

**The influence of British business interests on Anglo-Japanese relations,
1933-1937.**

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A thesis submitted in fulfilment of the London School of Economics requirements for the degree of PhD..

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Abstract.

The purpose of this study is to examine and explain the impact of British business interests, outside of China, on Anglo-Japanese foreign relations and whether these business pressures contributed to the destabilisation or amelioration of political tensions. Between 1933 and 1937 there were a series of major commercial disputes between Britain and Japan, in the cotton and shipping industries and over the Japanese treatment of British oil interests in Japan and Manchukuo, which following Japan's pursuit of an aggressive and unilateral policy in East Asia complicated an already strained Anglo-Japanese relationship. Thus the scale of Anglo-Japanese commercial friction offered substantial scope for political repercussions. In order to assess the impact of business pressure this study will focus upon the relationship between business groups and the British government, which provides the basis for determining the impact of business interests upon British policy towards Japan. By detailing the interaction between government and business this study hopes to establish which factors were most prominent in shaping the government's response to the demands of business and the needs of Anglo-Japanese relations. This requires the examination of the economic and political factors that motivated business demands for government support, and the economic, political and foreign policy factors that guided the response of the British government. However, it also requires the examination of relationships within business groups and the government as a means of establishing the constraints upon business and government's response to Anglo-Japanese commercial friction. Conclusions are drawn which indicate that because of an ingrained 'conservatism' to commercial questions both the business community and government avoided exacerbating commercial tensions with Japan, and consequently business interests had only a limited impact upon Anglo-Japanese relations.

For my mother and my father.

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Preface.

In accordance with Japanese custom, Japanese names are written with the family name first and the given name last. Macrons indicate long vowels, except in the case of names, such as Tokyo and Osaka, which are familiar to English speakers as written above.

In regard to units of measurement, no attempt has been made to establish a consistent presentation of this data throughout the text. However, in cases where statistical comparisons are made, every attempt has been made to ensure that similar units of measurement are used. For example, the difference between square yards and linear yards is relatively small, less than 2%, which allows for effective statistical comparison without the need to convert such data into one unit of measurement.

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Introduction.

Introduction.

The interdependence of economic and foreign policy has become an increasingly important theme in modern historical research.¹ The drive to maximise political, economic, and foreign policy goals in the international arena has increased attention upon the relationship between economic pressure groups and foreign policy formulation. In this relationship there are two critical aspects; the attempt by economic interest groups to maximise economic opportunities in the international arena, through pressure for cooperation with foreign countries or protection and probable confrontation; and attempts by foreign policy makers to reduce foreign policy tensions, through pressuring business groups into economic cooperation with third parties. Naturally, within this debate British foreign policy in the 1930s has not escaped such analysis, particularly since this period represented one of adjustment in both foreign and economic policy. In an age of protectionism and economic bilateralism, economic factors became more important for foreign policy, as was readily acknowledged by contemporary opinion.² During the 1930s Britain switched from the championing of *laissez faire* to a protectionist and bilateralist economic and commercial policy, whilst the rise of Nazism in Germany and Fascism in Italy, and the decline of France, challenged Britain's previous aloofness in European politics and security arrangements.³ Nor were economic and political adjustments limited to Britain's relationship with Europe. Increased self-confidence and political nationalism within the British Empire were reflected in demands for greater political and - where relevant - economic autonomy from Britain.⁴ Relations with America and the countries of East Asia were also seriously affected by the unstable interplay of economic and political factors.

During the interwar period the continued political and economic rise of Japan challenged Britain's political and economic interests within East Asia, and British commercial interests both within and without East Asia. Anglo-Japanese political and economic rivalries, whilst part of a world wide phenomenon, had their own momentum,

1. Wurm C., *Business, Politics and International Relations: Steel, Cotton and International Cartels in British Politics, 1924-1939* (Cambridge University Press, Cambridge; 1993), p. 1.

2. Minute by Ashton-Gwatkin, 7 March 1933, FO371/17166,F1571/1571/23.

3. Mommsen W. J., and Kettenacker L. (eds.), *The Fascist Challenge and the Policy of Appeasement* (George Allen & Unwin, London; 1983); Trotter A., *Britain and East Asia, 1933-1937* (Cambridge University Press, London; 1975).

4. See especially chapter 3.

which demanded an effective British response in the defence of Britain's interests. Moreover, since the Japanese challenge occurred in both the political and economic spheres, the linkage between political and economic questions was an obvious one. As the 1930s progressed the Japanese menace to British economic and political interests became more serious. A combination of increased Japanese economic, political, and military strength, coincided with the relative decline of British political authority and military strength in East Asia, and commercial readjustment.⁵ Japan's abandonment of international cooperation, as exemplified by its invasion of Manchuria in September 1931 and departure from the League of Nations in March 1933⁶ made the task of protecting British interests in East Asia, at a time of increased Japanese strength and relative British weakness, all the more difficult to resolve.

Between the dramatic events of the Manchurian crisis and the outbreak of the Sino-Japanese war, British policy-makers struggled to define Britain's aims in East Asia and her policy in China and Japan. It was necessary in 1933 to reassess British policy in the light of Japan's success in Manchuria and her departure from the League of Nations; to take account of Japanese commercial competition in China and elsewhere; and to consider British East Asia policy in the wider context of imperial defence problems.⁷

Faced by an aggressive and unilateral Japanese foreign policy in East Asia, British policy makers could either cooperate with or confront Japan. However, between 1933 and 1937 this dilemma was never effectively resolved, as British policy makers found that their relative weakness in the region meant they were incapable single-handedly of shaping events to suit their interests.⁸

Within this deep-seated predicament, Anglo-Japanese economic friction in the international arena emerged during the Depression as another factor in Anglo-Japanese

5. Trotter A., p. 2; Louis W. R., 'The Road to Singapore: British Imperialism in the Far East, 1932-42', in Mommsen W. J., and Kettenacker L. (eds.), *The Fascist Challenge and the Policy of Appeasement* (George Allen & Unwin, London; 1983), p. 353.

6. Trotter A., *Britain in East Asia*, p. 3; Louis W. R., 'The Road to Singapore', p. 352.

7. Trotter A., *Britain in East Asia*, p. 1.

8. Lowe P., *Great Britain and the Origins of the Pacific War: A Study of British Policy in East Asia, 1937-1941* (Clarendon Press, Oxford; 1977); Louis W. R., 'The Road to Singapore'; Trotter A., *Britain and East Asia, 1933-1937*; Endicott S. L., *Diplomacy and Enterprise, British China Policy, 1933-1937* (Manchester University Press; 1975); Louis W. R., *British Strategy in the Far East, 1919-1939* (Clarendon Press, Oxford; 1971).

political relations. The aim of this study is to assess the impact from a British perspective of these commercial questions upon this relationship, and to complement the already existing works on Anglo-Japanese economic friction in China.⁹ The period 1933 to 1937 has been chosen because it divorces Anglo-Japanese relations from the complexities of Japan's involvement in the Manchuria incident - which was effectively terminated with the signing of the Tangku Truce between Japan and China in 1933 - and the outbreak of the Sino-Japan War in July 1937. During this period the main commercial disputes between Britain and Japan centred upon the cotton piece-good market,¹⁰ the British oil industry in Japan, and the shipping industry.¹¹ In chapter 1 as a prelude to Anglo-Japanese friction in the cotton piece-good market, I look at the inability of the Lancashire cotton industry to compete with the Japanese cotton industry, and its consequent demand for trade protection from Japanese competition. Following the development of this campaign for trade discrimination, chapter 2 studies the debate within the British government over the introduction of trade discrimination against Japan in the British Crown Colonies, subsequent attempts to readjust this trade discrimination, and British involvement in trade discrimination outside the Crown Colonies. Chapter 3 reveals the more complex situation that existed in India, between the conflicting demands of ^{the} Indian cotton industry for trade protection against both British and Japanese competition in the Indian market, and Lancashire's demand for trade preference in the Indian market. In chapter 4, the contrasting question of Japanese 'discrimination' against Britain focuses upon the impact of Japan's petroleum policy upon Royal Dutch Shell's operations in Japan and Manchukuo, attempts to coordinate an Anglo-American response, and the subsequent continuation of Royal Dutch Shell's operations in Japan and withdrawal from Manchukuo. Finally, chapter 5, describes the demands of the British shipping industry for government support against subsidised Japanese competition in the Pacific, which was integrated with similar campaigns of the British shipping industry for government support against other subsidised shipping competition. Thus during the 1930s not only was there a

9. Trotter A., *Britain and East Asia*; Endicott S. L., *Diplomacy and Enterprise*; Bennett G., 'British Policy in the Far East: Treasury and Foreign Office, 1933-1936', *Modern Asian Studies* (1992).

10. Cotton piece-goods were by far the most important cotton textile export and the key good in friction between the Lancashire and Japanese cotton industries. For example in 1932 cotton piece-good exports represented nearly 70% of Britain's total exports of manufactured cotton textiles (including yarn exports), *Statistical Abstract for the United Kingdom, 1933* (HMSO, London; 1935), pp. 386-389.

11. In regard to Anglo-Japanese financial relations, in the 1930s the Japanese government's conscious turning away from international financial commitments limited the scope for Anglo-Japanese financial relations. Consequently, Japan's avoidance of such commitments resulted in very little friction, outside of China, over financial affairs between Britain and Japan, Warner F., *Anglo-Japanese Financial Relations: A Golden Tide* (Basil Blackwell, Oxford; 1991), chapter 8.

wide-ranging series of Anglo-Japanese trade disputes, all these disputes involved a potential interplay between foreign policy, trade policy, and government business relations.

With the arrival of demands for protection against Japanese competition, British policy makers faced the difficult task of balancing the need to protect Britain's commercial interests from Japanese encroachment and defend ailing British industries threatened by Japanese competition, and yet balance these needs with the aims of British foreign policy. Despite domestic pressure to confront Japanese economic expansion, contemporaries recognised that Japanese commercial competition was a legitimate aspect of Japanese economic progress, and a phenomenon that would not disappear.¹² British officials accepted that for an island state with an expanding population and few raw materials, economic expansion was a vital necessity.¹³ "To provide for the growing population, Japan must either reduce her already low standard of living, or develop her industries and her export trade".¹⁴ Given these circumstances, to hinder this expansion could court a violent Japanese reaction, which was especially dangerous with a country "which is armed to the teeth".¹⁵ However, while British policy makers could agree on the dangers of confronting Japanese economic expansion there was a significant difference of view on how to combine British industries' demands for trade protection with British foreign policy to Japan: between those who saw the need to manage trade rivalries to prevent a further destabilisation of Anglo-Japanese relations, and those who saw the resolution of commercial friction as a means of improving Anglo-Japanese relations.

Within the British government it was the Foreign Office - and in particular the Far Eastern Department that dealt with Anglo-Japanese relations - that was most concerned over the need to manage the conflicting requirements of British demands for trade protection and Japanese demands for economic expansion. Officials such as Charles Orde, the Head of the Far Eastern Department, and Frank Ashton-Gwatkin, the economic expert at the Foreign Office,¹⁶ realised that while the British government could no longer ignore demands for trade

12. The President of the Board of Trade and the Colonial Secretary to the Foreign Office, 31 March 1933, FO371/17153/F583/2334/23; Gregory T. E., 'Japanese Competition in World Markets', *International Affairs* (1934).

13. Uyeda T., 'The Recent Development of Japanese Foreign Trade', *Journal of the Institute of Pacific Relations* (1936).

14. Minute by Ashton-Gwatkin, 5 December 1933, FO371/17166,F6674/1571/23.

15. Minute by Ashton-Gwatkin, 7 March 1933, FO371/17166,F1571/1571/23.

16. Endicott S. L., p. 22.

protection it would be a mistake to oppose Japanese trade expansion. In particular these officials were concerned that excessive trade discrimination against Japan could provoke a violent Japanese reaction against Britain's important commercial interests in China.¹⁷ In September 1933, Orde summed up this problem: "it will be a mistake to oppose her trade expansion, except where it comes into serious conflict with our own trade".¹⁸ If Britain did embark upon measures of trade discrimination against Japan, the foreign policy consequences of such action would have to be carefully thought out before such measures were implemented. However, while these officials, and important figures outside the Far Eastern Department such as Sir Robert Vansittart, the Permanent Under-Secretary at the Foreign Office, remained unwilling to provoke Japan or take an anti-Japanese stance,¹⁹ they remained convinced of the limitations of commercial factors in Anglo-Japanese relations. On the one hand they believed that cooperation with Japan could not be bought at the price of unilateral British concessions to Japan:²⁰ on the other they were convinced that the economic imperatives and the nationalist aspect of Japanese economic expansion prevented Japan from cooperating with demands for Japanese trade restraint.²¹ Trade friction was a destabilising element in Anglo-Japanese relations that needed to be treated with caution, and yet one that offered little room for either economic or political cooperation. However, in contrast to the Foreign Office a second group of British politicians and officials perceived that the resolution of economic rivalries, especially in China and Manchuria, presented the opportunity for cooperation between Britain and Japan. In particular the 'Treasury Group' led by Neville Chamberlain, the Chancellor of the Exchequer, and Sir Warren Fisher, the Permanent Secretary at the Treasury, and which included Sir John Simon, the Foreign Secretary, saw Anglo-Japanese economic and political cooperation as a means of improving political relations between the two countries, which would free British resources to focus upon the unstable situation in Europe.²² Both Chamberlain and Fisher were keen upon taking

17. Orde to Twentyman (Treasury), 19 September 1933, cited in Wurm C., p. 226.

18. 'Memorandum Respecting Our Relations with Japan', by Orde, CAB 24 CP. 77(34); Minute by Ashton-Gwatkin, 7 March 1933, FO371/17166,F1571/1571/23.

19. Memorandum by Wellesley, 18 January 1934, *Documents on British Foreign Policy. Second Series, Volume XX* (HMSO, London; 1984), pp. 149-153; Louis W. R., 'The Road to Singapore', pp. 356-360.

20. Minute by Vansittart, 28 July 1935, FO371/19287,F4881/84/10.

21. Memorandum by Sansom, 29 October 1934, CAB 24 CP. 8(35).

22. Trotter A., *Britain in East Asia*, especially chapter 12; Endicott S. L., *Diplomacy and Enterprise*; Louis W. R., *British Strategy in the Far East*; Bennett G., 'British Policy in the Far East'.

active steps to court Japanese friendship in order to free British resources to meet the German threat.²³ Fisher in particular was totally alarmed by the German threat and reasoned that Britain must take steps to ease tensions with Japan, even at the risk of alienating American support, since "we cannot simultaneously fight Japan and the strongest European Naval Power".²⁴ Thus for this group Anglo-Japanese economic friction offered the possibility of simultaneously converting this trade friction into economic cooperation and improved political relations.

However, although foreign policy considerations placed important constraints upon British policy towards Japan, it would be wrong to see British policy towards Japan as being solely dominated by foreign policy considerations. British trade policy and the international commercial environment also imposed significant constraints upon British commercial policy towards Japan. Indeed, it has been suggested that the intrusion of economic priorities in Britain's overseas policy led to the virtual eclipse of the Foreign Office by the Board of Trade and Treasury in foreign policy formulation.²⁵ However, while economic priorities might have undermined the importance of the Foreign Office this does not necessarily mean that the needs of commercial policy resulted in radically new foreign policy initiatives. Although the British government introduced domestic protection, through the Abnormal Importations Act of November 1931, and the extension of imperial preference, through the Ottawa Conference of August 1932, it remained committed to orthodox and conservative fiscal and economic policies. In the mid-1930s faced by sluggish recovery and continuing high levels of unemployment the government rejected radical solutions, such as deficit financing, and championed orthodox policies, such as export led growth, as the solution to current economic problems.²⁶ Such orthodoxy carried over into trade policy where the Board of Trade, the dominant government department in trade policy, fought long and hard to limit Britain's departure from orthodox trade practices. In particular, Sir Walter

23. Memorandum by Fisher, 19 April 1934, *Documents on British Foreign Policy. Second Series, Volume XIII, appendix I*, (HMSO, London; 1973), pp. 924-930; Watt D. C., 'Britain, and the United States and Japan in 1934', in Watt D. C. (ed.), *Personalities and Policies: Studies in the Formation of British Foreign Policy in the Twentieth Century* (Longmans, London; 1965).

24. Memorandum by Fisher, 19 April 1934, *Documents on British Foreign Policy. Second Series, Volume XIII, appendix I*, p. 928.

25. Boyce R., 'World Depression and World War: some economic origins of the Second World War', in Boyce R., and Robertson E. M. (eds.), *Paths to War: new essays on the origins of the Second World War* Macmillan, Basingstoke; 1989), p. 74.

26. Wurm C., p. 129.

Runciman, the President of the Board of Trade between 1931 and 1937, who had a background in the free trade shipping industry and was a former free trade liberal MP and leader of the free trade movement,²⁷ proved a formidable adversary to advocates of trade radicalism. In 1932, led by the Federation of British Industries, British industry, including cotton and shipping interests, demanded the unconditional denunciation of the most-favoured-nation clause, so that foreign countries who relied upon the British market would be forced to offer Britain preferential access to their own markets in order to retain equality of access to the British market. However, the Board of Trade succeeded in stymying this movement, as it appreciated that the wholesale denunciation of the most-favoured-nation clause would prove a greater danger to Britain's export trade.²⁸ As one Board of Trade official noted in July 1932, "the risk of disaster to our export trade by a wholesale denunciation of these instruments must be very serious".²⁹ Thus in assessing demand for trade discrimination against Japan it is important to note that the British government took an extremely conservative stand on trade policy. From the point of view of the whole British economy, extreme measures were seen as counterproductive. Consequently, trade discrimination against Japan, even if it did not run the risk of Japanese political retaliation, was frowned upon because it risked economic retaliation.

Although the British government rejected unconditional measures of trade protection, this did not mean that in regard to trade policy it abandoned attempts to seek trade preferences through bilateral negotiation. Even Runciman accepted that the British government should seek to improve tariff preferences with specific countries.³⁰ Thus bilateral negotiations with third countries offered the possibility of improving Britain's access to overseas markets yet without openly courting trade discrimination against Japan. This policy had particular appeal to both the cotton and shipping industries since they viewed foreign dependence upon the British market as a source of considerable leverage for the British government in bilateral trade negotiations. However, despite the importance of the British market to certain trading partners, particularly primary producers, bilateral trade negotiations imposed different series of potential constraints upon British attempts to

27. In 1931 Runciman joined the National government as a National Liberal MP, but remained a reluctant protectionist, Wurm C., p. 176.

28. Rooth T., *British protectionism and the international economy: overseas commercial policy in the 1930s* (Cambridge University Press, Cambridge; 1993).

29. Rooth T., p. 111.

30. Rooth T., pp. 109-111.

protect its commercial interests from Japanese competition. As the Ottawa Conference of August 1932 had already revealed, general trade preferences for Britain in the Dominion markets might prove insufficient to protect specific British industries from Japanese competition. In a similar fashion, extending or initiating trade preferences against Japanese competition might prove equally difficult since: the trade partner might want to protect domestic industry from British as much as Japanese competition, as in the case of the Canadian cotton industry;³¹ trade preferences for British products could undermine favourable trade relations with Japan; and extended trade preferences with one trade partner obtained through reciprocal trade preferences in the British market would have to be paid for by the curtailment of access to the British market for other trade partners, which could put at risk British trade preferences in these markets.³² Therefore while bilateral trade negotiations offered the possibility of improving trade protection against Japanese competition, these same international factors also acted as a constraint upon Britain's pursuit of trade discrimination against Japan.

The final factor in British trade discrimination against Japan was the nature of government-business relations. Although there was a close relationship between business and the government, this did not mean that on any specific question these interests overlapped. Demands by business for trade protection might not coincide with government policy - or could be beyond the government's ability - and thus both the government and business interests would endeavour to bend the other to its will.³³ In this conflict business pressure on the government was dependent upon the effectiveness of the respective business lobbies, and the willingness of government officials to respond to this lobbying. In regard to lobbying the government over trade policy, divisions within the business community presented the most serious threat to the leverage of individual business interests over the government. In particular both the cotton and shipping industries, who had both emerged in the 1930s from strong free trade traditions, were divided over the need to engage, and the extent of, government support in their fight against Japanese competition. Both industries included radical sections that sought extreme measures of government aid, export and commercial subsidies and treaty denunciation, as the means of combating Japanese

31. See chapter 2.

32. Rooth T., pp. 309-312.

33. Miliband R., *The State in Capitalist Society: the analysis of the Western system of power* (Quartet Books, London; 1984); Nettl J. P., 'Consensus or Elite Dominations: The Case of Business', in Rose R. (ed.), *Studies in British Politics: a reader in political sociology* (Macmillan, London; 1976).

competition. However, other sections realised that in a complex political and trade situation, excessive demands on the British government could be unfulfillable and even counterproductive. The Manchester Chamber of Commerce, respected by the government as the voice of the Lancashire cotton industry,³⁴ worried that demands for radical trade discrimination against Japan could undermine the influence of the Chamber on the government. Thus industry had to be concerned that in demanding excessive trade protection against Japan they did not undermine its influence, because this loss of influence over the government could prove more disastrous in the long-run. Finally, business pressure on the government could also be significantly affected by the relationships between business leaders and government officials. Narrow departmental specialisation coupled with hostility to business interference within the British government could offer significant obstacles to attempts by business leaders to obtain government support for their industry. As Raymond Streat, the respected Secretary of the Manchester Chamber of Commerce, noted, government officials could be dismissive of the complaints of industrialists. In March 1931 a deputation from the Chamber proved incapable of convincing Board of Trade and Foreign Office officials that British diplomacy was letting down Lancashire's trade with China. "We did not succeed in establishing our case that diplomacy in China was letting trade down. Sir John Pratt of the Foreign Office was clever and convincing. Our people were outwitted and apt to be over-awed".³⁵ However, this was not always the case. Streat also confessed to his diary that "most deputations ask for more than they can be given in the very nature of things"; consequently, business leaders could expect to be frequently rebuffed by the government.³⁶ Thus both intra-business and government-business relations were a critical factor in the adoption and course of British trade discrimination against Japan.

While economic friction was obviously one aspect of Anglo-Japanese difficulties in the 1930s, 'traditional' diplomatic histories have tended to pay only minor attention to commercial rivalry in the Anglo-Japanese relationship. Anglo-Japanese problems are portrayed as a result of circumstances, political antagonism and political misunderstanding, relative military strength, and British imperial decline.³⁷ In spite of concern over the role

34. Wurm C., p. 198.

35. Dupree M. (ed.), *Lancashire and Whitehall. The Diary of Sir Raymond Streat. Volume I, 1931-1939* (Manchester University Press, Manchester, 1987), entry 15 March 1931, p. 42.

36. Dupree M. (ed.), entry 14 February 1933, p. 210.

37. Lowe P., *Great Britain and the Origins of the Pacific War*, Louis W. R., *British Strategy in the Far East*, and, 'The Road to Singapore'; Trotter A., *Britain and East Asia*; Endicott S. L., *Diplomacy and Enterprise*; Nish I. H., 'Japan in Britain's view of the International System, 1919-37', and Hosoya C.,

economic factors played in Japanese foreign policy making and the role economic nationalism played as a destabilising factor in international political relations,³⁸ Anglo-Japanese economic conflict, derived from commercial competition, is treated in traditional diplomatic histories as only a side issue in Anglo-Japanese relations. While many works attach some ~~the~~ importance to economic rivalry as a factor in Anglo-Japanese relations, almost the sole focus of attention is on Anglo-Japanese political and economic rivalry in China.³⁹ Little attention is paid to Anglo-Japanese commercial friction in the wider world. Indeed Hosoya Chihiro in his essay, 'Britain and the United States in Japan's view of the International System, 1919-41', even suggests that British trade discrimination against Japan could have ameliorated Anglo-Japanese political friction, because in order to improve their trade prospects, some Japanese officials began to view political cooperation with Britain as an economic necessity.⁴⁰ Where Anglo-Japanese economic rivalry outside of China does receive attention it is seen at best as a side issue that influenced British attitudes to Japan, but did not influence British policy. As Ian Nish boldly states, "These commercial factors were probably of minor importance when it came to policy-making; but they did affect the atmosphere in which the Japanese problem was debated in London".⁴¹ However, the attitude of traditional diplomatic histories to Anglo-Japanese economic rivalry outside of China is best summed up by W. N. Medlicott's preface to *Documents on British Foreign Policy 1919-1939*,

While these attitudes coloured the important trade negotiations..., the weightier problems of Britain's overall political and military strategy in the whole Far Eastern

'Britain and the United States in Japan's view of the International System, 1919-41', in Nish I. H. (ed.), *Anglo-Japanese Alienation, 1919-1952: papers of the Anglo-Japanese conference on the history of the Second World War* (Cambridge University Press, Cambridge; 1982).

38. Carr W., *Poland to Pearl Harbor: The Making of the Second World War* (Edward Arnold, London; 1985); Barnhart M., *Japan Prepares for Total War: The Search for Economic Security, 1919-1941* (Cornell University Press, London; 1987); Louis W. R., 'The Road to Singapore'; Iriye A., *After Imperialism: the search for a new order in the Far East, 1921-1931* (Harvard University Press, Cambridge, Massachusetts; 1965), 'The Failure of Military Expansionism', in Morley J. W. (ed.), *Dilemmas of Growth in Prewar Japan* (Princeton University Press, Princeton; 1971), and 'The Failure of Economic Expansionism, 1918-1931', in Silberman B., and Harootunian H. D. (eds.), *Japan in Crisis: essays on Taisho democracy* (Princeton University Press, Princeton; 1974); Boyce R., 'World Depression and World War: some economic origins of the Second World War'.
39. Trotter A., *Britain and East Asia*; Lowe P., *Great Britain and the Origins of the Pacific War*; Endicott S. L., *Diplomacy and Enterprise*; Louis W. R., *British Strategy in the Far East*, and 'The Road to Singapore'; Nish I. H., 'Japan in Britain's view of the International System'; Hosoya C., 'Britain and the United States in Japan's view of the International System'; Bennett G., 'British Policy in the Far East'.
40. Hosoya C., 'Britain and the United States in Japan's view of the International System', pp. 22-23.
41. Nish I. H., 'Japan in Britain's view of the International System', p. 53.

theatre were under discussion in London, both in the Foreign Office and in interdepartmental and Cabinet enquires.⁴²

Thus, outside China, it would seem that Anglo-Japanese commercial rivalries coloured British attitudes to Japan but did not influence British foreign policy with Japan.

However, while 'traditional' diplomatic works stress the importance of political and military rivalries, and present commercial rivalry as an appendage to the central Anglo-Japanese political relationship, several recent works have challenged this approach. In Shimizu Hiroshi's study, *Anglo-Japanese Trade Rivalry in the Middle East in the Inter-War Period*, the author notes that competition between Lancashire's and Japan's cotton textiles in the Middle East has been virtually ignored by previous authors.⁴³ However, other authors are more scathing of diplomatic histories. Ishii Osamu states, in his unpublished thesis, 'Cotton Textile Diplomacy: Japan, Great Britain, and the United States, 1930-1936', that since traditional and diplomatic histories are preoccupied with the more dramatic military and political events in East Asia, little attention has been paid to Anglo-Japanese textile rivalry.⁴⁴ Clemens Wurm in *Business, Politics and International Relations: Steel, Cotton and International Cartels in British Politics, 1924-1939*, is equally critical of diplomatic histories. Several histories of Anglo-Japanese relations are taken to task for underestimating the importance of commercial rivalry upon Anglo-Japanese relations.⁴⁵ Ian Nish's essay, 'Japan in Britain's view of the International System, 1919-37', is admonished for merely regarding commercial antagonism as one factor influencing the 'atmosphere' in which London debated 'the Japanese problem', since this seriously underestimates "the importance of economics in general, and of the cotton dispute in particular, for Anglo-Japanese relations".⁴⁶ Like Ishii, Wurm believes that diplomatic histories have ignored Anglo-Japanese commercial rivalry, since "diplomatic studies,..., tend to underestimate the significance of economic conflicts for the political rivalry between Britain and Japan".⁴⁷

42. *Documents on British Foreign Policy, 1919-1939. Second Series, Volume XX*, p. v.

43. Shimizu H., *Anglo-Japanese Trade Rivalry in the Middle East in the Inter-War Period* (Ithica Press, London; 1986), pp. 24-25.

44. Ishii O., 'Cotton Textile Diplomacy: Japan, Great Britain, and the United States, 1930-1936', (Unpublished thesis, Rutgers University, 1977), p. 2.

45. The books which are singled out for criticism are, Christopher Thorne's *The Limits of Foreign Policy*, Ann Trotter's *Britain and East Asia, 1933-1937*, and ~~Peter Lowe's~~ *British Strategy and the Far East 1919-1939*, Wurm C., p. 6.

William Roger Louis

46. Wurm C., p. 298.

47. Wurm C., p. 6. Wurm also notes that in *Anglo-Japanese Alienation 1919-1952*, in their concluding

Thus these works claim that because traditional diplomatic histories avoid economic and commercial questions they have missed the importance of commercial friction upon Anglo-Japanese relations.

In contrast to traditional diplomatic histories, authors of works that focus upon Anglo-Japanese commercial rivalry insist, to varying degrees, that commercial rivalry was of central importance to Anglo-Japanese political relations. Shimizu portrays Anglo-Japanese commercial rivalry as a contributory factor to the severing of Anglo-Japanese relations in the Second World War.⁴⁸ However, Ishii views Anglo-Japanese commercial rivalry as a more significant factor in Anglo-Japanese political relations. In his account, British and American trade discrimination against Japan's textile exports was a major factor in the increased Japanese hostility towards the two Anglo-Saxon powers:

the Japanese, on their part, were extremely suspicious that the western powers were forming an economic bloc in order to exclude 'have not' nations from the world market. Consequently, economic rivalries became a destabilising factor in relations between Japan and the western industrial powers.⁴⁹

Following on from these arguments Wurm claims that Anglo-Japanese commercial rivalry was in fact central to Anglo-Japanese political relations. In particular he presents the failed Anglo-Japanese cotton cartel negotiations of 1934 as a critical turning point in Anglo-Japanese relations. On the one hand he cites Joseph Frankel's dictum that the desire for economic cooperation was central to British foreign policy formulation, "the guiding principles of British foreign policy": "Co-operation instead of conflict, profitable trade and cheap diplomacy instead of costly and wasteful warfare, peace rather than war".⁵⁰ Following this axiom the clear aim of the Foreign Office and Board of Trade was to keep the Anglo-Japanese cotton trade rivalry within the broad context of a stable Anglo-Japanese political relationship; the aim being to avoid political and economic confrontation with Japan, as a

remarks to the Anglo-Japanese conference on the history of the Second World War, both Hosoya Chihiro and Donald C. Watt, regretted the fact that the significance of economic conflicts in Anglo-Japanese political relations had been either overlooked or neglected, Hosoya C., 'Some Reflections of the Conference from the Japanese side', in Nish I. H. (ed.), pp. 281-282; Watt D. C., 'Work Completed and Work as yet unknown', in Nish I. H. (ed.), pp. 294-295, cited in Wurm C., footnote 19, p. 298.

48. Shimizu H., pp. 27-28.

49. Ishii O., pp. 1-2.

50. Frankel J., 'The intellectual framework of British foreign policy', in Kaiser K., and Morgan R. (eds.), *Britain and West Germany: changing societies and the future of foreign policy* (Oxford University Press, London; 1971), p. 92, cited in Wurm C., p. 286.

means of ensuring Japan's adherence to naval limitation agreements, and strengthening the moderate and cosmopolitan forces within domestic Japanese politics.⁵¹ This aim was broken once pressure from British cotton textile manufacturers, unable to meet Japanese competition,⁵² led to demands for "vigorous measures against Japanese trade regardless of the consequences for British foreign policy and Britain's relations with Japan".⁵³ Consequently, the collapse of the cotton trade talks and Britain's imposition of 'offensive'⁵⁴ trade discrimination against Japanese cotton textiles within the British Crown Colonies marked a significant turning point in Anglo-Japanese relations.

Britain's adoption of quotas was of symbolic importance in confirming the Japanese conviction, already strengthened by the Ottawa Agreements, that they were ultimately to be shut out of the markets of the [British] Empire. ~~Thus~~ Britain could then scarcely object if Japan pursued the expansion of its own economic bloc in the Far East and thus accelerated the disintegration of the international economy.⁵⁵

Thus, from this viewpoint, the Anglo-Japanese economic relationship was critical to Anglo-Japanese foreign relations. Furthermore, the British pursuit of their own protectionist agenda was central to the Japanese pursuit of their own autarkic ambitions. British protectionism not only justified Japanese protectionism, but also justified Japanese economic aggression in East Asia.

Within the debate over the role and importance of Anglo-Japanese rivalry in Anglo-Japanese relations, this study hopes to contribute by giving a more wide ranging analysis of these commercial problems than has previously been offered. Anglo-Japanese trade rivalry of the 1930s between the declining Lancashire cotton industry and its emerging East Asia rival Japan has already been widely commented upon. However, while this issue has provoked widespread academic interest there have been limitations in the work so far produced.⁵⁶ The main failing of these works is that while they have concentrated upon the

51. Wurm C., p. 286.

52. Rose M. B., 'International Competition and Strategic Response in the Textile Industries since 1870', in Rose M. B. (ed.), *International Competition and Strategic Response in the Textile Industries since 1870* (Frank Cass, London; 1990), p. 5.

53. Wurm C., p. 295.

54. Wurm C., p. 295.

55. Wurm C., p. 287.

56. Wurm C., *Business, Politics and International relations*; Ishii O., 'Cotton Textile Diplomacy'; Yamamoto M., 'Nichi.In (Ei) Mengyô Funsô (1933-34nen)' [The Japan-India (British) cotton industry

critical years of the early 1930s, and in particular the crisis years of 1933 to 1934 which saw the introduction of British colonial and Indian trade discrimination against Japanese cotton textiles, the subsequent development of this policy has been largely ignored.⁵⁷ This failure results in a serious distortion of this trade question which only sees Lancashire-Japan trade rivalry in terms of 'crisis', and British and Indian trade discrimination against Japan. In an attempt to circumvent this concentration upon the early 1930s, chapters 2 and 3, while looking at the introduction of British and Indian trade discrimination against Japan, also look at the subsequent development of these policies. If Lancashire-Japan trade rivalry was an important aspect of Anglo-Japanese relations, then it is imperative to study British and Indian trade discrimination against Japan beyond 1934, in order to assess the subsequent impact of continued British trade discrimination against Japan on Anglo-Japanese relations.

The second problem with previous studies of Anglo-Japanese trade rivalries is that they have focused solely upon the cotton textile question. Once again this distorts Anglo-Japanese trade problems. In the 1930s there were several other trade questions between Britain and Japan which had radically different outcomes to the cotton textile question. These other trade questions focused upon Japanese 'discrimination' against the Anglo-Dutch oil company, Royal Dutch Shell, in both Japan and Manchuria, and Anglo-Japanese rivalry in the shipping industry. The oil question, discussed in chapter 4, presents a totally different picture because it was a reversal of the cotton dispute as the British government sought to defend British oil interests from Japanese encroachment. The shipping question, discussed in chapter 5, also presents noticeable differences from the cotton dispute. On the one hand the British government was again confronted by another British industry demanding assistance from superior Japanese competition, however, such an analysis fails to do justice

dispute (1933-34)], in Hosoya C. (ed), *Taiheiyô-Ajiaken no Kokusai Keizai Funsôshi, 1922-1945* [A history of international economic disputes in the Pacific-Asia region, 1922-1945] (Tokyo Daigaku Shuppankai, Tokyo; 1983); Nishikawa H., 'Indo Mengyô Hogo (1930nen) no Seiritsu to Nippon Mengyô' [The formation of Indian cotton industry protection (1930) and the Japanese cotton industry], *Hokkai Gakuen Daigaku Keizai Ronshû* (1984), and *Nippon Teikoku Shugi to Mengyô* [Japanese imperialism and the cotton industry] (Minerva Shobo, Kyoto; 1987); Sugiyama S., 'Nippon no Menseihin Yushutsu to Bôeki Masatsu' [Japan's cotton goods exports and trade friction', in Brown I. G., and Sugiyama S. (eds.), *Senkanki Tônan Ajia no Keizai Masatsu: Nippon no Nanshin to Ajia ÔBei* [South East Asian economic friction in the interwar period: Japan's southward advance and Asia, Europe and America] (Dôbunkan Shuppan Kabushiki Kaisha, Tokyo; 1990).

57. The only notable exception is Shimizu who gives a comprehensive survey of Lancashire-Japan rivalry in the Middle East up to the eve of the Pacific War. In the case of Dominion trade relations with Japan, Ishii does extend his analysis of Lancashire-Japan rivalry beyond 1934. However, he does not look at the continuation of British colonial trade discrimination and Indian trade discrimination against Japan beyond 1934.

to the complexities of the situation.⁵⁸ Unlike the cotton question British complaints against foreign subsidised shipping competition were not focused solely upon Japanese competition. Throughout the 1930s the British shipping industry sought government support to meet the competition of various subsidised international competitors. Consequently, British complaints about subsidised Japanese competition was part of an established concern within the shipping industry, and not a unique response to the emergence of Japanese competition.

However, in one respect this study does not differ from previous studies of Anglo-Japanese commercial problems. As with previous studies, it recognises the importance of structural economic relationships in Anglo-Japanese trade friction. The inability of British industries to compete with its Japanese counterparts led both the cotton and shipping industries to seek political support in order to meet Japanese competition. Chapter 1 in particular underscores the relationship between the Lancashire cotton industry's competitive failure and its demands for trade protection against Japanese competition. A similar lack of competitiveness with its Japanese rivals underlay the British shipping industry's demands for government assistance. Although Royal Dutch Shell did not seek alleviation from Japanese competition from the British government, economic factors lay at the root of its commercial problems in Japan and Manchuria. The structure of the international oil market and Royal Dutch Shell's pattern of historic development within the Japanese and Manchurian oil markets made its operations vulnerable to 'discriminatory' Japanese import substitution policies, and resulted in its demands for government support in its confrontation with Japanese oil policy. However, while the structure of economic relationships imposed important limits upon political action, this study does not argue that underlying economic structures predetermined political responses. Policy is analysed as the result of the interaction between British government policy and industry with Japanese trade and foreign policy, and not as a function of economic factors.

The main source of material for this study has come from the Foreign Office.

58. In Kosmas Tsokhas' article on the Eastern & Australian Shipping Line's fight against Japanese competition, the author argues this was atypical of several Anglo-Japanese shipping rivalries. However, this fails to mention that such shipping rivalries were not unique to Anglo-Japanese shipping relations, and that the British shipping industry had numerous other examples of fierce commercial competition were they sought government support against other international rivals, Tsokhas K., 'The Eastern & Australian Steamship company and the Shipping Dispute between Australia and Japan, 1936-39', *Business History* (1992), p. 51; Burley K., *British Shipping and Australia, 1920-1939* (Cambridge University Press, London, 1968), p. 259.

Obviously, since British domestic business interests mainly dealt with the Board of Trade, the predominant use of Foreign Office material could present a potentially skewed picture of business and government relations. However, where trade policy and foreign policy overlapped the Board and other departments proved scrupulous in forwarding material to the Foreign Office. Therefore the Foreign Office files present an accurate record of the debate within the British government over the effects of trade policy on specific foreign policy issues. Thus between late 1932 and 1934 when both the Board and the India Office contemplated extensive trade discrimination against Japan, the Foreign Office received excellent information on the activities of the two departments. Even after the immediate crisis had passed the Foreign Office still received regular information from both departments on trade questions with Japan. Nor is there any evidence that the Foreign Office was concerned that, in regard to Anglo-Japanese trade friction, it was not receiving relevant information from any government department. Finally, although this study has made no attempt to utilise official Japanese sources it has still been possible to draw inferences as to the impact of commercial friction upon Anglo-Japanese relations. The extensive information collected by the Foreign Office on official and unofficial Japanese responses and attitudes to commercial questions, provides a reliable, if biased, contemporary assessment of political relations. While this may not provide the true picture of Japanese attitudes, as held in official sources, it does provide an accurate record of Japan's public response to Anglo-Japanese commercial questions.

In regard to the statistics used in this study a variety of contemporary and modern sources have been used, although where possible preference has been given to contemporary sources. The main reason for this is that although contemporary sources may be less accurate, they represent the data on which government officials and industrialists debated trade and economic problems. In this study of political responses to economic and commercial questions contemporary perceptions of economic reality are critical to any understanding of how economic factors affected political decision making. Consequently, contemporary sources provide the more accurate historic framework in which contemporaries studied political and economic problems.

Chapter 1.

The Lancashire cotton industry and the rise of Japanese competition.

Introduction.

In the 1930s the Lancashire cotton industry, one of the great staple export industries of the Victorian and Edwardian eras, faced a serious economic crisis. After years of neglect and complacency the cotton industry found itself ill-equipped to meet the new challenges of the contemporary market place. Confronted by a shrinking export market, due to increased protectionism and the rise of native cotton producers, Lancashire found that its industrial organisation, equipment, and labour practices were outdated, and unable to sustain its huge export volumes of previous years. Furthermore, Lancashire's position as the preeminent exporter of cotton textiles was under challenge from a new and dynamic competitor. In the interwar years, aided by an efficient industrial organisation, state of the art technology, and a cheap labour supply, Osaka emerged from under Manchester's shadow to reap the rewards of patient development, and grab the premier spot as the world's leading exporter of cotton textiles. Thus the collapse of world export markets during the Depression confronted the Lancashire cotton industry with an economic crisis that was unparalleled in recent memory. Moreover, the success of Japanese exports during the Depression underlined the fact that Lancashire's problems did not merely stem from the collapse of world trade and protectionism. If Japan's exports could increase while Lancashire's exports declined, then it was impossible not to conclude that there was something seriously wrong with the Lancashire cotton industry.

To meet the new situation in the world cotton market, and to solve the economic crisis in Lancashire, the Lancashire cotton industry had two options. It could embark upon a process of industrial reform in order to re-establish its competitiveness in world markets, or it could look to support from the British government in order to gain tariff preferences in its export markets. In practice Lancashire chose both options. However, in the early 1930s it was apparent that Lancashire's economic problems were so deep seated that industrial reform would be a long term process, and therefore could not ameliorate the current economic crisis within the industry. Consequently, the former 'Vatican of free trade' turned to trade protection as the second means of securing some relief from the current economic crisis.

However, while domestic tariff protection and a measure of imperial preference, through the Ottawa agreements of 1932, were easy to secure, these measures alone were

obviously inadequate for Lancashire. As a global export orientated industry faced with fierce competition from Japanese goods, Lancashire required more extensive trade protection within and beyond the British Empire. In order to secure wider trade protection Lancashire recognised that it would be vital to obtain British government support. However, while Lancashire remained clear on the need for government support it was divided over the means of achieving this support. On the one hand the moderates, especially within the Manchester Chamber of Commerce, sought to influence the government through the traditional method of private representations. In a complex political and economic situation the Chamber moderates believed that public pressure on the issue could be counterproductive, as the government might not be able to balance the conflicting needs of Lancashire within an unstable political and economic relationship with Japan. However, in contrast to this moderate approach an increasingly radical minority perceived that only a virulent public campaign would force the government into action: the intensity of Japanese competition demanded unorthodox measures to save the Lancashire cotton industry. Thus Japanese competition not only threatened Lancashire's economic interests, it also provoked conflict within the industry over the best means to secure government support for trade discrimination against Japan.

The Lancashire and Japanese cotton industries in the world market.

During the interwar period the positions of the Lancashire and Japanese cotton industries were dramatically reversed. At the turn of the century Lancashire had a vast well organised cotton industry that was the premier export industry of Britain. Over 50% of Lancashire's output was sold for export, and between 1900 and 1913 these exports earned an average of £95.4 million *per annum*, which equalled one quarter of all Britain's earnings from the export of manufactured goods.¹ The contrast with the Japanese cotton industry could not have been more dramatic: for the same period Japanese exports of cotton piece-goods by volume amounted to under 3% of Lancashire's exports.² Thus prior to World War One not only did the position of the Lancashire cotton industry as the leading exporter of cotton piece-goods appear unassailable, the Japanese cotton industry appeared to offer no serious threat to the Lancashire cotton industry.

Even after World War One and until the mid-1920s the challenge of the Japanese cotton industry to Lancashire's huge export volumes was unclear. Despite Lancashire's loss of cotton piece-good export volume during World War One only a limited amount of this loss was captured by Japanese exports. Between 1915 and 1919 Lancashire's annual export of cotton piece-goods fell by some 2,000 million yards on their 1910-1913 average. However, these losses were not all Japan's gains, since Japanese exports increased by only 500 million yards between 1915 and 1919. The substitution of Japan's for Lancashire's products seemed merely part of the temporary phenomenon of Lancashire's inability to supply large volumes for exports during World War One. Further, although there was a substantial decline in Lancashire's exports of cotton piece-goods between the immediate prewar and postwar periods, Lancashire still maintained large volumes of cotton piece-good exports throughout the 1920s. Throughout the 1920s Lancashire continued to export an average of 4,000 million yards *per annum* of cotton piece-goods. In contrast to the resurgence of the Lancashire cotton industry after World War One, the wartime growth of the Japanese cotton industry was immediately halted in the post-War period, and it was not until 1924 that Japanese exports of cotton piece-goods exceeded their 1918 peak.³

1. Robson R., *The Cotton Industry in Britain* (Macmillan, London; 1957), p. 334; Mitchell B. R., *Abstract of British Historical Statistics* (Cambridge University Press, 1962), pp. 60, 188, 284, 305.

2. Seki K., *The Cotton Industry of Japan* (Japan Society for the Promotion of Science, Tokyo; 1956), pp. 306-307.

3. See table 1.1.

Even the post-1925 revival of Japanese cotton piece-good exports in the world market was not a critical threat to the Lancashire cotton industry. So long as the world market for cotton piece-goods remained large - world per capita consumption of cotton textiles was considerably larger than any other type of textile⁴ - there remained sufficient demand for large volumes of both Lancashire's and Japan's exports of cotton piece-goods. Further, while the world market remained largely unprotected, any losses suffered by Lancashire due to Japanese competition could be offset by Lancashire against other foreign competitors. However, during the 1920s these favourable market conditions for Lancashire were slowly eroded: and were finally swept aside during the Depression.

The changes in the world market for cotton piece-goods resulted from the combined effects of the decline in per capita consumption of cotton piece goods in Lancashire's main East Asian export markets; the growth of native cotton industries behind increasingly 'protective' tariff barriers; and the rise of substitute products for cotton piece-goods. Although global per capita consumption of cotton textiles continued to increase during the 1920s,⁵ due to the impoverishment of native consumers there was a noticeable decline in per capita consumption of cotton textiles in Lancashire's main prewar export markets. For example one British report in 1923 stated that the current Indian per capita consumption of cotton piece-goods was less than half prewar levels.⁶ Thus the impoverishment of consumers in the large East Asian markets acted as a drag upon demand for Lancashire's cotton piece-good exports. The second factor, namely the successful competition from native cotton industries, also substantially reduced the size of the cotton piece-good export market. Between 1910 and 1913 31% of the world production of cotton piece-goods was exported. However, successful import substitution reduced the total of world production of cotton piece-goods for exports to 23% between 1926 and 1928 with a further fall to only 18% between 1936 and 1938.⁷ For example production of Indian milled cotton piece-goods nearly doubled between 1919 and 1929.⁸ Moreover, the increases in Indian production

4. See table 1.2.

5. See table 1.2.

6. *Manchester Chamber of Commerce, Monthly Record*, October 1923, p. 339; Daniels G. W. and Jewkes J., 'The Comparative Position of the Lancashire Cotton Industry and Trade', *Transactions of the Manchester Statistical Society*, (1926-27), pp. 72-8.

7. See table 1.3.

8. See table 3.4.

occurred against a background of successive increases in 1917, 1921, and 1925 of tariff protection for Indian producers.⁹ However, the real benefits for the Indian cotton industry appeared after the dramatic post-1930 increases in the level of protection for the Indian cotton industry. The result was that the share of Indian consumption of mill produced cotton piece-goods actually produced in India increased from 54.8% in 1929 to 73.6% in 1930.¹⁰ In a similar fashion the growth of Chinese production of cotton textiles behind increased tariff barriers and anti-foreign boycotts, squeezed imports out of this important mass market.¹¹ Even in the 1920s the increase of native production of cotton piece-goods behind increasing tariff barriers had a substantial impact upon Lancashire's export volumes of cotton piece-goods. For example, if the 1910-1913 ratio of world exports to world production of cotton piece-goods had been maintained between 1926-1928 - *and the Lancashire cotton industry had maintained their same historic share of the world export trade* - then between 1926 and 1928 the Lancashire cotton industry would have exported an additional 1.4 million linear yards *per annum*, a 35% increase on Lancashire's historic level of total exports for the period.¹² Naturally, given the lower level in the ratio between world cotton piece-good exports and world cotton piece-good production this trend in the decline of Lancashire's 'lost' exports is even more exaggerated for the 1930s. Unfortunately, for Lancashire, the third factor, the emergence of substitute materials for cotton piece-goods, also came into play during the interwar period. Of these materials the most important new product in the interwar period was the development of rayon goods. In 1920 the world production of rayon amounted to only 0.4% of the world consumption of raw cotton. However, this ratio continued to rise throughout the 1920s and 1930s - to 1.6% in 1925, 4.27% in 1930, 8.16% in 1935 - and reached 16.44% by 1939.¹³ Thus although the substitution of rayon goods for cotton piece-goods was minimal before 1930, after the Depression the growth of production in rayon goods significantly retarded the revival of the world cotton industry.

9. See table 3.6.

10. See table 3.4.

11. Kraus R. A., *Cotton and Cotton Goods in China, 1918-1936* (Garland Publishing, New York; 1980), especially chapter 5; Chao K., *The Development of Cotton Textile Production in China* (Harvard University Press, Cambridge Massachusetts; 1977), especially chapter 8; International Labour Office, *World Textile Industry: Economic and Social Problems* (International Labour Office, Geneva; 1937), tables 11A, and 11B, p. 125, and, pp. 109, 124-125; Pearse A. S., *The Cotton Industry of Japan and China* (The International Federation of Master Cotton Spinners' and Manufacturers' Associations, Manchester; 1929), pp. 175-222.

12. See table 1.3.

13. Robson R., p. 354.

Although the 1920s were a time of stagnation for the Lancashire cotton industry the critical period of decline came with the onset of the Depression. The sudden and dramatic collapse in the world export market for cotton piece-goods marked the end of the era when the world cotton piece-good market had been characterized by high export volumes. Between 1929 and 1930 world exports of cotton piece-goods fell by 25.5%, nearly 2,000 million square yards, from which there was only a limited recovery in the 1930s.¹⁴ Between 1936 and 1938 world exports of cotton piece-good remained some 2,000 million yards, over 20% below the 1926-1928 average.¹⁵ For the Lancashire cotton industry which had been geared towards this high volume export market the effect was catastrophic: between 1929 and 1931 exports of cotton piece-goods fell by 52%, and throughout the 1930s export volumes remained significantly below even the 1920s levels.¹⁶ In contrast the Japanese cotton industry quickly recovered from its 21% contraction in cotton piece-good exports between 1929 and 1931, and aided by the 40% devaluation of the yen to sterling after December 1931¹⁷ Japanese exports continued to increase until 1935. However, the 'closed' world market for cotton piece-goods in the 1930s was considerably different from the 'open' world market which Lancashire had dominated in its heyday. The Japanese peak export figure for cotton piece-goods in 1935 was nearly 40% less than Lancashire's 1913 export peak for cotton piece-goods.¹⁸

14. See table 1.4.

15. See table 1.3.

16. See table 1.1.

17. *The Financial and Economic Journal of Japan* (The Government Printing Office, Tokyo; various years); Lockwood W. W., *The Economic Development of Japan* (Princeton University Press, New Jersey, 1968), pp. 62-5; Robertson A. J., 'Lancashire and the Rise of Japan, 1910-1937', in Rose M. B. (ed.), *International Competition and Strategic Response in the Textile Industries since 1870* (Frank Cass, London, 1991), p. 97.

18. See table 1.1.

The Lancashire and Japanese cotton industries in the interwar period.

While the world market for cotton piece-goods was undergoing dramatic changes during the interwar period, so too did the positions of the leading exporting nations. The relative decline of Lancashire was all too self-evident, when in 1933 the Japanese cotton industry overtook Lancashire as the leading exporter of cotton piece-goods.¹⁹ The success of the Japanese cotton industry was due to a number of comparative advantages that rendered Lancashire impotent in the face of Japanese competition. These advantages stemmed from the Japanese dominance of the most demand-inelastic coarse cotton piece-goods market, the superiority in organisation and equipment of their cotton industry, and the low wage structure of the Japanese economy. In contrast the Lancashire cotton industry was burdened by poor organisation, outdated equipment and a comparatively high wage structure and thus was unable to compete with the Japanese in the contracted 1930s world market.

Japanese dominance of the mass market for cheap coarse cotton piece-goods aimed at native consumers was a major factor in its postwar commercial success. During World War One Japan had emerged as the premier exporter of cheap cotton textiles to native markets in East Asia, and despite the re-emergence of Lancashire's competition it was a position Japanese exporters retained throughout the 1920s. This meant that the Japanese cotton industry - unlike Lancashire - obtained the cost advantages of using cheaper short staple Indian raw cotton for the production of coarse cotton piece-goods for the East Asian markets.²⁰ However, in the 1920s Japanese dominance of this market was less of a threat to Lancashire since Lancashire manufacturers switched exports to the still voluminous fine cotton piece-good export markets in which Lancashire enjoyed a distinct competitive advantage.²¹ Further, a comparative wage deflation between the Lancashire and Japanese

19. See table 1.4.

20. Ellinger B. and Ellinger H., 'Japanese Competition in the Cotton Trade', *Journal of the Royal Statistical Society* (1930), pp. 201-206. However, this cost advantage evaporated once the Japanese produced finer cotton piece-goods and like the Lancashire cotton industry was forced to use the more expensive long staple raw cotton, Hubbard G. E., *Eastern Industrialization and its Effect on the West* (Oxford University Press, London; 1935), pp. 85-7; Pearse A. S., p. 45.

21. In the early 1920s the Egyptian spinning section which produced finer yarns performed much better than the depressed American spinning section that spun coarser yarns, Jones O., 'Lancashire Cotton Industry', *Harvard Business Review* (1924), p. 448. Further, in an attempt to overcome the problems in Lancashire's exports of coarse cotton textiles in the mid-1920s the American section started to spin much finer yarns, Robson R., p. 68. Kirby M. W., 'The Lancashire cotton industry in the Inter-War years: a study in organizational change', *Business History* (1974), p. 147; Daniels G. W. and Jewkes J., 'The Comparative Position of the Lancashire Cotton Industry and Trade', pp. 64-72; Daniels G. W. and Jewkes J., 'The Post-War Depression in the Lancashire Cotton Industry', *Journal of the Royal*

cotton industries allowed the Lancashire cotton industry to curb increases in production costs and enabled Lancashire's exports to remain competitive with Japanese exports on the margins of the cheap mass produced cotton piece-good market.²² Unfortunately for Lancashire the Depression had a dramatic impact upon consumer demand that worked to the advantage of the Japanese cotton industry and the disadvantage of the Lancashire cotton industry. Impoverished consumers switched to the low priced coarse mass produced product of the Japanese cotton industry and abandoned the quality but more expensive product of the Lancashire cotton industry. Thus the fine volume markets which Lancashire dominated in the 1920s contracted, while the success of the Japanese cotton manufacturers became self-reinforcing, as high output volumes maintained both high levels of productivity and profitability.

The success of the Japanese export 'strategy' was based upon the rapid advance of the Japanese cotton industry to relatively high levels of international industrial efficiency. For international competitors the most significant development in the interwar period was the emergence of the Japanese cotton textile producers as technically efficient organisations. This movement was part of the long-term development of the Japanese cotton textile industry, whose first notable success was the virtual elimination of imported cotton piece-goods into Japan by the mid-1890s.²³ This development continued throughout the early twentieth century, as Japanese firms improved their capital stock through successive investments in advanced foreign and increasingly domestic production technology. The net result was a sustained increase in the efficiency of the Japanese cotton industry. For example, in the spinning sector of the Japanese cotton industry between 1914 and 1929, output of yarn per workday increased by 10%, with a further increase of 60% between 1919 and 1936.²⁴ In the weaving sector the gains in labour productivity were as dramatic: between 1914 and 1930 output per workday more than doubled, with a further increase of 20% between 1930 and 1936.²⁵ The dramatic improvement in labour productivity after 1929-30

Statistical Society, (1928), pp. 162-165, 166.

22. See tables 1.5, 1.6, and 1.7.

23. Takamura N., *Nippon Bōsekishi Josetsu* [History of the Cotton Industry in Japan] (Haniwa Shobo, Tokyo, 1971), *Volume I*, p. 30; Otsuka K., Ranis G., and Saxonhouse G., *Comparative Technology Choice in Development: the Indian & Japanese Cotton Textile Industries* (Macmillan, Basingstoke, 1988), p. 27; Minami R., *The Economic Development of Japan: a quantitative study* (Macmillan, Basingstoke, 1991), pp. 234-235.

24. See table 1.8.

25. See table 1.9.

was the result of new Japanese investment in plant and machinery and the introduction of new labour practices. Following the 1927 financial crisis and the 1923 Factory Law Amendment that banned night work for female operatives from 1929 the Japanese cotton manufacturers vigorously rationalised their organisations to compensate for the effects of the financial crisis and the loss of night shift production.²⁶ The lack of readily available comparable evidence between the Lancashire and Japanese cotton industries renders difficult exact comparisons of industrial efficiency between the Lancashire and Japanese cotton industries. However, it appears clear from contemporary evidence that between the late 1920s and early 1930s, the Japanese cotton industry obtained parity or even a lead over Lancashire, in terms of labour productivity, and that the Japanese cotton industry could manufacture cotton piece-goods at considerably less cost than their Lancashire rivals.²⁷ Further, it can be clearly demonstrated that improvements in labour productivity in the Japanese cotton industry in the interwar period far outstripped any improvements in the Lancashire cotton industry. According to a 1945 estimate, output per man-hour in the Japanese cotton industry increased nearly 2.5 times between 1923 and 1933, while for the Lancashire cotton industry even over the much longer period of 1907 to 1937 output per-man hour increased by only 1.4 times.²⁸

The technical and organisational progress of the Japanese cotton industry was further enhanced by the relative technical stagnation of the Lancashire cotton industry.²⁹ For

26. Inahara K. (ed.), *The Japan Year Book, 1933* (The Kenkyusha Press, Tokyo; 1934), pp. 550-551; Allen G. C., 'Recent Changes in the Organisation of the Japanese Cotton Industry', *Transactions of the Manchester Statistical Society*, (1936-37), pp. 15-19, 21; Robertson A. J., pp. 96-7; Hubbard G. E., pp. 119-120; Ellinger B. and H., p. 187; Pearse A. S., pp. 103-111; Patrick H. T., 'The Economic Muddle of the 1920s-', in Morley J. W., *Dilemmas of Growth in Prewar Japan* (Princeton University Press, Princeton; 1971), pp. 211-266; Hunter J., 'Textile factories, tuberculosis and the quality of life in industrializing Japan', in Hunter J. (ed.), *Japanese Working Women* (Routledge, London; 1993), p. 86.

27. See tables 1.10, and 1.11.

28. See table 1.12.

29. The causes and nature of the decline of the Lancashire cotton industry have been widely debated, see Kirby M. W., 'The Lancashire Cotton Industry in the Inter-War Years: a Study in Organisational Change', *Business History Review* (1974); Sandberg L., *Lancashire in Decline: A Study in Entrepreneurship, Technology and International Trade* (Ohio State University Press, Columbus; 1974); Lazonick W., 'Competition, Specialisation, and Industrial Decline', *Journal of Economic History* (1981), 'Factor Costs and the Diffusion of Ring Spinning Prior to World War I', *Quarterly Journal of Economics* (1981), 'Production Relations. Labor Productivity, and Choice of Technique: British and US Cotton Spinning' *Journal of Economic History* (1981), 'Industrial Organisation and Technological change: The Decline of the British Cotton Industry', *Business History Review* (1983); Sandberg L., 'American Rings and English Mules: The Role of Economic Rationality', *Quarterly Journal of Economics* (1983); Lazonick W., and Mass W., 'The Performance of the British Cotton Industry, 1870-1910', *Research in Economic History* (1984); Sandberg L., 'The Remembrance of Things Past: Rings and Mules Revisited', *Quarterly Journal of Economics* (1984); Lazonick W., 'Rings and Mules in

even the prewar boom conditions of Lancashire's export trade concealed emergent competitive problems. Unlike the Japanese cotton industry - and some other foreign rivals - Lancashire was slow to abandon outdated machinery and practices. The most notable failure on Lancashire's part, was its slow abandonment of mule spinning and powered loom for the more efficient ring spinning and automatic loom. As early as the mid-1880s over 50% of the Japan's cotton spindles were ring spindles, while in contrast even in 1913 only 19% of Lancashire's cotton spindles were rings.³⁰ The contrasting trends of Lancashire's and Japan's adoption of ring spinning technology continued into the interwar period, as the Japanese spinning industry fully converted to ring spinning, by 1936 only 27% of Lancashire's installed spindles were rings.³¹ In a similar fashion the Japanese were far quicker than Lancashire in adopting automatic loom technology. While there was little use of the automatic loom in either the Lancashire or Japanese cotton industry prior to the First World War,³² the interwar period witnessed the quicker adoption of this technology by the Japanese cotton industry. By 1934 12.5% of all Japanese looms were automatic while in contrast only 2.4% of installed looms in Lancashire were automatics.³³ Japan's technological lead over Lancashire was reinforced, during the interwar period, by the development of their own advanced cotton spinning and weaving equipment, which included the world famous Toyoda automatic loom.³⁴ Furthermore, Lancashire's growing technological backwardness

Britain: Reply', *Quarterly Journal of Economics* (1984); Saxonhouse G., and Wright G., 'New Evidence on the Stubborn English Mule and the Cotton Industry, 1878-1920', *Economic History Review* (1984); Lazonick W., 'The Cotton Industry', in Elbaum B., and Lazonick W. (eds.), *The Decline of the British Economy* (Clarendon Press, Oxford; 1987); Lazonick W., 'Stubborn Mules: Some Comments', *Economic History Review* (1987); Saxonhouse G., and Wright G., 'Stubborn Mules and Vertical Integration: The Disappearing Constraint?', *Economic History Review* (1987); Clark G., 'Why Isn't the Whole World Developed?: Lessons from the Cotton Mills', *Journal of Economic History* (1987); Wilkins M., 'Efficiency and Management: A Comment on Gregory Clark's "Why Isn't the Whole World Developed?"', *Journal of Economic History* (1987); Clark G., 'Can Management Develop the World?: Reply to Wilkins', *Journal of Economic History* (1988); Lazonick W. and Mass W., 'The British Cotton Industry and International Competitive Advantage: The State of the Debates', in Rose M. (ed.), *International Competition and Strategic Response in the Textile Industries since 1870* (Frank Cass, London; 1991).

30. Otsuka K., Ranis G., and Saxonhouse G., figures 2.1, and 2.2, pp. 9, 10; Lazonick W., 'The Cotton Industry', p. 19, and 'Industrial Organisation and Technological Change', p. 198; Singleton J., *Lancashire on the Scrapheap: the cotton industry, 1945-1970* (Oxford University Press, Oxford; 1991), p. 7.

31. Otsuka K., Ranis G., and Saxonhouse G., figures 2.1, and 2.2, pp. 9, 10; International Labour Office, *The World Textile Industry*, tables 3 and 4, pp. 49, 51.

32. Lazonick W., 'The Cotton Industry', p. 19; Otsuka K., Ranis G., and Saxonhouse G., table 5.20, p. 143.

33. International Labour Office, *The World Textile Industry*, tables 5 and 6, pp. 54, 55; Otsuka K., Ranis G., and Saxonhouse G., table 5.20, p. 143.

34. Pearse A. S., pp. 58, 61, 64, 74, 78, 79-83; Otsuka K., Ranis G., and Saxonhouse G., tables 5.19, and 5.20, pp. 142, 143; Minami R., pp. 234-235.

was compounded by its outdated labour practices. In 1929 the Japanese industry average was to have one operative in control of 5.5 power looms - and in some cases 24 to even 50 automatic looms - whereas in Lancashire the standard industry practice was to have one operative in control of only 4 power looms.³⁵ A major problem for the Lancashire cotton manufacturers was the resistance of the labour force to new labour practices. The Lancashire cotton operatives proved hostile to new labour practices that would cause increased industry wide unemployment and would result in insufficient remuneration for increased individual workloads.³⁶

The technical superiority of the Japanese cotton industry was compounded by the superior organisation of the Japanese cotton firms over their Lancashire rivals that enabled the Japanese firms to benefit from internal economies of scale. The principal exporting firms of the Japanese cotton industry - the 9 major combines of the Japan Cotton Spinners Association - were dominated by large vertically organised industrial combines that controlled most of the processes of textile manufacture from the purchase of raw cotton to the export and selling of the finished product.³⁷ In contrast despite belated attempts at industrial amalgamation the Lancashire cotton industry maintained its traditional preference for a vertically and horizontally fragmented industry. One commentator observed that the Lancashire average of 67,000 operational spindles per factory was well below the 90,000-100,100 spindles per factory considered optimum for efficient economic operation.³⁸ The industrial divisions within the Lancashire cotton industry were acute; spinners complained that they were forced to sell unprofitably to weavers, while in their turn weavers complained that finishers', shippers', and merchants' margins were too high, rendering Lancashire's goods uncompetitive in overseas markets.³⁹ However, these

35. Holyrod F., preface in Pearse A. S., p. 5; Pearse A. S., pp. 65, 75, 79.

36. Kirby M. W., pp. 153-154; Hilton J. and Mallon J. (eds.), *Are Trade Unions Obstructive?* (Victor Gollancz, London; 1935), p. 78; Turner H. A., *Trade Union Growth, Structure and Policy: A Comparative Study of the Cotton Unions* (George Allen & Unwin, London; 1962), pp. 258-263, 328; Grey J. H., *The Weavers Wage: Earnings and Collective Bargaining in the Lancashire Cotton Weaving Industry* (Manchester University Press, Manchester; 1937), pp. 11-6; University of Manchester, *Industrial Survey of the Lancashire Area* (HMSO, London; 1932), pp. 137-145.

37. Pearse A., pp. 18, 25-9; Utley F., *Lancashire and the Far East* (George Allen & Unwin, London; 1931), pp. 83-5; Allen G. C., 'Recent Changes in the Organisation of the Japanese Cotton Industry', p. 18; Robertson A. J., p. 90; Ellinger B. and H., pp. 206-207.

38. Wisselink J., 'The Present condition of the English Cotton Industry', *Harvard Business Review*, (1930), pp. 160-161.

39. Ellinger B. and H., pp. 196-201, 207-218; Ryan in Ellinger, 'Lancashire's Declining Trade with China';

industrial divisions probably were not the cause of Lancashire's uncompetitiveness and merely reflected the inability of any large 'western' cotton industry to compete with Japanese cotton piece-goods in the open market. In the face of Japanese competition the unprofitable and debt-ridden Lancashire cotton industry could not afford the risk of re-equipping their clapped out machinery and outdated organisational structure. Instead the Lancashire cotton industry adopted a piecemeal approach to reform and concentrated upon the finer cotton piece-goods markets to which Lancashire's machinery and production methods were more suited and in which Japanese competition was less intense.⁴⁰ Further, despite the fact that the American cotton industry has been portrayed as a model of organisational efficiency,⁴¹ the American cotton industry proved as unsuccessful as Lancashire in combating Japanese competition. In the 1930s not only was the American cotton industry unsuccessful in export markets, it also needed extensive tariff and quota protection from Japanese competition in the domestic market.⁴² Thus, given the American example, there was no guarantee that organisational reform would have enabled Lancashire to compete with Japan in the cotton

Manchester Guardian Commercial, 12 January 1928, p. 41; Wisselink J., pp. 152-168; Robertson A., p. 98.

