20. It is difficult to raise government loans locally. A large part of the profits resulting from the sale of the main Malayan products do not remain in Malaya for local investment. Many rubber and tin companies are British and foreign owned, and their profits are transferred as dividends and export of capital elsewhere. This is a severe limitation on the capacity to raise local loans in the Federation, Singapore and the Borneo territories. Local investment capital is traditionally directed towards the more remunerative commercial and industrial investments. This tradition is strongly established and the opportunities for speculative investment are considerable. When the Federation Government tried in 1946-48 to raise locally a loan of £12,000,000, it obtained less than £8,000,000, of which £6,000,000 came from the banks. There are Savings Banks in the Federation and Singapore, but their total deposits are only about £8,000,000. Continued efforts will, however, be made to induce local people to lend to their Governments, and account of this possibility has been taken in drawing up the programmes.

21. A significant limiting factor in the case of the Federation is that the local authorities are currently having to devote roughly a third of their annual revenues to defence and security expenditure. Even when the emergency ends, and the United Kingdom assistance in meeting defence expenditure stops, the greater part of this expenditure will have to continue as a preventive security measure.

22. In Sarawak and North Borneo a very large part of the population of about 850,000 enjoy a primitive subsistence way of life. There are comparatively few individuals with incomes susceptible to heavy taxation. The administrations which took over in 1946 have already increased taxation by 50 per cent., and further rapid increases would be resented. They would not be conducive to the co-operation which the Governments desire to encourage. There is thus little scope for raising substantially tax revenue or savings, and until the economy is further expanded development must necessarily depend almost entirely on external finance.

23. There is a further consideration which must weigh heavily with the Governments of the territories in assessing the extent to which they can provide from internal resources the funds needed to carry out their development programmes. This is the high degree of dependence of the territories' economies on rubber and tin, forming as they do some 50 per cent. of the total exports, including re-exports. Export duties on tin and rubber and other primary products, which are assessed on an *ad valorem* basis, provide a substantial part of the Government's revenue ; this increases as export prices rise, but is highly vulnerable in times of falling prices. The present demand and prices for these products are high, and the territories' balance of payments position is consequently satisfactory. In 1951-52, for example, it is estimated that Malaya's imports at £295 million may exceed her exports and net invisible earnings by only £4 million, even on the assumption of an average price for rubber of 12 pence per pound, which was about the average price during 1949 (compared with an average price of 19 pence during the first six months of 1950, and an average of 40 pence per pound during July-September 1950). The income from rubber and tin is subject to wide fluctuations, and any sharp fall would result in a serious deterioration in the economic stability of the territories and in their ability to command the financial resources required to execute their programmes. The prosperity of Singapore as an entrepôt is heavily dependent on its flow of trade with neighbouring countries, which is liable to great fluctuation.