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BRITISH ECONOMIC INTERESTS IN THE FAR EAST

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BRITISH ECONOMIC INTERESTS IN THE FAR EAST

by

E. M. GULL

Prepared as a report in the International Research Series of the Institute of Pacific Relations

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PREFACE

IN writing a Preface to this study of British Economic Interests in the Far East, my object is neither to enlarge upon nor to supplement the author's Foreword, but to emphasize the importance which Far Eastern questions are likely to retain after the war. It is certain that the Far East will not 'return to normal'; and it is equally certain that the positions which China and Japan have hitherto occupied in relation to one another and to ourselves will be radically changed. China, morally speaking, will have acquired a new international prestige, while Japan will be shorn of all her recent conquests. Chinese reconstruction and Japanese reformation will give the whole Far Eastern problem a new setting. New claims on the statesmanship and co-operative capacity of the Western Powers will be made. And, in this new atmosphere the promotion of such material and economic interests as Britain and the United States may retain after the war will require an imaginative appreciation of the new circumstances. To that appreciation Mr. Gull's study of British economic interests contributes an essential service.

Farther south, some of the factors hitherto regarded as normal will also undergo change. No doubt, we shall return to Malaya and the Dutch to their islands. But the last thing which we, or they, will either wish or be able to do will be to frame our, or their, post-war policy on the assumption that the *status quo ante* can be restored. On the contrary, both we and they will be anxious to distinguish it from the pre-war régime by reforms in tune with the insurgent national feeling in many lands and appropriate to the twin tasks of material betterment and political development. British policy will be more actively directed towards the evolution of an effective system of self-government. From this fact too will big changes flow.

Many of the changes are likely to be economic, and it is with economic matters that this book deals in the main. These, however, have been selected and studied chiefly for the light which they throw upon political affairs. I abstain deliberately from expressing any opinion upon the appositeness, or the justice, with which this has been done. I do say, however, that it has been done in an interesting way, one which is the more instructive because at crucial points it leaves readers with plenty of scope for discussion and, if they disagree, for re-arranging the facts into such pattern as they themselves see. Moreover, while the author disclaims any attempt at presenting us with the study of an epoch, he does show clearly how the history of the last two centuries or so falls within a framework of dominant ideas, some of which are

likely to be abandoned while others will have a new relevancy, and may be given a modernized application, to the problems of our time.

At the Mont Tremblant Conference of the Institute of Pacific Relations in December 1942, Lord Hailey advocated the creation of a Council for the Pacific Zone, consisting of the representatives of the sovereign Powers concerned. To it he assigned a double function: 'It would, in the first place, be the local agency of whatever organization may be established by the United Nations for safeguarding the peace of Asia in common with other parts of the world. . . . Its second function would be to secure, by joint consultation and by co-operative action, a common policy, so far as may be, in the economic development and in the tariff and customs arrangements within this zone. . . . It would be the agency through which areas unable to finance their own development would obtain the assistance required. It would receive regular reports from the different national administrations in the area, and be empowered to require information and explanation from them. It would finally'—and Lord Hailey emphasized this point—'be charged with the periodic review of the progress made in the promotion of self-governing institutions in the dependencies, and in the improvement of their standards of living.'

In studying this important proposal, many of the facts and considerations assembled in this book will be extremely useful.

ASTOR,
Chairman of the Council

CHATHAM HOUSE,
10, ST. JAMES'S SQUARE,
LONDON, S.W.1.

June 1, 1943

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FOREWORD

THE SCOPE OF THIS BOOK

UNLIKE a good many forewords, this one is intended to be read. In fact, if it is not read, such usefulness as the book which it prefaces may have will be considerably diminished. The book is intended to serve as an economic background to British Far Eastern policy. A description of British Far Eastern policy is given in No 24 of the Information Papers issued by the Royal Institute of International Affairs by Mr. G. E. Hubbard, the Institute's Far Eastern Research Secretary. His study and mine have been made quite independently of one another and each can be read without reference to the other. On the other hand, mine has been planned and written as a background to political events and was originally designed to be of approximately the same length as Mr. Hubbard's. There was, however, nothing incompatible between providing the economic background required and at the same time something which has not hitherto existed, a comprehensive survey, between two covers, of British economic interests in China, Japan, Malaya, Burma, Borneo, and other Far Eastern countries.

The word 'comprehensive' is to be read in the light of the following remarks. The purpose in view required chief importance to be given to China, where, in consonance with the meaning of her real name, Chung Kuo, Middle or Central Country, State or Kingdom, our economic activities have been greatest. Comprehensiveness could only be secured, within a single volume of reasonable size, after due allowance had been made for that fact. It may be that too much space has been given to China. If so, the fault is not one of negligence. Regard has also been had for the probability that, on the assumption that we win the war (and on no other could this study have any practical value), China's economic importance will increase greatly, not only to us, but to the world in general.

Under the heading of comprehensiveness there is also this to be said. A study which concentrates on the economic facts which are of chief interest to one particular country or group of countries —in this instance the countries constituting the British Empire— is obviously narrower in its outlook than a study which is primarily interested in economic values for their own sake. A study of the latter kind would have no more regard for the conception, or the fact, of nationality than was necessary to indicate the extent to which economic values were affected by that conception or fact. It would have to take nationality into consideration—tariffs alone would compel that—but would subordinate it to the economic

values themselves. In planning this book, however, a primary requirement was that its choice of facts should be governed by their importance in relation to the United Kingdom or the British Empire. The reader will on occasions, possibly often, differ from the writer as to the validity of the choice made. From the point of view of analysis and discussion, so much the better—provided that he uses the same measuring rod and does not, inadvertently or otherwise, use a different measuring rod. This book makes no claim to be a study of economic values in general, or of economic values as such, without regard, that is to say, to their British aspect. Its comprehensiveness should be judged accordingly.

It should also be judged in relation to a fact which an economic study of the more scientific kind indicated above might, and probably would, bring under close examination, i.e. that in thinking of other countries in economic terms we have grown accustomed to regard them as markets in which to sell rather than as markets in which to buy, though throughout the early years of our trade with the Far East China was much more important to us as a market in which to buy than as one in which to sell. This book has been written chiefly from the latter and modern point of view, not, indeed, without consideration of its validity, but having regard to its general acceptance. The book must therefore share such errors as are associated with that point of view, but I would not like it to be supposed that I am unaware of their existence.

Another point I want to make clear is why I have been so academic—'practical' people may think—as to begin at the beginning, that is to say, as far back as the sixteenth and seventeenth centuries. Would not 1842, when we made our first treaty with China, have been early enough?

A sufficient answer to the question is that to begin at that date would be to lose sight, at the very commencement of our subject, of the most important of the unities which characterize it. One of them is the fact that our economic activities in the Far East originated in those of a single body—the East India Company. All our modern interests in this part of the world are the outcome of the East India Company's enterprise and undertakings. Another unity is the underlying similarity of the response made by China and Japan to the impact of the West. Their response was expressed, it is true, in very different ways, but behind its expression lay the fact that neither, after experience, was eager to expand its dealings with us. Both mistrusted and feared us, China less than Japan because she felt so much more superior to us than Japan felt—a difference partly, if not largely, due to the inferiority complex which indebtedness to China for most of the best elements in her life had nurtured in Japan in respect of her teacher. Japan had survived, culturally speaking, by adopting and

living on China's ideas. She survived politically after the middle of the nineteenth century by adopting, as rapidly as possible, European economic, naval, and military technique, together with a smattering of Anglo-American political ways. Tardily, China realized that cultural pre-eminence and dominion were no safeguard at all against political extinction, just as the peoples of Europe found that membership of the Holy Roman Empire was no protection against one another. As nationalism emerged and became a dominant conception in Western society, it commingled traditional conceptions of wealth and welfare with a modernized conception of power. Thus, in turn, mercantilism was born, the East India Company being, like others, a means of regulating international trade and making it serve triple aims. Adam Smith, while conceding that 'defence is of much more importance than opulence' and pronouncing the Act of Navigation 'the wisest of all the commercial regulations of England', prefaced that statement with 'perhaps', giving most of his intellectual and moral energy to the development of the opinion which (in the same paragraph) precedes the words just quoted, the opinion, namely, that 'the act of navigation is not favourable to foreign commerce or to the growth of the opulence which can arise from it'.[1] The traders of England in effect said, 'Hear! hear!' and within a comparatively short time of Adam Smith's death rebelled against the East India Company's monopoly. Freedom from monopoly thus became, from the start, a dominating conception in our Far Eastern commercial activities and so too did *laisser faire*. The latter was gradually and increasingly limited, by social legislation, in domestic industry, but in foreign enterprise pecuniary self-interest, somewhat confusedly called the profit motive, acquired, as the capitalist system developed, relatively untrammelled scope.

Now, however, there is a growing belief in the desirability of limiting this scope both for domestic and for international reasons. Thus, if we are right in assuming that the Atlantic Charter and the agreement between the United Kingdom and the United States on the principles applying to mutual aid in the prosecution of the war, made on February 23, 1942, will form the basis of efforts to establish a post-war order, it is difficult to see how the principles therein enunciated can be given effect without a dual process of freeing foreign trade from nationalistic impediments while at the same time extending to it a considerable degree of 'interference', where individuals are concerned, 'with the ordinary course of business', the abolition of which seemed to nineteenth-century minds so large and prominent a feather in the cap of Adam Smith. Contemporary elevation of the 'common man' to a position of international importance may have only a transitory vogue. On

[1] Adam Smith, *Wealth of Nations* (Routledge edition), p. 352.

the other hand, if that figure, so popularly evoked at the present time upon platforms designedly non-party, succeeds in escaping party proprietorship, it is likely to become a powerful symbol in a pre-Adam Smith movement. There is practical advantage, accordingly, in beginning this study in the mercantilist period.

A word or two should be said about the devotion of so many pages to the treaty-port system. Does its economic importance justify such full treatment? I think it does, for I do not see how, without a fairly detailed knowledge of the system, which existed whenever we could establish it—another of the unities of our subject—the ways in which our economic interests developed, particularly in China, are to be properly understood. There our interests would certainly not have developed as they did without the system, or if it had come to an end as quickly as it did in Japan. Moreover, the system requires consideration also in relation to the effect upon post-war reconstruction in China of the manner of its passing. Its ending has already been agreed upon: the manner in which it ends remains to be seen. Much of our economic welfare in the Far East may depend on that.

Something requires to be said of the periods into which this study is divided. In the economic sphere, regarded from a British point of view, there is not as marked a dividing line between the periods prior, and subsequent to, the Sino-Japanese War of 1894–5 as there is in the political sphere. True, important economic developments followed in the wake of that war, two of them new in China—namely, the acquisition by foreigners of the right to establish, and the actual establishment of, industrial institutions, and the opening of inland waters to navigation by foreign vessels. Largely as a result of the war there began, too, an intensification and acceleration of British railway enterprise, while British financial activities increased and became internationalized. Together with the lease of Weihaiwei and the hinterland of Kowloon, these events led British economic efforts in China, hitherto mainly commercial, into an all-round development of the country, mining being another of its forms. Yet loans to the Chinese Government by the Hongkong and Shanghai Banking Corporation had been made before the eighties of the last century, though on a small scale, while the Customs administration, that semi-political and semi-economic institution, which has played such an important part, not only in Anglo-Chinese relations, but in Sino-foreign relations as a whole, was well established long before the Sino-Japanese War. Again, it was before, and not after, that event that Great Britain agreed to revise her economic relations with Japan by providing for her exercise of tariff and judicial autonomy.

On the other hand, the World War of 1914–18 marks an even

greater cleavage in economic than it does in political affairs. It resulted in a new balance of economic forces, Japan becoming in China a more important commercial factor than Great Britain. It also resulted in a growth of industrialization in China, as elsewhere in the Far East, and it was followed by, and was to some extent responsible for, the appearance of nationalism in China. Accordingly, instead of being quite obviously 'top dog' in the economic sphere, and in many respects 'top dog' also in the political sphere, Great Britain entered upon a period destined to deprive her both of economic and of political supremacy. In regard to the latter, as Mr. Hubbard in his survey of British policy says, 'the time for thinking in terms of British "expansionism" or "imperialism"—the "door-forcing" period, in fact—had passed'. In the economic sphere British traders became increasingly incommoded by competition, and found their natural desire for new and potentially profitable fields spurred by it. For a time the post-war boom, which raised the value of Great Britain's exports to China and Hongkong to a figure high above any hitherto reached, over £57 millions, masked these tendencies. Then came the great depression, Great Britain's and Japan's abandonment of the gold standard and the seizure of Manchuria by Japan, an event which makes the period 1931–41 politically one. Economically, on the other hand, there is no such unity. The decade splits itself into sub-periods which it is somewhat arbitrary to merge into two at the year 1936, as is done in Part IV. But, in view of the extent to which, in the following year, events in China began to dictate events elsewhere, it is, to say the least, convenient from the standpoint of this study, to make that year a dividing line and to devote Part V to the years 1937–41.

Finally, may I say that those who anticipate that, as this book is published during a time of intense propaganda, it will be a 'write-up' of British interests can say good-bye to the anticipation here and now. Similarly those who expect, and possibly desire, a presentation of facts in a manner calculated to show our activities in a light favourable, or unfavourable, will be disappointed. I endeavour to treat the whole subject objectively, which is not to say that nowhere do I adopt a point of view. It is impossible to set out a very large number of facts in what one conceives to be their proper relationship to one another without adopting a point of view. One might as well try to find one's way through a forest without any regard for the points of the compass. He is a fortunate traveller indeed, however, whose adherence to the points of the compass proves to be wholly accurate.

My very cordial thanks are due to W. R. Cockburn, C. R. Hargreaves, L. Payn, Miss Dorothy P. Etlinger and H. W. Arndt for much help at various stages of this book.

PART I

THE PRE-TREATY PERIOD

Our Parent Organization in the Far East, the East India Company—Relation of the Company to the Mercantile System—Earliest Activities—Abortive Beginnings in Japan—Features of Japan's Economic System at that Time—Conditions in China—Quasi-mercantilist Ideas in China—The Opium Trade—Effects on China's Currency—Growth of Trade—Problems of Jurisdiction—Debts of Co-hong Merchants—Emergence of Hongkong—Earliest Days in Malaya—in Siam—Beginnings in Borneo

AS already stated, our economic relations with the Far East arose from the East India Company's activities. Nobody needs to be reminded of the date of the Company's formation—December 31, 1600—when letters patent were issued by Queen Elizabeth incorporating the company under the title of 'The Governor and Merchants of London Trading into the East Indies', and granting it a monopoly for fifteen years of trading between the Cape of Good Hope and the Straits of Magellan. The monopoly was made perpetual by James I in 1609: Cromwell gave the company a further charter in 1657, and Charles II also gave one in 1661. In 1698 William III, with the authority of Parliament, chartered a rival company, 'The English Company Trading to the East Indies', but in 1709 this was amalgamated with Queen Elizabeth's company.

Cunningham, quoting Birdwood, says that the occasion of the company's formation was a rise in the price of pepper from 3*s*. to 6*s*. or 8*s*. a pound brought about by the Dutch. Morse alludes to the rise, ascribing it, inferentially, to the Portuguese, and spreading it over a period of twenty years from 1580. He states, too, that in 1596 the Dutch drove the Portuguese from Bantam on the Java side of the Sunda Straits. Cabaton says that the East India Company established a factory at Bantam when it sent out its first venture in 1602. Morse gives 1601 as the date, 1604 as the date of the second and 1607 as that of the third voyage. Thereafter, he says, 'a voyage was sent out nearly every year consisting of one, two or three ships'. He enumerates the following factories as being established by 1615: in Siam, at Iudea (Ayuddhia or Ayut'ia) and Patani; in Sumatra, at Achin, Jambi, and Tiku; in Java at Bantam and Jacatra; in Borneo at Succadaana and Banjarmassin; in the Spice Islands at Macassar and Banda, and in Japan at Hirado. At several of these places English and Dutch factories existed side by side, the Presidency of the English East India

Company being at first at Bantam, where the Netherlands East India Company, formed in 1602, also had their headquarters till 1611, when they were transferred to Jacatra, the name of which was subsequently changed to Batavia. Our East India Company appears to have followed them, for the Presidency was in Batavia from 1620 to 1626, whereafter it was transferred back to Bantam. There it remained till 1682, when, according to Cunningham, we were forced by the Dutch to retire to Bencoolen, on the south-western coast of Sumatra.[1]

Financially, these early ventures were comparatively small. Cunningham, quoting Stevens, *Dawn of British Trade*, says that the subscription list for shares of £200 and upwards in the first voyage amounted to £30,133 6*s*. 8*d*., the first call being 1*s*. in the £100. Morse says that upon incorporation the company raised a stock of £72,000, with which it bought and fitted out five ships for the first voyage, loading them with goods and money to the value of £27,000. Cunningham says that up to 1612 each voyage was financed by funds specially raised for it on a joint-stock basis, 'though some of the merchants, who were free of the Company, had subscribed for one venture, and some for another. The distance and risk of the enterprise were so great that no one merchant attempted to trade on his own account, and the members of the company were very particular in framing rules against private trading by any of their factors or seamen.' In 1612, he proceeds, 'instead of having different funds, separately subscribed and managed for each voyage, the directors determined to have one joint-stock for all the purposes of the company for a limited period, and that this aggregate fund should be officially administered by the Governor and directors. This course was forced upon them not merely by difficulties in their accounts, and the impracticability of assessing establishment charges satisfactorily, but by the trouble they had experienced in calling in the quotas of capital contributed for separate voyages. In 1657 a further step was taken and the capital then raised was treated as a permanent fund, which was not destined to be divided among the subscribers'. According to Morse, during the years 1601–20, the annual average value of merchandise exported by the company was £15,383, that of bullion being £28,847.[2]

It is necessary, if this period is to be properly understood, to expand a little what was said in the Foreword about the position which the Company occupied in our economic system. The facts are, of course, familiar to students of British economic history, but

[1] Cunningham, *The Growth of English Industry and Commerce*, pp. 255–7; Morse, *The Chronicles of the East India Company trading to China*, pp. 3, 6–7; Cabaton, *Java, Sumatra and the Other Islands of the Dutch East Indies*, p. 15.

[2] Cunningham, ibid., pp. 256–7; Morse, ibid., p. 7–8.

others may not be clear about them. The Company was established as a regulated company, as a company, that is to say, whose members, while allowed to compete amongst themselves, were obliged to conform to corporate rules, the Company operating in a system through which the Government could control foreign trade for a variety of purposes. Amongst them were regulation of the flow of treasure, encouragement and protection of shipping, enforcement of the statutes of employment and the mitigation of economic depression by obliging merchants who exported cloth to come to the assistance of the clothiers, and to bear a portion of the loss which might arise from continuing to keep men at work even on unremunerative terms.[1] Other well-known companies through which foreign trade was regulated were the Staplers, the Merchant Adventurers, the Eastland Merchants, the Muscovy Merchants, and the Turkey Merchants. The fact that such companies often enjoyed monopolistic privileges occasioned much discontent amongst other traders, but the principles underlying the system of controlling foreign trade through companies were more than once examined by commissions, the balance of opinion, including that of the City, during the seventeenth century being in favour of maintaining it.

Wood gives the year 1612 as the date of the arrival in Siam of the first British ship, the *Globe*, which, he says, anchored in Patani Harbour on June 23 and landed Peter William Floris and others.[2] Apparently the same vessel went on to Japan. A ship of that name, at all events, reached Hirado in 1613 under John Saris, or Sares—his name is spelt differently by different writers—who was commissioned to open a trading station on behalf of the East India Company. He was not the first Englishman to visit Japan, for he was preceded thirteen years earlier by Will Adams, but the latter was in Dutch employ. Saris established a trading station, but it was unable to compete with the Dutch and was given up, according to some authorities, in 1620; according to others, in 1623. Takekoshi, who gives the former date, says that the Japanese came even to forget the existence of such a country as England until May, 1673, when the *Return* appeared at Nagasaki to negotiate for the East India Company the opening of trade, on the strength of a charter granted under the Seal of Iyeyasu at Hirado fifty years before.[3] From then until 1854, when Admiral Sir James Stirling entered Nagasaki with a squadron of four vessels and the Shogunate agreed to open Nagasaki and Hakodate to English ships, such dealings as we had with Japan were intermittent and to some extent accidental. The term 'commercial relations' would be alto-

[1] Cunningham, op. cit., p. 221.

[2] *A History of Siam*, p. 162.

[3] *The Economic Aspects of the History of the Civilization of Japan*, vol. iii, p. 193 (Allen and Unwin, 1930).

gether too big a one to employ of such episodes as the appearance of an English vessel in Etomo Bay, in search of provisions, in 1796; her reappearance off Yezo in the following year, when she made a few repairs and had her linen washed by the local *sentakuya*; the supplying of provisions to the London whaler which appeared off Awa in April 1822, and similar incidents during the period when British ships were engaged in the fur trade between Canton and the northern Pacific.

Yet to skip the period prior to 1636, after which Japan was closed to foreigners other than the Chinese and Dutch, on the ground that the part which our traders played was insignificant, would be to lessen our ability to understand some of the circumstances connected with our establishment of treaty relations in 1854. Only salient facts, however, need be dealt with—namely, the economic (and political) condition of Japan at this period and the part played by political, as opposed to economic, considerations in the closure of the country to foreign intercourse.

In regard to the first fact Takekoshi says:

'Notwithstanding that in the middle of the Tokugawa period'—1603 to 1867—'economy had reached the national economic stage, yet, owing to the different localities and clans having a commercial system and policy of their own, it is astounding to find the merchants coming from different towns and countries restricted in their freedom of trade. True, such a system and policy existed in England and other foreign countries from the close of the twelfth century to the end of the thirteenth, but in the fourteenth century, with the development of foreign trade, it was swept away by the restless current of economic force. . . . However, such an intensely local system, while passing away in England in the fourteenth century, held sway in Japan up through the middle and quite near to the close of the Tokugawa Shogunate, a further proof that the economic development of Japan is behind that of England by over 300 years.'[1]

Other illustrations of this are also given by Takekoshi. Thus, in tracing the development of Japan from a slave to a wage system, and in explaining the intermediate *fudai* system (in which an inseparable tie of service bound all, from retainers to slaves in successive generations, to their masters) he says: 'When it is remembered that these *fudai* were in reality nothing but slaves enjoying liberty or reformed retainers, or well-treated *bukyoku* (slaves), we can assert safely that the society of samurai was, after all, a changed form of the slave system.'[2]

How far in fact the system had at this stage changed may be judged from a proclamation issued in 1619, containing the following clauses:

'Any person buying the persons of others and selling them shall be imprisoned for one hundred days and fined, according to his position and wealth. Should he fail to pay the fine he shall receive capital punishment.

'After the sale of persons shall be prohibited, the seller and the purchaser of persons, whether *fudai* or *ienoko*, shall pay the fines, both of the sale and the purchase price. The persons sold shall be released and permitted to do as they find suitable to themselves.'[3]

[1] Op. cit., vol. iii, p. 16–17. [2] Op. cit., vol. ii, p. 52. [3] Ibid., p. 55.

Quotation of these passages will not, it is hoped, suggest that the existence of slavery in other parts of the world at this and at a much later date has been forgotten. The phenomenon is cited not from a moral but from an economic point of view. In some economic respects, Japan was on a level with, or not much behind ourselves, in the use, for instance, of bills of exchange and of *tegata* as bank-notes.[1] On the other hand, there is Marquis Matsugata's authority for saying that during the Tokugawa period Japan was destitute of any financial unification except that the right of minting gold and silver belonged exclusively to the Shogunate.[2] Politically Japan presented during this period a ruffianly scene of local feudatories intriguing against one another in an intensity varying with their interest in, and proximity to, a powerless Emperor, of whose existence we remained unaware till after the middle of the nineteenth century. As important in understanding modern Japan as any of these circumstances is the fact that, in the fourfold classification of the people, *shi-ne-ko-sho*, corresponding with the *ssu-min* of China, the highest was the military class, the *shi*.

The closure of Japan to the outside world—except the Chinese and the Dutch—from 1636 on was to a large extent an expression of these facts. 'Historians', says Takekoshi, 'have attributed the closing of the country to the desire of the Shogunate to root out all the Catholic believers in Japan. . . . Then why was it not closed in 1616, when the Catholic influence was widespread and most formidable? . . . The reason why the Tokugawa Shogunate forbade any Japanese to go abroad was not, of course, because they were afraid of Catholicism. . . . The Shogunate closed the country because they were afraid that when the *ronins*[3] went abroad'—Catholic believers were all *ronins*, and all *ronins* were hostile to the Tokugawa Shogunate—'their ambition and boldness would not allow them to rest satisfied with their condition, and would give rise to serious trouble with other countries, or from their strongholds abroad they would plot against the Mother Country.'[4]

China's early reactions to the West were much more complicated. Here again only the main facts need be stated, though that cannot be done quite so briefly. True, one fact can be got quite quickly out of the way, a fact relating to the mechanism of trade—namely, that of banking, paper money, and probably bills of exchange Chinese knowledge and experience was much older than either Japan's or ours. Politically and culturally, too, she was much more mature than Japan. Whether this statement holds good as regards ourselves depends upon whether our political and cultural systems are dated from their indigenous or their Greek and Roman beginnings. If the former, they were in the eighteenth century

[1] Op. cit., vol. iii, chap. lxiv, pp. 45, 49.
[2] *Fifty Years of New Japan*, vol. i, p. 360.
[3] Clanless samurai.
[4] Op. cit., vol. ii, p. 14.

fledglings only as compared with China's. By the time of our first war with China, partly owing to our Industrial Revolution, she was a long way behind us in various economic ways, and owing to the rapidity of our own progress after 1842, the disparity between her and ourselves by, say, 1900 seemed greater than ever, so much so that our relative positions in the seventeenth and eighteenth centuries were on our side to a very large extent, if not completely, forgotten. It may be doubted whether, on hers, that has ever been the case. It is certain that it took all but twenty years—that is to say, up to 1860—to make her realize that both economically and politically she had indeed fallen behind, while for at least another decade the practical significance of this was obscured in the minds of her officials by the low esteem in which our cultural progress was held.

If the reader agrees, broadly speaking, with these generalizations, he will probably see no objection to treating our first two attempts to establish diplomatic relations with the Manchu Government—the Macartney and Amherst missions, 1792 and 1816—which have been fully described so often, and in any case belong to diplomatic and not economic history, as subsidiary and incidental to the facts just stated. On their diplomatic side, the same remark applies to the equally well-known incidents connected with Lord Napier's efforts in 1834 to announce his arrival at Canton 'by letter to the Viceroy', in accordance with the instructions given to him by Lord Palmerston. But as this fact is much more closely connected with the economic history of our relations with China than the other two, while the friction occasioned by Lord Napier's attempt to obey instructions became part of the friction arising from economic circumstances, it may be as well to quote what Morse has to say about it, namely:

'The chief superintendent was instructed that every effort was to be made to conform to all Chinese regulations and to consider all Chinese prejudices, and at the same time was forbidden to call in the aid of the armed forces of the Crown; and yet he was required to adopt a course which would convert him from a mere superintendent of trade'—which was what under the Royal Commissions issued on December 10, 1833, he was—'a *taipan*, as the Chinese would consider it, into a royal envoy, and would break every Chinese regulation and offend every Chinese prejudice.'[1]

This was one of the points at which China's quasi-mercantilist ideas found themselves opposed to those we had so recently adopted. We are apt to overlook the fact that the abolition of the East India Company's monopoly was a breach with the tradition that 'the simplest expedient for maintaining a hold upon foreign commerce, so as to regulate it on wise lines, was to confer special trading privileges on a body of merchants who should be responsible for conducting the traffic in the manner that was most

[1] *International Relations of the Chinese Empire*, vol. i, p. 121 (Longmans, 1910).

advantageous to the realm. This was one reason for the organization of commercial companies, which were much more extensively developed among English traders than among those of any other nation.'[1] Those sentences require some, but not much, alteration to make them an accurate description of China's point of view in endeavouring to control foreign trade at Canton through the Co-hong, which, if it was not an official creation, undoubtedly had, from its beginning in 1720, official support.[2] It is not suggested that China's ideas in respect of the Co-hong were part of a systematized body of thought on economic affairs in general. That may well be doubted, though a good deal of research is required before any definite statement can be made one way or the other. Yet the similarity between the ideas which resulted, in England, in the establishment of monopolistic trading companies and, in China, in the Co-hong is undeniable. The similarity seems all the closer when considered in relation to the fact that from 1757 to 1842 Canton occupied the same position in China's economy as the 'staple' had in ours, the 'staple' being, it is hardly necessary to recall, an appointed place to which merchants were required to take their wool and other staple commodities for sale. 'Its purpose', says Ashley, 'was to bring merchants so closely together that trade might be more easily regulated and supervised, and, especially, in order that the customs duties might be more easily levied.'[3] This further similarity between our methods and China's should not, however, be pressed too far because, prior to 1757, trade had been conducted at other ports—Macao, Amoy, Foochow, Ningpo and in Formosa. Moreover, the idea of having a 'staple' does not appear to have existed in the seventeenth century, for in 1685 an imperial decree opened all ports in China to foreign trade. The East India Company's early efforts included the establishment of a factory at Amoy; it was nearly twenty years later that their first ship was sent to Canton. Furthermore, trade appears to have gravitated to Canton voluntarily, because taxation there was less systematized than at other places.[4]

None of these circumstances, however, destroys the correspondence between the ideas which our traders encountered at Canton and those to which their forefathers had been accustomed in England.

Most of the details relating to trade through the Co-hong need not detain us. They can all be found in Morse and the authorities

[1] Cunningham, *Growth of English Industry and Commerce: Modern Times.* Part I, Mercantile System, p. 215 (Cambridge University Press, 1903).

[2] Morse, ibid., p. 65.

[3] *An Introduction to English Economic History and Theory*, vol. i, p. 111.

whom he cites. In discussing them, however, it is well to realize that the exactions and abuses with which the Co-hong system of conducting trade was associated, the inability of our traders to carry their grievances direct to the provincial authorities, basic differences between British and Chinese ideas in regard to the administration of justice, to which further reference will be made presently, together with the confined and arbitrarily regulated, albeit comfortable, conditions of life in the factories, were all elements in the dissatisfaction which, in conjunction with the opium question, ultimately led to war. In passing, it may be noted that the statement which Morse makes in his monograph, *The Gilds of China*, that 'the Co-hong system worked with little friction', while true of the system as a piece of mechanism, scarcely accords with the general circumstances described in his history.[1]

The introduction of opium into our trade with China is as interesting and important from an economic as from a political and moral point of view. The year 1773 provides the earliest record of English merchants importing it into Canton. Prior to that the trade had been in the hands of the Portuguese, a demand for opium for medicinal purposes having existed in China for many centuries. The habit of smoking it, however, was of comparatively recent origin, and was derived from tobacco-smoking, which was introduced into Fukien Province, through the port of Amoy, by Chinese traders from Formosa early in the seventeenth century. From 1624 to 1662 Formosa was controlled by the Dutch. They introduced the practice of mixing tobacco and opium from Java. At what date the practice was introduced from Formosa into China, whether prior to Dutch occupation of the island or subsequently, is uncertain. The practice of tobacco smoking was itself frowned upon in China, and was forbidden by imperial edict as soon as it appeared. The early Ch'ing Emperors also forbade it, though ineffectually. Whether K'anghsi, who took Formosa and Amoy in 1683, was aware that opium was being used with tobacco is uncertain. But no official notice of the use of foreign imported opium was taken till 1729, when his successor, Yung Chêng, prohibited its sale and the opening of opium divans, without, however, attaching any penalties to the prohibition. Possibly that was because its import was small—some 200 chests a year. By 1773, when English merchants began to handle the drug, the quantity had increased to 1,000 chests a year.[2]

The economic significance of its appearance in the list of our imports into China lay in the fact that, as stated by Mr. Hubbard in the first section of his survey, it provided an acceptable substitute for silver with which we balanced our trade with China for a

[1] See the 1909 edition of *The Gilds of China*, p. 80.
[2] Morse, op. cit., p. 173.

long time. It is worth while to devote a paragraph or two to this point, for in doing so we can bring out others to which reference will be necessary in a succeeding chapter.

Round about 1730 the value of the East India Company's merchandise exports to China from Great Britain was small, and was still small thirty years later, the figure for the years 1758–62 being no more than £58,000.[1] The goods exported consisted almost exclusively of woollens, with a little lead, iron and tin. This was insufficient to pay for imports from China, which consisted chiefly of tea, silk and nankeens (cotton cloth). Accordingly, there was an export from Great Britain of bullion, which during the four years named above, 1758–62, totalled £73,000, a figure later replaced by a much larger annual average. While, however, British manufacturers got little out of the China trade at this stage, the British Government received not inconsiderable amounts. In 1793 the Customs revenue from tea imports amounted to £600,000.[2] In passing, we may note that in 1751 there were at Whampoa nine English, four Dutch, two French, one Danish, and two Swedish ships. In 1789, by which date British merchandise exports to China were approaching three-quarters of a million pounds sterling in value, there were sitxy-one English ships, fifteen American, five Dutch, one French, one Danish and three Portuguese ships. During the next ten years or so the value of merchandise exports had increased to a little over a million pounds sterling, the value being approximately that figure at the beginning of the nineteenth century, when China had become as important as India as a market for British manufactures, whereas at the beginning of the eighteenth century India took twenty times as much.[3]

Of the ships mentioned above, twenty-one were East India Company vessels. Some forty were 'country' ships, ships—that is to say—engaged in trade between India and China. By that date the sale of opium to China had come to be controlled by the East India Company, which some sixteen years earlier had assumed a monopoly over all the opium produced in Bengal, Behar, and Orissa. Raw cotton was still the more important export to China from India, and remained so till about 1823, but the amount of opium imported at Canton was increasing rapidly. In 1796 it totalled 1,070 chests, and the edict of 1729 prohibiting its use was renewed. Four years later, as stated in Mr. Hubbard's survey, its import was prohibited. So, too, was its cultivation in China. From that date the Company and the Co-hong merchants ceased to handle opium at Canton. The Company's ships, indeed, ceased to carry it at all. In India, however, acting in its governmental

[1] Sargent, *Anglo-Chinese Commerce and Diplomacy*, p. 49.
[2] Ibid., p. 53.
[3] Ibid., p. 49.

capacity, the Company continued to sell it by auction, and to derive revenue from it. For the next few years China's importations were effected through delivery orders, issued in disregard of the 1800 edict, to Chinese merchants who were not members of the Co-hong and received it at Macao, or from the ship's side at Whampoa. Later, owing to a contretemps between the officials concerned, this practice was discontinued, and the opium was discharged into receiving ships stationed at first outside Chinese waters and later at Lintin, which was actually inside them, the ships moving to Kapsingmoon, Kapsuimoon, and Hongkong anchorages during the south-west monsoon. Between 1811 and 1821 the annual average of chests imported in this way was just under 5,000. Between 1821 and 1828 it was over 9,700. After 1828 store ships were stationed off Namoa on the Kuangtung-Fukien border and further north, and between 1828 and 1835 the annual average import was over 18,700.[1]

The trade resulted in an outflow of silver from China. Down to 1831 the net balance in the interchange of specie remained in China's favour. From 1831 the tide turned. The import was reduced to small amounts and the trade could be balanced only by increasing shipments of treasure.[2] Thus arose a second clash with China's quasi-mercantilist ideas. In this instance, as in the one already discussed, the parallel between our seventeenth- and eighteenth- and China's nineteenth-century ideas ought not to be closely drawn. Still, there is a parallel. Thus, in reviewing the criticism brought against the East India Company in the seventeenth century, Cunningham says:

'Another objection, and one which was much more difficult to meet, arose from the fact that the Company could not expect any large demand for English products in the East; they were forced to carry on their trade by exporting bullion to India and thus drawing upon the supply of treasure at home. This difficulty was strongly felt from the first, and the Committee of Governors were ready to listen to any proposal for obviating it.'

Elsewhere he says of the same period:

'The calculation of the balance of trades as a whole, of the balance obtained by particular trades, came to be regarded as a matter of great importance; it was the only possible means of seeing how far the current expedients for the introduction of treasure were working well or needed to be recast. While the particular balance in each trade was supposed to show which branch of commercial intercourse was beneficial and which was "hurtful" the general balance served to indicate how much of the precious metals the King might hoard in any given years without withdrawing money from circulation.'

During the greater part of the eighteenth century the balance of trade was looked at also from the point of view of domestic employment. Where commodities were being bought from abroad and

[1] Morse, ibid., pp. 180, 182. [2] Ibid., p. 202.

paid for in bullion, we were exporting the means of employing our own poor; whereas, where we paid with goods, we were finding employment for them.[1]

Any one who cares to compare these quotations with the memorial in favour of legalizing the trade sent to the Emperor in 1836 by Hsu Nai-tsi, Vice-President of the Sacrificial Court at Peking and formerly Provincial Judge at Canton, will find similar emphasis both upon the currency aspect of the outflow of silver and the desirability of paying for opium with goods. The matter of employment is not touched upon, but that it was not entirely absent from the minds of Chinese who discussed the problem is suggested by the memorial of the President of the Board of Rites, Chutsun, who in opposing the legalization of the trade and the relaxation of the regulations against the production of domestic opium, stressed the effects of such measures upon food production. To recount the events to which our desire to continue, and China's wish to end, the opium trade gave rise is unnecessary. Everybody knows that, in combination with the other circumstances reviewed above, they resulted ultimately in war. But thoroughly to understand the origins of the war, and the treaty-port system which forms the subject of the next part of this book, it is desirable to review briefly three remaining groups of facts—namely, the effects upon trade of the abolition of the Company's monopoly, the position of British subjects before, and after, that event in relation to China's judicial system (a matter so closely related to the commercial circumstances of the time as to be practically inseparable from them), and the indebtedness of the Co-hong merchants to the Company and to individual traders and firms.

The first set of facts is adequately covered by reproducing the following familiar table showing the expansion of imports into, and exports from, China during the year 1836–7 as compared with the year 1831–2. Figures are in dollars and movements of treasure are excluded.[2]

	English	*American*	*Total*
Imports, 1831–2 . . .	20,520,027	2,383,685	22,903,712
„ 1836–7 . . .	34,435,622	3,214,726	37,650,348
Increase	13,915,595	831,041	14,746,636
Exports, 1831–2 . . .	13,216,483	5,999,732	19,216,215
„ 1836–7 . . .	25,339,284	9,527,139	34,866,423
Increase	12,122,801	3,527,407	15,650,208

[1] Op. cit., pp. 258–9, 395–7.

[2] Morse, op. cit., vol. i, p. 168.

Of the imports into China, most of the above totals was made up, in both years, by opium and raw cotton, though in the second year the proportion of other commodities was slightly larger. Between 1835 and 1839 the annual average import of opium rose to over 30,000 chests, Americans specializing in Turkey opium. To some extent this increase was due to the likelihood, as it seemed to many, including Captain Elliot, the Chief Superintendent, that the trade would be legalized. To some extent it was due to an increase in the number of traders who interested themselves in the trade. In 1832 the total of foreign traders had been 137; in 1837 it was 307, excluding permanent residents in Macao. Amongst commodities other than opium, woollen goods were still more important than cotton manufactures. It was not until 1840 that this was reversed.[1]

In regard to the position of British traders in relation to China's judicial system during this period, a statement not infrequently made is that that experience forced a system of extra-territoriality upon them. This is only partially true. The historical fact, as Mr. G. W. Keeton has shown, is that 'the agents of the East India Company in China resisted Chinese jurisdiction as a matter of course, since they had already adopted a precisely similar policy in India and Japan, following the accepted view that a British subject always remained under British protection wherever he went in the Far East'.[2] Thus article 10 of the 'contract of peace' made on September 7, 1642, between the Company's representative and the Mogul Governor of Surat provided that 'in case of quarrels between Englishmen the English captain to decide; if between Englishman and Mussulman the captain and the Governor together shall decide'. The grant of privileges which Saris obtained in Japan in or about 1613 provided that 'all delinquents be punished by their own magistrates and according to their own laws, without appeal to the civil power of the nation, which has no power over their person or goods'. Similarly, rights of jurisdiction were, from the first, reserved to the Company in Siam and Sumatra. Accordingly, one of the first things the Company did when it began trading regularly with China was to make an agreement with the Hoppo at Canton whereby its servants were to be under its own jurisdiction. This was in 1715, before the development of regular residence at Canton in factories began. Experience of Chinese judicial administration during subsequent years—an experience which was composed to a greater extent of observation than contact—thoroughly justified the attitude and policy of the Company in the minds of the commercial community as a whole. But both attitude and policy were in the first instance *a priori* in

[1] Morse, op. cit., pp. 168, 346. Remer, op. cit., p. 29. [2] *The Development of Extra-territoriality in China*, vol. i, pp. 78–81 (Longmans, 1928).

character, and represented part of the stock of ideas with which our traders began their activities in the Far East.

Americans, as Morse points out, took, during these years, a different attitude. 'They', he says, 'were "free-trade" intruders into a world of monopoly, for the purpose of trade, and they subordinated everything to that purpose. A young nation, with no feudal past, their own criminal laws were milder than those of other nations, East or West, but in going to China they adopted the position embodied in the declaration made on the occasion of the Terranova trial—"We are bound to submit to your laws while we are in your waters; be they ever so unjust, we will not resist them". This attitude was maintained consistently until Caleb Cushing took up the question of extra-territoriality in 1844.'[1] His action in doing so provided clear confirmation both of the facts, and of the inferences drawn from them, which had accumulated during the previous century. But it would be unhistorical not to recognize that during that century the East India Company's policy was in the first instance based upon considerations which did not originate in China at all.

Prior to 1834 civil suits between foreigners and Chinese—or, rather, such disputes as would have given rise to them had they been taken into court—were settled privately, except in the instances of debt about to be recalled. As between Chinese and foreign traders, no criminal cases arose: they arose only between Chinese and the crews of ships. These were few in number. When a foreign seaman lost his life in an affray on shore, the guilty Chinese—or such other Chinese as could, in Chinese law, be made responsible—was punished. When Chinese life was lost at the hands, apparently, of foreign seamen, we required that the person who actually struck the blow should be identified before being handed over for punishment. Our law, moreover, in some of the cases referred to, regarded accident, in others self-defence, as the governing fact. In one instance only did we ignore these principles. Though the occasions on which they were involved were few, the principles themselves were fundamentally different from those of Chinese law, and to our traders and officials this was a matter of great concern. Possibly it formed an element in the concern which the Chinese on their side evinced in 1831, when the end of the Company's monopoly was believed to be approaching, together

[1] Op. cit., pp. 109–10. Terranova (spelt by Keeton, Terranovia) was a sailor in the American ship *Emily*. He was alleged to have caused the death of a Chinese woman by throwing a jar at her and knocking her out of her boat, which was alongside selling fruit. The Chinese magistrate held a trial on the *Emily* and refused to accept the American version of the affair, which denied that the woman's fall from her boat had been caused by the sailor. The magistrate left the ship and presented a formal demand for Terranova's surrender. Ultimately he was given up and executed by strangulation, the affair causing much indignation among the Select Committee of the East India Company.

with the control over traders which the Company had been able to exercise. At all events, when the Company's régime was replaced by the appointment of three superintendents, one of the Orders in Council making the change referred specifically to the desire of the Chinese Government that effectual provision should be 'made by law for the good order of all his Majesty's subjects resorting to Canton', while another established a court with criminal and admiralty jurisdiction, to be held at Canton or on board any British ship at Canton, placing at its head the Chief Superintendent for the time being. The first recorded case of the court thus constituted was for the trial of sailors accused of the murder of Lin Wei-hi in 1839, when the opium dispute had reached a crisis.[1]

To turn to debts incurred by Co-hong merchants and not settled in the ordinary course of business. The various sums involved between the years 1774 and 1829 totalled, according to the details given by Morse, $15,831,421. Most of the indebtedness was to individual firms and traders and most of it, after varying periods was paid off by the Co-hong acting collectively, some amounts being scaled down. In 1836, however, a new member of the Co-hong suspended payment owing $2,738,768, of which $2,261,439 was approved by a joint committee of investigation, one of the creditors, it may be noted in passing, being Jardine, Matheson & Co., who claimed $2,158,349, partly on behalf of themselves, partly on behalf of English constituents. Much difficulty was experienced in getting these debts, and others which were added to them, paid, and the creditors presented their case to Lord Palmerston. Final arrangements were made for their payment by annual instalments, and a proportion of the amount owing was received. The balance, however, was not paid till after the signature of the Treaty of Nanking, which dealt with the debts in Article V.

In concluding this part of the pre-treaty period, it seems desirable to link the brief reference a few paragraphs back to the use made of Hongkong waters in conducting the opium trade with the ideas and suggestions which, in retrospect at all events, link the island and Kowloon with their post-1842 history.

Between 1815 and 1836 various recommendations were made for the establishment of some *point d'appui* near the China coast from which pressure might be brought to bear on the Chinese Government, or whence trade might be conducted. In 1815 the President of the Select Committee of the East India Company's Supercargoes at Canton, Elphinstone, suggested that a high diplomatic plenipotentiary should be established 'on a convenient station on the Eastern coast of China'. In 1833 Sir George Staunton, the

[1] Morse, op. cit. p. 119. Keeton, op. cit. vol. i., p. 147.

translator of China's Penal Code, moved a resolution in the House of Commons to the effect that, in the event of its proving impracticable to replace the influence of the East India Company by any system of national protection, it would be wise to withdraw altogether from the control of the Chinese authorities and 'to establish the trade in some insular position on the Chinese coast'. In the same year Sir J. B. Urmston, who had been at the head of the British factory in Canton in 1819–20, published a pamphlet advocating the use of Chusan as a commercial centre. An anonymous writer in Canton then reviewed, amongst other suggestions, the occupation of the island of Lantao, near Hongkong. In 1834, in an official dispatch to Lord Palmerston, Lord Napier recommended that a small British force 'should take possession of the island of Hongkong, in the eastern entrance of the Canton River' pending the conclusion of a commercial treaty, and two years later a correspondent of the *Canton Register* urged that 'if the lion's paw is to be put down on any part of the south side of China, let it be Hongkong'.

In the spring of 1839, as all will remember, events began to follow in the train of these ideas. Confronted with the crisis of the opium question, Captain Elliot ordered all British ships to proceed to Hongkong and placed them under the protection of the Navy. In the summer, during a riot on the Kowloon side of the harbour, the Lin Wei-hi mentioned a few paragraphs back was killed, and the Chinese authorities, refusing to acknowledge the jurisdiction of the court which tried the British sailors involved in the riot, took steps to force the British residents who had left Canton under Captain Elliot's instructions out of Macao. From Macao they sailed for Hongkong in small boats, schooners and *lorchas*, crowded with passengers, the little fleet presenting 'an affecting spectacle as it moved slowly away from the harbour'.[1] Arrived there, the refugees found the appearance of affairs depressing. 'On one side of the harbour there was a well-nigh barren rock, unable to supply provisions for the two thousand British subjects now crowded together on shipboard in a starving condition, and on the other side they beheld a large Chinese camp in process of construction on Kowloon peninsula.'[2] Confronted there with the threat of attack by fire-ships and war junks, Captain Elliot ordered all British ships to Tungku. But the commanders of thirty-five ships and the heads of twenty firms, together with the agents for Lloyds and for eleven insurance offices, protested against the order, believing they were better off where they were.

And then, as all will remember, H.M.S. *Volage* and *Hyacinth* sailed for the Bogue and there ensued the naval Battle of Chuenpi, which led to the cession of Hongkong.

[1] *Chinese Repository*, August, 1839. [2] Eitel, *Europe in China*, p. 103.

IN the course of their trade the East India Company had acquired knowledge of Malaya and had given instructions to likely men to look out for a suitable spot at which to establish a trading station. One of them was Francis Light, a shipmaster, who had considerable dealings with the Malay State of Kĕdah. He suggested that Penang, which had been visited by Captain Sir James Lancaster in 1592, should be occupied, opened negotiations with Kĕdah, was listened to favourably, and proceeded to Calcutta with a letter from the Sultan. He described what happened there in a letter from Penang, dated June 1787, addressed to Lord Cornwallis, in the following terms:

'On my arrival in Calcutta,' he said, 'I found Mr. Macpherson in the chair, who readily accepted the King of Queda's [i.e. Kĕdah] offer, but declined taking Salang, as it would have required a greater force than could with any degree of convenience have been sent. . . . Not only the commanders of the British vessels, but foreigners, continually complained of there being no place of safety east of the Bay of Bengal for ships to take shelter in and refit at. Every one seemed to think it a duty incumbent on the English East India Company, they enjoying the greatest possessions and the readiest means of effecting it.'[1]

Prior to the writing of this letter, on July 14, 1786, Light, with the approval of the East India Company, sailed into Penang, and during the next few days landed troops, stores, and guns. On August 11 the British flag was hoisted, the island being called Prince of Wales Island. The story of the terms and conditions on which the Sultan of Kĕdah ceded Penang, and of our disregard of them and retention of the island notwithstanding, belongs to political history and is set out in full in the work cited above.

Light was instructed by Sir John Macpherson, then Governor-General of India, to 'refrain from levying any kind of duties or tax on goods landed or vessels importing; . . . it is our wish to make the port free to all nations'. Sir John Macpherson's successor, however, a year later acquiesced in Light's suggestion—made reluctantly and because adequate revenue did not appear to be forthcoming in any other way—for import duties ranging from 4 to 6 per cent. They were imposed, began at once to damage the trade of the port, and were gradually given up. In 1795 we occupied Malacca, where the Dutch had established themselves in 1641. It surrendered to an expedition under command of Captain Newcome of the *Orpheus* and Major Brown of the East India Company's service in August that year.

From Malacca an expedition was dispatched in 1811 against Java, where the French, with whom we were at war, had that year hoisted their flag at Batavia. The force was under the personal direction of Lord Minto, whose chief Intelligence Officer was

[1] Swettenham, *British Malaya*, p. 35 (John Lane, 1929).

Stamford Raffles. Raffles was born on July 5, 1781, and at the age of fourteen became a clerk in the offices of the East India Company in Leadenhall Street. Ten years later he was sent out to Penang and about 1807 visited Calcutta. Reports of his personality and of his keenness in learning all he could both of the Malay language, the Malay people and their country had probably preceded him. At all events, the Governor-General recognized his exceptional gifts and sent him back to Malaya with the title 'Governor-General's Agent in the Eastern Seas'. Now, upon the defeat of the French, he was made Lieutenant-Governor of Java. Returning to England, he was in 1817 appointed Lieutenant-Governor of Bencoolen ('a miserable, out-of-the-way place, to which he was sent by those who feared his restless energy', says Sir Frank Swettenham[1]). 'The Moving Finger writes; and having writ, moves on.' At Bencoolen Raffles, who had been insisting upon the necessity of finding a suitable spot on which to establish a British settlement, was instructed to proceed to Achin, to negotiate for a locality there, and to endeavour to establish 'a station beyond Malacca'. According to Swettenham, the port of Rhio was specifically named. Failing that, he was directed to 'endeavour to establish a connexion with the Sultan of Johore'. At this moment Colonel Farquhar, who had been Resident at Malacca, was about to return to England, for Malacca was to be given back to the Dutch under the terms of the Treaty of Vienna. Calcutta, however, instructed him to postpone his departure, and to place himself at the disposal of Raffles. Raffles, apparently at the instance of the Government of Penang, postponed his visit to Achin, sailed down the Straits, picked up Farquhar at some point unrecorded, looked in at, and decided against, Siak and the Karĭmun Islands, and either by accident or design landed at Singapore. Here he found exactly what he wanted. A preliminary treaty was made with the local Malay chief, the Dato Tĕmĕnggong, a more formal one being signed on February 6, 1819, by Raffles on behalf of the East India Company and by Sultan Husein of Johore (and the Dato Tĕmĕnggong). A further arrangement, dealing with administrative questions, was entered into on June 16, 1819; another agreement was made in June 1823, and a final treaty, in the terms of which we held Singapore till the Japanese drove us out of it, was concluded on November 19, 1824.

It may be added that when the East India Board heard of the events they were furious, the Ministers of the Crown being 'excessively angry'. 'Had it not been for Raffles', says Sir Frank Swettenham, 'his insistence, his arguments, his labours to secure supporters for his scheme, it is certain that Singapore would have been abandoned by the British.'[2]

[1] Op. cit., p. 65. [2] Op. cit., p. 71.

Malacca, which changed hands between ourselves and the Dutch twice, finally became ours in 1824, when we exchanged Bencoolen for it. By this time Raffles, who between 1819 and 1823 had visited Singapore from Bencoolen three times, and had laid the foundations of the Settlement's later life, had retired to England. He had suffered personal misfortunes of a shattering kind and reached home a sick man. There (like many another 'Pro-Consul', 'Imperialist', builder of 'greatness'—there are many more such terms in the vocabulary of friendly and unfriendly appraisers) he met with coldness and criticism, with charges and with claims. Worn out, he died at forty-six.

Considered as background of British Far Eastern policy in the diplomatic sense of the term, the economic importance of Burma, Borneo, and Siam is not easy to assess in relation to the detail in which the events of these early years should be described. It is only quite recently that Burma has been thought of in Far Eastern terms, as forming, that is to say, an integral part of the Far Eastern picture. Burma has had, needless to say, Far Eastern relationships, both economic and political, as India has had, and on a far larger scale. But it was not till after 1937, with the outbreak of the second Sino-Japanese War and the building of the Burma Road, that Burma came to have the importance of a major Far Eastern factor. Up till then its political, like its economic, life was in the main a department of India's. Again, our economic interest in Borneo was of a minor character up to the relatively recent discovery of its possession of oil. Siam and Malaya were of political importance to one another during these early years, as were Siam and Burma; while the collective importance of all three in China's economic life was also considerable and became increasingly great after, and partly as a result of, the establishment and development of Hongkong as a British colony. Gradually this complex of relationships, combined with our interests in China, became one of the main factors in the formation of the Anglo-Japanese alliance and, when the alliance was given up, became one of the factors in the decision to build the Singapore naval base. On the whole, however, it would seem that, taken in conjunction with the above brief sketch of their significance in Far Eastern affairs, only the main facts about our beginnings in Burma, Borneo and Siam are necessary.

A British trader—Ralph Fitch—visited Burma as early as 1586. He visited Pegu, but spent most of his time in Chittagong, at that time subject to Arakan. The East India Company established factories and agencies at the beginning of the seventeenth century at Syriam, Prome, Ava, and Bhamo. With other European traders, Portuguese and Dutch, ours were expelled, in consequence of rivalries and quarrels, in the middle of the century, ours

returning in 1698, when a factory was built at Syriam and agencies were established at Bassein and Negrais. Syriam was destroyed by Alaungpayā—also called Alompra (the title means embryo Buddha)—in 1756, the British traders, who had suffered imprisonment at the hands of the Mōn, being set at liberty. At this time, however, British traders took an interest in the sale of arms. It was found that they had supplied the Mōn with them, and as a result their depot at Negrais was attacked and destroyed in 1759. Redress sought by the Madras Government was not forthcoming, but a grant of land was made to the British at Bassein.

Following the conquest of Arakan in 1783 by Bodawpayā and the settlement of people of the province in British territory at Chittagong, friction began with the Indian Government—at that time somewhat pre-occupied by war with Tippoo Sultan and trouble with the Mahratta. A 'strong' policy was not thought advisable and Government representatives sent to negotiate between 1795 and 1811–12 were treated with little respect. Then, however, it appeared that schemes were afoot in Burma for attack upon Eastern Bengal, a forward movement presently resulting in the occupation by Bagyidaw, Bodawpayā's successor, of Manipur and in 1822 of Assam. The Raja of Assam took refuge in British territory, a demand for his surrender being refused, whereupon Kachār, which was under British protection, was invaded in 1824. A little earlier the island of Shapuri, close to the Chittagong shore, had been attacked. The result of these events was the first Anglo-Burmese War, the outcome of which was the Treaty of Yandabu, concluded in 1826, whereby we acquired Assam, Arakan, and the coast of Tenasserim, including the portion of the province of Martaban east of the Salween River, provision being made for the conclusion of a commercial treaty. This was signed at Ava in 1826, but proved of no effect.

Further friction, which included the seizure and fining of the masters of British ships, led to a second war in 1852 and the annexation of the Irrawaddy Delta up to and including Prome, besides the Sittang Valley, the annexation being formally proclaimed in January 1853. Ten years later, when (as we shall again see) Arakan, Pegu, and Tenasserim were amalgamated, a second commercial treaty was signed. This provided for a 5 per cent *ad valorem* duty on imports and exports, earth-oil, timber, and precious stones being treated as royal monopolies. British subjects were given the right to trade anywhere, a mixed court being established for the trial of cases between British and Burmese subjects. A Burmese resident was appointed in Rangoon.

During the period sketched above Rangoon, taking the place of Syriam, had been gradually developing commercially. Prior to the first Burmese War, however, its development had been slow,

the utmost amount of tonnage likely to find employment annually between Rangoon and Calcutta being in 1822 estimated at 5,400 tons. Between 1826 and 1852 the average number of entrances and clearances was 125, of which the majority were in respect of Indian, Chinese, and Malayan trade. After the annexation of Pegu in 1856 the pace of development increased. The teak trade and Moulmein, the rice trade and Akyab, saw-mills and ship-building were the ripening fruits of this growth.[1]

In Borneo, as elsewhere, we were preceded by the Dutch, who entered into relations with the Kingdom of Sambas as early as 1609. Sporadic competition between them and ourselves became more marked in the early years of the nineteenth century. In 1839 the picturesque yet highly practical and successful figure of James Brooke appeared upon the scene. Invited by the Malay Sultan of Borneo, Mudas Hassim, to help in quelling a rebellion, he was rewarded with the grant of a strip of territory about sixty miles long by fifty wide, on the north-west coast of the island, and with the title of Rajah of Sarawak. This territory was subsequently enlarged to an area of about 300 by 100 miles by the inclusion of the entire valleys of the Batang Lupar, Rejang and Bintulu Rivers. Kuching became the capital, its population in 1848 being estimated at 6,000.[2]

In 1846 a further settlement was established in Borneo by the British Government's purchase from the Sultan of Labuan, a small island nearly opposite the mouth of the Brunei River.

Siam, as we have seen, was first visited by a British ship in 1612, the fact being mentioned where it was because, in the light of recent events, the continuation of the vessel's voyage to Japan becomes an illustration of the way in which history strews its path with what appear to be accidents and later converts them into links. This particular link is, indeed, but a small one, which becomes, however, the more interesting when the fact is recalled that Siam's history at this period makes frequent mention of the Japanese. They visited her shores as traders and became involved, as Wood's *History of Siam* shows, in her domestic politics, even at that early stage in the *va et vient* of Far Eastern affairs. Our part in Siam's history in the seventeenth century was represented by the East India Company's factory at Ayut'ia and the employment of a number of British subjects by the Siamese Government, some of them being former servants of the Company. The factory was destroyed by fire in 1682, probably owing to the carelessness of Samuel Potts, who appears to have been in charge of it. Another very English name is that of Samuel White, one of the men who

[1] Sir George Scott, *Burma, a Handbook of Practical and Political Information* (Daniel O'Connor, 1921).

[2] A. R. Wallace, *Compendium of Geography and Travel; Australasia*, p. 377.

transferred from the Company's to Siamese employment. He, it would seem, was a man of considerable enterprise, for he engaged in trading expeditions on his own account, his vessels trading with Mocha, Acheen, and Pondicherry. Hostilities, however, broke out between Siam and the Company—a probability being that the latter disliked seeing its men entering Siamese employ and disliked still more the intrusion of interlopers into their trade. White's vessels were seized and the matter came before Parliament in the form of a petition to have the decision of a Court of Admiralty set aside. However, it failed.

Economically speaking, these early years are unimportant, but they are informative in respect of extra-territoriality. Thus Keeton says:

> 'The exercise of extra-territorial jurisdiction by Europeans in Siam seems to have been general during the seventeenth and eighteenth centuries, for a treaty concluded with the Dutch East India Company in 1664 secures the privilege for Dutch subjects in criminal cases, whilst a French treaty of 1685 provided that a special officer should be appointed to hear and judge all cases involving Christian converts and another of the same year reserved to the Chief of the French East India Company jurisdiction in cases involving French subjects alone, and in cases where French subjects were accused of theft or some other offence, but in other cases civil or criminal between French subjects and non-French merchants there was to be a joint trial by the captain of the French and the Siamese judges. . . . In disputes between servants of the Company and Siamese the Siamese had jurisdiction, but the chief of the Company could be present in court and apparently had a voice in the judgment.'[1]

By the beginning of the nineteenth century, however, there appears to have been a change both of outlook and practice. A treaty made by our East India Company and Siam provided that 'English subjects who visit a Siamese country must conduct themselves according to the established laws of the Siamese country in every particular'. This treaty, which was negotiated by Captain Burney, followed upon an unsuccessful effort to negotiate one made by the Company's representative, Dr. John Crawford, in 1822. It provided that trade should be free, but limited it to certain places. A commercial treaty negotiated by Sir John Bowring in 1855 was, as we shall see, more detailed and comprehensive.

[1] Op. cit., vol. i. pp. 84–5.

PART II

THE TREATY-PORT SYSTEM

Reasons for including a Detailed Review of the Treaty-port System in this Study—Specific Rights included in the Review: Freedom from Monopolies, the Tariff and other Forms of Taxation, Navigational Rights, Most-favoured-nation Treatment, Extra-territoriality, Concessions and Settlements, the International Settlement at Shanghai, the Chinese Maritime Customs, Hongkong's Relationship to Chinese Customs Administration—The Open Door—Prestige—The Treaty-port System in Japan—in Siam—Resolution adopted by the Ratepayers of the International Settlement at Shanghai on April 17, 1941

THE conflict with China lasted, though not continuously, till 1860. There was a treaty settlement in August 1842, followed by a restless peace lasting till May 1857. A second treaty settlement, by which the Chinese Government had not really determined to abide, was followed by another outbreak of hostilities in June 1859. Finally, a third treaty settlement was reached in the following year. The third war, says Morse, 'conducted with adequate forces, finally brought China to her knees. . . . At last they had learned the lesson that only the mailed fist could guard their house'.[1]

The three settlements laid the foundations, and built most of the framework, of what is known as the treaty-port system, within which, in China, British, like American, interests grew to the proportions attained prior to Japan's invasion of the country in 1937. Between 1860 and 1890 the framework was extended, but nothing new in kind was added to it till after the Sino-Japanese War of 1894–5. As a consequence of that and of the political competition amongst the Powers alluded to in the first section of this book, the treaty-port system, which had hitherto consisted in the main of commercial, navigational, residential and judicial rights, was amplified by industrial rights and became associated on a scale much larger than it had hitherto been with territorial leases and administration.

The system in Japan lasted for a comparatively short period, from 1858 to 1894, and will be dealt with briefly at the end of this part. The system in Siam lasted till 1926 and will also be dealt with at the end of this part.

The fact that the treaty-port system in China is by treaty about to disappear (when the present world war is over) does not diminish the necessity for describing it in some detail. For apart from the

[1] *International Relations of the Chinese Empire*, vol. i, p. 617.

fact—or what the writer regards as a fact—that British and other foreign interests in China neither would, nor could, have assumed the dimensions and form which characterized them up to December 1941 without the help of the system, their future seems likely to depend to no small extent upon the spirit, and therefore the manner, in which the system passes away and upon the nature of the one which succeeds it, these contingencies being likely to react upon one another in a variety of ways.

Assurance to traders in China of freedom from monopoly, of a wider field of activity than that presented by Canton, of systematized taxation of goods and shipping, of direct access through British officials to the Chinese authorities and of provision for the differences between Chinese and British judicial conceptions and practices—which, as we have seen, were the prime requisites disclosed in the pre-treaty period—were all determinants of the Treaty of Nanking, 1842, the Treaty of Tientsin, 1858, and the Convention of Peking, 1860. Instead, however, of tracing laterally the development of various parts of the system resulting from these treaties—tracing them, that is to say, by going from one to the other as each treaty left them—it is proposed to deal with them vertically—that is, from inception to completion.

Freedom from monopoly, in a sense the progenitor of the 'open door', was explicitly provided for by Great Britain in her first, and by the United States in their first, treaty with China. Neither treaty, however, precluded the granting by the Chinese Government of franchises for the supply of public utilities such as waterworks, electric light and wireless installations—a development which came automatically later on. A wider field of activity than that which had been furnished by Canton was also provided for in our first treaty with China, the Treaty of Nanking, which established a number of treaty-ports. A list of treaty-ports will be found in the Appendix. A glance at the map will show that many of them—and many of the places called 'marts'—places opened to foreign residence and trade by China herself, either spontaneously or in pursuance of an agreement concluded voluntarily—are situated far from the sea-coast, the usual location of a port. By the Treaty of Nanking, 1842, the gateway ports along the coast from south to north were opened, Canton, Amoy, Foochow, Ningpo, and Shanghai, the island of Hongkong being by the same instrument ceded to us in perpetuity. The Treaty of Tientsin, 1858, added four more ports in the south: on the mainland Swatow, on the island of Hainan, Kiungchow, and, on that of Formosa, Taiwanfu and Tamsui. In the north this treaty added Niuchwang and provided that British merchant ships should have authority to trade upon the Yangtze. On the Yangtze it added Chinkiang, Nanking, Kiukiang, and Hankow, though they were not actually

opened in that year. Tientsin was opened in 1860 in accordance with Article 4 of the Convention of Peking, which also ceded to Great Britain in perpetuity part of Kowloon. By 1877 two further ports, Wuhu and Ichang, had been opened on the Yangtze, together with several ports of call situated on its banks, while the opening of a third port, Chungking, had also been provided for. Two more had been added in the south, Pakhoi and Wenchow. Thus well before the end of Mr. Hubbard's first period there had been a wide and effective distribution of *points d'appui* for British and other foreign commercial, banking, and shipping enterprises in China, notwithstanding their restriction to specified localities. During his second period, from the first Sino-Japanese War of 1894 to the outbreak of the First European War in 1914, *points d'appui* were multiplied profusely. Not all of them, by any manner of means, were opened at Great Britain's instance, though it was at hers that Samshui, Kongmoon, Wuchow, Nanning, and Tengyueh were opened during this latter period.

Another piece, or section, of the framework, a piece which ceased to be important about fifteen years ago, when China acquired tariff autonomy, comprised the tariff arrangements which the Treaties of Nanking and Tientsin made. The Treaty of Nanking provided for a 5 per cent import and export tariff, and arranged that imports after payment of import duties might be conveyed into the interior free of all further charges except transit dues. The Treaty of Tientsin provided that the latter might be compounded by paying a single charge of 2½ per cent *ad valorem*, on payment whereof a certificate known as a 'transit pass' might be issued, exempting the goods from all further inland charges whatsoever. At that time the only inland charges were dues collected by the native, as distinct from the maritime, Customs (which, as we shall see presently, were early brought under foreign supervision) and dues known as *likin*. Later, however, the Chinese introduced other internal taxes, amongst them one known as *Lo-ti*, a tax leviable on goods after they had reached the destination prescribed in the transit pass, and consumption taxes. How soon might these be levied after the freedom conferred by transit passes could be said to have ceased? There were innumerable disputes and invocations of treaty rights over this question. But such disputes, vexatious though they were, when considered retrospectively only throw into relief the fact that from 1842 to 1928 the entry of foreign goods into China, the manufacture of goods by foreigners in China, and the export of Chinese goods abroad were systematically made by ourselves in conjunction with the United States, Japan, Germany, France, and other Powers as fiscally easy as possible. Moreover, as a consequence of extra-territoriality, British, like American, Japanese, French and other foreign traders resident in

China, were for a long time entirely immune from direct taxation payable, except in the form of land tax, to the Chinese Government. To a large extent this was still a characteristic of the treaty-port system at the time of the outbreak of war between ourselves and our Allies with the Japanese.

Before turning to extra-territoriality, it is convenient to describe another piece of the framework, our navigational rights. Up to December 1941 the coastal trade of China was to a large extent carried in British ships. So, too, up to the outbreak of the Sino-Japanese War was the trade of the Yangtze and of the Pearl Rivers, while what are known as inland waters gave employment to a considerable amount of tonnage flying the British flag. How did this situation come about?

Neither the first, nor the second, of our treaties with China gave our traders any right to convey Chinese produce on a voyage originating in one Chinese port and ending in another. In making their first treaty, in 1844, the United States had provided that 'if a master of any vessel in port desire to discharge a part only of the cargo, it shall be lawful for him to do so, paying duty on such part only, and to proceed with the remainder to any other ports'. And our Treaty of Tientsin, 1858, in laying down the procedure to be followed by British vessels on arrival at a port, also provided by implication for her continuing her journey to others. But prior to 1861 the treaty regulations neither recognized nor provided for the conveyance of Chinese produce from one to another Chinese port, except in the case of peas, beans, rice, and copper-cash.[1] Yet a large coasting trade had grown up. 'The right to participate in the coasting trade of China has never been granted to British subjects by express enactment', wrote the Canton merchants to Lord Elgin on November 18, 1857; 'but as this is now well established, and is rapidly growing in importance, it has become very requisite to guard and define it by specific regulations.'[2] To quote Morse, 'on sailing from a Chinese port the ultimate destination of their [i.e. foreign vessels] lading could never be positively certified in advance and the customary export duty was therefore levied on it; on arrival at a second Chinese port, however, the provenance of the cargo was capable of certification, and on production of the necessary proof, not an import duty, but half that rate was levied as representing the transit dues which must have been paid on inland transit'.[3] This system of inter-port carriage of goods in foreign vessels was in existence when war broke out between the Allies and Japan.[4] A definite stage in its development was reached

[1] Sir Robert Hart to Tientsin Commissioner. Quoted by Morse on p. 155, vol. ii, *International Relations of the Chinese Empire.*

[2] Ibid., vol. ii, p. 154.

[3] Ibid., vol. i, p. 568.

[4] It is not generally realized, perhaps, that foreign vessels are allowed to carry goods between the United Kingdom's ports.

in 1861, when, as shown in the letter referred to above from the Inspector-General of Customs to the Commissioner of Customs at Tientsin—the origin of these officials will be described presently—varying practices at the treaty-ports in respect of taxation were made uniform. Then, in 1863, Article 44 of Denmark's treaty with China provided that 'Chinese produce may be carried from one port to another on paying tariff duty at the port of shipment and coast trade duty (the amount of which shall be one-half the tariff duty) at the port of discharge. Chinese produce brought in from another port, if re-exported coastwise within twelve months, will be entitled to a drawback certificate for the half-duty paid, and no export duty will be charged on shipment; but the one-half tariff duty, or coast-trade duty, will again be charged at the port of discharge'.