40. In 1936 *The Economist* - usually highly critical of the Lancashire cotton industry - recognised that since the Lancashire cotton industry aimed at specialised export markets Japanese competition no longer posed a threat, *The Economist*, 28 November 1936, p. 402. Kirby M. W., pp. 151-154; Ryan J., 'Machinery Replacement in the Cotton Trade', *The Economic Journal* (1930), pp. 568-580; MacGregor D. H., 'Problems of Rationalization', *The Economic Journal* (1930), pp. 351-368; Learned E. P., 'Mergers in the Cotton Industry', *Harvard Business Review*, (1930), pp. 501-512; *The Economist*, 8 October 1932, p. 635; Clay H., *Lord Norman* (Macmillan, London; 1957), p. 337; Vitokovich B., 'The UK Cotton Industry, 1937-54', *Journal of Industrial Economics* (1954-5), pp. 247-265; Sutherland A., 'The Diffusion of and Innovation in Cotton Spinning', *Journal of Industrial Economics* (1959), p. 32; Sandberg L., 'American Rings and English Mules: The Role of Economic Rationality', pp. 25-43; Jewkes J., 'Localization in the Cotton Industry', *Economic History* (1950), p. 76; Jewkes J., 'Factors in Industrial Integration', *Quarterly Journal of Economics* (1930), p. 36; Daniels G. W. and Jewkes J., 'The Post-War Depression in the Lancashire Cotton Industry', pp. 167-182.

41. Lazonick W., 'The Cotton Industry', p. 20.

42. In 1931 F. Utley predicted that because of the slump in domestic demand in America there would be a big expansion of American cotton piece-good exports. However, not only did this expansion fail to materialise in the 1930s, American cotton piece-good exports declined almost as sharply as Lancashire's, Utley F., p. 63; See table 1:3. Further, despite the already extensive tariff protection of the American cotton piece-good market - in 1922 a 40% duty was established for cotton piece-goods which was increased to 46.33% under the 1930 Smoot-Hawley tariff legislation - American cotton producers still needed to force the Japanese industry into a 'Gentleman's Agreement to limit Japanese exports of cotton piece-goods to America. The 'Gentleman's Agreement' concluded in 1937 limited Japanese exports to 155 million yards in 1937, and subsequently 100 million yards in 1938, Taussig F. W., *The Tariff History of the United States*, (Capricorn Books, New York; 1964), 30, 193, 243, 263, 266, 355, 371, 387, 432, 466, 513; Lake D. A., *Power, Protection, and Free Trade: International Sources of U.S. Commercial Strategy, 1887-1939* (Cornell University Press, London; 1988), p. 195; Clive (Tokyo) to the Foreign Office, 16 February 1937, FO371/21032,F1563/231/23.

piece-good export market.⁴³

Despite the improvements in productivity of the Japanese cotton textile industry, superior production and organizational methods did not guarantee a sustained competitive advantage over other advanced international rivals. However, in the interwar period the low wage structure of the Japanese cotton industry provided the Japanese cotton industry with a unique advantage over all their other advanced international competitors. For example, Arno S. Pearse, who conducted an investigation into the cotton industries of Asia in 1929 on behalf of the Manchester based International Federation of Master Cotton Spinners' and Manufacturers' Associations, ranked lower labour costs as Japan's second major advantage over Lancashire.⁴⁴ In cotton textile production wage costs were a significant factor. In 1930 Bernard Ellinger estimated wage costs at between 16.5-21.1% of the total cost of selling Lancashire cotton piece-goods in the Indian market and recommended the immediate revision of the prevailing wage lists.⁴⁵ For the interwar period, estimates of relative wage costs are subject to controversy but it is evident that the Japanese cotton industry enjoyed a substantial competitive advantage over the Lancashire cotton industry. Measured in sterling, between 1920 and 1936, nominal Japanese wages per worker in the cotton industry averaged some 60.4% less than those for workers in the Lancashire cotton industry.⁴⁶ Thus the Japanese cotton manufacturers enjoyed a significant wage cost advantage over the Lancashire manufacturers and this coupled with comparable levels of industrial efficiency converted into a significant competitive advantage. Indeed Ellinger's later study, 'Japanese competition with Lancashire: Comparisons of Cotton Trade Costs', observed that wage costs were the main competitive advantage Japanese manufacturers enjoyed over their Lancashire rivals.⁴⁷ Therefore even if the Lancashire cotton industry adopted Japanese production and

43. Indeed contemporary British commentators were impressed not by the organisation of the American cotton industry but by the flexibility of American labour practices, Pearse A. S., 'Efforts to Rationalize the Cotton Industry of the U.S.A.', *Transactions of the Manchester Statistical Society* (1928-29), pp. 81-92.

44. Pearse A. S., *The Cotton Industry of Japan and China*, p. 142.

45. Ellinger B. and Ellinger H., p. 188; Committee of Industry and Trade, *Further Factors in Industrial and Commercial Efficiency, Part II* (HMSO, London; 1928), tables A, B, 17, and 18, pp. 77, 79, 145, 146. In recent years it has been argued that Lancashire's problems with regard to Japanese competition stemmed primarily from the superior organisation of the Japanese cotton industry, and not as a result of the comparative wage cost advantage of the Japanese cotton industry, Mass W. and Lazonick W., 'The British cotton industry and international competitive advantage: the state of the debates', pp. 33-9.

46. See tables 1.5, and 1.13.

47. Ellinger B., 'Japanese competition with Lancashire: Comparisons of Cotton Trade Costs', *Manchester Commercial Guardian*, 1 July 1933, p. 3; tables 1.14, 1.15, and 1.16.

organizational methods, due to lower wage costs, the Japanese cotton industry would still maintain a significant competitive advantage over Lancashire.

The only threat to the competitive wage advantage of the Japanese cotton industry was if the comparative wage inflation of the 1920s eroded these advantages. However, this wage inflation proved insufficient to undermine the wage cost advantage of the Japanese cotton industry. Indeed after the start of the Depression Japanese cotton manufacturers instituted substantial wage cuts that improved their comparative advantage in wage costs over the Lancashire cotton industry. From 1929 compared to the Lancashire cotton industry the fall in wages in the Japanese cotton industry was dramatic. Between 1929 and 1935 the nominal yen wage rate in the Japanese weaving sector of the cotton industry fell by nearly 40%, compared with a mere 8% fall in nominal sterling wages in the Lancashire cotton industry.⁴⁸ Further, these wage reductions in the Japanese cotton industry were compounded by the increased labour productivity derived from the reduction of labour input for similar work. Therefore not only did the Japanese manufacturers reduce wage rates, they also increased work loads at the same time.

The downward wage movement of the Japanese cotton operatives is usually cited as evidence of either the greater flexibility and economic realism of the Japanese work-force, or the lack of flexibility and realism of the Lancashire work-force in refusing to accept wage cuts or a rationalisation of work practices at a time of acute economic distress.⁴⁹ A further suggestion is that the institutional rigidity of the unionized Lancashire work-force compounded the inflexibility of the Lancashire cotton operatives. However, such accounts fail to explain how the relatively non-unionized labour force in the Japanese cotton industry gained a fourfold increase in nominal wages between 1914 and the mid-1920s, while over the same period nominal wages in the unionized labour force in the Lancashire cotton industry merely doubled.⁵⁰ Further, the dramatic decline of wages in the Japanese cotton industry after 1929 were not only a result of the lack of labour militancy and unionization but also resulted from the totally different labour supply situations that pertained in the Japanese

48. See tables, 1.5, 1.6, and 1.7.

49. Lazonick W., 'The Cotton Industry', pp. 20-21, 24-30.

50. For example see, Lazonick W., 'The cotton industry', pp. 24-30. There was some labour militancy within the Japanese cotton textile industry, however, the institutional framework in which it operated prevented the successful application of labour force pressure in industrial disputes, see Gordon A., *Labor and Imperial Democracy in Prewar Japan* (University of California Press, California; 1991), pp. 225-226, 243-245.

and Lancashire cotton industries. In the quest for competitive wage advantage and workplace labour flexibility the Japanese cotton manufacturers benefited considerably from a national labour supply market that was remarkably elastic in the supply of inexpensive labour. In particular in the 1930s the Japanese cotton industrialists benefited from the influx of inexpensive female labour from the depressed agrarian sector.⁵¹ Furthermore, two characteristics of the Japanese cotton textile industry enabled the cotton industrialists to utilise this labour source even more effectively. Firstly, the Japanese cotton textile industry paid higher wages than other large scale industrial employers of female labour in Japan; and secondly since 1914 the real income gains of the Japanese cotton textile workers had been so substantial that even short term reductions in real income still left intact significant long term gains in real income.

In contrast with the Lancashire cotton industry, Japanese cotton operatives - particularly female workers - remained at the upper end of wage scales for the various Japanese textile industries. In Japan, wages for female operatives in the cotton spinning industry between 1926 and 1935 were some 20-25% higher than wages for female operatives in the silk-reeling industry. In contrast in the Lancashire cotton industry, for the same period, wages for operatives lagged some 10-13% behind wages for operatives in the woollen & worsted and nylon & rayon industries.⁵² Therefore, even after the post-1928 wage reduction in the Japanese cotton industry, in contrast with the Japanese silk-reeling industry, wages in the cotton industry remained relatively high thus ensuring a ready supply of female labour. However, in Lancashire the wage rate for cotton operatives had become relatively so low that the current wage rates offered - not to mention the even lower wage rates necessary for effective competition with the Japanese cotton industry - were no longer attractive for potential employees. The second advantage that the Japanese cotton manufacturers held over Lancashire was the totally different postwar patterns of real income that obtained in the Lancashire and Japanese cotton industries. These different patterns of real income account for the inability of the Lancashire manufacturers to substantially reduce wage levels even at

51. Ouchi T., 'Agricultural depression and Japanese villages', *The Developing Economies* (1967), pp. 597-627; Patrick H. T., pp. 216-220; Waswo A., 'Origins of tenant unrest', in Silbermann B. S., and Harootunian H. D. (eds.), *Japan in Crisis: essays on Taisho democracy* (Princeton University Press, Princeton; 1974); Minami R., pp. 286-287; Hunter J., 'Women in the Japanese Economy of the 1920s and 1930s', in Nish I. H. (ed.), *Interwar Japan* (International Studies; 1989), pp. 30-31; Watanabe H., 'The Agricultural Problem in Japan - Historical Perspectives -', in Hunter J. (ed.), *Aspects of the Relationship Between Agriculture and Industrialisation in Japan* (International Studies; 1986), pp. 22-23.

52. See table 1.17.

a time of high unemployment. In Japan, the period 1914 to 1929 not only witnessed a considerable inflation of nominal wages but also a significant rise in the real incomes of the Japanese cotton operatives. From 1914 to 1929 the real income of Japanese cotton operatives increased by some 70-90%. Moreover, these gains in real income were so substantial that despite the post-1928 wage reduction and fall in real income, Japanese cotton operatives still preserved a 40% real income gain over the prewar period.⁵³ In contrast the post-1914 progress of real income gains for operatives in the Lancashire cotton industry was extremely limited, and after the postwar economic boom real incomes stagnated. Thus by 1928 Lancashire cotton operatives had witnessed only a 10-11% gain over 1914 levels of real income, while the post-1930 wage reductions in the Lancashire cotton industry saw operatives real income in 1930 fall below the 1914 level of real income.⁵⁴ Therefore in the 1920s Lancashire operatives were foregoing gains in real income in order to keep the Lancashire cotton industry competitive in international markets. However, by 1930 real income levels were so low in the Lancashire cotton industry that it proved difficult for the Lancashire manufacturers to reduce wages and real income any further without risking substantial labour unrest.

Thus in the Lancashire cotton industry the stagnation of real income in the 1920s proved a serious obstacle for the Lancashire textile owners when they subsequently pressed for further wage cuts. In the post-1929 depression period Lancashire operatives strenuously resisted further cuts in both real income or labour practices that would increase work burdens without any compensatory financial reward.⁵⁵ Further, although unionization is blamed for the militancy of labour in Lancashire it appears that the labour unions merely benefited or acted as vehicles of labour discontent. Operatives in Lancashire demanded a level of real income consistent with workers in other industries in Britain. In theory the Lancashire cotton industry might have escaped relatively high labour costs by moving to a populous but non-industrial part of the UK, as the North American cotton industry had transferred to the Southern states of America to escape such problems. However, such geographical variations in the labour supply market were scarcely available within the limited confines of the UK. Thus it was impossible for a large organized British industry to

53. See tables 1.6, and 1.7.

54. See particularly table 1.7 but also table 1.6 for data which suggests that at its 1929 trough real income for Lancashire cotton operatives remained above the 1914 level.

55. Lazonick W., 'The Cotton Industry', p. 29.

obtain the 'developing world' wage rates of the Japanese cotton industry, its chief international competitor, in order to compete with Japanese cotton piece-goods in the international market.

Lancashire and the rise of Japanese competition.

In the early twentieth century the Lancashire cotton industry like cotton industries elsewhere did not view Japanese competition as a serious potential threat. To the Victorian and Edwardian cotton men of Lancashire it was inconceivable that Japan could pose a threat to Lancashire's pre-eminence in the export of cotton piece-goods. The Osaka industry was patronised as 'the Manchester of Japan' but it was not thought that Lancashire could learn anything from the fledgling Japanese cotton industry.⁵⁶ However, even before 1914 some Japanese were explicit over the long-term ambition of the Japanese cotton industry to overhaul Lancashire as the leading cotton industry in the world. In the early 1890s the Japanese Vice-Minister for Agriculture and Commerce, Kaneko Kentaro, warned a Lancashire audience that because of the development of the Japanese cotton industry, "Lancashire is doomed". Indeed before World War One some opinion in Lancashire recognised the threat of the Japanese cotton industry. In June 1911 *The Manchester Guardian* published a warning that the Japanese cotton industry was "the most important and the most dangerous competitor to Lancashire".⁵⁷ However, given the prewar export boom of the Lancashire cotton industry such warnings were ignored in Lancashire.

The prewar utopia of the Lancashire cotton industry was interrupted by the outbreak of the Great War: Lancashire's exports of cotton piece-goods declined while Japanese exports to East Asia soared. Suddenly, the Lancashire cotton industry appreciated the commercial threat of its political ally Japan, particularly in the China market.⁵⁸ While Lancashire was wrapped-up in the British war economy Japanese exports of cotton piece-goods surged, and Lancashire opinion became more critical of its erstwhile ally. In February 1918, R. B. Stoker, the President of the Manchester Chamber of Commerce, complained of the penetration Japanese cotton goods had made in the world market as a result of its low wage economy:

German competition ... I do not fear so much as that of certain other nations [Japan], are we going to allow free access at home^{and} in our dominions to the products of those

56. *The Manchester Guardian*, 14 July 1891, cited in Checkland O., *Britain's Encounter with Meiji Japan, 1868-1912* (Macmillan, Basingstoke, 1989), p. 31.

57. Robertson A. J., pp. 90-1; Checkland O., p. 31.

58. *The Manchester Chamber of Commerce, Monthly Record*, March 1915, p. 70; Redford A., *Manchester Merchants and Foreign Trade, 1850-1939*, Volume II (Manchester University Press, Manchester, 1956), p. 200.

nations who command labour at a tithe of the wages prevalent in our country? ... The inevitable result of such a policy would be beggary for producers, for workers, and for merchants.⁵⁹

Such comments over the threat of Japanese competition remained a regular feature of *The Manchester Chamber of Commerce Monthly Record* - the recognised voice of the Manchester Chamber of Commerce and the Lancashire cotton industry - until 1920.⁶⁰ However, the dramatic decrease in Japanese cotton-piece good exports during the postwar slump temporarily allayed Lancashire's fears of Japanese competition. The slump affected both the Lancashire and Japanese cotton industries: however, between 1918 and 1921 Lancashire's exports of cotton piece-goods fell a mere 18% while Japanese exports - hindered by an exchange rate nearly 1/3 above its prewar parity - fell by 31%.⁶¹ Moreover, Japanese exports were not only handicapped by the relative appreciation of the yen, competitiveness was also retarded by a significant decline in labour productivity in the immediate postwar years.⁶² Optimism returned in Lancashire with the belief that foreign competition posed no obvious threat, as the Japanese, American, German and Italian cotton industries were fully occupied in supplying domestic demand and had little spare capacity to supply overseas markets or compete with Lancashire's goods.⁶³ Further, Japanese competition in overseas markets had so abated that in Lancashire it was widely believed Japan had squandered the opportunity of the Great War. In February 1920, E. F. Stockton, the President of the Manchester Chamber of Commerce, boldly condemned the Japanese, "for instead of doing themselves credit they have done their trade enormous injury ... they have so often failed to deliver the standard quality for which they have contracted", and he concluded that in contrast to the wartime view of the advantage of cheap labour, "The sweated condition of labour in Japan is not a real advantage to them".⁶⁴

59. *The Manchester Chamber of Commerce, Monthly Record*, March 1918, p. 75; Redford A., p. 200.

60. On 26 November 1920, Sir J. S. Rhodes MP, who had recently returned from East Asia, warned the Manchester Chamber of commerce of Japanese mercantile ambition, *The Manchester Chamber of Commerce, Monthly Record*, December 1920, p. 365.

61. *The Financial and Economic Journal of Japan*.

62. See tables 1.8, and 1.9.

63. *The Manchester Chamber of Commerce, Monthly Record*, December 1921, p. 427.

64. *The Manchester Chamber of Commerce, Monthly Record*, February 1920, p. 57. In a similar vein, T. M. Ainscough, the Senior British Trade Commissioner for India, told the Manchester Chamber of Commerce that the Japanese exports to India had reached their high-water mark and were now in decline, since Indian importers had no desire to deal with the Japanese as their contractual arrangements were subject to constant mistakes, *The Manchester Chamber of Commerce, Monthly Record*, July 1920, p. 216. A view shared by the US Tariff Board of 1921, cited in Hubbard G. E., p. 53.

Despite the hopes of the early 1920s the cotton export trade scarcely recovered. Lancashire businessmen recognised the relative stagnation of their export trade. However, they preferred to blame political and economic instability in the global market, increasing protectionism, domestic industrial unrest, and high levels of taxation for the problems of their export trade. In 1923, W. Clare-Lees, the President of the Manchester Chamber of Commerce, denounced the unsettling effects of the French occupation of the Ruhr and stated that the key to the recovery of Lancashire was the return of Europe to trade stability. For Lancashire political and economic instability in Europe resulted in lower demand for Asian produce and the consequent decline in Asia's income was reflected in lower consumption of Lancashire cotton piece-goods.⁶⁵ Lees aside, however, Lancashire was far more disturbed by the effects of political unrest, protectionism, and currency instability in East Asia, and the consequent decline of Lancashire's exports to its two most important prewar markets China and India.⁶⁶ To many in Lancashire the effect of this political unrest in disrupting market stability in East Asia - associated with the development of native cotton industries - had been responsible for the majority of Lancashire's 'lost' postwar trade. One estimate suggested that in 1925 Lancashire's exports to all world markets exceeded their 1913 level, the only exceptions were the markets of the Far East. These markets had contracted by some 2,400 million linear yards since 1913, which represented the exact difference between Lancashire's prewar and postwar export performances.⁶⁷ Lancashire was greatly concerned that the development of 'protected' native industries would result in substantial import substitution of cotton piece-goods and lead to a complementary decline in their export trade. Lancashire was particularly vexed that within the huge Indian market a 'protected' Indian cotton industry was being established. At the height of the nineteenth century Britain imposed an 'open' tariff regime in India: in 1895, the Lancashire cotton industry insisted that when a 3% revenue tariff - lower than the 5% revenue tariff on all other manufactured goods - was established, there would be no tariff protection for the native cotton industry, and consequently a complementary 3% excise duty was established on all native mill produced cotton piece-goods. However, in 1917 and 1921 the import duty on cotton piece-goods was

65. *The Manchester Chamber of Commerce, Monthly Record*, July 1923, and February 1924, pp. 60-1.

66. *Manchester Guardian Commercial, Annual Review*, 26 January 1928, p. 36 (India), p. 43 (China); *The Manchester Chamber of Commerce, Monthly Record*, February 1923, p. 61, July 1923, p. 244, and December 1924, pp. 443-445; Robertson A. J., p. 92.

67. Armitage G. W., 'Probing the Wound in Lancashire's Trade', *Manchester Guardian Commercial*, 12 January 1928, p. 33; Robertson A. J., p. 91.

increased first to 7.5% and then 11% without any increase on the excise duty. Thus the native cotton industry obtained some measure of tariff protection. The 1921 tariff increase was roundly condemned in Lancashire as not only dislocating world trade but also as being a direct threat to the future of the Lancashire cotton industry. Sir E. F. Stockton, the President of the Manchester Chamber of Commerce, stated "Those who promoted the duties may think it is easy to transform the grain producing areas of the Bombay Presidency into cotton mills, but who can transform the cotton mills of Blackburn into wheat fields".⁶⁸ Thus Lancashire feared that not only was their export trade threatened by stagnant world demand but also by increasing protectionism in their former overseas markets.

Further, Lancashire complained that its exports had been undermined by the postwar disequilibrium between the demand and supply of cotton piece-goods. Despite the postwar fall in per capita consumption of cotton piece-goods in East Asia, Lancashire argued that demand for cotton piece-goods remained high and only the high postwar price of raw cotton prevented Lancashire from supplying cotton piece-goods to native consumers at affordable prices. In 1924 Dr. A. Ree, the President of the Manchester Chamber of Commerce, lamented that "there is plenty of evidence that the world wants Lancashire goods, but it is not willing just yet to pay the prices which, owing to the high cost of raw material, Lancashire has now to charge".⁶⁹ Thus, according to contemporaries, the export problems of the Lancashire cotton industry were not due to industrial inefficiency but resulted from the high price of American raw cotton. As late as 1928 Lancashire still believed that the recovery of Lancashire's export trade depended solely upon a recovery in world demand for cotton piece-goods. In 1928, Sir Ernest Thompson, the President of the Manchester Chamber of Commerce, stated that once world demand picked-up Lancashire's export trade would be secure for the next 6-7 years at a level of *c.* 6,000 million yards per annum.⁷⁰ This was a staggering assertion since Lancashire had not remotely achieved these prewar export levels since 1914.

The final concern of the Lancashire cotton industry for its poor postwar export performance was the effects of industrial strife and high domestic taxation on the Lancashire cotton industry. In particular both the 1921 coal strike and 1926 General Strike were

68. *The Manchester Chamber of Commerce, Monthly Record*, July 1921, p. 253; See chapter 3.

69. *The Manchester Chamber of Commerce, Monthly Record*, July 1924, p. 253.

70. *The Manchester Chamber of Commerce, Monthly Record*, July 1928, pp. 210-211.

considered to have severely disrupted Lancashire's export trade. The 1926 General Strike witnessed a sharp decline in Lancashire's exports of cotton piece-goods, as Lancashire cotton mills were reduced to a 24 hour week.⁷¹ Further, Lancashire regularly and roundly condemned the effects of high taxation - though surprisingly not the return to gold - upon industrial output. In July 1922 W. Clare-Lees, the President of the Manchester Chamber of Commerce, demanded reductions in taxation otherwise the government risked the future of Britain's trade and enterprise.⁷²

Despite the resurgence of Japanese competition in the mid-1920s the Lancashire cotton industry remained ambivalent to the threat Japanese competition posed. Lancashire was conscious of both the strengths and weaknesses of the Japanese cotton industry, and that the Japanese cotton industry still had a substantial headway to make-up if it was to overtake Lancashire. After the immediate postwar threat of Japanese competition had receded the further developments of the Japanese cotton industry were largely ignored. A proposed mission of February 1919 to examine wartime development in the East Asian cotton markets and cotton industries, despite previous assertions in Lancashire over the importance of the mission, was quietly abandoned in 1921 because of disagreements between the Treasury and the Manchester Chamber of Commerce on the scale, cost and respective funding of the mission.⁷³ Lancashire opinion remained obdurate in its contention that Japanese low wages and labour organisation gave them no advantage in production costs over Lancashire.⁷⁴ In 1925 C. W. Macara, the President of the Federation of Master Cotton Spinners' and Manufacturers' Associations' between 1894 and 1916 and a senior figure in the Lancashire cotton industry, stated that current and future developments in the Japanese cotton industry posed no threat to Lancashire.⁷⁵ Attitudes to Japanese competition changed slowly. The first real recognition of the re-emergence of Japanese competition was in January 1924 when the Manchester Chamber of Commerce and the Department of Overseas Trade established a joint committee to study the effects of Japanese competition in the British East African

71. *The Manchester Chamber of Commerce, Monthly Record*, July 1926, pp. 198, 205.

72. *The Manchester Chamber of Commerce, Monthly Record*, July 1922, p. 229.

73. *The Manchester Chamber of Commerce, Monthly Record*, July 1919, pp. 186-187, August 1919, p. 237, October 1919, pp. 267-267, 278, September 1920, p. 263, February 1921, p. 63.

74. Grey J. H., 'Memorandum in Relative Costs of Manufacture in Lancashire and Japanese Weaving Sheds', in Ellinger B., 'Lancashire's Declining Trade with China', *Transactions of the Manchester Statistical Society* (1928), pp. 45-9.

75. Macara C. W., *Trade Stability and how to Obtain it* (Sheratt and Hughes, Manchester; 1925), p. 37; Lazonick W., 'The Cotton Industry', p. 31.

colonies.⁷⁶ However, the following year the East Africa Committee reported that there was no serious cause for concern over the future threat of Japanese competition in the region.⁷⁷ In 1925 and 1926 there were further alarms over the competitiveness of cheap Japanese cotton goods in India and East Africa. However, leading Lancashire authorities discounted the Japanese threat which was attributed to temporary Japanese advantages resulting from the fall in the value of the yen and the exceptionally low price of the Indian raw cotton crop in the preceding year. In practice, it was claimed, Japanese goods competed more with Indian production than Lancashire's cotton piece-good exports.⁷⁸ Still these worries soon passed as Lancashire's exports recovered after the General Strike whilst the Japanese cotton industry was mired in the effects of the 1927 financial crisis, the abolition of night shifts for women and child operatives, and the effects of the appreciation of the yen.⁷⁹ *The Manchester Chamber of Commerce Monthly Record* observed in February 1927 that the appreciation of the yen had led to a slump in Japanese exports, and in response to this trade crisis the Japan Cotton Spinners' Association had imposed a 15% production curtailment rate upon all its members.⁸⁰ Thus towards the end of the 1920s it appeared that the Japanese cotton industry faced greater economic problems than its Lancashire rival.

However, such complacency over the threat of Japanese competition was not confined to the Lancashire cotton industry. In 1925 Sir Edward Crowe, the British Commercial Counsellor in Tokyo between 1918 and 1925,⁸¹ told the Manchester Chamber of Commerce that the Japanese were suffering as much as Lancashire from Chinese competition in China, domestic wage inflation, and high capital costs for land and machinery. To counter these effects, particularly Chinese competition, the Japanese were now building factories in China, a move he recommended to his Lancashire audience.⁸² The

76. *The Manchester Chamber of Commerce, Monthly Record*, January 1924, pp. 12-3.

77. *The Manchester Chamber of Commerce, Monthly Record*, January 1925, pp. xxii-xxiii; Robertson A. J., p. 92.

78. *The Manchester Chamber of Commerce, Monthly Record*, June 1925, pp. 174-177, July 1925, p. 202, April 1926, p. 114, July 1926, p. 205, and February 1927, p. 42; Robertson A. J., pp. 92-3.

79. Allen G. C., *A Short Economic History of Modern Japan* (Macmillan, Basingstoke; 1988), pp. 105-108; Lockwood W. W., pp. 56-9.

80. *The Manchester Chamber of Commerce, Monthly Record*, February 1927, May 1927, The Presidential address of W. E. Thompson, February 1928; Robertson A. J., pp. 93-4.

81. Wurm C., *Business, Politics and International Relations: Steel, Cotton and International Cartels in British Politics, 1924-1939* (Cambridge University Press, Cambridge; 1993), p. 240.

82. *The Manchester Chamber of Commerce, Monthly Record*, July 1925, p. 219; Robertson A. J., pp. 92-3.

British Consul in Osaka, W. B. Cunningham, confirmed Lancashire's opinion that the 1927 financial crisis had led to severe problems in the Japanese cotton industry and that these problems had continued into 1928. He reported that the Japan Cotton Spinners Association had both increased the level and duration of curtailment amongst its members and that there was widespread anxiety in the Japanese cotton industry about its own future.⁸³ However, such negative assessments of the Japanese cotton industry were not confined to British commentators. In 1929 using data from the 1921 and 1924 American Tariff Inquiries the American commentator, D. J. Orchard, put forward the increasingly anachronistic view that cheaper labour costs were of no advantage to the Japanese cotton industry. Compared to American mills, the author claimed, Japanese mills required 3 times as much labour for the same output, so that even the high wage American cotton industry could produce significantly cheaper yarn per pound than the low wage Japanese cotton industry.⁸⁴

However, from the mid-1920s many observers appreciated that the Japanese cotton industry posed an enormous threat to Lancashire.⁸⁵ Initially, commentators in Lancashire challenged the prevailing assumption that the poor export performance of Lancashire resulted solely from disturbed postwar economic conditions.⁸⁶ However, the first public affirmation of the economic efficiency of the Japanese cotton industry came with the publication in 1927 of the Department of Overseas Trade's *Report on the Cotton Spinning and Weaving Industry in Japan, 1925-26* by the British Consul in Osaka, W. B. Cunningham.⁸⁷ The publication of this report broke through much of the contemporary

83. *The Manchester Chamber of Commerce, Monthly Record*, April 1928, pp. 112-113.

84. The 1921 US Tariff Commission was particularly critical of the immaturity and inefficiency of the Japanese cotton industry, US Tariff Commission, *The Japanese Cotton Industry and Trade*, (1921), cited in Hubbard G. E., p. 53. Orchard D. J., 'An Analysis of Japan's Cheap Labor', *Political Science Quarterly* (1929); Orchard J. E., *Japan's Economic Position: The Progress of Industrialisation* (McGraw-Hill, London; 1930), chapters XIX and XX.

85. One of the first categorical warnings over the potential threat of Japanese competition delivered to the Manchester Chamber of Commerce came from Sir Maneckji Dadabhoy, a member of the Indian council of State, in June 1925. However, the Chamber chose to ignore this warning since they considered it irrelevant to the Lancashire cotton industry, *The Manchester Chamber of Commerce, Monthly Record*, July 1925, pp. 174-177.

86. Daniels G. W. and Jewkes J., 'The Comparative Position of the Lancashire Cotton Industry and Trade'

87. Cunningham W. B., *Report on the Cotton Spinning and Weaving Industry in Japan, 1925-26* (HMSO, London; 1927). The British government could not be accused of neglecting British trade with Japan or economic and industrial developments in Japan. Moreover, the British government maintained an extensive consular network throughout Japan, unlike the French government which as one commentator lamented did not even maintain a permanent representative in Osaka, 'the seventh largest city in the world', Levy R., *French Interests and Policies in the Far East* (Institute of Pacific Relations, New York; 1941), footnote 2, p. 41. The role of the Department of Overseas Trade and the Foreign Office

complacency in Lancashire over the inefficiency of the Japanese cotton industry. Bernard Ellinger relied extensively on Cunningham's description of the organisation of the Japanese cotton industry to support his contention on the need of the Lancashire cotton industry to rationalise its organisation.⁸⁸ Further praise for the Japanese cotton industry came from Arno Pearse, the respected authority on the cotton industry, and Freda Utley after their separate and independent studies of the Japanese cotton industry. Moreover, despite initial resistance in the case of Utley's research, both Utley and Pearse clearly demonstrated that the Japanese cotton industry could manufacture cotton piece-goods at considerably lower cost than Lancashire.⁸⁹ In the preface to Pearse's work on the Japanese and Chinese cotton industries, F. Holroyd, the President of the Federation of Master Cotton Spinners' and Manufacturers' Associations, recognised both the efficiency of the Japanese cotton industry and the fact that Japan could manufacture cotton piece-goods at considerably less cost than Lancashire.⁹⁰ The start of the Depression marked the beginning of Lancashire's acceptance of the superiority of Japanese production costs and the recognition of the threat of Japanese competition to Lancashire's export trade. In August 1930 the Manchester Chamber of Commerce established a special committee to monitor and disseminate information on Japanese competition.⁹¹ Moreover, in tacit recognition of the superiority of the Japanese cotton industry the British Consul in Osaka made representations to the Japanese over the possibility of a Lancashire-Japan cotton cartel.⁹²

was critical in the 1920s in providing accurate information on the development of the Japanese cotton industry, Pearse paid tribute to the consular reports from Japan in informing him of developments in the Japanese cotton industry, Pearse A. S., *The Cotton Industry of Japan and China*, pp. 11, 16.

88. Ellinger B., 'Lancashire's Declining Trade with China'; Utley F., p. 51.
89. F. Utley was vigorously attacked for stating that Japan's cheap labour did give them an advantage in production costs over Lancashire, *Manchester Commercial Guardian*, 24 May - 9 May 1929. Further, prior to the publication of Cunningham's, Pearse's, and Utley's work opponents of the view that Japanese had no advantage over Lancashire had little concrete evidence to support their case. In 1928 Sir K. D. Stewart, a leading Lancashire cotton merchant, was highly suspicious of J. H. Grey's figures of Japanese cotton piece-goods manufacturing costs. Stewart believed Grey's figures of Japanese manufacturing costs were inflated but could only cite his personal impression, from visits to Japanese cotton mills in Osaka, as evidence of the efficiency of Japanese cotton mills in criticism of Grey's figures, in Ellinger, 'Lancashire's Declining Trade with China', pp. vii-viii; Robertson A., pp. 95-6.
90. Holroyd F., in Pearse A. S., *The Cotton Industry of Japan and China*, pp. 3-7, also see tables 1.14, and 1.15 where Holroyd calculates the difference in wage costs between Lancashire's and Japan's manufacturing costs of cotton piece-goods.
91. *The Manchester Chamber of Commerce, Monthly Record*, August 1930, pp. 242-243; Robertson A. J., p. 97.
92. Ishii O., 'Cotton Textile Diplomacy: Japan, Great Britain and the United States' (Unpublished thesis, Rutgers University, 1977), pp. 65-66; See chapter 2.

The final misconception of Lancashire with regard to the Japanese cotton industry was the constantly repeated claim that Japanese competition was unfair because it received state subsidies. Throughout the 1920s various experts had lectured Lancashire that this belief was incorrect. As early as November 1920, Sir J. S. Randles MP, who had recently returned from East Asia, firmly told his Lancashire audience that the Japanese government did not subsidise the Japanese cotton industry.⁹³ This view was repeated by Sir E. Crowe in 1925, who, although generally dismissive of the threat of Japanese competition, was at pains to discredit the view that the Japanese did not run a commercial cotton industry. He stated that it was incorrect to see the industry as state subsidised, or even that its special shipping rates with the Indian Shipping Conference as another form of subsidy.⁹⁴ Moreover, as Lancashire's fears of Japanese competition increased towards the end of the 1920s and were used as a justification for trade discrimination against Japanese cotton exports, numerous commentators still insisted that any suggestion that there was any form of subsidy to the Japanese cotton industry was incorrect. Pearse stated that in his investigations into the Japanese cotton industry he found no evidence that the Japanese engaged in unfair competition.⁹⁵ The final salvo in this campaign came in 1933 when George Sansom, the British Commercial Counsellor in Japan and regarded as the greatest foreign expert of Japan, listed Japanese state subsidies to industry which conspicuously did not include the cotton industry. He pointed out that the scale of state subsidy to Japanese industry as a whole was relatively small, from his experience not only did the Japanese cotton industry run a commercial operation, and he could find no evidence of secret state subsidies to the Japanese cotton industry.⁹⁶ The authority of Sansom's report was sufficient to kill off all but the most diehard believers in an organised conspiracy between the Japanese government and cotton industry to destroy the Lancashire cotton industry. For example in May 1933 *The Manchester Chamber of Commerce Monthly Record* accepted Sansom's report as an 'authoritative report' on the Japanese cotton industry and the question of subsidies to the Japanese cotton industry.⁹⁷

93. *The Manchester Chamber of Commerce, Monthly Record*, December 1920, p. 365.

94. *The Manchester Chamber of Commerce, Monthly Record*, July 1925, p. 219.

95. Pearse A. S., *The Cotton Industry of Japan and China*, pp. 12-3.

96. Sansom to the Foreign Office, 8 February 1933, FO371/17156,F1517/1517/23.

97. *The Manchester Chamber of Commerce, Monthly Record*, May 1933, pp. 143-145.

Economic crisis in the Lancashire cotton industry and economic decline.

The Depression had a dramatic impact on the Lancashire cotton industry, as the slump in Lancashire cotton exports threatened the very fabric of this export oriented industry. Not only did exports fall in successive years from 1927 to 1931, the brief recovery in export volumes in 1931-32 proved illusory when export volumes again declined in 1932.⁹⁸ All aspects of the Lancashire cotton industry entered a crisis period. Gross profits in the Lancashire cotton industry fell from £9.9 million in 1928 to a mere £1.1 million in 1930.⁹⁹ In 1931 the average dividend for 225 cotton firms capitalised at £32,528,405 was a paltry 1.3%, and of these companies 194 paid no dividend.¹⁰⁰ Employment contracted sharply as the insured work-force of over 500,000 shrank by some 46,000 between 1930 and 1932.¹⁰¹ Further, as employment contracted unemployment rose throughout the cotton textile industry; between 1929 and 1931 the percentage of insured workers increased by more than threefold, a greater proportionate rise than any other of the major 'declining' industries in Britain.¹⁰² Finally, the need to reform wage structures and work-practices to meet foreign competition spilled over into a series of industrial disputes between December 1930 and the end of 1932.¹⁰³ In the summer of 1932 some 200,000 cotton spinners were on strike over attempts by the cotton manufacturers to cut wages and increase workloads. An event that aroused widespread interest in the Japanese cotton industry.¹⁰⁴ Thus in the early 1930s the

98. See table 1.1.

99. See table 1.18.

100. *The Economist*, 2 January 1932, p. 14.

101. See table 1.18.

102. See table 1.19.

103. Lazonick W., 'The Cotton Industry', pp. 29-30; Fowler A. and Fowler L., *The History of the Nelson Weavers Association* (Burnley, Nelson, Rossendale and District Textile Workers Union, Nelson; 1984), Chapters 5 and 6.

104. *The Economist*, 27 August 1932, p. 386; *Dai Nippon Bôseki Rengôkai Geppô*, January 1932, 'Eikoku Mengyôkai Rôshi Kakushitsu Mondai' [The labour-capital discord problem in the British cotton industry], February 1932, 'Eikoku Mengyô Gaikyô' [The general condition of the British cotton industry], March 1932, 'Eikoku Bânrei Shokka no Dômeihigyô' [The weavers strike in British Bânrei], July 1932, Rankashia Orinunobu Rôshi Funsô ni Kansuru Kudan' [An example of the labour capital dispute in the Lancashire weaving section], August 1932, 'Eikoku Orimonobu Sôhigyô Keikaku no Jijô' [The circumstances of the British weaving sections general strike plan], September 1932, 'Eikoku Bôsekigyô no Sôgi Kei' [Details of the troubles in the British spinning industry], October 1932, 'Rankashiya Menorinunobu Sôgi Tenmetsu' [The circumstances of the troubles in the Lancashire cotton weaving section], November 1932, 'Rankashiya Bôsekigyô Sôgi Tenmetsu' [The circumstances of the troubles in the Lancashire spinning industry], December 1932, 'Rankashiya Bôsekibu Sôgi Tenmetsu Zokuhô' [Further news of the circumstances of the troubles in the Lancashire spinning section], January 1933, 'Rankashiya Bôsekibu Sôgi Tenmetsu Shûhô' [The final news of the circumstances of the troubles in the Lancashire spinning industry].

situation of the Lancashire cotton industry appeared desperate.

Lancashire's response to the economic crisis was to reform and rationalise the cotton industry and to seek political support from the British government in protecting Lancashire's overseas markets. However, the prime aim of industrial reform in the Lancashire cotton industry was not to make Lancashire competitive with Japan, but to manage financial and industrial dislocation in the Lancashire cotton industry. In the 1920s efforts at reform in the Lancashire cotton industry to improve the overall efficiency of the industry proved ineffective and in reality were simply aimed at maintaining price levels. The Federation of Master Cotton Spinners' and Manufacturers' Associations, an important business association of Lancashire cotton manufacturers,¹⁰⁵ own short-work scheme broke up in 1926 due to price undercutting by nonmembers. A similar Federation of Master Cotton Spinners' Association plan for a production quota and price support scheme for the American spinning section failed after 10 months in 1927 again due to price cutting by nonmembers. Subsequent plans for a minimum yarn price-list recognised by Parliament and to allow the expansion of efficient firms and the contraction of inefficient firms were abandoned due to opposition from within the cotton industry.¹⁰⁶

The next attempt at industrial reform came from the Bank of England as a result of its worries over the over exposure of the Lancashire regional banks to the debt ridden cotton industry.¹⁰⁷ The 1929 plan was to amalgamate some 200 firms with 20 million spindles in the American spinning section. By 1930 the newly formed Lancashire Cotton Corporation had coerced 96 firms with 9.3 million spindles (almost 20% of the Lancashire total) into its fold. However, this apparent success could scarcely hide the underlying failure of the Lancashire Cotton Corporation. In the first place Lancashire cotton manufacturers, many of whom had only joined after being threatened with termination of credit by their bankers, proved unwilling to cooperate with the management of the Lancashire Cotton Corporation.¹⁰⁸

105. Wurm C., p. 198; Goodwin J. H., 'The Politics of the Manchester Chamber of Commerce, 1921 to 1951' (Unpublished thesis, University of Manchester; 1982), pp. 189, 194-195.

106. Lazonick W., 'The Cotton Industry', pp. 31-2.

107. Bamberg J. H., 'The Rationalization of the British Cotton Industry in the Interwar Years', *Textile History* (1988), p. 88.

108. Lazonick W., 'The Cotton Industry', p. 33; Kirby M. W., pp. 149-151; Hannah L., *The Rise of the Corporate Economy: The British Experience* (Methuen, London; 1976), p. 84.

Secondly, the Lancashire bankers used the Lancashire Cotton Corporation as a vehicle to off-load their most indebted cotton firms from their books.¹⁰⁹ Thirdly, the Lancashire Cotton Corporation was not turned into an integrated spinning and weaving combine, since it was only a spinning firm and in any case lacked effective central control over its member firms. In 1932 the chief executives resigned from the Lancashire Cotton Corporation when the Board of Directors decided that the mill managers should be given more autonomy.¹¹⁰ Finally, by the mid-1930s Lancashire no longer saw industrial reform as a viable means of combating Japanese competition in the mass overseas markets. In 1934, Sir W. Preston, Chairman of Platt Brothers, the Oldham textile engineering firm, unveiled a plan to restore Lancashire's fortunes. He believed that through the re-equipping of the Lancashire cotton industry with high-draft ring frames and automatic looms, Lancashire could market cloth in India at a profit and at lower prices than those charged by Japanese cotton manufacturers. However, the Federation of Master Cotton Spinners' and Manufacturers' Associations challenged the validity of Preston's proposal, and after a period of theorizing and experimentation, in 1936, Preston admitted defeat.¹¹¹

However, the Lancashire Cotton Corporation did result in some success for the whole of the Lancashire cotton industry by its successful scrapping of surplus machinery. This process was continued by the various Parliamentary schemes for the scrapping of machinery in the Lancashire cotton industry that resulted from proposals originating within the Lancashire cotton industry. By 1939 the Lancashire Cotton Corporation had scrapped some 4.5 million spindles,¹¹² and again by 1939 the 1936 Spindles Act had forced the compulsory scrapping of some 6.2 million surplus spindles.¹¹³ Thus as a consequence of the contraction in the Lancashire cotton industry total spindlage contracted by 28.2% between

109. Bamberg J. H., pp. 90-4.

110. Lazonick W., 'The Cotton Industry', pp. 32-3; Robertson A. J., pp. 95-6; Lucas A., *Industrial Reconstruction and Control of Competition. The British Experiment* (Longmans, London; 1937), pp. 156-159; Hannah L., pp. 84-5; Kirby M. W., p. 152; *The Economist*, 8 October 1932, p. 635; *Dai Nippon Bōseki Rengōkai Geppō*, July 1932, 'Rankashia.Kotton.Kōporēshiyon Kaichō no Jinin' [The resignation of the chairman of the Lancashire Cotton Corporation].

111. Robertson A. J., pp. 102-103. A similar proposal was put forward by Mr. Lennox Lee, the Chairman of Calico Printers, in 1934, see *The Economist*, 10 March 1934, p. 512.

112. Pollard S., *The Development of the British Economy, 1914-1967* (Edward Arnold, London; 1969), p. 122.

113. Robson R., pp. 229-230, 340; Hughes H. G. and Saunders C. T., 'The Cotton Industry', in British Association, *Britain in Recovery* (Sir Issac Pitman & Sons, London; 1938), pp. 449-450, 456-457.

1928 and 1937, and the total number of looms contracted by 37.6%.¹¹⁴ Further, this steady contraction of the Lancashire cotton industry undermined the sense of crisis in the Lancashire cotton industry. Although the work-force in the Lancashire cotton industry continued to shrink throughout the 1930s so too did the level of insured unemployed cotton workers. The fall in the unemployment rate amongst insured workers in the cotton industry, from 33.8% in 1932 to 22.4% in 1933, meant that its unemployment rates were now substantially below those in the other 'declining' industries of coal, shipbuilding, and iron and steel.¹¹⁵ Some measure of profitability actually returned to the cotton industry after 1934.¹¹⁶ However, the most noticeable feature within the Lancashire cotton industry was that, while its industrial leaders continued to adhere to the rhetoric that Lancashire should remain a world leader, the continued disinvestment out of the Lancashire cotton industry indicated that in practice few shared these beliefs. From 1929 there was a consistent net disinvestment in gross fixed capital in the Lancashire cotton industry¹¹⁷ as Lancashire rejected industrial reform schemes to meet foreign competition and adopted the previously outlined strategy of piecemeal reform and concentration on specialist export markets. Thus the abandonment of the Lancashire cotton industry by its investors gradually lessened the pressure on the British government to continue to actively intervene on behalf of the cotton industry.

114. See table 1.18.

115. See tables 1.18, and 1.19.

116. See table 1.18; *The Economist*, 17 February 1934, p. 357, and 2 November 1935, p. 869.

117. See table 1.18.

Lancashire and the campaign for trade discrimination against Japan.

Despite the decline of the Lancashire cotton industry from the mid-1920s, it was in the early 1930s that the economic and political situation appeared most critical. In this state of acute economic difficulty Lancashire abandoned its traditional *laissez faire* trade policy and endorsed domestic tariff protection, imperial preference, and the negotiation of bilateral trade pacts. Moreover, the fear of Japanese competition heightened Lancashire's demands for strong government intervention in the international arena. Furthermore, the emergence of a radical protectionist lobby in Lancashire challenged the established moderate leadership of the Lancashire cotton industry, as exemplified by the Manchester Chamber of Commerce which was still dominated by pro-free trade merchant interests.¹¹⁸ The Chamber worried that not only would the question of trade protection diminish its leadership of the industry, any explicit division of the industry between free traders and protectionists would destroy Lancashire's political influence in Whitehall.¹¹⁹ However, in the early and mid-1920s Lancashire remained a bulwark of the free trade lobby.¹²⁰ In 1922 Bolton cotton spinners and MPs protested against the proposed 33.5% anti-dumping duty on German cotton glove imports. The Bolton spinners complained that since they supplied cotton yarn to the German glove manufacturers their export trade would suffer if the domestic duty was increased.¹²¹ Even as late as 1927, despite growing antagonism to free trade within Lancashire the Chamber remained not only a keen advocate of free trade but also a harsh critic of dissent within the Chamber. In 1927 Sir Ernest Thompson, the President of the Manchester Chamber of Commerce and a leading cotton merchant,¹²² championed the Geneva World Economic Conference as an attempt to help world trade by reducing trade barriers.¹²³ *The Manchester Chamber of Commerce, Monthly Record* not only praised Thompson's efforts in Geneva, it also condemned an anonymous letter writer who dared to suggest that in the face of increased world wide protectionism the Geneva Conference was a

118. Wurm C., p. 198; Goodwin J. H., 252. In regard to the Manchester Chamber of Commerce's moderation, in 1927, the Chamber only added its name to a letter to *The Times*, that demanded there should be no further surrender of British extraterritorial privilege in China, after they had sought Foreign Office consent, Redford A., p. 231.

119. Wurm C., p. 207.

120. Blank S., *Industry and Government in Britain. The Federation of British Industries in Politics, 1945-65* (Saxon House, Westmead; 1973), pp. 15-16.

121. *The Manchester Chamber of Commerce, Monthly Record*, July 1922, pp. 225, 232, 239.

122. Wurm C., p. 398.

123. *The Manchester Chamber of Commerce, Monthly Record*, July 1927, p. 210.

miserable charade.¹²⁴

However, by the late 1920s, the continued stagnation in the Lancashire cotton industry undermined support for *laissez faire*. The Manchester Chamber of Commerce found that growing internal dissent to free trade threatened to end its leadership of the cotton industry. In 1929 the European and United States Section of the Manchester Chamber of Commerce complained that:

It is evident that some countries have been inspired by a narrow economic policy, which is but part of the deplorably general tendency to increase rather than diminish barriers to international trade"...."Your Executive feels that the policy hitherto pursued by this country has not resulted in any improvement in the prospects of the British textile export trade in the markets falling under its purview, and that the failure of most countries to bring into operation the sentiments expressed at the World Economic Conference at Geneva in May, 1927, merits the most serious consideration.¹²⁵

From 1929 while free trade sentiment slowly ebbed in Lancashire the Chamber still fought to maintain unity to trade policy in the cotton industry through upholding Lancashire's commitment to free trade. In early 1929 the Directors of the Chamber rebuffed a call from a group of cotton manufacturers headed by R. Waddington, a cotton manufacturer and the Conservative MP for Rossendale, for the Chamber to end its support of free trade. However, this rejection of trade protection no longer stemmed from a principled commitment to free trade, but because the Directors feared the divisive effect of such a proposal within the Chamber.¹²⁶ Yet despite the election of a free trade Labour government in 1929 increased protectionist sentiment forced the Chamber to abandon its defence of free trade. In October 1929 only the Blackburn delegates opposed a protectionist resolution at the Association of Chambers of Commerce, while the Manchester delegates maintained a discreet silence on the issue.¹²⁷ Finally, between 1930 and 1931 in the midst of the trade slump the Chamber and Lancashire abandoned free trade and endorsed both protectionism and bilateral trade negotiation. As a reflection of the growing support for protectionism within the Chamber, in

124. *The Manchester Chamber of Commerce, Monthly Record*, July 1927, pp. 205-206.

125. *The Manchester Chamber of Commerce: Annual Reports of the Board of Directors and Trade Sections, 1928*, p. xviii; Redford A., pp. 235-236.

126. Redford A., p. 247; Goodwin J. H., pp. 280-281.

127. *The Manchester Chamber of Commerce, Monthly Record*, October 1929, pp. 304-305; Redford A., p. 237.

January 1930 the Directors of the Chamber, dominated by cotton interests,¹²⁸ voted by a majority of 2 to 1 to oppose the removal of certain protective duties by the Labour government.¹²⁹ while a poll of Chamber members, again dominated by cotton interests,¹³⁰ in the spring of 1930 revealed that only a quarter were in favour of the continuation of free trade.¹³¹ The decisive break with the *laissez faire* trade policy came in October 1930 when the Chamber welcomed the Canadian offer to introduce a preferential tariff on British manufactured goods,¹³² which was later followed by the wholehearted endorsement of British tariff protection, imperial tariff preference and the Ottawa Conference, and negotiated bilateral trade arrangements.¹³³ Moreover, the move of the Chamber to protectionism was mirrored in Lancashire. In the 1929 election out of 50 Parliamentary seats Lancashire returned only 14 Conservative MPs. However, in the 1931 election the Conservative Party adoption of protectionism resulted in an electoral landslide, with the return of some 43 Conservative MPs and only 6 Labour and Liberal free trade MPs.¹³⁴

In contrast to the complacency that had pervaded the Lancashire cotton industry over the threat of Japanese competition in the 1920s the 1930s witnessed near hysteria over the threat of Japanese competition in the Lancashire cotton industry. In 1932-33, while Lancashire witnessed the aborted revival of its export trade Japanese exports of cotton piece-goods continued to grow.¹³⁵ Lancashire was so bewildered by the competitiveness of Japanese cotton piece-goods exports that it became difficult to view Japanese competition in rational terms. In December 1932 Raymond Streat, the respected Secretary of the Manchester Chamber of Commerce, wrestled with ^{the} nature of Japanese competition and had some difficulty in not accepting Japanese competition as unnatural. "Perhaps 'Bogey' is the

128. Redford A., p. 300; Goodwin J. H., pp. 185, 196; Tippet L. H. C., *A Portrait of the Lancashire Textile Industry* (Oxford University Press, London; 1969), p. 20.

129. *The Manchester Chamber of Commerce, Monthly Record*, January 1930, p. 11; Redford A., pp. 238-239.

130. Redford A., p. 299; Goodwin J. H., p. 185; Tippet L. H. C., p. 20.

131. *The Manchester Chamber of Commerce, Monthly Record*, June 1930, pp. 172-174; Redford A., p. 239.

132. *The Manchester Chamber of Commerce, Monthly Record*, p. 299.

133. *The Manchester Chamber of Commerce, Monthly Record*, September 1931, pp. 260-263, May 1932, pp. 129-130, June 1932, pp. 5-7, July 1932, pp. 189-190, 193-196, September 1932, pp. 249-250; Redford A., pp. 240-245, 247-248.

134. Craig F. W. S., *British Parliamentary Election Results, 1918-1949* (Macmillan, London; 1977).

135. See table 1.1.

wrong word. It customarily implies an object of unjustified apprehension, and Japanese Competition seems only too likely to prove a real menace. But I use it in the sense of something which had got everybody scared stiff".¹³⁶ However, even if Lancashire was confused by the success of Japanese competition it was even more fearful of the threat Japanese competition posed to both Lancashire and Britain. In 1933 T. D. Barlow, a former President of the Manchester Chamber of Commerce, stated that Japanese competition could destroy Lancashire, while Streat worried that, "The competition of Japanese standards of life could reduce industrial Britain to a shambles".¹³⁷ Further, by the early 1930s the fear of Japanese competition was no longer confined to Lancashire. In May 1933 the Federation of British Industries, the dominant mouthpiece of British industry, condemned the Japanese devaluation of the yen as both 'reckless' and part of a deliberate national sales policy that had been disastrous for British traders.¹³⁸ In a similar vein to Streat's worries over Japanese competition on industrial Britain, Ramsay MacDonald, the current Prime Minister and former Prime Minister of the previous free trade Labour administration, told the Cabinet in March 1933 that Japanese competition could be the possible harbinger of a struggle between East and West arising out of the great difference in respective standards of living.¹³⁹ Indeed such was the atmosphere with regard to the threat of Japanese competition that Sansom felt obliged - given his consistent defence of Japanese commercial practices - to write to Sir E. Crowe to repudiate any charge of being pro-Japanese.¹⁴⁰

Given the fear of Japanese competition in the Lancashire cotton industry the Manchester Chamber of Commerce pressed the British government to take active steps to restrain Japanese competition in overseas markets. However, even though the Chamber had adopted trade protection it remained apprehensive over the question. Uncertain of the British government's response to demands for trade protection in the colonies the Chamber refused to launch a public campaign for trade discrimination against Japan. Nevertheless, in private the Chamber demanded strong measures from the British government to defend

136. Dupree M. (ed.), *Lancashire and Whitehall. The Diary of Sir Raymond Streat. Volume 1, 1931-1939* (Manchester University Press, Manchester, 1987), entry December 1932, pp. 199-200; Robertson A. J., p. 97.

137. *The Manchester Chamber of Commerce, Monthly Record*, February 1933, p. 36; Dupree M. (ed.), p. xviii; Robertson A. J., p. 98.

138. Cited in Hubbard G. E., p. 97.

139. Cabinet Conclusions, 29 March 1933, CAB 23 22(33)4.

140. Sansom to Crowe, 10 June 1933, FO371/17154,F4628/583/23.

Lancashire's trade from Japanese competition. In September 1932 the Manchester Chamber of Commerce called on the British government to denounce the 1911 Anglo-Japanese Trade Treaty.¹⁴¹ Yet in public it maintained a less radical stance on trade protection. In November 1932 the Chamber sponsored and then endorsed the moderate protectionist resolution of the Association of British Chambers' of Commerce, that rejected calls for the denunciation of trade treaties and merely called for the British government to negotiate new bilateral trade agreements with consenting governments.¹⁴²

However, by 1932 sections of the Lancashire cotton industry were dismayed by the efforts of the British government and the Manchester Chamber of Commerce to defend Lancashire's overseas markets from Japanese commercial penetration. In contrast to the moderate public stance of the Manchester Chamber of Commerce they demanded a much more radical response to the question of Japanese competition. In late November 1932 a small group of Lancashire MPs started a campaign in Parliament that switched from complaining about Japanese trade practices to demands for trade protection from Japanese competition in the British colonies.¹⁴³ Then in December 1932 the Cotton Trade League was formed to pressure both the Chamber and the British government into greater activity on behalf of the Lancashire cotton industry. The Chamber was not at all pleased by the formation of the Cotton Trade League, since it threatened to undermine its private efforts with the government for trade protection against Japan, through a public insistence on protective measures which the government could not fulfil.¹⁴⁴ While Streat regarded the Cotton Trade League as a 'hot headed' response to the question of Japanese competition, he was highly critical of the aims and ambitions of its leadership.¹⁴⁵ he later condemned Alan Chorlton, the Conservative MP for Manchester Platting and the driving force behind the Cotton Trade League, as "that nice, but deluded die-hard, ... convinced that a strong government could put everything right in five minutes and that only agitation will make the

141. *The Manchester Chamber of Commerce, Monthly Record*, July 1933, pp. 206-207; Dupree (ed.), p. 207.

142. *The Manchester Chamber of Commerce, Monthly Record*, November 1932, p. 313; *The Manchester Chamber of Commerce: Annual Report of the Board of Directors, 1932*, pp. vii-viii; The Presidential address of T. D. Barlow, *The Manchester Chamber of Commerce, Monthly Record*, February 1933, p. 38.

143. *Parliamentary Debates: Official Report. Fifth Series* (HMSO, London; 1933), *Volume 269*, pp. 1598-1599, *Volume 272*, pp. 22-23, 618, 1217, *Volume 273*, pp. 330-331, 503-504.

144. Wurm C., p. 207.

145. Dupree M. (ed.), entry December 1932, pp. 199-200.

government take a strong line"; and as a man who was singularly unable to grasp the complexities of the modern world, "I tried to make poor Chorlton realise the complexity of things ... [but] you can do nothing with him".¹⁴⁶ In response to this challenge, the Chamber mounted its own public campaign to underline their past attempts to achieve some measure of trade protection for Lancashire, and re-establish its credentials as the champion of Lancashire with the public.¹⁴⁷ Consequently, on 12 December 1932 a Special General Meeting of the Manchester Chamber of Commerce was convened to denounce Japanese competition and to organise stronger public and Parliamentary pressure for greater governmental assistance to Lancashire in overseas markets.¹⁴⁸ This movement was eventually formalised as the 'Special Committee on Japanese Competition' which represented all the elements, save the trade unions, of the Lancashire cotton industry, but retained strong links with the Chamber.¹⁴⁹

The new public campaign of the Lancashire cotton industry focused on the need for the immediate protection of the Lancashire cotton industry from Japanese competition within British imperial markets. However, the Manchester Chamber of Commerce's public adherence to the cause of trade protection against Japan did not lead to any moderation of the demands from the Lancashire radicals. In particular the Parliamentary supporters of the Cotton Trade League still insisted upon the need for drastic action by the British government to deal with Japanese competition. For example Samuel Hammersley, the Conservative MP for Stockport and the chairman of several cotton spinning firms, who had previously demanded either tariff preference for Lancashire's goods or trade discrimination against Japanese goods in the British colonies, now advocated the immediate denunciation of the 1911 Anglo-Japanese Trade Treaty.¹⁵⁰ In support of these demands, throughout 1933 this small group of Lancashire MPs initiated a series of somewhat disorganised debates¹⁵¹ in the

146. Dupree M. (ed.), entries 22 January 1933, p. 208, and 3-8 January 1934, pp. 286-287.

147. Dupree M. (ed.), entry December 1932, pp. 199-200.

148. *The Manchester Chamber of Commerce, Monthly Record*, December 1932, p. 337; *The Manchester Chamber of Commerce: Annual Report of the Board of Directors*, 1932, pp. viii-ix.

149. The President of the 'Special Committee on Japanese Competition' was T. D. Barlow, a former President of the Manchester Chamber of Commerce, while Raymond Streat, the Secretary of the Manchester Chamber of Commerce, was also appointed the secretary to the 'Special Committee on Japanese Competition', Wurm C., p. 206.

150. Parliamentary questions by Hammersley to the President of the Board of Trade, 14 and 16 February 1933, in FO371/17153,F1052,F1099/583/23.

151. Dupree M. (ed.), entry 14 February 1933, p. 212.

House of Commons that condemned Japanese competition in highly colourful language and called on the British government to come to the aid of the Lancashire cotton industry.¹⁵² Furthermore, in public these Lancashire MPs maintained this radical stance. In January 1933 Chorlton called for the removal of all duties on British manufactured goods - except for revenue purposes - in both India and the colonies, while new duties should be imposed on foreign goods to give British goods a fair chance of competition.¹⁵³ Thus by early 1933 the Lancashire cotton industry, led by a radical fringe, demanded and expected strong action by the British government to combat Japanese competition in British imperial markets.

152. Debate in the House of Commons, 2 June 1933, FO371/17154,F3756/583/23.

153. *The Manchester Guardian*, 14 January 1933.

Conclusion.

The 1930s proved that the Lancashire cotton industry was ill-equipped to meet the new challenges of the world cotton textile market. The combination of a shrinking world market, protectionism, native industrialisation, and the rise of Japanese competition, doomed a substantial slice of the Lancashire cotton industry to extinction.¹⁵⁴ Moreover, in Japan there emerged a new competitor whose aggressiveness towards establishing industrial efficiency and export success destroyed the arrogant complacency of the Lancashire industrialists. The combination of high levels of industrial efficiency and substantially lower wage costs shattered Lancashire's belief that they could meet Japanese competition through its established industrial and labour practices. Industrial reform became vital. However, by the mid-1930s so great was Japanese competitive advantage that reform offered little hope of giving Lancashire even the semblance of competitive parity, "the competitive margin enjoyed by Japanese producers makes it virtually impossible to conceive of any organisational changes which would have benefited the industry in Eastern markets".¹⁵⁵ Like many other cotton industries, in the 1930s Lancashire simply found the Japanese cotton industry too competitive. Thus industrial reform in Lancashire became a process not to restore Lancashire's competitive fortunes but a means of reducing political strain while managing the economic decline of this once great industrial area.

While Lancashire wrestled with the problems of industrial reform trade protection offered both a more realistic and more immediate method of dealing with the problems of economic decline. Once Lancashire had abandoned free trade, it immediately turned to the protectionist British government in order to establish better trade protection for Lancashire in its overseas markets. However, trade protection for Lancashire could no longer be divorced from trade discrimination against Japan, and therefore could not be separated from British foreign policy. Nevertheless, in keeping with its moderate tradition, in regard to industrial-government relations, the Manchester Chamber of Commerce refused publicly to pressure the British government over the question of trade discrimination against Japan. The Chamber believed that given the complexity of British trade policy and the sensitivity of Anglo-Japanese relations, following Japan's invasion of Manchuria in September 1931, the unrealistic expectations of the Lancashire public could disrupt conversations with the

154. Sandberg L., *Lancashire in Decline*, chapter 10.

155. Kirby M. W., p. 158.

government. Unfortunately, for the Chamber its attempt to keep the question of Japanese competition within the traditional bounds of industry-government relations proved abortive. Fear of Japanese competition in Lancashire broke the already fragile political unity within the cotton industry. A radical section of the Lancashire cotton industry believed that only public agitation would force the government into adopting measures to combat Japanese competition. Confronted by this radical campaign for trade discrimination against Japan, the moderates within the Chamber, fearful of losing its leadership over this issue, joined this public campaign. Thus the failure of the Chamber to make any progress in its private talks with the British government led to the radicalisation of opinion in Lancashire. Consequently, the question of Lancashire-Japan textile competition could no longer be decided without reference to the demands of these radicals, and so Britain's already unstable relationship with Japan now had to be constructed to accommodate these new and publicly articulated demands.

Table 1.1 : Britain and Japan's total cotton piece-good exports, 1911-1936 (millions of yards).

Year	Britain's exports of cotton piece-goods (millions of linear yards)	Japan's exports of cotton piece-goods (millions of square yards)
1911	6,653.7	229.9
1912	6,912.9	290.5
1913	7,075.3	235.1
1914	5,737.7	337.3
1915	4,748.5	403.3
1916	5,254.2	535.0
1917	4,978.2	794.4
1918	3,699.3	1,006.4
1919	3,523.7	882.9
1920	4,435.4(i)	826.8
1921	3,038.2	689.2
1922	4,312.7	780.5
1923	4,328.7	881.5
1924	4,585.1	1,008.6
1925	4,636.7	1,297.5
1926	3,922.8	1,424.9
1927	4,989.1	1,482.9
1928	3,968.2	1,418.7
1929	3,764.9	1,790.6
1930	2,490.5	1,571.8
1931	1,790.2	1,413.8
1932	2,302.7	2,031.7
1933	2,116.7	2,090.2
1934	2,059.7	2,577.2
1935	2,013.4	2,725.1
1936	1,993.1	2,709.8

[Sources: Seki K., *The Cotton Industry of Japan* (Japan Society for the Promotion of Science, Tokyo; 1956), pp. 302-303; Robson R., *The Cotton Industry in Britain* (Macmillan, London; 1957), pp. 332-333.]

Note : (i) in millions of square yards.

Table 1.2 : World production and consumption of textile fibres, 1909/13-1928/29.

	World production of textile fibres (thousands of metric tons)			World per capita consumption of textile fibres (kilos per capita)		
	1909-13	1925-26	1928-29	1909-13	1925-26	1928-29
Cotton	4,583	5,247	5,593	2.56	2.72	2.85
Wool	1,392	1,582	1,765	0.78	0.82	0.90
Flax	578	581	573	0.32	0.30	0.29
Silk	29	50	60	0.016	0.026	0.031
Rayon	11	91	180	0.006	0.047	0.092

[Source: International Labour Office, *World Textile Industry: Economic and Social Problems. Volume 1* (International Labour Office, Geneva; 1937), table 6, p. 164.]

Table 1.3 : Lancashire's percentage of world production and the world export trade in cotton piece-goods (thousands of square yards).

