

Session 8 : International Order of Asia in the 1930s and 1950s

Part 2: International Order of Asia and Asian Regional Economy

□ **Japan's Commercial Penetration and the Cotton Trade Negotiations in the 1930s: maintaining relations between Japan, British India and the Dutch East Indies**

Naoto Kagotani

Institute for Research in Humanities

Kyoto University

Nkago@aol.com

1. Introduction: Was Japan isolated from the world economy in the 1930s?

The purpose of this paper is to analyze Anglo-Japanese relations during the 1930s, focusing on the problem of the international rivalry between the cotton industries of Britain and Japan in the Asian market. The major trade friction between Britain and Japan was over cotton textile markets, as a result of bitter commercial rivalry between the Lancashire and Osaka cotton industries. The nature of Anglo-Japanese relations in the 1930's is closely linked to the historical assessment of the course of Japanese expansion, both politically and economically.

In Japanese political historiography, many studies aim to show the continuity from the Manchurian Incident of 1931 through the second Sino-Japanese War, which started in 1937, to Pearl Harbor in 1941. The historical studies on Japan's foreign policy tried to trace these processes as the inevitable road to Anglo-Japanese confrontation. As an outline of Japanese Imperialism, these explanations hold good. But the emphasis on the continuity of Japanese Imperialism during fifteen years, from 1931 to 1945, tends to ignore the economic aspects and the fact that there could have been alternative courses in the first half of the 1930s, thus

reducing hostilities among some Imperialist States, even though this possibility is very small.

Anglo-Japanese relations in the 1930s, especially the commercial aspect, are likely to give us a valuable case for inquiring into the possibilities of alternative courses. In the first half of the 1930s, Japan was able to take advantage of its proximity to the South and Southeast Asia markets, including the British and Dutch colonies, to compete successfully with European goods. The main factors behind the increase in exports of Japanese cotton textiles were their low prices, which had come about through the rationalization of the cotton industry from the mid-1920s and the drastic devaluation of Japanese exchange rate in 1932.¹ As a result of the rationalization movement, which was stimulated by the Japanese Government's policy of deflation to return to the gold standard in 1929, the process of concentration was intensified, especially in the spinning mills, and capital productivity increased. In the early 1930s, rings were replaced almost entirely by high draft rings.

After abandoning the gold standard in December 1931 and devaluing the Japanese yen, Japan decided to link its currency, the yen, to sterling in 1932. Although she continued her efforts to expand the "yen bloc" in the continent, the majority of Japanese trade was conducted with countries outside this yen bloc in the first half of the 1930s.² The fact, that the yen was linked to sterling at a heavily devalued rate, enabled Japan to shift her exports from East Asia to South and South East Asia. And, the fact that the Indian rupee was forced to linked to sterling at highly level, at 1s 6 d from 1925 to 1947, and the Dutch East Indies' florins, witch linked to the Dutch guilder, stayed in the French-led "gold bloc" until mid-1936, also supported the

¹ Kaoru Sugihara, 'Japan's Industrial Recovery 1931-1936, in Ian Brown(ed.), *The Economies of Africa and Asia during the Interwar Depression*(Routledge, London, 1989). Alex J. Robertson 'Lancashire and the Rise of Japan', in Mary B. Rose(ed.), *International Competition and Strategic Response in the Textile Industries since 1890*, (Frank Cass, London, 1991).

² Kaoru Sugihara, 'Intra-Asian Trade and East Asia's Industrialization, 1919-1939', in Gareth Austin (ed.), *Industrial Growth in the Third World, c. 1870-c. 1990: Depressions, Intra-regional Trade, and Ethnic Networks*, LSE Working Papers in Economic History, 44/98, London School of Economic and Political Science, London, 1998.

increase in exports of Japanese goods to these European Colonies. On the other hand, in the industrious aspect, the fact that the Japanese cotton mills, after sterling's departure from gold and prior to the yen's devaluation, had bought up vast quantities of raw cotton at the old currency rate and these raw materials were utilized cheaply was to prove one of its major assets for promoting its exports in the early 1930s.³

The increase in exports of Japanese textiles became a central conflict in Anglo and Dutch-Japanese commercial relations, and prompted Japan to hold trade negotiations with the government of India in 1933, and with the Government of the Dutch East Indies in 1934, both under the control of the Home country.⁴ In Japanese historiography, until now, most scholars see these trade negotiations as part of the process of 'ironing out' the differences in industrial interests between the European and Japanese cotton industries.⁵ Thus, they emphasize that each country's diplomatic policies toward the trade negotiations were formulated to serve the interests of each country's cotton textile industry, that is, to secure its markets abroad. Some have even suggested that the Asian-Pacific War was brought about partly by the tendency of the Japanese cotton industries to expand rapidly into Asian markets, most of which was under European control in the 1930s.⁶ They claim that the increase in exports of Japanese cotton textiles to the European colonies in Asia made the European powers intensify their protectionist policies, thus isolating Japan from the world economy in the first half of the 1930s. The common understanding is that this isolation of Japan was intensified after the Dutch-Japanese trade negotiations, which were suspended in December 1934. Japanese historiography has

³ Naoto Kagotani, *Ajia Kokusai Tsusho Chitujyo to Kindai Nihon* [The Asian International Trading Order and Modern Japan](Nagoya Daigaku Shuppankai, Nagoya, 2000), Chapter 6.

⁴ Osamu Ishii, 'Rivalries over Cotton Goods Markets, 1930-36', in Ian Nish and Yoichi Kibata (eds.), *The History of Anglo-Japanese Relations, 1600-2000, Vol.2: The Political-Diplomatic Dimension, 1931-2000*, (Macmillan Press, London, 2000).

⁵ Osamu Ishii, *Cotton-textile diplomacy: Japan, Great Britain and the United State, 1930-1936*, (Ann Arbor, Mich, 1977).

⁶ Hiroshi Nishikawa, *Nihon Teikoku Shugi to Mengyo* [Japanese Imperialism and cotton Industry](Mineruva shobo, 1987).

further supposed that the negotiations with the European colonial governments “were broken off,”⁷ and that Japan abandoned its co-operation with industrial Europe. They conclude that Japan’s diplomatic policy toward Europe in the 1930s was formulated to serve the interests of its cotton textile industry, and did not maintain the status quo in the mid-1930s. For Japanese historians, this means focusing on Japan’s offensive policy to secure raw materials and export markets in China after 1937. In other words, Japanese historians think that Japan’s economic isolation from the world economy in the first half of the 1930s turned out her political aggression into China after 1937.

It is believed that the European countries blocked Japanese goods to protect their respective home textile industries. The argument is that they did this by setting up “tariff barrier” and “quota systems” in those trade negotiations. In other words, “bloc” economies were created to preserve markets for the home textile industries, by giving preference to goods produced within the Empire. But, if we look at the figures from *the Cotton Statistics’ Yearbooks*, edited by the Japan Cotton Spinners’ Association in Osaka, this argument does not hold. That is, the trade statistics do not correspond with the notion that Japan was forced into isolation from the world economy. The amount of exports of Japanese cotton textiles to British India was 478 million yards in 1936, compared with 357 million yards in 1928. In the case of the Dutch East Indies, Japanese cotton textile exports amounted to 350 million yards in 1936 compared with 172 million yards in 1928.⁸ These facts prove that Japanese cotton exports were maintained at the same level, even after the two rounds of trade negotiations.

⁷ Ishii(1977), *Cotton-textile diplomacy*. And Shinya Sugiyama, ‘The Expansion of Japan’s Cotton Textile Exports into South-East Asia’ in Sugiyama and Ian Brown (eds.), *International Rivalry in South-East in the Interwar Period*, (Yale University Press, 1995).

⁸ The Japan Cotton Spinners’ Association (ed.), *The Statistics of Cotton Trade, 1919-1936*. This Statistics are kept in the Library of The Japan Cotton Spinners’ Associations (Osaka).

