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Japanese Competition in the Trade of Malaya in the 1930s

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This essay demonstrates how politics, rather than economic rationality, dominated the Japanese trade in British Malaya (today's West Malaysia and Singapore) during the 1930s. Unlike earlier works such as L.A. Mills' *British Rule in Eastern Asia* and Yuen Choy Leng's M.A. thesis Expansion of Japanese Interests in Malaya, 1900–1941 which briefly touch on the subject, the study focuses specifically on the nature of Japanese competition, the reasons for its rise and decline and Malayan domestic responses to the trade encroachment. It concentrates on competition posed by Japanese mercantile interests in Malaya and by direct Japanese imports. The present essay tends to place more emphasis on Singapore than the rest of Malaya, since the city was the trading centre of the area.

Although relatively insignificant among the destinations of Japanese exports,[1] the prewar Malayan market is of special interest for two reasons. First, Japan's export performance almost directly reflected its competitive power, for the British colonial authorities more or less adhered to the free trade principle. Second, Japanese competition ended abruptly in late 1937 chiefly because of politics of the Second Sino-Japanese War.

Japanese competition in invisible items (i.e., services such as banking, insurance, shipping, etc.) is not dealt with because of its relative unimportance and the difficulties in gauging such competition. Among those in Malaya affected by Japanese competition, more attention is given to merchants represented by the Singapore Chamber of Commerce. These were mostly English, European and English-speaking locals, rather than petty Chinese dealers. The former were the principal groups affected because they handled western imports which became less popular than low priced Japanese alternatives. The petty Chinese dealers, mostly wholesalers and retailers, remained relatively unaffected since they could switch to more competitive sources of

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1) The Malayan market took no more than three percent of the total Japanese exports in the 1930s. For the relative importance of the Southeast Asian markets for Japan's exports particularly cotton goods, see Murayama Yoshitada, "Ryōtaisen-kan-ki Nihon Men-orimono no Tōnan Ajia Shinshutsu——Ranryō Indo o Chūshin ni," *Tōnan Ajia: Rekishi to Bunka* 11 (June 1982), pp. 37–50 passim.

supply when the need arose.

I Historical Background

Prior to the First World War, Japanese trading links with Malaya were limited. The war dislocated the western industries and their channels of supply. Japan managed to capitalize on the vacuum and its share of the Malayan market grew significantly and peaked in 1918 (See Table 1.). In 1918, a Japanese Commercial Museum was opened in Singapore, indicating Japanese interest in further expansion. The museum provided "a standing exhibition of Japanese goods for which orders could be placed and connections arranged through museum staff" [1, I, 11: 59; 2, 26 Nov. 1918].

Table 1 Total Imports from Japan into the Straits Settlements, 1896–1919 (in Straits Dollars)

Year	Imports from Japan	Total S.S. Imports	% from Japan
1896–1900	5,236 (000's)	253.6 (millions)	2.1
1901–1905	7,587	350.6	2.2
1906–1910	6,787	388.0	1.7
1911	9,038	398.0	2.3
1912	10,691	450.0	2.4
1913	12,898	479.4	2.7
1914	12,092	391.4	3.1
1915	14,918	437.5	3.4
1916	22,792	542.1	4.2
1917	34,701	646.6	5.4
1918	50,399	699.5	7.2
1919	35,699	884.7	4.0

Source: *Straits Settlements Annual Reports*

Notes:

a) Straits Settlements figures are used because Malayan figures before 1921 are not available.

b) Comparisons with the period after 1921 show that Straits Settlements figures closely approximate the Malayan import figures. Straits Settlements figures should therefore adequately reflect Malayan trade in this respect.

c) The figures for 1896–1900, 1901–1905 and 1906–1910 are average annual values.

During the 1910s and 1920s, the British took no measure to check the growth of Japan's share of the market. Besides their unwillingness to depart from the principle of free trade, political expediency made the British reluctant to displease the Japanese, as the security of their Asian colonies relied heavily on Japan's goodwill [3: 88]. Japanese competition was modest in the 1920s, although it was beginning to make an impact. By 1930, Japan had well established itself in certain products such as artificial silk piece goods (86%), inner tubes for cycles (78.4%), insinglass (96%), rubber shoes (85.2%), cycle tyres (58.8%) and cement (31%) [1, I, 11: 64–70]. Overall Japanese exports, however, was still not extensive and Japan's share of the total Malayan market in 1929 was only 2.63 percent and its share of the wholly or mainly manufactured goods market was no more than 5.3 percent (See Tables 3

Table 2 Gross Value of British Malayan Imports from Japan, 1921–1929 (Including Bullion and Coin) (in Straits Dollars)

Year	Imports from Japan	Total Malayan Imports	%
1921	22,614,702	502,066,252	4.5
1923	18,143,469	593,414,252	3.1
1925	29,956,972	1,008,052,246	3.0
1927	30,215,208	1,017,812,454	3.0
1929	23,189,934	898,568,070	2.6

Source: *Malaya Return of Foreign Imports and Exports* [25] and 4.). In sum, as shown in Table 2, despite its noteworthy advances in specific commodities, Japan posed no serious threat to the position of the other sources of imports.[2]

II The Rise of Japanese Competition, 1930–1935

The turning point came in the early 1930s when Japanese competition took a significant upward turn. Japan's share rose steadily from 2.63 percent in 1929 to a peak of 8.14 percent in 1934 (See Table 3.).

Table 3 Total Imports of Merchandise from Japan, 1929–1935 (Excluding Bullion and Specie) (in Straits Dollars)

Year	Imports from Japan	Total Malayan Imports	% from Japan
1929	23,189,934	881,170,912	2.63
1930	24,937,091	705,275,491	3.54
1931	17,895,061	453,405,207	3.95
1932	17,021,973	376,778,202	4.52
1933	26,592,862	350,251,121	7.59
1934	37,501,791	460,464,034	8.14
1935	30,405,425	466,650,253	6.52

Sources:
1) *Malaya Return of Foreign Imports and Exports* [25, 1929 and 1931–1937]
2) *Annual Summary of Monthly Malayan Statistics, 1930*
3) *The Foreign Trade of Malaya for the Year 1938*
4) *Malayan Statistics, Dec. 1939–1940*

Note:
The following classes of imports constitutes total merchandise.
Class I : Animals, food, drink and tobacco.
Class II : Raw materials and articles mainly unmanufactured.
Class III: Articles wholly or mainly manufactured.

2) For a Japanese view of trade between Japan and Malaya during the 1910s and 1920s, see *Marai no Shigen to Bōeki* (Tokyo: Nihon Bōeki Shinkō-kai, 1944), pp. 303–315.

Imports from Japan were noteworthy not because they were very substantial but because they were concentrated in the wholly or mainly manufactured group of goods. A look at Japan's share of this market (Table 4) shows more precisely the extent of Japanese competition. Within this classification, Japan's market share rose from 4.55 percent in 1928 to 15.27 percent in 1934.

Table 4 Imports of Articles Wholly or Mainly Manufactured from Japan, 1928–1935 (in Straits Dollars)

Year	Gross Japanese Imports into Malaya (Class III)	Total Malayan Imports (Class III)	% from Japan
1928	15,611,199	342,962,547	4.55
1929	19,634,495	369,920,521	5.31
1930	20,494,719	331,614,216	6.18
1931	14,228,037	221,779,428	6.42
1932	14,115,306	189,241,321	7.46
1933	22,510,012	165,866,900	13.57
1934	30,562,296	200,144,812	15.27
1935	24,253,168	204,058,558	11.89

Source: *Annual Summary of Monthly Malayan Statistics*

Even these figures tend to understate the extent of Japanese competition. Firstly, as an official report states, "out of the total value of $166 million in this group in 1933, no less than $61.5 million represented petroleum products" in which Japan had no share [*ibid.*, I, 11: 56]. Thus competition was pitted against an even narrower class. Secondly, the value criterion does not take into account the fact that Japanese goods were much cheaper than rival products. According to a 1937 report, on the basis of the 256 wholly or mainly manufactured items, in which the volume is given, the quantum of imports from Japan in 1935 was 30.6 percent of the total volume of imports [4: 14]. This was especially threatening to the merchants who feared that the sales of Japanese goods would directly displace the demand for their goods.

