

THE ECONOMY OF THE FAR EAST

24 April 1950

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Mr. Halleck A. Butts was born in Valley Falls, Kansas, on 12 August 1888. He studied at the Sorbonne and at Heidelberg, and holds a degree of B.S. in Foreign Service from Georgetown University, 1921. He was engaged in railroad and steamship operations and was associated with the legal department of the Santa Fe Railway prior to service in World War I. From 1920 to 1933, Mr. Butts was Trade Commissioner and Commercial Attache to the American Embassy in Tokyo, and traveled extensively in the Far East. This experience is reflected in his studies, "Japan's Trade and Industries," U. S. Department of Commerce, Trade Bulletin 642, and "Economic Development in Korea," prepared for the Foreign Relations Committee of the U. S. Senate. On his return from the Far East he continued active in foreign affairs as a member of the Foreign Trade, Tariff, and Port and Harbor Committees of the Los Angeles Chamber of Commerce, and as a lecturer on American foreign trade policy. From 1941 to 1944 he was Chief, Japan Section, Foreign Economic Administration. In 1943, on leave from FEA, he was associate professor of economics at Duke University, detailed to the Army Finance School to lecture on Far Eastern economics and on Japan's financial institutions and fiscal policy. He was also a special lecturer at the Army Civil Affairs Training Schools at Harvard and Northwestern Universities. He joined the Industrial College of the Armed Forces in July 1944 as Assistant Director of Research, Foreign Economic Resources Group and served as Foreign Economic Advisor to Headquarters, ASF in 1945. Since 1944 he has been an associate professor of economics at Georgetown University. He was Chief, Economic Potential Branch, ICAF, from May 1947 to July 1949. Mr. Butts is at present a member of the staff of the Central Intelligence Agency.

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COLONEL KING: General Holman, guests, and gentlemen: This morning we will continue with a series of lectures on the economies of world areas. Events in the Far East are appearing in the headlines of our newspapers daily. Our speaker has had a long and distinguished career in this area, as well as in the economic field. You will note from his biographical sketch that he has spent many years in the Far East, as well as serving a tour on the faculty of the Industrial College, leaving our faculty as Chief of the Economic Potential Branch only last year. He will speak to us today on "The Economy of the Far East." I introduce to this audience and welcome back to the College, Mr. Halleck A. Butts.

MR. BUTTS: General Holman, Colonel King, and gentlemen: I presume that this is considered one of the rewards for having served with the Industrial College. At the same time it is really a pleasure to be invited back.

I shall not endeavor to review the whole of the Far Eastern situation for you this morning. It is in every newspaper. I do not think that it is necessary to devote any time to geographical locations, or the physical characteristics that may influence either the material resources of these countries, or the ethnic origins of the peoples to explain either their energy or indolence as the case may be. For this information, in considerable detail and accompanied by pictures, I refer you to any grammar school geography.

You are potential planners and as such you are more interested in the economic war potential of areas than you are in their everyday economy. Many of you probably have observed the everyday economies of most of the Far Eastern areas. And yet it is the everyday economy that is the base for an economic war potential. If it is an area where people are undernourished, poorly clothed and housed, and largely illiterate and without any technical ability, it is very likely an area with a very small economic war potential, unless the resources of the area are such as will warrant a major power making substantial investments there and allocating its technicians and skilled people to develop the resources. If the area has no strong leadership of its own, if it has no stable government, or is subject to a ruthless military administration, it may still have very little war potential. Its potential then can be measured only in the amount of materials that it may contribute to some major power.

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We shall not reach a definite conclusion today on the future value or degree of essentiality of this Far Eastern area either with relation to the world at large or to the United States in particular, or the true value of what that potential may be in the years to come. We do know, however, that its potential today is much less than it was in the thirties, and that the outlook is obscure and rather disturbing. So we can only consider what the potentiality of that area may be.

Fortunately, this subject permits us to describe the Far Eastern area in such terms as we may think proper. I shall include in the area Japan, Korea, China, Indo-China, Thailand, Burma, Malaya, the Indonesian Republic, and the Philippines.

Japan and Thailand, in my opinion, were the only independent nations in the area. We might be justified, in view of the British and French influences in Thailand's internal and external affairs, to consider that Thailand was not entirely independent. China falls a little short of independent stature. It has not had a strong central government. Its territory and its resources have been made available, contrary to its own wishes, to other powers, by both force and diplomacy. Except for Japan, the economy of these Far Eastern areas has been patterned to suit imperial powers, particularly the British, the French, the Dutch, the Japanese, and, to a smaller extent, the Americans. Philippine-Japanese relations have been such as to give a considerable amount of preference to the United States. The entire economy of Southeast Asia, therefore, has been a colonial economy. The Far East was and is an agricultural economy. Agriculture is pursued everywhere. It is the main occupation except possibly in Japan. Manchuria, under Japanese tutelage, might have approached an industrial economy.