Year	World production	World exports	World exports as a percentage of production	Lancashire's total exports	Lancashire's exports as a percentage of world production	Lancashire's exports as a percentage of world exports	Lancashire's exports if 1910-13 ratio of world exports of world production had been maintained
1882-84	12.0	5.4	45%				
1910-13	32.5	9.9	31%	6.6	20.3%	66.7%	
1926-28	38.0	8.6	23%	3.9	10.3%	45.3%	5.3
1936-38	37.5	6.5	18%	1.7	4.5%	26.1%	3.0

[Source: Robson R., *The Cotton Industry in Britain* (Macmillan, London; 1957), pp. 358-359.]

Table 1.4 : British, Japanese, and American exports of cotton textiles, 1927-1933 (millions of square yards).

Year	1927	1928	1929	1930	1931	1932	1933
Total world exports	7,970	7,787	7,877	5,868	4,798	5,582	5,372
Index of exports	100	97.7	98.8	73.6	60.0	70.0	67.7
Britain's exports	4,117	3,886	3,672	2,407	1,716	2,198	2,032
Index of exports	100	94.4	89.2	58.5	41.7	53.4	49.3
Share of world exports	51.6%	59.9%	46.6%	41.0%	35.8%	39.4%	37.8%
Japan's exports	1,364	1,419	1,791	1,572	1,414	2,032	2,089
Index of exports	100	104.0	133.0	115.0	103.7	149.0	153.1
Share of world exports	17.1%	18.2%	22.7%	26.8%	29.5%	36.4%	38.9%
US exports	545	526	543	404	375	367	295
Index of exports	100	96.5	99.6	74.1	65.5	67.3	54.1
Share of world exports	6.8%	6.7%	6.9%	6.9%	7.4%	6.6%	5.5%
Others exports	1,944	1,976	1,871	1,485	1,311	985	936
Index of exports	100	101.6	96.2	97.2	67.4	50.7	48.1

[Sources: Lawrence O. L., 'Competition in the world textile market', *Pacific Affairs* (1934), pp.170-171; Hubbard G. E., *Eastern Industrialization and its Effect on the West* (Oxford University Press, London; 1935), p. 5; *Statistical abstract of the United States* (United States Printing Office, Washington; various years).]

Table 1.5: Comparison of average annual nominal wages for operatives in the British cotton textile industry and the Japanese cotton spinning industry, 1914-1936 (in sterling).

Year	Britain (i)	Percentage that Japanese wages were less than British wages	Japan (ii)
1914	£48.8		£12.4
1920	146.4		56.1
1921	124.3	1921-1925 57.9%	48.7
1922	98.5		45.0
1923	90.4		43.4
1924	90.4		39.8
1925	90.4		36.7
1926	90.4	1926-1930 51.9%	42.7
1927	90.4		43.4
1928	90.4		44.8
1929	89.0		39.6
1930	82.4		42.7
1931	83.2	1931-1935 69.9%	40.3
1932	83.2		25.2
1933	79.6		23.4
1934	80.5		16.8
1935	80.0		16.6
1936	80.0		15.6

Notes: (i) For cotton spinners, doublers, etc., and cotton weavers. Annual wage rate calculated on the basis that the 1914 piece rate was +5% of the basic uniform list, and assuming that the +215% addition to the piece-rate list of 1920 was equivalent to £146.4 per annum. (ii) Calculated from the average daily money wage rate in the Japanese cotton weaving sector, on assumption of a six day week for 52 weeks per year (therefore this maximizes both wages and wage cost for the Japanese operatives and manufactures). Converted by the annual average rate of exchange. (iii) Further, wage costs for the Lancashire cotton manufacturers would be increased by the higher health and social security contributions that a British employer had to make compared to a Japanese employer. Also the actual income of some Lancashire cotton operatives could have been lower than the figures stated given the practice in the Lancashire cotton industry of operatives investing in the mills in which they worked. Given the poor performance of the Lancashire cotton industry in the interwar period it is difficult to believe that such investments made a positive contribution to the operatives net income.¹

[Sources: Chapman A. L., *Wages and salaries in the United Kingdom, 1920-1938* (Cambridge University Press, Cambridge; 1953), table 47, p. 105; *Statistical Abstract of the United Kingdom* (HMSO, London; various years); Fujiro S., Fujino S., and Ono A., *Estimates of long-term economic statistics of Japan since 1868. Volume 11* (Toyo Keizai Shiposha, Tokyo: 1979), table 34, p. 278.]

1. Kirby M. W., 'The Lancashire cotton industry in the Inter-War years: a study in organizational change', *Business History* (1974), pp. 147-148; Ellinger B., 'Lancashire's Declining Trade with China', *Transactions of the Manchester Statistical Society* (1928), pp. 20-1; Grey J. H., 'Memorandum on Relative Costs of Manufacture in Lancashire and Japanese Weaving Sheds', in Ellinger B., 'Lancashire's Declining Trade with China', pp. 45-9; Utley F., *Lancashire and the Far East* (George Allen & Unwin, London; 1931), pp. 43-52; Jones O., 'Lancashire Cotton Industry', *Harvard Business Review* (1924), p. 448; Bamberg J. H., 'The Rationalisation of the British Cotton Industry in the Inter-War Years', in *Textile History* (1988), p. 84.

Table 1.6 : Comparison of average earnings between female Japanese cotton weavers daily wage rates in the cotton spinning industry, and the Lancashire piece-rate lists, 1914-1936.

Year	Japan			Lancashire		
	Nominal earning (Yen) (i)	Index of earnings (1914 = 100) (ii)	Index of real income (1914 = 100) (iii)	Modifications to the piece-rate lists (iv)	Index of earnings (1914 = 100) (v)	Index of real income (1914 = 100) (vi)
1914	0.391	100.0	100.0	+5	100.0	100.0
1915	0.430	109.9	118.2			
1916	0.411	105.1	104.1			
1917	0.458	117.1	94.4			
1918	0.561	143.5	82.5			
1919	0.978	250.1	115.2			
1920	1.362	348.3	148.2	+215	300.0	122.4
1921	1.249	319.4	153.6	+145	233.3	103.2
1922	1.333	340.9	152.9/ 158.6	+95	185.7	101.5
1923	1.301	332.7	162.3	+95	185.7	106.7
1924	1.337	341.9	164.4	+95	185.7	106.1
1925	1.388	354.9	165.8	+95	185.7	105.5
1926	1.411	368.5	177.2	+95	185.7	107.9
1927	1.423	363.9	178.4	+95	185.7	110.9
1928	1.495	382.3	192.1	+95	185.7	111.9
1929	1.459	373.1	193.3	+82.5	173.8	105.9
1930	1.349	345.0	197.1	+82.5	173.8	110.0
1931	1.171	299.5	191.9	+82.5	173.8	117.8
1932	0.996	254.7	162.2	+67	159.0	110.4
1933	0.940	240.0	149.1	+67	159.0	113.6
1934	0.895	228.9		+67	159.0	112.8
1935	0.876	224.0		+67	159.0	111.2
1936	0.855	218.7		+76.5	168.1	114.3

Notes: (i) An average of the daily money rate of wages in the Japanese cotton weaving sector.

(ii) An index of the average daily money rate of wage in the Japanese cotton weaving sector.

(iii) An index of the real income of the average daily money rate of wages for operative in the Japanese cotton weaving sector.

(iv) Additions to the piece-rate lists for spinners and weavers in the Lancashire cotton industry, expressed as a percentage change upon the established piece-rate lists (spinners were on the Oldham and Bolton lists, while the weavers were

[Sources: Fujiro S., Fujino S., and Ono A., *Estimates of long-term economic statistics of Japan since 1868. Volume 11, Textiles* (Toyo Keizai Shiposha, Tokyo; 1979), table 39, p. 278; *The Cotton Year Book* (Textile Mercury; 1938); *Statistical Abstract of the United Kingdom* (HMSO, London; various years); Uyeda T., *The Small Industries of Japan: Their Growth and Development* (Oxford University Press, Oxford; 1938), p. 298.]

on the Uniform List).

(v) An index of the uniform wage lists for spinners and weavers.

(vi) An index of real income for operatives in the Lancashire cotton and weaving sectors, on the Oldham, Bolton, and Uniform List, piece-rate lists.

Table 1.7 : Comparison of earnings of female Japanese machine cotton weavers with earnings by female operatives in the Lancashire cotton textile industry, 1914-1936.

Year	Japan			Lancashire (i)		
	Nominal earnings (Yen per day)	Index of earnings (1914 = 100)	Index of real income (1914 = 100)	Nominal earnings (schillings per week)	Index of earnings (1914 = 100)	Index of real income (1914 = 100)
1914	0.29	100.0	100.0	20.0	100	100.0
1915	0.30	103.4	111.2			
1916	0.32	110.3	109.2			
1917	0.35	120.7	97.3			
1918	0.50	172.4	99.1			
1919	0.68	134.5	108.1			
1920	0.95	327.6	139.4			
1921	0.97	334.5	160.8			
1922	0.99	341.4	153.1/ 158.8			
1923	0.95	327.6	159.8			
1924	0.94	324.1	155.8	35.5	178	101.4
1925	0.97	334.5	156.1	36.9	185	104.8
1926	1.03	355.2	170.8	34.7	174	101.4
1927	1.01	348.3	170.7	36.8	184	109.8
1928	1.01	348.3	175.0	36.5	183	109.9
1929	0.99	341.7	176.9	36.1	180	110.1
1930	0.89	306.9	173.4	31.3	156	99.0
1931	0.76	262.1	168.0	32.1	161	108.8
1932	0.79	272.4	173.5	32.6	163	113.2
1933	0.67	231.0	143.5	31.3	157	111.8
1934	0.67	231.0		31.7	158	112.4
1935	0.73	251.7		31.9	160	111.5
1936	0.68	243.5		33.1	165	112.6

[Sources: *Financial and Economic Journal of Japan* (The Government Printing Office, Tokyo; various years); Bowley A. L., *Wages and Income Since 1860* (Cambridge University Press, Cambridge, 1937), pp. 23-4; Uyeda T., *The Small Industries of Japan: Their Growth and Development* (Oxford University Press, Oxford, 1938), p. 298; *Statistical Abstract of the United Kingdom* (HMSO, London; various years).]

Note: (i) For 'certain firms' though the nature and sample of is not specified in the Bowley text.

Table 1.8 : Changes in labour output per unit of wage and per workday in the spinning sector of the Japanese cotton spinning industry, 1914-1936.

Year	Output of yarn (lbs) per work-day	Index of output of yarn per workday (1914 = 100)	Output of yarn (lbs) per unit of wage (Yen)	Index of output of yarn per unit of wage (1914 = 100)
1914	2.2338	100.0	6.2099	100.0
1915	2.4738	109.1	6.8864	110.9
1916	2.3914	105.5	6.4560	103.9
1917	2.452	108.2	6.0391	97.2
1918	2.4553	108.3	4.6855	75.4
1919	2.3316	102.8	2.2861	36.8
1920	2.1080	92.9	1.4920	24.0
1921	2.2814	100.6	1.7909	28.8
1922	2.0814	91.8	1.5136	24.4
1923	2.2460	99.1	1.6734	26.9
1924	2.4013	105.9	1.7391	28.0
1925	2.4395	107.6	1.7533	28.2
1926	2.4628	107.3	1.7684	28.5
1927	2.6131	115.3	1.8841	29.7
1928	2.6283	115.9	1.8082	29.1
1929	2.5900	114.2	1.8618	29.9
1930	3.0727	135.5	2.3786	38.3
1931	3.5318	155.8	3.1521	50.7
1932	3.7209	164.1	3.9083	62.9
1933	3.9909	176.0	4.4627	71.9
1934	4.1154	181.5	4.7743	76.9
1935	4.1065	181.1	4.9771	80.1
1936	4.2437	187.2	5.2055	83.8

[Source: Fujiro S., Fujino S., and Ono A., *Estimates of long-term economic statistics of Japan since 1868. Volume 11, Textiles* (Toyo Keizai Shiposha, Tokyo; 1979), tables 1, 3, 18, and 27, pp. 293, 241, 257, 266.]

Table 1.9 : Changes in labour output per unit of wage and perwork day in the weaving sector of the Japanese cotton spinning industry, 1914-1936.

Year	Output of cloth per unit of labour per work-day (yards)	Index of output of cloth per unit of labour per workday (1914=100)	Output of cloth in yards per unit of wage (yen)	Index of output of cloth per unit of wage (1914=100)
1914	56.3418	100.0	144.0553	100.0
1915	62.1744	110.3	144.7351	100.5
1916	65.0147	115.4	158.1259	109.8
1917	64.5146	114.5	140.9871	97.9
1918	60.8123	107.9	108.5663	75.4
1919	53.7993	95.5	55.0343	38.2
1920	51.8399	92.0	38.0744	26.4
1921	57.8782	102.7	46.3395	32.2
1922	60.6070	107.6	45.4603	31.6
1923	66.8278	118.6	51.3553	34.6
1924	64.4873	114.4	48.2413	33.5
1925	66.7428	118.5	48.0794	33.4
1926	70.3716	124.9	45.8763	34.6
1927	81.6486	144.9	57.3600	39.8
1928	102.4149	181.8	68.5203	47.6
1929	110.4149	195.6	75.5278	52.4
1930	125.3389	222.5	92.9094	64.5
1931	156.9034	178.5	134.0016	93.0
1932	160.0931	284.1	160.6924	111.5
1933	154.0234	273.4	163.8317	113.7
1934	155.6507	276.3	173.0075	120.1
1935	156.5534	277.9	178.6835	124.0
1936	150.2887	266.7	175.8114	122.0

[Source: Fujiro S., Fujino S., and Ono A., *Estimates of long-term economic statistics of Japan since 1868. Volume 11, Textiles* (Toyo Keizai Shiposha, Tokyo; 1979), tables 2, 4, 21, and 30, pp. 240, 242, 260, 269.]

Table 1.10 : Comparison of worker output between the American, British and Japanese cotton spinning industries, in 1929.

Country	Amount of yarn produced per spindle per hour (momme)	Number of spindles per operative	Amount of yarn produced per worker per hour (momme)
America (South)	4.5	1,120	5,000
Britain (Lancashire)	5.0	600	3,000
Japan	5.4	400	2,100

[Source: Takamura N., *Kindai Nippon Mengyô to Chugoku* [The Modern Japanese Cotton Industry and China] (Tokyo Daigaku Shuppukai, Tokyo; 1982), p. 81.]

Table 1.11 : Comparison of wages and output in the Japanese, American, Indian and British cotton spinning industries for operatives engaged in spinning yarns of up to 40 counts, in early 1932.

Country	Wages per week (Yen)	Number of workers per 1,000 spindles	Wages per week per 1,000 spindles (Yen)	Output per week per 1,000 spindles (bales)	Wages per bale of output (Yen)
Japan	5.8	6.1	35.5	2.7	13.2
America	35.0	3.4	119.0	2.4	49.6
India	5.5	15.0	82.5	2.4	34.4
Britain	18.0	4.0	72.0	2.3	31.4

[Sources: survey by the Fuji Gas Spinning Company, cited in Mitsubishi Economic Research Bureau, *Japan's Trade and Industry; Present and Future* (Macmillan, London; 1936), table 69, p. 103; International Labour Office, *The World Textile Industry: Economic and Social Problems* (International Labour Office, Geneva; 1937), *Volume 1*, table 13, p. 208.]

Table 1.12 : Indices of change in output per-man hour between the British, American, and Japanese cotton textile industries.

Year	Britain				America	Japan
	Spinning output per operative (1924 = 100)	Weaving output per operative (1924 = 100)	Total output per operative (1907 = 100)	Output per man-hour (1907 = 100)	Output per man-hour (1909 = 100)	Output per man-hour (1923 = 100)
1907			100	100		
1909					100	
1923					126	100
1924	100	100	93			
1925					139	
1929					159	
1930	102	94	91			
1931					158	
1933	120	119	111		169	240
1934	121	118	111			
1935	125	120	113		185	
1937	137	134	126	146	195	
1939					227	

[Source: Rostas L., 'Productivity of labour in the cotton industry', *The Economic Journal* (1945), p. 199.]

Table 1.13 : Comparison between Japanese and Lancashire operatives' wages for ten hours work, and the same comparison including Pearse's estimate of additional Japanese welfare costs, c. 1928/29 (in pence).

Class of operative	Japan	Lancashire	Japanese rates plus 7d. additional welfare costs (i)	Percentage Japanese wage costs (including welfare costs) were less than Lancashire's wage costs (ii)
Blowing room men	20-25	150	27-32	80.3%
Men on cards	35	150	42	72.0%
Cardroom tenders	33-36	80-95	40-43	52.6%
Ring spinners: 800 spindles on 32's	18	91	25	72.5%
Winders	30-36	88	37-43	54.5%
Beamers	52	100	59	41.0%
Weavers	33-51	96-148	40-58	59.8%

[Source: Holroyd F., in Pearse A. S., *The Cotton Industry of Japan and China* (The International Federation of Master Cotton Spinners' and Manufacturers' Associations, Manchester; 1929), p. 5.]

Notes :(i) Pearse estimated that additional welfare payments were equivalent to 6-7d. per ten hour shift.

(ii) The percentage figures utilise the median figure where a range of payments are cited.

Table 1.14 : Comparison of piece-wage rates paid in Japan and Lancashire for winding 100 lbs. of ring yarn on to warpers' bobbins, c.1928/29 (in pence).

	Yarn counts			
	20's	30's	32's	40's
Japanese mills				
Number 7		15.672		
Number 8		16.368		
Number 9	18.48		22.32	28.8
An average of four modern Lancashire mills	40.847	51.344	53.413	63.793

[Source: Holroyd F., in Pearse A. S., *The Cotton Industry in Japan and China* (The International Federation of Master Cotton Spinners' and Manufacturers' Associations, Manchester: 1929), p. 5.]

Table 1.15 : Comparison of weavers wages per yard of cloth output between Japan and Lancashire, c.1928/29.

Country	Cost of cloth (pence per yard)
Japan	0.161-0.225
Britain	0.75

[Source: Holroyd F., in Pearse A. S., *The Cotton Industry of Japan and China* (The International Federation of Master Cotton Spinners' and Manufacturers' Associations, Manchester; 1929), pp. 5-6.]

Table 1.16 : Breakdown of Japan(i) and Lancashire's manufacturing costs for selected types of cotton piece-goods in 1931 (in pence per piece).

Manufacturing costs	Type of piece-good							
	Dragon C		Soldier		2 Geese		Tiger in Bamboo	
	Lancashire	Japan	Lancashire	Japan	Lancashire	Japan	Lancashire	Japan
Raw cotton (ii)	63.5	63.5	72.0	72.0	56.0	56.0	42.5	42.5
Labour (iii)	27.9	9.9	35.2	14.4	25.2	9.2	23.0	9.9
Other	25.0	22.5	29.2	26.7	25.5	21.8	19.9	18.8
Total	116.4	95.6	136.4	113.1	107.0	87.0	85.4	71.2
Lancashire's manufacturing costs as a percentage of Japanese manufacturing costs	121.4		120.6		123.0		120.2	

Sources: Ellinger B., 'Japanese competition with Lancashire: Comparisons of Cotton Trade Costs', *Manchester Guardian Commercial*, 1 July 1933, p. 3; International Labour Office, *The World Textile Industry: Economic and Social Problems* (International Labour Office, Geneva; 1938), table 16, pp. 211.]

Notes : (i) Japanese costs converted into sterling at 24*d.* to the yen.

(ii) Cotton for Dragon C and 2 Geese in Fine Bengal, price 4.4*d.* per lb., 15% waste loss, 6% regain.

(iii) Lancashire labour costs are for a 6-loom system in weaving, and exclude labour costs in sizing, cloth-carrying etc., in weaving which are included in 'other' costs. Japanese labour costs include all processes up to weaving.

Table 1.17 : Comparison of annual nominal wages between the British cotton textile industry with the British woollen & worsted and nylon & rayon industries: and a comparison of average daily wages between the spinning and weaving sectors of the Japanese cotton industry with the Japanese silk-reeling industry, 1920-1937.

	Britain (pounds per annum)			Japan (yen per day)		
	Cotton (i)	Woollen&worsted (ii)	Nylon&rayon (iii)	Spinning sector (iv)	Weaving sector (v)	Silk-reeling (vi)
1920	146.6	145.0	109.4	1.31	1.29	0.89
1921	124.3	142.5	115.5	1.17	1.17	0.93
1922	98.5	107.8	99.3	1.30	1.32	1.02
1923	90.4	102.5	95.3	1.26	1.24	0.93
1924	90.4	102.2	94.3	1.29	1.29	0.96
1925	90.4	102.6	94.3	1.30	1.33	0.97
1926	90.4	102.2	94.3	1.30	1.35	0.98
1927	90.4	102.1	95.3	1.33	1.36	0.93
1928	90.4	102.1	96.2	1.35	1.42	0.92
1929	89.0	102.1	99.0	1.29	1.37	0.98
1930	82.4	95.0	100.7	1.16	1.24	0.86
1931	83.2	91.8	98.1	0.99	1.05	0.75
1932	83.2	87.3	96.2	0.85	0.89	0.67
1933	79.6	88.9	97.1	0.79	0.84	0.67
1934	80.5	87.9	99.0	0.77	0.80	0.62
1935	80.0	92.9	102.8	0.74	0.79	0.64
1936	80.0	92.9	102.8	0.74	0.79	0.64
1937	85.0	97.1	102.8	0.84	0.85	0.68

[Sources: Chapman A. L., *Wages and salaries in the United Kingdom, 1920-1938* (Cambridge University Press, Cambridge; 1953), table 47, p. 105; Fujiro S., Fujino S., and Ono A., *Estimates of long-term economic statistics of Japan since 1868. Volume 11* (Toyo Shiposha, Tokyo; 1979), tables 35, 38, and 59, pp. 274, 277, 302.]

Notes: (i) The annual wages for the British cotton spinning, doubling etc., and cotton weaving industries.

(ii) The annual wages for the British woollen and worsted industries.

(iii) The annual wages for the British nylon, rayon, etc., and silk industries.

(iv) The female workers average daily money rate of wage in the Japanese cotton spinning sector of the Japanese cotton spinning industry.

(v) The female workers average daily money rate of wage in the Japanese cotton weaving sector of the Japanese cotton spinning industry.

(vi) The daily rate of money wage for female workers in the Japanese silk-reeling industry.

Table 1.18 : Selected statistics of the British cotton industry, 1924-1937.

Year	Raw cotton consumption (millions of lbs.)	Spindles (millions)	Looms (thousands)	Insured employees (thousands)	Gross fixed capital formation (£ millions)	Gross profit in 1930 prices (£ millions)
1924	1,369	60.0	792	572	+1.5	8.2
1925	1,609	60.0	788	573	+4.5	7.6
1926	1,509	61.0	786	575	+2.6	2.2
1927	1,557	61.0	768	562	+1.2	10.1
1928	1,520	61.0	755	554	+0.3	9.9
1929	1,498	60.0	740	555	-0.8	4.1
1930	1,272	58.0	704	564	-0.9	1.1
1931	985	58.0	658	550	-1.4	3.3
1932	1,257	55.5	625	518	-2.3	3.9
1933	1,177	53.6	602	500	-2.6	7.3
1934	1,322	50.0	560	467	-2.5	6.3
1935	1,262	47.1	516	442	-2.1	6.3
1936	1,391	44.7	500	421	-0.8	7.0
1937	1,431	43.8	471	409	-1.4	9.9

[Source: Kirby M. W., 'The Lancashire Cotton Industry in the Inter-War Years: a Study in Organizational Change', *Business History* (1974), p. 159.]

Table 1.19 : Percentage of unemployed insured workers in selected British industries, 1923-1938.

Year	Coal-mining	Ship-building	Cotton textiles	Wool textiles	Iron and steel	Chemicals	Cars and aircraft	Gas, water, and electricity	Electrical engineering
1923	3.0	43.6	21.6	9.5	21.2	11.8	9.7	7.2	7.3
1923	5.8	30.3	15.9	8.4	22.0	9.9	8.9	6.3	5.5
1925	11.5	33.5	8.8	16.9	25.0	9.1	7.1	6.2	5.6
1926	9.5	39.5	18.3	17.4	40.4	10.9	8.2	6.0	7.5
1927	19.0	29.7	15.4	11.0	19.4	7.2	8.1	5.4	5.9
1928	23.6	24.5	12.5	12.0	22.4	6.1	8.1	5.8	4.8
1929	19.0	25.3	12.9	15.5	20.1	6.5	7.1	6.1	4.6
1930	20.6	27.9	32.4	23.3	28.2	10.0	12.1	7.0	6.6
1931	28.4	51.9	43.2	33.8	45.5	17.6	19.3	8.9	14.1
1932	34.5	62.0	30.6	22.4	47.9	17.3	22.4	10.9	16.8
1933	33.5	61.7	25.1	17.0	41.5	15.2	17.6	11.0	16.5
1934	29.7	51.2	23.7	17.8	27.3	11.3	10.8	10.1	9.6
1935	27.2	44.4	22.3	15.5	23.5	11.0	9.0	10.4	7.0
1936	22.8	33.3	16.7	10.3	17.4	9.2	6.9	9.7	4.8
1937	16.1	24.4	10.9	8.8	11.4	6.8	5.0	8.3	3.1

[Source: Garside W. R., *British Unemployment, 1919-1939: a study in public policy* (Cambridge University Press, Cambridge; 1990), table 5, p. 13.]

Chapter 2

The British government and trade discrimination against Japan.

Introduction.

Despite the introduction between 1931 and 1932 of domestic protection and imperial preference these measures proved insufficient to reverse the decline of the Lancashire cotton industry. In the 1930s the Japanese cotton industry proved too competitive in export markets for the Lancashire cotton industry. Therefore even after the adoption of domestic protection and imperial preference, Lancashire desperately sought to widen both the degree and area of British trade discrimination against Japanese goods. For the Lancashire cotton industry the British colonies were the ideal place to extend trade discrimination against Japanese goods, since these markets were under direct British control. But Lancashire wanted to extend trade discrimination against Japanese goods beyond the British colonies and into the British Dominions and other third markets. Industry leaders believed that access to the British market should be used as the bargaining counter to increase Lancashire's preferential access to these markets, and conversely increase trade discrimination against Japanese goods.

The demands of the Lancashire cotton industry for increased global trade discrimination against Japanese goods placed an important economic and political dilemma before Britain's National government formed in August 1931. Many in the British government were both sympathetic to Lancashire's demands for trade preference and fearful of the domestic political consequences if the government did not support Lancashire. However, they were also conscious of the risks and limitations of increased trade preferences for Lancashire's goods at the expense of Japanese competition. In the British colonies the problem lay in the social and economic impact of depriving native colonial consumers of cheap Japanese cotton piece-goods. The potential trade preferences Lancashire could receive beyond the British colonies were limited by the trade concessions Britain could offer these states and the desire of trade partners to accept these trade concessions. Further, in trade negotiations the British government had to consider the whole of British industry and not just the sectional interests of Lancashire.

The other concern of the British government was that trade discrimination against Japan would provoke Japanese commercial and political retaliation. This was particularly dangerous for the British government since the British Empire ran a substantial trade surplus with Japan, and thus any trade discrimination in favour of Lancashire could easily be negated by more substantial Japanese economic retaliation. Following Japan's invasion of

The British government and trade discrimination against Japan

Manchuria and the eve of its withdrawal from the League of Nations, the British government increasingly feared the effect of trade discrimination on a politically isolated Japan. Given British military weakness in East Asia, the British government had no desire to increase Japan's sense of political isolation through increased economic discrimination against Japanese goods. Thus the greater the trade discrimination against Japan the greater the risk of Japanese economic and political retaliation. Therefore the problem confronting the British government was to achieve a balance between the divergent claims of Lancashire for trade protection, the willingness of Britain's overseas partners to grant trade preferences to Lancashire, and the risks of Japanese retaliation.

The introduction of trade discrimination against Japan in Britain's West African colonies.

The 1932-33 campaign by the Lancashire cotton industry for trade discrimination against Japanese competition confronted the British government squarely with the problems of the Lancashire cotton industry. In particular Lancashire focused upon increased Japanese competition within British colonial markets. The contrast between the faltering post-1931-32 recovery of Lancashire's global exports with the strong recovery of Japanese exports had been repeated within the British colonial markets. The introduction of imperial preference in 1932 had not halted the inroads made by Japanese exports or the decline of Lancashire's exports to British colonial markets. Between 1932 and 1933 Japanese exports to the British colonial markets increased by 27.6% while Lancashire's exports fell by 28.1%.¹ However, while Lancashire sought widespread colonial trade discrimination against Japan, opinion was particularly angered by the Japanese domination of Britain's East African colonial markets and the threat of Japanese competition to Britain's West African colonies. In 1932 Japanese exports accounted for fully 63.2% of Britain's East African imports of cotton textiles while between 1932 and 1933 Japanese exports to Britain's West African colonies increased fourfold.² Furthermore, Lancashire was incensed at the ineffectualness of the British government in expelling Japanese goods from the East African colonies and protecting the West African colonies from Japanese competition.³ For the radical wing of the Lancashire cotton industry the fate of the East and West African colonial markets had become an infamous example of the indifference of the British government to the fate of Lancashire's overseas exports. Alan Chorlton, the firebrand MP of the Cotton Trade League, complained that, "although the Government were warned as far back as last January of the fact that the West African market was being captured by the Japanese, no action had yet been taken to denounce the clause (i.e. the most favoured nation clause of the 1911 Anglo-Japanese Trade Treaty)".⁴ Thus the fate of Lancashire's goods in the British colonies, and in particular Britain's East and West African colonies, had become the litmus test of the government's commitment to Lancashire.

1. See table 2.1.

2. See table 2.2; Hubbard G. E., *Eastern Industrialisation and its effect on the West* (Oxford University Press, London, 1935), p. 327; Redford A., *Manchester Merchants and Foreign Trade. Volume II, 1850-1939* (Manchester University Press, Manchester, 1956), p. 250.

3. *The Manchester Chamber of Commerce: Annual Report of the Board of Directors, 1932*, pp. xv-xvi.

4. *The Manchester Guardian*, 14 January 1933.

However, in contrast to the belief of this Lancashire MP, there was in fact a consensus within the British government over the need to do something for Lancashire.⁵ Alarmed at political and economic developments in Lancashire, the government had moved hastily to debate three schemes of trade discrimination against Japanese cotton piece-goods within the British colonial markets. Both the President of the Board of Trade, Sir Walter Runciman, and Sir Philip Cunliffe-Lister, the Colonial Secretary, the two ministers most directly concerned with colonial trade policy, clearly appreciated the need to placate Lancashire and avoid a potential political and economic crisis.⁶ Cunliffe-Lister, the arch protectionist, primed several colonial governors of the need for discriminatory measures against Japanese cotton piece-goods by informing them of the dire situation in Lancashire, "I have been in Lancashire myself, and I have never seen the trade so genuinely alarmed".⁷ However, these sentiments were not confined to the Board of Trade and Colonial Office. Even the Far Eastern Department of the Foreign Office, which had most to fear from the repercussions of trade discrimination against Japan, recognised that the situation in Lancashire demanded government action. Charles Orde, the cautious Head of the Far Eastern Department in the Foreign Office, recognised that "I share Mr. Gwatkin's misgivings, but we can hardly sit still and do nothing".⁸ Thus by early 1933 the case for trade discrimination against Japanese cotton piece-goods within the British colonies had been easily won by Lancashire. Public agitation proved an effective tool in forcing the government to recognise Lancashire's problems. However, this victory did not mark the end of Lancashire's battle because the important question of the extent of British colonial trade discrimination against Japan still remained unresolved.

In early March 1933, in order to meet demands from Lancashire, both Cunliffe-Lister

5. Cunliffe-Lister, the Colonial Secretary, had first raised the issue of increased tariff preferences for Lancashire in the colonies as a means of combating Japanese competition with Runciman, the President of the Board of Trade, in November 1932, Cunliffe-Lister to Runciman, 18 November 1932, FO371/16250,F8773/8773/23.

6. Streat recorded in his diary that the depiction of the situation in Lancashire by T. E. Barlow, the President of the Lancashire 'Special Committee on Japanese Competition', had greatly alarmed two Board of Trade officials on a fact finding mission in Lancashire, Dupree M. (ed.), *Lancashire and Whitehall. The Diary of Sir Raymond Streat. Volume I, 1931-1939* (Manchester University Press, Manchester; 1987), entry December, 1932, pp. 199-200.

7. The Secretary of State for the Colonies, to Governors of various colonies, 24 January 1933, in appendix of CAB 24 CP. 54(33).

8. Minute by Orde, 28 February 1933, FO371/17153,F1256/583/23.

and Runciman presented before the cabinet schemes for trade discrimination against Japanese cotton goods in the British colonies. Both ministers appreciated the complexities of the situation, and while Cunliffe-Lister was in favour of immediate and widespread colonial discrimination against Japanese goods, like Runciman he preferred to avoid the denunciation of the 1911 Anglo-Japanese Trade Treaty. Both Cunliffe-Lister's schemes had been prepared in cooperation with the Manchester Chamber of Commerce and the first was the most radical. It envisaged either the denunciation of the Trade Treaty so that trade discrimination could be introduced against Japanese cotton piece-goods in the British colonies - through either a quota system or by introducing a penal tariff on Japanese goods - or after Treaty denunciation, during the twelve month notification period, the threat of trade discrimination could be used to force the Japanese into voluntary export restraint. However, this radical plan was not his preferred course of action. In contrast with the above Cunliffe-Lister believed that effective colony wide discrimination could be obtained without Treaty denunciation, through the introduction of a quota system on imports of cotton piece-goods into British colonies. In this second proposal quotas would be based upon the annual average of a five-year period that was favourable to Lancashire and unfavourable to Japan. Cunliffe-Lister argued that the quota system had many advantages: it avoided the need to denounce the Anglo-Japanese Trade Treaty, there would be no year long delay, there would be no need to levy penal duties on Japanese goods, it would be simple to administer, and it would encourage the Japanese to raise their export prices to the British colonies.⁹ Thus despite his reputation as an aggressive protectionist, the Colonial Secretary appreciated that in dealing with trade discrimination some subtlety was required.¹⁰

In contrast Runciman's proposal was more modest, which reflected his and the Board of Trade's fear of the economic repercussions from Treaty denunciation and extensive trade discrimination. Added to this innate liberalism on trade policy Runciman had already been in contact with the Foreign Office over the implications of trade discrimination against Japan on Anglo-Japanese relations. In reply Sir John Simon, the Foreign Secretary, warned Runciman that given the current unstable political situation in Japan, any measure of trade

9. Memorandum by the Colonial Secretary, 'Japanese Competition in the Textile Trade', 3 March 1933, CAB 24 CP. 54(33); Dupree M. (ed.), entry 8 March 1933, p. 220.

10. Clemens Wurm is wrong to imply that as a committed protectionist Cunliffe-Lister was only concerned with protecting Lancashire's trade and had lost sight of the potential problems of abrogating the 1911 Anglo-Japanese Trade Treaty, Wurm C., *Business, Politics, and International Relations: Steel, Cotton and International Cartels in British Politics, 1924-1939* (Cambridge University Press, Cambridge; 1993), p. 220.

discrimination would be unwelcome and should be delayed by some two months.¹¹ However, after the lapse of two months Runciman now placed his scheme before the cabinet. Unlike Cunliffe-Lister Runciman not only refused to consider Treaty denunciation, he also had no desire to extend trade discrimination beyond Lancashire's immediate demands for the defence of its East and West African markets. Moreover, within this limited context he only proposed trade discrimination in West Africa,¹² which accounted for only an insignificant 6.9% of Lancashire's total cotton piece-good exports in 1932.¹³ Trade discrimination in East Africa was ruled out because Japanese penetration there was so thorough that native consumers were already totally dependent upon cheap Japanese cotton piece-good imports. Runciman doubted, "whether any preference ... which would be regarded as sufficient to reinstate Lancashire ... would not be regarded as imposing too great a burden on the native population". Furthermore, trade discrimination in West Africa could be introduced without the abrogation of the 1911 Anglo-Japanese Trade Treaty. In order to achieve this goal Britain's West African colonies would simply denounce the most favoured nation clause in the 1911 Anglo-Japanese Trade Treaty. Once removed from the burden of granting Japanese goods tariff equality, after the twelve month period of notification of termination, the West African colonies could impose penal rates of duty on Japanese goods. Behind this tortuous reasoning lay Runciman's desire of avoiding extensive British colonial trade discrimination against Japan, preventing the abrogation of the Anglo-Japanese Trade Treaty, and heading off even more radical demands from Lancashire. The Board regarded the Trade Treaty as the only legal safeguard against Japanese retaliation against British and British Empire trade with Japan, an important concern since it was acutely aware that this trade was more vulnerable to Japanese retaliation.¹⁴ Therefore the selective removal of the West African colonies from a specific part of the 1911 Anglo-Japanese Trade Treaty offered the possibility of both introducing discrimination against Japanese goods in West Africa, and yet upholding the 1911 Anglo-Japanese Trade Treaty. Furthermore, given the limited amount of Japanese trade involved with Britain's West African colonies, under 1% of Japan's

11. Simon to Runciman, 20 January 1933, FO371/16250,F8773/8773/23.

12. These colonies were Nigeria (including the Protectorate of the Cameroons under British mandate), the Gold Coast (including Ashanti, Northern Territories, and Togoland [under British Mandate]), Gambia, and Sierra Leone.

13. See table 1.1, and 2.2.

14. Memorandum of the President of the Board of Trade, 'Japanese Competition in the Textile Trade', 6 March 1933, CAB 24 CP. 55(33); Drummond I. M., *British Economic Policy and the Empire, 1919-1939* (George Allen, London; 1972), p. 133; Dupree M. (ed.), entry 8 March 1933, p. 220; The British Dominions and India ran a substantial trade surplus with Japan, see table 2.3.

cotton piece-good exports in 1932,¹⁵ the Board discounted the possibility of Japanese retaliation.¹⁶

However, although the Foreign Office had objected to the immediate introduction of trade discrimination against Japan, this did not indicate a fundamental opposition to such measures. As noted earlier the Far Eastern Department was aware of and to some extent sympathised with feeling in Lancashire. The real concern of the Foreign Office was that the scale and timing of trade discrimination against Japan could inflame an already unstable political situation. The recent course of events in Japan meant that the Foreign Office could not ignore the repercussions of an inopportune announcement of British colonial trade discrimination against Japan. Following Japan's invasion of Manchuria and the withdrawal of the Japanese delegation from the Chamber of the League of Nations the Foreign Office was deeply concerned over the short term stability of Japanese foreign policy and public opinion.¹⁷ A mistimed announcement of colonial trade discrimination could have a catastrophic effect on an already excited and xenophobic Japan. Prior to the cabinet debate on colonial trade discrimination, Frank Ashton-Gwatkin, of the Economic Relations Section ~~of the League of Nations~~ and the Western Department of the Foreign Office, recorded his apprehension over the issue as he looked upon "this economic skirmishing with Japan with considerable misgiving", since it added to the complexities of the Far Eastern situation.¹⁸ Furthermore, as a result of British policy, Foreign Office officials had particular reason to worry over an immediate announcement of trade discrimination against Japan. In keeping with a League of Nation's resolution and in response to domestic pressure, much to the annoyance of Japan, between 27 February and 13 March 1933 Britain had imposed a two week arms embargo on both China and Japan.¹⁹ Thus when Cunliffe-Lister and Runciman's schemes for trade discrimination against Japan were debated by the cabinet on 8 March 1933, objections raised by Simon, based on the current state of Anglo-Japanese relations,

15. See tables 1.1, and 2.2.

16. Memorandum of the President of the Board of Trade, 'Japanese Competition in the Textile Trade', 6 March 1933, CAB 24 CP. 55(33).

17. Lindley (Tokyo) to Orde, 2 March 1933, FO371/17153,F1437/583/23; Simon, in Cabinet Conclusions, 8 March 1933, CAB 23 15(33)3.

18. Minute by Ashton-Gwatkin, 27 February 1933, FO371/17153,F1256/583/23.

19. The British had withdrawn the arms embargo because they received no support from any other power, Thorne C., *The Limits of Foreign Policy: The West, the League and the Far Eastern Crisis of 1931-1933* (Macmillan, London; 1972), pp. 337-342, and 'The quest for arms embargoes: failure in 1933', *Journal of Contemporary History* (1970), pp. 129-149.

proved sufficient to postpone the immediate adoption of any of the proposals. However, the cabinet, including Simon, the Foreign Secretary, also recognised that the situation in Lancashire was too critical to allow for a lengthy postponement of the issue. The whole issue would be placed before the cabinet again within three weeks, while Runciman was authorised to inform Lancashire that the government would undertake 'appropriate action' as soon as the international situation permitted. Furthermore, clarification of the Japanese reaction to the three schemes would be sought from the British Ambassador in Japan.²⁰

The response from Sir Francis Lindley, the British Ambassador in Tokyo, on 13 March 1933, had a critical impact on British plans for trade discrimination against Japan. Lindley told the Foreign Office that the political situation in Japan was now more stable and could tolerate limited British trade discrimination. In this regard, given the small scale of the markets involved; trade discrimination in the British colonies in West Africa would not cause 'undue resentment' in Japan. However, any policy of comprehensive colonial preference for Lancashire, deliberately directed against Japan, might lead to an extreme Japanese reaction: either the closure of the 'Open Door' in Manchukuo, or the intensification of the Japanese offensive in China.²¹ The Foreign Office welcomed this telegram and accepted that with respect to trade discrimination in West Africa previous objections over the political situation in Japan no longer applied.²² Furthermore, Lindley's assessment coincided with opinion in the Foreign Office that Japanese military victories in Manchuria had eased Japanese anxiety. In reference to an earlier comment by Lindley on the need for the atmosphere in Japan to clear,²³ on 20 March 1933, Orde concluded that the atmosphere in Japan had become much clearer now the Japanese, as part of their ongoing Manchurian campaign, had taken the strategically important city of Jehol.²⁴ Consequently, towards the end of March 1933 the Foreign Office recognised that the political situation in Japan had so cleared that it removed their earlier objections to the immediate introduction of trade discrimination against Japan.²⁵

20. Cabinet Conclusions, 8 March 1933, CAB 23 15(33)3.

21. Lindley (Tokyo) to the Foreign Office, 13 March 1933, FO371/17153,F1720/583/23.

22. Minute by Orde, 20 March 1933, FO371/17153,F1720/583/23.

23. Lindley (Tokyo) to Orde, 2 March 1933, FO371/17153,F1437/583/23.

24. Minute by Orde, 20 March 1933, FO371/17153,F1720/583/23.

25. Minutes by Vansittart, 25 March 1933, FO371/17153,F1720/583/23, and FO371/1760,F1493/1203/23.

However, while the cabinet debated the nature and timing of colonial trade discrimination against Japan, Lancashire became incensed at the apparent refusal of the British government to endorse trade discrimination. Even the usually moderate Raymond Streat was bewildered by the fact that "whilst Lancashire trade is disappearing before their eyes!", due to opposition from the Board of Trade and the Foreign Office, the government had dropped plans for colonial trade discrimination.²⁶ Once again demands from the Manchester Chamber of Commerce for the abrogation of the 1911 Anglo-Japanese Trade Treaty impelled Runciman, on 29 March 1933, to seek an immediate cabinet decision of the question of trade discrimination against Japan in West Africa.²⁷ However, unlike the earlier cabinet meeting this time the cabinet agreed to Runciman's proposal that the West African colonies should 'remove' themselves from the Trade Treaty as a prelude to tariff discrimination against Japanese imports. The two proposals of Cunliffe-Lister were not debated. Aside from the renewed pressure from Lancashire the critical factor was the Foreign Office conviction that the political situation in Japan was stable enough to tolerate trade discrimination in West Africa. Ramsay MacDonald, the Prime Minister, took particular comfort from Lindley's 13 March telegram that the introduction of trade discrimination in West Africa would cause little resentment in Japan. No dissent to this view was offered by Simon or any other minister. Furthermore, by the time the cabinet debated this issue for the second time, events in India underlined the unimportance of trade discrimination in West Africa. At the same meeting the cabinet endorsement of the Indian government's demand for the abrogation of the 1904 Indo-Japanese Trade Treaty underlined the triviality of British trade discrimination against Japan in West Africa.²⁸ Thus one small part of Lancashire's objective, trade discrimination against Japanese goods in West Africa, had been achieved. Pressure from Lancashire, the relative small scale of the markets involved, and the Foreign Office belief that trade discrimination in West Africa would not disrupt Anglo-Japanese relations removed any lingering hesitancy within the cabinet to authorise this measure.

One of the main factors in the British government's acceptance of trade

26. Dupree M. (ed.), entry 8 March 1933, p. 220.

27. The President of the Board of Trade reported to the cabinet that since the 8 March 1933 discussion the Board of Trade had been visited by a Manchester Chamber of Commerce deputation that demanded a reopening of the Trade Treaty position with Japan, Cabinet Conclusions, 29 March 1933, 22(33)4.

28. In 1932 Japanese exports of cotton piece-goods to India were some 131 times larger than its exports to the British West African colonies, see tables 2.2, and 3.1. See also chapter 3.

discrimination against Japan was the conviction that the Japanese would not retaliate against British trade. This Foreign Office view of Japanese reactions to trade discrimination in West Africa proved correct. On being informed of their introduction the Japanese Ambassador, Matsudaira Tsuneo, made no comment and merely sought clarification of the proposed increase of the British silk and artificial silk duty, and then stated his desired hope for an approach from the Indian government on its proposed tariff increase.²⁹ Later Matsudaira commented to Cunliffe-Lister that the British action would create a bad impression at the World Economic Conference,³⁰ which was due to meet in the summer of 1933 in London, with the express intention of reviving the world economy through the reduction of trade barriers. However, this criticism and Japanese public reaction to British actions were mild when compared with Japanese reactions over the denunciation of the 1904 Indo-Japanese Trade Treaty.³¹ Thus because of the lack of reaction in Japan, British trade discrimination in West Africa made virtually no impact upon Anglo-Japanese relations.

29. Interview of the President of the Board of Trade with the Japanese Ambassador and the Japanese Commercial Attache, 25 April 1933, FO371/17153,F2755/583/23.

30. Interview of the Colonial Secretary with the Japanese Ambassador, 9 May 1933, FO371/17153,F2991/583/23.

31. Snow (Tokyo) to the Foreign Office, 7 May 1933, FO371/17153,F3205/583/23; See chapter 3.

The failure of the Lancashire-Japan cartel negotiations.

As part of the process of the introduction of West African trade discrimination, and in order to pre-empt the more radical demands of Lancashire, Runciman and Cunliffe-Lister actively canvassed the need for an Anglo-Japanese cotton textile agreement. Both ministers believed that the British government could do little to defend the Lancashire cotton industry from Japanese competition, especially Lancashire's cotton trade in third markets. Consequently, only voluntary trade restraint by Japan, especially the result of a Lancashire-Japan cartel agreement, offered Lancashire respite from Japanese competition. The possibility of a Lancashire-Japan cartel agreement had been discussed since the 1930 British cotton textile mission to the Far East. However, the lukewarm reception of the trade mission in Japan had killed off any belief that a cartel arrangement was feasible.³² Nevertheless, despite this failure the question of a Lancashire-Japan cotton cartel was again raised in November 1932 by Cunliffe-Lister. Aware of the pressure Runciman was under from Lancashire, Cunliffe-Lister suggested to a somewhat sceptical President of the Board of Trade, that a cotton cartel offered the best means of relief for Lancashire from Japanese competition.³³ The case for pursuing a Lancashire-Japan cotton cartel received a further boost when Lindley told the Foreign Office that an approach from Lancashire would no longer be unwelcome in Japan, and even if the chances of a negotiating a successful cartel were slim, it was still well worth the attempt.³⁴ At the second cabinet meeting on 29 March 1933 to discuss colonial trade discrimination against Japan both Runciman and Cunliffe-Lister championed the idea of a Lancashire-Japan cotton cartel. Runciman was adamant that the only hope for Lancashire lay in agreement with Osaka: Lancashire could not meet Japanese competition in open markets and thus needed some measure of voluntary trade restraint from the Japanese. The cabinet welcomed this suggestion, in effect it cost them nothing to pursue, and authorised Runciman to approach the Japanese ambassador.³⁵ The plan for a Lancashire-Japan cotton cartel received a strong boost when Matsudaira told Runciman that his government welcomed the idea of Lancashire-Japan cotton trade talks in London.³⁶

32. Department of Overseas Trade to the Foreign Office, 1 May 1930, FO371/14754,F2493/650/23; Wurm C., p. 216.

33. Cunliffe-Lister to Runciman, 20 November 1932, FO371/16250,F8773/8773/23; Wurm C., pp. 216-217.

34. Lindley (Tokyo) to Orde, 13 March 1933, FO371/17153,F1720/583/23.

35. Cabinet Conclusions, 29 March 1933, CAB 23 22(33)4.

36. Interview between Simon and Matsudaira, 16 May 1933, FO371/17153,F2991/583/23.

However, the task of persuading Lancashire over the utility of the cotton trade talks proved more difficult. Lancashire appeared totally unwilling to consider the possibility of talks with its Japanese counterparts. Cunliffe-Lister's suggestion of November 1932 for a Lancashire-Japan cartel had been forcibly rebuffed by the Manchester Chamber of Commerce. The Chamber felt that because of the strong local anti-Japanese sentiment and the uncompromising attitude of the Japanese, talks between the respective industries would be 'quite useless'.³⁷ However, once Runciman had cabinet support to pursue trade talks between Lancashire and Japan, Lancashire and the Chamber quickly discovered the limits of its influence upon British policy. On 3 April 1933 a delegation from the Chamber arrived at the Board of Trade to demand both export subsidies and the abrogation of the 1911 Anglo-Japanese Trade Treaty. However, after informing them of the West Africa decision, not only did Runciman reject both proposals, he told the delegates that before the government undertook any further action against Japan Lancashire would have to enter trade talks with Osaka.³⁸ Thus while trade discrimination in West Africa had been easily won, from now on Lancashire would have to defer to government policy before any extension of trade discrimination against Japan was contemplated. Nevertheless, even after Lancashire had been cajoled into participation tremendous internal problems bedevilled its preparations for the cotton trade talks. The demand by every cotton interest to participate in the talks led to an unwieldy delegation. Furthermore, the Special Committee to service the delegates was equally inefficient. On his return from the Indian tripartite negotiations Streat was scathing about the effectiveness of the committee which, "once more showed itself to be the worst committee I have ever had anything to do with", while all the internal divisions "tinge the atmosphere with acid".³⁹ Consequently, Lancashire's reluctant participation in the cotton trade talks was seriously undermined by ineffectual preparation.

Although the Japanese government had welcomed the suggestion of Lancashire-Japan cotton trade talks, as expected, like their Lancashire counterparts, the reaction of the Japanese manufacturers was less enthusiastic. Lindley, who had endorsed the cathartic effects of talks between the cotton manufacturers, expected that little positive could be

37. Cunliffe-Lister to Runciman, 18 November 1932, and Runciman to Simon, 19 November 1932, FO371/16250,F8773/8773/23.

38. Wurm C., p. 223.

39. Dupree M. (ed.), entries 6 January 1934, p. 279, and 3-8 January 1934, pp. 268-278.

achieved. On cotton trade talks he stated that he did not think Osaka would make any important sacrifices to Manchester, and saw little that could be gained from them.⁴⁰ This proved to be a correct assessment. The British consul in Osaka, Oswald White, reported that the Japanese were neither concerned nor optimistic of the success of any market sharing agreement. Leading Japanese cotton manufacturers commented unfavourably upon both the proposed talks and the Lancashire cotton industry: they had nothing to gain from talks and nothing to fear from Lancashire. The Chairman of Showa Menka, Sugimoto Nobukizu, offered a wide ranging critique of why he expected the cotton trade talks to fail. In particular he stated that Japan had little to gain from both a market sharing agreement and export restraint, since the Lancashire cotton industry offered no effective competition, and the British had few worthwhile commercial concessions to grant Japan. The President of Kanegufuchi Spinning Company, Tsuda Shingo, was even more dismissive of the cotton trade talks. He similarly stated that Japan had nothing to fear from Lancashire.⁴¹ In keeping with this disregard for the London negotiations, only a second rate delegation was appointed by the Japanese cotton industry.⁴² Furthermore, indifference to the cotton trade talks extended beyond the cotton industry. At the insistence of Lancashire, the rayon industry - an important substitute for cotton goods - was included in the talks. However, the Japanese found great difficulty in appointing any rayon industry delegate.⁴³ Right up to the eve of the London talks in January 1934, due to the non-appointment of any Japanese rayon delegates, the composition of the Japanese delegation remained incomplete. It was only after some last minute pleading by Okada Gentaro, the leader of the Japanese delegation, that the Japan Rayon Association nominated its delegate. Even then, as a tribute to its indifference, all the Japan Rayon Association did was to instruct the London representative of Mitsui Bussan Kaisha to act as its representative at the cartel negotiations.⁴⁴ Thus both the Japanese cotton and rayon industries, while paying lip service to the formalities of the cotton trade talks, showed no indication that they took these talks seriously.

40. Lindley to Orde, 21 March 1933, FO371/17153,F2686/58323.

41. The only optimistic note White could report was a rumour that the Minister of Commerce was in Osaka as part of a prelude to the introduction of government imposed export restraint, Sansom (Tokyo) to Farrer (Department of Overseas Trade), 30 March and 10 April 1933, FO371/17153,F3295/583/23.

42. Wurm C., p. 257.

43. Matsudaira to the Foreign Office, 8 August 1933, FO371/17155,F5305/583/23.

44. Matsudaira to the Foreign Office, 29 January 1934, FO371/18177,F535/347/23; Report of interview at the Board of Trade with Matsudaira and the Japanese textile delegation, 6 September 1933, FO371/17156,F6058/583/23; Ishii O., 'Cotton Textile Diplomacy: Japan, Great Britain, and the United States, 1930-1936', (Unpublished thesis, Rutgers University; 1977), pp. 160-161.

However, despite the antipathy of both business communities to the cotton trade talks, both the Board of Trade and Foreign Office endeavoured keep the talks on track. To achieve this the main concern of both departments was not to strengthen Lancashire's hand for the negotiations, but to ensure the participation of the Japanese cotton manufacturers. Lancashire's attempt⁵ to strengthen its hand for the forthcoming cotton talks were vigorously rebuffed by the Board of Trade. A demand from the 'Special Committee on Japanese Competition' that prior to the talks the Japanese should be informed that in the event of failure the British government would respond with strong measures was rejected by the Board of Trade. Sir Horace Wilson, the Chief Economic Advisor to the Cabinet, told Lancashire that such a statement would cause an unfavourable reaction in Japan, and therefore could not be endorsed by the government.⁴⁵ Thus once again Lancashire discovered the limits of its influence on British policy. Similarly, the Foreign Office was concerned that for the duration of the cotton trade talks British tariff policy should be managed so as not to antagonise the Japanese business community. To this end the Foreign Office agreed to the Japanese demand to review any British tariff rise that the Japanese might find objectionable. The most pressing case was the proposed increase in the silk and artificial silk duty by the Import Duty Advisory Committee. The Foreign Office was concerned that given the importance of the silk industry to Japan's economy and culture, and its current depressed state, any increase on the British duty on silk imports - as recently recommended by the Import Duty Advisory Committee - would be seen as insensitive by Japanese opinion.⁴⁶ Nevertheless, despite the protests of the British silk and artificial silk industry and the Board of Trade - especially since the new duty was primarily aimed at European and not Japanese imports -⁴⁷ in October 1933 the Foreign Office ensured the suspension of this duty increase for the duration of the cotton trade talks.⁴⁸ Still, there were

45. Board of Trade memorandum, 'Meeting at Preston with 'Special committee on Japanese Competition', 11 September 1933, FO371/17156,F5995/583/23.

46. The Foreign Office was very specific on the potential impact of the increase of the silk and artificial silk duty on Japanese opinion, and in particular upon the Japanese silk industry. They informed the Board of Trade that if the proposed increase in the silk duty was suspended they had no objection to an immediate increase in the artificial silk duty; or that they had no objection to the immediate increase of the silk duty if the proposed specific duty on silk was replaced by an *ad valorem* duty, which would not appear to be directed at cheaper Japanese silk imports, Foreign Office to the Board of Trade, 15 August 1933, FO371/17155,F5526/583/23; Orde to Twentymen (Treasury), 14 September 1933, FO371/17156,F5997/583/23.

47. Report of the between the President of the Board of Trade and the Silk Association, 5 October 1933, FO371/17156,F6419/583/23.

48. Letter from Mr. Farrel, President of the Silk Association of Great Britain and Ireland and President of

limitations to the willingness and ability of the British government to meet Japanese requests over British tariff policy. The British ignored Japanese protests that tariff rises in certain colonies violated the terms of the March 1930 Tariff Truce,⁴⁹ and despite Japanese requests it insisted that for the duration of the cotton trade talks they could not prevent increases in Dominion tariffs.⁵⁰

However, even the skilful management of Japanese opinion by the British government could not mask the growing irrelevance of the Lancashire-Japan cotton trade talks, and the fundamental differences between the two cotton industries. The Indian denunciation of the 1904 Indo-Japanese Trade Treaty, and the decision of the respective governments to hold formal cotton trade negotiations in India, dramatically undermined the significance of the Lancashire-Japan talks.⁵¹ As Alec Randall, the First Secretary of the Far Eastern Department, noted, following this announcement the effect would be to make the Lancashire-Japan talks even less important to the Japanese, since the separation of the India market from the London talks removed Lancashire's only bargaining counter.⁵² This view was rapidly confirmed when Kadono Chokyuro, the advisor to the Japanese delegation at the World Economic Conference in London, candidly informed Wilson that for Japan the Indian market was the real bone of contention.⁵³ In this vein the Japanese delegation in London were only granted full powers of negotiation in late January 1934, after the successful conclusion of the Indo-Japan cotton trade negotiations.⁵⁴ However, while the Indo-Japan cotton dispute undermined Japanese interest in the London negotiations, the inability of

Grout and Company, to the Chancellor of the Exchequer, 8 September 1933, FO371/17156,F5997/583/23; Memorandum of the Board of Trade on the suspension of the increase of the silk and artificial duty, 5 October 1933, FO371/17156,F6562/583/23.

49. Minute by Orde, 11 May 1933, FO371/17153,F2991/583/23; Cabinet Conclusions, 19 July 1933, CAB 23 47(33)5.

50. Stacy (Board of Trade) to Randall, 26 May 1933, FO371/17154,F3570/583/23; Board of Trade memorandum of interdepartmental meeting of , the Board of Trade, Department of Overseas Trade, India Office, Dominion Office, and Colonial Office, 29 May 1933, FO371/17154,F3617/583/23; Randall to Stacy (Board of Trade), 8 June 1933, FO371/17154,F3617/583/23. Further, in the period prior to the cotton trade talks the British government was unable to prevent tariff increases in Fiji, the Federated States of Malaya, and the Indian state of Johore, see the Colonial Office to the Foreign Office, 12 October 1933, FO371/17156,F6508/583/23.

51. In 1932 Japan's exports of cotton piece-goods to India were three times larger than her exports to the British colonies, see tables 2.1, and 3.1; See also chapter 3.

52. Minute by Randall, 21 June 1933, FO371/17154,F4096/583/23.

53. Meeting between Wilson, Matsudaira, and Kadono, 22 June 1933, FO371/17154,F4275/583/23.

54. Meeting between the Board of Trade and the Japanese cotton textile delegation, 6 September 1933, FO371/17156,F6058/583/23; Minute by Allen, 19 January 1934, FO371/18177,F347/347/23.

Lancashire and Japan to establish any ground rules for the forthcoming negotiations significantly weakened any chance of success. The fundamental problems were geographical scope and the inclusion of the rayon industry. The Japanese sought to limit the negotiations to those markets in which Britain had commercial jurisdiction and to cotton textiles, which naturally excluded Dominion and third markets, and the rayon industry.⁵⁵ In contrast, and with the firm support of the Board of Trade,⁵⁶ Lancashire insisted that there could be no geographical limitations and that the Japanese rayon industry must be represented at the cotton trade negotiations. Furthermore, the British government's willingness to act as a tacit guarantor of any cotton agreement elicited no similar response from the Japanese.⁵⁷ This failure to agree a basis for the negotiations carried over into the actual discussions. When negotiations began in late February 1934 they were almost immediately adjourned, and effectively terminated by 14 March 1934, as the delegates still could not resolve the question of geographical scope. The Japanese insisted the negotiations should be confined to areas under direct British control, i.e. Britain and the British Crown Colonies; while Lancashire demanded that the global market must be included in the discussions. However, the fundamental problem was that Lancashire saw Japanese trade restraint in terms of Japan reducing exports - or at least Japanese exports remaining static until there was either an increase in world trade or an increase in Lancashire's exports of cotton piece-goods - while the Japanese found this proposal totally unacceptable.⁵⁸

Faced by the impasse between the delegates, both the British and Japanese governments backed their own cotton industries. No attempts were made to pressure either delegations to back down and accept a compromise agreement. Barlow, the leader of the Lancashire delegation and President of the 'Special Committee on Japanese Competition', informed the British government that there was no prospect of the talks succeeding because of the unwillingness of the Japanese to extend the geographical scope of the talks beyond the British Crown Colonies.⁵⁹ The Board of Trade and the Foreign Office already supported this

55. Matsudaira to the Foreign Office, 8 August 1933, FO371/17155,F5305/583/23.

56. The Board of Trade to Matsudaira, 11 August 1933, FO371/17155,F5416/583/23; Meeting between Wilson, Matsudaira, and Kadono, 22 June 1933, FO371/17154,F4272/583/23.

57. Meeting of Sir H. Wilson, Matsudaira, and Kadono, 22 June 1933, FO371/17154,F4275/583/23.

58. Wilson to Vansittart, 8 March 1934 and 14 March 1934, FO371/18177,F1382, F1464/347/23; Beer (Board of Trade) to the Foreign Office, 22 February 1934, FO371/18177,F1012/347/23; Dupree M. (ed.), various entries, pp. 279-313; *The Manchester Chamber of Commerce, Monthly Record*, February 1934, p. 32, and March 1934, pp. 69-75.

59. On 8 March 1934 the Lancashire delegation wanted to terminate the cotton trade talks but was

viewpoint, that a solution to the Anglo-Japanese cotton dispute required a worldwide agreement, since any agreement limited solely to the British Crown Colonies would only result in intensified Anglo-Japanese competition outside the area of the cotton trade agreement.⁶⁰ In a similar fashion the Japanese government refused to force the Japanese cotton industry into a compromise and in order to terminate negotiations put forward no counter proposals after the 14 March adjournment.⁶¹ Lindley stated that since the Japanese cotton industry was under attack from Lancashire, the Japanese government was unable to pressure the cotton manufacturers into a compromise with Lancashire. He continued, that the Japanese government did not fear the breakdown of the negotiations, or the denunciation of the Japanese Trade Treaty, so long as some suitable legal framework was established in which to conduct trade.⁶² Further, there were strong objections within the Japanese government to increased trade restrictions on Japanese exports. Lindley stated that the overriding objection within the Japanese government to a continuation of the cotton trade negotiations arose from the hostility of the Japanese Treasury to any new export restriction that would decrease the foreign earnings capacity of the Japanese cotton industry.⁶³ Thus the cotton trade negotiations broke down, having made no headway in solving Lancashire-Japan trade friction, and disproved Runciman's and Cunliffe-Lister's belief in a Lancashire-Japan cartel as the solution to Japanese competition. However, given the evident Japanese preference for trade discrimination in the British Crown Colonies over an Anglo-Japanese cotton trade agreement, the way was now clear for further British trade discrimination against Japan.

persuaded by the President of the Board of Trade to make one further proposal to the Japanese, Wilson to Vansittart, 8 March 1934, FO371/18177,F1382/347/23; Wilson to Foreign Office, 14 March 1934, FO371/18177,F1464/347/23.

60. This position had been stated to the Japanese by the Board of Trade in April 1933, Beer (Board of Trade) to the Foreign Office, 22 February 1934, FO371/18177,F1012/347/23. For Foreign Office concurrence see, Orde to Lindley, 8 March 1934, FO371/18177,F1329/347/23.

61. Matsudaira to Wilson, 31 March 1934, FO371/18177,F1841, F1904/347/23.

62. Lindley (Tokyo) to Foreign Office, 4 March, 13 March, and 19 March, FO371/18177,F1203, F1431, F1938/347/23; Report of the Committee on Japanese Trade Competition, April 1934, CAB CP. 106(34). A further consideration for the Japanese government was that, in January 1934, they had already forced the Japanese cotton industry into a considerable climb down over the Indo-Japanese Cotton Trade Agreement.

63. Lindley (Tokyo) to Foreign Office, 19 March, FO371/18177,F1938/347/23.

The introduction of Colonial quotas on cotton piece-goods.

When the cabinet debated the introduction of trade discrimination against Japan for the first time on 8 March 1933, the Secretary of State for the Colonies pressed for the safeguarding of Lancashire's cotton piece-good exports throughout the British colonies. Cunliffe-Lister was anxious to appease opinion in Lancashire by giving in to demands for substantial colonial trade preference.⁶⁴ However, the case for widespread colonial trade discrimination was halted by Runciman's insistence that prior to the adoption of any such measures Lancashire should pursue cartel negotiations with Japan. Nevertheless, the poor prospects of Lancashire in both the India and London negotiations, and the continued criticism of the government in Lancashire,⁶⁵ indicated that, in the event of the failure in London, the government would have to meet these demands. In anticipation, in December 1933, even before the London negotiations had begun, the Board of Trade prepared the ground,⁶⁶ in the full knowledge that the Foreign Office had no objection to extending trade discrimination against Japan.⁶⁷ This was developed into a paper, in March 1934, which reflected Runciman's strong view that while colonial trade discrimination against Japan would have to be conceded to Lancashire, this could not be at the expense of the 1911 Anglo-Japanese Trade Treaty. The Board remained convinced that without Treaty safeguards the potential losses to British and British imperial economic interests from Japanese retaliation outweighed the benefits to Lancashire of Treaty denunciation.⁶⁸ In this paper the Board of Trade strongly endorsed Cunliffe-Lister's colonial quota scheme, as it offered the prospect of colonial trade protection for Lancashire without the abrogation of the Trade Treaty. In only one respect did the Board's quota scheme differ from the earlier proposal, since it envisaged a slightly larger import quota for Japanese piece-goods in order to meet the needs of native

64. Memorandum of the Secretary of State for the Colonies, 'Japanese Competition in the Textile Trade', 3 March 1933, CAB 24 CP. 54(33).

65. Wurm C., pp. 257-260. Lancashire was particularly critical of the government for failing to secure adequate trade concessions from the India tripartite cotton talks, *The Manchester Chamber of Commerce, Monthly Record*, December 1933, pp. 335-337; See chapter 3.

66. Memorandum by the Board of Trade, 'Japanese Trade Competition', 11 December 1933, FO371/17157/F7706/583/23.

67. Foreign Office memorandum 14 December 1933, FO371/17152,F7824/128/23.

68. In addition to the trade surplus of the Dominions and India with Japan, the Board of Trade noted that without Treaty safeguards some 8.5 million tons of British shipping engaged in Japan's overseas trade, and some £63 million of British investment in Japan, were vulnerable to Japanese retaliation. Furthermore, in March 1934 the Japanese Diet had passed a bill which strengthened its government's ability to retaliate against foreign economic discrimination, memorandum of the President of the Board of Trade, March 1934, CAB 24 CP. 81(34).

consumers for cheap Japanese cotton textiles, and reduce Japanese resentment against the quota scheme. Furthermore, in respect to Japanese reactions, and again echoing Cunliffe-Lister's earlier proposal, the Board argued that the quota scheme had advantages over Treaty denunciation, since it avoided the need to impose penal import duties on Japanese goods, and therefore would be less offensive to Japanese opinion.⁶⁹ Thus even prior to the breakdown of the Lancashire-Japan cotton trade talks, through the endorsement of Cunliffe-Lister's 1933 proposal, the Board had prepared its case for colonial discrimination against Japan yet without the denunciation of the Trade Treaty.