2. European financial interests and Japan's trade penetration into the European colonies

The idea of “gentlemanly capitalism” indicated by P.J. Cain and A.G. Hopkins offers an alternative interpretation regarding the motivation behind British policy in Asia.⁹ Not only were the colonies expected to serve as markets for European goods, but they also had to pay interest on government loans, dividends on investments, and the political costs of the home government. The political costs were such as ‘Home Charges’ in the case of British India, and pension payments in the case of the Netherlands East Indies. British India was not only the largest single market for British goods, but also she was a large debtor. This idea is based on the notion that the main concern of the British authorities, after World War I, was to restore the flow of overseas investment and re-establish London's position as the world's leading financial services centre. If this is the case, this perspective implies that the concerns of the City of London as the centre of finance were of greater significance to the prosperity of Britain, as opposed to those of Manchester, Birmingham or Glasgow, and that the City of London had an enormous influence on overseas and domestic policy. The economic relations between Britain and its empire were viewed from this financial perspective. Thus, the interests of the manufacturing sector were sometimes sacrificed for the stake of financial considerations.

Figure 1 shows that three kinds of economic policies were needed to enable the British colonies to pay such interest, dividends, and political costs to the Home country on a regular basis. The first policy required that the colonial government should balance its own budget in order to assist the public credibility of sterling. In the case of British India, the Government's revenues declined from Rs 1,584 million in 1929-30 to Rs 1,389 million in 1930-1; customs receipts dropped from Rs 513 million in 1929-30 to Rs 468 million in 1930-1. The substantial additional source of revenue was needed for the Government if confidence in the rupee was not

⁹ P.J. Cain and A.G. Hopkins, *British Imperialism, 1688- 2000*, (Second Edition, Longman, London, 2001), Chapter 20,23 and 25.

to slide. In order to balance the budget, the Government of India tried to raise the duties on cotton in the early 1930s.¹⁰ The increase in import duties did not only protected the Indian industry, but also kept the confidence in the rupee by balancing the budget. It was certain for the Government of India that Japanese goods were much more dutiable than Lancashire goods in the 1930s.

And it was also problem for the Dutch East Indies that an extraordinary decline in revenues had occurred since 1929, because a great deal of the expenditure of the Colonial Government was fixed in character, such as pensions in the Home country and its colonies.¹¹ It was a serious problem for Holland that Dutch capital invested in the Dutch East Indies could bring in little or no returns after the Great Depression.

Second was to maintain an export surplus in the balance of payments of the colonies, which was necessary for payment of their debts to Europe. British India's ability to service her debts had been severely hit by the collapse of her export trade after the Great Depression. So the colonies were encouraged to promote exports of primary products, such as raw cotton, to the industrial countries.¹² But exports from the colonies were in a difficult situation, because, as mentioned later, the colony was forced to maintain the exchange rate relatively high.¹³ In British India, the level of the rupee was fixed at 1s 6d against sterling from 1925 onwards, while Indian industrialists tried to decrease the level to 1s 4d, expecting to stimulate their exports. Therefore the Home country had to encourage an increase in the colony's exports through some political and artificial arrangements. This is why Britain was prepared to open its home market to the Dominions and colonies through the Ottawa Agreement in the 1930s. In the Great Depression, those Dominions and colonies suffered such a reduction in income from the export

¹⁰ Basudev Chatterji, *Trade, Tariff and Empire: Lancashire and British Policy in India 1919-1939*, (Oxford University Press, 1992), Chapter 7.

¹¹ 5th February, 1934, Treasury to C. Cobbold (Bank of England), FO371/18567,w1491.

¹² Naoto Kagotani, *Ajia Kokusai Tsusho Chitujyo to Kindai Nihon* [The Asian International Trading Order and Modern Japan](Nagoya Daigaku Shuppankai,Nagoya,2000),Chapter 5.

¹³ Dietmar Rothermund, *India in the Great Depression 1929-1939*, (Manohar, New Delhi,1992),Chapter 2.

of primary goods that Britain had to expand their income by offering to buy more of their products for which she had a large demand, in return, to demand tariff preference for her industrial goods. Actually, “preferential arrangements” in the Ottawa Agreement led to a far more rapid rise in colonial imports into Britain than British exports to the colonies.¹⁴ Without securing a significant slice of the British market, the Dominions and colonies could not have paid their debts to Britain.

But the goods, for which Britain had little strong demand, required other foreign markets, and this was encouraged by the diplomatic policies of the 1930s. In particular, the Government of India expected to increase exports of raw cotton to Japan. The Indo-Japanese negotiations were completed in early January 1934. The agreement was on a barter basis. Japan was allowed to export 400 million yards of cotton textiles to India, provided that it imported 1.5 million bales of Indian cotton in return. This implied that the Japanese market was also necessary for British India in order to secure an export surplus from the point of view of maintaining the stability of the rupee at 1s 6d and London’s financial position.¹⁵

It is thought that these relationships also existed between Holland and its colonies. The Dutch East Indies was encouraged to increase exports of primary products to the industrial countries, especially to Germany, the United States and Japan. Japan was a particularly attractive market both geographically and economically, because its recovery from the Great Depression was very rapid after the second half of 1932, due to the “reflationary policy” by Korekiyo Takahashi(高橋 是清), a Finance Minister.¹⁶

The third policy was, as mentioned above, to force the colonies in Asia to set their exchange rates relatively high, since exchange rate fluctuations were not desirable from the point of view of regular debt payments. The stability of the rupee at 1s 6d was needed by British

¹⁴ Ragnar Nurkse, *International Currency Experience: Lessons of the Inter-War Period*, (Geneva, 1944), Chapter 3.

¹⁵ Kagotani (2000), *Ajia Kokusai Tsusho Chitujyo to Kindai Nihon*, Chapter 6 and 7.

¹⁶ Jyuro Hashimoto, *Dai kyoko ka no Nihon Shihonn-shugi* [The Japanese Capitalism under the Great Depression] (Tokyo Daigaku Shuppankai, 1984), Chapter 3.

financial interests. All experts in British India insisted that “the budget be balanced, that the 1s 6d exchange rate be maintained and that [there] be no difficulties in transferring money to London”.¹⁷ And the interests of British industrialists and exporters were also involved in the maintenance of the India’s exchange rate at 1s 6d. During the interwar periods, the British Government continued to discourage India’s industrialization by keeping the value of the rupee consistently high.

On the other hand, this relatively high exchange rate aggravated deflation in British colonies and then stimulated the Indian nationalism.¹⁸ These deflationary situations induced very strong criticism of the policies of import restrictions and of the currency system forced by the Home country. Because the purchasing power of consumers in the colonies was weakened in the 1930s, it was necessary for the colonies to import cheap Japanese goods.

While South and South East Asia set their exchange rates relatively high, East Asia devalued the currency and linked to sterling at a heavily devalued rate, such as in Japan after 1932 and in China after 1935.¹⁹ This meant that East Asia formed a “devaluation sphere” against South and South East Asia. And it is very important to note that it was Chinese merchants,²⁰ and especially in the 1930’s Indian merchants as well,²¹ who strongly reacted against this forming of a “devaluation sphere” in East Asia, contrasting with South and South

¹⁷ Basudev Chatterji, *Trade, Tariff and Empire: Lancashire and British Policy in India 1919-1939*, (Oxford University Press, 1992), p.333.

¹⁸ B.R. Tomlinson, *The Political Economy of the Raj 1914-1947: The Economic of Decolonization in India*, (Macmillan Press, 1979), Chapter 3. In the case of the Netherlands East Indies, see Ann Booth, ‘The Evolution of Fiscal Policy and the Role of Government in the Colonial Economy’, Ann Booth, W. J. O’Malley and Ann Weidemann (eds.), *Indonesian Economic History in the Dutch Colonial Era* (Yale University Southeast Asia Studies, 1990). Ian Brown, *Economic Change in South-East Asia, c.1830-1980*, (Oxford University Press, 1997), Chapter 13.

¹⁹ Kaoru Sugihara (198).

