen—how the vice-president of a decent trade union could

H.L. 40 D 20

be beaten up, how another had to flee the country for fear of his life, and how these hooligans came down and browbeat everybody and finally burnt up the local Transport House, the headquarters of a decent trade union in the docks at Singapore.

Nor, unless terrorism is rooted out, can you get that co-operation and joint working which is so necessary between the employers and the trade unions. Here again the Awbery-Dalley Report is perfectly plain about the matter. I must say I was glad that the Minister said to-day how well the European community had done. It was a pleasant change from the sort of stuff that some of his colleagues hand out over the week-ends. When you read the Awbery-Dalley Report you will find that the great majority of the British employers have done very well. Indeed, it is pointed out that it is not very creditable to the Government that the employers set the pace in giving better wages and better conditions and that the Government lag far behind. That is said in the Report. This is the point I am making about the importance of getting rid of terrorism if we are to have this co-operation. The Report says that when the employers who wanted to do collective bargaining tried to bargain with these unions, they found that they were up against men of straw, who were taking their orders from the "power behind the throne" and who, whenever they made an agreement, entirely failed to carry it out. I am all for decent trade unions, but do not let the noble Earl, in delivering his lecture to us, say that the setting up of sound trade unions—which is what we all want—is the soft answer which turns away the wrath of Communism. It does not. Nothing turns away the wrath of Communism with its tommy guns, except other people who can shoot the terrorists down. That is the plain truth about it.

In conclusion I want to make two suggestions to the Government. They were rather tentatively made by my noble friend, Lord Mancroft, and I want to endorse both. The noble Earl did not really reply to either of them in his interesting and agreeable speech. The first is in the matter of finance. I hope the Government are not going to be petty and niggling in their financial dealings

with Malaya. It is not only the Government have a very peculiar responsibility in this matter through the of prescience and their delayed A great deal of the expenditure which incurred to-day would have avoided if the Government had more vigorously and sooner. But a great common interest, a great partnership. Malaya is one of the Empire's great resources, the great dollar producer in the whole Empire. I believe I am right in saying that exports collect more in dollars than the whole of the exports of the country put together. It is a great asset and a great partnership asset. The noble Earl has said that we are to spend money in developing the Empire. I do not grudge that, but, for heaven's sake, do let us spend the money where we shall get a return. Surely, if there are millions to be spent—I am not against the groundnut project; I think it may come to fruition in the fullness of time, and I hope it is the wisest place to go and spend money is where you know you are to get a return, where there are resources only waiting to be reinvested and for which there is a ready market.

Do not let us forget the generous contributions of Malaya to this country before the war, through the Sultans, the States and the Colony. In the four years I was Secretary of State for the Colonies (and my noble friend, Lord Harlech had the experience when he followed me) you will see, year, and often more frequently than that, these generous contributions in. I remember that quite unexpectedly one morning the Sultan of Johore came into my room and said, "We have been doing too badly and we want to come forward with the defences. Here is a million." It was just like that, a million on the table; and that was not the first contribution that Johore had made. We are parcelling out how much is to be by grant and how much is to be by amortised loan, let us remember the generosity of our friends in the days before the war, and let us remember what we owe to them both for what they have done and for that, alas, we have left up to them in their country. If I may take a parallel, which surely is not an unreasonable one, let us take the American which has been so generously extended to us and to Europe to-day. Three quarters

H.L. 40 D 21

beaten up, how another had to flee the country for fear of his life, and how the hooligans came down and browbeat everybody and finally burnt up the local Transport House, the headquarters of a great trade union in the docks at Singapore.

For, unless terrorism is rooted out, can we get that co-operation and joint work which is so necessary between the employers and the trade unions. Here in the Awbery-Dalley Report is perfectly plain about the matter. I must say I was glad that the Minister said how well the European community had done. It was a pleasant change from that sort of stuff that some of his colleagues hand out over the week-ends. When you read the Awbery-Dalley Report you will find that the great majority of the British employers have done very well. Indeed, it is pointed out that it is not very creditable to the Government that the employers set the example in giving better wages and better conditions and that the Government lag behind. That is said in the Report. This is the point I am making about the importance of getting rid of terrorism. We are to have this co-operation. The Report says that when the employers wanted to do collective bargaining they wanted to bargain with these unions, but they found that they were up against men of straw, who were giving their orders from the "power behind the throne" and who, whenever they made an agreement, entirely failed to carry it out. I am all for decent trade unions, but do not let the noble Earl, delivering his lecture to us, say that setting up of sound trade unions—is what we all want—is the soft power which turns away the wrath of Communism. It does not. Nothing can turn away the wrath of Communism except other people's tommy guns, except other people can shoot the terrorists down. That is the plain truth about it.

In conclusion I want to make two suggestions to the Government. They are rather tentatively made by my noble friend Lord Mancroft, and I want to say both. The noble Earl did not reply to either of them in his opening and agreeable speech. The Government are not going to be petty bickering in their financial dealings

with Malaya. It is not only that the Government have a very peculiar responsibility in this matter through their lack of prescience and their delayed action. A great deal of the expenditure which is incurred to-day would have been avoided if the Government had acted more vigorously and sooner. But here is a great common interest, a great imperial partnership. Malaya is one of the Empire's great resources, the greatest dollar producer in the whole Empire. I believe I am right in saying that its exports collect more in dollars to-day than the whole of the exports of this country put together. It is a colossal asset and a great partnership asset. The noble Earl has said that we are going to spend money in developing the Empire. I do not grudge that at all; but, for heaven's sake, do let us spend the money where we shall get a return. Surely, if there are millions to be spent—I am not against the groundnuts project; I think it may come to fruition in the fullness of time, and I hope it will—the wisest place to go and spend your money is where you know you are going to get a return, where there are vast resources only waiting to be reinstated and for which there is a ready market.

Do not let us forget the generosity of Malaya to this country before the war, through the Sultans, the States and the Colony. In the four years I was Secretary of State for the Colonies (and my noble friend, Lord Harlech had the same experience when he followed me) year by year, and often more frequently than that, these generous contributions came in. I remember that quite unexpectedly one morning the Sultan of Johore came into my room and said, "We have not been doing too badly and we want to get forward with the defences. Here is half-a-million." It was just like that, across the table; and that was not the first contribution that Johore had made. When we are parcelling out how much is to be by grant and how much is to be by amortised loan, let us remember the generosity of our friends in the days before the war, and let us remember what we owe to them both for what they are and for that, alas, we have left undone in their country. If I may take a parallel, which surely is not an unreasonable one, let us take the American Aid which has been so generously extended to us and to Europe to-day. Three quarters

of it is in gift, one quarter is in loan. Do not let us be ungenerous to the greatest dollar producer in the British Empire when we remember that.

I would add one other point. The noble Earl has spoken rightly of the development in social services, in housing and in health—and certainly those things are very necessary—which he hopes will take place there. But apparently Malaya is going to pay for it. But if a charge is to be placed on Malaya for repairing the devastation of the war (a far greater one, apparently, than is to be put upon Burma, a country that has not shown us much gratitude) and for the restoration of the plantations, great and small (and do not forget, whether it is tin or rubber, it is not a case of these businesses being owned by great capitalists; a great deal of the production is in the hands of the smallest men), it will be a very heavy burden indeed. The noble Earl was rather vague about it, and I am not sure who is to pay for the campaign which is being carried on to-day, and for the troops we have set out there. But if this burden is put on Malaya, Malaya will not be able to put in hand these schemes for social reform, for health services and other plans, whether they are for the betterment materially, morally or physically of the people. It will, in fact, be placing far too heavy a burden on these loyal people.

I come now to the other point which I wish to make. It concerns the powers—or the lack of powers—residing in the right honourable gentleman, a good friend of all of us, who I think bears the title of Commissioner-General. What I want to know is this: Is there one man with real authority? May I draw once again on my own West African experience? I was sent out there as a projection of my colleagues in the Cabinet. First there were Governors there—and I must say that they have something to govern—the Commander-in-Chief, the Ministry of Food and the Ministry of Supply, all of whom were concerned. Much the same sort of situation exists in Singapore to-day. There must be quick decision and quick action. Who is able to take that quick decision and direct, prompt action? I do not believe that anyone is now. First, policy is settled—apparently there is no dispute about that. As I have said more than once in this House, policy issues in

[Viscount Swinton.]
action; and when we are confronted with a situation such as faces us in Malaya to-day there must be one man on the spot who has authority. I do not care what is his title. What I do care about is the matter of his powers. He must have authority to give directives on policy and the power to see that those directives are carried out in action.

4.24 p.m.

LORD MILVERTON: My Lords, perhaps I should begin by saying that my reason and excuse for intervening in this debate is that I spent the best twenty-one years of my life in Malaya. I also spent four years in Borneo. I have also to declare a financial interest in the situation in Malaya, because I am a Malayan pensioner, and am therefore deeply interested in the future of the country. I have adopted a Latin motto for the occasion—*Quicquid delirant reges plectuntur Achivi*, which perhaps, being a classical scholar, I may be allowed to translate as: "Whatever mess the Colonial Office make of Malaya, I am one of the people who will pay for it."

Those of us who sit on these Benches believe in facing the future, but in connection with Malaya I would urge that if we do not face the facts of the present there will be no future to face. I have noticed a slight tendency to blame the present Government, in particular, for various things. I should like to make my own position quite clear at the start. I regard the present situation in Malaya, which has perhaps been mishandled (I will deal with that later), as arising far away in the past. I think that the history of Malaya in this century is one of four or five major policy errors, for which there is no Party in this State which would not have to accept responsibility. I propose briefly to mention what I think those errors are, then to mention something about the present situation in Malaya, and finally to say—if I may have the temerity to do so—what I think ought to be done.

Before going into that, however, there is one thing which I should like to say, though obviously it is not a matter that I can pursue in detail, and it would not be in the public interest to do so. But, in addition to other things in Malaya, we have there a service which is not itself

H.L. 40 D 22

happy, not internally happy—in particular one section of that Service which, in this relationship, happens to be very important: I refer to the police. Let it suffice for me to say that when you introduce into an existing force (and, may I say, a force which came out with the greatest honour of all Government Departments in Malaya when Malaya fell) a large number of officers from another place, officers who are new to the police, it is clear that tension must arise. Matters such as the allocation of appointments and so forth must be handled with the greatest tact and with the greatest regard for the human personnel on whom we must depend. After all, the morale of the force will depend on our success in dealing with that. I think it is unnecessary for me to say more on that subject.

To go back to what I regard as the first of the major mistakes in Malaya, in my time there it was indeed the Golden Chersonese. I went there at the time of the beginning of the great rubber and tin booms. The country was developing at a terrific pace, because the introduction of British justice had meant that every man could be sure of being able to hold his own. And the country had unlimited wealth of different kinds awaiting exploitation. So exploitation was the order of the day—unlimited exploitation. We had not the necessary labour available on the spot. Scores of thousands of Chinese came from China. Thousands of Indians came from India, Jaffna Tamils came from Ceylon to start the offices; and later on, Javanese labourers from the Netherlands Indies. The Malays took very little part in this. They sat bewildered amidst these immense developments.

In those days—they have progressed a little since—they were essentially a conservative race, a race of sportsmen, great sportsmen, and great gentlemen with a strong distaste for regular work. They have since then progressed considerably, but we have in the situation to-day part of the Nemesis of what we did then. We never thought what problems we were piling up for that country when we flooded it with foreigners. There is an example of the opposite kind of mistake in the same area of the world, in Sarawak. In Sarawak, which is also a potentially rich country, precisely the reverse was done. The

Brooke family, according to the lights, did a great work in Sarawak. They believed that the best thing to do for the people of Sarawak was to prevent any Asiatic or European coming in, so as to prevent any political Whipsnade of the natives of that country. Of course, this has brought problems of its own, but it is difficult to deal with to-day as a result of the opposite policy in Malaya. Obviously, we cannot keep a people without ultimately leaving them when the impact of modern civilisation comes, as come it must.