The subsequent breakdown of the cotton trade negotiations confirmed that the British government now had to meet Lancashire's demand for some form of widespread colonial trade discrimination against Japan. Runciman, supported by the Foreign Office, informed the cabinet that the Manchester Chamber of Commerce was totally opposed to the continuation of the talks. In the opinion of the Chamber any attempt to prolong the talks would be a waste of time.⁷⁰ Runciman now presented the colonial quota scheme to the cabinet as the only means of ensuring colonial trade protection for Lancashire without the necessity for Trade Treaty abrogation. He warned that the government must now forestall the outcry of Lancashire for the denunciation of the 1911 Anglo-Japanese Trade Treaty, by offering an alternative policy of trade discrimination against Japan, otherwise, "we shall be asked to embark on what amounts to a commercial war with Japan, with the help of such allies as we can muster".⁷¹ On the recommendation of Runciman a cabinet committee was established to assess the question of British trade discrimination against Japan.⁷² However, within the cabinet committee there was little dissent from Runciman's clear conviction that only the quota scheme could meet the requirements of trade protection for Lancashire without the denunciation of the Trade Treaty. As already noted the Foreign Office had told the Board of Trade that they had no objections to further trade discrimination against Japan. In a memorandum of 12 March 1934, which reflected Lindley's confident belief that the Japanese both expected and would not overreact to colonial trade discrimination, the

69. Memorandum of the President of the Board of Trade, March 1934, CAB 24 CP. 81(34).

70. Dupree M. (ed.), entries 6, 8, and 14 March 1934, pp. 306-308; Report of the Cabinet committee on Japanese Trade Competition, 12 April 1934, CAB 24 CP. 106(34).

71. Memorandum of the President of the Board of Trade, 'Japanese trade competition', 9 March 1934, CAB 24 CP. 67(34).

72. Memorandum of the President of the Board of Trade, 'Japanese trade competition', 9 March 1934, CAB 24 CP. 67(34).

Foreign Office once again reaffirmed this view. Compared to 1933 the political situation in Japan was stable, and so long as there was no Treaty abrogation, there was no need to "refrain from measures of self-defence in [the] colonies".⁷³ Indeed during the course of the cabinet committee's deliberations Lindley reinforced the established conviction that British colonial trade discrimination was acceptable to Japan. On 6 April 1934 he telegraphed the Foreign Office to state that the Japanese could tolerate a reduction of their trade by some 200 million yards,⁷⁴ an amount that almost equalled Japan's exports of cotton piece-goods to the British colonies.⁷⁵ Thus with the firm backing of the Board of Trade and Foreign Office the cabinet committee quickly endorsed the quota scheme. The committee did not disagree with the Board's and Foreign Office's view on the need to avoid the treaty denunciation, while the objections of Neville Chamberlain, the Chancellor of the Exchequer, and Simon, to the abandonment of a cartel agreement with Osaka⁷⁶ quickly evaporated once it was definite that the Japanese had no interest in resuming the Lancashire-Japan cotton trade negotiations. Thus the committee passed its recommendation on to the cabinet that the Colonial Office should prepare a quota scheme for imports into the British colonies that would reduce Japanese imports by 100 million yards.⁷⁷ Consequently with the endorsement of the committee on 17 April the cabinet agreed to the introduction of Colonial quotas. Its only significant recommendation was that when the Japanese were informed of the scheme it should be done in as moderate a manner as possible.⁷⁸ However, the actual quota scheme prepared by the Colonial Office, implemented in May 1934, resurrected Cunliffe-Lister's original demand for the basis of the import quota to be more favourable to Lancashire than the committee's recommendation, and the virtual exclusion of all Japanese imports from the British colonies.⁷⁹

The introduction of colonial quotas had the desired political effect, and immediately eliminated the campaign of the Manchester Chamber of Commerce for any further drastic form of trade discrimination against Japanese cotton piece-goods. In a new less radical

73. Foreign Office memorandum, 12 March 1934, FO371/18177,F1278/347/23.

74. Lindley (Tokyo) to the Foreign Office, 6 April 1934, FO371/18178,F1938/347/23.

75. See table 2.1.

76. Cabinet Committee, 'Japanese Trade Competition', 27 March 1934, CAB 27/568.

77. 'Report of the Committee on Japanese Trade Competition', 12 April 1934, CAB 24 CP. 106(34).

78. Cabinet Conclusions, 18 April 1934, CAB 23 16(34)4.

79. Wurm C., p. 280.

mood the Chamber was prepared to accept colonial quotas as providing adequate protection from Japanese competition in the British colonies. Treaty denunciation was no longer a prerequisite for trade protection. Indeed radicalism on trade issues was on the wane in Lancashire. In January 1934 a 'ginger group' of seven Conservative MPs who broke away from the main Lancashire campaign and demanded the abrogation of the Trade Treaty found themselves totally isolated and were quickly forced to abandon this stance.⁸⁰ Thus by early 1934 it was the moderates who had regained the initiative over trade issues in Lancashire. With the breakdown of the talks, while the government decided future policy, the majority of the Lancashire MPs overrode the demands of the 'ginger group' for the imposition of colonial trade discrimination against Japan,⁸¹ a proposition that was endorsed by both the Special Committee on Japanese Competition and the Federation of British Industries.⁸² To these moderates colonial quotas provided sufficient protection for Lancashire. After being informed by the Board of Trade of the introduction of colonial quotas, Streat recorded in his diary the evident satisfaction of much of the Lancashire cotton textile community, "A thrilling and dramatic week"... "On the whole everybody was pleased with the prospect of action. I wonder what it will all lead to. The Japs will almost certainly take it very rough".⁸³ However, in contrast to Streat's opinion that Colonial quotas were a dramatic measure which was bound to upset Japanese opinion, there was a noticeable lack of reaction in Japan. The introduction of colonial quotas did not lead to any major strain in Anglo-Japanese relations. In fact Sansom speculated that the Japanese manufacturers were relieved the British government had taken action since it meant they could no longer be forced into an unwanted Anglo-Japanese cotton agreement by the Japanese government.⁸⁴

Indeed for the British government, in contrast to the lack of reaction in Japan, colonial quotas presented by far the greater problem for its relationship with the colonies. For some time it had been expected that some 'nationalist' colonial legislative bodies might refuse to implement the necessary legislation, since the discriminatory quotas on Japanese

80. Ishii O., pp. 165-166, 176-178; Pearce R. (ed.), *Patrick Gordon Walker: Political Diaries 1932-1971* (The Historians' Press, London, 1991), entry 18 March 1934, pp. 62-63; Wurm C., p. 259.

81. *The Manchester Guardian*, 16 March 1934.

82. Wurm C., p. 276.

83. Dupree M. (ed.), entry 4 May 1934, p. 325. In contrast the Manchester Chamber of Commerce was more moderate in public, *The Manchester Chamber of Commerce, Monthly Record*, May 1934, pp. 129-130, 133-135.

84. Dodds (Tokyo) to Foreign Office, 19 May 1934, FO371/18178,F2929/347/23.

cotton piece-good imports would deprive impoverished native consumers of a source of cheap cotton textiles. While Lancashire worried at the possible dissipation of colonial quotas, the British government, and Cunliffe-Lister in particular, was totally alarmed by this potential challenge to British authority in the colonies. However, while all the other British colonies passed the colonial quota legislation the Ceylonese Legislative Assembly refused to do so.⁸⁵ On questions of trade protection for British goods the nationalist Ceylonese Legislative Council had already demonstrated its independence from British policy. In January 1933, and much to the horror of Lancashire, the Legislative Council had excluded cotton piece-goods from the Ottawa imperial preferences.⁸⁶ However, over the question of Colonial quotas Cunliffe-Lister refused to allow the Legislative Council such license. He warned the British cabinet that if the Legislative Council did not pass the Colonial quota legislation then he was prepared to empower the Governor of Ceylon to override the Legislative Council through an Order-in-Council authorised by London.⁸⁷ The anticipated opposition did arise in the Legislative Council and after several unsuccessful attempts between the British government and the Ceylon governor to reach a compromise on 25 July 1934 Colonial quotas were introduced in Ceylon by Order-in-Council.⁸⁸ Thus for the British government it was the bending of colonial opposition to British policy that provided a more acute problem than the moderate Japanese reaction to the introduction of Colonial quotas.

85. There had been some worries that Malta might also refuse to implement the colonial quota legislation but these fears proved to be untrue, the Colonial Office to the Foreign Office, 4 May 1934, FO371/18178,F2581/347/23.

86. *The Manchester Chamber of Commerce, Monthly Record*, February 1933, p. 47. The Manchester Chamber of Commerce complained that Ceylon was being flooded with Japanese goods 'offered at less than cost price', while between 1929 and 1932 exports of Lancashire cotton piece-goods had fallen by nearly 50%. Moreover, while Lancashire's goods did not enjoy imperial preference, British imports of Ceylonese tea, which did enjoy imperial preference, had increased by 12.5% between 1929 and 1932, *The Manchester Chamber of Commerce, Monthly Record*, p. 31.

87. Report of the Committee on Japanese Trade Competition, April 1934, CAB 24 CP. 106(34).

88. There was no opposition in the British government to the imposition of Colonial quotas on Ceylon, although the Foreign Secretary did worry that in imposing an 'anti-Japanese' measure in a dependent territory it would set a bad example for Japan to follow in her dependent territories. Cabinet Conclusions, 27 June 1934 CAB 23 26(34)11, 4 July 1934, CAB 27(34)7, 18 July 1934 CAB 23 29(34)5, 25 July 1934, CAB 23 30(34)9.

Colonial quotas and Anglo-Japanese relations, 1935-1937.

Following the introduction of Colonial quotas the policy was reviewed to see if a modified version might be more effective in furthering Lancashire's trade interests and Anglo-Japanese relations. Within the British government doubts were raised over the effectiveness of Colonial quotas in switching Japanese trade to Lancashire. These concerns coincided with suggestions that the easing of British colonial trade restriction on Japanese goods could improve Anglo-Japanese relations. In particular the Foreign Office worried that British trade discrimination against Japan was having an adverse effect upon Anglo-Japanese relations. Furthermore, these British fears coincided with tentative Japanese moves to ease Anglo-Japanese tension through an Anglo-Japanese economic understanding. However, any successful review of Colonial quotas depended upon the willingness of the Lancashire and Japanese cotton industries to reach a prior commercial understanding which had so far eluded them.

In late 1935, over a year after the implementation of the Colonial quotas, the Colonial Office raised some doubts over the effectiveness of the quota system in diverting lost Japanese trade to Lancashire. The first analysis of the effect of Colonial quotas indicated that although Lancashire's trade had increased as a result of discrimination against Japan, much of the lost Japanese trade had been diverted to third countries. In a comparison of Nigerian cotton textile imports, between the first six months of 1934 and the same period of 1935 following the imposition of cotton quotas, the Colonial Office concluded that whilst Japanese textile exports had fallen from £55,000 to £15,000 neither Britain nor third countries had been able to fill the gap of this lost Japanese trade. The native consumers who could only afford cheap Japanese textiles prior to the introduction of Colonial quotas could no longer afford the more expensive British and non-Japanese substitutes. Moreover, although the Colonial Office welcomed the increase of Lancashire's exports it was clear that exporters other than Lancashire and Japan had benefited most from the quota system.⁸⁹ The Colonial Office concluded that this discrepancy in the quota system allowed the potential of a revision that either secured Lancashire a greater share of the lost Japanese trade, or modified discrimination against Japan if it resulted in no negative counterbalancing effect for Lancashire.⁹⁰ However, this did not challenge the need for trade discrimination against

89. See table 2.4.

90. Colonial Office memorandum, 'Japanese Textile Competition in the Colonial Empire', 29 November 1935, FO371/19359,F7670/546/23.

Japan but raised the possibility of an improved administrative system. The British government remained acutely aware of the importance of Colonial quotas to Lancashire, and that Lancashire would not easily tolerate interference in the system.⁹¹ The Board of Trade described Colonial quotas as the "one bright spot in Lancashire's export markets",⁹² while the Colonial Office was in no doubt of the importance of Colonial quotas to Lancashire, and that "the quotas are therefore responsible not only for an increase in British trade but for preventing a decrease".⁹³ Thus even if a revised quota system could deliver both trade protection to Lancashire and an increased volume of Japanese exports, the prior suspicions of Lancashire inhibited further investigation.

However, slightly after the Colonial Office considered the possible revision of the quota system there was a second impetus for change. Both Sir Frederick Leith-Ross, the Chief Economic Advisor to the British government and head of the British Economic Mission to China, and Yoshida Shigeru, the newly appointed Japanese Ambassador to Britain, came to see the revision of Colonial quotas as a means of easing Anglo-Japanese political tension in China. Leith-Ross had been sent to China by the British government as part of an initiative intended to foster British, Chinese and Japanese cooperation through a British sponsored stabilisation of the Chinese currency. However, the mission's objective of encouraging Anglo-Japanese cooperation had floundered on the suspicion, hostility and indifference of the Japanese to his activities in China. Still, Leith-Ross was unprepared to see his mission fail, and saw Japanese resentment against British Colonial quotas as the possible key to reducing Anglo-Japanese tension.⁹⁴ Textiles remained Leith-Ross's last hope of reaching an Anglo-Japanese economic understanding. Therefore in March 1936 he asked the Board of Trade, given Japanese resentment, whether Colonial quotas and the Indian quota on Japanese cotton piece-good imports could be modified, and in return what

91. The Presidential address of R. Bond, *The Manchester Chamber of Commerce, Monthly Record*, February 1935, p. 44; The Presidential addresses of W. E. Clucas, *The Manchester Chamber of Commerce, Monthly Record*, July 1935, pp. 220-221, and July 1936, pp. 278-279; *The Manchester Chamber of Commerce, Monthly Record: annual Report of the Board of Directors, 1935*, pp. viii-ix; See table 2.5.

92. Draft letter to Leith-Ross, Overton (Board of Trade) to Orde, 5 May 1936, FO371/20290,F2575/89/23.

93. Colonial Office memorandum, 'Memorandum on Japan's trade with the Colonial Empire', FO371/20279/F7639/89/23.

94. Trotter A., chapters 9 and 10.

assurances would the British and Indian cotton industrialists want from the Japanese.⁹⁵ In a similar fashion to Leith-Ross, Yoshida quickly used his appointment to London to advocate an Anglo-Japanese rapprochement, by removing economic friction. Prior to his departure for London, he manipulated Hirohito's known pro-British sentiments to advocate an Anglo-Japanese economic understanding. Yoshida told Sir Robert Clive, the British Ambassador in Japan, that while the Emperor was basically pro-British he remained anxious over various Anglo-Japanese trade difficulties. Therefore, Yoshida suggested, an Anglo-Japanese trade understanding would be beneficial to Anglo-Japanese relations.⁹⁶ On his arrival in Britain, Yoshida continued vigorously to press the case for an Anglo-Japanese economic understanding, and on 26 October 1936 presented his first proposal to the Chancellor, Neville Chamberlain, for the settlement of Anglo-Japanese political tensions in China. In regard to the settlement of Lancashire-Japan trade friction, Yoshida stated that there should be a reasonable quota for Japanese goods in the British colonies, in return for which the Japanese would accept voluntary control of cotton textile exports to the British colonies. "Such a proposal might include the acceptance by the British Government, on their side, of the quantities of textiles and rayon exported by Japan during 1935 as a basis, less a reduction on the Japanese side of 20 per cent" Finally, the agreement would last for five years and include similar arrangements with the British Dominions.⁹⁷ Thus both Leith-Ross and Yoshida believed that a settlement of Lancashire-Japan trade friction could improve Anglo-Japanese relations in China.

Despite Leith-Ross and Yoshida's optimism over the possible political rewards from a revision of Colonial quotas, the British government had no desire to reopen the quota question. In fact so strong were the objections of the Foreign Office and the Board of Trade to Leith-Ross raising the issue of Colonial quotas in negotiations with the Japanese that both departments immediately forbade him to do so.⁹⁸ They both agreed that there was little hope of Lancashire and Japan making the necessary compromises for a cotton agreement. Lancashire would be unwilling to accept any modification of the colonial quota system

95. Leith-Ross (Shanghai) to the Board of Trade, 9 March 1936, FO371/20290,F1391/1391/23.

96. Clive (Tokyo) to the Foreign Office, 21 May 1936, FO371/20279,F3476/89/23.

97. Draft of Yoshida's proposal to Chamberlain, 26 October 1936, FO371/20279,F6511/89/23; Dower J. W., *Empire and Aftermath: Yoshida Shigeru and the Japanese Experience, 1878-1954* (Harvard University Press, Cambridge Massachusetts; 1988), pp. 149-153.

98. The Foreign Office to Sir J. Brenan (Shanghai) for Leith-Ross, 30 May 1936, FO371/20290,F3095/1391/23.

without some substantial concession from the Japanese. It was accepted as a matter of faith that, "Any proposal to relax Colonial quotas (without our cotton industry receiving an adequate quid pro quo) would certainly meet with the strong opposition from Lancashire".⁹⁹ Further, the Foreign Office stated that Leith-Ross could not discuss Indian restrictions on Japanese imports, since the Indian government pursued its own commercial policy.¹⁰⁰ Finally, the Foreign Office believed that Leith-Ross's discussions with the Japanese officials about any commercial understanding were irrelevant because for any Anglo-Japanese economic talks to be successful the initiative for the talks had to come from Japanese industry, otherwise the Japanese government would be unable to pressure the industrialists into any agreed compromise.¹⁰¹ This last point was borne out when, in response to a general suggestion by Leith-Ross on the need for an Anglo-Japanese economic understanding, the Japanese Vice Minister of Foreign Affairs responded that Japanese industry was in no mood for any Anglo-Japanese economic talks.¹⁰²

As with Leith-Ross's proposal, the British government remained sceptical of the prospects of translating the Yoshida proposal into a successful Anglo-Japanese commercial understanding. The fundamental British objection lay with Yoshida's plans for China, which if implemented would seriously undermine British influence in China. Sir John Pratt, of the China Section of the Far Eastern Department, stated that Yoshida's proposal would turn China into, "a vassal state of Japan".¹⁰³ Foreign Office objections to Yoshida's plans for China were so extreme that it killed off interest in a possible Lancashire-Japan trade agreement. Particularly, since Yoshida stated that any trade agreement depended upon the prior settlement of the China question.¹⁰⁴ However, once again the British still doubted if any Lancashire-Japan agreement was practicable.¹⁰⁵ The continued reluctance of the Lancashire

99. Draft of letter to Leith-Ross, Overton (Board of Trade) to Orde, 5 May 1936, FO371/20290,F2575/1391/23.

100. Minute by Orde, 4 April 1936, FO371/20290,F1563/1391/23.

101. Foreign Office memorandum, 'Note of the 1934 cotton trade talks', FO371/20290,F1391/1391/23.

102. Clive (Tokyo) to the Foreign Office, 12 June 1936, FO371/20290,F3387/1391/23.

103. Minute by Pratt, 28 October 1936, FO371/20279/F6511/89/23.

104. Draft of Yoshida memorandum to Chamberlain, 26 October 1936, FO371/20239,F6511/89/23; Dower J. W., pp. 153-160.

105. The Colonial Office was in favour of replacing Colonial quotas with a voluntary Lancashire-Japan agreement on the grounds that it would be easier to administer and better for Anglo-Japanese relations. However, they also conceded that Yoshida's proposals for China were unacceptable and doubted if the Dominions would accept Yoshida's arrangements for trade restraint, Ormsby-Gore (Under Secretary of State for the Colonies) to the Foreign Office, 11 December 1936, FO371/20279,F7639/89/23.

and Japanese cotton industries to contemplate any cartel agreement, and the inability of the British and Japanese governments to force their respective cotton industries to compromise, indicated that there was only a limited chance of obtaining a Lancashire-Japan agreement. Anti-Japan sentiment remained so strong in Lancashire that in the summer of 1936 Raymond Streat even cautioned against Yoshida's proposed visit to Manchester.¹⁰⁶ Then in January 1937 the Manchester Chamber of Commerce rejected the discreet enquiries of Yoshida and Matsuyama Shinjiro, the Japanese Commercial Counsellor, over the possibilities of a Lancashire-Japan trade agreement. Streat told Matsuyama that the experience of the 1934 cotton trade talks meant that the Chamber would only take Japanese proposals seriously if the Japanese cotton industrialists tabled realistic proposals before any new cotton trade talks began.¹⁰⁷ Thus on 18 January 1937, as part of an unfavourable British reply to the Yoshida proposal, the Foreign Office gave a lukewarm response to the question of a Lancashire-Japan trade agreement. The British replied that given the experience of 1934 there would have to be a global settlement, and not one simply confined to the British Colonies and Dominions,¹⁰⁸ a reply that contradicted the thrust of Yoshida's proposal for a Lancashire-Japan trade agreement specifically limited to the British Colonies and Dominions.

Despite the failure of the Anglo-Japanese cotton trade talks, given the right economic circumstances, there remained the theoretical possibility of the formation of an Anglo-Japanese cotton cartel. The British believed that if Japan's trade expansion showed signs of difficulty, the Japanese might be more willing to consider a Lancashire-Japan trade agreement. Yet in 1935, although it was predicted that the growth in Japan's exports would stagnate, there was precious little evidence that the Japanese faced any substantial economic difficulties.¹⁰⁹ However, in response to substantial evidence in 1936 that Japanese export growth had halted¹¹⁰ not only did they believe that the Japanese would be more amenable to a trade understanding, they also worried that it could lead to additional political strains. In particular the Foreign Office and the Department of Overseas Trade were concerned that the

106. Minute by Ashton-Gwatkin, 27 August 1936, FO371/20290,F4978/1391/23.

107. Dupree M. (ed.), entry 28 January 1937, p. 473.

108. Aide Memorie of Eden, to Yoshida, 18 January 1937, FO371/21029,F357/28/23; Dower J. W., pp. 160-162.

109. On Sansom's, 'Report on the Economic Conditions in Japan, 1933-34', Orde minuted, "It is comforting to hear that Japanese exports are not expected to increase much this year. But the problem of Japanese competition will remain", 19 March 1935, FO371/19361,F1116/1116/23.

110. See table 1.1.

Japanese would hold British trade restrictions responsible for the problems faced by Japanese exports.¹¹¹ Sir Edward Crowe, the Head of the Department of Overseas Trade, was concerned that in Japanese eyes Britain and the British Empire were seen as responsible for every setback of Japanese trade, and that whilst the Soviet Union was regarded as Japan's enemy Britain was the "dangerous rival, conspiring all along the line against Japan".¹¹² These concerns gelled with the growing desire of the British government to move away from a bilateral trade regime. Increasingly, the British government and industry frowned upon bilateral trade arrangements and restrictive trade practices, since it was not only a perceived impediment to economic recovery but also contributed to international tensions.¹¹³ Frank Ashton-Gwatkin, the Economic Advisor to the Foreign Office, minuted that it was important to get rid of all quotas, "and to get rid of the idea of checking other countries trade by this ruthless method".¹¹⁴ However, while these British concerns over trade policy did not translate into a British initiative towards Japan, it did make British officials receptive to Japanese hints, over the summer and autumn of 1936, that they intended to send an important economic mission to Britain in order to foster better Anglo-Japanese relations.¹¹⁵

However, while the British welcomed the announcement in March 1937 that the Japanese government intended to send an important economic mission under Kadono Chokyuro, a senior director of the Japan Economic Federation, to America, Germany and Britain, with the objective of cementing better mutual economic relations¹¹⁶ given past failures, it remained difficult to see how the mission could ease Lancashire-Japan trade

111. The Economic and Statistical Department of the Joint Committee of Cotton Trade Organisations, of the Lancashire cotton industry, reported on the importance of trade restrictions in halting the expansion of Japanese exports of cotton piece-goods. In June 1936 they stated that Japanese cotton piece-good exports faced restrictions in 56 out of the 106 export markets distinguished in the official Japanese export statistics, which effected some 67% of Japanese exports. Further, British trade preferences were a noticeable component of these trade restrictions. Some 16 of the restrictions on Japanese goods were in the form of tariff preferences granted to Lancashire, the Japanese cotton industry's number one rival, *The Manchester Chamber of Commerce, Monthly Record*, September 1936, pp. 369-370; Bôkyô Hyakunenshi, *Bôsekikyôkai Sôritsu 100nen Kinen* [Hundred Year Commemoration of the Establishment of the Cotton Spinners' Association] (Nippon Bôsekikyôkai; 1987), pp. 43-45.

112. Crowe (Department of Overseas Trade) to Cadogan (Foreign Office), 13 August 1936, FO371/20290,F4978/1391/23.

113. *The Manchester Chamber of Commerce, Monthly Record*, October 1936, pp. 414-419.

114. Minute by Ashton-Gwatkin, 12 March 1937, FO371/21039,F277/277/23.

115. Crowe to Cadogan, 13 August 1936, FO371/20239,F4878/1391/23; Ainscough, the British Trade Commissioner in Indian, to the Department of Overseas Trade, 22 October 1936, FO371/20239,F7090/1391/23.

116. Dupree M. (ed.), entry 2 March 1937, p. 486.

friction. Raymond Streat recognised that the Kadono mission was a substantial gesture by the Japanese, and enthused over the beneficial effect of a Lancashire-Japan agreement on Anglo-Japanese relations. Nevertheless, he still appreciated that from Lancashire's perspective any trade agreement depended upon the willingness of the Japanese cotton interests to accept some form of export restraint.¹¹⁷ Unfortunately there was little evidence that the Japanese cotton industry would adopt any form of export restraint. Even before details of the mission had emerged, the Foreign Office had grave doubts over the possibility of a Lancashire-Japan trade agreement. Robert Scott-Fox, the Third Secretary of the Far Eastern Department, did not doubt the interest of the Japanese government in an Anglo-Japanese trade agreement, he simply found it difficult to imagine that the Japanese cotton industry had any incentive to put forward proposals sufficiently attractive to Lancashire.¹¹⁸ Once again reports from Osaka confirmed that the Japanese cotton industry was reluctant to participate in trade talks with Lancashire. A director of one Japanese cotton firm told Oswald White, the British Commercial Counsellor in Osaka, that no cotton delegate had been appointed to the Kadono mission because the Japanese cotton industry believed there was no prospect of a Lancashire-Japan cotton trade agreement, since Lancashire could not accept any voluntary agreement that allowed for the increase of Japan's cotton exports, whilst the Japanese could not accept an agreement that did not. White recorded that, "His reply was that so long as Great Britain's sole aim was to maintain the status quo, Japan had nothing to gain by negotiation". White believed that it was only after Kadono's personal intervention that a cotton delegate was appointed to his mission. Yet even the appointment of an influential delegate was used to signal the Japanese cotton industry's lack of interest in an agreement with Lancashire. Not only was Kodaira, the President of the Dai Nippon Boseki Company and a senior figure in the Japanese cotton industry, a noted member of the school that did not favour reaching an agreement with Lancashire, he was also given no powers of negotiation by the Japanese cotton industry authorities.¹¹⁹ With this gloomy summation of the Japanese cotton industry's interest in the Kadono mission, Clive too had great difficulty in contradicting White's assessment. The only optimistic note he could suggest was that at least Japanese opinion was not hostile to the departing Kadono mission, and although the Japanese expected no concrete achievements from the mission it might

117. Streat to Brown (Board of Trade), 4 February 1937, FO371/21039,F277/277/23; Streat to Hughes (Chairman of the Committee of the Cotton Trade Organisations), 4 March 1937, FO371/21039,F277/277/23.

118. Minute by Scott-Fox, 12 March 1937, FO371/21039,F277/277/23.

119. White (Osaka) to Tokyo, 19 August 1937, FO371/21039,F2859/277/23.

clear the ground for future negotiations.¹²⁰

The Kadono mission visited Lancashire in late July 1937, and as expected made no concrete contribution to the easing of Lancashire-Japan commercial rivalries. The mission's talks in Manchester amounted to little more than a public relations exercise, which was all the more effective because no detailed economic talks took place.¹²¹ Thus as in 1934 cotton trade talks between Lancashire and Japanese industrialists proved incapable of reducing economic friction, and showed no sign of easing Anglo-Japanese tensions. Indeed as an indication of the true importance of the Kadono mission in Japanese foreign policy, with the outbreak of the Sino-Japanese War in July 1937, the mission was quickly recalled, since it no longer had an obvious function in these dramatically changed circumstances.¹²²

120. Clive (Tokyo) to the Foreign Office, 22 April 1937, FO371/21039,F2313,F2859/277/23.

121. *The Manchester Chamber of Commerce, Monthly Record*, August 1937, pp. 347-352.

122. Holland R., 'The Federation of British Industries and the International Economy, 1929-1939', *Economic History Review* (1981), p. 296.

Trade discrimination against Japan in Dominion and third markets.

After the introduction of Colonial quotas Lancashire continued demanding either trade restrictions against Japanese cotton piece-goods or that trade preferences in favour of Lancashire to be extended to both the British Dominions and other third markets. Lancashire believed that British economic leverage and Empire sentiment should be manipulated for the benefit of Lancashire's exports. However, the British government had only very limited influence over the Dominions' commercial policies. The Ottawa Conference demonstrated that even in the Depression the Dominions placed their own economic self-interest before British imperial economic interest and sentiment. Obviously, the pursuit of economic self-interest would be even more pronounced in third countries, even those politically dependent upon Britain. A further weakness in this bilateral approach was that if the relevant market was more dependent upon the Japanese market for its exports then the country or British Dominion concerned was as likely to grant trade preferences to Japanese goods. Moreover, in bilateral trade negotiations the British government had to contend with the needs of other economic interests aside from Lancashire. Therefore the British government was unlikely to pursue trade negotiations for the benefit of Lancashire that jeopardised a similar amount of trade in another sector. Finally, although the Dominions remained politically and militarily dependent upon Britain they were aware that their own foreign interests diverged from British interests. In relation to Japan, the geographically isolated Dominions of Australia and New Zealand had a greater concern over the political consequences of any trade restrictions placed upon Japanese goods.

Following Britain's introduction of domestic protection Lancashire feared that the British government had wasted opportunities in granting preferences to exporters to the British market for similar reciprocal trade preferences. Bilateral negotiations with the Dominions for improved preferences for Lancashire cotton piece-goods had failed, the most notable being prior to the Ottawa Conference when the Canadian cotton industry rejected a Lancashire-Canada market sharing agreement of the Canadian cotton textile market.¹²³ In a similar fashion little headway had been made with third countries. Lancashire feared that unless the British government negotiated favourable trade preferences, Lancashire would lose Dominion and various third markets that had not already been subject to substantial Japanese export penetration. Lancashire feared that a concerted push by the Japanese cotton

123. *The Manchester Chamber of Commerce, Monthly Record*, July 1932, pp. 193-196.

exporters backed by the Japanese government could force them out of these remaining markets. For example, it was widely rumoured in 1933 that the Japanese government intended to facilitate increased exports of cotton piece-goods to South America through increased purchases of South American produce.¹²⁴

However, within the British government there was only limited support for Lancashire's demands to extend trade preferences for Lancashire or trade discrimination against Japanese goods. The British government recognised that widespread global discrimination against Japanese cotton textile exports orchestrated by Britain would place a tremendous strain on Anglo-Japanese relations. Only Cunliffe-Lister, the Colonial Secretary, favoured the British government's pursuit of trade discrimination against Japan beyond the British Colonies. In March 1933, when he outlined his proposals for trade discrimination against Japanese goods in the British Colonies, he stated that the introduction of trade discrimination against Japan would act as an example that could be copied by India and the Dominions.¹²⁵ However, he found no support within the British government. Runciman, the President of the Board of Trade, in particular feared the consequences of extending trade discrimination against Japan beyond the British Colonies. No matter how much pressure there was from Lancashire, Runciman believed that the excessive restriction of Japanese exports would provoke a dangerous reaction in Japan. When the cabinet debated the introduction of Colonial quotas in March 1934 Runciman stated that any attempt to extend Colonial quotas was dangerous since: "It is probable,...., that any concerted attempt by any large section of the world to prevent or substantially restrict such expansion would have grave political consequences".¹²⁶ There was already extensive trade discrimination against Japanese goods in the Dominions and third countries,¹²⁷ and Runciman had no desire for the British government to promote this trend. However, he had no objection to legitimate bilateral negotiations where third countries proposed trade preferences for Lancashire's cotton piece-goods in return for British trade concessions, so long as it did not involve

124. The Manchester Ship Canal Company to the Department of Overseas Trade, 9 September 1933, FO371/17156,F1571/1571/23; Memorandum of the British Commercial Secretary in Lima to the Department of Overseas Trade, 13 October 1933, FO371/17157,F6873/583/23; The British Legation in Lima to the Department of Overseas Trade, 13 October 1933, FO371/17157,F6997/583/23.

125. Memorandum by the Colonial Secretary, 'Japanese Competition in the Textile Trade', 3 March 1933, CAB 24 CP. 54(33).

126. Memorandum of the President of the Board of Trade, 'Japanese Trade Competition', CAB 24 CP. 81(34).

127. See table 2.6.

Britain in the active promotion of trade discrimination against Japan in these markets.¹²⁸ Indeed so adamant was the opposition of Runciman that the Foreign Office did not have to voice any concerns over the globalisation of trade discrimination against Japan. The warnings of Lindley, the British Ambassador in Tokyo, that the Japanese would only accept limited trade discrimination were scrupulously adhered to by Runciman. Thus when the issue of Colonial quotas came before the cabinet in April 1934 the issue of pursuing trade discrimination beyond the British Colonies was not discussed.¹²⁹ Furthermore, the abandonment of radicalism on trade questions by the main Lancashire cotton interests significantly reduced pressure on the British government for the active pursuit of trade discrimination against Japan outside the British colonies. The introduction of Colonial quotas had witnessed the demise of radicalism and this process continued in 1934 when both the Manchester Chamber of Commerce and the Federation of British Industries rejected the radical idea that the British government should threaten the withdrawal of most favoured nation treatment from third countries in order to establish trade discrimination against Japanese competition.¹³⁰ In falling back upon this 'orthodox' posture they accepted that the British government only had limited room for improving bilateral trade without the willing cooperation of reciprocating partners. However, this did not stop criticism of the British government for failing to pursue bilateral trade agreements with suitable vigour.

In keeping with the decision of the cabinet the British government did not seek to actively extend trade discrimination against Japan. Indeed even at times of heightened trade friction between Japan and certain Dominions, in particular during the Canada-Japan and Australia-Japan trade wars, the British government was reluctant to actively promote Lancashire's interest at the expense of Japan. Canadian-Japanese trade friction exploded in May 1935 when the Canadian-Japanese renegotiation of the Canadian 'Exchange Dumping Duty' on Japanese imports was rejected by the Canadian government.¹³¹ This rejection led to

128. Memorandum by the President of the Board of Trade, 'Japanese Trade Competition', 9 March 1934, CAB CP. 67(34); Memorandum by the President of the Board of Trade, March 1934, CAB CP. 81(34).

129. Cabinet Conclusions, 18 April 1934, CAB 23 16(34)4.

130. The Federation of British Industries Report on Japanese Competition, 13 June 1934, FO371/18172,F3923/159/23; *The Manchester Chamber of Commerce, Monthly Record*, June 1934, p. 167.

131. The surtax was initially levied against Japanese goods in December 1931 in order to protect domestic Canadian producers from cheap Japanese imports. However, it was not intended to benefit the Canadian cotton textile industry or Lancashire's exports of cotton textiles to Canada, because in 1931 Japanese exports of cotton goods to Canada remained negligible, The Canadian High Commissioner to the Dominion Office, 16 April 1935, 16 April 1935, and 1 May 1935, FO371/19358/F2508,F3414/456/23; Ishii O., pp. 364-366.

a brief 'trade war', as the immediate Japanese boycott of Canadian lumber imports was bolstered by the imposition in July 1935 of a Japanese surtax upon eight Canadian imports under the 1934 Trade Protection Law;¹³² and the Canadian government retaliated with its own surtax on Japanese imports in August 1935. However, the 'trade war' was ended by mutual consent in December 1935, when the newly elected Canadian Liberal Party Prime Minister, Mackenzie King, abandoned the protectionist policy of the preceding Conservative government and settled Canadian trade relations with both Japan and America.¹³³ However, during the whole period of the Canada-Japan 'trade war' there was no attempt by the British government or Lancashire to exploit the situation to Lancashire's advantage.

In contrast to Canada, in 1933-34 Australia appeared to encourage trade relations with Japan and East Asia. In 1934 Sir John Latham, the Minister of External Affairs and Industries, was dispatched on a goodwill tour of East Asia, and in February 1935 Australia-Japan trade talks aimed at developing trade relations opened in Canberra.¹³⁴ However, the mood for improved trade relations with Japan dramatically changed in Australia. Australian manufacturers started to voice fears over Japanese competition,¹³⁵ while Joseph Lyons, the Australian Prime Minister, on a tour to Britain in 1935 promised to help the Lancashire cotton industry.¹³⁶ In January 1936, the trade negotiations in Canberra reached an impasse, as the Australians now repudiated previous promises to lower tariffs against Japanese goods, and threatened a cotton and rayon quota on Japanese exports to Australia unless the Japanese

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132. Clive (Tokyo) to the Foreign Office, 11 May 1935 and 23 July 1935, FO371/19358,19359,F3554,F5389/456/23; However, the Japanese government did not impose the surtax upon vital Canadian imports, e.g. nickel, lead, zinc etc., The Canadian High Commissioner to the Dominion Office, 26 July 1935, FO371/19358,F5381/456/23.
133. The Japanese boycott of Canadian lumber had led to strong protests from British Columbia, the main exporter of lumber to Japan, that the interests of British Columbia were being sacrificed by the Canadian government, The British High Commissioner in Canada to the Dominion Office, 16 August 1935, and 10 December 1935, FO371/19358,19359,F5381,F7797/456/23; Ishii O., pp. 364-370.
134. Lyons to the Dominion Secretary, 4 February 1935, FO371/19360,F805/805/23; Shepherd J., *Australia's Interests and Policies in the Far East* (Institute of Pacific Relations, New York; 1940), pp. 24-29, 34-35; Hubbard G. E., pp. 354, 357; Ishii O., pp. 371-377.
135. Statement of the President of the Associated Australian Chambers of Manufacturers, *The Times*, 1 February 1935.
136. The Australian Association of British Manufacturers to the Dominion Secretary, 28 February 1935, FO371/19360,F1432/805/23; The Australian Association of British Manufacturers to Gullett, 14 February 1935, FO371/191360,F1740/805/23; *The Manchester Chamber of Commerce, Monthly Record*, June 1935, p. 183.

introduced some measure of voluntary restraint on Japanese cotton exports to Australia. In April 1936 the Australian-Japanese trade negotiations broke down,¹³⁷ and on 22 May Henry Gullett, the Minister for Trade and Treaties, announced Australia's new trade diversion policy: Australian trade was to be diverted away from Japan and America and towards Britain. In keeping with this policy Gullett introduced higher tariffs on Japanese textile imports and lower tariffs on British textile imports.¹³⁸ The abandonment of the pro-Japanese and East Asian trade policy of 1933-34 reflected Australian concern that improved Japanese access to the Australian market, particularly in cotton textiles, would jeopardise reciprocal economic relationships with the British market.¹³⁹ Although the Japanese market was important for Australian wool and wheat exports, the British market was far more important for a whole range of Australian primary exports. Therefore if British manufactured exports to Australia were threatened by Japanese competition Australians feared that Britain would have no incentive to offer Australian goods preferential access to the British market. On introducing the new textile tariffs on Japanese and British products, Gullett emphasised the need to maintain good relations with the British manufacturers for the maintenance of Australian exports to Britain:

At the moment there is no immediate prospect of recapturing our old position for primary produce in foreign markets. If we are not to come to a national standstill, primary production must be increased, and the only way it can be increased is by selling more of our rural output in the British market.¹⁴⁰

In a similar fashion trade was to be diverted from America and towards Britain because the American government had refused to improve the access of Australian primary produce to the American market.¹⁴¹

137. Whiskard, the Australian High Commissioner to the Dominion Office, 27 April 1936, FO371/20281,F3087/119/23.

138. Whiskard to the Dominion Office, 19 May 1936, FO371/20282,F3303/119/23; Shepherd J., p. 44.

139. The Dominion Office to the Foreign Office, 30 January 1936, FO371/20281,F586/119/23.

140. *The Manchester Guardian*, 23 May 1936.

141. Sir Henry Whiskard, the Senior British Trade Commissioner in Australia, stated that the trade diversion policy had been applied to Australia-America trade because the American government had refused to enter into trade negotiations with Australia, Whiskard to the Dominion Office, 19 May 1936, FO371/20282,F3303/119/23; Drummond I. M., *Imperial Economic Policy, 1917-1939* (George Allen & Unwin, London; 1974), pp. 394-395, 401. However, the Australian Trade Diversion Policy did not reap major reciprocal benefits in the British market. British official noted that the limitations of prior bilateral treaties meant Britain could offer Australia few trade concessions without offending other trade partners. One British official complained that "however anxious Australia may be to increase her exports to the U.K., it is far from certain that we can take increased supplies of the sort of commodities which Australia produces, and indeed increased shipments [from Australia] of such things as meat

The abrupt reversal in Australian tariff and trade policy did not result from British pressure on the Australian government to extend trade discrimination against Japan. Ishii speculates that when Australian meat quotas to Britain were discussed during Lyons and Gullett's tour of Britain in 1935, the Dominion Office did pressure the Australians for the improved access of Lancashire's textiles to the Australian market.¹⁴² However, such pressure for reciprocal trade benefits was typical of contemporary trade practice, and indeed the basis for the 1935 Australia-Japan trade talks. Otherwise the British government had no direct involvement in the Australian introduction of the trade diversion policy of May 1936. Within Whitehall the Board of Trade welcomed Australia's trade policy, and although privately the Foreign Office worried about the foreign policy repercussions of Australian trade discrimination against Japan, it informed the Dominion Office that the Australian tariff action caused no foreign relations complications with Japan.¹⁴³ Indeed British officials were critical of the Australian government's invitation to Japan to trade talks to improve Australia-Japan trade, and feared that Britain would be blamed by the Japanese for the subsequent Australian reversal of this policy.¹⁴⁴ In contrast to British officials Lancashire sought to undermine any negotiated improvement in Australia-Japan trade, and in March 1936 sent a trade mission to Australia in order to spoil the Australia-Japan negotiations. However, despite some offensive references by members of the Lancashire delegation, suggesting the importation of Japanese textiles manufactured by 'coloured labour' was a breach of the 'White Australia' policy,¹⁴⁵ there was little evidence that their activities had any impact on the Australian introduction of the trade diversion policy. The Senior British Trade Commissioner to Australia noted that the change in the Australian governments attitude to trade with Japan predated the arrival of the Lancashire delegation.¹⁴⁶

involves us in continual difficulties with Argentina and other suppliers", Department of Overseas Trade to the Foreign Office, 5 May 1936, and 23 May 1936, FO371/20281,F2552/119/23. In response to Australia's Trade Diversion Policy Britain made some minor concessions over Australia's meat exports to Britain at the expense of Argentina's meat exports to Britain, Drummond I. M., *Imperial Economic Policy, 1917-1939*, pp. 402-403; Shepherd J., p. 65.

142. Ishii O., p. 394.

143. Overton (Board of Trade) to the Foreign Office, 11 February 1936, FO371/20281,F781/119/23; Minute by Orde, 3 February 1936, FO371/20281,F568/119/23; Orde to the Dominion Office, 20 February 1936, FO371/20281,F857/119/23.

144. Dominion Office to the Foreign Office, 13 February 1936, Minute by Henderson, 17 February 1936, FO371/20281,F857/119/23.

145. Dalton to the Dominion Office, 2 April 1936, FO371/20281,F2552/119/23.

146. Department of Overseas Trade to the Foreign Office, 5 May 1936, FO371/20281,F2552/119/23.

However, the increase in tariff preference for Lancashire's textiles was undermined by the Japanese tariff retaliation to the Australian trade diversion policy, which forced the Australian government to abandon the May 1936 duties on Japanese cotton and rayon textiles. After a brief trade war trade negotiations were resumed in July 1936.¹⁴⁷ In December 1936 both governments agreed to abandon all retaliatory tariff restrictions, and to implement new duties and quotas. The Australian government reduced the duty on Japanese textiles to permit the entry of Japanese textiles into the Australian market at 1935 volumes, while the Japanese government permitted the entry of Australian wool and wheat into the Japanese market at 1935 levels of duty.¹⁴⁸ In contrast with Lancashire's favourable reception to the Australian tariff revisions of May 1936 the Lancashire cotton industry regarded the new Australian tariffs as a blow to its economic position in Australia.¹⁴⁹ Thus for Lancashire bilateral trade relations proved to be a difficult issue. Access to the British market and imperial sentiments did not guarantee Lancashire effective long-term discrimination against Japanese goods within the Australian market.

In a similar fashion to trade relations with the Dominions, bilateral trade negotiations with third countries for improved preferences for Lancashire's textiles yielded ambivalent results. The two main regions of Lancashire-Japan trade rivalry were the Middle East and South America. In the Middle East British commercial diplomacy proved inadequate to halt and reverse Japanese commercial penetration in the region. Japanese exports of cotton piece-goods to the region rose from 118,131,000 square yards (for Egypt and Turkey only) in 1929 to 494,542,000 square yards by 1935; in contrast Lancashire's exports to the same region fell from 355,164,000 square yards in 1929 to 93,515,000 by 1935.¹⁵⁰ However, despite Britain's continued political dominance of the region, the British government found it impossible to convert this political dominance into a substantial commercial advantage. By the early 1930s most governments in the region had achieved

147. Clive (Tokyo) to the Foreign Office, 30 June 1936, FO371/20282,F4667/119/23; Ishii O., pp. 406-408.

148. The Dominion Office to the Foreign Office, 29 December 1936, FO371/20282,F8058/119/23; Shepherd J., pp. 60-64.

149. *The Manchester Chamber of Commerce, Monthly Record*, June 1936, pp. 233-235, and January 1937, pp. 15-16; Presidential address of W. E. Lucas, *Manchester Chamber of Commerce, Monthly Record*, July 1936, p. 276; Redford A., pp. 258-259.

150. Shimizu H., *Anglo-Japanese Trade Rivalry in the Middle East in the inter-war period* (Ithaca Press, Oxford; 1986), table 8, p. 61.

political and/or economic independence¹⁵¹ and proved jealous guardians of their own commercial policy. Thus trade discrimination against Japan arose not from direct British pressure but from concern arising over the threat of Japanese competition to domestic industries, or the failure of Japan to take sufficient domestic agricultural exports.

For example in 1930 Egypt achieved tariff autonomy, and from 1930 to 1937 used this new tariff freedom to benefit its own domestic cotton growers and cotton textile industry. Despite Egyptian fears of Japanese competition against their infant cotton industry the Lancashire cotton industry derived little benefit from Egyptian tariff discrimination against Japanese cotton textile imports. In 1934 and 1935 successive British government proposals for Lancashire's increased preferential access to the Egyptian market, through the institution of a cotton quota system similar to the Colonial quota system, were rejected by the Egyptian government. The Egyptians objected to the British proposal because it did little for poor Egyptian consumers who depended upon cheap Japanese textile imports and did little to promote the Egyptian raw cotton industry,¹⁵² a point recognised by the Lancashire cotton industry.¹⁵³ In regard to discriminating against Japanese competition the Egyptian government had a clear strategy: it was prepared to act, but only for the benefit of the domestic economy and not so that one foreign competitor could gain an advantage over others. In July 1935 the Egyptian government denounced the 1930 Egyptian-Japanese Commercial Agreement and in September 1935 introduced an exchange depreciation surtax upon Japanese imports. However, the Egyptians told the British that the intention of these moves was part of a negotiating strategy to force the Japanese cotton industry to take more Egyptian raw cotton.¹⁵⁴ Although the October 1935 to June 1936 Egypt-Japan trade talks proved fruitless,¹⁵⁵ and Japanese cotton textile exports to Egypt declined dramatically as the depreciation surtax remained in place, the Lancashire cotton industry gained little benefit. While Japanese exports of cotton piece goods to Egypt fell from 142.1 million square metres in 1935 to 66.6 million square metres by 1937, Lancashire's exports of cotton piece-goods only rose from 30.3 million square metres in 1935 to 51.2 million square metres in 1936,

151. Shimizu H., p. 66.

152. Foreign Office minute by Somers-Cocks, 7 November 1934, FO371/17987,F2694/43/16; Shimizu H., pp. 108-109.

153. Dupree M. (ed.), entry 9 November 1934, pp. 336-337.

154. St. Quintin Hill (Board of Trade) to Campbell (Foreign Office), 3 February 1936, FO371/20139,F1111/608/16; Shimizu H., p. 109.

155. Shimizu H., pp. 110, 112-113.

then fell to 43.4 million square metres in 1937.¹⁵⁶ The main beneficiaries of Egyptian tariff discrimination against Japan were the Italian and Egyptian cotton textile industries. Italian exports of cotton piece-goods to Egypt rose from 15.9 million square metres in 1935 to 66.6 million square metres in 1937, while Egyptian production of cotton piece-goods rose from 34.5 million square metres in 1935 to 66.5 million square metres in 1937.¹⁵⁷ In contrast to the Middle East Japan's economic penetration of South America proved unsuccessful. In bilateral trade negotiations with the independent South American governments, unlike the British and American governments, the Japanese were unable to offer a substantial market for South American agricultural produce in return for the continued access of their manufactured goods into these markets.¹⁵⁸ Moreover, exports of cotton piece-goods to this region were further handicapped by the determination of numerous South American governments to foster their own cotton textile industries behind tariff barriers.¹⁵⁹

156. Shimizu H., table 15, p. 99.

157. Shimizu H., tables 15 and 17, pp. 99,116. The case of Iraq also reveals the limitations of British commercial diplomacy in the Middle East. Not only were British proposals for an Iraqi quota on cotton and rayon textiles rejected by the Iraqi government, but also the introduction in May 1936 of trade restrictions on Japanese cotton and rayon textiles did not lead to a revival of Lancashire's exports to Iraq. Lancashire's exports of cotton piece-goods to Iraq fell from 495,000 Iraqi dinars in 1931/32 to 89,000 Iraqi dinars in 1935 and 69,000 Iraqi dinars in 1937. In contrast Japanese exports of cotton piece-goods rose from 66,000 Iraqi dinars in 1931/32 to 950,000 Iraqi dinars in 1935 and despite the introduction of trade restrictions in 1936 continued to rise to 874,000 Iraqi dinars in 1937. Japanese cotton piece-good exports to Iraq continued to rise because the aim of Iraqi trade restrictions on Japanese goods was to increase Japanese purchases of Iraqi produce. In response to the May 1936 trade restrictions the Japanese successfully increased purchases of Iraqi produce and so maintained access to the Iraq market, Shimizu H., table 22, p. 130, and pp. 137-148.

158. Ishii O., pp. 288-332.

159. International Labour Office, *World Textile Industries: Economic and Social Problems* (International Labour Office, Geneva; 1937), p. 110.

Conclusion.

In the period 1933-37, despite strong business pressure for trade discrimination against Japan, these forces were effectively managed by the British government. A mixture of political and economic considerations led the British government to reject excessive business demands and to avoid implementing extreme measures of trade discrimination against Japan. After the failure of the London cartel talks the introduction of Colonial quotas in 1934 marked the limit of the British governments active participation in increasing trade discrimination against Japan. Colonial quotas proved the watershed in stifling Lancashire's criticism of the government, as Lancashire recognised the limits of British economic policy. Moreover trade discrimination did not spill over into a 'trade war', as the Japanese cotton industry willingly accepted trade discrimination in the British colonies in preference to any global Anglo-Japanese cartel agreement. This process continued after the introduction of Colonial quotas as both the Lancashire and Japanese cotton industries accepted trade restraint in the British colonies as the price for its non-involvement in any global cartel agreement with Lancashire. Further, attempts to improve Anglo-Japanese relations by reducing British trade restraint floundered as neither the Lancashire nor Japanese cotton industries wanted or expected to reach a cotton trade agreement. As Clive stated in 1937, prior to the departure of the Kadono mission, he expected the Japanese cotton industry would not agree to voluntary trade restraint since, "in principle they dislike [trade restraint] but ... they are reconciled [to it]".¹⁶⁰ Finally, the importance of Anglo-Japanese trade friction over cotton piece-goods had been surpassed by Anglo-Japanese tensions in China. Tensions in China had reduced cotton friction to a footnote in Anglo-Japanese relations. For example when Yoshida sought to improve Anglo-Japanese relations through an economic understanding the provisions for voluntary Japanese export restraint to the British colonies and Dominions were tied to the prior settlement of Anglo-Japanese friction in China. Consequently, because the settlement of the cotton issue depended upon the prior settlement of the China issue, it clearly revealed that the latter was far more important than the former in Japanese eyes.

In contrast to the easy management of Anglo-Japanese friction over cotton piece-goods in the British colonies, the patterns of Anglo-Japanese competition outside this area were far more unstable. However, the intricacies of these trade tensions did not result from

160. Clive (Tokyo) to the Foreign Office, 22 April 1937, FO371/21039,F2313/277/23.

The British government and trade discrimination against Japan

British demands for trade discrimination against Japan but merely reflected unstable economic patterns of bilateral trade relations. Any British success in extending trade preferences did not result from political dominance over the respective trade partner, but stemmed from the British ability to offer reciprocal trade preferences in the British market. However, this policy had its limitations. For example, the case of Australian tariff preferences to Lancashire in May 1936 proved, that any British trade preferences to one trading partner necessarily were at the expense of another trade partner. Moreover the Japanese were effective participants in the bilateral trade negotiations: restricted access to the Japanese domestic market caused both the Canadian and Australian governments to reduce tariff discrimination against Japanese goods.

Table 2.1 : Total imports of British and Japanese cotton textiles into the British Colonial Empire, 1929-1933.

Year	Quantity (millions of yards)			Distribution (per cent)		
	Total	Britain	Japan	Britain	Japan	Others
1929	514.3	283.4	73.5	55.1	14.3	30.6
1930	446.1	219.8	105.2	49.3	23.6	27.1
1931	389.4	157.9	125.2	40.5	32.1	27.4
1932	532.8	262.5	191.9	49.3	36.0	14.7
1933	502.2	188.7	244.9	37.6	48.8	13.6

[Source: Hubbard G. E., *Eastern Industrialization and its Effect on the West* (Oxford University Press, London, 1935), table XIV, p. 38.]

Table 2.2 : Imports of British and Japanese cotton textiles into specific regions of the British Colonial Empire, 1929-1933.

Market and year	Quantity (millions of linear yards)			Distribution (per cent.)		
	Total	Britain	Japan	Britan	Japan	Others
East African Markets (i)						
1929	109.4	23.6	32.6	21.6	29.8	48.6
1930	92.8	19.3	35.5	20.8	38.2	41.0
1931	96.5	13.0	50.5	14.1	52.4	33.5
1932	95.0	14.6	60.0	15.4	63.2	21.4
1933	104.0	11.7	78.2	11.3	75.2	13.5
West African Markets (ii)						
1929	141.4	124.4	..	88.0	..	22.0
1930	143.2	126.4	..	88.2	..	21.8
1931	97.2	86.4	1.0	88.9	1.3	9.8
1932	176.5	159.6	4.4	90.5	2.5	7.0
1933	148.1	113.5	15.6	76.6	10.5	12.9
Ceylon						
1929	56.9	27.5	8.2	48.4	14.4	37.2
1930	50.6	19.7	13.4	32.2	25.6	36.2
1931	54.9	16.0	23.7	29.2	43.2	27.6
1932	68.6	15.8	40.4	23.0	58.9	18.1
1933	60.7	9.6	41.4	15.8	68.2	16.0
Malaya						
1929	166.5	86.0	34.7	51.6	20.8	27.6
1930	118.0	32.1	56.3	27.2	47.7	25.1
1931	99.9	21.6	49.8	21.8	50.4	27.8
1932	150.0	39.1	85.8	26.1	57.3	16.6
1933	145.9	25.9	99.5	17.8	68.2	14.0
West Indian Markets (iii)						
1929	41.1	21.9	..	53.3	..	46.7
1930	41.5	22.3	..	53.7	..	46.3
1931	40.9	20.9	0.2	51.1	0.5	48.4
1932	42.7	33.1	1.3	77.6	3.1	19.1
1933	43.5	28.0	10.2	64.4	23.5	12.1

[Source: Hubbard G. E., *Eastern Industrialization and its Effect on the West* (Oxford University Press, London: 1935), table XIV, p. 38.]

Notes : (i) Kenya, Uganda, Nyasaland, Somaliland, Tanganyika, Zanzibar.
(ii) Gambia, Gold Coast, Nigeria, Sierra Leone (in millions of square yards).
(iii) Barbados, Jamacia, Trinidad, Tobago, British Guiana.

Table 2.3 : Japan's balance of trade with the British Dominions and India, 1931-1933 (thousands of yen).

Year	Australia	New Zealand	Canada	South Africa	India	Total
1931	+94,930	-527	+22,606	-17,950	+22,798	+121,857
1932	+97,382	-2,846	+30,943	-13,782	-75,625	+36,072
1933 (January to August)	+90,426	-2,399	+27,214	-14,238	+48,778	+149,781

[Source: Board of Trade memorandum, 'Japan's commercial relations with India and the Dominions', 29 November 1933, FO371/17157,F7600/583/23.]

Table 2.4 : Effect of Colonial quotas on Nigeria's imports of selected cotton textiles.

		January-June 1934	January-June 1935	Percentage change
Shirts	Total	123,000	37,500	-65.9
	Japanese	97,000	2,500	-97.4
	British	25,000	30,000	+20.0
	Others	1,000	5,000	+400.0
Pullovers	Total	70,000	37,000	-47.1
	Japanese	59,000	2,000	-96.6
	British	11,000	33,500	+204.5
	Others	-0-	1,500	
Singlets	Total	1,221,000	269,000	-77.9
	Japanese	1,189,000	192,000	-83.8
	British	30,000	56,000	+86.7
	Others	2,000	20,000	+900.0
Socks	Total	40,600	69,600	+71.4
	Japanese	21,000	450	-97.8
	British	15,000	37,000	+146.7
	Others	4,600	32,000	+595.6

[Source: Colonial Office memorandum, 'Japaense Textile Competition in the Colonial Empire', 29 November 1935, FO371/F19359,F7670/456/23.]

Table 2.5 : Lancashire's exports of cotton piece-goods to selected British colonies after the introduction of Colonial quotas (millions of linear yards).

Colony	1934		Percentage increase between the 1st and 3rd quarters after the introduction of Colonial quotas.
	1st Quarter	3rd Quarter	
Bahamas (i)	73,499	300,139	308.3
Barbados	632,487	3,273,770	423.6
Jamacia	1,402,202	6,308,243	349.9
Trinidad (i)	1,007,520	3,153,256	212.9
Windward Islands	272,274	1,316,442	383.5
Cyprus	277,724	755,093	171.9
Nigeria (i)	9,048,128	13,970,764	54.4
Gold Coast (i)	3,372,224	10,648,241	215.8
Sierra Leone (i)	1,066,517	1,382,272	29.6
Gambia (i)	413,885	749,023	80.9
Ceylon	1,792,768	5,996,835	234.5
Malaya	6,826,000	6,625,000 (ii)	

[Source: *The Manchester Chamber of Commerce, Monthly Record*, March 1935, p. 86.]

Notes : (i) in square yards.

(ii) For first two months only.

Table 2.6 : Abstract of trade discrimination against Japan in the British Dominions (excluding India) and third countries, in December 1933.

1) Tariff treatment of Japanese goods in the British Dominions.

Canada:	A tariff against depreciated currencies levied mainly against Japanese goods.
South Africa:	An Exchange Dumping Duty, mostly levied against Japanese goods.
Australia:	The Tariff Board had been asked to make a report on the introduction of a dumping duty, mainly intended to counter Japanese imports.
New Zealand:	No action, but the Board of Trade believed it would follow any British lead.
Newfoundland:	An Exchange Dumping Duty.
South Rhodesia:	No specific action.

2) A list of countries that had taken some form of specifically anti-Japanese trade or tariff measures.

China, Egypt, Germany, Greece, America, and France.

3) Restrictive trade or tariff measures that worked to Japan's disadvantage, by industry.

Cotton:	11 countries	Handkerchiefs:	10 countries
Rayon:	11	Wool:	12
Cement:	9	Rubber boots:	12
Iron and steel:	10	Pottery:	10
Electric lamps:	10		

[Source: Board of Trade memorandum, 'Japanese Trade Competition', 11 December 1933, FO371/17157,F7706/583/23.]

Chapter 3.

Lancashire and the Indo-Japanese trade negotiations, 1933-1937.

Introduction.

In the 1930s Indian trade discrimination against Japanese cotton piece-goods was one of the most important sources of trade friction between Britain and Japan. India was the most important market for both Lancashire's and Japan's cotton piece-good exports, consequently, given continued Indian political dependence upon Britain, the Japanese cotton manufacturers held the Lancashire cotton industry and the British government responsible for Indian trade discrimination against Japanese goods. Thus Indo-Japanese trade friction raises two questions in regard to British business and Anglo-Japanese relations: the role of the Lancashire cotton industry in the introduction of trade discrimination against Japanese goods, and the impact between 1933 and 1937 of Indo-Japanese trade friction on Anglo-Japanese relations.

In regard to commercial pressures the British and Indian governments had to balance the competing demands of the Lancashire and Indian cotton industries in a political context that, since the end of World War One, was increasingly hostile to direct British control of Indian commercial policy. While the British government, through the India Office and the British appointed Indian executive, still retained both direct and indirect control of India's economic and commercial policy, the rise of Indian nationalism in the interwar years severely limited the indiscriminate exercise of this authority. British demands for trade protection for specific industries had to be balanced against wider British economic and strategic interests in India. In order to ensure native Indian cooperation, as exemplified by the series of postwar constitutional reforms, the British government was increasingly prepared to sacrifice specific British economic interests, as the means of reducing native Indian hostility to continued British rule. Thus Lancashire's demand for trade protection from Japanese competition in the Indian market occurred against a background in which the British government was no longer prepared to champion the cause of any British economic interest group which threatened to destabilise overall Anglo-Indian relations.

However, despite the British government's caution over antagonising Indian nationalist opinion the demands of Lancashire for trade discrimination against Japanese imports and improved access for Lancashire's imports into India threatened to do precisely this. While both the Lancashire and native Indian cotton industries wanted protection from Japanese competition, they diverged considerably as to how this could be achieved in the

Indian market. Lancashire wanted India to discriminate against Japanese imports while maintaining British access to the Indian market; the Indian cotton industry wanted protection from both Japanese and Lancashire competition. Consequently, in order to balance the demands of the Lancashire and the Indian cotton industries, tariff preference was used as the means to discriminate against Japanese competition whilst giving Lancashire preferential access to the Indian market. However, in practice, by the early 1930s, the Indian cotton manufacturers secured a level of tariff preference for Lancashire that provided them with an adequate level of protection from Lancashire's competition. Thus Lancashire increasingly saw cooperation with the Indian cotton manufacturers against Japanese competition, backed by the threat of sabotaging Indian constitutional reform, as the only means of securing its access to the Indian market.

Finally, Indian trade discrimination raised the spectre of Japanese political and commercial retaliation against India and/or the British Empire. The threat of such retaliation was heightened by the fact that the Indian market was far more important to Japanese cotton manufacturers than the British Crown Colonies. Furthermore, while the Indian government could not easily contemplate Japanese economic retaliation that jeopardised India's substantial exports to Japan. Thus the demands of the native Indian cotton manufacturers for substantial trade protection against Japan added another destabilising factor in Anglo-Indian relations. The British desire to appease Indian nationalism through specific commercial gestures ran counter to the British government's firmly held desire to avoid any extreme measure of trade discrimination against any third party. Thus the British government confronted the nearly hopeless task of meeting India's and Lancashire's demands for the framing of Indian tariff policy to suit their respective interests whilst minimising the threat of Japanese retaliation.

Lancashire and the Indian market in the 1920s.

Before 1914 India was the world's most important market for cotton piece-goods, and even after the disruptions of the war India's primacy as the world's most important cotton piece-good import market was not affected. Between 1927-29 Indian imports of cotton piece goods were some 30 times greater than America's, and the India market accounted for some 25% of the world's exports of cotton piece-goods.¹ For Lancashire, even after the tightening of world trade after World War One, India remained the largest export market. In the 1920s over a quarter of Lancashire's total cotton piece-good exports went to India, which represented between 30-40% of British manufactured exports to India.² Thus the Lancashire cotton industry depended heavily upon the Indian cotton piece-good market for its survival as a large scale export orientated industry. Therefore it could not countenance the 'loss' of the Indian market as the result of foreign competition or the closing of the Indian market due to domestic protectionism.

In the 1920s, despite some recovery of exports to India, Lancashire's export volumes remained sharply down on the prewar period. As noted in chapter one, Indian *per capita* consumption of cotton piece-goods declined sharply between the prewar and postwar periods, while at the same time Indian production of cotton piece-goods had increased sharply. Further, the 'poverty' of the Indian market limited Lancashire's ability to export greater quantities of fine cotton piece-goods. However, for Lancashire the greatest challenge to its volume of exports to India was the increased duties placed upon cotton piece-goods by the Indian government. In Lancashire's phase as the *exemplar* of Victorian *laissez faire* capitalism, the Lancashire cotton industry had forced the British and Indian governments in 1896 to introduce an internal 3.5% excise duty on Indian mill produced cotton piece-goods as a countervailing duty to the 3.5% tariff imposed on Indian cotton piece-good imports.³ However, British *laissez faire* capitalism virtually ended during World War One, when in order to raise revenue to meet a budget deficit, the Indian government ignored Lancashire's protests and in 1917 raised the duty on cotton piece-good imports to

1. See tables 1:3, and 3:1; *Statistical abstract of the United States* (United States government printing office, Washington; 1930).

2. See table 1:1.

3. Harnetty P., 'The Indian Cotton Duties Controversy, 1894-6', *English History Review* (1962), pp. 684-702; Hubbard G. E., *Eastern Industrialisation and its Effect on the West* (Oxford University Press, London; 1935), pp. 260-261.

7.5% without any corresponding increase in the countervailing excise duty on Indian mill production.⁴ British control of India tariff policy was further weakened when in response to wartime commitments to Indian 'responsible government' the British government adopted the Montague-Chelmsford reforms in 1919,⁵ and granted the Indian government sovereignty in tariff matters through the Fiscal Autonomy Convention of 1919: which was enforceable from 1921.⁶ Under the auspices of the Fiscal Autonomy Convention the Indian *ad valorem* duty on cotton piece-good imports was increased to 11% in 1921, again with no complementary increase in the countervailing excise duty. Protection for the domestic cotton industry was again increased through the suspension in December 1925, and abolition in March 1926 of the excise duty on Indian mill produced cotton piece-goods.⁷

Lancashire was deeply disturbed by the rise of the Indian cotton industry behind increased tariff protection, and was only partially successful in hindering successive rises in the effective rate of tariff protection for the Indian cotton textile industry. In 1921 Lancashire protested against the rise of the Indian tariff on cotton piece-goods, and demanded that the British government utilise the clause in the Fiscal Autonomy Convention that allowed the British government to overrule the Indian Legislative Assembly.⁸ However, the British government proved unwilling to antagonise Indian opinion through such a direct intervention in Indian commercial affairs and rejected Lancashire's demand out of hand.⁹

4. Nishikawa H., *Nippon Teikoku Shugi to Mengyô* [Japanese Imperialism and the Cotton Industry] (Minerva Shobo, Kyoto; 1987), p. 290; Fearnley A. C., 'The Manchester Chamber of Commerce, Lancashire Textiles and British Imperial Trade, 1919-1939' (Unpublished MLitt, Oxford University; 1986), pp. 184-186; Redford A., *Manchester Merchants and Foreign Trade, 1850-1939. Volume II* (Manchester University Press, Manchester; 1956), pp. 278-279; Chatterji B., *Trade, Tariffs, and Empire: Lancashire and British Policy in India, 1919-1939* (Oxford University Press, Delhi; 1992), p. 199.