²⁰ Peter Post, ‘Chinese Business Networks and Japanese Capital in South-East Asia, 1880-1940’, in Rajeswary Ampalavanar Brown (ed.), *Chinese Business Enterprise in Asia*, (Routledge, London, 1995). Hiroshi Shimizu and Hitoshi Hirakawa, *Japan and Singapore in the World Economy: Japan’s Economic Advance into Singapore 1870-1965*, (Routledge, 1999), p.87.

²¹ Rajeswary Ampalavanar Brown, *Capital and Entrepreneurship in South-East Asia*, (St. Martin’s Press, London, 1994), Chapter 10. Claude Markovits, *The Global World of Indian Merchants, 1750-1947: Trader of Sind from Bukhara to Panama*, (Cambridge University Press, 2000), Chapter 4.

East Asia, and promoted exports of Japanese goods.

In the case of British Malaya, where “the goods imported can not all go into consumption unless the Chinese distribute a part of them”,²² Chinese merchants implemented a boycott of Japanese goods, protesting against the Manchurian Incident of September 1931. But it was no longer possible for the leading Chinese merchants in Circular Road of Singapore, who remained loyal to British piece goods in the 1920s,²³ to ignore the fact that their boycott had largely become futile, since Chinese merchants outside of Circular Road were buying Japanese goods from Indian, Japanese and Arab importers, and outside Singapore the smaller Chinese dealers were stocking Japanese goods and Chinese consumers were buying them. The Chinese merchants’ patriotism would not prevail over their trading instincts, facing the fact that 100 Straits dollars, which purchased 131.75 yen at May 1932, changed to 170.00 yen at August.

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Table 1 was based on the annual reports of *Nanyo Kyokai* (the Japanese South East Association in Singapore), which tried to show a result of the quota system, announced by British government on May 1934, to cotton goods from all foreign countries in British colonies. The quotas were to be based on average imports between 1927 and 1931, when was the period before the rapid increase in Japanese trade could be felt. This indicates that, in the case of imports into Singapore of Japanese cotton textiles during the period from June to December 1934, Chinese importers handled 38.4 per cent, Japanese 30.0 per cent, and Indian 26.3 per cent. The relative position of Japanese importers was not overwhelming as might be assumed, meaning that the imports into South East Asia depended on these Chinese and Indian merchant

²² 30th May 1932, the Trade Commissioner at Singapore to the Comptroller-General, Department of Overseas Trade, CO273/583/13.

²³ W.G.Huff, *The Economic Growth of Singapore: Trade and Development in the Twentieth Century*, (Cambridge University Press, 1994), p.268.

²⁴ 20th October 1932, the Memorandum about the Boycott of Japanese Goods by Chinese In Malaya by H.M. Trade Commissioner in Singapore, CO273/583/13. And see also 22nd June, 1934, Consul-General in Saigon to H.M. SoS for Foreign Affairs, Foreign Office, FO371/18173,f4471.p27.

networks, even though the quotas system came into force from June 1934.

Table 2 shows that the main descriptions of textiles imported by European importers from the West (□ in this table) were similar to textiles imported by the Chinese from Japan (□), such as W.cotton, D.cotton, Print cotton and G.cotton, while the Japanese imported W. shirtings, Print poplin, G.T. cotton and Indian imported Rayon, Print poplin and C. poplin from Japan. This means that the Chinese importers wanted to deal with textiles such as those imported from the West, so that the Chinese directly competed with European merchants in Singapore in the 1930s. Therefore, the competitive advance of Japanese textiles was not only supported by the drastic devaluation of the Japanese yen in 1932, but also by depending on the Chinese merchant networks. It was crucial point for the Japanese goods that the Chinese merchants preferred the Japanese goods to the European. The fact that Chinese merchants had tendency to deal with Japanese goods, although the European powers intensified their protectionist policies to secure markets abroad for the Home country's cotton industry, means that bloc economies were not always successful in Asia.²⁵ G.N. Carey, a Commercial Agent in Batavia, pointed out the necessity for dealing with the Chinese merchant networks, indicating that "British exporters should not overlook sales possibilities through certain well-established Chinese import concerns of good financial standing, who are willing to purchase direct, and pay cash against documents f.o.b. English port".²⁶

²⁵ But after the second Sino-Japanese war was broken out in September 1937, Chinese attitude changed in comparison with the Indian importers in British Malaya, since there had been their boycott of Japanese goods on account of the Far East situation. The licenses for Japanese textiles, which were issued by the Colonial government from June 1934, were divided among the different classes of importers under the Malaya's quotas system during 1937, in the following approximate proportions: Indian and Arabs 38.9%, Japanese 28.9%, Chinese 27.4% and European 4.8% (see Table 1). While the imports of regulated textiles from Japan did not show any diminutions, there had been a definite transfer of licenses from one class to another. Chinese importers, who held licenses for 27 per cent of the total quota, had transferred a large proportion of their licenses to Indian importers from September 1937, the Indian Merchants of regulated textiles from Japan increased their yardage to nearly 50 per cent of total quantity imported (23rd October, 1937, W.B. Willmot (the Trade Commissioner at Singapore) to the Comptroller-General, Department of Overseas Trade, CO852/109/10).

²⁶ 5th January, 1934, G.N. Carey (Batavia) to John Simon, FO371/18571.

On the other hand, this table also shows that the main descriptions imported by the Indian importers from Japan(□ in this table) were similar to textiles by the the Japanese(□), such as Print poplin, W. shirtings, G. shirtings and B. shirtings. But this does not meant the competition between the Japanese and the Indian but related to Chinese boycotts of Japanese products in 1928 and from October 1931 to mid-1932. At that time the Chinese importers were so much hesitant to distribute textile goods known to come from Japan that their boycotts created a major opening for Indian importers. By 1933 Indian, along with the Arab dealers, were responsible for the distribution of Japanese goods in the local markets where the Japanese dealers could not easily enter due to Chinese boycotts of Japanese products.²⁷

Furthermore, as low-priced Japanese exports increased, European importers, which has been financed by European investors and therefore had to pay dividends to them, also began to show an interest in handling Japanese goods, which were profitable for them. European large importing houses also began to feel that the restrictions brought perilous conditions, for they had been able to make considerable profits on the Japanese goods.²⁸ In particular, many important Dutch concerns, taking advantage of the higher purchasing power of their guilders, and of low yen freight rates, opened their own buying office in Kobe. They bought on cash terms, by Japanese ships, for sale through their organization in the Dutch East Indies.²⁹

²⁷ As Indian merchants dealt with the Japanese goods after 1932, “the Indian Commercial Associations” were formed by Indian merchants at Osaka in November 1934, for the purpose of increasing the volume of exports of Japanese goods to South and South east Asia (22nd November, 1934, Oswald White (Osaka) to Robert Clive(Tokyo), FO371/19349,f37). And the Indian community in Kobe, mostly from Bombay, Sind and Punjab, was also a large one. Kobe’s Muslim Mosque was opened by the efforts of local Indian Muslims (12th October, 1935, The Japan Chronicle, FO371/19349,f7227). Mian Abdul Aziz, former President of the All India Muslim League, was invited to the ceremony to celebrate the completion of their Mosque in October 1935. It was estimated that quite 90% of the Indians in Kobe could be definitely classified as “revolutionary and anti-British” with regard to the Hindus and Muslims, who intermingled freely owing to community of business and political interests, but seemed to take no account of the Parsees (9th April, 1934, I. M. Stephens (Home Department, Government of India) to H. MacGregor(Indian Office), FO371/18185,f4022,p57. ; 10th October, 1934, Memorandum by G.H. Phippe(Consulate in Kobe) ,FO371/18185,f7156. p130).

²⁸ 23rd December, 1935, the Governor-General in Batavia to H.M. SoS for Foreign Affairs, Foreign Office, FO371/20504,w5.p.9.