The opening of the Yangtze has already been alluded to. Most-favoured-nation treatment—one of the most important parts of the treaty-port system, to which we shall return after a paragraph or two—threw open to our traders, as it did several of the ports opened at the instance of other Powers, the right acquired by the Japanese in 1895 to send steamers through the gorges to Chung-king. In 1898—during the politically competitive period described by Mr. Hubbard—China's inland waters were thrown open to navigation. This term 'inland' proved a troublesome one. How far might a trader penetrate before reaching the area describable as 'inland'? Under Article IX of the Treaty of Tientsin, no pass-port is called for within 100 li of a treaty-port, roughly thirty-three miles. But what were the limits of a treaty-port? The question came up chiefly in connexion with taxation, the view taken by the British and other Governments, generally speaking, being that a port comprised the harbour, the Chinese city, its suburbs, and its approaches by land and water. The Chefoo Convention, 1876, provided that the term 'inland' should 'apply as much to places on the sea-coasts and river shores as to places in the interior not open to foreign trade'. Annex C to our commercial treaty with China of 1902—the Mackay Treaty—laid down that a steamer duly registered for inland water navigation might ply between open ports, or from one open port or ports, to places inland and thence back to such port or ports, landing or shipping passengers, or cargo, at any recognized place of trade *en route*. She might not, however, ply between inland places exclusively except with the consent of the Chinese Government. The registration referred to was a registration with the Chinese Customs authorities, who issued an Inland Waters Certificate. Under these rules British merchants also had the right to lease warehouses and jetties on inland waters, to employ Chinese agents at them, and to visit them from time to time. Yangtze Trade Regulations, issued in the same

year as the first set of inland waters regulations, with which they dovetail, allowed vessels not specially registered under the latter to ply between, and land and ship passengers and goods at, the open ports on the river, but not elsewhere. The excluded places, however, were brought back into the picture by being made usable by vessels specially registered for inland water traffic. In 1905 the West River was also thrown open to steam navigation.

Treaties made in 1928 and 1930 in respect of the tariff placed tonnage dues entirely under Chinese jurisdiction. Nevertheless, at the outbreak of our war with Japan they remained in amount to all intents and purposes what they were when fixed by the Treaty of Tientsin in 1858—namely, the modern equivalent of Tls. 0.40 per ton, i.e. $0.65, vessels not exceeding 150 tons being charged the equivalent of Tls. 0.10, i.e. $0.15 per ton. Tonnage dues on deck cargo were abolished in 1933.

The most-favoured-nation clause first appeared in Article 8 of the treaty supplementary to the Treaty of Nanking, that of Hoomum Chai (the Bogue). It appeared next in the American Treaty of Wanghia, 1844, the French Treaty of Whampoa, 1844, and the Treaty of Tientsin. As Morse says, 'There was a general community of interest among the Western Powers in China and each declared that it had no desire to obtain exclusive concessions. At the same time no Power had a wish to allow exclusive concessions to others, and in each treaty was inserted a provision to the effect that this government and its subjects were to be "allowed free and equal participation in all privileges, immunities and advantages that may have been or may be hereafter granted by China to any other nation". This is the charter of privileges of the smaller Powers which, completing to-day a total of eighteen Powers having treaties with China, have all included it in their treaties'.[1]

The charter played its part in making the enjoyment of extra-territorial rights common to the subjects of practically all these Powers and they were alike in withdrawing the citizens concerned from the jurisdiction of Chinese courts. Great Britain led the way. Article 13 of the General Resolutions issued in pursuance of the Treaty of Nanking reads as follows:

'Whenever a British subject has reason to complain of a Chinese he must first proceed to the Consulate and state his grievance. The Consul will thereupon inquire into the merits of the case and do his utmost to arrange it amicably. In like manner, if a Chinese have reason to complain of a British subject, he shall no less listen to his complaint and endeavour to settle it in a friendly manner. . . . If unfortunately any disputes take place of such a nature that the Consul cannot arrange them amicably, then he shall request the assistance of a Chinese officer that they may together examine into the merits of the case and decide it equitably. Regarding the punishment of English criminals, the English

[1] Op cit., vol i, p. 570. Published 1910.

Government will enact the laws necessary to attain that end, and the Consul will be empowered to put them into force; and regarding the punishment of Chinese criminals these will be tried and punished by their own law, in the way provided for by the correspondence which took place at Nanking after the concluding of the peace.'

The United States, in making their first treaty with China in 1844, went further. Article 21 read:

'Subjects of China who may be guilty of any criminal act towards citizens of the United States shall be arrested and punished by the Chinese authorities according to the laws of China, and citizens of the United States who may commit any crime in China shall be subject to be tried and punished only by the Consul or other public functionary of the United States thereto authorized according to the laws of the United States; and in order to secure the prevention of all controversy and disaffection, justice shall be equitably and impartially administered on both sides.'

Article 24 provided that—

'if controversies arise between citizens of the United States and subjects of China which cannot be settled amicably otherwise, the same shall be examined and decided conformably to justice and equity by the public officers of the two nations acting in conjunction'.

Article 25 laid down that—

'all questions in regard to rights, whether of property or person, arising between citizens of the United States in China, shall be subject to the jurisdiction of, and regulated by the authorities of their own Government. And all controversies occurring in China between citizens of the United States and subjects of any other Government shall be regulated by the treaties existing between the United States and such Governments respectively without interference on the part of China'.

Of the above clauses, two reappeared in the British version of the Treaty of Tientsin, i.e., Article 13 of the General Resolutions issued in pursuance of the Treaty of Nanking, and the first part of Article 25 of the American Treaty. In 1876 the Chefoo Agreement between Great Britain and China provided that 'so long as the laws of the two countries differ from each other, there can be but one principle to guide the judicial proceedings in mixed cases in China, namely, that the case is tried by the official of the defendant's nationality, the official of the plaintiff's nationality merely attending to watch the proceedings in the interests of justice. If the officer so attending be dissatisfied with the proceedings it will be in his power to protest against them in detail. The law administered will be the law of the nationality of the officer trying the case'.

A provision similar to this forms Article 4 of the Sino-American Treaty of 1880.

Prior to 1865 the highest British court for the exercise of extra-territorial jurisdiction was the Supreme Court in Hongkong. In

March 1865 an Order in Council created a Supreme Court to function in Shanghai. It was opened in September of that year. Below it Consular Courts functioned at a number of the treaty-ports. At Shanghai there was, until a comparatively short time prior to the outbreak of the European War, a British Police Court to which had been transferred some of the powers formerly exercised by the British Consulate-General. The law administered by these courts was the law of England as modified or supplemented by Orders in Council, some of which provided that in certain cases Chinese laws and regulations might be enforced against British subjects. Great Britain and the United States are the only Powers which provided special courts for the exercise of their extra-territorial jurisdiction in China.[1]

Now, just as we noted in respect of the fiscal part of the treaty-port system that since 1928 China has enjoyed tariff autonomy, so, too, should it here be said that extra-territoriality has undergone many modifications during recent years. Some foreigners—Germans, for example—have lost their extra-territorial rights altogether. Russia gave hers up. Replying to a question in the House of Commons on June 11, 1941, Mr. Eden said that 'the policy of His Majesty's Government remains as stated by the Prime Minister on July 18, 1940. He [the Prime Minister] then said that when peace was restored in the Far East, His Majesty's Government were ready to negotiate with the Chinese Government the abolition of extra-territorial rights, the rendition of concessions and the revision of treaties on the basis of reciprocity and equality'.[2] At the commencement of our war with Japan, however, the extra-territorial rights of British subjects in China were to all intents and purposes intact.

The concessions referred to were those still retained at Tientsin and Canton, similar concessions which we used to have at Hankow, Kiukiang, and Chinkiang having been rendited to China in 1927 in placation of a strong anti-British expression of a nationalist movement that had been growing for many years, the date of its origin being a matter about which much might, but nothing need be, said here. These concessions came into existence between 1859 and 1861, being variants of the arrangements made for the residence and trade of British, American and French nationals at Shanghai during the period 1843–9. Of the latter, Morse says:

[1] Willoughby, *Foreign Rights and Interests in China*, pp. 611–13.

[2] The Prime Minister's statement was made in connexion with the closing of the Burma Road. On November 10, 1942, His Majesty's Government announced that it had decided to proceed further in the matter at once and hoped to present to the Chinese Government, for their consideration, a draft treaty for the immediate relinquishment of extra-territorial rights. The treaty was signed on January 11, 1943, after the passage above was in type.

'It was an established principle with the English that, though they had been compelled to engage in hostilities with China, they claimed no exclusive privileges; and this "English Settlement" was, from the beginning, open to all. In December 1848 the then American consul, Mr. John N. A. Griswold, a merchant of the firm of Russell & Co., on the arrival of his commission from Washington, raised the American flag over his house, as being the official residence of the consul within the area of the English settlement. The British consul protested to the Taotai against the raising of any other national flag than the British within that area; and both Taotai and consul sent their official protests to the American consul. The right to have the flag was, however, maintained as a protest against the "principle of exclusive privilege and exclusive rights", the alternative being a separate concession for each of the nations which might come to have relations with China; and the peculiar international status of Shanghai was determined from that day.'[1]

In September 1863 the area which Americans had begun to develop in the district north of the Soochow Creek known as Hongkew was amalgamated with the International Settlement.

An area for a French settlement was delimited under an agreement between the Taotai and the French consul, M. de Montigny, on April 6, 1849. This agreement, says Morse, 'provided that "should persons of other nations wish to acquire land and build within the above limits, they must first apply to the French consul, who will take the matter into consideration and act on their behalf". The same rule had been inserted in the agreement for the English Settlement, but it had not been acted on. Upon the publication of the agreement for delimiting the French Settlement, the British and American consuls both protested against the clause quoted above; and they informed their nationals that the protection of their consulate would be given to their land wherever situated'.

The title to land in the French Settlement was, accordingly, from then on registered in the consulate of the owner's nationality and not necessarily in that of France.[2]

The technical difference between the arrangements first made at Shanghai and those made at Tientsin, Hankow, Kiukiang, Chinkiang, and Canton has been expressed in the following terms:

'In Canton, and in some of the chief Treaty Ports opened for foreign trade under later treaties, the British Sovereign and other Foreign Powers obtained from the Chinese Emperor areas of land, known as "Concessions", as sites for the trading establishments and residences of their subjects. These concession areas were leased by the Chinese Government to the Foreign Power concerned, which then proceeded to lay out the land leased in suitable lots, and granted leases of these lots for long terms to its own subjects, and also in some cases to other foreigners. . . . But this was not the system adopted at Shanghai. . . . It was arranged that a British purchaser of land, as soon as he had entered into an agreement with a Chinese owner, should report his agreement to the British consul, who, in turn, reported it to the Taotai, and that the Taotai should issue to the British subject concerned, through his consul, a title in the form of a

[1] *International Relations of the Chinese Empire*, vol. i, p. 348.

[2] Op. cit., vol. i, p. 349.

perpetual lease, under which a small annual rent was reserved for payment to the Chinese authorities,[1] the theory being that, as all the land in China belonged to the Emperor, there could be no out-and-out sale of Chinese land to a foreigner, and that foreigners, instead of becoming owners, must be content to be lessees.'[2]

The story of the International Settlement at Shanghai has been so often and so fully told that it is quite unnecessary to tell it again here. It seems desirable, however, to reproduce such essential facts as it may be useful to have in mind, or easily available, when post-war treaty revision comes to be, as it certainly will, a topic of the day.

The port was opened to trade by a notification of the British consul, Captain G. Balfour, of November 17, 1843, the first American consul being Mr. Henry G. Wolcott, who was there in 1843, the first official American consul being Mr. Robert C. Murphy, who arrived there on February 15, 1854. The first French consul was the M. L. C. N. M. de Montigny mentioned above, his appointment dating from January 20, 1847. The original area of the English Settlement was 23 acres lying between the Soochow Creek, on the north, the Yangkingpang, a smaller creek on the south, and the Hwangpu River on the east. The western boundary was not fixed till 1846, when it was put at the Barrier Road, the modern Honan Road, the area thus enclosed being 180 acres. In 1848 the western boundary was shifted a little further out, to Defence Creek, the area of the Settlement being thus enlarged to 470 acres. The original area of the French Settlement, also small, was bounded on the north by the Yangkingpang just mentioned, on the south by the north side of the walled city of Shanghai (which at that time had a population of about 270,000, and was the centre of a large trade carried by coastal and ocean-going junks, the latter plying as far south as Singapore and the Malay islands), and on the west by a temple and a bridge. Additional land, acquired without agreement for defence purposes, brought the area to 200 acres. The American Settlement was not, originally, delimited, but 'just growed', graving and repairing docks being established north of the Soochow Creek, where also American missionaries settled because the land was cheap, the district being known as Hongkew. The first official American

[1] The original idea was that this rent, though collected from the foreign renter by officials representing the Chinese Government, belonged to the original Chinese owners of the ground, and should be paid over to them (1845 Land Regulations, Clause VIII), but this idea seems soon to have been abandoned. In the 1854 Regulations the rent is referred to (Clause VII) as 'an assessed annual rent or land tax reserved to the Chinese Government on all land rented by foreigners'. The present Regulations (Clause VIII) also describe this annual rent as 'reserved to the Chinese Government'.

[2] *Report of the Hon. Mr. Justice Feetham, C.M.G., to the Shanghai Municipal Council*, vol. i, p. 27.

consul established his consulate there, but as a whole Hongkew remained without organization or police until the Taiping Rebellion. It was not delimited until 1863, when it was amalgamated with the International Settlement.

By 1845 it had become necessary to have some machinery for the acquisition of revenue to defray the cost of roads and jetties, and accordingly land regulations were agreed to between the local Chinese officials, known as the Taotai, and the British consul, 'under which certain defined powers were granted to the foreign residents by the officials representing respectively the national authority over the soil and the extra-territorial authority over the contributor'.[1] Under these regulations three land-renters were elected to serve as a Committee of Roads and Jetties. As a result of the capture of the city of Shanghai by the Taiping rebels in 1853, large numbers of refugees poured into the Settlement. Charity, and the profit derived from premises rented to them, combined to keep them there, and the administrative problems resulting from these new conditions led to the adoption, in July 1854, of fresh land regulations. These, after approval by the Taotai, were published by a notification issued by the British, American and French consuls. By the tenth regulation 'the Government having authority over the soil, and the governments having authority over the persons and property of the foreigners, delegated to those foreigners the highest power in all government that of taxing and policing their own community, and this laid the foundation of their authority in their own affairs'.[2]

These regulations omitted the prohibition which their predecessors had contained in regard to Chinese renting land, and by an agreement between the Taotai and the treaty Power consuls in the following year this was specifically allowed. Chinese land-renters, however, were required to enter into an undertaking that they would conform to the land regulations and contribute their share to any general assessments. They were not, on the other hand, admitted to the franchise—one of the causes of ill-feeling which seventy years later found vent in a widespread attack upon British interests.

Though the French consul had been a party to the land regulations of 1854, the separatist tendency already noted above became stronger, and on May 13, 1862, a council for the French area was instituted. The British consul protested against this measure, but the protest was disregarded.

In 1866 fresh land regulations for the International Settlement were adopted by the ratepayers and in 1869 approved by the diplomatic representatives of Great Britain, the United States, France, Russia, and the North German Confederation. These,

[1] Morse, op. cit., vol. i, p. 350.

[2] Morse, ibid., pp. 353–4.

with the exception of a few minor amendments which do not affect the municipal constitution itself, have remained the Settlement's instrument of government.[1] In 1899 the Settlement was extended to the north by the addition of 1,896 acres and to the west by the addition of 1,908 acres, making the total area 5,584 acres, or $8\frac{2}{3}$ square miles.

From 1863 to 1928 the Council consisted of nine foreigners, comprising for many years five Britons, three Americans, and one Japanese. In April 1928 three Chinese, selected by Chinese organizations, were added, this number being increased in 1930 to five. After the outbreak of the Sino-Japanese War in 1937 the Japanese became increasingly discontented with their representation on the Council and with their share of municipal administration, and in 1941, as a wartime measure, the ratepayers passed a resolution, the full text of which will be found in the Appendix, requesting the representatives of the Powers concerned to consent to the establishment of a Provisional Council which should function within the framework of the land regulations and by-laws, but hold office 'for not less than one year and thereafter until their successors are lawfully elected or appointed'. The resolution included a paragraph to the effect that during its tenure of office this Provisional Council should recommend to the residents of the International Settlement and to the representatives of the Powers concerned that consideration be given 'to a more satisfactory form of municipal government than that provided for under the provisions of the existing land regulations'.

The treaty-port system was characterized by various other Settlements. Details about them will be found in M. T. Z. Tyau's *Treaty Obligations between China and other States* and Morse's *Trade and Administration of the Chinese Empire*.

It remains to describe the section of the treaty-port system represented by the Chinese Maritime Customs administration. As regards trade, this section, like others already described, has meant no more to us than to the other countries having commercial relations with China. It rendered us exactly the same economic services as it rendered them, its economic importance to us as compared with them being in correspondence with the proportional relationship between our trade and theirs. These services were very great. They were not confined, as is too widely thought, to the levying of duties and dues by fair methods on a systematized and publicly known basis. They included the buoying and lighting of China's harbours and coast, and—up to the time of Japan's invasion—the servicing of China's foreign loans. In some respects, however, the Customs administration has constituted a British

[1] On the question of the legality of these regulations, see Feetham, op. cit., p. 61.

interest in a more specific sense than any of the rights which this part surveys. Thus it was under preponderantly British influence that the service came into existence, and under a British head and a preponderantly British personnel that it developed and acquired its many-sided importance. Moreover, when the Anglo-German loans to China of 1896 and 1898 were arranged and secured on the Customs revenue, the loan agreements provided that during their currency, which was fixed at thirty-six and forty-five years respectively, the administration of the service should remain as then constituted. On February 13, 1898, the Chinese Government gave the British Minister an assurance that, so long as British trade predominated in China, the Inspector-General would continue to be a British subject. The 1896 loan was paid off in 1932 and Great Britain's trade ceased to predominate in China some years before that. On the other hand, of the 1898 loan £2,996,425 was outstanding in December 1941, while the trade of the British Empire as a whole remained predominant up to the eve of the present Sino-Japanese War.

The early history of the Customs has been so often told that only the essential facts need be given here. When, as related above, the city of Shanghai was captured by rebels in September 1853, the Taotai, who was the local head of the Customs, took refuge in the foreign Settlement, and the Customs House, though situated in the Settlement, which had been declared neutral, was looted and destroyed. Prior to this Customs administration had been disorganized by a monetary shortage due to the Taiping Rebellion. The actual cash required for payment of duties had become unobtainable, and to provide for the needs of British merchants, the consul, Alcock, undertook to grant clearances to British ships against the deposit of securities to cover the legal dues, either in government paper, title-deeds of houses or land, or warehouse warrants. The capture of the city and the burning of the Customs house made matters worse. For a short time merchants were required to give bonds undertaking to pay duties at a later date. Subsequently, however, these were held to be unenforceable, and a period of what amounted to anarchy in Customs affairs lasted till June 1854, when the British, American, and French consuls made an agreement with the Taotai—still a refugee in the foreign Settlement—of which the first article was as follows:

'Rule 1. The chief difficulty experienced by the superintendent of customs having consisted in the impossibility of obtaining custom-house officials with the necessary qualifications as to probity, vigilance and knowledge of foreign languages, required for the enforcement of a close observance of treaty and custom-house regulations, the only adequate remedy appears to be in the introduction of a foreign element into the custom-house establishment, in the persons of foreigners, carefully selected and appointed by the Taotai, who shall supply the deficiency complained of and give him efficient and trustworthy instruments wherewith to work.'

Rule 1 was, no doubt, a correct characterization of the shortcomings of Chinese Customs administration. But it was also a faithful reflection of the mind of Mr. Rutherford Alcock, the British consul, who, as Morse says, 'was filled with the Palmerstonian ideal of the Englishman's duty—to instruct the ignorance of foreigners and reform the abuses in their laws and practices. It irked him to view the irregularities in Customs procedure and the corruption which marred the exercise of their functions by all Chinese officials; and he deplored the effect on foreign merchants produced by such practices',[1] this statement being at once based upon, and illustrated by, a communication from Alcock to Sir G. Bonham in 1851—long before the disorganization caused by the Taiping Rebellion.[2] The consequences of the rebellion at Shanghai, as Morse also shows, gave Alcock his chance. 'It was evident to all', he says, 'that the strict enforcement of the neutrality declared'—neutrality on the part of the foreign Settlement towards the Government of China on the one hand and the Taiping rebels on the other—'must be dropped; but in making this concession, Mr. Alcock demanded his price, and that was that the Chinese should introduce an "element of probity and vigilance" into the administration of the customs, and this he proposed to effect by means of supervision by foreigners, nominated by the Consuls, but in the service of the Chinese and paid by them, and working under the authority of the Chinese executive.'[3]

In implementation of the agreement made with the consuls, the Taotai appointed as Inspectors of Customs at Shanghai, to be a 'board of inspectors with a single and united action', Arthur Smith, French, Lewis Carr, American, Thomas Francis Wade, British. Wade was succeeded a year later by Horatio Nelson Lay. The new administration was inaugurated on July 12, 1854. Two years later the attitude of American traders towards it was expressed, in a letter from them to their representative, in the following terms:

'Custom House business in China under Chinese supervision is conducted with a facility which greatly aids in the dispatch of business and the ready lading of ships when haste is of importance, while, with the minute and in some respects vexatious regulations established by the Inspectors, this advantage disappears. Therefore while expressing our desire in all cases and circumstances fully to meet our obligations under the treaty, a desire we have proved to be sincere by our conduct on all former occasions, we feel ourselves called upon by the interests of the port and of those whom we represent, to press earnestly upon your attention the expediency and justice of abolishing the present system.'[4]

Most British traders, on the other hand, wanted the system extended to the other ports. In October 1857 the Shanghai

[1] *International Relations of the Chinese Empire*, vol. ii, p. 22.
[2] Ibid., p. 22.
[3] Ibid., p. 22.
[4] *North China Herald*, September 6, 1856, quoted by Morse, op. cit., vol. ii, p. 28.

Chamber of Commerce urged this upon Lord Elgin,[1] and the agreement containing Rules of Trade, made in pursuance of Article 26 of the Treaty of Tientsin contained a provision to the effect that 'one uniform system shall be enforced at every port. The High Officer appointed by the Chinese Government to superintend foreign trade . . . will be at liberty, of his own choice and independently of the suggestion or nomination of any [British] authority, to select any [British] subject he may see fit to aid him in the administration of the Customs revenue, or in discharging the duties of harbour-master; also in the distribution of lights, buoys, beacons and the like, the maintenance of which shall be provided for out of the tonnage dues.'

The French and American Inspectors transacted their Customs business in addition to that of their consulates, on the staffs of which they remained. Lay was seconded from the British consular service to do Customs work alone. Having placed the Shanghai Customs under a commissioner, he went in 1859 to Canton and there opened a Customs house organized on Shanghai lines, placing in charge of it, as deputy commissioner, Robert Hart, who had joined the staff of the British Superintendency of Trade at Hongkong in 1854. In 1860 he opened one at Swatow. The Convention of Peking had in that year provided that the indemnities which had been imposed upon China (amounting to Tls. 8,000,000 payable to Great Britain and Tls. 8,000,000 payable to France) should be payable out of the Customs revenue. Accordingly, it became necessary to organize a consolidated service under the direct control of the imperial Government.[2] In 1861 a dispatch from Prince Kung made Lay *tsung-shui-wu-sze*, or chief commissioner, for which title the latter preferred the translation 'inspector-general'. During that year Customs houses were opened at Ningpo, Foochow, Chinkiang, Tientsin and Kiukiang. Lay, however, was compelled to return to England on sick leave and in June Hart and Fitz-Roy (who had arrived in China in 1857 as Attaché to Lord Elgin's mission) were commissioned jointly to fulfil his functions. In practice, however, Hart was the inspector-general for the next two years, during which Customs houses were opened at Amoy, Hankow and Chefoo. In 1863, in circumstances unconnected with Customs administration, Lay was dismissed from the post of *tsung-shui-wu-sze* or (as it will in future be called) inspector-general, and was succeeded by Hart.

As each new port was opened its trade came, naturally, under the supervision of the Customs administration, an important point to be remembered in this connection being that in July 1887 Customs offices were opened at Kowloon and Lappa. For the

[1] Morse, op. cit., vol. ii, p. 30.

[2] Morse, ibid., p. 33.

convenience of the British and Portuguese administrations and of the respective mercantile communities, their head offices were established not, as originally proposed, outside, but within the two colonies. In this way, and by reason of the fact that by the convention signed at Peking on June 9, 1898, Great Britain obtained on lease for ninety-nine years the whole of the Kowloon peninsula from Deep Bay to Mirs Bay, together with the waters of the two bays, and all the waters and islands north of 22° 9′ N. lat., and between 113° 52′ and 114° 30′ E. long. Hongkong was brought into very close connexion with the treaty-port system, the lease being inseparably associated with the other similar events which, in that year, forged strong links between the political and economic elements in the system.

As regards the opening of a Chinese Customs office at Kowloon, it should be stated that that event was the outcome of the opium agreement made in September 1886, which provided 'that an office under the foreign Inspectorate shall be established on Chinese territory at a convenient spot on the Kowloon side for the sale of Chinese opium duty certificates', and that 'the office of the Foreign Inspectorate who shall be responsible for the management of the Kowloon office shall investigate and settle any complaint made by junks trading with Hongkong against the Native Customs revenue stations or cruisers in the neighbourhood, and that the Government of Hongkong, if he deems it advisable, shall be entitled to send a Hongkong officer to be present at, and assist in, the investigation and settlement'.

Commenting upon this, the Chinese Customs Decennial Report for 1882–1911 says: 'it seemed to follow as a necessary corollary that, in order to prevent complaints, the most natural course of procedure would be to place the management of the stations and cruisers in the hands of the Kowloon Commissioner and invest him with the responsibility for their proper action. This was accordingly done about the same time that the new arrangements in regard to opium came into operation.'

We shall have occasion in the succeeding chapters to see the extent to which Hongkong, though a British Colony, fitted into, and lived much, if not most, of its economic life as part of China's economic system. The same remark applies to other areas that were geographically part of China, but politically and administratively under foreign control, the Liaotung peninsula, Kiaochow, Weihaiwei and Kwangchowwan. Kiaochow and Weihaiwei have reverted to China's control. The other territories, when peace comes, will present problems separate from, yet linked with, those which the treaty-port system will present.

From 1899 the whole system operated within the ambit of the principle, policy, or doctrine of the 'open door', which was the

formulation given to the principle of equality of opportunity that characterized our commercial policy in China from the time of the abolition of the East India Company's monopoly. An interesting and scholarly article upon the origins of the 'open door' will be found in *The Far Eastern Quarterly* for February 1942.[1] As its author, Earl H. Pritchard, of Wayne University, says, 'the origin of the Open Door principle in China goes back much further even than the most-favoured-nation clauses of the treaties of 1843–44. Chinese, British and American practices and concepts, as well as the actions of the Western community at Canton, all contributed to its inclusion in the early treaties. . . . From the beginning it represented consciously or unconsciously a co-operative policy. . . . In his instructions to Admiral G. Elliot and Captain C. Elliot, dated February 20, 1840, Lord Palmerston informed them that "you will bear in mind that Her Majesty's Government do not desire to obtain for British Subjects any exclusive privileges of trade which should not be equally extended to the Subjects of every other power" '.

Another matter to which brief reference must be made (because, while not itself economic, it had economic effects) is prestige. I can claim almost certainly unanimous agreement with the statement that throughout this century the conception of British prestige has been the dominant impersonal motive of economic activity among British business men of all classes and ranks resident in China and Hongkong. The importance of this fact lies in its triple repercussion on economics. It increased, and provided justification for, commercial competition; it allotted paramount importance to British trade *qua* British, co-operating in this respect with (just as it was the offspring of) nationalism, and it sometimes obscured economic issues by sectionalizing them in disregard of their common significance, their common trends, their common origins and consequences. In one specifically economic direction, that of finance—as we shall see in Parts III and IV—internationalism, or cosmopolitanism, played a highly important rôle, as it may be said to have done, also, in regard to the 'open door', the International Settlement at Shanghai and the Chinese Customs administration. But British prestige remained the touchstone of the validity of international co-operation in these and other departments of life. It is, in fact, impossible to understand the inner-inwardness of many matters economic and political in treaty-port or Hongkong affairs without knowing and, what is more, appreciating this fact. The phenomenon called the "Shanghai mind" was, to no small extent, a consequence of it, and, to the extent that prestige and patriotism are related, was a less provincial and outlandish thing than it has been said to be.

[1] Published for the Far Eastern Association by Columbia University Press.

In Japan, as stated at the beginning of this chapter, there was from 1854 to 1899 a treaty-port system too. It was never as elaborate as the system in China, but several of its chief features were the same—namely, restriction of residence and trade to certain places, extra-territoriality, participation in Japan's coastal trade, a conventional tariff and the most-favoured-nation clause, which operated there in the same way as it operated in China. Japan disliked the system as much as, if not more, than China has disliked it, her expressions of this dislike being, however, more practical and effective than China's, as were nearly all her reactions to Western ideas and ways. To show why and how this was the case might well form the subject of a useful monograph, but the task cannot be undertaken here. Indeed, from a practical point of view—and this book is intended primarily to serve practical purposes—little more need be added to what has just been said about the treaty-port system in Japan, which is as dead as the Dodo. Specialists who like studying and writing more and more about less and less may shake their heads; and as the writer has himself a leaning towards that weakness (as this chapter has, no doubt, disclosed), he will quite understand if they do. Nevertheless, he is resolved to lay upon the table the following dry bones only.

Our first two treaties with Japan were made, in succession to similar treaties made by the United States, in 1854 and 1858. The ports and towns, opened by our first treaty were Hakodate and Nagasaki, those opened by the second being Yokohama (then called Kanagawa) and Niigata, as from January 1, 1860, Tokyo (then called Yedo), as from January 1862, Kobe (then called Hiogo) and Osaka as from January 1, 1863. The second treaty established extra-territoriality in terms identical, in some of their phrases, with those of the Treaty of Tientsin, and provided in an annex of commercial regulations for import duties ranging from 5 per cent in respect of certain goods, including cotton and woollen manufactures, to 35 per cent in respect of intoxicating liquors, with a tax of 20 per cent on goods not included in either of those classes. Export duties on articles of Japanese production were fixed at 5 per cent. All goods having paid import duty might be transported by the Japanese into any part of the Empire without the payment of any tax or transit duty whatever. These duties were to be subject to revision five years after the opening of Yokohama.

An Order-in-Council issued on January 23, 1860, set forth the manner in which consular jurisdiction was to be exercised and provided for appeals to the Supreme Court at Hongkong.

Within ten years, i.e. upon the Meiji restoration in 1868, began a struggle upon the part of the new Government for treaty revision. By Article 22 the 1858 treaty had been made subject to

revision in 1872. The struggle continued till 1894. Between 1872 and 1889, says the Japanese writer Akagi, Japan turned to the United States in the first instance, and American leadership prevailed, while Great Britain led the opposition. In 1890 Aoki, the Foreign Minister, turned from the United States to Great Britain, 'who became the key power in the subsequent negotiations'.[1] In 1894, when Lord Rosebery was Premier and Lord Kimberley Foreign Secretary, the Japanese succeeded in their efforts. A treaty of commerce and navigation, to take effect 'at least five years' after its signature, was signed in London on July 16. By Article 1 the subjects of each of the contracting parties were given full liberty to enter, travel or reside in any part of the dominions and possessions of the other; 'free and easy access to the Courts of Justice in pursuit and defence of their rights', and enjoyment in respect of the administration of justice, of 'all the rights and privileges enjoyed by native subjects'. By Article 11 the coasting trade was to be regulated according to the laws, ordinances and regulations of Japan and of Great Britain respectively, British subjects being given the right to participate in any rights that might be granted to the subjects or citizens of any other country. In Article 18 the British Government gave their consent, so far as they were concerned, to the foreign Settlements being incorporated with the respective Japanese Communes and becoming part of the general municipal system of Japan. It provided also that the existing leases in perpetuity under which property was held in the Settlements should be confirmed and that no conditions whatsoever other than those contained in the existing leases should be imposed in respect of such property. In subsequent years these leases were the occasion of a good deal of trouble and negotiation, but on March 25, 1937, an agreement was reached whereby they should come to an end in five years' time. By Article 15 of the 1894 treaty the contracting parties agreed, in all that concerned commerce and navigation, to extend to their respective ships, subjects or citizens any privilege, favour or immunity which either had granted, or might grant, to the Government, ships, subjects, or citizens of any other State.

To turn to the treaty-port system in Siam. In 1855 a treaty made between Great Britain and Siam, ratified in the following year, provided that British subjects might trade freely in all the seaports of Siam, but might reside 'permanently only at Bangkok, or within the limits assigned by this Treaty', a circuit of 200 sen (not more than four English miles) from the city walls. Within this they might rent land and buy and build houses, but they might not buy land until they had lived in Siam for ten years, or obtained special authority from the Siamese Government to do

[1] *Japan's Foreign Relations*, p. 105.

so. Apart from this limitation, they might 'buy or rent houses, lands or plantations situated anywhere within a distance of 24 hours' journey from Bangkok, to be computed by the rate at which boats of the country can travel'. A supplementary agreement made in the following year fixed the boundaries of 'the said 24 hours' journey' and also the limits of the four-mile circuit round the City. British subjects were to pay export and inland duties in accordance with a tariff, a number of commodities being declared free of inland 'or other' taxes, while some, being subject to inland or transit duties, were made free of export duties. Import duties were fixed at 3 per cent, payable 'at the option of the importer either in kind or money, calculated on the market value of the goods'. Opium, we may note in passing, was to be imported free of duty, but it was to be sold only by the opium farmer or his agents. 'In the event of no arrangement being effected with them for the sale of the opium', the treaty said, 'it shall be re-exported, but no impost or duty shall be levied thereon.' It was also provided that British subjects should be allowed to build ships.

Article 2 of this treaty provided that 'any disputes arising between British and Siamese subjects shall be heard and determined by the Consul, in conjunction with the proper Siamese officers; and criminal offences will be punished, in the case of English offenders by the Consul, according to English laws, and in the case of Siamese offenders, by their own laws, through the Siamese authorities'. Subsequently (in 1856) it was agreed that 'in all cases in which Siamese or British subjects are interested, the Siamese authorities in the one case and the British Consul in the other, shall be at liberty to attend at, and listen to, the investigation of the case'.[1]

By a treaty made in 1883 British subjects in Chiengmai, Lakon and Lampoonchi were made amenable to the civil and criminal jurisdiction of Siamese judges applying Siamese law. The consul or vice-consul, however, was to be entitled to be present at the trial, to make suggestions to the judge, and to exercise powers of evocation by transferring cases, when in his opinion necessary, to the British consular court at Chiengmai. British subjects in these areas were to be entitled to appeal to Bangkok, where appeals were to be disposed of by the Siamese authorities and H.M. Consul-General in consultation. In 1909 the jurisdiction of international courts was extended to all British subjects in Siam, with the proviso that their jurisdiction should be transferred to the ordinary Siamese courts after the promulgation of the Siamese codes.[2]

In 1926 extra-territoriality and the international courts were abolished and all British subjects became amenable to the jurisdiction of the ordinary Siamese courts. European advisers continued

[1] Hertslett, *Commercial Treaties*, vol. x. [2] Hertslett, ibid., vol. xxvi.

for a time, but it was agreed that their opinion should not prevail against that of their Siamese colleagues, as it did in certain cases under Article 5 of the 1909 treaty. It was also provided that until all the Siamese codes came into force, and for a period of five years thereafter, British diplomatic and consular officers might evoke any case pending in any Siamese court (except the Dika, or Supreme Court) in which a British subject, corporation, company, or association, or a British protected person, was defendant or accused.[1]

APPENDIX I

SHANGHAI INTERNATIONAL SETTLEMENT PROVISIONAL ADMINISTRATION

THE following resolution was adopted by the ratepayers at a meeting held at the Shanghai Race Club on April 17, 1941:

1. That the present Council be authorized to request the Representatives of the Powers concerned to consent to the establishment of a Provisional Council, as hereinafter constituted, to carry on the administration of the International Settlement; that the present Council be requested to resign upon the establishment of the Provisional Council; and that the present Council shall, in conjunction with the Representatives of the Powers concerned, take all necessary action to enable the Provisional Council to function within the framework of the Land Regulations and By-laws, but with the following modifications:

(1) That the Provisional Council shall consist of the following members: Messrs. N. F. Allman, J. D. Carriere, A. Glathe, Y. Hanawa, J. H. Liddell, R. T. McDonnell, Dr. R. J. McMullen, Messrs. G. F. Mitchell, I. Okamoto, T. S. Powell, R. Von der Crone, Y. Yazima, together with four Chinese members;

(2) That the Provisional Council of sixteen members, provided for in this Resolution, shall be duly and lawfully recognized as being in every way legitimately constituted, notwithstanding any provisions to the contrary contained in the Land Regulations and By-Laws;

(3) That the members of the Provisional Council shall hold office for not less than one year and thereafter until their successors are lawfully elected or appointed;

(4) That the Provisional Council, as above constituted, shall have, and is hereby granted, during its tenure of office, all rights, privileges, powers, and authorities of the present Council and the foreign ratepayers in public meeting duly assembled;

(5) That the Provisional Council shall take over the assets of the present Council imposed by law, custom, or contract: provided, however, that it shall not be incumbent upon the Provisional Council to hold elections, or initiate the calling of meetings of foreign ratepayers;

(6) That the Provisional Council, as above constituted, in addition to the taxing and licensing powers granted to it by the Land Regulations and By-Laws, shall be and is hereby authorized and empowered to impose, levy, and collect such other taxes, rates, fees, or dues, and to issue such other licences, as it may consider reasonable and necessary for municipal purposes: provided, however, that such other taxes, rates, fees, or dues shall be levied, and such other licences issued, only after consultation with an advisory committee selected from among residents of the International Settlement; and

[1] Department of Overseas Trade, *Report on the Commercial Situation in Siam*, p. 6.

(7) That during the tenure of office of the Provisional Council, the present Land Regulations, except as above modified, shall remain in full force and effect, and be binding on the Provisional Council, together with the additional powers and obligations conferred or assumed by this resolution.

2. That the Provisional Council shall, during its tenure of office, recommend to the residents of the International Settlement, and to the Representatives of the Powers concerned, that consideration be given to evolving a more satisfactory form of municipal government than that provided for under the provisions of the existing Land Regulations.

CHINA'S TREATY PORTS

Port	*Date of Customs Opening*	*By Treaty With*
Aigun	July 1909	Japan, 1905
Harbin	July 1909	Japan, 1905
Hunchun	January 1910	Japan, 1905
Lungchingtsun	January 1910	Japan, 1905
Antung	March 1907	United States, 1903
Dairen	July 1907	Japan, 1907
Newchwang	May 1864	Great Britain, 1858
Chinwangtao	December 1901	Imperial Decree, 1898
Tientsin	May 1861	Great Britain, 1860
Lungkow	November 1915	Japan, 1915
Chefoo	March 1862	Great Britain, 1858
Weihaiwei	October 1930	Great Britain, 1930
Tsingtao (Kiaochow)	July 1899	Germany, 1898
Chungking	March 1891	Great Britain, 1890
Wanhsien	June, 1915	Great Britain, 1902
Ichang	April 1877	Great Britain, 1876
Shasi	October 1896	Japan, 1895
Changsha	July 1904	Japan, 1903
Yochow	November 1899	Imperial Decree, 1898
Hankow	January 1862	Great Britain, 1858
Kiukiang	January 1862	Great Britain, 1858
Wuhu	April 1877	Great Britain, 1870
Nanking	May 1899	France, 1858
Chinkiang	April 1861	Great Britain, 1858
Shanghai	June 1854	Great Britain, 1842
Soochow	September 1896	Japan, 1895
Hangchow	October 1896	Japan, 1895
Ningpo	May 1861	Great Britain, 1842
Wenchow	April 1877	Great Britain, 1858
Santuao	May 1899	Imperial Decree, 1898
Foochow	July 1861	Great Britain, 1842
Amoy	April 1862	Great Britain, 1842
Swatow	January 1860	Great Britain, 1858
Canton	October 1859	Great Britain, 1842
Kowloon	April 1897	Great Britain, 1886
Lappa	June 1871	Portugal, 1887
Kongmoon	March 1904	Great Britain, 1902
Samshui	June 1897	Great Britain, 1897
Wuchow	June 1897	Great Britain, 1897
Nanning	January 1907	Great Britain, 1897
Luichow	January, 1936	By China herself
Kiungchow	April 1876	Great Britain, 1858
Pakhoi	April 1877	Great Britain, 1876
Lungchow	June 1889	France, 1886
Mengtsz	August 1889	France, 1886
Szemao	January 1897	France, 1895
Tengyueh	May 1902	Great Britain, 1897

PART III

THE GROWTH OF BRITISH INTERESTS, 1842–1914

General Character of the Period—Trade with China, General and Particular Features — Shipping — Mining — Railways, General Circumstances in which Contracts were sought and made, Individual Lines—Loans to China for Other Purposes—Growth of Industrial Enterprises—Totals of Capital Investments in China—Trade with Japan, General and Particular Features; Loans to the Japanese Government—Developments in Malaya, Borneo, Burma, Siam and the Dutch East Indies—Interim Conclusions

THE history of British interests in China during these years is one of development and diversification along six main lines, trade, shipping, mining, railways, industry, and finance, the order in which they are named being indicative of their relative importance only as regards the first. Finance, in the sense of loans, ordinary banking and insurance, obviously intertwines itself with all these, but is capable of separate treatment. In addition, a number of institutions grew up in missionary, educational, medical, social, and, if the term can be used separately from education, cultural fields. All these had an economic side also, though they were not established from an economic point of view. In the aggregate, their property in one form and another represented a considerable sum, while the insurance and exchange transactions which they occasioned all entered into the sum total of business, and into our, and China's, national accounts. Nevertheless, it is not proposed to include them in this survey, except incidentally in connexion with our investments of capital in China. For while they possessed economic significance, they neither were, nor are, 'interests' in the sense in which that term is generally employed.

Throughout this period—indeed, down to 1941—Shanghai and Hongkong were the chief centres of our economic activities, followed in importance by Tientsin, Hankow, and Canton, activities at the other treaty ports being mainly ancillary. Hongkong, needless to repeat, was not politically part of China, no small proportion of its economic prosperity being due to that fact. On the other hand, its economic life would have had little importance but for its association at practically all points with China's. China was a Tom Tiddler's ground wherein all—except Tom Tiddler—were at liberty to do the best they could for themselves within the limits of the treaty rights described in the previous part, of the laws of their respective countries, of the doctrine of semi-political, semi-economic, origin known as the 'open door', of which Great Britain and the United States were the creators and chief sponsors,

and of an affiliated principle more limited in its application, that of China's territorial integrity. Tom Tiddler, it should be added, had in those days neither the technical nor the executive capacity to develop the potentialities of his very large portion of East Asia.

Politically, down to 1914, China's importance was almost entirely due to her economic potentialities. After her defeat by Japan, and until she threw in her lot with the Allies in the last great war, the small degree of importance which had been ascribed to her as a political entity practically disappeared. Down to as late as the end of 1911, when the anti-Manchu revolution began, Peking, the capital and diplomatic centre, where the writer had lived since the summer of 1908, was half picnic half charade, enacted in an environment largely medieval, with few things—apart from the Legation Quarter and two or three buildings outside it, emulating it in ugliness—more modern in spirit than the eighteenth century.

Taken as a whole, the years 1842–1914 may justly be described as our cock-of-the-walk period in China. Down to about 1898, the walk was indisputably ours. In and after that year other cocks —with which Great Britain had readily shared the walk—began to assert themselves upon it. Their crowings mingled with the British cock's, which, however, rather preened itself upon mutual welcome to the sunshine of prosperity. But gradually such activities as result in peckings and quarrelsomeness between farmyard cocks became expressions of more pronounced and systematic challenging, except on the part of the United States, whose political and economic interests were, to a large extent, complementary to ours. Very soon the Japanese cock was a lusty bird, whose political friendliness did not debar him from behaviour which at first was in the nature of nuisance, but soon became disturbing. Before 1914 Japan's sales to China exceeded Great Britain's, as they did those of the United States. In particular she was making inroads upon our hitherto serene piece-goods trade, though not in the higher qualities. They were safe enough, said all. And our shipping, that, too, was still supreme. In the railway and mining fields there was nothing to worry about, while, when it came to shares and investments, all was still quite obviously as Heaven meant it to be. Such was the nature—and much of the spirit—of the period as a whole as far as China was concerned.

TRADE WITH CHINA

TAKING the period 1842–1941 as a whole, trade has been our chief economic interest in China and Hongkong. Each of the parts into which this volume is divided will put trade first. As regards the period covered by this part, 1842–1914, six main facts about our trade are these:

First. From 1854 to 1883 the United Kingdom bought much more from China and Hongkong in most years than she sold to them. The following figures illustrate this:

Average Annual Values	1854–63	1864–73	1874–83
	£ (*thousands*)	£ (*thousands*)	£ (*thousands*)
Imports	9,796	11,941	13,302
Exports	3,242	8,193	8,432

During the next ten years, 1884–1893, the United Kingdom's exports to China and Hongkong became more valuable than her imports. The annual average value of exports was £8,518,000: that of imports was £7,451,000. This change, as the figures above show, was due to decline in the value of imports; not to any marked increase, after the first decennial period, in that of exports. The decline in imports was due chiefly to decreased value of imports of tea and raw silk. In 1880 the value of our import of these commodities was £8,349,000 and £2,663,000 respectively. In 1890 it was £2,813,000 and £986,300 respectively. In 1899 (a better year to take for comparative purposes than 1900, the disturbed, Boxer year) it was £1,044,711 and £624,239 respectively.

Second. During the remainder of the period covered by this Part, i.e. down to 1913, the average annual value of the United Kingdom's chief imports from China and Hongkong was:

Chief Imports Average Annual Value	1899–1903	1904–8	1909–13
	£	£	£
Tea	712,560	74,759	712,368
Raw silk	391,958	354,490	359,494
Silk, knubs and waste	338,705	322,772	442,332
Plaiting of straw (straw braid)	231,266	188,799	168,465
Hemp	235,592	21,416	12,520
Bristles	176,806	218,638	269,152
Furs	133,705	154,896	58,646[1]
Manufactures of skins and furs	230,159	188,680	58,646
Hides, raw	49,618	46,412	—
Soya beans	—	—	717,562[2]
Wool, camel's and sheep's	16,050	202,158	237,536
Tin	16,318	33,739	172,753

Source: Annual Statement of the Trade of the United Kingdom, compiled by the Statistical Office of the Customs and Excise Department.

[1] Furs and skins. [2] 1910–13.

Third. During the period 1854–1903 the bulk of the United Kingdom's imports from China came direct from Chinese ports. Only a relatively small proportion came through Hongkong. On the other hand, down to 1889, nearly half the United Kingdom's exports passed into China through the Colony. After 1889 this proportion changed. The Colony's importance as an entrepôt for the United Kingdom's export trade with China decreased considerably. This fact, and the part played by the Colony as an entrepôt in respect of the United Kingdom's imports from China subsequent to 1903, are shown by the following figures:

HONGKONG AS ENTREPÔT FOR THE UNITED KINGDOM'S TRADE WITH CHINA

Average Annual Value	1890–3	1894–1903	1904–13
	£ (*thousands*)	£ (*thousands*)	£ (*thousands*)
Imports from China . . .	4,505	2,784	4,011
Imports from Hongkong . .	1,012	726	580
Exports to China . . .	5,956	6,066	11,131
Exports to Hongkong . .	2,095	2,419	3,594

Source: Statistics of the United Kingdom's Customs and Excise Department.

The statements and figures above are not intended to imply that all that was imported from Hongkong came from China, or that all that was exported to Hongkong passed on into China. The bulk of what was imported from Hongkong came from China, and most of what was exported to the Colony was passed on to her. But the Colony had its own needs and kept a proportion of the imports which it received from the United Kingdom, how much there are no figures to show. The Colony's place in China's import and export trade as a whole will be given presently.

Fourth. Of the United Kingdom's exports to China much the most important were cotton goods. The proportion of her exports to China and Hongkong represented by cotton goods, chiefly piece-goods, may be shown thus:

1852	1862	1872	1882	1892	1902	1912
Per cent	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*
66	40	67	60	65	65	57

This fact is also a leading one in China's import trade as a whole. Cotton goods took first place among China's imports in 1885, when they represented 25·7 per cent of total imports. In 1898 their import was valued at 77·6 million taels, or 37 per cent of the total.

In the period 1899–1913 they represented, up to 1907, about 38 per cent, and between 1907 and 1913 about 30 per cent of total import values. These cotton goods are divisible into cotton manufactures in general, of which piece-goods were the most important group, and cotton yarn. Cotton yarn imports on a considerable scale began after 1878. In 1899 their value exceeded that of cotton manufactures. After 1905 this growth remained more or less stationary, Japan's share tending to equalization with India's, till by 1913 the two shares were about on a level. Of the import of cotton manufactures, however, Great Britain retained the largest share.[1] In 1902 her share of the piece-goods section of the trade was over 55 per cent. In 1913 it was still over 53 per cent.

The United Kingdom's exports of machinery to China and Hongkong did not total £100,000 until 1882. From 1902–6 their average annual value was £359,232: from 1909–13 it was £402,799. During the former period her exports of iron and steel goods to China and Hongkong averaged £776,000: during the latter it averaged £812,000. Electrical goods averaged during the latter period about £33,000; tobacco averaged rather more than £946,000. In 1913 miscellaneous exports were valued at £735,000.

Fifth. Throughout much of the period under review opium was one of China's chief imports, as it had been prior to 1842. From 1842 to 1858 opium remained a contraband trade—a contraband trade, however, which was pretty well as open as the day. 'In 1855 we find recorded in the directories', says Morse, 'as openly as any of the firms and residents in the treaty ports, the names of the opium receiving ships stationed outside those ports and of the officers in charge, as well as the names of the firms under whose control they were.'[2]

Hongkong was the chief centre of distribution, Shanghai in 1857 importing some 31,907 chests—more than the import into all China twenty years before. In 1858 the trade was made subject to certain conditions—payment of an import duty of Tls. 30 a picul; sale by the importer at the port only and transmission into the interior by Chinese only and as Chinese property only. Down to 1884 the drug was on the whole the most important item in China's import list, its value in 1878 representing over 45 per cent of the total value of imports. Indeed, it was probably more important than the Chinese Customs returns showed it to be, for prior to 1887 the junk traffic between Hongkong and the mainland was not controlled by the maritime Customs. The maritime Customs figures for the next year showed a total import of 171,231 piculs, valued at 32 million haikuan, or Customs taels, which represented 25·9 per cent of the total value of imports for 1888. By 1898 the

[1] Remer, *The Foreign Trade of China*, pp. 90, 151, 152.
[2] Op. cit., vol. i, p. 541.

import had decreased to a little less than 50,000 piculs, valued at 29 million taels—some 14 per cent of the value of all imports.[1] During the next decade the quantity imported annually was about 50,000 piculs, its value varying from year to year. In 1906, an imperial edict ordered the complete discontinuance of smoking within ten years, and in the following year a provisional agreement was entered into by the British and Chinese Governments by which the import of Indian opium into China was to be reduced as cultivation in China—which had grown to enormous proportions—was stopped. In May 1911 this provisional agreement was replaced by a convention which increased the duty on opium to 350 taels a picul, fixed the excise on domestic opium at the same rate, and provided for the abolition of the import trade by 1917. Between 1910 and that year there was a steady decline in the quantity imported. In 1911 the combined value of China's import of the chief cotton goods and of opium was £20,876,000, the value of the remainder of her principal imports, which included woollen goods, metals, raw cotton, coal, kerosene oil, rice and sugar, being £16,659,522.[2]

Sixth. Throughout this period a large proportion of China's foreign trade was conducted with the British Empire. The following approximate percentages are based upon the Chinese Customs statistics.

GREAT BRITAIN'S SHARE OF CHINA'S IMPORT TRADE (HK. TLS. 000's)

	1880	1890	1900	1913
Total imports	81,639	128,758	222,129	586,290
	26 per cent	19 per cent	20 per cent	17 per cent

The following figures show the combined share in China's import trade of India, Singapore and the Straits, Australia, New Zealand, South Africa and British America (in the 1913 returns termed Canada):

1880	1890	1900	1913
26 per cent	10 per cent	9 per cent	10 per cent

British India was the most important contributor to these percentages. The share of Australia and Canada was small.

Hongkong's share, which so far has been shown only in respect of the United Kingdom's trade with China, is illustrated by the following approximate percentages:

1880	1890	1900	1913
37 per cent	55 per cent	42 per cent	29 per cent

[1] Remer, *The Foreign Trade of China*, pp. 52, 90.
[2] *Chinese Customs Decennial Report*, 1902–1911, vol. ii, p. 334.

Prior to 1887 the Chinese Maritime Customs were unable to take cognizance of the junk trade between Hongkong and the mainland. The 1880 percentage, accordingly, was certainly larger than the one shown. The Customs returns treated Hongkong during these years as a foreign country amongst other foreign countries. From its beginning, however, the Colony acted as an entrepôt or distributing centre, and a proportion of the percentages shown above was, therefore, not British, but belonged to other countries. But there is no means of determining accurately what that proportion was. For the first three years that fact hardly matters. It is almost certain that most of the foreign imports entering China from Hongkong were British. Thus in the Chinese Customs Reports and Returns of Trade for 1906 will be found a table showing the relative proportions of China's trade with foreign countries and constructed 'by means of the values assigned by those countries to their trade with China'. Elements of uncertainty were not altogether removed from the resulting figures, but the Customs regarded the table as approximately correct. The table showed that in 1905, treating Hongkong on the same footing, statistically, as Shanghai, Great Britain's share of the import trade was 23·53 per cent, while that of the rest of the Empire was 23·81. By 1913, however, Japan's percentage of imports into China (including Formosa's, but excluding Korea's) had come to be over 20 per cent, while the United States' (including Hawaii's) was over 6 per cent. Still, making due allowances for this, it seems clear that, so far as imports into China were concerned, the British Empire still enjoyed a comfortable margin of supremacy.

As regards exports from China to the Empire as a whole during these years, the position was strikingly different. (We have seen what their position was as regards the United Kingdom.) The proportion of exports sent to the Empire as a whole (including Great Britain, excluding Hongkong) was:

	1880	1890	1900	1913
Total exports (Hk. Tls. 000's)	77,883	87,144	158,996	403,305
	40 per cent	20 per cent	10 per cent	7 per cent

Hongkong's percentage share of China's total exports was:

1880	1890	1900	1913
21 per cent	37 per cent	40 per cent	28 per cent

These figures complete the picture of Hongkong's functions as an entrepôt. Apart from Great Britain, British India and the Straits were the chief recipients of exports.

Both in 1900 and 1913 China's exports to Japan and the United States were considerably greater than her exports to Great Britain.

Exports to Japan, indeed, were greater than exports to the British Empire (excluding Hongkong) in both years, exports to the United States being greater in the latter year only. The percentages in the latter year were: Japan, 16; U.S.A., 9.

Combining the values of exports to, and imports from, China we get the following approximate percentages:

	1880	1890	1900	1913
British Empire (excluding Hongkong, including Great Britain) . .	47	26	21	19
U.S.A.[1]	6	5	8	7
Japan[2]	4	6	11	18
Hongkong	29	48	41	29

Thus, including Hongkong, our share of trade with China was, at the end of our period, almost certainly still the largest.

We have now to turn from main facts to certain details, one group of them relating to kerosene oil. Its earliest import into China seems to have been in 1867, when the amount was 29,842 gallons, the oil being for the use of foreign residents only. The trade began to expand in 1878, when the import was 4,161,000 gallons, all American. Russian oil was introduced in 1889, Sumatran in 1894, and Borneo oil in 1901.[3] The Royal Dutch was formed in Holland on June 16, 1890, tank steamers appearing in Chinese waters first in 1894. The Shell Transport and Trading Co. was registered on October 18, 1897. By 1905 the total import was 156,948,040 gallons, of which 52 per cent was American, 8 per cent Russian, and 38·5 per cent Netherlands East Indies oil. On June 29, 1907, the Anglo-Saxon Petroleum Co. was registered to carry through a consolidation of interests of the Shell and Royal Dutch, all the assets of both companies being transferred to the Anglo-Saxon and the Bataafsche. By 1913 the imports of kerosene had increased to 184,036,917 gallons, valued at Hk. Tls. 25,412,976 (the average value of the tael in that year being 3*s.* 0¼*d.*), of which the Netherlands East Indies' oil was responsible for Tls. 3,443,700. On August 11 of that year the Asiatic Petroleum Co. (South China), Ltd., and the Asiatic Petroleum Co. (North China), Ltd., were registered to acquire respectively from the Anglo-Saxon property, steamers, plant, &c., owned by it in parts of China and in Hongkong and in parts of Manchuria and Korea.

[1] In 1913, including Hawaii. [2] In 1913, including Formosa.

[3] Morse, *International Relations of the Chinese Empire*, vol. ii, p. 401.

Note must be taken, too, of the development of the tobacco and cigarette trade, which by 1913 was valued at a little over Hk. Tls. 13 million. Before 1902 the brands of W. D. & H. O. Wills were sold in China through the agency of Rex & Co. In 1902 Wills, acting for the Imperial Tobacco Co. (of Great Britain and Ireland), Ltd., purchased the business of the American Cigarette Company, Ltd., a Hongkong company, which owned a factory at Pootung. The American Tobacco Company's business in China was carried on through a firm called Mustard & Company. On its formation in 1902, British-American Tobacco Co., Ltd., acquired the businesses in China of the Imperial Tobacco Co. (of Great Britain and Ireland), Ltd., and the American Tobacco Company. Rex & Co. continued to act as agents for the disposal of all goods of British origin, and in 1903 British-American Tobacco Co., Ltd., purchased the business of the firm of Mustard & Company, forming a company of the same name; it also formed another company, British Cigarette Company, Ltd., to take over the Pootung factory. This company was formed under the name American Cigarette Company, Ltd., its name being changed to British Cigarette Company, Ltd., in 1905. The agency arrangements with Rex & Co. were terminated in 1904, and Mustard & Company became sole distributors over an area which was later extended. In August 1908 a factory was opened in Hankow, in March 1909 another was opened at Chemulpo, Korea (this was closed in 1914) and in July 1909 a factory was opened in Mukden.

Of other well-known concerns in existence to-day, Jardine, Matheson & Co. date back in their present form to 1832, though their history goes back a good deal earlier than that. Gibb, Livingston & Co. came into existence in 1836, and Scott Harding & Co., albeit under another name, in 1843. The Sassoons, who had been closely connected with the opium trade, opened an office in Shanghai in 1845. Messrs. Butterfield and Swire began business in Shanghai in 1867 and opened an office in Hongkong in 1870. A. R. Burkill & Sons came into existence during the seventies; Dodwell & Co., who trace their descent back to about 1859, came into existence under their present name in 1899. Brunner, Mond, later absorbed, as we shall see, by Imperial Chemical Industries, Ltd., began business in China in 1901, trading in Japan up to 1918 through the American Trading Company. Harrisons, King and Irwin, Ltd., originated when in 1880 W. W. King took over the business of Shaw, Ripley & Co., who started business in 1843, when Shanghai was opened as a treaty-port. The firm took the name of King Son and Ramsay in 1904, then Westphal, King and Ramsay, Ltd., in 1908 and was incorporated under its present name in 1918.

In 1855 there were at Hongkong and the first five treaty-ports

219 firms (counting separately all branches and agencies), of which 111 were British. In 1880 there were in China 236 British firms, the number of British residents being 2,085. In 1890 the figures were 327 and 3,317 respectively; and in 1900 424 and 5,471. By 1913 these totals had grown to 590 and 8,966, the American totals in that year being 31 and 5,340, the Japanese 1,269 and 80,219, the Russian 1,229 and 56,765, the German 296 and 2,949, and the French 106 and 2,292.[1]

Development of Shipping

To turn next to shipping. The following figures tell us most of what we need to know:[2]

TONNAGE OF VESSELS ENTERED AND CLEARED AT OFFICES UNDER CHINESE CUSTOMS CONTROL

	1864	1874	1883	1893	1903	1912
Foreign trade .	—	1,742,977	4,029,840	7,142,612	16,357,104	26,071,482
Coasting trade .	—	7,562,824	13,560,074	22,176,199	40,933,285	60,135,015
Total . .	—	9,305,801	17,589,914	29,318,811	57,290,389	86,206,497
British . .	2,862,214	4,738,793	11,003,296	19,203,978	28,122,987	38,106,732
American . .	2,609,390	3,184,360	150,703	78,175	559,686	715,001
German . .	580,570	530,377	774,017	1,508,015	7,310,427	6,171,684
Japanese . .	756	480	194,861	566,379	7,965,358	19,913,385
Chinese . .	64,588	494,237	4,941,728	6,829,950	9,911,20	17,277,407

It will be observed that in each of these years the greater portion of the tonnage was employed in the coasting trade. Figures showing what proportion of the coasting, i.e. the interport, trade was British are available only for 1912, when it was 27,990,195 tons, the Japanese figure being 13,961,629.

The bulk of the British coasting trade was in the hands of two concerns, the China Navigation Co. (Butterfield and Swire), established in 1872, and the Indo-China Steam Navigation Co. (Jardine, Matheson & Co.), established in 1881. To a date earlier than either of these, 1865, belongs the establishment of the Hongkong, Canton and Macao S.S. Co., while in 1883 came the formation of the Douglas Steamship Co., which carried on and developed in South China the shipping business founded by Douglas

[1] Chinese Customs Returns of Trade and Trade Reports, 1880, 1890, 1900 and 1913.

[2] They are taken from Morse, ibid., vol. ii, p. 395. The figures include sailing-ship tonnage, which was in 1874, 1,220,085; in 1883, 1,170,871; in 1893, 1,041,761; in 1903, 1,360,168, and in 1912, 5,003,415 tons. The 1912 figures comprised mainly Chinese junks, with a tonnage of 4,404,309 tons.

Lapraik, who arrived in Hongkong in 1843. The present company, Mollers' Ltd., dates back to the 1859–69 period. Two sailing ships, *Contest* and *Osaka*, were owned by Mr. N. E. A. or by Mr. Eric Moller in 1894 and 1895. Moller Brothers came into existence in 1907, their expanding business being carried on between 1910 and 1914 under the name of Moller & Co.

From a shipping, as from a commercial point of view Hongkong's development from its earliest days has been inseparably associated with China's. It was in 1845 that the P. & O., which opened its first mail service in 1837 and was incorporated under its present name in 1840, adopted the 'overland' route by Suez for a fast monthly service from Southampton to Hongkong. A small wooden paddle steamer, the *Lady Mary Wood*, of 553 tons gross, was put on the line from Hongkong to Shanghai in 1850.[1] In 1869 the Suez Canal was opened. The first company to start schedule services with cargo steamers other than mail steamers was the Blue Funnel Line, founded in 1852. These vessels began running to Hongkong and Shanghai in 1867. The Glen Line began running ships to Hongkong and Shanghai about the year 1870. The Canadian Pacific first began sending steam ships to China in 1887. In 1909 the Bank Line began business in Hongkong, later becoming agents in the Far East for Ellerman & Bucknall.

The following figures taken from the reports issued by the Hongkong Harbour Master, and published in the annual reports of the Hongkong General Chamber of Commerce, which was established in 1861, show the growth of Hongkong's shipping (excluding junks) and the proportion of it that was British.

SHIPPING ENTERED AND CLEARED

	1900		1905		1913	
	Ships	*Tonnage*	*Ships*	*Tonnage*[2]	*Ships*	*Tonnage*[2]
Total .	10,940	14,022,167	16,303	19,706,728	17,293	22,750,131
British .	7,511	9,155,198	11,483	13,226,346	10,834	12,528,168
Foreign	3,429	4,866,969	4,820	6,480,382	6,459	10,221,963

In the above table the figures for the years 1905 and 1913 include ocean-going and river steamers.[3] Presumably the figures for

[1] Morse, ibid., vol. I, p. 343.

[2] Excluding steamships under 60 tons and steam launches plying in the Colony.

[3] Most of the river-steamer tonnage was owned by Chinese, some of whom were British subjects.

1900 do so too, but as published they are not separately shown. For the years 1905 and 1913 the river figures were:

	British		*Foreign*	
	Ships	*Tonnage*	*Ships*	*Tonnage*
1905 .	7,488	5,554,022	975	659,597
1913 .	6,624	4,078,635	1,780	949,328

Shipbuilding and ship-repairing became the largest industry in Hongkong, the two chief yards being the Hongkong and Whampoa Dock Co., Ltd., established in 1901, and the Taikoo Dockyard and Engineering Co., Ltd., which completed its docks at Quarry Bay, just inside Lyemun Pass, in 1908. In passing, note may be taken of the establishment in Shanghai of the same class of enterprises, one being the Shanghai Dock and Engineering Co. This was formed in 1906 out of concerns amalgamated in 1900 under the name of S. C. Farnham, Boyd & Co., the concerns amalgamated dating back to 1865 and 1862 respectively. Another was the New Engineering and Shipbuilding Works, incorporated in 1903. In connexion with tug and lighter shipping should be mentioned the Shanghai Tug and Lighter Co., formed in 1903, and the Taku Tug and Lighter Co., formed in Tientsin in 1888. Three important wharf and godown companies came into existence during this period: the Hongkong and Kowloon Wharf and Godown Co., Ltd., incorporated in 1887, the Shanghai and Hongkew Wharf Company, Ltd., established in 1871, and the Tientsin Wharf and Godown Co., Ltd., established in 1906.

Mining and Railways

In the following account of mining and railways mining is placed first for the sake of convenience.

In 1897 was formed in London the Pekin Syndicate, with a capital of £20,000, an Italian, Commendatore Angelo Luzatti, who arrived in Peking in 1896, being the moving spirit in the enterprise. In 1898 he obtained a concession, duly ratified by the Chinese Government, whereunder he secured extensive mining rights, particularized in two agreements, one made on May 21, 1898, between the Syndicate and the Shansi Bureau of Trade, and one made on June 21 of the same year with a Chinese concern known as the Yü-Feng Company, authorized by the Governor of Honan.[1] Both agreements, which were drawn up in the form of

[1] For their texts see pp. 700 and 131 of vol. i of *MacMurray's Treaties and Agreements with and Concerning China* (New York, O.U.P., 1921).

regulations, authorized railway construction. The capital of the Syndicate was then increased and surveys were made for a line to Pukow, opposite Nanking, on the Yangtze, and for a line connecting the mines with the head of navigation on the Wei River.[1] The Boxer rebellion intervened, but in 1902 a mining camp was formed in the Chinghua coalfield of Northern Honan. In 1905 the Syndicate made an agreement with the Chinese Government for a loan of £700,000 to cover the cost of constructing a ninety and a half mile railway line between Taokow and Chinghua, most of which had already been built. The loan was called the Chinese Imperial Government Honan 5 per cent (gold) loan of 1905.

Both in Shansi and Honan considerable opposition was encountered from the local population, with the result that in 1908 the Syndicate surrendered its Shansi rights for Tls. 2,750,000. In Honan the opposition of a rival Chinese mining company had to be contended with, this being disposed of by an amalgamation of interests effected two years after the end of the period covered by this chapter. But it may for convenience be described here. A memorandum of agreement was drawn up on November 9, 1914, which resulted in an amalgamation of interests effected on May 7, 1915, when a corporation entitled the Fu Chung Corporation, with a capital of $1,000,000, was created. It was placed under the management of three representatives of each of its component elements, the Syndicate and the Chung Yuan Company, serving under a chairman to be elected by them in rotation for a period of ten years—sixty years being the duration of the concession agreed upon in 1898. In 1913 the output of anthracite coal was 283,570 tons.

The early days of the Chinese Engineering and Mining Company, Ltd., were towards the end of the year 1900, when a British Company was created for the purpose of continuing the coal-mining in the Kaiping Basin about midway between Shanhaikuan, where the Great Wall meets the sea, and Taku at the mouth of the Pei Ho, previously carried on by a Chinese concern, and its predecessor, the Kaiping Mining Bureau, also a Chinese concern. In 1900, the year of the Boxer outbreak, the Chinese company sought the protection of the British flag, hoisted at Shanhaikuan on September 30, 1900. On February 19, 1901, a contract was signed under which the enterprise was sold to the newly-formed British Chinese Engineering and Mining Company, Ltd. Mr. Hoover, who subsequently became President of the United States, and who had been Chief Engineer of the Chihli Bureau of Mines, was appointed General Manager under Messrs. Bewick Moreing & Co. Some years later a rival Chinese concern, the Lanchow Mining Company, began operations with Chinese official encouragement in the Kaiping area. Finally, the dispute was ended

[1] Collins, *Mineral Enterprise in China*, p. 74.

by agreement. The Chinese Engineering and Mining Company, Ltd., was reconstructed in June 1902, and was to receive 60 per cent and the Lanchow Mining Company 40 per cent of net profit up to £300,000, profits in excess of that sum to be divided equally. Each company retained its share capital of £1,000,000, but a joint administration, called the Kailan Mining Administration, was formed under the control of the boards of directors of the two companies through a deliberating board in Tientsin of six members, three representatives from each company. In 1913 the output of coal was 2,036,966 tons. Sales reached 2,036,536 tons.

To turn to railways. It is proposed to deal mainly with those, originally financed in whole or in part with British capital, which were in existence in December 1941. These were: the Peking-Mukden, the Shanghai-Nanking, the Canton-Kowloon, the Tientsin-Pukow, the Shanghai-Hangchow-Ningpo, the Honan and the Hankow-Canton railways. Of these, the Tientsin-Pukow and the Hankow-Canton were associated with international loans, in which British capital participated. The others were financed by British money only. This distinction is one of considerable importance in the story of railway enterprise in China considered as a whole. It is also one of importance in the story of foreign finance in China considered as a whole. And as railway construction, and loans for that purpose, and for the general purposes of the Chinese Government were matters in which the British Government, like other Governments, took a political interest, they form part of international politics during the period covered by this part. But in surveying British economic interests we are only concerned with politics as a background, just as, in surveying British policy in the Far East, Mr. Hubbard is only concerned with economics as a background. Between his survey and this one there is, however, indeterminate ground, which is semi-political, semi-economic. So, before proceeding to deal with the railways listed above, it is necessary, in order to enable the reader to understand the environment in which they were negotiated, to set forth certain facts that belong both to politics and to economics.

These fall into two groups. One may be labelled diplomatic, and comprises governmental declarations and notes; the other may be labelled financial and comprises various inter-bank arrangements. To collate the facts into these groups is to disregard a little their chronological order. On the other hand, to state them strictly in their chronological order is to make them less easy to understand. By grouping them one can show clearly in the first place the politically competitive nature of railway building during this period in China—a quality for which it can truthfully be said that we were not responsible. We began our activities in China on

an economic basis and with economic aims, as did the United States. Partly owing to our success, partly to the different circumstances encompassing them, other Powers, if they did not begin with political aims, very soon put political purposes first, in the belief, no doubt, that economic benefits would result from doing so. Whether we were obliged to follow suit, as frequently alleged, it is not proposed to discuss. Suffice it to say that we followed suit, but we did not initiate power diplomacy—apart, *bien entendu*, from our original employment of force against China. A second thing one aims at making clear is the extent to which our railway building, on its financial side, was cosmopolitan. That was both good and bad, the extent to which it was the one and not the other being a matter which the reader must decide. There were occasions on which the Peking correspondent of *The Times* condemned the international outlook and methods of the Hongkong and Shanghai Banking Corporation. Many shared his view. In the form which, as we shall see, international finance came to assume, that of the Consortium, the Chinese disliked it too. It made them feel, not only that they were being exploited—they had felt that for some time—but that they were being hemmed in, as it were, whereas at the art of playing one party off against another—an art which is part of the technique of diplomacy everywhere—they were adepts.