In agriculture we have foodstuffs, of course. There is wheat, corn, barley, millet, and rice in the North; and rice in the South. There are large surpluses of sugar in Formosa, the Philippine Islands, and the Indonesian Republic. Cordage fibers produced in the Philippines and Indonesia are exported to world markets. The forests provide ample timber for construction, and pulp for paper and synthetic fibers. Fish are plentiful. Vegetable fats and oils are available in rather large quantities permitting export to world markets. Rubber production supplies the world's needs of natural rubber.

There is rather a good sprinkling of minerals from north to south. Coal and petroleum are available for fuel and power. There is bauxite for aluminum. There are tungsten, cobalt, antimony, and chromite for alloys; iron ore and coking coal for steel. Gold, copper, tin, and graphite are found.

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Industrial development, other than the first processing of raw materials, is largely confined to Japan, and to a much lesser extent in Manchuria and China. Had Japan been permitted to continue its control of Manchuria, no doubt Manchuria would also have become an industrial area. Although Japan imported iron ore from the Philippines and from Malaya because of its high ferrous content, and coking coal from other sources, it does have ore and coking coal within its own confines.

These industrial areas were not influenced by home governments. They were areas of dense population, of manpower skills, and good domestic markets for manufacturers. These factors alone would have prohibited the inauguration of heavy industries in the Far East, elsewhere than in Japan. Japan was the shipbuilder of the area. It supplied the railway equipment, the machinery, the tools, and the electrical equipment. Japan contributed to the economy of the other Far Eastern areas through its purchases of their raw material resources, for it purchased from all the areas. The other areas were content with their light industries--the spinning and weaving of textiles, their sugar and rice milling, and their saw mills. There was some refining of minerals and crude oil. Except for Japan, the entire area was a producer of raw materials. Its economy was dependent upon the acceptance of its natural resources by the leading industrial nations.

What was the importance of this area to the world at large and to the United States? Its economy might be considered under four headings: (1) the prewar economy of which we have spoken--agricultural, mineral, and industrial resources and capabilities; (2) economic--the importance of the area to consuming markets; (3) the organization or concept of the Greater East Asia Sphere; and (4) the present situation as it may affect the United States in particular.

The colonies of Southeast Asia were immeasurably important to their rulers. They were tremendously profitable, since the home countries were able to profit from the original sales of the raw materials or their use in manufacturing. This was particularly true of France, of the Netherlands, and of Britain. The home governments, in general, prohibited the construction of competitive industries in the colonies that might injure the markets for the home products. China's industrial economy, such as it was, was largely a result of British and Japanese investments. Of course, those two countries profited most from the production in China. The Philippine economy, as you know, was closely tied to our own; and so, very naturally, we were the ones that profited most from its production.

It is not necessary to discuss the details of the war potential of each of these individual areas, but we should consider such resources as they have which add substantially to the potential of other major powers, in other words, industrial nations. For this purpose I shall limit this discussion to the strategic and critical materials which are listed by the Munitions Board, twenty of which are produced in the Far Eastern areas.

China has produced as much as 30 percent of the world's antimony. Malaya and the Netherlands Indies produced more than 50 percent of the world's supply of tin. China is also a producer of tin, but in much smaller amounts. China is one of the prime sources of tungsten. The Philippines and the Netherlands East Indies contribute their copra. The Netherlands Indies and Malaya supply the world with rubber. China's bristles and tung oil are desired by all industrial nations. Sugar and soya beans have moved to the world's markets. The mineral resources, if properly exploited, would support an industry in the Far East which might supply its requirements of metal manufactures.

The United States was an importer of every one of these twenty items; they were essential to our economy. We hoped that we should continue to have free access to these materials. We have played another part in the Far Eastern economy which we should not overlook. We were for a number of years the primary market for Japan for both its sales and its purchases. Of course we had hoped that with the tremendous population of China we should be able to dispose of large quantities of our manufactured consumer goods there.