A 1933 interview with a local manufacturer of rubber products, Tan Kah Kee reveals the cut-throat nature of Japanese competition. When asked whether the Japanese had been a threat to his rubber shoe business, his reply was: "Yes. They were cutting into our market in Singapore then (1931) and now it is much worse." Sales to the Malay States were also declining despite the tariff barriers against non-empire products. He said: "in Johore last December (1932) I could get a pair of Japanese shoes at forty-five (Straits) cents and the duty of fifty cents a pair had been on for about a year then." He claimed that the shoes were smuggled to Johore from Singapore. He was also undercut by Japanese bicycle tyre imports. His cost of production was about 45 cents while the Japanese tyres were retailed at about 40 cents [1, II, 304, Meeting 25 (15 Jun. 1933)]. Tan Teow Nghee, the vice-president of the Chinese piece goods traders' guild, testified: "Within two months of our receiving our prints from Manchester, Japanese cloths of the same design will be out in the market and before we have disposed of one half of five cases of our goods, Japanese goods will be on the market at less than half the price. We have suffered heavy losses." [*ibid.*, II, 511, Meeting 37 (17 Jul. 1933)]. Japanese cloth was not only cheaper but the purchaser was often deceived and led to believe that the goods were of British manufacture. Furthermore, an established piece goods trader said: "The Japanese are now sending out improved designs and it will not be very long before they will be able to draw (their own) designs suitable for the Malayan market." [*ibid.*, III, 400, Appendix 140 (26 Jan. 1934)].

Several factors contributed to the dramatic rise of Japanese trade. First and most important was radical rationalization of the Japanese industries in the late 1920s and early 1930s. After the First World War, Japanese industry suffered from wartime over-capitalization resulting in a series of banking and exchange disorders. To arrest these disorders and adjust its economy to the peacetime environment, Japan needed a ruthless deflationary policy. Throughout the twenties, however, the party government failed to pursue the unpopular policy as it needed support from the business circles. After a decade of persistent economic troubles, consensus was finally reached in 1928 on the need for harsh deflationary measures and a return to the gold standard. The government took a strict balanced-budget policy and drastically cut down public spending and borrowing. The policy seemed successful. In four months, domestic prices were down to near the prewar level and the yen almost recovered its prewar value.[3] In January 1930, Japan re-

3) See G.C. Allen, *A Short Economic History of Modern Japan, 1867–1937* (London: George Allen & Unwin, 1972), pp. 103–105.

turned to gold.

Unfortunately, the world depression broke out just as Japan began to feel the effects of the policy. Without realizing the magnitude of the depression, the Japanese government stuck to the deflationary policy for two years. The consequences of this were disastrous in the short run because the policy was effected when an exactly opposit policy was needed. However, it bore dividends in the next decade. In retrospect, the merciless strangulation of Japan's weaker firms was in fact a baptism by fire from which emerged a highly efficient economy that managed to compete with new found vigour.

G.B. Sansom, the British Commercial Counsellor in Tokyo, in his official report *Economic Conditions in Japan* wrote of the Japanese industries in 1932:

> The leading feature of industry in Japan during the period under review is its progressive 'rationalization.' In most of the important manufactures there was a serious and on the whole successful effort to improve organization and technique, to economize labour and to reduce costs.[4]

In September 1933, he further testified before the Straits Settlements Trade Commission that Japan's industries had acquired skilled operatives, efficient management, up-to-date equipment and good organization [*ibid.*, I, 11: 59].[5]

The second major factor that accounted for Japan's sharp competition was the cheap yen after it left the gold standard in late 1931. During the two years, 1930 and 1931, when Japan was back on gold, the yen was grossly over-valued and sold heavily, causing a great outflow of gold. By October 1931, it had become practically impossible for Japan to maintain the gold standard because of its dwindling specie reserve, the large expenditure required by its military action in Manchuria and the virtual collapse of the gold standard itself after Britain had abandoned it in September. In early December 1931, Japan enforced a gold embargo. The result was a sharp depreciation of the yen and it was this factor that pushed Japanese exports in such a startling way. In September 1931, when Britain left the gold standard, the value of the yen fluctuated between 76.5 and 93 yen per 100 Straits dollars. After December 1931, it dropped rapidly and by March 1934 the exchange rate had gone down to 196.5 yen to 100 dollars [*ibid.*, I, 11: 57–58]. The economically priced Japanese goods became even cheaper. The list of prices below illustrates the great gulf that

4) Cited in Isoshi Asahi, *The Secret of Japan's Trade Expansion* (Tokyo: The International Association of Japan, 1934), p. 24. This book gives details on Japan's industrial rationalization.

5) We are not suggesting that Japan improved industrial productivity in one stroke solely by the deflationary policy in 1929–1931. Needless to say, it had been constantly improving before the period. The ruthless deflationary policy in those years, however, intensified the rationalizing effect of the world depression and made Japanese manufactures more competitive than those of the nations also affected by the depression but not the policy.

Table 5 Prices of Japanese and European Goods in 1933 (in Straits Dollars)

	Japanese	European
Acetic Acid 99%	$5.00 jar, 20 kilos.	$9.50 jar, 20 kilos.
Wire Nails	$5.50 pikul	$6.75 pikul
Barbed Wire	$1.60 per 32/33 lb reel	$2.00 per 32/33 lb reel
Bicycles	$13.00 to $15.00 per piece complete	$50.00 to $70.00 per piece complete
Corrugated Iron, 33G	¢40 sheet	¢60 sheet
Galvanized Ridgings	¢16 piece	¢23 piece
Enamel Kettles 14/20 cm	$2.75 per dozen	$6.30 per dozen
Wall Lamps	$1.40 per dozen	$5.00 per dozen
Table Lamps	$8.00 per dozen	$10.50 per dozen
Feeding Bottles	$8.00 per gross	$19.00 per gross
Cheap Pocket Knives	$0.60 to $1.00 per dozen	$1.25 to $2.00 per dozen
Playing Cards	$8.00 per gross	$11.00 per gross
Rubber Shoes	¢30 to ¢35 per pair	$1.10 per pair (Tan Kah Kee local ¢65)
Printed Handkerchiefs	¢60 per dozen	$1.20 per dozen
Condensed Milk	$4.50 to $5.00 per case of 48 tins	$7.25 to $14.00 per case of 48 tins

Source: *SSTCR 1933–34* [1, I, 11: 60]

existed between Japanese and European goods.

Two additional factors, low wage level and Japan's luck in obtaining raw materials at reasonable cost, contributed to the highly competitive price of Japanese goods. The former was a result of the agricultural depression which impelled a large-scale transference of workers from the rural to urban sectors and kept down industrial wages. The latter was an advantage Japanese industry drew from the fluctuating value of the yen and international prices. Immediately after the devaluation, when the exchange rate factor made raw material imports more expensive, Japan's industry operated with materials purchased before the yen's depreciation. By the time stocks ran out, the world depression had lowered the price of primary produce which Japan had to import [*ibid.*, I, 11: 58].

Japan's ability to supply its products at relatively low prices fitted in well with the poor economic conditions in Malaya.[6] In many cases, the poor could only afford the inexpensive Japanese goods. Slightly better off groups found Japanese prices more palatable, provided the goods were of acceptable quality. European firms that had hitherto purchased small quantities from Japan began to change their policies since they found it "impossible to purchase goods from the United Kingdom

6) For example, rubber tappers' wages in the Straits Settlements ranged between 50–60 Straits cents for adult male Indian labourers and 40–45 cents for adult Indian females in 1929 but this was reduced to 28 and 24 cents respectively in 1933. *Straits Settlements Annual Reports 1929 and 1934.*

or the continent of Europe at competitive prices" [*ibid.*, I, 11: 59]. One may say that the depression drastically narrowed the quality goods market for British and European products while expanding the market for cheap Japanese goods.