To turn to the facts which, it is hoped, these prefatory remarks will illumine, and first to the group which may be labelled diplomatic.

In February 1898 the British Minister in Peking obtained from the Chinese Government a declaration of non-alienation of the Yangtze Valley. On February 9 he wrote to the Tsung-li Yamên —the Chinese Foreign Office of those days—saying that he would be glad to be able to communicate to Her Majesty's Government 'a definite assurance that China will never alienate any territory in the provinces adjoining the Yangtze to any other Power, whether under lease, mortgage, or any other designation'.[1] A similar declaration had been obtained by France in respect of Hainan on March 15, 1897. In May 1897 China entered into a provisional contract with a Belgian company (which represented French and Russian interests) for the construction of a line from Peking to Hankow. Great Britain protested. When, notwithstanding her protest, the final contract was signed, Great Britain demanded from the Chinese Government the right to build certain lines upon the same terms as those granted in the case of the Belgian line: Tientsin to Chinkiang (to be shared, if desired, with the Germans and Americans); in Honan and Shansi, Peking Syndicate lines:

[1] MacMurray, *Treaties and Agreements with and concerning China*, vol. i, pp. 104–5.

a line from Kowloon to Canton another from Pukow to Sinyang; and one from Soochow to Hangchow, with extension to Ningpo.[1]

On April 10, 1898, the British Ambassador in Berlin informed the German Government that, in establishing herself at Weihaiwei (the convention for the lease of which was not signed till July, 1898), England had 'no intention of injuring or contesting the rights and interests of Germany in the province of Shantung, or of creating difficulties for her in that province. It is especially understood that England will not construct any railroad communication from Weihaiwei and the district leased therewith into the interior of the province of Shantung.'[2]

On April 28, 1898, there was an exchange of Notes between Great Britain and Russia regarding railway interests in China. In these Great Britain engaged not to seek any railway concessions north of the Great Wall, and 'not to obstruct, directly or indirectly, applications for railway concessions in that region supported by the Russian Government'. Russia engaged not to seek any railway concessions in the basin of the Yangtze, and 'not to obstruct, directly or indirectly, applications for railway concessions in that region supported by the British Government'. The contracting parties declared that they had 'nowise in view to infringe in any way the sovereign rights of China or existing treaties'.[3]

On June 1, 1899, the Tsung-li Yamên sent the Russian Minister at Peking a Note in regard to the construction of railways northward and north-eastward from Peking. In this the Chinese Government stated that it wished to reiterate 'in the plainest terms' that it agreed that, if railways 'are in future built from Peking to the north or to the north-east towards the Russian border', China reserved the right to construct such roads with Chinese capital and under Chinese supervision, but that if it were proposed to have such construction undertaken by any other nation the proposal shall be first made to the Russian Government, or to the Russian Syndicate to construct the railway, and 'on no consideration will any other Government, or a syndicate of any other nationality be allowed to construct the railway'.

Let us turn next to the group of facts that can be labelled financial.

In 1895 the Hongkong and Shanghai Banking Corporation entered into an agreement with the newly established Deutsch-Asiatische Bank of Berlin to share all Chinese Government business thereafter obtained by either party.

[1] Willoughby, *Foreign Rights and Interests in China*, vol. i, p. 145.

[2] MacMurray, op. cit., p. 152.

[3] MacMurray, ibid., p. 204.

Early in 1898—the year, as we have seen, of keen competition on the part of governments—the British and Chinese Corporation was constituted by the Hongkong and Shanghai Banking Corporation and Jardine, Matheson & Company. In informing the Foreign Office of this, the bank said that the arrangement whereby it had hitherto worked with a German Syndicate—the arrangement began in 1895—had been terminated by mutual consent, and that in future they and the Syndicate would work separately. 'The German Syndicate,' it added, 'always a powerful combination, has of late consolidated its position very much, and now includes all houses of any importance in Germany. It also enjoys the confidence of, and receives the support of, the German Government. In order that British commercial interests may be fully represented and that we shall be in a better position to cope with the powerful combination now opposed to us in China, the bank has decided to form a strong representative and influential Syndicate to deal with railway construction in China.' The writer concluded his communication by saying: 'I trust the explanation I have given will warrant you in giving the necessary instructions to Sir Claude Macdonald to give Messrs. Jardine, Matheson & Company, and the bank such support as they may require.'[1]

In September 1898 the Hongkong and Shanghai Bank and the British and Chinese Corporation came to an agreement with the German Syndicate regarding spheres of interest in railway construction. The minutes of the meetings at which the agreement was reached were sent to the Foreign Office on September 3 and, as published by MacMurray,[2] set forth that it was 'desirable for the British and German Governments to agree about the sphere of interest of the two countries regarding the railway constructions in China, and to mutually support the interest of either country'. The British sphere of interest was designated as the Yangtze Valley; the provinces south of the Yangtze; the province of Shansi with connexion to the Peking-Hankow line at a point south of Chengting and a connecting line to the Yangtze Valley, crossing the Huangho Valley. The German sphere of interest was designated as the province of Shantung and the Huangho Valley with connexion to Tientsin and Chengting, or other point of the Peking-Hankow line, in the south, with connexion to the Yangtze at Chinkiang or Nanking. 'The Huangho Valley', the Minute stated, 'is understood to be subject to the connecting lines in Shansi forming part of the British sphere of interest, and to the connecting line to the Yangtze Valley, also belonging to the said sphere of interest.' Provision was also made that 'the line' from Tientsin to Tsinan, or to another point on the northern

[1] Overlach, op. cit., p. 48, quoting *China*, No. 6, 1899, vol. cix, No. 5.
[2] Op. cit., pp. 266–7.

frontier of Shantung, and the line from the southern point of Shantung to Chinkiang 'be constructed by the Anglo-German Syndicate in the following manner . . . the line from Tientsin to Tsinan . . . to be built and equipped by the German group. The line from the southern point of the province of Shantung to Chinkiang to be built and equipped and worked by the English group. On completion, the lines to be worked for joint account.'[1]

On October 2, 1905, an agreement was made between Carl Meyer, of 4 and 5 King William Street London, 'on behalf of a body of English capitalists consisting of the British and Chinese Corporation, Ltd., the Pekin Syndicate, Ltd. and the Yangtze Valley Company, Ltd.', Stanislas Simon, of 15 *bis* Rue Lafitte Paris, 'on behalf of a body of French capitalists consisting of the Banque de l'Indo-Chine, the Comptoir Nationale d'Escompte de Paris, the Société Générale, the Régie Général de Chemins de Fer and Messieurs N. J. & S. Bardac', and the Chinese Central Railways, Ltd., 'of the third part', in regard to the construction of certain railways. Nobody desirous of reading this agreement in full should set out to do so without providing himself either with a tonic or a restorative. Having said that, it would be most unfair to proceed to quote the document at length. But, if the reader is fully to understand the environment of which the facts already cited formed part, it is essential to quote certain of the readily intelligible passages.

The Chinese Central Railways, Ltd.—the third party to the agreement—is thereafter referred to in it as 'the Company'. The Company was registered, the agreement states, on January 7, 1904. J. O. P. Bland, referring presumably to an earlier phase, says that it was 'an Anglo-French Syndicate formed, in 1898, for the purpose of undertaking railway and finance business in China north of the Yangtze. It came into existence as an indirect result of Lord Salisbury's negotiations with the French Government concerning Yünnan and Szechuan, and of the Anglo-French Convention of 15 January, 1896.'[2] This document—described by MacMurray not as a Convention but as a Declaration—said:

'The two Governments agree that all commercial and other privileges and advantages conceded in the two Chinese provinces of Yünnan and Szechuan either to Great Britain or France, in virtue of their respective Conventions with China of the 18th March, 1894, and 20th June, 1895, and all privileges and advantages of any nature which may in the future be conceded in these two Chinese provinces, either to Great Britain or France, shall, as far as rests with them, be extended and rendered common to both Powers and to their nationals and dependents, and they engage to use their influence and good offices with the Chinese Government for this purpose.'[3]

[1] MacMurray, op. cit., p. 204.

[2] *Recent Events and Present Policies in China*, p. 276 (Heinemann, 1912).

[3] MacMurray, op. cit., p. 55.

Now the Company, i.e. Chinese Central Railways, Ltd., which comprised 'two of the parties forming the British Group', i.e. the British and Chinese Corporation and the Pekin Syndicate, was 'entitled to the benefit of two agreements' relating to the construction of railways from Pukow to Tientsin and from Pukow to Hsinyang. It had also for some time past been negotiating 'to obtain a concession and other rights' in connexion with a railway from the Hankow-Hsinyang district to Chêngtu in Szechuan. But the French Group, i.e. the French capitalists represented by Stanislas Simon, had also for some time past been negotiating 'to obtain a concession and other rights' in connexion with a railway from the Hankow-Hsinyang district to Chêngtu. So the two sets of negotiations had 'come into competition with each other'. The agreement, accordingly, recites that 'for the purpose of putting an end to such competition the Company and the French Group have agreed to associate themselves together in the manner and on the terms hereinafter appearing', i.e. in the financial clauses of the agreement. The following is an extract:

'The engineers and other European employees engaged upon the said railway from Pukow to Chêngtu and of each railway that may be formed or controlled by the Company (other than the said railway from Pukow to Tientsin) shall so far as possible be in equal proportions of British and French nationalities, and all orders for materials rolling stock and plant and all contracts for the said railways (other than as aforesaid) shall be divided in equal proportions between British and French manufacturers and contractors.'

The following extract, in which I have inserted commas, is also (with their help) quite plain.

'Of the 50,000 shares held by the British Group or their nominees 5,000 have been already transferred to the Belgian Group (i.e. the Compagnie Internationale d'Orient or their nominees) and in the event of certain American capitalists to be approved by the British Group (hereinafter referred to as "the American Group") agreeing within twelve months from the date hereof, as to which time shall be of the essence of the contract, to accept such participation, but not a smaller one, in the Company the British Group shall transfer or make over the benefit of a further 7,500 shares out of their 50,000 shares to the American Group, but only upon such terms and conditions as the British Group shall think fit.'

All of which at once illustrates and justifies what was said at the beginning of this Part about this period being our cock-of-the-walk period, and about the way in which the British cock rather preened itself upon including other cocks in mutual welcome to the sunshine of prosperity.

The Anglo-French-with-allowance-for-American-co-operation-to-be-approved-of-by-the-British-combination next came to include Germans. This is how Mr. Bland sees that event:

'Despite the misgivings and dissatisfaction of the French financiers associated with the Hongkong and Shanghai Bank in the Syndicate known as the "Chinese Central Railways Ltd.," notwithstanding strong representations by the French

Ambassador in London, and despite the protests and warnings which had been addressed to the Waiwupu (the Chinese Foreign Office) by the British Minister at Peking, German participation in these Yangtze railways became an accomplished fact in June, 1909. The British Government's deplorable weakness throughout this unfortunate episode was primarily due to ignorance of the inner workings of German political finance and consequently to the preponderant weight exercised by the counsels of Lombard Street. The British Minister at Peking clearly perceived at the outset the loss of prestige which British interests must incur as the result of acquiescence in German claims to participation in these enterprises.'[1]

The agreement whereunder German participation occurred was made, as stated by Mr. Bland, on June 6, 1909, the parties to the agreement being Chang Chih-tung, director-general of the Canton-Hankow railway and of the Hupeh section of the Szechuan-Hankow Railway, the Deutsch-Asiatische Bank and the Hongkong and Shanghai Banking Corporation, associated with the Banque de l'Indo-Chine. The agreement provided for the construction of the Hupeh-Hunan sections of the Canton-Hankow Railway and for the construction of a line connecting Ichang with Hanyang.

The early history of the Canton-Hankow Railway is told in full in Chapter XII of P. H. Kent's *Railway Enterprise in China*. It forms part of the story of American enterprise in China, and first links up with this part of our story in an agreement made in February 1899 between the British and Chinese Corporation and the American-China Development Company, which had contracted with the Chinese Government in April of the previous year to provide £4,000,000 for the construction of the Hankow-Canton line. The Company, in February 1899, offered the British and Chinese Corporation a half share. The Corporation, on its side, offered the Company a half share in the construction of a line from Canton to Kowloon, the right to build which had been secured in 1898, after the British Government had demanded it as compensation for the conclusion by the Chinese Government with a Belgian company, La Société d'Etudes des Chemins de Fer en Chine, of a contract for the construction of a line from Peking (Lu-kou-chiao) to Hankow. (The Belgian Company had proved to be connected with French and Russian interests, i.e. the Russo-Chinese Bank, notwithstanding an assurance given by the Chinese Government that this was not the case, and the possibility of Russo-French political influence in the Yangtze Valley was regarded by the British with concern.) The agreement between the British and Chinese Corporation and the American-China Development Company was not implemented. The contract between the Company and the Chinese Government was in 1905 cancelled, and the Government of Hongkong agreed to lend the Viceroy of the Hukuang provinces £1,100,000 to enable him to pay

[1] Op. cit., p. 276.

the Company the compensation involved, gold $6,750,000. The *quid pro quo* for this was (or is alleged to have been) a promise by Viceroy Chang Chih-tung to the British Consul-General at Hankow that if China sought capital abroad for the construction of the Canton-Hankow line she would turn first to Great Britain.[1]

It was to participation in a loan contract for the construction of this line that the Germans were, in Mr. Bland's view, so pusillanimously admitted in June 1909, the contract providing also for the building of the Ichang-Hanyang line.

But by this time the United States was taking a different view in regard to railway construction in China than was prevalent when the American-China Development Company's contract in respect of the Hankow-Canton railway was cancelled. Thus, Americans had become specially interested in railways in Manchuria—whence Mr. Knox's famous neutralization scheme of 1909. That, however, is another story, into which we need not go, though in leaving it out one is also leaving out that of the abortive Chinchou-Aigun Railway agreement—an episode which concerned us at that time. (Another Manchurian railway in which we were interested, the Fakumen Railway, had also proved abortive and will also be left aside.)[2] Now, as a result of the new interest, American financiers wanted to participate in Yangtze Valley railway building. And presently, after vigorous steps on their part, they also were included in the tri-partite agreement—British, French, and German—made in respect of the Hukuang railways in 1909. This inclusion will be referred to below. It converted the three-nations into a four-nations group, which later on, as we shall see in dealing with loans to the Chinese Government for other than railway purposes, became by the inclusion of Russian and Japanese financiers, a six-nation group—a combination, in fact, of all the chief cocks upon what had originally been, to such a large extent, the British cock's walk.

To turn now to the railways themselves, omitting the pre-1898 history of railway building as represented by the first Woosung line, a railway in Formosa, and the Kaiping tramway, built to facilitate the transport of the coal which the Chinese Engineering and Mining Company was formed to handle.

SHANHAIKUAN-NEWCHWANG RAILWAY

AFTER the tramway had connected the coalfield with Hsukoshuang, a railway was built, with the encouragement of Li Hung-chang, under a British engineer, Kinder, by a Chinese concern.

[1] MacMurray, op. cit., p. 530.

[2] Accounts of these railway projects will be found in Mr. Bland's book, cited above.

By 1895 this line (and a short electric tramway) connected Peking with Shanhaikuan. In 1897 the question of continuing the Shanhaikuan end of the line was raised. By that date Manchuria had become a field for Russian enterprise, and an attempt was made by the Russians to prevent the projection into it of a British-built railway. The attempt was resisted, and on October 10, 1898, a final agreement, known as the Shanhaikuan-Newchwang Railway Loan Agreement, was made between the Chinese Government and the British and Chinese Corporation. Thereby the Corporation agreed to issue on behalf of the Chinese Administrator-General of Railways a loan of £2,300,000, the proceeds of which were to be devoted, in addition to the construction of a line from Chunghouso to Hsinmingting and a branch line to Yingtzu, to improvements and additions to rolling-stock on the existing lines between Peking and Shanhaikuan, and to the redemption of loans and advances made by foreign banks in respect of it. The loan was to be a first charge upon the security of the permanent way, rolling-stock, and entire property, with the freight and earnings of the existing Peking-Shanhaikuan lines and on the freights and earnings of the new lines when constructed. By Clause 4 the principal and interest of the loan were guaranteed by the Chinese Government, which undertook that, in the event of failure to pay interest or principal, the railway should be handed over to the corporation for management pending payment. The loan agreement also provided that, during the currency of the loan, which was to be for forty-five years, the chief engineer should be a British subject. While the chief members of the railway staff were to be Europeans appointed by the Administrator-General, Chinese 'with sufficient engineering or traffic experience' might also be appointed. Article 6 provided that 'a capable and efficient European railway accountant shall be appointed, with full powers to organize and direct the keeping of the railway accounts, and to act with the Administrator-General and the chief engineer of the railway in the supervision of receipts and expenditure'.

SHANGHAI-NANKING RAILWAY

ABOUT a month prior to the preliminary agreement for the line just referred to, i.e. on May 13, 1898, a preliminary agreement was signed by the Chinese Government and the British and Chinese Corporation for the construction of a railway from Shanghai, by Soochow and Chinkiang, to Nanking. The execution of the agreement was delayed, first by the South African War and then by the Boxer revolt, so that the final agreement was not signed till July 9, 1903. By this a fifty-year loan was authorized for £3,250,000 at 5 per cent. The loan was issued in two portions,

£2,250,000 in 1904 and £650,000 in 1907. The balance of £350,000 was not issued. The construction and operation were to be in the hands of a board of five commissioners, two Chinese, two English and an English engineer-in-chief, but 'when practicable' Chinese were to be employed 'as far as possible in positions of trust and responsibility'. Article 23 of the agreement provided that the Shanghai-Woosung line, a distance of 10½ miles, which had been undertaken with Chinese capital,[1] should be taken over as part of the Shanghai-Nanking system at a price of 1,000,000 taels, to be paid to the Chinese Railway Administration out of the proceeds of the loan. The lines and their plant and lands were to be security for the loan. Article 17 of the agreement stated that 'without the express consent in writing of the Director-General and the British and Chinese Corporation no other rival railway detrimental to the business of the same (i.e. the Shanghai-Nanking) is to be permitted, and no parallel line to the Shanghai-Nanking Railway is to be allowed to the injury of the latter's interest within the area served by the Shanghai-Nanking main line or branch line'. Article 6 stated: 'The accounts and receipts of disbursements of the railway are to be kept by a chief accountant, whose records and books are at all times open to the inspection and examination of the Board of Commissioners. All the accounts of the railway construction, and operation, are to be kept in Shanghai currency in the English and Chinese languages, with the combined signature of a Chinese and British official.'

The line was not completed till 1908.

CANTON-KOWLOON RAILWAY

THE next railway of which we have to take note (for the Honan railway has already been mentioned) is the Canton-Kowloon. A concession for this line was obtained by the British and Chinese Corporation in 1898, but for various reasons the matter hung fire. This inaction became the subject of strong criticism by the Governor of the Colony, Sir Henry Blake, by the Hongkong Chamber of Commerce and in *The Times*, 'it being strongly felt that if Hongkong was to remain the distributing centre for South China railway communication between the Colony and Canton was essential'.[2] A final agreement was not made till March 7, 1907. This provided for a loan of £1,500,000 bearing interest at 5 per cent, thirty years being fixed for its duration. The Viceroy was to establish a head office at Canton, which was to be under the direction of a Chinese managing director (appointed by the

[1] The original Shanghai-Woosung line, referred to above, was pulled up.

[2] Kent, op. cit., p. 173. Remarks made on the subject by the Hon. Gershom Stewart of Hongkong in 1905 will also be found, on p. 174 of the same work.

Viceroy) with whom was to be associated a British engineer-in-chief and a British chief accountant. For all important technical appointments Europeans were to be engaged, but competent Chinese, when available, were also to be employed. The section between Hongkong and the frontier of the territory leased in 1898 was a British affair financed by the Hongkong Government, at a cost, by the end of 1913, of Hongkong $13,521, 231. It was begun in 1906 and opened to traffic on October 1, 1910. The Chinese section was begun in June 1908 and completed in October 1911.

TIENTSIN-PUKOW RAILWAY

ON May 18, 1899, an agreement was made by the Chinese Railway Bureau on the one part, and the Hongkong and Shanghai Bank (acting for the British and Chinese Corporation) and the Deutsch-Asiatische Bank on the other, for a loan of £7,400,000 at 5 per cent for the construction of lines from a point at, or near, Tientsin through Têchow and Tsinanfu to Ihsien, near the southern frontier of Shantung, and from there to Kuachao (Chinkiang), their total length being about 982 kilometres, the northern section to be 'constructed, equipped and worked' by the Deutsch-Asiatische Bank, and the southern part of the British and Chinese Corporation. Owing to the Boxer outbreak this agreement was not carried out. A new contract was made on January 13, 1908, with the Deutsch-Asiatische Bank and Chinese Central Railways, Ltd., the latter, representing, as we have seen, an alliance of British and French interests. By this agreement a joint loan of £5,000,000 at 5 per cent was made, and by a subsequent contract a further sum of £3,000,000 was loaned in 1910 at 5 per cent, the southern terminus being changed to Pukow, on the northern bank of the Yangtze opposite Nanking, the length of the line being 674 miles. The loan was secured, first, on the railway receipts, and additionally on specified provincial revenues, and it was provided (Article 17) that 'the construction and control of the railway will be entirely vested in the imperial Chinese Government' and 'after completion of construction the imperial Chinese Government will administer both sections as one undivided Government railway'. The Chinese Government was to select and appoint fully qualified German and British chief engineers for the northern and southern sections respectively. Construction of the British section was begun in February 1909, the section being opened to traffic on June 21, 1912.[1] The British share of this loan was £1,850,000, our share of a supplementary loan issued in 1910 being £1,110,000.

The term of each loan was thirty years. In connexion with Clause 17, quoted above, and with the provisions in respect of

[1] MacMurray, op. cit., vol. 1, p. 684.

accountancy contained in the Shanhaikuan-Newchwang, Shanghai-Nanking and Canton-Kowloon railways the following provisions, contained in Article 14 of this loan should be noted: 'The accounts of the railway will be kept in Chinese and English in accordance with accepted modern methods, and will be supported by all necessary vouchers. During the period of construction the said accounts and vouchers will be open at any time to the inspection of an auditor, appointed and paid by the Syndicate, whose duties will be confined to certifying to the Syndicate to the due expenditure of the loan funds in accordance with the provisions of Article 3 of this Agreement.'

SHANGHAI-HANGCHOW-NINGPO RAILWAY

A RAILWAY to link Shanghai, Hangchow, and Ningpo was contracted for betwen the Chinese Government and the British and Chinese Corporation on March 6, 1908. Ten years previously the Corporation had obtained a concession for a line from Soochow via Hangchow, to Ningpo, and for one from Pukow to Sinyang. In regard to the former Sir Eric Teichman writes: 'A native company started to build the line in violation of the rights promised to the foreigner, and there were threats of riots and agitation against the foreign interests. The Chinese Government twisted and turned, seeking to evade the obligations of 1898, while the British Minister, in accordance with the practice of the times, sought with grim determination to hold them to their undertakings.'[1] Ultimately, the agreement of 1908 was made. It provided for a loan of £1,500,000 at 5 per cent to run for thirty years and to be secured on the revenues of the line together with the surplus earnings of the Imperial Railways of North China (excluding the Hsinmintun-Mukden line to the east of the Liao river). From Shanghai to Hangchow (118 miles) the line was opened to traffic in August 1909. The section to Ningpo was not completed till 1916.

HUKUANG RAILWAYS

IN May 1911 the Hongkong and Shanghai Bank participated with the Deutsch-Asiatische Bank, the Banque de l'Indo-Chine and an American group of banks in an agreement with the Chinese Government for an immediate loan of £6,000,000 at 5 per cent, and a later loan, if required, not to exceed £4,000,000 repayable in forty years, secured on the traffic receipts and on certain salt and *likin* taxes of Hupeh and Hunan, for the construction of the Hupeh-Hunan section of the Hankow-Canton railway (about

[1] *Affairs of China*, p. 242 (Methuen, 1938).

559 miles), for the construction of a Kwangshui-Siangyangfu-Kingmenchow-Ichang line (about 373 miles) and for an Ichang-Kweichowfu line (about 186 miles). The 'construction and control' of the lines were to be 'entirely and exclusively vested in the Chinese Government'. An English engineer was to be appointed for the section Hankow-Ichanghsien, on the southern border of Hunan, a German engineer for the Kwangshui-Ichang line, and an American engineer for the Ichang-Kweichowfu line.[1]

First the anti-Manchu revolution, and subsequently the European war interfered with the construction of the British section, the British share of the loan being £1,500,000. By the end of the period covered by this Part the British section had been surveyed from Wuchang to Yochow and Yochow to Changsha. On the American and German sections no appreciable amount of work was ever done.

In November 1913 an agreement was made between the Chinese Government and Chinese Central Railways, Ltd., in prosecution of a preliminary agreement made in January 1899, for the issue of a 5 per cent loan of £3,000,000 designed to provide capital for the construction of a Government line from a point on the Tientsin-Pukow railway, southern section, to a point at or near Sinyang on the Peking-Hankow railway, a distance of about 350 miles; and for the purchase of land, rolling-stock and other equipment. The anti-Manchu revolution interfered with this project also and the loan was not issued. In December of the same year a preliminary agreement was made between the Chinese Government and Pauling & Co., Ltd., for the issue of a loan for the construction of a railway from the Yangtze at Shasi to Shinyi in Kueichow province. This loan will be referred to again in the part dealing with the 1914–36 period.

International Finance

In approaching international loans made to the Chinese Government for other than railway purposes, mention should be made of the fact that between 1874 and 1895 a dozen loans had been made to it through British institutions, most of them through the Hongkong and Shanghai Banking Corporation.[2] Most of them were relatively small loans and had, by 1895, been paid off. In 1895 China borrowed £3,000,000 at 6 per cent through the Hongkong and Shanghai Banking Corporation and £1,000,000 at 6 per cent through the Chartered Bank of India, Australia and China. By the end of 1913 a portion of the former loan was still outstanding. Between 1900 and 1911 there were three small Anglo-Danish

[1] MacMurray, ibid., p. 866.
[2] A list will be found in Morse, op. cit., vol. iv, Appendix A.

telegraph loans, the Shanghai-Taku Cable Loan of August 1900 for £210,000 at 5 per cent; the Duplicate Taku-Chefoo Cable Loan of December 1900 for £48,000 at 5 per cent, and the Telegraph Charges Advance of April 1911, amounting to £500,000 also at 5 per cent. The amount outstanding at the end of 1913 in respect of these loans was about £334,370.

The international loans began in 1896, in consequence of China's need for funds to meet the costs of her first war with Japan, with a loan issued through the Hongkong and Shanghai Banking Corporation and the Deutsch-Asiatische Bank for £16,000,000 for thirty-six years at 5 per cent. This loan was secured on the revenue of the Chinese Customs, Article 7 of the loan agreement stating that it was to have priority both regarding principal and interest 'over all future loans, charges and mortgages' as long as any part of it remained unredeemed. By Clauses 8 and 9, the loan was to be further secured by Customs bonds for the total amount in sterling of its principal and interests, some to be issued and sealed by the Tsungli-Yamên and the Board of Revenue, and countersigned by the Inspector-General of Customs, others by the Chinese Superintendent of Customs at Shanghai and by the Viceroy of the Liang Kiang Provinces (Kiangsu, Anhui, and Kiangsi) and countersigned by the Commissioner of Customs at Shanghai. Clause 7 of the loan agreement provided that 'the administration of the Imperial Maritime Customs shall continue as at present constituted during the currency of this loan'.[1] In 1898 a further loan of £16,000,000 was made to the Chinese Government through the same two banks, the period of the loan being forty-five years and the rate of interest 4½ per cent. This loan was secured on the Customs revenue and by a first charge, free from all encumbrances, upon the general and salt *likin* revenues of various provinces to the amount of Tls. 5,000,000, the revenue being placed under the supervision of the Inspector-General of Customs. In Clause 6 (2) of the loan agreement the Chinese Government undertook that the administration of the Customs service should remain as then constituted during the currency of the loan. As in the 1896 loan further security was provided for in the form of bonds countersigned in the same way. Clause 6 (2) also provided that in the event of negotiations 'for a revision of Customs tariff accompanied by stipulations for decrease or abolition of *likin*'—a step constantly urged upon the Chinese Government in the interests of trade—the *likin* 'pledged for the service of this loan shall neither be decreased nor abolished except by arrangement with the Banks and then only in so far as an equivalent is substituted for it in the shape of a first charge upon the increase of Customs revenue consequent on such revision'.[2]

[1] MacMurray, op. cit., p. 57. [2] MacMurray, op. cit., p. 109.

The British amounts outstanding in respect of these two loans at the end of 1913 was about £12,662,000.

We now reach a point at which we must refer back to the Four Nations railway loan of May 1911, the Hukuang loan as it is called (p. 73), and to the Anglo-German Tientsin-Pukow railway loan of 1908 (p. 72). The loan agreement for the latter, as we have seen, provided that the construction and control of the railway should be entirely in the hands of the Chinese Government. The Government was to select and appoint fully qualified British and German chief engineers, but no provision was made for joint Sino-foreign management as was stipulated for in the loan agreements of the Shankaikuan-Newchuang railway loan, the Shanghai-Nanking railway loan and the Canton-Kowloon railway loan. 'The European bankers' sole and only object in endeavouring in the past to obtain supervision over railway management and finance', said the *Far Eastern Review*, 'was to see to it that all moneys were honestly dealt with and the interests of bond-holders protected.' But, says Mr. D. Willard Straight, 'from the commencement of the construction of this line'—the Tientsin-Pukow railway—'there have been numerous scandals'. Owing to the unsatisfactory operation of the terms of the Tientsin-Pukow railway agreement negotiations were conducted between the British, German and French groups, and their respective governments as to the degree of control to be stipulated for in future loan agreements. When the Hankow-Canton and Hankow-Szechuan lines—the Hukuang lines—were under discussion this question of control occasioned much debate. However, Article 17 of the preliminary loan agreement made in 1909 for these lines adhered to Tientsin-Pukow terms, as did the final agreement made in May 1911. An American group of banks, as we have seen, was a party to the final agreement. American participation had originally been sought by the British and refused to them. Now the American Government desired participation. It urged that a 'menace' to foreign trade would be 'likely to ensue from the lack of proper sympathy between the Powers most vitally interested in the preservation of the principle of equality of commercial opportunity'. The United States Government regarded 'full and frank co-operation as best calculated to maintain the open door and the integrity of China and . . . that the formation of a powerful American, British, French and German financial group would further that end'.[1] In passing, we must note that the Hukuang, like the Anglo-German loan of 1898, was secured upon certain *likin* and salt revenues.

Then occurred the anti-Manchu revolution. The revolution-

[1] Overlach, *Foreign Financial Control in China*, pp. 226–8, wherein Willard Straight is quoted (Macmillan, 1919).

aries desired to abolish *likin* and, in any case, *likin* collections fell off as a result of the dislocation of the machinery of tax-collection. So in 1912 adjustments were made in the terms of the loan agreements to tighten control over loan funds, China agreeing to engage 'experienced foreign accountants', whose executive power and appointment, however, were to be 'entirely and exclusively controlled by the director-general', a Chinese.[1]

Prior to this, in April 1911, an agreement had been signed by the Chinese Government and the 'Four Power' banks for a loan of £10,000,000, mainly for the reform of Chinese currency, but partly also for the industrial development of Manchuria. In this case also the question of control over the expenditure of funds was much debated, the outcome being agreement by China to submit her reform programme to the four groups, and to expand the loan funds in accordance therewith. The loan was never issued, but it is mentioned here because it enhances the interest of President Wilson's attitude towards the Reorganization Loan.

This was mooted late in 1911 and as a project took more definite shape when the Premier in the new Republican Government, Tang-Shao-yi, invited the representatives of the Four Nations Syndicate—generally referred to as the 'old' Consortium, to distinguish it from the one which was brought into existence upon the initiative of the American Government during the period covered by the next Part—to discuss a general reorganization loan with him. Approaches had been made by the dying Manchu Government to various financial bodies for financial help. But to lend it money meant incurring the hostility of the revolutionary South. Presently, however, the South turned to Japan for help, offering to hypothecate the China Merchants' Steam Navigation Company's fleet. This alarmed British and other foreign organizations and, the Manchus having abdicated, Tang-Shao-yi was listened to, a small sum being advanced to the new Chinese Government by the Hongkong and Shanghai Bank, acting on behalf of the Consortium. We need not go into the tangle of subsequent events, which is unravelled by Overlach and others. Suffice it to say that the Consortium, backed by its respective Governments, and most energetically by our own, played a strong hand in respect of the Chinese Government on the one hand, and financial institutions outside its syndicate on the other. To strengthen itself it invited the co-operation of Russian and Japanese financiers. The Japanese agreed to give theirs at once: the Russians ultimately also agreed, the Consortium thus becoming a Six-Nations group. But the group wanted effective guarantees in respect of the expenditure of funds advanced by it. The Chinese

[1] MacMurray, op. cit., p. 888.

were opposed to anything in the nature of effective control. In these circumstances, a loan was negotiated with C. Birch Crisp & Co., acting on behalf of the British and International Investment Trust, behind which stood Lloyds Bank, the Capital and Counties Bank, the London and South-western Bank and the Chartered Bank of India, Australia and China. The agreement, completed on August 30, 1912, provided for a loan of £10,000,000, to be known as the Chinese Government 5 per cent Gold Loan of 1912. Its term was to be forty years and it was secured on the surplus revenues of the Salt Gabelle, there being no stipulations in respect of control. Completion of this agreement resulted in the Sextuple Group refusing to comply with the Chinese Government's request for further advances. Moreover, the Chinese Government was informed that the British Government did not approve of the new loan, and was warned that its policy might alienate the Powers chiefly interested in her finances.[1] The Chinese Government decided to make use of half of the new loan and to persuade Birch Crisp & Co. to cancel the other half. Half was issued, and for cancelling the remainder compensation amounting to £150,000 was paid.

The way was now clear for the originally contemplated Reorganization loan. But then dissension disclosed itself in the Sextuple group over the appointment of advisers. 'The French', says Professor Remer, 'would not have a German and the Russians would have a Russian. This quarrelling was carried to such a length that the Chinese Minister of Finance felt justified in delivering the bankers a lecture on their "succession of unreasonable delays".'[2] Then, suddenly, the American group withdrew from the Consortium. This was the result of the refusal of the new American Government under President Wilson to continue the negotiations. In a statement issued to the Press, the President said: 'The conditions of the loan seem to us to touch very nearly the administrative independence of China itself; and this administration does not feel that it ought, even by implication, to be a party to these conditions. . . . The conditions include not only the pledging of particular taxes, some of them antiquated and burdensome, to secure the loan, but also the administration of these taxes by foreign agents.'

Rockhill, who had been American Ambassador in China, commented upon this policy in these terms: 'I only know of one blow equally heavy which has been dealt our interests, our prestige and our influence in China: it was the cancellation, in 1905, of the concession of the American-China Development Company. . . . It seems clear to me that so long as we shut our eyes to the undoubted fact that, in the East at least, from Stamboul to Tokyo,

[1] Overlach, op. cit., p. 254. [2] *Foreign Investments in China*, p. 129.

politics, finance, and trade go hand-in-hand, and that neither the profits of trade can be fully reaped nor our influence and prestige be adequately upheld without incurring the responsibilities incident to political and financial activity. We must be content to play a modest, effaced rôle in the Far East unworthy, in my opinion, of our great country and its vast interests in the Pacific.'[1]

The loan agreement was finally signed at Peking on April 26, 1913, between the Chinese Government, the Hongkong and Shanghai Banking Corporation, the Deutsch-Asiatische Bank, the Banque de l'Indo-Chine, the Russo-Asiatic Bank, and the Yokohama Specie Bank. The amount was £25,000,000, the rate of interest 5 per cent, and the term of the loan forty-seven years. It was secured on the salt revenues, the Chinese Government undertaking to reorganize their administration with the assistance of foreigners through a Central Salt Administration controlled by a Chinese chief inspector and a foreign associate chief inspector. The Chinese Government also agreed that cheques and/or orders upon the banks for the withdrawal of loan funds should be countersigned by their representative after he had satisfied himself that the expenditure was in accordance with the terms of the agreement.[2] The first associate chief inspector was the late Sir Richard Dane.

In 1914 the whole of the Crisp loan was outstanding. Of the British share of the Reorganization loan £7,416,680 was outstanding. In addition to these, and the other loans for purposes other than railway construction mentioned above, there was also outstanding at the end of 1913, secured on the Customs revenue, our share of the Boxer Indemnity, which at that time was still regarded as a British interest, amounting to a little more than £7,141,000.

An extremely important development in respect of the banking of Customs revenues must here be referred to, albeit inadequately, the fact, namely, that as a result of the temporary breakdown of the Chinese Government's machinery owing to the anti-Manchu revolution, involving defaults on China's foreign loans, the whole of the Customs revenue came, by international agreement ratified by the Chinese Government in January 1912, to be paid by the Inspector-General into two accounts opened by him with the Hongkong and Shanghai Bank, a foreign revenue account and a native Customs revenue account. To these accounts each commissioner was instructed to remit, after deducting the running expenses of his office, net balances weekly. From them accumulated remittances were transferred by the Inspector-General to other foreign banks, termed 'custodian' in the agreement referred

[1] *Far Eastern Review*, quoted by Overlach, op. cit., p. 214.
[2] MacMurray, op. cit., p. 1,013.

to above, this procedure being, from January 1914, in accordance with the following addition to the second of its clauses:

'At the end of each month the surplus, after all payments due each month on account of loans secured on the Customs revenues and contracted previous to 1900 have been fully met, shall be divided *pro rata* amongst the banks having charge of the Indemnity Service up to the amount of the Indemnity (the Boxer Indemnity) respectively due to them each month.'

The banks were seven in number.[1]

British Industrial Enterprises

We come now to British industrial enterprises, some of those connected with shipping having already been mentioned.

In Hongkong were the Taikoo Sugar Refining Co., established in 1883; the Hongkong Rope Manufacturing Co., established in 1883; Watson (A. S.) & Co., who manufactured aerated waters, established in 1886; and the Green Island Cement Co., established in 1889. The Hongkong Electric Co. was established in 1889; the Dairy Farm, Ice and Cold Storage Co. in 1894; and the China Light and Power Co. in 1901. To some of these there will be occasion to refer again in Part V.

In Shanghai were the Shanghai Gas Co., incorporated in 1863 and reconstructed in 1901, and the Shanghai Waterworks Co. Ltd., incorporated in 1880. Ewo Silk Filature (Jardine, Matheson & Co.) started operations prior to 1895. With the signing and ratification of the Shimonoseki Treaty between China and Japan, in the spring of 1895, official permission was given to foreigners to establish manufactories in the open ports. This, says the Chinese Customs Decennial Report on Shanghai for 1892–1901, 'had been greedily awaited and alone was necessary to give life to the nascent movement for industrial development. . . . Even before the Treaty'. The report adds, 'a few foreign establishments were carrying on manufacturing here, in the face of semi-official protests on the part of the Chinese'. An Englishman, A. W. Danforth, had played an important part in the early development of two Chinese concerns, the Shanghai Cotton Cloth Mill Company, which lost its plant by fire in September 1893, and the Hua Sheng Cheong Company, which opened in the following year. In 1895 the Ewo Mill (Jardine, Matheson & Co.) was established. In 1897, the Ewo Cotton Spinning and Weaving Co., Ltd. (Jardine, Matheson & Co.), the Laou-kung-mow Cotton Spinning and Weaving Co., and the Soy-chee Cotton Spinning Co., Ltd., began operations, the Ewo concern having some 50,000 spindles. By 1914 Jardine, Matheson & Co. were managers of two other mills,

[1] Wright and Cubbon, *China's Customs Revenue since the Revolution of* 1911, pp. 8–9.

the Kung Yik and the Yantzepoo, their spindles totalling 153,320, with 1,900 looms.[1] The Kiangsu Chemical Works, which owe their existence to Major Brothers, Ltd., established in 1901, were managed by A. R. Burkill & Sons, already referred to. The Lih Teh Oil Mill, managed by the same firm, was established in 1909. The Shanghai Horse Bazaar and Motor Co., which was in the nature of an industrial enterprise, though not an important one except from a local point of view, was established in 1903, and was subsequently taken over by Auto-Palace Co., Ltd. Culty Dairy Co., Ltd., also important from a local point of view, was incorporated in 1911. The North China Daily News and Herald, Ltd., which does much of Shanghai's printing, originated as the *North China Herald* in 1850, other printing and publishing concerns established during this period being Kelly and Walsh, Ltd., established in 1876, and Brewers, Ltd.

At Tientsin Crystal, Ltd., came into existence in 1901 and the Tientsin Press in 1902.

In the intermediate field between trade and industry are important land and building companies which came into existence during this period; the Shanghai Land Investment Co., which was formed in 1888, the Hongkong Land Investment and Agency Co., established in 1889, and the Hotung Land Co., Tientsin, which was formed in 1902.

Some of the general stores catering mainly for the European commercial communities are also old established concerns—namely, Hall and Holtz, Ltd., established in 1892, Lane, Crawford & Co., Ltd., established in 1896, Weeks & Co., established in 1902, and, at Hongkong, William Powell, established in 1901, and Sincere Co., Ltd., a concern established in 1900 by Chinese having British nationality. An important Shanghai transport company, the Shanghai Electric Construction Co., capitalized in sterling, was incorporated in 1905.

Foreign Investment Totals

We have now to find a total for the various forms of capital investment which we have reviewed. And, naturally, one turns to the book which, up to date, is the best one in English on the subject—Professor Remer's *Foreign Investments in China*, published in 1932. In respect of British investments in 1914 he reached totals in gold dollars equivalent to about £124,846,000, of which about £82,203,000 represented business investments, while about £42,643,000 represented investments in Chinese Government obligations, the latter comprising railway loans and loans for general purposes. These figures excluded our share of the Boxer

[1] Pearce, *Cotton Industry of China and Japan*, p. 155.

Indemnity, secured on the Customs revenue and amounting at the end of 1913 to a little over £7,141,000.[1] The Boxer Indemnity is not classifiable as an investment; but it was regarded as a British interest. Professor Remer deliberately excluded capital invested in Malayan and other rubber companies, on the ground that they were investments outside China. Nevertheless, as the money thus invested came largely from British investors resident in China, some indication of its amount may usefully be given. By 1914 a number of rubber companies, capitalized either in sterling or in taels, had been brought into existence, the total of their paid-up sterling capital being in the neighbourhood of £1,354,000; the total of their paid-up tael capital being Tls. 9,629,000 the latter figure including debentures to the value, approximately, of Tls. 650,000.[2] At 2*s.* $5\frac{5}{16}$*d.*, the average value of the tael in 1914, this total was equivalent to £1,176,000.

Professor Remer estimated the total of American capital in China in 1914, at U.S.$59,299,000 (about £12,186,000), which figure comprised business investments, U.S.$42,000,000; securities and Government obligations, U.S.$7,299,000 and Mission property, U.S.$10,000,000.[3]

He estimated Japanese capital invested in China (including, of course, Manchuria) at U.S.$219,610,000 (about £45,131,000), this total comprising business investments, U.S.$192,510,000, loans to the Chinese Government, U.S.$9,600,000, and investments in Chinese Corporations, U.S.$17,500,000.[4]

A word or two about our banks and insurance companies, additional, as far as the former are concerned, to what has already been said about the activities of the Chartered Bank of India, Australia and China, and the Hongkong and Shanghai Banking Corporation. The Chartered Bank is the older of the two. It was established in 1852 and received its Charter in the following year. It opened in Shanghai in 1858 and in Hongkong in 1859. The Hongkong and Shanghai Banking Corporation, of which Dent & Co. issued a prospectus in 1864, began operations on January 1, 1865. It opened in Shanghai in April that year. It went through trying times, and before its tenth year it passed its dividends and found its reserves used up. The tide turned, however, and for the second half of 1875 a dividend at the rate of 6 per cent was again declared, its position then being: capital paid up, $5,000,000; reserve, $100,000.[5] The Agra and United Service Bank, the Central Bank of Western India and the Oriental Bank, which also belong to this early period of Hongkong's history, passed from the

[1] Op. cit., p. 361.
[2] *The China Stock and Share Handbook*, 1926.
[3] Op. cit., p. 274.
[4] Op. cit., p. 446.
[5] Morse, op. cit., vol. 2, p. 315, quoting *London and China Telegraph*, February 21, 1876.

scene. The Chartered Mercantile Bank, which also belonged to that period, was taken over by the Mercantile Bank of India, Ltd., which was established in Hongkong in 1892 and opened an office in Shanghai in 1915.

Flanking these banks were the following British insurance companies, all now limited companies; in Hongkong, the Union Insurance Society of Canton, capitalized in sterling; the Canton Insurance Co., incorporated in 1836 and reorganized in 1882, capitalized in Hongkong dollars, its agents being Jardine, Matheson & Co., Ltd.; the Hongkong Fire Insurance Co., incorporated in 1870 and capitalized in Hongkong dollars. In Shanghai were the Yangtze Insurance Association, established in 1862 and capitalized in local dollars, and the North China Insurance Co., incorporated in 1903 and capitalized in sterling. Both in Hongkong and Shanghai there were at the end of this period branches of several of the leading insurance companies in Great Britain. Their names will be found in the Hong list published by the *North China Daily News*, and in other directories.

JAPAN

AS we saw in Part I, while our earliest relations with Japan began before those with China our treaty-based relations with her did not begin till we had been trading at Shanghai and other ports for a dozen years. On the other hand, as we also saw, the treaty-port system in Japan came to an end when in China it had not yet attained its greatest strength. For in Japan we had to deal with a people whose dominant characteristics were military, and whose reactions to the impact of the West were more practical than China's. In one way and another we exercised considerable influence in the conversion of Japan into a modern State, but our influence was different from, and never as great as, the influence we exercised in China. We were never the cock-of-the-walk there as we were in China. In consonance with these facts, and as a result of various physical and economic differences between the two countries, Japan was never during the earlier part of the period 1842–1914 as important a market for Great Britain's goods as China. In 1880 when Britain's exports to the latter, including Hongkong, were valued at over £9,482,000, her exports to Japan were valued at £3,813,000. Ten years later, when her exports to China, including Hongkong, were valued at £9,504,000, her exports to Japan were valued at £4,187,000. In 1898 exports to Japan were only some £2,351,000 less than exports to China and Hongkong and in 1900 (the year of the Boxer rebellion) actually exceeded them. Thereafter, however, they fell behind, the figures at the end of the period covered by this part being:

	£
Exports to China (including Hongkong, Macao and Weihaiwei) 1913	19,584,000
Imports from China (including Hongkong, Macao and Weihaiwei) 1913	5,347,000
Total	£24,931,000
Exports to Japan (including Formosa, Kuantung and Korea) 1913	15,079,000
Imports from Japan (including Formosa, Kuantung and Korea) 1913	4,389,000
Total	£19,468,000

In the period 1901–5 total exports from the United Kingdom to Korea averaged £71,546 per annum: in the period 1911–15 they averaged £208,289 per annum. These figures show indisputably that Korea's demand for, and capacity to buy, British goods increased after she had been annexed by Japan.

Let us now, as we did in the case of China, concentrate upon the main facts of our trade with Japan.

First. Unlike China, Japan was from the beginning (except in the years 1863 and 1864) more important to the United Kingdom as an export than an import market, her importance in both respects being, until 1906, very much less than China's. Not till 1903 did her exports to the United Kingdom exceed £2,000,000 in value, nor till 1896 did her imports from the United Kingdom exceed £5,000,000 in value. The top figure reached by her exports to the United Kingdom was £4,387,000, in 1913. The value of her imports from the United Kingdom exceeded £10,000,000 for the first time in 1906, averaging from that year to 1913 inclusive £11,745,000, the average value of China's imports (including Hongkong's) during the same years being £14,860,000.

Second. Throughout the period 1896–1913 Japan's chief exports to the United Kingdom were unwrought copper, silk manufactures and straw braid, a large export of soya beans occurring in 1910 only. Throughout the same period her chief imports from the United Kingdom were cotton piece-goods, machinery, metals, woollens and chemicals. But whereas Japan was at no time anything like as good a market for the United Kingdom's cotton piece-goods as China, she was throughout the period 1896–1913 a better market than China for machinery, metals, electrical goods and chemicals.

Third. The treaty concluded with Japan in 1858 made most imports from Great Britain subject to an *ad valorem* five per cent

tariff. The Convention of July 16, 1895, made certain imports subject to 10 per cent, but placed most imports on a specific duty basis. Of cotton tissues, drills, prints, sateens and Italians, shirtings, T-cloths, velvets, and velveteens were placed on a specific duty basis, 'all other sorts of pure cotton tissues, and all tissues of cotton mixed with flax, hemp or other fibre, including wool, the cotton, however, predominating in weight, not specially provided for', being made dutiable at the rate of 10 per cent. Most imports of iron and mild steel were placed on a specific duty basis, as were most woollen goods.[1] This Convention became operative in 1899, a new tariff coming into force in 1906. When the 1911 commercial treaty and tariff were under negotiation, the Tariff Commission which consulted the views of exporters in the United Kingdom upon the proposed tariff made a number of observations and adduced a number of interesting figures.[2]

Amongst the observations were the following. Referring to the Treaty of 1894, the Commission said:

'At that time the arrangement with this country was unilateral (i.e. tariff concessions were given by Japan without receiving tariff concessions in return from Great Britain), and British representations were at that time effective in securing important reductions from the proposed General Tariff. . . . The expiring Japanese tariff came into force in 1906. It consists of two schedules of rates, the first being duties levied on all goods imported from countries not enjoying most-favoured-nation treatment in Japan. This first schedule is the General Tariff as originally passed by the Japanese Parliament. The second schedule consists of duties on a number of items lower than the duties of the General Tariff and is the result of treaty negotiations with Great Britain, Germany and France. . . . According to the Japanese trade returns the average duty collected on dutiable goods from all countries in 1909 was 16 per cent.'

The Commission also said:

'British exports to Japan have increased threefold in the last thirty years. The principal growth has been in iron and steel goods, machinery, electrical goods, chemicals and paper goods. Exports of cotton yarn and manufactures were £1,922,000 in 1889 and £1,520,000 in 1909; most of this fall is due to the disappearance of the trade in yarns which Japan now makes for herself. . . . British trade predominates in the Japanese import trade in respect of cotton goods, woollens, ships and textile machinery. . . . Taking the 16 leading groups of commodities exported to Japan (which accounts for 90 per cent of the trade), it is seen that the increases since 1895 have been: United Kingdom by £4,750,000 or 116 per cent; Germany by £3,000,000 or 300 per cent; United States by £3,000,000, or 1,400 per cent.'[3]

The following figures, based on the United Kingdom's official trade statistics, show what happened between 1896 and 1910 in

[1] Hertslett's *Commercial Treaties*, vol. xx, pp. 778–9.

[2] This Commission was the one set up under the auspices of the Tariff Reform League, founded by Chamberlain in 1903.

[3] *The Tariff Commission, The Proposed Japanese Tariff and its Effect on British Trade*, second edition (*MM* 42./26/8/10).

respect of the export to Japan of cotton manufactures, machinery, chemicals and electrical goods.

U.K. EXPORTS TO JAPAN
(*Average annual values*)

	1896–1900	1901–5	1906–10
	£ (*thousands*)	£ (*thousands*)	£ (*thousands*)
Cotton manufactures (excluding cotton yarn)	1,171	1,037·7	1,682
Machinery	779·5	659·9	1,551·8
Chemicals	102	262	378
Electrical goods	18·9	43	173

These statements and figures show that up to 1910 tariff increases in Japan did nothing to decrease the United Kingdom's export trade, and that prevalent conceptions to the contrary have no basis in fact. In regard to labour conditions in Japan the Commission said:

'In general efficiency the Japanese industrial worker is held to be still behind his English or Continental competitor, and, therefore, Japan's advantage in cheap production cannot be gauged entirely by a comparison of wages. Moreover, the quality of Japanese labour and the rates of wages are represented in the evidence of British traders as steadily moving upwards. In Lancashire, for example, one girl will attend to four looms; in Japan a girl is required for each loom, and the relatively small number of the operatives in a Lancashire or Yorkshire mill is a constant matter of surprise to the Japanese mill managers and engineers who come to London for the first time. In addition to this, the output per day is larger per loom or per spindle in Lancashire and Yorkshire than in Japan, so that the actual advantage that Japan may have at the present time is very difficult to assess. It has also to be borne in mind that the original capital expenditure for machinery and its erection is much greater in Japan than in England.'

The Commission's fears regarding the probable effects of the 1911 tariff proved to be much exaggerated, partly, no doubt, because certain modifications in the rates originally proposed were secured by negotiation. Our official statistics show that while the total value of the United Kingdom's manufactures export to Japan in 1910 was £9·8 million in 1912 it was £11·7 and in 1913 £14 million. The export of cotton piece-goods had, by the end of 1913, declined from £1·4 million to £1 million, while in the following year (the first year of the last world war) it declined to £561,000. Our 1913 returns also showed a decline in the value of exports of electrical goods and hardware, neither of which were large trades. On the other hand, exports of woollen piece-goods,

machinery, iron and steel goods, and manures all showed increases.

Fourth. The truth appears to be that Japan was a much poorer market than China for the United Kingdom's cotton piece-goods, and a better one than China for her machinery, chemicals, electrical goods and metals because she industrialized earlier, and on a much larger scale, than China did. To tell the story of Japan's industrialization here would be to cover ground which has been thoroughly covered by others—notably in Mr. G. E. Hubbard's *Eastern Industrialization and its Effect on the West*, and which, except for the effects shown in outline above, falls outside the scope of this book, as do her financial and business organization and the big part played by Government in modernizing her.

Fifth. The primary economic function of the British Empire, apart from Great Britain, in respect of Japan—as, to a lesser extent, in respect of China—in this 1842–1914 period was to supply her with raw materials. British India supplied chiefly raw cotton; Malaya chiefly rubber, iron ore, tin and spices (her own and the rubber, tin, and spices of the Dutch East Indies, together with the products of Siam, Indo-China, Burma and Borneo—for Singapore was a great entrepôt of Western Pacific trade); Australia chiefly wool, and Canada chiefly timber and pulp for paper-making. No such clearly defined reciprocal function in respect of the British Empire can be ascribed to Japan, with the possible exception of the provision of silk tissues, Japan's ability to supply British India and Malaya with cheap varieties of Western manufactured goods being an acquired, not an inherent, capacity, and one which was much more in evidence during the 1914–41 period than in this one. Figures illustrative of these two generalizations may be reserved for the latter period. Of this one it seems sufficient to say that, as shown in Japan's official statistics—those of the *Economic Annual of Japan*, the total value of imports into Japan from British India, the Straits Settlements, Australia, South Africa and Canada in 1913 was about Yen 195,207,000, or approximately £19,520,700, the Yen figure representing approximately 26·7 per cent of Japan's total import trade, Great Britain's share of her total import trade being approximately 16·8 per cent. Of the value of Japan's total export trade the purchases of British India, the Straits Settlements, Australia, South Africa and Canada, according to the statistics quoted above, represented approximately 8·5 per cent. Great Britain's purchases represented approximately 5·1 per cent.

Hongkong's figures have not been included in those shown above because of the entrepôt character of her trade with Japan. As remarked above, much of Singapore's trade was that of an

entrepôt too. But, as far as one can judge, much more, both in quantity and value, of what Japan exported to Singapore remained there than Hongkong retained of what she received from Japan.

Before leaving Japan the following features of our economic relations with her should be noted:

First. We may recall that our early trade with Japan was built up by representatives of the British firms which had established themselves in China. In 1861 there were not 200 foreign residents in all the ports of Japan, the British nationality predominating in Yokohama, the Dutch at Nagasaki. The British residents in the former port seem to have numbered about fifty, mostly young men, not themselves principals, but, in the beginning at least, a considerable number of them occupying the position of delegates of mercantile houses in China.[1] A memorial drawn up by the Yokohama, to the London, Chamber of Commerce, supporting the steps taken by the latter to bring about an international monetary conference, was signed 'per pro' by Jardine, Matheson & Co. and Dodwell and Carlill & Co.; 'for' the Hongkong and Shanghai Bank by David Jackson, manager; 'for' the Union Insurance Society of Canton by A. J. Easton, acting agent; by J. Rickett, agent, P.& O.S.N. Co.; by Butterfield and Swire; Lane, Crawford & Co.; and by Kelly and Walsh, Ltd.

Second. While, like China, Japan needed foreign capital, she was able to get it on the credit of her Government without, except in the early days, providing security of specified revenues to be earned or collected in specified ways. Her first foreign loan, which was for railway construction, was floated in London in 1870, its amount being £1,000,000, bearing interest at 9 per cent, and this was secured on Customs duties and railway earnings. In 1899 she borrowed in London £9,500,000 at 4 per cent. For this loan she was not required to pledge specific securities. The amounts outstanding on this and other loans in 1913 were:

	Outstanding in 1913 £	*Outstanding in England* £
Government loans	125,499,340	62,250,000
Municipal loans	16,094,940	10,094,940
Railway loans	12,000,000	12,000,000
	£153,594,280	£84,344,940

[1] Michie, *The Englishman in China*, vol. 2, p. 118.

WE turn now to British interests in the countries named above. Three main lines have to be followed, (*a*) the development of our interests, (*b*) the relationship of the countries named to the United Kingdom, and (*c*) their relationship to other parts of the Empire.

Development in Malaya

Certain administrative facts have first to be referred to because, though they are not economic, they constitute a framework without which the economic facts cannot be properly understood.

The only territory under direct British rule was that of the Crown Colony of the Straits Settlements, which comprised the islands of Singapore and Penang, Malacca, and Province Wellesley and the Dindings on the mainland, attached to them being the Cocos-Kuling Islands in the Indian Ocean and Labuan off the coast of Borneo. Four Malay States—Perak, Selangor, Negri Sembilan and Pahang—came under British protection and control between 1874 and 1888. The treaties made with each of their Sultans were alike in providing for the appointment of a British Resident whose advice had to be followed in all questions other than those touching Malay religion and custom. In 1896 Sir Frank Swettenham persuaded the Sultans to agree to a federation. By the terms of the treaty, a Resident-General was appointed as the agent and representative of the British Government. The Residents continued to advise the Sultans, but their work was henceforth supervised and co-ordinated by the Resident-General, who acted under the Governor of the Straits Settlements, the latter being given the title of High Commissioner for the Federated Malay States. All important States departments were placed under one federal head, who was responsible to the Resident-General for uniformity of system throughout the Federation, the Residents remaining the chief executive officers in each State. A Federal Secretariat was set up at Kuala Lumpur and assumed control over revenue and expenditure and legislation. Later, in 1909, a Federal Council was established by an agreement signed by the four Sultans, its membership, in addition to them, comprising the four Residents, four unofficial members nominated by the High Commissioner for three years, the Resident-General, and the High Commissioner as president. The first of these two developments began, and the second strengthened, a process of centralization in which both Residents and State Councils lost power, with consequences which led later, as we shall see, to much overhauling of the administrative system.

Five unfederated States—Johore, Trengganu, Kelantan, Kedah

and Perlis—were, like those just mentioned, juridically independent, but all of them were under treaty obligations to follow the advice of British advisers in all matters other than those touching the Mohammedan religion and Malay custom. An adviser was not appointed to Johore till 1914: advisers were appointed to the others in 1909, when they were transferred from Siamese to British suzerainty. Until 1919 the adviser to Trengganu, unlike the others, had only consular powers. Johore was closely associated with the British from the time of Singapore's foundation in 1819.

The apex of this system was the Secretary of State for the Colonies.[1]

From the point of view of revenue and expenditure the Straits Settlements were very much poorer than the Federated Malay States. In 1913 the revenue of the Colony was $12,397,000, while that of the Federated States was $44,332,000. In the same year the Colony's expenditure was $10,468,000, that of the Federated States $47,287,000. The Colony pursued a policy of free trade, its import duties being limited to tobacco, liquors, and petroleum. The Federated States derived revenue from import duties on these commodities and on textiles and from export duties on tin and rubber. Both the Colony and the Federated States received revenue from the government opium monopoly, but in both cases this declined greatly after 1920, owing to the government policy of discouraging opium smoking. In that year the Colony's total revenue was $42,469,000, that of the Federated States being $72,277,000.

Of the Unfederated States Johore had the largest revenue. Rubber provided the bulk of the money, either directly in the form of export duty and land rents, or indirectly through customs and excise. In 1912 revenue from rubber was $4,348,000: in 1920 it had increased to $11,838,000. Revenue was derived also from export duties on copra, tin, and iron ore, while here, too, there were import duties on tobacco, liquors and petroleum. Import duties in Trengganu were similar to those in other Malay States, but included a duty on rice. Amongst the export duties was one on iron ore. Japanese-owned mines provided the largest revenue under this head.[2]

We must take next certain semi-economic, semi-social facts. The following population figures belong in the main not to this period, but the next, but it is convenient to insert them here. The 1911 Census showed the population of the Straits Settlements as 714,069, that of the Federated States as 1,036,999, Europeans being 1·5 per cent of the former and 0·3 per cent of the latter total.

[1] L. A. Mills, *British Rule in Eastern Asia*, chapter ii, *passim*.
[2] Mills, op. cit., chap. iii, *passim*.

By 1921 the Straits' total had increased to 881,939, the European population being a little under 1 per cent; while the F.M.S. total had become 1,324,890, of which Europeans represented 0·4 per cent. In 1931 the total population of Malaya was 4,385,346. Of this 1,114,015 lived in the Straits Settlements, 1,713,096 in the Federated and 1,556,739 in the Unfederated Malay States. The Malays (including Malaysian immigrants) were 44·7 per cent of the total population, but had a majority only in the Unfederated States. In 1931 39 per cent of the total population was Chinese: in the Straits Settlements they constituted 59·6 per cent of the population. In the same year Indians constituted 14·2 per cent of the total population. They were most numerous in the Federated States, where they constituted 22·2 per cent of the population. In 1937 these proportions had changed somewhat. The total population was estimated at 5,137,474, of whom Malays and Malaysians represented 43 per cent, the Chinese 41 per cent and the Indians 14 per cent. The majority of the Chinese and Indians were transients. Of the Chinese domiciled permanently in Malaya most lived in towns. Only 11 per cent of the Malay population was urban.

All persons born in the Straits Settlements were *ipso facto* British subjects. The inhabitants of the Malay States were not British subjects, but British protected persons. In 1931 Europeans numbered 17,768, of whom 15,332 were British—Civil Servants, business and professional men, and managers of mines and estates.

There was practically no industrial class except in Singapore. During the pre-1914 period, as subsequently, the largest part of the population in the Straits Settlements was urban. In 1931 it was 60·7 per cent. In the Federated Malay States, as in the Peninsula as a whole, the rural population was the largest both before and after 1914. In 1931 the urban population of the Peninsula as a whole was 29·5 per cent.[1]

We come next to purely economic facts. Tin-mining was a very much older occupation than rubber-growing. Most of the tin was mined in the Federated States, particularly Perak. Tin-smelting was Malaya's only important industry and was concentrated in Singapore. Singapore refined, not only the tin of Malaya, but tin from Siam, Indo-China, Burma, Australia, China, and Central and South Africa. The chief companies concerned in the industry were the Straits Trading Company founded in 1887 and the Eastern Smelting Company which in July 1911 was formed to acquire as a going concern the undertaking of a company of the same name carrying on the business of smelters at Penang. In addition to the smelting works and other property at Penang, Eastern Smelting Company had branches at Kuala Lumpur, Ipoh, and elsewhere. (In 1929 Consolidated Tin Smelters, Ltd., was

[1] Mills, ibid., pp. 24–5 (in respect of all the 1931 and 1937 figures).

formed to carry through a merger of smelting companies, shareholders in Eastern Smelting Company receiving 7 per cent non-cumulative preference and ordinary £1 shares in the holding company. In 1931 Eastern Smelting Company was converted into a private company.) By 1904 the export of tin had reached a total of 51,735 tons, which was 56 per cent of the total world output. In 1914 the export was 50,643 tons. Rubber was introduced into Malaya in 1877, when two cases of seedlings were received from Kew Gardens. Twenty years later there were still only 345 acres under rubber. In 1905 this total had grown to about 50,000, exports totalling 200 tons. Thereafter the acreage under rubber increased rapidly. In 1914 it totalled 1,168,000 acres, export totalling 46,652 long tons.

Railways were in the first instance ancillary to the tin industry. A line was constructed in 1884 to connect Taiping, the mining centre of Larut, with Port Weld, eight miles distant on a deep-water inlet of the Larut River. At the same time a railway, twenty-two miles long, was built from Kuala Lumpur to Klang. In 1895 a railway was completed from the port of Teluk Anson to Ipoh. The West Coast Railway was completed prior to 1914. Singapore was linked with Bangkok through Kedah in 1918. By 1920 there were 1,969 miles of road and 805 of railways.[1]

The immigrant Chinese supplied most of the demand for manual labourers and skilled artisans. Most of the Indians were manual labourers. Of the Chinese Sir Frank Swettenham says:

'Their energy and enterprise have made the Malay States what they are to-day, and it would be impossible to overstate the obligations which the Malay Government and people are under to these hard-working, capable, and law-abiding aliens. They were already the miners and the traders, and in some instances the planters and the fishermen, before the white man had found his way to the Peninsula. In all the early days it was Chinese energy and industry which supplied the funds to begin the construction of roads and other public works, and to pay for all the other costs of administration. Then they were, and still they are, the pioneers of mining. They have driven their way into remote jungles, cleared the forest, run all risks, and often made great gains. They have also paid the penalty imposed by an often deadly climate. But the Chinese were not only miners, they were charcoal-burners in the days when they had to do their own smelting; they were woodcutters, carpenters, and brickmakers; as contractors they constructed nearly all the Government buildings, most of the roads and bridges, railways and waterworks. They brought all the capital into the country when Europeans feared to take the risk; they were the traders and shopkeepers, and it was their steamers which first opened regular communication between the ports of the colony and the ports of the Malay States. They introduced tens of thousands of their countrymen when the one great need was labour to develop the hidden riches of an almost unknown and jungle-covered country, and it is their work, the taxation of the luxuries they consume and of the pleasures they enjoy, which has provided something like nine-tenths of the revenue. When it is possible to look back upon a successful experiment it is always of interest to ascertain the determining factors, and how far each affected the result. The reader should understand at once what is due to Chinese labour and enterprise in the evolution of the Federated Malay States.'[2]

[1] Mills, op. cit., p. 176. [2] *British Malaya*, p. 232 (The Bodley Head, 1929).

By 1900 the total value of the foreign trade of the Straits Settlements and the Federated Malay States had reached approximately (the Straits dollar was not fixed at 2*s*. 4*d*. until 1906) £64 million. By the end of this period it had reached a value of approximately £107·6 million. In the former year there was no export of rubber, the export of tin being round about 47,000 tons. By the end of this period, the export of rubber was valued at approximately £11 million, that of tin at approximately £7 million.

Development in Borneo

Labuan, as we have seen, was occupied and became a Crown Colony in 1846. In 1872 the Labuan Trading Company was formed. In 1877 and 1878 most of the territory now comprised in the State of North Borneo was ceded by the native Sultans to Alfred Dent and his partner, Baron Overbeck (who later relinquished his rights to Mr. Dent). In 1878 Mr. Dent petitioned for a royal charter, which was granted in November 1881, Mr. Dent having meantime transferred his rights to the British North Borneo Provisional Association, by whom they were subsequently assigned to the British North Borneo Company, formed in 1882. In 1884 and 1885 important territories (the Putatan River, the Padas district and Mantanani island) were ceded to the company, and three years after its territories became, by agreement with the British Government, a British Protected State, administration remaining in the hands of the company, but foreign relations being reserved to the Crown. In 1890 Labuan was placed under the company's administration, but sixteen years later was transferred to that of the Straits Settlements. In 1898 the Sultan of Brunei ceded to the company all his sovereign and territorial rights in the districts north of the Padas River. In 1905 the value of British North Borneo imports was £330,946; exports, £529,373. In 1914 imports were valued at £554,783, exports at £730,366.

The central fact in Sarawak's development during the pre-1914 period was the beginning of petroleum production. The first well was sunk in 1910. Miri thereupon grew rapidly from a small village of a few hundred persons to a considerable town. By the end of this period Sarawak's imports were valued at $7,885,442, its exports at $7,709,372, most of the latter being sent to the United Kingdom and United States.

Development in Burma

Certain political developments must be referred to first. The reader scarcely needs reminding, probably, that from 1897 to 1913 Burma was administered by a Lieutenant-Governor appointed by the Government of India; that Upper Burma was annexed in 1886

after the Third Burmese War, the Shan States being occupied in 1887, and that prior to that, in 1862, Arakan, Pegu, and Tenasserim had been amalgamated and placed under a Chief Commissioner. In 1923, to anticipate a little, a Governor was placed in charge of the Province. The boundary with Siam was demarcated in 1893, that with French Indo-China in 1895, and that with China in 1900.

Main economic facts can be stated equally briefly. Rice is the greatest, though not the most valuable, industry, and Rangoon the largest rice port in the world, export ranging during the period under review from 1,500,000 to 2,000,000 tons a year. In Lower Burma only about eight square miles have to be irrigated: in Upper Burma, 800,000 acres, or about 1,250 square miles, require it. Accordingly amongst the most important developments of this period must be ranked the opening in 1902 of the Mandalay Canal, which is forty miles in length and has fourteen distributions. Another canal, which irrigates a much larger area, was opened in 1906 in the Shwebo district. The annual average export of rice for the period 1909–1910 to 1913–14 was 1,814,000 tons, the total for the whole of India being 2,398,000 tons. Most of it went to British Empire countries.[1]

The annexation of Upper Burma added an enormous area of forest land to the province, which was divided into four conservatorships or circles under a Forest Department established in 1856 under Dr. Brandis, later Sir Dietrich Brandis, K.C.I.E., the department's work in Upper Burma beginning in 1891. By 1896 the reserved area had increased to 5,438 square miles. In 1913–14 exports of teak from Rangoon amounted to 42,406 cubic tons, valued at £406,200 and from Moulmein to 6,122 cubic tons, valued at £65,300.