Another political mistake made in Malaya, though of a different kind, was the agreement on the Singapore base, when the noble Viscount, Lord Trent, was not taken, and that of Lord E. Lord Trenchard pleaded that it should be handed over to the Government to defend, but he did not win the day. He had, that in itself might be said, the face of history.

The next major mistake, which has been referred to already and which I mention it, is that of the Malay Union Constitution. The present Government endeavoured to introduce. The only blame which can be put to the present Government, which is so arrogant as to say this, is that they ought to have known better than to have taken that policy from their own experience. I think we are on the high road to making another big mistake in the niggardly treatment of the claims. As this has been referred to already, I need only refer to it in Malaya after the first war, when the Government showed great generosity, and it would be if what I might call the "old mind" should be allowed to prevail in a situation like this, where the community and an appreciation of values are far more important than a number of noughts on the balance sheet. millions.

I should like to say one more thing about the present situation. As your Lordships know, there are eight people in Malaya, roughly speaking, Malay, three Chinese and three Europeans. Although the Malays have made progress in self-government,

H.L. 40 D 23

DS]

Malaya

356

happy, not internally happy—in particular one section of that Service which, in this relationship, happens to be very important: I refer to the police. Let it suffice for me to say that when you introduce into an existing force (and, may I say, a force which came out with the greatest honour of all Government departments in Malaya when Malaya (and all) a large number of officers from another place, officers who are new to the police, it is clear that tension must rise. Matters such as the allocation of appointments and so forth must be handled with the greatest tact and with the greatest regard for the human personnel on whom we must depend. After all, the morale of the force will depend on our success in dealing with that. I think it is unnecessary for me to say more on that subject.

To go back to what I regard as the most of the major mistakes in Malaya, in time there it was indeed the Golden Age of the Chinese. I went there at the time of the beginning of the great rubber and tin booms. The country was developing at a terrific pace, because the introduction of British justice had meant that any man could be sure of being able to hold his own. And the country had accumulated wealth of different kinds—mining exploitation. So exploitation was the order of the day—unlimited exploitation. We had not the necessary labour available on the spot. Scores of thousands of Chinese came from China, thousands of Indians came from India, thousands of Tamils came from Ceylon to start tin mines; and later on, Javanese workers from the Netherlands Indies. The Malays took very little part in this. They sat bewildered amidst these rapid developments.

Those days—they have progressed a long way since—they were essentially a conservative race, a race of sportsmen, great men, and great gentlemen with a distaste for regular work. They have since then progressed considerably, but they have in the situation to-day part of the synthesis of what we did then. We thought what problems we were piling up in that country when we flooded it with foreigners. There is an example of the opposite kind of mistake in the same part of the world, in Sarawak. In Sarawak, which is also a potentially rich country, the reverse was done. The

357

Malaya

[10 NOVEMBER 1948]

Malaya

358

Brooke family, according to their own lights, did a great work in Sarawak, and they believed that the best thing they could do for the people of Sarawak was to prevent any Asiatic or European capital coming in, so as to prevent any exploitation. Therefore, they tried to make a sort of political Whipsnade of Dyaks and natives of that country. Of course, that has brought problems of its own almost as difficult to deal with to-day as are those of the opposite policy in Malaya. Obviously, we cannot keep a people like that without ultimately leaving them helpless when the impact of modern conditions comes, as come it must.

Another political mistake which was made in Malaya, though of a different kind, was the agreement on the subject of the Singapore base, when the advice of the noble Viscount, Lord Trenchard, was not taken, and that of Lord Beatty was. Lord Trenchard pleaded that Singapore should be handed over to the R.A.F. to defend, but he did not win the day. If he had, that in itself might have altered the face of history.

The next major mistake, which has been referred to already and I need only mention it, is that of the famous new Malay Union Constitution, which the present Government endeavoured to introduce. The only blame which attaches to the present Government, if I may be so arrogant as to say this, is that they ought to have known better than to have taken that policy from their predecessors. I think we are on the high road towards making another big mistake, in the niggardly treatment of war damage claims. As this has been mentioned already, I need only refer to it. I was in Malaya after the first war at the time when the Government behaved with great generosity, and it would be a pity if what I might call the "Treasury mind" should be allowed to dominate a situation like this, where the community and an appreciation of human values are far more important than the number of noughts on the end of millions.

I should like to say one or two words about the present situation in Malaya. As your Lordships know, out of every eight people in Malaya, roughly four are Malay, three Chinese and one Indian. Although the Malays vaunt steady progress in self-government, they are fully

H.L. 40 D 23

conscious of the fact that without our presence there they would be submerged politically by the Chinese, just as to-day they are excluded from the commerce of their own country by the Chinese. We should realise the fact that the Chinese will not, if they can help it, allow the Malays a chance in commerce in their own country. That is a situation which sooner or later we have to face. As has been pointed out by the noble Earl, this is obviously not a nationalist movement, because the people who are causing the trouble are a matter of about 5,000 illiterate young men. If I may say so with respect, I was unable to find the satisfaction of the Minister of State in the fact that these 5,000 young men had not succeeded in upsetting the government of Malaya. As an ex-Malayan Government servant, it left me with a blush of shame to think that it should ever have been possible that such a situation could be contemplated.

In dealing with the Chinese in Malaya, one has to remember that although perhaps half of them—it may be more or less; there is a census now in progress—were born in China, they are not in any sense united. There are those who have been there for many generations and are now Malayan. If they read the Chinese classics, they probably read them in their English translation, and their language is English or Malay. Others who have been there for a generation or two are much closer to China, and there is a small group of young Chinese who aim at power and wish to dominate Malaya; but they have nothing to do with the Communist group which is endeavouring to obtain the same end by violent means. As I have said, this movement does not spring either from nationalism or race.

Many of these young men have only left elementary school. And may I say, in passing, that the Chinese elementary schools in Malaya, as everybody knows, have for a generation at least been centres for the teaching of Communism. That is well known in Malaya, and I presume it is well known in London. These young men, with their appalling ignorance, have had no education since, except what they have received in the Communist doctrine in their jungle hide-outs. They believe firmly that they won the war and, according to their own code, they think that they are entitled to the loot which is

[Lord Milverton.]
the reward of victory. That is probably all there is in their aim and object. It is, of course, easy to say that the Military Administration should have seized these arms and should have held certain Communist leaders, but, in extenuation of the Military Administration, one has to remember that at the beginning they had not access to the best advice which the Government formerly had. The Malay civil servants who had specialised in the knowledge of these things had been scattered, and many of the advisers of the Military Administration were new to Malaya and knew as little about the country as the people they were attempting to advise.

I deplore the way in which the word "banishment" has been used in this country. After all, nobody has ever been banished from Malaya. All that the Malayan Government have done, even in the bad days when I was serving there and the Government did these things without question, is to exercise the right which every civilised country in the world exercises—the right to deport from their midst any undesirable political or criminal foreigners who happen to be there. That is a power which I feel the Government of Malaya did not exercise sufficiently, but apparently under the new Constitution previously introduced they would have found it difficult to use it at all because the Constitution extended immunity from banishment to everybody in the Peninsula, and paralysed the only way of dealing with this large number of Chinese who have always presented the chief security problem in Malaya.

I wish, in passing, to say a word about education. I do not like to think that the academic enthusiasts who went out from this country will be listened to, and that we shall sacrifice the future of Malaya and have universal English in order to make the whole country a forcing ground for students of Raffles College and, incidentally, provide a whole number of recruits for the Communists with whom we are trying to deal. One has to remember, as has been said several times this afternoon, that the Communist group is very small, and could be—and no doubt will be—almost exterminated. I use the word "almost" advisedly, because one has to remember that, so long as there is Communism in China, so long

as there is any Government in China of that nature, so long will you have this trouble reproduced among the Chinese in Malaya.

One should always remember, too, that the Kuomintang, now the respectable Government of China, was in my day the proscribed society. And when Sun Yat Sen and his friends came to power in Southern China, largely put there by money which had been subscribed to them by Chinese millionaires from Malaya, the first thing that the aspiring Chinese politician thought was of Malaya as China irridenta. That is a situation which will arise again. It should never be forgotten that it is not solely Communism with which we have to deal; we shall always have the difficulty of that Chinese problem. As yet we have no indication of what the answer is. That is why it is so urgent that there should be a definite policy now declared, so that the Malays will know where they are in their own country for the future. I believe it is now the policy that all immigration should cease. That is a very desirable thing. But we must also recollect that when immigration has ceased—if it has ceased to-day—the rate of increase of the Chinese in Malaya is such that within ten years the Malays will again be outnumbered in their own country. One of the things which should occupy the major attention of the Government is, surely, the saving of the large number of Malay babies in the rural districts, who now die for lack of proper attention. I would urge upon the Government that there should be a tremendous concentration on training Malays for trade, for technical jobs, and in dealing with the health services. I do not mean only for the towns, which have been amply dealt with in the past, but for the villages and the cantons of that country.

If your Lordships will bear with me a few more minutes, I would like to say (and I suppose, in fairness, I ought to say it) what I think should be done. We are all agreed that the first thing should be to concentrate wholeheartedly on crushing this Communist terrorism. In doing so, I think we should at the same time settle quite definitely what will be the terms of future Malayan citizenship. I suggest that we should leave the Constitution alone until we have dealt with this Communist menace. Let us have

no more tampering with that, which may be its defects. Coming now to the Administration—on which I feel qualified to speak: Is the Administration of Malaya at present geared for efficiency? I should return an emphatic negative to that question. There have been many Governors; the country is not well governed; and, as has been said by the noble Viscount, Lord Swinton, it is a head. Take the Borneo side. The Governor of North Borneo, to whom has been added Labuan. There is a Governor of Sarawak, who is now also the Commissioner—at whatever it is—of Brunei. What is needed in these countries to-day is young, vigorous, picked, able men; and if such men are to be obtained it is rating the office highly to call him a Governor. I suggest that it would be far better to give him a Lieutenant-Governorship, or a rank lower than that.

Passing over to Singapore, one finds an island twenty-seven by fourteen miles which has a municipality which is practically independent, and which runs all its own services. There is a Harbour Commission which is also independent, and there is also a Navy which runs itself. Then, in heaven's name, is there to be a Governor to govern? There are a few Chinese and Malay villages scattered over that island, and to have a Governor for them really does not make sense to anybody who knows the island. Then you have the High Commissioner for the Malayan Federation, a responsible post. And above that, at least, I suppose it is above that all—there is the Commissioner-General. I took the trouble to find out what the functions of the Commissioner-General are. It is said that he is responsible for the co-ordination of administration and policy in relation to Federal Malaya, Singapore, North Borneo, Sarawak and Brunei. He is also responsible to the Foreign Office for matters which were formerly done by the Commissioner. I do not know what of political chameleon this is. I suppose he has to keep one eye on Mr. Bevin, and the other on Mr. Jones. I have never met a chameleon, but I never want to meet a cross-eyed

In passing, I would say that I deplore the tendency to-day for Colonial territories to be dominated by the Foreign

ere is any Government in China of nature, so long will you have this reproduced among the Chinese in ya.

se should always remember, too, that Kuomintang, now the respectable Government of China, was in my day proscribed society. And when Sun Sen and his friends came to power in Southern China, largely put there by those which had been subscribed to by Chinese millionaires from Malaya, the first thing that the aspiring politician thought was of Malaya and Siam irridenta. That is a situation which will arise again. It should never be forgotten that it is not solely Communism with which we have to deal; we always have the difficulty of that problem. As yet we have no notion of what the answer is. That it is so urgent that there should be a definite policy now declared, so that the Malays will know where they are in their own country for the future. I believe it is now the policy that all immigration should cease. That is a very desirable thing.