It seems true, however, the Japanese companies were very competitive and often resorted to aggressive marketing to ensure sales. Sometimes they were unscrupulous in manipulating multiple dealers so as to maximize sales. The Straits Settlements Trade Commission accused them of "failing to protect dealers by quoting a (sic) second and third dealer prices lower than those given to the first" [*ibid.*, I, 11: 60]. The Commission, moreover, received reliable information that Japanese manufacturers sold their products at lower prices than would appear necessary to meet competition [*loc. cit.*]. This apparently strange practice requires some explanation. The 'very low price' policy may have been necessary to overcome the discrimination against Japanese goods which were believed to be of inferior quality. In the 1920s the phrase 'made in Japan' had been synonymous with poor quality products. Although the quality of Japanese goods improved constantly, the image continued throughout the next decade. In 1933, G.B. Sansom pointed out that Japanese goods no longer merited the criticism directed against them in earlier years because they now offered good value for money [*ibid.*, I, 11: 59]. Japanese exporter, nevertheless, had to fight the fixed image of their goods. A substantial price difference had to be maintained to overcome the differences in quality. Furthermore, higher prices may well have made the goods unaffordable for the masses.

The lower prices led to condemnation of the Japanese for dumping. Witnesses interviewed by the Trade Commission often claimed that all Japanese trade was subsidized by the government, either by the direct grant of funds or by such methods as assuming liability for losses incurred by traders through selling at uneconomic prices or incurring bad debts, and that Japanese trade consisted largely of 'dumping,' regardless of price [*loc. cit.*]. This charge was refuted by Sansom who said that the "finances of the Japanese Government were quite incapable of disbursing the sums necessary for subsidization on a wide scale" [*loc. cit.*]. Not only was the 10 million yen assistance given by the government to Japanese industries insignificant when distributed throughout the different sectors of the economy, but it was also primarily directed at encouraging export trade through the improvement of grading, selection of quality of goods for export and the encouragement of rationalization [*loc. cit.*]. Apparently, the Malayan merchants uttered these heart-felt but inaccurate accusations in the heat of fierce competition. The controversial point was not whether the Japanese government subsidized its exports but whether large-scale dumping actually occurred at all. This point was investigated by the Commission and it only prescribed further investigation when specific charges were made. Official reports show, however, that the Japanese did practise dumping in certain commodities, such as tinned milk, cement and coal [*ibid.*, II, 253, Meeting 19 (31 May 1933)],[7] but the initiative seems to have come from the individual exporters rather than the government.

Between 1930 and 1934, Japan extended its hold over markets in which it had had a secure foothold, for example, cotton piece goods, artificial silk piece goods, inner tubes for cycles, cotton blankets, cycle accessories, hollow ware, silk piece goods and cycle tyres. Moreover, Japan made rapid intrusion into the markets of new product lines. More noticeable among them were woollen cloth, wire nails and staples, wire, tiles, plywood cases, hosiery, canned sardines, cotton sarongs, slendangs and kains, cast iron pipes, tubes and fittings and asbestos manufactures [*ibid.*, I, 11: 55, 64–70]. Japan, in fact, encroached on many other commodity markets during this era and posed effective competition to the other major sources of import, namely, Europe, America, China, Hong Kong, Siam, British India and the Netherlands East Indies.

For the majority of the local population, however, Japanese economic intrusion did not constitute competition. Malaya's output was mainly in primary products and did not compete directly with the manufactured imports from Japan. Furthermore, the local businessmen were more often petty traders and exporters of primary produce rather than manufacturers.[8] The increased Japanese trade proved to be a boon for local merchants during the depression years when more expensive items were difficult to sell. In fact, Japanese imports were so indispensable that they destined the 1931 anti-Japanese boycotts to an early doom.

III The Failure of the 1931 Boycotts

The Mukden Incident on 18 September 1931 signalled the beginning of the Japanese attack on Manchuria and it sparked off anti-Japanese boycotts by the Chinese merchants in Malaya.[9] The boycotts, however, were short-lived and largely ineffective. Quantitative data on Japanese imports into Malaya for the 10 months following the incident (Table 6) show that the boycott was effective only for a few months from November 1931. By March 1932, even though the boycotts were outwardly maintained, there were already signs that momentum was being lost quickly.

Although Chinese merchants temporarily stopped importing Japanese cotton piece goods, the overall effect was moderated by the increased imports by Indian

7) Reference to Japanese 'Merry' brand milk being sold in Japan at the equivalent of S$9.14 and in Singapore at S$6.50 per case. See also *SSTCR 1933–34* [1, I, 11: 59].

8) A quick scan through the *Straits Directories* published in the 1930s will confirm the suspicion that very few local businessmen were engaged in manufacturing activities.

9) For a review of the nine anti-Japanese boycotts by the Malayan Chinese merchants from 1908 to 1937, see *Marai no Shigen to Bōeki*, pp. 318–328.

Table 6 Japan's Market Share in Selected Commodities, July 1931 to August 1932 (%)

Month	Year	Cotton Piece Goods (Printed)	Galvanized Iron*	Hollow Ware
July	1931	88.4	48.6	25.2
August		81.6	47.9	28.5
September		82.7	41.3	33.0
October		89.2	10.9	26.4
November		54.1	2.3	25.5
December		52.7	—	18.2
January	1932	50.0	1.1	16.0
February		48.4	—	14.2
March		56.5	—	22.1
April		55.5	1.1	14.4
May		68.4	—	21.3
June		62.5	—	22.0
July		65.3	7.2	31.4
August		75.6	8.4	27.5

Source: C.O. [5, 273/583/92110]
Note: * The boycott action on galvanized iron was particularly effective because it was controlled by the strongly anti-Japanese Hokkien merchants.

and Arab merchants. The increased imports, however, did not all go into consumption in Malaya as Chinese middlemen prevented their wide distribution. The result was a large increase in re-exports between October 1931 and March 1932. Exchange rate fluctuations which coincided with the boycott made Malayan exports to Siam and Sumatra more competitive and profitable than before. Obviously, the non-Chinese merchants capitalized on both factors to handle increased amounts of Japanese goods [5, 273/583/92110, Report of H.M.'s Trade Commissioner to C.O., 30 Sept. 1932]. The figures for Japan's share of the wholly or mainly manufactured goods market show that the boycotts had no significant long term effect. They made impact only for about six to eight months. In fact, Japan's share of the market rose from 6.18 to 7.46 percent between 1930 and 1932 (See Table 4.).

By March 1932, cases were cited of Chinese peddlers who purchased Japanese piece goods from Arab and Indian merchants and sold them in short lengths [*loc. cit.*]. Furthermore, Mitsui and Company and Shimoda and Company reportedly had large shipments of piece goods from Japan on order due to arrive in Singapore in the middle of June. These were for sale to High Street (Singapore) dealers who were said to resume handling of Japanese piece goods. Several non-Chinese dealers were also selling Japanese piece goods to the Chinese after camouflaging any marks bearing the country of origin [*loc. cit.*]. After April 1932, figures for the import of Japanese cotton piece goods confirmed that the boycott had in effect ended even though it was still maintained officially.

Two major factors accounted for the boycotts' lack of staying power. More fundamental was economic necessity and the other factor was the limited political significance of the Mukden Incident. While the Chinese frowned upon the Japanese actions in Manchuria, the economic prerogative forced them to rationalize away their need for economic retaliation. Although the boycotts would injure the Japanese economy, they would also be detrimental to the Chinese merchants' own well being and, moreover, hurt the already depressed local economy.

The boycotts would further increase unemployment and hence the suffering of the local population.[10] For instance, many Teochew hollow ware importers were in debt to the Japanese and were unable to sustain the boycott for long [*loc. cit.*]. The relative insignificance of Manchuria, unfamiliar to local Chinese who were almost exclusively from the coastal areas in South China, contributed to the early collapse of the boycotts.