The petroleum industry became during this period the most valuable in Burma. Boring for oil began in 1887, but results were negligible till two years later. By 1904 production had reached a total of 118½ million gallons: in 1913 it totalled 277½ million gallons, of which some 200,000,000 came from the Yenangyaung field. In 1910–11 export scarcely exceeded two and a half million gallons: by 1913–14 it had reached 22 million gallons, valued at £142,000 as compared with the coast-wise trade of 119 million, valued at £2,840,000. The foreign trade consisted largely of benzine, with oil fuel for the Navy and lubricating oil.[2]

The first railway, from Rangoon to Prome, 161 miles, was opened in 1877. Railway communication between Rangoon and Mandalay was completed in 1889, the branch line from Thazi to

[1] Sir George Scott, *Burma, a Handbook of Practical Commercial and Political Information*, pp. 256–62 and p. 290.
[2] Ibid., pp. 244–6.

Myingyan being opened in November 1899. The Mu Valley section, begun in 1889, reached Mogaung in 1896, an extension to Myitkyina being opened in 1898. A branch line from Sagaing to Alôn, on the Chindwin River, was opened in 1900. The line to Lashio from Myokoung, near Mandalay, was opened in 1903. The Southern Shan States Railway was opened to Aungban in 1911. These railways are on the metre gauge (3′ $3\frac{3}{8}$″).[1]

Siam and the Dutch East Indies

One need scarcely point out that the development of British interests in Siam and the Dutch East Indies had few of the political accompaniments which marked their growth in the countries just dealt with, though that was not without political significance, as was illustrated by the renewal in 1911 of the Anglo-Japanese alliance, which helped greatly to safeguard them. Nor need one dwell upon the difference between the administrative environment in which our interests grew up in the Dutch East Indies and the one in which they grew up in Siam, the latter being a less elaborate, and in various details a dissimilar, section of the extra-territorialized framework within which development occurred in China and for a time in Japan. It is, on the other hand, worth while to dwell for a moment or two upon a feature which characterized development in all these countries, though much less in Japan than in China, Siam, and the Dutch East Indies, or in British Malaya, Borneo, and Burma—namely, the high proportion of total capital investments which entrepreneur capital represented.

The term 'entrepreneur' capital is no more than an alternative for 'direct', or business, investments, one, however, which, on the whole, is more suitable than 'direct'. Professor Remer says of it: 'The term entrepreneur for this sort of investment seems to us'—he is writing of a study of international investment which is being undertaken at Michigan University—'to put the emphasis in the right place, for they are usually investments by the businessman acting as a businessman. The appropriateness of the contrasting term, rentier'—for which the equivalent hitherto more generally used is portfolio—'is obvious once the term entrepreneur is accepted. Rentier investments, it may be said, without too much danger of ambiguity, are investor's investments; they are usually made by the investor acting as an investor.'[2]

The high ratio of entrepreneur to rentier capital in China has already been illustrated in the figures showing British investments in 1914. No comparable figures for Siam and the Dutch East Indies are available for this period, though totals ascertained by Dr. Callis in the work just cited will be quoted in respect of

[1] *Burma, a Handbook of Practical, Commercial and Political Information*, pp. 311–13.

[2] Introduction to *Foreign Capital in South-east Asia*, by Helmut G. Callis, p. 2.

the 1914–36 period, and it is clear from them that entrepreneur capital formed much the largest part.

Meanwhile, one or two further remarks by Professor Remer in the work just cited may be quoted. He says:

'Entrepreneur investment in South-east Asia'—and the remark applies also to China—'has brought the white man—and the yellow—into a position of business authority among peoples who differ from him in race and culture. This development in its historical setting in Asia has done much to establish the idea that direct investment is a mark of colonial status, that it is a sign of the inferiority of the investment-receiving country. The concept of entrepreneur investment, it is to be observed, makes it possible to think of "colonial" status in economic terms. It requires but little observation to question the generalization that entrepreneur investment makes a colony of the investment-receiving country. It does not seem to fit the relations between the United States and Canada, nor the relations established by Swiss and Belgian investments elsewhere in Europe. It is too easy a generalization, but it has some truth in it, and, in any case, it has exerted an influence in the past and exerts an influence to-day. Among the countries in Asia, Japan as an investment-receiving country shows the smallest proportion of entrepreneur investments. The resistance that Japan has offered to direct investments is to be explained in some part at least by Japanese observation of the countries of South-east Asia, where direct investments and colonial status frequently go together.

'If Colonial status and entrepreneur investments were directly associated, we would expect the metropolitan power to hold as large a fraction of direct as of rentier investments in its own Colonies, but we do not find this to be the case. In the Netherlands Indies, the Dutch hold practically the whole of the rentier investments, that is of the obligations of the Netherlands Indies Government; they hold no more than a large fraction, some 70 per cent, of the entrepreneur investments. The same thing may be said of all the Colonies of South-east Asia. Even in Formosa, where non-Japanese direct investments have been most unusual in recent years, the existence of Chinese holdings makes it true. The explanation no doubt lies in the exclusive responsibility of the metropolitan state for the government of the Colony and the more general interest of the citizens of other States in the raw materials and similar products of the Colony.'

But this latter fact is one upon which much economic and political interest is concentrated at the present time. For, as Professor Remer says, 'entrepreneur investment means foreign control of some sort and in some measure; it means that the foreigner plays an active part, not the passive rôle of the rentier. The active rôle raises problems of the relation between the foreign investor and the government, the labourers, and the general population of the Colony.' To-day Asiatic nationalism is disposed to question the wisdom of allowing these problems to arise and in China, Siam, Burma, and India is able to act upon the answers which its questioning suggests. At this period, except in Japan, it was little disposed to do so, the lack of disposition being partly due to its own weakness, partly to the obvious and concrete advantages which both entrepreneur and rentier investment brought with it.

Leaving investment in Siam and the Dutch East Indies aside till we come to the 1914–36 period, let us turn to the United Kingdom's trade with them, British Malaya and Burma.

The facts to be reviewed must be prefaced by these, first, the importance of Singapore and Penang as entrepôts, and, secondly, the general character of Malaya as a market.

Penang's importance as an entrepôt was nothing like as great as Singapore's, of which, from a commercial point of view it soon became in the nature of a dependency. Singapore's entrepôt functions were to no small extent shared with Hongkong's. Its original importance was also reduced by the opening of Macassar as a free port; by the opening of Belawan; the establishment of direct shipping communication between the Dutch East Indies and neighbouring countries, and the use of through bills of lading. But the degree of importance retained by it as an entrepôt was very great, and this continued down to 1941, a basic economic reason for this fact being that it was, as Raffles intended it to be, a free port.

As regards the general character of Malaya as a market the basic fact is that the great majority of consumers in Malaya have a low standard of living. The same remark is true of China, Japan, and the Dutch East Indies, but while their populations are incomparably larger, the purchasing power of relatively large sections of their population, particularly in China and Japan, is also much greater. In Japan, moreover, purchasing power is concentrated to a unique degree in a few enormously wealthy groups whose economic activities are interlocked, also to a unique extent, with the Government's.

Figures of the United Kingdom's exports and imports in respect of the years 1900–13 show much more quickly and precisely than words can the relative importance of the lands named above considered as markets.

TOTAL UNITED KINGDOM EXPORTS
£ (thousands)

	To Malaya	*To Dutch E.I.*[1]	*To Siam*	*To Burma*
1900 .	3,206	2,881	205	2,890
1905 .	3,321	3,558·5	545	3,278
1910 .	4,691	4,105	688	3,591
1913 .	7,388	7,302	1,377	5,738
1914 .	5,816	6,528	1,026	4,408

[1] Excluding Dutch North Borneo and New Guinea, trade with which was small.

TOTAL UNITED KINGDOM IMPORTS
£ (*thousands*)

	From Malaya	*From Dutch E.I.*[1]	*From Siam*	*From Burma*
1900 .	7,026	287	27	2,110
1905 .	6,825	2,129	323	2,401[1]
1910 .	13,096	4,029	790	—
1913 .	19,373	3,914	516	—
1914 .	16,388	13,227	814	—

Source, Statistical Abstract for the United Kingdom.

The figures for British North Borneo and Sarawak are not given because they were so small. Thus in 1910 imports from the former totalled £39,537 in value: from the latter £43,272. Exports in 1910 to the former totalled £28,581 in value: to the latter £19,774. Nor is it worth giving in detail figures of the United Kindgom's trade with French Indo-China. In 1910 exports to Indo-China totalled £94,687 in value: imports from Indo-China £322,224 (in 1908, £407,220). In 1913 exports to Indo-China were valued at £161,561: imports at £277,209.

As regards Siam, the total value of imports into and exports from Bangkok, which did most of the country's foreign trade, was in 1890 equivalent to £5,840,641. In 1900 the figure was £5,664,359. During the five (Siamese) years 1909–14 (i.e. April 1 to March 1) the sterling equivalent of the tical values was:

	£
1909–10	13,034,566
1910–11	13,537,164
1911–12	11,956,204
1912–13	11,901,947
1913–14[2]	15,821,255

The value of imports and the share of the chief British countries and ports interested were:

[1] Figures subsequent to 1905 not shown.

[2] *H.M. Consular Reports*, Annual Series, Nos. 4824, 5251, 5428.

	1909–10	1910–11	1911–12	1912–13	1913–14
Total value (£) .	5,278,768	5,213,090	5,542,563	5,734,634	6,962,334
	Per cent	*Per cent*	*Per cent*	*Per cent*	*Per cent*
United Kingdom	16	17	24½	27	21
India . .	5½	10	7	10·8	10
Australia . .	—	—	0·23	0·20	0·20
Burma . .	—	—	0·55	0·47	0·18
Singapore .	23	22	15½	7	17
Hongkong .	22	22	12	1·8	16

The chief commodities imported in each of these years were cotton goods (excluding yarns), iron, steel and machinery, silk goods, gunnybags, opium, kerosene and sugar.

The United Kingdom's share of the import trade in cotton goods was:

	1911–12	1912–13	1913–14
Total value (£)	1,080,958	1,136,447	1,399,620
U.K.'s share .	57·3 per cent	63·6 per cent	47·6 per cent

Rice and teak are Siam's chief exports, the value of rice exported in these three years to Singapore and Hongkong being:[1]

	1911–12	1912–13	1913–14
Total value (£)	4,989,458	4,914,229	7,568,954
	Per cent	*Per cent*	*Per cent*
Singapore .	50·6	45·5	38·7
Hongkong .	35·1	34·2	34·8

It is not proposed to go closely into the details lying behind these totals. Suffice it, as regards exports, to say that as a market

[1] *H.M. Consular Reports*, ibid.

for cotton manufactures Malaya was less important than the Dutch East Indies and (on the whole) more important than Burma: that as a market for machinery Malaya was on the whole more important than the Dutch East Indies, definitely so during the closing years of the period, and more important also than Burma; while as a market for metals she was more important than either, Burma being more important in respect of these goods than the Dutch East Indies.

The commercial relations of these countries with other parts of the British Empire is shown more fully at the end of Part IV, on p. 172. Here, however, are figures showing what percentage of Australia's total imports and exports was represented by her trade with the Straits Settlements, Java, China (including Hongkong), and Japan.

	Percentage Relationship			
	Straits Settlements	*Java*	*China*	*Japan*
Australia's total imports (average 1909–13) .	0·9	1·3	0·1	1·2
Australia's total exports (average 1909–13) .	1·1	0·6	0·2	1·6

The following figures show the same relationship in respect of British Malaya's trade with Australia, the Netherlands East Indies, Siam, and the other countries shown above.

	Percentage Relationship				
	Australia	*N.E.I.*	*Siam*	*China and Hong-kong*	*Japan*
British Malaya's total imports (1915) . .	1·4	22·3	15·9	13·7	4·8
Total exports . . .	0·6	14·8	3·6	3·4	1·5

The 'White Australia' Policy

An aspect of Australia's economic relations with the Far East to which reference must be made is her 'White Australia' policy. The circumstances which preceded the formulation of the policy were these. In the first instance—that is to say, in the forties of

last century—labour was wanted by Australian squatters and Chinese coolies were imported. Later there was a large influx of Chinese in search of fortunes on the goldfields, the total of Chinese in Victoria reaching the figure of 42,000. Riots occurred, one of the worst taking place on the Buckland River in 1857. In consequence restrictive Acts were passed by Victoria, South Australia, and New South Wales. These restrictive Acts were, however, repealed. From 1867 to 1877 Asiatics were free to enter Australia as they pleased. However, in the year 1875, when goldfields in north-eastern Queensland were opened, some 7,000 Chinese flocked in within a few months. Queensland thereupon adopted a Chinese Immigration Restriction Act, and as a result the number of Chinese decreased from 25,000 to 11,000. During the 'eighties, partly as a result of labour hostility to the interests which wanted cheap labour, anti-Chinese sentiment grew. 'There was a general feeling', says S. H. Roberts, 'that China was a renascent country. Her protracted warfare with the French in Tonkin and Annam had shown the efficiency of her armaments and the Colonial Press reported such French disasters as Lang-son very fully. Moreover, it was felt that the Chinese Government was now converting the hitherto desultory movements of Chinese emigration into a steadily directed and efficiently organized stream, a stream which, as Malaya was saturated, and American adverse, could only lead to Australia.'[1] However, anti-Chinese sentiment decreased and gradually disappeared.

Meanwhile, the question of Japanese immigration had been raised. This was in connexion with projects for the settlement of the Northern Territory. An account of the scheme for introducing large numbers of Japanese will be found in the work just cited. The scheme came to nothing, but in the early 'nineties considerable numbers of Japanese labourers were brought in as cane-cutters. The Anglo-Japanese Treaty of 1894 gave Japanese and British reciprocal rights of residence, the right being specifically limited, on our side, however, to Great Britain should the Dominions dissent from the Treaty within two years. A conference of Australian premiers held in 1896 registered dissent. Immediately afterwards New South Wales, Tasmania, and South Australia passed Coloured Races Restriction Bills. The Bills were all reserved, but by this time a desire for a uniform Australian immigration policy had become powerful. Margot Hentze says that it 'was one of the most powerful forces working for federation. When the first Commonwealth Parliament met in 1901', she continues, 'immigration was immediately brought under discussion, and significantly enough none of the various political

[1] 'History of the Contacts between the Orient and Australia,' in *Australia and the Far East*, pp. 9–10 (Angus and Robertson, 1935).

parties dissented from the general principle proposed. All were in agreement that the continent must be preserved for the white races by excluding an influx of Oriental peoples and such controversy as there was arose only over the type and form of legislation to be enacted. From this arises the claim of Australians that the present White Australia Policy has behind it the national tradition of over a generation'.[1] The upshot was the Commonwealth Immigration Restriction Act of 1901, which, under the influence of the British Government, adopted a language test, as the Natal Act of 1897 had done, but made the test one of ability to write at dictation and sign in the presence of an officer a passage of fifty words in length in a European language. In 1905 a 'gentleman's agreement' was reached between Australia and Japan whereby Japan undertook to issue passports for Australia only to bona-fide merchants (engaged in overseas trade), students, and tourists, while Australia agreed to exempt Japanese holding passports from the dictation test. On these lines an informal arrangement was, in 1912, made with China. The arrangement was modified in 1920, but it admits Chinese of specified classes into Australia on the same conditions as the Japanese.

INTERIM CONCLUSIONS

TAKING the facts that have been presented as a whole, and, considering them as the economic background of British policy in the Far East, what general conclusions can be drawn from them in respect of our policy during this pre-1914 period?

The chief conclusions appear to be these.

1. From our own point of view, the liberalism of our economic policy was a pronounced, one feels disposed to say, a 'howling' success. In 1913 we were still, to a very large extent, cock of the walk, economically, in China; we had every reason to be satisfied with our commercial relations with Japan, while Singapore was one of the most flourishing entrepôts in the world, our economic position in Malaya and in south-east Asia as a whole being highly satisfactory.

2. This liberalism, however, was interwoven in China and south-east Asia with 'special interests', which were recognized implicitly in the agreement whereby we renewed the Anglo-Japanese Alliance in 1911. Our 'special interests' in China, apart from the Colony of Hongkong (which geographically, and to a large extent economically, was part of China), were the Leased Territory of Kowloon, Weihaiwei, and our concessions in various treaty ports. In south-east Asia they consisted of

[1] Op. cit., pp. 39–40.

our Colonial territories. Whether the Yangtze Valley and the railways in it built with British capital constituted 'a sphere of interest' or 'influence' is a disputed question which I leave to the reader to decide in the light of the railway history told above. I am not called upon to define Japan's special interests, but nobody will dispute that Manchuria was regarded by her, and presumably (having regard to the terms of the renewal of our alliance with her) by ourselves, as one of them. We derived economic advantages from our 'special interests', but we shared them freely with other countries, and this policy paid us handsomely from an economic point of view.

3. Japan had every reason to be satisfied from an economic point of view with our policy in China, Hongkong and Malaya. She may not, probably did not, like the extent of our economic success, but she had no reason to complain of the economic treatment which she received from us except, as she saw it, in regard to the White Australia policy.

4. China derived many advantages from British economic policy, which, so far as the 'Open Door' was concerned, was the policy of the United States also, but she experienced disadvantages too. Amongst them was the fact that she was tied to a 5 per cent tariff, and could not vary it by one iota without consultation with the representatives of all the treaty Powers, all of whom were entitled to receive most-favoured-nation treatment from her. This limitation of her Customs revenue was partly responsible for the smallness of her revenue as a whole, while her inability to regulate her own tariff handicapped her industrially. The smallness of her revenue as a whole was partly responsible for her political weakness, which was increased by limitations upon her sovereignty in other than fiscal departments of administration. She could not legislate without regard to extra-territoriality, and to international agreements having local application in respect of a number of key areas, some of them being her chief ports, others the hinterland of ports. Her political weakness was a potential source of international trouble throughout the pre-1914 period. For this, to the extent that the weakness was due to limitations upon her sovereignty, we have to share responsibility with the United States and other countries.

PART IV

1914–1936. CHANGING BALANCES AND VALUES

General Character of the Period, which comprises Three Sub-periods, that of the World War, that of the Post-War Boom and Slump, and a Recovery Period

Main Features of (a) *the World War Period: Effects of the War on Trade: The Advance of Japan—Main Features of* (b) *the Boom—Slump Period (I) from the United Kingdom's Point of View, in China: Decline of Exports to China, the Cotton Piece-Goods and Machinery Trades, China's Tariff, Financial, Industrial and Railway Developments; in Japan, Industrial Developments, General Conditions of Anglo-Japanese Trade (II) from Australia's Point of View, in Japan, China, Malaya, the Dutch East Indies and Siam (III) from Malaya's Point of View, Governmental, Semi-economic and Economic Developments—Japan's Expansion in South-east Asia; U.S.A.'s Interest in the Same Region*

Main Features of (c) *the Slump-recovery Period: China's Full Entry into the Depression—Japan's Seizure of Manchuria and its Effects on British Interests—The Ottawa Conference and Imperial Preference—Quotas in Malaya—Japan's Plans for an Economic bloc—The Chinese Dollar—Recovery in Far Eastern Markets—Further Interim Conclusions*

THE period 1914–36 is one of changing balances and values. This characterization might be used of most parts of the world during that time, and cannot therefore be regarded as differentially descriptive of the Far East. Indeed, several of the changes which occurred in the Far East during these years were closely related to world changes, if not actually consequent upon them. The greatly increased economic importance of Japan is one example; the great depression, during which we abandoned the gold, and China her silver, standard, is another, all four events being to a large extent the result of the 1914–18 world war. Nevertheless, the characterization has its specifically Far Eastern applications. It embraces both the fact that Great Britain ceased to be cock of the walk in China, falling commercially to third place, and also the fact that, towards the end of the period, the United States' share of China's foreign trade became larger than Japan's. It embraces, too, big changes in China's economy, expressed politically in an integration which gave her increasing control over her own economic development, and economically in the form which was the chief feature of that development—namely, a growth of industry. In Manchuria China's economic development, which took the form of railway building, outpaced her political integration, with the result that Japan, who had been

watching both movements with apprehension, seized the country and much of Inner Mongolia. Following upon this big change in Far Eastern political and economic balances came the Ottawa Conference, which resulted in the British Empire acquiring, through preferential tariffs, much more significance as an economic organization that it had had before. This development, which was preceded by Great Britain's abandonment of free trade, set British control over large areas rich in economic resources in a new light, a light in which possessiveness seemed more nearly related to exclusiveness than it had been hitherto. Regarded from Japan's point of view, the nearness of this relationship could not but be accentuated by the artificial deflection of Malayan purchasing power—through the introduction of quotas—from Japanese cotton goods. Similar deflection occurred in non-British territories, the implication from the Japanese point of view being the desirability of creating and integrating markets similarly controllable. Whether it is true to say that this implication became an influence in the plans of Germany and Italy also must be left to specialists in their affairs to decide. But *post hoc* or *propter hoc* there developed between those three countries and ourselves a conceptual grouping into 'have' and 'have-not' Powers, and between ourselves and the Japanese a conflict of ideas about an ill-defined concept, the standard of life, these differences becoming associated with others in a linked series of sharpening antagonisms. So the period 1914–36 displays towards its close a complicated series of reactions, gaining, however, in interest what it loses in simplicity.

The period falls into three sub-periods, that of the first world war, a period of boom and depression, and a period of partial recovery. A glance at our Board of Trade's average index figures of wholesale prices shows that it is difficult to mark off these periods by dates. In 1920 the index, based on the figure 100 for the year 1913, had risen to 307·3. By 1929 it had fallen to 136·5. A new index figure was compiled in the following year and this by 1933 stood at 85·7, equivalent, on the old basis, approximately, to 100·9. In 1936 the new, 1930, index averaged 94·4. To define the first period in terms of the war dates, 1914–18, as I propose to do, is open to the objection that the division is a military, or political, rather than economic one, for the high figure of 307·3 was the peak of a continuous rise. At what economic moment does the continuous rise become definable as boom? Again, to use the year 1931–2 as marking the end of the second period, as I propose to do, is open to the objection that China did not enter the depression till after we and the Japanese had left the gold standard, and to the further objection that in several instances the upward turn from the depression came after 1932. But in these

post-war years we are concerned with a good many things other than the depression—the seizure of Manchuria, for example, China's acquisition of tariff autonomy, the Ottawa Conference, Imperial preference and Japan's southward movement. It is convenient to use the year 1931–2 as a dividing line in respect of these events and not incorrect to do so in respect of a good deal of the depression. For the remaining years it is difficult to find any characterization that suits all the facts, or all the countries, with which we are concerned. The hard-worked definition, 'normal', certainly does not suit a period during which Japan was doing her utmost to sever North China from the remainder of the country. Nor could it be regarded as a happy one in respect of the fact that in China (including Hongkong), Japan and the Netherlands East Indies the United Kingdom's exports showed a marked tendency to decline. It is certainly the case, on the other hand, that the period 1937–41, which includes both the outbreak of the Sino-Japanese and the European war, must be taken by itself. So perhaps it is wisest not to try to find a general description for the years 1931–2 to 1936, but to content oneself with an attempt to deal clearly with their main trends.

FIRST SUB-PERIOD

THE outstanding features of the 1914–18 period were as follows.

(*a*) There was an increased demand in the United Kingdom for certain raw materials and foods, particularly for raw materials required for what was then called—as it is now—'the war effort', though why 'war effort' instead, simply, of 'the war' only experts in English jargon can say.

(*b*) In consonance with that fact exports from the Far East to the United Kingdom tended to increase. In the case of China and Japan, the increase appears to have occurred both in quantities and in values. In the case of Malaya, the Dutch East Indies and Siam, on the other hand, the total value of imports was less in 1918 than it was in 1914. This was not true, however, of 1919.

(*c*) Exports from the United Kingdom to China and Japan decreased in value. Exports to Malaya, the Dutch East Indies and Siam increased in value. In conjunction with the former fact, we have to note an increase of industrialization both in China and Japan.

(*d*) China remained much the most valuable market in the Far East for the United Kingdom's exports. There was a marked change, however, in the relative value of China's total imports from Great Britain and Japan, that of imports from Japan, which in 1914 already exceeded ours, greatly exceeding it in 1918.

(*e*) In the Twenty-one Demands upon China Japan tried to

combine increasing economic expansion in the Far East with political expansion, thus giving political significance to changing economic balances.

Let us proceed now to illustrations of these general statements.

UNITED KINGDOM'S EXPORTS AND IMPORTS[1]

(*E*=*exports.*[2] *I*=*imports. Values in* £000)

To and from	1914 (£)		1918 (£)		+ or − per cent	
	E.	*I.*	*E.*	*I.*	*E.*	*I.*
China (including Hongkong)	16,649	5,317	15,610	11,123	− 6·2	+109·2
Japan	8,354	4,105	6,040	23,872	− 27·7	+481·5
British Malaya	5,691	16,388	6,862	12,959	+20·5	−21
Dutch East Indies	6,476	13,227	7,601	9,317	+17·4	−29·5
Siam	1,012	814	1,619	56	+60·0	− 93·1
British North Borneo and Sarawak (1913)	62	109	37	352	−40·2	+223·8
Philippines	790	1,612	561	6,082	− 29	+277·2
Indo-China	172	272	824	—	+379	−100

The drop in the value of imports from British Malaya, the Dutch East Indies, and Indo-China was exemplified chiefly by decreased importations of rubber, sugar, and rice. But the very large increases shown by total imports in the case of Malaya and the Dutch East Indies in 1919 appear to justify the statement made in (*b*) above that exports from the Far East tended to rise, shipping difficulties being probably a factor in checking the tendency in 1918.

In regard to (*c*)—increased industrialization in China and Japan—the chief facts are these. In China, the war by checking other than Japanese exports to China gave a stimulus to Chinese factories. Between 1915 and 1920 the number of cotton mills, most of them centred in Shanghai, doubled, spindleage increasing by nearly 50 per cent, while looms more than doubled in quantity.[3]

[1] As regards exports, the figures are those of the produce and manufactures of the United Kingdom only and do not include exports of foreign and Colonial goods, the value of which was relatively small.

[2] Excluding re-exports.

[3] Hubbard, *Eastern Industrialization and its Effects on the West*, p. 187.

The following figures, taken from the U.K. Board of Trade Returns, illustrate what happened to the United Kingdom's export of cotton piece-goods:

EXPORT OF COTTON PIECE-GOODS TO CHINA (INCLUDING HONGKONG)
(000's)

	1913	1914	1915	1919	1920
Value (£)	11,733	9,856	5,469	15,146	34,130
Quantity, yards	716,533	577,948	375,088	304,437	452,657[1]

In Japan the number of spindles in the cotton industry increased by 44 per cent, the output of yarn increasing by 55 per cent.[2] According to the Chinese Customs returns, imports of cotton piece-goods, shirtings (grey, white plain), jeans; Italians, Venetians, lastings (plain fast black, coloured, and figured), and shirtings (dyed plain) from Japan and Great Britain in 1913 and 1919 were:

	1913		1919	
	Quantity (*pieces*, 000's)	*Value* (*Hk. Tls.*, 000's)	*Quantity* (*pieces*, 000's)	*Value* (*Hk. Tls.*, 000's)
From Japan	290	1,078	6,247	35,583
From Great Britain	12,012	48,521	4,762	27,596

The following figures illustrate the second statement in (*d*) above, the statement, namely, that during the war years the total value of Japan's exports to China, which had already exceeded the United Kingdom's in value, shot still further ahead:

CHINA'S TOTAL IMPORTS

	(000's *Hk. Tls.*)	
	1914	1918
Value	572,057	577,643
Great Britain's share[3]	18·3 per cent	8·7 per cent
Japan's share	21 per cent	41·4 per cent

[1] Square yards. United Kingdom's official statistics.
[2] Hubbard, op. cit. (1st edition), p. 51.
[3] Excluding U.K.'s exports to China through Hongkong.

Expansion of Japan's export trade occurred also in the Straits, the Dutch East Indies, Indo-China and Siam, as the following figures show.

EXPORTS FROM JAPAN

(000's *yen*)

To	1914	1918
Straits Settlements .	9,129	42,208
Dutch East Indies .	5,479	71,676
Indo-China . . .	803	10,030
Siam	563	6,076

We are not in any primary sense interested, in this book, in Japan's trade. But in view of the economic development of Japan's 'southward movement' during this period, 1914–36, the advance made in respect of her imports from the above countries during the war years should also be noted.

IMPORTS INTO JAPAN

(000's *yen*)

From	1914	1918
Straits Settlements .	4,090	29,323
Dutch East Indies .	22,024	48,837
Indo-China . . .	15,052	55,407
Siam	4,173	5,730

Source: *Financial and Economic Annual of Japan.*

Finally, we come to general statement (*e*)—namely, that during the war years, 1914–18, Japan combined economic expansion in the Far East with an attempt at political expansion, and in doing so set in motion forces which gave political significance to the changing economic balances.

The attempt at political expansion took the form, as already stated, of making Twenty-one Demands on China. These aimed at establishing the same degree and form of control over her as Japan now exercises through puppet administrations in Peiping (and Tientsin) and Nanking. Japan was at that time our ally, and an extremely efficient and useful ally too. But the implications of

the Twenty-one Demands, if less actionable, were not less obvious on that account. The economic implication was that the commercial advantages hitherto derived from the principle and practice of the 'open door' were by no means as securely based as had been thought. That, together with the implications of the Nishihara loans, led presently to a re-examination of other economic aspects of the situation. This re-examination preceded, and was publicly conducted at, the Washington Conference, to which further reference will be made. It led also to the formation of the New Consortium, to which we shall also refer again. Meanwhile the Demands, considered from China's point of view in the light of Japan's *de facto* succession to Germany's position in Shantung, quickened the nationalism which underlay the anti-Manchu revolution, making it a force to be reckoned with both within and without China. From a confluence of these various trends came presently results of far-reaching economic, as of political, importance. The Demands were made early in 1915.

SECOND SUB-PERIOD

THE chief developments during the boom-slump period, in which we decided, it will be remembered, to use the year 1931–32 as a dividing line (not to be too strictly adhered to, however), appear, from a British point of view, to be:

(*a*) a very big fall in the value of the United Kingdom's exports to China (including Hongkong) from £57 million in 1920 to £13 million in 1930, a fall particularly marked in the cotton piece-goods trade, combined with a decrease in our percentage of China's total import trade and an increase in Japan's and that of the United States;

(*b*) a compensating expansion of our machinery trade with China, this fact, and the decline in piece-goods trade being due to China's increased industrialization;

(*c*) an increase in our business investments in China and the establishment of new British industrial concerns there;

(*d*) an increase in Australian trade with China, Japan, Malaya and the Dutch East Indies, this fact being included in Malaya's prosperity up to the advent of the depression;

(*e*) continued expansion of Japan's commercial interests in the *Nan Yang* or southern seas.

United Kingdom's Trade with China

To turn first to (*a*) and (*b*)—namely, the fall in the value of the United Kingdom's exports to China (including Hongkong); the decrease in her share of China's total import trade; the decline in

the piece-goods trade and the compensation which was forthcoming for manufacturers of machinery and other commodities.

The fall in the value of the United Kingdom's exports to China (including Hongkong) was, as stated above, from £57 million to £13 million. This fall represented to a very considerable extent first the post-war fall in prices, and then the advent of the great depression. In May 1920, as we saw, the Board of Trade's index number of wholesale prices stood at 332·6. By September 1922 it had fallen to 154·3, the average for 1922 being 158·8, in which year the total value of the United Kingdom's exports to China (including Hongkong) fell to £29 million. By 1925, the year in which we returned to gold, the total was £20 million, while in 1927 it was £14·8 million.

Before seeing what happened to piece-goods and machinery, let us glance at the Chinese Customs figures showing Great Britain's share of China's import trade.

CHINA'S IMPORT TRADE

(*Values in* 000's *Hk. Tls.*)

	1920	1925	1930
China's total imports .	799,960	965,090	1,328,231
	Per cent	*Per cent*	*Per cent*
Great Britain's share .	16·46	9·65	8·15
Hongkong's share . .	19·91	18·27	16·44
United States' share .	18·79	14·77	17·50
Japan's share . . .	28·64	31·06	24·63

The average rate of exchange during these years was in 1920, 6*s*. 9½*d*.; in 1925, 3*s*. 5⅞*d*., and in 1930 1*s*. 10$\frac{11}{16}$*d*.

Let us turn now to the cotton piece-goods and the machinery trades.

In 1920, as we saw, the quantity of cotton piece-goods exported to China and Hongkong was 452,657,000 square yards. In 1925 it was 173,408,000 square yards and in 1930 61,397,000, the decline in value being from £34 million in 1920 to £1·8 million in 1930. It is difficult to obtain strictly comparable figures in respect of Japan's trade, which is entered in official statistics under cotton 'tissues', a broader term than 'piece-goods'. However, for purposes of a rough comparison it may be said that the value of Japan's exports to China, including Hongkong, but not including Kuantung, which is not included in the United Kingdom figures,

was in 1920 approximately £14 million. In 1929 it was approximately £17 million. In 1930, when there was a big drop, which became still more marked in the following year, it was approximately £10·5 million.

The expansion of the United Kingdom's machinery trade with China did not, by any manner of means, compensate the United Kingdom for the steady loss of her cotton piece-goods market. Nevertheless the expansion was considerable, as the following figures illustrate.

EXPORTS OF MACHINERY TO CHINA (INCLUDING HONGKONG)

(000's £)

1914	1923	1925	1930
622	1,755	1,190	1,487

Much of this machinery was for cotton mills, of which in 1928 there were four British, seventy-three Chinese, and forty-two Japanese. The distribution of spindles and looms was:

	Spindles	*Looms*
In Chinese mills . .	2,099,042	14,735
In Japanese mills . .	1,351,704	11,994
In British mills . .	161,860	2,562

In 1923 and 1925 China's imports of machinery for textile industries represented 43·8 and 21·3 per cent respectively of her total machinery imports. It appears that British spindles and looms were being imported in large numbers for Chinese and, to a lesser extent, Japanese mills.

BRITISH AND AMERICAN SPINDLES AND LOOMS IN CHINESE MILLS

1923. (000's)

	Spindles (working and projected)	*Looms (working and projected)*
British . .	1,202	3·8
American .	862	2·8
IN JAPANESE MILLS		
British . .	960·9	1·3
American .	185·5	—

During this 1920–30 period there was an increase also in China's imports of machinery for electric power stations, and of boilers and turbines. Great Britain's share of imports of the former in 1930 was about 20 per cent, her share of imports of propelling machinery in the same year being about 23 per cent. China's industrialization resulted also in an increased demand for metals, electrical goods and chemicals (sulphate and sodium compounds), the total value of these exported from the United Kingdom in 1925 and 1930 being approximately £2,536,000 and £2,892,000 respectively. Woollen and worsted tissues found a more reliable market in China than cotton piece-goods during these years, though their value, prior to 1928, was never comparable with that of cotton piece-goods, as the following figures illustrate.

1924	1925	1928	1930
£ 4,775,139	£ 2,836,572	£ 3,372,275	£ 1,037,043

An interesting and important thing about these various figures is that they show China in process of drawing level with Japan as a market for the products of the United Kingdom's heavy industries. It is worth while comparing her importations of machinery and iron and steel manufactures with those of Japan, which were as follows. Machinery exports to China were shown above, but to avoid the necessity of referring back are repeated here.

EXPORTS OF MACHINERY TO CHINA (INCLUDING HONGKONG) AND JAPAN

(000's £)

	1923	1925	1930
To China .	1,755	1,190	1,487
To Japan .	3,297	1,836	1,595

EXPORT OF IRON AND STEEL AND MANUFACTURES THEREOF

(000's £)

	1923	1925	1930
To China .	2,207	1,587	1,418
To Japan .	5,581	2,350	1,278

Japan, of course, considered industrially, was a long way ahead of China and made great strides during these years. By 1927 her textile industry contributed 2,676,000,000 yen to a total output value of 6,947,000,000 yen, or practically 40 per cent of the whole. By that year, too, the rayon industry, started in 1918, had assumed important proportions, rayon tissues appearing in 1930 as a major item among Japan's exports. By 1932 Japan had become the largest rayon-exporting country in the world.[1] The Mitsubishi Index of Industrial Production rose from 110 in 1924 (base year = 1921–5) to 124 in 1926 and 159 in 1929. The rise in the production of certain important commodities is shown by the following figures:

Year	*Cotton yarn (million lb.)*	*Raw Silk (000's metric tons)*	*Coal (million tons)*	*Pig iron (000's metric tons)*
1913	607	14·1	21·3	240
1921	725	23·1	26·2	473
1926	1,043	34·3	31·5	809
1929	1,117	42·3	34·3	1,087

Source: Allen, *Japan the Hungry Guest*, p. 123.

Washington Conference and other Events

We must at this point turn back for a moment to pick up certain threads which are important in the skein of events, but which have, as a matter of convenience, been left aside during preceding paragraphs. They relate to the Washington Conference, a serious anti-British boycott in China, the establishment of the present Chinese National Government, and China's long-delayed acquisition of tariff autonomy. A financial development, the institution of the new Consortium, must also be noted.

With the political aspects of the Washington Conference we are not concerned. We are, however, concerned with the treaty which the nine Powers participating in the Conference made in respect of China's tariff. The treaty recognized that the Chinese Government needed larger financial resources, and provided, in addition to a revision of the tariff so as to place it on an effective 5 per cent basis, for the convention of a special tariff conference to prepare the way for 'the speedy abolition of *likin*'—the tax on goods in transit which had existed for many decades, of which mention was made in Part III in connexion with railway loans—and to fulfil other conditions of treaties made between Great Britain and China in 1902, between the United States and China in 1903 and

[1] Hubbard, op. cit., pp. 55–7.

between Japan and China in the same year, relative to the imposition of tariff surtaxes. The Special Conference was to authorize the levying of a surtax on imports of 2½ per cent *ad valorem*.

Owing largely to civil war in China, the Special Conference did not meet till the autumn of 1925. By that time, the nationalist movement, to which reference was made a few pages back, was in full swing. For a variety of reasons, some of them falling outside the scope of this book, some of them being alluded to in Part III in connexion with loans, and in Part II in connexion with the treaty-port system, we fell foul of the movement and suffered a severe commercial boycott, which had serious, though temporary, effects upon our trade. A direct outcome of this was the adoption of a conciliatory and liberal policy by the British Government, which while modifying the treaty-port system, as described in Part II, was also a factor in the recognition which the Special Tariff Conference recorded of China's right to exercise tariff autonomy. In December 1928 Great Britain and China signed a treaty abolishing 'all provisions of the existing treaties between the High Contracting Parties which limit in any way the right of China to settle her national Customs Tariff in such a way as she may think fit'. The treaty also provided that the nationals of either country 'shall not be compelled under any pretext whatsoever to pay in China and the territories of His Britannic Majesty to which the present treaty applies respectively any duties, internal charges or taxes upon goods imported or exported by them other than or higher than those paid on goods of the same origin by Chinese and British nationals respectively, or by nationals of any other foreign country'.

In 1929 China adopted a tariff in which import duties were raised from 5 per cent to a level ranging from 7½ to 22½ per cent, most of the duties on cotton piece-goods being between 7½ and 10 per cent, as were those on iron and steel manufactures, and machinery. Subsequent tariffs, as we shall see, were higher.

Before leaving the subject of China's revenue, an explanatory note upon a matter directly connected with her financial resources —the institution of the New Consortium—should be given to the reader. It connects up with what has been said about the Twenty-one Demands and the Nishihara loans, and the Old Consortium mentioned in Part III.

'At as late a date as June, 1917', says Professor Remer, 'the State Department was little interested in proposals for the re-entrance of the American Group. Within six months the State Department telegraphed to the American Minister to China that American participation in the Consortium was being favourably considered and that steps would probably be taken to organise a new American Group at once. By July 1918 a new American

banking group was ready to consider a loan to China if international co-operation could be secured and if the American Government agreed to state when the loan was issued that it had been undertaken at the suggestion of the Government. The French, British and Japanese Governments were now approached and long negotiations led finally to the signing of the China Consortium Agreement in October 1920.

'Considering these events from the American point of view, the first question is: Why did the attitude of the American Government change? The chief reason is to be found in the new position of Japan in the Far East after the first years of the World War. In the political field the Twenty-one Demands were the first evidence of this new position. In the financial field the so-called Nishihara loans are well-known. These loans were in themselves an indication that the Old Consortium agreement was no longer powerful. In August 1917 the Chinese Government took steps towards securing new and additional loans. If China persisted, the loans would be, in fact and in practical effect, Japanese loans. The American government faced a situation which called for independent loans to China by American bankers or for American entrance into the Old or a New Consortium. It is highly probable that this was the immediate cause of the change in American policy. The general cause for this and other changes in policy was the new position of Japan in Far Eastern and world affairs.

'After the negotiations which led to the New Consortium began, additional reasons for American interest appeared. The new position of the United States in world finance played a part, as did also the course of events in Paris during the discussions which preceded the Versailles Treaty. The course of events which led in the political field to the Washington Conference of 1921–1922 led in the financial field to the creation of the New Consortium. In both cases the new position of the United States placed the initiative with the Americans; in both cases the new position of Japan constituted the major problem.'[1]

This New Consortium, as Professor Remer goes on to state, was not accepted by the Chinese Government or by Chinese political leaders. They regarded it as 'carrying the threat of international control of Chinese finance'.

Another semi-financial, semi-political development which occurred during this period was our remission of our outstanding share of the Boxer Indemnity. Upon this matter Sir Eric Teichman, for many years Counsellor for Chinese Affairs at our Embassy in Peking, says:

'In 1922 the suspended indemnity payments'—suspended owing to the First World War—'were due to be resumed. The Treaty powers were by this time, in the post-war atmosphere of pacifism and international benevolence, beginning to unbend in their attitude towards the Chinese people. The British Government decided to remit the balance of the British share, of which, owing to the vagaries of compound interest, £11 million were still outstanding. But the Chinese Government of those times were not considered worthy of being relieved entirely of their liability; and so they were notified, in December 1922, of the intention of the British Government to devote the funds accruing from all future instalments of the British share of the indemnity to purposes mutually beneficial to China and Great Britain.

'The mills of the British Government grind true but slow; and it took them eight years to decide what the purposes mutually beneficial to China and Great Britain were to be. After three years of departmental and parliamentary delays,

[1] *Foreign Investments in China*, pp. 329–30 (Macmillan, 1933).

an Advisory Committee, under Lord Buxton, was established to consider the question and report. In 1926 this Committee sent a delegation, under Lord Willingdon, to China to study the problem on the spot.

'The delegation, headed by Lord and Lady Willingdon, and composed, as to its body, of Chinese and British dignitaries of the cultural and missionary world, passed comet-like across the disordered face of China, synchronizing with the last gestures of the Tariff Conference and the visit of the ex-territoriality commission. It was an unfortunate coincidence that all these distinguished foreign visitors should have come to China when things were at their worst; in Peking a dying Government; throughout the country banditry and civil wars; and in the south red revolution and rampant anti-foreign hate. Nevertheless the delegation made a conscientious and comprehensive survey of their subject; and eventually, with the assistance of the late Sir Reginald Johnston as their mentor, secretary and guide, drew up a valuable report recommending that funds should be devoted to cultural, educational and philanthropic works in China; partly by direct expenditure and partly by the creation of an endowment fund invested in China's public works.

'Further delays ensued in England owing to changes of government and policies and the troubles and obscurities of developments in China. In 1929 the British Government decided to cut the Gordian knot by handing the moneys back to China on the understanding that they would be devoted by the Chinese Government to purposes in general conformity with the Willingdon report. But further hitches in the negotiations intervened; and in the meantime the claims of British industry to be remembered in the settlement were emphasized by the economic depression of the times. Finally, in September 1930, agreement was reached with the Chinese Government in regard to the mutually beneficial purposes to which future instalments of the indemnity were to be applied.

'Under these arrangements, embodied in an exchange of notes between the governments, the funds were to be invested in Chinese railways and other public works as an endowment for cultural, educational and philanthropic purposes. A Board of Trustees, composed of Chinese and British members, was to be appointed by the Chinese Government to control and supervise the funds; and special grants were to be made to two British institutions, the Universities' China Committee in London and the Hongkong University. An important part of the settlement concerned the "accumulated funds", the instalments which since 1922 had been paid into a special suspense account and which by 1930 amounted to from three to four million pounds. These accumulated funds, and half of each future instalment, were to be remitted to London and expended, through a "Purchasing Commission", on the purchase in the United Kingdom of materials and new equipment for the Chinese railways and other public works in China.'[1]

British Industries in China

We turn now to (*c*)—namely, the establishment of new British industrial concerns in China, mainly at Shanghai, and an increase in the total of British business investments.

In 1919 the British-American Tobacco Co. (China), Ltd., was formed, the business in China ceasing to be directed from London as a branch of the British-American Tobacco Co., Ltd. In the early nineteen-thirties further re-organization was effected by the formation of companies to operate in Manchuria and in China, the activities of the British Cigarette Company, Ltd., being confined to Hongkong, and the British-American Tobacco Co. (China), Ltd., becoming mainly a holding company, holding the shares in the operating companies. New factories were opened: in Tientsin

[1] *Affairs of China*, pp. 111–13 (Methuen, 1938).

in 1922; in Tsingtao in 1924, on the Han River 1924, in Shanghai in 1925, and in Hongkong in 1930. A factory was also opened in Liaoyang, Manchuria, in 1934. (This was closed in 1938, a new factory being opened in Newchwang, Manchuria, in 1939.)

The China Soap Company Limited was incorporated in China by Levers in 1923 with an authorized and issued capital of C.S. $8,000,000 in 800,000 C.S. $10 shares. It took over the soap businesses of two English companies (1) Lever Brothers (China), Limited, which had been established in 1911 to carry on the export trade to China for many years previously carried on by Levers, and (2) The China Soap and Candle Co., Ltd., formed in 1917 to carry on the soap and candle businesses in China of Gossage, Crosfield, and Price. Gossage and Crosfield had old-established and flourishing businesses at that time, and Price's, in addition to erecting a candle factory at Shanghai in 1910, had for some years prior to 1917 exported considerable quantities of soap to China. The China Soap Company's buildings and plant in Shanghai were completed in the latter part of 1924.

Edible Products Limited was incorporated in China by Lever Brothers and Unilever N.V. in 1933 under the name of The United Margarine Co., Ltd., and two years later the name was changed to Edible Products, Limited. Its paid-up capital is C.S.$300,000 in 30,000 C.S.$10 shares.

In 1925 the China Printing and Finishing Co., Ltd., began operations in Shanghai with a small calico-printing works. The company was sole representative in China of the Calico Printers' Association, Ltd. Its works were developed and expanded, presently becoming the largest in China. In 1934—a date which belongs to the third sub-period into which we are dividing this 1914–36 period, but which, for the sake of convenience may be included here—the company established cotton mills and up to the outbreak of the Sino-Japanese War carried out all processes in the production of finished cotton piece-goods. It also operated as merchants and distributed its own productions throughout China. It distributed, too, productions manufactured in the United Kingdom in association with the Lebel Trading Co., Ltd.

In 1934—again to anticipate a little—Patons and Baldwins, Ltd., established a mill in Shanghai.

Shanghai Dockyards, Ltd., came into existence in 1936, as the result of a partial amalgamation of the interests of the Shanghai Dock and Engineering Co., established, as we saw in Part III, in 1906 with those of the New Engineering and Shipbuilding Works, the capital of the new enterprise being C.$10,000,000 in 1,000,000 shares of $10 each.

Prior to these latter dates certain important commercial bodies

had been formed, others undergoing changes. These events are describable as local, but they are important in the story of British enterprise in China.

In 1915 Mr. H. E. and Mr. C. Arnhold advertised themselves out of the well-known Anglo-German concern, Arnhold, Karberg & Co., which had been established about the year 1866, Mr. Jacob Arnhold, who founded the company in conjunction with Mr. Peter Karberg, having arrived in Hongkong in the early days, 1856. Messrs. H. E. and C. Arnhold now established their own business as a partnership, presently converting it into a limited company under the name of Arnhold Brothers & Company, the company being incorporated in Shanghai under the Hongkong Ordinances.

Westphal, King, and Ramsay, whom we met in Part III, were in 1918 incorporated in Hongkong as Harrisons, King, and Irwin, Ltd., having an office also in Shanghai.

In 1930 Sassoon (E. D.) Banking Co., Ltd., was incorporated in Hongkong to acquire the London, Manchester and Hongkong banking interests of Sassoon (E. D.) & Co., Ltd., the latter's Shanghai banking interests being subsequently also acquired. Sassoon (E. D.) Co., Ltd., had been incorporated in India in 1920 to acquire the business of E. D. Sassoon & Co.

British Investments in China

Some of the facts just mentioned lay behind the increase in British business investments in China which occurred during this 1914–36 period.

We saw in Part III that, according to Professor Remer, business investments amounted in 1914 to a little over £82,306,000. By 1931, according to the same authority, the total had increased to about £197,961,000. This, Professor Remer estimated—terming his estimate a guess—was distributed geographically thus: Shanghai, £130 million; Hongkong, £35 million, and in the rest of China, £30 million. Its distribution according to employment was: in transporation, 14 per cent; in public utilities, 5 per cent; in mining, 2 per cent; in manufacturing, 18 per cent; in banking and finance, 12 per cent; in real estate, 21 per cent; in general import and export trading, 25 per cent; and in miscellaneous enterprises, 3 per cent.[1] Mr. E. Kann, a director of the Shanghai paper, *Finance and Commerce*, has questioned the accuracy of these figures, his own total—to which further reference will be made in Part V—being much smaller.

Meanwhile it should be noted that, according to Professor Remer's calculation, Japan's business investments in 1930 were approximately £182·5 million, of which £110 million were in

[1] Remer, op. cit., pp. 403 and 397.

Manchuria and the remainder in the rest of China. The business investments of the United States Professor Remer estimated at about £31·9 million.

In passing we may note, in connexion with these business investments, the lending of fresh and comparatively small sums of British capital to the Chinese Government for railway and other purposes during the early years of this period 1914–36. In March 1914 an agreement was made by China and the British and Chinese Corporation, Ltd., for the issue of a 5 per cent loan of £8,000,000, to be known as the Chinese Government Five Per Cent Nanking-Hunan Railway Loan: (1) to provide capital for the resumption by the Chinese Government of the Anhui Provincial Railway's works and property near Wuhu; (2) for the construction of a railway from Nanking to Nanchang through Ningkwofu and Hweichowfu, with connexion to Wuhu and Kuantechou; and from Nanchang to Pinghsiang, to connect with the existing Government railway from Pinghsiang to Chuchow; and (3) for the incorporation of the Chuchow-Pinghsiang line in the railway to be constructed with the loan. Owing to the European War, the loan was not issued and subsequently the project was abandoned. But in 1935 (to anticipate a little) its place was taken by a new project for a line from Wuhu to join up with the Hangchow-Nanchang Railway at, or near, its junction with the Hankow-Canton Railway, the requisite finance being arranged with private British interests. The outbreak of the Sino-Japanese War, however, stopped the prosecution of this project.

In 1914, also, China made an agreement with Pauling & Co., Ltd., for the issue of a loan of £10,000,000 for the construction and equipment of a railway line from a point on the Yangtze opposite Shasi to Shingyi in Kweichow Province, with a branch line from Changteh to Changsha. But this loan, too, and the lines which were to be built with it, also failed to materialize owing to the European War.

In the same year the Chinese Government made an agreement with the British and Chinese Corporation for the provision of Shanghai Tls. 3,150,000 for the resumption as a Government railway of the Kiangsu section of the Shanghai-Hangchow-Ningpo Railway, which had been built by the Kiangsu Provincial Railway Co. A portion of this loan (again, to anticipate a little), about $225,000, is outstanding.

In 1918 and 1919 agreements were made between the Chinese Government and the Peking Syndicate for a loan totalling £126,839 for the purchase of rolling-stock, and in 1921 the British and Chinese Corporation made an agreement with the Ministry of Communications for a loan of £500,000 and Mexican $2,000,000 for the double-tracking of the Peking-Mukden Railway.

Marconi Treasury notes for £600,000 were issued in virtue of an agreement between the Chinese Government and Messrs. Marconi's Wireless Telegraph Co., Ltd., on August 27, 1918, a Marconi Wireless Telegraph agreement being made on October 9 of that year for a loan of £200,000 for the purchase of wireless material and the erection of three 25-kw. stations at Lanchowfu, Urumchi, and Kashgar.

Australia's Trade

We come now to (*d*), Australia's trade with Japan, China, Malaya and the Dutch East Indies.

Australia's trade with Japan was much more important than her trade with China. Indeed, Japan took a larger percentage of Australia's exports than did any other Pacific country. Upon this point P. G. Wright also says: 'Japan's industries are distinctly complementary to those of Australia. There is probably no country, certainly no Pacific country, with respect to which an exchange of products is more to the economic benefit of both than it is in the case of Australia and Japan.'[1] Australian writers (Mr. Wright is an American) very naturally approach the matter from the point of view of Japan's demand for what their country is, or rather was, best able to supply, i.e. wheat, beef, milk foods, and wool.

Mr. I. Clunies Ross gives valuable statistics of Japan's imports of wheat. He remarks, before presenting them, that:

'Wages in industry [Japanese industry] have tended to rise continually from the lowest ebb to which they fell in 1895 at the close of the Sino-Japanese War, when from an index of thirty-nine they rose to one hundred in 1914, and then climbed very rapidly during the war years to reach 345 prior to the temporary set-back suffered by the collapse of the war boom in 1920–1, but rising thereafter to 395 in 1924.[2] The index number for wages then continued to rise more slowly until in 1928 it marked a maximum of 108·3 compared with 100 in 1926.'

He then proceeds to point out that:

'In the survey of 1926–27 the respective percentages of the total budget [of Japanese workers] spent on subsistence items was as follows: employees, 63·3 per cent; industrial workers, 66 per cent; agricultural workers, 70·4 per cent; while of these costs the percentage spent on food was respectively 24 per cent, 29·2 per cent, and 41·3 per cent.'[3]

Mr. Ross proceeds to show that 'the changing living standard of Japan has led to a very considerable increase in the consumption of the more expensive cereals, rice and wheat, at the expense of rye and barley. This increase in wheat consumption until 1933

[1] *Trade and Trade Barriers in the Pacific*, p. 58 (P. S. King, 1935).

[2] This statement Mr. Clunies Ross based upon Ayusawa, *Industrial Conditions and Labour Legislation in Japan*, Geneva, 1926.

[3] *Factors Influencing the Development of Australia's Trade with Japan in Australia and the Far East*, pp. 162, 165.

was reflected not in the area under crop, which had shown no marked increase throughout the preceding decade, but in the volume and value of wheat and flour imported'.

JAPAN'S IMPORTS OF WHEAT AND FLOUR

	Wheat		*Flour*
	Quantity (piculs) 000's	*Value (yen)* 000's	*Value (yen)* 000's
1920 .	—	28,505	3,353
1926 .	11,716	93,346	1,274
1927 .	7,774	53,929	2,869
1928 .	10,957	67,787	1,186
1929 .	12,231	70,896	975
1930 .	8,063	41,509	2,252
1931 .	12,039	32,930	470

In 1928 12·5 per cent of Japan's wheat imports came from Australia; in 1931 the proportion was 71 per cent; in 1932 it was 82 per cent.[1]

Mr. Ross's statistics of Japan's imports of beef and milk foods down to 1931 show the same tendency. In regard to wool, he says:

'The phenomenal increase in Japanese demand for raw wool in the post-war period, and particularly since 1925, has been one of the most striking features of her external trade. This increase is indicative of a rapidly growing demand for woollen and worsted goods, but it is not, as is so often assumed, an indication of the actual increase in the *per capita* consumption since 1925. . . . The greatly increased demand for wool is due to the widespread employment of woollen and worsted cloths, such as muslins and serges for Japanese clothing, while there has been . . . a steady increase in the use of European clothing.'

JAPAN'S IMPORTS OF WOOL[2]

	Total imports		*From Australia*	
	Volume (piculs)	*Value (yen)* 000's	*Volume (piculs)*	*Value (yen)* 000's
Annual average, 1914–18	302,850	—	—	—
Annual average, 1919–23	417,660	—	—	—
1925	526,090	87,182	485,155	82,628
1927	744,290	90,146	714,874	87,234
1928	867,730	108,438	818,075	102,781
1929	809,620	100,673	789,916	98,346
1930	866,700	73,549	848,227	72,328
1931	1,429,290	86,021	1,372,090	83,302

[1] Op. cit., pp. 169–70. [2] Op cit., pp. 178–9.

Until 1931 Australian exports to China were generally less than 1 per cent of her total exports. The Australian writer, H. D. Black, in the chapter contributed to the work cited above, describes the pre-1931 trade as relatively negligible.[1]

In 1929-30 the value of Australia's exports to China was £A.295,157. In 1931–32 it was £A.4,945,813, the chief export being wheat, which was valued at £A.4,506,287.

In 1929–30 the value of her imports from China was £A.568,664. In 1931–32 it was £A.314,778, the chief import being textiles, which were valued at £A.135,852.

The importance of textiles as China's chief export to Australia is a significant footnote upon the general fact, already referred to, that China embarked at this time upon an expanding programme of industrialization. So, too, is the preponderance in Australia's exports to China of wheat, much of which was wanted for the latter's multiplying flour-mills.

We must now turn to Australia's trade with British Malaya.

Between 1914–15 and 1918–19 the value of Australia's exports to Malaya in Australian pounds averaged 853,765. In 1920–1 it was 2,121,090; in 1924–5, 1,528,303; in 1928–9, 1,984,431; in 1929–30, 389,321; in 1930–31, 822,740; and in 1931–2, 919,827. The composition of the exports differed slightly in different years, but the chief, broadly speaking, were flour, powdered milk, butter, and frozen meat.

Between 1914–15 and 1918–19 the value of her imports from Malaya averaged in her currency £294,388. In 1920–1 it was, in her currency, £284,886; in 1924–5, £612,314; in 1928–9, £1,133,963 (having been in the previous year £2,025,757); in 1929–30, £812,513; and in 1930–1, £274,894.[2]

The chief imports were rubber, sago and tapioca, and spices.

The effect of the great depression is here seen clearly.

Before turning to Malaya herself, we should in passing note the value of Australia's trade with the Dutch East Indies.

Her exports to and imports from the Dutch East Indies were valued in her currency, approximately, as shown below:

	Exports £*A.* (000's)	*Imports* £*A.* (000's)
1920–1 .	2,568·6	8,798
1924–5 .	2,045·8	5,640·8
1928–9 .	2,075·6	7,091·6
1929–30 .	2,080·7	6,282·6
1930–1 .	1,436·5	4,011
1931–2 .	1,352·8	2,048·9

[1] Op cit., pp. 288–9.

[2] *Commonwealth of Australia Official Year Book.*

The chief exports were flour and butter; the chief imports differed a little in different years, but were, taking the years as a whole, oil and oil products and tea.

In these figures also we see clearly the effects of the depression.

It will be noted that the Dutch East Indies were more important to Australia as a market than Malaya.

Conditions in Malaya: Administrative Developments

I turn now to the rest of (*d*)—namely, economic conditions in Malaya, some of the ground having been already covered.

Let us first review some of the governmental developments which occurred subsequent to the early period dealt with in Part III. Some of the facts belong to dates subsequent to 1932, but it is convenient to record them here.

We have to note the emergence and treatment of the problem of over-centralization. This was discussed in the Federal Council on various occasions from 1922 onwards. 'There was a growing feeling', says Mills, 'that the Sultans and the Malays had been overlooked in the rush of economic development, and that the administration had taken from them far more power than was just or had ever been intended.'[1] In 1925 the High Commissioner, Sir Laurence Guillemard, with the approval of the Colonial Office, announced a policy of loosening the knot of Federation, which in his view was too tight. This was felt to be the case by the rulers of the Federated States, especially when they compared their position with that of the Sultans of Unfederated States, in which the British Advisers did not take over, but supervised, and gave counsel in respect of, government. The rulers of the Federated States, accordingly, were in favour of loosening the knot.

European and Chinese interests, on the other hand, feared the effect of that process upon their own prosperity and the financial credit of the Federation. The upshot was that the knot of Federation was loosened, but to an extent less than had been originally contemplated. Amongst arrangements made in 1927 was the addition to the Federal Council of five official and three unofficial members, who were to be Malays if possible, the Sultans withdrawing from it and leaving their representation in the hands of the Residents. This, however, resulted in the official majority of the Council being composed entirely of British officials. Thus, in his report upon his visit to British Malaya, the Secretary of State for the Colonies, Mr. Ormsby-Gore, said of the States: 'They were, they are, and they must remain "Malay States", and the primary object of our share in the administration of these countries must always be the progress of the indigenous Malay inhabitants at the invitation of whose forefathers we first assumed

[1] Op. cit., p. 50 (Oxford University Press).

responsibilities. . . . The mere fact of federation, the great economic development which has taken place, and the recent immigration of so many non-Malays have all tended to make British administration appear, to say the least of it, more direct than in the Unfederated States. . . . There can be no going back on the *fait accompli*, . . . but I cannot help expressing the view that the spirit and intention of our policy in Malaya has been carried out both more simply and more completely in the Unfederated States.'[1]

The problem was next tackled by Sir Cecil Clementi in 1931. To go into details would be to exceed the scope of this work, into which these few paragraphs are introduced in order to bring out the interplay of political and economic ideas in the general 'make-up' of British Malaya. That being so, it is necessary to say (*a*) that one of Sir Cecil's proposals was the formation of a customs union for the whole of Malaya, (*b*) that to this, as to most of his other proposals, Europeans and Chinese showed themselves as opposed as they had been to Sir Laurence Guillemard's. They summarized their arguments in a statement submitted to Sir Samuel Wilson, Permanent Under-Secretary of State for the Colonies, in 1932. Amongst their observations was one to the effect that they had been encouraged to invest their capital in the development of the Federated States, and that decentralization would result in decrease of efficiency, and, probably, a weakening of the Federation's credit. The Chinese advanced the further objection that decentralization might 'undesirably vest autocratic authority in the Rulers', to the detriment of Chinese interests.[2]

The upshot, after a visit of Sir Samuel Wilson, was the formulation of a programme of decentralization to be spread over four years and to include the transfer to State control of the Agricultural, Co-operative, Educational, Electrical, Forestry, Medical, Mining, Public Works, Drainage and Irrigation, Prisons, and Veterinary Departments. To maintain unity of policy in respect of the work done by these departments an Advisory Council was to be created, presided over by the High Commissioner and containing representatives of the States. The financial credit of the Federation was to be safeguarded by keeping under federal control the collection and appropriation of the revenue. The Chief Secretaryship, as it had hitherto existed, was abolished, provision being made for the transfer of its powers to the Sultans in Council in State matters and to the High Commissioner or the Federal Secretary in questions which were to remain under federal control. Furthermore, the State Councils were enlarged, their unofficial element being strengthened, while a separate clerical service was created in each of the four States, and was thrown open to

[1] Mills, ibid., pp. 55–6. [2] Ibid., pp. 59–60.

candidates of all nationalities born and educated in the Federated Malay States, the number of Malays appointed to the Malay Civil Service for duty in the Federated States being increased. Sir Cecil Clementi also devised a method whereby Chinese, Indians, and Eurasians in the Straits Settlements might be enabled to find places in the Malay Civil Service. This method consisted of putting a number of positions, formerly in the Malay Civil Service, into a separate Straits Settlements Civil Service.[1]

As regards the proposal for a customs union, opposition came from the business community of all nationalities, the controversy revealing a fundamental difference of outlook between the Straits Settlements, which thought in terms of their entrepôt trade, and the States, which thought in terms of mining and agriculture and the revenue derivable from them. The value of the entrepôt trade in merchandise with the Netherlands East Indies, India, Burma, Siam, British Borneo, and the Philippines was estimated at 61·4 per cent of the imports and 22·6 per cent of the exports of the Straits Settlements. Both figures represented a decline from earlier totals and figures taken out a few years later, i.e. in 1935, showed that the Straits Settlements' trade with the States, Federated and Unfederated, was growing. However, at the time of Sir Cecil Clementi's proposals, the entrepôt trade was more important from the Colony's point of view than the peninsular trade. The question was further considered, in the form of a scheme to be applied to States alone, in 1933, when the investigating committee, while allowing that such a plan would result in certain advantages, decided on the whole against it. A fresh proposal, that Malacca, Province Wellesley, and the Dindings should be severed from the free trade area of the Straits Settlements and added to a peninsular customs union, was considered in 1933–4. But nothing came of it beyond the retrocession, in 1935, of the Dindings to Perak with 'full sovereign' rights and title.[2]

Public Works, Railways, Rubber and Tin

(1) In the Colony there was an increase of expenditure on public works, the percentage of expenditure under this head rising from 6·1 per cent in 1920 to 22·6 per cent in 1925, the figure in 1937 being 12·4 per cent. The share of defence, which was 35 per cent in 1918, when expenditure totalled $15,966,145, was in 1930, when it totalled $39,240,315, 12·2 per cent, and in 1937, when it totalled $42,038,482, 10·6 per cent. In the Federated States, expenditure in 1937 on public works, the Medical Department, and anti-malarial measures constituted 6·9 per cent of a total expenditure of $71,143,470.[3]

[1] Mills, ibid., pp. 61–6. [2] Mills, op. cit., pp. 164–6. [3] Ibid., pp. 91, 98.

(2) Up to 1931 there was considerable railway development in the Federated States. In that year the East Coast line was opened to traffic and joined the Siamese State Railway. The total cost of construction of the Federated States' railways up to 1937 was some $227 million, of which only some $50 million came from loans. The length of the line, counting the first track only, was 1,068 miles. It has been claimed for the quality of the communications of the Federated States that it surpassed that of any other European dependency in Malaysia and the Philippines. In 1937 the length of roads in the Federated States was 4,558 miles, of which 2,939 miles were metalled and gravelled, while the remainder were unmetalled roads and bridle paths.[1]

(3) By 1920 the export of rubber was 196,000 tons, or about 53 per cent of world production, practically the whole of the export taking place at Singapore and Penang.[2] Its history subsequent to that year will be referred to presently. Here, however, may be recorded the fact that a Rubber Research Institute was opened in November 1926—many years, by the way, after the establishment of the Netherlands East Indies' Institute at Buitenzorg in Java. Its work was financed by a cess of 10 cents on each picul (133⅓ lb.) of rubber exported from any part of Malaya, this being an addition to the export duty.[3] In 1937 the acreage planted with rubber was 3,202,170, of which 2,026,348 was owned by estate and 1,275,822 by small-holders. Of the estates 75 per cent were owned by European companies, 16 per cent by Chinese, 4 per cent by Indians, and 5 per cent by other Asiatics. The majority of the European estates were owned by British companies, with head offices in London. The majority of the Chinese estates belonged to Chinese in Malaya, some being controlled by companies incorporated in China. The nominal value of the external sterling capital outstanding in Malayan rubber companies on December 31, 1936, was, it is estimated, £53,599,000, the amount outstanding in Malayan rubber companies, denominated in Straits dollars, being £1,672,000. Between 1903 and 1936 the value of new issues in London by Malayan rubber companies was £38,754,000.[4] The part played by Shanghai in the development of Malaya's rubber industry was noted when we were dealing with British capital invested in China.

(4) By 1929 105 dredges were at work in the tin-mines, the amount of issued capital invested in dredging being £13,099,432. The total area alienated for tin-mining in 1938 was 184,237 acres.[5]

[1] Mills, ibid., p. 99. [2] Ibid., p. 185. [3] Ibid., p. 199.

[4] Ibid., pp. 212–13. The total £53,599,000 includes capital accumulated out of reserves and issues of vendors' sales, but excludes money invested and subsequently lost. The total £38,754,000 includes capital invested and lost, but excludes capital accumulated out of reserves and issues of vendors' shares.

[5] Ibid., p. 178.

Investments in Other Fields

Capital outstanding in trading, smelting companies, breweries, collieries, electricity and power companies is estimated to have been, in 1936—to anticipate a little—£9,719,000. In giving this figure, which does not include finance companies and banks, H. G. Callis says that the British stake was preponderant 'in every line of economic activity which is of importance to the economy of British Malaya. . . . Though the distribution of capital by nationalities cannot be estimated with accuracy, it is safe to say that the British portion surpasses 70 per cent of the total business investment in the Colony'. The same writer also points out that in agricultural crops other than rubber the British have considerable interests, as in colonial fruits, tobacco, coconut and oil-palm plantations, the production of palm oil and kernels contributing an agricultural export industry ranking fourth in importance.[1]

In passing, it may be noted that oil-palm came originally from West Africa and was first grown in the Botanic Gardens in Singapore in 1875. The industry developed slowly, however, the number of oil-palm estates in 1926 being only 19. Between 1927 and 1932—largely owing to the efforts of the Department of Agriculture, which had encouraged the industry since 1912—acreage doubled, and by the latter year Malaya and Sumatra (where the planted area was almost three times as large as in Malaya) supplied about 30 per cent of the total world demand, Malaya's acreage being 61,025, of which 17,974 were in bearing, divided between thirty-three estates. At the end of 1937—to take another date out of its turn—the total planted area was 68,925 acres almost equally divided between the Federated Malay States and Johore. There were then thirty-six estates, nine being over 2,000 acres in extent.[2]

Turning now to trade, let us first get a clear picture of what happened to Malaya's chief exports during the years 1924–32.

MALAYA'S EXPORTS OF RUBBER AND TIN[3]

(*Quantities in* 000 *tons. Values in* 000*'s Straits* $)

	Total exports[4] ($*S. millions*)	*Rubber*			*Tin*		
		Tons	$	*Per cent of total export values*	*Tons*	$	*Per cent of total export values*
1924 .	720	260	264,940	36·9	81	169,147	23·6
1926 .	1,263	391	711,302	56·2	76	185,526	14·7
1928 .	845	309	329,790	38·8	99	191,279	22·4
1930 .	658	554	240,225	36·2	97	123,772	18·7
1932 .	368	478	77,803	21·2	48	55,687	15·2

[1] *Foreign Capital in South-east Asia*, p. 52. [2] Mills, op. cit., pp. 214–16.
[3] Wright, op. cit., p. 395. [4] i.e., total of all Malayan exports.

The above figures relating to rubber have to be read in the light of two sets of circumstances, the fact that by 1920 production had outstripped consumption (surplus stocks being still further increased by the depression of 1920–2) and the circumstances connected with that fact, i.e. restriction under the Stevenson plan and the relation of restriction to rubber policy in the Dutch East Indies; the other set of circumstances being those of the great depression. From the point of view of our own general picture, the important points are:

(1) the high proportion which the export of rubber and tin was of Malaya's total exports;

(2) that the great depression was by no means the sole cause of the troubles of the rubber industry in and after 1930. Upon this point Mills says:

"The termination of rubber restriction in 1928 did not at first have any marked influence on the price, which averaged between 10*d.* and 11*d.* in 1928 and 1929. Production mounted sharply and outstripped consumption more and more, since estates resumed their full output and at the same time the areas planted in the Dutch colonies after 1922 progressively came into bearing. . . . After 1929 the flooding of the world's markets continued, and at the same time consumption abruptly fell owing to the economic crisis. . . . The heavy excess of production over consumption forced the London price still lower to a yearly average of 3*d.* and less in 1931 to 1933 inclusive. No conceivable economies could cope with such figures, and the plight of the industry was infinitely more serious than in 1920–22."[1]

The tin figures in the table above have also to be read in the light of two similar sets of circumstances. Again it is not proposed to go into their details, which are also fully set out in Mills's book. In tin's case, as in rubber's, there was over-production prior to the great depression, and in tin's case, as in rubber's, the restriction plan adopted—after the advent of the depression (i.e. in 1931)—did not at first apply to all producers, i.e. it did not at first include Siam, French Indo-China, or the Congo. These were, however, presently brought in—Siam first. But in tin's case the fall in world consumption resulting from the great depression continued till 1933, whereas in that of rubber consumption began to increase in 1932 and by the end of 1933 had reached 809,388 tons, the largest figure since 1929, when it was 805,121, some 128,000 tons larger than in the previous year.[2]

To turn to Malaya's imports. The easiest way to get a clear idea of these is by glancing at the total value of imports and at percentages of the total ascribable to rice, rubber, tin ore, motor spirit and cotton piece-goods.