The war and its aftermath, the failure to recover from the physical and moral damage, and, more important, the failure of the victors to decide upon what kind of world we should have, have disrupted the entire economy of this Far Eastern area, just as it has elsewhere. One result has been the establishment of communities of nations, which we now speak of as spheres or orbits of influence or control. The Far East was subjected to such an experience under Japanese leadership, and it seems that a similar situation is now desired by another great power. The Soviet Union has its Eastern European orbit. The United States, I think, has somewhat more than just a passing interest in a Western European orbit. The British, of course, are a member of the western orbit, and they also have a commonwealth.

The leader's role embodies the attributes of political prestige and capability of managing the economies. A military leader must be a supplier of armament sufficient to defend the orbit. It was in such a role that Japan established the Greater East Asia sphere. This was begun in 1931 with the control of Manchuria. It took place in North China in 1937; in central and east China in 1938; in Indo-China by treaty in 1940; in Thailand by treaty in 1941; and in Malaya, Burma, the Netherlands Indies, and the Philippines as soon as the Japanese occupied those areas in 1942.

Japan planned to concentrate the heavy industry of the entire Far East largely within its own borders and to a somewhat lesser extent in Korea and Manchuria. Light industries were to be increased in all of the other areas. Japan would supervise the trade between the various geographical areas, determining the volume and the direction of the commodity movements. Japan would stand sponsor for the financial arrangements in other areas — in other words, the collection and investment of local capital—and

would undertake to assure the exchange of manufactured consumer goods to the areas for their raw materials. Treaties were to be made with Indo-China and Thailand. These were recognized as independent areas; as was China, of course, under the Chinese puppet regime. The Philippines and Burma were granted their independence. They had already been promised independence and dates had been set. So Japan capitalized by giving them their independence almost immediately.

The successful combination of hundreds of millions of hard working people, working under the direction of the Japanese technicians and advisers, would have made Japan, and possibly China to some extent, very powerful areas. Had the Japanese been able to continue this program, it is very likely that the larger industrial areas outside the Far East would have found such severe competition that their sales in that area would have been very, very, small.

Japan's economy in both peace and war was dependent upon foreign sources of materials. For example, to maintain Japan's heavy industries—and we have all learned that its iron and steel industry was of considerable stature—it was found necessary or advisable to import 52 percent of its iron ore and 8 percent of its coal. That may sound like a very small percentage, but it was most important, because it was all coking coal. Japan imported about 75 percent of its tungsten, 75 percent of its nickel, 75 percent of its petroleum products, and nearly 85 percent of its antimony. The status of Japan's industry made it essential to have foreign sources of raw materials for industrial development. Its huge and successful cotton textile industry was one hundred percent dependent upon the importation of raw cotton.

The entry of Japan into the war made it possible for Japan to consummate its dream of a co-prosperity sphere at a much earlier date than had been anticipated. But its entry into the war was also the primary cause for the defeat of the plan. I have mentioned the minerals. They were all in ample supply and would have permitted a sort of balanced economy throughout the area. But the distance of most of these materials from Japan was so great that it required a tremendous tonnage of shipping to transport them. In most of the ores the metal content was small. Except for tin, there were no refineries in the South. The entire bauxite supply was from the South. Its far-flung battle fronts in the Pacific were also to the South. Japan found it impossible to supply the tonnage that was necessary to bring all these materials to Japan. I think that was one of the reasons, probably the most important reason, for the failure, if we set aside the war activity itself, of the co-prosperity sphere. Japan's technicians were needed at home for war industries and the common labor of the orbit remained available only for agriculture. Processing capacity in the aggregate was of some use, but its total contribution was relatively small.

The banking structure and currency of each of the areas were patterned after the banking structure and currency of Japan. The Bank of Japan was

made the central banking institution of the area. The currencies were all converted in terms of yen. In most places one unit of the local currency was made equal to one Japanese yen. Foreign exchanges were to be established in terms of the Japanese yen. Of course, that had been done before the war insofar as China and Manchuria were concerned. Long before the beginning of the war, it was necessary to transfer Chinese dollars in terms of Japanese yen for foreign trade purposes.

It is not possible to say just what measure of success might have been achieved by Japan had it been able to function under favorable circumstances. It must be admitted, I think, that if the Japanese operations had not been interrupted, they would have resulted in a somewhat higher standard of living for the native populations of the Far East and an improvement in their general competence.

So much for the concept of the co-prosperity sphere and its trial. Perhaps that concept under different auspices is to be revived. What is the present situation? How will it affect perhaps the economy of the United States? How can it be altered, or what should we be doing about it?