By August 1932, expansion of Japanese shares of the manufactured goods market had resumed. Japanese competition was particularly serious in commodities such as textiles (artificial and cotton piece goods and sarongs) and in this Britain was a principal sufferer. This group of articles constituted about half of the total Japanese merchandise imports in 1933 [1, I, 11: 56–57]. In Britain, Japanese competition was claimed to have brought about "regional unemployment, labour transference difficulties, problems of industrial reform, and other economic and social corollaries of a shrinking of export trade" [6: xvii]. The British response took the form of textile quotas. These were imposed in Malaya and other British colonies in May 1934.

VI The Textile Quotas

Prior to 1934, the Straits ports were outside the main framework of the imperial preference system. The Federated Malay States and Unfederated Malay States were also little sheltered from the uncompromising Japanese trade drive as the tariff policy of British Malaya had traditionally been extremely liberal. In 1933 the preferential rate on Empire-made textiles was 10 percent and the full tariff rate was 20 percent while the price difference between Japanese and British textiles was approximately 90 percent [7: 392–394]. Moreover, due to a shortage of customs staff and a technicality, the imperial preference scheme was poorly implemented [1, I, 20]. Imperial preference, therefore, was an ineffective barrier against the massive inflow of cheap Japanese goods [*ibid.*, I, 20: 156].[11]

The member of the Trade Commission 1933–1934 were alarmed at the rapid influx of Japanese goods as this trend conjured the spectre of eventual Japanese domination over the entire manufactured goods market. They stressed the urgency of finding methods to deal with it, but could not reach a firm conclusion on what measure to adopt. Each of the four proposals forwarded had its own disadvantages. The alternatives were:

1) To impose tariffs in the Straits Settlements and increase those in the Malay States.
2) To mark all goods with the name of country of origin.

10) In 1930, at least 5,000 Chinese in Singapore were jobless and would likely soon be destitute. See Yeo Eng Leng, Effects of Great Depression on Singapore (unpublished B.A. Honours academic exercise, University of Singapore, 1972), p. 17.

11) Imperial preference is defined as a scheme of preferential rates of duties on goods consigned from and grown, produced or manufactured in the British Empire.

3) To introduce a system of quotas on Japan's major import items.
4) To levy a depreciated exchange tax on all Japanese goods (i.e., nullify the advantages gained by the yen depreciation) [*ibid.*, I, 11: 61–63].

The tariff increases were objected to because a sufficiently high tariff barrier would raise domestic prices and exceed the limits of just taxation on the poorer classes. The Commission aptly pointed out the dilemma that "any effective preference must be unreasonable and any reasonable preference must be ineffective" [*ibid.*, I, 11: 61]. An exchange tax was considered unsatisfactory as the Commission feared that Japan might further be able to lower its prices. This shows official apprehension for Japanese competitiveness even when Japanese goods were, so to speak, put on a "basis of fair competition" [*ibid.*, I, 11: 62]. Furthermore, the implementation of such a tax system would require restrictive measures to prevent evasions and interfere with the Straits Settlements' free port status. The marking of goods with country of origin was refuted as it was "extremely doubtful that the measure would offset the overwhelming appeal of cheap Japanese goods." Finally, the quota system was seen as a hindrance to the entrepot function of the Straits ports. Hence, no solution emerged from the Commission's deliberations [*ibid.*, I, 11: 61–63].

Meanwhile, an Empire-wide restrictive measure was forthcoming from London. The Lancashire cotton industry had been rapidly losing its share of the colonial markets to the Japanese. Between 1929 and 1933, while world trade in cotton piece goods dropped from 8,000 to 5,000 million square yards, Lancashire's exports to the British colonies fell, but Japan's exports of cotton goods to the colonies were increasing [8: 67]. By March 1934, negotiations between Britain and Japan to divide the world markets had broken down [9, II: 253].[12] The British government decided to impose quotas on cotton and artificial silk piece goods in its colonies. It was announced in the House of Commons on 7 May 1934 and put into effect immediately [*loc. cit.*].

The textile quotas could not specifically discriminate against Japan because of its most-favoured-nation rights as guaranteed by the 1911 Anglo-Japanese Commercial Treaty. The quotas were imposed on all countries outside the British empire so as to make it seem non-discriminatory. Yet, they were designed to penalize Japanese imports heavily, as they were based on the average imports from each foreign country during the years 1927–1931, the period before Japan's rapid trade expansion [8: 69–70]. Japan's yearly quota, 34,668,423 linear yards, was only about 39 percent of retained Japanese textile imports in 1933 (See Table 7.). The seven classes of regulated textiles were cotton grey unbleached, white bleached, woven coloured cotton, cotton sarongs, artificial silk piece

12) For Japanese insiders' views of the productivity gap between the British and Japanese textile industries and the negotiations, see Andō Yoshihiro, ed., *Shōwa Seiji Keizaishi e no Shōgen* I (Tokyo: Mainichi Shimbunsha, 1972), pp. 283–306.

Table 7 Imports of Regulated Textiles into Malaya, Subject to Quotas, 1933–1938 (in Linear Yards)

Country	1933	1934	1935	1936	1937	1938
Japan	88,305,000	33,222,762	24,087,294	34,636,123	34,208,167	25,352,279
China	8,872,000	6,750,487	7,969,146	11,689,824	10,287,546	6,185,454
N.E.I.	2,549,000	2,291,746	2,733,473	2,902,242	2,945,390	2,833,926
Fr. India	1,498,000	854,773	1,935,754	2,898,058	2,489,534	1,333,469

Source: *Report on Quotas*
Notes:
a) 1934 figures for China, Netherlands East Indies and French India are compiled for the period 7 May to 31 December.
b) 1934 figure for Japan is compiled for the period 1 June to 31 December.
c) 1933 figures are estimated net imports (i.e., gross imports minus estimates for re-exports). Refer to *Report on Quotas, 1935* [11: 480] for details on estimation problems.
d) Japan's textile quota allocation was 34,668,423 yearly.
e) In 1934, Japan exceeded its quota by 10,544,147 yards and this amount was subsequently absorbed in the 1935 quota.

goods other than sarongs, artificial silk sarongs, dyed cotton and printed cotton [10: 48],[13] in which Japan was particularly competitive.

The Japanese were indignant about the veiled but obvious discrimination and representations were made through their consulate, but the diplomatic appeals came to naught.[14] The Japanese importers and their Chinese middlemen had to rely on their ingenuity to moderate the effects of the stringent restrictions. The quotas reduced Japanese textiles, over and above the quota limits, through illegal or semi-legal means.

V The Effects of the Quotas

The official statistics show that Japanese imports of regulated textiles were greatly reduced (See Table 7.). The sharp decline registered between 1935 and 1937, however, must be taken with some reservations because of clandestine entries of Japanese textiles. Mostly, they took the form of made-up goods on which no quota was imposed till 1938.

By June 1935, there was a report that "a number of Chinese tailors had recently moved from Singapore to the neighbouring Dutch Islands in the Rhio Archipelago" [11: 484]. This apparently innocent flight of tailors to Riau was significant enough to warrant mention in the 1935 report on the quota system. Economic and social conditions in Riau coupled with its strategic geographical location made it an ideal smuggling centre. The Riau Archipelago lay just south of Singapore and was outside the Netherlands Indies customs zone [*loc. cit.*]. It consisted of about 1,500 small islands where Straits

13) Textiles with 50 percent or more of cotton or artificial silk or both combined are included in this category.
14) See *Dispatches Straits Settlements to Secretary of State*, from Consul-General of Japan to Colonial Secretary and vice versa, 7, 27 and 29 June 1934.

money was freely used and its roughly 350,000 population was predominantly Chinese [5, 273/638/50010].

From May 1935, there was a notable and persistent increase in the 're-exports' of piece goods to Riau where they were converted into made-up goods and sent back to Singapore. Re-export depots were established in Singapore and Penang in June 1934 and textiles that passed through these depots were exempt from regulation [10: 39]. The figures in Table 8 on re-exports to Riau clearly indicate their nature. They increased markedly in 1935, after the quota system had been introduced, and maintained the 1935 level with some fluctuations until September 1937 when the Chinese merchants' boycotts of Japanese goods began.