[1] Op. cit., p. 201.

[2] D. H. Grist, *An Outline of Malayan Agriculture*, p. 77. Quoted by Mills, op. cit., p. 201.

MALAYA'S CHIEF IMPORTS[1]

(*Total value in millions Straits Dollars*)

	Total value	*Per cent of total*				
		Rice	*Rubber*	*Tin ore*	*Motor spirit*	*Piece-goods*
1924 .	653	11·1	11·7	8·5	4·5	6·7
1926 .	1004	9·4	16·8	6·2	7·4	5·9
1928 .	861	11·0	10·2	7·7	6·4	4·9
1930 .	706	12·3	5·9	5·7	14·5	4·0
1932 .	384	10·3	2·5	5·9	14·5	6·1

The fact that rubber and tin ore should have held so important a place in Malaya's import list will surprise readers who are looking into the trade of this part of the world for the first time. They have, of course, always known that Malaya exported rubber and tin, but they probably did not appreciate that she imported them too. However, as Mr. Wright points out in the work from which the figures above are quoted, Singapore was a more important outlet for the produce of the Netherland East Indies than the Netherlands itself. Thus in 1927 a large proportion of the rubber exported from the Straits represented imports from Sumatra and Borneo, a lessening of the proportion occurring after that year, partly owing to changed marketing methods, partly to the depression.[2] The depression decreased the Netherlands East Indies' share of Malaya's import trade, but in 1931 it was again as much as 38·1 per cent, a figure which included the value of copra, mineral oils, pepper, areca nuts, and sugar. Rubber and tin were imported also from Siam and Burma.

Foodstuffs and raw materials normally accounted for most of the import trade, Asiatic countries, Australia, and South Africa being the chief suppliers, the only foodstuffs of importance from Europe being condensed milk, alcoholic liquors, and biscuits. The United Kingdom supplied the greater part of the demand, except in the case of condensed milk, which was imported also from Australia and the Netherlands. The provenance of manufactured goods, valued in 1926 at $S.393·4 million, in 1929 at $S.370·2 million and in 1932 at $S.189·3 million, is referred to later in connexion with Anglo-Japanese competition and the trade of the United States. Here it may be said that in 1926 and 1929 the British

[1] Wright, op. cit., p. 397. For the total value in 1932 Mills gives 376·7. Op. cit., p. 119.

[2] Mills, op. cit., p. 122.

share (i.e. the United Kingdom's and the rest of the Empire's) was approximately 45 per cent., and in 1932 35 per cent. In the following year, when, as we shall see, Japan's share increased greatly, it was 34 per cent.

HONGKONG'S TRADE WITH BRITISH MALAYA[1]

(*Total value of imports and exports in* 000's *Hongkong dollars. Malaya's share of total in percentages*)

	Imports		*Exports*	
	Total value	*Malaya's share, per cent*	*Total value*	*Malaya's share, per cent*
1924 .	606,106	2·3	534,868	4·6
1931[2] .	737,741	2·5	542,050	6·4
1932 .	624,048	1·4	471,860	5·0
1933 .	500,939	1·2	403,092	5·3
1934 .	400,000	1·3	325,000	7·5

Most of this trade was on China's account. Malaya's direct trade with China was but a small part of her own and of China's trade. So it is not worth while adding still more statistics to these somewhat over-statistically-laden pages. In respect of exports the same remark holds good of Malaya's trade with Siam. Their value during the period 1924–32 inclusive never exceeded 4·2 per cent of total export values (that figure being reached in 1932). The value of imports from Siam, on the other hand, ranged from 9·3 to 12·3 per cent of total import values.[3]

There is here an obvious resemblance to the Dutch East Indies' trade with British Malaya. To some extent this was a natural result of geographical and social circumstances, but it is not attributable solely to them. It was to no small extent due to Singapore's activities as an entrepôt, which in turn was largely due to the free trade policy initiated by Raffles. The influence of British capital must also be taken into account. To illustrate this in precise terms would be a lengthy process, but in general terms it may be said that while British capital in Siam, the Dutch East Indies, and Malaya was one of the generating forces in the exporting capacity of all three countries, it was also a co-ordinating factor in their trade.

[1] Wright, op. cit., pp. 322 and 327.

[2] Between 1925 and 1930 inclusive no Hongkong trade returns were published.

[3] Mills, op. cit., pp. 122, 130.

British Investments in Siam

Figures of British investments in Malaya have already been given. In Siam, too, British capital predominated. As regards loans, Callis gives the following figures for the year ending 1937–38.[1]

Loan	*Original issue* £	*Outstanding, 1937–8* £
4½ per cent 1905	1,000,000	337,440
4½ per cent 1907	3,000,000	1,248,840
4 per cent 1909	4,630,000	2,537,796
4 per cent 1936	2,340,000	2,293,450

The 1936 loan was a Conversion loan made in respect of a 6 per cent loan of £3,000,000 floated in 1924. Both, like the 1905 and 1907 loans, were made in London. The 4 per cent loan of 1909 was a Federated Malay States Government loan. Unlike the Dutch East Indies, Siam did not borrow in consequence of the depression.

As regards entrepreneur or business investments, Callis gives a total for 1938 of Gold $90,000,000, of which 70 to 80 per cent was English and Australian, the remainder being Danish, American, Swiss, Japanese, and French. Most of this money was invested in tin, teak, rubber and industrial enterprises, of which saw-mills represented an important section. Of British influence in general, Callis says 'In the Bangkok International Chamber of Commerce the British voice is the most influential. More than one-third of the vessels entering Thai ports during a normal year (Thailand being the modern name for Siam) are under the British flag'.[2] Yet, as figures given later illustrate, Siam's trade with the United Kingdom was relatively small. Of her total imports, imports from the United Kingdom during the Siamese year 1929–30 were valued at ticals 34 million, or approximately 16·4 per cent, the chief imports being cotton piece-goods, machinery, cigars, cigarettes and tobacco, and vehicles, mainly railway trucks and aeroplanes. Of Siam's total exports in that year the United Kingdom's takings were valued at ticals 3,287,308 only, or approximately 1·4 per cent.[3] Most of the trade was done with British Malaya, the Dutch East Indies, and Hongkong.

At this point further note should be taken of our 1926 treaty with Siam, reference to which was made in Part II in connexion with the abolition of extra-territoriality there. For it was in the same treaty that we agreed to her having tariff autonomy. The

[1] Op. cit., p. 61. [2] Op. cit., pp. 62 and 70.

[3] Department of Overseas Trade, *Economic Conditions in Siam*, 1931. The tical or baht, the latter becoming the name of Siam's currency unit in 1928, was linked to gold at the rate of 1 baht = 0·66567 grammes fine gold, which gave a sterling exchange value of £1 = 11 baht.

degree of autonomy which she was to exercise, however, was limited by Article 10, which provided that for the next ten years cotton yarns, threads, fabrics, and all other manufactures of cotton, iron and steel and manufactures thereof and machinery and parts thereof should not be subjected to any Customs duty in excess of 5 per cent *ad valorem*. Having regard to our experiences in China at this date, where, as already recorded, Chinese nationalism was in revolt against foreign domination of precisely this kind, this limitation upon Siamese sovereignty is difficult to understand.

British Investments in the Dutch East Indies

As regards British capital invested in the Dutch East Indies, Callis says: 'We find them [the British] side by side with the Dutch in possession of considerable interests in almost every profitable field, including those of strategic importance: in oil and rubber, in merchandizing and banking and in the production of agricultural crops. Great amounts of money were poured by the British into estate agriculture during the boom years; their total stake in this field was estimated to be 278 million guilders in 1929. Almost two-thirds of this sum is invested in rubber, but they have also large interests in the production of sugar, coffee and tea.'[1] British investments in oil production in 1937 were estimated at £26·5 million.[2] Total entrepreneur or business investments amounted, Callis thinks, to £40 million: holdings in England of Dutch (East Indies) Government bonds amounted to £4 million.

In passing it may be noted that British investments in the Philippines were small—according to an estimate made by the Department of Overseas Trade, not more than £10 million.[3] In Indo-China they were smaller still.

We come now to (*e*), the continued expansion of Japan's commercial interests in the 'southern seas'.

The details given below will be rendered more interesting if they are preceded by a statement of certain general facts.

First it should be realized that Japan's southward movement was not an isolated one, but part of a development which occurred in other regions as well. The Mitsubishi Economic Research Bureau put the matter in 1935 in the following terms: 'The development of Japanese foreign trade during the last few years has, in an increasing measure, centred on the export of manufactured goods and the import of raw materials. As a consequence of this general tendency, there have been some significant changes in the regional distribution of foreign trade, leading to closer relations with countries producing raw materials and also with economically undeveloped regions. The marked advance of Japanese trade with

[1] Op. cit., p. 30. [2] E. O. Hauser, *Far Eastern Survey*, vol. vi, p. 286.
[3] *Economic Conditions in the Philippine Islands*, 1933–4, 1935.

Asia, Central and South America, Africa, and Oceania synchronizes with a sharp relative decline in trade with Europe, and to a lesser extent with North America'.[1] Thus exports to Central and South America advanced from 4·2 per cent in 1929 to 12 per cent in 1935. Again, whereas in 1929 the value of exports to industrial countries was 49 per cent of total exports, in 1935 it was 31·1 per cent, while in the case of exports to agricultural countries the ratio rose from 42·4 per cent in 1929 to 54·4 per cent in 1935. A similar change occurred in respect of imports into Japan. Sir George Sansom drew attention to these facts in his *Report on Economic Conditions in Japan, 1933–4*. 'In general', he wrote, 'it may be said that the direction of Japanese exports has been towards markets with low *per caput* purchasing power.' Referring to this trend as illustrated by new markets, he mentions, in Asia, Syria, Palestine, Iraq and Ceylon; in Central America, Panama, Guatemala, Honduras, Haiti, and Jamaica; in South America, Venezuela, Colombia, and British Guiana, and, in Africa, French Somaliland, Kenya, Uganda and Tanganyika, Portuguese East Africa, Spanish Morocco, French Morocco, Nigeria, the Sudan, and the Gold Coast.[2]

Secondly, it should be appreciated that while this expansion into new markets was in part due to depreciation in the value of the yen, it was also the outcome of increased industrial productivity which, in turn, was helped by processes describable collectively as rationalization. A Japanese writer makes the following claim: 'The secret of Japan's recent commercial expansion abroad cannot be known if this outstanding fact is overlooked—namely, that whereas the manufacturer in some other countries did nothing but grumble about the hard times with folded arms, the Japanese manufacturer boldly headed for rationalization, and has managed, at a price of course, to attain some measure of success.' There appears to be no doubt that Japan's industrial efficiency increased considerably during this period. Certainly, *per caput* production figures show marked increases, in the textile industry (in 000's of yards) from 25 per head in 1927 to 50 in 1932; in the spinning industry (in bales) from 15 per head in 1927 to 22 in 1932; in silk filatures in the same years from (in kuan) 24 to 31, and in coal-mining, in the same years, from 140 to 218 tons. By 1933, after only ten years' work, Japan had become the second largest rayon producer in the world.[3]

A third general fact is that, while it was the increased export of cotton piece-goods which attracted most attention and caused the biggest reactions, the export of other manufactured goods increased strikingly too. Figures illustrating this statement are

[1] *Japanese Trade and Industry*, pp. 501, 504. [2] Op. cit., pp. 91–2.
[3] Isoshi Asahi, *The Secret of Japan's Trade Expansion*, pp. 23, 26.

given by Sir George Sansom in the Report just cited. 'It will be seen', he said of them, 'that the group of manufactured articles other than textiles is growing in value and relative importance. There is also a greater variety in items of export . . . and a new importance has been gained by tinned and bottled foodstuffs, chemicals, instruments and machinery, lamps, iron manufactures (enamelled ware), glass ware, and woollen tissues.'[1]

A fourth general fact, applying, however, to a more limited area, that, mainly, of British Malaya, the Dutch East Indies, and Siam, is that Japan's southward movement was in part the result of industrial and political factors in China. As regards the former, China's demand for cotton piece-goods from abroad was at this time falling off—a fact that will be returned to later. As regards political factors, Japanese policy in China resulted in boycotts. The Mitsubishi Economic Research Bureau, in the work just cited, said: 'Until about ten years ago, the position of China in Japanese foreign trade was very important; she offered an excellent market for Japanese goods, only second to the United States. . . . Violent anti-Japanese movements have played havoc with this trade, which has continued to dwindle since 1926. The Manchurian incident gave a fresh impetus to the boycott movement, with the result that trade in 1932 reached the lowest point.' In 1929 exports to China were 13·1 per cent of Japan's total exports: in 1935 they were 6 per cent.[2] Obstructed by their militarists in China, Japanese manufacturers turned the more vigorously to south-east Asia.

Finally, there is the group of facts represented by the depreciation of the yen. Upon this matter a Dutch writer says: 'When Great Britain left the gold standard in September 1931, Japan followed in December of the same year. Both currencies thereupon dropped quickly away from the former gold parities and after the United States followed suit in the spring of 1933 it became a race between the three countries who comparatively was going to have the lowest value of exchange for its national currency. Japan won that race by gradually reaching a yen rate of some 60 per cent below the old level, whilst the other two countries stopped at a drop of about 40 per cent. . . . In the Netherlands Indies Japanese competition under these circumstances became exceedingly disastrous from the viewpoint of those who formerly held the market. The products of Holland, manufactured in a gold-standard country, felt the pinch worst, but goods manufactured in Great Britain and other sterling countries likewise saw their sale vanishing.'[3] Guenther Stein has given us the Japanese point of

[1] Op. cit., p. 93. [2] Op. cit., p. 549.

[3] E. D. Van Walree, *Economic Relations of the Netherlands Indies with Other Far Eastern Countries*, pp. 22, 23.

view in relation to their departure from gold. 'At this time', he says, 'Japan was dissatisfied with the gold standard, which had been introduced early in 1930 after a painful period of deflation. "Retrenchment" was the Government's slogan. "Liberal spending, if needs be by means of inflation", was the answer of those who were governed. The masses of the population employed in the semi-feudal branches of industry and trade—the peasants, artisans, small industrialists, and traders—suffered as a result of the low prices paid for their products. . . . The deflation policy, directed first at the reintroduction and then at the maintenance of the gold standard, had been a disadvantage to military and naval interests as well. For, as a result of this policy, the expenditure on armaments had been decreased. . . . The Army was the first to break through the chains of gold—probably unconsciously—when on the eighteenth day of September, 1931, three days before England left the gold standard, it began to occupy Manchuria. This operation involved Japan in political and financial consequences which could not be reconciled with deflation, with retrenchment, or with the maintenance of the gold standard. The abandonment of the gold standard, the fall of the yen, "liberal spending" by the Government, perhaps an inflation, all these developments were now only a question of time. . . . On September 18, 1931, the "Manchurian Incident" marked the beginning of a new period in Japan's political expansion. On December 13, when Japan left the gold standard, she began a new period of economic expansion on world markets. From that day dates, if not the actual start of the great Japanese export drive, at least the creation of its most important impetus.'[1]

Such are the broad facts relating to Japan's commercial expansion at the period with which we are dealing.

Let us take her trade with Malaya first.

As shown by Japan's official statistics, the value of her exports to Malaya increased from Yen 21·7 million in 1921 to Yen 44·9 million in 1925, and Yen 46 million in 1933. In 1930 there was a big drop—to Yen 26·9 million, and a further drop in the following year to Yen 19 million—due, needless to say, to the depression. Imports tell much the same story. There was an increase from Yen 23·8 million in 1921 to Yen 37 million in 1925 and Yen 38·7 million in 1933, a drop to Yen 28·9 million occurring in 1930, the figure for 1931 being Yen 21·8 million. But the expanding figures seem much less impressive when we look at Malaya's import trade statistics. These show that imports from Japan during the following years formed but a small proportion of her total imports.

[1] *Made in Japan*, pp. 99–102 (Methuen, 1935).

JAPAN'S SHARE OF MALAYA'S IMPORT AND EXPORT TRADE[1]

	Imports, per cent	*Exports, per cent*
1925 .	3	2·9
1927 .	3	3·5
1928 .	2·3	4·0
1930 .	3·5	6·3
1931 .	3·9	12·3
1932 .	4·6	12·4
1933 .	7·3	9·8

On this showing, Japan's 'southward movement' presented no economic threat to British interests.

But, as Mills points out, 'if the 60 per cent of non-competitive imports are omitted and the 40 per cent of manufactured articles only are considered, then the percentages of the Malayan market secured by the industrialized countries of the world are very different'.[2] Restricting our view to these commodities, and to the United Kingdom's and Japan's share of what Malaya was buying, we get (according to Mills's figures) the following results:

U.K.'S AND JAPAN'S SHARE OF MALAYA'S IMPORTS OF MANUFACTURED GOODS

	Great Britain's share, per cent	*Japan's share, per cent*
1924 . .	30	6
1926 . .	27	6·4
1928 . .	31·2	4·6
1930 . .	21·1	6·2
1931 . .	20·1	6·4
1932 . .	21·3	7·4
1933 . .	20·5	13·6

The 1932 and 1933 figures—which, as we shall see, increased further—constitute one of the chief keys to much of the remainder of this Part.

Amongst Malaya's exports was iron ore. In Trengganu and

[1] Mills, op. cit., pp. 130, 123. [2] Ibid., p. 132.

Johore the Japanese owned iron mines, the deposits of iron ore in Johore having an average metallic content of 64 per cent. The export of ore, all of which went to Japan, was in 1929 798,363 tons and in 1938 (to anticipate a little) 1,531,728 tons. *The Financial and Economic Annual of Japan* does not itemize iron ore separately. It shows the total value of imports under the general heading 'Ores and Metals: iron'. In 1925 this value was Yen 112·2 million, the value of Malaya's export of iron ore that year being $1,378,452. In 1938 (to anticipate a little) the value of the latter figure rose to $7,357,000. There are no Japanese returns for 1938, but those for 1937 show the value of ores and metals, iron, in 1936 as Yen 232 million. According to *The Industrialization of Japan and Manchukuo*, 1930–40, Japan imported 9,634,000 piculs of iron ore in 1921, and 63,002,000 in 1936.[1] The royalties received from the iron mines by the Government in Trengganu formed a large part of its small revenue.

In 1927 the value of mineral oils constituted 5·8 per cent of Malaya's total exports. The yen value of what Japan took was small, 0·8 per cent in that year. But in 1936 the percentage was 12·9. The volume increased nearly sixfold in 1930, continuing to rise to a maximum in the following year of 44·2 per cent of Malaya's total export.[2]

Next let us look at Japan's trade with the Dutch East Indies.

	JAPAN'S EXPORTS TO AND IMPORTS FROM THE NETHERLANDS EAST INDIES *Value in million guilders*		NETHERLANDS EAST INDIES TRADE WITH JAPAN AS PERCENTAGE OF TOTAL NETHERLANDS EAST INDIES TRADE	
	Exports	*Imports*	*Imports*	*Exports*
1927 .	90·1	94·4	10·5	5·8
1928 .	93·7	57·2	9·9	3·6
1929 .	114·8	48·0	10·9	3·3
1930 .	100·1	46·2	11·7	3·8
1931 .	92·6	33·1	16·2	4·5
1932 .	78·3	23·6	21·2	4·3
1933 .	98·7	22·7	31·0	4·8

Source: Wright, op. cit., pp. 507, 523.

It will be observed that the increase in Japan's share of the Netherlands East Indies' imports was a counterpart of the increase in her share of British Malaya's. Great Britain's exports to the

[1] Schumpeter and others, p. 256. [2] Mills, op. cit., pp. 121, 124–5.

Dutch East Indies were affected by this increase. Taking 1928 as the base year, and 100 as representing the value of imports into the Indies from Great Britain in that year, the index number had by 1933 fallen to 26. In the case of imports from Japan, on the other hand, the index number stood in 1933 at 105, having in 1929 been 123, in 1930 107; in 1931 99 and, in 1932, 84.[1] The United Kingdom's share of the Dutch East Indies' trade is shown more fully below.

Japan's trade with Indo-China and Siam was relatively small. Exports to Siam were (in 000's yen):

1925	1927	1929	1931
7,820	11,146	10,633	4,721

Of Burma's exports in 1929–30, Japan took only 1 per cent. Of her imports, goods from Japan represented 8 per cent.

Before concluding this sub-section, it is desirable, as this book is intended to provide the economic background of political events, to indicate the economic relationship of the United States to the Dutch East Indies and British Malaya.

The following figures show the United States' share of British Malaya's total imports, of her imports of manufactured goods and of her exports:[2]

	All Imports, per cent	*Imports of manufactured goods, per cent*	*Exports, per cent*
1924 .	3·4	6·0	41·2
1926 .	3·5	6·5	47·5
1928 .	3·2	5·7	41·7
1930 .	3·3	4·8	34·5
1931 .	2·5	3·5	32·9
1932 .	1·9	2·7	22·2

The United States' share of Malaya's exports was in each of the above years[3] considerably larger than the total share of the British Empire. In other words, the United States were by far the most important buyers of Malaya's products.

In 1929 the United States Department of Commerce reported

[1] A. Neytzell De Wilde and J. Th. Moll, *The Netherlands Indies during the Depression*, p. 55.

[2] Mills, op. cit., pp. 130, 131–2, 122–3.

[3] Except 1932.

that there were twenty-eight American companies operating in Malaya, with holdings valued at $U.S.27·1 million, petroleum and trading companies accounting for 2·5 millions, the remainder being invested mainly in rubber and metals. By 1936, presumably as a result of the depression, the number of companies had been reduced to seventeen, with holdings of $U.S.23·7 million.[1]

The following figures show the United States' share of the trade of the Netherlands East Indies. Side by side with them are shown the figures of the United Kingdom's trade. It will be observed that here, too, the United States were more important buyers than the United Kingdom.[2]

NETHERLANDS INDIA TRADE WITH THE U.S.A. AND THE U.K.

(*Value in million guilders*)

	Total		*U.S.A.*		*U.K.*	
	Imports	*Exports*	*Imports, per cent*	*Exports, per cent*	*Imports, per cent*	*Exports, per cent*
1925 .	818	1785	6·5	14·1	15·2	6·8
1927 .	872	1625	10·7	13·3	12·3	9·6
1929 .	1072	1446	12·4	11·5	11·0	8·8
1930 .	855	1160	10·5	12·6	10·2	11·5
1931 .	572	749	8·9	11·7	7·9	9·2
1933 .	318	468	4·9	11·3	9·6	5·5

Of the imports of the Philippines, commodities from the United States represented in 1925, 138·6 million pesos, or 57·9 per cent; in 1933, 87·1 million pesos, or 58·4 per cent. In the same years Japan's share was 9·1 per cent and 12·9 per cent. Of the Philippines' exports, the United States in 1925 took 73·2 per cent; in 1933 86·6 per cent, Japan's percentages being 4 and 2·8 respectively.[3]

THIRD SUB-PERIOD, 1931/2–36

WE come now to the third sub-period, 1931/2–6, the limits of which have in fact already been overstepped in several instances. Clarity demanded that course, for in those cases we had to keep not only the effects of the depression in mind but the early development of other, not less important, movements, Japan's

[1] Callis, op. cit., p. 55.
[2] Wright, op. cit., pp. 507, 523.
[3] Wright, op cit., pp. 509, 525.

southward movement in particular. Moreover, the effects of the depression displayed themselves unevenly.

During this sub-period the main events demanding attention are:

(*a*) Those connected with China's entry into the depression, which occurred after Great Britain and Japan left the gold standard, to be followed in that course (with even greater reluctance, because they had most of the gold) by the United States.

(*b*) Japan's seizure of Manchuria.

(*c*) The Ottawa Conference—an event geographically outside the Far East but merging into Far Eastern economic events because of British Colonies therein.

(*d*) The unfolding of Japan's programme for the establishment of a Japan-Manchukuo-North China *bloc*, a programme containing a strategic and what Sir Frederick Whyte has termed a dynastic element. These two elements lie outside the scope of this book, but they were associated with an economic element of direct concern to us.

(*e*) The recovery of Far Eastern markets from the depression and some additional facts about capital investments.

These various themes are listed in their chronological order, but they will be dealt with in their logical order, and, as hitherto, from the standpoint of British interests, inevitably a narrowing one.

To turn to (*a*), the events connected with China's entry into the depression.

This, as already stated, did not happen until after Great Britain and Japan, formerly allies and at this stage refugees from the economic consequences of a misguided past, had left the gold standard. The effect of this upon China's currency was to raise its value in terms of sterling, rupees, and yen. 'The most serious aspect of the depression in other countries was not the loss of external trade, but the fall of internal prices associated with, and partly caused by, the rising value of gold. . . . China was completely saved', to quote from Sir Arthur Salter's exposition of this part of our subject, 'from the effect of any "currency deflation" of her own upon her internal enterprise and activity by the fact that, unlike the rest of the world, her currency was silver, not gold. Silver was depreciated in terms of gold as much as (in fact, rather more than) gold depreciated in terms of commodities. The consequence was that China's internal prices either remained stable, in terms of her own currency, or showed some tendency to increase, while remaining nevertheless on a favourable competitive basis in terms of gold for external trade. The reduction of external purchasing power caused some falling off in China's exports, but to a less extent than those of other countries. And

her internal trade was not depressed, and indeed tended to expand, and thus offset the relatively slight loss on exports. There can be no doubt that during this period'—i.e. prior to 1931—'the net result of the steady depreciation of silver was (in spite of the arguments of the silver group to the contrary) of great advantage to China.'

'This advantage', Sir Arthur Salter continues, 'was lost when the pound sterling (and with it the rupee) and the yen went off gold in September 1931. The Chinese currency then appreciated in terms of three of the currencies that substantially concern her. Largely, if not mainly, for this reason China entered the general depression.'[1] Exports declined, and by the end of 1932 China had become (for the second time in her recent history, the first being during the first Great War) a net exporter of silver. When the United States abandoned gold in April 1933, her situation was rendered worse, though recovery in world prices helped her to some extent. Then, however, the United States adopted in June 1934 the Silver Purchase Act, which resulted, as it was presumably intended to do, in a considerable rise in the price of the metal. From July to October 1934 the net export of silver from China exceeded $200,000,000. (Incidentally, mention should be made of the fact that on April 3, 1933, China abolished the sycee-tael which had served her as a currency for many centuries, abolition being rendered possible by the increased popularity and circulation of silver dollars, these being popularized by an increased use of bank-notes payable in silver on demand, and issued by Chinese banks, whose branches during this period were multiplying.)

At this point we must leave this main track (to rejoin it again presently) for a subsidiary one, in order to see what had been happening in connexion with silver in Hongkong, whose currency was also in silver.

Before we left the gold standard, as we have seen, silver had been falling. This is illustrated by the following figures showing average Shanghai exchange rates:

1927	1928	1929	1930	1931
s. d.	*s. d.*	*s. d.*	*s. d.*	*s. d.*
2 $6\frac{5}{16}$	2 $7\frac{15}{32}$	2 $4\frac{1}{2}$	1 $8\frac{1}{16}$	1 $4\frac{1}{2}$

The average exchange value of the Hongkong dollar during these years was:

1927	1928	1929	1930	1931
s. d.	*s. d.*	*s. d.*	*s. d.*	*s. d.*
1 $11\frac{5}{16}$	2 $0\frac{7}{32}$	1 $10\frac{31}{32}$	1 $4\frac{3}{8}$	1 $0\frac{3}{4}$

[1] *China and the Depression*, p. 8.

Early in 1931 a Commission was appointed by the Secretary of State for the Colonies to inquire into and advise upon the question of Hongkong currency and to make such detailed recommendations as it considered desirable. The Commission included Mr. W. H. Clegg (former Governor of the Federal Reserve Bank of South Africa); Mr. P. H. Ezechiel (Third Crown Agent for the Colonies, a member of the East African Currency Board and Chairman of the Palestine Currency Board), and Mr. G. L. M. Clauson, O.B.E. (Mil.), of the Colonial Office. The Commission arrived in Hongkong on April 1, and left on May 8, 1931. Its chief recommendations were: that Hongkong should remain on a silver standard as long as China did; that bank-notes should be made unlimited tender; that the legal tender status of the dollar coin should be limited to $10; that notes should be convertible into, and obtainable for, silver bullion; that the Government should take charge of the silver reserves of the note issues and that a Hongkong Currency Board should be set up to take charge of the silver, to make any arrangements to receive and issue silver in the future and to accumulate a sterling fund with the object of preparing for the ultimate conversion of Hongkong currency to a gold basis if and when that step appeared desirable.

In making the first of these recommendations, the Commission said:

'Although from the point of view of the Government and of some persons not engaged in trade it seems that there would be certain distinct advantages to be obtained from stabilization on a gold basis, and although certain trading interests would benefit thereby, we are unable to arrive at any other conclusion than that it would be of serious and direct disadvantage to the business of Hongkong and to large sections of the population.'

The Hongkong Chamber endorsed the Commission's opinion that the Colony, being economically part of China, must remain on a silver standard as long as China did and that the stabilization would be injurious to its general commercial welfare. But it was opposed to management of the currency by the Hongkong Government, and to the establishment of a Currency Board. In expressing its opposition, it drew attention to the paragraph in the Commission's report which emphasized that the notes of the Hongkong banks, and particularly those of the Hongkong and Shanghai Bank, circulated widely throughout South China where they were regarded as the most stable and desirable form of currency, no less than two-thirds of the outstanding issue of the bank being held in China. 'This condition of affairs', said the Chamber, 'seems a strong reason for continuing the present system, as it is easier for banks than for a Government to control a currency which, in the peculiar circumstances of China, circulates far beyond the area controlled by the Hongkong Government.'[1]

[1] Hongkong General Chamber of Commerce, Report for the year 1931.

Our abandonment of gold set the Chinese dollar moving the other way and put most of the recommendations of the Commission referred to above, for the time being, on the shelf.

Returning now to the main track, which we left at the point where China's net export of silver had reached $200,000,000, it remains to say that the Chinese Government tried to check the outflow by imposing a 10 per cent tax and a variable equalization charge on silver exports. This 'broke the traditional link between the external value of the currency and the world price of silver. . . . The visible outflow of silver ceased, but smuggling was encouraged and soon assumed alarming proportions. An extensive and long-continued flight from the dollar induced speculation and panic, which undermined the whole financial structure'.[1] Having regard to our investments in China, both in Chinese Government loans for general purposes, in railway loans, and in business enterprises, this situation and its possibilities were extremely alarming to British interests.

The situation, however, was not due solely to the economic causes described above. It was in part due to Japan's encouragement of the smuggling of silver out of the country. In order to understand why Japan gave this encouragement, how China ultimately decided to abandon silver, and what part we played in Chinese economic affairs at that time, it is necessary to leave the main track which we have been following and follow another one. This began in the same year as China entered the depression, namely—

(*b*) Japan's seizure of Manchuria.

Were I dealing with the economics of this part of the world in general, and not with the particular sets of facts which affected British interests, I should have to follow this Manchurian main track, not only for a long way, but also in respect of a large number of details. As it is, I am primarily interested in the seizure of Manchuria from the point of view, first, of its direct, and then of its indirect, effects upon ourselves, and can therefore curtail investigations.

One outstanding economic fact having little direct association with British interests must be mentioned first—namely, the fact that, partly under the influence of nationalism, which had demonstrated its strength so successfully against ourselves, the Chinese had for some time been pursuing a policy of railway building in Manchuria which the Japanese regarded as threatening to the interests of the South Manchuria railway system. Manchuria was part of China, and the Chinese, to the extent that they were not

[1] Quoted from a recent memorandum by a leading London banker, kindly lent to me.

debarred by agreement from such railway building—a point upon which there was disagreement as between themselves and the Japanese—naturally regarded themselves as being entitled to build. Their programme envisaged the construction and development of a port at Hulutao, which, if successful, was likely, both in actuality and in the Japanese view, to impair the prosperity of Dairen.

Upon this matter I am able to throw a minor sidelight. This consists of the gist of a conversation which I had at the Japanese Embassy in London shortly after the announcement of what was called 'the Chamberlain policy', the conciliatory policy towards Chinese nationalism referred to some pages back. The gist of the conversation was the Ambassador's statement that he greatly feared the ultimate consequences to Japanese interests of 'the Chamberlain policy', and the ultimate consequences of a clash between Chinese and Japanese interests in Manchuria.

Having thus put the seizure of Manchuria into relationship with one of its economic causes (there were others, as the Twenty-one Demands have already illustrated), let me proceed to deal with its direct effects upon British economic interests.

Commercially speaking, these interests consisted of exports to and imports from Newchwang, Dairen, and Antung. Our official statistics being compiled as they are (i.e. they used to include exports to Kuantung in exports to Japan, and exports to Manchuria in exports to China), it is impossible to ascertain from them what the values were. The figures shown in the *Manchuria Year Book* for 1931 are unreliable for reasons obvious at a glance, for commodities such as raw cotton, rice, and marine products are attributed to Great Britain. In the 1932–3 issue of the *Year Book* this mistake was corrected. But in that issue there is a large discrepancy between totals attributed to the British Empire. However, the total value of imports of British origin shown for 1929, Hk. Tls. 32,700,193, converted into sterling at the average Haikuan tael rate of exchange for that year, 2*s.* $7\frac{13}{16}$*d.*, was equivalent, approximately, to £4,252,000; while the 1930 total of Hk. Tls. 25,691,350, converted into sterling at the average Haikuan tael rate for that year, 1*s.* $10\frac{11}{16}$*d.*, was equivalent, approximately, to £2,428,000. These totals were probably not far out. At all events, in a memorandum written in July 1932, the China Association in London estimated the United Kingdom's export trade with Manchuria at between £1,300,000 and £2,000,000, and said: 'the larger figure makes allowance for United Kingdom exports transhipped at Hongkong, but not for sugar refined in British refineries at Hongkong, or for the trade emanating from other parts of the British Empire. . . . An inclusive British figure . . . would in all probability be considerably larger than the one given above'.

Our Board of Trade figures for 1934–6 show the following totals of exports to Manchuria and the Kuantung Peninsula:

1934	1935	1936
£	£	£
459,354	400,512	358,275

On the assumption that the China Association's estimate quoted above is approximately accurate, these totals are evidence of a big decline in our export trade with 'Manchukuo' and the Kuantung Leased Territory. They illustrate forcibly the effect of the Japanese occupation of Manchuria on the 'open door' there. On the other hand, our Board of Trade returns show imports from Manchuria and Kuantung as follows:

1934	1935	1936
£	£	£
1,183,527	1,404,173	819,848

As regards investments, the *Manchuria Year Book* for 1932–3 put British investments at Yen 39,590,000, which at the yen-sterling exchange of 1932 was about £3,959,000. This total, however, was the same as one contained in a report prepared, according to the *Year Book*, for the Institute of Pacific Relations some time previously. The *Year Book* states that most of the total represented investments, other than Japanese, made prior to 1917.

Professor Remer's *Foreign Investments in China*, published in 1933, contains no estimate of British capital invested in Manchuria as distinct from China. On p. 97 of that work the total direct business investments in Manchuria of Japan and Russia in 1931 is given as 812 million U.S. dollars, the statement being made that 'if British and American investments in Manchuria were known, the Manchurian total would probably be increased by no more than $U.S.40 million'. I am unable myself to furnish any figure, in spite of inquiries in the most likely quarters, where, however, the impression appears to be that, prior to Japan's régime in Manchuria, our investments did not exceed £3–4,000,000. Subsequently, as we have seen, the British-American Tobacco Co. established a factory, closed it down and established another. But in view of the withdrawal of other concerns from 'Manchukuo', it appears true to say that after 1931 British capital in Manchuria decreased. To say by how much would be pure guess-work. It is probable, however, that the decrease was substantial.

The indirect effects of the seizure of Manchuria upon our interests were much more important than the direct effects. Indeed, they persist through a large portion of the remainder both of this part and of the next one, which deals with the period

1936–41. For the seizure was soon followed by the unfolding of a large plan for converting Japan, Manchuria, and North China into an economic *bloc*. This series of events forms group (*d*) of the five groups set out at the beginning of this sub-section. Chronologically it would be convenient to deal with it at once. But that course would result in the reader's understanding the sequence of events less well than he will do if he allows me to conduct him first through the series that form group (*c*), to follow which we must go back a year or two—namely, to an event which did not occur in the Far East at all, the Ottawa Conference of 1932.

(*c*) The Ottawa Conference, imperial preference in Hongkong, and the introduction of quotas in British Malaya and elsewhere.

In February 1932, prior to the Conference, the Hongkong Government informed the Hongkong General Chamber of Commerce that a communication had been received from the Secretary of State for the Colonies on the preference granted to articles produced in and consigned from British Colonies under the new 10 per cent tariff on goods imported into Great Britain, and that the Secretary of State desired to know whether there were any preferences in any Dominion market which would be of real value to the Colony and would be likely to foster inter-imperial trade. This inquiry, the Hongkong Government said, applied only to goods manufactured in Hongkong from raw materials produced in British territory. It added that the information was wanted early for use if necessary during the negotiations between the United Kingdom and the Dominions in connexion with the Ottawa Conference.

Replying on March 21, the Chamber said that, apart from cotton knitted goods manufactured from yarn imported from the United Kingdom, there were no manufacturing industries in Hongkong which complied with this stipulation. Then, on April 19, the Hongkong Government sent the Chamber a copy of the United Kingdom Import Duty Act, 1932, and requested its views as to the commodities for which it would be reasonable for Hongkong to ask for preferential treatment. It also asked for information as to the particular Dominion or Colony from which concessions might be sought. To this inquiry the Chamber replied on June 17, enclosing a list of Hongkong manufactures which should be accorded preferential treatment in the United Kingdom, subject to satisfactory evidence as to compliance with the condition that at least 25 per cent of their value was derived from materials grown, or produced, or from work done within a part of the British Empire. Included in the list were rope, sugar, cement, cotton goods, rubber-soled shoes, and flash-light torches. As regards the Dominions, the Chamber of Commerce recommended that preferential treatment should be asked for in respect of all

Hongkong manufactured goods which could show the required percentage of British interest. With special reference to Canada, the Chamber inquired whether any reply had been received to representations made in the previous year to the effect that Hongkong was one of the few Colonies which did not enjoy Canadian preference, its manufactures being entitled only to the benefits of French Treaty rates of duty, which were considerably higher than those provided for under the Canadian Tariff Act of 1907 and various Canadian Orders in Council subsequent to that date. In their representations the Chamber had acknowledged that only a proportion of Hongkong's exports to Canada could claim that 50 per cent of their value was derived from labour expended, or materials produced, in the Colony, but it had submitted that commodities such as ginger, rattan furniture, footwear, and rope were already finding favour in Canada and that the demand for them would be stimulated by preferential duty treatment.

On October 13, 1932, the Hongkong Government announced that, as Hongkong's contribution to the Ottawa Conference agreements, a specal licence fee of 20 per cent *ad valorem* would be levied, on and after October 14, in respect of the first registration in the Colony of motor vehicles which were not a British product; also that a remission of import duty amounting to $3·00 per gallon would be extended to all Empire brandy imported into the Colony on and after October 14. In announcing these preferences, the Hongkong Government issued a *communiqué* to the Press which contained the following sentences:

'The contribution of Hongkong to this great scheme of Imperial solidarity must necessarily be small, because it is of paramount importance both to the Colony and to British trade that the movement of goods into, within, and out of the port shall be subjected to as few restrictions as possible and this principle is observed even in the new taxation imposed on motor vehicles, which must perforce come under Government notice as soon as they are taken into use within the Colony and can therefore be allowed entry, storage, and re-exportation without the restriction of bonding.... But small as Hongkong's contribution is it will be in the words of the Secretary of State's telegram of August 24, 1932, "not only a reciprocal return for preference received and offered, but also an earnest of our common drive to secure the fullest measure of Empire trade".'[1]

Thus was imperial preference launched in Hongkong. Incidentally, we may note that a memorandum sent by the Chamber to H.M. Customs in London early in 1934 throws a good deal of light upon Hongkong's manufactures. It showed that the following commodities were imported from South China and underwent no processing prior to exportation: bamboo and bamboo ware, tsingle and partridge canes, cassia lignea and buds, chinaware, mats and matting (a few establishments manufacturing mats and matting in Hongkong, but on a small scale), ores (wolfram,

[1] The foregoing paragraphs are based on, and in part quoted from, the Hongkong General Chamber's Report for 1932.

antimony, bismuth, and manganese), cassia, linseed, wood and tea oils (wood and tea oil being imported in kerosene tins and tanked and drummed in Hongkong, about an equal proportion of the drums originating from the United Kingdom and from the U.S.A. —bought from the British and American oil companies). Amongst goods either manufactured or processed in Hongkong, the memorandum showed, were preserved ginger, dry ginger, soy (boiled in molasses imported from Java), refined sugar, knitted goods (the yarn used in the lower grades being imported from North China and Japan, that used in the higher grades from Great Britain), rattan cane and sea-grass furniture (the rattan originating either from the Straits Settlements and Federated Malay States or from the Netherlands East Indies, while most of the sea-grass used originated from Tungkun in South China), rattancore (the rattans in this case also originating from the Straits, F.M.S., and N.E.I.), sea-grass (machine-twisted and hand-twisted), rubber shoes, lard (the live pigs being imported from South China and Kwangchowwan and slaughtered in Government abbatoirs), flash-light torches and batteries (the output of which was considerable); feathers, rope, cement, perfumery, soap, and fire-crackers were also manufactured in Hongkong, but were not sent to the United Kingdom.

It is unnecessary, and would be tedious, to recount the difficulties and complications which arose from the necessity of establishing the necessary Empire content of goods claiming preferential treatment. Manchester, for instance, feared lest foreign goods imported into Hongkong should succeed in getting re-marked as being of Hongkong manufacture, thus enabling them on importation into other Colonial markets to obtain exemption from the quota imposed there on non-Empire goods and admission at preferential rates of duty. These fears were expressed at the beginning of 1934—after the introduction of the quotas, further reference to which will be made presently. At the end of the year the Chamber felt itself obliged to make urgent representations to the Customs authorities in Great Britain in respect of their dissatisfaction with the costing certificates issued by chartered accountants and prepared in accordance with requirements notified in August 1933. Early in 1936 further anxieties were expressed by Manchester which the Chamber did its best to soothe. A fairly full report upon these footnotes to our Imperial development in the Far East will be found in the Hongkong Chamber's annual reports. The above instances are sufficiently illustrative, and we may conclude the part of the story that belongs to these years, 1931–6, by referring to the submissions made by Hongkong in respect of the revisions of the Ottawa agreement scheduled for 1937.

As regards Canada, the Chamber on July 11, 1936, pointed out

that she extended to Hongkong the benefits of the Intermediate tariff, but not those of the British Preferential Tariff, which were considerably lower, and asked that the latter might be applied to ship-building, sugar refining, cement manufacture, and rope-making, pointing out that, apart from the services which Hongkong rendered Canada by supplying a focal point for trade with China, the Colony facilitated the sale of her motor cars by requiring an extra registration fee from foreign motor vehicles, a requirement which had led to an increased importation of Canadian cars.

In regard to Colonies other than Kenya, Uganda, Tanganyika, Nyasaland, Zanzibar, the Gold Coast, Nigeria, and New Hebrides, which were debarred by international treaties from according preference to other parts of the Empire, as were all League of Nations Mandated Territories, the Chamber was satisfied that Hongkong was receiving the benefits given to other parts of the Empire and asked only that every effort be made at the next revision of the Ottawa agreements to preserve the *status quo* subject to a few suggested alterations.

In regard to the United Kingdom, the Chamber dealt in the main with canvas-rubber shoes and flash-light torches, to which preferential treatment was for the most part confined. In both cases the general requirement under the Ottawa Agreement that they must have a 50 per cent Empire content in materials and/or labour had been overridden by a stipulation on the part of the United Kingdom's Customs authorities that materials used in the factories must be exclusively of Empire origin and be so certified at regular intervals by accountants maintaining supervision of the factories. In respect of canvas-rubber shoes, the Chamber stated that these could comply with the Customs requirements, and with regard to representations by manufacturers of shoes in the United Kingdom occasioned by increased importations from Hongkong pointed out that, since 1932, importation of canvas-rubber shoes from foreign countries had gradually ceased to be a factor in the United Kingdom market, and that, although Hongkong products had to some extent replaced them (which, after all, was what Imperial preference aimed at achieving), total importations with the United Kingdom from all countries (including Hongkong) were nearly 500,000 dozen pairs fewer in 1935 than in 1932. In respect of flash-light torches, the Chamber said that to manufacture these exclusively from British brass would mean giving up the use of cheaper Continental brass, and that that would handicap manufacturers in exporting to other markets in which competition was keen and there was no such restriction. It asked, accordingly, for reversion to a costing scheme based on a 50 per cent Empire content of work done in Hongkong, or, failing that, for agreement with a plan whereby, during certain months of the year, nothing

but British brass would be used, under the supervision of accountants who would furnish certificates.

In regard to the Dominions, the Chamber submitted that it would like to see the example of New Zealand followed by them all, and the full benefits of imperial preference extended to Hongkong. 'It is difficult to see', it said, 'that the concession would be prejudicial to them, and it would be a suitable *quid pro quo* for Hongkong's general services to Empire trade with China and neighbouring countries.' If this concession could not be granted, the Chamber asked, as it had done in respect of Canada, that some amelioration be sought in respect of the Colony's chief industries, ship-building, rope-making, sugar-refining, and cement manufacture. The Chamber also suggested that it might be possible to negotiate preferential treatment for knitted goods, rubber shoes, and flash-light torches in South Africa, Southern Rhodesia, and India.

Thus the free-port status of Hongkong was modified, albeit only slightly. Much more important than the modification itself was the fact that here, on the coast of China, along which we were staunch supports of the 'open door', a British Colony was brought within the scope of a system which differed in principle from the 'open door' as it existed there.

In direct relationship to this fact have now to be set out facts of a different nature but falling within the same category, i.e. the introduction of quotas designed to limit the entry of certain Japanese manufactures into British Malaya and other British-controlled territories, a step preceded by increases in India's tariff against Japanese goods.

We will take these increases first.

The following percentages show the changes in the source of piece-goods imported into British India:

	U.K.	*Japan*	*Netherlands*	*U.S.A.*
1928–9 .	75·2	18·4	1·0	1·5
1930–1 .	58·8	36·1	1·5	1·0
1932–3 .	48·7	47·3	0·4	1·7
1933–4 .	52·2	43·8	0·2	2·0

In 1932 the Indian duty on non-British cotton piece-goods was raised to 50 per cent. This had some, but insufficient, effect upon imports from Japan. So in 1933 the Government denounced the Indo-Japanese Trade Convention of 1904, which provided for mutual 'most-favoured-nation' treatment, and raised the duty on non-British piece-goods to 75 per cent. Japan retaliated by announcing a boycott of Indian raw cotton.[1]

[1] Hubbard, *Eastern Industrialization and its Effects on the West*, 1st edition, pp. 274–7.

In 1934, as an outcome of negotiations conducted during the previous year, an Indo-Japanese Convention and Protocol was concluded. Japan agreed to limit the export of Japanese cotton textiles to India to a maximum of 400 million yards per annum for three years, in exchange for purchases by Japan of 1½ million bales of Indian raw cotton per annum. Negotiations for revision of this Convention were conducted in 1936.[1]

Turning now to the introduction of quotas in Malaya, let me begin by reminding the reader of what was pointed out a few pages ago—namely, that by 1933 imports of manufactured goods from Japan had grown to be 13·6 per cent of Malaya's total imports of manufactured and partially manufactured goods, whereas in 1925 they had been only 7 per cent and in 1930 only 6·2 per cent. Let me also remind him of what was said, in dealing with the expansion of Japan's trade in these regions, about the depreciation of the yen.

In 1926 the total value of all cotton manufactures imported into British Malaya was $66,000,149 of which the United Kingdom supplied 43 per cent, the rest of the Empire (chiefly India) 19 per cent, and Japan 11 per cent. In 1930 Japan's percentage rose to 23·9, while the United Kingdom's decreased to 30·7. In 1933, when the value of the imports was $24,317,910, Japan's percentage was 47·4, the United Kingdom's 25·9.[2] Early in July 1934 talks took place in London between representatives of the textile industries of the United Kingdom and Japan. Our representatives wanted to negotiate a limitation of Japanese exports of textile to all countries (except India). The Japanese were not prepared to discuss markets other than the United Kingdom and the Crown Colonies. Agreement was found impossible and negotiations were broken off on March 14, 1934. On May 3 H.M. Government informed the Japanese Government that action would be taken to limit Japanese trade with the Colonies and that in the United Kingdom the import duties on silk would be revised.

A Commission appointed to inquire into the trade of the Straits Settlements had reached the conclusion that 'in the absence of further restrictive measures against the Japanese, the latter may look forward within a limited period to a practical monopoly of the bazaar trade of Malaya'. The majority of the Commission, however, opposed the idea of quotas, 'from the fear that it would raise the cost of living to the poorer classes of the population and would also injure the entrepôt trade'. While, says Mills, the majority were agreed on 'the urgency of finding methods to deal with' Japanese competition, 'they were dubious of all the remedies

[1] Sansom, *Economic Conditions in Japan*, 1933–1934, p. 96.

[2] Mills, op. cit., p. 140.

proposed, and on this head of their inquiry they returned an answer answerless'.[1]

On May 7 the President of the Board of Trade had announced that the Governments of colonies and protectorates would be invited to regulate by quotas the importation of cotton and artificial silk piece-goods of foreign origin. A resolution opposing the imposition of quotas was passed by the Singapore Chamber of Commerce by a vote of 23 to 9, the minority representing the importers of Lancashire textiles, while the majority represented the merchant houses and shipping firms, who were concerned primarily with the re-export trade. On June 11 a Bill to introduce quotas was brought before the Legislative Council. It was opposed here too, but passed by the vote of the twelve official members of the Council, becoming law on June 15, with effect as from May 7, 1934, its title being the Importation of Textiles (Quotas) Ordinance. The quantity of textiles imported during 1927 to 1931 was taken as the basis quantity, upon which the quota assigned to each country was calculated, whereas the great increase in Japan's textile imports began in 1930. Two kinds of licences were issued under the Quota Ordinance, restricted and ordinary import licences, the former being issued for import from any foreign country where the net import of all textiles subject to quota during the years 1927–31 had exceeded $2\frac{1}{2}$ per cent of the total net imports. These licences applied to Japan, China, the Netherlands East Indies, Italy, and the Netherlands. Ordinary licences were issued for countries from which net imports in 1927–31 had been $2\frac{1}{2}$ per cent or less of the total. Textiles imported for re-export to foreign countries, and not for sale in Malaya and Sarawak, were exempted from the quota if placed in one of the Government re-export depots, which were established on June 20, 1934, at Singapore and Penang.[2]

The effect of the quota system upon the United Kingdom's and Japan's trade is shown by the following figures:

	Total imports, yards	*From U.K., per cent*	*From Japan, per cent*
1933 .	145,900,000	17·7	68·1
1935 .	103,600,000	32·23	51·93
1936 .	114,400,000	33·30	46·32

By 1938—to anticipate a little—the United Kingdom's and Japan's percentages of total imports, 114,994,000 yards, were 40·52 and 18·6 respectively.

[1] Mills, op. cit., pp. 145–6.

[2] Ibid., pp. 147–153.

In passing, the attitude of the commercial community in Hongkong towards quotas should be noted. In reply to an inquiry addressed to it by the Manchester Chamber of Commerce on May 8, 1934, apropos of the announcement made in the House of Commons on May 7 by the President of the Board of Trade, asking for the Chamber's views, the Chamber on June 23 said:

'The Chamber of Commerce was not asked by the Government (i.e. the Hongkong Government, which on May 14 had issued a *communiqué* to the Press to the effect that H.M. Government concurred in its view that quotas were not practicable in Hongkong) for its opinion. . . . The General Committee, however, has good grounds for believing that commercial opinion here practically unanimously endorses the view that no useful purpose would be served by introducing the quota system in Hongkong. . . . Importers of British textiles are of the opinion that the curtailing of Japan's markets by means of the quota system will certainly intensify Japanese competition in other markets, particularly China and Hongkong, in view of our close proximity to Japan.'[1]

In connexion with these facts it should—in parenthesis—be stated that negotiations of a kind similar to the Indo-Japanese negotiations took place in Batavia in 1934 between the Government of the Netherlands East Indies and an official delegation representing the Japanese Government. As to these Sir George Sansom, at that time Commercial Counsellor to H.M. Embassy at Tokyo, says:

'The aim of the Dutch authorities was to redress the heavy balance of trade against the Netherlands Indies by limiting Japanese imports and by increasing the export to Japan of the products of the islands, especially sugar. They wished at the same time to recover for Dutch shipping some of the trade in Far Eastern waters which has been lost to Japanese shipping companies. Finally—and this was a somewhat special feature of the agenda—they desired to limit the amount of trade handled by Japanese merchants resident in the Indies. The Conference lasted for six months, and was adjourned *sine die* at the end of 1934, without any definite results having been achieved. Discussions on the shipping question which took place in Kobe between private Dutch and Japanese shipping interests were also discontinued.'[2]

Australia's and Canada's trade with Japan during this sub-period affords important additional economic background to Sino-Japanese developments about to be described. Here first are the figures showing the dimensions of Australia's trade.

AUSTRALIA'S TRADE WITH JAPAN[3]

(*£A. millions*)

	1932–3	1933–4	1934–5	1935–6
Exports .	11·4	13·9	12·0	17·6
Imports .	3·5	3·6	4·6	4·9

[1] Hongkong General Chamber of Commerce, Report for the year 1934, p. 24.
[2] *Economic Conditions in Japan*, 1933–1934, p. 97.
[3] Australia, official *Year Book*.

As regards the Empire as a whole, in 1929 20·4 per cent of Japan's exports went to the British Empire: in 1935, 28·1 per cent. In 1929 31 per cent of her imports came from the British Empire; in 1935, 31·4 per cent. Into this general statement must be brought the particular fact that while, in the Dominions, Japan was buying more than she sold, in the United Kingdom and the Colonies as a whole she was selling more than she bought. Sir George Sansom's comment upon this fact was that Japan's trade relations with the latter had in consequence been on the whole adjusted with less difficulty than trade relations with the Dominions. Unfortunately, British Malaya was one of the markets in which Japan was buying more than she sold, the figures in 1935 being, approximately: exports to Malaya, Yen 51 million; imports from Malaya, Yen 69·1 million. Accordingly, it seems necessary to bracket with the negotiations in respect of Malaya those which occurred between Australia and Canada and Japan. Sir George Sansom says:

'Since the conclusion of the Indo-Japanese Convention in 1934, two major problems have arisen in the commercial relations of Japan with this second group (i.e. the Dominions). The first was a difference of opinion in 1935 between Canada and Japan, in which Japan raised objections to restrictive measures taken against Japanese goods by Canada. The Japanese Government took retaliatory steps by invoking the Trade Protection Law and imposing additional duties upon articles which are important in Canada's export trade, such as wheat, timber, and pulp. Further negotiations following a change of Government in Canada resulted in the withdrawal of these measures on both sides. A similar situation developed early in 1936 between Australia and Japan, when the Commonwealth Government took steps which restricted imports of certain Japanese goods, in particular rayon textiles. The Japanese Government invoked the Trade Protection Law on June 24, 1936, and a 50 per cent surtax upon certain imports from Australia, while prohibiting the import of wool under licence.'[1]

Subsequently modifying arrangements were made, but they are part of the history of the post-1936 period.

The reader is now in a better position to appreciate the unfolding of Japan's programme for the conversion of Manchuria and North China into parts of an economic *bloc* than he would have been had he not had his attention drawn to the facts just narrated. We turn, accordingly, to that subject, which was listed under (*d*) in the introduction to this sub-section, Japan's plan for a Japan-Manchukuo-North China *bloc*.

At what date the programme first took shape in Japanese minds I do not know. It was consonant with the Tanaka Memorial, and it is possible that it was envisaged when that was written. If so, the events narrated above can have done nothing to make the memorial seem out of date. It seems probable, in the light of the Twenty-one Demands and the seizure of Manchuria, that prior to the Ottawa Conference the Japanese had contemplated, perhaps

[1] *Report on Economic and Commercial Conditions in Japan*, June 1936, p. 78.

determined upon, getting control of North China. If so, the use of sanctions against Italy can have done nothing to weaken their determination. I can only bring personal knowledge to bear on the matter in respect of the period in which the plan was not merely in existence, but under active prosecution—namely, in 1935, when I spent the better part of a year revisiting the Far East and had long, and very frank, conversations with many leading Japanese, including Matsuoka, whose name everybody will remember as Japan's representative at the League when the seizure of Manchuria was under international investigation, and who in 1935 was appointed President of the South Manchuria Railway Company. I kept careful records of my conversations and have them beside me as I write.

The governing ideas of the economic *bloc* project at that date were these. 'Manchukuo' was to act as an auxiliary source of food supplies for North China; North China's main energies would be concentrated upon growing 'cash-crops'—chiefly cotton for Japan; Japan would supply both with the appropriate manufactured means of production. Capital would be provided in Japan by Government and 'private' capitalists (I put the word *private* in inverted commas because the large capitalists in Japan are closely connected with the Japanese Government); in Manchuria by the South Manchuria Railway Company, which interlocks with the Japanese Government; in North China by rich Chinese, the Far Eastern economic counterparts of our European Quislings and (as is in consonance with much of China's history) their predecessors. Once or twice I had glimpses of projects extending beyond North China. For example, I put to Mr. Matsuoka in the course of a conversation in the South Manchurian Railway's hotel at Dairen this question: You say that North China is economically essential to Japan. How, geographically, do you define North China? There is north North China and south North China. Where will you draw the line? His reply was that circumstances would decide.

Another point recorded in my conversation which is relevant to the present subject is a statement made to me in Tokyo by the then famous Japanese Government's 'spokesman'—namely, that everybody in Japan believed that Great Britain 'was out to thwart Japan in all directions'. This point, we may note in passing, is also relevant to the belief entertained at one time in various quarters that Great Britain did not 'go along with' the United States in their policy in regard to the seizure of Manchuria.

So much for the general nature and background of Japan's plan for an economic *bloc*.

I want now to take up the plan at the point at which it began clearly to threaten our economic interests in China—namely, the

smuggling of silver out of China, which was mentioned in dealing with China's entry into the depression. I stated there that the Japanese encouraged the smuggling of silver out of the country. Why did they do this?

At first sight such encouragement seems to run counter to their project for the establishment of an economic *bloc*. Would men, it may be asked, who were engaged upon so large a project deliberately encourage an activity which must inevitably increase the strain placed upon China's whole financial structure, the smuggling of silver? The visible export of silver, as we saw, had reached a net figure of $200,000,000 before the Chinese Government introduced its 10 per cent tax, accompanied by a variable equalization charge.

The answer is that, as the Japanese saw the situation, a collapse of China's currency would give the yen a favourable opportunity for becoming the currency of North China, and, *if it did so, the economic bloc project would be greatly helped.*

At this stage, on September 23, 1935, Sir Frederick Leith-Ross was sent out to China by H.M. Government. Exactly two months later, on November 23, 1935, China announced that the notes of the Central Bank of China and the Bank of Communications (the notes of the Farmers Bank of China being included later) would henceforth be the sole legal tender within the country and required all silver in the hands of the banks and general public to be exchanged for such notes within a period of three, later extended to six, months. All obligations, including taxes and debts contracted prior to the issue of this announcement, were to be discharged in the new currency, the foreign exchange value of the dollar being fixed on the basis of 1*s.* 2$\frac{1}{2}$*d.* In other words, China abandoned silver.

Without a day's delay the Chinese Government's decree was made binding upon British subjects by King's Regulations worded as follows:

'Whereas the Chinese Government has issued a National Decree having the effect of prohibiting and making illegal in China the payment in silver of any debt or other obligations:

'And Whereas in accordance with the Foreign Jurisdiction Acts, 1890 and 1913, and the China Order in Council, 1925, made thereunder, His Majesty's Ambassador in China has power conferred upon him to make as therein provided Regulations for the peace, order, and good government there of British subjects, as defined by the said Order:

'And Whereas it is expedient that King's Regulations should now be made extending to all persons, firms, and corporations subject to the jurisdiction of His Majesty's Supreme Court for China, and in so far as circumstances admit, the said prohibition contained in the said National Decree:

'It is hereby ordered as follows:

'1. In the construction of these Regulations the word "person" means any British subject, firm or corporation resident, carrying on business, or being within the limits of the China Order in Council, 1925.

'2. Any person who, by himself or in conjunction with any other person, whether a British subject or not, makes payment in silver of the whole or any

part of any debt or other obligation shall be guilty of an offence, and shall be liable on conviction to imprisonment, with or without hard labour, for a period not exceeding three months, or to a fine not exceeding £50, or to both.

'3. These Regulations may be cited as "The Silver Payments Prohibition Regulations, 1935".'

Japan's plans were, for the moment, checkmated.

But the Japanese held on their course. On November 25 they brought into existence the East Hopei Anti-Communist Autonomous Council. Its institution was announced by the Chinese Administrative Inspector of an area known as the Demilitarized Zone, a zone demilitarized in accordance with the Tangku Truce, signed on May 1, 1933, after Japan's invasion of Jehol. As originally delimited, it was some 5,000 square miles in area. It was now enlarged to twice that size, its population being about 5 million, and its capital Tungchow, about fifteen miles east of Peiping. The man placed in control of it, Yin Ju-kêng, was born in Chêkiang in 1889, had been educated in Japan and was married to a Japanese wife. Hitherto a nonentity, he became a Quisling.

On December 5 Mr. Cordell Hull made a statement in Washington in which he said that—

'an effort is being made, and is being resisted, to bring about a substantial change in the political status and condition of several of China's northern provinces.' Such 'unusual developments' in any part of China were of concern to many Powers having interests there, and 'the United States is one of these Powers'. He went on: 'In the area under reference, the interests of the United States are similar to those of the other Powers. In that area are located, and our rights and obligations appertain to, a considerable number of American nationals, some American property, and substantial American commercial and cultural activities. The American Government is, therefore, closely observing what is happening there.'

'The views of the American Government with regard to such matters,' said Mr. Hull, 'not alone in relation to China, but in relation to the whole world, are well known.' It seemed to this Government, as he had stated on many occasions 'most important in this period of world wide political unrest and economic instability, that Governments and peoples must keep faith in principles and pledges'. He concluded with a reference to the Nine Power Treaty.

To thwart Japan's plans, the Chinese made a new move. On December 12 they instituted a Council known as the Hopei-Chahar Political Council, its personnel including the Governor of Hopei, the Mayors of Peiping and Tientsin and the Governor of Chahar. The Council was formally inaugurated on December 18. This acted as a kind of buffer between the Japanese and the Chinese Central Government. That its precise relationship to Chiang Kai-shek was, or appeared, indeterminate was part of its sagacity and utility.

Thus, at the end of 1935, the outstanding facts of the situation were:

(*a*) A political Sino-Japanese duel conducted behind two façades, the East Hopei Anti-Communist Autonomous Council, headed by

a Quisling, and the Chahar-Hopei Political Council, headed by nobody quite knew whom.

(*b*) An economic Sino-Japanese duel in the field of currency, its first stage ended in China's favour. Of the twenty foreign banks established in China, six were Japanese. All handed over their silver to the Chinese Government, except, so far as I have been able to ascertain, the Japanese. In Tientsin the Japanese prevented the Chinese banks from doing so.

(*c*) A general outlook obviously uncertain and likely to lead to a crisis at any time. I returned to England telling everybody I could that there was going to be a Sino-Japanese war.

We have now to turn to the last theme of this sub-period: (*e*) the recovery of Far Eastern markets from the depression.

The statistics show that, as far as the United Kingdom's trade with the Far East was concerned, there was little in the way of recovery. Some of her main export trades, in particular the cotton piece-goods trade, continued to deteriorate. In British Malaya there was recovery after 1933, though rubber continued to be confronted with difficulties and tin, too, though to a lesser extent. Australia's trade with Japan showed great buoyancy and went from strength to strength. Her exports to British Malaya recovered round about 1933–4. Her imports from Malaya did not get back to pre-depression level till 1936.

In illustration of the above summary, let us first take a bird's-eye survey of the position from the United Kingdom, inserting the 1929 and 1931 figures so as to save the reader the trouble of turning back.

UNITED KINGDOM'S EXPORTS (EXCLUDING FOREIGN AND COLONIAL GOODS)
(000's £)

	China	*Hongkong*	*Japan*	*Malaya*	*N.E.I.*	*Siam*
1929	14,029	6,162	13,434	15,564	9,399	2,365
1931	7,858	4,435	6,186	6,340	3,358	1,004
1933	6,300	3,229	4,187	5,382	2,920	1,236
1934	6,513·4	2,512	3,809	6,993	2,525	1,079
1935	5,021·5	2,410	4,005	7,409	2,449	1,197
1936	5,780·4	2,105	3,563	8,363	2,803	1,157

UNITED KINGDOM'S IMPORTS

(Total value of merchandise consigned from abroad)

1929	12,156	488·9	9,131	17,644	14,707	261
1931	7,773	406·3	6,952	6,479	6,891	151
1933	5,095	281	6,200	4,771	5,027	52
1934	6,142	421	7,983	12,380	6,727	153
1935	6,259	704	8,254	10,887	6,314	112
1936	7,168	754	9,772	7,003	4,145	317

Source: *Statistical Abstract for the United Kingdom.*

China. The chief explanation of the decline in exports to China is the simple one that China's demand for piece-goods, whether from the United Kingdom or Japan, was decreasing. In respect of the years 1929–32, figures illustrating this statement may be found in the report on trade and economic conditions in China for the years 1931–3 (p. 99) published by the Department of Overseas Trade. In regard to the years 1933–6, illustrative figures may be found in the *Financial and Economic Annual of Japan*, 1938, where it will be seen that the value of cotton tissues exported to China and Hongkong fell from Yen 40·6 million in 1932 to 22·9 million in 1936. Behind this decline was, as already indicated, the development of China's own cotton industry, a development in which British and Japanese mills participated, and from which our manufacturers of textile machinery derived considerable benefit.

A subsidiary reason for the decline was the higher range of import duties which the Chinese Government brought into force after the tariff of 1929, to which allusion has already been made. A new tariff was promulgated in 1931. Though duties were considerably higher, the highest (those on luxuries such as wines and tobacco and certain classes of silk goods) being as much as 50 per cent higher, this tariff was designed primarily for revenue purposes. But a fresh tariff, introduced in 1933, was to a large extent protective. On many classes of cotton goods duties were raised by 100 per cent, on some by 200 per cent and more, while few escaped with increases of less than 33⅓ per cent. Woollen yarn and piece-goods and certain classes of paper were also more highly taxed. A revised tariff introduced in the following year lightened the duties on printed and certain other classes of cotton piece-goods—in which Japan was mainly interested—but increased the duties on chemicals, dyes and paints, timber, certain classes of machinery, kerosene oil, and gasolene, some of the increases being for protective, others for revenue purposes. Throughout the period 1932–6 the value of China's import trade declined, whether expressed in gold units or in standard dollars, the total in gold units in 1932 being 902·6 million, in 1936 417·8 million. Having regard, however, to the effects of the depression, which, as we have seen, China entered after other countries had done so, it is difficult separately to assess the effects of higher tariffs upon her import trade. Where higher duties were intended to exclude they almost certainly did so. In some cases they probably did so where no more than a higher revenue was sought, in these cases, in other words, defeating their purpose. It is certainly the case that imports from the United Kingdom of cotton piece-goods, woollen and worsted tissues, chemicals, and food, drink and tobacco declined. So, too, did imports of our iron and steel goods, an important factor in their case being Continental competition.

The United Kingdom was facing growing competition in all sections of what may be termed capital goods and, as already shown, her share of China's trade had been decreasing. The value of machinery imports from the United Kingdom, on the other hand, showed an upward trend.

Hongkong. In Hongkong the full effect of the depression was not reflected in the statistics of her trade until 1933—as was natural, having regard to the entrepôt nature of the Colony's trade and its relationship to China's. Other factors were China's increased tariff, the failure of several business houses, a slump in the building and allied trades, the Chinese boycott of Japanese goods, and the uncertainty of exchange. In 1933 imports were valued at £33·9 million, exports at £27 million, as compared with £39·1 million and £28·7 million respectively in 1931, the previous years totals being considerably lower.[1] Of the 1933 import total the British Empire's share was about 19 per cent. Of the export total it was about 10·2 per cent.

China's share of Hongkong's export trade, as shown in the Hongkong Government's returns, was in 1933 over 56 per cent. This fact is interesting when linked with the Chinese Government's figures showing the relationship of imports from Hongkong to China's total imports. These for 1932 and other years read as follows:

CHINA'S IMPORTS FROM HONGKONG

(*Approximate percentages*)

1932	1933	1935	1936
5·8	4	2	1·8

Compare the above figures with the following approximate percentages, also taken from the Chinese Customs returns.

1927	1929	1930	1931
21	17	16	15

What is the explanation? It is, in the main, the simple one that prior to 1931 imports from Hongkong were shown in the Chinese Government's figures—the Chinese Customs returns—as though they all came from Hongkong. After 1931 China was able to ascertain the real provenance of imports, with the result indicated by the first set of percentages.

Great Britain's percentage share of China's imports (excluding Manchuria) in 1936 was 11·70, her share of China's exports being 9·18.

[1] Mills, op. cit., p. 437.

The shares of other parts of the Empire are shown by the following percentages taken from the Chinese Customs returns:

CHINA'S IMPORTS

	1932	1934	1936
Total value (000 gold units)	902,666	528,820	417,837
Australia's share	3·81	1·06	1·69
British India's share (in 1936, including Burma)	2·42	3·09	2·62
Ceylon's share	0·02	0·02	0·03
Straits and F.M.S.'s share	1·00	1·10	1·15
South Africa's share	0·02	0·03	0·08
Canada's share	1·53	1·85	2·10
New Zealand's share	0·01	0·02	0·04
Great Britain's share	11·20	12·00	11·70

CHINA'S EXPORTS

	1932	1934	1936
Total value (000's gold units)	419,694	272,419	312,630
Australia's share	0·23	0·30	0·86
British India's share (in 1936, including Burma)	3·78	3·43	2·64
Straits and F.M.S.'s share	1·71	2·89	2·22
South Africa's share	0·05	0·13	0·19
Canada's share	0·45	0·66	0·75
New Zealand's share	0·05	0·09	0·07
Ceylon's share	0·11	0·14	0·14
Great Britain's share	7·62	9·30	9·18

Totalling the import and export percentages of Great Britain and the rest of the Empire as shown above, we get, Manchuria excluded:

CHINA'S IMPORTS

	1932	1934	1936
British share	20·01	19·17	19·41
American share	25·43	26·16	19·64
Japanese share	13·95	12·21	16·26

CHINA'S EXPORTS

	1932	1934	1936
British share	14·00	16·94	16·05
Japanese share	21·80	15·16	14·48
American share	12·17	17·63	26·36

As regards shipping, of ocean shipping the British percentage of tonnage entered and cleared in 1936 was 35·72, the Japanese 20·82, the Chinese (excluding junks) 8·75, and the American 6·90. Of coastal, i.e. interport, shipping, the British percentage was 41·28, the Japanese 15·53, the Chinese (excluding junks) 35·47, and the American 0·65.