²⁹ 24 February,1934, G.N.Carey(the Comptroller-General of Department of Overseas Trade) to

There was clearly a complementary sense between European financial interests and Japanese exports to the Asian markets by stimulating merchant's networks, including the European. This also means that the interests of the Western manufacturing sector were sacrificed, as long as Japanese goods were dutiable for the colonial governments and profitable for Asian and European importers in the 1930s.³⁰

□.1 The nature of the First Indo-Japanese cotton trade negotiations, 1933-1934

Reflecting European financial interests, the Government of India and the Dutch East Indies tried to co-operate with third-country foreign markets, especially with Japan, in order to export food and raw materials, to secure smooth payments to the Home country. Thus the following two points became the focus of each round of trade negotiations from 1933 to 1934. ³¹

- (1) How large an amount of primary products, such as raw cotton and sugar, was Japan willing to buy from the European colonies annually, to enable the colonies to secure an export surplus?
- (2) How large an amount of Japanese cotton textile goods would Japan be regularly permitted to import into the European colonies, as much as could be dutiable for the Colonial Government ?

And in the case of the Dutch East Indies, what proportion of Japanese cotton textile goods would Japanese importers grant Dutch importers, so that they might benefit from dealing with Japanese goods and thus enable them to regularly pay dividends to the Home country?

Foreign Office, FO371/18571, w1916.

³⁰ Kagotani(2000), *Ajia Kokusai Tsusho Chitujyo to Kindai Nihon*, Chapter 5.

³¹ Hiroshi Shimizu, 'A Study of Japan's Commercial Expansion into the Netherlands Indies from 1914 to 1941', *Nagoya Shoka Daigaku Ronshu*[The Journal of Nagoya Commercial University], Vol.34, No.2,1990.

The Indo-Japanese cotton trade negotiations were commenced in September 1933, because the Government of India announced, in April 1933, the abrogation of the Indo-Japanese commercial treaty of 1904, which denunciation was to take effect in November, and also announced an increase in the duty on foreign cotton goods from 50 per cent to 75 in June 1933, as compared with 25 per cent duty levied on imports from Britain, through the British government. The Japanese cotton industrialists were convinced that Lancashire and the British government were behind the Trade Convention denunciation. But the abrogation of the Indo-Japanese commercial treaty was spontaneously planned and decided by the government of India. After the government of India had adopted such import tariffs to differentiate between British and non-British goods in early 1930, the gap widened with each tariff increase introduced by the government. By early 1933, although a measure of tariff preference for the import of cotton goods had been introduced which exceeded the provisions of the Ottawa agreement, demands from Lancashire for increased preference could be met by counter-demands for its abolition from Indian nationalism.³² Only the abrogation of the 1904 Indo-Japanese commercial treaty, which allowed the suspension of the most-favoured-nation clause, would allow for further discrimination solely against Japanese goods. The British government approved India's denunciation of the commercial treaty, which was accompanied by an invitation for trade negotiations with the Government of India. The Government of India expected to avoid Indian and Lancashire resentment, consolidating the preferential gap between British and non-British goods by the new Indo-Japanese commercial treaty.

Generally speaking, as **Table 3** shows, four points were discussed in the Indo-Japanese cotton trade negotiations; (□) the quantity of Japanese cotton textiles to be imported into British India per year, (□) the quantity of Indian raw cotton to be exported to Japan per year, that is a "linking" of Japan's export of cotton goods to India with Japan's purchase of a fixed

³² Basudev Chatterji,(1992),p377-381.

amount of Indian raw cotton, (□) an allocation of Japanese textiles among the various categories, such as plain greys, bordered greys, bleached goods and coloured (printed, dyed and woven) goods, (□) the import tariff rate on non-British goods, in particular on Japanese goods, which was up to 75 per cent in June 1933. Among these points, it is notable that the agreement reduced the level of duty to 50 per cent (point □) in the early stage of the negotiations, and that the Indian delegation granted Japan “most-favoured-nation” treatment in exchange for Japan’s recognition of voluntary control over her exports to British India (point □) at the same time. Japanese delegations, represented by Sawada Setsuzo □□□□□□, who was nominated as an ambassador plenipotentiary from the Ministry of Foreign Affairs due to his career of secretary of the Japanese delegation to the League of Nations in 1931, did not indicate in negotiations that they would retaliate against the Indian delegations, though the resentment of Japanese industrialists over tariff discrimination aroused boycotts on Indian raw cotton in June 1933.

It was fully recognized that high rates of duty resulted in a serious loss of customs revenue from the Japanese goods and that, if only the rates had not been prohibitive, Japan’s share in the Indian imports would not have declined. It was thought that the level of 50 per cent was reasonable for each delegation. And Sir George Sansom, as Commercial Counsellor in Tokyo, was informed by Mr. Saburo Kurusu (□□□□), Director of the Commercial Affairs Bureau of the Ministry of Foreign Affairs, that Koki Hirota □□□□□□, the Minister of Foreign Affairs, “had hitherto hoped that some system of export control and quotas could solve the main difficulties caused by the competition of low-priced exports from Japan”. After acknowledging Japan’s co-operative attitude, he went to British India to consult with the Indian delegation on Japan’s diplomacy.³³ Therefore, the problems of an import tariff barrier (point □) and Japan’s restriction on her exports (point □) were not as serious an issue as might be assumed.

³³ 8th June, 1933, Memorandum by G.B. Sansom, FO371/17160.

The crucial issue was whether or not Japan could grant the quantity of Indian raw cotton that the Indian delegation proposed (point □). Although the Japanese delegation agreed to the importation of raw cotton on a regular basis, the Japan Cotton Spinners' Association, which possessed 97 per cent of all the spindles and nearly half of the mechanical looms at that time, adopted a resolution of non-importation of Indian raw cotton in June, when the Government of India announced an increase in duty on foreign cotton goods to 75 per cent, as compared with the 25 per cent duty levied on imports from Britain. Japanese industry anticipated that, in so far as the Japanese market was larger for Indian raw cotton than for British, their boycott would hurt the Indian cotton growers and it would be a drastic measure to take, in order to raise Japan's bargaining power *vis a vis* India. The Indian delegation was actually in a most unenviable position, since harvest time for raw cotton is usually in October. With the prospect of Japan's continuing boycotts, the Indian delegation was inclined to agree to the Japanese demand, that an allocation of 20 per cent of all Japanese goods be bleached goods. It was the trade of bleached goods in which Lancashire took interest and Japan was also increasing its exports, while the Indian cotton industry was not able to compete well in this category.

When the Indian delegation made a series of concessions to the Japanese, the British Government felt obliged to interfere in the negotiations in order to deprive the Japanese of their chief weapon, the boycott of Indian raw cotton. The British Government declared its readiness "to replace Japan as the buyer of not more than 1.25 million bales by guaranteeing the Government of India against loss on purchases".³⁴ The Treasury's guarantee enabled the Indian delegation to resist Japanese pressure. The agreement, concluded at the beginning of 1934, limited Japan's exports to India to 400 million square yards (point □), as against 552 million in 1932, and divided all Japanese cotton goods into four categories. And Japanese

³⁴ 1st December, 1933, N. Chamberlain to Samuel Hoare, CAB27/556.p20.

exports were made dependent on the purchase of Indian raw cotton. The Japanese could export the full quota of 400 million square yards only if they bought at least 1.5 million bales of cotton annually (point □). Furthermore, the percentages for the four categories, plain greys, bordered greys, bleached goods and coloured goods, were 45, 13, 8 and 34 per cent respectively (point □). It meant that the Indian delegation, fortified by the definite financial guarantee from the British Government, did not accept the terms previously put forward by the Japanese, which was a demand that 18-20 per cent of all Japanese goods be bleached goods (Japanese proposals in November in point □ -see **Table 3**). The Japanese Government persuaded the industrialists in Osaka to accept the final terms and to lift the boycott of Indian raw cotton. The boycott was lifted and a new trade agreement was formally agreed in early January 1934. On 19 April, the new Indo-Japanese cotton trade agreement was initiated, which was effective until 31 March 1937.