5. McIntyre W. D., *The Commonwealth of Nations* (Oxford: 1977), pp. 209-212; Kulke H. and Rothermund D., *A History of India* (Routledge, London; 1992), pp. 272-273; Chatterji B., pp. 202-204.

6. However, on the basis of both the British appointed Viceroy and his Executive Council disagreeing with any legislation of the Indian Legislative Assembly, the British government did retain the right to veto this legislation, Hubbard G. E., p. 262; Chatterji B., pp. 14-15, 204.

7. See table 3:6; Nishikawa H., pp. 290, 292-295; Chatterji B., pp. 238-256.

8. *The Manchester Chamber of Commerce, Monthly Record*, March 1921, p. 99, and April 1921, pp. 143-148; *Dai Nippon Bôseki Rengôkai Geppô*, June 1921, 'Indo Yunyûzei Hikiageru ni taisuru Rankasha Mengyôsha no Hantai Undô' [The Lancashire Cotton Industrialists movement against the Indian Tariff Increase], and September 1921, 'Indo Menpu Yunyûzei Zôchô Mondai' [The Indian cotton piece-good tariff increase problem] and 'Eikoku ni Okeru Menseihin Indo Yunyûzei Hikiageru Hantai Undô' [The movement in Britain against the increased tariff on cotton manufactures]; Nishikawa H., p. 290; Redford A., pp. 279-280; Chatterji B., pp. 209-210.

9. The Secretary of State for India rejected Lancashire's demand on the grounds that prevention of the tariff increase required the vetoing of the whole finance bill, and that the whole of the Indian government's

The British government's refusal to intervene indicated that in order to sustain British control of India,¹⁰ Lancashire's sectional interests could be sacrificed to appease Indian nationalists, and that in regard to tariff policy there would be no return to the prewar status quo. Lancashire recognised the decline of influence on India's tariff policy, and made no further protests to either the British or Indian government over the suspension and abolition of the excise duty on Indian mill produced cotton piece-goods.¹¹ However, despite the display of neutrality over Indian tariff questions Lancashire retained a deep-seated hostility to the development of the Indian cotton industry. It insisted that through a process of 'balanced development', the Indian market should be exploited for the mutual benefit of both the Lancashire and Indian cotton industries.¹² Lancashire would supply the fine piece-goods and India the coarse piece-goods to the Indian market.¹³ However, the native Indian millowners showed little enthusiasm for the policy,¹⁴ and any realistic chance of a balanced Anglo-Indian development of the Indian market was undermined by the successful Japanese penetration of the same market.

In the 1920s increased Japanese competition emerged as a new threat to Lancashire's position as the leading exporter of cotton piece-goods to India. Japanese cotton

precarious finances could not be thrown into chaos merely for the benefit of Lancashire, the Secretary of State for India to the Manchester Chamber of Commerce, 23 March 1921, in *The Manchester Chamber of Commerce, Monthly Record*, April 1921, pp. 148-154; Redford A., p. 279; Chatterji B., pp. 210-211.

10. In regard to Indian economic questions the British government's overriding concern was to conduct Indian fiscal and monetary on terms that were advantageous to Britain and the British Empire, Chatterji B., pp. 74-82, 87-92; Rothermund D., *An Economic History of India: From Pre-Colonial Times to 1991* (Routledge, London; 1993), pp. 76-82.
11. *The Manchester Chamber of Commerce: Annual Report of the Board of Directors and Trade Sections, 1925*, p. xiv; Nishikawa H., pp. 294-295; Redford A., p. 280; Chatterji B., pp. 257-260.
12. *Dai Nippon Bôseki Rengôkai Geppô*, June 1921, 'Indo Yunyûzei Hikiageru ni taisuru Rankasha Mengyôsha Hantai Undô' [The Lancashire cotton industrialists movement against the India tariff increase], and September 1921, 'Indo Menpu Yunyûzei Zôchô Mondai' [The Indian cotton piece-good tariff increase] and 'Eikoku ni Okeru Menseihin Indo Yunyûzei Hikiageru Hantai Undô' [The movement in Britain against the increased tariff on cotton manufactures]; Nishikawa H., p. 290.
13. *The Manchester Chamber of Commerce, Monthly Record*, December 1925, p. 384; *Dai Nippon Bôseki Rengôkai Geppô*, January 1926, 'Indo Menpu Shôhizei Teppai to Eikoku no Taido' [The withdrawal of the Indian consumption tax on cotton-piece goods and Britain's attitude], and February 1926, 'Indo Menpu Kokusanzei Chûshi to Eikoku no Seiron' [The suspension of the Indian excise duty on national cotton piece-good production and British public opinion]; Nishikawa H., pp. 294-295; Redford A., p. 280.
14. *Dai Nippon Bôseki Rengôkai Geppô*, January 1926, 'Indo Menpu Shôhizei Teppai to Eikoku no Taido' [The withdrawal of the Indian consumption tax on cotton-piece goods and Britain's attitude]; Nishikawa H., p. 295.

manufacturers had first taken advantage of the disruptions of World War One to penetrate the Indian market,¹⁵ and this export success survived both the postwar slump and the return of Lancashire's competition. Throughout the 1920s Japan's volume and share of the Indian market increased, so that by 1928 Japan exported over 350 million linear yards of cotton piece goods to India, amounting to 20% of India's imports, and 25% of Japan's total cotton piece-good exports.¹⁶ However, Japan's export success threatened not only Lancashire's exports to India but also the Indian cotton industry, which by the mid-1920s became increasingly alarmed at the inroads of Japanese competition in the Indian market. The postwar intensification of Japanese competition resulted in Indian cotton manufacturers' demands for further domestic tariff protection. The crusade was led by the native Bombay millowners, who produced mainly cheap grey piece-goods, and were thus suffering most from Japanese competition.¹⁷ However, in recognition of Lancashire's continued hostility to further tariff protection for the Indian cotton textile industry, the Indian government refused to endorse another increase in the duty on cotton piece-good imports.¹⁸ Thus in order to circumvent Lancashire's 'veto' on further tariff increases the Bombay millowners demanded that tariff discrimination should be introduced against Japanese goods.¹⁹

However, Bombay's case for a discriminatory tariff treatment of Japanese cotton textiles was undermined by the refusal of other native Indian business interests to endorse trade discrimination against Japan. Indian business interests feared Japanese retaliation against their exports,²⁰ while the pro-nationalist native Ahmedabad millowners - who

15. Nishikawa H., pp. 284-285.

16. See table 3:2.

17. Markovits C., *Indian Business and Nationalist Politics, 1931-1939* (Cambridge University Press, London; 1985), pp. 20, 29-31, 37-39; *Report of the Millowners' Association of Bombay for the year, 1931* (1932); The Bombay Millowners' Association to the Indian Tariff Board, 31 May 1932, in *The Indian Tariff Board. Cotton Textile Industry: Volume 1, The representations submitted to the India Tariff Board by the applicants for protection* (Manager of Publications, Delhi; 1934), p. 15; *Dai Nippon Bôseki Rengôkai Geppô*, July 1925, 'Indo Menpu Shôhizei Mondai (2)' [The Indian cotton piece-good consumption tax problem (2)]; Rothermund D., pp. 86-88; Nishikawa H., pp. 293-294.

18. For example in 1922 the general import tariff on manufactured goods was increased to 15% while the 11% tariff on cotton piece-good imports was still retained, Chatterji B., p. 163, footnote 193, and p. 215, and chapter 6.

19. *The Manchester Chamber of Commerce, Monthly Record*, July 1926, pp. 209-212; Nishikawa H., pp. 296-299; Chatterji B., pp. 275, 277-278.

20. *Dai Nippon Bôseki Rengôkai Geppô*, February 1926, 'Indo Menpu Kokusanzei Chûshi to Eikoku no Seiron' [The suspension of the Indian excise duty on national cotton piece-good production and British public opinion], and 'Indo Shôkôgyôsha Taikai' [India Chambers' of Commerce Meeting], and May 1926, 'Bonbei Bôsekigyôsha no Nichi-In Tsûshô Jôyaku Haki Undô' [The Bombay Cotton Spinners' movement for the abrogation of the Indo-Japan Trade Treaty]; Nishikawa H., pp. 296-297.

produced higher grades of cotton piece-goods and so were in more direct competition with Lancashire's cotton piece-goods - rejected the need for discriminatory tariffs against Japan.²¹ The divisions within the Indian cotton textile industry reinforced the Indian government's prejudice against further tariff protection for the Indian cotton industry and tariff discrimination against Japanese imports. The Indian government rejected both the Bombay millowners' request for discriminatory tariff protection against Japanese competition, and the recommendation of the Indian Tariff Board that the general cotton piece-good tariff should be increased from 11% to 15%.²² Although the Indian Tariff Board recommended the increase of the general tariff on cotton piece-good imports, like the Indian government they also rejected as totally unacceptable Bombay's request for tariff discrimination against Japanese imports.²³ A final demand by the Bombay Millowners' Association for increased protection, through the introduction of a specific duty on cotton piece-good imports, was rejected in 1929.²⁴ Thus the Bombay millowners' attempt, from the mid-1920s, to curb Japanese imports through either an increase in the general tariff or tariff discrimination were hindered by Lancashire's opposition to any further increases of the general tariff, and the unwillingness of the Indian government and Indian business to endorse tariff discrimination against Japan.

In the face of Indian demands for both tariff protection and tariff discrimination against Japan, Japanese cotton manufacturers stuck to a rigid defence of their right - as enshrined in the most favoured nation clause of the 1904 Indo-Japanese Trade Convention - of equal access to the Indian market. As the most competitive supplier to the Indian market, the Japanese had little to fear, so long as tariff equality was maintained and Lancashire pressure ensured that the Indian market remained 'open'. However, from the early 1920s the Japanese recognised the strength of Indian fears in regard to Japanese competition.²⁵ The

21. Markovits C., pp. 20, 33, 37-39; *Report of the Millowners' Association of Bombay for the year, 1931* (1932).

22. The Indian government to the Bombay millowners' Association, 26 March 1926, in *The Manchester Chamber of Commerce, Monthly Record*, July 1926, pp. 210-212; Anstey V., *The Economic Development of India* (Longmans, London; 1931), pp. 263, 277-278; Redford A., p. 281; Chatterji B., pp. 275, 281, 282-287.

23. *The Manchester Chamber of Commerce, Monthly Record*, June 1927, pp. 182-185; Nishikawa H., p. 299; Chatterji B., p. 281.

24. *The Manchester Chamber of Commerce, Monthly Record*, December 1929, pp. 381-384; Fearnley A. C., p. 199; Redford A., p. 281; Chatterji B., pp. 298-305.

25. *Dai Nippon Bôseki Rengôkai Geppô*, February 1923, 'Indo Menpu Kokusanzei Teppai Mondai' [The

main fear of the Japanese was the introduction of preferential tariffs by the Indian government. In January 1921 the *Dai Nippon Bôseki Rengôkai Geppô* (The Monthly Journal of the Great Japan Spinners' Association) stated that preferential tariffs for Lancashire would not aid Indian cotton manufacturers against Japanese competition, since Lancashire's and Japan's cotton piece-goods were not in direct competition.²⁶ By the mid-1920s in the face of the continued campaign by the Bombay millowners for tariff protection against Japanese piece-good imports, the Japanese cotton manufacturers started to make a more principled defence of Japan's right of equal access to the Indian market. In representations to the Indian Tariff Board the Japanese cotton manufacturers emphasized the legitimacy of their production methods,²⁷ and that tariff discrimination against Japanese products would be both unjust and counterproductive for Indo-Japanese trade.²⁸ The Japanese threatened that if tariff discrimination was introduced against Japanese cotton piece-goods, Japan would retaliate against their substantial imports of Indian raw cotton and pig iron.²⁹ Unfortunately for the Japanese, their insistence on equal access to the Indian market was increasingly at odds with the Indian cotton manufacturers' demand for the effective control of Japanese imports.³⁰

problem of the abolition of the Indian excise duty on national cotton piece-good production]; Nishikawa H., pp. 292-293.

26. Nishikawa H., p. 315.

27. *Dai Nippon Bôseki Rengôkai Geppô*, May 1926, 'Nichi-In Bôseki no Kyôsô' [Japan-India Spinning Competition]; Nishikawa H., pp. 297-299.

28. *Dai Nippon Bôseki Rengôkai Geppô*, February 1926, pp. 1-2, 'Indo Seifu ni Teishutsu no Chinjutsusho' [A Declaration for Presentation to the Indian government] and pp. 2-10, 'Nippon Bôseki jigyo ni taisuru Indo no gikai ni kansuru Chinjutsusho' [A Declaration Regarding India's Misunderstanding of Japan's Cotton Spinning Operations]; *Report of the Indian Tariff Board (Cotton Textile Enquiry): Volume 3, Evidence of Local Governments, Official witnesses, Chambers of Commerce, Labour Organisations and other Associations* (Government of India, Calcutta; 1927), pp. 193-206; Fletcher W. M., *The Japanese Business Community and National Trade Policy, 1910-1937* (University of North Carolina Press, Chapel Hill; 1989), pp. 79-80.

29. *Dai Nippon Bôseki Rengôkai Geppô*, September 1927, 'Indo Menshi Kanzei Hikiageru Jijô' [The circumstances for the increase in the Indian cotton yarn tariff]; Nishikawa H., pp. 297-299, 315. The Japanese suspended a proposed increase in the duty on pig-iron imports as a means of influencing the Indian decision of the cotton piece-good tariff, *Dai Nippon Bôseki Rengôkai Geppô*, February 1927, 'Indo Seifu no Teishutsu no Chinjutsusho' [A Declaration for Presentation to the Indian government]; See table 3:3 for the importance of Japanese consumption of Indian raw cotton production.

30. Indeed the Japanese protest of 1921 that imperial preference would be of no advantage to Indian cotton manufacturers since there was only a limited amount of competition between Lancashire and Japanese goods underlined the point that Indian cotton manufacturers - particularly Bombay - were solely in competition with the Japanese. Thus it clearly indicated that if the Indian cotton manufacturers wanted tariff protection - as they did - the main target of this tariff protection should be Japanese imports.

Despite the growth of the Indian cotton industry and Japanese competition in the 1920s Lancashire still maintained a large export volume to India, and retained its position as the largest exporter of cotton piece-goods to India. Japanese competition in the Indian market did not prove an immediate disaster for Lancashire; until 1931 - and without any measure of tariff preference- Lancashire supplied over 50% of all Indian piece-good imports.³¹ Furthermore, because the Indian market remained 'open' , even with a shrinking market share Lancashire still exported some 1.2-1.5 million linear yards of cotton piece-goods to India, which represented approximately 30-35% of Lancashire's total exports.³² Within the Indian market, adjustments were taking place to Japan's advantage and Lancashire's disadvantage, but in the long-term if the Indian market remained 'open' then both Lancashire's and Japan's export volumes could be absorbed, and it would be Indian cotton manufacturers who would suffer.³³

31. See table 3:2.

32. See tables 3:1 and 3:2.

33. See table 1.11.

The introduction of Imperial Preference.

The defeat of the campaign for increased tariff protection in 1929 did not stem the Indian millowners' demand for the control of cotton piece-good imports. However, the Bombay millowners only secured tariff protection when the Depression changed the international and national environment and resulted in the Indian government's willingness to endorse tariff protection. The continued economic deterioration of all the Indian millowners' position, the growth of Indian nationalism, combined with an international environment in which tariff protection was no longer viewed as anathema, enabled the Indian millowners' to secure increased tariff protection. In 1928-29 Indian mill produced piece-good output fell by nearly 20%, while imported cotton piece-goods again surged to nearly a 50% share of domestic consumption of mill produced cotton piece-goods.³⁴ This time imported cotton piece-goods threatened both the Bombay and Ahmedabad millowners, as there was a particular surge in both Japan's and Lancashire's exports of finer coloured cotton piece-good exports to India.³⁵ In December 1929, in response to the deteriorating economic situation, the Bombay and Ahmedabad Millowners' Associations united to present a joint demand before the Indian government for an increase of the cotton piece-good tariff.³⁶ The Indian business community, after a series of disputes with the Indian government,³⁷ also abandoned their moderation on the nationalist cause and joined in support of the Gandhian Civil Disobedience movement.³⁸ Thus in early 1930, the Indian government confronted a united textile industry, militant nationalism, and its own revenue crises.³⁹ In order to defend Britain's wider economic and strategic interests in India, the Indian government abandoned Lancashire's vested interest in the maintenance of a 'open' Indian market and in March 1930, it increased the tariff on cotton piece-good imports.

Although the Indian government endorsed tariff protection it also forced through the Indian Legislative Assembly the first preferential tariff for Lancashire's cotton piece-good

34. See table 3.4.

35. See table 3.4 and 3.5.

36. The Bombay Millowners' Association to the Indian Tariff Board, 20 April 1932, in *Indian Tariff Board. Cotton Textile Enquiry: Volume 1* (1934), p. 20.

37. Tomlinson B. R., *The Political Economy of the Raj, 1914-1947. The Economics of Decolonization in India* (Methuen, London; 1979), pp. 73-76; Markovits C., p. 68; Chatterji B., pp. 320, 323.

38. Markovits C., pp. 70-71.

39. Nishikawa H., pp. 315-316; Chatterji B., pp. 333-338.

imports. The introduction of the preferential cotton tariff - given the Indian cotton manufacturers hostility to preferential tariffs - appeared to be a major concession to the Lancashire cotton industry. However, despite the tariff preference for Lancashire the preferential tariff system fulfilled the Indian need for tariff protection against both Lancashire's and Japan's cotton piece-good imports, since the March 1930 tariff increased both the British preferential and non-British preferential cotton duty.⁴⁰ The differential but protective tariff system was maintained by the Indian government as the most effective means of protecting the Indian cotton textile industry from both Lancashire's and Japanese competition, and yet appeasing Lancashire opinion by maintaining tariff preference. Despite nationalist posturing Indian industrialists appreciated that given residual British influence on Indian commercial policy, particularly when Indian products were complementary to British imports, effective tariff protection could be achieved through a differential but protective tariff system. Since the mid-1920s the Bombay millowners' championing of tariff discrimination against Japanese imports amounted to a *de facto* acceptance of imperial preference as the most effective means of curbing Japanese imports and gaining British agreement for the proposed tariff increases.⁴¹ Furthermore, Indian tariff preference in favour of Lancashire was far less thorough than is usually portrayed.⁴² The Indian nationalists passed an amendment through the Indian Legislative Assembly which subjected all grey piece-good imports - as late as 1931 grey piece-goods remained Lancashire's single largest piece-good export by category to India⁴³ - to a 3.5 *annas* per pound minimum specific duty,⁴⁴ and it was not until 1932 that Lancashire obtained a preferential

40. See table 3.6.

41. In a similar fashion the Bombay millowners championed the Ottawa Conference and Lancashire-Bombay cooperation as the best means to gain tariff protection against Japanese competition, Markovits C., pp. 88-89; Chatterji B., p. 19. Such appreciation of Anglo-Indian cooperation over tariff questions was not confined to the Bombay cotton industry. Tata, the Indian steel producer, appreciated that cooperation with British steel producers over the introduction of a preferential iron and steel tariff was the best means of obtaining effective tariff protection against cheap Belgian steel imports, Wagle D. M., 'Imperial Preference and the Indian Steel Industry, 1924-29', *Economic History Review* (1981), pp. 125-131. Finally, Indian manufacturers opposition to imperial preference could not be absolute, since they too were dependent upon the British Raj for the maintenance of the existing social order. Indian manufacturers quickly realised that if the nationalist card was pressed too strongly the resulting increase in economic dislocation and social tensions could affect their business organisations as much as British competitors. Consequently, the Indian business community were firm supporters of the conclusion of the Gandhi-Irwin Pact to end Civil Disobedience, and the quick return to constitutional methods to advance the Indian nationalist cause, Markovits C., pp. 76-77, 79-80, 82-84; Chatterji B., pp. 18, 319-322, 323-325.

42. Nishikawa H., p. 320.

43. See tables 3.6 and 3.7.

44. For a specific duty the effective *ad valorem* tariff rate increases as the price falls, thus the effective rate

minimum specific duty on grey piece-goods. The effectiveness of the differential tariff system can be gauged by the fact that both the Japanese and Lancashire cotton industries objected to the Indian tariff increases. The Japanese complained of tariff discrimination,⁴⁵ while Lancashire complained of a preferential tariff that involved higher duties for Lancashire goods and the non-preferential specific duty on grey piece-goods.⁴⁶ Thus, contrary to appearances, the introduction of Indian tariff protection, through the preferential tariff system, marked a new phase in the decline of Lancashire's influence upon Indian tariff policy.

The decline of Lancashire's influence upon Indian tariff policy in the 1930s stemmed from the policy of the British government that in certain circumstances wider British economic interests in India were best served by appeasing specific Indian nationalist demands through the sacrifice of sectional British interests. Thus in 1928 as a means of rallying Indian moderates to the Raj, Irwin, the Viceroy, declared that Dominion status was Britain's political goal for India.⁴⁷ Furthermore, despite the size of the Lancashire lobby in Parliament⁴⁸ Lancashire no longer had the economic status or political leverage to dictate and tailor Indian tariff policy to the needs of the Lancashire cotton industry.⁴⁹ Unfortunately for the Lancashire cotton industry, as already indicated by the events of 1921, the British government consistently placed Indian fiscal and monetary stability before any sectional

of protection increases as the price of the good falls. In the case of Lancashire's grey piece-goods, the effective *ad valorem* rate of the specific duty was always higher than the actual British preferential *ad valorem* tariff rate, and throughout 1931 always higher than the actual non-British *ad valorem* tariff rate, thus cancelling out any tariff preference for Lancashire's grey piece-goods, see tables 3.8, and 3.9; Hubbard G. E., p. 270.

45. *Dai Nippon Bōseki Rengōkai Geppō*, February 1930, 'Indo Yunyū Menpu Kanzei Zōritsu Teian ni Saishi Mengyō Sandantai no Seimeisho' [A public statement by three cotton manufacturing groups on the proposal to increase the Indian rate of duty on cotton piece-good imports]; Nishikawa H., pp. 316-317.

46. The Indian trade section of the Manchester Chamber of Commerce complained that the loss of the bulk of the grey piece-good trade with India was because of the specific duty that precluded preferential treatment on Lancashire's grey piece goods, they complained that, "for this we have to thank not competition alone, but the specially severe tariff treatment which these goods have been receiving for the past twenty-two months", *The Manchester Chamber of Commerce, Monthly Record: Annual Report of the Board of Directors and Trade Sections, 1932*, pp. xiii-xiv; *Dai Nippon Bōseki Rengōkai Geppō*, July 1931, 'Eikoku Bōseki Rengōkaichō Efu Miruzushi no Iken' [The opinion of the English Spinners Chairman Mr. F. Mills].

47. Chatterji B., pp. 318, 333-338.

48. There were nearly 60 Conservative MP's from both Lancashire and Cheshire in the National Government, Markovits C., p. 50; see chapter 1.

49. Of course this does not mean to say that the Lancashire cotton industry had absolutely no influence on Indian tariff policy.

British commercial interest: thus the British government ignored Lancashire's commercial interest in Indian tariff policy in order to defend Britain's overall control of the Indian economy.⁵⁰ For the British and Indian governments the maintenance of the rupee-pound exchange rate - at 1 shilling 6 pence to the rupee - and the balancing of the Indian budget through increased tariff income,⁵¹ was far more important than Lancashire's access to the Indian market.⁵² Moreover, like the British government, sections of the Lancashire cotton industry also appreciated that in the face of Indian nationalist opposition, Britain could no longer dictate Indian tariff policy. Lancashire realised that the Indian nationalist reaction to British opposition to Indian constitutional reform - as evidenced by the March 1930 - March 1931 Indian boycott of imported cotton piece-goods - would nullify the effects of any improvement in their tariff position that resulted from such pressure.⁵³ In a similar fashion, although the Lancashire cotton industry was unimpressed with the level of tariff preference granted by the Indian government,⁵⁴ they were sanguine enough to realise that pressure to increase the level of tariff preference could result in Indian pressure to totally abolish British tariff preference on cotton piece-goods.⁵⁵ Thus both the British government and to a certain extent the Lancashire cotton industry accepted that in the face of Indian nationalism Britain could no longer dictate all aspects of Indian economic policy to the advantage of all Britain's commercial interests.

Any lingering hopes of the Lancashire cotton industry to exert leverage on the British

50. Tomlinson B. R., pp. 83ff; Rooth T., *British Protectionism and the International Economy: Overseas Commercial Policy in the 1930s* (Cambridge University Press, London; 1993), p. 183; Rothermund D., pp. 100-103; Chatterji B., pp. 17-18, 20-21.

51. Chatterji B., pp. 333-347.

52. Indeed by 1933 some members of the British and Indian government already foresaw the long-run decline of Lancashire's exports to India, and thus the role of the British and Indian government was not to defend Lancashire's access to the Indian market but to avoid further political complication by ensuring that Lancashire's withdrawal from the Indian market was, "as gradual a process as possible", Ainscough to Edgcumbe (Board of Trade), 27 October 1933, FO371/17164,F7065/1203/23; Wurm C., p. 236.

53. Fearnley A. C., pp. 201-203, 205-207; Redford A., p. 283, footnote 3.

54. *The Manchester Chamber of Commerce, Monthly Record*, March 1930, p. 83.

55. *The Manchester Chamber of Commerce, Monthly Record*, March 1930, pp. 83-84; Fearnley A. C., p. 201; Redford A., p. 282. Lancashire's explicit need to mollify Indian nationalist opinion was again underlined during the Lancashire-India trade talks in October 1933, when the Lancashire delegation in India telegraphed the Manchester Chamber of Commerce to insist that Lancashire's evidence before the India Select Committee should be significantly toned down, otherwise there would be no prospect of gaining improved access to the Indian market through a Lancashire-India agreement, Ghosh S. C., 'Pressure and Privilege: The Manchester Chamber of Commerce and the Indian problem, 1930-1934.', *Parliamentary Affairs* (1964-65), pp. 201-205.

government, by threatening to combine with the anti-India reform MPs and sabotage the Indian reform process, proved illusory. Once the Conservative Party committed themselves to Indian constitutional reform, the National Government could discount any large scale Conservative rebellion over Indian constitutional reform. Given the size of the National Government's majority⁵⁶ - and the support of the Labour Party for Indian constitutional reform - so long as the Lancashire lobby was managed with consideration the British government could safely ignore the potential threat of Lancashire MPs combining with the Conservative anti-India reform MPs to disrupt the progress of Indian constitutional reform.⁵⁷ Moreover, the Lancashire demand for better access to the Indian market and the anti-Indian reform campaign were not unified. The protective nature of the new Indian differential tariff structure was largely established between 1930 and 1932. In contrast the Indian reform process only came before Parliament after the structure of the Indian cotton tariff and the Indo-Japanese trade dispute had been settled: the White Paper on Indian Constitutional Reform did not appear until March 1933, and the Government of India Bill was not voted on until 1934.⁵⁸ Thus the potential for cooperation between the Lancashire and anti-India reform MPs was somewhat reduced since the climax of both campaigns occurred at slightly different points. Consequently, freed from the threat of a rebellion on Indian constitutional reform, the National Government could now appease Indian nationalist opinion through the sacrifice of Lancashire's economic interests in India. Therefore it consistently refused to support - or more usually allow the Indian government to reject - Lancashire's demands for either a reduction of the British preferential cotton piece-good tariff or the curbing of Indian Fiscal Autonomy.⁵⁹

56. Pugh M., *The Making of Modern British Politics, 1867-1939* (Basil Blackwell, Oxford; 1987), p. 274; Stannage C. T., 'The General Election of 1935', (Unpublished thesis, Cambridge; 1973), pp. 30-31.

57. Gilbert M., *Prophet of Truth: Winston S. Churchill, 1922-1939* (Minerva, London; 1990), pp. 377, 382, 389-405; Addison P., *Churchill on the Home Front, 1900-1955* (Jonathon Cape, London; 1992), pp. 299-300.

58. Ghosch S. C., 'Decision-making and Power in the British Conservative Party: A case study of the Indian problem 1930-1934', *Political Studies* (1965), pp. 205-212.

59. At the end of 1931 the Indian Viceroy defended Indian Fiscal Autonomy from the threats of the Lancashire cotton industry, Markovits C., p. 50, footnotes 52 and 53; Fearnley A. C., pp. 209-212. In a similar fashion the question of access to the Indian cotton market was, at the request of the Indian government, taken off the Ottawa agenda because they had just appointed a Tariff Board to look into the question of Indian cotton duties, Chatterji B., p. 374.

The background to the Indian denunciation of the Indo-Japanese Trade Treaty.

Despite the increased tariff protection Indian cotton manufacturers remained alarmed at the post-1931 revival of cotton piece-good imports. In 1932-33 Indian imports of cotton piece-goods surged to 1,193.4 million yards, a dramatic 58.6% increase on the previous year, and a figure that approached pre-Depression levels of imports.⁶⁰ Indian cotton manufacturers were perturbed by the resilience of cotton piece-good imports to tariff increases and apparent inability of recent tariff increases to curtail import volumes.⁶¹ The fear of renewed import competition spurred the Indian cotton manufacturers into again demanding further tariff protection; and under pressure from the cotton manufacturers lobby the Indian government, in March and October 1931, again increased the import duty on cotton piece-goods. These tariff rises increased proportionately the rate of duty on both the British and non-British tariff. Thus the most favoured nation clause of the 1904 Indo-Japanese Trade Convention was not further violated.⁶² However, the 1931 tariff increases still failed to curb cotton piece-goods imports, and much to the horror of the Indian cotton manufacturers, cotton piece-good imports increased throughout 1932 after the imposition of the October 1931 tariff increase. Of particular concern to the Indian cotton manufacturers was the resilience of Japanese cotton piece-good imports to the recent tariff increase; between October 1931 and March 1932 imports of Japanese cotton piece-good imports increased by 15.9% over the same 1930 - 1931 period. In contrast, the rise in the duty on British exports had the desired effect as imports of Lancashire cotton piece-goods fell by 22.8% over the same period.⁶³

Unlike the Lancashire cotton industry in the early 1930s, the efficient Japanese cotton industry responded masterfully to successive Indian tariff increases: it successively reduced export prices and thus maintained the price competitiveness of Japanese goods in the Indian cotton piece-good market. Not even the combination of tariff increases and the devaluation of the pound and rupee in relation to the yen in September 1931 halted the rise in Japanese exports. Towards the end of 1931, under the impact of the devalued rupee and Indian tariff rises, the price of Japanese grey piece-good exports had been slowly rising.

60. See table 3.1.

61. Nishikawa H., p. 328.

62. See table 3.6.

63. See tables 3.10 and 3.11.

However, Japanese cotton manufacturers quickly responded to the change in economic circumstances and took full advantage of the devaluation of the yen in December 1932 to cut export prices - even after the September 1932 tariff increase - to India by some 9.7% between January-March 1932 and October-December 1932.⁶⁴ Consequently, by mid-1932 the Japanese cotton manufacturers, aided by the yen depreciation, had overcome the effects of the preferential Indian tariff system and again re-established a significant price differential over competing Lancashire grey piece-goods.⁶⁵ The effective price cutting of Japanese cotton piece-goods not only maintained demand for Japanese products in the Indian market, it prevented Lancashire from benefiting from the increased levels of Indian tariff preference for Lancashire cotton piece-goods. Further, it was apparent that as Lancashire's cotton piece-good exports were squeezed out of the Indian market by the successive increases of the British preferential tariff, Japanese goods competed more directly with Indian manufactures.⁶⁶

The success of Japanese imports in 1932 convinced the Indian cotton manufacturers that the preferential tariff system must be changed or replaced. In their opinion, the 1931 tariff rises failed to cut Japanese cotton piece-good imports because the tariff increases had to uphold the preferential tariff system. Thus tariff increases on non-British cotton textiles had to be moderated by the need to maintain a proportional increase with the British preferential tariff. However, the continued exceptional price-elasticity of Japanese cotton piece-good imports resulted in the Indian cotton manufacturers' demand for a rate of tariff protection on Japanese cotton piece-goods that would either dramatically increase the preferential duty on imports from Britain or result in a break in the system of proportional duties on British and non-British imports. This placed the Indian and British governments in a dilemma. They realised that any further increase in the British preferential tariff would provoke an outcry in Lancashire and seriously jeopardise attempts at consensual constitutional reform in India. Although the Lancashire lobby had proved ineffective in reducing the level of Indian duties, it still carried sufficient political weight to thwart any dramatic increase in the preferential British duty.

64. See table 3.12; Nishikawa H., p. 332.

65. See table 3.12.

66. Mehta F. A., 'Price-competition between India, Japan and the UK in the Indian cotton textile market during the Nineteen-thirties', *The Review of Economics and Statistics* (1957), pp. 76-77.

Nevertheless, the surge of Japanese cotton-piece good imports into India in 1932 united the Bombay and Ahmedabad millowners in demanding further tariff protection against Japanese competition. Once again the Bombay millowners led demands for increased protection against Japanese cotton piece-good imports. In particular they complained that the earlier tariff increases had now been undermined by the December 1931 devaluation of the yen.⁶⁷ However, in contrast to the Bombay millowners the Ahmedabad millowners were unwilling to see increased protection against Japanese imports result in continued tariff preference for Lancashire, and they demanded an end to any form of tariff preference. In their submission to the Indian Tariff Board the Ahmedabad Millowners' Association complained that there was considerable competition between Indian and Lancashire cotton piece-goods, and that the Indian government should resist British pressure to grant increased preferential access, since it was "incumbent on the Government of India ... to adopt the same scale of duties on British goods as on non-British manufacture and to help the free and natural growth of the textile industry in India by giving adequate protection".⁶⁸ Thus even the immediate fears of Japanese competition did not blind the Ahmedabad millowners to the nationalist desire to end Lancashire's preferential access to the Indian market. However, such was the threat of Japanese competition that the Ahmedabad millowners soon abandoned their opposition to imperial preference and again joined with Bombay in demanding a supplementary tariff solely on Japanese imports.⁶⁹ This was a welcome change for the Indian government, which was still wary of offending the Lancashire cotton industry by increasing the British preferential tariff.⁷⁰ In September 1932

67. Letter from the Bombay Millowners' Association to the Indian Tariff Board, 31 May 1933, in *Indian Tariff Board. Cotton Textile Industry: Volume 1 The Representations submitted to the Indian Tariff Board by the applicants for protection* (Manager of Publications, Delhi, 1934), pp. 23-24; *Dai Nippon Bôseki Rengôkai Geppô*, June 1932, 'Bonbei Bôseki Rengôkai no Taikanzei Sutêtomento' [Bombay Spinners' Association anti-tariff investigation committee's statement], and July 1932, 'Âmedabaddo Bôseki Rengôkai Chinjutsusho' [Declaration of the Ahmedabad Spinners' Association].

68. Letter for the Ahmedabad Millowners' Association to the Indian Tariff Board, 5 June 1932, in *Indian Tariff Board. Cotton Textile Industry: Volume 1* (1934), p. 113.

69. *Dai Nippon Bôseki Rengôkai Geppô*, July 1932, 'Bonbei Bôseki Rengôkai Kinkyû Taisaku Seigan' [Bombay Spinners' Association's Emergency Countermeasure Petition]; Nishikawa, p. 131. On a somewhat paradoxical note, by the summer of 1932, the Bombay Millowners' Association - which had been consistently less hostile to imperial preference - was so alarmed by Japanese competition that they were prepared to risk political friction with Lancashire in order to gain an immediate tariff increase on all cotton piece-good imports. It worried that the maintenance of imperial preference prevented a tariff increase on Japanese imports, and urged the Indian government that "if the government, due to the Indo-Japanese Trade Treaty, or other measures, cannot implement administrative measures [i.e. increase the non-British tariff], then we request that tariffs be increased against all foreign goods", *Dai Nippon Bôseki Rengôkai Geppô*, August 1932, 'Bonbei Bôseki Rengôkai Chinjutsusho no Yôshi' [Summary of the Bombay Spinners' Association's Declaration]; Chatterji B., p. 378.

70. The Manchester Chamber of Commerce complained loudly that the Indian cotton textile industry already

it responded to the parallel pressures of the Indian and Lancashire cotton industries by increasing duties only on non-British cotton piece goods.⁷¹

Despite the September 1932 tariff increase the Indian cotton manufacturers continued to demand further protection from Japanese competition. Furthermore, these insistent demands were increasingly difficult to contain within the existing preferential tariff system. The Indian government recognised that it would have to offend either Lancashire or Japan: either Lancashire's preferential tariff would again have to be increased or the most favoured nation clause of the 1904 Indo-Japanese Trade Convention would again have to be violated by some form of tariff discrimination aimed primarily at Japanese cotton manufactures. In regard to tariff discrimination against Japan, Sir Samuel Hoare, the Secretary of State for India, recognised that further measures would be difficult to accommodate within the existing commercial treaty structure. Even before the discriminatory September 1932 tariff increase he had already warned of the dangers of tariff discrimination against Japan. In July 1932, he told the Indian government that the introduction of 'dumping duties' on Japanese goods could only be done at the risk of bringing the Indian government "into direct conflict with article one [the most favoured nation clause] of the Indo-Japanese convention".⁷² However, while the Indian government toyed with the idea of further discrimination against Japan the Indian Tariff Board recommended exactly the opposite solution to the problem of Japanese competition: the preferential specific duty on all grey piece-good imports should be abolished, and from the March 1933 budget a flat rate duty of 5 *annas* per pound should be levied on all grey piece-good imports.⁷³ Once again Lancashire grey piece-goods would be subject to the same specific duty as similar Japanese goods, as had been the case at the time of the first preferential Indian cotton tariff in April 1930, and had only been favoured by the September 1932 tariff increases. Thus by the beginning of 1933 Indian demands for further tariff protection from Japanese competition confronted the British and Indian governments with the need either to raise tariffs against both Lancashire and Japan or dramatically increase the rate of tariff

received adequate protection, and that a prosperous Indian cotton textile industry and a Lancashire export trade could exist side by side, Presidential address of R. Bond, *The Manchester Chamber of Commerce, Monthly Record*, July 1932, pp. 208-209; *The Manchester Chamber of Commerce, Monthly Record: Annual Reports of the Board of Directors and Trade Sections, 1932*, p. ix.

71. See table 3.5; Chatterji B., p. 378.

72. Hoare to the Indian government, 20 July 1932, FO371/17160,F1493/1203/23.

73. Memorandum of the President of the Board of Trade, 'The Indian Tariff Board's Report on Cotton Goods', 18 January 1933, CAB CP. 5(33); Chatterji B., p. 376.

discrimination against Japanese goods. Both courses of action ran risks, but it was the fear of Lancashire's interference in Indian constitutional reform that spurred the Indian government to increase the rate of tariff discrimination against Japanese imports.

The denunciation of the 1904 Indo-Japanese Trade Treaty.

The British government recognised the political embarrassment that the end of the specific preferential duty on Lancashire's grey piece-good exports to India would cause. A horrified Board of Trade reported that the 5 *annas* per pound specific duty would be the equivalent to a 33 1/3% *ad valorem* tariff on Lancashire's medium count grey piece good exports to India,⁷⁴ which would mean that not only would Lancashire's cotton piece-goods pay the same the specific duty as Japanese goods, but also that the specific duty on Lancashire's grey piece-goods would be higher than the current preferential *ad valorem* rate of duty on British cotton piece-goods.⁷⁵ The Manchester Chamber of Commerce immediately voiced their hostility to the Indian Tariff Board's proposal, and warned the British government of the dire political consequences of the implementation of the measure. They complained to the British government that the Indian Tariff Board report was against the spirit of the Ottawa Conference and imperial cooperation, and they petitioned the British government to pressure the Indian government for an "easier treatment of Lancashire's exports in the Indian market". Finally, they warned that a protectionist Indian budget that was unfavourable to Lancashire would result in the Chamber abandoning its policy of political restraint on such questions as Indian constitutional reform.⁷⁶

The British government was deeply alarmed at the potential economic impact of the specific duty on the struggling Lancashire cotton industry and the threat of the Lancashire lobby to hinder the Indian constitutional reform process. However, despite the government's sympathy towards Lancashire's case, the Lancashire lobby on Indian tariff policy was once again exposed. Although the British government was horrified at the consequences of an increase in Lancashire's preferential duty, at no time did it consider pressing the Indian government for an 'easing of treatment' of Lancashire's exports by reducing the tariff on Lancashire's cotton piece goods. Within the cabinet Sir Walter Runciman, the President of the Board of Trade, led the defence of Lancashire's interests in the Indian market. On political and economic grounds he objected to the provisions of the Indian Tariff Board's report, and commented that it was "difficult to conceive of proposals, which if they became

74. Memorandum of the President of the Board of Trade, 'The Indian Tariff Board's Report on Cotton Goods', 18 January 1933, CAB 24 CP. 5(33).

75. See table 3.5.

76. Memorandum of the Manchester Chamber of Commerce to the President of the Board of Trade, in CAB 24 CP. 5(33).

widely known, would arouse greater and more justifiable hostility in Lancashire". He disliked the withdrawal of Lancashire's preferential tariff through the proposed single specific duty on grey piece-good imports, especially "at a time when there are some signs of recovery from the deepest trough of the depression". Finally, he restated the need for preferential tariffs and complained that the Indian businessmen had gone against a secret undertaking at the Ottawa Conference, not to end the preferential tariff on British goods.⁷⁷ Although the 1932 Lancashire-India pact had not been binding, its abrogation so soon after the Ottawa Conference smacked of Indian imperial betrayal of Lancashire. Thus his prime concern was the political appeasement of Lancashire through the continued preferential access of Lancashire's cotton piece-goods to the Indian market.

Runciman's fears over the effect of the new specific duty on Lancashire's grey piece-goods was equally shared by Sir Samuel Hoare and the India Office. Hoare recognised that the continued preferential access of Lancashire's grey piece-goods to the Indian market was a price well worth paying for Lancashire's political restraint over Indian political reform. He reported to the cabinet that the proposed flat rate specific duty on grey piece-goods would not be introduced and that some other means of protection for Indian cotton manufacturers from Japanese competition would have to be found. Hoare and the Indian government agreed that even though the contents of the Tariff Board report were now known in India, the Indian government would not submit the Tariff Board report to the Indian Legislative Assembly, and that the existing cotton duties would remain fixed for the next six months.⁷⁸ This met Lancashire's objection but it failed to meet Indian demands. To meet Indian demands for increased protection against Japanese competition Hoare accepted that a new scheme for protection would have to be placed before the Indian Legislative Assembly. However, with cabinet agreement he promised that any new scheme would be based upon the continuation of tariff preference, in keeping with pledges made by the Indian delegation at the Ottawa Conference.⁷⁹

77. Memorandum of the President of the Board of Trade, 'The Indian Tariff Board's Report on Cotton Goods', 18 January 1933, CAB 24 CP. 5(33). The Manchester Chamber of Commerce was preparing evidence to challenge the Indian Fiscal Autonomy Convention in the Select Committee on Indian Constitutional Reform, Redford A., p. 286; Rooth T., pp. 183-184; Chatterji B., p. 376.

78. Memorandum of the Secretary of State for India, 'The Indian Tariff Board's Report on Cotton Goods', 20 January 1933, CAB 24 CP. 8(33); Cabinet Conclusions, 1 February 1933, CAB 23 6(33)3; Chatterji B., p. 377.

79. Cabinet Conclusions, 1 February 1933, CAB 23 6(33)3.

This placed the Indian government in a very awkward predicament. In March 1933, in order to satisfy the divergent demands of the Lancashire and Indian cotton industries, it decided to introduce discriminatory tariffs on Japanese goods and risk political and commercial friction with Japan. The Indian government accepted that following the abandonment of the Indian Tariff Board report the demands of the Indian cotton manufacturers could only be met by some form of trade discrimination against Japanese cotton textile imports.⁸⁰ Faced by overwhelming Indian pressure for discrimination against Japanese goods, on 29 March 1933, and with the minimum of debate, the British cabinet approved the Indian denunciation of the 1904 Indo-Japanese Trade Convention,⁸¹ thus giving the Indian government the freedom to introduce trade discrimination solely against Japanese goods. However, the cabinet attempted to lessen the blow upon Japan, and insisted that the announcement of the denunciation of the Trade Convention should be accompanied by an invitation to Japan to begin trade negotiations with the Indian government.⁸² Despite the seriousness of the Indian denunciation of the 1904 Indo-Japanese Trade Convention, the Foreign Office had less influence on the Indian government's actions than over the British withdrawal of the West African colonies from the 1911 Anglo-Japanese Trade Convention.⁸³ For the British government the satisfying of domestic nationalist pressures on the Indian government took precedence over potential effects on Anglo-Japanese relations, which was a marked contrast to the cabinet's outright rejection of the denunciation of the Anglo-Japanese Trade Treaty as a means of securing trade protection for Lancashire in the British colonies.

In Japan business groups reacted angrily to the announcement by the Indian government of the denunciation of the 1904 Trade Convention. Thomas Snow, the British Commercial Attaché in Tokyo, reported that the reactions of the cotton industry and the Japanese press gravely concerned the Japanese authorities. The Japanese were angered at the threatened loss of the Indian market, and they believed the Lancashire cotton industry had instigated the Indian denunciation of the Trade Convention. Further, the Japanese

80. The Indian government to the Secretary of State for India, 27 February 1933, and the India Office to the Foreign Office, 3 March 1933, FO371/17160,F1493/1203/23.

81. Cabinet Conclusions, 29 March 1933, CAB 23 22(33)4; Chatterji B., p. 379.

82. Cabinet Conclusions, 29 March 1933, CAB 23 22(33)4.

83. Orde minuted that the, "Denunciation of this treaty would hit Japan far more than [the] denunciation of our own commercial treaty, in respect of the West African Colonies", minute by Orde, 8 March 1933, FO371/17160,F1493/1203/23.

considered the Indian action as part of some international plot against Japan, seeing it either as part of the British 'Ottawa strategy' to exclude Japanese products from the British Empire, or as the start of a League of Nations inspired economic boycott of Japan. Talks with the leaders of the Japanese cotton industry confirmed to Snow how seriously the Japanese regarded the Indian denunciation of the Trade Convention. Abe Fusajirô, Chairman of the Cotton Spinners' Association, stated that the Indian denunciation would affect both political and trade relations, while Tsuda Shingo, the Chairman of Kanegafuchi Spinning Company, blamed the inefficient Lancashire cotton industry for the Indian denunciation. Snow reported that there was even talk of a retaliatory Japanese boycott against Indian raw cotton, British spinning machinery and Australian raw wool.⁸⁴

However, as with the announcement of the withdrawal of the British West Africa colonies from the 1911 Anglo-Japanese Trade Treaty, the indignation of the Japanese business community was moderated by the desire of the Japanese government to contain Indo-Japanese trade friction. In particular the major concern of the Japanese government was to avoid a situation whereby Indo-Japanese trade was carried out outside any treaty framework.⁸⁵ It was so alarmed by this prospect it was prepared for the continuation of the current Trade Convention until a new trade convention was negotiated.⁸⁶ Accordingly the Japanese Foreign Ministry welcomed the offer of the Indian government for trade negotiations. The invitation was particularly welcomed because it appeared to remove doubts that the British government was trying to isolate Japan.⁸⁷ Consequently, the Japanese government agreed to enter into trade negotiations with the Indian government.⁸⁸ There was some indication that the Japanese appreciated how their export success had prompted the Indian denunciation of the Trade Convention. Snow reported that the Japanese might control their manufacturers' export drive.⁸⁹ However, the appreciation of Japan's recent

84. Snow to the Foreign Office, 20 April 1933, FO371/17160,F2600/1203/23.

85. In early October 1933 during the Indo-Japanese trade negotiations, Sawada, an official from the Japanese Foreign Ministry, wrote to Hirota in some alarm over the awkwardness of the Japanese business delegates during the trade negotiations. Sawada complained that these activities could lead to the break up of the trade negotiations and thereby destroy the very foundation upon which Japan's trade with India had been built in the past, Ishii O., footnote 52, p. 122.

86. Matsudaira to Simon, 19 April 1933, FO371/17160,F2580/1203/23.

87. Snow to the Foreign Office, 20 April 1933, FO371/17160,F2600/1203/23.

88. Interview between Runciman and Matsudaira, and interview between Simon and Matsudaira, Cabinet Conclusions, 26 April 1933, CAB 23 31(33)2.

89. Snow to the Foreign Office, 20 April 1933, FO371/17160,F2600/1203/23.

export success did not blind the Japanese Foreign Ministry to the 'injustice' of Indian denunciation of the Trade Convention. Matsudaira Tsuneo, the Japanese Ambassador, told Simon, the Foreign Secretary, that given the Indian trade surplus with Japan the Indian action was less understandable.⁹⁰

Once both the British, Indian and Japanese governments accepted that a new Indo-Japanese trade convention would be negotiated, both the Foreign Office and the Japanese Foreign Ministry began preparations for the trade negotiations. However, while both the Foreign Office and Japanese Foreign Ministry desired to reduce potential obstacles to the conclusion of a new treaty there were distinct differences between their respective approaches to this question. The Foreign Office was particularly concerned that since India was not a sovereign state and remained dependent upon Britain, appropriate diplomatic formalities had to be observed in the Indo-Japanese negotiations. However, the Foreign Office was also aware that the fulfilment of these diplomatic formalities should not be seen to give Britain too great an influence on the outcome of the Indo-Japanese negotiation. Simon had been at great pains to tell Matsudaira that because of India's fiscal autonomy Britain had no control over India's tariff policy and commercial negotiations.⁹¹ Therefore the independence of India in commercial matters would be far more easily emphasised to the Japanese if the Indo-Japanese trade negotiations took place in India. The Foreign Office's view of Japanese reactions to the location of the negotiations was confirmed when Snow reported that both the negotiations and signature of a new agreement should take place in India, otherwise Japanese opinion would be convinced that Britain was behind the trade negotiations.⁹² This view was shared by Viscount Ishii, a leading Japanese delegate to the World Economic Conference in London.⁹³ However, the India Office took a different view. It stated that since Britain was responsible for India's external affairs, the signature of a new Indo-Japanese Trade Convention had to take place in London. To avoid Japanese suspicions that the trade convention initialled in India might be altered in London, the Foreign Office agreed to Japanese demands that any agreement initialled in India could not be altered in

90. Matsudaira to Simon, 24 April 1933, FO371/17160,F2691/1203/23; Cabinet Conclusions, 26 April 1933, CAB 23 31(33)2.

91. Matsudaira to Simon, 24 April 1933, FO371/17160,F2691/1203/23; Cabinet Conclusions, 26 April 1933, CAB 23 31(33)2.

92. Snow to the Foreign Office, 25 June 1933, FO371/17160,F4205/1203/23.

93. Interview between Viscount Ishii and Simon, 27 June 1933, FO371/17160,F4415/1203/23.

London.⁹⁴ In contrast the Japanese Foreign Ministry was more anxious that the Indo-Japanese trade negotiations should not be undermined by any anti-Japanese tariff rises in Britain, the British Empire, and India. Matsudaira requested that both before and during the Indo-Japanese trade negotiations there should be no increase in British, British Dominion, and Indian tariffs. Further, he made plain that any increase in the Indian tariff would be seen by the Japanese as an act of bad faith. However, although the British government suspended the proposed increase in their silk and artificial silk duties, it protested to the Japanese that it had no influence upon either Dominion or Indian tariff policy.⁹⁵

94. India Office to the Foreign Office, FO371/17161,F4804/1203/23.

95. See chapter 2.

The Indo-Japanese trade war.

Despite the denunciation of the 1904 Indo-Japanese Trade Convention and the Japanese government's agreement to negotiate a new trade convention, the Indian cotton manufacturers maintained their demands for increased protection from Japanese competition. Their main complaint remained that the December 1931 devaluation of the yen had undermined the Indian government's attempts to give tariff protection to the Indian cotton textile industry.⁹⁶ Under intense pressure the Indian government in May 1933 moved to increase the non-British tariff on cotton piece-goods from a 50% *ad valorem* rate to a 75% *ad valorem* rate.⁹⁷ In May 1933 Hoare reported the complaints of the Indian cotton manufacturers to the British government, and stated that the September 1932 tariff increase on non-British goods had little effect in restraining Japanese exports to India. He stated that in 1932 Japanese exports of cotton piece-goods to India totalled some 550 million square yards, and that most of these imports had arrived after the September 1932 tariff increase.⁹⁸ Further, on 24 May 1933, when the Indian proposal for the non-British cotton textile tariff increase was presented to the British cabinet for approval, Hoare underlined the importance of its immediate implementation. In stark terms he told his colleagues that irreparable damage would be caused to Anglo-Indian relations by a their refusal to allow the Indian government to proceed with the measure.⁹⁹ Again, as in the case of the Indian denunciation of the 1904 Indo-Japanese Trade Convention, the British government placed Indian commercial interests before possible effects on Anglo-Japanese relations and approved the Indian government's request.¹⁰⁰ Moreover, the Foreign Office raised no objection on foreign policy grounds to further Indian tariff discrimination against Japan. Simon and the Foreign Office had already acquiesced in the action of the Indian government as a defensive action to offset the effect of the yen devaluation.¹⁰¹ Once again the Foreign Office agreed that the

96. Memorandum of the Secretary of State for India, 'Proposal of the Government of India to Increase the Duty of Cotton Piece Goods of non-British origin to 75% *ad valorem* under Power Conferred by Section 3(5) of the Indian Tariff Act', 24 May 1933, CAB 24 CP. 137(33).

97. Memorandum of the Secretary of State for India, 'Proposal of the Government of India to Increase the Duty of Cotton Piece Goods of non-British origin to 75% *ad valorem* under Power Conferred by Section 3(5) of the Indian Tariff Act', 24 May 1933, CAB 24 CP. 137(33); Chatterji B., p. 379.

98. Memorandum of the Secretary of State for India, 'Proposal of the Government of India to Increase the Duty of Cotton Piece goods of non-British origin to 75% *ad valorem* under Power Conferred by Section 3(5) of the Indian Tariff Act', 24 May 1933, CAB 24 CP. 137(33).

99. Cabinet Conclusions, 24 May 1933, CAB 23 36(33)11.

100. Cabinet Conclusions, 24 May 1933, CAB 23 36(33)11; Chatterji B., pp. 370-380.

101. Memorandum of the Secretary of State for India, 'Proposal of the Government of India to Increase the

situation in India was more important than possible effects on Anglo-Japanese relations, though it feared that the Indian government's action would not be without consequences for Anglo-Japanese relations. In regard to Hoare's paper, Alec Randall, the First Secretary in the Far Eastern Department, conceded that, "The case presented on behalf of the Govt. of India is impressive, but it is to be feared that the Japanese reaction will be most unfavourable".¹⁰² However, even the Foreign Office was not prepared for the dramatic reaction of the Japan cotton manufacturers to the Indian government's announcement, on 6 June 1933, of the increase of the non-British cotton-piece good tariff.¹⁰³ Shortly after the announcement, Randall merely commented that although the Japanese were indignant at the tariff increase, the threat of a Japanese boycott of Indian raw cotton should not be taken seriously.¹⁰⁴ Such comments indicate that the Foreign Office had been somewhat complacent in assessing the Japanese commercial reaction to the Indian government's tariff increase.

The Japanese had been considering a boycott of Indian raw cotton since the Indian denunciation of the 1904 Indo-Japanese Trade Convention. However, it was the Indian government's increase in the non-British cotton piece-good tariff that was the spur to action. The Japanese feared that this tariff increase to their most important export market would wreak havoc in the Japanese cotton industry.¹⁰⁵ The *Dai Nippon Bōseki Rengōkai Geppō* estimated that some 20% of the Japanese cotton manufacturing establishment would be forced into idleness as a result of the Indian government's action.¹⁰⁶ Further, the Japanese were indignant at the discriminatory treatment of their exports to India, and British attacks upon Japanese commercial practices. Both the *Jiji* and the *Asahi Shinbun* bitterly castigated a House of Commons debate which suggested that Japan had manipulated her exchange rate to improve her export performance.¹⁰⁷ The *Osaka Mainichi* reported the comments of Sir Lullubhai Shalmidas, an Indian businessman on a visit to Japan, who stated that he saw no

Duty of Cotton Piece Goods of non-British origin to 75% *ad valorem* under Power Conferred by Section 3(5) of the Indian Tariff Act', 24 May 1933, CAB 24 CP. 137(33); Minute by Orde, 22 May 1933, FO371/17160,F3387/1203/23.

102. Minute by Randall, 23 May 1933, FO371/17160,F3540/1203/23.

103. Drummond I. M., *British Economic policy and the Empire, 1919-1939* (George Allen & Unwin, London; 1972), pp. 133-134.

104. Minute by Randall, 9 June 1933, FO371/17160,F3855/1203/23.

105. In 1932 over 25% of Japanese cotton piece-good exports went to India, see table 3.2.

106. Cited in Ishii O., p. 108.

107. The *Jiji*, 6 June 1933; The *Asahi Shinbun*, 7 June 1933.

reason why poor Indians should have to pay for expensive Manchester goods, and the denunciation of the Trade convention was the work of Lancashire.¹⁰⁸ Further, anger in Japan over their treatment by the Indian government went beyond questions of economic interest, and aroused Japanese suspicions that it was another example of international prejudice against Japan. Oswald White, the British Commercial Counsellor in Osaka, compared Japanese reactions to Indian tariff discrimination with Japanese reactions to the 'anti-Japanese' American Immigration Act of 1924.¹⁰⁹ "This present situation is the American exclusion of Japanese immigration over again in a different form".¹¹⁰ On 14 June 1933, without the support of the Japanese government, the Japan Cotton Spinners' Association adopted a resolution calling for the boycott of Indian raw cotton.¹¹¹ The Japanese reasoned that the raw cotton boycott would create economic chaos in India,¹¹² and force the Indian government to revoke or moderate the non-British cotton piece-good tariff increase.

The treatment of Japanese cotton piece-good imports by the Indian government not only provoked the raw cotton boycott, but also threatened the participation of the Japanese cotton manufacturers in the Indo-Japanese trade negotiations. The latter were sceptical of the value of negotiations with India. On 12 July 1933, Tsuda told the Kobe *Yushin Nippo* that the Japanese Cotton Spinners' Association refused to appoint delegates to the trade negotiations, because they doubted an agreement would be reached, and believed that 'England' was rendering full assistance to India.¹¹³ The Japanese Foreign Ministry worried that the Japan Cotton Spinners' Association's refusal to appoint delegates might jeopardise the Indo-Japanese trade negotiations, and in order to ensure their participation in the negotiations, Japanese Foreign Ministry officials suggested some conciliatory gesture from the Indian government: such as a promised reduction of the non-British cotton piece-good *ad valorem* tariff by 25% if the yen appreciated in value.¹¹⁴ The Foreign Office passed on this

108. Snow to the Foreign Office, 21 June 1933, FO371/17161,F4856/1203/23.

109. Wray H., 'Japanese-American Relations and Perceptions, 1900-1940', in Conroy H. and Wray H. (eds.), *Pearl Harbor Reexamined: Prologue to the Pacific War* (University of Hawaii Press, Honolulu, 1990), p. 7.

110. White (Osaka) to Tokyo, 26 June 1933, FO371/17161,F4744/1203/23.

111. Snow to the Foreign Office, 14 June 1933, FO371/17160,F3955/1203/23.

112. Shimoda M., *Inmen Fubai to Osaka* [The boycott of Indian cotton and Osaka] (Osaka Toshi, Osaka, 1933), pp. 10-13; Ishii O., pp. 112-113; In 1932 the Japanese consumed 24% of the total India raw cotton production, see table 3.3.

113. Phipps (Osaka) to Snow (Tokyo), 12 July 1933, FO371/17161,F5412/1203/23.

114. Snow to the Foreign Office, 15 June 1933, FO371/17160,F3998/1203/23.

request, but the Indian government refused to consider such an action.¹¹⁵ Despite concerns over the participation of the Japanese cotton manufacturers, the Japanese government remained committed to the successful conclusion of a new trade convention and took steps to placate Japanese opinion over the role of Britain in the recent Indian tariff increase. Not only had the Japanese government pointedly refused to endorse the raw cotton boycott,¹¹⁶ the Japanese Minister in Ottawa, on leave in Japan, was dispatched to give lectures to select Japanese industrialists on the true nature of British imperial relationships, and the real meaning of the Ottawa Conference.¹¹⁷

Doubts in Japanese business circles over the utility of the India-Japan-Lancashire trade talks were equally shared by the Lancashire cotton industry. A public exchange of letters between the Japan Economic Federation, and the British Chambers of Commerce, the Federation of British Industries and the Manchester Chamber of Commerce, revealed the divergent Japanese and British outlook over the India trade question. On the one hand the Japanese complained of the injustice of Indian tariff discrimination, while on the other hand the British spoke of the need to defend their commercial interests from unfair trade competition.¹¹⁸ Like the Japanese the Lancashire cotton industry proved unwilling to appoint delegates to the India-Japan-Lancashire cotton trade talks, and it required Lord Derby, a prominent link between the British government and the Lancashire cotton industry and variously described as the 'King of Lancashire', to persuade a sceptical Lancashire cotton industry to appoint delegates for the forthcoming cotton trade talks in India.¹¹⁹ Indeed the main concern of the Lancashire cotton industry was the Lancashire-India cotton talks and not the Lancashire-Japan cotton talks in India, as the Lancashire cotton industry sought improved access to the Indian market via a reciprocal trade agreement with the Indian cotton industrialists and Indian government.¹²⁰ However, Lancashire's apprehension over their role as an adjunct to the Indo-Japanese trade negotiations was shared by the Foreign Office. The Foreign Office was keenly aware of the limits of Indian benevolence to Lancashire, and

115. The Foreign Office to the India Office, FO371/17160,F4213/1203/23.

116. Statement by Hirota, 11 January 1934, FO371/18166,F731/24/23.

117. Snow to the Foreign Office, 16 July 1933, FO371/17161,F4737/1203/23.

118. *The Manchester Chamber of Commerce, Monthly Record*, June 1933, p. 170; Fletcher W. M., p. 82.

119. See chapter 2; Memorandum of the Manchester Chamber of Commerce to the Board of Trade, 11 July 1933, FO371/17155,F5306/583/23; Wurm C., p. 238.

120. Chatterji B., pp. 381-386.

Lancashire's lack of influence on the Indian government.¹²¹ On 21 June, Randall minuted that the situation regarding the India-Japan and the Lancashire-Japan cotton trade talks was complex, but it was clear that Lancashire would have little influence on the Indo-Japanese trade negotiations, since "in negotiations with Japan the Indian Govt. will [be] endeavouring primarily to protect their own industries".¹²² Randall clearly recognised that it was no concern of the Indian government to induce the Japanese - via an easier treatment of Japanese goods in the Indian market - to adopt global trade restraint *vis à vis* Lancashire, and that it was equally unlikely that the Indian government would grant Lancashire trade concessions in their own market at the expense of Japanese imports.

121. In India there were some optimistic voices about the possibility of Indo-Lancashire cooperation against Japanese competition. Bentall, a leading figure of the British business community in India and active in the new constitutional arrangements for India, thought that an arrangement was possible between Lancashire and India. He believed that Lancashire could obtain a reduction of the *ad valorem* tariff on British goods to 15% through an Indo-Lancashire agreement, since the "time is ripe because there is at the present moment a bond of unity between the two in their joint opposition to Japan", Chatterji B., 'Lancashire Cotton Trade and British Policy in India, 1919-1939', (unpublished thesis, University of Cambridge; 1978), p. 373.

122. Minute by Randall, 21 June 1933, FO371/17154,F4096/583/23.

Lancashire and the Indo-Japanese trade negotiations, 1933-1934.

Despite Lancashire's reservations over the utility of the Indo-Japanese trade negotiations, its prospect of benefiting from the forthcoming negotiations improved as sections of the native Indian cotton industry, in order to forestall Lancashire's opposition to Indian constitutional reform, sought to further Lancashire-Indian cooperation. In the summer of 1933, Hormasji Mody, a leading figure in the Bombay cotton manufacturing industry, arrived in Britain with the explicit intention of achieving an understanding in regard to Japanese competition between the Bombay and Lancashire cotton industries. The Bombay millowners were particularly concerned over the need to buy off possible Lancashire cooperation with the anti-Indian constitutional reformers through the offer of improved access of Lancashire's cotton textile to the Indian market.¹²³ On a visit to Manchester in August 1933, Mody offered the possibility of Lancashire-Bombay cooperation. He stated that both Lancashire and Bombay faced Japanese competition, and that the Indian government could act in such a way to favour both groups. However, he emphasised that such Indian cooperation was dependent on Lancashire's favourable attitude, "towards the legitimate demands of politically minded India".¹²⁴ Further, as noted before the Bombay cotton industry was mainly in competition with the Japanese cotton industry, and thus increased protection against Japanese products and decreased protection against Lancashire's products suited Bombay's needs.

In contrast with the possibilities of Bombay-Lancashire cooperation, there appeared little prospect of similar Lancashire-Japan cooperation. Furthermore, while in public Lancashire spoke of the need for Japan to adopt trade restraint or face Lancashire's retaliation, in private they admitted to having few levers over the Japanese cotton industry. Still in public the Lancashire cotton industry took a firm line on the need of the Japanese to meet Lancashire's demand for Japanese export restraint to India. Richard Bond, the President of the Manchester Chamber of Commerce, threatened that unless the Japanese offered some form of trade restraint Lancashire would be justified in seeking government sponsored trade discrimination against Japan. "If the Japanese make no proposals of a kind which meet our case, then we should have an added justification for calling upon the Government to take steps, either by tariffs or quotas or otherwise to preserve our trade".¹²⁵

123. Chatterji B., *Trade, Tariffs, and Empire*, pp. 384-386.

124. *The Economist*, 5 August 1933, p. 276; *The Manchester Chamber of Commerce, Monthly Record*, August 1933, pp. 241-242.

125. *The Economist*, 5 August 1933, p. 276.