But we must also recollect that immigration has ceased—if it has to-day—the rate of increase of the population in Malaya is such that within a few years the Malays will again be outnumbered in their own country. One of the things which should occupy the attention of the Government is, the saving of the large number of babies in the rural districts, who die for lack of proper attention. I urge upon the Government that there should be a tremendous concentration on training Malays for trade, for clerical jobs, and in dealing with the services. I do not mean only for the towns, which have been amply dealt with in the past, but for the villages and hamlets of that country.

our Lordships will bear with me a few more minutes, I would like to say, I suppose, in fairness, I ought to say what I think should be done. We have agreed that the first thing should be to concentrate wholeheartedly on dealing with Communist terrorism. In the meantime, I think we should at the same time settle quite definitely what will be the status of future Malayan citizenship. I think that we should leave the Communist menace alone until we have dealt with the Communist menace. Let us have

no more tampering with that, whatever may be its defects. Coming now to the Administration—on which I feel I am qualified to speak: Is the Administration of Malaya at present geared for efficiency? I should return an emphatic negative to that question. There are too many Governors; the country is over-governed; and, as has been said by the noble Viscount, Lord Swinton, it has no head. Take the Borneo side. There is a Governor of North Borneo, to which has been added Labuan. There is a Governor of Sarawak, who is now also the High Commissioner—at whatever it is called—of Brunei. What is needed in those countries to-day is young, vigorous, picked, able men; and if such men are to be obtained it is rating the office too highly to call him a Governor. I suggest that it would be far better to make it a Lieutenant-Governorship, or even a lower rank than that.

Passing over to Singapore, one finds an island twenty-seven by fourteen miles; it has a municipality which is practically independent, and which runs all its own services. There is a Harbour Board, which is also independent, and there is also a Navy which runs itself. What, then, in heaven's name, is there left for the Governor to govern? There are only a few Chinese and Malay villages scattered over that island, and to have a Governor for them really does not make sense to anybody who knows that country. Then you have the High Commissioner for the Malayan Federation, a big and responsible post. And above them all—at least, I suppose it is above them all—there is the Commissioner-General. I took the trouble to find out what are the functions of the Commissioner-General. It is said that he is responsible for the co-ordination of administration and policy in relation to Federation of Malaya, Singapore, North Borneo, Sarawak and Brunei. He is also responsible to the Foreign Office for duties which were formerly done by the special Commissioner. I do not know what sort of political chameleon this is. I suppose he has to keep one eye on Mr. Bevin, and the other on Mr. Creech Jones. I have never met a chameleon but I never want to meet a cross-eyed one.

In passing, I would say that I deplore the tendency to-day for Colonial affairs to be dominated by the Foreign Office.

I suggest that there is ample work for the Commissioner-General; and for goodness sake let us call him a Governor-General, and make him really responsible. I gather—I made particular inquiry some time ago—that he has no power to give executive orders to the Governors. Then what do those words "co-ordinating policy and administration" mean? I really do not know; in the circumstances they can have no practical meaning at all. I suggest that in circumstances like this, if immediate and quick action is required, as has already been said, it is necessary really to make the Governor-General a Governor-General.

Your Lordships will have gathered, from what I have said, that I regard a good deal of the present trouble in Malaya as due to weak government. I think I have some experience of what both weak and strong government means. It would serve no purpose to try here to disintegrate what are the several shares of the contributory partners to the difficulties in Malaya, the British Military Administration, the local Civil Administration and Whitehall. But the fact is that there has been a weakness somewhere, and flaws which prevent quick decisions and definite action. That seems to me to be certain. A picked officer has been sent as High Commissioner of the Malayan Federation, and a man of influence and proved ability is appointed Commissioner-General. I do plead that these two men should be given a completely free hand to clear up this mess.

I had meant to say something about the question of the Trade Union Report, but it has already been dealt with, and the noble Viscount, Lord Swinton, read extracts from it. Having seen the situation truly, and reported it truly, the compilers of the Report give us, in the recommendations at the end, the same old platitudes. Labour can have no exercisable rights in a situation of terrorism such as exists in Malaya even to-day. Surely, times of peace are the time when the liberty of the subject and the rights of labour are properly attended to. We have our own experience that in time of war, even in England, we readily give up those liberties for the sake of dealing with the emergency. I do suggest that, until the emergency has been cleared up in Malaya, it is no time to talk of liberty of the subject, rights of labour or any

[Lord Milverton.]
of the other rights to which we attach so much importance.

I notice that a good deal is said at the end of that Report about nationalism and self-government. All the "bucketsful" of platitudes poured on the present conflagration in Malaya will not put it out—platitudes have no reputation as fire-extinguishers. Nor, if I may say so, will all the cloud-capped policies which we like to dream of at other times. This is not the time to deal with those.

There is one other matter I should like to mention, and that is that I think the Colonial Office are suffering from political astigmatism. There seems to be a great obsession to-day with Africa, but should we not beware lest, while we are growing ground-nuts in East Africa, we are oblivious of the fact that we are sowing ill-will and possibly insurrection in Asia? Should we not consider that possibly the future of Africa itself, the future of Western Europe and the future of our own country is being settled all this time in Malaya? One of the first things that Pandit Nehru said in a public speech when he got back to India was that he thought there was far too much concentration here on Western Europe. If you added Africa to that—if I may use the common phrase of to-day—I could not agree with him more. I believe that we may be losing not only Asia but the whole of our own position while we concentrate on a country which is not the immediate emergency. In any case, when all is said and done, if the Malays find later that we have sacrificed them, that we have sold their birthright for a mess of Chinese potage, what will be said of us? And how long could we stay in Malaya if we lost the confidence of the Malays? Not for long. But they are people who have always trusted us, and at present they still trust us.

I have said that what is needed is a clear lead as to what we mean to do; that a free hand should be given to the two men in charge; that we should concentrate, first of all, on crushing the Communist and stopping immigration; that we should give the right sort of education to the Malays; and last, and most important of all, we should create the confidence that there is a determined Government in that country. I do suggest that the Govern-

H.L. 40 D 26

ment have not, at the moment, the confidence of the country. That confidence has to be built up. The bulk of the Chinese are by nature loyal and law-abiding. They will respond as quickly as any other people to strong and purposeful government. If we wish to win the best of the Chinese, and if we wish to keep the loyalty of the Malays, we must provide that strong government which is so badly needed.

I naturally feel some personal emotion over that country because, as I say, I spent so long there. We who served in Malaya feel as Kipling felt about India:

"I have eaten your bread and salt,
I have drunk your water and wine;
The deaths ye died I have watched beside,
And the lives ye led were mine.
Was there aught that I did not share
In trouble or toil or ease—
One joy, or woe that I did not know?
Dear hearts across the seas."

Those of us who served in Malaya lost our hearts and left them in that country. We are, naturally, very anxious that the British Government should not leave its honour there.

4.56 p.m.

VISCOUNT MARCHWOOD: My Lords, the House has listened with the greatest interest to the noble Lord, Lord Milverton, for his personal knowledge of Malaya is a very deep one. I knew him there as Sir Arthur Richards, and he was known throughout Malaya as being a wise and far-seeing administrator. It is to be hoped that the debate to-day will convince the Government that any misplaced leniency can only prolong and aggravate the unfortunate situation in Malaya. In spite of many optimistic military assurances regarding the situation in Malaya, lawlessness, murder and banditry still persist. So far, these assurances have generally been followed by fresh atrocities. Quite lately, a party of police were quite needlessly butchered in an open lorry that had no protection for its passage through cuttings and gullies. During the past few days news has come through of two young planters being killed within twenty-four hours; and five more police were murdered yesterday. More reassuring than military pronouncements, both to the people of this country and to those we have failed to protect, would be a periodical statement by the head of the police—for this is essentially a police campaign.

We would like to hear that the force is now at full strength, for sensible people with local knowledge complained that the police should be considerably strengthened in number and power. If possible, European officers from Hong Kong, who are Chinese and are experienced in dealing with Chinese criminals, might be sent to Malaya, in exchange for officers from Palestine who have no knowledge of local races and languages. Certain activities have long existed in Malaya but they used to be controlled by the strict and just use of the laws for the repression of undesirable aliens. They were kept constantly under the close supervision by the police, and were not at all recommended for return to their own country when their activities were found to be anti-social.

The common opinion is that since the war the High Commissioner in Malaya has not had unrestricted authority to repatriate those guilty of political activities subversive of law and order. It is true that, a short time ago, out of a number of alien agitators whose names were submitted for repatriation, two were banished. Such unjust and misguided leniency must promote a more murderous terrorism of extreme violence, the result that Malaya has to go through the heaviest expenditure, both of money and of treasure. The Communist movement to overthrow the Government has been stamped out only provided the necessary measures are taken. The tide of lawless ebb and flow for some time past it is to be hoped that any occasion will not produce a false sense of security or lead those responsible to believe that the danger is past. The present situation is the product of conditions following Japanese occupation, when Chinese were driven into the jungle for their lives, and much of their food by desperate armed bands on the Malay peninsula.

To-day the number of the Communist population is estimated at about 5,000, and the population of Malaya is about 6,000,000. The movement of a Malayan Nationalist Movement and its terrorists are practically all Chinese. The movement has not been quite insignificant and has been suppressed but for the fact that the quarters of a country the size of Malaya is covered with dense forest conditions the gangster can

H.L. 40 D 27

at have not, at the moment, the confidence of the country. That confidence is to be built up. The bulk of the Chinese are by nature loyal and law-abiding. They will respond as quickly as other people to strong and purposeful government. If we wish to win the loyalty of the Chinese, and if we wish to win the loyalty of the Malays, we must provide that strong government which is badly needed.

It is naturally to be expected that people who have lived in that country because, as I say, I lived so long there. We who served in Malaya feel as Kipling felt about India:

I have eaten your bread and salt,
I have drunk your water and wine;
The deaths ye died I have watched beside,
And the lives ye led were mine.
Was there aught that I did not share
In trouble or toil or ease—
One joy, or woe that I did not know?
Dear hearts across the seas."

Those of us who served in Malaya lost our hearts and left them in that country. We are, naturally, very anxious that the British Government should not leave its heart there.

6 p.m.

DISCOUNT MARCHWOOD: My Lords, the House has listened with the greatest interest to the noble Lord, Lord Overton, for his personal knowledge of Malaya is a very deep one. I knew him as Sir Arthur Richards, and he was known throughout Malaya as being a wise and far-seeing administrator. It is to be hoped that the debate to-day will convince the Government that any misdeed leniency can only prolong and aggravate the unfortunate situation in Malaya. In spite of many optimistic and reassuring assurances regarding the situation in Malaya, lawlessness, murder and dishonesty still persist. So far, these assurances have generally been followed by fresh atrocities. Quite lately, a party of police were quite needlessly butchered in an open lorry that had no protection against its passage through cuttings and ditches. During the past few days news has come through of two young planters being killed within twenty-four hours; five more police were murdered yesterday. More reassuring than military announcements, both to the people of the country and to those we have failed to protect, would be a periodical statement by the head of the police—for this is essentially a police campaign.

We would like to hear that the police force is now at full strength, for responsible people with local knowledge have complained that the police should be considerably strengthened in numbers and in power. If possible, European police officers from Hong Kong, who know the Chinese and are experienced in dealing with Chinese criminals, might be drafted to Malaya, in exchange for officers sent from Palestine who have no knowledge of local races and languages. Communist activities have long existed in Malaya, but they used to be controlled by the firm and just use of the laws for the repatriation of undesirable aliens. They were kept constantly under the closest supervision by the police, and were immediately recommended for return to their own country when their activities were found to be anti-social.

The common opinion is that since the war the High Commissioner in Malaya has not had unrestricted authority to repatriate those guilty of political intrigue subversive of law and order. It is alleged that, a short time ago, out of one hundred alien agitators whose names the police submitted for repatriation, only two were banished. Such unjustified and misguided leniency must prolong the murderous terrorism of extremists, with the result that Malaya has to go on facing the heaviest expenditure, both of blood and of treasure. The Communist attempt to overthrow the Government will be stamped out only provided the strongest measures are taken. The tide will doubtless ebb and flow for some time yet, and it is to be hoped that any occasional lull will not produce a false sense of security or lead those responsible to think that the danger is past. The present situation is the product of conditions following the Japanese occupation, when Chinese fled into the jungle for their lives and got much of their food by descending in armed bands on the Malay villages.