Most studies view the Indo-Japanese trade negotiations as a process that revealed Lancashire's great influence over Indian commercial policy, since the Government of India could insist on its proposed percentages for the four categories in which Lancashire took interest, supported by the financial guarantee from the British Government. But it was also an important issue for the Government of India to "help in financing, including sterling financing, in order to protect [the] exchange position", after the United States' embargo of gold exports in April 1933.³⁵ **Figure 2** shows that the depreciation of the American dollar from 1933 to 1934 had been a new and most important factor into the situation during the trade negotiations.

The British Government was anxious that Japanese industrialists "were able, owing to the depreciation of the dollar, to find an alternative and cheaper source of supply in America".

³⁶ The Japanese cotton mills adapted easily to using American raw cotton, as a result of rationalization from the mid-1920s. This change from Indian cotton to American was a serious

³⁵ 3rd December, 1933, Viceroy to H.M. SoS for India Office, CAB27/556.p.42.

³⁶ 28th November, 1933, the First meeting of the Cabinet Committee, CAB27/556.p6.

problem for the Government of India, causing a disturbance in the balance of payments with a consequent weakening of the exchange rate. If the devaluation of the dollar resulted in serious losses in India's foreign markets to export raw cotton, the additional loss of the Japanese market, as a result of the breakdown of trade negotiations and the subsequent "tariff war" with Japan, might well have created "a disaster of the first magnitude in this country".³⁷ Neville Chamberlain, the Chancellor of the Exchequer, also said "the Committee ought to envisage the worst eventuality. Japan might determine upon a permanent boycott of Indian cotton, might convert the machinery in her mills, and purchase all her supplies from [the] United States. We should then be faced with the permanent problem of disposing of the Indian cotton crop".³⁸ This was the reason why the Treasury decided to give a guarantee to the India Office.

The Japanese delegation accepted the Indian proposal; Japan's import of 3.75 bales of Indian raw cotton per a thousand yards of the Japanese cotton goods exported (point □/□ in **Table 3**). Thus, a new trade agreement, which would enable Japan to purchase the Indian raw cotton regularly, was needed for the Government of India in order to protect the rupee. And it meant that the British Government could avoid full financial responsibility in future. The decisive factor in the changing trend in the trade negotiations was not so much Lancashire's interests in securing the market as protecting the exchange position by maintaining Japan's regular purchase of raw cotton. The Government of India argued that it was no longer its role to preserve Lancashire's interests. Instead, its aim was to take any action that would "make this serious loss of trade by Lancashire as gradual a process as possible, to enable the necessary readjustment to be made".³⁹ If there were very serious losses of Customs revenue from Japanese piece goods due to high rates of duty, such as 75 per cent, during the negotiations, the Government of India hoped to try "to recoup its losses by imposing further duties on the

³⁷ 24th November, 1933, Viceroy to H.M. SoS for India Office, CAB27/556.p.65.

³⁸ 1st December, 1933, CAB27/556,P.14

³⁹ 27th October, 1933, Thomas M. Ainscough (Senior Trade Commissioner in India) to A. Edgumbe (Department of Overseas Trade), FO371/17164,f7065.p166.

products of Lancashire”.⁴⁰ Lancashire’s influence on the Indian tariff policy was limited, as might be assumed.⁴¹ Lancashire’s interests were almost ignored by the Government of India.

On the other hand, Osaka’s influence on the Japanese delegation was also of a limited nature. The formal Japanese delegation in the Indo-Japanese trade negotiations, and also in the Netherlands-Japanese trade negotiations, did not include a member of the cotton textile industry. The documents of the Japan Cotton Spinners’ Association show that the representatives of this Association voluntarily went to British India and the Dutch East Indies to report back to the Association in Osaka.⁴² This means that the interests of the private manufacturing sector, especially the Japanese cotton industry, were not reflected in these negotiations and that there was a discrepancy in the interests of the representatives of the Japanese government and private representatives.

In the case of the Indo-Japanese trade negotiations, as mentioned above, the Japan Cotton Spinners’ Association boycotted the import of Indian raw cotton from July to December 1933. But the Government had never participated in the decision of this aggressive act by this private body. Instead, the representatives of the Japanese government were prepared to purchase raw cotton regularly without asking a private body, although the Japanese delegation used the boycott movement as a lever to improve the conditions of the Indo-Japanese cotton treaty for Japan’s benefit. As Keizo Kurata (久松 義三), who was a leader of this boycott and an executive of Dai Nippon Boseki Kabushiki Kaisha (大日本紡績株式会社 Japan Cotton Spinning Co. Ltd., one of the Big Five cotton spinning companies of the pre-war pre-war period), pointed out that their boycott was not actually in effect in December 1933, because European and Indian

⁴⁰ *ibid.* p.18.

⁴¹ John Sharkey, ‘Economic Diplomacy in Anglo-Japanese relations, 1931-41, in Ian Nish and Yoichi Kibata (eds.), *The History of Anglo-Japanese Relations, 1600-2000, Vol.2: The Political-Diplomatic Dimension, 1931-2000* (Macmilan Press, London, 2000), p.84-5.

⁴² Keizo Kurata, *Nichi-In Kaisho ni Kansuru Denpo Ofuku Hikae* [The File of all telegrams for Indo-Japanese Cotton Trade Negotiation], (The Japan Cotton Spinners Association, April 1934). Yasuo Tawa, *Nichi-Ran Kaisho no Keika* [the Process of Dutch-Japanese cotton Trade Negotiations, 1934] (The Japan Cotton Spinners Association, March 1935). These documents are kept in the Library of The Japan Cotton Spinners’ Association (Osaka).

merchants began to buy Indian raw cotton in the inner district even while the Japanese trading companies maintained a policy of not purchasing raw cotton.⁴³ When the representatives of the Japanese government realized that the boycott, led by a private body, was no longer in effect, and that The British Government declared its readiness to replace Japan as the buyer of the Indian raw cotton not more than 1.25 million bales, the Japanese delegation immediately concluded the trade agreement, conceding to the Indian delegation in December 1933(see **Table 3**).

The real aim of the Japanese Government was to gain European recognition of Japan's political expansion in Asia in the 1930s, showing her co-operative attitude in the commercial issue. Koki Hirota expected to make a link between Japanese trade co-operation and British concessions to China and the recognition of Manchukuo - the Japanese puppet regime in Manchuria. Clare Lees, a former president of the Manchester Chamber of Commerce, was inclined to give Japan a freer hand in China, so long as Japan restricted its competition in the British Empire, since Lancashire's position would be helped by concessions to Japan in the China market and the recognition of Manchukuo. But the British Government had never been prepared to accept Japan's foreign policy goals, although the "Treasury Group" had their logic -gaining political concessions through economic understanding.

2 The nature of the second Indo-Japanese cotton trade negotiations, 1936-37

The second Indo-Japanese cotton negotiations were held from late July to March 1937, before the first Indo-Japanese cotton trade conventions expired in March 1937. The second set of negotiations was expected to end easily with the minimum of revision, since both Japanese and

⁴³ Keizo Kurata(1934), 30th December 1933,from Kurata to Osaka, *Nichi-In Kaisho ni Kansuru Denpo Ofuku Hikae*. Kagotani(2000), *Ajia Kokusai Tsusho Chitujyo to Kindai Nihon*, Chapter 4. Kagotani(2000), *Ajia Kokusai Tsusho Chitujyo to Kindai Nihon*, Chapter 6 and 7.

Indian delegations tried to keep to the trade conventions and the exchange rate of dollar against the sterling was stable (see **Figure 2**). The Japanese delegation was comprised of a few people compared to about forty who were in the first delegation. Kikuji Ishizawa □□□□□□, a Consul General in Calcutta, was appointed as the representative of the Japanese delegation. Ishizawa did not have same feeling that his task was a mission of first-class political importance as Sawada had in 1933. But the second set of negotiations were more prolonged than might have been expected, taking eight months, compared to four months in the first set of negotiations (see **Table 3**). This was due mainly to a change in Japan's foreign policy and also to the fact that the Burma-Japanese cotton trade negotiations were being held at the same time because of Burma's separation from India in 1935.