During the 1914–18 period Hongkong's shipping naturally declined. At the end of the 1920–31 period British ocean-going tonnage, at 11,540,844 tons entered and cleared, was 39·19 per cent of the total, while British river steamers, at 8,175,054 tons entered and cleared, were 87·0 per cent of the total.

At the end of the 1932–6 period the British percentage of ocean tonnage entered and cleared was 39·85; of river steamer tonnage it was 86·52.

British shipping in the Pacific as a whole is more conveniently reviewed in Part V. Here it may be stated that the United Kingdom's total gross tonnage in 1936 was 17,183,000, as compared with 18,892,000 in 1914.

It was during the 1932–6 period that the Colony came to have airport facilities. With the financial support of the British Government, the Hongkong Government constructed an aerodrome at Kai Tak, on the mainland, the hangar and other improvements being in course of construction in 1934. Negotiations were initiated with the Chinese Government for permission to be accorded to Imperials Airways to fly over Chinese territory. In the following year Imperial Airways made six experimental flights to and from Penang and Hongkong. The first two flights were for survey purposes; the other four proved the feasibility of a day and a half schedule each way. In February 1936 the civil airport at the western end of Kai Tak was opened. The Far East Flying Training School enlarged their premises, subdividing themselves into a flying section and an engineering section. In March Imperial Airways began a weekly passenger and mail service between the Colony and Penang, making connexion at Penang with the England-Australia service. Some seventy-seven passengers and 9·3 tons of mail and freight were carried during the year. Transit from Hongkong to London took ten, and transit to Brisbane six, days. The service also linked Hongkong with the South African route and with the network of airlines operating in and from Europe. Pan-American Airways made an experimental flight to Macao and Hongkong with a Martin Clipper boat on October 23, the aircraft returning to Manila the following day.[1]

A few words are necessary to describe what happened to railways in China during these years. By the end of 1935, as a result mainly of the long series of civil wars which the establishment of the National Government ended, all our railway loans were in default in respect both of interest and amortization except in respect of the Peking-Mukden Railway, and the Shanghai-Hangchow-Ningpo line, the 1908 loan for the latter having been redeemed on June 1, 1935. In 1934 a loan of £1,500,000, the 6 per cent Sterling

[1] Hongkong General Chamber of Commerce, Report for the year 1936, pp. iii–iv.

Indemnity Loan, was issued privately in Shanghai for the completion of the Canton-Hankow Railway. The Canton-Shaochow section of this line, 223 kilometres, had been completed in 1915; the Wuchang-Changsha section, 368 kilometres, in 1917, and the Shaochow-Lochang section in 1933, this section being later carried to Chuchow. With the money accruing from the loan just mentioned, this section was completed in 1936, the total length of the line being 1,096 kilometres. In February 1936, after protracted negotiations, the Chinese Government undertook to resume interest payments—e.g. on the Tientsin-Pukow loans at $2\frac{1}{2}$ per cent per annum from 1936 to 1938 inclusive and thereafter at 5 per cent. Four-fifths of the arrears of interest to 1936, and of the short-fall of interest in 1936–8, were to be cancelled, and non-interest-bearing scrip was to be issued for the balance, which was to be paid from 1941 over a period of approximately twenty years. In June 1936 a 6 per cent Shanghai-Hangchow-Ningpo Railway Completion Loan of £1,100,000 was issued in Shanghai through the British and Chinese Corporation.

Japan. The chief reasons for the decline in exports to Japan were marked decreases in the export of ammonium sulphate, which in 1929 was valued at £1·6 million and in 1935 at £28,539; of iron and steel, and manufactures thereof, which declined from £2·1 million in 1929 to £390,439 in 1935; piece-goods, which declined from £659,267 in 1929 to £53,790 in 1935, and machinery, which until 1935 remained far below the 1929 figure of £2·5 million, between which and that of 1928 there was a difference of about £734,000.

These decreases are to a large extent to be explained by increased domestic production of the commodities concerned. Thus the production indices for chemicals were as follows:

	1930	*End of* 1934
Amm. sulphate . . .	100	353
Caustic soda . . .	„	180
Soda ash	„	169
Bleaching powder . .	„	187

The production index for pig iron rose during these years from 100 to 141, that of steel products from 100 to 162. The production of internal combustion engines, of precision machinery and instruments also increased. That is not to say that importers as a whole

suffered—except in respect of chemicals. During 1933 and 1934 the import of combustion engines (under 250 kilos and under 2,500 kilos), dynamos and electric motors, pneumatic tools and machines, spinning machinery, knitting and printing machines all showed increases.[1] But United Kingdom exporters met with keen competition from those of Germany and the United States, more particularly in respect of commodities classifiable as machinery and parts thereof. Some commodities were made liable to higher import duties, for example, aluminium, and aluminium alloys, cold-rolled iron hoops and certain chemicals and drugs, but, generally speaking, the United Kingdom's exports were not checked by tariff changes.

Between the years 1932 and 1936 the value of Japan's total imports rose steadily, the 1932 total being Yen 1,431 million, that of 1936 Yen 2,763 million. The following figures show how this increase was distributed as between Asia, Europe, America (North and South), Africa and Oceania.

	1932 (*yen*, 000's)	1936 (*yen*, 000's)
From Asia . . .	450,910	1,060,152
„ Europe . . .	225,261	330,123
„ America . . .	554,737	1,054,764
„ Africa . . .	27,450	108,142
„ Oceania . . .	139,921	210,497

The approximate shares of Great Britain, other parts of the Empire and the United States were:

	1932 *per cent*	1936 *per cent*
Great Britain's share . .	5·5	2·6
British India's share . . .	8·1	13·4
Straits Settlements' share . .	1·8	1·4
Australia's share . . .	9·3	6·5
Canada's share . . .	2·7	2·6
United States' share . . .	35·6	30·6

[1] Sansom, *Economic Conditions in Japan*, 1933–4, *passim.*

The Yen value of total exports rose markedly also, from 1,409 million in 1932 to 2,692 million in 1936. This increase was distributed as follows:

JAPAN'S EXPORTS

	1932 (*yen*, 000's)	1936 (*yen*, 000's)
To Asia	677,613	1,370,969
„ Europe . . .	127,176	307,717
„ America, North and South	472,229	718,858
„ Africa	85,695	197,702
„ Oceania . . .	47,277	97,726

The approximate shares of Great Britain, other parts of the Empire and the United States were:

	1932 *per cent*	1936 *per cent*
Great Britain's share . .	4·2	5·4
British India's share . . .	13·6	9·6
Straits Settlements' share . .	1·8	2·1
Australia's share . . .	2·6	2·5
Canada's share . . .	0·6	0·5
United States' share . . .	31·5	22·0

Malaya. The total value of British Malaya's imports of manufactured goods reached its highest figure in 1926, when it was $393·5 million. In 1929 it was $370 million, in which year the United Kingdom's share was 29 per cent. Between 1929 and 1933 total values showed a steady decline to $166 million, the United Kingdom's share varying between 21·1 and 20·5 per cent. Cotton piece-goods never came within sight of their pre-depression level, nor did machinery or iron and steel manufactures, while chemical manufactures and products also remained below the pre-depression level. The depression and Japanese competition reduced Europe's share of British Malaya's imports also, 9 per cent representing the largest proportion which European, i.e. Continental, imports achieved between 1930 and 1936, whereas in

1929 it had been 14 per cent. Yet at this lower level the Continent's share was steady. 'Like Japan,' says Mills, 'though of course to a far lesser extent, the countries of Continental Europe had cheaper costs of production owing to their lower standards of living, lower wages and longer working hours. They also specialized in the cheap and medium grades of merchandise which were more within the means of the Asiatic population with its low-purchasing capacity. British manufacturers concentrated on the more durable goods of better quality—and decidedly higher prices.'[1] He goes on to enumerate other differences between British and Continental manufacturers and traders—differences which have been emphasized over and over again in respect of China, the latter's greater readiness to give credit, their closer personal touch with, and more careful study of, local requirements. Possibly these points, which never fail to strike the eye of observers not engaged in trade, may, after the war, receive the attention of those who are so engaged.

As regard imports from British Malaya, tin, which in 1929 was valued at £2·5 million, in 1931 fell to £1·3 million, remaining below the million mark throughout the remainder of the period and falling in 1933 to £482,772. Rubber (raw, reclaimed and waste), which in 1929 was valued at £11 million, fell to £2·8 million in 1931 and did not recover to £8 million till 1934.

Dutch East Indies. For readers who have never had occasion to examine them, it should perhaps be stated that the United Kingdom's official trade returns show exports and imports to and from the Dutch East Indies in four groups, Sumatra, Java, Dutch Borneo and 'other Dutch Possessions in the Indian Seas'. Java was the most important, Sumatra ranking next, and Dutch Borneo and the 'other Possessions' in the order named. In all four cases one of the chief reasons for a decline in the export totals shown in the table on a preceding page was a continuous decrease in the value of cotton piece-goods, which in the case of Java fell from £2,644,929 in 1929 to £221,164 in 1935. In the case of Java also the value of woollen and worsted tissues fell from £171,076 in 1929 to £29,852 in 1935. In the same years, machinery fell from £433,475 to £98,055. Exports of iron and steel manufactures were in 1929 valued at £775,361: in 1935 they were valued at £326,114.

Of imports from Sumatra and Java tea and rubber (raw, reclaimed, and waste) were the most important, Java being the larger source of supply in both cases. Tea did not recover to its 1929 figure, the value in that year being £3,592,410 and in 1935 £1,219,291. Rubber recovered to its 1929 figure in 1934, when in fact the total, at £1,452,612, was a little higher, falling, however, below the 1929 total in the following year. Practically the whole of the import trade with Dutch Borneo consisted of petroleum.

[1] Op. cit., p. 134.

This remained well below its 1929 figure. In that year imports were valued at £1,725,529: in 1935 they were valued at £667,288.

Australia's trade with British Malaya began to recover in 1933–4, when exports totalled £A.1,015,000, the 1935–6 figure being £A.1,263,000. Imports from British Malaya, however, did not get back to the pre-depression level till after 1936, the nearest figure being that of 1936–7, £A.852,282. Exports to the Dutch East Indies behaved in much the same way as exports to British Malaya, imports from the former (on which Australia spent a good deal more than she did on imports from the latter) remaining well below the pre-depression level till 1936–7, when they recovered to £A.6,176,000.

Australia's trade with Japan began to recover in 1931–2 and by 1932–3 exports were back at the pre-depression level, which in 1928–9 was £A.11·5 million. Thereafter, up to 1935–6 they increased in value steadily. This fact has already been illustrated (see p. 154). Imports, which in 1928–9 were valued at £A.4·7 million, were slower in recovering, as has also been shown on the page just referred to. The chief exports were wool and wheat. The chief imports were silk piece-goods, raw silk, and cotton goods.

Next let us look at the position from British Malaya's point of view. Total exports recovered from a value of $S.323 million in 1932 to $S.627 million in 1936. Total imports recovered from $S.376 million in 1932 to $S.503 million in 1936. We saw on p. 129 what happened to rubber and tin up to 1933. On May 7, 1934, the British Government (representing Malaya, Ceylon, Burma, Sarawak, and British North Borneo), the Netherlands Indies, and Siam signed an agreement to restrict exports of rubber from June 1, 1934, to December 31, 1938, basic quotas being fixed for each country, smuggling from Singapore or Penang being provided against by ordinances enacted by Government. World consumption, as we saw, began to improve in 1933. In 1935 surplus world stocks began to decline, and improvement continued till the first part of 1937, when prices fall away to less than 7*d.* owing to conditions in the United States. As regards tin, consumption increased somewhat in 1933 and increased further in 1935, stocks decreasing owing to revival in the United States. The London price per ton recovered to an average of £225 7*s.* in 1935.[1]

The trade of Sarawak during this period needs but few remarks to indicate its general trend. In 1929 total trade was valued, excluding treasure, at $86,038,000, an increase of 13·3 per cent over that of the previous year. There was a 'favourable' balance of $40,584,000. Among the chief imports were cotton goods, chemicals for manufacturing purposes, iron and steel manufactures, machinery and tobacco. Much the most important export

[1] Mills, op. cit., rubber, pp. 204–7; tin, 182.

was benzine, valued at $35,305,000, plantation rubber being valued at $8,579,000.

In 1936 the value of total trade had fallen to $42,819,000. Amongst imports cotton goods, machinery, chemicals and iron and steel manufactures all showed considerable decreases. To what extent these decreases are attributable to the depression is difficult to say, having regard to the effect on the total of the big drop in benzine exports to $1,404,000. This was due not to a loss of markets but, mainly, to the relative cheapness of using Brunei's oil for export.

Burma's contribution to Far Eastern economic life during the period covered by this part remained relatively small. Most of her trade was with India, to which in 1929–30, 1931–2, and 1935–6 she sent respectively 43, 58, and 63 per cent of her exports. India's share of her import trade was, in 1929–30, 41 per cent, in 1931–2, 51 per cent, and in 1935–6 48 per cent. She sold little to Japan. By 1935–6, however, imports from Japan had become 11 per cent of her total imports, having been in 1929–30 8 per cent. She was still not thought of in Far Eastern terms.

That is not to say that her trade with British Malaya was unimportant: witness Malayan imports of Burmese rice, tin ore and rubber. Indeed, in 1929–30 exports to the Straits represented as much as 6 per cent of Burma's total exports, while the committee which reported against a Malayan customs union included, as we saw, imports from Burma as an element in the importance of the entrepôt trade.

Meanwhile the chief developments which had occurred since 1914 were the growth of wolfram (tungsten) production, to which the world war gave an impetus; the spread of electricity to small towns; the growth of a cement industry, and of the salt industry, a development which brought her near to being self-supporting in respect of that commodity; the development of a cane-sugar industry and the spread of motor transport.

British Capital in Burma. In the work already quoted, Callis puts the estimated total of foreign business investments in Burma at £47·2 million, the bulk being British or British controlled.[1]

Oil Companies. Three companies control the extraction and distribution of oil, the Burmah Oil Company, the British Burma Petroleum Company, and the Indo-Burma Petroleum Company—not the Shell Oil Storage and Distributing Company of India, as stated by Callis. The authorized capital of the Burmah Oil Company is £18,500,000, the issued capital being £17,736,513, £13,736,513 being in ordinary stock and £4,000,000 in preferred stock. The total assets shown in the balance sheet of the company stood at December 31, 1941, at £31,040,360.

[1] Op. cit., p. 94.

Investments in Mining. The Burma Corporation, Ltd., has an issued capital of Rs.12,18,75,201 or about £9,140,620. Amongst the largest tin and wolfram mining concerns are the Tavoy Tin Dredging Corporation, the Anglo-Burma Tin Company, the Consolidated Tin Mines of Burma, Ltd., Mawchi Mines and the High Speed Alloys Mining Co., the total value of their capital being in the neighbourhood of £2,000,000.

Lumber Industry. A conservative estimate of total investments in teak and other hardwoods, saw-milling, &c., is £9,000,000, the larger part of which represents British investments in teak. The Bombay Burmah Trading Corporation, Steel Brothers & Co., Ltd., Macgregor & Co., Ltd., Foucar & Co., Ltd., T. D. Findlay & Co., Ltd., are the principal firms engaged in this industry, the Bombay Burmah Trading Corporation's connexions going back to the days of the Burmese Dynasty in Upper Burma.

Plantations. Some 35,000 acres of rubber plantations, representing capital investments of approximately £1,750,000, are British-owned, the biggest British owner being the Burma Estates Co., with a capital of £223,687. Steel Brothers also own rubber estates. The rubber growing districts are small, Burma's production being in the neighbourhood of 1·3 per cent of world production.

Rice Milling. Although British interests do not now own as large a share of this industry as in former days, a large sum is still involved in the rice trade, probably £3,000,000.

Differences between the details shown above and those given by Callis are the result of inquiries in London in quarters with intimate first-hand knowledge of Burma.

The table on pp. 172–3 gives a bird's-eye view of much of the commercial ground traversed in previous pages.

FURTHER INTERIM CONCLUSIONS

LET us now, as we did at the end of the pre-war period, set out the chief conclusions suggested by the facts which we have reviewed—the chief conclusions, that is to say, about the facts regarded as the economic background of policy in the diplomatic sense. They appear to me to be these:

1. Of the changes in balances and values which we have been watching, an outstanding one is that, prior to 1932, we believed, albeit with decreasing conviction, in free trade. We had since 1919 coupled free trade with imperial preference, but after 1930 we both abandoned free trade and elaborated imperial preference. Preferential tariff arrangements in Hongkong were in China in sharp contrast, though over a very limited field, with the principle of equal opportunity. For example, after the Ottawa Conference,

anybody living in Hongkong who wanted to buy an American motor car had to pay a special foreign registration fee of 20 per cent of its value. If he bought a motor car built in the British Empire the car cost him that amount less. If he lived in Shanghai his choice of cars was unaffected by a special registration fee payable in respect of their provenance. What effect, if any, the registration fee in Hongkong had on the sale of American cars I do not know. Most probably it had none at all, for American cars, in China as a whole, were much more popular than British cars. But the point is irrelevant to the one which I am making. Similarly, anybody living in Hongkong who wanted to buy French brandy had to pay half as much again in duty as the man who bought an Empire grown and made brandy. If he lived in Shanghai he could buy French or British brandy at a price unaffected by their provenance.

We noted in the last set of interim conclusions the discrepancy between the 'open door', considered as a policy designed to give every country an equal chance in the Chinese market and as a policy which, by keeping China's revenue from Customs duties low, helped to keep her revenue as a whole low, and to that extent lessened her ability to provide herself with the means both of self-defence and of modernization, industrialization being, of course, greatly handicapped. To this discrepancy we now, in this period, added the further discrepancy just noted. The new one emphasized the hitherto theoretically real, though in our case, practically unimportant discrepancy between the principle of equal opportunity and the existence of areas of 'special interests'. The Leased Territory of Hongkong was undeniably an area of 'special interests'. Anybody who doubts this has only to read the lease. But up to 1932 it shared the economic equality which Hongkong gave to all comers. After 1932 it was associated with the Colony in the inequality—admittedly small—illustrated above.

Quotas were not introduced in Hongkong. In Malaya and elsewhere they disregarded—or at all events subordinated to our own requirements—the suitability of cheap Japanese goods to the purchasing power of the native. Thus to the discrepancies just mentioned we added an economic departure from the principle of imperial trusteeship, a departure which, as we shall see, had much more theoretical than practical importance.

2. The United Kingdom's most important exports to the Far East were manufactured goods. Of those the most important, in China, were, until after the last world war, cotton piece-goods. Cotton piece-goods lost their significance in our export list partly because China began to industrialize. Thereupon China became a better market than she had been for our machinery. A large portion of the machinery exported to her was machinery for

THE RELATIVE IMPORTANCE OF THE FAR EAST IN THE FOREIGN TRADE OF THE BRITISH EMPIRE IN 1913 AND 1936

IMPORTS FROM AND EXPORTS TO FAR EASTERN COUNTRIES AS PERCENTAGES OF TOTAL IMPORTS AND EXPORTS OF BRITISH EMPIRE COUNTRIES

		Australia		*British Malaya*		*Dutch E. Indies*		*Siam*		*French Indo-China*		*Philippines*		*China and Hongkong*		*Japan*		*Total 'Far East'*	
		Imp.	*Exp.*	*Imp.*	*Exp.*	*Imp.*	*Exp.*	*Imp.*	*Exp.*	*Imp.*	*Exp.*	*Imp.*	*Exp.*	*Imp.*	*Exp.*	*Imp.*	*Exp.*	*Imp.*	*Exp.*
United Kingdom[2]	1913[3]	5·0	6·0	2·5	1·2	0·5	1·2	0·1	0·2	*	*	0·3	0·2	0·7	3·1	0·6	2·3	9·7	14·2
	1936	7·2	6·6	0·8	1·7	0·5	0·6	*	0·2	*	*	0·1	0·1	0·9	1·2	1·2	0·8	10·7	11·3
Australia	Average[1] 1909–13	—	—	0·9[6]	1·1[6]	1·3[4]	0·6[4]	*	*	*	*	0·2	0·7	0·1	0·2	1·2	1·6	3·7	4·2
	1935/6[1]	—	—	0·6	0·9	5·9	0·9	*	0·1	*	*	0·7	0·4	0·8	2·0	6·0	13·1	14·0	17·4
Canada	1920	0·1	0·9	0·5[6]	0·1[6]	0·3	0·1	*	*	*	*	*	*	0·1	0·5	1·3	0·6	2·3	2·2
	1936	1·4	2·6	2·1[5]	0·1[5]	0·1	0·1	*	*	*	*	0·1	0·1	0·6	0·5	0·7	1·9	5·0	5·3
New Zealand	1914[1]	15·4	7·3	0·3[6]	*	0·9	*	*	*	*	*	0·1	*	0·3	*	0·9	0·2	17·9	7·5
	1936[1]	11·2	3·2	*	0·1	4·0	*	*	*	*	*	*	*	0·3	0·1	3·0	2·7	18·5	6·1
South Africa	Average 1910–14	4·6	0·2	*	0·3[6]	0·3	0·2	0·1	*	*	*	*	*	0·1	*	0·3	*	5·4	0·7
	1936[1]	0·4	0·1	0·3	0·2	1·4	0·1	*	*	0·1	*	*	*	0·2	*	3·5	2·1	5·9	2·5

India and Burma[8]	1913/14	0·6	1·6	2·1[6]	2·8[6]	7·2	1·0	0·2	0·4	*	0·4	*	*	1·7	5·5	3·0	9·3	14·8	21·0
	1936	1·0	1·8	3·1	2·2[6]	0·6[7]	0·4[7]	1·1	0·3	0·3	0·2	*	*	1·6	1·1	17·2	15·1	24·9	21·1
British Malaya	1915	1·4	0·6	—	—	22·3	14·8	15·9	3·6	5·7	0·7	*	*	13·7	3·4	4·8	1·5	63·8	24·6
	1936	2·0	3·5	—	—	31·7[6]	6·1[6]	15·5	2·0	1·9	0·2	0·1	0·2	5·4	1·4	6·4	7·6	63·0	21·0
Ceylon	1917	0·2[9]	4·6	7·2[6]	0·3[6]	3·7	*	0·3	*	*	*	*	0·2	0·6	*	5·5	0·3	17·5	5·4
	1936	2·4	4·5	0·8[6]	0·4[6]	6·5	*	1·7	*	*	*	*	*	0·7	0·1[10]	6·4	0·8	18·5	5·8

* Proportion negligible, i.e. less than 0·05 per cent.

[1] Bullion and specie included; all other figures refer to merchandise trade only.

[2] All figures, except where otherwise indicated, refer to 'general' trade.

[3] The 1913 figures are for the British Isles, including Ireland.

[4] Java only.

[5] 'British East Indies, other than India'; probably nearly half Ceylon.

[6] Straits Settlements only.

[7] Java and Dutch Borneo only.

[8] General imports, special exports (i.e. minus re-exports).

[9] South Australia only.

[10] Excluding Hongkong.

N.B.—Since the figures give imports and exports from and to Far Eastern countries *as percentages of total* imports and exports of the British Empire countries concerned, it is not legitimate to add up the figures in the *vertical* columns. In order to obtain a figure for the Far East trade of all these British Empire countries together as a percentage of their total trade, a complicated new calculation would be necessary which has not been undertaken. Trade with Australia is included for comparative purposes.

cotton mills, some of which were owned by British subjects. Their manufactures entered into China's export trade, having behind them one of the advantages which Japan's had, a 'low' standard of living.

Having derived what profits we could out of selling machinery to China and Japan, knowing that some of it would be used for making cotton piece-goods, when confronted with Japanese piece-goods priced on a basis on which ours could not compete we made a hullabaloo, meanwhile continuing to sell machinery for use in Japanese and Chinese mills. Was there not in the hullabaloo an element reminiscent of the adage about wanting to eat your cake and have it too?

3. We complained of, and disparaged, the Asiatic standard of living. We were understood by the Japanese to say, 'If you choose to live like that we see no reason why we should do so'. The Japanese not unnaturally replied: 'There are fewer industrial slums in the Far East than there are in Great Britain. The houses we live in, and the clothes we wear, suit our climate, and reach, in our opinion, a higher aesthetic standard than yours do. You have not developed very high aesthetic standards. We, on the other hand, have done so, as all your "curio" hunters have for many years testified. So we don't quite understand what you mean by our "low" standard of living.

'Of course, if a standard of living is to be tested solely by salaries and wages, ours is, certainly, lower than yours. Our soldiers and our sailors and our Civil Servants all receive very much smaller pay than yours do. You will, however, forgive us for thinking that our Army and our fleet would prove a match for yours. No offence, *please*. We have no intention whatever of setting them against yours. Still, there they are—equal to yours. And our public services are equal to yours. There are few villages in Japan which are not lighted by electricity. Our water supplies are good. Our medical services are good. Our trains are as comfortable and punctual as yours, our shipping is as good as, though less plentiful than, yours. Our passenger lines are certainly as comfortable. At all events, we notice that many of your subjects in the Far East prefer to travel by them than by your famous P. & O.'

The measures which in the circumstances appeared to give practical expression to inaccurate generalizations about standards of living generated considerable ill feeling. For in the Japanese view the generalizations came near to arraigning, not a standard, but a way of life, and it is for a way of life that we are now fighting.

4. Japan's seizure of Manchuria preceded, and therefore cannot be attributed to, the employment of economic sanctions against Italy. But her plans for an economic *bloc*, comprising territory

possessing iron ore and coal and other things of which her own supply was small, stood in logical, though perverse, relationship to the possibility that a similar measure might at some future date be used against herself, and to the British system of imperial preference, which from her point of view included the use of quotas as a means of protecting the Malayan and other markets against her goods.

There is a good deal more than that to be said upon these points, as there is upon the question of Japan's standard of life and our own. And when we come to our final conclusions, some of it will be said. Meanwhile, the points made above should, I suggest, be borne in mind when considering economic affairs as a background of international politics.

5. Japan's way of life, though in many respects it has remained little affected by Western contacts, has in several respects changed much. So, too, has China's and Siam's. The changes show themselves largely in the use of new things and methods, the adoption of the ideas associated with them, and the growth of new habits. There has been, of course, a great and varied transfer of Western ideas unassociated, at all events directly, with commodities, but it is the effect upon the Far East's way of life of commodities imported from abroad, more particularly manufactures, that one has chiefly in mind in this paragraph. A large proportion of them, as previous pages have illustrated, has been imported from the United Kingdom, where, as in other Western countries, they represent much of what is termed progress, in many instances rightly so termed. Their Far Eastern users also think of them in those terms, though whether they rate material progress as high as it is rated in the West may be doubted. A more practical point for consideration is the extent to which such progress can be evaluated in political terms. That there is a direct relationship between political unity and means of communication—railways, shipping, aeroplanes, telegraph, telephone and radio—needs no expounding. Nor does the relationship between the disappearance of what Kipling refers to as 'all along of doing things rather more or less' and sound finance, whether in business, administration, or domestic life. The two relationships, taken together, represent a large part of the value which foreign enterprise has had in the Far East, particularly in China. And when one says 'foreign' enterprise one necessarily, to a large extent, implies—in respect of railways, shipping, banking and insurance—British enterprise, for the unassailable reason that in all four departments of economic activity British enterprise was predominant.

It was stated in the Foreword that this book was not going to be a 'write-up' of British interests. But an objective recognition of the credit items in an account does not, surely, come within the

meaning of that phrase, any more than a similar recognition of debit items constitutes 'writing down'. One has not infrequently heard, of late, such words as 'the British can justly claim to have done a good job of work in the Far East'. The examples just given constitute a solid foundation for the claim.

6. An outstanding feature of the period 1914–36 is the growth of the United States' commercial interests in the Far East. This is not less striking in respect of China than of Japan and British Malaya, as the figures for the latter part of the period have illustrated. Prior to 1915 the United States' share of China's total foreign trade rose above 10 per cent only three times—in 1902, 1905, and 1906. Between 1915 and 1931 it rose from 10·90 to 18·73.[1] Thereafter, as we have seen, it rose higher. Two interesting facts are to be noted about this, one that commercial development was not accompanied by as large an investment of capital as the functional interdependence of the two—to quote Callis[2]—might have led us to expect; the other that commercial development in China was preceded by a wide and penetrating dissemination of American cultural influences. To what extent these helped American trade is a matter of opinion—an opinion which must take into account the relative weakness of such influences in the case of American trade with Japan. But upon retrospect it seems clear that the commingling of Sino-American cultural and commerical relations during these years provided one of the determining factors of American Far Eastern policy during the period to which we have now to turn.

[1] Chinese Customs Decennial Reports, 1922–31, p. 175.

[2] See *Foreign Capital in South-east Asia*, p. 54.

PART V

1937–1941. THE COLLAPSE OF A SYSTEM

Connotations of the Term 'System'—General Character and Main Subjects of this concluding Period, 1937–41—Effects of the Sino-Japanese War on British Trade with China and Hongkong
Effects on Shipping—On Railways—On Mining
Currency Issues: the Establishment of the Federal Reserve Bank—The Chinese National Dollar—British Support of the Dollar—Japanese Blockade of the British Concession, Tientsin—The Tientsin Formula—Reactions in Commercial Circles—Policy of the U.S.A.—Trade and the Chinese Dollar—Freezing of Japanese Credits
Local Conditions in Shanghai, Tientsin and Hongkong—Professor Remer's and Mr. Kann's Estimates of British Capital in China
British Interests in Other Parts of the Far East—Malaya, the Dutch East Indies, Siam and Burma—Australia's Trade in the Far East during this Period—Oil and the Dutch East Indies—Bird's-eye View of United Kingdom's Trade in this Region—British Shipping in the Pacific—Denunciation of British Commercial Treaties with Japan

THE first thing I have to do in this part is to answer the questions: What is meant by 'system'? and Why 'a' system?

I use 'a' as one would use 'an' in writing of an era or an epoch. We have not been studying an era or an epoch, but a selected series of economic events occurring within a clearly defined period, which dates from the early days of the East India Company and continues down to the eve of a second Sino-Japanese War. We saw at the beginning of the period that the East India Company was instituted, in part, as a method of regulating foreign trade in accordance with a set of ideas called the Mercantile System. We saw the Company's monopoly disappear as the result, partly, of a new group of ideas, of which freedom from regulation and restriction was one of the chief. As opposed to mercantilism, we adopted a system of free trade, and we maintained it, modified by preferential arrangements within the Empire, down to a dozen years ago.

In adopting free trade, we gave pecuniary self-interest, to-day (as already remarked) somewhat confusedly called the profit motive, free scope. In our industrial world its scope was gradually but increasingly limited by legislation. In our finance and foreign trade this was not the case. Opulence was aimed at and attained in consonance with ideas which in respect of their domestic application were expressed in the following well-known passage:

'Without any intervention of law, the private interests and passions of men naturally lead them to divide and distribute the stock of every society, among all

the different employments carried on in it, as nearly as possible in the proportion which is most agreeable to the interest of the whole society. All the different regulations of the mercantile system necessarily derange more or less this natural and most advantageous distribution of stock.'[1]

Watching the expansion of our trade under the influence of these new ideas, in China, Japan and throughout the Far East, we also saw how these ideas of freedom, and of equal opportunity became associated with arrangements known as the treaty-port system, which existed in Japan for fifty years, in Siam for a much longer period, and in China, with certain modifications, throughout the years which we have been surveying, the most important of the modifications being her acquisition of tariff autonomy. We saw further how the idea of equality of opportunity came to be formulated and accepted internationally as the 'open door' and how the 'open door' was associated throughout the period with spheres of special rights and interests.

I use the term 'system' to connote all these things as they existed at the end of 1936.

The next requirement is to indicate in general terms, as has been done in respect of previous periods, the character of this short period 1937–41. Taken as a whole, economic events were determined by political occurrences and considerations to such a very large extent that it is difficult, so far as China is concerned, to regard or treat them from a purely economic point of view. In other parts of the Far East this is less the case, though there too the political events of north-east Asia overshadowed, and towards the end dominated, economic events. In Part IV it was necessary to treat events in north-east and south-east Asia so far as possible contemporaneously. In this part confusion would result from such treatment, so it is proposed to concentrate first upon events in China and to deal with the other countries subsequently. In describing events in China, however, we shall have all the time to be referring to the actions and programme of Japan, for in them lay the mainspring of most economic developments in the Far East.

However, if economics pure and simple were to a large extent non-existent, economic trends can be clearly shown. It is proposed to do this, or at all events to try to do it, under the following heads:

(*a*) the effects of the Sino-Japanese war upon our trade with China (and Hongkong) and upon our railway, mining, and shipping interests there;

(*b*) currency issues in China;

(*c*) local conditions in Hongkong, Shanghai, and Tientsin;

(*d*) British interests during this period in other parts of the Far East, and, finally, British shipping interests in the Orient as a whole.

[1] Adam Smith, *The Wealth of Nations*, p. 492 (Routledge edition).

THE EFFECTS OF THE SINO-JAPANESE WAR (WHICH BROKE OUT IN JULY 1937) UPON OUR TRADE WITH CHINA AND HONGKONG, AND UPON OUR RAILWAY, MINING AND LOCAL SHIPPING INTERESTS

Trade

THE trend of the United Kingdom's exports to China was downwards, though there was a marked upward movement in 1940, notwithstanding the outbreak of war in Europe. Their trend in Hongkong's case was upwards for most of the time, including 1940. As regards imports, also, the trend in China's case was downwards. Import figures for 1940 being unavailable, it is impossible to say whether, like exports, they improved in that year. In Hongkong, like exports, imports moved upwards.

The following figures, taken from our Board of Trade returns, illustrate these statements. The export figures are those of the United Kingdom's produce and manufactures only. The 1936 figures are reproduced for purposes of comparison.

UNITED KINGDOM'S TRADE WITH CHINA AND HONGKONG

	Exports (£000's)		*Imports (£000's)*	
	To China	*To Hongkong*	*From China*	*From Hongkong*
1936	5,780	2,105	7,618	754
1937	5,911·7	3,391·7	8,248·9	935
1938	4,057·5	3,924·6	6,409	1,002
1939	3,557·9	2,751	5,147	944
1940	5,344·9	3,242	(Not available)	(Not available)

In terms of commodities, the trends shown above appear to some extent to be explained by the following figures:

UNITED KINGDOM'S EXPORTS TO CHINA

(£000's)

	1936	1937	1938	1939
Chemicals (sodium compounds)	115	129	54	95
Machinery	570	723	800	685
Iron and steel and manufactures thereof	846	1,120	401	252
Woollen and worsted tissues	117	198	120	238
Wool tops	785	660	43	263
Cotton piece-goods	180	172	91	68·7
Road vehicles	80	70	74	185

EXPORTS TO HONGKONG
(£000's)

	1936	1937	1938	1939
Chemicals (sulphate)	9·7	176	238	34
Machinery	161	317	507	432
Iron and steel (as above)	271	513	425	282
Cotton piece-goods	92	119	198	129
Road vehicles	57	113	157	130

To what extent the figures of exports to China can be related to her war needs is extremely difficult to say, if, indeed, it is possible at all. The probability is that a certain proportion of imports at the northern ports found their way into Free China, but there is no means of knowing how much. A good deal that was exported to Hongkong almost certainly did so, and this appears to give special significance to the figures showing the value of road vehicles imported, a remark which applies, perhaps, also to the iron and steel and the machinery figures. But I doubt whether anything more definite than that can be said. On the other hand, there need be little hesitation in saying that the downward trend in the United Kingdom's exports to China, compared with their upward trend in Hongkong—except in 1939, to which we shall return presently—can be attributed directly to the conditions created in North China by the Sino-Japanese War.

As regards the export totals in the first of the tables printed above a fact worth noting is the change which occured after 1936 in the relative importance of the Chinese and the British Malayan markets. Up to 1936 the Chinese market (including Hongkong) was the more valuable: after 1936—as figures given later on show—the British Malayan became the more valuable, this change being due not merely to decreased sales to China, but also to considerably increased sales to British Malaya, which regained the importance it had had prior to the great depression, more particularly between (and including) the years 1925 to 1929.

As regards imports from China, the three most noticeable commodities were eggs (not in shell), tin and tung oil. Their history may be briefly summarized thus:

	Value in 1936 (£000's)	*Average value,* 1937–9 *inclusive* (£000's)
Eggs	2,403	2,504
Tin and tungsten	728	771
Tung oil	465	406

Imports from Hongkong of these commodities are included in the above figures.

How the United Kingdom's trade fared in comparison with that of other countries is, naturally, a matter of great interest. To see this we have to turn to the Chinese Customs figures, which, however, ceased to be as reliable after 1937 as they had been before. The working of the whole Customs system during this period is, indeed, something of a mystery. That it worked at all is a feather in the cap of the Inspector-General, Sir Frederick Maze. That it worked as well as it did is a yet bigger feather—the size of feather which should be given to his Commissioners being unknowable in existing circumstances. The Customs continued to produce their statistics to the bitter end, the last volume available being the monthly returns for September 1941. But one cannot study them without becoming aware of the necessity of considerable caution in using them. Take, for example, the figures showing the trade of the Yangtze (Chungking to Chinkiang). The British Empire is credited, in respect of imports, with percentages in 1938 and 1939 thirty times as large as those of the Japanese Empire, while as regards exports we are credited with over 99 per cent of the trade. That is, of course, ridiculous. In those years practically the only ships moving up and down the Yangtze were Japanese. The percentages of trade at the coastal ports are, or should be, more reliable. Certainly, one has no such ground to question them as in the case of the Yangtze ports. The Customs report for 1939 states specifically that there was a marked improvement in Customs control over northern ports, at all events at the beginning of the year, and that at Shanghai 'the smuggling of non-duty-paid goods into the International Settlement south of Soochow Creek and the French Concession from the adjacent areas, which was prevalent during 1938, declined to insignificant proportions during the year under review'. Yet in 1939 the Japanese share of the value of imports at Shanghai is shown as no more than 17·94, against our 33·04 per cent, and the United States' 20·34 per cent, while at Canton the Japanese share of imports is shown as 0·55 per cent, ours as 16·43 per cent, and the United States' as 52·29 per cent. If the explanation is that the Japanese got many of their imports into China as military stores, these figures naturally become easier to understand.

The shipping position will be dealt with presently.

Meanwhile, for what they are worth, the Customs statistics showing Great Britain's share of China's total import and export trade, and that of other countries, are set out below, China's trade being shown in thousands of gold units.

The gold content of the Customs gold unit, it should perhaps be explained, was a fixed quantity, i.e. 60·1866 centigrammes of pure gold. The fixed equivalents of the unit, calculated on the basis of pure gold content, were 19·7265 pence, 0·40 gold dollars,

0·8025 gold yen, and 1·679 Reichsmarks. The actual equivalents (average) of the unit used for valuation purposes in the returns in the years 1937, 1938, 1939 and 1940 were:

	1937	1938	1939	1940
Pence	32½	33 11/32	36¼	42 19/32
Hongkong $	2·17247	2·18461	2·37522	2·84132
Gold dollars	0·66555	0·67896	0·75007	0·67725
Yen	2·31661	2·36858	2·57524	2·88581

GREAT BRITAIN'S AND OTHER COUNTRIES' SHARES OF CHINA'S TOTAL (GROSS) IMPORTS

(000's *gold units*)

	1937	1938	1939	1940
Total Imports	420,607	388,739	542,594	755,214
	Per cent	*Per cent*	*Per cent*	*Per cent*
Great Britain	11·68	7·90	5·80	3·99
U.S.A.	19·75	16·93	15·94	21·30
Japan	15·73	23·49	23·34	22·81
Germany	15·31	12·64	6·49	2·69

GREAT BRITAIN'S AND OTHER COUNTRIES' SHARES OF CHINA'S TOTAL EXPORTS

(000's *gold units*)

	1937	1938	1939	1940
Total Exports	369,028	331,687	408,958	729,985
	Per cent	*Per cent*	*Per cent*	*Per cent*
Great Britain	9·58	7·43	8·82	9·96
U.S.A.	27·59	11·37	21·92	28·63
Japan	10·05	15·26	6·47	6·40
Germany	8·64	7·39	4·38	0·21

SHARE OF OTHER PARTS OF THE EMPIRE

WE must turn next to the share of other parts of the Empire in China's trade during these years. Of particular interest are Hongkong's, Burma's, British Malaya's, and Australia's figures.

Hongkong's Share

We saw in Part IV how, as a result of new methods of ascertaining the provenance of imports, Hongkong's recorded share of China's imports dropped in 1932 to 6 per cent and that in 1936 it was, approximately, 2 per cent. The precise figure in that year

was rather less—namely, 1·88 per cent. The figures for this 1937–40 period were:

1937	1938	1939	1940
2·00	2·75	2·64	7·19

The reader's eye will immediately be caught by the 1940 figure. So, too, would it be if he had those of Kowloon before him, where much of the duty on cargo intended for import at Canton was paid. Both in 1938 and 1939 Canton suffered severely at the hands of the Japanese. At the end of May 1938 the Japanese inflicted an aerial bombardment on the city which lasted for ten consecutive days, and during the rest of the year the city was frequently visited by hostile aircraft. In 1939 looting and hold-ups occurred daily: during the first half of the year the population was insignificant and only a few hundred small shops were open. Later things improved somewhat, the population increasing to about 300,000. So in 1939 the value of Kowloon's imports was some three million gold units only, as compared with 63·5 million in 1938. In 1940 there was a big recovery, the value of imports rising to 37·6 million. Of this increase the Customs report said:

'This enormous increase in a year when only a few stations'—i.e. Customs stations—'were functioning for the greater part of the time was only possible because throughout the year, with one brief interruption, communications were maintained between Mirs Bay and the hinterland. Large numbers of vessels plied between Hongkong and the Chinese shore of the bay, and thousands of human carriers, braving frequent air-raids, moved cargo over the long and hazardous routes to the interior.'

In these circumstances it is not surprising that Hongkong's percentage of China's imports also rose considerably. Nor is it unreasonable to think that in this year the Customs were unable to keep track of the provenance of imports from the Colony and that its increased percentage represented goods from all over the world. We know that in 1940, as in 1939, the majority of the British firms in Canton were able to maintain from their offices in the Colony a portion of the trade hitherto conducted at Canton. And until the collapse of France many of these firms were able to trade profitably in South China produce, and even to carry on fairly well after that.[1] The point upon which attention should be focused, however, is the very considerable economic advantage which China during this year derived from having a British Colony on her doorstep. The Japanese naval blockade of the Chinese seaboard, the interruption of traffic between French Indo-China and China and the temporary closing of the Burma Road all made Hongkong of the utmost importance to China. In June 1940

[1] Chairman's speech at Annual Meeting of British Chamber of Commerce at Canton, 1940.

Japanese forces occupied all Customs stations along the Kowloon frontier, but they soon withdrew from the Mirs Bay sector, and trade increased in volume towards the end of the year.

So, though there is no means of relating them directly to China's imports, it seems worth while to give an indication of the provenance of what Hongkong imported. In 1940 the Colony's total imports were valued at Hongkong $629 million. Of this total the value of imports (in millions of Hongkong $) from the United Kingdom, other parts of the Empire, the United States, the Netherlands East Indies and Indo-China were:

United Kingdom, $46; British India, $20·5; Australia, $17·6; British Malaya, $17; Canada, $8.

Other countries: U.S.A., $77; Indo-China, $66; Netherlands East Indies, $61·6; Japan, $25.

Imports from China in 1940 were valued at $256·6. Most of these were intended for South China ports and foreign countries, in what proportions it is impossible to say. But this figure derives additional interest from a glance at the Colony's export figures.

HONGKONG'S EXPORTS

(*Millions Hongkong* $)

	1937	1938	1939	1940
Total value . . .	467	511	533	461
China	190	230·7	90	155
U.K.	20·8	21	22·4	39
U.S.A.	41	52	76	76
British Malaya . .	39	36	45	61
French Indo-China . .	24	23	55	27
N.E.I.	15	14	15	15·7
Japan	19·7	3	6	13·9

In the years shown the ratio between the Colony's imports from China and its total exports to her and other countries was represented by the following approximate percentages: 1937, 45 per cent; 1938, 45·5 per cent; 1939, 44 per cent; and 1940, 56 per cent. What proportion of imports from China remained in the Colony it is difficult to say—certainly, only a small one. On the assumption that the proportion was much the same for the years 1937 and 1940, it seems clear that the latter year's export figures reinforce the remarks made above about the economic advantages which China derived from the Colony. One of these was the support to the national dollar which, by supplying a gateway for exports, Hongkong furnished at this critical time. Particularly interesting in this respect are the figures in the table above of exports to the United States.

Australia's, British Malaya's and Burma's Share of China's Direct Trade

According to the Chinese Customs returns direct imports from Australia were in 1937 valued in gold units at 7 million; in 1938 at 12 million; in 1939 at 27·8 million and in 1940 at 31·6 million, the 1939 and 1940 totals representing 5·11 and 4·20 per cent respectively of China's total import trade. The Commonwealth's share of China's export trade was negligible.

British Malaya's share of the import trade, according to the same returns, was much smaller than Australia's, her percentages of it in 1939 and 1940 being only 0·90 and 1·12, which were much the same as the 1937 and 1938 figures. In others words, neither the Sino-Japanese, nor the European, war appears to have had any appreciable effect on Sino-Malayan commercial relations so far as imports were concerned. Exports to Malaya, on the other hand, increased in value both absolutely (especially in 1940) and relatively, the percentage for 1939 and 1940 being 3·28 in both years, whereas between 1932 and 1936, as we saw in Part IV, it did not rise above 2·89. British Malaya's statistics confirm this difference between imports and exports.

Burma's share of China's trade was small even after it was increased in importance by the opening of the Burma Road. In 1937 imports from Burma were valued at gold units 3·6 million. In the following years the value (in thousands of gold units) as recorded in the Chinese Customs returns was:

1938	1939	1940
5,635	2,674	4,901

In 1939 the Burma Government's statistics did not distinguish between goods using the new road from the trade using the old routes. Subsequently they did, those for 1940 showing the value of commodities using the road as Rs.56,126,000, the total value of goods sent into China by all routes being a little over Rs.60,898,000. Commodities emanating from the British Empire were valued at Rs.15,971,000; those originating in the United States at Rs.23,050,000. For the first nine months of 1941 the figures were:

	By Burma Road *Rs. 000's*	*By all routes* *Rs. 000's*
From all sources . .	. 113,566	115,531
From British Empire .	. 48,124	—
From U.S.A. . .	. 46,514	—

The road carried, amongst other Chinese requirements, motor omnibuses, vans, and lorries; pneumatic motor covers and tubes; petroleum and other oils; machine tools and miscellaneous implements; machinery; metals and metal goods.

Tengyueh, where imports by the Burma Road are recorded, is situated on the western border of Yunnan. It is about seven days' pack-animal journey from Bhamo and twenty-four days' from Kunming or Yunnanfu, the 'port' being opened in 1902. Of its trade in 1940 the Chinese Customs Report for that year says that 'the volume of the import trade increased gradually but not remarkably during the first half of the year as compared with the first half of 1939. This was because the Tonkin-Yunnan Railway was not able to handle all the freight offering, so that a partial diversion of trade to the Burma road had already begun. On the 20th June all railway traffic between Tonkin and Yunnan stopped, and from then on imports by the [Burma] road increased very considerably both in volume and in kind'.

'The requirements of this district', the Report continues, 'had nothing to do with the improvement in trade, and local demand for imported goods declined even, because the continual fall in the dollar diminished the purchasing power of the local population. The British authorities closed the Burma road to military supplies, including gasolene, for a period of three months from the 18th July. It was feared that the ban on gasolene would seriously affect traffic, but the difficulty was obviated by allowing registered trucks to carry enough gasolene for the outward and return journeys. In October it was reported that the Chinese authorities were planning to monopolize the road for official supplies and products. The report proved groundless, and at the end of the year the Governments of China and Burma reached an agreement providing for unrestricted commercial traffic over the road.'

The value of the year's import trade was $7·8 million, as against $3·8 million in 1939. Cotton yarn increased from 20,512 quintals in 1939 to 34,825 quintals, cotton piece-goods from a value of $10,252 to $114,000, motor vehicles from 55 to 427 pieces and gasolene from 21,136 to 1,398,161 litres. The value of the export trade was $4·8 million as against $3·3 million in 1939. The increase was mainly due to the export to Burma of 5,936 quintals of hartall, a provincial government monopoly. 'The demand for this commodity' (the Report says) 'is very capricious and none went out after June.'[1]

[1] Op. cit., p. 53.

Shipping

To turn now to shipping. In 1936, of the total tonnage (entered and cleared) in foreign trade, 45 million, the British percentage was 35·72, the Japanese 20·82, the Chinese 8·75, and the American 6·90. Of the total tonnage (entered and cleared) in domestic, i.e. inter-port, trade, 99·7 millions, the British percentage was 41·38, the Japanese 15·53, the Chinese 35·47, and the American 0·65. In 1940 the figures were:

	Foreign trade	*Domestic trade*
Total tonnage entered and cleared . .	25,675,594	15,716,322
	Per cent	*Per cent*
British	17·28	40·79
Japanese	53·50	31·82
Chinese	2·52	10·16
American	5·73	0·52

Apart from the effect of the European War, which caused a swift and big diversion of British vessels from ocean trade to military and naval purposes, the chief factor in changing the percentages shown above was the decrease in Chinese tonnage caused by the Sino-Japanese War. This affected both the ocean and the domestic percentages. To understand the effects of the Sino-Japanese War on British shipping, apart from these statistical changes, it is necessary to realize that, throughout the greater part of this period, both the Yangtze and the Pearl rivers were to all intents and purposes closed to British vessels, while as the Sino-Japanese War went on the ports south of Shanghai were closed too.

Interviewed on November 3, 1938, General Hata, the Japanese Commander-in-Chief at Shanghai, said: 'The Yangtze is quite safe and will be reopened to foreign shipping when military operations permit, but I cannot say when that will be.' On the 14th, however, in replying to Notes presented by the British, French, and American Governments, the Japanese Government declared that navigation was possible only for military purposes and that the time had not yet arrived for a general reopening of the river. Yet between November 16 and 19 of that year the *North China Daily News* published details of extensive commercial operations by Japanese vessels, while a letter from a correspondent who had recently visited Nanking said:

'In Hsiakuan, known as Nanking's harbour, I noticed not less than 17 Japanese merchant ships discharging their cargoes at full speed. That merchandise was taken by trucks to Japanese merchants in Taiping Road, known as

"Little Tokyo", to be distributed to their agents in the adjacent villages. Business in Nanking is very good: 98 per cent of the goods now on sale in shops, market and stalls in Nanking are of Japanese manufacture.'

On November 24, 1938, Sir Robert Craigie, British Ambassador in Tokyo, informed Mr. Arita, Minister of Foreign Affairs, that H.M. Government could not accept as valid the arguments whereby his Government sought to justify the exclusion of British vessels from navigation of the river. A few days later Admiral K. Oikawa, Commander-in-Chief of the Japanese China Seas Fleet, issued a memorandum to the senior naval commanders in Shanghai of Great Britain, the United States, France, and Italy, which contained the following paragraphs:

'The Japanese forces opened the Yangtze in order to execute their operations. We believe that the Third Powers who did not take effective steps to check the blockading of the river, when that was carried out by the Chinese forces for their hostile purposes, must now be able to realize the fact that the Japanese forces completed at a great sacrifice the opening of the river solely for their military purposes.

'The hostilities have not come to an end yet. The operations are still going on, and the Yangtze, even now that the Wuhan area is under our control, is part of the battlefield and constitutes an artery of replenishment which is of great importance for our operations. The Japanese forces are making great efforts to secure themselves against the obstructions put up by the Chinese forces.

'A large number of Japanese vessels now navigating the Yangtze River are engaged in the transportation of munitions and such articles as are necessary for the maintenance of the Japanese forces and organizations attached to them, and no vessel is engaged in general trade.

'It is needless to say that the Japanese operating forces earnestly desire that, as the necessity for executing military operations in Central China decreases, such a state of affairs may speedily be restored as will enable the Powers concerned to enjoy trading on the Yangtze. The present situation, however, is far from our wish, and we shall be compelled to stick to our decision as long as the Chinese forces maintain their present attitude.'

Admiral Nomura was closely questioned by Shanghai newspaper men upon this memorandum, one of his answers being that 'as long as the Chiang Kai-shek régime is in existence, and until the reconstruction of China has been completed, the present state of affairs will have to continue'. A similar though less emphatic statement was made by Admiral Yonai when Minister of the Navy, on February 17, 1939. By the end of that year the matter appeared to be regarded in a different light in Tokyo. On December 18 Admiral Nomura, who had become Foreign Minister, gave Mr. Grew, the American Ambassador in Tokyo, an assurance that the Yangtze would be reopened shortly. The Tokyo correspondent of *The Times* quoted 'responsible authorities' as stating that the reopening had been already decided on, and would be carried out probably before the end of March. However, the river remained closed, though Japanese vessels, sailing as Government transports, but carrying ordinary cargo, plied regularly between Shanghai and Hankow.

The Pearl River was closed to all shipping on the night of October 13, 1938. On November 4 it was authoritatively stated that everything possible was being done to reopen it, but it remained closed. The annual report of the British Chamber of Commerce at Canton for the year 1940 contained the following paragraphs:

'The position of British shipping in the Pearl River remains at the end of 1940 almost exactly the same as at the end of 1939. . . . The river remained closed throughout the year to third-party merchant shipping with the exception of (*a*) a limited traffic with Hongkong and Macao by British and Portuguese tonnage in accordance with agreements between the authorities concerned and (*b*) a few calls by Japanese-chartered Norwegian tonnage.

'The carriage of cargo coastwise, and latterly from Indo-China, which in normal times is both by bulk and value the most important section of local shipping activities, and carried on predominantly in British bottoms, continued throughout the year to be restricted to vessels plying as Japanese naval or military transports, the goods themselves ranking as relief goods. . . . At the beginning of the year there was much talk of a reopening of the port to general trade, and it was anticipated that something of the kind would be arranged to coincide with the inauguration of the Nanking Central Government on March 31. After various delays, it was announced that the river would be reopened on April 20, but the published scheme was found to contain no relaxation of the restrictions on shipping. The coasting trade, in which third-party shipping has such a substantial stake, was still barred and entries were restricted to the sailings from Hongkong and Macao already provided for. By these vessels only was the export and import of merchandise under Customs regulations to be permitted, and this was qualified by the publication of a very comprehensive list of restricted goods for which prior permission to import or export had to be obtained from the Superintendent of Customs. The carriage of relief goods continued to be reserved to military transports and, until October, exempt from customs control. Whatever relief these proposals might have afforded to merchants, shipowners could not by any stretch of imagination view them as "a re-opening of the port to general trade". They perpetuated or at least prolonged unduly an exclusion of shipping which had originally been represented as temporary and could only be condoned on grounds of urgent military necessity in the most literal interpretation of that expression.'

Of shipping on the West River details are at once less plentiful and less necessary; for though the West River trade has in normal times been important, it has been carried chiefly in Chinese ships, the British tonnage employed being relatively small. Suffice it to say that, as a result of the Sino-Japanese War, this route too became unworkable for British vessels. The same statement holds good for most of the trade routes previously traversed by British tugs, launches, lighters and motor boats registered for trade under Inland Water Regulations.

British shipping was seriously handicapped by Japanese control of harbour facilities at the coastal port of Tsingtao. Obstructions placed at the entrance to what is known as Great Harbour by the Chinese at the beginning of hostilities had been largely removed by May 1938. From then on Japanese vessels were allowed free access to wharves and moles, but British and most other foreign vessels were denied this for the best part of a year, having in

consequence to discharge and load in the open roadstead known as the Back Bay Anchorage, where the only available transport for the conveyance of cargo to and from vessels were fishing junks entirely unsuited for the purpose.

Towards the end of April 1939 two berths were made available for British vessels in the Inner Harbour. These comprised the wharf at No. 4 Mole and an alleged frontage of 220 metres at No. 1 Mole. No. 4 Mole was, however, reserved exclusively for vessels discharging or loading gasolene and kerosene. Ordinary merchant vessels could not use it for general cargo, so that the accommodation available for them was enough only for one ocean-going vessel, or, at the outside, two coasting vessels. Moreover, though 220 metres (714 feet) were declared available, only 680 feet could be used, owing to the presence of the signalling station at the end of No. 1 Mole.

During April a number of vessels experienced serious delay awaiting their turn for a berth, though there were never less than ten, and often as many as fifteen, berths available elsewhere. There were twenty-three general cargo berths in the harbour and these were sufficient available to obviate such delays. It was not till November that British coasters began to experience better treatment, which, it is only fair to add, was subsequently maintained.

Taking the four years 1937 to 1940 as a whole, the following generalizations regarding British shipping on the China coast may be made. After the outbreak of the Sino-Japanese War in July 1937 there was a great increase in passenger and other earnings owing to the flight of Chinese refugees both southward and westward. Chinese tonnage began to hide itself and Japanese tonnage to be requisitioned. In 1938 Chinese tonnage disappeared almost entirely: there was little Japanese tonnage available, yet the transfer of population, plant and materials of all kinds towards the west created a great demand for river tonnage up to the middle of the year. Thereafter the Yangtze was closed to all but Japanese tonnage. In 1939, accordingly, there was no river trade below Shasi except an occasional Delta trip, while the tightening of the Japanese blockade on the coast, with its interference in the trade of all ports, affected earnings seriously. But for the effect of the war in Europe on freight markets earnings would have fallen to very little in 1940. They were kept up, however, by world scarcity of tonnage, the China coast fleets enjoying a strong charter market. But this does not alter the fact that these fleets were kept out of their own liner trades in Chinese waters—on the equipment of which large sums had been spent.

Railways.

To turn to railways. On the eve of the Sino-Japanese War, as has already been pointed out, railways built with British capital were emerging from a long period of depression. At the close of the first six months of 1937 all the indications pointed to a prosperous future. However, the outbreak of hostilities in and around Tientsin was followed by the monopolization of the railways in North China for military purposes and a complete disorganization of all public traffic. Subsequently the Tientsin-Pukow railway became divided into northern and southern sections, occupied by Japanese and Chinese forces respectively. On August 12, 1937, Chinese forces occupied the North Station of the Shanghai-Nanking railway and excluded the staff from access to the station and its offices. The Shanghai-Hangchow-Ningpo railway suffered seriously during the fighting which occurred about this time. The Chinese forces destroyed both permanent way and rolling-stock as they retreated, the Chien-Tang River bridge—which was actually completed during hostilities—being included in the destruction. Bombing from the air did considerable damage on the Hankow-Canton line. In spite, however, of almost daily air-raids during the first few months of the war, the Canton-Kowloon line continued not only to function, but also to earn enough revenue to meet working expenses. The line that came off most lightly was the Peiping-Liaoning (Peking-Mukden) railway. By the spring of 1938 conditions on this line were more or less normal and revenue was reported to be increasing.

In the latter part of 1938, however, the Chinese section of the Canton-Kowloon railways had to be evacuated by the railway staff, and retreating Chinese troops did much damage. Some of the major bridges were destroyed, three of the main spans of the bridges over the East River were demolished, while the terminal station at Canton was damaged and looted. It was estimated that the damage thus caused—excluding the damage to the major bridges—would cost $1,300,000 to make good. Fortunately, most of the rolling-stock had been removed prior to the retreat, some being sent to the British section of the line, some to the Canton-Hankow railway. In one way and another, however, the Canton-Kowloon line continued to suffer heavily. Thus, the annual report of the China Association, London, for 1939–40 said: 'Chinese guerrillas ripped up rails on the central section to impede the advance of the Japanese and the latter in turn ripped up rails on the southern section ostensibly to replace those removed by the guerrillas, but actually to send to Japan as scrap iron. The cost of repairing this damage and putting the railroad into anything like its former state would be very large indeed.'

In these circumstances the chairman's speeches at the annual meetings of the British and Chinese Corporation from 1938 to 1940 inclusive have made gloomy reading. 'It is most deplorable', he said on May 26, 1938, 'that the growing confidence in business and financial circles in China's railways prospects should have been destroyed for the time being by the Sino-Japanese hostilities. Unfortunately, railways, which are so essential to peaceful commerce, are no less important as instruments of war: military operations have been largely concentrated on the zones of the railways with dire effects. . . . Since the advance of the Japanese army to Nanking in December this [i.e. the Shanghai-Nanking] railway has been occupied by the Japanese military authorities. The British engineer-in-chief and the chief accountant, as well as the Chinese staff, have been refused access to the line. . . . The strongest protest has been lodged in diplomatic quarters against the continued occupation of the railway, with the request that it shall be returned to its proper administration. In the absence of the Chinese administrative officials, a special British Board of Commissioners has been established in the effort to protect our interests in the line and the Shanghai-Hangchow-Ningpo railway. Apart from the extensive physical damage the loss of revenue up to the end of December was computed to be over $5,000,000, and the administration, without revenue from the line [i.e. the Shanghai-Nanking] has no resources and is in a difficult and precarious position. . . . Two coupons of the 1903 loan due December 1, 1935, and June 1, 1936, were paid in 1937, leaving three half-yearly coupons and eight instalments of amortisation in arrear. . . . The open line section of the Shanghai-Hangchow-Ningpo line, from Shanghai to Hangchow, is also in the hands of the Japanese military authorities. . . . The two interest coupons due on June 15 and December 15 of last year were paid.' Referring to the Canton-Kowloon railway, which was connected with the Canton-Hankow railway by a loop line soon after the outbreak of hostilities at Shanghai, the chairman said that there had been a suspension for some months of the monthly payments due by the railway to the loan service reserve account, owing to funds being utilized to repair damage done by air-raids, the cost of which from October 1937 to February 9, 1938, was just under $300,000. However, payment of 2½ per cent interest was duly made on June 1, 1937, in accordance with the terms of the debt settlement referred to in Part IV. Regarding the Peking-Mukden (Peiping-Liaoning) line, the chairman said: 'The revenue is now reported to be returning to normal, but there has been much interference with the administration by the Japanese and officials from the South Manchuria Railway have been installed in all departments. All operations on the line are subject to the control of the Japanese

officials, with the results that the British employees have been unable to discharge their proper functions. The Japanese military authorities have also insisted upon construction of extensions and branch lines, and the position of British interests in the line is most unsatisfactory. Payments on account of the arrears of the Shanghai-Fengching Railway Mortgage Redemption Loan, which is secured upon the revenues of the Peking-Mukden Railway, have been suspended since August last. Strong representations have been made to the Japanese Government in regard to this and to the interference with the duties of the British general manager and engineer-in-chief.' The chairman was able to add the cheering information that the monthly payments for the service of the loan had been made as usual.

On May 25 of the following year, 1939, the chairman said of the Shanghai-Nanking and Shanghai-Hangchow-Ningpo railways that the Japanese had 'persistently refused to allow the representatives of the bondholders to exercise any of their lawful rights in the management of the line or even to inspect it. They have continued to operate the railway in contravention of the terms of the loan agreement and have appropriated the revenue which rightly belongs to the bondholders. It is the same with the Shanghai-Hangchow section of the Shanghai-Hangchow-Ningpo railway. The Japanese Army's cynical disregard of the bondholders' rights is indicated by the recent report that a Sino-Japanese company, called the Central China Railway Company, with capital said to be subscribed by Japanese interests and the Nanking "Reformed Government" in equal shares, has been formed to operate these lines. The Chinese Government has expressed its inability to accept responsibility for the financial obligations of the railways which have fallen entirely into Japanese hands, and as no revenues of the railways are available, the loan services are in default. On the Shanghai-Nanking railways five half-yearly coupons amounting to £348,000 and nine instalments of amortization amounting to £1,044,000 are at present in arrear, a total of £1,392,000. Of the Shanghai-Hangchow-Ningpo Railway Completion Loan two interest coupons amounting to £66,000 are in arrear'. On the Canton-Kowloon railways the Japanese, the chairman said, adopted the same policy as in Shanghai, refusing access to the line to the railway officials either for inspection or for resumption of work. However, previous to the fall of Canton a special emergency committee had been formed, consisting of representatives of the joint agents of the British and Chinese Corporation, together with the engineer-in-chief and the chief accountant. When Canton fell this committee took over control of the nucleus staff which the corporation's agents decided, as on the Shanghai-Nangking railway, to retain. It held, too, the funds of the railway, and

safeguarded its interests and those of the bondholders as far as possible.

In 1940 the chairman said:

'All the railways in which the corporation is interested are in Japanese hands, and all are being operated by the Japanese. Our protests against the many contraventions of our rights, made through diplomatic channels to the Japanese Government, have met with no satisfaction.

'This has involved the elimination of the British personnel, including the important appointments, which were formerly made in consultation with the corporation, of chief engineers and chief accountants of the Peking-Mukden railway and the Shanghai-Nanking and Shanghai-Hangchow-Ningpo railways.

'The damage done to the railways in which the corporation is interested has greatly impaired the security for the loans in which the bondholders have invested their money. The interests of the bondholders have suffered even greater injury from the action of the Japanese military authorities in completely ignoring the rights both of the bondholders and the corporation under the loan agreements in question. Every opportunity has been taken to protest in the strongest terms against all such infringements of our rights, and the corporation gratefully acknowledge the assistance and support they have received in this matter from the Foreign Office and the representatives of his Majesty's Government in China and Japan. The directors are considering what further steps it is possible for them to take to protect the interests of the bondholders, and the legal questions involved, which are of great complexity, are under examination.

'With regard to the actual railways themselves, the Peking-Mukden line is being operated, together with certain other railways in North China, by the North China Railway Company—a Japanese-sponsored subsidiary of the North China Development Company. Actual figures as to the earnings of the line are not available, but the loan service instalments have continued to be paid on due dates.

'The Shanghai-Nanking railway and the Shanghai-Hangchow-Ningpo railway from Shanghai to Hangchow remained under the control of the Japanese during the whole year, and are now administered by the Central China Railway Company, a Sino-Japanese concern formed by the Japanese Government. On the Shanghai-Nanking line passenger and freight traffic has been maintained mostly with Japanese rolling stock and locomotives; the trains run frequently and are freely patronized, but reliable information as to the earnings is not available. No payments of loan service were made during 1939.

'The Canton-Kowloon railway is in a very bad state and has probably suffered worse than any of the railways in which we are interested. A very large sum will be required if it is ever to be restored to its former condition.'

In June 1941 instead of a chairman's speech the directors issued a brief report, stating that the conditions described above showed no improvement. The principal railways, it said, were being operated by Japanese-sponsored subsidiary companies and no information was available regarding their revenue. With one exception the loan services of all the railways in which the Corporation is interested—all of which are within the territory occupied by the Japanese Army—have continued in arrear, the exception being the Peking-Mukden railway, in which case the Japanese authorities have continued to meet the service of the loan.

The following table shows the position of British railway loans at the end of June 1937 and at June 30, 1941:

LIST OF CHINESE GOVERNMENT STERLING LOANS (RAILWAY) IN WHICH BRITISH CAPITAL IS INVESTED

Rail and date	*Original amount of loan*	*Rate per cent*	*Balance of principal outstanding, June 30, 1937*	*Balance of principal outstanding, June 30, 1941*
	£		£	£
Peking-Mukden Railway (1898–1944)	2,300,000	5	460,000	230,000
Nanking-Shanghai Railway (1904–53)	2,900,000	5	2,784,000	2,784,000
Shanghai-Hangchow-Ningpo Railway Completion Loan (1936–61) . .	1,100,000	6	1,100,000	1,100,000
Hukuang Railways (1911–51)	6,000,000	2½–5	5,656,000	5,656,000
Canton-Kowloon Railway (1907–37)	1,500,000	2½–5	1,106,500	1,101,500
Honan Railway (1905–35) . .	800,000	2½–5	485,700	475,700
Shanghai-Fengching Railway (1914–34)	375,000	·6	262,500	225,000
Tientsin-Pukow Railway (1908–38), British Issue .	1,850,000	2½–5	1,156,250	1,156,250
Tientsin Pukow Railway Supplementary Loan (1910–40), British Issue .	1,110,000	2½–5	888,000	888,000
	£17,935,000	—	£13,898,950	£13,616,450

Mining

We turn now to mining. As in the case of the railways, during the year preceding the outbreak of war with Japan the outlook for mining was good. 'Throughout the year', said the chairman of the Pekin Syndicate, Brigadier-General Woodroffe, at the annual meeting held on July 27,1937, 'your mines worked full time under favourable conditions. . . . 1,356,000 tons of coal were sold. . . . The cost of production has remained constant in spite of increase of wages, and 1,280,000 tons were dispatched by rail. This figure would undoubtedly have been greater had it not been for the Sianfu incident in December, which was the cause of many of our

trains being detailed for military transportation.[1] . . . The extension of the Tao-Ching railway eastwards, of the commencement of which I informed you last year, has been completed and the line is open to traffic as far as Chu Wang, the new terminus. Five-hundred ton trains are being hauled over the extension daily, which is a good beginning, and it is hoped that this will help to increase the amount of coal sold in that area.'

But with the outbreak of the Sino-Japanese War this favourable outlook changed quickly. The overrunning of Hopei, Northern Shantung, and Shansi by the Japanese, combined with lack of transport owing to the railways being used for military purposes, caused the immediate loss of the greater part of the syndicate's markets. Towards the end of August 1937 production was curtailed. On October, owing to the rapid advance of the Japanese down the Peking-Hankow railway, it was decided to close down the mines and transfer the head office of the administration, and as much machinery and plant as possible, to Hankow—a distance of 600 miles. All plant and machinery was extracted from the Li-Ho mine, which becamed flooded, as did the Lifeng mine. In February 1938 the syndicate's district in Honan was occupied by the invaders, and the head office was moved to Chungking. At the annual meeting held on July 7, 1938, General Woodroffe quoted the syndicate's general manager as reporting that both the Chinese and the Japanese had respected its property, and that on the whole the liquidation of branches and agencies in the war areas had been successfully accomplished, though in some cases stocks had to be left behind. On the other hand, the track of the Tao-Ching railway between Hsien-Hsiang Hsien and Taokow had, he said, been lifted, though Japanese trains continued to operate along the western section from Hsien-Hsiang Hsien to Chinghua. The chairman also reported that of the 102 spans of the Yellow River bridge fifty, together with their pillars, had been destroyed, and that as a result there was a gap of 1,420 yards in the bridge. In effect, therefore, the best means of transporting the syndicate's coal from the Chiaotso mines to the area south of the river, including the Lower Yangtze Valley, had been completely lost. 'The mine area', General Woodroffe said, 'is now occupied by the Japanese and is bound to remain in the sphere of active hostilities; there appears, therefore, to be no prospect of their being reopened until satisfactory peace terms between the two nations have been arranged. Even then it must take some time to recover our markets, not only because of the difficulties in transportation, but also because of the general desolation and destruction throughout the countryside.' It had been hoped that a new mine opened south of the Yangtze, the coal of which was of excellent quality, would go

[1] The incident referred to here is the kidnapping of General Chiang Kai-shek.

some way towards maintaining the Chung Fu administration without loss. But owing to the fall of Hankow and the burning of Changsha work at this mine had to be discontinued in October 1938.