To-day the number of the terrorists is estimated at about 5,000, out of a population of 6,000,000. It is not a Malayan Nationalist Movement, for the terrorists are practically all foreign Chinese. The movement would have been quite insignificant and quickly suppressed but for the fact that three-quarters of a country the size of England is covered with dense forest. In these conditions the gangster can pose as an

innocent vegetable gardener, eating his rice at a village shop, and the next moment can vanish under the trees and emerge a short distance away as an armed bandit. The number of innocent people whom these miscreants have killed is comparatively small, nearly all of them being their fellow countrymen, adherents of the Kuomintang, followers of Chiang Kai-shek. The terrorism cannot be called anti-British, for fewer than twenty-five European civilians have been killed, but it is, of course, the responsibility of the British protecting Power to quash it and to keep it from reviving.

The problem of keeping it under can be solved only if the reason for its present dimensions is fully appreciated. A review of all that has happened must lead any unbiased mind to the disquieting conclusion that, but for the mistaken and supine policy of the Government, the trouble might have been tackled far earlier. It is an open secret that when Malaya was full of troops, the military refused to arrest or repatriate Chinese, whom they regarded as brothers in arms, though all these "allies" had done was to sing the *Internationale* and raid defenceless Malay villages. When the late High Commissioner succeeded the military, he, too, refused to strengthen the hands of the police force by repatriating Chinese criminals and Communists as had always been done with undesirable criminals before the war. Even those sentenced to death for murder were reprieved.

The pro-British leader of the largest Malay political Party reported to us that he had been approached by Chinese Communist leaders and asked if the Malays would join a movement to drive out the British. No heed was paid to this warning. The unofficials, the planters and miners, made no secret of their fears but their warnings, too, commanded no attention. The British Government seemed concerned only with untried ideologies and political experiments. There was to be a new Malaya, a democratic Malaya, founded on a usurpation of the rights of the Malays, the one race that had always been loyal to us, the race that to-day is providing 98 per cent. of the local forces for the suppression of Chinese terrorism. The Malayan Union, fortunately, was aborted, but even since the rights of the Malays have been

[Viscount Marchwood.]
admitted and the Union exchanged for a Federation, over-centralisation favours the gangster. Formerly, a State like Johore could repatriate an undesirable or criminal alien in a few days, but now reference to Kuala Lumpur has been delaying repatriation six or seven weeks.

The action of the British Government in introducing trade unions so hurriedly after the war was, in the opinion of all acquainted with Malaya, a great error. The Chinese have had their own trade unions for many centuries, but those unions were closely watched by the police. Then came the British trade union. This was exactly what the Chinese Communists wanted—societies approved by the British and recommended by the Government. They quickly augmented separate trade unions by State unions, and State unions by a Federal union: a perfect channel for the diffusion of Communist propaganda and Communist orders. Late, as in so many of their moves, the British Government were compelled to abolish both these State and Federal unions, but it is impossible to overrate the harm done.

The scathing indictment by a recent High Commissioner in a letter to *The Times* on November 1, points out that the prime cause of the trouble, from first to last, was the refusal of Whitehall to face facts and to trust the men on the spot. Banishment was approved only in respect of criminals, but not for political or criminal activities, and powers wielded by successive High Commissioners without reproach for many years were, in a time of special stress and danger, denied to Sir Edward Gent. In view of the letter to *The Times*, if the present terrorism is to be suppressed the Secretary of State should give an assurance that the High Commissioner of the Federation and the Governor of Singapore will both be granted full freedom of action in all matters affecting the suppression of anti-social activities, as was the case formerly.

Considerable resentment was felt that young, semi-trained soldiers, with no experience of tropical conditions, should have been sent out to cope with the situation. The British soldier should be used to protect towns and villages, leaving the Malay Regiment and the Malay Police to ferret terrorists out of the jungle. Only the Malays can move

H.L. 40 D 28

unobserved among the Asiatic population; only the Malays can speak the local language and detect anything suspicious in Chinese movements. Far firmer measures are needed to stir the respectable Chinese out of their fear and apathy and compel them to come forward with the information many of them possess. It has been a very ancient custom for the Chinese tradesman to pay money to criminal societies so that he will not be molested. There is little doubt that to-day thousands of respectable Chinese are aiding terrorists by this selfish, unsocial conduct. The practice must be stopped if terrorism is to stop, and the record of the police shows that it can be stopped if the Government are resolute.

Dato Onn Bin Ja'afar, the Prime Minister of Johore, is now in this country. It is heartening to hear that the Secretary of State has taken counsel with him on the present state of affairs. Undoubtedly, Dato Onn is the most influential Malay in Peninsula politics, and he is wholeheartedly pro-British. No one has a greater knowledge than he of the dangerous position now existing in Malaya. I know that he considers that at present the centralised Government are out of touch with the individual problems of States that have been separate and distinct for centuries. In a recent broadcast, the Commissioner-General reiterated the policy of self-government for Malaya. Let there be self-government, by all means, as soon as Malaya's races are ready for it; but if ever the British withdraw from Malaya, then war will inevitably start between Chinese and Malays, and the country will run with blood from the China Sea to the Malacca Straits. I will close my remarks with the hope that the selection of Sir Henry Gurney as High Commissioner will prove a wise and popular appointment. His outstanding record of distinguished and courageous service in the past points him out as eminently suited for his present difficult task. A great many years of my life have been spent in Malaya. I love the country. I love the people. I hope that he will succeed in securing peace and prosperity for both.

5.12 p.m.

THE LORD BISHOP OF TRURO: My Lords, I am venturing to say a few words in this debate, for this reason: Cornwall has very close associations with Malaya.

More than 20 per cent. of the world's tin is produced from the Malayan gravels, and wherever in the world you find tin you are likely to find Cornishmen. We have sent out some first-class men from Cornwall, born and brought up in that county, and also men from other parts of England who have been trained at our School of Mines at Camborne. We know them and we keep in touch with them. We feel that we can rely on what they tell us. I have been recently comparing what they have said in their letters with the public utterances of Government officials. One of the best of these young Cornishmen was captured by the Japanese in the late war. After suffering a terrible ordeal of imprisonment, through which he behaved magnificently, he returned to his work on a rubber plantation in Malaya. He was murdered on July 9 last. A letter came home afterwards which he must have posted that very day.

"Don't worry,"

he wrote,

"we have seen this trouble coming two years, but the Government would not take strong measures."

And when to testimonies of this kind we add the weighty letter of Sir Shenton Thomas, published in *The Times* of November 1, and the considerations brought forward this afternoon by the noble Lord, Lord Mancroft, and others, we cannot but feel disturbed by the complacency with which His Majesty's Government seem to regard their past achievements in Malaya. We still feel anxious about the future, in spite of the recent assurances, clear and vigorous as they certainly are, of Mr. Malcolm MacDonald, and the additional assurances given us this afternoon by the noble Earl, Lord Listowel, in his very informative speech.

In his broadcast from Singapore, as reported in the *Malay Mail* of October 7, Mr. MacDonald included a most well-deserved tribute to the courage and steadfastness of the European managers of mines and plantations. I am glad that this afternoon this House has joined in paying that tribute. I should like to add here a grateful tribute also to the remarkable achievements of the Ferret Forces commanded by Colonel Hannah and other officers. The letters which come back to Cornwall speak with the utmost appreciation of the skill and

H.L. 40 D 29

daring of these men and their commanders, who are thoroughly jungle-trained. No doubt these highly mobile and efficient bodies will be encouraged and developed. Full use will also be made, we hope, of the excellent local police, who have long experience of jungle conditions. They should be invaluable in co-operation with the Palestine Police who are now operating in the country. Resolute as the Palestine Police are and highly trained by hard experience, they are by no means as yet used to the strange guerrilla warfare of the jungle.

That brings me to the very head of my anxiety. Mr. Malcolm MacDonald promises vigorous action. I am sure that we can depend on vigorous action. But will sufficient attention be paid to the advice of experienced and reliable people on the spot? It is clear that in the past the Colonial Office have not paid sufficient attention to the advice of people on the spot, who have, of course, local responsibility and real local knowledge. Take, for example, Government action in connection with Malaya's trade unionism—so different in its origin from English trade unionism. The Government appear to be very satisfied with the results of their action, but such satisfaction surely needs qualification. Was not the Government action, in some respects, at all events, premature and not appropriate to local conditions? Let me read the following letter dated just over a year ago—October 4, 1947—and written by that gallant young Cornishman:

"Life goes on here so and so,"

he writes.

"Labour seems to be jumping to conclusions very quickly; all sorts of officials were sent out from home to teach the locals trade union rules, and all they have done is to whip up trouble everywhere."

Those are the words of an honest and public-spirited man on the spot. That was his impression, and it could not but be a discouragement to him in his arduous and dangerous duties.

The latest letter that I have seen from Malaya came from a man in a responsible position in one of the mining areas. It is dated October 24 of this year. He says:

"The situation shows no sign of improvement, and men of all races continue to be killed. . . . It seems curious that this sort of frontier warfare should have already

[The Lord Bishop of Truro.]

become the normal, scarcely-regarded way we live. In this particular place, it is not having a good effect on the men or their families."

No doubt the situation will rapidly improve now that the Government are taking energetic action, and it will improve all the more rapidly if due attention is given to the opinion and advice of the responsible, experienced, reliable men who have had practical experience on the spot. We have listened with the deepest attention to the noble Lord, Lord Milverton, in his most impressive speech this afternoon. That, if I may say so, is the kind of advice to which we hope the Government will listen. When the country is quiet and safe again, we must, I suppose, expect the cold war of the infiltration of fanatical agitators to continue; and then, and now, and always, we look to the Government to be not doctrinaire but realistic and practical, and to give the accumulated wisdom of honourable and discerning men, long experienced in Malayan affairs, the weight it deserves.

5.21 p.m.

VISCOUNT ELIBANK: My Lords, I think we are much indebted to Lord Mancroft for having initiated this debate this afternoon, and we also are much indebted, if I may say so in his presence, for his brilliant exposition of conditions in Malaya to-day, after a visit which he has so recently paid there, and for the views he expressed and the recommendations he made. If I may refer to another speech made this afternoon—namely, the speech by Lord Milverton, who as Sir Arthur Richards saw many years of his official life in Malaya—I think it was one of the most instructive and informative speeches that anyone could have made in this country, and I hope sincerely that although he is a supporter of His Majesty's Government—or because he is a supporter of His Majesty's Government—they will pay very close attention to it. I do not wish to delay the House too long as it is getting late, and so I will not make all the remarks which I had intended to make on the subject of the origin of the position in Malaya to-day.

I must express surprise, however, at one thing. As I listened to the noble Earl, Lord Listowel, describing the reasons for the conditions which exist, he seemed to cast—in fact he did cast—a very thick veil over all the actions of the

present Government in Malaya since they came into power. I am not going to recount all that again because to some extent, my noble friend Lord Mancroft covered it. But I am surprised—and I wish to emphasise this point—that at the moment when, as the Government knew, there was unrest in Malaya (they knew that the Communists had already started their games) they chose to approach the Sultans and to induce them, without any chance of consulting their people, to agree to a new Constitution of an entirely different character from anything that anyone could ever have conceived would be applicable to Malaya at that time.

I was also amazed to hear that although the Government knew the Communists were then in Malaya (they have since been augmented from China), although the Government knew they possessed arms, and that those arms were hidden in the country, they merely gave an order. And, ingenuously, with all respect, the noble Earl said that the order was not obeyed, so the arms were still there. I have some experience of administration in our Colonies, and I can conceive of nothing of that character happening, certainly under the old régime. I suppose that this is the new régime, under which you give an order and, if it is not obeyed, you do nothing. I believe that the Government were very culpable. Whether it was the Malayan Government or this Government, or both, does not matter; a Government, or both Governments, were very culpable at not having taken proper measures then to seize those arms. By such action they could have minimised very greatly the tragic situation in which the country finds itself to-day. There was already a bad feeling between the Chinese and the Malays in the country, due to certain happenings during the war; but as a result of that situation the feeling of bitterness became worse, and immediately there were massacres and murders between the two races. As time went on, the Communists became more active; feeling between the two races grew progressively worse. The consequence to-day is that the Chinese and the Malays are not in accord with each other, and they are in a position to hinder the Malay Government in all the actions they may wish to take to improve the conditions and the prosperity of Malaya.