This prolongation of the second set of negotiations was clearly related to Japan's foreign policy towards northern China, which had changed in August 1936. After the currency reform in China, led by Leith-Ross's activities, which was successful in late 1935, the Japanese military wanted to destroy the new currency, which threatened to bring about the economic unification of China, and was creating an exclusive sphere of interest in northern China. After the 26 February Incident in 1936, Japan's foreign policy also stressed that the creation of a Japanese sphere of influence in northern China should provide material resources to Japan, such as raw cotton, and Japan would not allow Britain to interfere in the expansion of Japanese influence in East Asia. It was important for the Japanese delegations in India that new Chinese raw cotton, cultivated in northern China, was substitutable for American raw cotton. The Japanese delegations pointed out that the Japanese cotton industry no longer needed Indian raw cotton, asking for concessions from the Government of India.

But Japan's bullish attitude was drastically changed due to China's increasing tendency towards political unity after the Sian Incident of December 1936. In early 1937, the Foreign ministry, Finance Ministry and the War ministry demanded a joint economic development plan and the political co-operation with Britain in northern China. The ministries also strongly

advised the Japanese delegations in India to make Japanese concessions in Burma and Indo-Japanese negotiations. **Table 3** indicates that the Japanese delegations dramatically made their concessions from February 1937, accepting the import tariff of 50 per cent (point □) and Japan's import of 4.19 bales of Indian raw cotton per thousand yards of the Japanese cotton goods exported, compared to 3.75 bales in the first agreement □ point □/□□, in compliance with the Japanese government's requirement of Anglo-Japanese co-operation after the Sian Incident which stimulated Chinese nationalism. It is important that Japan's diplomacy showed co-operative attitude in British colonies when Japanese government did not have confidence that "Japan alone should act as a stabilizing power in East Asia".

3. The Nature of the Dutch-Japanese Cotton Trade Negotiations of 1934

The standard understanding has been that Western reactions to the influx of Japanese industrial goods in their colonies weakened Japanese foreign trade. Most studies emphasize that the Dutch-Japanese cotton trade negotiations were not completely successful, because actually the negotiations were suspended until June 1936, when the French-led "Gold bloc" began to show its readiness to depart from the Gold Standard and to devalue their currencies.⁴⁴ After the negotiations were suspended, the Government of the Netherlands East Indies continued to impose restrictions on Japanese textile goods. That is why the negotiations are understood to have been "broken off" in the existing Japanese studies. They have also thought that the government of the Dutch East Indies imposed restrictions on imports in order to give the Dutch cotton textile industry a chance to secure the overseas market. Indeed the restrictive provisions did include a quota for Dutch goods.

⁴⁴ Ishii(1977), *Cotton-textile diplomacy*. Shimizu(1990), 'A Study of Japan's Commercial Expansion into the Netherlands Indies from 1914 to 1941'. Sugiyama (1995), 'The Expansion of Japan's Cotton Textile Exports into South-East Asia'.

But it can be argued that in the case of the Dutch East Indies, where the modern cotton industry was smaller than in British India, except for the local sarong industry, the colonial government recognized that the continuation of importing cheap Japanese goods was necessary in two respects. One was from the perspective of social policy, that native consumers needed cheap Japanese goods at a time when their purchasing power was being weakened in these colonies. The Netherlands was in the French-led “Gold bloc” until September 1936. The Britain and the United States’ purchases of gold gave the pressure to these “Gold bloc”, revaluing their currencies. The fact that quite a large proportion of the Public Debt in the colonial government was held by comparatively small investors in the Netherlands precluded any unpegging of the Colony’s currency from that of the Home country. Thus, the high exchange rates of the “Gold-bloc” against the rest of the world aggravated deflation in the Dutch East Indies and then stimulated nationalism. Dr. Colijn, the prime minister of Holland, emphasized that “this was that [because] the purchasing power of the native[s] had dropped to such an extent that the Government was bound to take into account the low prices, at which Japan could supply the native with certain indispensable requirements”.⁴⁵

The second respect related to the interests of the Dutch importers. In particular, the Government of the Dutch East Indies considered that restriction measures were called for, not so much against the import of cheap goods of Japanese origin, but to restrict the Japanese importers, whose selling methods were subversive of the existing system of the Dutch importers.⁴⁶ So the Government introduced an import quota system, not import tariffs such as British India, aimed at limiting imports of Japanese cotton textile goods based on the import results of 1933, when the level of imports of Japanese goods was particularly high. If they had wanted to strictly limit Japanese imports, they would have chosen the import results of a year before 1933.

⁴⁵ 21st April, 1934, H. Montgomery FO371/18566.p.237.

⁴⁶ 2nd July, 1934, G.N. Carey (Assistant to Commercial Agent) to John Simon, FO371/18571,w7348.

And there was a strong feeling within the Dutch delegation that it would be unreasonable to push Japan back so far as general adoption of the 1927-1931 standard would do, and also that Europe was too inclined to look on the colony's textile market solely from the producers' point of view in the Home country.

During the Dutch-Japanese negotiations, both sides tried to make a compromise in the following two areas;

[1] The Japanese government "advised" the business circles concerned to give preference to the Dutch East Indies in its raw sugar purchases.

[2] Japanese trading firms in the Dutch East Indies were to handle 25 per cent of all imports from Japan on the basis of the 1933 figures, designed to protect the Dutch wholesale merchants established in the Dutch East Indies.

The Dutch East Indies had suffered from the Great Depression and the determination of the home Government to maintain the gold standard has adversely affected the Dutch East Indies. As was the case with most of the great producers of raw materials, the Dutch East Indies had been handicapped in the world's markets by this crushing disadvantage. It is not an exaggeration to say that colonial opinion was behind the influences that were pressing devaluation upon a stubborn Government. The result of Java's inability to compete in the sugar markets had been to lose her many customers, especially in the British India. The condition of the Javanese sugar industry showed no improvement in the 1930s, while the rubber prices were influenced favourably by the international scheme for the control of rubber production, which

came into force in May 1934, and tin and tea, too, had continued to benefit from the arrangement effected to control production. It seemed impossible that Java would, at least for a long time to come, be able to market the quantities of sugar that she had sold abroad a few years before. The representative body, like as Ned. Ind. Vereeniging voor den Afzet van Suiker (N.I.V.A.S.), for the operations of Dutch East Indies sugar marketing had not given satisfaction to the sugar interests. The whole question of the position of the sugar industry had for some months past been attracting the attention of the Government. The visible trade of the Dutch East Indies with Japan was very much in her favour, the ratio being probably 1 to 4. It was the intention of the Dutch Government to try and get Japan to buy a greater quantity.

Item [2] was the question of the apportionment of imports among the importers. The Dutch importers were financed by European investors, and therefore had to pay dividends to them, and had collected profitable Japanese goods through their own branches in Kobe and Osaka, and brought them in on Japanese ships. But they found themselves undercut and boycotted by the Japanese distributors and their controlled stores in both Japan and the Dutch East Indies. The margin of the Dutch importers' profits was either absent altogether or too low to compete with the Japanese importers. Therefore, the most crucial problem was that how the share of Japanese goods' imports to be handled by Dutch importers was increased. The fact that Japanese importers handled 38% of the total imports in 1933 meant, that, in Item [2], the dealing of 13% of total imports on the basis of the 1933 figures was conceded to Dutch importers; such as N.V. Internationale Crediet-enHandels-Vereeniging "Rotterdam", Borneo-Sumatra Maatschappij, Jacobson & van den Berg, and Geo Wehry & Co..⁴⁷ The Dutch merchants expected that "as far as they are free to buy outside Holland [to] make up the rest of their business mainly with cheap Japanese imports, that will, with the price increases