The sudden surge of textile trade between Singapore and Riau became a serious problem chiefly because it allowed "fraudulent entry, either by open entry as made-up goods roughly cut to appear like partially made-up goods, but capable of being converted back into piece goods or by frank evasion of quota regulations" [11: 485]. The semi-legal entry of 'made-up' goods in fact constituted smuggling. It is certain that a very large proportion of the Singapore–Riau trade in made-up goods was of dubious authenticity since the handling of genuine made-up goods would incur the attendant complications of sizes and variations in fashion. Moreover, piece goods were always readily saleable, particularly in a market like Singapore or Penang, whereas the saleability of made-up goods was strictly limited [10: 44].

Table 8 Exports of Piece Goods to Riau Archipelago, 1935–1938 (in Linear Yards)

Month	1935	1936	1937	1938
January	21,520	307,157	256,847	78,855
February	8,276	618,183	202,434	23,207
March	37,220	601,777	434,662	49,072
April	97,080	432,235	408,943	66,698
May	244,944	407,103	413,651	36,076
June	662,918	470,742	366,829	43,504
July	401,168	448,636	544,683	48,981
August	410,113	334,420	520,272	38,501
September	422,851	247,981	168,484	36,313
October	515,966	367,585	97,747	39,084
November	547,760	386,581	81,033	19,200
December	435,671	292,972	8,292	14,273
Total	3,805,487	4,915,372	3,503,877	493,764
Monthly Average	317,124	409,614	291,990	41,147

Source: *Report on Quotas, 1937* [18: 642]

A description of some of these 'made-up' goods will show the intention to fully exploit loop-holes in the quota system. A *Straits Times* article in August 1936 read:

> A few days ago a reliable informant was shown a weird looking garment of Japanese origin. It masqueraded as a pair of trousers, and it certainly bore some slight resemblance to that article of much utility if little aesthetic value. A very light band round the waist was cut and the 2 men pulled in opposite directions. Lo and behold, what had been a rather unusual looking pair of trousers became about 30 yards[15] of

15) "30 yards" should probably be read "13 yards." It is inconceivable that even oversize trousers would use 30 yards of cloth and, moreover, an official report described a pair of trousers that disintegrated into 12 yards of material. See *Report on Quotas, 1936* [12: 464].

> 27-inch wide cotton shirting! In addition to the unusual waist measurements of the trousers, the material had been folded up and down inside the legs, giving a multiple thickness which was not obvious on a superficial examination [2, 14 Aug. 1946: 10].

Abnormally huge mattress covers, bolster and pillow cases and shirts were also reported to have been imported. White cloth sacks, about the size of an unsewn sarong each, allegedly entered Singapore and it was discovered that these were later unpicked, printed and put on sale as sarongs [12: 464]. 'Scarves' measuring 72 by 36 inches with unfinished edges that were hoped to pass off as fringes were allowed to enter freely. If the fringes at the ends were cut away, an official report states, a piece of rayon lace measuring 68 by 36 inches would remain [*loc. cit.*].

In 1936, a lively trade in 'mosquito nets' also developed from the adjacent Karimon Islands. Between September 1935 and March 1936, 53,110 mosquito nets were imported from the islands where trade with Singapore had formerly been non-existent. Specimens of these 'nets' were unusually large, each net being equivalent to about forty linear yards of piece goods. More absurd was the fact that the 'nets' were by no means the netting which is usually associated with the mosquito net, but were ordinary cotton or artificial silk material, often of double thickness [11: 486]. Obviously, these 'nets' were totally impractical in the tropical climate since they would not only exclude the tiniest mosquito and sand-fly but would also "stop the entrance of air to the unfortunate sleeper beneath." The stiching together was so flimsy, it was reported, that "a light pull was all that was necessary to disintegrate the ingenious made-up mosquito net into its component lengths of piece goods" [12: 464].

Furthermore, proof had been obtained "of misdeclaration of the artificial silk content of certain goods of mixed natural and artificial silk weaving" [11: 486–487]. Although goods that contained 50 percent or more of cotton or of artificial silk or both on a weight basis were to be regulated, there were difficulties in ascertaining the cotton or artificial silk content. Dealers claimed that it was an easy matter to circumvent the restrictive measures. According to the *Straits Times*:

> Although the novice, or clumsy amateur, either here or in the country of shipment, may give cause to suspect an inaccurate declaration or a false invoice, those that have been in the business long enough and know their 'sundries' as well as their piece goods will find it an easy matter, on the strength of former genuine import declarations and invoices, to make false documents which even the shrewdest of businessmen will find difficult to suspect, even if the weight and the volume of the packages in relation to the goods declared are carefully scrutinised [2, 15 Jan. 1936: 16].

L.A. Mills estimates that smuggling reached seven million yards in 1937 [13: 158]. The figure should be taken with caution, since no mention is made of the method of estimation, but it is perhaps the most reliable available, as Mills was a contemporary writer in a position to interview the relevant official. From the available statistics one can safely say that smuggling exceeded five million yards in 1936.[16)]

A more subtle form of evasion was the import of Japanese piece goods processed outside Japan. Those processing countries would serve as intermediate ports for the deflection of trade and bills of lading would be made out at these intermediate ports [14: 492]. Among the more notable processing centres were French India (Pondicherry, Karikal and Yanam) and British India. In 1937, the Federated Malay States customs found that French Indian sarees bleached, dyed and printed in French India were originally 44-inch grey shirting material from Japan [15: 649]. Table 7 shows the rapid rise of textile imports from French India after 1934, when the quotas were imposed, and its equally rapid fall after 1937——more than 50 percent fall in the year 1937–1938——following the outbreak of the anti-Japanese boycotts. It strongly suggests that Japanese goods were in fact deflected through French India into Malaya. It was also hinted that Japanese cloth came in through British India, although no direct statements were issued. Malayan imports of Indian sarongs fell from 6,887,495 in 1937 to 2,858,843 yards in 1938 [16: 349]. Apparently, evasion of quotas by using intermediate ports was difficult for the British Administration to monitor and control, but the Chinese dealers were in a position to identify processed goods of Japanese origin for subsequent boycott.

The overall effect of the quota on Japanese textile imports was therefore significantly toned down by evasion, direct smuggling and increases in non-regulated textiles. In 1936, it was reported that Japanese goods were so much in evidence in Malaya that a large percentage of the loss in its piece goods was probably being counter-balanced by gain in made-up goods and silk piece goods [17: 469]. Imports of low quality bleached and dyed silk had been greatly increased (See Table 9.). The two predominant sources of silk imports were Japan and China, and Japan held roughly 80 percent of the market between 1934 and 1937.

Although Japanese textile imports may have been noticeably lowered by the quotas, Japanese competition as a whole was certainly not stifled. The restrictions

Table 9 Index of Imports of Silk into Malaya, 1927–1936

Year	Index
1927–1931	100
1933	152
1934	381
1935	559
1936	860

Source: *Addendum to Report on Quotas, 1936* [17: 469]

16) This is deduced from the comparative fall of piece good re-exports to Riau from 4,915,372 yards in 1936 to 493,764 yards in 1938. Anti-Japanese boycotts after 1937 effectively stopped smuggling of Japanese piece goods.

Table 10 Japanese Percentage of Mainly Manufactured Imports into Malaya, 1934–1937

Year	%
1934	15.27
1935	11.88
1936	12.69
1937	11.56

Source: Adapted from *Annual Summary of Monthly Malayan Statistics*

of the quota system were clearly not impervious and, furthermore, approximately 50 percent of Japanese imports still lay beyond the scope of the textile quotas. Thus, as seen in Table 10, overall Japanese imports were only partially reduced and brisk competition still continued to the dismay of Japan's rival importers.

Some legislative measures were taken to check the rampant inflow of Japanese made-up goods. These included an ordinance, passed in September, giving the Registrar of Textile Quotas power to decide whether dubious goods were to be classed as regulated textiles and the extension of the quotas to cover made-up goods on 1 January 1938 [16: 339; 18: 649]. The legislative actions do not seem to have been very effective. Although the imports of textiles fell drastically in 1938, the fundamental reason for the fall was not the new laws but the outbreak of the Second Sino-Japanese War in July 1937.