My Lords, we have to face up to that position. What are we going to do about it? The noble Earl suggests that a time may come when the Federation of Malaya may have added to it the Colony of Singapore—when the whole country will be federated. I believe that will only add to the difficulties. The Chinese in Singapore are in a very large majority, and if you add that number of Chinese from Singapore to the General Federal Council of the country, you are only going to add to the feelings of the Malays that they are outbitten by the Chinese. The noble Earl spoke about giving votes, and so on. In this country we understand votes. In Malaya they do not understand votes. They do not understand the free democratic Constitution which the Government are trying to impose upon them overnight. All they understand is that, if this were to happen, the Chinese politically would be in a far superior position to the Malays, who own the country.

I want to suggest to the Government that they take no action to hand over Singapore, and to ally Singapore with the Malay States, until they have made a proper investigation of the whole subject. I think there are a number of matters there which require reinvestigating. Mr. Malcolm MacDonald did a splendid job of work when he went out there and managed to pull the chestnuts out of the fire. He went out, fortunately, with a fairly free hand and he re-created the Constitution. But we could not ask him to do it again. We cannot ask him to inquire into those matters. He has been in this atmosphere of Communism, of suppression of Communism and all that sort of thing; and I venture to suggest that the Government, as soon as they can, ought to send out a Commissioner, or a Royal Commissioner, or a Royal Commission, to inquire independently into the best manner of reorganising, if necessary, or to such an extent as is necessary, the whole constitutional position in Malaya and in Singapore.

My Lords, there is only one other matter on that point to which I wish to refer, and that is the question of deportation. I was amazed again to hear that deportation has not been exercised from the beginning. It must be carried out ruthlessly and determinedly. That is the only way in which these conditions can be met. That course has been used

times out of number for years past in every place where these organisations have appeared and where difficulties of the nature which are now occurring in Malay have been encountered. So far as the Communists are concerned, I think violence must be met with violence and murder punished with death. You must be absolutely ruthless in exterminating this external criminal element from the country.

There are just two or three smaller points with which I wish to deal before I sit down. I want to refer to the question of compensation for war damage. I do not propose to beat about the bush with regard to this matter, but to say, briefly, that there is a very strong feeling indeed in Malaya upon it. The people there consider that they have received a very raw deal from the British Government. They cannot forget the unsatisfactory way in which His Majesty's Government carried out its protective responsibilities to Malaya during the war. In saying that, I am not, of course, aiming a charge at the present Government. All I say is that, generally speaking, that is the feeling in Malaya. The people feel also that the political affairs of their country since the Japanese defeat and ejection have been handled by the British Government in a very unsatisfactory way.

I want to bring this matter down to plain figures, and I do not wish to take up too much of your Lordships' time in dealing with it. The total claim for compensation for loss in the tin mines and the rubber plantations is £170,000,000. This figure, which I can assure your Lordships was not excessive in view of all the damage done, has, by the British Government's decision, been levelled down to £55,000,000, or 32 per cent. of the total sum claimed. How is it proposed to meet this compensation, levelled down by *force majeure* to £55,000,000? Let me tell your Lordships that £10,000,000 of it is to be provided by reparations from the Japanese, who caused all the damage, £10,000,000 by His Majesty's Government, who failed to prevent the damage and, in addition, ordered a "scorched earth" policy, and, finally, £35,000,000 by Malaya, who suffered all the damage. That is £55,000,000 in all. If this were not so monstrously unfair to Malaya, it would be almost laughable to think that any

[Viscount Elibank.]
Government could put forward such proposals in all seriousness—and yet His Majesty's Government have done so without, apparently, appreciating what a travesty of justice and reason it represents.

So I am going to make the following proposals, shortly, in order not to prolong my speech. The first is, that the total amount awarded—£55,000,000—is too small, and should be considerably increased. Secondly, the amount payable by Malaya should be considerably scaled down. Thirdly, the amount of Japanese reparations should be largely increased—the Japanese behaved brutally, cruelly and barbarously the whole time they occupied Malaya, extracting much tin from the tin mines and rubber from the plantations, and they should be made to pay for it. Fourthly, the proportion payable by His Majesty's Government should be considerably increased, because they, through lack of foresight, were responsible for the unpreparedness of the defences at Singapore and in Malaya. That, may I say, applies to Governments of all kinds and not merely to the Labour Government, though they in 1929 did nothing to increase the Singapore defences.

There is another point which I would like to make in that connection. The price of rubber and tin in Malaya since the war have been forcibly kept down below world market prices, and consequently, so much more has been lost to the country. But I do not propose to pursue that subject any further, but just to ask His Majesty's Government if they will take that point into serious consideration, with a view to reviewing the position and bringing it more within the realms of fairness and reason. The question of insurance is one that is giving considerable concern in Malaya. So far, I am glad to say, the insurance companies and the underwriters appear likely to take a responsible view in regard to the claims which have arisen and which may still arise under existing policies. I do not wish to emphasise this issue to-day, except to say that this is, obviously, a matter with which the Government must keep in close touch in case the situation becomes worse. For, in the absence of insurance protection, commercial operations become difficult, if not impossible, thus leading to further unrest and uncertainty and playing into the hands of the Communists.

H.L. 40 D 32

I have one final point. I want to ask the Government whether the rumour is true that a considerable tonnage of the Malayan rubber crop has been sold to Russia, and that it is at present being loaded up at Singapore and being transported there. I am told that the quantity is as much as 20,000 tons. I ask His Majesty's Government if that is true. If it is true, I wish to express the opinion that it is surely unwise at this time, when our relationship with Russia is, to say the least, strained, that we should be selling to her an article which is an essential war potential. This is the sort of thing which was done before the last war, when Hitler was contemplating aggression and filling his warehouses. I venture to suggest that this action should not be repeated now. I gave notice to the noble Earl that I was going to ask that question, so perhaps he will be able to give the House a reply. I conclude by associating myself with those noble Lords who have given praise to the planters and miners and their womenfolk for the way in which they have continued to carry on their duties in these most difficult and troublesome times. They have shown the true British spirit. They have kept the old flag flying, and no doubt they will continue to do so, in spite of everything.

5.41 p.m.

LORD MOUNTEVANS: My Lords, I am one of those who welcome the discussion we have had this afternoon on Malaya and the troubles that beset the Governor-General, the Administration, and the authorities in Malaya. If the situation is firmly and properly handled, we may yet be in time to overwhelm the subtle and powerful Communist-inspired large-scale rebellion which is threatening the Malayan Federation and Singapore. As a cruiser captain on the China station, I saw the advance of Communism in China, where the shortage of food and the shortage of housing were exploited, just as they are being exploited by Communists in Malaya to-day. I questioned myself then as to how Communism could be cured and prevented from spreading. The answer was, by improving living conditions, by good leadership—or example, if you like—and by education, in which in the Far East one must include hygiene. We had a medium-sized Navy on the China station then and the Commander-in-Chief, his officers and petty officers

inculcated into the Navy and the Marines that their behaviour in China made them the ambassadors for the country we were all so proud to serve. The Navy did their utmost to support the Commander-in-Chief, but in a country of more than 500,000,000 inhabitants our efforts could almost be likened to throwing a handful of sand into the fringe of the Gobi Desert.

What we realised, in this rapidly changing world, was that there was a good deal of short-sightedness in the Colonial Administration in that area. China and the Far East are countries for Europeans, provided that they are young men; but at the time I was in China young men were not encouraged. With the exception of a few well-established firms, where amenities were on a high plane, young men were so discouraged that they were almost suppressed. Just before the Second War, as I have stated in your Lordships' House before, the Royal Naval Volunteer Reserve Auxiliary Patrol were prevented from coming into existence by the highest civil authority in Singapore. The result was that we lost a great deal of face, to use the expression out there. And this minimum of foresight and maximum of pomp lost us so much face that it was only by the best efforts in co-operation between the three Armed Services and the Allies that we were able to bring to an end the unfortunate loss of Singapore and Malaya.

In September, 1945, when Malaya was reoccupied by British Forces, there was a hiatus, an unavoidable gap before government could be established, and during this period all the post-war chaos was being cleared up. This included the military clearing up, the re-establishment of communications, plantations, industries and business. Nearly all of this reconstruction was badly hampered by language questions and race problems. Shortage of transports, of ships and barges, of rice and other native food stuffs, and a deplorable shortage of houses following the Japanese invasion, made the native population, both in Malaya and Singapore, fruitful soil for Communist propaganda on three different fronts. Communism-inspired control delayed the turn-round of ships. There were, inevitably, delays in demobilisation. There were discontent, disillusionment, post-war weariness and slackness, largely due

H.L. 40 E 1

to climatic conditions, and particularly to those torrential rains. Lack of medical supplies, pests like the mosquito, typhus ticks, sand flies, and the dreadful leeches, and countless other handicaps, added to the problems that Malaya had to face while putting her house in order.

Those noble Lords who read *The Times* as well as the *Daily Herald* must have found a good deal of satisfaction in the Report, quoted this afternoon, of the Mission sent out by the Secretary of State for the Colonies to examine the trade union situation and the labour movement in Singapore and the Malayan Federation. Besides mentioning the shortages and lack of houses, the Report adds to the causes of the troubles the lack of amenities, high prices, low wages, and the ferment of new political ideas. If your Lordships will first read this Report and then turn to the address of Colonel Spencer Chapman to the Royal Geographical Society late in 1946, you will have a vivid insight into the almost hopeless situation with which Mr. Creech Jones, the Colonial Secretary, and the Malayan Government have been faced in the post-war period.

There has been a good deal of destructive criticism this afternoon and a certain amount of constructive suggestion, especially from the noble Lord, Lord Milverton. My view is that we must turn our attention towards obtaining the best type of administrators, police and civil servants of all grades. We should ask your Lordships, from your great store of knowledge, for helpful remarks as to the nature, size and quality of the three arms of the service employed, and to be employed, in Malaya. I do not think it has been pointed out this afternoon that Sir Stafford Raffles (the irresistible Raffles) early in the last century set himself, with indefatigable zeal, to improve the conditions of the natives of Malaya. That is, indeed, what the British and Malayan Governments are endeavouring to do to-day. The present disturbances are almost entirely caused by foreign-born Chinese thugs, bent on large-scale sabotage of law and order, and intent on wrecking the economic recovery of Malaya. Whilst mentioning the forces now employed, your Lordships must have been very glad to see that Colonel R. N. Broome, a fluent Chinese speaker of the Malayan Civil Service, is

[Lord Mountevans.]
now commanding the ferret force which a few days ago discovered the rebel training camp. It is to men like Colonel Broome and Colonel Spencer Chapman that we may look to crush Communist terrorism.

5.52 p.m.

THE EARL OF SCARBROUGH: My Lords, it is hardly surprising that this debate on Malaya, introduced by my noble friend Lord Mancroft, has raised a good deal of interest in your Lordships' House. Those countries in South-East Asia under the general co-ordination (I think the proper word is) of the Commissioner-General, are now the only large territories in Asia for which Great Britain retains direct responsibility. The interest of Parliament will, therefore, be concentrated upon them perhaps to a greater degree than has usually been the case with Colonial territories. I am sure the general wish will be that the resources of Great Britain—resources of every kind: of personnel, culture perhaps, material and financial—shall be called in aid in full measure, so that the peoples of those territories may have the chance of possessing the value of the British connection at its best. His Majesty's Government will be mistaken if they rate lightly the interest which is likely to be taken in the future of the people who live in those territories.