At the annual meeting held on July 19, 1939, General Woodroffe reported the development (with equipment taken from the Chiaotso mine) of three new mines in Szechuan, in which the administration held a considerable interest. A year later he was able to say that all these were doing well. He was not, however, able to report as well as he had hoped to do upon the syndicate's wolfram business, for the sale of which it was appointed export agents of the Chinese Government in 1938, the wolfram being exported from Kiangsi, Hunan, and Kwangtung. He attributed this to the fact that 'as a result of the war in Europe, the handling of Chinese wolfram has become political rather than commercial'. And he had also to inform his shareholders that on August 2, 1939, the Chiaotso mine was taken over by the Japanese-sponsored Government of North China. The foreign staff was forcibly detained, and it was not till September (1939) that, after strong diplomatic representation by the British, French, and Belgian Ambassadors in Tokyo, members were released and given a safe passage.

At the meeting on September 10, 1941, General Woodroffe said that the Chiaotso mines were still being operated by the Japanese-sponsored Honan provincial government, but that the situation regarding the Szechuan mines was more stabilized. He intimated that it had been mutually agreed to cancel the wolfram agency agreement as from March 1, 1941, the syndicate having been reasonably compensated; also that the syndicate had been appointed purchasing agents of the Chinese Government in respect of goods purchased in certain territories in the sterling area under the credit of £5,000,000 granted to China by Great Britain.

The experience of the Kailan Mining Administration was much happier, as the following figures of sales and dividends illustrate:

Year (ending June 30)	*Sales of Kaiping Coal, metric tons*	*Dividends (paid from the Company's half share of the net profit of the Kailan Mining Administration, for history of which see Part III, pp. 60–2)*
1935–6	4,026,000	2½ per cent tax free
1936–7	4,146,000	5 per cent tax free
1937–8	4,213,000	7½ per cent tax free
1938–9	5,466,000	7½ per cent tax free
1939–40	5,803,000	3¾ per cent tax free
1940–1	6,140,000	—

The chief factors responsible for this prosperity may be gathered from statements made at the annual meetings in London of the Chinese Engineering and Mining Company. Of the results obtained in the year 1936–7, the chairman said that there had been a marked revival of trade in the autumn of 1936, leading to an increase of selling prices which came into general operation in the New Year. Other contributory causes were diminished competition of Chinese-owned mines, reduced cost of production; economies and improvements, and the fact that the working of the administration was more free from political influence than had been the case for some time past. However, after the outbreak of hostilities between China and Japan large Japanese forces landed in North China and occupied the area on which the business of the Kailan Mining Administration primarily depended. Yet the working of the mines proceeded without serious interruption. 'As I said a year ago,' the chairman remarked, 'neither the Kailan Mining Administration, nor this company, has any political ends to serve. We are concerned only with the prosecution by the administration of our legitimate business interests.' At the annual meeting in 1938, after giving a brief account of a serious strike at the Chaokochwang and other mines, the chairman said: 'The strike had to be resisted to the utmost by the administration, which successfully demonstrated its determination to manage its own affairs, and has resulted in a better understanding with the Japanese authorities in North China, who are showing every disposition to protect the administration and assist in increasing the production and transport of Kaiping coal.' Quoting the directors' report, the chairman added that there had been an urgent demand for Kaiping coal in the markets of Japan, North China, and Shanghai. 'It has become evident', he said, 'that in order to meet this demand, which may be expected to increase with the further industrialization of the Far East, it will be necessary to open a new mine capable of producing about one million tons of coal per annum, and a scheme with that object is in course of preparation by our engineers. Together with our partners, the Lanchow Mining Company, we are satisfied as to the necessity of providing for this large increase of output to meet the demands of Japan, China, and the Far East generally; indeed, it is being urged upon us by our principal consumers.' This increased demand for coal was emphasized in the following year, Shanghai's demand being again referred to specifically.

In regard to Japan's demand, the Chinese Maritime Customs Report for 1938 (i.e. Vol. I, Part 1) said, 'the increased production of coal is one of the ultimate objects of the Japanese authorities in North China, the operation of nearly all important coal-mines, with the exception of the Kailan and Tatung mines, being

entrusted to the North China Development Company'. The following figures (*a*) of China's total (*b*) of Chinwangtao's and Tientsin's exports of coal in all forms illustrate the success with which this object has been pursued:

(*a*) CHINA'S TOTAL COAL EXPORTS (INCLUDING COAL DUST; 000's)

	1937	1938	1939	1940
Metric tons	1,834	2,077	2,965	4,838

(*b*) CHINWANGTAO'S AND TIENTSIN'S TOTAL COAL EXPORTS

	1937	1938	1939	1940
Chinwangtao, tons . .	1,483	1,950	2,267	3,180
Tientsin, tons . . .	39	101	69	308

The following figures show Japan's share of this trade:

CHINA'S TOTAL COAL AND COAL DUST EXPORTS
(*Metric tons*, 000's)

	1936	1937	1938	1939	1940
Japan . . .	1,047	1,337	1,702	2,421	3,826
Kuantung Leased Territory	4	—	62	142	448
Korea . . .	85	145	164	290	387
Hongkong . . .	155	232	134	45	89

The above figures illustrate the importance which the Kailan Mining Administration held in this section of China's economy. They also underline the emphasis laid in London at the annual meetings of the Chinese Engineering and Mining Co. on the non-political nature of its activities and on the friendly relations maintained with the Japanese.

A factor in the trading of this, as of many other concerns, was exchange. The drop in the 1939–40 dividend from $7\frac{1}{2}$ per cent free of tax paid in the previous year to $3\frac{3}{4}$ per cent free of tax was attributed by the chairman at the annual meeting of the Chinese Engineering and Mining Co. held on May 14, 1941, partly to this factor, the Chinese national dollar having fallen from $5\frac{1}{2}d.$ on June 30, 1939, to $3\frac{1}{2}d.$ on June 30, 1940.

CURRENCY ISSUES

I TURN now to (*b*) of our agenda, currency issues between the years 1937 and 1941. These are not easy matters to handle in a book of this kind, which from its very nature is a sectional review of economic affairs, one concerned primarily with British interests.

Obviously, however, currency matters are of great importance, the more so because it was in the arena of currency that occurred much of the conflict between Japan and China, and between Japanese and other foreign interests in China. It is essential to make those points clear, and the paragraphs which follow endeavour to do so, employing in the process as few technicalities as possible. In the process, too, must be indicated in outline the difficulties which currency problems presented to foreign traders trying to carry on their businesses under widely differing conditions. But beyond these purposes it is not the business of these pages to go. To attempt to go beyond them would be to overload narrative with disquisition. A certain amount of disquisition there must be, in order to make the narrative clear. But a plain tale, told as plainly as circumstances permit, is what the writer hopes to tell.

As was shown in Part IV, China's present currency dates from November 1935, when she gave up her silver standard, and adopted a foreign-exchange standard. The dollar was then given, and till 1938 retained, a value of 1*s.* $2\frac{3}{8}$*d.* sterling, and $29\frac{15}{16}$ cents in United States currency. As was also shown, this change had the support of the British Government, which, on account both of British and China interests, was opposed to the plans of Japan, who aimed at bringing North China under the financial domination of the yen. In the economic field it was this, and other related aims, connected as all were with the seizure of Manchuria in 1931, which led to the outbreak of hostilities with China in 1937, and predetermined Great Britain's attitude and policy in regard to them—namely, moral and financial support of the Chinese Government.

Financial support was given in the following circumstances. On February 11, 1938, was inaugurated, and on March 11 formally opened at Peiping and Tientsin, an institution known as the Federal Reserve Bank, authorized to put a new set of notes into circulation, exchangeable with yen at 1*s.* 2*d.* Notes issued by the Bank of China and other Chinese Government banks were to be allowed to continue in circulation for twelve months, those issued by the Central Bank for three only. Being in receipt of revenue hitherto paid to the Chinese Government, and being also in a position to pay for supplies and services in notes printed by the new bank, the Japanese aimed at converting all the Chinese Government notes thus acquired into foreign exchange, and thus to provide the Federal Reserve Bank's note issue with foreign exchange value, the Bank's only resources disclosed at the date of opening, other than its paid up capital of $50,000,000, being credits given by the Bank of Japan, amounting to yen 100 millions, the yen itself being a strictly controlled currency, not freely exchangeable into other currencies. Thus reports appeared in the

Daily Telegraph of March 12 and 15 to the effect that the equivalent of £2,500,000 in Chinese Government bank-notes had been taken down to Shanghai for conversion into foreign exchange. The Chinese Government countered this move by issuing, on March 13, a mandate ordaining that, as from that date, sales of foreign exchange would be centralized through the Central Bank of China at Hankow and Hongkong.

The immediate effect of this move was to limit the freedom with which the national dollar had hitherto been convertible, and the effect of that, in turn, was a dual form of disorganization. On the one hand, there was a disturbance of confidence, holders of dollars becoming uncertain both as to the implications of the mandate regarding the Goverment's possession of cover, and as to their ability to acquire the amount of exchange desired. On the other hand, there was a derangement of the market factors which had hitherto found equilibrium in the exchange rate maintained since 1935. Thus *The Times* of March 26 and 29 reported that importing firms were unable to obtain the wherewithal to pay for imports, and that the Banks were without cover from the sale of exports to finance imports. As a consequence, the national dollar declined sharply, the rate at the close of business in Shanghai on March 28 being 1*s.*-sellers.

In Tientsin, though the external value of the national dollar, deprived of support from the Chinese Government, suffered a severe decline, its internal value was sustained by native demand. In the interior the national dollar remained practically the sole medium of exchange. Moreover, while F.R.B. (Federal Reserve Bank) notes could purchase foreign exchange only indirectly through exchange into national currency, the national dollar commanded a free exchange into foreign currencies at arbitrated rates quoted by the foreign banks at Tientsin based on the value of imports and exports passing through their medium. These rates continued to be influenced by the course of exchange in Shanghai, but often fluctuated independently. Owing to a pronounced drain of national currency from Tientsin to the interior, its external value at Tientsin rose to as much as 12 to 15 per cent above that of the national dollar at Shanghai, reaching $10\frac{1}{4}d.$ on November 26, after which the rate fell to about 4 per cent above that in Shanghai. In that port flight of capital, and general lack of confidence, had on August 1, 1938, driven the rate down to as low as $7\frac{7}{8}d.$ From this it recovered to round about 8*d.*, at which it was maintained by a policy of support in the open exchange market.

All this was disturbing enough to economic interests accustomed to the relatively placid life of the 'open door' and equal opportunity and, since November 1935, to stable exchange conditions. At the beginning of 1939 matters became more threatening. On

February 15 the Domei Agency at Tokyo outlined plans for the economic development of yen *bloc* countries. 'Combining the natural resources and labour of China', the telegram said, 'with the capital and technical skill of Japan, the plans call for the establishment of various new industries in Japan, Manchukuo and China as an economic entity, and the expansion of the productive capacity of those already established, under Japanese guidance.' The telegram went on to say that 'regulation of the movement of materials throughout the three countries, and overseas trade control, will be attempted, based upon estimates of future foreign trade balances of the three countries. . . . Japanese trade with Manchukuo, Mongolia, and North China will introduce a "link" system, whereby the wool and raw cotton of those countries will be exchanged for Japanese-manufactured cotton and woollen goods. Those goods which cannot be covered by the link system because of exportation bans, or production limitations in Japan, will utilize a "barter" system based on monetary standards to be adopted. . . . Accumulation of foreign currencies and the enlargement and reinforcement of "Federal Reserve Bank" notes, together with trade control, will form the major objective of the North China currency policy'.[1]

One may be allowed, as a matter of historical interest, to compare the above quotation with the following passages taken from an article which I contributed to *The Times* of January 8, 1936:

'At the end of nine months' study, undertaken after an absence from China of nearly ten years, the best way of describing the situation in the Far East seems to lie in developing three statements: China has undoubtedly made great progress; she is likely to make much more during the next ten years, provided that she enjoys peace in a world rid of economic depression; but Japan's present policy will ruin her prospect of peace and her capacity to prepare herself for improved economic conditions. . . . At a moment when every element of prestige and power which the Chinese Government possesses is needed to enable it to manage its new currency successfully, the present policy of Japan confronts it with a dilemma which will prove ruinous because concurrence in, or rejection of, the degree of subservience demanded by that policy alike must result in the loss of most of the control that Nanking exercises. . . . In relation to current events the doctrine that North China is essential to Manchukuo is of chief importance. Its economic element is safer and ampler access to Japan to raw materials, amongst them cotton and coal. . . . Whereas six months ago few Chinese spoke in terms of military resistance, those who have spoken of it in recent weeks include the soberest. . . . Neither Chiang Kai-shek nor the Kuomintang would long survive a compromise which in effect placed China in the same position as defeat would place her.'

On February 20, 1939, Reuter amplified the Domei Agency's telegram of February 15 by saying that one of the salient points in a new decree about to be issued by Japan's puppet administration in Peiping would be a regulation requiring exporters of staple commodities to obtain from the Federal Reserve Bank certificates

[1] *North China Herald*, February 22, 1939, p. 320.

manifesting that the export exchange accruing from export had been sold to the Bank, failing which the goods would not be permitted to pass the North China Customs. This regulation, the telegram added, would be applicable to exports to Japan, Manchukuo, Central and South China, as well as to third countries.

Taken together, these two telegrams revealed as predatory a plan as had ever been devised by one country against the economic liberty of another, and a graver threat to British interests in China than they had ever encountered. It should be recalled that other elements in the plan had taken shape during the previous year, the institution, for example, of concerns known as the North China Development Company (Kitashina Kaihatsu Kabushiki Kaisha) and the Central China Promotion Company (Chushina Shinko Kabushiki Kaisha), both with capital provided by the Japanese Government; both earmarked to receive privileged treatment from Japanese-installed Chinese administrations, and both designed as far as possible to monopolize enterprise in the form of public utilities, transport, industrial and mining undertakings. Various other monopolies had already been established, including one of the biggest in economic history, the reservation, as we have seen, of the River Yangtze for Japanese shipping only.

In these circumstances, Sir John Simon, Chancellor of the Exchequer, on March 8, 1939, made the following statement in the House of Commons:

'The stability of the Chinese dollar is a matter of great importance to this country in view of our financial and economic relations with China. The Chinese Government have achieved considerable success in their efforts to maintain the convertibility of Chinese currency for trade transactions, to limit its depreciation in exchange against sterling, and to keep the rate reasonably stable for many months. They have informed His Majesty's Government that they intend to continue their existing monetary policy and that, as part of that policy, they desire to establish a stabilization fund of £10,000,000 sterling in addition to their other reserves. They have invited the two Chinese Government banks to subscribe a total of £5,000,000 to the fund and the two British banks—namely, the Hongkong and Shanghai Bank and the Chartered Bank—to subscribe the further £5,000,000 between them.

'The British banks have agreed to subscribe these amounts subject to receiving an undertaking from the Treasury to reimburse them for any loss that might be incurred when the fund is wound up. The arrangement would be that the fund would operate for twelve months, but it would be continued for further periods of six months by agreement; if the necessity arose, however, the fund could be wound up at any earlier time.

'His Majesty's Government would welcome the establishment of this stabilization fund, the successful working of which would be of material assistance to British trade and enterprise in China, and the Treasury have agreed, subject to legislative approval being obtained, to give to these banks the guarantee against loss for which they ask.'

Asked whether His Majesty's Government would have any voice in the administration of the fund, Sir John Simon replied that the

'arrangement is one by which the management of the stabilization fund—always a technical matter—is in the hands of a committee and on that committee will be an element which is responsible to the British Government'.

In the light of these statements, the following figures, showing the exchange value of the Chinese national dollar during the remainder of the year, have more than technical interest. They are the expression of the economic circumstances encompassing the British Government's efforts, on the one hand to give moral and material support to China, on the other to rescue British interests from a situation which was obviously becoming increasingly dangerous. The figures represent pence.

1939	*High*	*Low*
April . .	$8\frac{1}{16}$	$8\frac{1}{16}$
May . . .	$8\frac{1}{16}$	$8\frac{1}{16}$
June . .	$8\frac{1}{16}$	$6\frac{1}{4}$
July . . .	$6\frac{1}{2}$	4
August . .	4	$3\frac{1}{2}$
September . .	4	$3\frac{1}{2}$
October . .	$4\frac{1}{2}$	$3\frac{3}{4}$
November .	5	$4\frac{1}{2}$
December . .	$4\frac{25}{32}$	$4\frac{13}{32}$

In reading these figures, it should be realized that Shanghai's adverse trade balance during 1939 amounted to £20·6 million, and that of this total £13·8 million had been amassed during the first six months of the year. It seems difficult to escape the conclusion that the existence of the fund (i.e. the stabilization fund described above) encouraged importers, and in the main Japanese importers, to increase their purchases in foreign markets. Japanese imports had, in fact, risen from $209·8 million in 1938 to $313 million, which represented 23·34 per cent of China's total imports, as against an American percentage of 15·94, a German percentage of 6·49, and the United Kingdom's percentage of 5·80. Japan's purchases from China, on the other hand, had fallen from $116·5 million in 1938, which represented 15·26 per cent of China's total exports, to $66·6 million or 6·47 per cent, while purchases by America had risen from 11·37 per cent to 21·92 per cent, and purchases by Great Britain from 7·43 per cent to 8·82 per cent.

But there were other disconcerting facts. 'When the stabilization

fund commenced operations early in April', said the China Association's report, 'the exchange value of the Chinese national dollar was about 8½*d.* This rate was maintained by the fund, which selling only for cash undoubtedly helped to tighten up the local money market and force speculators and others to resell such foreign currencies as they possessed in excess of their power to finance. Unfortunately, however, insufficient control existed over the issue of new currency by the Chinese Government banks, and this object was defeated. The stabilization fund withdrew on June 7, when it was apparently decided that the market should be allowed to find its "natural" level. Within a few days the rate had fallen to 6½*d.*, which the fund, aided by a regulation issued by the Chungking Government on June 22, ordering Chinese Banks in Shanghai to restrict withdrawal of deposits in cash to $500 per week, supported until July 18.' Thereafter in the absence of all but intermittent support the rates ruled as shown above.[1]

Meanwhile there had been other developments which should be brought into the picture if the scene presented by the economic arena in China is to be fully appreciated from a British point of view.

First, on May 1, 1939, the Japanese took a step which seemed at the time to show their intention of carrying their side of the currency conflict a stage further. Under the joint auspices, and by means of a joint puppet government at Nanking (set up in March 1939) and six Japanese banks, they inaugurated in Shanghai a new bank called the Hua Hsing Commercial Bank. A proclamation issued by the puppet government (Wang Ching-wei's) said that the bank's notes would be acceptable for all official payments and banking and business transactions—including, when the necessary arrangements had been made with the Inspector-General, the payment of Customs duties—and that they would be freely convertible into foreign exchange. It was at first intended that the notes should have the same foreign exchange value as the national currency and be freely interchangeable with them at par. But the rapid depreciation of the latter decided the authorities concerned to peg their value, as from July 17, at 6*d.* Whether this would, or would not, be maintained there was no possibility of knowing at the time. The outlook appeared to include two possibilities: on the one hand, a reproduction in Shanghai of a state of affairs similar to the one caused by the institution of the Federal Reserve Bank at Tientsin; on the other, the maintenance, as the result of a more circumspect policy than had been followed in the north, of a currency capable, should the national currency become discredited, of succeeding it. Neither possibility was, from a British point of view, attractive. Foreign trade at Tientsin (where,

[1] *China Association Annual Report*, 1939–40, p. 14.

as a result of the regulations referred to above, the national dollar had fallen to between $7\frac{1}{2}d.$ and $7\frac{3}{4}d.$) had at first been brought almost to a standstill, and was at this time being conducted on an improvised system of 'linking' such-and-such an amount of export, with so much import, import arrangements being severely limited by the scarcity of imports from countries outside the yen *bloc* area, which in turn placed a corresponding limitation upon exports seeking an outlet to them. This process of linking will be referred to again presently.

Secondly, towards the end of May friction in Tientsin between the Japanese and the authorities of the British Concession generated friction between the British and Japanese Governments. The friction was partly occasioned by the murder on April 9 of the manager of the Federal Reserve Bank, S. G. Cheng. The assassin, a Chinese, escaped. The municipal authorities invited Japanese co-operation and carried out a number of raids in the Concession, as a result of which several arrests were made. The Japanese authorities alleged that four of the persons arrested were members of a terrorist gang connected with Dr. Cheng's murder and with the death of three Japanese soldiers. These men were handed over to them for questioning, and made confessions implicating themselves, which, however, when returned to the custody of the British municipal authorities, they retracted. In the absence of any other evidence against them, the British authorities declined to hand them over to the local District Court. Whereupon the Japanese instituted a blockade of the British Concession.[1]

But there were other causes of friction, of which the British Foreign Office gave the following account issued on June 16, 1939:

'Recently, it may be recalled, the British, United States, and French Governments had found it necessary to make representations to the Department of Foreign Affairs in Tokyo regarding statements by a spokesman of the Japanese Ministry of Foreign Affairs made on May 24 which seriously threatened the treaty rights of foreign Powers in China. Such statements have recently been sharpened in a threatening manner by Japanese spokesmen in Tientsin. It is clear from these statements that the surrender of the four accused men is no longer regarded as the reason for the imposition of measures against the British Concession. What is demanded is that "the British authorities co-operate with the Japanese in the construction of a new order in the East, abandoning their pro-Chiang Kai-shek policies, including the protection of anti-Japanese and Communist elements, *the support of Chinese dollars at the sacrifice of Federal Reserve Bank notes* [the italics are the writer's], the cornering of commodities, connivance at the use of wireless by lawless elements, and permission to use anti-Japanese school-books".'

The demand for abandonment of the support of Chinese dollars included a demand for the delivery to the Japanese authorities of some $13,000,000 deposited in the British Concession in 1935 and sealed by the Tientsin branch of the Currency Reserve Board, an

[1] *Hansard*, June 15, 1939.

organization of the Chinese National Government. In a letter to the editor of *The Times* on August 15, 1939, I said that there was high authority for the statement that, when this was done, the British and French Ambassadors were duly informed and told that the action had been taken in order that the money might be safe—the French Ambassador's interest in the matter being that a still larger sum, $25,000,000, had been deposited in the French Concession and $16,860,000 in two French banks in Peiping. The accuracy of this letter has not, as far as I am aware, been questioned. If the British Government agreed to hand over the $13,000,000, the French would be compelled to do the same, and the currency which the Japanese were trying to establish would benefit by an addition to its cover of between £3,000,000 and £3,500,000, whereas, as shown above, the British Government had but recently guaranteed £5,000,000 subscribed by the Hongkong and Shanghai Bank and the Chartered Bank to a fund for the stabilization of the national currency.

Thirdly, while these things were happening in the north, friction had developed between the Japanese and ourselves in respect of the landing of Japanese troops in the International Settlement of Kulangsu—an event occasioned by the murder of the chairman of the Amoy Chinese Chamber of Commerce, Hung Li-shun, who was pro-Japanese. Friction had resulted also from the publication by the Japanese naval authorities at Shanghai of a manifesto expressing dissatisfaction with the measures taken by the Municipal Council of the International Settlement to suppress anti-Japanese elements in the foreign areas and supporting demands made by the Chinese Mayor—a Quisling of the Wang Ching-wei group—for the right to send his police into the Settlement, and to control the Chinese Courts and Chinese Land Office. Friction was also caused by incidents such as the murder of Mr. R. M. Tinkler in Shanghai and the detention of Lieut.-Colonel C. R. Spear, the British Military Attaché in China, at Kalgan.

It looked very much as though the Japanese were being deliberately provocative, and were conducting an offensive against foreign, more particularly British, interests all over China. The British Government's handling of the situation was successful in preventing an Anglo-Japanese conflagration, but a formula adopted 'to clear the way' for negotiation of the issues raised at Tientsin was not very happily worded. It read:

'His Majesty's Government in the United Kingdom fully recognize the actual situation in China, where hostilities on a large scale are in progress, and note that, as long as that state of affairs continues to exist, the Japanese forces in China have special requirements for the purpose of safeguarding their own security and maintaining public order in regions under their control, and that they have to suppress or remove any such causes or acts as will obstruct them or benefit their enemy.

'His Majesty's Government have no intention of countenancing any act or measures prejudicial to the attainment of the above-mentioned objects by Japanese forces, and they will take this opportunity to confirm their policy in this respect by making it plain to British authorities and British nationals in China that they should refrain from such acts and measures.'

The British commercial community in Shanghai expressed its views on this formula forcibly. 'This agreement', it cabled on July 25, 'is considered here to indicate that Great Britain is abandoning her duty, obligations and legal position in a manner as injurious to her honour and prestige as to her interests.' The China Association in London published in *The Times* of August 4 a letter sent to the Foreign Office on July 28, expressing its views on British interests in the following terms:

'There are in our opinion two points of paramount importance; first and foremost, the removal of all restrictions at present imposed by the Japanese on British commerce and shipping and the restoration to our traders of equality of opportunity; secondly, the maintenance of a unified, free and stable currency in China. These two points, as you are well aware, are interdependent, the order assigned to them above being, however, in correspondence with their economic relationship. It is solely from an economic standpoint that we desire to submit our views to you.

'The restrictions which the Japanese have placed upon British and other foreign trade are not, for the most part, restrictions called for by military operations as such. True, they subserve the object of the operations—namely, the defeat of China. But that object is itself much more than a military one. It includes the establishment of an economic *bloc*, which, in turn, predicates the maintenance, after the conflict is over, of control by Japan over the economic life of North China and as much of the rest of China as possible. Actual experience justifies the assertion that such control will be incompatible with equality of commercial and financial opportunity, an essential element in the principle and practice of the "open door". It is apparent to all that in North China the "open door" had already been to a large extent closed, and that equality of opportunity no longer exists.

'In the creation of this situation a dominating factor has been Japan's currency policy, integral parts of which are exchange control accompanied by control of exports. These are not temporary expedients, devised solely to assist military operations, but, as stated above, expedients forming part of a long-term economic plan. We greatly fear the extension of this plan, and therefore of the expedients associated with it to central and southern China. Indeed, we do not see how this is to be prevented unless the danger is clearly recognized by his Majesty's Government and unless his Majesty's Government takes steps to meet it.

'The only steps likely to be effective have, we are fully aware, been the subject of anxious consideration by his Majesty's Government. Had they been finally rejected as impracticable there would be little use in our urging them again. We are not aware, however, that that is the case; we certainly hope that it is not.

'Amongst these steps we put first and foremost combined pressure upon Japan by Great Britain, the United States, and France, and such other signatories of the Nine-Power Treaty as share Great Britain's interest in the maintenance of the "open door". We have every reason to suppose that unity amongst these Powers is the earnest desire of his Majesty's Government. We urge persistent continuation of efforts to achieve it, basing ourselves on the undeniable fact that most of the raw materials, the export markets, and the port facilities required by Japan lie within the territories of these Powers.

'We urge, secondly, continued support by his Majesty's Government of China's national currency. The currency which Japan is trying to establish has, apart from all other considerations, the fundamental defect that it is linked with the yen, which is not a currency freely exchangeable into other currencies and is therefore unsuitable for partnership in a currency intended to meet China's

economic requirements. We recognize that this is a condition which may pass, and that in favourable circumstances the yen might become freely exchangeable into other currencies. Apart, however, from the fact that the period of time in which this may happen is quite unpredictable, there is the consideration, amounting in view of actual experience almost to certainty, that Japan would still be averse to maintaining the "open door" system. In our opinion, as already emphasized, a currency linked with the yen means, and must mean, a currency primarily designed to serve the purposes of the *bloc* which Japan wishes to create. The only alternative currency capable of meeting our requirements and those of other countries is the Chinese national dollar.

'We are aware that further support of the Chinese dollar is beset by great difficulties. There is the difficulty, already alluded to, of the restrictions which Japan has placed upon export trade. There is the deflection into reserved accounts of China's invisible exports, such as remittances from Chinese overseas, and there is also the immobilization of Customs and other public funds. There is, too, the difficulty of controlling speculation and capital export. We readily acknowledge that unless these difficulties can be removed the grant of further financial help to China for the support of her currency is likely ultimately to prove costly.

'But as to this we would advance the following considerations. The matters just alluded to—remittances from Chinese overseas, control of speculation, and, albeit to a lesser extent, control of capital exports—are matters in which genuine and vigorous co-operation by the Chinese Government could achieve a great deal, and we believe that such co-operation would be obtainable after full and frank discussion with the Chinese authorities concerned. Next, it is our view that further action by his Majesty's Government in support of China's currency would lessen the likelihood of Japan being successful in her plans because successful persistence in them would involve closing all China's avenues of access to the outer world completely. We believe that this would be beyond both the military and the economic capacities of Japan. We have made a careful study of the latter and are much impressed by the progressive deterioration which they show.

'That these considerations do not render negligible the risk of losing such further sums of money as might be devoted to the maintenance of China's currency we are fully aware. But what, we would ask, are the monetary dimensions of the risk to be considered on the other side? As you are aware, the amount of British capital invested in China and Hongkong was a few years ago reliably estimated at £244,000,000. What the figure is to-day nobody, probably, can say. But unquestionably it remains a very large one, and to it has to be added not only the annual value of the United Kingdom's trade with China and Hongkong, which even last year amounted to some £15,500,000, and the annual earnings of British shipping engaged in the China trade, but also the annual earnings of the British banking and insurance companies associated with the trade. The grand total involved is, without doubt, very much larger than £244,000,000. We do not affirm that the whole of this sum is endangered by existing and prospective conditions in China. We assert unhesitatingly, however, that a large proportion of it is. We would also emphasize that, if we can maintain the Chinese national currency as a working medium, we maintain the ability to re-enter into trade relations with 450,000,000 people who must ultimately provide economic potentialities of the utmost importance to all nations of the world. It is essential, however, to preserve this means of re-entry. The extension of a Japanese-controlled currency to central and south China, with its accompanying control of exports and imports, would effectively deprive us of any possibility of re-entry for many years to come.'

A year was to pass before the British Government gave any indication of its intention to give further support to the national dollar, which, as shown above, fell from a 'high' of 6½*d.* in July to a 'high' during August and September of 4*d.* rising to 4½*d.* in October, and 5*d.* in November, whereafter it remained steady until well into 1940. The existence of the stabilization fund remained,

according to the chairman of the Hongkong and Shanghai Bank, 'a powerful factor in the background'. There was every reason to expect, he said, at the bank's annual meeting in March 1940, 'that it will serve its purpose'. The 'highs' and 'lows' for 1940 were (in pence) as follows:

	High	*Low*
January . .	$4\frac{33}{32}$	$4\frac{11}{16}$
February . .	$4\frac{9}{16}$	$4\frac{1}{8}$
March . .	$4\frac{11}{64}$	$4\frac{1}{2}$
April . .	4	4
May . . .	4	3
June . .	$3\frac{7}{8}$	$3\frac{1}{2}$
July . . .	$3\frac{3}{4}$	$3\frac{3}{4}$
August . .	$3\frac{3}{4}$	$3\frac{1}{2}$
September . .	$3\frac{1}{2}$	$3\frac{3}{8}$
October . .	4	$3\frac{1}{2}$
November .	$3\frac{61}{64}$	$3\frac{31}{32}$
December . .	$3\frac{13}{16}$	$3\frac{57}{64}$

Taking 1940 as a whole, the maintenance of an orderly exchange market in Shanghai under the conditions ruling in China during the year represented no mean achievement. One of these conditions was an import surplus estimated in sterling at £58,894,000, of which Shanghai's share was £27,084,000, totals which go some way towards explaining the decline in exchange shown by the figures above. This decline, in turn, resulted in commodities being smuggled from free China into Shanghai for export, the inducement being the larger amount of national currency which could be obtained there at current exchange rates, as compared with payment at the official rate of 7*d.* against surrender to the Government. And this, in turn, was one of the considerations which led the Government on August 1, to change the commercial rate of the national dollar from 7*d.* to 4½*d.*

At the northern ports, meanwhile, a situation had developed wherein, while the national dollar remained the only currency through which foreign exchange could be obtained, neither exporters nor importers could acquire it except through the Federal Reserve, or the Yokohama Specie, Bank. Exporters were

required, as a condition of receiving from the Customs permission to export, to produce certificates showing that they had agreed to sell the foreign exchange that would accrue from the export to the Federal Reserve Bank at a stipulated rate. Importers had to get the permission of the bank to import, a pre-requisite of this being ability to satisfy the bank that the sterling, or gold dollars, required to pay for the goods had been, or would be, arranged for through its agency. Failure to obtain permission meant failure to get the necessary permits from the Customs, which at the northern ports received instructions to this effect from the Political Affairs Commission in Peking on June 27, 1940. Thus, in the north the Japanese had obtained a powerful leverage on foreign trade, and in Tientsin, following upon a compromise reached between the British and Japanese Governments on the subjects in dispute there, including the silver issue described above, the currency of the Federal Reserve Bank acquired a dominating position for domestic purposes. As stated by the chairman of the Tientsin British Chamber of Commerce, 'certain leading firms, doubtless owing to the complications involved by keeping accounts in both currencies and to their large sales in the interior, decided to sell for Federal Reserve Bank dollars only. This was followed by the British Municipal Council first agreeing to accept Federal Reserve Bank notes at the current rate for conversion to Chinese national currency and later deciding to charge on the basis of the currency bearing the higher value at the time the payment was made, while accepting payment in the other currency at the conversion rate of the day. H.B.M. Consulate-General now quotes fees for renewal of passports, registrations, &c., for British subjects in Federal Reserve Bank dollars. The Chinese national currency is, therefore, becoming practically useless except as a medium for the purchase of foreign exchange'—which, as we have seen, was controlled by the co-operation of the Federal Reserve Bank, the Yokohama Specie Bank, and the Customs. The compromise upon the silver issue at Tientsin referred to above was made on the following lines. It was agreed between the British and Japanese Governments that the amount deposited in the British Concession should remain where it was under the joint seal of the British and Japanese Consuls-General until such time—except for an amount equivalent to £100,000—'as the Governments of the United Kingdom and Japan shall agree upon other arrangements for its custody', the seal to be applied in the presence of the two Consuls-General. The sum excepted was to be set on one side to provide a fund for the relief of famine conditions resulting directly from floods and drought in North China. Such relief was to include the provision of machinery urgently required from abroad to drain water from the flooded areas, 'thus diminishing

the danger of epidemics'. The British and Japanese Consuls-General in Tientsin were to appoint experts who, under their supervision, would assist in the administration of the fund and would advise the existing relief Committee in Peking as to the distribution of food and other articles required for relief purposes. Experts of Chinese and French nationality and 'one expert of another nationality' were to be invited to assist in the work. It was also agreed that the British Municipal Council would place 'no difficulties in the way of the use of Federal Reserve Bank currency within the Concession'. The Council, it was stated, had decided to withdraw the licences of all exchange shops not established prior to 1939. Licences would not be issued to new shops unless they were vouched for by the Native Bankers' Guild and had adequate capital. Further points in the 'arrangement' (and in the document itself these were put first) were worded as follows:

'Detailed arrangements have been made for closer co-operation between the authorities of the British municipal area in Tientsin and the local Japanese authorities for the suppression of all terrorist activities prejudicial to the maintenance of peace and order and to the security of the Japanese forces. In particular, arrangements have been made for Japanese gendarmes to offer information and to be present when action is taken by British Municipal Police against persons in whose criminal activities the Japanese authorities are interested. Such action will include supervision of dealings in arms and explosive substances, supervision of publications, cinemas, and political meetings, and the arrest and disposal of persons engaged in the activities mentioned in the preceding paragraph. Arrangements have also been made for the suppression of unauthorized wireless communications.'

The reader will observe that even a currency war, with all its complications and technicalities, is not without humour, though in this instance a humour that was somewhat wry. In Tientsin H.M. Government had been in effect compelled to say to the Japanese 'very good: here we give you best', whereas at Shanghai and elsewhere it was actively engaged in supporting the Chinese national dollar. Moreover, of one of the three institutions through which, at Tientsin, the national dollar had been rendered 'practically useless', a British subject was the titular head—namely, the Inspector-General of Customs, Sir Frederick Maze, who, as already indicated, was perpetuating the fine work of his distinguished predecessor and uncle, Sir Robert Hart, by keeping the Customs organization together, and he was doing this with the indomitable spirit and diplomacy of a Vicar of Bray. Side by side with the stalwart figure of the Vicar of Bray must be set the traditional, cartoonist figure of Uncle Sam, chewing upon his cigar with increasing concern and giving it an increasingly sharp angle.

On December 1, 1940, the United States Government announced that an American credit of $U.S.100 millions would be granted to China, half the amount for general purposes, the

remaining half to be allocated 'for the purposes of monetary protection and management as between the Chinese and American currencies', and a few days following that H.M. Government announced its decision to extend to China a credit of £10,000,000, half as an advance to the Chinese Currency Stabilization Fund, and half in credits for purchases anywhere in the sterling area. Agreements between the Chinese Government and the United States and British Governments were signed on April 1, 1941. In pursuance of the agreements, a Stabilization Board was set up, consisting of three Chinese members, one American, and one British member, with headquarters at Chungking. Thus once again, as frequently before in these pages, should be noted the identity of British and American interests in China. For there must be no misconception either as to the determination or (notwithstanding mistakes) the deftness of Japan's handling of her currency campaign. On January 6, 1941, her puppet Government at Nanking opened a Central Reserve Bank, with, a fortnight later, a branch at Shanghai. Its capital was stated to be $100 millions, and it was reported that it had a stock of notes amounting to Central Reserve Bank $200 millions, reserves equivalent to $40,000,000 in Chinese national dollars being held in gold and U.S. dollars. 'The issue by the new bank of notes interchangeable with *fapi* [i.e. Chinese national dollar notes]', said the China Association's annual report for 1940–1941, 'undoubtedly represents a threat to the existing currency and if persevered with might render impracticable the support of exchange in Shanghai on the basis of a free market. . . . The circulation of the new bank's notes amounted to $13,719,010·80 only on January 31, 1941, but if continued on the same lines further complications in currency matters and restrictions upon trade in Shanghai must be expected.' The complications and restrictions came, though not in a manner anticipated when the report was written—namely, through the freezing throughout the British Empire and in the United States of Japan's assets, a measure Japan brought upon herself by her southward policy in the Pacific, with which policy her invasion of China, and her attempt to force China into a yen *bloc*, were intimately connected.

Before inviting the reader to follow me along the stony path that presented itself when the 'freezing' orders were introduced, it is desirable to give him the assistance of certain trade figures. They look dry, as figures mostly do. But it would be unwise of him on that account to skip them. For while they are by no means in themselves uninteresting, they make the paragraphs about 'freezing' a good deal more intelligible.[1]

[1] Some of the paragraphs were used in the China Association's annual report, 1941–2.

CHINA'S FOREIGN TRADE

	Total net imports January–September, 1941	*Total net imports January–September, 1940*	*Total net exports January–September, 1941*	*Total net exports January–September, 1940*
Customs	$1,886,020,344 £85,213,581	$1,547,461,508 £70,637,564	$2,287,330,971 £30,931,910	$1,442,995,373 £23,846,253

The sterling figures shown above were worked out by *Finance and Commerce* on the basis of the following exchange rates: January–September 1941, 3·305*d.*; January–September 1940, 4*d.* Comparison of the sterling equivalents of imports with those of exports is puzzling unless the reader realizes that Customs dollar import figures have been arbitrarily reached through conversions from gold units into dollars at 1*s.* 2½*d.*, the official rate, and thereafter adjusted to allow for over-valuation of imports into North China, whereas the sterling equivalents of the export figures represent straight conversions at the rates mentioned, being the average market rates for the periods in question. Accordingly, the apparent excess of exports over imports shown by the dollar figures for 1924 becomes in sterling an excess of imports over exports. For the years and periods in question this excess was:

January-September, 1941	£54,281,671
January-September, 1940	£46,791,311

The relationship of Shanghai's trade returns to the above figures is interesting, especially in view of the position in which the port was placed by the 'freezing' regulations introduced in the summer against Japan, and described below. The import and export figures, converted into sterling, were as follows:

IMPORTS

	January-September 1941	*January-September, 1940*
	£	£
Shanghai	38,075,070	40,763,866
Rest of China	47,138,511	29,873,698

EXPORTS

	January-September, 1941	*January-September, 1940*
	£	£
Shanghai	21,756,829	16,244,185
Rest of China	9,175,081	7,602,065

It will be observed that there was both an absolute and a relative decrease in Shanghai's excess of imports over exports.

With these figures as background, let us now set out along the stony path of 'freezing'.

In London 'freezing' was announced on July 26 in the following terms:

'Treasury directions have been given to bankers under Defence (Finance) Regulation 2A prohibiting as from to-day, July 26, the carrying out of orders affecting Japanese balances, gold and securities in the United Kingdom without a licence from the Treasury. Corresponding action is being arranged in other parts of the Empire.'

On July 29, the British banks in Shanghai received a joint telegram from their London offices stating that the Government had made a direct blocking, as from that date, of all balances, securities, and gold in the United Kingdom of residents in China, including corporate bodies, and any branches or subsidiaries of such bodies, either in or outside China, similar to the direction made operative on July 26, as regards residents of the Japanese Empire, Japanese mandated territory, and Manchuria. Similarly, on August 1, regulations were issued in Hongkong making all persons resident in the Colony subject to the defence finance regulations.

The significance of this latter step was described by the *Economist* of August 9, in the following terms:

'This does not imply that the Hongkong dollar is for the first time definitely linked with sterling. The link was forged in the closing months of 1935, with the demonetization of silver in China. The admission of the Colony within the sterling area means that the Defence Regulations defining the control of the exchange market henceforth apply to the Colony with the full rigour with which they operate in other parts of the Empire. Until last week, Hongkong, in common with Canada, remained outside the area of sterling exchange control, and from the point of view of that control its currency has been treated as a foreign currency, resident holdings of which had to be sold to the Treasury.

'The exclusion of Hongkong from the strictest application of the control scheme was largely due to the exceptional position of this Colony as a British outpost in the Chinese Republic (to which, of course, the control could not be applied), living almost exclusively on the entrepôt trade between the Chinese mainland and the rest of the world, and tied by the closest financial links with the great free market of Shanghai. To have attempted in these circumstances to apply to Hongkong the full severity of sterling exchange control would have been to cut the ground beneath the bulk of the Colony's trade, and on the other hand would have done little to stop this gap in the Empire's exchange control scheme, since most of the commercial and financial activity thus stopped would have automatically been transferred to the Shanghai market. But with Shanghai brought within the scope of the freezing order, much of the reason for the exclusion of Hongkong from the sterling area disappeared. The main effect of the new order is to compel all residents in Hongkong to make a return of their foreign exchange assets to the authorities, a step which previously was incumbent only on residents of British nationality.'

It was possible to bring Shanghai into the scope of the freezing order because the Chinese Government asked for the order's

extension to Chinese assets. For one thing, the Chinese Government wanted to bring transactions in the national dollar at Shanghai under control. Their point of view, and the British Government's, coincided to a large extent. Thus, the Hongkong correspondent of *The Times* on August 3 said: 'The freezing orders have resulted in the closing of the free sterling market in Shanghai, which was the last big gap in the British exchange control. Figures of the leakage are unknown here, but are believed to have run into millions.' As the trade statistics set out above show, there had been a large excess of imports over exports at Shanghai. In the period January-August, 1941, the surplus for the whole of China reached £50·6 millions, the total during the same period of the previous year being £42·2 millions. In 1940, Shanghai's share of the surplus from January to August was £22·8 millions, its share of the 1941 surplus during the same period, on the other hand, being only £15·4 millions.

The Shanghai paper, *Finance and Commerce*, looking at the matter from the point of view of Shanghai's commercial needs, could scarcely omit to point out this diminution in the port's share of the unfavourable balance, or to point out that the port's exports during the first eight months of 1941 were greater in value than they had been during the same period in 1940. It emphasized, too, the fact that about 72 per cent of exports in 1941 had gone to the British Empire, the United States, and Netherlands India, only about 17 per cent to Japan. It is not difficult, accordingly, to enter into the feelings of the commercial community of Shanghai when first confronted with these freezing orders. For their immediate effect both there, and at other ports, was to bring commercial activities to a standstill, and to introduce much inconvenience, if not actual hardship, into domestic life.

The immediate effect of the freezing order on the national dollar was to cause it to fall precipitously. On August 11 it closed at $2\frac{55}{62}d.$ 'The outlook from all quarters appeared to suggest', said *Finance and Commerce*, 'that within a very few weeks Shanghai would become as much part of the yen *bloc* as Tientsin.' However, on August 17, the Stabilization Board at Hongkong announced that it would provide exchange for permitted imports at $3\frac{3}{16}d.$ and at $5\frac{11}{32}$ American currency and that the authorized banks—numbering eleven—would sell to merchants at $3\frac{5}{32}d.$ and $5\frac{5}{16}$ American currency. Yet, for a time, there was considerable uncertainty as to what imports would be regarded as 'permitted'. Towards the end of the month the Board announced that it would provide exchange at the official rates for all bills maturing in September and October in respect of goods ordered prior to August 17, and it also announced that exchange would be provided for imports into Shanghai and Free China for certain

specified goods. Two lists were published, list A, which enumerated goods that would be admitted on a quota basis, i.e. rice for the Shanghai Municipal Council only, tobacco leaf up to $U.S.750,000, petroleum products up to $U.S.800,000, and coal (including Shanghai Power Company requirements) up to $U.S.1,000,000; and list B, which enumerated a large variety of goods, the quantity that might be imported being at the discretion of the Board. At the same time, the Board gave notice that no exchange would be provided for goods on the prohibited list—this being by far the longest of the three. It included goods itemized in the Chinese tariff in the following categories: cotton and manufactures thereof; flax, ramie, hemp, jute and manufactures; silk and manufactures thereof; food, drink and vegetable medicines; tobacco; books, maps, paper and wood pulp; animal substances, raw and prepared and manufactures thereof; timber, wood, bamboos, etc.; china-ware, enamelled ware, &c., and miscellaneous. In the category candles, soap, oils, &c., the commodity specified was kerosene. These lists will be found in full in the *Board of Trade Journal* for November 8, 1941.

Japan's 'come-back' was the issue of a Chinese Customs order at Shanghai virtually banning the export of cotton yarn, cotton piece-goods, and other cotton manufactures unless permission had first been obtained by Japanese authorities. By the end of the month things looked black in Shanghai. 'Because there is for the time being no general outlet for the local dollar', said *Finance and Commerce* on October 29, 'the opinion is taking root that it is doomed to extinction. Consequently expenditure is being speeded up and fantastic profits are being made by all holders of stocks.' Prices rose at an alarming rate, and the Municipal Council sought authority from the Consular Body to fix maximum prices. The paper's Hongkong correspondent, writing on October 27, said: 'The exchange value of the Chinese dollar in the local market is plumbing fresh depths. During the past week *fapi* quotations here have reached new lows, with Chinese banknotes touching $Hk.14·55 per $C.N.100 and Shanghai T.T. at $Hk.14·37. The public's dwindling confidence in China's currency seems to be only too apparent.' On September 8 the authorized exchange banks announced that they would no longer deal in the open exchange market, which to all intents and purposes then came to an end, except for business with yen *bloc* countries. Hongkong's black market in *fapi* continued and the trend was still downward. On November 12, regulations came into force in London under which imports from, and exports to, China were to be allowed only if payment was made through an approved bank, similar regulations being issued in other parts of the Empire, and by the United States. It is interesting to compare London opinion on this step

with the opinions quoted above. These new regulations, *The Times* said, 'should greatly strengthen the capacity of the Stabilization Fund to regulate the external value of the *yuan* and incidentally, no doubt permit more exchange to be made available for legitimate transactions'. In all the circumstances, the term 'legitimate' was not the happiest that could have been used. Indeed, its employment illustrated, and was in keeping with, the fundamental paradoxes of the situation. For while the word 'legitimate' indicated correctly that exchange at Shanghai had previously been used for speculative purposes and for flights of Chinese capital, it was inappropriate in relation to the fact that an excess of imports over exports had long been a normal feature of China's foreign trade. Moreover, while the term also indicated correctly that much of the excess had of late been due to Japanese importations, which, from the Chinese Government's point of view, were detrimental to its currency; and that much of it was due to local demand arising from communities which were, in effect, the tools of the Quisling Wang Ching-wei and, from the Chinese Government's point of view, were therefore disloyal; the term was inappropriate in relation to the fact that there was no obligation whatever upon foreign importers, in their capacity as traders, to discriminate between local and any other demands for goods. Their primary consideration both as traders and as British (or American) subjects was to keep themselves alive and their organizations intact, in the face of determined Japanese attempts to undermine and supplant them. True, the policy of the British and the American Governments was to support China's national currency, but that policy had hitherto been pursued in conjunction with one that allowed their respective manufacturers and exporters to supply Japan with most of the things necessary to the successful prosecution of her war with China.

The effect of the Sino-Japanese war upon loans secured on the Customs revenue is described in Appendix II (see p. 261), where estimated British holdings in them, loans secured on the Salt revenue and in Japanese loans are shown.

LOCAL CONDITIONS IN SHANGHAI, HONGKONG, AND TIENTSIN

THIS section is necessary in order to bring out this point, that, notwithstanding all that has been described above, currency difficulties, shipping, mining and railway difficulties, the steady fall in the value of the United Kingdom's exports to China—notwithstanding all these—the reader would be wrong in supposing that British interests in China, as represented by local enterprises, all had an extremely bad time. One has only to read the speeches of chairmen at annual meetings of companies, to peruse the results

of the years' workings shown by the institutions which they addressed, or to study dividend records to see that this was not the case. Certain of our most important commercial enterprises trading with China suffered, chiefly those having their capital in sterling; companies dependent primarily upon certain classes of exports; companies conducting enterprises in China which provided services paid for in depreciating Chinese dollars; and companies manufacturing in China whose factories were caught in the vortex of war. Bondholders in Chinese Government railways, shareholders drawing dividends from concerns operating in China, also suffered. But many concerns operating within China's economy, which embraced all treaty-ports and Hongkong, were, on the whole, remarkably prosperous, though the prosperity was of a highly fictitous kind.

This fact varied, naturally, with the circumstances of each port. Of British companies in Tientsin, capitalized in local dollars, for example, a well-informed correspondent wrote: 'in certain cases, where firms have been bold enough to carry on their business vigorously and were handling produce in which they were free to deal, progressively good profits were made, but only in few cases for which figures have been obtained did the increase offset, in any adequate degree, the depreciation which occurred in the Chinese dollar'. It is certainly the case that the British section of Tientsin felt the domination of Japan more, probably, than any other port in China, with the possible exception of Hankow. That domination, as we have seen, took the form of exchange control, anti-British and, indeed, anti-White discrimination. It also took the form of monopolistic control of commodities—of wool, for instance. There were, however, exceptions even in Tientsin, as we have seen.

In Shanghai, on the other hand, a long list of concerns might be named which presented satisfactory reports to their shareholders year after year. Most of the reports are available in the Shanghai paper, *Finance and Commerce*, for those who may have sufficient interest in the matter to refer to it. Here, incidentally, is a quotation from that paper. It was commenting upon the fact that in April 1938, when the value of the Chinese national dollar was slightly more than 1*s.*, the total of Shanghai's foreign trade had been reduced by the Sino-Japanese War to $27,413,000. In April 1941, when the dollar was about 3¼*d.* the port's trade had increased to $610,889,000. Measured in sterling, Shanghai's trade in April 1938 was valued at £1,481,000. In April 1941 it was valued at £8,192,000. The paper's comment was:

'It may be argued, with some justice, that a fair comparison cannot be made with April 1938, when Shanghai was just recovering from the impact of hostilities in this locality which, for a short period, had brought trade almost to a

standstill. But the point to be made is that Shanghai, as far as general trade is concerned, quickly recovered from the injuries it received in the autumn of 1937 and that there had been continuous and very remarkable improvement ever since. . . . During the first four months of 1939, when trade was settling into its stride (and the exchange value of the dollar had fallen to 8*d.*), the total turnover in imports and exports was $443,980,365. During the first four months of the current year [1941] the turnover was no less than $1,732,614,747. The comparative totals in sterling were £14,799,344 for the January to April period of 1939 and £24,083,354 this year [1941], showing an increase of 62 per cent in total trade values, brought about by a gain of 44 per cent in imports and 115 per cent in exports. That is not a bad record for a beleaguered city. It is not suggested that the *quantum* of trade has increased in that proportion. In many cases, owing to the rise in world prices, quantities have actually decreased. The object of the figures is to correct the impression, occasionally given by commentators abroad, that poor, unfortunate Shanghai is struggling manfully with adversity and is to be congratulated upon just managing to keep its head above water. It is very pleasant to receive these encomiums, but a lurking regard for truth, and not any undue modesty, compels us to doubt whether they are thoroughly deserved. Generalizations can never give a correct trade picture and there are many anomalies and abnormalities in Shanghai to-day, but if a general summing up had to be given, it would probably be nearer the mark to say that for the past two years the great majority of the traders have been treading on velvet. At any rate, the following few figures, showing the value of foreign trade in sterling and dollars for the first four months of each year since 1938, do not in themselves point to any great hardship from a pecuniary point of view:

	January—April	
	$	£
'1938 . . .	112,898,386	6,510,944
1939 . . .	443,980,365	14,799,344
1940 . . .	1,280,546,333	23,049,834
1941 . . .	1,732,614,747	24,083,354

'Altogether apart from the increased money in circulation, which is required to finance this steadily developing trade, there has been a tremendous influx of capital seeking investment. A part of it has been used in starting a number of small industrial enterprises, but, according to Chinese estimates, there is something like $2,500 millions of idle funds in Shanghai still seeking remunerative employment. How far these estimates are correct no one can judge, but certainly money is very easy and this has encouraged a craze for speculation and outright gambling, which has been a by no means healthy development accompanying the increase in trade.'

Side by side with these facts let me jot down one or two others. In 1939 the International Settlement's consumption of units of electricity surpassed Birmingham's by between 2 per cent and 3 per cent; Manchester's by over 50 per cent and Liverpool's by nearly 70 per cent. The total generating output of the Shanghai Power Company (an American concern) increased from 594,621,399 kilowatt-hours in 1938 to 865,713,700 in 1939, this figure being reduced by about 2 per cent in 1940, though the number of customers rose from 78,577 in 1939 to 85,569. In 1940 the total quantity of gas sold by the Shanghai Gas Company (a British concern) increased by 16·39 per cent. The gas sold for domestic purposes increased by 17·88 per cent and for industrial

purposes by 12·91 per cent. In 1940 there were 28,371 more telephones in service than there had been before the outbreak of the Sino-Japanese War.[1]

Hongkong's story is a comparable one. This tale is, perhaps, best told in the words of the chairmen of various companies.

Of the year 1937 the chairman of Hongkong Electric Co. said:

'During the latter part of the year under review, in common with many others in the Colony, we benefited to some extent, and are still doing so, through the misfortune of others. . . . We attribute, however, not more than one-third of the increase in the output of units to that cause. . . . Throughout the first seven months of 1937, before the influx of refugees, there was a steady and progressive increase in the sale of current for lighting.'

In 1940 the net profits of this concern, after depreciation, were $2,290,186, a decrease of about $400,000 compared with those of 1939.

Of the year 1938, the chairman of the Hongkong Telephone Company said:

'The results as indicated by the accounts are eminently satisfactory, but should, I suggest, be regarded to a material extent as reflecting the abnormal conditions which have existed in the Far East during the whole of the period under review.'

Balance from working account exceeded that of 1937 by $209,900.25.

Of the year 1939 the chairman of William Powell, Ltd. (retailers), said:

'The question of stock replacements has given your directors some cause for concern. By far the greater part of our stock is imported from England and orders have to be placed with our agents and suppliers three months in advance. The difficulties of obtaining shipping space from England to Hongkong in these troublous times are well known and your company has not been more fortunate in this respect than other concerns in the Colony.'

In this year the company's profit was $23,218. In 1937–8 it was $15,009.

At the annual meeting of the Dairy Farm, Ice, and Cold Storage Co., whose cold storage facilities were the largest in the Far East, comprising 650,000 cubic feet at East Point, 19,000 in Connaught Road and 33,000 in Canton Road, Kowloon, a record profit in working account was announced, $906,074, some $88,000 more than in the previous year. At the annual meeting in the following year milk sales touched 'a new high level', being a million bottles more than in 1939.

It would be tedious to continue the recital, though there are several more, representative, concerns whose history one might quote. Suffice it to adduce, as a concluding illustration of my

[1] *Finance and Commerce*, March 12, 1941.

point, what was said at the annual meeting of the Hongkong Chamber of Commerce, held on May 12, 1941:

'The old-established industries of ship-building, cement-making, and sugar-refining all show increased activities. . . . It will be realized how important a place in the life of the community local manufactures have now taken when it is remembered that the amount which "sticks" with the Colony, i.e. the difference between the import value of the raw materials and the export price, is probably not less than 65 per cent on the average, whereas the amount sticking with the Colony on account of the entrepôt trade is probably not more than 2 or 3 per cent.'

Hongkong has gone down. But it went down, economically speaking, smiling, and so did many British enterprises in Shanghai. In due course our enterprises in both ports will re-emerge, smiling.

Before leaving this aspect of our subject, a word or two should be said about British capital in China, additional to what was said in Part IV. Reference was there made to an estimate of our capital investments published by Mr. E. Kann, a director of *Finance and Commerce*. His total was £135,000,000, which, he said, 'represents an estimate regarding the entire value of present-day British investments in China'. He proceeded to say:

'According to my belief, the total was on former occasions overestimated. Besides, due to the stupendous fall in the value of Chinese currency, a heavy decline in the sterling equivalent has taken place during recent years. This factor is a plausible explanation for the difference in the estimated total shown in 1931 as compared with my own deductions made in the summer of 1941.

	£
'Estimated British business investments in China . . .	115,000,000
Estimated British holdings of Chinese Government Bonds .	16,000,000
Estimated British investments in Shanghai share companies .	4,000,000
Grand total	£135,000,000

It will be observed that Mr. Kann excludes investments in Hongkong on the ground that Hongkong is British and not Chinese. While nobody will dispute that statement, the fact remains that Hongkong lived, to a very large extent, within the orbit of China's economy, and that much of the money invested there was invested for that reason and earned dividends owing to that fact.

Other and sounder reasons are given by Mr. Kann for his disagreement with Professor Remer's total. It is, however, impossible to evaluate them except at great length, and it may well be doubted whether such evaluation would be worth while. For short of a detailed re-examination of the whole field—which could hardly be achieved without a special journey to China, such as Professor Remer made—there would be big gaps in one's knowledge and a

wide margin of doubt. However, Professor Remer (if he has not seen the article) and others may be glad to be given the reference to it, for Mr. Kann undoubtedly writes upon such subjects with great knowledge. It is to be found in the British Empire Trade Supplement of *Finance and Commerce* of July 1941.

We come now to (*d*) in the plan of this Part.

BRITISH INTERESTS DURING THIS PERIOD IN OTHER PARTS OF THE FAR EAST

THE threads of the great Far Eastern skein included at this time more than those running between countries marked red on the map. Most of the threads, it is true, ran through Singapore, intertwining with ours, but not all. Some of the most important, the U.S.A.-Japan threads, ran through the Philippines or direct, via Hawaii, to Yokohama. Others ran between our Dominions and the U.S.A., which fact, however, does not of itself make them Far Eastern threads, though it does make them Western Pacific and semi-British threads. But unless one is suddenly to convert this book from being a Far Eastern into a Western Pacific study, one must beware of that fact. Such conversion would, amongst other consequences, enlarge its scale and considerably increase its length, while at the same time altering the perspective hitherto maintained. For it was in China that British and Japanese interests, for most of the period, clashed. Japan's southward movement underlay, and was, no doubt, a pre-determined prolongation of her continental movement, but the accidents of war rather than economic causes were responsible for its manifestation at this juncture. That the possibility of such manifestation was long foreseen is proved by the construction of the Singapore base. That it was believed to be imminent is disproved, or at all events appears to be disproved, by what happened to that base. Nobody, after all, can be thought to have foreseen, or, at all events, can be held responsible for not foreseeing, the collapse of France, and it was that disaster which so suddenly threw French Indo-China into our picture, presenting Japan with a unique opportunity. But to alter the perspective of a story reaching back for well over a century because of what happened through military causes in its last year would surely be a mistake.

In any case, from British Malaya one gets a fairly comprehensive view of economic trends. Considered as an economic prize, British Malaya was, by itself, tempting to Japan. Conjoined, as economically it was, with the Netherlands East Indies, it offered the mastery over some of the most important raw materials in the world. Japan's capital investments in Malaya in 1938 were estimated at yen 85 million, those in the Dutch East Indies being

estimated at yen 82·4 million.[1] As we have seen, Japan got much of her iron ore from her mines in British Malaya. Of total British Malayan exports in 1939, 1·9 million tons, she took nearly all, as she did in 1940, when the figure was almost the same.[2] Of tin exports, valued in 1939 and 1940 at $158·3 and $284 million, exports to Japan were valued at $16 and $17 million respectively. Of (dry) rubber exports, valued in 1939 at $356 and in 1940 at $608 million, exports to Japan were valued at $22 and $19 million respectively.

The effect of quotas upon Malaya's import of cotton piece-goods from Japan and the United Kingdom was shown in Part IV. Of total imports, Japan's percentage fell from 68·1 per cent in 1933 to 18·6 per cent in 1938, total imports in the former year being 145,900,000 yards, and in the latter year 114,400,000 yards. In the following year, when the total value of all cotton goods, including cotton yarn, imported from the United Kingdom, India, Hongkong, China and Japan was approximately $20·4 million, Japan's share was about 16 per cent, the United Kingdom's being about 38 per cent. By 1938 Japan's Far Eastern trade was showing some of the effects of her war with China, amongst them being the hostility of Malaya's Chinese population, expressed through boycott. This supplemented the check administered to Japanese imports by quotas, while to those factors was added the effect of the war upon Japanese production, which was increasingly dominated by military needs. There was a marked decline in Japan's share of Malaya's import of manufactured goods, from 11·5 per cent in 1937 to about 4·4 per cent in 1940.

Let us extend the view which we get from British Malaya. It was shown in Part IV that of her imports Siam and the Dutch East Indies supplied large proportions. After 1932 imports from Siam tended to increase. In that year they represented 12·3 per cent of total imports. In 1936 the figure rose to 15·2 per cent, and and in 1938 to 15·7 per cent. In 1939 it was a trifle more. In 1940 it fell to 14 per cent approximately. The Dutch East Indies' proportion of British Malaya's imports, on the other hand, tended to lessen after 1932. In that year it was 35·2 per cent: in 1936, 32 per cent, in 1938, 27 per cent, in 1939, just under 31 per cent, and in 1940, 34 per cent.

British Malayan-Burmese-Japanese trade presents interesting features. Down to 1940–1 British Malaya's importance to Burma as an export market was greater than Japan's. In that year, however, Japan's importance exceeded Malaya's, exports to the former being valued at Rs. 57,604,000 (5,76,04,000), exports to the latter at Rs. 44,350,000 (4,43,50,000). On the other hand, British Malaya sold less to Burma than Japan sold to her. Most of

[1] *Far Eastern Survey.* [2] British Malayan official trade statistics.

Burma's trade with Malaya was done with the Straits Settlements.

British Malaya's imports from Australia tended to increase after the year 1934–5. The Dominion's statistics show that in that year exports to British Malaya were valued at £A.1·3 million. In 1936–7 they were valued at £A.1·7 million, in the next year at £A.2 million, and a little less than that in 1938–9, no later statistics being available.

Australia's Trade

In shifting our outlook from British Malaya to Australia, let us note the important fact that in 1939 and 1940 most of British Malaya's tin went, as in former years, to the United States, as did a large proportion of her rubber.

The Dominion's exports to Japan during these latter years tended sharply downwards, from £A.17·6 million in 1935–6 to £A.4·8 million in 1938–9. Imports from Japan, on the other hand, kept fairly level with an upward tendency, i.e. from £A.4·6 million in 1934–5, through £A.4·9 million in the following year—whereafter they dropped—to £A.5·2 million in 1937–8. In 1938–9 they fell below the 1934–5 level. A trade arrangement entered into with the Japanese Government operated from January 1, 1937, to June 30, 1938. Under this arrangement the Commonwealth Government granted intermediate tariff rates of duty to imports of Japanese artificial silk and cotton piece-goods comprising eleven tariff items, from which primage duty was also removed. The maximum quantity to be imported was fixed at 102,500,000 square yards per annum, divided equally between artificial silk and cotton. In return, the Government of Japan undertook to issue permits for the import during the currency of the arrangement of 800,000 bales of Australian wool, or at the rate of 533,000 bales per annum. In accordance with the terms of the arrangement, all prohibitions and super-duties which had been imposed by the two Governments in 1936 were removed as from January 1, 1937.

A new arrangement effected by an exchange of letters between representatives of the two Governments came into force on July 1, 1938, and had a currency of one year. Under this arrangement Japan permitted the import of such quantity of Australian wool as would correspond to two-thirds of the total quantity up to 500,000 bales imported from all countries, and such additional quantity as would correspond to three-fourths of the total imports in excess of 500,000 bales. It was further provided that the difference between the quantity imported into Japan during the period from January 1, 1937, to June 30, 1938, and 600,000 bales should be imported into Japan during the period of one year from July 1, 1938. This additional quantity was not to be taken into consideration in determining Australia's wool allotment on the basis

of a proportion of total imports for the year (shipments of Australian wool to Japan in the period from January 1, 1937, to June 30, 1938, amounted to 521,929 bales). The only alteration made in the import quotas for Japanese textiles was the inclusion of staple fibre piece-goods in the artificial silk goods quota. The quantity to be imported was fixed as before at 102,500,000 square yards per annum in equal quantities of artificial silk and cotton piece-goods. As in the previous agreement calico for use in the manufacture of bags was to be admitted without restriction.

Provision was made in the arrangement for a review by the Commonwealth Government of the textile piece-goods quota if it appeared at any time that the quantity of Australian wool imported into Japan during the year commencing July 1, 1938, was less than 266,667 bales in addition to approximately 100,000 bales representing the difference between 600,000 bales and the quantity of Australian wool imported into Japan between January 1, 1937, and June 30, 1938. The Japanese Government declined to renew the agreement after June 30, 1939, and guaranteed to maintain the reciprocal trade transactions on the same basis as obtained under the agreement.[1]

The Dominion's exports to China reached a higher value in 1938–9 than they had done in all these latter years, i.e. £A.3 million. Wheat and flour were by far the most important items, accounting for 2·6 million. To Hongkong, exports were small. Exports to the Netherlands East Indies averaged between 1934–5 and 1938–9 £A.1·3 million, flour being the most important item, followed by butter. Imports from the N.E.I. increased steadily in value, from £A.4·3 million in 1934–5 to £A.7·5 million in 1937–8, with a slight fall in the following year. Petroleum spirit, crude petroleum and kerosene, tea, and, to a lesser extent, coffee, kapoc, and to a lesser extent, rubber, being the most important imports.

Here, perhaps, is a convenient point at which to show the Dutch East Indies' production of crude oil and natural gasolene in relation to that of other parts of the world. The figures (in 000 metric tons) in 1939 were:[2]

U.S.A.	171,048
U.S.S.R.	29,748
Venezuela	29,880
Iran	10,392
Netherlands East Indies	7,944
Roumania	6,240
Mexico	6,336
Iraq	4,368 (1938)
Burma and British Borneo	2,030

[1] *Commonwealth Year Book*, p. 760–1.
[2] Chatham House, *Bulletin of International News*, June 29, 1940.

For just another paragraph or two I propose to disregard the limitations imposed upon this study by the fact that it is primarily a study of British interests. They will deal with the economic relations of the Netherlands East Indies and Japan.

In August 1940, as many will remember, the Japanese sent an economic mission to the Dutch East Indies, comprising representatives of the Foreign, Navy, War, Commerce, and Finance Departments. Looking back, that strikes one as an odd combination for an economic mission, and one wonders to what extent it was really, in Japanese minds, an economic mission at all. However, it certainly discussed oil, and also a number of Japanese desires, i.e. to explore the outer islands, to establish an air-line to the Indies, to obtain mining and fishing concessions, the right to exploit undeveloped areas, and the right of sending Japanese doctors and dentists to practise in the Indies.

On February 6 the Netherlands delegation submitted its comments upon these desires. As to the outer islands, it was pointed out that there was considerable activity amongst them on the part of Dutchmen. As to the air-line, it was replied that Netherlands Indies Airways had an efficient and regular service covering Netherlands Borneo, Celebes, Tenate, Amboina, the Banda Islands, and New Guinea, while in respect of the Japanese request to open up undeveloped areas the answer was that the Netherlands Indies and New Guinea Development Company had completed a plan for opening up New Guinea's jungle territories, and for establishing rubber, cocoa, and oil-palm estates.[1] As to oil, it was reported, prior to these submissions, that an agreement was reached whereby crude oil would be obtainable by Japan, under contracts ranging from six months to one year, at an annual rate of 760,000 tons, while various oil products would be obtainable at an annual rate of 546,000 tons.

In the spring of 1941 the talks came to an end. Apart from their concrete results, their importance lies in the evidence which they, and the composition of the Japanese mission, supplied as to the nature of Japan's southward movement. It should be remembered that, at the end of October 1938, there were some 4,300 Japanese residents in Java, a little over 1,000 in Sumatra, 605 in the Celebes, 518 in Borneo, 137 in the Moluccas, and 38 in New Guinea. The largest Japanese community was in Sourabaya and numbered about 900.[2] Is it not now pretty clearly established that most of these residents were potentially extremely dangerous? On the other hand, is it not also clear that there were perfectly genuine economic ties between the Netherlands East Indies and Japan, ties which both countries might reasonably wish to develop? Actually, from September 1939 to April 1940 imports from Japan reached

[1] *The Times*, February 28, 1941. [2] *Far Eastern Survey, passim.*

64·5 million guilders, as compared with 51·5 million for the same period in the previous year. Exports to Japan were valued at 27·9 million guilders, an even greater increase proportionally. It was this duality in Japan's Far Eastern activities, this persistent combination of economic with political purposes—illustrated in China from 1915 onwards (to go no further back)—that made her such a disturbing factor in the Far East. On this point she is not, it is true, without reply of the *tu quoque* order. But it may be questioned whether Japan did not outdo Russia in the latter's palmiest Tsarist days. She certainly quite outclassed ourselves, for if in 1898 we combined political with economic aims the combination was to no small extent forced upon us. Our main and dominating purpose in the Far East has always been trade.