VI Japanese Competition between 1935 and 1937

Despite the dampening effect of the textile quotas, spirited Japanese competition was still the order of the day in 1936. A *Straits Times* article recorded that "Rarely a day passes without some further evidence reaching us of the severity of the Japanese grip on Malayan trade." [2, 7 Aug. 1936: 10]. The Japanese were competitive not only in direct visible imports but also in invisible items, such as shipping, banking and insurance. Japanese firms were allegedly so well organized that it was "possible to trace connections between the producers of rubber, the buyers and the brokers, the shippers, the firms who insure the shipments and the bankers who finance the transactions" [*ibid.*, 20 Jul. 1936: 10]. With this highly integrated mutual benefit system, the Japanese concerns were able to quote as much as three-eighths to half a cent a pound higher for the purchase of rubber in Malaya [*loc. cit.*]. Through close cooperation and willingness to accept lower profit margins, the Japanese shipping companies increased their market share from 0.3 percent in 1933 to about 40 percent in late 1935 and early 1936 [*ibid.*, 22 Jul. 1936: 10; 13: 169].

The Japanese also endeavoured to capture the trade in pineapples grown and canned in Malaya for export to Britain. The precondition for a product to qualify for preferential tariff was that 50 percent of the finished item must be of Empire origin. Since the domestically grown pineapples themselves accounted for 50 percent, the goods packed by Japanese labour and material could enter Britain under a preferential rate and compete

Table 11 The Plate Imports from Japan, 1932–1937

Year	Tons	% of Total Malayan Imports
1932–1933	—	—
1934	7	0.03
1935	358	2.1
1936	3,750	15.0
1937	1,036	3.8

Source: *Malaya Return of Foreign Imports and Exports* [25]

with the wholly British Malayan product. The growth of the Japanese pineapple canning industry was reflected by the tremendous increase in tin plate imports from Japan after 1935. The whole of these imports went to the Japanese canners.

This branch of competition affected some of local pineapple canning firms such as Lee Pineapple Company, Sin Tack Bee Company, Malayan Pineapple Company and Jit Hin and Company. Moreover, the Malayan pineapple industry was faced with stiff Japanese competition in the United Kingdom which had traditionally been the main market for Malayan canned pineapple exports [19, 1936].[17] The situation was further aggravated by the fact that by 1936, price agreement formerly in force among the packers had given way to cut-throat competition, which led to uncertainty in the trade and below-cost prices [20, 1937, I: 335]. One of the reasons why Lee Kong Chian of Lee Pineapple Company became a leader of the 1937 anti-Japanese boycotts could have been that Japanese competition had affected his business.

The Japanese merchants were tireless in their efforts to capture the Malayan market by trying new marketing methods. For example, the *Straits Times* commercial correspondent remarked that a Japanese dairy combine had invited some local milk dealers to visit their factories in Japan, all expenses being defrayed by the combine. This was important, as a large section of the population could not be reached by newspaper or poster advertisements, and a good deal often depended on the good will of the dealer in introducing a new line or getting the maximum support for established lines [2, 17 Jul. 1935: 16].

Trade exhibitions to promote their goods was another new marketing method employed by the Japanese. In July 1935, they organized a travelling exhibition of Japanese products at the Japanese Commercial Museum in Singapore. Articles exhibited ranged from textiles and machinery to marine products and canned and sundry goods of all descriptions [*ibid.*, 25 Jul. 1935: 10]. In October 1936, a 'floating fair' on the Osaka Shosen Kaisha vessel Buenos Aires Maru came to Singapore. On board were 20 Japanese businessmen who were anxious to come into contact with local merchants so as to promote their "bicycles, binoculars, garters, gramophones, motor cars, surveying instruments, watches, fridges, ice-boxes, dental instruments, auto parts and 'peculiar' things that have never

17) 75 percent of Malaya's exports went to the United Kingdom in 1936. The trade was depressed during this period for two reasons. First, the exports to Britain had been of deplorably low quality. Second, there was competition from another cheap fruit, namely, Japanese canned mandarin oranges.

made their debut in Malaya" [*ibid.*, 24 Oct. 1936: 12]. These exhibitions provided an excellent means of advertising and served to foster new trading links between Japanese and Malayan businessmen. Indeed, these exhibitions brought Japanese exports right to the doorstep of the local dealers who would otherwise have been ignorant of their market potential.

Part of the Japanese success, however, was effected through less savoury means such as commercial piracy or imitation of well known brands. Among the cases disclosed in 1936 were counterfeit Lockheed brake fluid sold under the name Bulldog, imitation Lux soaps and Parker pens [*loc. cit.*]. Each of these counterfeit products could be traced to Japanese sources and significant gains were made by these commercial pirates. Genuine Parker pens sold at S$17.50 each while the imitation article was retailed at S$1.50 to S$2. Bona fide importers were certainly concerned as the great difference in price persuaded many to shun their imports for the cheaper albeit relatively shoddy Japanese imitation [*ibid.*, 12 Oct. 1936: 10; 21: 30].

In 1936, Japanese competition was so serious that the local business circles were constantly requesting checks or controls on Japanese encroachment. The *Straits Times* regularly called for restrictions on behalf of the shippers, bankers and merchant houses. Protest also came from an unofficial member of the Legislative Council, namely, Tay Lian Tack. He requested that there should be a committee set up to enquire into Japanese competition that was monopolizing the bazaar trade of Malaya [22, Aug. 1936, B50]. His action can be explained by the fact that he was a managing director and attorney within the Ho Hong industrial complex which, among other things, produced cement, soap, perfume and operated a steamship line, whose markets were threatened by Japanese competition [19, 1936]. Evidently, Tay voiced the sentiments of his fellow Ho Hong directors and those of the domestic mercantile community that were affected.

In this period, Japan dominated the import items listed in Table 12. The degree of indignation and fear over Japanese competition can be seen in a *Straits Times* article stating that the Japanese were upsetting values and confounding the trading community in every place they

Table 12 Japan's Share of Malayan Trade in Selected Items, 1935–1936

Item	1935 (%)	1936 (%)
Artificial Silk Piece Goods	90.0	88.1
Canned Sardines	93.9	95.0
Cement	47.1	41.1
Printed Cotton Piece Goods	57.4	59.5
Cotton Underwear	68.4	59.8
Crockery and Porcelain	66.5	62.3
Fancy Goods	91.6	71.4
Glass and Glassware	68.0	66.7
Hollow Ware	73.3	78.6
Household Cotton Goods (Made-up)	69.6	64.0
Rubber Shoes	92.0	92.5
Silk Piece Goods	81.4	76.5
Toys and Games	59.8	61.0
Cycle Tyres	82.5	71.3

Source: Adapted from *Malaya Return of Foreign Imports and Exports* [25] entered. It warned that control was imperative because growing Japanese economic strength would inevitably cause "demands for a measure of influence in other directions" [2, 14 Sept. 1936: 10].

By 1936, the outlook of the mercantile community, represented by the Singapore and Penang Chambers of Commerce, changed significantly. The Chairman of the Singapore Chamber of Commerce said in October 1936 that:

> Public opinion had undergone a remarkable change in the past few years, and the refusal of assistance would produce far louder protests than any announcement of plans to negate the advantages acruing to Japan [*ibid.*, 1 Oct. 1936: 10].

As the quota regulations had not seemed to have worked, it was widely hoped that further restrictions would soon be imposed on Japanese competition.

The legislative restriction, however, did not come to pass and in October 1936, the Governor Sir Shenton Thomas only reassured the merchants that the situation was "being carefully studied" [22, Oct. 1936, B62]. It was fairly clear that no further protection of the local merchants by the government against Japanese competition was forthcoming. The local merchants became more pessimistic about their ability to compete when faced with the intense commercial nationalism and capacity for cooperation shown by the Japanese. There appeared to be no hope of increasing their share, for example, of the textile market until Lancashire could compete with Japan on a price basis. But they were blessed with good fortune. The outbreak of the Sino-Japanese War in July 1937 triggered off an extensive anti-Japanese boycott, which signalled the demise of Japanese competition in Malayan trade.