The favorite thesis is that no country without a stable government, access to resources, financial support, and qualified manpower, can be truly successful. Will the substitution of government by Koreans for Japanese, by Burmese for British, by Indo-Chinese for French, by Indonesians for Dutch, and, I will add, by Filipinos as opposed to the checks and balances of the Americans, prove satisfactory? Will these governments, when and if fully established, have the confidence of the industrial nations, which alone can supply the financial resources and the technical ability to increase the productivity, the native welfare, and the potential of these areas of the Far East? How long will it be before military aggression and guerrilla warfare may cease throughout these areas? We have seen Indo-China in turmoil and ferment ever since the war. Its exports are now only about 10 percent of what they were prewar. We know only too well the chaos that exists in Burma and China and that the Malayan situation is not improving. There are other situations of which we have daily cognizance in all our magazines and newspapers. Millions of people are starving, there are no materials in the large cities for processing, mining is sharply curtailed, and direct trade is certainly hampered.

Japan, the former beehive of the Far East, which supplied hundreds of millions of yards of textiles to the native populations of this area, provided shipping services to the entire area, and supplied it with much of its machinery and tools because it produced them for the price that the orientals could pay, is now suffering for lack of this trade, and now exists by virtue of gifts. The silk industry is no longer important. Its shipping is negligible. The best of its fishing preserves have been lost. It does not have free access to the raw materials and markets of the world, the Atlantic Charter and the Yalta Proclamation notwithstanding. Its economic future is uncertain.

There is another factor which may have a disturbing influence on the economy of the area, particularly in Southeast Asia. That is the Chinese population. Throughout the southeast region in particular the advance of the indigenous population has been held back by the continuous increase of the Chinese, who have come into the area and fitted themselves into the intermediate occupations. They have become the middle class, whereas the natives have remained the toilers. They have in many cases been the intermediaries between the Europeans and the native populations. They have been the proprietors and the operators and the sales agents of the milling facilities for rice, flour, and other commodities. They are owners and operators of small plantations.

These Chinese are reportedly ready to support any government that may be functioning in China proper. They may become a Chinese Amtorg of the East. They may funnel the resources and products they control to support any attempt that may be made to establish a Soviet-controlled orbit in the Far East. Should this prove true in any part of the Far East, the economy of those specific areas will be denied to most of the world and will accrue to the military leader, the provider, the one who presumably will supply the defense.

If we again briefly consider the strategic materials and the situation that obtains in these Far Eastern source areas, we may better focus our future logistical problems.

Antimony—China has been a principal source, but a larger volume is now available in North and South America and can supply our requirements.

Chromite—The Philippines have supplied us with as much as 20 percent of our imports since the war; but Cuba, Turkey, Rhodesia, and South Africa may be able to give us all that we need.

Tin—Malaya and Indonesia produce one-half of the world's supply, and we secure more than 90 percent of the requirements at this time from that area. Although Bolivia and the Belgian Congo are becoming sources of tin and eventually may be able to supply us, we should wish to continue our trade in these Far Eastern Areas for economic reasons if for nothing else.

Tungsten—Recent imports in considerable quantity have been received from South America, Africa, Spain, and China. We should like to continue our trade with China.

Copra—The Philippines have been our primary source. Even in 1949 we bought as much as 400,000 tons from the Philippines, or approximately 96 percent of our imports.

In rubber I hardly need mention the importance of Indonesia and Malaya. I will say, however, that the imports at this time are running about 76 percent of our requirements, whereas last year they were in excess of 87 percent.

What does this resume suggest to us? We are in no wise dependent upon Indo-China, Thailand, or Burma in the South, or to any great extent upon Japan, Korea, or China in the North. Our future trade relations with China are, to say the least, obscure. However, just as the Soviet Union continued after the war and until 1949 to ship to us large quantities of chromite and manganese, it is possible that we will continue to receive minerals and agricultural products from China through Soviet sources, so that Russia may profit from the dollar exchange that will accrue from our purchases. But it is evident, I think, that the present situation is such that rather speedy action must be taken to insure access by us to this area in the future, or that we must look elsewhere.

It is the remaining three countries in which we are most interested—Malaya, the Netherlands Indies, and the Philippines—for our supplies of chromite, copra, tin, and rubber. There are no other sources at this particular moment that can so readily and successfully supply us with these materials. It is fortunate that those areas are favorable to trade with us, and we presume that this trade will go on unmolested for several years.

In the meantime we should be looking for new sources. Colonel King in his lecture on Africa has commented upon the economic development plans for Africa. You have had your attention drawn to the ECA activities in securing from those areas strategic materials to be placed in our stockpile. Our Point 4 program is also appropriate.