⁴⁷ Kagotani(2000), *Ajia Kokusai Tsusho Chitujyo to Kindai Nihon*, Chapter 8. G.C. Allen and Audrey G. Donnithorne, *Western Enterprise in Indonesia and Malaya* (George Allen and Unwin, 1957), Chapter 14.

anticipated, give them big profits to compensate for handling Dutch goods at little profit”.⁴⁸ The Dutch delegation was not prepared to move from its position in these matters, unless the Japanese met their views in regard to the purchase of sugar and other products from the Dutch East Indies. The Dutch delegation thought that, in the absence of any development of a sugar offer in Europe, a “sugar-cotton bargain” might be very useful. Not only was Mr. van Gelderen, one of the Dutch delegation, of this opinion, but also Mr. Hart, who represented sugar interests in the delegation.⁴⁹

In early stage of the negotiations, in September 1934, the Japanese delegation had accepted the principle of Dutch liberty of action in regard to the implement of further quota measures.⁵⁰ This proposal meant that the Japanese delegation conceded to the government of the Dutch East Indies. The Japanese delegation showed a co-operative attitude, recognizing the Dutch right to protect their trading firms established in the Dutch East Indies. Furthermore, the Japanese government agreed item [2] without consulting the Japan Cotton Spinners’ Association or the Japanese trading companies dealing with Japanese cotton textile goods. The Japanese government negotiated on the basis of wanting to co-operate with Holland and the Dutch East Indies, not taking into account the interests of the Japanese cotton industries.⁵¹

In the case of the Dutch-Japanese trade negotiations, Seizaburo Nakayama□□□□□□, an employee of Mitsui Bussan dealing with Javanese sugar, was the only private representative in the formal delegation. Japan’s Foreign Ministry needed him for discussions of item [1] during the negotiations. If Japan were to give preference to the Dutch East Indies in its raw sugar purchases, then Japan’s Foreign Ministry would need to deal with a conflict of interests

⁴⁸ 13th March, 1934, H. Fitzmaurice to H.M. SoS for Foreign Affairs, Department of Overseas Trade, FO371/18566.p.229.

⁴⁹ 24th July, 1934, H. Fitzmaurice to C.C. Farrer, FO371/18567,p.304.

⁵⁰ 1st November, 1934, R.V. Laming (Commercial Secretary) to H. Montgomery, FO371/18572,,w9829,p.155)

⁵¹ Tawa(1935),*Nichi-Ran Kaisho no Keika*,p.126..

that would appear between the Javanese and Taiwanese sugar industries.⁵²

The negotiations, however, were suspended due to antagonisms on the Japanese side that were expressed concerning item [1]. The increase in imports of Javanese sugar aroused the keen competition of Taiwanese sugar in East Asia. The Dutch delegation's offer was the purchase of 500,000 tons per year from 1935 onward, with the condition that none of it should be re-exported to Asia. The result of this purchase would be a restriction on the cultivation of sugar in Taiwan. Japan had to consider the need of calling on the Taiwanese sugar industry for this sacrifice by way of restricted production, which would be necessary to make such a purchase offer pleasing to the Javanese sugar interests.⁵³ Japan's Foreign Ministry decided not to make a formal agreement with the government of the Dutch East Indies, because the Governor-General of Taiwan opposed item [1] proposed by Koki Hirota, the Foreign Ministry. Thus, the negotiations could only result in a "gentlemen's agreement", that is, the Japanese government would vaguely recommend to the business circles concerned that they show a preference for the Dutch East Indies in its raw sugar purchases. It might be argued that the negotiations were formally broken off and Japan began to cease co-operation with industrial Europe.

But it is important that the interdependence between Japan and the Dutch East Indies was in fact kept in line with the two points, as mentioned above. **Figure 3** indicates that Japan increased its imports of Javanese sugar. Japan took 14% of the total exports of Javanese sugar in 1933 and 25% in 1935, an increase in line with the fall in Javanese exports to British India, since Aiichiro Fujiyama(□□□□□), a representative of the Japanese sugar industry, organized the business circles to purchase the Javanese sugar according to Hirota's instruction after the formal negotiations. And, as **Table 4** shows, the Dutch merchants' share of imports of

⁵² *Ibid*, Chapter 8.

⁵³ 25th June, 1934, H. Fitzmaurice(Consul-General in Batavia) to H.M. SoS for Foreign Affairs, Department of Overseas Trade, FO371/18571,6623).

Japanese cotton textile goods also increased. They took 20 per cent of all cotton imports from Japan to the Dutch East Indies in 1932 and 33 per cent in 1935. Japan Association of Exporters of Cotton Textiles, composed of exporters and controlled by the Government, was also disposed to meet the Dutch demand for greater security for Dutch firms in Japan against measures to hamper their participation in exports of Japanese cotton goods.⁵⁴ The increase of the Japanese cotton goods from 1932 to 1935, which consisted of 49.7 million yards, was almost dealt by the Dutch merchants in Kobe, while Toyo Menka Kaisha, Ltd., the biggest Japanese importer, reinforced its connection with the Dutch merchants in the Dutch East Indies⁵⁵. Mr. Van Gelderen, as one of the Dutch representative, regarded the regulation of imports from Japan “as a problem that had been solved” in late 1936, and indicated that this arrangement “had at the same time safeguarded the essential European trade and had not prevented the native[s], who could buy only poor quality goods, from getting as much of these poor quality goods as they wanted”.⁵⁶

5. Conclusion

In June 1937, the Manchester Chamber of Commerce sent a memorandum, termed “a more effective policy by the Government”, to the Board of Trade, which was attached to the India Office, the Foreign Office and the Dominions Office, criticising the fact that nothing had been done to help the expansion of exports to the colonies. The Manchester memorandum pointed out that the British Government “are not exploiting to the full the bargaining power conferred on us by the dependence of other countries on access to the United Kingdom market

⁵⁴ 18th December, 1936, H. Fitzmaurice (Consul-General in Batavia) to H.S. Secretary of State for Foreign Affairs, Foreign Office, FO371/21022, f39, p.88.

⁵⁵ Kagotani(2000), *Ajia Kokusai Tsusho Chitujyo to Kindai Nihon*, Chapter 8.

⁵⁶ 15th December 1936, the Dutch Attitude toward Japanese Economic Penetration; A Note of Conversation with Professor Van Gelderen by Eastwood, CO 852/62/7.

for their exports” and that, if so, “those countries, which refuse to accede to our [Manchester’s] demands, should be threatened with curtailment or forfeiture of the [British] import facilities –i.e. presumably with deprivation of their most-favoured-nation right, to be followed by discriminatory action against their exports” to the British market.

But the “additional notes” of the Board of Trade reacted calmly, suggesting that “the United Kingdom is a creditor country, and it is the natural corollary of this position that we should have an unfavourable balance of visible trade with many countries, which are suppliers of essential raw materials. Attempts to eliminate this balance would in any case be likely to lead to a default by the countries concerned on their financial obligations to this country”.⁵⁷ Although the Board of Trade had frequently stated that the British Government were not prepared to continue to afford favourable import facilities to the products of countries which did not treat British exports fairly, they considered that keeping the exports surplus of countries in the Empire was important for Imperial politics to avoid default by the countries concerned and to keep the stabilization of the pound sterling as the key currency in the 1930s.

If so, Japan’s economic diplomacy, which decided to purchase raw materials from the European Colonies on a regular basis from 1934 to 1939, was to be co-operative to European financial interests in Asia. But this Japanese amenability “seemed to betoken a desire to conciliate European countries generally in order to concentrate on measures directly against one”⁵⁸, that is, the European recognition of Japanese political expansion in China. But the British Government had never been prepared to accept Japan’s foreign policy goals.

Until 1937, however, Japan was able to maintain a certain level of interdependence with

⁵⁷ June 1937, ‘Brief on Memorandum submitted by the Manchester Chamber of Commerce for “a more effective policy” by H.M. Government in their dealings with Empire and Foreign countries from the point of view of the well-being of the Cotton Export Trade’ by Commercial Relations and Treaties Department, Board of Trade, CO852/107/11.