The speeches which have been made so far in this debate have been concerned, as is natural, with the present situation in the Malay Peninsular, caused, as I think we all agree, by the outbreak of banditry, instigated, and I have no doubt nourished, by Communist forces. I have no wish to repeat a great deal of what already has been said, but I would like to press upon the Government three points. I feel it is important that His Majesty's Government should make very clear that they are determined to eradicate this bandit menace, whatever exertions may be needed to do it. I was, therefore, very glad to notice the emphasis placed upon that by the noble Earl who spoke for the Government. I think he said: "We shall go on to the liquidation of the last gang." That is certainly a form of liquidation to be preferred to the brand advocated by some leading members of the Government. I do not doubt that in a situation of this kind the first essential is to make

H.L. 40 E 2

it absolutely clear that you are going to see the trouble through; to create, so to speak, the impression that the Government, with their immense resources, are bound to be on the winning side.

In addition, I would say that the Government ought to be prepared for prolonged operations against these bandits. A country which is three-quarters jungle or mountain must be exceedingly difficult to free from a pest of this kind. I hope, therefore, that the Government, who perhaps started late to deal with this trouble, will not be tempted to give up too soon. I hope, too, that the Government will pay attention to what Lord Milverton has urged upon them—namely, the necessity of giving a free hand to those in charge on the spot.

The second point I wish to press upon the Government concerns the police. If the Government were taken by surprise by the effectiveness of the bandits, it was perhaps due—I do not know—to inadequate information about their preparations. It would seem, therefore, that the police were not adequately equipped to collect and furnish the authorities with information. I certainly would not seek to attribute blame in this matter in any quarter. It is only three years since the country was liberated from Japanese occupation, and that is too short a time in which to rebuild the police force to full efficiency. However, I would urge the Government to make quite sure that the resources allotted to the police are sufficient to maintain a service of information which will be effective in this difficult country. It is essential for the Government to know what is going on there.

The third point I wish to press on the attention of the Government concerns the food supply. The noble Earl's remarks on this matter were, to some extent, reassuring, but I would like to ask him whether he feels entirely satisfied that he will be able to keep Malaya well supplied with food. I should imagine that conditions in Burma make it unlikely that Malaya will draw pre-war supplies of rice from that country. I would like to feel sure that that void will be filled satisfactorily. I need not point out to the noble Earl the importance of this matter. Communists thrive on a population which fears hunger, and

I have little doubt that one of the tactical objectives of all the Communist-inspired troubles in South-East Asia is the disruption of the food supply. The present troubles are naturally our first preoccupation in regard to Malaya, but they should not prevent us from considering future policy. As I see it, we are in a position to concentrate our many resources, and our now considerable experience, on future developments in those territories; in fact, they present us with a considerable opportunity, and we ought to be clear what is to be done with that opportunity.

The noble Earl who spoke for the Government gave us a brief outline of the policy which the Government have in mind. I would like to make some comments on what he said, and in making them I am not unaware of the difference between making speeches in the academic serenity of your Lordships' House, and the difficult, anxious, sweating toil which a decision of Parliament, or even an ill-judged remark, may impose upon those who bear the burden of Government in these territories. I think the noble Earl said that the general line of policy was to improve material standards and to make a gradual advance towards self-government. Certainly I do not quarrel with those objectives. I was particularly glad to notice that he placed repeated emphasis on the necessity for going slow over constitutional advance. I noticed that he did that more than once, and I welcome it very much. But it seems to me that there is a principle of policy in this matter which should be brought into the foreground. The interests and the welfare of the people of these lands should be the first consideration of all, and should take precedence, if necessary, even over the advance towards self-government. That principle should be the factor which should regulate the pace of that advance. The chaos that was Burma, the slaughter and disruption of life for millions of people which occurred last year on the border lands of India and Pakistan, warn us that self-government, if ill applied or too hastily applied, can be a cruel boon to humble folk.

Self-government is not the only thing, although we should be foolish not to recognise that it is often the thing most desired. But it is not the only thing which a State needs in this modern world.

H.L. 40 F 1

It requires also the building up of institutions which will stand when the framework of the builders is removed. May I briefly list some of the things which seem to me still to need building up in Malaya? There is local government—not necessarily, I would say, of the pattern familiar to us in this country, but rooted in Malayan custom and tradition. There is development of the primary industries, with the particular objective of increasing the food supply. There is education, although I confess to sharing what I thought were the doubts of the noble Lord, Lord Milverton, about compulsory primary education in the English language. I should feel rather doubtful whether that was going to be a great social advance. There is public health. There is a system of law and order, still to be formally established; a general respect for justice in its impartial administration; and also, and certainly not least, there is defence against any aggressor. All those things still need to be built up in Malaya. They will call for a degree of understanding of Malayan conditions, culture and tradition, and a degree of training of British officials which I hope (and hope with confidence) will not be stinted by the Colonial Office. Those are the tasks which confront the authorities in Malaya, and which are demanded in the interests of the people of that land.

It would be a betrayal of those interests to thrust upon the people a form of self-government before they have a chance of carrying the burden, merely to avoid facing up to an agitation. Let us be realistic about this matter. A course of that kind may possibly—I would think probably—mean standing firmly against demands for too hasty constitutional advance. Such demands, I hope, in the rather peculiar conditions of Malaya, will not be able to whip up doubts about the genuineness of our ultimate intentions. With the wise, patient, and sympathetic handling which can be expected of the present Commissioner-General, I hope that both major communities in that land may be persuaded to act as partners with the authorities in working on these immediate building tasks, feeling well assured that their ultimate goal is not in doubt. My remarks may seem to many of your Lordships to be of an elementary kind, but our recent experience in Asia, the opportunity before us in

[The Earl of Scarbrough.]
Malaya and, I fear I must add, the doubts raised by Ministerial utterances in the last few weeks, seem to call for an examination of the simple elements of our policy in Malaya. I sincerely hope that His Majesty's Government will show by their actions that they do not intend, either by negligence or through some reckless passion for the liquidation of the British Empire, to throw this land to wolves, but, on the contrary, that they will spare no effort and spend some of our still large resources to make British connection with this part of Asia a credit to our name and a thing of value to its inhabitants.

6.6 p.m.

LORD HARLECH: My Lords, I think this debate is more than justified by the quality of many of the speeches we have heard and, in particular, if I may say so, by the most remarkable speech of the noble Lord, Lord Milverton. I sincerely hope that not merely the actual words of his speech but the spirit underlying it, and his very notable experience and reputation throughout the British Colonial Service, will be borne in mind in future. Many noble Lords have spoken about the campaign against armed terrorism. Frankly, I am still worried about Constitution-mongering in Malaya. I think one of the greatest shocks I ever had was when I read the Report of the McMichael Commission, which was sent out by Colonel Oliver Stanley. I think that was one of the most deplorable things in the whole record of the Colonial Office, that attempt to browbeat, at the point of a pistol, as it were, the various Malay States into accepting a Constitution concocted in Whitehall, and saying that we would not recognise them unless they signed within so many hours. That was not the way to treat the people who have been consistently loyal to us, especially since the treaty rights given to us by the Malay Sultans were the sole legal basis for our presence in Malaya.

I would not like to see any step taken by the Colonial Office to hasten constitutional development in Malaya, and particularly federation between the Malay States—now called the Malayan Federation—and Singapore, unless it is perfectly clear that the Malayan people as a whole are quite happy about it. That is the

H.L. 40 F 2

vital thing. After all, the race, religion, habits of life, interests in life and occupations of the Malay people and the Chinese are absolutely different. They both have their merits. The Chinese are wonderful craftsmen; wonderful workers in the factories. Seeing them cutting trees in a forest, one cannot but admire their vigour and their stamina. But the Malays are a peasant people. They understand their land, they love their land and it is their country.

The next question I want to ask is: What steps are His Majesty's Government taking to limit further the immigration into Malaya? I would rather see economic development slowed down than have further immigration to hasten economic production, if that would mean still further exercising the Malayan feeling that they are to be swamped and then, on the basis of one man, one vote, handed over to people who have only recently come into Malaya. And let us watch what is happening in China. Quite frankly, I rather agree with the noble Lord, Lord Lindsay of Birker, who speaks to us in this House about the Chinese Communist. I believe that Chinese Communism is a little different from Russian Communism. But still it is a Chinese form of Communism; and it is clear from recent events that the area of China under Communist control, as compared with that under Chiang Kai-Shek's control, is growing. The Civil War, from what the Generalissimo said, is likely to go on for five years. In that event, inevitably, the refugees will spill over; and unless the situation is very carefully watched there will be further inroads of refugees and, possibly, of further agents of the Communists who want to oust Chiang Kai-Shek in Malaya, where they will get recruits to help. They look forward, as many Chinese do, to the incorporation of the Malayan Peninsula into the Chinese Republic: that is the avowed aim of many of them.

While, therefore, I want to see constitutional development, I feel that it is not an easy business. Anybody who has flown over Singapore, or up and down the coast, will realise that. I flew from Singapore in a small aircraft, down the coast and over Sumatra and Java; and the number of sailing craft—Chinese junks, and every kind of craft—putting in everywhere was astonishing. There is, of

course, no such port there as Southampton or Dover or the Port of London, where immigrants can be checked. And that brings me to the further point, which is equally vital, that there are "too many cooks" in our Administration in Malaya. I hope the Government will come to a decision now to have one supreme authority in the Malayan region. I am sure all of us in this House would be delighted if the person appointed were Mr. Malcolm MacDonald. Nobody could be better. He has vast experience; people of all Parties like and admire him; and wherever he has work to do he does a fine job.

When I visited Malaya twenty years ago the whole area, including the Straits Settlements, Borneo, Labuan, Christmas Island, and the whole of Malaya, was under one final authority. He was also Commander-in-Chief and, if he found it necessary to do so, to deal with a situation, he had power to call up the Navy, Army and Air Force. I hope that that position will be restored, and that there will not be in future the perpetual referring back to Whitehall through different channels of communication, or the continual demarcations and regimentations and all the rest of it. That is not the right procedure for getting a policy decided, for right action or for good administration.

The other point I wish to make concerns food. When I went to Malaya I also visited Ceylon and the Dutch East Indies, and I found a remarkable contrast between them. In Malaya, and particularly in the Malay States and in Singapore itself, I found absolutely first-class hospitals, first-class anti-malaria work—in fact a really good medical department; as good as the one in Ceylon was bad. Then I found in Ceylon and in the Dutch Java, some of the finest agricultural stations and some of the finest education, propaganda, and organisation that I have seen anywhere in the world—and I have visited most of the British Empire. In Malaya, the agricultural department whose headquarters in the Federated Malay States I visited was absolutely deplorable. Yet the country was rich in tin—it was the largest supplier in the world of tin—and in rubber, of which it was also the largest supplier. But those are not agricultural commodities. The British agents, in contrast

H.L. 40 F 3

to the Dutch and American agents, were all for clean weeding—which meant erosion. They had not begun to understand the scientific basis of tropical agriculture. The agricultural position was absolutely deplorable, and I am glad to say that very soon afterwards they changed the system. I was shocked by what I saw on that occasion, twenty years ago, by way of contrast between the British rubber industry, and the rubber industry of other nations.

I was shocked, also, by our agricultural department there. Food was a problem and great efforts were made before the war, before Singapore fell, to get back to more food production, about which nobody out there cared. The next five, ten or fifteen years is going to be a vital time for food production everywhere. I am convinced that Sir John Boyd Orr is absolutely right; and nowhere is that problem of food production going to be more serious than in Asia—in India, in China, and even in the Dutch East Indies, which used to export such quantities of food and where everything depends on high standards of scientific research. I am convinced that one of the first duties of the British Administration in Malaya is to go in for further intensive and extensive production of food—of rice and other cereals, or any food the people can eat. It is no use our spending millions on a ground-nuts scheme so that we can have more margarine here, if we do not develop agriculture in these other places which are not producing enough of the necessities of life in the way of cereals and basic foods. Elsewhere we find everything sacrificed to cocoa and imported flour from America. More countries could become self-supporting. Our policy during the years ahead has got to be far more constructive; otherwise we shall not be doing our duty as trustees for these people for whom we are responsible.

I hope we shall see how this confederation works, but, frankly, at this stage I regret the Malayan Federation. When I was there, these four Federated Malay States were demanding decentralisation, demanding each to go back to its own local government powers and not having so much "carcosa" as they had—and that was my view. I hope this attempt at centralisation will not mean forcing on them artificially our form of Constitution. We think it is the best.