Your future resource and logistic studies will undoubtedly enable you to determine—remember, we have only been considering—the true economic position of the Far East as it may be two, three, five, ten years hence and what action can be taken so that it will best serve itself and its best friends, among whom we number ourselves.

QUESTION: Can you tell us just a little about the development of the Philippines since the first of January 1946?

MR. BUTTS: I am afraid that in the over-all there has not been much constructive development. It is true that copra has been resumed as an export, I do not believe that the export of sugar has been resumed in prewar volume.

It is the political situation within the islands which is to blame. The Filipinos are endeavoring now to break up some of the old monopolies, and I do not believe that the new economy that will be established will be a profitable one. For example, some of the old hemp areas which the Japanese had developed so successfully are now going to weeds. Large areas that have been operating under one leadership are being broken up and handed to individuals. In minerals, the profits secured from the export of a hundred million tons of iron ore have ceased. The Philippines are not in a humor at the moment to trade with Japan. So, while there has been some stabilization, I cannot agree that there has been a great improvement in the economy of the Philippines.

QUESTION: You say it is because of the political turmoil in the islands at the present time. Doesn't the natural laziness of the individual also come in there as a big factor?

MR. BUTTS: I said in the beginning that I did not wish to discuss the energy or indolence of the peoples. But I agree with you; the Filipinos are not ambitious people. They are not skilled technicians. They do like to get along with as little as possible. They are not alone in that in the Orient. But it is a characteristic. I would place only part of the blame on the characteristics of the people. I still maintain that the fault is largely political.

QUESTION: If you added up all the money we have put in the Philippines directly and indirectly since we first took them over and compared that with what has come to the United States from the Philippines, which way would the favorable balance be, would you say?

MR. BUTTS: In dollars and cents I can't quite answer the question, because I have never made the tabulation. I would say that we have spent more than we have received. On the other hand, I presume the commercial interests that have sponsored much of the money that has been spent in the Philippines have profited very handsomely over a period of years, but, as usual, at the expense of the taxpayers.

It is quite true that colonies rarely are gold mines for the people who initially endeavor to establish their progress and the attainment of a stabilized economy. It takes fifty or a hundred years before such an area becomes profitable, unless an area is always a deficit area and is maintained solely for strategic purposes.

QUESTION: Do you think the national antagonism which the peoples of Southeast Asia have toward the Chinese will have any influence on or will be a factor in the progress of communism through those areas?

MR. BUTTS: I am sorry to say, I believe that there has not been, nor is there now, any established organization among the native populations

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or any action being taken to my knowledge to controvert the progress of communism within their areas. The natives do not have the mental capacity, or it will probably be better to say, the experience, to formulate plans, either in the way of propoganda or otherwise, to defeat the activities of the Chinese Communists.

The natives have been very unhappy about that situation, but Thailand was the only country that did anything about it. It enacted laws prior to the war, about 1939 and 1940, barring ownership of many commercial concerns by Chinese, and further restricting immigration. This did not obtain throughout the Far East or even in Southeast Asia as a universal practice, and the Chinese have become stronger and stronger. They are quite strong in Malaya, and there I think we may look to them to support whatever government is effective in China. Apparently there is no one in Indo-China capable of preventing the entry of the Communists into that area. We read every day that Burma is becoming more and more of a hot bed. I think that under the present situation communism cannot be contained.

QUESTION: How do you feel about Japan? You mentioned that if we had let the Japanese alone, you feel that the Orient might possibly under the co-prosperity sphere have increased its general living conditions under that theory of raw materials versus manufacturing. I notice that General MacArthur is advocating a bigger merchant marine for Japan in its trade with China. Do you see any future hope of Japan being allowed to set up this co-prosperity sphere and doing just what you suggested might have occurred? Of course, in suggesting that possibility the only objection I can see to it is that everyone tries to become imperialistic and expand all over the world. That would give us a certain amount of competition in the Orient. But ideologically if we could contain the Japanese Government within reasonable limits and not let it go on to world domination, as it apparently was set for under its old theory, do you see in the future any expanding Japan as a stabilizing influence in the Orient in fighting toward getting rid of this Communistic element which has enslaved that part of the world?

MR. BUTTS: No, sir. Not in the immediate future. Anything can happen, but I venture to say that Japan will not be a stabilizing influence in the next decade. The bitterness is still too great among some of the orientals.