However, in private talks with the government the Lancashire delegates took a far less strident attitude to the strength of Lancashire's negotiation position in the forthcoming trade talks. Sir William Clare-Lees, the head of the delegation, admitted to Sir Edward Crowe, the head of the Department of Overseas Trade, that in fact the Lancashire delegation had no collective policy. Further, in regard to Lancashire's negotiating position with the Japanese, he could only state his 'personal position', which was that British foreign policy concessions should be offered in return for Japanese trade concessions. He believed that Lancashire could gain much by giving Japanese cotton textiles a free hand in China, as it would reduce Japanese competition in other overseas markets. Moreover, he believed that British recognition of Manchukuo would prove helpful in the forthcoming talks with the Japanese. This attitude greatly alarmed the Foreign Office, for they feared that a combination of no definite proposals together with a general desire to improve Lancashire's position through indiscriminate British 'concessions' in China to Japan, could make the Lancashire delegation difficult to handle in India.¹²⁶

However, in a further government pep talk to the Lancashire delegation, Sir Horace Wilson, chief industrial advisor to the British cabinet, pointedly told the Lancashire delegates the limitations of their role in both the Indo-Japanese trade talks and Anglo-Japanese relations. On the one hand Wilson conceded that the British government wanted to improve relations with Japan, and that a breakdown in the cotton talks might have serious consequences, "over a field considerably wider than that covered by their discussions".¹²⁷ However, despite his urging that it was better for the Lancashire-Japan cotton talks to end on a friendly basis, he still accepted that not only was the British government prepared for the failure of the trade talks, it even accepted that they probably would fail.¹²⁸ Thus despite Wilson's concern over the effect of a breakdown of the talks on Anglo-Japanese relations, he

126. Memorandum of interview between Sir W. Clare-Lees and Sir E. Crowe, 16 August 1933, FO371/17162,F5514/1203/23.

127. Meeting of the Manchester Chamber of Commerce's cotton textile delegation to India and Sir H. Wilson, 24 August 1933, FO371/17162,F5839/1203/23; Wurm quotes the same passage of Wilson's statement to the Manchester Chamber of Commerce cotton delegates to indicate the important foreign policy implications the British government attached to the Lancashire-Japan cotton trade talks. However, he fails to mention the Board of Trade's acceptance that the cotton talks would fail, and thus avoids the paradoxical question that if an amicable settlement of the Lancashire-Japan cotton talks were so important to British foreign policy why was the British government prepared to see them fail, Wurm C., p. 241.

128. Meeting of the Lancashire Textile Delegation to India at the Board of Trade, 24 August 1933, FO371/17162,F5839/1203/23.

still accepted that Lancashire's interpretation of their commercial interests remained paramount. Consequently, he emphasised that Lancashire should not seek a commercial understanding with Japan at any price, and that the breakdown of the cotton talks was far more preferable to the British government than a botched Lancashire-Japan cotton trade agreement.

Although concerned about the prospects of a Lancashire-Japan cotton trade agreement, the Lancashire cotton industry realised that with respect to future opportunities in the India market these talks were secondary to the Lancashire-India trade talks. The weakness in Lancashire's position - as noted by the Foreign Office - was the fact that in the forthcoming trade talks the India government would be defending Indian industrial interests. Furthermore, the Lancashire-Bombay agreement now appeared less assured in the face of an Indian cotton manufacturing industry that had little sympathy with Lancashire's plight. A request from the Lancashire cotton industry for a conference with all their Indian counterparts had already received a less than enthusiastic response.¹²⁹ The Lancashire delegates were acutely aware of this point and pressed the British government over the possible support of the Indian government for the Lancashire cotton industry. Clare-Lees spoke of the need for a stiff Anglo-Indian front against Japan, while Samuel Hammersley, the Conservative MP for Stockport, and Raymond Streat, both part of the Lancashire delegation, questioned Crowe on the nature of Indian obligations relating from the Ottawa Conference.¹³⁰ However, despite the importance of the Indian market to Lancashire, the Board of Trade was unforthcoming about the possibilities of Lancashire-Indian cooperation.

In contrast to Mody's offer of Lancashire-Bombay cooperation, the Lancashire-India cotton talks revealed how peripheral Lancashire was to the calculations of the majority of the Indian cotton interests. At the first meeting between the Lancashire and Indian cotton industrialists which took place on 18 September 1933, the Indians were clearly not impressed with Lancashire's proposals. Lancashire claimed that the Japanese wanted to stabilise their cotton piece-good exports to India at 615 million square yards *per annum* - a figure which was 6% higher than Japan's cotton piece-good exports to India in 1932 - while the Manchester delegates wanted to fix Japanese exports to India at 315 million square yards

129. Minute by Allen, 15 August 1933, FO371/17161,F5463/1203/23; Chatterji B., *Trade, Tariffs, and Empire*, p. 386.

130. Meeting of the Lancashire Textile Delegation to India at the Board of Trade, 24 August 1933, FO371/17162,F5839/1203/23.

per annum. Further, not only did the Lancashire delegates want India to restrict Japanese access to the Indian market, they also wanted all the displaced Japanese export volume to be transferred to Lancashire via a 5% reduction on the British preferential tariff. Finally, the Lancashire delegates requested increased preferential duties on British cotton yarns, rayon piece-goods, and rayon yarn. In return for the desired tariff concessions Lancashire proposed to assist Indian goods in British colonial markets, increase purchases of Indian raw cotton, and - without authorisation or approval - promised British government support of Indian raw cotton cultivation.¹³¹

The Indian cotton manufacturers had little interest in Lancashire's proposals, and regarded Lancashire's reciprocal concessions for better access to the Indian market as worthless. Lancashire's offer to assist Indian textiles in the British colonial market was rejected by the Indians since it would simply displace competition between Lancashire's and India's products from the Indian market to the British colonial market. Further, Lancashire's offer to purchase more Indian raw cotton was rejected by the Indians. Although interested by the proposal, the Indians refused to see this offer as a valuable concession from Lancashire, since Lancashire bought little Indian raw cotton and - given the Lancashire cotton industry's orientation towards the finer American and Egyptian raw cotton - it was difficult to see how this small quantity could be increased. Moreover, Lancashire's low utilisation of Indian raw cotton also undermined Lancashire's 'promise' of British government support for Indian raw cotton cultivation. The Indian cotton interests reasoned that given Lancashire's low utilisation rate it was unlikely that British government support would be forthcoming, since any benefit derived from such assistance to India raw cotton output would go to the Japanese cotton industry and not to Lancashire.¹³² The Lancashire-India trade talks broke-up with no agreement, and without the Indian cotton manufacturers accepting Lancashire's prime demand that restrictions on Japanese cotton textile exports to India should fall to Lancashire through a reduction in Britain's preferential cotton tariff. Randall concluded with some

131. If the Indians refused to reduce the preferential British *ad valorem* tariff, Lancashire requested either the abolition of the preferential British specific duty on grey piece goods or its reduction from 4.375 *annas* per pound to 2 *annas* per pound, Board of Trade to the Foreign Office, 19 October 1933, FO371/17163,F6697/1203/23. Even the reduction of the preferential British specific duty on grey piece-goods to 2 *annas* per pound would give Lancashire a substantial advantage over Japanese competition in the Indian market, since it would be the equivalent of a 15% *ad valorem* duty, and thus mean that Lancashire's grey piece-goods would receive the full British preferential *ad valorem* tariff, see table 3.9. However, any reduction of the tariff on British grey piece-goods would yet again result in increased British competition against Indian grey piece-goods; Chatterji B., *Trade, Tariffs, and Empire*, pp. 386-387.

132. Board of Trade to the Foreign Office, 19 October 1933, FO371/17163,F6697/1203/23.

bitterness that the hopes of the Lancashire cotton industry had been thwarted by the Indian cotton manufacturers, and that now "In general it seems that the anticipation regarding Lancashire's share of the textile trade to be taken from Japan will be falsified: the Indian manufacturers will do their best to get it all".¹³³ However, this statement merely proved the veracity of Randall's previous conviction that the Indian government would do little for the Lancashire cotton industry, and that in reality Lancashire had only a limited amount of influence on the Indian government. The course of the Lancashire-India cotton talks again revealed the limits of Lancashire's threat to disrupt Indian constitutional reform as a bargaining counter. Indeed Lancashire's attempt to curry Indian favour through displays of moderation on the constitutional reform question totally backfired. During the Lancashire-India cotton talks - at the insistence of Clare-Lees, and prompting of Lord Derby and Hoare - the Manchester Chamber of Commerce delayed and then drastically watered down their 'anti-Indian' oral evidence before the Joint Select Committee on Indian Reform,¹³⁴ and yet still failed to gain any acceptance for commercial concessions from the whole of the Indian cotton industry.

Despite the failure of the Lancashire-India trade talks the Lancashire cotton industry still hoped to circumvent the opposition of the Indian cotton industry to a reduction of the preferential British cotton tariff through a separate Lancashire-Bombay agreement. On 28 October 1933 Clare-Lees and Mody reached a separate Lancashire-Bombay agreement, known as the Lees-Mody Pact, over Lancashire's preferential access to the Indian market and Lancashire's attitude to Indian political reform. In return for Lancashire's cooperation on questions of Indian constitutional reform, the Bombay millowners agreed to support Lancashire's demand for a reduction of the British preferential tariff on cotton and artificial silk piece-goods. However, in the Lees-Mody Pact, the Bombay millowners only undertook not to raise any obstacle if the Indian government was financially in a position to withdraw the October 1931 5% *ad valorem* surcharge upon Lancashire's cotton piece-goods.¹³⁵ Thus even this support for Lancashire from one section of the Indian cotton industry promised no definite improvement of Lancashire's access to the Indian market. The Board of Trade's only hope that the Lees-Mody Pact might benefit the Lancashire cotton industry was a totally

133. Minute by Randall, 26 September 1933, FO371/17163,F6774/1203/23.

134. Redford A., pp. 286-287; Chatterji B., pp. 387-388.

135. *The Manchester Chamber of Commerce, Monthly Record*, November 1933, pp. 327-329; Redford A., p. 288; Chatterji B., *Trade, Tariffs, and Empire*, p. 389.

unsupported contention that the Indian government might ignore domestic opposition and implement the terms of the Pact.¹³⁶

Lancashire's commercial and political weaknesses, which undermined their attempts to negotiate improved access to the Indian market, also contributed to Lancashire's failure to reach a 'market sharing' agreement with the Japanese cotton delegation. The Lancashire-Japan cotton talks started after the failed Lancashire-India cotton talks, and immediately devolved into a hostile encounter of economic self-justification between the Lancashire and Japanese delegates. Streat found the Lancashire-Japan cotton talks "very abstract, and a good fifty miles from reality".¹³⁷ Clare-Lees told the Japanese that whilst 5-6 years ago Lancashire could regard the progress of the Japanese cotton industry with equanimity, the textile industry was now faced with a choice: either both countries could reach an orderly solution or they would have to look after themselves. In this vein he warned the Japanese that:

Japan's competitive attack was proceeding at a pace which could only be regarded as abnormal ... we cannot be reproached for proposing to cope with it by measures which must necessarily be equally unprecedented.¹³⁸

The Japanese counter to Clare-Lees was equally forthright. The leader of the Japanese delegation stated that the efficiency of their industry was due neither to a, "deliberate national policy nor to concerted action on the part of industrialists ... [but was due to] ... patriotic efforts to stimulate production and self preservation". To this statement Clare-Lees made an aggressive final sally,

If [a nation's] policy imperils the well being of the people of other nations, it is natural that they should act vigorously in their own defence ... in a world consuming less, Japan was producing more; this had to stop.¹³⁹

However, such a threat evoked no Japanese reply. If a Lancashire-Japan world marketing agreement was to be achieved, it would have to wait until the Anglo-Japanese cotton trade talks in London, after the conclusion of the Indo-Japanese trade negotiations. However,

136. Minute by Allen, 26 October 1933, FO371/17164,F6795/1203/23.

137. Dupree M. (ed.), entry dated 11 October 1933, p. 256.

138. Clare-Lees statement to the Japanese delegation, 4 October 1933, FO371/17163,F6697/1203/23.

139. Clare-Lees statement to the Japanese delegation, 4 October 1933, FO371/17163,F6697/1203/23.

during the period of the various India based cotton talks the Japanese did make one offer of a possible solution to Anglo-Japanese trade problems through a political arrangement. Kando, a Japanese Foreign Ministry official, bypassed both the Lancashire and Japanese cotton delegations and indicated to George Sansom, the British commercial counsellor in Tokyo who had been appointed as a special advisor to the Indian government for the Indo-Japan trade negotiations, that in return for some British gesture over China or Manchuria, the Japanese would be more willing to cooperate over the cotton trade talks.¹⁴⁰ Frank Ashton-Gwatkin, the economic advisor in the Foreign Office, responded favourably to the report of this offer, but stated that such a proposal would have to be considered within the constraints imposed on British foreign policy by League of Nations' commitments against Japan, and the state of Anglo-American relations. Further, given the breakdown of the Lancashire-Japan cotton talks and the imminent approach of the Indo-Japanese trade negotiations any serious discussions based upon this offer would again have to wait until the Lancashire-Japan cotton talks in London.

140. Kando to Sansom, 11 October 1933, FO371/17163,F6787/1203/23.

The Indo-Japanese trade negotiations, 1933-1934.

Both the Lancashire-India and Lancashire-Japan cotton talks had underlined the impotence of the Lancashire cotton interests in ensuring their access to the Indian market. This lack of influence upon Indian tariff policy was again reflected in the Indo-Japanese trade negotiations where the interests of the Lancashire cotton industry were marginal to the India-Japan deliberations. Any benefit Lancashire derived from the Indo-Japanese trade negotiations was merely a by-product of the Indian government's desire to protect the Indian cotton industry from Japanese competition.

Negotiations between the Indian and Japanese officials began on 23 September 1933, and the Indian negotiators put forward their first proposal on 17 October 1933. The main thrust of the Indian proposals was to link restrictions on Japanese cotton piece good exports to India - by both volume and category - to the Japanese purchase of Indian raw cotton. The initial proposal of the Indians was to restrict total Japanese cotton piece good imports to a basic quota of 300 million yards *per annum* and a maximum quota of 350 million yards *per annum*. The various piece-good categories would be allocated specified proportions - grey piece-goods 45%, bordered grey piece-goods 13%, bleached or white piece-goods 8%, and coloured and dyed piece-goods 34% - within the total import quota and with no rectification of excess and surplus between the four categories through a transfer system. In return for the basic quota the Japanese were required to take a minimum of 1.25 million bales of Indian raw cotton *per annum*. Further, for every additional 10,000 bales of raw cotton the Japanese purchased over the 1.25 million yard minimum they would be allowed to export an additional 2 million yards of cotton piece-goods *per annum*, up to the 350 million yards maximum quota. Thus if the Japanese were to export the maximum of 350 million yards of cotton piece-goods to India they would have to purchase 1.5 million bales of Indian raw cotton. Finally, if the Japanese agreed both to the quota and sliding-scale system the Indians would agree to reduce the non-British cotton piece-good duty to its pre-July rate of a standard 50% *ad valorem* duty and a 5.25 *annas* per pound minimum specific duty on grey piece-goods. However, the Indians also requested an additional agreement that gave the Indian government the right to imposed additional duties on Japanese cotton piece-goods in the event of a depreciation of the yen in relation to the rupee.¹⁴¹

141. Indian official proposal to the Japanese, 17 October 1933, FO371/17163,F6697/1203/23.

In contrast to the Indian proposal, which would dramatically reduce Japanese cotton piece-good exports to India, the Japanese initial proposal sought to limit Japanese exports to their 1932 level. The Japanese government agreed to limit cotton piece-good exports to India to 578.5 million yards - the 1932-33 figure of Japanese cotton piece-good exports to India - in return for which duties on Japanese cotton piece-good imports would again be reduced to their pre-July 1933 level. However, both the Indians and Japanese objected to each other's proposals. The Indians dismissed as abnormally high the 1932-33 level of Japanese cotton piece-good exports to India, while the Japanese objected to the linkage of piece-good exports to India to the purchase of Indian raw cotton.¹⁴² Following the initial exchange of proposals a huge gap existed between the Indians and Japanese over the acceptable volume of Japanese cotton piece-good exports to India. Sansom considered that the Japanese delegates had been much stiffer in these early stages of negotiations than had been anticipated.¹⁴³

Despite the initial standoff between the Indians and Japanese some progress eventually occurred in the negotiations. The Japanese conceded the Indian demand for a linkage between cotton piece-good exports and raw cotton purchases.¹⁴⁴ Then on 25 October 1933 the Indians privately communicated to Sawada, the chief Japanese Foreign Ministry negotiator, a revised offer which Sansom regarded as perfectly reasonable: of a minimum cotton piece-good import quota of 325 million yards and a maximum cotton piece-good import quota of 375 million yards and with no alteration to the raw cotton off-take.¹⁴⁵ On 30 October the Indians again revised the Japanese cotton piece-good import quota upwards, to a minimum quota of 350 million yards and a maximum quota of 400 million yards.¹⁴⁶ However, the Indian cotton manufacturers made it clear that they would object to any further concessions to the Japanese.¹⁴⁷ These concessions by the Indians encouraged the Foreign Office to hope that an early settlement to the Indo-Japanese trade negotiations was now possible. Randall minuted, "This is encouraging, though I can hardly believe the Japanese

142. Snow to the Foreign Office, 20 November 1933, FO371/17165,F7993/1203/23.

143. Sansom to Crowe, 22 October 1933, FO371/17164,F6882/1203/23.

144. Snow to the Foreign Office, 20 November 1933, FO371/17165,F7993/1203/23.

145. Sansom to the Foreign Office, 25 October 1933, FO371/17163,F6781/1203/23.

146. Sansom (Simla) to the Foreign Office, 20 November 1933, FO371/17165,F7993/1203/23; Minute by Allen, 1 November 1933, FO371/17164,F6904/1203/23.

147. *The Manchester Guardian*, 4 November 1933.

will agree at once".¹⁴⁸ However, in Japan the cotton manufacturers proved unwilling to accept the Indian government's terms.¹⁴⁹ Yet pressure from the Japanese government resulted in the cotton industrialists' agreement to the 400 million yards maximum import quota in return for the purchase of 1.5 million bales of Indian raw cotton.¹⁵⁰ Thus by early November 1933 the substantive issue between the Indian and Japanese - the size of the Japanese cotton piece-good quota and the Japanese raw cotton purchases - had been settled.

However, in spite of the improved Indian offer on the minimum and maximum import quota for Japanese cotton piece-goods, Japanese cotton manufacturers still rejected the division of the total cotton piece-good import quota into rigid categories. In particular they regarded as totally inadequate the Indian government's allocation of a fixed 8% bleached piece-good category of the total import quota. The Japanese complained that with the retention of the high specific duty of 5.25 *annas* per pound on grey piece-goods it would be difficult for them to achieve their full quota allocation of grey piece-goods.¹⁵¹ As a result they wanted to sell more bleached piece-goods to India. In early November in an attempt to increase their allocation of bleached piece-goods the Japanese proposed only three categories for the total cotton piece-good import quota: grey piece-goods 45%, bleached piece-goods 20%, and coloured and dyed piece-goods 35%. Further, they demanded that a 10% transfer of the total cotton piece-good import quota should be allowed between the three categories.¹⁵² In Osaka Japanese cotton manufacturers were demanding an 18% bleached category and were suggesting the recall of the Japanese cotton industry delegates unless this was achieved.¹⁵³ In public, after being severely savaged by the cotton manufacturers for agreeing to the '8%' bleached piece-good share,¹⁵⁴ the Japanese Foreign Ministry reversed its position and sided with the demands of the Japanese cotton manufacturers for an increased bleached category. Hirota Koki, the Japanese Foreign Minister, implied that the only reason the Indian government did not grant the Japanese a larger bleached category was due to opposition from the Lancashire cotton industry.¹⁵⁵

148. Minute by Randall, 27 October 1933, FO371/17163,F6781/1203/23.

149. Snow to the Foreign Office, 4 November 1933, FO371/17164,F6995/1203/23.

150. *The Manchester Guardian*, 4, 6, and 7 November 1933; Ishii O., pp. 125-126.

151. Snow to the Foreign Office, 4 and 8 November 1933, FO371/17164,F6955,F7018/1203/23.

152. Snow to the Foreign Office, 8 November 1933, FO371/17164,F7018/1203/23.

153. Snow to the Foreign Office, 20 November 1933, FO371/17164,F7364/1203/23.

154. Snow to the Foreign Office, 24 November 1933, FO371/17164,F7364/1203/23.

155. Snow to Kurusu, 22 November 1933, FO371/17164,F7336/1203/23.

The Japanese demand for an increased allocation of bleached piece-goods brought the Indo-Japanese trade negotiations into direct conflict with Lancashire's remaining economic interest in the Indian market. For the Lancashire cotton industry exports of bleached piece-goods to India retained both an economic and psychological importance. In 1930 Japan's exports of grey piece-goods to India had exceeded Lancashire's exports, and again in 1932 Japan's exports of coloured piece-goods to India had exceeded Lancashire's exports.¹⁵⁶ In contrast to the end of Lancashire's dominance in the grey and coloured piece-good markets, Lancashire still exported more bleached piece-goods to India than Japan. In 1932 Lancashire exported some 280 million linear yards of bleached piece-goods to India, which made bleached piece-goods Lancashire's largest category of piece-good exports to India.¹⁵⁷ Further, these exports amounted to over 2.3 times Japan's exports of bleached piece-goods to India,¹⁵⁸ and thus gave the Lancashire cotton industry some confidence that they could still compete with Japanese products in specialised markets. Therefore Japanese attempts to increase their share of piece-goods exports to India posed a direct threat to Lancashire's most substantial economic interest in the Indian market.

Initially the Indian government proved unwilling to sacrifice Lancashire's commercial interest and accept Japanese demands for a larger bleached category. By the end of November 1933 the trade negotiations had reached a deadlock over the Indian government's insistence on an '8.8%' bleached category and Japanese demands of an '18%' bleached category.¹⁵⁹ However, much to the alarm of the British government the Indian government's resistance to Japanese demands slowly eroded.¹⁶⁰ The Indian government was

156. See table 3.7.

157. See table 3.7.

158. See table 3.7.

159. The Japanese had dropped their demand for the total cotton piece-good quota to be divided into three categories but were still insisting upon a 10% transfer of the total quota between individual categories. Thus if the Japanese used the full transfer for the bleached piece-good category it would increase its share of the total cotton piece-good quota from 8% to 18%. Under pressure from the Japanese to allow for the transfer of cotton piece-goods between the categories the Indian government had conceded this point and offered a maximum 10% transfer of the total of each category between the four categories which allowed the Japanese a maximum of a '8.8%' bleached piece-good category of the total cotton piece-good import quota, Memorandum of the Secretary of State for India, 'Negotiations between India and Japan in regard to the Cotton Trade', 23 November 1933, CAB 24 CP. 282(33).

160. On 21 November 1933 the Indian government told the British government that they were prepared to offer the Japanese a 5% transfer of the total cotton piece-good import quota. Thus giving the Japanese

concerned over the effect of the Japanese boycott of Indian raw cotton on the Indian cotton growers, and feared the reaction of the Indian cotton growers if the boycott was not ended quickly through the conclusion of an Indo-Japanese trade agreement. The Indian government worried that conditions in the world cotton market had worsened for Indian cotton producers - the relative fall in the dollar meant that American raw cotton would be far more competitive on the world market against Indian raw cotton - and so it would be difficult for the Indian cotton growers to sell the produce that the Japanese were boycotting. In these circumstances the Indian government considered it was unwise to allow the boycott to continue over a desire to keep the Japanese bleached category as low as possible in deference to Lancashire. Moreover, it reasoned that if this became widely known in India the political consequences would be incalculable.¹⁶¹ Thus in order to end the Japanese boycott of Indian raw cotton it told the British government that it was prepared to meet the Japanese demand for an '18%' bleached piece-good category, by changing the 10% transfer by category to a 10% transfer to the total cotton piece-good quota. The Viceroy accepted that the increase of the Japanese bleached piece-good category was regrettable, but it was preferable to a break in negotiations with Japan.¹⁶²

However, while the Indian government was more concerned over the political consequences of the failure of the Indo-Japanese trade negotiations on Indian interest groups, both the India Office and the Board of Trade worried over the effect of the increased Japanese bleached piece-goods quota on Lancashire. Since Lancashire had only so recently gained nothing for presenting its modified evidence before the Select Committee on Indian Reform, any further erosion of Lancashire's interests in the Indian market could renew its hostility to Indian reform. In response to the Indian government's equivocation over the bleached piece-good category, the India Office urged the Indian government to stand firm and not to grant any concession to the Japanese in the bleached piece-good category.¹⁶³ Hoare told the British cabinet that his main concern was the effect the concession would have on Lancashire. He recognised the emotional importance of the Indian bleached piece-good market to Lancashire, and that an increase in Japan's bleached piece-good category would be a significant blow for Lancashire's pride. Moreover, he feared that an Indo-

a '13%' bleached piece-good category, Viceroy to Hoare, 23 November 1933, CAB 24 CP. 282(33).

161. The Indian government to Hoare, 24 November 1933, CAB 24 CP. 282(33).

162. The Indian government to Hoare, 23 November 1933, CAB 24 CP. 282(33).

163. Hoare to the Indian government, 24 November 1933, CAB 24 CP. 282(33).

Japanese trade agreement under the proposed Indian terms would revive the hostility of the Manchester Chamber of Commerce to the Indian Fiscal Autonomy Convention of 1919. Further, in the face of such agitation the formal signature of an India-Japan Trade Convention in London might prove awkward.¹⁶⁴

Runciman proved even more hostile than the India Office to concessions to Japan at Lancashire's expense, and was committed to preventing any increase in Japan's bleached piece-good category. Overt concessions to the Japanese would lead to renewed Lancashire attacks upon both the Indian and British governments for failing to defend Lancashire's interests. Runciman warned the cabinet that an increase in Japan's bleached piece-goods quota would result in Lancashire's complaint that its interests in bleached goods was being sacrificed for a more favourable treatment of Indian interests in grey piece-goods. He produced figures to show that an increase of the Japanese bleached piece-good category from '8.8%' to '18%' would increase Japanese bleached piece-good exports by some 49 million yards on their 1928-1931 average. In contrast the corresponding decline in Japanese grey piece-good exports from a '44.2%' to a '35%' share of the total cotton piece-good import quota would result in a 70 million yard decrease in Japanese grey piece-good imports over the same period.¹⁶⁵ Runciman stated that such an obvious maltreatment of Lancashire's interests by the Indian government would lead to renewed Lancashire hostility to Indian Fiscal Autonomy, and the process of Indian constitutional reform. Further, he claimed that imperial economic ties would be strained, especially following British concessions to Indian jute manufactures in the British market, while Lancashire's consumption of Indian raw cotton would be discouraged. Finally, he warned the British cabinet that the dispute over bleached piece-goods would spill over into the British political arena, and that the British government would face severe criticism from Lancashire that the government had known of Lancashire's interests but had failed to protect them. Runciman told the cabinet that he wanted the Indian government to refuse the Japanese demands. However, he did accept that if the Japanese fears over their inability to fill grey piece-good category were well founded, he would accept a reconsideration of the Indian duties on non-British cotton textiles.¹⁶⁶ Thus both the India Office and the Board of Trade strongly opposed the increase of the bleached

164. Memorandum of the Secretary of State for India, 'Negotiations between India and Japan in regard to the Cotton Trade', 27 November 1933, CAB 24 CP. 282(33).

165. See table 3.13.

166. Memorandum by the President of the Board of Trade, 'Indo-Japanese Trade Negotiations', 27 November 1933, CAB CP. 283(33).

piece-good category because of worries over Lancashire's reaction, and its future attitude to Anglo-Indian relations.

Faced by the demands of Hoare and Runciman for the need to defend Lancashire's interest, the British cabinet agreed to Hoare's solution to the current impasse over the bleached piece-good category. The cabinet was alarmed that the Indian government had already made too many concessions at Lancashire's expense in the current Indo-Japanese trade negotiations,¹⁶⁷ and that if the Lancashire cotton interests could combine with other British industries - linseed, jute, and pig-iron who, as a result of Ottawa, faced duty free competition from Indian products - they would undermine Ottawa, imperial preferential trade, and Anglo-Indian relations.¹⁶⁸ The President of the Board of Trade, and the Colonial Secretary took a particularly hard line over Indian trade concessions to the Japanese, and were adamant that even against the judgement of the Indian government British trade interests in India must be defended.¹⁶⁹ In contrast Simon and Hoare insisted that Britain should not interfere in the Indo-Japanese trade negotiations, since it would strain both Anglo-Japanese and Anglo-Indian relations. Simon stated that since the British government had clearly told the Japanese that they had no role in Indian commercial affairs such interference would lead to Japanese charges of bad faith,¹⁷⁰ while the Indian government complained to Hoare that British interference risked the Indo-Japanese trade negotiations and the continued raw cotton boycott all for a mere 25 million yards of Lancashire's export trade.¹⁷¹ As a means out of the impasse Hoare proposed that if the British government agreed financially to tide-over the Indian cotton growers until February 1934 - when the current Japanese stocks of Indian raw cotton would be exhausted - then the Indian government could reject the Japanese demands. The cabinet accepted this proposal and formed a Cabinet Committee to study the issue. Hoare agreed to persuade the Viceroy to delay the announcement of the 10% transfer by total cotton piece-good import quota, while the British government debated ways of tiding-over the Indian cotton growers for the next 2-3 months.¹⁷²

167. Simon to Snow, 28 November 1933, FO371/17164,F7336/1203/23.

168. Hoare to the Indian government, 28 November 1933, 'Cabinet Committee on Indian Cotton', CAB 27/556; Cabinet Conclusions, 28 November 1933, CAB 23 65(33)1.

169. Cabinet Conclusions, 28 November 1933, CAB 23 65(33)1.

170. Cabinet Conclusions, 28 November 1933, CAB 23 65(33)1, see interview between Simon and Matsudaira, 26 April 1933, Cabinet Conclusions, CAB 23 31(33)2.

171. The Indian government to Hoare, 30 November 1933, 'Cabinet Committee on Indian Cotton', CAB 27/556.

172. Cabinet Conclusions, 28 November 1933, CAB 23 65(33)1.

Thus the cabinet reverted to their initial disposition for a direct intervention in Indian commercial affairs and agreed to Hoare's suggestion to consider more subtle ways of influencing the Indo-Japanese trade negotiations.

However, despite the threat of a breakdown in the Indo-Japanese trade negotiations over the bleached piece-good category, the Foreign Office did not view such an event - in contrast to Anglo-Indian relations - as a serious blow to Anglo-Japanese relations, and offered no foreign policy reasons for accepting Japanese demands for an increased bleached piece-good category. Indeed Sansom, usually unwilling to press the Japanese on economic grounds, told the British government that "the Government of India should be urged to stand firm", since the Indian government's last offer could not be revised to accommodate such a minor detail.¹⁷³ The Foreign Office fears of March 1933 that economic discrimination against Japan - over the British West African colonies - would inflame Japanese opinion had now subsided. The Foreign Office considered that the successful conclusion of the Japanese campaigns in Manchuria had rendered Japanese opinion less quarrelsome over foreign trade discrimination. On the cabinet debate over the bleached piece-goods category question Charles Orde, the head of the Far Eastern Department, minuted that the consequences of a breakdown in negotiations were not as serious as they would have been a few months previously, "for the atmosphere generally is much less affected by the excitement engendered by the Manchurian affair".¹⁷⁴ Thus the Foreign Office had no objection to the Indian government's breaking off negotiations with the Japanese.¹⁷⁵ However, privately the Foreign Office found the deadlock over the defence of Lancashire's interests to be somewhat cosmetic, and viewed the impasse over the bleached piece-goods category to be disproportionate to the possible risk of an Indian tariff war with Japan.¹⁷⁶

On 1 December 1933 the Cabinet Committee on Indian Cotton met to look at methods of aiding the Indian raw cotton growers, but was disappointed at the high cost of such potential support. The committee estimated that the cost for the next 2-3 months of

173. Sansom to Crowe, 23 November 1933, FO371/17164,F7336/1203/23.

174. Minute by Orde, 27 November 1933, FO371/17165,F7450/1203/23.

175. Hoare to the Indian government, 24 November 1933, CAB 24 CP. 282(33).

176. Minute by Allen, 30 November 1933, FO371/17165,F7455/1203/23.

supporting the Indian government could be as high^{as} £9 million.¹⁷⁷ Further, there was little possibility of recouping these losses from re-sales of the Indian raw cotton crop, especially in view of the huge 1933 American crop and the depreciation of the dollar. Thus the cost of backing the Indian raw cotton growers looked prohibitive to the committee, especially in view of Hoare's estimate that the potential loss to Lancashire as a result of an '18%' Japanese bleached piece-good category was only some £200,000-300,000. However, both Runciman and Hoare refused to back down on the need to maintain a hard line on concessions to the Japanese at Lancashire's expense. In particular Hoare emphasised the fact that the guarantee alone of the raw cotton crop by the British government to the Indian government would suffice, since the Indian government could then stand firm and bluff the Japanese into backing down. Further, he reasoned that if the measure worked then with regard to Ottawa Britain could expect a more liberal treatment from the Indian government. With the committee undecided, critical support for Runciman and Hoare came from Neville Chamberlain, the Chancellor of the Exchequer, who shared Hoare's desire to call the Japanese bluff, and approved British financial backing of the Indian cotton growers.¹⁷⁸ Thus with the consent of the Chancellor both the Cabinet Committee and the full Cabinet agreed to support the Indian cotton growers.

The backing of the British government proved critical in the Indian government's rejection of Japanese demands, as the Indian government abandoned their decision to accept the Japanese request for an '18%' bleached piece-good category. After being privately told of the British government's support for the Indian cotton growers, on 4 December 1933 the Indian delegates rejected the Japanese demands for the increased bleached piece good category and the removal of the yen depreciation clause.¹⁷⁹ Further, the Indian negotiators told their Japanese counterparts that if the boycott continued the Indian government would support the Indian cotton growers. No reference was made to the role of the British government in case it led to political complications.¹⁸⁰ Thus the firmness of the Indian government is directly attributable to the British decision to safeguard the Indian cotton growers if the negotiations continued to stall and the raw cotton boycott continued.

177. 'Cabinet Committee on Indian Cotton', 1 December 1933, CAB 27/556.

178. 'Cabinet Committee on Indian Cotton', 1 December 1933, CAB 27/556.

179. Indian government to the Foreign Office, 5 December 1933, FO371/17165,F7627/1203/23.

180. Cabinet Conclusions, 6 December 1933, CAB 23 68(33)12.

While the Indian government insisted on an '8.8%' bleached piece-good category,¹⁸¹ the Japanese cotton manufacturers rejected this proposal, and again on 6 December 1933 threatened to withdraw their delegates from the Indo-Japanese trade negotiations. However, the Japanese Foreign Ministry conceded that the Indian government would not make any more substantial concessions to Japan, accepted the Indian proposals as the basis for the new Indo-Japanese Trade convention, and began to pressure the Japanese cotton manufacturers into agreeing to the Indian proposals. From 7 December 1933 the Japanese authorities attempted to suppress the raw cotton boycott.¹⁸² Between 7 and 9 December 1933 in a series of meetings in Tokyo the Japanese government pressed the cotton manufacturers into accepting the Indian terms,¹⁸³ while on 9 December 1933 Nakajima Kumakichi, the Japanese Minister for Commerce and Industry, visited Osaka in order to browbeat the cotton manufacturers into submission. In public Nakajima told the Japanese cotton manufacturers that the new Indo-Japanese trade convention was necessary, since Japan needed to control her own exports, otherwise she would face increased international resentment and far greater trade restrictions. However, British officials had little doubt that in a further private meeting Nakajima issued something little short of an ultimatum to the Japanese cotton manufacturers: either accept the Indian terms or face a withdrawal of government support.¹⁸⁴ The Japanese cotton manufacturers, already divided over the continuation of the raw cotton boycott,¹⁸⁵ buckled under the governmental pressure and reluctantly accepted the Indian terms, and by 22 December 1933 90% of the raw cotton boycott had unofficially been terminated.¹⁸⁶ With some confidence Japanese officials informed their British counterparts that the Japanese cotton manufacturers would accept the Indian proposals.¹⁸⁷ Finally, on 6 January 1934 the Japan Cotton Spinner's Association formally called off the raw cotton boycott and accepted the terms agreed between the Indian and Japanese governments as the

181. Foreign Office to Snow, 5 December 1933, FO371/17165,F7532/1203/23.

182. Snow to the Foreign Office, 7 December 1933, FO371/17165,F7637,F7645/1203/23.

183. *The Manchester Guardian*, 7 and 11 December 1933.

184. Snow to the Foreign Office, 12 December 1933, FO371/17165,F7690/1203/23.

185. The small millowners had originally been unwilling participants in the raw cotton boycott, and by December 1933 were suffering from the non-importation of Indian raw cotton. Further, it was reported that Indian raw cotton importers in Tokyo had already started to sell considerable quantities of raw cotton to the small millowners, Hasegawa S., 'Nichi-In Kaisho no Gaikō Senryaku', [The Diplomatic Strategy of the Indo-Japanese Conference], *Gaikō Jiho* (1934), pp. 137-138; *The Manchester Guardian*, 11 December 1933; Ishii O., p. 137.

186. Snow to the Foreign Office, 22 December 1933, FO371/18166,F667/24/23.

187. Snow to the Foreign Office, 18 and 20 December 1933, FO371/17165,F7808,F7855/1203/23.

basis of the new Indo-Japanese Trade Convention.¹⁸⁸

In order to make the provisional Indo-Japanese trade agreement more amenable to the Japanese cotton manufacturers, the Japanese Foreign Ministry pressed for minor improvements in the Indian proposals. Kurusu Saburo, an official in the Japanese Ministry of Foreign Affairs, explained that these final pieces of skirmishing stemmed from the Japanese government's wish not to lose 'face' before their own commercial circles.¹⁸⁹ Faced by the claims of the Japanese government to save its face, the Board of Trade agreed to allow the Japanese bleached piece-good quota rise to '9.6%'.¹⁹⁰ In keeping with the Board of Trade guidelines, in mid- December the Indian government offered a 20% transfer within the bleached and bordered grey piece-good categories - the equivalent of a '9.6%' bleached piece-good category - to the Japanese. However, for this '9.6%' bleached piece-good category the Indian government demanded the inclusion of the yen depreciation clause, and an undertaking from the Japanese that the raw cotton boycott would be called off within ten days of 23 December 1933.¹⁹¹

Like the Japanese cotton manufacturers, Lancashire reacted unfavourably to the new Indo-Japanese Trade Convention. The establishment of a small Japanese bleached piece-good category was no substitute for the larger than anticipated Japanese cotton piece-good import quota and the non-reduction of the British preferential tariff. Further, the Lees-Mody Pact's promise to reduce Britain's preferential tariff proved to have no immediate chance of introduction, since it was dependent upon Indian fiscal conditions. Already the Indian government's increase of the tariff on artificial silk piece-goods, from 35% to 50% in January 1934, ignored one promise of the Lees-Mody Pact for the introduction of a preferential tariff on British artificial silk goods.¹⁹² Furthermore, although the quota on Japanese piece-goods meant that in theory Lancashire would benefit as much as Indian cotton manufacturers, the non reduction of the preferential British cotton piece-good import tariff meant that in practice Lancashire would derive little benefit from the Indian imposition of import restraint upon Japanese piece-goods. In Lancashire the combination of the non-reduction of the

188. *The Manchester Guardian*, 6 January 1934.

189. Kurusu to Snow, 2 December 1933, FO371/17165,F7532/1203/23.

190. Minute by Randall, 6 December 1933, FO371/17165,F7687/1203/23.

191. India and Japan trade negotiations, 23 December 1933, FO371/17165,F7961/1203/23.

192. *The Manchester Chamber of Commerce, Monthly Record*, 31 January 1934, p. 5.

British preferential tariff and the size of the Japanese cotton piece-good quota was recognised as a defeat for Lancashire's chances of recovering their 'lost' Indian trade. Thus in a somewhat restrained commentary on the Indo-Japanese Trade Convention the Manchester Chamber of Commerce's Special Committee on Japanese Competition complained that,

The Indian millowners and the Lancashire cotton industry may feel that the Government of India has been rather more generous than the circumstances really warranted in the terms granted in the India market to Japan. Bearing in mind the depreciation of the yen, and the other factors contributing to Japanese prices, the reduction of the duty to 50 per cent. was hardly warranted, whilst the maximum quantities allowed for imports of cotton goods appear to have been too much influenced by the abnormal conditions of the last year or two, instead of by the more normal position of earlier years.¹⁹³

Outside the confines of the Manchester Chamber of Commerce spokesmen for the Lancashire cotton industry were less restrained in their criticism of the failure of the Lancashire-India cotton talks and the Indo-Japanese Trade Convention.¹⁹⁴ In Parliament Alan Chorlton, the firebrand Conservative MP of the Cotton Trade League, complained that in the Indian market, because of a combination of the value of the yen and the non reduction of the British preferential tariff, in regard to Japanese competition Lancashire's cotton piece-goods remained at a 15-17% disadvantage,¹⁹⁵ while Streat recorded that when the 'Ginger Group' of six MPs met in the Manchester Free Trade Hall to condemn government inactivity *vis à vis* the Lancashire cotton industry, "there was a tremendous clamour about the unsatisfactory nature of the Indo-Japanese Agreement and the new Indian Tariff Bill".¹⁹⁶ However, there was little in the short-run that these radicals could do to reverse the recent tariff decisions of the Indian government. Indeed the volume of protest could be considered inversely proportionate to the amount of influence Lancashire now had over Indian tariff decisions.

193. *The Manchester Chamber of Commerce, Monthly Record*, 31 January 1934, p. 6.

194. Wurm C., p. 244.

195. Parliamentary Question, Chorlton, 23 April 1934, FO371/18167,F2331/24/23.

196. Dupree M. (ed.), entry 27 February 1934, p. 297.

The stabilisation of Indo-Japanese trade relations, and the marginalisation of Lancashire.

In contrast with the dramatic changes of the early 1930s in the economic position and political influence of the Indian, Lancashire and Japanese cotton industries in the Indian cotton piece good market, the latter part of the decade witnessed the stabilisation of these positions. The Indian cotton industry maintained its dominance of the Indian cotton piece-goods market, while both the Lancashire and Japanese cotton industries tacitly accepted their positions of subsidiary suppliers to the Indian market. Following the signature of the Indo-Japanese Trade Convention in 1934 the Indian cotton industry continued to expand: between 1934 and 1938 Indian output of mill produced cotton piece-goods increased by 22.7%.¹⁹⁷ In contrast in the second half of the decade Indian imports of cotton piece-goods from both Lancashire and Japan never approached their respective 1932 import records for the decade. Lancashire's exports of cotton piece-goods to India declined in successive years from 552.1 million yards in 1934 to a mere 205.3 million yards in 1938.¹⁹⁸ In contrast Japanese exports of cotton piece-goods to India did slightly better: between 1934 and 1938 Japanese exports ranged between 300 and 474 million yards.¹⁹⁹ However, while the Lancashire and Japanese cotton industries still fought for their right of access to the Indian market, the foreign policy friction that had characterised battles over the Indian market were largely absent during the second half of the decade. Indo-Japanese trade relations became even more divorced from foreign policy issues as the Japanese and Indian cotton industries accepted a managed Indo-Japan cotton trade. Furthermore, the continued relative decline of Lancashire's cotton piece-good exports to India removed another cause of Japanese resentment, since continued tariff preference for Lancashire did not result in the resurgence of Lancashire's exports to India.

In spite of the failure of the Lancashire-India cotton trade talks and the imperfect Lees-Mody Pact of 1933, the Lancashire cotton industry still pestered the British and Indian governments for a reduction in the preferential British tariff. In the latter half of the decade the Lancashire lobby was eventually rewarded with a reduction in the preferential British tariff on cotton piece-goods. Faced by the prospect of the Lancashire cotton industry

197. See table 3.4.

198. See table 3.1.

199. See table 3.1.

cooperating with the anti-Indian reformers - over the 1935 White Paper on Indian constitutional reform - the British and Indian governments agreed that it was crucial for the Indian government to buy off Lancashire's opposition with a reduction of the preferential tariff.²⁰⁰ Still progress remained slow, while the Indian government formalised its commitment to a 5% cut in Britain's preferential tariff through the 9 January 1935 Supplementary Agreement,²⁰¹ it remained reluctant to implement the measure. Outside of Bombay Indian industrialists were hostile to the grant of a tariff concession to Lancashire without any reciprocal grant in the British market to Indian commercial interests.²⁰² However, the main hindrance to the implementation of the tariff cut remained the Indian government's reluctance to jeopardise the budget through a cut in tariff income on British cotton piece-good imports.²⁰³

Nevertheless, the continued decline of Lancashire's cotton piece-good exports to India sustained Lancashire's demands for a reduction in the preferential tariff on British cotton piece-goods. The Manchester Chamber of Commerce declared that it was Indian protectionism and not Japanese competition that was the main cause for the continued decline of Lancashire's exports of cotton piece-goods to India.²⁰⁴ Worried by calls in Lancashire for the withdrawal of India's Ottawa preferences in the British market, the India Office pressed the Indian Tariff Board to look on the Chamber's submission for a reduction in their preferential tariff in a favourable light.²⁰⁵ In response to this pressure in June 1936 the Indian Tariff Board recommended a 5% reduction in the *ad valorem* tariff on Britain's preferential tariff on cotton piece-goods.²⁰⁶ However, although the recommendation of the Indian Tariff Board was incorporated immediately into the Indian budget there was little evidence that the 5% cut in the British preferential tariff was sufficient to improve Lancashire's trade with India. The Chamber complained that the, "tariff reductions

200. Chatterji B., *Trade, Tariffs, and Empire*, pp. 396-398.

201. *The Manchester Chamber of Commerce, Monthly Record*, January 1935, pp. 5-8; Chatterji B., *Trade, Tariffs, and Empire*, pp. 398-399.

202. Chatterji B., *Trade, Tariffs, and Empire*, pp. 395-397.

203. Chatterji B., *Trade, Tariffs, and Empire*, pp. 395, 399-400.

204. Fearnley A. C., p. 217.

205. Chatterji B., *Trade, Tariffs, and Empire*, pp. 401-402.

206. *The Manchester Chamber of Commerce, Monthly Record*, July 1936, pp. 285-289; *The Manchester Chamber of Commerce: Annual Report of the Board of Directors and Trade Sections, 1936*, pp. xvi-xvii.

themselves are disappointing and not as substantial as Lancashire interests hoped to achieve or as they think their case merited".²⁰⁷ The Chamber's fears over the inadequacies of the tariff cut proved correct as Lancashire's cotton piece-good exports to India continued to decline: between 1935 and 1937 these exports fell by 39.3% in volume.²⁰⁸ Despite the continued fall of Lancashire's cotton piece-good exports to India in 1937 the Indian government rejected another request by the Chamber for a reduction of the preferential tariff on British cotton piece-goods.²⁰⁹ Thus the period following the conclusion of the Indo-Japanese Trade Convention proved of little direct benefit to the Lancashire cotton industry. Lancashire's cotton piece-good exports to India did not recover as a result of Indian trade restrictions on Japanese imports, and the Indians showed no desire to grant trade preferences to Lancashire that would increase Lancashire's cotton piece-good exports to India. Indeed it appeared that the Indian government only granted tariff concessions to Lancashire in 1936 once it was apparent that this measure would have only a limited impact on Lancashire's exports to India. Furthermore, the failure of Lancashire to increase cotton piece-good exports to India through increased tariff preference, removed Japanese fears that this measure would be detrimental to Japanese exports to India. For example in February 1936 the Japanese Chargé d' Affaires⁴⁵ in London requested that if the Indian government reduced the preferential tariff of Lancashire's cotton piece-goods there should be a similar proportional decrease of the Indian tariff on Japanese cotton piece-goods.²¹⁰ However, Japanese concerns over the reduction of the British preferential tariff on cotton piece-goods were not great, since following the above approach and the implementation of the tariff cut in July 1936 there is no evidence of any other Japanese demands for a proportionate cut in the Japanese tariff.

In 1936 with the Indo-Japanese Trade Convention due to expire in March 1937, the Japanese and Indian governments began preparations for the negotiation of a new trade agreement. In contrast to the post-1934 Lancashire-India discussions on Lancashire's access to the Indian market and the 1933-34 Indo-Japanese trade negotiations, the 1936-37 Indo-Japanese trade negotiations were a low key affair. Unlike the 1933-34 negotiations the renegotiation of the Trade Convention was left entirely in Japanese Foreign Ministry

207. *The Manchester Chamber of Commerce, Monthly Record*, July 1936, p. 288.

208. See table 3.1.

209. *The Manchester Chamber of Commerce, Monthly Record*, January 1936, pp. 17-18, February 1936, pp. 59-60, 71, 85-86, and November 1937, pp. 505-506.

210. Fuji to the Foreign Office, 4 February 1936, FO371/20287,F669/669/23.

officials' hands, as no Japanese industrial delegation was sent to India. Further, there was little comment in Japan on the course of the trade negotiations.²¹¹ In a similar fashion the later negotiations of 1936-37 provoked little interest in Britain. As with the Japanese cotton industry no Lancashire delegation was sent to India to exploit Indian fears of Japanese competition for Lancashire's benefit.²¹² This relative indifference to the outcome of the Indo-Japanese trade negotiations was shared by the British government. Again in contrast to the 1933-34 negotiations no Cabinet level discussions took place over fears of the impact of the trade negotiations on either Anglo-Japanese relations, or the possible reaction of the Lancashire cotton industry to an unfavourable agreement. Such was the course of the negotiations that the Foreign Office had no cause to interfere in order to defend any British foreign policy interest. The only concern of the Foreign Office was that the India Office and the Board of Trade communicated on the course of the trade negotiations without reference to the Foreign Office. At the end of the Indo-Japanese trade negotiations Orde complained that,

We ought to tell the I.O. that it is important that we should be consulted before U.K. views about measures affecting Japanese trade are expressed to India. There may be serious political considerations involved, and B.ofT. views are not necessarily those of H.M.G.²¹³

However, this bureaucratic pique at being excluded from the negotiations merely reflected the lack of British foreign policy interest in Indo-Japanese trade relations. The Foreign Office had been regularly informed about the progress of the negotiations and had found no reason to intervene over the conduct of the Indian government.

Indeed the only conspicuous display of concern within the British government prior to the start of the Indo-Japanese trade negotiations was in the India Office. These concerns bore no relation to economic issues but to worries that the Japanese were trying to use the forthcoming trade negotiations as a means of increasing their diplomatic status in India. The India Office worried that the Japanese request to use the Japanese Consul-General in Calcutta, Yonezawa, as the Japanese negotiator for the trade negotiations would be

211. Cunningham's Official Diary of the Indo-Japanese trade negotiations, 10 September 1936, FO371/20287,F5687/669/23; Cunningham to the Foreign Office, 31 October 1936, FO371/20288,F7174/669/23.

212. Cunningham to the Foreign Office, 31 October 1936, FO371/20288,F7174/669/23.

213. Minute by Orde, 30 March 1937, FO371/21031,F1632/52/23.

interpreted as an unwelcome enhancement of Japanese diplomatic status in India. Sir Findlater Stewart of the India Office wrote to the Foreign Office that, "it is desirable to prevent foreign consular officers in India, and in particular the Japanese consular officers, assuming diplomatic functions".²¹⁴ However, in reply the Foreign Office told the India Office that there were no grounds for preventing a Consul-General from leading any trade negotiations. To reduce the India Office's fears, the Foreign Office suggested that the Indian government should insist that prior to the trade negotiation the Consul-General should receive some special credentials or empowerment from the Japanese government.²¹⁵

However, this did not mean that the British government was totally unmoved by the fate of Lancashire's commercial interests *vis à vis* the Indo-Japanese trade negotiations. The British government understood that with regard to Japanese competition in the Indian market the last remaining safeguard for Lancashire's exports was the continued division by piece-good category of the Japanese cotton piece-good import quota.²¹⁶ Fortunately for Britain this concern dovetailed with the Indian government's own desire to protect the Indian cotton manufacturing industry by retaining a strict division by category of the Japanese cotton piece good import quota.²¹⁷ Thus this shared concern with the Indian government for the retention of the piece-good categories removed much of the pressure from the British government for a special pleading of the case of the Lancashire cotton industry.

Negotiations between the Indian and Japanese representatives started in July 1936, and the Indian officials put forward new proposals to modify the existing Trade Convention. The aim of the Indian government was to protect the recent increase of Indian production of cotton piece-goods by reducing the Japanese cotton piece-good quota, to retain the cotton import piece-good categories as quantitative safeguards for specific sections of the Indian cotton industry, and to secure the continued Japanese purchase of Indian raw cotton.²¹⁸ Thus

214. Sir S. F. Stewart (India Office) to Vansittart, 20 April 1936, FO371/20287,F2203/669/23.

215. Orde to Sir S. F. Stewart (India Office), 6 May 1936, FO371/20287,F2203/669/23.

216. Sir S. F. Stewart (India Office) to Vansittart, 20 April 1936, FO371/20287,F2230/669/23.

217. Cunningham's Official Diary of the Indo-Japanese trade negotiations, 6 August 1936, FO371/20287,F4936/669/23.

218. *Report of the Bombay Chamber of Commerce, 1936*, pp. 91-99; The Indian Merchants' Chamber to the Government of Bombay, 22 April 1936, in *Annual Report of the Indian Merchants' Chamber, 1936*, pp. 268-271; Indian Chamber of Commerce, Calcutta, to the Government of Bengal, 27 March 1936, in *Indian Chamber of Commerce, Calcutta: Annual Report of the Committee, 1936*, pp. 143-144, and pp. 14-15.

the Indian negotiators proposed a reduction of the existing Japanese cotton piece-good quota by 100 million yards - to 225 million yards - , and a subdivision of the 34% coloured and dyed piece-good category into two new categories of a 20% printed piece-goods and a 14% dyed and coloured piece-goods. The Indians claimed that reduction of the Japanese cotton piece-good quota was based upon: the need for a 42 million yard reduction to take into account the secession of Burma from the Indian Raj on 1 April 1937; the fact that in the 1934 Trade Convention Japanese re-exports to India had been seriously underestimated; and to account for the increased Indian cotton piece-good production since 1934. The division of the coloured and dyed piece-good category reflected the Indian concern that since 1934 Japanese firms, much to the disadvantage of the Indian printing industry, had concentrated on exports of printed cotton piece-goods within this category. The creation of a separate printed piece-good import category was specifically intended to defend the Indian cotton printing industry from Japanese competition.²¹⁹

In direct contrast to the aims of the Indian government the intention of the Japanese government for the renegotiation of the Trade Convention was to defend the status quo of the cotton piece-good import quota; liberalise the subdivision of the quota; reduce the tariff on Japanese cotton piece-good imports; and retain the most favoured nation clause of the Trade Convention. Thus the Japanese rejected the Indian proposals and insisted that: even for the secession of Burma there should be no reduction in the basic cotton piece-good import quota; the maximum cotton piece-good quota should be increased from 400 million to 475 million yards; the specific duty of 5.25 *annas* per pound on Japanese grey piece-goods should be abolished and the *ad valorem* rate of duty on all Japanese piece-good imports should be reduced to 40%; and that there should be three subdivisions - plain greys and bordered greys 40%, bleached 20%, and coloured and dyed 40% - of the cotton piece-good import quota.²²⁰

To overcome the Japanese intransigence the Indian government prepared both concessions and threats for the Japanese in order to obtain a quick renegotiation of the Indo-Japanese Trade Convention. Towards the end of August 1936 the Indians revised their

219. Cunningham's Official Diary of the Indo-Japanese trade negotiations, 16, 23 July, and 6 August 1936, FO371/20287,F4500,F4617,F4936/669/23.

220. Cunningham's Official diary of the Indo-Japanese trade negotiations, 6 August 1936, FO371/F20287/F669/4936/23; *Report of the Committee of the Bengal Chamber of Commerce, 1937*, Vol. II., p. 412.

downward reduction of the Japanese cotton piece-good import quota to only 50 million yards, i.e. a basic 275 million and a maximum 325 million yards quota.²²¹ This was now based upon a 42 million yard reduction for the secession of Burma and a mere 8 million yard reduction for the 600 million yard increase in Indian cotton piece-good production since 1934.²²² However, although the Japanese agreed to accept the existing tariffs and only suggested that the Indian government should redivide the cotton piece-good import categories, they still refused to accept any reduction in their existing cotton piece-good quota.²²³ Consequently, Indian frustrations at the continued stalemate in the trade negotiations resulted in the announcement on 27 October 1936 of their intention to denounce the existing Indo-Japanese Trade Convention - which included the most favoured nation clause - as an attempt to pressure the Japanese into acceptance of their proposals.²²⁴

The Indian notification to denounce the 1934 Indo-Japanese Trade Convention, unlike the 1933 Indian denunciation of the Indo-Japanese Trade Treaty, had virtually no short term impact on Anglo-Japanese relations. Thus there was no debate in the British Cabinet over the Indian action. In the Foreign Office only Sansom expressed concern over the potential impact on Anglo-Japanese relations. Sansom feared that Japanese public opinion would see a denunciation of the Trade Convention as a threat to Japan.²²⁵ However, this proved to be incorrect, as Yonezawa told Wilfred Cunningham, the Foreign Office advisor to the Indian government for the Indo-Japanese trade negotiations, an Indian denunciation of the 1934 Trade Convention would arouse little interest in Japan.²²⁶ On the other hand the Indian notification of the denunciation of the Trade Convention did not lead to the Japanese acceptance of the Indian proposals. Prior to the Indian denunciation Cunningham had already stated that the Japanese would not be intimidated by an Indian

221. Sir S. F. Stewart (India Office) to Orde, 20 August 1936, FO371/20287,F5236/669/23; *Report of the Committee of the Bengal Chamber of Commerce, 1937*, Vol. II., pp. 412-413.

222. Cunningham's Official Diary of the Indo-Japanese trade negotiations, 3 September 1936, FO371/20287,F5542/669/23.

223. Cunningham's Official Diary of the Indo-Japanese trade negotiations, 21 September 1936, FO371/20287,F5916/669/23.

224. Cunningham's Official Diary of the Indo-Japanese trade negotiations, 3 September and 5 October 1936, FO371/20287,F5542,F6216/669/23; Cunningham to the Foreign Office, 31 October 1936, FO371/20288,F7174/669/23.

225. Cunningham's Official Diary of the Indo-Japanese trade negotiations, 10 September 1936, FO371/20287,F5687/669/23.

226. Cunningham's Official Diary of the Indo-Japanese trade negotiations, 30 October 1936, FO371/20287,F6763/669/23.

denunciation of the Trade Convention.²²⁷ This was confirmed when Yonezawa told Cunningham that the Japanese Foreign Ministry had expected an Indian denunciation of the Trade Convention.²²⁸ The Japanese government had already discounted that possibility and Japanese public opinion had little interest in the issue. Furthermore, the Indian government's notification to denounce the Trade Convention enhanced the confidence of Yonezawa, for even following the Indian notification Yonezawa told Cunningham with some pleasure that he wanted to continue the negotiations, but now on Japanese terms.²²⁹

However, while the Indo-Japanese trade negotiations remained deadlocked²³⁰ the separate Burma-Japan trade negotiations began in December 1936 for the first Burma-Japan trade treaty. The details of these negotiations were concluded by the end of December 1936 and they had an important bearing on the Indo-Japanese trade negotiations. Not only did they clear the ground for the conclusion of the new Indo-Japanese Trade Convention it also underlined the relative lack of influence of Lancashire on the trade policy of this fledgling state. The main point to note was that as expected the Burmese government agreed to a Japanese cotton piece-good quota of 42 million yards *per annum*.²³¹ The clarification of this point reduced previous Japanese objection to any reduction of India's import quota on Japanese cotton piece-goods, based on the secession of the Burmese market from India, while the size of the Burmese import quota on Japanese cotton piece-goods remained undecided. However, the Burma-Japan trade negotiations again revealed the limits of British influence on the course of imperial commercial relations. During the trade negotiations the Japanese proposed the division of the cotton piece-good import quota into only three categories, 10% grey piece-goods, 10% bleached piece-goods, and 80% coloured piece-goods.²³² The British government told the Burmese government that a large coloured

227. Cunningham's Official Diary of the Indo-Japanese trade negotiations, 5 October 1936, FO371/20287,F6219/669/23.

228. Cunningham's Official Diary of the Indo-Japanese trade negotiation, 30 October 1936, FO371/20287,F6763/669/23.

229. Cunningham's Official Diary of the Indo-Japanese trade negotiations, 30 October 1936, FO371/20287,F6763/669/23.

230. Cunningham's Official Diary of the Indo-Japanese trade negotiations, 12 November 1936, FO371/20288,F7141/669/23.

231. Cunningham's Official Diary of the Indo-Japanese trade negotiations, 8 December 1936, FO371/20288,F7763/669/23; Cunningham to the Foreign Office, 3 March 1937, FO371/21031,F1740/52/23.

232. Cunningham's Official Diary of the Indo-Japanese trade negotiations, 8 and 11 December 1936, FO371/20288,F7801,F7802/669/23.

piece-good category would adversely effect Lancashire - since it was Lancashire's only profitable trade with Burma - and could result in pressure for a revision of British tariffs from which Burmese exports benefited, i.e. the duty free entry of British Empire rice.²³³ However, it was the more forceful pressure of the Indian government that led Burma to reject Japanese demands for a large coloured piece-good category. The Indian government stated that if the Burmese did not insist on a subdivision of the Japanese coloured piece-good category it would become all the more difficult for the Indian government to insist on a similar subdivision of the coloured piece-good category in the Indo-Japanese Trade Convention.²³⁴ Stiffened by the Indian government the Burmese stood their ground, and on 3 February 1937 the Japanese acceded to the subdivision of the coloured piece-good category.²³⁵ In Burma it was presumed that the Japanese had agreed to the subdivision of the coloured piece-good category in order to resume the Indo-Japanese trade negotiations.²³⁶

With the conclusion of the Burma-Japan trade negotiations the Indo-Japanese trade negotiations resumed on 19 February 1937,²³⁷ and gradual progress was made towards the conclusion of a new Indo-Japanese Trade Convention. Both the Indians and Japanese made concessions in order to obtain a settlement. The Indian government conceded that the Japanese cotton piece-good quota should only be reduced in line with the secession of Burma, while the Japanese abandoned their objections to the subdivision of the coloured piece-good quota.²³⁸ The new Indo-Japanese Trade convention was initialled on 12 April 1937 and provided for a basic cotton piece-good quota of 283 million yards for a 1 million bale raw cotton off-take, and a maximum 358 million yard cotton piece-good quota for a 1.5 million bale raw cotton off-take: the quota was divided by piece-good category into 40% greys, 13% bordered greys, 10% bleached, 20% printed, and 17% dyed, with the provision

233. Secretary of State for India to the Chief Secretary of the Burmese government, 27 December 1936, FO371/F20288/F669/8089/23; Cunningham to the Foreign Office, 3 March 1937, FO371/21031,F1632/52/23.

234. The Indian government to the Secretary of State for India, 29 December 1936, FO371/20288,F8089/669/23; Cunningham to the Foreign Office, 3 March 1937, FO371/21031,F1740/52/23.

235. *The Manchester Chamber of Commerce, Monthly Record*, 30 April 1937, p. 180; *Report of the Committee of the Bengal Chamber of Commerce, 1937*, Vol. II., pp. 413-414.

236. Cunningham to the Foreign Office, 3 March 1937, FO371/21031,F1740/52/23.

237. Cunningham to the Foreign Office, 18 March 1937, FO371/21031,F1970/52/23.

238. Cunningham to the Foreign Office, 9 March 1937, FO371/21031,F1632/52/23; Indian government to the India Office, 22 March 1937, FO371/21031,F1871/52/23; *Report of the Committee of the Bengal Chamber of Commerce, 1937*, Vol. II., pp. 414-415.

for a 10% transfer by category for greys and a 5% transfer by category for the remaining piece-good categories.²³⁹ Indeed such was the haste of the Indian and Japanese governments to conclude the Trade Convention that both the Japanese and Indian cotton manufacturers claimed too much had been conceded to the other side during the course of the trade negotiations.²⁴⁰ However, what was more noticeable was the total lack of public comment by the Manchester Chamber of Commerce. Unlike their criticism of the 1934 Indo-Japanese Trade Convention, the Manchester Chamber of Commerce's *Monthly Record* carried no commentary, and merely confined itself to publishing the factual details of the Trade Convention.²⁴¹ Thus by 1937 the triangular trade relationship over the Indian cotton piece-good market between India, Japan and Lancashire effectively disappeared from the forefront of Anglo-Japanese relations. The success of Indian protectionism against both Lancashire and Japan ensured that neither could complain that, because of the continued large scale of exports of the other cotton industry to the Indian market, their exclusion from the Indian market was unjustified.

239. *The Manchester Chamber of Commerce, Monthly Record*, 30 April 1937, p. 181; *Report of the Committee of the Bengal Chamber of Commerce, 1937*, Vol. II., pp. 52-54.

240. Cunningham to Orde, 9 and 18 March 1937, FO371/21031,F1632,F1859/52/23; *Report of the Committee of the Bengal Chamber of Commerce, 1937*, Vol. II., pp. 409-411; *Annual Report of the Indian Merchant's Chamber, 1937*, pp. 305-308; *Journal of the Indian Merchants' Chamber*, (May 1937), pp. 147-149.

241. *The Manchester Chamber of Commerce, Monthly Record*, 30 April 1937, p. 181.

Conclusion.

Despite the intensity of the Indo-Japanese trade friction between 1933 and 1934, by 1937 Indo-Japanese trade relations did not have a substantial impact upon Anglo-Japanese foreign relations. The contrast between the publicly contentious 1933-34 negotiations of the first Indo-Japanese Trade Convention and the relatively subdued renegotiations of 1936-37 underlined the limited long-run impact of the Indo-Japanese cotton dispute upon Anglo-Japanese foreign relations. The heightened atmosphere of the 1933-34 negotiations reflected a series of contemporary fears that proved illusory to the course of long-run political and economic relations. Once the Indian cotton industrialists had established the paramountcy of their case for protectionism the retreat of Lancashire's and Japan's exports coincided with the waning in importance of the Indian cotton piece-good market in Anglo-Indian and Anglo-Japanese relations. Thus Indian tariff protection did not continue as a fundamental issue in Anglo-Japanese relations and represented little more than another source of short-term political difficulties between Britain and Japan.

For the British government the continued economic decline of Lancashire was fundamental in shaping the British government's response to Lancashire's attempt to profit from the Indo-Japanese trade dispute. Lancashire's economic decline translated into a loss of influence upon the British and Indian governments, at a time when the rise of a nationalist Indian economic lobby ensured that its views on Indian commercial policy could no longer be ignored. Neither government sought to defend Lancashire economic interests in India, but merely to ensure, through commercial 'gestures' such as the defence of Lancashire's bleached cotton piece-goods in November-December 1933, that resentment in Lancashire did not hinder Indian constitutional reform. Tariff preference in favour of Lancashire proved a hollow victory because the Indian government ensured that the rate of tariff preference was never sufficient to allow Lancashire to regain its former export volume of cotton piece-goods to the Indian market. Indeed it was only when Lancashire's imports were so marginalised that, in June 1936, the Indian government consented to the 5% *ad valorem* reduction of the British imperial tariff on cotton piece-goods, a measure which the Lancashire cotton industry had demanded before the 1934 Indo-Japanese Trade Convention. The main concern of the British and Indian governments was scarcely to protect Lancashire's trade in India at all, but to minimise the political friction in Britain of Lancashire's retreat from the Indian market, which naturally entailed the protection of some of Lancashire's

remaining commercial interests in India. However, the decision of the British and Indian governments to abandon Lancashire also had important implications for Anglo-Japanese relations. Japanese resentment over Indian tariff discrimination was substantially reduced once it was realised that tariff preference was not saving Lancashire's export trade with India. Consequently, Japanese industrialists could not accuse the British government of manipulating Indian tariff policy to defend Lancashire and exclude Japan from the Indian market.