VII The Anti-Japanese Boycotts, 1937–1941

The post-July 1937 boycotts were so vigorously enforced that within a year, the value of Japanese exports to Malaya dropped by 68 percent from 71.3 to 22.9 million yen [23: 317]. There was no significant recovery before the Pacific War. A number of factors contributed to the success of the 1937 boycotts. Firstly, Japanese military aggression in China was far more significant than it had been in 1931. In September 1937, the Secretary of Chinese Affairs noted that:

> Formerly it was approximately true to say that Chinese in Malaya from the southern maritime provinces of China were not greatly moved by affairs in north China.... But the achievements and propaganda of the Nanking government during the last few years combined with the personality of Chiang Kai Shek had undoubtedly impressed Chinese overseas who are now more prepared to give more heed to national affairs in China instead of restricting their interests to the affairs of their own ancestral towns and provinces [5, 273/628/50455].

The Malayan Chinese were agitated because, between July 1937 and 1940, not only had important cities such as Peking and

Nanking fallen but their home provinces had also been occupied by the Japanese.

Secondly, as suggested above, in 1937, the Malayan Chinese were far more patriotic than they had been in 1931. There were two major reasons for the sharp rise in nationalism. First, since the early thirties, the Nanking government had actively promoted patriotism in the Malayan Chinese community through its consulates and Kuomintang branches [24: 120–121]. Second, a more fundamental factor was the spread of Chinese education since the 1920s in Malaya as a spill-over of the May Fourth nationalist movement in China. It had instilled patriotism in young local Chinese who were to become active members of the community in the 1930s.[18)]

Thirdly, in 1937 the economic standing of the population was far better than that in 1931 and allowed most merchants to join the boycotts without seriously jeopardizing their livelihood. Between 1931 and 1937, the price of Malaya's principal exports, rubber and tin, had increased by 326 percent and 99 percent respectively. Malaya's total merchandise imports had risen from 377 million Straits dollars in 1931 to 680 million in 1937 [20, 1931 and 1937; 25, 1931 and 1937].

Fourthly, the local government took a tolerant attitude towards the boycotts. Stephen Leong sums up his paper, "The Malayan Overseas Chinese and the Sino-Japanese War," by saying that the anti-Japanese movement was successful largely because of the goodwill and understanding of the colonial authorities [23: 320]. Although the British adopted harsh measures to check the violent and illegal aspects of the movement, an official Japanese source complained that "they were soft in controlling Chinese economic protestation" [24: 22]. The British understandably took an approving attitude towards the boycotts not only because they were against Japan's military action in China, which threatened British interests there, but because the boycotts effectively resolved the problem of Japanese competition that had plagued the British. The massive suppression of Japanese competition meant increased trade for Britain and other countries that had been edged out only a few years earlier, as clearly shown in Table 13.

Finally, the success of the boycotts itself worked to make them even more successful. Mass support for any kind of anti-Japanese action was so overwhelming that those who were less keen on the boycott action were often forced to comply with the patriots' demands to avoid being assaulted or slandered in public.[19)] Chinese merchants were especially fearful of being accused of handling Japanese goods. Rival Chinese companies sometimes engaged in sabotage operations by accusing the others of dealing in Japanese goods so that the latter would be harassed and boycotted [5, 273/641/50055, Part 2;

18) See H.E. Wilson, *Social Engineering in Singapore* (Singapore: Singapore University Press, 1978), p. 60.

19) *Monthly Review of Chinese Affairs* between 1937 and 1941 readily confirm the highly politicized and often extreme nature of the boycott activities.

Table 13 Percentage of Merchandise Imported into Malaya from Various Countries, 1935–1940

Country	1935	1936	1937	1938	1939	1940
Japan	6.5	6.5	6.0	2.3	2.0	1.7
Australia	2.0	2.0	2.1	2.4	2.8	2.7
U.K.	16.1	15.2	15.6	18.7	14.6	13.7
China	4.4	4.4	4.1	4.4	4.2	4.7
Hong Kong	0.8	1.0	1.2	1.6	1.8	2.3
Europe	4.8	4.8	5.8	6.5	4.6	1.7
U.S.A.	2.0	1.9	2.3	3.1	2.9	4.6
Siam	13.6	15.3	13.6	15.7	16.8	14.5
Total Value of Malayan Imports (in Straits Dollars 000's)	466,650	503,024	579,913	546,610	620,619	824,107

Sources: 1) *Malaya Return of Foreign Imports and Exports* [25, 1935–1937]
2) *The Foreign Trade of Malaya for the Year 1938*
3) *Malayan Statistics, Dec. 1939–1940*

26, Jul. 1938].

In 1938, the exports to Riau was a mere one-tenth of that exported during the heyday of smuggling activities in 1936 (See Table 8.). In addition, it was reported that the Singapore tailors, who had gone to Riau, had all returned to Singapore [18: 642]. Japanese goods coming through intermediate ports were also checked. That the total Japanese textile imports in 1938 was only about 73 percent of its national quota allocation bears testimony to the intensity of the boycotts.

One may suspect that one of the motivations for the boycotts was economic, since Japanese competition between 1930 and 1936 adversely affected local producers and importers of non-Japanese goods. Evidence suggests, however, that economics did not constitute any strong motivation. Few Chinese were manufacturers or exclusively importers of western products which remained the domain of the European merchant houses. One exception was Lee Kong Chian, a prominent leader of the anti-Japanese movement. Lee was the chairman of the Lee Pineapple Company which had apparently faced direct Japanese competition. Whether Tan Kah Kee, the acknowledged leader of the movement, still harboured resentments against the Japanese cutthroat competition that he had had to fight in the early 1930s is debatable. As such, no conclusive evidence can be drawn to support the contention of the economic motivation.

After the outbreak of the Second World War in Europe in September 1939, several defence regulations were enforced in Malaya. One of them aimed at controlling the flow of exchange to non-sterling bloc countries through restriction or prohibition of various imports. The 121 restricted imports and 236 prohibited items included most of the major Japanese exports to Malaya [27, LXXIV, notification nos. 3123 and 3631]. The restrictions were implemented with inadequate administrative facilities and caused some disruption in business transactions.[20] The Singapore Chamber of Commerce stated in its 1940 report, however, the "no

20) See *Singapore Chamber of Commerce Report for the Year 1940* [28: 62].

insuperable obstacle to legitimate trade with countries outside the sterling area has been created" [28: 66]. The statement is verified by the import statistics which show no decline in 1939 and a visible increase in 1940 both in total imports and imports from Japan (See Table 14.). One can safely conclude that the import controls played a minor role in checking Japanese competition before 1941.

In 1941, however, Japan's share of the mainly manufactured market dipped to 2.96 percent. In March 1941, the Singapore Chamber of Commerce complained: "Government controls have increased in severity and in number and there is very little left of the freedom and independence on which the Straits merchants prided himself." [29, Annual General Meeting, 28 Mar. 1940]. Apparently, it was becoming difficult to obtain import permits in general, as the war in Europe intensified. It may well have been even more difficult to get permits for imports from Japan, as it became a German ally in September 1940. Following the pact, there developed much greater unity of action between the British and American governments, and they adopted a stiffer attitude towards Japan. This throws some light on Yoji Akashi's puzzlement over the sudden and sharp decrease of Japanese imports in 1941 [24: 145]. Other factors, notably the restrictions on raw material imports into Japan and rising costs of production in Japan, should also be considered [30: 285]. In any case, as indicated in Table 14, Japanese competition had practically crumbled after the outbreak of the Second Sino-Japanese War in July 1937.