The Japanese seem to be more welcome than the Chinese throughout the Orient as a whole, but the Filipinos are very bitter toward the Japanese, and the Indonesians continue bitter. The Japanese do not have the capacity, and will not have the capacity for many years, to force commercial penetration throughout the Far East unless they have the support of a major power. It will require possibly ten years under the very best assistance that can be rendered to again have industry capable of furnishing the amount of supplies it previously exported to the Far East.

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That is one of the particular failures. If you are to operate an orbit successfully and take from other areas their raw materials, you must be in a position to supply them with their consumer demands. The Soviets are finding that to be a prime deterrence to their progress. They take away, but they are not able to give in return. I don't think Japan will be able to again supply those areas with their consumer goods.

If the United States should say to Japan: "We will give you a credit of one billion dollars for raw cotton and textile machinery, we will give you markets, and use our power and prestige to permit you to enter those markets," the period could be shortened. But not by much. I do not have great hope for Japan. I don't want that comment to indicate that I think it is desirable that Japan shall again be lord and master of such a large area; but even in peaceful commercial pursuits I would say that it would take at least ten years, not any less.

As for the second part of the question, the communistic angle, I doubt if Japan would desire to join with the United States in an all-out effort to defeat communism as such. Japan's future economic life depends on the Orient. It depends on eventual trade with China and with those other areas. If China should remain Communistic and eventually secure a government that would be fairly stable, Japan would have to deal with that government if it is to maintain a balanced economic life in the future.

GENERAL HOLMAN: Leaving out any political implications, where does Australia fit into this economic picture?

MR. BUTTS: Australia has a very small niche in Far Eastern economy. It is not a large consumer of the manufactures of the Far East. It is an exporter, rather, primarily of wool and of wheat. Except for its raw materials shipments to the Far East, it is a rather minor factor.

Australia is a part of that general area, but it seems, for the present at least, to be more interested in matters of military strategy than economics in the countries to the north. I should not omit mention of Australian iron ore. This iron ore may become a large factor in later years in the development of the East.

GENERAL HOLMAN: My question had application to Australia in connection with the countries in the Far East. They are very much interested in expanding their trade and in developing heavy industry, in furnishing textiles, tin, and food supplies; and possibly in furnishing shipping services. Have you anything which indicates that this situation has progressed to any extent postwar?

MR. BUTTS: Not to my knowledge, except in the sales of raw materials. I think Australia is going to be under a slight handicap in so far as

trade with the rest of the Orient is concerned. You will remember that, although the Australians were much more polite than we were in the manner of enforcing their immigration laws, they, from the oriental point of view, were just as cruel as we were.

Another likely obstacle is that Australian costs of manufacture will be far above the average purchasing power of the Far Eastern countries. So far as textiles are concerned, any country in the world can manufacture textiles but can sell them only if the price is right. We grow our own cotton and we can't sell our textiles in the world market. Great Britain and Japan transport their cotton thousands and thousands of miles, both as raw material and as textiles, and sell them freely. It is not likely that Australia can compete with India and Japan.

Australian tin cannot now compete with the production of Southeast Asia. I believe that Japan's heavy industry, even now, is exporting more of its products to Far Eastern markets than is Australia, and the margin will widen. As for shipping services, I do not know what Australia is contributing, but its services cannot normally compete successfully with several of the European nations or Japan.

QUESTION: Will you comment on the economic aspects of the relationship between Russia and China as to whether or not China may prove an asset or a liability to the Russian economy?

MR. BUTTS: That is rather in the realm of "I think so" or "I hope so" or "It appears to be." But, if we judge the results of techniques that have been used by the Soviets over a period of years, I would say that we cannot brush aside the Soviet influence in China.

I believe that the Soviets will, for a temporary period at least, profit rather handsomely from their incursion into China. I commented upon the fact that they might allow Chinese products to move to the western industrial nations, thereby increasing Russia's dollar exchange.

There is no question that the Soviets are controlling the trade of North China at this particular time. If we want Chinese bristles now, we get them by courtesy of the Soviet Union. That is one bit of evidence of how they will profit.

The Russians are certainly as well qualified as the Japanese, and the Japanese secured a bonanza from the production of Manchuria. The Japanese developed that area in a relatively short time. It is a producer of foodstuffs, minerals, and forest products. Its iron and steel industry is a base for numerous processing and manufacturing industries. Its economy both supplements and complements that of Eastern Siberia and is a definite asset to the Soviet Union. The Chinese will not profit.

COLONEL KING: Mr. Butts, for the Commandant and your audience I thank you very much for a very interesting lecture.

(23 May 1950—350)S