[Lord Harlech.]

It probably is the best, but let them and not us be the judge of when the time is ripe for them to have a House of Commons on a universal popular franchise, and with Government responsibility of that kind to the electors. The Malay people are sensible people, and I believe that they, rather than we by forcing them to act, should be the judge of when the time is ripe.

6.21 p.m.

THE EARL OF LISTOWEL: My Lords, I regret having to ask the House to allow me to speak for a second time this afternoon. I can assure your Lordships that what I shall say will be brief. I shall not attempt to answer all the points that have been made. I should like to thank noble Lords for their tributes to the work of the Commissioner-General. When I was out there, I remember distinctly the impression that he had won the confidence and liking of the leaders of all the different communities in Malaya. That, in itself, was a remarkable achievement. I entirely agree that he has done a grand job, and he deserves well of this country.

I should like now to pass on to some points that were made by the noble Viscount, Lord Elibank, who was good enough to give me notice of the points he intended to raise, and whose remarks will therefore receive rather a disproportionate amount of attention in comparison with those of other noble Lords. I hope that your Lordships will understand the reason. I think it is a little unfair to put quite the load of blame that has been put upon this Government for the policy of a Union of Malaya. This was a policy which I think everyone agrees was conceived and had been adopted and authorised by Colonel Stanley when he was Secretary of State for the Colonies. It was inherited by the present Government, and it has proved to be what I think the lawyers call a *damnosa hereditas*.

The noble Viscount asked me to say something about rubber, and he criticised the Government for allowing the sale of Malayan rubber to Russia. There are one or two things I ought to point out in that regard. The first is that those sales were made by commercial firms upon a business basis mainly on forward contracts. As there is no longer any Government control over

H.L. 40 F 4

the sale or export of rubber from Malaya, this freedom from Government control, only recently obtained, is highly prized by the rubber interests in Malaya. We are not at all anxious to restore to them what has been a most irksome restriction. My second point is that this purchase on the part of Russia is not by any means disadvantageous to the United Kingdom, because the Russians have paid partly, but not wholly, in dollars. It has turned out to be one of the additional dollar resources of Malaya. It is sometimes not realised what an extremely small proportion of the total amount of rubber exported from Malaya is going to Russia. The figure for this year is only 18 per cent. of the total rubber exports during the year, which shows what a very minute quantity is going in that direction.

The noble Viscount also asked me whether we would consider sending out a Royal Commission to study the constitutional position in Malaya. I think that my reply to that has already been made: that we do not feel, and I am sure that the House would agree—

VISCOUNT ELIBANK: If the noble Earl had listened to what I said, he would have understood that my suggestion was a result of his stating that Singapore was to be federated or annexed, or whatever you like to call it, to the Malay States. I said I was of opinion that before anything of that sort was done, a Royal Commission should be sent out to Malaya to examine and investigate the whole question, as I did not believe that Mr. Malcolm MacDonald, however popular he is, should be asked to revise the Constitution which he himself had arranged for the Government. That is my case.

THE EARL OF LISTOWEL: I think that the noble Viscount will agree that if a further step is in suspense, then anything leading to it should be taken as in suspense.

VISCOUNT SWINTON: I hope that the noble Earl will not take it that anyone on this side of the House, with the exception of the noble Viscount, Lord Elibank, has any desire whatsoever to see a Royal Commission sent out.

VISCOUNT ELIBANK: I am quite prepared to make my own suggestions. I am not a wholehearted supporter of the Opposition all the time. That is why I sit in my place here.

THE EARL OF LISTOWEL: The other question touched upon by the noble Viscount, Lord Elibank, was one touched upon by a number of other speakers as well—the extremely important question of war damage compensation. Noble Lords who have addressed themselves to this problem have expressed the view that the United Kingdom Government have been less than generous in the contribution they have offered towards the payment of war damage compensation in Malaya. The facts are these. We have offered a free grant of £10,000,000 and, in addition, we have promised an interest-free loan not exceeding £35,000,000 when the desire for such a loan is expressed by the authorities out there. I do not myself feel that this is a niggardly or mean contribution, when we consider the extremely heavy burden which falls upon the United Kingdom taxpayer at this moment. The difficulty is that anything of this kind comes out of the pocket of the average Englishman. The compensation scheme has been framed upon an austerity basis. The original claims have had to be scaled down, as the noble Viscount pointed out, but that is owing to the limited resources both of Malaya and of the United Kingdom itself at the moment. Your Lordships are well aware that unrequited exports mean the loss of other goods, such as foodstuffs and various materials which are so much needed by the people at home.

VISCOUNT ELIBANK: Could the noble Earl tell me why Japan is paying so little—only £10,000,000?

THE EARL OF LISTOWEL: I have not examined that point, but, of course, whatever amount of reparation has been claimed from Japan must be related to the total reparation claims that have been made upon Japan. I imagine that that is how this particular figure was arrived at. I think that this scheme represents a fair division among the various claims. It is related not only to rubber and tin, but also to the loss of private chattels—such things as household goods and furniture—which of course has hit some small people very hard. Again, I would remind your Lordships that Malaya is not the only Colony which has had to put in a claim for help in the form of a payment of war damage compensation from the United Kingdom Treasury. The Malayan claim has been related to claims from

M.L. 40 F 5

other Colonies which have suffered severe war damage.

Another important point raised by the noble Viscount was one to which he alone, I think, referred. It is the question of the insurance companies. I am glad he mentioned that, because I think the insurance companies have played the game extremely well. As he rightly says, the possibility of carrying on business in Malaya depended on the willingness of the insurance companies to continue to cover risks; and they have done this, and I think they have done it with considerable public spirit. The position is that, provided the situation in Malaya does not seriously deteriorate, riot and civil commotion cover for people who have insured their property in Malaya will continue to be available, and claims will be settled as they have been before, with or without admissions of liability on the part of the companies. I think this must give considerable confidence to business interests in Malaya that they can carry on without any serious risk of loss if their property is damaged, and that they will be covered if they themselves, or any of their relatives, are killed during these efforts of the bandits to terrorise the population.

The noble Viscount, Lord Swinton, referred to the great cost of the re-establishment of law and order in Malaya and suggested that we should make some contribution to help the Malayan authorities. The position is that the Malayan Governments are at present considering how this extra expenditure is to be met, and we in the United Kingdom will of course give careful consideration to any representations that they may make. We have not yet received any official views from Malaya on this subject, but when the time comes, we will certainly consider very carefully what they have to say and also what has been said by the noble Viscount on this subject this afternoon.

I should like now to refer briefly to two points that were made by the noble Lord, Lord Milverton—I am afraid that I cannot deal with any more. In the first place, he said there was some dissatisfaction among the police. Of course, it has been a difficult thing to introduce police from Palestine into the existing police force in Malaya, but I think everyone would agree that this exceptional step

[The Earl of Listowel.]
 was justified by the emergency. We had to reinforce very considerably, and at very short notice, the strength of the police force in Malaya. The second point is that promotion in the Malayan police force is strictly on merit; no preference is given to anyone from any other quarter. Furthermore, by reason of the sudden expansion and the very large expansion of the police force, there are more openings for local recruits in the commissioned ranks than there have ever been before. I think when those facts are considered it will be recognised that substantial justice is being done to local people in the police force, and that any exceptional measures that we have had to take are due to circumstances over which nobody has been able to exercise control.

The noble Lord, Lord Milverton, like a number of other noble Lords, complained about the over-government of British territories in South-East Asia. I think everyone will agree that we do not want more high authorities than are absolutely necessary, and that an excessive number is a waste. But I would point out that since the war there has been a reduction in the number of these high Government authorities. The post of Special Commissioner for South-East Asia, which was filled for several years by the noble Lord, Lord Killearn, has been abolished and his functions were taken over and combined with those of the Commissioner-General, Mr. MacDonald. So we have not only been carefully considering and watching this question but we have taken steps to prune away some of these "big-wigs," at the top if I may say so without appearing in the least offensive.

Somebody has got to be responsible for the external relations of the Malaysians with the foreign territories in those parts. Those external relations are extremely important and must be watched. The difficulty is—

VISCOUNT SWINTON: I am all for the Commissioner-General, or whatever he is called, having very full powers indeed, and exercising functions in regard to foreign relations and everything else, and being really a Minister of State there in this emergency. I want one man who will control everybody, whether he belongs to the Foreign Office or the Ministry of Food or anywhere else; but

W.L. 40 F 6

I do not want an unnecessary number of mandarins under him.

THE EARL OF LISTOWEL: I entirely appreciate the noble Viscount's point, but I want to stress one of the difficulties, which I think was mentioned by the noble Lord, Lord Milverton—namely, that one man is responsible to two Departments, the Foreign Office and the Colonial Office. I do not see any way round that particular difficulty, because in respect of his work in external relations the Commissioner-General has to deal with the Foreign Office, while in respect of his work in co-ordinating internal matters, he deals with the Colonial Office.

LORD ALTRINCHAM: But Ministers of State or Ministers Resident have always had that difficulty, and have always been able to surmount it.

THE EARL OF LISTOWEL: If any way can be found of surmounting it, I am quite certain that that way will be adopted.

LORD HARLECH: I think most of the High Commissioners of the United Kingdom in the Dominions have on their staffs, working under them, somebody, not only from the Dominions Office but also from the Foreign Office. Those staff men are in constant communication with their own Department, while the High Commissioner deals with both offices. He is appointed by the Dominions Office, but the system works perfectly well.

THE EARL OF LISTOWEL: I must thank the noble Earl, Lord Scarbrough, for his very helpful speech. He referred to food, and I should like to say something, quite briefly, about the food position. We appreciate the political importance, apart from the human importance, of maintaining the rations in Malaya. The general supply position is as follows. Malaya draws most of its supplies from Burma, with a small allocation from Siam and minor supplies from other sources. The quantities allotted in 1948 were 393,000 tons, of which 234,000 tons were from Burma and 138,000 tons from Siam. Because of political conditions in Burma to which the noble Earl referred, supplies from that source have become uncertain, and it is expected that there will be a substantial deficit this year in the total quantities allotted from Burma.

In this connection, arrangements have been made to obtain alternative supplies from Italy in order to make up for this shortage. So I think the noble Lord may rest assured that, so far as the present situation is concerned, we are able to hold the food position in Malaya; but, as he will be the first to recognise, we cannot look very far into the future, and I do not want to encourage any hopes that might be disappointed in days to come. We must get along as best we can in the extraordinarily difficult world conditions in regard to rice. I was particularly grateful to the noble Earl for pointing out that the unfortunate Government spokesman in a debate of this kind has to keep his audience in Malaya in mind and be extremely careful not to say anything which will make things more difficult for the people on the spot.

May I reply to two points made by the noble Lord, Lord Harlech? It was very valuable to hear a speech this afternoon from the last Colonial Office Minister before myself to visit Malaya. The noble Lord was there in the 'twenties, and I went there last year. It is certainly valuable to have a contribution from somebody who has not only had an administrative responsibility there but has been on the spot. So far as immigration is concerned, it has been stopped, and there is no intention of resuming it. We are, of course, fully aware of the political importance of immigration. We are also just as anxious as the noble Lord to see that Malaya produces as much rice as possible for her own consumption. The tonnage produced in 1947-48 has already shown an increase compared with that for 1946. In 1946 it was 257,000 tons and in 1947 it was 340,000 tons. We are expecting that rate of increase to be maintained this year. When I was in the Northern States, where most of the rice is grown, I was immensely impressed by the desire of the Sultans to grow as much rice as possible, while, on the administrative side, the agricultural experts were doing all they could to improve the production of rice by giving advice about modern methods, and so on. Model stations were being run by the Government to encourage rice growers to make the best use of their land. Very big schemes have been drawn up for

bringing additional land under cultivation by means of drainage and irrigation works. When these schemes are brought to fruition, the amount of rice grown in Malaya should be substantially increased.