Finally, the Indo-Japanese trade dispute had only limited foreign policy implications, since the prime concern of both the British and Japanese governments was to minimise the effect of the cotton dispute on Anglo-Japanese relations. Moreover, neither government sought to exploit the situation and use the Indo-Japanese cotton dispute as a means of improving Anglo-Japanese relations. The British government's main policy aim of managing Lancashire's economic retreat from India, resulted in its refusal, as in the case of the Lancashire-Japan cartel negotiations in London, to include foreign policy goals in Lancashire's talks with the Japanese cotton manufacturers. The British government remained cautious over the possibilities for the Lancashire-Japan cotton talks on Anglo-Japanese relations. Certainly it did not want the cotton talks to exacerbate Anglo-Japanese friction, but neither was it prepared to force an unwilling Lancashire into a settlement with its Japanese counterparts, merely for the vague possibility of improving Anglo-Japanese relations. Furthermore, these calculations by the British government were not undermined by the Japanese government, which also sought to minimise the domestic impact of the Indo-Japanese cotton dispute, and to avoid any foreign policy entanglements that could result from a politically inspired Lancashire-Japan cotton settlement.

Table 3.1: Indian imports of Lancashire and Japan's cotton piece-goods, by volume and value, 1916-1938.

Year	Total Indian imports of cotton piece-goods		Imports from Lancashire		Imports from Japan	
	Volume (millions of linear yards)	Value (millions or rupees)	Volume (millions of linear yards)	Value (millions of rupees)	Volume (millions of linear yards)	Value (millions of rupees)
1916	1,891.6	447.3	1,747.9	423.8	100.0	24.2
1917	1,532.2	487.7	1,403.9	440.8	94.4	32.5
1918	1,097.3	485.3	851.3	372.7	238.0	106.3
1919	1,063.5	512.2	962.5	457.5	75.8	36.8
1920	1,491.1	829.0	1,277.2	701.2	170.2	83.6
1921	1,080.1	429.0	947.2	371.2	90.1	36.5
1922	1,577.1	580.5	1,440.6	518.6	107.6	42.2
1923	1,466.6	561.8	1,306.1	488.7	122.6	46.1
1924	1,801.2	687.2	1,589.7	597.4	155.1	57.3
1925	1,539.9	537.9	1,274.9	440.6	216.7	68.7
1926	1,766.7	543.5	1,457.2	443.8	243.4	65.5
1927	1,936.7	541.7	1,530.0	423.2	322.8	82.3
1928	1,899.5	528.6	1,442.5	400.0	356.8	88.7
1929	1,882.4	493.3	1,235.0	332.7	561.6	126.8
1930	882.3	198.7	520.7	125.0	320.7	59.1
1931	752.2	142.9	376	99.0	339.6	54.4
1932	1,193.4	207.3	586.3	118.8	578.4	78.2
1933	760.5	130.1	414.4	85.4	340.5	42.9
1934	943.5	168.9	552.1	120.1	373.6	51.3
1935	960.4	157.4	439.0	89.7	474.7	63.1
1936	763.9	133.6	333.8	72.7	416.7	57.8
1937	590.4	116.9	266.3	63.9	305.7	46.1
1938	647.2	102.7	205.3	46.0	424.4	51.1

[Sources: *Accounts relating to the Sea-Borne Trade and Navigation of British India* (Department of Commercial Intelligence and Statistics, Calcutta; various years); *Statistical Abstract of United Kingdom* (HMSO, London; various years).]

Table 3.2 : Lancashire and Japan's percentage share of India's cotton piece-good import volume; and Lancashire and Japan's cotton piece-good exports to India as a percentage of their respective total cotton piece-good export volume, 1916-1936.

Year	Percentage share of India's total volume of cotton piece-good imports		Percentage share of exports of cotton piece-goods to India of total cotton piece-good exports	
	Lancashire	Japan	Lancashire	Japan
1916	94.2	5.3	33.3	18.7
1917	92.2	6.2	28.2	11.9
1918	77.6	21.7	23.0	23.6
1919	90.5	7.1	27.3	8.6
1920	85.6	11.4	28.8	20.6
1921	88.1	8.4	31.2	13.1
1922	91.3	6.8	33.4	13.8
1923	89.1	8.4	30.2	13.9
1924	88.7	6.8	34.7	15.4
1925	82.2	8.4	27.5	16.7
1926	82.5	8.6	37.1	17.1
1927	79.0	16.7	36.5	21.8
1928	75.9	18.8	36.3	25.1
1929	65.6	29.8	32.8	31.4
1930	59.0	26.3	20.9	20.4
1931	50.1	45.1	21.0	24.0
1932	49.1	48.5	25.5	28.5
1933	54.5	44.8	14.6	16.3
1934	58.5	39.6	26.8	14.5
1935	46.4	50.2	21.8	17.4
1936	43.7	54.5	19.7	15.3

[Sources: *Accounts relating to the Sea-Borne Trade and Navigation of British India*; *Abstract of UK Statistics* (Department of Commercial Intelligence and Statistics, Calcutta; various years); *Statistical Abstract of the United Kingdom* (HMSO, London; various years); Seki K., *The Cotton Industry of Japan* (Japan Society for the Promotion of Science, Tokyo; 1956), pp. 306-307.]

Table 3.3 : Indian raw cotton production and raw cotton exports to Lancashire and Japan, 1924-1937 (millions of bales).

Year	Indian production of raw cotton	Indian exports of raw cotton	Indian exports of raw cotton to:		Indian exports of raw cotton as a percentage of total Indian raw cotton production to:		Indian exports of raw cotton as a percentage of total Indian raw cotton exports to:	
			Lancashire	Japan	Lancashire	Japan	Lancashire	Japan
1924	5.38	3.33	0.16	1.67	2.3	31.0	4.8	50.1
1925	6.18	4.17	0.22	2.08	3.6	33.6	3.6	49.9
1926	5.35	3.19	0.09	1.84	1.7	34.4	2.8	57.7
1927	4.67	2.69	0.16	1.23	3.4	26.3	5.9	45.7
1928	5.47	3.71	0.24	1.61	4.4	29.4	6.5	43.4
1929	6.32	4.07	0.27	1.64	4.3	25.9	6.6	40.3
1930	6.19	3.93	0.28	1.78	4.5	28.7	7.1	45.3
1931	4.17	2.37	0.17	1.08	3.6	22.9	7.1	45.6
1932	4.35	2.06	0.17	1.08	3.9	24.8	8.2	52.4
1933	5.10	2.82	0.34	1.10	6.7	21.6	12.0	39.0
1934	6.04	3.49	0.35	2.05	5.8	33.9	10.0	58.7
1935	6.00	3.39	0.46	1.76	7.7	29.3	13.6	51.9
1936	6.88	4.27	0.62	2.43	9.0	35.3	14.5	56.9
1937	5.76	2.73	0.39	1.36	6.8	23.6	14.3	49.8

[Source: *Review of the Trade of India: Annual Statement of the Sea-Borne Trade of British India with the British Empire and Foreign Countries* (Department of Commercial Intelligence and Statistics, Delhi; various years).]

Table 3.4 : Percentage share of Indian milled cotton piece good consumption of Indian mill produced cotton piece-goods, and Indian imports of Lancashire and Japan's cotton piece-goods, 1916-1938.

Year	Indian consumption (i)	Indian mill production (minus Indian exports)	India mill production as a percentage of Indian consumption	Imports from Lancashire as a percentage of Indian consumption	Imports from Japan as a percentage of Indian consumption
1916	3,223.4	1,331.8	41.3	54.2	3.1
1917	2,947.8	1,424.6	48.3	47.6	3.2
1918	2,398.9	1,301.6	54.2	35.5	9.9
1919	2,506.7	1,443.2	57.6	38.4	3.0
1920	2,925.5	1,434.4	49.0	43.6	5.8
1921	2,645.5	1,570.6	59.4	35.8	3.4
1922	3,145.3	1,568.2	49.8	45.8	3.4
1923	3,001.6	1,535.0	51.1	43.5	4.1
1924	3,590.1	1,788.9	49.8	44.5	4.1
1925	3,329.6	1,789.7	53.7	38.3	6.5
1926	3,828.0	2,061.3	53.8	38.1	6.3
1927	4,124.7	2,188.0	53.0	37.1	7.8
1928	3,643.6	1,744.1	47.9	39.6	9.8
1929	4,168.0	2,285.6	54.8	29.6	13.5
1930	3,345.7	2,463.4	73.6	15.6	9.6
1931	3,637.5	2,885.3	79.3	10.3	9.3
1932	4,296.9	3,103.5	72.2	13.6	13.4
1933	3,649.0	2,888.6	79.2	11.3	9.3
1934	4,283.3	3,334.8	77.9	12.9	8.7
1935	4,445.7	3,499.7	78.7	9.4	10.7
1936	4,145.0	3,381.1	81.6	8.0	10.0
1937	4,433.8	3,843.1	86.7	6.0	6.9
1938	4,739.5	4,092.3	86.3	4.3	8.9

[Sources: Nishikawa H., *Nippon Teikoku Shugi to Mengyô* [Japanese imperialism and the cotton industry] (Minerva Shobo, Kyoto; 1987), tables V-2, V-4, and V-9, pp. 278, 283, 302-303; *Review of the Trade of India: Annual Statement of the Sea-Borne Trade of British India with the British Empire and Foreign Countries* (Department of Commercial Intelligence as Statistics, Delhi, various years).]

Note: (i) Indian consumption of cotton piece-goods is derived from, Indian mill production minus Indian exports plus total foreign imports (re-exports have not been deducted from this figure since I have no precise figure available, however, re-export volumes were small and would not substantially alter the values).

Table 3.5: Indian imports by volume and value of coloured, printed and dyed piece-goods, from Lancashire and Japan per quarter, 1927/28-1933/34.

Quarter	Volume of imports (millions of linear yards)			Value of imports (millions of rupees)		
	Total	Lancashire	Japan	Total	Lancashire	Japan
1927-28 4th	131.22	102.23	17.33	48.70	38.29	4.52
1928-29 1st	129.10	96.35	22.53	45.72	34.94	5.76
2nd	140.53	92.36	25.55	48.19	33.08	6.12
3rd	117.85	69.64	30.72	39.53	25.14	7.30
4th	119.43	77.26	30.90	40.00	26.74	7.94
1929-30 1st	126.29	74.89	41.74	40.90	26.37	10.10
2nd	123.51	73.10	36.54	39.63	25.24	8.25
3rd	102.66	59.74	28.65	31.88	19.77	6.23
4th	131.00	70.89	47.32	39.04	23.65	9.89
1930-31 1st	99.57	64.49	26.22	29.20	20.40	5.19
2nd	66.79	46.40	13.19	18.74	13.36	2.48
3rd	31.55	14.86	12.58	8.51	4.60	2.45
4th	47.83	22.00	22.18	11.86	6.41	4.20
1931-32 1st	47.65	24.50	19.60	11.41	6.52	3.44
2nd	60.92	29.01	24.84	13.63	7.33	4.20
3rd	51.11	22.81	24.03	11.64	5.78	4.55
4th	57.02	29.76	24.33	13.16	8.14	4.03
1932-33 1st	99.09	49.79	45.57	12.04	12.72	6.75
2nd	145.36	61.70	77.76	14.44	15.50	10.56
3rd	91.63	38.45	49.72	11.98	9.44	6.12
4th	88.70	44.36	41.15	18.12	11.37	5.62
1933-34 1st	70.44	36.49	32.40	13.98	9.53	4.28
2nd	48.61	38.02	10.21	9.22	7.84	1.28
3rd	49.85	31.54	17.93	10.14	7.59	2.41
4th	82.89	46.48	34.89	16.46	11.66	7.63

[Sources: *Review of the Trade of India: Annual Statement of the Sea-Borne Trade of British India with the British Empire and Foreign Countries* (Department of Commercial Intelligence and Statistics, Delhi; various years).]

Table 3.6 : Abstract of the Indian tariff schedule for cotton piece-goods, 1894-1937.

Year	British Tariff	Non-British Tariff	Excise duty on Indian mill produced cotton piece-goods
1894	5%	5%	None
1885	3.5%	3.5%	3.5%
1917	7.5%	7.5%	3.5%
March 1921	11%	11%	3.5%
December 1925	11%	11%	Suspended
March 1926	11%	11%	Abolished
April 1930	Plain Greys: the highest tariff between a 15% <i>ad valorem</i> duty and a 3.5 <i>annas per lb.</i> specific duty. Others : a 15% <i>ad valorem</i> duty	Plain Greys: the highest tariff between a 20% <i>ad valorem</i> duty and a 3.5 <i>annas per lb.</i> specific duty. Others : a 20% <i>ad valorem</i> duty	
March 1931	Plain Greys: the highest tariff between a 20% <i>ad valorem</i> duty and a 3.5 <i>annas per lb.</i> specific duty. Others : a 20% <i>ad valorem</i> duty	Plain Greys: the highest tariff between a 25% <i>ad valorem</i> duty and a 3.5 <i>annas per lb.</i> specific duty. Others : a 25% <i>ad valorem</i> duty	
October 1931	Plain Greys: the highest tariff between a 25% <i>ad valorem</i> duty and a 4.375 <i>annas per lb.</i> specific duty. Others : a 25% <i>ad valorem</i> duty	Plain Greys: the highest tariff between a 31.25% <i>ad valorem</i> duty and a 4.375 <i>annas per lb.</i> specific duty. Others : a 31.25% <i>ad valorem</i> duty	
September 1932		Plain Greys: the highest tariff between a 50% <i>ad valorem</i> duty and a 5.25 <i>annas per lb.</i> specific duty. Others : a 50% <i>ad valorem</i> duty	
July 1933		Plain Greys: the highest tariff between a 75% <i>ad valorem</i> duty and a 6.75 <i>annas per lb.</i> specific duty. Others : a 75% <i>ad valorem</i> duty	
January 1934 (Indo-Japanese Trade Convention)		Plain Greys: the highest tariff between a 50% <i>ad valorem</i> duty and a 5.25 <i>annas per lb.</i> specific duty. Others : a 50% <i>ad valorem</i> duty	
June 1936	Plain Greys: the highest tariff between a 20% <i>ad valorem</i> duty and a 3.5 <i>annas per lb.</i> specific duty. Others : a 20% <i>ad valorem</i> duty		
April 1937		Indo-Japanese Trade Convention	

[Sources: *Review of the Trade of India: Annual Statement of the Sea-Borne Trade of British India with the British Empire and Foreign Countries* (Department of Commercial Intelligence and Statistics, Delhi; various years); *The Board of Trade Journal*; Nishikawa H., *Nippon Teikoku Shugi to Mengyô* [Japanese imperialism and the cotton industry] (Minerva Shobo, Kyoto; 1987), table V-5, p. 29; Fearnley A. C., 'The Manchester Chamber of Commerce Lancashire Textiles and British Imperial Trade, 1919-1939' (Unpublished M.Litt., Oxford University; 1986), p. 185.]

Table 3.7 : Lancashire and Japan's exports of cotton piece-goods to India by category, 1916-1938 (millions of linear yards).

Year	Grey piece-goods			Bleached piece-goods			Coloured, printed, and dyed piece-goods		
	Total	Lancashire	Japan	Total	Lancashire	Japan	Total	Lancashire	Japan
1916	846.9	762.0	75.6	589.8	582.2	2.6	454.9	403.7	21.9
1917	625.5	544.9	73.3	502.3	496.2	2.6	395.6	362.9	18.7
1918	583.4	375.4	206.8	286.6	274.9	10.5	227.3	201.3	20.8
1919	533.3	464.6	62.7	322.0	311.0	2.7	208.3	187.0	10.4
1920	580.2	420.3	150.4	421.8	408.6	3.8	489.2	448.6	16.1
1921	635.6	526.5	83.5	306.2	299.3	1.9	138.3	121.6	4.9
1922	931.0	833.3	90.0	402.5	395.4	2.4	243.8	211.9	15.4
1923	703.9	599.8	96.9	415.3	402.9	2.3	347.5	303.7	23.4
1924	845.5	727.4	109.8	548.9	532.9	4.5	406.9	338.4	40.9
1925	709.1	561.4	142.6	465.1	446.3	4.7	365.8	267.4	69.5
1926	748.4	588.8	154.9	570.9	550.3	2.9	447.4	318.3	85.8
1927	875.5	651.2	214.8	556.5	526.7	5.6	504.8	352.2	102.7
1928	838.6	581.6	241.8	554.1	525.4	5.5	506.9	335.6	109.8
1929	925.6	520.5	393.7	473.6	435.9	13.9	483.5	278.6	154.3
1930	365.0	143.3	218.3	271.6	229.9	28.1	245.8	147.6	74.3
1931	249.4	59.7	185.2	279.7	207.0	59.8	223.2	110.3	94.7
1932	365.0	111.1	243.9	412.7	281.0	120.3	424.9	194.3	214.2
1933	230.2	88.2	141.6	261.6	184.1	75.2	268.7	142.4	124.0
1934	297.4	102.7	193.7	285.2	236.6	40.3	361.1	213.1	139.8
1935	331.9	85.4	246.1	263.3	198.9	58.2	351.2	154.9	191.4
1936	261.8	53.5	208.2	219.6	163.9	48.1	282.6	116.7	160.6
1937	133.1	23.9	108.9	202.2	128.7	64.9	255.5	113.9	132.2
1938	257.6	30.2	227.2	179.1	102.3	69.9	210.5	72.9	127.7

[Source: *Accounts relating to the Sea-Borne Trade and Navigation of British India* (Department of Commercial Intelligence and Statistics, Calcutta; various years).]

Table 3.8 : Estimate of the *ad valorem* tariff rate of the application of the 3.5 annas per pound specific duty on Lancashire's grey piece-good exports to India, 1929/30-1931/32.

Quarter	Volume (millions of linera yards)	Volume (millions of lbs.)	Earnings (millions of rupees)	Rupees per lb.	<i>Annas per</i> lb. (i)	Equivalent <i>ad valor-</i> <i>em</i> rate of specific duty (ii)
1929-30 4th	158.36	28.90	33.80	1.169	18.70	18.27%
1930-31 1st	85.86	15.67	17.11	1.091	17.46	20.04%
2nd	37.09	7.14	7.14	1.055	16.88	20.73%
3rd	9.64	1.87	1.87	1.062	16.99	20.60%
4th	10.89	1.97	1.97	0.989	15.82	22.12%
1931-32 1st	19.69	3.59	3.29	0.916	14.67	23.86%
2nd	12.95	2.36	2.14	0.907	14.51	24.12%

[Source: *Review of the Trade of India: Annual Statement of the Sea-Borne Trade of British India with the British Empire and Foreign Countries* (Department of Commercial Intelligence and Statistics, Delhi; various years).]

Notes :(i) This is based on dividing the export value by volume (converted in lbs.), to obtain an average import price of Lancashire's grey piece-goods.

(ii) This is the equivalent *ad valorem* rate of a 3.5 annas per lb. specific duty.

Table 3.9 : Estimate of the *ad valorem* tariff rate of the application of the 4.375 *annas* per pound specific duty on Lancashire's grey piece-good exports to India, 1931/32-1932/33.

Quarter	Volume (millions of linear yards)	Volume (millions of lbs.)	Earnings (millions of rupees)	Rupees per lb.	<i>Annas per</i> lb. (i)	Equivalent <i>ad valor-</i> <i>em</i> rate of specific duty (ii)
1931-32 3rd	11.21	2.07	1.71	0.826	13.22	33.09%
4th	15.82	2.93	2.40	0.819	13.10	33.39%
1932-33 1st	20.43	3.78	3.20	0.846	13.54	32.31%

[Source: *Review of the Trade of India: Annual Statement of the Sea-Borne Trade of British India with the British Empire and Foreign Countries* (Department of Commercial Intelligence and Statistics, Delhi; various years).]

Notes : (i) This is based on dividing the export value by volume (converted into lbs.), to obtain an average import price of Lancashire's grey piece-goods.

(ii) This is the equivalent *ad valorem* rate of a 4.375 *annas* per lb. specific duty.

Table 3.10 : Indian imports of cotton piece-goods per quarter, by volume and value, 1927/28-1933/34.

Quarter	Volume of imports (millions of linear yards)			Value of imports (millions of rupees)		
	Total	Lancashire	Japan	Total	Lancashire	Japan
1927-28 4th	446.82	379.33	64.97	135.79	108.92	19.40
1928-29 1st	452.68	377.45	56.57	127.27	104.68	14.28
2nd	468.17	368.91	88.22	135.87	102.79	21.75
3rd	438.23	361.91	96.61	121.69	88.41	23.74
4th	552.54	379.42	115.47	143.84	102.15	25.90
1929-30 1st	467.65	325.30	125.53	127.76	90.03	30.10
2nd	471.23	307.12	140.52	126.27	84.78	32.39
3rd	412.57	250.80	140.13	107.24	67.55	31.29
4th	531.11	351.83	156.62	132.12	89.69	33.08
1930-31 1st	388.73	253.49	119.19	92.50	62.75	23.60
2nd	194.44	134.31	50.05	45.05	32.03	9.22
3rd	124.36	53.31	64.51	26.24	12.47	11.45
4th	174.89	80.08	86.85	35.22	17.89	14.88
1931-32 1st	193.97	102.80	83.07	37.14	21.12	13.81
2nd	195.00	106.30	78.73	36.77	21.35	12.48
3rd	156.12	61.57	87.19	29.42	12.98	14.28
4th	200.66	102.10	88.31	38.71	22.01	13.85
1932-33 1st	282.04	146.36	128.38	52.62	30.96	19.09
2nd	369.48	174.53	185.97	64.31	35.60	25.59
3rd	267.90	114.60	147.32	43.17	22.59	18.41
4th	274.12	150.80	116.79	47.24	29.81	15.17
1933-34 1st	240.37	127.13	110.32	39.41	25.32	13.55
2nd	161.91	87.05	74.02	26.04	17.20	8.60
3rd	133.82	90.73	42.31	24.23	18.65	5.32
4th	207.77	120.26	85.55	37.92	25.81	11.69

[Source: *Review of the Trade of India: Annual Statement of the Sea-Borne Trade of British India with the British Empire and Foreign Countries* (Department of Commercial Intelligence and Statistics, Delhi; various years).]

Table 3.11 : Half-yearly changes of Lancashire and Japan's exports of cotton piece-goods to India, 1931-1933 (millions of linear yards).

Half-Year	Grey		Bleached		Coloured		Total	
	Lancashire	Japan	Lancashire	Japan	Lancashire	Japan	Lancashire	Japan
1931 1st half	30.6	107.0	105.8	21.1	46.5	41.8	128.8	169.9
1931 2nd half	24.2	84.4	91.9	32.3	51.8	48.9	167.9	165.9
Percentage change	-20.9	-21.1	-13.1	+54.3	+11.4	+16.9	-8.2	-2.4
1932 1st half	36.2	107.3	132.7	39.5	79.5	69.9	248.4	216.7
Percentage change	+50.0	+27.7	+44.4	+21.0	-53.4	+43.0	+48.8	+30.6
1932 2nd half	52.9	135.5	136.0	70.3	100.1	127.5	289.1	333.4
Percentage change	+46.1	+26.3	+2.5	+77.4	+25.9	+82.5	+16.4	+53.8
1933 1st half	66.3	102.8	130.8	50.7	80.8	73.5	277.9	227.1
Percentage change	+25.1	-24.1	-3.8	-27.8	-19.3	-43.3	-3.9	-31.9
1933 2nd half	28.2	59.9	70.0	28.3	69.6	28.1	177.8	116.3
Percentage change	-42.4	-41.7	-46.5	-44.3	-13.9	-61.7	-36.0	-48.8

[Source: *Review of the Trade of India: Annual Statement of the Sea-Borne Trade of British India with the British Empire and Foreign Countries* (Department of Commercial Intelligence and Statistics, Delhi; various years).]

Table 3.12 : Changes in the import price of Lancashire's and Japan's grey piece-good exports to India, before and after the inclusion of the minimum specific duty, 1930/31-1933/34 (rupees per lb.).

Quarter	Tariff levy				Index (1930-31 4th quarter = 100)			
	Lancashire		Japan		Lancashire		Japan	
	before	after	before	after	before	after	before	after
1930-31 4th	15.82	19.32	14.18	17.68	100.0	100.0	100.0	100.0
1931-32 1st	14.67	18.17	13.95	17.45	92.7	94.0	98.4	98.7
2nd	14.51	18.01	13.27	16.77	91.7	93.2	93.6	94.8
3rd	13.22	17.59	13.36	17.73	83.6	91.0	94.2	100.3
4th	13.10	17.47	13.39	17.77	82.2	90.4	94.4	100.5
1932-33 1st	13.54	17.91	12.93	17.30	85.6	92.7	91.2	97.8
2nd	14.05	18.42	12.04	17.29	88.8	95.3	84.9	97.8
3rd	13.36	17.73	10.79	16.04	84.4	91.8	76.1	90.7
4th	13.61	17.99	10.87	16.12	86.0	93.1	76.6	90.7
1933-34 1st	12.98	17.36	10.16	15.41	82.0	98.8	71.6	87.2

[Source: *Review of the Trade of India: Annual Statement of the Sea-Borne Trade of British India with the British Empire and Foreign Countries* (Department of Commercial Intelligence and Statistics, Delhi; various years).]

Table 3.13 : Comparison by the Board of Trade of the effect of a 10% transfer by category and a 10% transfer by the total cotton piece-good import quota, on the four categories of the Japanese cotton piece-good import quota (millions of yards).

Category	Average Indian imports of Japanese cotton piece-goods, 1928-1931	Effect of Japanese cotton piece-good import quota of 400 million yards				Effect of the 10% transfer by the total cotton piece-good import quota on India's 1928-1931 average imports of Japanese cotton piece-goods	The actual Indian imports of Japanese cotton piece-goods, 1932-33
		With a 10% transfer by category		With a 10% transfer by total cotton piece-good import quota			
		Volume	Percent	Volume	Percent		
Plain greys	210	176.8	44.2	140.0	35.0	-70	243.95
Bordered greys	49	52.0	13.0	52.0	13.0	+3	
Bleached	23	35.2	8.8	72.0	18.0	+49	120.35
Coloured	106	136.0	34.0	136.0	34.0	+30	214.22
Total	388	400.0		400.0			578.52

[Source: Memorandum of the President of the Board of Trade, 'Indo-Japanese Trade Negotiations', 27 November 1933, CAB 24 CP. 283(33).]

Chapter Four.

Royal Dutch Shell and the Petroleum and Oil Monopoly Laws.

Introduction.

Before the First World War the Anglo-Dutch concern Royal Dutch Shell established itself, through its subsidiaries Rising Sun Petroleum in Japan and Asiatic Petroleum in Manchuria, as one of the most important oil companies in East Asia. However, Japan's adoption of a more 'nationalistic' petroleum policy in 1934 brought Royal Dutch Shell into the forefront of Anglo-Japanese economic rivalry. State regulation threatened to undermine, if not annihilate, Royal Dutch Shell's established - but economically vulnerable - commercial operations and future growth in the two eastern markets. Royal Dutch Shell's opposition to Japanese and Manchukuoan interference in the oil industry was limited not merely to the defence of its commercial operations in these markets. As a multinational oil company it could not comfortably coexist with state interference in any market without the risk of copycat action in markets outside Japan and Manchukuo. Thus it had little choice but to defend its Japanese and Manchurian commercial operations from state regulation or interference. Naturally, it turned to the British government in its fight against the Japanese and Manchukuoan petroleum policies.

Given the importance of Royal Dutch Shell, the Foreign Office took serious notice of its complaint. The Foreign Office shared the company's fear that interference in the oil industry would set an example for other governments to copy. Indeed, the Foreign Office was particularly nervous of the implications of the decision of Manchukuo to introduce an oil monopoly. Not only did this legislation threaten the establishment of monopolies on other goods in Manchukuo: it seemed obvious that Japan's breach of the Open Door could easily be used by the Chinese government to establish similar monopolies against Britain's far more extensive commercial interests in China. Thus the Foreign Office gave its full support to Royal Dutch Shell's opposition to the Japanese and Manchukuoan petroleum policies. However, the Foreign Office made clear that it viewed the issue solely as a commercial dispute between the company and the Japanese and Manchukuoan governments. Consequently, while friction over the oil question might affect Anglo-Japanese friendship, it would not be allowed to impinge upon British foreign policy towards Japan.

Britain's response to Royal Dutch Shell's difficulties in Japan and Manchukuo was in fact conditioned crucially by both Anglo-Japanese and Anglo-American relations. Britain's

opposition to the Japanese and Manchukuoan petroleum policies was dependent upon assessments of Japan's response to any defence of Royal Dutch Shell's interests, and its capacity to absorb any Japanese political and or economic retaliation. But it was obvious from the start that effective British opposition to the Japanese and Manchukuoan petroleum policies was dependent upon Anglo-American cooperation. The other major foreign oil company affected by the Japanese and Manchukuoan legislation, Stanvac, was American, and American oil supplies were the critical element, if the threat of an oil embargo was to be used to put economic pressure ^{on} the Japanese and Manchukuoan governments. The relationship with Stanvac and the American government was thus critical in the defence of Royal Dutch Shell's oil interests. From the British viewpoint the management of Anglo-American relations proved as important as the management of Anglo-Japanese relations.

Japan's oil policy.

The dominant position of foreign oil companies in the Japanese oil market during the interwar period stemmed from their early involvement in the exploitation of the Japanese oil market. In 1892-93 Standard Oil of New York was the first foreign oil company to establish a sales base in Japan.¹ It was renamed Stanvac in September 1933 after a series of corporate dissolutions and mergers when Socony-Vacuum and Standard Oil Company of New Jersey each contributed on half of the capital to reconstituting Standard Oil's Japanese operations.² In 1893 Standard Oil was followed into Japan as an oil retailer by the British owned Samuel Samuel Trading Company - later to be called the Rising Sun Petroleum Corporation - which was absorbed in 1903 by Asiatic Petroleum, a subsidiary of the Anglo-Dutch Royal Dutch Shell group.³ Japanese oil companies soon emerged to compete with both Rising Sun Petroleum and Stanvac in the Japanese market.⁴ Nevertheless, aside from tariff policy,⁵ before the 1930s the Japanese government was reluctant to intervene in the oil industry either for the benefit of domestic oil companies or for national policy reasons. The only direct state involvement in the oil industry was the establishment of the Tokuyama fuel depot and refinery in 1921 for the production of fuel oil solely for the Imperial Japanese Navy.⁶ Thus prior to the Depression there is no evidence of any discrimination against foreign oil companies operating in Japan or the wilful bending of administrative measures to influence the domestic petroleum industry in the interest of national policy objectives.

During the mid-to late-1920s, as the importance of oil became increasingly apparent, the Japanese government began to take a greater interest in the development of a national oil

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1. Samuels R. J., *The Business of the Japanese State: Energy Markets in Comparative and Historical Perspective* (Cornell University Press, London; 1987), p. 169; Kikkawa T., 'Business Activities of the Standard-Vacuum Oil Co. in Japan Prior to World War II', *Japanese Yearbook on Business History* (1990), p. 32.
 2. *Oil and Petroleum Yearbook, 1937*; Anderson I. H., *The Standard Vacuum Company and United States East Asian Policy, 1931-1941* (Princeton University Press, Princeton; 1975), p. 36; Kikkawa T., pp. 33, 39.
 3. Samuels R. J., p. 169; Kikkawa T., pp. 36, 40.
 4. Samuels R. J., p. 169.
 5. In the 1890s the Japanese government increased tariffs on imported oil in an attempt to favour Japanese produced crude oil - where all the domestic oil fields were owned by Japanese concerns - over imported crude oil, Samuels R. J., pp. 169-170.
 6. The Tokuyama fuel refinery was strictly limited to the production of fuel oil for the Imperial Japanese Navy, and all commercial by-products were distributed to selected private companies for resale, Samuels R. J., pp. 170-171.

policy. Its two most pressing concerns were the role of oil as a strategic resource and the fate of domestic oil companies and oil refining capacity in the face of foreign competition. Although it was only after World War Two that oil emerged as an important industrial resource, already during the interwar period it had emerged as a vital military resource. In 1919 the Imperial Japanese Navy installed its first liquid fuel boiler. Subsequently all Japanese warships were oil fired,⁷ and in recognition of the future importance of oil in July 1925 the Imperial Japanese Navy established the *Sekiyu Chôsakai* (Oil Investigation Bureau).⁸ Furthermore, the Japanese oil industry also demanded a more active governmental role in oil policy, and in response to pressure from Japanese oilmen and Diet members in July 1926 the Ministry of Commerce and Industry established the *Nenryô Chôsa Iinkai* (Fuel Investigation Committee).⁹ The main aim of these bodies was to reduce Japan's strategic dependence upon imported oil through the discovery and development of new oil fields within the Japanese archipelago.¹⁰ However, Japan proved to be oil-barren and thus nothing could be done to overcome Japanese dependence upon overseas oil supplies. In 1924 imported crude oil surpassed domestic production,¹¹ and the situation worsened as Japanese oil production failed to keep pace with increased domestic demand. ~~Increased~~ ^{Expanded} domestic demand increased Japan's dependence upon overseas supplies.¹²

In contrast to the inability of the Japanese government to end its strategic dependence on oil imports, the promotion of import substitution offered the possibility of strengthening the Japanese oil companies and oil refining capacity. This became more urgent when the growth of oil imports and the continued success of foreign oil companies in the Japanese market threatened to undermine the Japanese oil companies, Japanese oil production and Japanese oil refining. From the mid-1920s Rising Sun Oil and Standard Oil, the two dominant foreign oil companies in Japan, fought a series of price wars,¹³ based on

7. Samuels R. J., p. 170.

8. Samuels R. J., p. 173.

9. Samuels R. J., p. 173; Inokuchi T. (or Iguchi T.), *Gendai Nippon Sangyô hattatsu-shi II, Sekiyu* [History of the development of modern Japanese industries II, Petroleum Industry] (Gendai Nippon Sangyô Hattatsushi Kenkyûkai, Tokyo; 1963), p. 55.

10. Samuels R. J., p. 173.

11. Samuels R. J., pp. 173-174.

12. Indeed as oil consumption in Japan increased so Japanese dependence upon imported oil increased, See tables 4.1, 4.2, and 4.3 for the percentages of Japanese oil imports in the 1930s.

13. See table 4.4.

cheap imported oil, which threatened to eliminate the Japanese oil production industry.¹⁴ In response, some Japanese firms such as Mitsubishi Shōji in 1924 established long-term supply contracts with overseas crude oil producers,¹⁵ while other Japanese firms dependent upon high cost domestic supplies, faced an uncertain future. Nippon Sekiyu, the leading Japanese oil company, which was heavily dependent upon domestic oil production, reduced its dividend payments from over 10% in 1925 to 5% in 1930, and under 1% in 1931.¹⁶ Furthermore, although Japanese production of refined oil products increased fourfold between 1924 and 1934, during the same period, and despite unfavourable tariffs, imports of refined petroleum products by Rising Sun Oil and Standard Oil increased fivefold.¹⁷ Japanese observers viewed this as detrimental to the development of Japanese oil refining capacity.

Towards the end of the 1920s increased market instability contributed to calls from both inside and outside the Japanese oil industry for government regulation. The increased market instability of the late 1920s and early 1930s was portrayed as the result of the dumping policies by Rising Sun Petroleum and Standard Oil, which was presented as a justification for state regulation of the domestic oil market and oil industry.¹⁸ The main reason for the collapse of oil prices was in fact the discovery of new oil fields which led to a glut of oil on the world market.¹⁹ Indeed, the major oil companies sought to protect their investments through market sharing agreements and not price wars.²⁰ Nevertheless, the inability of the oil companies to regulate a series of short-lived Japanese cartel agreements increased calls from within the domestic industry for government regulation of the oil

14. Inokuchi T., pp. 245-246; Samuels R. J., p. 174.

15. Samuels R. J., p. 174.

16. Inokuchi T., p. 245; Samuels R. J., p. 174. In contrast in 1931 Royal Dutch Shell still paid out a 6% dividend, *Oil and Petroleum Yearbook, 1937*.

17. Mitsubishi Economic Research Bureau, *Japanese Trade and Industry: Present and Future*, (Macmillan, London; 1936), pp. 211, 214; Samuels R. J., p. 174.

18. Udagawa M., 'Business Management and Foreign Affiliated Companies in Japan Before World War II', in Udagawa M. and Yuzawa T. (eds.), *Foreign Business in Japan Before World War II* (University of Tokyo Press, Tokyo; 1990), p. 23.

19. Williamson H. F., Andreno R. L., Daum A. R., and Klose G. C., *The American Petroleum Industry: The Age of Energy, 1899-1959* (Northwestern University Press, Evanston; 1963), Vol. II., pp. 524-525; Gibb G. S., and Knowlton E. H., *History of Standard Oil Company (New Jersey)*, Vol. II., *The Resurgent Years, 1911-1927* (Harper & Brothers, New York; 1956), pp. 304-305; Larson H., Knowlton E. H., and Popple C. S., *History of Standard Oil Company (New Jersey)*, Vol. III., *New Horizons, 1927-1950* (Harper & Row, New York; 1971), pp. 305-306; Anderson I. H., p. 32.

20. Anderson I. H., pp. 32-35.

industry. In August 1928 the *naigai* (joint foreign and domestic) cartel of the six foreign and Japanese oil firms collapsed after only a month. A similar arrangement in 1929, designed to give a 55.5% market share to Rising Sun Oil and Standard Oil, and a 44.5% market share to the four Japanese oil companies, also proved ineffective.²¹ One of the main reasons for the failure of the successive *naigai* cartels was the policy of the Japanese owned Ogura Oil Company to increase its market share through a ruthless price cutting policy.²² The oil companies eventually turned to the Japanese government to regulate their cartel arrangements, and in August 1932 a new *naigai* supervised by the Ministry of Commerce and Industry under the *Jûyô Sangyô Tôseiho* (Important Industries Control Law), was established which quickly increased petrol prices by some 30%.²³ Nevertheless, this government endorsed price/volume cartel soon collapsed. On 25 September 1932 some 800 vehicles had surrounded the Ministry of Commerce and Industry and complained of the rise in the gasoline price. Protests continued into November, until the Ministry of Commerce and Industry intervened and 'secured' a reduction in the gasoline price.²⁴ The cartel faced an even more serious challenge when in August 1932 Matsukata Kôjirô, son of the *genrô* (elder statesman) Matsukata Masayoshi, negotiated a deal in Moscow to import into Japan 35,000 tons per year of Soviet gasoline, which amounted to nearly 10% of Japanese petroleum imports and almost 6% of Japanese petroleum sales.²⁵ On his return to Japan Matsukata purchased the necessary transport and storage facilities, began shipments to Japan in 1933, and undercut the *naigai* oil cartel prices by some 40%.²⁶ Oil prices in Japan fell further as the *naigai* oil cartel slashed prices to meet this new source of competition. Attempts to restore

21. Samuels R. J., p. 174.

22. Between 1927 and 1932 Ogura increased its annual sales of gasoline from 13,200 tons to 81,000 tons, Department of Overseas Trade, *Economic Conditions in Japan, 1932* (HMSO, London; 1933), p. 66.

23. Nakamura T., and Miyazaki I., 'Nippon no Energi Mondai' [Japan's Energy Problems], in Arisawa H. (ed.), *Gendai Nippon Sangyô Kôza* [Studies on Modern Japanese Industry], Vol. III., (Iwanami Shoten, Tokyo; 1961), p. 21; Inokuchi T., p. 246; Allen G. C., 'Japanese Industry: Its organisation and Development to 1937', in Schumpeter E. B. (ed.), *The Industrialization of Japan and Manchukuo, 1930-1940: Population, Raw Materials and Industry* (Macmillan, New York; 1940), pp. 774-775; Allen G. C., *Japanese Industry: Its Recent Development and Present Condition* (Institute of Pacific Relations, New York; 1940), p. 17; Samuels R. J., p. 174; See tables, 4.4, and 4.5.

24. Inokuchi T., p. 247; Samuels R. J., p. 174. At the same time the Taxi Drivers Guild of Tokyo instituted a boycott of Rising Sun Petroleum's products, since it was perceived as the instigator of the recent price increase, Department of Overseas Trade, *Economic Conditions in Japan, 1932*, p. 66. However, the action of the Taxi Drivers Guild in insisting Rising Sun Petroleum was responsible for the recent price rise contradicts the view that it was the foreign oil companies who because of aggressive price cutting had destabilised the Japanese oil market.

25. Inokuchi T., p. 247.

26. Nakamura T. and Miyazaki I., p. 21; Inokuchi T., p. 247.

price stability again failed, as Matsukata ignored the cartel's peace plan.²⁷ Thus it was world oversupply together with the policies of the Ogura Oil company and Matsukata's 'red oil', not the actions of the foreign oil companies, that were responsible for the destabilisation of the Japanese oil market in the early 1930s. Moreover, it was the Japanese oil refiners that suffered most from the price war with Matsukata.²⁸

Faced by the increased instability of the oil market and difficulties of the Japanese oil refiners, in 1933 the government began seriously to consider regulation of the oil industry in Japan. Political motives as well as economic motives prompted its involvement. The introduction of state regulation presented an opportunity to promote the interests of domestic oil refiners over those of the foreign importers of refined petroleum products.²⁹ In 1933 the Imperial Japanese Navy established the inter-ministerial *Sekiyu Kokusaku Shingikai* (National Oil Policy Council) with the express aims of examining the disorder in the oil market, rising demand, and foreign domination of petroleum resources.³⁰ This council, affiliated to the Imperial Japanese Navy influenced Mining Bureau of the Ministry of Commerce and Industry, developed two alternative programmes, announced in May 1933, for the Japanese oil industry.³¹ The first proposal the *Sekiyu Kokka Kanri An* (Nationalisation of the Petroleum Industry Plan) called for the nationalisation of the Japanese oil industry. A state monopoly of crude oil production, oil refining, trade, sales and other commercial activities would be delegated to a half-public half-private oil corporation, in which all profits after the payment of dividends and operating costs were paid into the state treasury for the development of domestic resources and synthetic fuels. Further, all foreign oil holdings in Japan would be appropriated as part of the state's capital contribution to the new oil corporation.³² The second proposal was the *Kyokashugi Tôsei An* (Licensing Control Plan), which eschewed nationalisation and had more limited aims. It was modelled on the 1928 French Petroleum Industry Law which required a legal oil stockpile and gave

27. The main proponents of the peace plan were the four Japanese oil companies. Rising Sun Petroleum and Stanvac remained opposed to including Matsukata in the *naigai* cartel arrangements, and it was not until July 1934 that the price war was ended when Matsukata joined a new *naigai* cartel, Inokuchi, pp. 247-248; Samuels R. J., p. 175.

28. Inokuchi T., p. 248.

29. Inokuchi T., p. 250.

30. Samuels R. J., p. 176; Anderson I. H., p. 75.

31. Inokuchi T., p. 251; Samuels R. J., p. 177.

32. Inokuchi, p. 251; Samuels R. J., p. 177.

priority to domestic refiners over importers of refined petroleum products.³³ Thus the Licensing Control Plan would give the Ministry of Commerce and Industry the right to licence and fix levels of crude oil imports, refining capacity, oil stockpiles and other commercial activities. In addition, funds would be given to the Ministry of Commerce and Industry for the development of overseas oilfields outside of Anglo-American zones of influence.³⁴ Throughout the summer of 1933 the two plans were debated by the Japanese government and the oil industry and strong opposition to the nationalisation of the oil industry rapidly emerged. The Japanese Ministry of Foreign Affairs opposed nationalisation because it feared that the appropriation of the foreign oil companies assets would lead to reprisals. The Ministry of Foreign Affairs was supported by elements within the Ministry of Commerce and Industry and the army who feared that, since Japan was unprepared for war, it could not face such retaliation if it took the form of an oil embargo.³⁵ The Japanese oil industry also put up strong opposition to the nationalisation of the oil industry.³⁶ Given this widespread hostility, the Japanese government rejected nationalisation, and on 27 March 1934³⁷ it introduced a new Petroleum Law largely based on the Licensing Control Plan.

The 1934 Petroleum Law introduced extensive state control of the oil industry in Japan and was immediately recognised as a serious threat to Rising Sun Oil's operations in Japan. The Law demanded that oil refiners and importers must obtain Japanese government sanction prior to changing any operation, and keep an oil stock determined by the Japanese government. Oil companies could not refuse requests to sell oil to the Japanese government. The Japanese government reserved the right in the public interest to change the oil companies' selling price. The Law also contained the provision that failure to comply with the legislation would result in the revocation of the relevant oil company's trading license.³⁸

33. Grayson L. E., *National Oil Companies* (John Wiley and Sons, Chichester; 1981), p. 24; Samuels R. J., chapter 2, and p. 177.

34. Samuels R. J., p. 177.

35. Inokuchi T., p. 252.

36. Samuels R. J., p. 177.

37. Kikkawa T., '1934nen no Sekiyu Gyôhō to Gaikokusekiyukaisha to no Kôshō' [The diplomacy of the 1934 Petroleum Industry Law and the Foreign Oil Companies], in Ôyûka I. (ed.), *Senkanki Nippon no Taigai Keizai Kankei* [Japan's Foreign Economic Relations in the Interwar Period] (Nippon Keizai Hyôronsha, 1990), p. 174; Mitsubishi Economic Research Bureau, p. 216; Allen G. C., 'Japanese Industry: Its organisation and Development to 1937', pp. 774-775; Allen G. C., *Japanese Industry: Its Recent Development and Present Condition*, pp. 16-23; Anderson I. H., pp. 75-76; Clive (Tokyo) to the Foreign Office, 25 April 1934, FO371/18189,F3153/1659/23.

38. Udagawa M., p. 23; Kikkawa T., '1934nen no Sekiyu Gyôhō to Gaikokusekiyukaisha to no Kôshō', p. 174; Clive (Tokyo) to the Foreign Office, 25 April 1934, FO371/18189,F3152/1659/23.

Sir Robert Clive, the British Ambassador in Tokyo, reported that although the provisions of the Petroleum Law were not discriminatory its publication had caused Rising Sun Oil and Stanvac great anxiety.³⁹ The prospects for Royal Dutch Shell's operations in East Asia worsened when the Manchukuo government decided to nationalise its domestic oil industry through an Oil Monopoly Law that bore a striking resemblance to the Nationalisation of the Petroleum Industry Plan proposal of the National Oil Policy Council. The Manchukuo government, dominated by Japanese military idealists, perceived state planned and operated industrial developments as the cornerstone of Manchukuo's economic development.⁴⁰ Thus a nationalised oil industry complemented the government's plans for the development of the whole economy. In a series of promulgations in 1934 the Oil Monopoly Law called for the establishment of a nationalised oil industry. A government controlled Manchukuo Petroleum Company would control all oil production, refining and distribution in Manchukuo. Aside from the threat to British commercial interests the Oil Monopoly Law was also a direct breach of the established 'Open Door' policy, and other international treaties that prohibited the establishment of monopolies in China.⁴¹ Thus the establishment of the oil monopoly in Manchukuo constituted a massive challenge to western interests in East Asia.

39. Clive (Tokyo) to the Foreign Office, 25 April 1934, FO371/18189,F3152/1659/23; Anderson I. H., p. 76.

40. Nakagame K., 'Manchukuo and Economic Development', in Duus P., Myers R. H., and Peattie M. R. (eds.), *The Japanese Informal Empire in China, 1895-1937* (Princeton University Press, New Jersey, 1989), pp. 133-143.

41. The 'Open Door' policy for China was first proposed in 1899 by John Hay, the American Secretary of State, and was formally recognised by all the major powers, including Japan, in the Nine Power Treaty in 1922. The aim of the 'Open Door' was to ensure equality of commercial opportunity throughout China for all business interests, and thus reduce the economic basis for military and political competition amongst the major powers in China, and so facilitate the economic development of China. Moreover, although the Japanese had established Manchukuo in March 1932 as an independent state, the Japanese and Manchukuo authorities agreed to abide by the Open Door principle, which had formally applied to Manchukuo - then Manchuria - when it was still part of China. The British complained that the establishment of a monopoly in Manchuria violated Article V of the 1842 Sino-British Treaty, Article XV of the 1844 Sino-American Treaty, Article XIV of the 1858 Sino-French Treaty, and Article III of the 1922 Nine Power Treaty, Foreign Office memorandum, 'The Japanese Petroleum Law and the Threatened Oil Monopoly in Manchuria', 30 October 1934, FO371/18190,F6426/1659/23. For British complaints that the oil monopoly breached Japanese and Manchukuoan pledges to uphold the Open Door in Manchukuo, see interview between Clive and Hirota, the Japanese Minister of Foreign Affairs, in Clive (Tokyo) to the Foreign Office, 24 November 1934, FO371/18191,F6971/1659/23.

The challenge to Royal Dutch Shell and Stanvac operations in Japan and Manchuria.

State intervention in the Japanese and Manchukuoan oil markets posed a severe threat to the operations of both Royal Dutch Shell and Stanvac throughout East Asia. Until 1933, the growing Japanese petroleum market had been dominated by Rising Sun Petroleum and Stanvac: in 1933 the two companies supplied over 50% of the huge gasoline market, and accounted for 56.4% of all refined petroleum product sales by volume in Japan.⁴² The Japanese and Manchukuoan oil markets represented a huge proportion of Royal Dutch Shell and Stanvac's East Asian investment and distribution operations. Even in 1937, after 3 years of state regulation, Stanvac's sales in Japan, Formosa, Korea, and Manchukuo, still represented 43.4% of Stanvac's total sales in East and Southeast Asia.⁴³ To support their large scale distribution networks the two companies had invested heavily in Japan. In 1941 Stanvac's direct investment in Japan and Korea was estimated at \$7,748,000, which represented its second largest direct investment - outside of oil production - in East Asia.⁴⁴ From a commercial standpoint Japan's Petroleum Law presented a far more serious threat to both companies' oil operations than the nationalisation of the Manchukuoan oil industry. Royal Dutch Shell sold over 23 times as much gasoline in Japan as in Manchuria, while Stanvac sold 15 times as much.⁴⁵ Moreover, since Royal Dutch Shell supplied more oil and petroleum products to the Japanese and Manchukuoan markets than Stanvac,⁴⁶ state regulation posed the greater threat to the Anglo-Dutch oil concern. Precisely because both Royal Dutch Shell and Stanvac operations were so heavily committed in these eastern markets, it meant that neither company could easily contemplate 'discriminatory' Japanese

42. Royal Dutch Shell (London) to Rising Sun Petroleum (Yokohama), 29 January 1937, FO371/21032,F710/66/23; Udagawa M., p. 23; Samuels R. J., p. 174; See table 4.2.

43. For the other markets the figures were China 22.6%, the Philippines 14.4%, Malaya 8.2%, the Dutch East Indies 7.7%, Indo-China 2.3%, Thailand 0.9%, and Burma 0.5%, Anderson I. H., p. 3, and table B-3, p. 220.

44. Stanvac's investment of \$8,943,000 in China and Manchuria was larger than its investment in Japan and Korea. Furthermore, Stanvac's direct investment of \$256,950,000 in the Dutch East Indies was considerably larger than its investments in either China and Manchuria or Japan and Korea. However, this total included major investments in oil drilling etc., and some \$150,850,000 worth of oil reserves, Anderson I. H., p. 202; Kikkawa T., 'Business Activities of the Standard-Vacuum Oil Co. in Japan Prior to World War II', table 3, p. 51. See also Kikkawa T., 'Business Activities of the Standard-Vacuum Oil Co. in Japan Prior to World War II', table 1, pp. 44-45 for figures for 1929.

45. See table 4.6.

46. See table 4.6; Rising Sun Petroleum emerged as the most important foreign company in the Japanese market after 1910 because of its lead in the sale of gasoline in the booming Japanese market, Kikkawa T., 'Business Activities of the Standard-Vacuum Oil Co. in Japan Prior to World War II', pp. 42-47; Anderson I. H., p. 4.

and Manchukuoan regulation of the industry.

As it happened, the commercial style of both Royal Dutch Shell and Stanvac's operations in Japan and Manchuria made them vulnerable to government sponsored import substitution. This vulnerability derived from their similar historical development in Japan and Manchuria, which favoured the importation of refined oil products rather than the development of on-site refining capacity in either market. After a brief foray into producing oil in Japan by Standard Oil,⁴⁷ both Rising Sun Petroleum and Standard Oil had since the beginning of the century dominated the Japanese market by retailing imported oil and refined products. Even after the emergence of Japanese rivals, Nippon Sekiyu and Hôden Sekiyu, the two western firms still controlled some 65% of the Japanese oil market.⁴⁸ Their domination was due to a combination of factors: the superiority of their refining plant outside Japan which enabled them to deliver competitive and superior refined products in the Japanese market over their Japanese competitors;⁴⁹ and an extensive distribution network which had been established in Japan prior to the First World War.⁵⁰ Thus in one critical respect in the interwar period western firms differed from their Japanese competitors: neither company operated any refining capacity in Japan,⁵¹ whereas in contrast by 1932 Nippon Sekiyu operated in Japan six oil refineries, with an approximate refining capacity of 53,200 tons per month.⁵² Consequently, both western firms were vulnerable to government promoted import substitution of refined petroleum products.

The weakness of Royal Dutch Shell and Stanvac's operations in Japan and Manchukuo to import substitution was compounded by the fact that during the interwar period, despite the global growth of oil consumption, the discovery of new oil fields had resulted in a global oversupply.⁵³ Thus the two western firms could not dictate oil policy to

47. Samuels R. J., pp. 169-170; Kikkawa T., 'Business Activities of the Standard-Vacuum Oil Co. in Japan Prior to World War II', pp. 33, 36-39.

48. Udagawa M., p. 5.

49. Kikkawa T., 'Business Activities of the Standard-Vacuum Oil Co. in Japan Prior to World War II', p. 36.

50. Kikkawa T., 'Business Activities of the Standard-Vacuum Oil Co. in Japan Prior to World War II', pp. 37-38, 40.

51. Between 1909 and 1915 Rising Sun Petroleum had operated a refining plant at Satozaki in Fukuoka Prefecture, Kikkawa T., 'Business Activities of the Standard-Vacuum Oil Co. in Japan Prior to World War II', pp. 40-41; Inokuchi T., pp. 137, 141.

52. Report by Sansom, 'The Oil Industry in Japan', 8 March 1933, FO371/17167,F2313/2313/23.

53. It was this same oil glut that had led to petroleum's price collapse in the late 1920s.

the Japanese and Manchukuoan authorities, since alternative sources of supply were readily available. International cartel arrangements between oil producers were equally limited. The major oil companies responded to the world glut by instigating a series of marketing arrangements and dividing up the newly discovered Middle Eastern oil fields.⁵⁴ However, this international oil production cartel did not include the major independent American oil companies - Tide Water Associated Oil, Standard Oil of California, Union Oil, The Texas Company, Richfield, and General Petroleum - who had the capacity to supply Japan and Manchukuo with crude oil, and yet had no vulnerable distribution networks in either Japanese or Manchukuoan markets.⁵⁵ In 1929 Tide Water Associated entered into a contract with Mitsubishi to establish a jointly funded joint subsidiary in Japan, to import and refine in Japan crude oil supplied by the American firm. The details of the joint venture were concluded in 1931; the two parties agreed to establish the Mitsubishi Oil Company and open a new oil refinery at Ogimachi in Kawasaki Prefecture, with a capacity of refining 5,000 barrels of imported crude oil per day.⁵⁶ Lacking either a monopoly in oil supply to Japan and Manchukuo, or a watertight international oil cartel, Royal Dutch Shell and Stanvac could rely neither upon their own nor the international cartel's control of Japan's oil supplies to pressure the Japanese government into adopting more acceptable oil policies. This meant that their operations in Japan and Manchukuo were vulnerable to state intervention and import substitution of refined petroleum products.

The failure of the two oil companies to build oil refineries in Japan, which would have made them less vulnerable to government sponsored import substitution, resulted mainly from their poor understanding of the trends in Japanese oil policy, according to one contemporary Japanese authority.⁵⁷ Since the mid-1920s it was a clear aim of the Japanese

54. Gibb G. S., and Knowlton E. H., pp. 306-308; Anderson I. H., pp. 32-35.

55. For example in 1939 these 6 oil companies supplied 73.9% of Japan's imports of crude oil, and yet only 23.9% of Japan's imports of gasoline, Anderson I. H., p. 82, and table B-6, pp. 226-227.

56. Kikkawa T., 'Business Activities of the Standard Vacuum Oil Co. in Japan Prior to World War II', p. 52; *Oil and Petroleum Yearbook, 1937*; Department of Overseas Trade, *Economic Conditions in Japan, 1932*, pp. 65-66.

57. In a similar fashion the oil companies had received reports in the summer of 1933 that under pressure from the Japanese army the Manchukuo government intended to establish a monopoly over the production, refining and distribution of petroleum. In the case of American oil interests both Stanvac and the State Department concluded that, until the monopoly was established, any action on Stanvac's behalf would be premature, Anderson I. H., p. 50. Furthermore, given the relatively short space of time between the circulation of the rumours and the promulgation of the Oil Monopoly Law it is difficult to see what the oil companies could have achieved by way of defensive measures or compromise to circumvent some of the effects of the Oil Monopoly Law.

oil tariff to favour imported crude over imported refined petroleum products, a clear indication of the Japanese government's desire to increase domestic refining capacity.⁵⁸ Rising Sun Petroleum and Stanvac failed to respond to this explicit trend of the Japanese oil tariff policy prior to the introduction of the Petroleum Law. This was the source of their difficulties according to Kurusu Saburô, the Chief of the Commercial Affairs Bureau of the Japanese Ministry of Foreign Affairs, in 1935, who was then in the process of negotiating the implementation of the Petroleum Law with Rising Sun Petroleum and Stanvac, and who criticised both oil companies for being poorly informed about the Japanese oil market.⁵⁹ Indeed Kikkawa Takeo argues that both Rising Sun Petroleum's and Stanvac's desire to refine oil outside Japan, and lack of knowledge of Japanese tariffs, predisposed both companies not to establish refining capacity in Japan.⁶⁰ The Japanese government did not discriminate against the Japan based refining operations of the US-Japan owned Mitsubishi Oil Company but did discriminate against the Japanese owned Matsukata oil company.⁶¹ On the face of it, therefore, the problems of Rising Sun Petroleum and Stanvac in the Japanese market stemmed from their own refusal to establish refining plants in Japan.⁶² However, this argument ignores the fact that before the announcement of the Petroleum Law, and even before the establishment of the National Oil Policy Council, both Rising Sun Petroleum and Stanvac considered establishing refining plants in Japan. This had occurred after the devaluation of the yen in December 1931 and the revision of the oil tariff in 1932, both of which favoured the import of crude oil, and gave oil refined in Japan a decisive price advantage over imported refined petroleum products.⁶³ Moreover, it is difficult to believe that they did not share the conclusion drawn by the Department of Overseas Trade's *Economic Conditions in Japan, 1932*, written by George Sansom, the British Commercial

58. Kikkawa T., 'Business Activities of the Standard-Vacuum Oil Co. in Japan Prior to World War II', p. 52. Prior to the Second World War it was a common Japanese practice to use tariff policy and administrative measures to favour the development of domestic industries, and besides Royal Dutch Shell other British industries had suffered from this policy. For example the Japanese government introduced subsidies to domestic soda ash producers to enable them to compete with British imports, Nicholas S., 'British Business Interests in Japan Before 1941: Origins, Evolution, and Operations', in Yuzawa T. and Udagawa M. (eds.), *Foreign Business in Japan Before World War II* (University of Tokyo Press, Tokyo; 1990), pp. 72-74.

59. Kikkawa T., 'Business Activities of the Standard-Vacuum Oil Co. in Japan Prior to World War II', p. 39.

60. Kikkawa T., 'Business Activities of the Standard-Vacuum Oil Co. in Japan Prior to World War II', pp. 52-53.

61. See table 4.7

62. Kikkawa T., 'Business Activities of the Standard-Vacuum Oil Co. in Japan Prior to World War II', p. 53.

63. Kikkawa T., 'Business Activities of the Standard-Vacuum Oil Co. in Japan Prior to World War II', p. 53.

Counsellor in Tokyo and prepared with the assistance of Rising Sun Petroleum,⁶⁴ that the 1932 petroleum tariff adjustment was part of a Japanese government plan to favour domestic refiners over importers of refined products, ~~and that Japanese petroleum policy~~. As the report stated, it "provides a clear illustration of the national policy of encouraging domestic industries and diminishing the dependence of Japan upon imported products other than indispensable raw materials".⁶⁵ Thus in November 1932, both oil companies wrote to Nakajima Kumakichi, the Minister of Commerce and Industry, to state their willingness to build oil refineries in Japan.⁶⁶ Nothing came of this proposal prior to what the companies regarded as the to the 'destabilisation' of oil policy through the publication of the National Oil Policy Council recommendations in May 1933, and the subsequent announcements in 1934 of the Petroleum and Oil Monopoly Laws. Consequently, the failure of the two western companies to establish oil refining capacity in Japan was not the result of ignorance of Japanese oil policy, but stemmed from a recognition that increased state intervention would make such investment disproportionate to the risks involved.

64. Report by Sansom, 'The Oil Industry in Japan', 8 March 1933, FO371/17167,F2313/2313/23.

65. Department of Overseas Trade, *Economic Conditions in Japan, 1932*, p. 65.

66. Kikkawa T., 'Business Activities of the Standard-Vacuum Oil Co. in Japan Prior to World War II', footnote 56, p. 53.

The British response to the 1934 Petroleum Law and Oil Monopoly Law.

While the Japanese Petroleum Law of March 1934 introduced an element of uncertainty into Royal Dutch Shell's operations in East Asia, it was not until the publication of the 27 June Ordinance of the Ministry of Commerce and Industry that the full severity of the Law became apparent.⁶⁷ Aside from questions of principle, the requirements of the 27 June ordinance threw into question the commercial viability of Rising Sun Petroleum's operations in the Japanese petroleum market. The Anglo-Dutch subsidiary's particular objection was to the six month stock holding requirement of the 27 June ordinance, a clear attempt by the Japanese government to reduce its short-term strategic dependence on oil imports by forcing the oil companies to hold a six month oil reserve. Previously the company had maintained only two months of stocks in Japan.⁶⁸ It estimated that it would need an additional 8 million yen (£480,000)⁶⁹ of tankerage to fulfil the measure, of which 4.5 million yen (£270,000) of tankerage would have to be installed by March 1935 to meet the three month interim stockholding requirement. However, this was not the end of the cost of the six month stockholding requirement, since the company estimated that it would require a massive 20 million yen (£1,200,000) increase of oil stocks, from the current 9 million yen level, to fulfil the six month stockholding.⁷⁰ Thus to continue its operations in Japan it appeared in July 1934 that Royal Dutch Shell would have to invest at least 28 million yen (£1,680,000) - and in the long-run would have to invest some £2,500,000 in oil refining equipment in Japan⁷¹ - in a Japanese market that might well be subject to even stricter government control in the future.⁷² Therefore even if the company did establish a six month stockholding capacity in Japan, the viability of such an investment remained uncertain since quota and price controls

67. An Imperial Ordinance on 26 June authorised the Ministry of Commerce and Industry to execute the Petroleum Law, Clive (Tokyo) to the Foreign Office, 22 September 1934, FO371/18189,F6362/1659/23; Anderson I. H., pp. 76-77.

68. Clive (Tokyo) to the Foreign Office, 26 September 1934, FO371/18189,F5793/1659/23; Anderson I. H., p. 95.

69. Converted in 1934 rates, ¥1 to 1s. 2 7/16d., *Japan Financial and Economic Annual*.

70. Starling (Petroleum Department) to the Foreign Office, 20 July 1934, FO371/18189,F4477/1659/23.

71. Starling (Petroleum Department) to the Foreign Office, 20 July 1934, FO371/18189,F4477/1659/23. In June 1933 Asiatic Petroleum was capitalised at £19 million, while in 1937 Rising Sun Petroleum was only capitalised at 20 million yen, *Oil and Petroleum Yearbook, 1937*; Department of Overseas Trade, *Economic Conditions in Japan, 1933-1934* (HMSO, London; 1935), p. 82.

72. Starling (Petroleum Department) to the Foreign Office, 20 July 1934, FO371/18189,F4477/1659/23 An intervention by Clive secured for the oil companies greater time to submit their operational plans, Clive (Tokyo) to the Foreign Office, 26 July 1934, FO71/18189,F4575/1659/23; Foreign Office Memorandum, 8 August 1934, FO371/18189,F4994/1659/23; Anderson I. H., p. 79.

authorised by the Petroleum Law might wipe out the necessary rate of return on the investment. There appeared little prospect of Japanese opposition to the Petroleum Law. The Minister of Commerce and Industry, Nakajima Kumakichi, had told the Diet in March 1934 that the desire to increase oil storage should not be at the expense of the oil companies.⁷³ However, by the time the Far Eastern Department of the Foreign Office heard of this statement in September 1934, so little had been achieved by domestic opposition to the Petroleum Law, that the Foreign Office quickly discounted the potential of this opposition.⁷⁴

Faced with the prospect of state regulation of the Japanese oil market, the parent company, Royal Dutch Shell immediately turned to the British government for support, and in both Tokyo and London company officials found a sympathetic response from officials at the Foreign Office, Department of Overseas Trade, and Petroleum Department. However, although the company officials wanted general diplomatic backing they did not as yet seek specific support from the British government to confront the Japanese government or coordinate policy with the American government. At this stage their aim was to seek the modification and/or amelioration of the Petroleum Law through cooperation and compromise with the Japanese government. Sir Andrew Agnew, a Director of Asiatic Petroleum - Rising Sun Petroleum's parent company - told F. C. Starling, the Director of the Petroleum Department, of the limited aims of Rising Sun Petroleum, which would ensure their continued operation in the Japanese market even if the Petroleum Law was either fully or only partially fulfilled. Thus Rising Sun Petroleum sought Foreign Office support for its request from the Japanese government for guarantees that any investment undertaken by the firm would not be jeopardised by any future actions of the Japanese government, and that the firm would receive no less favourable treatment than any of the Japanese oil companies.⁷⁵ However, Agnew was certain that the Petroleum Law would not be revoked and that the long-term intention of the Japanese government was to bend Rising Sun Petroleum and Stanvac to the needs of their petroleum policy.⁷⁶

Officials at both the Petroleum Department and the Foreign Office sympathised with the plight of Rising Sun Petroleum. Indeed, they showed a more immediate alarm than the

73. Captain King (Admiralty) to the Foreign Office, 19 September 1934, FO371/18189,F5690/1659/23.

74. Minute by Randall, 22 September 1934, FO371/18189,F5690/1659/23.

75. Starling (Petroleum Department) to the Foreign Office, 20 July 1934, FO371/18189,F4477/1659/23.

76. Starling (Petroleum Department) to the Foreign Office, 20 July 1934, FO371/18189,F4477/1659/23.

company officials that the long-term effect of the Japanese petroleum policy could be a disaster for the company. After his talk with Agnew, Starling warned the Foreign Office that the effect of the Petroleum Law could be to force the company's complete withdrawal from the Japanese petroleum products market. The Petroleum Law raised serious grounds for concern, and although not discriminatory by nature the powers were so wide ranging that it was impossible to say that discrimination against Rising Sun Petroleum might not occur in the future. Starling concluded that "in substance, if not in name, it almost amounts to the setting up by the Japanese Government of a Government monopoly in petroleum".⁷⁷ The Foreign Office agreed with Starling's appraisal of the petroleum situation in Japan, and not only accepted the need for British diplomatic support of Rising Sun Petroleum, but expressed concern lest the company's representative in Yokohama was too quick to compromise with the Japanese government's demands.⁷⁸ Thus Royal Dutch Shell, the Petroleum Department of the Board of Trade, and the Foreign Office all agreed on the iniquity of the Petroleum Law and the need for British diplomatic support for Rising Sun Petroleum. However, since the Japanese government had neither undertaken any discriminatory action against Rising Sun Petroleum nor broken any international treaty, there appeared no case for aggressive British diplomatic representations. Thus the initial Foreign Office protests to the Japanese Ministry of Foreign Affairs amounted to requests that the Japanese government meet with Rising Sun Petroleum to discuss the situation arising out of the Petroleum Law.⁷⁹

The need for greater British diplomatic support on behalf of British oil interests became clearer over the summer of 1934. The Japanese refusal to compromise with Rising Sun Petroleum and the growing body of evidence that the Manchukuo government would institute an oil monopoly, convinced Royal Dutch Shell and the Foreign Office of the need for a more forceful defence of British oil interests from Japanese and Manchukuoan encroachments. In August 1934 Japan published the first gasoline sales quotas for the second half of 1934 as authorised by the Petroleum Law, which cast considerable doubt on the long-term future of Rising Sun Petroleum and Stanvac in the Japanese oil market. This

77. Starling (Petroleum Department) to the Foreign Office, 20 July 1934, FO371/18189,F4477/1659/23.

78. Clive (Tokyo) to the Foreign Office, 26 July 1934, FO371/18189,F4575/1659/23; Minute by Orde, 10 August 1934, FO371/18189,F4994/1659/23.