Table 14 Imports of Articles Wholly or Mainly Manufactured Goods from Japan, 1935–1941 (in Straits Dollars 000's)

Year	Imports from Japan	Total Malayan Imports	% of Total Imports
1935	24,253,168	204,058,558	11.89
1936	25,812,452	203,350,598	12.69
1937	32,735,677	283,064,161	11.56
1938	9,127,258	246,506,712	3.70
1939	9,938,336	250,132,542	3.97
1940	13,259,288	294,827,457	4.50
1941*	6,249,365	210,957,682	2.96

Sources: 1) *Malaya Return of Foreign Imports and Exports* [25, 1935–1937]
2) *The Foreign Trade of Malaya for the Year 1938*
3) *Malayan Statistics, Dec. 1939–1941*

Note: * 1941 values are values for Jan. to Sept. 1941. The last publication before the war was *Malayan Statistics*, Sept. 1941.

VIII Conclusion

Japanese competition in prewar Malaya blossomed and wilted within the short space of a decade because of the changing international environment in which Malaya and Japan found themselves. The world depression in the late 1920s coupled with Japan's untimely deflationary policy resulted in Japanese industries being thoroughly rationalized. This laid the groundwork for Japanese trade rivalry in the 1930s. The Malayan public found the cheap Japanese goods especially attractive during the frugal depression years as the depreciating yen made Japanese imports cheaper. However, although currency depreciation and the world depression played critical roles in the sudden burst of Japanese competition between 1932 and 1934, the underlying basis for Japanese success was increased industrial efficiency.

This was why Japanese competition did not subside after 1934 when the effects of depreciation and depression had worn off. The absence of these abnormally propitious factors in the years 1935–1937, however, made further dramatic increases in market share impossible. Nevertheless, even the moderated level of competition was serious enough to elicit clamour for restrictions as "the habit of economy in spending inculcated during the recent years of depression has not entirely disappeared: for this reason high class goods have a narrowing outlet in comparison with a widening demand for a lower standard of quality." [4: 8]. Hence, Japan's price advantage was a decisive one in the economic battle for Malayan markets.

Malaya remained a fairly open market despite the specific textile quotas imposed in 1934. Predictably, the quotas only dampened the inflow of Japanese textiles and were quite ineffective in curbing overall Japanese competition. Local merchants were forced to compete with the Japanese because the Straits government was reluctant to impose further economic sanctions against Japan. In October 1938, Governor Shenton Thomas stated that the losses to Japanese competition were in part due to inefficiencies in British trading methods and, therefore, restrictive legislation would not help much [22, Oct. 1936, B65].

The Second Sino-Japanese War turned the tide against Japanese competition as it caused the Chinese middlemen to shun Japanese imports. The Chinese consumer also refused to buy Japanese products and, thus, Japan's accessible Malayan market was drastically reduced. Japanese competition was curbed more by politically motivated boycotts rather than by any particular British action.

Japanese trade expansion during the 1930s raised protests among its rivals. Those whose markets were affected accused Japan of unfair competition through dumping or of deliberate depreciation of the yen to promote exports. In retrospect, these accusations seem groundless. In the first place, the Japanese government did not engage in extensive subsidization of export industries and the latter certainly did not operate at a loss. Admittedly, some Japanese companies must have dumped their goods abroad but this charge cannot be extended to the Japanese economy as a whole. An official report in Malaya noted: "The sale of an article abroad at less than its retail price in the country of production is a common-place of modern commercial competition, and is made possible by a protective duty in that country and not by any subsidy." [1, I, 14: 183]. Furthermore, although drastic depreciation of the yen was triggered off by Japan's departure from the gold standard, the decision did not aim at devaluing the currency in order to promote exports. The cheap yen was an unintended result which the prestige-conscious Japanese government was unhappy with but had little means to alleviate.

Western over-reaction, however, was understandable. Western industries pushed out of their established markets when in the deep of the depression, experienced disconcerting and often painful re-adjustments. The woeful conditions facing formerly prosperous industrial centres such as Lancashire provoked heart-felt sympathy and bitter resentment.

Nevertheless, at least theoretically, Japan had every right to expand its overseas markets. Moreover, in purely economic terms, Japan's trade expansion in Malaya appears to have been more than justified, since geographical proximity gave Japan an absolute advantage. Not only did it produce economical lines that were suited to the standard of living in Malaya, but it was able to produce them at a lower cost and ship them to Malaya more cheaply. From an economic viewpoint, Japanese competition was fully acceptable, save for the isolated instances of imitation or economic piracy. It seems that much of the unhappiness was caused by the tempo and concentrated nature of Japan's export drive.[21] Its rival economies hardly had any time to re-adjust and the short run effect was a move towards restriction. Had the Japanese economic thrust come at a slower pace, the protests would certainly have been milder.

The basic assumption of the British was that they were entitled to retain a share of the Malayan market which they had maintained and defended at a high cost. Unfortunately, the restriction of Japanese imports had negative corollaries in that the artificially high priced goods adversely affected the consumer. Restrictions were sparingly applied since the effects on consumer welfare were often unacceptable. Administrators often suggested a move by British business toward higher efficiency through cooperation or reorganization of trading methods rather than direct restriction on Japanese goods. This does not mean, however, that the British administrators did not share the assumption of the British right to dominate the Malayan market. Japan's problem was that it had become an industrialized country later than its western counterparts and thus had to encroach on established markets for want of alternatives.

Actually, one wonders how far Japanese competition did eat into the established market in Malaya during the world depression. Using the concept of market segmentation, we can divide the Malayan market into distinct high and low priced segments. This concept helps explain why losses in the high priced segment would still have been bad even without the cheap Japanese imports. The poorer Malayan consumer would probably have forgone consumption of certain items if not given the cheap Japanese option. The low priced Japanese goods in many cases did not directly compete with the more expensive higher quality imports from the West. Japan, therefore, created new markets

21) See M.S. Farley, *The Problem of Japanese Trade Expansion in the Post-war Situation* (New York: Institute of Pacific Relations, 1939).

which would otherwise have remained unsatisfied. For example, fewer buildings might have been erected without the cheap Japanese cement, tiles and other building material imports. The effects of the textile quotas clearly show this contention. The decrease in Japanese textiles imported was not nearly made up by increased imports from other sources. Between 1933 and 1935, gross imports from Japan fell by 61.7 million yards but imports from the British empire only rose by 11.5 million yards. Imports from other countries fell by 7.6 million yards [16: 330].

The cheaper Japanese imports had a depressive effect on the prices of the higher quality items and in the long run it caused Japan's rivals to gear their exports more to local needs. This again benefited the consumer. Unfortunately, the influx of cheap Japanese goods, while welcomed by the consumer, brought little comfort to the manufacturer and importer whose market share was declining.

In the final analysis, it can be said that Japanese competition was successful because it had managed to find the proper balance between price and quality so that products had more value for money and were more attractive than rival items. Although it was often argued by British merchant houses that buying a low priced and lower quality product was false economy, ultimately it was the consumer who decided. The secret of Japanese success was their ability to produce a desired product or service at competitive prices through efficient management and incorporation or even improvement of western technology. To be sure, when the great depression hit the world, Japan had an advantage of being a traditional producer of cheap exports whose market suddenly expanded.[22] The dramatic fall of the value of its currency made its exports even more inexpensive. By the mid-1930s, these benefits had worn off. Moreover, as Japan recovered from the depression, its cost of production rose slowly. Its competitive edge was blunted, but Japanese competition did not diminish much.

It was the combined effect of the textile quotas, the anti-Japanese boycotts and the exchange control regulations that suppressed Japanese imports. Although they were unrelated, each of them was at least in part politically motivated. The quotas were to retain Britain's share in the colonial markets; the boycotts aimed at economic retaliation against Japanese military action in China; and exchange controls were tightened against Japan, an ally of Germany. The decline of Japanese competition was therefore intimately linked with political factors which transcended economic rationality. Economics cannot fully explain the dynamics of world trade because political and social elements often nullify absolute economic advantages.

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22) The situation is similar to what happened to Japan as a motor car producer traditionally specializing economical models, when the oil crisis forced the consumer to switch from the "gas gazzler" to the smaller car.

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