⁵⁸ 16th October, 1937, G.N. Carey to H.M. SoS for Foreign Affairs, Department of Overseas Trade, FO371/21023. p.289.

British India and the Dutch East Indies, linking the Japanese yen to sterling at a devalued rate, as long as Japanese goods were dutiable for the colonial governments and profitable for Asian and European importers in the 1930s. Japan's diplomatic policy toward Europe in the 1930s was formulated primarily by considering the financial interests of Europe and its colonies, not by taking into account the interests of the cotton textiles industry. Japan had never been isolated from the world economy led by the Western in the first half of the 1930s.

Table 3

The main course of the first and second Indo-Japanese Cotton Trade Negotiations

Day/Month/Year	□	□	□/□×□ □□□	□						□	
	Import of Japanese cotton goods into India	Export of Indian raw cotton to Japan		Allocation of □ Japanese cotton goods imported						Import tariff on non-British	
	(million yards)	(million bales)	(bales /□ thousand yards)	Greys	Borde red greys	Bleac hed	Prints	Colore d Dyed	Woven	Greys	others
			(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)
17th Oct	300-350	1.25-1.50	4.28	45	13	8	15	9	10	50	50
23th Oct	578	1.25	2.16							50	50
9th Nov	325-400	1.00-1.37	3.43	45-60		20-35		35-50		50	50
15th Nov	325-400	1.00-1.50	3.75	45-50	13-14	8		34-37		50	50
21th Nov	325-400	1.00-1.50	3.75	45-55	13-23	8	18	34-44		50	50
5th Jan. 1	325-400	1.00-1.50	3.75	45-50	13-16	8	10	34-37		50	50
30th Jul	325-400	1.00-1.50	3.75	40-48		20-24		40-48		40	40
20th-27th Agt.	275-350	1.00-1.50	4.29	40	13	10		20	17	50	50
15th Sep	325-425	1.00-1.50	3.53	45-54		15-18		40-48		45	45
3rd Oct	325-364	1.00-1.26	3.46	35-39	13-16	12	14	40-44		45	45
9th Nov	300-360	1.00-1.40	3.89	40	13	10		37		45	45
19th Feb.	283-358	0.93-1.43	3.99	40-44	13-16	10	12	28-37	9	11	
27th Feb.	325-400	n.a.		40-44	13-14	10	11	20-21	17	18	
6th Mar	283-358	1.00-1.50	4.19	40-44	13-16	10	12	25-28	12	13	
20th Mar.	283-358	1.00-1.50	4.19	40-44	13-16	10	12	20-22	17-19		
late Mar. 1	283-358	1.00-1.50	4.19	40-44	13-16	10	12	20-22	17-19	50	50

source: Naoto Kagotani, *Ajia Kokusai Tsudho Titsujo to Kindai Nihon* [The International Trading Orders of (Nagoya Daigaku Shuppan kai, 2000), Chapter 6 and 7.

Notes:

 is the proposal of the India's side. The upper row is the First negotiations:
The thick numbers are meaning the first proposals to lead to the agreement in each nego

**Table 2 The main description of textile goods by each importers in Singapore,
June to December 1934** (thousand ya

	Japanese			Chinese			Indian			European
1	W.Shirtings	2,824	I5	D.cotton	4,888	E2	Rayon	2,337		W.cotton
2	Print.Poplin	1,649	I2	W.cotton	3,941	E1	Print.Poplin	1,250	J2	D.cotton
3	G.T.cotton	1,199		Print.cotton	2,894	E3	C.Poplin	1,045	C6	Print.cotton
4	D.Poplin	973		B.cotton	1,720	E5	Print.Shirtings	1,037		G.cotton
5	G.Shirting	954	I6	C.cotton	910		W.Shirtings	902	J1	B.cotton
6	B.Shirtings	812		C.Poplin	846	I3	G.Shirting	691	J5	Str.Poplin
Totals		8,411			15,199			7,262		
Grand Totals		15,827			20,252			13,844		

Source: Same as Table 1.

Notes: E =Europea, C=Chinese, I=Indian, J=Japanese.

irds)

3,446	C2
1,886	C1
1,415	C3
1,227	
594	C4
575	
9,143	
10,833	

Table 1 Imports of cotton textiles into Singapore from main countries and by main merchant

Imports from / by	Japanese	Chinese	Indian	European	Imports	Japanese	Chinese	India	European	Total Imports
□□□□ (June to December 1934)										
	(thousand yard□)					(number of firms)				
Japan	15,827	20,252	13,844	2,782	52,707	14	32	39	18	103
China	14	4,127	1	205	4,348	1	34	1	1	37
Britain	0	1,227	571	10,833	12,632	0	39	24	34	97
Total Imports	15,841	25,608	14,416	13,821	69,688	15	105	64	53	237
	(% by yard□)					(% by number of firms)				
Japan	30.0%	38.4%	26.3%	5.3%	100.0%	13.6%	31.1%	###	17.5%	100.0%
China	0.3%	94.9%	0.0%	4.7%	100.0%	2.7%	91.9%	2.7%	2.7%	100.0%
Britain	0.0%	9.7%	4.5%	85.8%	100.0%	0.0%	40.2%	###	35.1%	100.0%
Total Imports	22.7%	36.7%	20.7%	19.8%	100.0%	6.3%	44.3%	###	22.4%	100.0%
□B□ (January to December 1937)										
	(thousand (% by yard□)					(% by number of licences)				
Japan	28.9%	27.4%	38.9%	4.8%	100.0%	11.9%	24.8%	###	14.7%	100.0%
China	0.0%	99.1%	0.3%	0.6%	100.0%	0.0%	78.8%	###	3.0%	100.0%
Dutch East Indies	0.0%	42.9%	52.0%	0.1%	100.0%	0.0%	30.4%	###	2.2%	100.0%
Netherlands	0.0%	0.0%	0.0%	100.0%	100.0%	0.0%	0.0%	0.0%	100.0%	100.0%

Source: (A) was based on Nanyo Kyokai [The Japanese South East Associations in Singapore], *Eiryō-Maraya ni okeru Menpu* [Cotton Textiles in British Malaya], November 1935.

And (B) on Straits Settlements, *Annual Report on the Administration of the Quota System for Cotton and Artificial Silk during January to December 1938*, p4.C0852/224/3.

Notes: British merchants were not included in European in 1938.

**Table 11 The Imports of Japanese Cotton goods into the Dutch East Indies
by each Merchants, 1932 to 1935**

(thousand yards)

Nationalities	1932				1935				Change
	Grey	Bleached	Colored	Totals	Grey	Bleached	Colored	Totals	
European	4,137	9,532	63,153	76,823	20,589	16,805	108,446	145,841	69,018
Japanese	57,272	49,045	180,138	286,456	57,674	35,939	171,069	264,684	-21,772
Indian	301	1,376	14,388	16,066	167	1,367	23,014	24,549	8,482
Chinese	277	374	11,028	11,680	761	1,340	5,086	7,187	-4,492
Totals	61,989	60,328	268,709	391,027	79,192	55,503	306,053	440,749	49,722

European	5%	12%	82%	100%	14%	12%	74%	100%
Japanese	20%	17%	63%	100%	22%	14%	65%	100%
Indian	2%	9%	90%	100%	1%	6%	94%	100%
Chinese	2%	3%	94%	100%	11%	19%	71%	100%
Totals	16%	15%	69%	100%	18%	13%	69%	100%

European	7%	16%	24%	20%	26%	30%	35%	33%
Japanese	92%	81%	67%	73%	73%	65%	56%	60%
Indian	0%	2%	5%	4%	0%	2%	8%	6%
Chinese	0%	1%	4%	3%	1%	2%	2%	2%
Totals	100%	100%	100%	100%	100%	100%	100%	100%

source: Naoto Kagotani, *Ajia Kokusai Tsusho Titsujyo to Kindai Nihon* [The International Trading Orders of Asia and M
(Nagoya Daigaku Shuppan kai, 2000), Chapter 8.