My Lords, this has been an extremely remarkable and useful debate. The speech made by the noble Lord, Lord Milverton, was one which we were all delighted to hear. He contributed to the debate from a long first-hand experience of Malaya, and his knowledge of administration and of political conditions in that territory is especially valuable. But Lord Milverton's speech was only one of a number of thoughtful and constructive contributions. I can assure all noble Lords who have spoken that what they have said will be very carefully considered by my right honourable friend the Secretary of State and by the Government. We wish to profit to as great an extent as we possibly can from the advice which we have received in the course of this debate.

6.44 p.m.

LORD MANCROFT: My Lords, I agree with the noble Earl, Lord Listowel, that we have had a long, interesting and helpful debate. As the noble Viscount, Lord Swinton, has already replied in some detail to the first speech of the noble Earl, it would be impertinent on my part to address further remarks to your Lordships. I wish, however, just to say that I agree with the noble Earl—if he did not think that I did, then I can only assume that I must have spoken very indistinctly—that no constitutional change should take place in the Malayan Peninsula except with the approval of the people there. That, I think, is a fundamentally important point. The debate will have done good if only it serves to impress on the people of Malaya how anxiously we in this country are watching their welfare and hope that their troubles will soon be over, and if it demonstrates to His Majesty's Government how closely we are studying their conduct of Malayan affairs. With those few words, I beg leave to withdraw my Motion.

Motion for Papers, by leave, withdrawn.

House adjourned at a quarter before seven o'clock.

Enclosure No. ... to despatch No. 322 of ~~November~~ 24, 1948
from the Embassy at London, England.

SOURCE: PARLIAMENTARY DEBATES
House of Lords.

NUMBER:

10 November 1948
London. Cols. 322-394

J.W. 894.570 / 11-2448

DIVISION OF SOUTHEAST
ASIAN AFFAIRS
FEB 25 1949
OFFICE OF FAR
EASTERN AFFAIRS
DEPT OF STATE



THE FOREIGN SERVICE
OF THE
UNITED STATES OF AMERICA

UNITED STATES POLITICAL ADVISOR
FOR JAPAN

G. DIVISION OF
NORTHEAST ASIAN AFFAIRS

DEC - 9 1948

DEPARTMENT OF STATE

Tokyo, November 22, 1948.

No. 742

~~CONFIDENTIAL~~
(For Department use only)

Subject: Observations During an Orientation Trip to Hokkaido Concerning Current Political and Economic Conditions.

The Honorable
The Secretary of State,
Washington.

Sir:

I have the honor to refer to this Mission's despatch no. 307 of May 27, 1948 with regard to orientation trips by officers of this Mission to outlying districts of Japan and to enclose a copy of a memorandum prepared by Foreign Service Officer W. Henry LAWRENCE, Jr., containing his observations and results of interviews during a visit to Hokkaido in the latter part of September 1948.

The subjects covered in the memorandum are varied, but on this trip special attention was paid to local communist activities, Soviet-American relations, problems of labor unions and management (including the proposed revision of the National Public Service Law), deterrents to production increases, and difficulties of educational institutions. It is suggested that this despatch be read in conjunction with Section VII of despatch no. 307 of May 27, describing a previous visit by Foreign Service Officer David M. BANE, to Hokkaido, and with despatches nos. 299 of May 24, 321 of June 3, and 362 of June 17 reporting observations made on a trip by Mr. Lawrence to Kyushu.

Upon analysis, much of the information contained in the enclosure reveals a striking dissimilarity in the psychology of the people and in the physical environment of Hokkaido as compared with the rest of Japan. This is not unexpected in that Hokkaido is a relatively new country, having been first colonized by the Japanese about 80 years ago. With no traditions or customs of long standing, the inhabitants are apparently amenable to new ideas, and both democracy and communism have opportunity to flourish.

The proximity of Hokkaido to Soviet areas gives special advantages to communism, but there is reason to believe that from a long-range point of view democratic institutions will take firm root, despite present indications that communism is still spreading. On the other hand, however, the need for sustained efforts to convince the people of Hokkaido of the advantages as well as the responsibilities of democracy is clearly apparent.

~~CONFIDENTIAL~~

DECLASSIFIED

E.O. 11652, Sec. 2(C) and 5(D) or (E)

NND 760175

By lgn NARS, Date 6/30/77

JAN 15 1949

Confidential File

THIS DOCUMENT MUST BE RETURNED TO
Central Files
894.50/11-2248

894.50/11-2248

Tokyo's No. 742,
November 22, 1948.
CONFIDENTIAL

- 2 -

Inclusion Within Japan of Certain Minor Southern
Kurile Islands to Remove Potential Sources of
Friction with Soviets.

Tension is believed to be the greatest in the vicinity of Nemuro where a number of Japanese fishing boats have been seized by the Soviets during their passage through the narrow waters between the mainland and the islands of Kunashiri and the Habomai group. The possibility of long-continued friction could undoubtedly be alleviated by awarding all islands south of Yotorofu Straits to Japan. These islands are now under Soviet control. Shikotan Island and the Habomai Islands have for many years been Japanese possessions and have never been the subject of treaties. The Southern Kuriles, which together with the islands just mentioned, comprise the islands south of the Yotorofu Straits have been Japanese possessions since early days, a fact which was confirmed in 1855 by the Treaty of Shimoda.

Belief that United States Will Abandon Hokkaido
in Case of War

There is widespread belief in Hokkaido that war between the United States and the Soviet Union is imminent and that the United States would immediately abandon Hokkaido to its fate. At the same time there is seemingly no doubt in people's minds but that the United States would be the ultimate victor in such a war. The idea of withdrawal from Hokkaido, even though only a temporary measure, has become so deeply embedded in the consciousness of the people, however, that development of rich natural resources in that region is seriously impeded through hesitation on the part of business men and investors to provide the necessary capital.

Establishment of Consulate in Hokkaido

Some overt and immediate action on the part of the United States to allay the fears of business men, bankers and investors as well as those of the general population appears highly desirable. It has been suggested that a "consular" branch of this Mission, in its capacity as Diplomatic Section, General Headquarters, Supreme Commander for the Allied Powers, should be established in Sapporo at the earliest practicable time in order to demonstrate concrete evidence of the interest of the United States in Hokkaido.

While admittedly the amount of consular work would be small, Sapporo could serve as a listening post and would permit close observation of political activities in Hokkaido, particularly in view of its proximity to the Soviet Union, the increasing interest in communism there, and the possibility that Hokkaido may become the center of communist affairs in Japan.

It might also be worthwhile to give consideration to the eventual utilization of American funds, both private and governmental, in Hokkaido. Its coal, timber, fish, meat, and dairy products would appear to be capable of extensive development, thereby assisting in a reduction of the burden on American taxpayers by helping Japan toward its goal of self-sufficiency.

Opposition of Labor to Revision of National Public
Service Law.

The proposed revision of the National Public Service Law is a subject of intense interest among the labor leaders in Hokkaido. As

CONFIDENTIAL

is well

Tokyo's No. 742,
November 22, 1948.

CONFIDENTIAL

- 3 -

is well known, the communists have centered their attack upon Ordinance No. 201, the interim measure prohibiting strikes and collective bargaining on the part of government workers, on the grounds that it is "unconstitutional and undemocratic." Opposition to Ordinance No. 201 has been more aggressive in Hokkaido than elsewhere. Most of the opposition among railway employees is comprised of youths of 19 to 24 years of age, many of whom have been inspired by the communists in the Government Railway Workers' Union. That communist activities in this union may have reached their peak, however, would seem likely in view of the swing back to a more moderate position at the Union's extraordinary national convention held recently. Five copies of an editorial from the Nippon Times of October 9, 1948 describing this victory of the moderates is enclosed.

Non-communist labor leaders have little objection to the prohibition against strikes, but side unanimously with the communists in urging that government workers be permitted some form of collective bargaining. They state that if collective bargaining among government workers is to be entirely outlawed, labor leaders and workers will become discouraged to the point where they will question the future value of having any unions among government workers. Workers in private industry also expressed some apprehension that the activities of their unions may be curtailed.

In contrast to the reactions of labor, the proposed revision of the National Public Service Law has been favorably received by bankers, business men, and educators. The general attitude in Hokkaido appeared to be that the Occupation erred in its beginning by granting labor too many privileges and that the Occupation should now rectify its mistakes before a peace treaty is signed.

Management and Labor are Beginning to Recognize
Need for Cooperation

There is good evidence that among labor leaders in Hokkaido there are many who believe that union activities should be confined to economic matters and not include political objectives, and that the rights granted to labor are also accompanied by responsibilities. There is also evident some realization on the part of both management and labor unions that capital and labor must cooperate if Japan is to be rehabilitated, although both are apt to be suspicious of each other. The constructive elements in the labor union movement, therefore, need encouragement and aid in their difficult up-hill fight against communism, notwithstanding that they are handicapped by lack of the organizational skill and planning of the communists as well as by a lack of educational material and facilities with which to disseminate constructive data among the members of their unions.

Majority Passive Toward Communism but
Youth Attracted

The fear of the population of Hokkaido that, if the communists acquire power they will retaliate against those who now oppose their activities, has resulted in a generally passive attitude toward communism. However, many young people have succumbed to propaganda to the effect that they should join the Communist Party if they wish to insure their future advancement. Repatriates appear to be returning from Soviet areas increasingly indoctrinated in the tenets of communism, but this is counter-balanced by the substantial number who are violently anti-communistic.

CONFIDENTIAL

In the

Tokyo's No. 742
November 22, 1948.
CONFIDENTIAL

- 4 -

In the University of Hokkaido, communism is growing among the students and faculty. Students claim that the so-called Showa Denko scandal, in which some of the highest leaders in financial, business and government circles have been indicted for accepting bribes (this Mission's despatch no. 667 of October 11, 1948), has revealed the flaws of capitalism. In consequence they are studying communism to discover what it has to offer. Organized communist activities in universities have recently been outlawed by the Ministry of Education, a step which should be helpful in overcoming the insidious workings of communist cells in educational institutions.

Claim that Occupation Unleashed Communism Upon Japan

The Occupation is blamed by moderate labor leaders for unleashing communism upon the Japanese. It is therefore expected that the Occupation should assist in finding ways of curbing communist activities. The need for suppressing communist activities is especially evident in Hokkaido where their tempo is highest in mines and railways, two of the key industries essential in the rehabilitation of Japan. While admitting the effectiveness of communists in hampering recovery, Military Government officials suspect that management at times has a tendency to ascribe many of its difficulties to communists in order to cover its own deficiencies. Management's problems are many and are magnified by the astuteness of the communists in devising new problems as fast as progress is made in settling old ones.

Communist Tactics and Appeals Highly Effective

The tactics used by the communists in Hokkaido are those with which the world has unfortunately become increasingly aware. Despite their relatively small numbers, communists have seized key positions and by their almost uncanny ability to make potent appeals at a particular time, win the support of large numbers of individuals. In Hokkaido, Occupation personnel are convinced that the communists are more successful in reaching the rank and file of labor than is the Occupation. During the year 1947 the communists concentrated upon lack of food as a major subject of propaganda. Now that the food situation has improved, their propaganda dwells upon the shortage of coal for heating homes, a particularly persuasive appeal in Hokkaido because of its long cold winters.

The communists also stress the need for increased wages, completely disregarding the financial straits of individual companies or of Japan. Miners, railway workers, and workers in general are easily susceptible to this appeal, because of the difficulty of acquiring even minimum necessities under present wage levels. As is well known, the communists also fan the nationalistic feelings of the Japanese in much the same way as did the militarists; they also stress examples of real or imagined racial discrimination (local Occupation regulations regarding fraternization are considered by the Japanese to be a form of racial discrimination). In contrast, reports by repatriates that there is no racial discrimination in Soviet Russia reacts greatly to the advantage of the communists.

Need for Adequate Police Force, Properly Armed and Equipped

As has already been reported regarding other areas of Japan (this Mission's despatch no. 686 of October 22, 1948), there was found in Hokkaido considerable criticism of the reformed police system with its emphasis on decentralization. In addition, it is clear that the present police force is inadequate in number, arms, equipment, and morale to

maintain

CONFIDENTIAL