United Kingdom's Trade

It remains to give a bird's-eye view of the United Kingdom's trade with these parts of the Far East during these latter years.

U.K. EXPORTS
(£000's)

	Japan	*British Malaya*	*N.E.I.*	*Siam*
1937	4,330	11,572	4,382	1,012
1938	1,807	11,116	3,605	1,195
1939	856	10,311	3,390	1,025

U.K. IMPORTS
(£000's)

	Japan	*British Malaya*	*N.E.I.*	*Siam*
1937	11,816	13,105	7,062	390
1938	9,213	12,142	6,352	370
1939	8,877	9,860	5,935	379

The totals of exports to British Malaya illustrate what was said at the beginning of this Part about the relative importance of the Chinese and British Malayan markets, and about British Malaya's recovery of her pre-depression importance. The N.E.I. (Netherlands East Indies) figures, on the other hand, show that, while there was improvement in that market during these last three years, its pre-depression value as a market for the United Kingdom's goods was not regained. Indeed, in each of the years 1937–9 its value was less than half what it had been prior to the depression. Siam did not regain its pre-depression value either.

Nor, as was pointed out in Part IV, did Japan, the 1937 figure being less than a third of the 1929 figure.

The big drop in exports to Japan between 1937 and 1938 was to a considerable extent accounted for by a decrease in the value of iron and steel manufactures, machinery and woollen and worsted tissues. The 1939 figures are partly to be explained by the outbreak of war in Europe.

British Shipping in the Orient

In concluding this Part, it is desirable to say a little more about British shipping, which has been dealt with so far only in respect of China. The Orient as known to the shipping world embraces a good deal more than China. Everybody realizes, of course, that the trade routes to China and Japan serve many more ports than Hongkong, Shanghai, Yokohama, and Kobe, and appreciates, too, that in showing the tonnage of vessels entered and cleared at Chinese ports one has, in effect, shown a good deal of the tonnage which visits the ports that lie between Great Britain and Hongkong —along that wonderful trail, 'our own trail, the out trail, the trail that is always new'. Still, something more than that is required if a general picture is to be obtained.

Let me first of all show the approximate value in millions of pounds sterling of sea-borne trade in some of the principal markets for shipping in the Orient between the years 1929 and 1937.

VALUE OF SEA-BORNE TRADE

	1929	1932	1936	1937
India and Burma .	441	206	234	303
Japan . . .	414	227	318	407
British Malaya . .	212	83	133	185
Netherlands East Indies	209	105	105	162

In looking at these figures, the reader will naturally note the effects of the great depression, which so many other figures, already given, have illustrated. In connexion with them this fact, too, should be realized that of the total traffic through Suez about two-thirds is to and from the Orient, while of the traffic that passes through the Panama Canal only one-sixth is bound to and from the Orient.[1] Another fact to be realized is that the gross earnings of the Mercantile Marine of the United Kingdom in 1936 from

[1] *British Shipping in the Orient.* Thirty-eighth Report of the Imperial Shipping Committee, from which most of the facts cited in these pages are taken.

carrying within the Orient, and between the Orient and countries outside, were estimated at £33 millions, or about a quarter of the United Kingdom's gross receipts from its shipping all over the world.

In 1929 the total volume of cargo moving through the Suez Canal was 34½ million tons; in 1937 it was 33 million tons. Of the latter total 23 million tons were carried to and from the Orient, nearly half in British ships. Most of the trade between India and British Malaya was carried in British vessels having Singapore as their terminal, and by vessels proceeding to Hongkong and Japan. Of the net tonnage of British and Japanese vessels entered and cleared in India from and to Japan (i.e. minus the tonnage of through P. & O. vessels from the United Kingdom to Japan and vice versa, which called at Bombay, but carried relatively little cargo between India and Japan) the British total in 1935 was 535,000, the Japanese total, 1,312,000. The distribution of the trade carried in British and foreign vessels between the United Kingdom and the Straits, the Netherlands East Indies, China, and Japan was in 1936 and 1937 as shown below.

	Total Value (£ millions)		*Per cent in British ships*	
	1936	1937	1936	1937
U.K. Exports to:				
British Malaya . . .	8·18	11·35	96·9	95·7
N.E.I.	2·77	4·35	32·3	29·6
China	5·73	5·78	94·9	96·7
Japan	3·48	4·26	54·4	59·3
U.K. Imports from:				
British Malaya . . .	6·97	13·11	84·8	88·8
China	7·53	8·23	85·8	84·6
Japan	9·75	11·81	69·5	71·6

Practically the whole of the United Kingdom trade with the N.E.I. which was not carried in British vessels was carried in Netherland and Japanese vessels respectively.

The commercial importance of Singapore has already been fully emphasized. Its importance from a British shipping point of view may be judged by the fact that in 1936 69 per cent of the cargo handled over the Singapore Harbour Board premises, amounting

to just over 1,000,000 tons, was carried in British ships. Some 17 per cent was carried in Japanese ships. So here is the point to note the effect upon British shipping of Japanese economic activities in British Malaya. The Imperial Shipping Committee said in 1939:

'Not a little of the increase of Japanese shipping interests at the expense of British in the Malaya is due to the penetration of Japanese merchant, plantation, and mining interests in British Malaya and the British protected states in North Borneo. Two examples may be quoted. The intervention of the M.B.K. Line in the trade with New York is based on the M.B.K. merchant house which operates in rubber at Singapore; another Japanese Ishihara Line is based on the Ishihara iron mines in the State of Johore.'

Of Japan's foreign trade, British shipping carried rather more than a third of what Japanese ships did not themselves carry, and the latter carried, between the years 1925 and 1935, from 66 to 70 per cent of the total.

With the recital of these facts our long story comes to an end. For with the 'freezing' order issued on July 26, 1941, came also a denunciation of the Anglo-Japanese Treaty of Commerce of 1911 and, simultaneously, a denunciation of the Commercial Convention of 1934 between India and Japan, together with a denunciation of the Convention regarding Trade and Commerce between Burma and Japan made in 1937. Commenting upon the denunciation of the 1911 Treaty, *The Times* said:

'That treaty was signed a generation ago when Britain and Japan were allies animated by mutual confidence and goodwill. Its abrogation means that it no longer corresponds with facts. Japan's approach to vital British and American trade routes and strategical positions on the flimsiest of pretexts has deprived it of its moral basis.'

I submit that the denunciation connoted more than that. It connoted the collapse of a system and it marked the end of an ascendancy.

PART VI

FINAL CONCLUSIONS AND SOME SURMISES

UPON the basis of two sets of interim conclusions, a number of new circumstances, and with the advantage of better perspective, we have now to come to final conclusions regarding the facts presented in this book. In doing this it is necessary—

(*a*) to set against the facts selected for special notice in the previous sets of conclusions some which have not been mentioned;

(*b*) to attempt an evaluation of the facts thus balanced in relation to existing political conditions;

(*c*) to bring our economic interests in the Far East into measurable relationship with our interests elsewhere;

(*d*) to make such surmises in regard to the future as appear to be warranted.

Regarding (*a*) it is necessary to adduce in respect of Japanese views about their standard of living, as set out on p. 174, certain facts which were not noted. This is best done by quoting a writer who has given much thought and study to the subject, Professor G. C. Allen. He says: 'There are certain objective standards of well-being and these are attained by a much smaller proportion of the Japanese population than of the English population. Dieticians are agreed about the inadequacy of the food eaten by the greater part of the peasants, wage-earners, and small producers, and in consequence the Japanese are less healthy than Western peoples and their physique inferior. Sanitary conditions are bad.'[1] Judged by these tests Japan's standard of life is undoubtedly lower than ours. And they are crucial tests.

Professor Allen completes this passage by saying: 'and housing and working conditions are below the standards reached in this country'. I suggest that that generalization ignores some points and begs others. It ignores, for instance, climatic suitability, sentiment, and aesthetic preferences. As regards 'working conditions', if reference is intended to length of working hours, may one not ask whether that is a matter which can be settled by objective standards alone? Surely the point at which work becomes drudgery and therefore harmful both to the work and the worker is the point at which interest in it ceases. Who is in a position to say when that point is reached in the mind of the average Japanese factory hand?

For my part, I venture the opinion that the average Japanese

[1] *Japan, the Hungry Guest*, p. 177.

factory hand—man or woman—is temperamentally more industrious than the average factory hand in England, man or woman. I venture—indeed, more than venture—the opinion that duty is a harder, sterner, less pliable conception in Japan than it is amongst ourselves. In that fact, I suggest, lies one of the springs of Japanese fanaticism. The late Mr. Morgan Young was justified, up to a point, in 'debunking' *hara-kiri*. But the practice is by no manner of means wholly 'debunkable'.[1] It is resorted to too often to be so, and is on many occasions too obviously connected with the Japanese sense of obligation not to be taken seriously. Suicide is not infrequent in England, but how often is it related to that particular sense? The fact that it is rarely so related does not, of course, denote a lesser regard for duty in England, but it does illustrate a different conception of it.

Similarly, our conception of leisure and its place in a well-ordered life is a broader, more tolerant, and, on the whole, more joyous one than is that of the Japanese—which is one reason why most Englishmen who know both peoples well are so much more *en rapport* with the Chinese, who feel much the same as we do about leisure. Judged by the objective tests of health and sanitation, the Japanese standard of life is undoubtedly lower than ours. But let us be chary of saying that their working conditions are inferior because they work longer hours.

But there are other facts to be noted in relation to this question, and in relation, also, to the matter which, it will be remembered, gave rise to it—namely, the use of quotas in Malaya as a means of keeping out cheap Japanese piece-goods. I characterized that as an economic departure from the principle of trusteeship. Mills observes that—

'almost all empires except the British have as it were practised the theory of trusteeship with tariff limitations. If one studies the American, Dutch, or French Colonial policies, one observes that none of them have felt trusteeship to be incompatible with the reservation of some special economic rights to themselves. All of them have earnestly striven to promote the interests of the colonial populations, but they have never considered that this precluded them from a due regard for their commercial interests. The French and Americans, long before the Great War, and the Dutch from the time when Japanese competition jeopardized their own trade, followed a policy of imperial preference. The European Colonial Powers were impelled towards this policy by more cogent reasons than the United States, for none of them could compare with her in, e.g., extent of natural resources and size of the home market with which to support their populations'.[2]

There is, moreover, this to be said, that Mills's defence of our action in employing quotas can be rendered a good deal stronger by reference to some of the history which lies behind our modern conceptions about the standard of life. Not only does that history go back to at least the end of the eighteenth century,

[1] See *The Rise of a Pagan State*, pp. 67, *et seq.* [2] Mills, op. cit., p. 149.

when the Society for Bettering the Condition of the Poor was founded by Dr. Shute Barrington, Bishop of Durham, and Sir Thomas Bernard; it was also in early days closely associated, through the activities of Robert Owen, with the cotton trade. Let me quote Cunningham on this point: 'Robert Owen had already acquired considerable experience in the cotton trade in Manchester before 1797, when an opportunity occurred for him to take over the management of mills at New Lanark. . . . For the next ten years the arrangements and organization at New Lanark attracted thousands of visitors. . . . Others were inspired to emulate his example, and it is hardly possible to exaggerate the effect of the impulse he gave to the work of social amelioration. His influence was felt in many ways, but it was in connexion with factory reform that it proved most potent. . . . He fought all the evils of the day—the stunting of children in mind and body, insanitary conditions of work and life and truck; he demonstrated the practicability of improvement by setting an example, and he was ready to join in inducing the Government to inquire into the system and introduce remedial legislation. But this was not a task that could be carried through at once. It required a long, continued agitation, and years of legislative and administrative activity, to bring up the conditions of the textile industry in the country generally to those which he had voluntarily introduced in connexion with his own works.'[1]

Now it is true that the cheapness of Japan's cotton piece-goods at this period was due primarily, not to relatively cheap labour costs, but to the fall in the external value of the yen, caused in the first instance by abandonment of the gold standard. Similarly, our exports were cheapened when we abandoned gold. But the difference between the subsequent history of the yen and the pound cannot be attributed solely to economic causes. The financial policy which caused the yen to continue to fall till (by the end of 1932) its sterling value was 1*s.* 2*d.* only, as opposed to the normal one of 2*s.*, was due to a deliberate political act, the invasion of Manchuria, which launched the Japanese Government upon a course of unprecedented expenditure. So far as we, in these paragraphs, are concerned, one of the chief points to be noted about this expenditure is that it was greatly to the advantage of a large section of Japanese industry. That is equivalent to saying that it was greatly to the advantage of Mitsui, Mitsubishi, Sumitomo, Yasuda, and other concerns forming part of, or ancillary to, the enormously powerful group of organizations embraced by the term *Zaibatsu*. During the first six months of 1934 the profits of one of the largest of the cotton concerns, Kanegafuchi, according

[1] Op. cit., *Modern Times*, Part II, pp. 751–4 (Cambridge University Press, 1903).

to statistics compiled by Mitsui, were 40·3 per cent. Those of Fukushima were 29·6 per cent, those of Tokyo Rayon 42·5 per cent; while Kurashiki's and Shoja Rayon's profits were 55·4 and 67·4 per cent respectively.[1] Another of the chief points to be noted is that, while these large profits were being earned, though the cost of living in Japan rose, wages on the average declined. Wages in the cotton industry were amongst those that fell. G. C. Allen thinks that in the larger mills the decline was offset by a rise in bonuses. Side by side with that conjecture, however, must be set his statement of fact that, as a result of the depression in the silk industry, members of farming families, especially the girls who previously found employment in the silk mills, were obliged to enter the industrial labour market, with depressing effects upon the wages of female textile workers.[2]

It may be said, accordingly, that the picture of conditions in Japan which Lancashire had in mind at this time, if inaccurate in regard to certain details, was, in respect of several of its major features, a correct picture. Part of it showed a country which was exploiting several deliberately created circumstances to the disadvantage of other countries, the sufferers most obvious from Lancashire's point of view being China and Lancashire herself. This part of the picture required modification in respect of the circumstance that Chinese and Malayan consumers were getting cotton goods more cheaply than we could supply them: it was correct, however, as regards the injury which was being done to China's economy by the seizure of Manchuria. It was also correct as regards the additional impetus downhill which was being given to our cotton trade, an impetus first applied, as we have seen, during the 1914–18 World War in circumstances which seemed, just as these new circumstances did, to be unfair. Another part of the picture showed control of production concentrated in a few enormously rich groups, amongst whom there was little, if any, regard for a standard of life combining moral with material values. In place of that was a heartless perception of the economic utility of a regimented sustenance of droves of female operatives, obtained and treated like serviceable animals with a low individual, but a high collective, cash value. This section of the picture omitted, on the one hand, the spiritless acquiescence of the peasantry in such use of its daughters—an acquiescence rendered intelligible but not excusable by extreme poverty—on the other, the system of bonuses paid to operatives. Otherwise the section was true, becoming all the grimmer when considered, as it should be, in relation to the employment of thousands of women in brothels, and to the evaluation of the male youth of the country to so large an extent in terms of cannon-fodder. Yet another part of the

[1] Guenther Stein, *Made in Japan*, p. 145. [2] Op. cit., p. 179.

picture showed Japan to be a competitor whose cotton trade was inspired neither by vocational nor technical traditions, though characterized by cleverness, industry, and—much more irritating than complimentary—imitativeness; a competitor, moreover, whose proved formidability was in part due to an industrial system peculiarly unattractive to Lancashire's individualism and liberalism, its inner citadel consisting of the Japanese Government itself, its Maginot line composed of a merciless system of interest and rent, which ground the last cent out of small manufacturer, small landowner, and small farmer alike. Was it surprising that Lancashire, seeing its piece-goods trade still further threatened, and having this picture of Japan in mind, felt a sense of outrage and gave vent to broad-a-ed equivalents of '*Aux armes! Citoyens!*'? Was it surprising either that the British Government, notwithstanding the negative findings of the Commission instituted to inquire into quotas in Malaya, decided in favour of imposing them?

It must be pointed out, too, that while the British Government cannot be credited with foreknowledge of the factors which prevented quotas from having an injurious effect upon consumers in Malaya, no injurious effect appears to have occurred. The point is not free from doubt, but it appears to be the case that, while total imports of piece-goods increased, the proportion retained in Malaya increased also. This increased proportion may for the most part have found its way into Chinese rather than Malayan hands. On the other hand, the increased purchasing power which resulted at this time from better conditions in the tin and rubber industries was not, probably, confined to Chinese, but was shared by the Malays also. At all events, the annual purchase of piece-goods per head of population increased from under 17 yards in 1933 to 19 in 1937.

Still continuing (*a*)—the process of balancing up my interim conclusions by introducing facts that were apparently omitted in reaching them—let me remind critics of British colonial administration of this undeniable fact, that the satisfactory working of all economic systems, wherever they may be, is to no small extent dependent upon an even-handed administration of justice. Ask traders in Shanghai, in Yokohama, in Bangkok, in Buenos Aires, in Rio de Janeiro, or in any other commercial centre not dulled by habituation to even-handed administration of justice, how they assess it, what place *they* give it in the economic scheme of things. And having heard what they have to say, begin searching newspaper files and any other records for instances of maladministration of justice in British Colonial territories. I challenge our bitterest critics—and we have many bitter critics both within and without the ranks of our Allies—to produce from the past covered by

this book an authenticated baker's dozen of such instances. If anybody is so incautious as to remark, 'You are now trespassing on to the ground of goodness and badness, which you said you would eschew', I reply, a trifle tartly perhaps, 'I am doing no such thing. I am thinking and writing of the administration of justice in terms of economic utility and disutility; of soundness and unsoundness, of efficiency and inefficiency. And I affirm, with pardonable emphasis, that administration of justice in British Colonial territories, judged by these tests, has been second to none, and superior to most other judicial administrations'.

There is another fact to be brought into this balancing-up process. In indicating what I conceive to have been the effect upon Japan of our employment of sanctions against Italy I said nothing of Japan's membership of the League, nor of the fact that, in employing sanctions, we acted as members of the League. Japan was a member of the League for many years. Nobody can possibly suggest that she 'did not know about' sanctions. Nor can anybody suggest that in employing them against Italy we were acting otherwise than in accordance with our obligations under the League Covenant. The grumble at the time was that we did not do this whole-heartedly enough. Certainly our policy was never that of taking reprisals against Italy because she was following a course of action damaging to our own economic interests. That Japan saw in our use of sanctions an economic threat to herself is, I think, indubitable. But to what extent did that perception differ in kind from the apprehension occasioned in the mind of a burglar when, on emerging into the garden with his swag, he sees the gleam of a policeman's lantern? If there was any purely economic justification, wherein did it lie? In our imperial preference arrangements? They certainly included features which the term 'economic *bloc*' often comprises—namely, currency unity and mutual tariff concessions amongst countries embraced in a political unity, the purpose of such combination being mutually advantageous access to raw materials and commercial markets and military self-sufficiency in time of war, this latter element in the purposes being usually implicit rather than explicit. Granted, however, that the British scheme of imperial preference comprised these elements, could it be regarded, because of the inclusion in its purview of important markets in the Western Pacific, as designed to check Japan's economic expansion in that area?

Down to 1934 any such suggestion would have seemed ludicrous. The introduction of quotas in Malaya and elsewhere was undoubtedly interpreted in that way by Japan. But to what extent was Japan predisposed to such interpretation by her seizure of, and plans for, Manchuria? To what extent was her seizure of Manchuria the outcome of the Tanaka plan? To what extent was

the Tanaka plan (the plan on which the Japanese are now acting, a plan which Englishmen whose business it was to know such things describe as being a perfected blue-print by 1920) linked with the Twenty-one Demands?

Having thus balanced up the facts dwelt upon in our interim conclusions, let us attempt an evaluation of them in relation to existing political conditions. The previous paragraph was, in effect, a beginning of the attempt. Let us carry it further. (This stage is labelled (*b*) in the short syllabus set out above.)

With one exception, the profit motive, it would, I suggest, be a waste of time to take each of the remaining facts separately, for their individual causal relationship to existing political conditions was certainly no greater than that of the three already discussed—sanctions, imperial preference, and quotas. It is not a waste of time, however, to consider their collective relationship to the present situation. Indeed, it is imperative to do so.

Was a system of which the major elements were liable at any time to become incompatible with one another likely to stand strain? The answer, surely is: only so long as the incompatibilities did not declare themselves. Were the conceptions of equal opportunity and special rights compatible with one another? The answer is that from the first it was feared that they might not be, so much so that in 1899 the United States invited the British, French, German, Italian, and Russian Governments each to make a declaration that it would 'in no wise interfere with any treaty-port or vested interest within any so-called sphere of interest or leased territory' which it might have in China. In practice the conceptions remained compatible until, in Manchuria, the value of possessing a lease appeared to be endangered by China's claim to exercise (in territory belonging to her) the same right of railway construction as Japan exercised. Thereupon Japan seized Manchuria. Were the conceptions of Chinese sovereignty and those underlying the treaty-port system compatible with one another? The answer is no, but they coexisted without great friction until China wanted to enjoy sovereignty in practice as well as in theory. Thereupon the British Concession at Hankow had either to be fought for or given up. We chose the latter course, preferring a local to a more general collapse of the system. When our prior rights at Hongkong chimed with our desire to use the port for imperial economic purposes, though its prosperity as an entrepôt depended upon the maintenance of the 'open door' in China, no dire results occurred because inability to buy an American car without paying a special registration fee, or to drink French brandy without paying more for it than British brandy, were but small departures from the 'open door' principle. But when those changes, forming, as they did, part of much more differential

arrangements elsewhere, became linked with measures adopted primarily to exclude Japanese products from a market peculiarly suitable to them, it was not improbable, to say the least, that a neighbouring market, where equality of opportunity was specially important to our products, would experience a sharp reaction. I have suggested that against the influence which imperial preference and quotas exercised upon Japan's plans in respect of North China should be set the political antecedents of those plans, the Tanaka memorial and the Twenty-one Demands. But one does not get rid of a fact by setting it side by side with others. One only places it in a position in which its relative importance can the more easily be judged. In existing conditions nobody, I imagine, will say that the circumstances just alluded to had no importance at all. Yet, unless that can be said, their degree of importance becomes automatically one for consideration. And if, as a result of consideration, the reader decides to classify British and Japanese economic competition as a minor factor in the collapse of the system which we have been examining, it does not follow that he can so classify the collective significance of the incompatibilities noted above. For their local consequences reacted upon one another and the reactions became part of the main current of events.

We were not alone, however, in our heedlessness of these incompatibilities. The United States came to be just as regardless of them as we were. True, President Wilson took high ground in respect of American participation in the Reorganization loan. True, also, that the United States never established concessions at the treaty-ports, nor acquired prior rights of administration over Chinese territory. But before the Washington Conference the United States Government never, so far as I am aware, showed any greater disposition to dissociate itself from the maintenance of the treaty-port system as a whole than Great Britain had shown. Moreover, it was after the Washington Conference, when the ink of the resolution regarding extra-territoriality was barely dry, that the United States, by adopting on September 19, 1922, the China Trade Act, evinced a firm determination to lose none of the advantages of the extra-territorial system.

This somewhat technical matter is best explained in the words of American writers, as quoted in Professor Willoughby's *Foreign Rights and Interests in China*.[1] Mr. Julean Arnold, American Commercial Attaché in China, writing in the *New York Journal of Commerce*, said:

'As commercial conditions exist in China the Chinese are much inclined to invest their money in companies under foreign charters, but it has been found that a country which can bring under its charters the investment of large sums

[1] See vol. ii, pp. 930–42.

of Chinese money gains a status in the Chinese community not held by countries whose charters are less acceptable to the Chinese community. Hence a great field of commercial development would unquestionably be open to the United States if we could offer such a charter to the American merchant in China as would appeal to the Chinese investor. Great Britain has perceived the importance of this and has in its Hongkong "companies ordinance" provided a very suitable charter for business in China. It happens that this charter is almost universally used, and it is not uncommon to find incorporated under the Hongkong ordinance a variety of companies for an equal variety of purposes, in which the capital is mainly Chinese and that of other nations, even of British subjects themselves, is proportionately small. As a matter of fact, Americans who wish to invite the capital of Chinese and other nationalities are compelled to resort to the laws of England to do their business in a corporate capacity in China. They thus submit themselves to English jurisdiction and become, in their corporate capacity, British subjects, under the control of British courts and consular authorities. Their business, moreover, figures as an asset of Great Britain in the communities in which they may be established.'

A movement, as Professor Willoughby says, to correct these conditions was initiated by the American Chamber of Commerce in China. The draft of an Act prepared by the Chamber was introduced in Congress in 1918, but did not receive serious consideration by that body until 1920, with the result that the China Trade Act was adopted, as stated above, in 1922. But, says Professor Willoughby, experience proved that the Act did not effect the purpose for which it had been enacted—namely, to encourage American trade in China. 'The conditions imposed upon companies incorporated under it were', he says, 'so severe, and the exemption from Federal American taxation so incomplete, that American traders in China still found it to their advantage to incorporate under British or other foreign law rather than under the American Act.' Mr. Cunningham, the American Consul-General at Shanghai, said in the course of a letter quoted in the report of the Committee on the Judiciary of the House of Representatives of March 18, 1924, that:

'The act as passed by Congress is of great assistance to the American business man in China who is transacting business on his own, through a purely local concern, but it is deeply to be deplored that the Act does not go further and place the large American concerns on an equal footing with their British competitors. In brief, it appears that capital put into business in China by an American who resides outside of China does not receive any exemption, nor can exemption be obtained by placing the stock in trust with a resident of China. It was particularly desired that the Act should encourage American financial interests to invest capital here [in China] on an equal footing with that of competitors, particularly the British.'

From the same report Professor Willoughby quotes the answer given by Mr. Sydney—now Sir Sydney—Barton, at that time British Consul-General at Shanghai, to the question: 'Are British stockholders in Hongkong companies and British-China companies exempt from individual income tax when dividends are kept in China, also when dividends are sent to England?' Mr. Barton replied:

'(*a*) A British-China company, not being resident or carrying on business in the United Kingdom is, as a company, not chargeable with income tax on the company's annual net profits.

'(*b*) British subjects, shareholders in British-China companies, not resident in the United Kingdom, are not chargeable with income tax on dividends paid by such companies.

'(*c*) British subjects resident in the United Kingdom are chargeable with income tax on dividends paid to them as shareholders in China companies irrespective of whether such dividends be remitted to the United Kingdom or kept elsewhere.'

The Act was therefore amended in ways which, presumably, achieved the purpose in view to the satisfaction of American traders—that of competing successfully with British traders.

This recital of facts twenty years old illustrates more than the United States' resolute determination, subsequent to the Washington Conference, to get all it could out of the extra-territorial system of trade in China. It illustrates the extreme readiness of Chinese investors themselves to share the advantages of the extra-territorial system. Having said what I have about Chinese nationalism, it is incumbent upon me to make perfectly plain that that movement was not one ardently supported by Chinese capitalists and traders living in the treaty-ports in a security much more assured than the 'interior' provided. The picture which is sometimes painted of Chinese nationalism as a movement *sans peur et sans reproche*, battling unitedly against a ruthless lot of foreign Imperialists, is ludicrously unreal. A large proportion of rich Chinese in Shanghai and elsewhere were hand-in-glove with the so-called Imperialists. That is why they were called 'Imperialist running-dogs' by the student class and the nationalist *literati*. To say this is not to minimize either the reality, or the importance, of China's nationalism considered as a whole. Surely, no country in history has given greater proof of the sincerity of its nationalism than the Chinese have given since the autumn of 1937, and great indeed is our debt to it. But one can see that fact in correct perspective without placing related facts in incorrect perspective, as the picture which I have just characterized as ludicrous undoubtedly does.

My own picture—the one I have placed before the reader in these final conclusions—requires this further balancing up—namely, the addition of the fact that China's slowness in setting her house in order, combined with her prolonged disunities, political, moral, and intellectual, made it very difficult for Great Britain and the United States, and such other Powers as would have been prepared to follow their lead, to modify the system which we have been examining at any date prior to the Washington Conference, while they helped to retard progress in applying the decisions reached by the Washington Conference.

But when one has made that addition and stands back from the

picture to satisfy oneself of the result, one cannot but be aware that the addition, in turn, needs balancing. For such phrases as 'setting her house in order' and 'made it very difficult' obviously relate, though by no means exclusively, to the concern of the Powers for the interests developed by their nationals within the system created for that purpose. True, many of the interests were bilateral in character: they had, that is to say, a Chinese side. Foreign-built railways, foreign-run shipping, foreign-conducted banking, insurance, and trade, foreign-administered municipalities and public utilities, foreign-built schools, colleges, and hospitals—all these things were part of China's modern economy. From all of them she derived immense benefits, as fair-minded Chinese will readily admit, conceding also the claim that the concern of foreign governments in respect of these various enterprises included concern for their value to China. It remains true, nevertheless, to say that their value to China was not, except in the case of missionary institutions, their primary *raison d'être*; nor was it their value to her, but, on the contrary, their value as foreign interests which shaped the policy of the Powers and dictated their requirements whenever China was adjured to set her house in order.

Well, the reader may interject, there is nothing to find fault with in that: foreign policy is always so shaped. One is grateful for the interjection because it gives an opportunity to make clear that one is not appraising matters in terms of blame or commendation. None of these paragraphs is intended as criticism. They, and similar paragraphs in other parts of this book, are intended to serve the purpose of analysis—a very different thing. One has been reviewing the interplay in the economic field, over a long period of time, of this set of circumstances with that, of one set of sequences with another, in order to relate them with sequences in a different field—the political field. The present political situation in the Far East—so far as it is separable from the present situation in Europe (and to a considerable extent it is, for the Sino-Japanese War broke out long before there was a European war)—is largely the outcome of economic aims and sequences at variance with one another. Thus, as previous pages have shown, the establishment, development, and preservation of foreign interests in China were associated with the establishment, development, and prolongation of a system several of the elements of which came to be increasingly at variance with China's interests. Amongst them was Japan's lease of the Liaotung Peninsula, which became in turn a major fact in the variance between Japanese and Western interests in China, the word 'Western' being here used to include both Europe and the United States. In 1934 this latter variance was sharpened by divergence between Anglo-Japanese commercial interests in the Nan-yang, or Southern Pacific area, in which the economic

possessiveness of Imperialism, hitherto off-set in our own case by liberalism in respect both of the commerce and raw materials of Malaya, became at once a challenge and—owing to known deficiencies in military preparedness—a temptation, the latter being rendered incalculably greater by the defencelessness of Indo-China after the collapse of France and the consequent vulnerability of Siam, or Thailand. To say that, prior to this phase, nothing had been done by statesmanship to lessen frictions and pressures in the Far East would be to disregard the Washington Conference and readjustments of British policy in 1926–27. But there was little, if any, consecutiveness between these unsustained attempts to rectify a situation the proffered remedies for which were explicit admissions of its need of fundamental changes. The latter continued to be postponed, though circumstances between the years 1927 and 1937 were not less favourable—psychological factors apart—than they are now, when it has been decided to make them. Moreover, those proposed under the auspices of the League of Nations in respect of Manchuria showed as little appreciation of the economic factors in the problem they sought to remedy as prolongation of the State within a State, which Great Britain and other members of the League had created in China, showed in respect of problems within the Great Wall, both sets of problems having, to no small extent, the same roots. In other words, there had come into existence what is known as a vicious circle, and it was rendered all the more vicious by the nature of the plan devised as the ultimate preservative of peace—namely, sanctions, the application of which must necessarily emphasize, and derive its effectiveness from the economic possessiveness of Powers interested in maintaining the *status quo*. That was not, it will to-day be agreed, a situation favourable to radical measures, encompassed as the chief actors in it were by economic traditions inimical to basic changes. To the comment that such remarks are no more than wisdom after the event—one must risk the assumption that the word 'wisdom' will be accepted as appropriate—the answer, surely, is that that is the only kind of wisdom which history and experience supply. Apart from the prophet's, there is no other kind of wisdom available to man in the conduct of his affairs.

Apart from the profit motive, which needs further treatment, we may now leave what, I am fully aware, is an imperfect appraisal of the relationship between the ideas and facts detailed in this book and the present situation in the Far East. Let us address ourselves to (*c*) in our agenda, i.e. the bringing of our economic interests in the Far East into measurable relationship with our interests elsewhere.

There have already been so many figures in this book that I have not the moral courage to ask the reader to contemplate more

of them. So let me make just a few simple statements which, if he wants to do so, he can verify for himself at the nearest reference library.

The combined sterling value of the United Kingdom's exports in 1936 (which are taken because it was the last 'normal' year) to China (including Hongkong) Japan, Malaya, the Netherlands East Indies and Siam was roughly equal to her exports to Canada alone, some three to four million pounds less than her exports to the United States, and some three to four million pounds more than the combined value of her exports to the Argentine and Brazil. In other words, the United Kingdom's trade with what (to her) is the Far West was considerably more valuable than her trade with the Far East, as that term is usually used and understood. Incidentally, it should be noted that exports to India exceeded in value exports to any of the Far Eastern countries named above.

Let us proceed now to (*d*), to surmises, the last item on my agenda. A good many people are engaged in making blue-prints about the future. I do not propose to do the same, but only to indulge in such general surmises as may reasonably be based upon the very limited class of facts with which this book has dealt.

One set of surmises may be based upon the figures showing the world production of coal, iron ore, copper, petroleum, tin ore, tungsten ore, antimony, and bauxite in 1934 and the shares of the U.S.S.R., North and South America, and the Far East. I do not propose to give the figures, because they can all be found in *Raw Materials and Colonies*, Information Department Paper No. 8, published by the Royal Institute of International Affairs, and the League of Nations Statistical Year Books. Suffice it to say that, except as regards tin, tungsten, and antimony, the Far East's share of the world's production of the principal metals is small compared with that of North and South America.

There is little in this fact, taken alone, to suggest that any rapid change is probable in the relative importance to the United Kingdom from a commercial point of view of the Far East as compared with the other side of the world. In the immediate future, indeed, the relative importance of the Far East seems likely to be diminished by the probable effect of defeat upon Japan's economic system and potentialities.

Hitherto war has paid Japan. The Sino-Japanese War of 1894–5, the Russo-Japanese War, the last world war, all paid her handsomely. Up to date this war has done so too. Let us not be blind to that fact. Amongst Japanese to-day belief in Japanese destiny is almost certainly not merely unshaken, but stronger than it ever was. But that very fact—if it is a fact, as I believe it to be—is likely to make the reaction of defeat all the greater.[1]

[1] 'Up to date' implies mid-December, 1942.

What things, we shall not be wasting time in asking, are likely to suffer most in the reaction? First and chiefly, the prestige and political power of the Army and Navy. To what extent is that likely to affect the position and prestige of the Emperor and the whole system of ideas, beliefs, and practices of which he is the centre? It is hard to say, for the Japanese are as tenacious of their traditions as we are of ours. Yet it is also hard to think that divinity under a cloud will fill the same place in the Japanese mind as divinity in sunshine. On this point, however, there is this to be said, and said quite seriously. The Japanese have long been accustomed to seeing in Mount Fuji precisely the phenomenon just mentioned, divinity under a cloud and in sunshine. Fujisan has lost nothing, but on the contrary acquired much, of its spiritual and aesthetic influence upon their minds owing to its constant veilings and unveilings. Remember, there is a deep vein of mysticism in the Japanese character. Mysticism and loyalty have ever been partners in their souls, as they have in ours. There is, too, a vein of melancholy in the Japanese nature, illustrated, I suggest, by their music, and melancholy is no foe either to loyalty as such, or to loyalty to kings and emperors. Does not our own Stuart period illustrate that?

Yet the mechanism of Government may suffer considerably from the shock of defeat. There are few shock-absorbing institutions in Japan. The Japanese Diet cannot be thought to be one, nor can the Parliamentary tradition of Japan. On the other hand, the forces of disillusion and resentment will have much to feed upon—apart altogether from the tragedies of devastated homes. The Japanese social system is not, in its economic aspects, a satisfactory one to contemplate from the Japanese farmer's, factory hand's, or small industrialist's point of view. Their standard of life, as we saw, is admitted by Japanese themselves to be low in respect of the individual's share of the rewards of labour, while the concentration of so much of the wealth of the country in such few hands certainly provides no safeguard against political or economic shock. On the other hand, a defeat of Japan which produced no big shock would leave her prepared to try again another day. We have there, as in Germany, either to eradicate, or so thoroughly to maim, certain conceptions and beliefs as to make them in future impotent. Yet if we give Japan a shock big enough to do this we are likely to bring down with a run much of the Meiji and Showa administrative and economic system. There appears to be no escape from this dilemma. We have to choose between ultimate world order and avoidance of immediate, local economic collapse, the results of which may persist for a few years only or for a longer period, with considerable economic repercussions on ourselves. On the other hand, the duration of

collapse in Japan will depend only partly upon the rapidity with which she is able to reorientate her ideas. It will also depend upon the extent to which we are prepared to change our own. Everybody will agree, presumably, that our desire will be not to put Japan out of business, but on the contrary to enable her to reenter it upon terms compatible with world prosperity. But world prosperity is going to depend upon considerable changes in our own ideas and methods. To expect great improvements from a reorientation of ideas in Japan without envisaging changes necessary to make the environment in which they will have to work better than it is at present would be to expect precisely what we expected, and naturally did not get, in Germany's case at the end of the last war. It may be said, perhaps, that the last war was ended without Germany getting the kind of shock that was necessary to produce the requisite changes in her. But it may be doubted whether, had they occurred, the future of the world, in the absence of reformation elsewhere, would have been any the more assured. This time we propose to administer the right kind of shock in both countries. And this time, before administering it—which, incidentally, we are far from being in a position, as yet, to do—we have provided ourselves with an outline plan for our own regeneration, the Atlantic Charter and the subsequent agreement of February 23, 1942, on the principles applying to mutual aid. But the plan will require a good deal of filling in, and unless it is filled in a reorientation of ideas either in Germany or Japan will not get us very far.

On the assumption that we intend to fill it in, what may we expect in China? Let the reader consider first the relative richness of China's natural resources when compared with those of other Far Eastern countries. Here again I do not propose to give figures which can all be found in the books mentioned a moment ago. It is enough to say that about a third of the coal, two-thirds of the iron ore, all the antimony, most of the tungsten, nearly all the cotton, all the wool and about a fifth of the silk produced in the Far East are produced in China. Manchuria's share of these resources has been included in China's on the assumption that, if Japan is defeated, Manchuria will be restored to her.

The facts just cited suggest that China is in a better position to make herself an economic power in the world than was Japan when she set to work to win a place for herself. Let me, in order to drive this point home, again quote certain passages from Sir Arthur Salter's *China and the Depression*. He wrote:

'China's industry must expect to be based mainly upon its own home market —and a home market consists in effect of the margin of production over the domestic consumption of the cultivators, which contributes their purchasing power.'

He also thought, that—

'since there are many things which she [China] needs and cannot economically make herself, she must expand her exports in order to pay for imports and amongst these some involving industrial processes must certainly find a place'.

Furthermore, he wrote:

'In developing industry dependent upon export the greatest possible care should be taken to concentrate on lines in which China has a special advantage. These will probably be closely related to her main natural resources, and production. Amongst these the "extractive" industries drawing upon China's mineral wealth and the industrial processes related to them should probably find a more important place than at present, though the possibilities are in many cases dependent on experiments of which the results are still not certain.'

Finally, he advised that—

'industries requiring a relatively small capital investment are preferable to those which will require expensive capital plant in order to compete successfully. This applies to industries designed to supply the home market as well as those dependent upon export'.[1]

Would not any of Sir Arthur's remarks, except that about 'extractive' industries, have been as true of Japan at the beginning of her modern career? Consider this fact alone, that Japan, even to-day, is far from being a highly industrialized country. About half her occupied population in 1930, some 29 million, was employed in agriculture and fishing. Between 5 and 6 million only were employed in manufactures.[2] Consider next the fact that of the value of Japan's total export trade as shown by the League of Nations' statistics for 1937 cotton tissues represented 18·4 per cent. Yet Japan had to build up her cotton textile industry without any domestic supply of cotton.

So had we, for that matter. The presence or absence of physical assets is not of itself, in most parts of the world, a reliable index to the probable extent of foreign trade or industrialization. It is possible to imagine a country so endowed by Nature as not to require any foreign trade, and there are actually countries where the importance of foreign trade differs greatly. China, however, has been an international trader for a very long time, and during the past century her foreign trade has greatly increased. Several of her physical assets have been successfully converted into exports and some have been used for industrial purposes. All that we know about her economic policy points to an intention to foster her export trade, because, under modern conditions, she wants many things which she has not got and is at present unable to make. That her aim will be to make more of them herself and to expand her manufacturing industries seems also to be clearly indicated.

[1] *China and the Depression*, pp. 64–5.
[2] G. C. Allen, *Japan, the Hungry Guest*, p. 94.

One reason for thinking that she will prosecute these aims with more success after the war than she has hitherto achieved is that she will enjoy complete sovereignty. We are apt, I think, to forget, when comparing Japanese and Chinese progress, that Japan has enjoyed a relatively long start in this respect. After the war China will be on an equal footing with Japan so far as that matter is concerned. Another reason for thinking that China will become a more successful trader and manufacturer than hitherto is that during the past twenty years she has done a great deal of re-evaluation, and now has a very different estimate of the importance of technique than she used to have. In that respect she is, I suggest, as ready to enlist help as Japan was. For the readiness will not in future be diminished, as it has been in the past, by fear of advice being accompanied by control. There may still be people who cherish the idea of offering her advice in the hope of being entrusted with its application and so of directing matters into channels favourable to their own country. I have no hesitation whatever in assuring them that any such hope is quite vain, and had much better be discarded forthwith. China rebelled once and for all against having in her employment men who were at once her servants and her masters when she dismissed from the Inspectorate-General of Customs the late Sir Francis Aglen, one of the most trustworthy and well-intentioned men whom England ever sent to her shores. Freed from any fears on this score, China will take all the technical advice she can get, which is not to suggest that such advice will necessarily be embodied in foreigners, for the number of foreign-trained Chinese is now considerable.

A third reason for regarding China's future optimistically is that, having been through the process of re-evaluation just alluded to—one which embraces much more than technique—she will be able to bring to her modern tasks intellectual abilities second to none. That adjective produces curious effects in England—in some quarters great irritability; in others, again, it is used almost as a term of contempt. It is true, certainly, that intellectual ability is neither the same thing as commercial or financial ability, nor does it necessarily include those varieties of mental capacity. Indeed, your high-brow with intellectual distinctions of the most authentic type can be, and not infrequently is, a nincompoop in business, not through lack of experience, but through the lack of whatever it is that makes good business men or good financiers. Of the latter one has heard celebrated representatives express critical views of Chinese business and financial gifts. Often, one should add, these are generalizations based on conversations with some particular official or group of officials—which seems hardly a fair sampling of China's mind. Yet sometimes, too, they come from men who have a wide knowledge of the Chinese business

world. However, one can but express one's own view, and that is that, broadly speaking, the Chinese are our equals in mental capacity, and capable of dealing successfully in the business and financial world with the most modern problems, as their handling of their currency affairs between the years 1935–7 illustrates.

To these general and long-term factors must be added more specific and immediate considerations. Some think that China will experience a period of political disunity and economic exhaustion after the war. They may prove to be right. That, however, is not my own anticipation. True, there is much bitterness between the Government and the Communists, and there are fissures and cleavages, from all accounts, in the Government itself. But the cessation of national danger will not leave the country without unifying forces. Victory and the prestige of a new and equal international status are likely to provide cementing influences not less strong than external danger. That the economic problems to be faced will be great is, of course, obvious. But will they be different in kind from those that will confront many, if not most other countries?

The phrase 'economic exhaustion' seems, when one considers it, somewhat vague. In China, as in Russia and Europe as a whole, immense areas have experienced devastation, much of it being the devastation which has invariably accompanied war, much of it devastation resulting from the totalitarian characteristic of modern war, the policy of scorched earth. In all such areas vast numbers of people are, and will be, without homes and without means. Of them, certainly, the word 'exhaustion' can be used. But exhaustion of that kind is by no means new in China, where flood and famine have occurred again and again on a gigantic scale. Yet the economic life of the country as a whole has never shown exhaustion as a result of such disasters. On the contrary, it has not infrequently shown a concurrent increase of general prosperity. The devastation experienced since 1937 has, perhaps, been more widespread, but has it differed from previous devastations by exhausting to a greater extent than they did the actual productivity of the soil? If it has not, the term 'dislocation' seems a better one to use in discussing probable post-war conditions in China. Even so, in terms of dislocation, the damage done has undoubtedly been vast. But in those terms the outlook presents, it is submitted, more concrete yet less formidable problems.

Which are likely to be the most pressing? The need of restoring communications, of replacing structures and materials and of financial resources adequate to those tasks suggest themselves. As regards communications, it should not be forgotten that in free China roads, though not, probably, very good roads, have been increasing. As regards structures, a large proportion of what has

been destroyed comprises dwellings, most of them rapidly replaceable with local materials. Railways, factories, and industrial plant are in a somewhat, but not wholly, different category, for local resources will be adequate for many factories and for a good deal of industrial plant too. In other words, local reconstruction, undertaken and financed by local merchants and gentry, working to a large extent through interlocking family organizations, seems likely to be able to provide much of the rehabilitation which China will need. In saying that one does not intend to suggest either that China will not need to import large quantities of equipment or that she will be able to dispense with external financial help. One is suggesting only that her ability to 'get going' again without external aid is probably greater than many persons, with thoughts concentrated on necessitous export markets, are taking into account.

However, considering the outlook in terms of China's demand for capital in the form of goods and money, what factors are likely to be dominant? Of the chief factor, the availability of such capital, little can be said except that for a time world demand is likely to exceed world supply. If that view is correct, China's demand must necessarily be competitive, though for a time her relative self-sufficiency in respect of immediate, primary needs may make her competition less intense than that of other countries. But just as this relative self-sufficiency is likely to make her recovery, during what may be termed its introvert phase, quicker than that of more dependent countries, so its extrovert phase is likely to be characterized by demand at least as keen as, possibly keener than, theirs. That we and Americans will be eager to satisfy this demand goes without saying. Ability to do this, however, will depend so far as capital goods are concerned partly upon the extent to which the pressure of other demands has in the meanwhile been lessened, partly upon China's ability to pay for what she wants. The long-term outlook for this capacity, previous paragraphs have suggested, is a hopeful one: the short-term outlook is obscured by uncertainties regarding currency and the relative utility and cost of her exportable raw materials, including agricultural products, compared with those of other countries' offerings. The short-term outlook in respect of capital in the form of money also differs from the long-term outlook. If China makes a success of herself, as previous paragraphs have suggested that she will, she will have no more difficulty in borrowing money than Japan had—always assuming that the conditions which have hitherto governed international loans will continue to govern them, no small assumption. But in the immediate, post-war future (again assuming that the conditions of international lending remain what they have hitherto been) she may find difficulty (apart

altogether from the question of loanable capital) in borrowing. For whatever security she proffers will be examined in the light of her newly acquired sovereignty. Previous paragraphs have suggested that this will be used to the best advantage, and will enable her to go from strength to strength. But that is no more than opinion. China will have to prove her credit worthiness under the new conditions which the abolition of extra-territoriality will create. Thus rentiers—to adopt the terms used in Part III—may show hesitation in investing capital in Government loans if, as may prove to be the case, China's premier security, the Customs revenue, ceases to be provided with the safeguard hitherto seen in foreign supervision of its collection and accounts. Entrepreneurs are likely to take their cue from what happens to the very large sums already invested in factories, oil installations, docks, wharves, shipping, and other enterprises, and will be particularly observant of the conditions which capital invested in industrial enterprises may be asked to accept. If, as appears likely, these conditions include, in consonance with tendencies noted in discussing entrepreneur investments in Part III, such apportionment and direction as will place control in Chinese hands—where it lies already in analogous enterprises, e.g. coal-mining—they will want to see how such control works out. One is not suggesting, let it be emphasized, that hesitation will be prolonged either in the case of rentiers or entrepreneurs. Neither will forget the creditable manner in which China faced her railway loan obligations, after a prolonged period of default largely occasioned by civil war. It has to be realized, however, that commercial and industrial Sino-foreign enterprises have no extensive record behind them, while amenability to Chinese taxation has also been limited in extent. In this very important department China will now have, and rightly, as free a hand as she enjoys in respect of the tariff.

The possibility, already alluded to, that, apart from the question of supply, conditions governing post-war investment abroad may differ from those which have hitherto obtained owing to factors external to China will be referred to more fully presently in discussing the future of the profit motive.

Before turning to that, certain narrower, but scarcely less important, considerations relating to the outlook for Sino-British economic relations must be reviewed.

It has to be appreciated that the psychological and political circumstances of the war have resulted in the abolition of extra-territoriality being a disjunctive instead of a conjunctive process, the abolition of extra-territorial jurisdiction being the subject of one set of negotiations, while the treaty of trade and commerce which is to substitute a new régime is to be the subject of another, to be initiated at some future date after the war. That might be

compared with arrangements, unusual in actual experience, made by a man to relinquish his house without any but general provisions in regard to the furniture and other possessions left in it. There is the further unusual circumstance that the parts of the house in which most of the possessions are contained is in the occupation of a third party which has obtained control over them by force and has entered into contractual relations with a fourth party whom he has recognized both as the *de facto* and the *de jure* owner of those portions. It is a complicated situation, as to the outcome of which the general arrangements just alluded to, made between parties one and two, the Chinese (Chungking) Government and ourselves (counterparts of similar arrangements made between the Chinese [Chungking] Government and the United States), will, there is every reason to suppose, remain the governing factors. If they do, the negotiation of the treaty of trade and commerce which, presumably, will deal with the possessions involved in detail, may be, and certainly deserves to be, facilitated by the good faith which parties one and two are obviously displaying towards one another. The treaty will require, however, much forethought and preparation, for the demolition of the State within a State, which extra-territoriality had come to represent, in such a manner as to leave unimpaired the interests from which both parties derived advantage, is bound to present difficult problems. Let it not be forgotten that on their satisfactory solution will depend the continued functioning of the organizations through which much of China's foreign trade has hitherto been conducted.

Assuming that these matters are competently arranged, I believe our commercial prospects in China to be good because she will continue to want, and on an increasing scale, the things which we have hitherto sold to her, except cotton piece-goods, certain classes of woollen goods and certain other consumable goods.

Here much will depend upon improved salesmanship. Having watched the operations of our commercial organizations in China for a good many years—from the outside, certainly, but from the vantage point of the secretaryship of the British Chamber of Commerce at Shanghai—it seems desirable in the first place to comment upon the charge not infrequently made that they lacked enterprise, that they waited for business to come to them instead of going afield and looking for it, and that they relied upon their compradores and not upon first-hand knowledge.

This view was disseminated largely by tourists, in which classification must be included business men who visited China for some particular purpose and took the opportunity of 'seeing something' of the country. Inevitably such travellers stayed for a time in Hongkong, Shanghai, and Tientsin—with a couple of days,

perhaps, to spare for Hankow—and inevitably they were impressed by the Westernized comfort and luxury of these centres, and by the self-absorption which undoubtedly characterized them. Often, however, they ignored, on the one hand, the fact that the self-absorption included much time spent by senior men in the conduct of local affairs, to the efficient ordering of which Shanghai, Tientsin, Hankow, and other centres owed not a little of their economic utility; on the other, the highly systematized commercial intelligence service which the more important firms controlled through their branch offices, most of them linked with the interior in varying degrees through native agents and dealers. That there was less personal knowledge amongst taipans, or managers, about market towns, villages and trade routes than there might, and should, have been is true, but that deficiency was not peculiar to them. It was just as characteristic of their competitors, with the possible exception of the Japanese. Moreover, knowledge gained by travel off the beaten track—travel which from about 1923 onwards was increasingly facilitated by motor buses, though with little diminution of extreme discomfort—useful though it always is, must be distinguished from knowledge accruing from a network of actual business transactions. Of the latter kind of knowledge there was certainly as much in British offices as in those of other nationalities—again with the possible exception of the Japanese, and it may certainly be said that not less enterprise was employed in getting it.

On the other hand there has been hitherto a lack of expert technical representatives to help in the sale of capital goods. On this point a former Commercial Counsellor of Legation at Shanghai, Sir Louis Beale, in his Report on Economic and Commercial Conditions in China for the period April 1935 to March 1937, said: 'The provision of more expert technical representatives is a matter of vital importance to United Kingdom trade in capital goods, a trade which will not increase largely in volume unless there are sufficient technical salesmen constantly engaged in surveying the numerous schemes for development projected throughout China and assisting in the preparation of plans and methods of operation and manufacture. Admittedly such services will cost money and must be paid for by the United Kingdom manufacturer, but in present conditions in China a large volume of trade in specialized machinery and equipment cannot be built up without these facilities. The merchant and financial channels of trade exist; it is the expert technical service which requires strengthening.' Scientific study of the Chinese market is needed also in other directions, notably in respect of the Chinese language.

To what extent the disappearance of extra-territoriality will result in a throwing open of the interior to foreign traders remains

to be seen, the presumption being that the treaty of trade and commerce to be negotiated after the war will place them in that respect upon the same footing as Chinese traders. It is difficult to think that, other things being equal, foreign traders who cannot interview local officials, local gentry, and local merchants without recourse to interpreters will stand as good a chance of doing business as those who can. Amongst the latter, we may be sure, will be both Americans and Germans—to say nothing of Japanese, from whose proficiency, however, not much is to be feared, for usually they speak Chinese much worse than Englishmen who have not learnt French as children speak that language. Yet second- or even third-rate proficiency is better than none. In the parts of China which the Sino-Japanese War has been converting from 'back-blocks' into, economically speaking, forward areas, the north-west and the south-west, trading conditions are likely to be at once novel and competitive. Treaty-port China—the coastal and riverine belts—had by 1937 become highly stereotyped, even in respect of competition, wherein price and credit terms were the all-important factors. They will be important factors in Yunnan, Kweichow, and Kuangsi too. But in those areas, as in most pioneering environments, personality is likely to count for much, and tongue-tied personality is a contradiction in terms in a country where 'strong silent men' are swiftly recognized as being what they usually are.

A certain number of firms did, indeed, encourage employees to learn Chinese at the Chinese Language School of the British Chamber of Commerce at Shanghai and elsewhere. On the other hand, in the United Kingdom little effort, or money, has been employed by business concerns in any systematization of information about China, in the provision of such important aids to selling as catalogues, descriptive booklets, or pamphlets printed in Chinese, or in the utilization of the facilities provided for young men to learn the language by the School of Oriental Studies (in which is incorporated the China Association's School of Practical Chinese) and Oxford, Cambridge, and Manchester Universities. Courtauld Institute in London, where first-rate lectures on Chinese civilization, with special emphasis on its art and archaeology, are available, has also been absurdly little used. There has been no sustained contact between our Chambers of Commerce and Chinese Chambers. The Federation of British Industries has for some years had an excellent but very small system of scholarships whereby Chinese engineering students are enabled to obtain practical training in British workshops, while the Universities' China Committee, with a fund provided out of the remitted Boxer Indemnity, has maintained an interchange of Chinese and British lecturers. But the sum total of effort made by commercial

institutions to use, amplify, or supplement these activities has been woefully small.

Much emphasis has been laid throughout this book on the economic oneness of Hongkong and China. That cardinal fact must obviously be the determinant of its future political relations which, it is also plain, may require such readjustments as would free the Colony from its past association with the treaty-port system, now about to disappear. One of its chief links with the system, previous pages have made clear, has been the Leased Territory. As against the supposition that China will want to terminate the lease forthwith have to be set such advantages, also previously illustrated, as she derived from its existence during the past five years. But to what extent this retrospective value is likely to affect her desires depends upon her estimate of future possibilities. We on our side are most unlikely—assuming we disarm Japan satisfactorily—to weigh the Colony's future in strategic, as opposed to entrepôt, terms, while any formulation of the latter must necessarily proceed from the patent fact that the fundamental requisite for the Colony's continued success as an entrepôt is Chinese goodwill. Without that its value to us would be small, as was shown in 1926–7.

Surmises in regard to British Malaya and other British territories in that part of the Far East seem to be so dependent upon the future of Colonial territories in general as to be hazardous without being useful—at all events from the point of view of this book. True, no political changes will alter the fact that Malaya's economic future will be dependent mainly upon that of rubber and tin. But surmises in regard to them would have to be made in respect of such factors as the future of synthetic rubber, compensation for war damage and similar uncertainties.

So I turn to my last set of surmises. They are connected with the last item on my agenda, the profit motive, i.e. pecuniary self-interest.

Why, it may be asked, pursue that topic: what is its special application to our Far Eastern interests?

Let us consider some of the views bearing on this matter recently expressed in England. The following are taken from a pamphlet, *A Twentieth-Century Economic System* (obtainable from the Economic Reform Club, 32 Queen Anne's Avenue, London, N. 10), which was brought to the notice of the House of Lords on November 18, 1941, by Lord Sempill:

Foreign Exchanges

'If a measure of stability and security is to be assured in the future in the economic relations of nations, the new system must be designed to make impossible the sale by private individuals on the foreign exchange of the currencies

of their own and other nations. No nation can hope to maintain its economy in equilibrium with the world, i.e. its imports of goods and services, in balance with its exports of goods and services, if it is open to individuals, through fear of conditions in their own country, because they can see a rake-off, or a better rate of interest in some other country, or because they wish to bring about a political crisis by rocking the exchanges, to offer for sale on the foreign exchange massive quantities of one nation's currency for another.

'The Macmillan Committee recognized the right which individuals had to do this under the old system as a great potential danger. Within three months of their Report, the danger which they had foreseen materialized and caused a major economic crisis.

'From 1936 onwards the French nation was subjected to rising internal prices and the ruin of many of its citizens through the action of individual Frenchmen who, apprehensive of the future, sold francs and bought sterling, so knocking down the French exchange rate. They bought this sterling, not for the purpose of buying English goods nor to pay their debts to England, but because they preferred to hold their personal fortunes in the form of sterling in London rather than in the form of francs in France. By striking in this way a series of blows at the economic stability of their own country, they created the very conditions of chaos from which they were fleeing.'

Paper Money and Book-entry Money

'Banks create credit. It is a mistake to suppose that bank credit is created to any important extent by the payment of money into the banks. A loan made by a bank is a clear addition to the amount of money in the community.' *Encyclopaedia Britannica* (14th edition).

Commenting on this and other statements made by leading authorities, the pamphlet says:

'Paper money and book-entry money, of which the vast bulk of the purchasing media of any modern States consists, are practically costless to create. It is evident that, at the moment of creation, such money cannot be the property of any private citizen as no service has been rendered for it, whereas when created it becomes a demand on goods and services which will be honoured by all citizens.

'These considerations point to a reform of the internal monetary system which, if adopted, would make the maintenance of a stable internal price level practicable and would also solve the problem of unemployment.'

'In a progressive society there is annually an increase in the total amount of goods and services produced for consumption. If all the available labour, raw materials and capital equipment were fully employed, the annual increase would be far greater than it is. If a corresponding increase in the amount of purchasing media is not created and the same amount of money has therefore to do service for an increased number of transactions (assuming the velocity of circulation is the same), prices at which each unit can be sold must fall. If, therefore, it is desired to maintain a stable price level, there should be an annual increase in the total amount of purchasing media corresponding to the total annual increase in the amount of real wealth to be distributed. This issue of brand new purchasing media should, it is submitted, be spent into existence by the State, involving therefore no capital debt and no interest charge, instead of being lent into existence at interest by the private banking system, the State often being the borrower.'

Other indications of how thought about the profit motive is tending to be in England are furnished by the report of the Uthwatt Committee, which was appointed in January 1941 by Lord Reith,

then Minister of Works and Buildings, 'to make an objective analysis of the subject of the payment of compensation and recovery of betterment in respect of public control of the use of land', amongst other terms of reference being 'to advise, as a matter of urgency, what steps should be taken now or before the end of the war to prevent the work of reconstruction thereafter being prejudiced'. The Committee was under the chairmanship of Mr. Justice Uthwatt.

From this document, a full summary of which was published in *The Times* of September 10, 1942, I make the following quotation:

'The development rights are being acquired for the purpose of national planning. It is immaterial in whom those development rights are in fact vested on behalf of the State. That is machinery only. It is essential that the development rights and all other interests in land which may be acquired under the scheme should be managed by the same body as controls planning. In other words, they should be managed by the central planning authority. . . .

'If the land is to be developed it is inconceivable that the two interests—the "owner's interest" and the development rights—should continue separated. As it is necessary for the State to have control the "owner's interest" should be acquired by the State. This reasoning applies whether the intending developer is some third party or the owner of the "owner's interest".

'There must be power of compulsory acquisition of the "owner's interest" in land required both for public development or for private development. The State must be in a position to acquire the "owner's interest" and marry it to the development rights. Without that the acquisition of the development rights is no acquisition at all.'

Commenting on the report in its issue of September 10, the *Manchester Guardian* said:

'The great importance of the task just completed by the Uthwatt Committee is illustrated by two quotations that are given in the opening pages of its report. The Scott Committee on the Acquisition and Valuation of Land, which was set up by the Ministry of Reconstruction in 1917, stated that unnecessary delays or prohibitive expenses in the acquisition of land would be liable to block the whole path of efficient reconstruction. In 1937 the Barlow Commission reported that "the difficulties that are encountered by planning authorities under the existing system of compensation and betterment are so great as seriously to hamper the progress of planning throughout the country". Thus even the stimulus given by the first war to social reform had not been enough to enable the nation to overcome this obstacle, an obstacle that had checked all attempts to improve the social setting of British life ever since the Industrial Revolution. The fundamental difficulty is well stated by the Uthwatt Committee as the conflict between private and public interest in land. The interest of the individual owner lies in putting his own particular piece of land to its most profitable use, whereas the need of the State and of the community is to ensure the best use of all the land of the country irrespective of financial return. Broadly speaking, the great burden thrown on the community when it acquires land for public purposes is due to the fact that an individual owner is more successful in obtaining compensation from the community for what he loses than the community is in obtaining compensation from an individual owner for the benefits he gains from public expenditure. Such a state of things is apt to force the whole question of the right use of land into a narrow commercial conception, and all efforts to add grace and beauty to our towns have suffered from this dominating view. . . .'

A few days later the first of two articles on private enterprise which appeared in *The Times* of September 18 and 19 contained the following sentences. These derive none of their significance from abstraction from their context.

'In each of our industries one or two men can make decisions, whether for their own firms or for the cartels they dominate, which may raise prices beyond the reach of many consumers, may throw thousands out of work, may hold up technical progress, and may throw out of gear all the plans for housing, schools, and hospitals which some local authority has made.'

Now, whatever may be thought of these ideas it will, I think, be agreed that the purposes which they reveal, and some of the measures which they advocate, are consonant with those advocated in the Atlantic Charter, framed on August 14, 1941, and the Agreement on the Principles applying to Mutual Aid made on February 23, 1942:

Atlantic Charter (*Fourth Principle*)

'They will endeavour, with due respect for their existing obligations, to further the enjoyments by all States, great or small, victor or vanquished, of access, on equal terms, to the trade and raw materials of the world which are needed for their economic prosperity.'

Agreement on the Principles applying to Mutual Aid (*Article 7*)

'To that end they shall include provision for agreed action by the United States of America and the United Kingdom, open to participation by all other countries of like mind, directed to the expansion, by appropriate international and domestic measures, of production, employment, and the exchange and consumption of goods, which are the material foundations of the liberty and welfare of all peoples; to the elimination of all forms of discriminatory treatment in internation commerce, and to the reduction of tariffs and other trade barriers, and, in general, to the attainment of all the economic objectives set forth in the Joint Declaration made on the 14th August 1941 by the President of the United States of America and the Prime Minister of the United Kingdom.'

May we not, indeed, instead of describing these various proposals as being consonant, use a stronger word and say that they are interdependent in that what the Atlantic Charter and its subsequent Agreement contemplate for international purposes can be put into action only after the removal of such obstacles to international co-operation as exist in the economic systems of individual countries? Such removal appears, indeed, to be implied in the terms of the agreement regarding mutual aid quoted above. Of all the obstacles the greatest seems to be the difficulty of reconciling 'vested' with public interests at the points where they conflict, such points being illustrated in the quotations printed above. The term 'vested interests' is so often used in soap-box oratory as to generate impatience on all other occasions too. Here it is used of interests usually old-established, firmly based in law and entitled to respect for both those reasons; generally able to claim to be of service to the community as a whole, or to some important part of it, and generally able to count on the sympathy

and support, in Parliament and elsewhere, of similar interests. In all 'old' countries such interests are numerous: in the United Kingdom their activities cover considerable areas of our economic life and represent much of its prosperity.

Obviously, facts of this importance demand the same kind of treatment at the hands of economic and social architects as is normally given to central and intricate portions of complicated mechanism by competent engineers. Yet all mechanism works on some principle or other, and much mechanism is constantly adapted to developments of the principle, or is 'scrapped' and replaced by mechanism embodying a new one. Economic and social institutions cannot escape similar treatment. Pecuniary self-interest is not a principle but a motive, its claims to freedom of action being no different from those of other motives made amenable, as necessity arises, to the control of the State. In times of national peril the transcendence of the interests of the community over private or individual interests is never in doubt. Why should it be so readily doubted in times of security?

Unfortunately, a stubborn fact embedded in these truisms is that legislation—the process whereby private interests are subordinated to those of the community—became, in England, the business of the community as a whole, male and female, so very recently that major exercises of democratic rights in economic affairs seem, almost inevitably, to be revolutionary. In actuality such exercise is the very opposite of revolution. It is a logical and consistent progression from the simple and ancient principle of no taxation without representation to the more complicated one that the community is entitled to concern itself with all matters relating to the production and distribution of wealth, because they are the determinants of taxation. Of all the factors involved in the production and distribution of wealth, the profit motive is the most closely concerned. The theoretical argument for Parliamentary control of it, so far from being weak, is, therefore, strong, and to this theoretical strength the Atlantic Charter and its annex will, if they get beyond their swaddling clothes, add practical strength of the most compelling kind. For, to take one matter only, how, except through closer supervision, is the investment of capital abroad to be kept in line with such agreements—'open to participation by all countries of like mind'—as may be made by Great Britain and the United States in pursuance of international welfare? And how, in democratically governed countries, is such supervision to be exercised except with Parliamentary authority?

These questions provide the answer to the one asked at the beginning of these paragraphs: Why pursue this topic, the profit motive? The topic was no more than mentioned in the Foreword as a matter associated with *laisser faire*. It was referred to more

fully at the beginning of Part V as being part of a system on the eve of collapse. Albeit inadequately, it has been much more fully dealt with here because, while pecuniary self-interest cannot but remain the chief dynamic of any conceivable post-war economic system, the success with which its operations are reconciled with post-war social and political requirements will be the acid test of the new order, the practical gauge of the legitimacy of our hopes for a better world.

It is obvious, however, that unless the term 'profit motive' is to be used only of investment undertaken for pecuniary profit—and for that there is no logical justification whatever—the test will be applicable to all persons gainfully employed. For the better world of which we are all talking depends in the first instance upon a social conscience active not only in Belgrave Square, but in Seven Dials too. Hence the claim which the Churches are rightly making to have a say in the matter, which is by no means one of economics only, but of ethics and religion as well. These paragraphs, however, are directed towards a less general statement than that, to a surmise that is both specific and debatable—namely, that economic activities in the Far East are likely to be pursued within a framework of neo-mercantilism, wherein emphasis will be upon living standards rather than power, which, as we are witnessing, destroys both them and itself; upon internationalism, therefore, rather than nationalism; upon money as an instrument rather than an arbiter, and upon equilibrium rather than balances, which cannot be 'favourable' for long without being harmful for longer.

APPENDIX II

LOANS SECURED ON CHINA'S CUSTOMS AND SALT REVENUES

OF the Chinese Customs revenue collected in 1939, approximately 331 million dollars, roughly 83 per cent, was collected in ports under Japanese control. In the previous year the British and Japanese Governments agreed that the revenue collected in such ports should be deposited with the Yokohama Specie Bank, and that quotas for the service of foreign loans and indemnities secured on the Customs should be remitted from the deposits to the Inspector-General of Customs. China refused to concur, partly because the agreement had been reached without reference to her, partly because, as she stated, it 'singles out some obligations for favoured treatment and sanctioned diversions of revenue from others for which it is duly pledged, namely internal loans'. Accordingly, the agreement was not implemented. The revenues of occupied ports were deposited in the Yokohama Specie Bank but, with one exception, no remittances were made to the Inspector-General.

China, nevertheless, continued to maintain the service of foreign loans and indemnities secured on the Customs. On January 15, 1939, however, she announced deferment of payments and her intention to limit them to that proportion of the whole debt represented by the ratio between what was collected in the areas still under her control and total Customs receipts. This amount would, she said, be deposited in the Central Bank of China in the name of the Inspector-General. From that time the loans secured on the Customs fell into default, some 380 million dollars of Customs funds being, it was estimated by the Hongkong and Shanghai Bank, the amount probably lying in the Yokohama Specie Bank at the end of 1939. 'It is clear', said the Bank's Chairman at the Annual Meeting held in February 1940, 'that responsibility for failure to meet the service of the Customs loans does not for the time being rest on the Chinese Government.'

The estimated British holding of the total amount outstanding at December 31, 1941, of the 1898 4½ per cent loan, £2,996,425, was £2,500,000. Of the 5 per cent Re-organization loan, 1913, originally secured on the Salt revenue, namely, £19,691,880, the estimated British holding was £11,000,000, while the whole of the amount outstanding of the 6 per cent Sterling Indemnity loan, 1934—Boxer Indemnity—i.e. £972,000 was believed to be British held.

The estimated British holdings of the amounts outstanding of loans secured on the Salt revenue at the above date were: Anglo-French loan of 1908, £170,000; 5 per cent gold loan of 1912, £3,000,000; Hukuang Railway loan £2,000,000; Marconi and Vickers loans 1918–19 £2,000,000. The Hukuang total represented less than two-fifths of the amount outstanding: the other sums represented the bulk of the amounts outstanding.

Approximate totals of English issues of Japanese loans outstanding in December 1941 are: Government loans, £61,830,000; municipal loans, £7,270,000; railway loans, £4,000,000.

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[1] Further allusion to the acquisition by Imperial Chemical Industries Ltd. of Brunner, Mond & Co., mentioned on page 57 was, through an oversight, omitted in the text. Brunner, Mond & Co., Ltd. established an office in Japan in 1918 and were incorporated under the name of Brunner, Mond & Co. (Japan), Ltd., on November 23, 1920. In China the company was incorporated as Brunner, Mond & Co. (China), Ltd., on December 6, 1920. Both companies were acquired by Imperial Chemical Industries, Ltd., as from January 1, 1927.

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