79. Starling (Petroleum Department) to the Foreign Office, 20 July 1934, FO371/18189,F4477/1659/23; Foreign Office to Clive (Tokyo), 23 July 1934, FO371/18189,F4477/1659/23; Clive (Tokyo) to the Foreign Office, 26 July 1934, FO371/18189,F4575/1659/23.

belated publication of the first gasoline sales quota disclosed that the two foreign oil companies, while retaining their volume of gasoline sales, faced a considerable reduction in their established market share. In contrast, all the Japanese oil companies - save Matsukata - received an increase in their current market shares. The Japanese government allocated Rising Sun Petroleum a 27.65% and Stanvac a 17.81% share of the gasoline market. For Rising Sun Petroleum this represented a 6.17% and for Stanvac a 7.14% cut of their respective market share of the Japanese gasoline market over the preceding three months.⁸⁰ However, the Japanese government rejected British and American protests that the gasoline sales quota discriminated against Rising Sun Petroleum and Stanvac, and claimed that it in fact represented a legitimate and nondiscriminatory aspect of industrial policy. The Japanese Ministry of Foreign Affairs' reply to Clive's 31 July protest over the gasoline sales quota stated that,

it is Japan's desire in general to refine imported raw material rather than to import the manufactured article, and accordingly, in view of the fact that there are idle refining plants, it is intended in the first place to allot to them such proportion of increased demand as is appropriate.⁸¹

Indeed it is clear, as the Japanese government claimed, that the allocation of gasoline sales quotas discriminated solely against importers of refined petroleum products, and not on the basis of national ownership of the respective oil companies.⁸² Matsukata, the Japanese-owned importer of Soviet refined petroleum products, received a reduced gasoline sales quota, while Mitsubishi Oil, the joint US-Japanese owned oil concern which operated an oil refinery in Japan, like all other oil refiners in Japan, received an increased gasoline sales quota.⁸³ Tide Water Associated Oil, the American partner in Mitsubishi Oil, whose operations benefited from the enforcement of the Petroleum Law, did not complain to the State Department over the Petroleum Law, and in fact advanced its half share - just over \$200,000 - for the capital necessary for Mitsubishi Oil to fulfil the six month stockholding requirement.⁸⁴ However, since Royal Dutch Shell was primarily concerned with its future

80. Starling (Petroleum Department) to the Foreign Office, 8 September 1934, FO371/18189,F5436/1659/23; See table 4.7.

81. Clive (Tokyo) to the Foreign Office, 7 November 1934, FO371/18190,F6670/1659/23; Anderson I. H., p. 78.

82. Clive (Tokyo) to the Foreign Office, 21 November 1934, FO371/18190,F6923/1659/23.

83. See table 4.7.

84. Anderson I. H., footnote 16, pp. 78-79. Sansom argued that since the proportion of excess refining capacity in Japan was lower than the proportion of excess refining capacity in North America and

prospects in the Japanese oil market, the legitimacy of Japan's import substitution policy was an irrelevance. Furthermore, the gasoline quota was not the only indication Rising Sun Petroleum received that the Japanese government would be uncompromising over the provisions of the Petroleum Law. Talks between the oil companies and the Japanese government proved fruitless. An attempt by Rising Sun Petroleum and Stanvac to secure a guarantee of their future status within the Japanese oil market was rebuffed when the Japanese government insisted that both oil companies re-submit their operational plans for the second half of 1934 by 31 August 1934, with the provision for a reduced percentage of the gasoline market.⁸⁵ Consequently, the first gasoline sales quota and failure of the summer oil talks weakened Royal Dutch Shell's faith in the Japanese government and hardened its desire not to compromise with the Petroleum Law. Royal Dutch Shell's head office in London told Rising Sun Petroleum, "Obviously if our trade is to be progressively curtailed in this way it would be foolish for us to increase our capital expenditure in Japan". In view of the gasoline quota even a small increase of tonnage in Japan was a risk.⁸⁶

The deterioration of Rising Sun Petroleum's position under the Petroleum Law was paralleled by the development of Asiatic Petroleum's position under the Manchukuo Oil Monopoly Law. However, the first promulgation of the Oil Monopoly Law gave no indications that there would be any discrimination against the operations of the principal western oil companies in Manchuria, Asiatic Petroleum, Stanvac, and Texas Oil. On 21 February 1934 the Manchukuo government announced the formation of the Manchukuo Petroleum Company, with a 5 million yuan capitalisation - 20% from the Manchukuo government, 40% from the South Manchuria Railway, and 10% each from Mitsui, Mitsubishi, Ogura Oil, and Nippon Sekiyu - for the production, refining, and distribution of petroleum products throughout Manchukuo, but with no monopoly provisions.⁸⁷ Nevertheless, there soon emerged worrying rumours that the Manchukuo Petroleum Company would be given monopoly privileges. Neville Butler, the British Consul General

Europe, the attempt by the Japanese government to increase its oil refining capacity, at the expense of Rising Sun Petroleum and Stanvac's refined petroleum products, was unjustified. However, his argument ignores the claim that the Petroleum Law was 'discriminatory', Department of Overseas Trade, *Economic Conditions in Japan, 1933-1934*, pp. 80-83.

85. Rising Sun Petroleum (Yokohama) to Royal Dutch Shell (London), 17 August 1934, FO371/18189,F5104/1659/23; Anderson I. H., pp. 79-80.

86. Royal Dutch Shell (London) to Rising Sun Petroleum (Yokohama), 27 August 1934, FO371/18189,F5436/1659/23.

87. Butler (Mukden) to Cadogan (Peking), 18 April 1934, FO371/18108,F2689/142/10; Anderson I. H., pp. 53-54.

in Mukden, was told by an official in the Manchukuo Department of Industry that "some form of monopoly" would "eventually" be adopted for petroleum products.⁸⁸ In response, Clive, and Joseph Grew, the American Ambassador in Tokyo, presented separate but almost identical notes of protests to the Japanese Ministry of Foreign Affairs. Both notes complained that an oil monopoly in Manchukuo would breach the Open Door principle, and directly violated several international treaties which prohibited the formation of monopolies in China that excluded foreign interests.⁸⁹ Thus although the commercial interests involved in Manchukuo were less significant than those involved in Japan, because of the breach of the Open Door and violation of international treaties, the response of the Foreign Office and State Department was more immediate and much stronger. However, there was little to suggest that international protest could prevent the establishment of an oil monopoly in Manchukuo. As with the Petroleum Law, there was no evidence that domestic Japanese pressure would challenge the formation of an oil monopoly in Manchukuo. Indeed the Japanese oil companies appeared to be willing participants in the formation of the Manchukuo Petroleum Company and enactment of the Oil Monopoly Law. Butler reported that Hashimoto Keizaburô, the President of both Nippon Sekiyu and the Manchukuo Petroleum Company - and the brother-in-law of General Hishikari, the Commander of the Kwantung Army, Governor of the Kwantung Leased Territory, and Japanese Ambassador to Manchukuo - was the driving force behind the Manchukuo Petroleum Company.⁹⁰

The lack of progress of the talks with the Japanese government together with developments in Manchukuo persuaded officials of Royal Dutch-Shell that only the threat to restrict Japan's oil supplies would force the Japanese government to compromise. This led Rising Sun Petroleum to seek an Anglo-American front against Japan. Stanvac, the other major company affected by the Japanese actions was American. If Royal Dutch Shell and Stanvac were to threaten to embargo Japan's oil supplies, American government support would be critical in allowing a restriction of supply policy to be effective. The case for the oil embargo threat, in reaction to the threatened Manchukuo oil monopoly, was first outlined in early August 1934 in a joint meeting between H. W. Malcolm, Rising Sun Petroleum's manager in Japan, J. C. Goold, Stanvac's manager in Japan, Clive, and Grew. They believed

88. Butler (Mukden) to Cadogan (Peking), 28 April 1934, FO371/18108,F2820/142/10; Anderson I. H., p. 55.

89. Clive (Tokyo) to the Foreign Office, 2 and 9 July 1934, FO371/18109,F3991,F4735/142/10; Anderson I. H., pp. 55-56.

90. Butler (Mukden) to the Foreign Office, 18 July 1934, FO371/18109,F4812/142/10.

that the only way to stop the Japanese from implementing the oil monopoly was through a threat by the oil companies to restrict their oil supplies to Japan. They were categorical that American government support was a prerequisite for the success of the policy.⁹¹ This approach was quickly followed up in London by Agnew who, without even outlining the justification of the oil embargo threat, made a clear cut case to the Petroleum Department for the need of American support of any restriction policy. Agnew stated that in the face of a restriction of Anglo-American controlled oil supplies to Japan, non-Anglo-American controlled substitute oil supplies were available to the Japanese. However, he doubted that either of the two major non-Anglo-American oil suppliers, the Soviet Union and the Dutch East Indies, could be immediately and effectively used by the Japanese to replace withheld oil supplies. He considered that Soviet oil production and consumption was not elastic enough to meet any large short term demand from Japan, while Royal Dutch Shell and Stanvac were in the happy position of controlling the Dutch East Indies oil fields.⁹² The only source of uncertainty was the independent American oil companies - especially in California - who clearly had the ability to meet Japanese demand. In Agnew's opinion these oil companies were extremely unlikely to support any measure to prevent excessive supplies from reaching Japan which did not have the strong backing of the US government.⁹³

The Foreign Office, already disturbed by the implications of the Manchukuo oil

91. Clive (Tokyo) to the Foreign Office, 8 August 1934, FO371/18109,F5299/142/10; Clive (Tokyo) to the Foreign Office, 17 August 1934, FO371/18189,F5068/1659/23; Rising Sun Petroleum (Yokohama) to Royal Dutch Shell, 17 August 1934, FO371/18189,F5014/1659/23. Anderson makes the extraneous point that this proposal was specifically designed to deal with the Manchukuo oil monopoly, and was later converted by the Foreign Office into a policy of dealing with both the Oil Monopoly Law and Petroleum Law. However, it appears that the Manchukuo oil monopoly was only directly referred to since neither the gasoline sales quota had been published nor had the oil companies yet concluded that their talks with the Japanese government were futile, Anderson I. H., pp. 58-59.

92. See table 4.9.

93. Meeting between Coleman (Petroleum Department) and Agnew, 20 August 1934, FO371/18189,F5104/1659/23; Memorandum by Orde, 20 August 1934, FO371/18189,F5104/1659/23. Royal Dutch Shell's concern that without American government backing an oil embargo threat with Stanvac could be easily breached by an independent American oil company, received ample confirmation in September 1934. A report reached Royal Dutch Shell's headquarters in London, that a representative of Ladgerwood, a Los Angeles based oil company, had approached the Texas Railroad Commission for permission to ship 30 million barrels of crude oil to Japan. The Royal Dutch Shell representative in New York believed that the Japanese government was behind this enquiry, Royal Dutch Shell (New York) to Royal Dutch Shell (London), 17 September 1934, FO317/18189,F5661/1659/23. Clive was worried by rumours that there were plans to ship 100,000 tons of Iraqi crude oil to Japan, Clive (Tokyo) to the Foreign Office, 17 October 1934, FO371/18189,F6128/1659/23. However, the Petroleum Department discounted this possibility since the only Iraqi oil fields capable of supplying this amount of crude oil were controlled by major British oil interests, minute by Harcourt-Smith, 17 October 1934, FO371/18189,F6128/1659/23.

monopoly on British interests in China, welcomed the strategy of Royal Dutch Shell and Stanvac to threaten an oil embargo. The Foreign Office regarded the threat as the only relatively risk-free means of defending British oil and commercial interests in East Asia. Sir John Pratt, head of the China Section, minuted his approval of the oil companies proposal, "the risks involved ... are not so great or so certain as to cause us to reject a proposal which seems to provide us with our only weapon for defending our interests in a vast and rapidly expanding market".⁹⁴ The Foreign Office immediately sounded out the view of the American government.⁹⁵ The State Department promptly replied, without giving specific details, that it was willing to cooperate with the British government.⁹⁶ The Foreign Office approach was matched by a direct approach to the State Department by Royal Dutch Shell and Stanvac. On 22 August 1934, Sir Henry Deterding, the Chairman of Royal Dutch Shell, and Walter Teagle, the President of Standard Oil, joined forces to enlist American support for sterner measures against Japan. However, the State Department, though sympathetic to the plight of the oil companies, proved unwilling to endorse a firm policy line towards Japan. In discussions with William Phillips, the Under Secretary of State, Dr. Stanley Hornbeck, the Far Eastern Affairs Division Chief, and Harold Ickes, the Secretary of the Interior, made the point that ultimately America would be responsible for any oil embargo against Japan, and gave no indication of any willingness to initiate such a measure.⁹⁷ In London Embassy officials further outlined the limits of American support for the oil companies. They informed their Foreign Office counterparts that they regarded the oil issue as a purely commercial question; the size of the American interest involved did not merit the use of force - not requested by the British - and if the companies suspended supplies to Japan, it was purely a commercial decision.⁹⁸ The suggestion by American officials that the issue did not merit the use of force suggests that they misunderstood the Foreign Office and oil companies' request or that they looked at the worst case scenario resulting from the oil embargo threat - a Japanese military response - and decided that the oil embargo threat was too great a risk. Further indication that the American government would not endorse the oil embargo was provided when E. H. Millard, the Second Secretary of the American Embassy in London,

94. Minute by Pratt, 19 August 1934, FO371/18109,F5068/142/10; Anderson I. H., pp. 59-60.

95. Minute by Orde, 21 August 1934, FO371/18189,F5104/1659/23.

96. Minute by Orde, 1 September 1934, FO371/18189,F5335/1659/23.

97. Starling (Petroleum Department) to the Foreign Office, 8 September 1934, FO371/18189,F5436/1659/23; Anderson I. H., pp. 81-83.

98. Starling (Petroleum Department) to Orde, 14 September 1934, FO371/18189,F5436/1659/23; Minute by Pratt on conversation with Dooman, 25 October 1934, FO371/18190,F6312/1659/23.

told Alec Randall, the First Secretary of the Far Eastern Department, that the American government could not be expected to restrict the supply of oil to Japan from the independent oil companies.⁹⁹ This final point meant that even if the American government was prepared to risk the oil embargo threat against Japan, the policy would fail because it was unwilling to force the independent oil companies into supporting the embargo. Thus in mid-October 1934 there appeared little prospect of a combined Anglo-American front against Japan in support of their respective oil companies, as Randall stated, "It has been decided that any measure to debar crude-oil supplies to Japan shall not, at present at least, be instigated or taken by the Governments concerned".¹⁰⁰

99. Minute by Randall, 18 September 1934, FO371/18189,F5536/1659/23.

100. Minute by Randall, 17 October 1934, FO371/18189,F6128/1659/23.

The limits of Anglo-American cooperation.

In spite of the Anglo-American decision in October 1934 not to authorise the oil embargo threat, the continued thrust of Japanese and Manchukuoan oil policy sustained support in the oil companies and Foreign Office for a forceful response in defence of British oil interests and the Open Door. In Japan both the Embassy and Rising Sun Petroleum, supported by the American Embassy and Stanvac, demanded a much firmer line, in response to both the demands for the fulfilment of the Petroleum Law, and the nationalisation of the Manchukuoan oil industry. The Foreign Office shared these alarms, encouraged the oil companies to resist the Japanese and sought to establish the diplomatic groundwork for the oil embargo threat.

The main pressure for a tougher approach to Japan came from representatives of the two oil companies in Japan. As they pointed out in mid-October, after another round of fruitless talks with Japanese officials, there was an urgent need for a stronger line since both firms faced imminent demands for compliance with the Petroleum and the much anticipated promulgation of the Manchukuo Oil Monopoly Law.¹⁰¹ On 19 October 1934 Asiatic Petroleum, Stanvac, and Texas Oil were told by the Manchukuoan authorities that a Monopoly Law would be promulgated on 15 November 1934, and its provisions would include the abolition of all petroleum sales organisations in Manchukuo, the compulsory purchase of all oil equipment, and a kerosene sales quota. Butler warned that following this announcement the Manchukuo authorities would undertake, "the progressive extinction of the foreign companies' trade in refined petroleum products in this country".¹⁰² Alarmed by these developments Asiatic Petroleum in Shanghai warned Royal Dutch Shell that only an immediate protest could have some effect in halting the progress of the oil monopoly, since the "Monopoly Law not yet promulgated our opinion is that this is last effort to bluff and if no opposition received by 15th November will proceed on these lines therefore we consider

101. Rising Sun Petroleum (Yokohama) to Royal Dutch Shell (London), 18 and 24 October 1934, FO371/18190,F6353/1659/23; Clive (Tokyo) to the Foreign Office, 24 October 1934, FO371/18190,F6312/1659/23. Anderson makes the point that there was a divergence between Royal Dutch Shell and the Foreign Office over the use of the oil embargo threat. Royal Dutch Shell saw it primarily as intended to defend its interests in Japan, while the Foreign Office saw it as intended to defend the principle of the Open Door from the Manchukuo oil monopoly. However, while Anderson is correct to point out this difference of emphasis, it was not true that Royal Dutch Shell had no interest in protecting its Manchukuoan operations through the oil embargo threat, Anderson I. H., pp. 78-79.

102. Butler (Mukden) to the Foreign Office, 23 October 1934, FO371/18190,F6664/1659/23.

strong protest at the earliest possible date".¹⁰³

Developments in Manchukuo paralleled developments in Japan, as Rising Sun Petroleum and Stanvac came under strong pressure from the Japanese authorities to submit future operational plans that conformed with the provisions of the Petroleum Law.¹⁰⁴ The firms stalled and British diplomats feared that this noncooperation would be used at the forthcoming meeting of the Petroleum Law's Petroleum Committee to justify an unfavourable report on Rising Sun Petroleum and a further reduction of its sales quota.¹⁰⁵ The oil companies became so concerned by their inability to reach a compromise agreement with the Japanese government that they started to consider withdrawal from the Japanese market as their only viable option.¹⁰⁶ Rising Sun Petroleum's representatives in Japan urged head office in London to obtain the necessary cooperation of the British, American, and Dutch governments, to back suitable defensive measures by both oil companies.¹⁰⁷ The case for American government support was all the more urgent as the refusal of Asiatic Petroleum, Stanvac, and Texas Oil, to supply crude oil to the Manchukuo Petroleum Company had been immediately nullified by the decision of Standard Oil of California and Union Oil to tender for the same supply contract.¹⁰⁸

The oil companies' demand that only a strong line against the Japanese would force a compromise was endorsed by Clive and Grew, who urged their respective foreign ministries immediately to adopt a tougher stance against Japan. In response to a cautious Foreign Office telegram, reflecting the initial failure of Anglo-American cooperation and Admiralty

103. Asiatic Petroleum (Shanghai) to Royal Dutch Shell (London), 22 October 1934, FO371/18190,F6354/1659/23; Starling (Petroleum Department) to Randall, 26 October 1934, FO371/18190,F6354/1659/23.

104. The plans had to be submitted by 30 September 1934, and following Rising Sun Petroleum and Stanvac's non compliance the Japanese Ministry of Commerce and Industry three times demanded that the oil companies submit their future operational plans, Clive (Tokyo) to the Foreign Office, 10 October, 2 and 7 November 1934, FO371/18190,F6552,F6543,F6661/1659/23; Anderson I. H., p. 84.

105. Clive (Tokyo) to the Foreign Office, 24 October 1934, FO371/18190,F6312/1659/23; Foreign Office Memorandum, 30 October 1934, FO371/18190,F6426/1659/23.

106. However, Angew stated that such considerations were premature at this stage, Starling (Petroleum Department) to Randall, 30 October 1934, FO371/18190,F6439/1659/23.

107. Rising Sun Petroleum (Yokohama) to Royal Dutch Shell (London), 9 November 1934, FO371/18190,F6691/1659/23.

108. Butler (Mukden) to Cadogan (Peking), 6 October 1934, FO371/18110,F6270/142/10; Starling (Petroleum Department) to Randall, 3 December 1934, FO371/18191,F7207/1659/23; Anderson I. H., p. 60.

fears that the oil embargo threat would destabilise Anglo-Japanese relations, Clive firmly responded that the time had arrived for stiffer measures. "Both United States Embassy and ourselves appreciate objections mentioned in your telegram but we feel that, for fear of embittering relations [with Japan], to abstain from using in moderation our advantages is to make an unprofitable sacrifice in the cause of friendship". However, there were clear limits to what Clive considered a suitable response. He was explicit that there should be no oil embargo against Japan, for fear of Japanese reactions. But he considered it perfectly justifiable to impose Anglo-American conditions of petroleum sale upon Japan in support of the oil companies.¹⁰⁹ Thus both the British and American diplomats as well as representatives of the western oil interests in Japan agreed that in order to defend the oil companies from state regulation in Japan and nationalisation in Manchukuo the time was ripe for a stiffer line against Japan.

The concern expressed locally over the plight of British oil interests in Japan and Manchukuo found a sympathetic audience in London. The Foreign Office was particularly angered by the formal introduction of the oil monopoly in Manchukuo on account of its violation of the Open Door.¹¹⁰ The Japanese denied responsibility for the actions of the Manchukuo government: the Manchukuo Petroleum Company had no monopolistic privileges that violated the 'Open Door' principle, and stated that future protests should be directed to the Manchukuoan government.¹¹¹ This brought an angry response from the Foreign Office. Charles Orde, the head of the Far Eastern Department, minuted that, "This is a gross evasion, and I submit that a pretty sharp rejoinder is necessary."¹¹² The Foreign Office was particularly angered by the 'evasive' replies of the Japanese government for authority over Manchukuo, since the British non-recognition of Manchukuo severely curtailed British efforts to exert formal diplomatic pressure on Manchukuo and make diplomatic

109. Clive (Tokyo) to the Foreign Office, 20 October and 9 November 1934, FO371/18190,F6312,F7160/1659/23; Anderson I. H., pp. 87-88.

110. Clive (Tokyo) to the Foreign Office, 8 August 1934, FO371/18109,F5299/142/10; Starling (Petroleum Department) to Randall, 26 October 1934, FO371/18190/F6354/1659/23; The British Consul in Shanghai to the Foreign Office, 22 October 1934, FO371/18190,F6354/1659/23; Anderson I. H., p. 58.

111. Clive (Tokyo) to the Foreign Office, translation of the Japanese government's 5 November Aide Memoire, FO371/18190,F6643/1659/23; Butler (Mukden) to the Foreign Office, 22 and 24 October 1934, FO371/18190,F6664,F6665/1659/23.

112. Minute by Orde, 9 November 1934, FO371/18190,F6643/1659/23; Butler (Mukden) to the Foreign Office, 2 November 1934, FO371/18190,F6894/1659/23. American officials were also incensed by Japanese denials of responsibility for the actions of the Manchukuoan government, Anderson I. H., pp. 63-64.

representations on behalf of Asiatic Petroleum.

Following the demands for firmness from the oil companies as well as Clive and Grew,¹¹³ and despite the previous failure to elicit firm commitments from the State Department, the Foreign Office in late October 1934 prepared the ground work for a strong line against Japan. The Foreign Office argued that a combination of commercial and national interest made it essential for Britain to respond to Japanese actions: Britain could not neglect the political and commercial importance of the British oil companies in Japan and Manchukuo; while the enforcement of the Manchukuo Oil Monopoly Law would be a considerable blow to British prestige in China.¹¹⁴ Pratt was particularly emphatic of the dire consequences for British interests in China, if Britain refused to make a stand on the Monopoly Law. "In both Japanese and Chinese eyes I fear that we shall be exposed as helpless by our lack of resolution."¹¹⁵ As the Foreign Office appreciated, enforcement of the Manchukuoan oil monopoly would set an example for other countries to imitate.¹¹⁶

However, while the Foreign Office developed plans for the oil embargo threat it appreciated that in order to minimise Japanese reactions it could only be employed within strictly defined boundaries.¹¹⁷ The oil companies would take the lead in organising resistance to Japan, and if satisfied with the organisation of the oil embargo, it would be their choice to call the Japanese bluff by the use of the oil embargo threat, and if necessary initiate an oil embargo.¹¹⁸ Thus the aim of the Foreign Office policy was merely to give the oil companies the option of threatening or using an oil embargo against Japan; even if the oil embargo threat proved a practicable policy there was no guarantee that the oil companies would utilise this measure. On 4 December 1934 Rising Sun Petroleum warned head office

113. Minute by Harcourt-Smith, 26 October 1934, FO371/18190,F6312/1659/23.

114. Minute by Randall, 26 October 1934, FO371/18190,F6312/1659/23.

115. Foreign Office Memorandum, 'The Japanese Petroleum Law and the threatened oil Monopoly in Manchuria, 30 October 1934, FO371/18190,F6426/1659/23; Minute by Pratt, 30 October 1934, FO371/18190,F6426/1659/23; Minute by Harcourt-Smith, 26 October 1934, FO371/18190,F6312/1659/23; Anderson I. H., p. 88.

116. Minute by Randall, 26 October 1934, FO371/18190,F6312/1659/23.

117. Anderson states that the Foreign Office turned the oil embargo threat into a demand for a full oil embargo against Japan. However it is clear that while the Foreign Office was more strident in their demands for firmer action against Japan and was prepared to see the oil companies employ the oil embargo against Japan, they never demanded an immediate oil embargo against Japan, Anderson I. H., chapter 3, especially, pp. 80, 83, 86.

118. Minute by Randall, 26 October 1934, FO371/18190,F6312/1659/23.

that the oil embargo threat should not be used immediately, since it would give the Japanese government an excuse to enforce even more unfavourable gasoline sales quotas against Rising Sun Petroleum and Stanvac.¹¹⁹ Consequently, within this strategy the British government would play no part in the organising, initiation, and use of the oil embargo threat against Japan,¹²⁰ and "The action of His Majesty's Government would be limited to informing the British oil companies concerned and the United States Governments that they approved the policy."¹²¹ Nevertheless, the Foreign Office was convinced that the oil embargo threat was the only practical policy to force the Japanese and Manchukuoan authorities to back down. Indeed the Foreign Office knew that this strategy had already proven successful in a similar situation in Germany. Orde noted,

The oil companies have recently used the threat of restricting supplies to Germany of their own accord and with the assent of His Majesty's Government to refrain from the very thing that is being attempted by the Japanese viz. the creation of large stores at the companies' expense.¹²²

Finally, the Foreign Office concluded that action against Japan must be linked to action in Manchukuo, since supply restrictions placed solely upon Manchukuo could easily be circumvented by oil supplies from Japan. Thus a settlement of the Petroleum Law could not be used as a means of avoiding a settlement of the Oil Monopoly Law.¹²³ Indeed, Orde feared that a timely concession by the Japanese over the Petroleum Law would remove the justification for threatening an oil embargo against Japan, which would break the link between the Japanese and Manchukuoan oil embargoes, and thus undermine the oil companies' leverage on the Manchukuoan authorities.¹²⁴ This final slant from Orde demonstrated that the Foreign Office was less concerned over the relative scale of commercial stake in Japan and Manchukuo, and more intent on using the oil companies' threat of oil sanctions as the means of opposing the Oil Monopoly Law's breach of the Open Door. However, although the Foreign Office endorsed the need for a firm line against Japan, the policy of the oil companies' threat to withhold oil supplies remained of limited

119. Clive (Tokyo) to the Foreign Office, 4 December 1934, FO371/18191,F7208/1659/23.

120. Minute by Randall, 26 October 1934, FO371/18190,F6312/1659/23.

121. Foreign Office Memorandum, 30 October 1934, FO371/18190,F6426/1659/23.

122. Memorandum by Orde, 9 November 1934, FO371/18190,F6727/1659/23.

123. Memorandum by Orde, 'Oil in Japan and Manchuria', 9 November 1934, FO371/18190,F6727/1659/23.

124. Minute by Orde, 15 November 1934, FO371/18190,F6771/1659/23.

effectiveness.

While the Foreign Office was convinced of the need for an immediate and strong line against Japan there was strong opposition in the British government to the use of the oil embargo threat against Japan. It was clear that an oil embargo would be viewed as a serious matter in Japan. In July 1934, amid rumours of a possible oil embargo by Rising Sun Petroleum and Stanvac, Kurusu Saburô warned Erle Dickover, the First Secretary of the American Embassy in Japan, that "the question of an embargo ... was more serious than appeared at first glance, because it focused upon the question of national defence".¹²⁵ In particular the Admiralty had serious reservations over an oil embargo against Japan, and feared that it could lead to Japanese seizure of the Dutch East Indies oil fields.¹²⁶ The Foreign Office recognised that strong objections from the Admiralty could be a fundamental barrier to the adoption of the oil embargo threat.¹²⁷ The fears of the Admiralty were compounded by concern in the Board of Trade that an oil embargo could lead to some form of Japanese economic retaliation.¹²⁸ Nevertheless, Orde was convinced that with American and Dutch government backing the Admiralty's objections could be overcome, especially since Clive had stated that he believed the Japanese would not undertake any military action in response to a threatened embargo.¹²⁹ Thus in order to overcome internal opposition the Foreign Office sought a cabinet endorsement of its policy of allowing the oil companies to use the oil embargo threat against Japan.¹³⁰ On 21 November 1934 Sir John Simon, the Foreign Secretary, gained partial assent from the cabinet for the Foreign Office's policy. However, cabinet approval was limited to an examination of the feasibility of the embargo threat; permission for the immediate use of the threat was withheld. Furthermore, the cabinet made the explicit point that the embargo threat was to be a purely commercial venture, and there could be no government financial compensation for Royal Dutch Shell for any losses

125. Anderson I. H., p. 57.

126. Foreign Office Memorandum, 26 October 1934, FO371/18190,F6312/1659/23; Foreign Office Memorandum, 'The Japanese Petroleum Law and the Threatened oil Monopoly in Manchuria', 30 October 1934, FO371/18190,F6426/1659/23; Anderson I. H., pp. 88-89. Craigie, who was the head of the American Department and Foreign Office negotiator at the London Naval Conference, also commented that it would be a mistake to contemplate an oil embargo against Japan during the Conference, Minute by Craigie, 20 November 1934, FO371/18191,F7024/1659/23.

127. Minute by Randall, 26 October 1934, FO371/18190,F6312/1659/23.

128. Foreign Office Memorandum, 'The Japanese Petroleum Law and the Threatened Oil Monopoly in Manchuria', 30 October 1934, FO371/18190,F6426/1659/23.

129. Memorandum by Orde, 'Oil in Japan and Manchuria', 9 November 1934, FO371/18190,F6727/1659/23.

130. Minute by Orde, 'Oil in Japan and Manchuria', 9 November 1934', FO371/18190,F6727/1659/23.

sustained as a result of withholding supplies to Japan and Manchukuo.¹³¹

With cabinet approval the Foreign Office determined upon an immediate approach to the American government, to see if it would support the oil embargo threat against Japan. Sir Victor Wellesley, the Under Secretary to the Foreign Office, Pratt and Orde, concluded that with American approval the oil embargo threat would be ready for immediate implementation,

It is suggested therefore that our proper course at the present juncture is to [approach] the Americans and put [the] above considerations before them. The key to the position lies with them. If they are satisfied that it is possible to control the export of crude oil from the United States then let the British American and Dutch oil interests immediately concert measures for refusing to supply crude oil to Japan and Manchukuo.¹³²

Although the minute suggested that the oil companies should initiate an immediate embargo it actually meant that the oil companies would initially simply threaten the Japanese with an oil embargo. The phrase 'immediately concert measures for refusing to supply crude oil' referred to the need for the oil companies to start preparations for an oil embargo to provide the necessary back up for a convincing oil embargo threat against Japan. At an interdepartmental meeting Foreign Office officials were explicit that the approach to the American government was only to determine if the oil embargo threat was a practicable policy.¹³³

Despite the similarity of British and American attitudes to the oil issue, contacts with the State Department in September and October of 1934 had revealed the ambiguity of official American opinion.¹³⁴ While initial objections from the State Department in September and October 1934 appeared to preclude the oil embargo during this same period there had been some indications that the American government did not totally reject firm action against Japan. State Department and Embassy staff in London showed a clear

131. Cabinet Conclusions, 21 November 1934, CAB 23 41(34)4.

132. Joint minute by Wellesley, Pratt, and Orde, 23 November 1934, FO371/18191,F7024/1659/23.

133. Minute of interdepartmental meeting between Starling (Petroleum Department), Vernon (Colonial Office), Lee (Board of Trade), Pratt, Orde, Randall, and Allen. 23 November 1934, FO371/18191,F7044/1659/23.

134. Anderson is wrong to suggest that the Foreign Office underestimated American ambivalence to the use of the oil embargo threat against Japan, Anderson I. H., p. 89.

concern over the plight of Stanvac, they also indicated that the American government could order the independent oil companies to participate in any scheme to restrict oil supplies to Japan. In one particularly boastful statement on 25 October 1934, Eugene Dooman, the number two in the State Department's Far Eastern Division who was in London for the London Naval talks, told Pratt that the prestige of the American government was so high with the oil industry that it only had to 'give the word', and the independent oil companies would toe the line. However, Dooman also insisted that the American government would undertake no action until it was certain of the British and Dutch governments' commitment to the oil embargo threat.¹³⁵ Thus prior to the November decision to press ahead with the oil embargo threat Foreign Office officials had received encouragement that the American government could enforce an oil embargo against Japan.

The first meeting between the Foreign Office and State Department officials indicated that, as the Foreign Office hoped, the American government could control the independent oil companies and would endorse the oil embargo threat. On 27 November 1934 Orde and Randall presented the Foreign Office proposal to Millard and Dooman, who passed on the request to the State Department. Orde made clear to the Americans that the oil embargo threat would be used as a last resort by the oil companies. Moreover, it would be subject to American government approval, and an American guarantee that they could control oil supplies to Japan. However, in talk with the two American officials Orde and Randall received encouragement that the American government would support the oil embargo threat. Dooman welcomed this approach. He stated that no legislation was required to control oil exports from America, and that any internal opposition to such control could be overcome.¹³⁶ These official pronouncements were soon buttressed by a remark from Dooman to Pratt at a luncheon party of the Astors. According to Pratt, Dooman had boasted that oil could be easily withheld from Japan without legislation, since the Petroleum Control Board could make arrangements to control the supply of American crude oil.¹³⁷ Thus with such encouragement from American officials in London, the Foreign Office believed

135. Minute by Pratt, on conversation with Dooman, 25 October 1934, FO371/18190,F6312/1659/23.

Hornbeck had also told Godber, a director of Asiatic Petroleum, that the American government would only undertake any action when they were sure that the British government would undertake such action, Starling (Petroleum Department) to Orde, 11 and 14 September 1934, FO371/18189,F5468,F5536/1659/23.

136. Minute of meeting between Millard, Dooman, Orde, and Randall, 27 November 1934, FO371/18191,F7079/1659/23; Anderson I. H., pp. 89-90.

137. Pratt to Orde, 5 December 1934, FO371/18191,F7079/1659/23.

that there was every chance the American government would agree to the control of oil exports to Japan. Randall was particularly impressed by Dooman's remark to Pratt, and minuted that "This should make it easier for the State Dept. to come to a decision in favour of restriction".¹³⁸

After the favourable soundings of American officials in London the response of the State Department that it would not endorse the restriction of oil exports to Japan came as a deep disappointment to the Foreign Office. On 7 December 1934 Millard and Dooman returned to the Foreign Office with this bad news from the State Department. On the critical question of the control of oil supplies, the two officials euphemistically reported the inability of the American government to effect a sufficiently uniform action of controlling the American oil companies. In plainer words the American government could not control oil supplies from America to Japan, in lieu of those withheld by Royal Dutch Shell, Stanvac, and Texas Oil. Therefore the American government would not participate in the oil embargo threat against Japan. In a further justification the Americans quoted the 'British axiom', better to take no action than an ineffective action. As a final point they held out the prospect of reconsidering the situation if the British government pressed on ahead with the oil embargo.¹³⁹ However, in view of the American inability to control oil supplies to Japan, both the Foreign Office and State Department officials recognised, at the same meeting, the futility of pursuing the oil embargo threat, and concluded that the limited control of oil supplies by Royal Dutch Shell and Stanvac precluded the threat of withholding supplies from Japan. All participants at the meeting agreed that British and American government support of the oil companies would be limited to diplomatic support of the oil companies in their talks with the Japanese government.¹⁴⁰ However, it is noticeable that the State Department refused to endorse the oil embargo threat, not because it viewed the risks of the policy as too great, but because the American government believed it could not force the independent oil companies to participate in an oil embargo against Japan.

Thus the rejection of the oil embargo by the American government removed from Royal Dutch Shell and Stanvac the option of using the one lever they had over the Japanese

138. Minute by Randall, 5 December 1934, FO371/18191,F7079/1659/23.

139. Record of meeting between Millard, Dooman, Orde, and Randall, 7 December 1934, FO371/18191,F7300/1659/23; Anderson I. H., p. 90.

140. Record of meeting between Millard, Dooman, Orde, and Randall, 7 December 1934, FO371/18191,F7300/1659/23.

government that was external to the oil companies. This was all the more critical with the approach of a new round of talks between the oil companies and the Japanese government. However, when these talks did begin on 9 January 1935, neither Royal Dutch Shell nor Stanvac had the luxury of confronting Japanese 'intransigence' with the threat of an oil embargo. The rejection of the oil embargo threat by the State Department caused great bitterness in the Foreign Office. On 11 December Orde wrote a spiteful minute castigating the behaviour of the Americans, in which Dooman was singled out for particular criticism. Orde considered that "The manoeuvres of the United States Government in this business make a rather unpleasant impression".¹⁴¹ Nevertheless, the failed attempt to orchestrate the oil embargo threat did not place any strain upon Anglo-American diplomatic relations, nor did it mark the end of Anglo-American diplomatic cooperation in support of the oil companies. With the directors of Royal Dutch Shell and Stanvac already in Shanghai ready to proceed to Tokyo for talks with the Japanese government,¹⁴² both the British and American governments again resumed diplomatic protests in support of the oil companies.¹⁴³ Finally, it is worth restating that although the oil embargo threat was not approved by the American and British governments, this was not because either government feared the effect of the above policy upon Japan's foreign policy. Both governments viewed the oil embargo threat as a legitimate part of their respective oil companies' defence of their interests from Japanese and Manchukuoan encroachment. Thus the oil embargo threat was abandoned not out of fear of the Japanese response to this measure, but because the American government was unable to ensure the participation of the independent oil companies. Consequently, without the latter's participation both the American and British governments realised that the oil embargo threat would be worthless.

141. Minute by Orde, 11 December 1934, FO371/18191,F7518/1659/23.

142. Godber of Royal Dutch Shell, Walden, Chairman of the Board of Stanvac, and Parker, President of Stanvac, were waiting in Shanghai, ready to travel to Tokyo for talks with the Japanese government, Starling (Petroleum Department) to Randall, 3 December 1934, FO371/18191,F7270/1659/23; Anderson I. H., p. 85.

143. Clive (Tokyo) to the Foreign Office, 14 December 1934, FO371/18191,F7400/1659/23; Rising Sun Petroleum (Yokohama) to Royal Dutch Shell (London), 14 December 1934, FO371/18191,F7400/1659/23.

Withdrawal from Manchukuo and survival in Japan.

In spite of the failure of the Foreign Office to orchestrate for a potential oil embargo against Japan, the question of Royal Dutch Shell and Stanvac's participation in the Japanese and Manchukuoan oil markets remained unresolved. Both companies continued negotiations with the Japanese and Manchukuoan authorities in an attempt to obtain some safeguards for their future operations. Although the oil companies knew they could not threaten the Japanese and Manchukuoan authorities with an embargo, they still had some leverage over the respective governments. Neither the Japanese nor Manchukuoan authorities could easily contemplate the disruption caused to short run oil supplies after a withdrawal by Royal Dutch Shell and Stanvac from either oil market. However, if the Japanese and Manchukuoan authorities pressed ahead with their respective petroleum policies, Royal Dutch Shell and Stanvac's obstructiveness would diminish proportionally as both countries located alternative sources of supply. In practice this meant that as domestic refining capacity increased in Japan and Manchukuo, Royal Dutch Shell and Stanvac could expect their share of the refined petroleum products market to shrink as this new capacity came on stream.

In the case of the Manchukuo oil monopoly, following the failure to sanction the oil embargo threat, even the short run position of the three foreign oil companies in the Manchukuoan oil market appeared poor. The Manchukuoan authorities were ideologically committed to establishing the oil monopoly¹⁴⁴ - promulgated on 14 November 1934¹⁴⁵ - while the expected extension of the Manchukuo Petroleum Company's oil refinery at Dairen presaged the demise of foreign sales of refined petroleum products.¹⁴⁶ Furthermore, the oil companies now had only a limited interest in defending their position in the smaller Manchukuoan market. Agnew told the British government that the oil companies would, "not sacrifice the Japanese market merely for the sake of pressure on Manchukuo".¹⁴⁷ Thus

144. Garstin (Harbin) to the Foreign Office, 9 November 1934, FO371/18190,F6957/1659/23. The Manchukuoan government was also colluding with Japanese oil companies through the misuse of tariff administration to squeeze non-Japanese oil companies out of the Manchukuoan kerosene market, Clive (Tokyo) to the Foreign Office, 21 November 1934, FO371/18190,F6921/1659/23; Butler (Mukden) to the Foreign Office, 10 and 17 November 1934, FO371/F18191/F6997,F7147/1659/23.

145. Butler (Mukden) to the Foreign Office, 14 November 1934, FO371/18191,F7171/1659/23.

146. Butler (Mukden) to the Foreign Office, 10 November 1934, FO371/18191,F6997/1659/23.

147. Minute by Orde of meeting between, Agnew, Darch, Starling (Petroleum Department) and Orde, 4 April 1935, FO371/F19351/F94/2227/23; Anderson I. H., p. 64.

the oil companies were prepared to abandon the Manchukuoan market and the defence of the Open Door if they could reach a suitable compromise over the Petroleum Law. However, talks in February 1935 revealed there was a possibility of Asiatic Petroleum, Stanvac, and Texas Oil continuing to distribute their own and the Manchukuo Petroleum Company's products.¹⁴⁸ Current capacity of refining plant in Manchukuo equalled only 50% of consumption, which together with operational problems at the Dairen refinery,¹⁴⁹ suggested leeway for the continued sale of the three foreign oil companies' products.¹⁵⁰ Indeed the Foreign Office was sufficiently impressed with the February 1935 proposal that they were prepared to ignore their previous objection to the Oil Monopoly Law's violation of the Open Door. Orde minuted, "If things work out on these lines we can be reasonably satisfied. We shall probably have to condone the name of monopoly in Manchuria but that will be a minor evil".¹⁵¹

Once the Manchukuoan authorities started to tighten the terms for the foreign oil companies' operations, optimism for a commercial compromise soon evaporated. Towards the end of February 1935 the Manchukuo authorities guaranteed only 14% of 1934 gasoline consumption to the three foreign oil companies, while contracts with the Manchukuo Petroleum Company still remained uncertain.¹⁵² Unable to secure a firm guarantee of their continued operation within Manchukuo, both Asiatic Petroleum and Stanvac abandoned any desire tacitly to work with the Manchukuo oil monopoly. They reaffirmed the principle of not supplying oil monopolies, and resumed their outright opposition to the oil monopoly.¹⁵³ Talks between the foreign oil companies and the Manchukuo authorities were now suspended, never to be resumed, as both sides realised that no compromise could be achieved.¹⁵⁴ The Manchukuo authorities recognised this final refusal and told the foreign oil companies that from 1 April 1935 it would seek alternative sources of petroleum supplies.¹⁵⁵

148. Agnew (London) to Godber (Tokyo), 12 February 1935, FO371/19350,F964/94/23.

149. Butler (Mukden) to the Foreign Office, 2 and 7 February 1935, FO371/19350,F1230,F1231/94/23.

150. Godber (Tokyo) to Agnew (London), 9 February 1935, FO371/19350,F902/94/23.

151. Minute by Orde, 12 February 1935, FO371/19350,F902/94/23.

152. Godber (Japan) to Agnew (London), 21 February 1935, FO371/19350,F1241/94/23; Clive (Tokyo) to the Foreign Office, 4 March 1935, FO371/19350,F2125/94/23.

153. Meeting between Kurusu and Sansom, 1 March 1935, FO371/19350,F2125/94/23; Clive (Tokyo) to the Foreign Office, 2 March 1935, FO371/19350,F1441/94/23.

154. Agnew (London) to Godber (Japan), 27 February 1935, FO371/19350,F1459/94/23; Godber (Japan) to Agnew (London), 1 March 1935, FO371/19350,F1504/94/23.

155. Clive (Tokyo) to the Foreign Office, 2 March 1935, FO371/19350,F1441/94/23.

On 10 April 1935 the Manchukuo authorities began the enforcement of the oil monopoly, and in response the three foreign oil companies ceased all operations in Manchukuo.¹⁵⁶ Thus the oil companies failed to prevent the inauguration of the Oil Monopoly Law and its violation of the Open Door. However, as Orde noted, there was little anyone could do to prevent the Manchukuo authorities from the pursuit of the oil monopoly.¹⁵⁷ Indeed even the Japanese Ministry of Foreign Affairs proved unable to halt the development of the Manchukuo oil monopoly. Disturbed by the violation of the Open Door, breach of international treaties, and the strain it placed upon Japanese relations with Britain and America, the Japanese Ministry of Foreign Affairs tried unsuccessfully to modify the Oil Monopoly Law.¹⁵⁸ The Foreign Office did not doubt that the Japanese Ministry of Foreign Affairs was sincere in its efforts but recognised that it was "powerless",¹⁵⁹ in the face of the Kwantung army's insistence on the Manchukuo oil monopoly.¹⁶⁰ Nevertheless, the failure to reach a compromise did not end the friction between the oil companies and the Manchukuoan authorities, as all the foreign oil companies now sought compensation from the Manchukuoan authorities for being forced out of Manchukuo, not a particularly easy task since the British government did not recognise Manchukuo.¹⁶¹ The oil companies shared these misgivings and realised that it would be difficult to extract an appropriate amount of compensation from either the Manchukuoan or Japanese authorities. However, Asiatic Petroleum, Stanvac, and Texas Oil agreed to present similar claims to the Manchukuoan authorities for the sale of their fixed assets and the loss of future earnings,¹⁶² and on 10 May 1935 the three foreign oil companies submitted their respective claims to the Manchukuoan government.¹⁶³

156. Butler (Mukden) to the Foreign Office, 9 and 30 April 1935, FO371/19350,F2711,F2790/94/23; Cadogan (Peking) to the Foreign Office, 3 May 1935, FO371/19352,F2893/94/23.

157. Minute by Orde, 4 April 1935, FO371/19351,F2297/94/23.

158. Clive (Tokyo) to the Foreign Office, 15 March and 12 April 1935, FO371/19351,F2323,F2434/94/23.

159. Minute by Allen, 10 April 1935, FO371/19351,F2323/94/23.

160. Butler (Mukden) to the Foreign Office, 2 March 1935, FO371/19351,F2323/94/23.

161. Minute by Orde on meeting between, Agnew, Darch, Starling (Petroleum Department), and Orde, 4 April 1935, FO371/19351,F2227/94/23.

162. See table 4.8; Butler (Mukden) to the Foreign Office, 24 April and 11 May 1935, FO371/19352,F2978,F4336/94/23; Starling (Petroleum Department) to Orde, 25 April 1935, FO371/19351,F2732/94/23; Clive (Tokyo) to the Foreign Office, 26 April 1935, FO371/19351,F2722/94/23; Anderson I. H., p. 65.

163. Butler (Mukden) to the Foreign Office, 10 May 1935, FO371/19352,F3004/94/23; See table 4.8.

The response of the Manchukuoan authorities to the foreign oil companies' claims for compensation was slow and disappointing. In June 1934 Asiatic Petroleum and Stanvac re-submitted their compensation claims but received no immediate response.¹⁶⁴ The Manchukuo authorities eventually replied in September 1935, stating that while they were prepared to discuss the sale of the oil companies' fixed assets, they were not prepared to meet any compensation claims for loss of future earnings.¹⁶⁵ Subsequently, the Manchukuo authorities hindered the oil companies' attempts to dispose of their remaining oil stocks to anyone other than the Manchukuo Petroleum Company.¹⁶⁶ Frustrated in their compensation claims with the Japanese and Manchukuo authorities, the companies made a desperate attempt to liquidate their operations in Manchukuo in November 1935 by offering everything to the Manchukuo government for a fixed lump sum. However, as expected, the Manchukuo government refused this offer: while they were prepared to pay for the fixed assets, they would not meet the oil companies claims for compensation.¹⁶⁷ Furthermore, the Manchukuo authorities told Butler they were in no position to make large payments to the oil companies.¹⁶⁸ Thus by the end of 1935 the foreign oil companies had been forced out of Manchukuo by the Oil Monopoly Law, and the whole problem of compensation for the oil companies remained unresolved.¹⁶⁹

In contrast to the poor position of the foreign oil companies in Manchukuo, with regard to the Petroleum Law they still appeared to some leverage over the Japanese

164. Butler (Mukden) to the Foreign Office, 24 June 1935, FO371/19352,F4522/94/23.

165. Butler (Mukden) to the Foreign Office, 18 September 1935, FO371/19353,F6558/94/23.

166. Butler (Mukden) to the Foreign Office, 2, 7, 23 and 30 May, 1 June, 17 July, and 1 August 1935, FO371/19352,,19153,F2894,F3398,F3563,F3745,F4340,F5404,F5919/94/23. These oil stocks had not been included as part of the foreign oil companies compensation claims, Butler (Mukden), 21 and 28 March 1935, FO371/19351,F2282,F2481/94/23; Jamieson (Harbin), 12 April 1935, FO371/19351,F2824/94/23. See table 4.10 for the volume of remaining petroleum stocks in Manchukuo.

167. Butler (Mukden) to the Foreign Office, 5 December 1935, FO371/19353,F7958/94/23; Anderson I. H., pp. 67-68.

168. Butler (Mukden) to the Foreign Office, 5 December 1935, FO371/19353,F7958/94/23.

169. It appears that prior to the outbreak of the Pacific War the foreign oil companies received no compensation from the Manchukuoan or Japanese authorities. In May 1940 the Foreign Office recorded that Asiatic Petroleum's claim for compensation from the Manchukuoan government was still outstanding, Starling (Petroleum Department) to the Foreign Office, 22 May 1940, FO371/24698,F3303/1073/10; Anderson I. H., footnote 56, pp. 68-69. Anderson notes that in 1941 in an attempt to lift the American oil embargo against Japan the Japanese government offered Stanvac \$1,500,000 to compensate them for the Manchukuo oil monopoly, Anderson I. H., p. 187.

government. Although the Japanese government was committed to the substitution of imported refined petroleum products and increased stockholding liability, the time lag before the completion of either policy prevented the Japanese government from forcing the oil companies fully to comply with either policy.¹⁷⁰ Even while the two oil companies were pursuing the oil embargo threat, they were aware that the Japanese government was prepared to meet some of their demands in order to prevent their withdrawal from the Japanese market.¹⁷¹ In November 1934 Yoshino, the Chief of the Commerce Bureau of the Japanese Ministry of Foreign Affairs, and Kurusu, suggested that since the cost of the six month stockholding could force Rising Sun Petroleum and Stanvac to withdraw from Japan, the more intransigent faction might be persuaded to accept a less rigid stockholding requirement, "conditional upon the foreign oil companies' decision as to whether or not it would be economically feasible for them to continue in business in Japan".¹⁷² In December 1934 the Japanese Ministry of Foreign Affairs stated that it would welcome the views of the foreign and Japanese oil companies on the modification of the Petroleum Law.¹⁷³

The spirit of cooperation continued into the more formal talks of 1935 between Frederick Godber, a Director of Royal Dutch Shell, George Walden, the Chairman of the Board of Stanvac, and Philo Parker, a veteran of twenty years of the China market with Socony and Stanvac's expert on Asian psychology, and Japanese officials from the Commerce Bureau of the Ministry of Foreign Affairs.¹⁷⁴ Even prior to the talks Rising Sun Petroleum and Stanvac received favourable sales quotas for the first half of 1935, which indicated the willingness of the Japanese government to accommodate the two foreign oil companies.¹⁷⁵ In February 1935 Godber reported that the Japanese officials were prepared to

170. Memorandum of interview between Dickover (US Embassy) and Kurusu, 18 October 1934, FO371/18191,F7160/1659/23.

171. Clive (Tokyo) to the Foreign Office, 21 November 1934, Rising Sun Petroleum (Yokohama) to Royal Dutch Shell (London), 23 November 1934, and minute by Orde, 23 November 1934, FO371/18191,F6932/1659/23.

172. Clive (Tokyo) to the Foreign Office, 23 November 1934, FO371/18191,F6958/1659/23; Anderson I. H., p. 85.

173. Rising Sun Petroleum (Yokohama) to Royal Dutch Shell (London), 14 December 1934, FO371/18191,F7400/1659/23.

174. These talks were carried out on a purely commercial basis and there was no involvement of either the British or American Embassy staff, Memorandum by Sansom, 16 April 1935, FO371/19352,F3345/94/23.

175. Starling (Petroleum Department) to Randall, 1 January 1935, FO371/19350,F95/94/23; Department of Overseas Trade to the Foreign Office, 31 January 1935, FO371/19350,F690/94/23; Anderson I. H., p. 92.

give some significant guarantees for Rising Sun Petroleum and Stanvac's operations in Japan. Godber believed that this climb down was due to the realisation that Japan could not quickly supplement any lost capacity that would result from Rising Sun Petroleum and Stanvac's refusing to cooperate with the Japanese authorities. "In general they now realise that [the] law failed to take into account relatively important facts which may make its smooth operation difficult".¹⁷⁶ The foreign oil companies also received indirect support from the Japanese oil companies who likewise sought a reduction in the stockholding provision and greater freedom for price setting.¹⁷⁷ Finally, on 13 April 1935, after a break in the negotiations,¹⁷⁸ officials in the Commerce Bureau guaranteed that the Petroleum Law would be modified to meet the criticisms of the foreign oil companies, and ensure their future operations in the Japanese market. In a written memorandum, known as the 'Five Points Agreement', the Japanese officials agreed that the foreign oil companies: would only be required to hold three months of stocks, which included current working stocks; would have a one third share of increased Japanese consumption of refined petroleum products, with an oral guarantee of a 50% share. The Japanese government agreed not to fix oil prices below the oil companies' cost price.¹⁷⁹ The 'Five Point Agreement' was a virtual capitulation to the oil companies' demands and was warmly received by oil company and embassy officials in Japan.¹⁸⁰ Clive viewed the abandonment of the six month stockholding provision as a substantial defeat for the Japanese militarists.¹⁸¹

However, the 'Five Points Agreement' did not mark the end of Rising Sun Petroleum's fight to remain in Japan and still evade the original provisions of the Petroleum Law. British

176. Godber (Tokyo) to Agnew (London), 9 February 1935, FO371/19350,F902/94/23; Memorandum by Sansom, 4 March 1935, FO371/19351,F2124/94/23.

177. Godber (Tokyo) to Agnew (London), 6 April 1935, FO371/19351,F2294/94/23; Darch (Royal Dutch Shell) to Coleman (Petroleum Department), 15 May 1935, FO371/19352,F3222/94/23.

178. The British and American oil representatives, and Embassy staff noted a marked reluctance by the Japanese officials to put any agreement in writing. This they believed stemmed from the fear of the Japanese officials of public criticism, particularly when the Diet was in session. Thus it was agreed to adjourn negotiations until the end of the current Diet session, Godber (Tokyo) to Agnew (London), 9 February 1935, FO371/19350,F902/94/23; Clive (Tokyo) to the Foreign Office, 7 February 1935, FO371/19350,F851/94/23; Memorandum by Sansom, 20 February 1935, FO371/19351,F2124/94/23; Anderson I. H., pp. 92-93.

179. Godber (Tokyo) to Agnew (London), 6 April 1935, FO371/19351,F2449/94/23; Clive (Tokyo) to the Foreign Office, 15 April 1935, FO371/19351,F2458/94/23; Memorandum by Sansom, 15 April 1935, FO371/19352,F3345/94/23.

180. Clive (Tokyo) to the Foreign Office, 15 April 1935, FO371/19351,F2458/94/23.

181. Clive (Tokyo) to the Foreign Office, 20 September 1935, FO371/19353,F6061/94/23.

opinion remained sanguine about the long term intentions of the Japanese, as the hard liners in the Japanese government sought to reverse the 'Five Point Agreement' with the foreign oil companies and insist on a stricter interpretation of the Petroleum Law.¹⁸² In August 1935 Commander Enomoto, of the Imperial Japanese Navy, told T. G. Ely, the manager of Rising Sun Petroleum's operations in Japan, that it was the long term intention of the Japanese to increase the foreign oil companies' stockholding requirement.¹⁸³ Evidence of the tougher Japanese stance towards the foreign oil companies soon emerged. In September 1935 the Japanese government rejected a request by the foreign and Japanese oil companies for an increase in the price of benzine.¹⁸⁴ Soon afterwards Commerce Bureau officials told the foreign oil companies that the 'Five Point Agreement' was to be abandoned. Rising Sun Petroleum was told that it would have to: meet the six month stockholding obligation,¹⁸⁵ or declare its intention to do so - though there was the possibility of some compensation for capital costs; that it would be allocated under 1/3 of any increase in gasoline sales; and that the Japanese government reserved the right to fix petroleum prices without reference to the oil companies' costs.¹⁸⁶ The foreign oil companies faith in the Japanese sank even lower when the Japanese government proposed higher duties on refined petroleum imports, and Rising Sun Petroleum and Stanvac calculated that the increased revenue was designed to meet the expense of the capital compensation plan.¹⁸⁷ The foreign oil companies' opposition to the six month stockholding was weakened when it became clear that the Japanese oil

182. Memorandum by Macarae (Tokyo), 3 May 1935, FO371/19352,F3541/94/23.

183. Clive (Tokyo) to the Foreign Office, 3 August 1935, FO371/19353,F5485/94/23; Coleman (Petroleum Department) to Randall, 31 August 1935, FO371/19353,F5681/94/23.

184. Rising Sun Petroleum (Yokohama) to Royal Dutch Shell (London), 18 and 26 September 1935, and Royal Dutch Shell (London) to Rising Sun Petroleum (London), 20 and 30 September 1935, FO371/19353,F6321,F6937/94/23.

185. Although in September 1935 the Japanese government announced that, after permission from the Ministry of Commerce and Industry and the Ministry of Foreign Affairs, the six month stockholding provision would be suspended until 30 June 1935, the foreign oil companies quickly realised that this was only an interim reprieve from the Japanese pursuit of the six month stockholding provision, Darch (Royal Dutch Shell) to Coleman (Petroleum Department), 30 August 1935, and Coleman (Petroleum Department) to Randall, 31 August 1935, FO371/19353,F5681/94/23; Clive (Tokyo) to the Foreign Office, 20 September 1935, FO371/19353,F6061/94/23; Darch (Royal Dutch Shell) to Starling (Petroleum Department), 18 September 1935, and Rising Sun Petroleum (Yokohama) to Royal Dutch Shell (London), 25 September 1935, FO371/19353,F6321/94/23; Anderson I. H., pp. 96-67.

186. Rising Sun Petroleum (Yokohama) to Royal Dutch Shell (London), 30 September 1935, FO371/19353,F6321/94/23; Clive (Tokyo) to the Foreign Office, 9 October 1935, FO371/19353,F6391/94/23; Anderson I. H., p. 97.

187. Rising Sun Petroleum (Yokohama) to Royal Dutch Shell (London), 25 November 1935, FO371/19353,F7647/94/23.

companies intended to comply with the six month stockholding requirement.¹⁸⁸ Nevertheless, despite fears over the reliability of Stanvac,¹⁸⁹ and another rebuff from the State Department to Royal Dutch Shell and Stanvac over control of the independent American oil companies oil exports to Japan,¹⁹⁰ Rising Sun Petroleum believed that it was still in a strong position, since the Japanese government still could not afford the disruption caused by a withdrawal of the foreign oil companies.¹⁹¹ This view was shared by the British and American Embassies in Japan.¹⁹² However, negotiations with the Japanese proved unsuccessful. The Commerce Bureau officials rejected Rising Sun Petroleum and Stanvac's demand for a return to the 'Five Points Agreement', and insisted that unless the foreign oil companies met the six month stockholding requirement they would face further discrimination in their gasoline sales quota.¹⁹³ The Japanese officials even rejected Rising Sun Petroleum and Stanvac's offer - in an attempt to induce the Japanese to modify their hard line stance¹⁹⁴ - of the joint patent to their hydrogenation process, on the grounds that it was of little interest to them.¹⁹⁵

188. Royal Dutch Shell (London) to Rising Sun Petroleum (Yokohama), 20 September 1935, FO371/19353,F6321/94/23; Clive (Tokyo) to the Foreign Office, 9 October 1935, FO371/19353,F6391/94/23; Starling (Petroleum Department) to Randall, 12 November 1935, FO371/19353,F7135/94/23.

189. Minute by Randall, 10 October 1935, FO371/19353,F6391/94/23; Meeting between Agnew, Godber, Darch (all Royal Dutch Shell), Starling (Petroleum Department), and Gasgoine (Foreign Office), 14 November 1935, FO371/19353,F7183/94/23; Minute by Gasgoine, 19 November 1935, FO371/19353,F7267/94/23; Anderson I. H., p. 99.

190. Lindsay (Washington) to the Foreign Office, 22 November 1935, FO371/19353,F7376/94/23. Furthermore, British Embassy staff in Washington also told Agnew that any similar approach to themselves would be rejected, meeting between Agnew (Royal Dutch Shell), Chalkey, and Broadwood (both British officials in Washington), 29 October 1935, FO371/19353,F7028/94/23.

191. Agnew (London) to Royal Dutch Shell (New York), 14 November 1935, FO371/19353,F7267/94/23.

192. Wiggan (Tokyo) to the Foreign Office, 2 December 1935, FO371/19353,F7557/94/23.

193. Rising Sun Petroleum (Yokohama) to Royal Dutch Shell (London), 3, 9, 24 and 27 December 1935, and Royal Dutch Shell (London) to Rising Sun Petroleum (Yokohama), 30 December 1935, FO371/19353,F7557,F7787,F8137/94/23.

194. Although the Admiralty was concerned over the possible transfer of hydrogenation technology to Japan - hydrogenation was the process of transforming coal into oil which if economically viable would have reduced the Japanese military dependence upon oil imports - the Foreign Office decided that the plight of the oil companies in Japan was so serious that the oil companies should go ahead with the offer, meeting between Agnew, Godber, Darch (all Royal Dutch Shell), Starling (Petroleum Department), and ~~Gasgoine~~ ^{Gasgoine}, 4 December 1935, FO371/19353,F7651/94/23; Royal Dutch Shell (New York) to Royal Dutch Shell (London), 6 December 1935, FO371/19353,F7780/94/23; Royal Dutch Shell (London) to Rising Sun Petroleum (Yokohama), 9 December 1935, FO371/19353,F7787/94/23; Minute by Orde, 12 December 1935, FO371/19353,F7787/94/23.

195. Rising Sun Petroleum (Yokohama) to Royal Dutch Shell (London), 24 and 27 December 1935, and Royal Dutch Shell (London) to Rising Sun Petroleum (Yokohama), 30 December 1935, FO371/19353,F8137/94/23; Anderson I. H., pp. 97-99. Mira Wilkins is wrong to suggest that in

When talks between the foreign oil companies and Japanese officials resumed in 1936, the familiar pattern of Japanese pressure on the oil companies to comply with the Petroleum Law and fear of their withdrawal, pushed both sides towards an unstable *modus vivendi*. Despite the lack of progress, talks with Yoshino and Kurusu convinced Rising Sun Petroleum and Stanvac representatives in Japan that neither official wanted to force the two foreign oil companies to withdraw from Japan.¹⁹⁶ However, Kurusu warned the companies' representatives that, in anticipation of the failure of the talks between the foreign oil companies and the Japanese government, Nippon Sekiyu and Mitsubishi Oil had applied for increased gasoline sales quotas, which would naturally be taken from the British and American oil companies' quotas.¹⁹⁷ Progress towards a *modus vivendi* remained slow¹⁹⁸ until the British Embassy officials revived an earlier Japanese¹⁹⁹ suggestion that the two western companies could fulfil the stockholding requirement, either through establishing their own storage companies in Japan or through an arrangement with a Japanese company.²⁰⁰ Royal Dutch Shell and Stanvac immediately recognised this suggestion as a solution to their problems of the Petroleum Law²⁰¹ - since it enabled them to meet the stockholding requirement of the Petroleum Law, and yet avoid excessive expenditure on their own part -

December 1935 Stanvac and Royal Dutch provided the Japanese with the research results of Stanvac's hydrogenation process. Consequently, her statement that this was a major concession to the Japanese is equally untrue, Wilkins M., 'The Role of U.S. Business', in Borg D., and Okamoto S. (eds.), *Pearl Harbor as History: Japanese-American Relations, 1931-1941* (Columbia University Press, New York; 1973), p. 365; Wilkins M., 'The Contributions of Foreign Enterprises to Japanese Economic Development', in Yuzawa T. and Udagawa M. (eds.), *Foreign Business in Japan Before World War II* (University of Tokyo Press, Tokyo; 1990), p. 41.

196. Rising Sun Petroleum (Yokohama) to Royal Dutch Shell (London), 27 November 1935, FO371/19353,F8137/94/23, 6 January 1936, 16 January 1936, 21 January 1936, and 10 February 1936, FO371/20280,F142,F296,F458,F1086/105/23; Starling (Petroleum Department) to the Foreign Office, 24 February 1936, FO371/20280,F1086/105/23.

197. Rising Sun Petroleum (Yokohama) to Royal Dutch Shell (London), 24 February 1936, FO371/20280,F1124/105/23.

198. Royal Dutch Shell (London) to Rising Sun Petroleum (Yokohama), 24 February 1936, and 7 March 1936, FO371/20280/F1086,F1399/105/23; Rising Sun Petroleum (Yokohama) to Royal Dutch Shell (London), 27 February 1937, 6 March 1936, and 11 March 1936, FO371/20280,F1137,F1399,F1581/105/23.

199. The first suggestion was made in late December 1935, Rising Sun Petroleum (Yokohama) to Royal Dutch Shell (London), 27 December 1935, FO371/19353,F8137/94/23; Anderson I. H., p. 99.

200. Rising Sun Petroleum (Yokohama) to Royal Dutch Shell (London), 13 March 1936, FO371/20280,F1581/105/23.

201. Royal Dutch Shell (London) to Rising Sun Petroleum (Yokohama), 19 March 1936, FO371/20280,F1597/105/23.

and, despite objections from Rising Sun Petroleum's representatives in Japan²⁰² pressed ahead to establish a stockholding arrangement with Mitsui.²⁰³ By October 1936 Rising Sun Petroleum, Stanvac and Mitsui were ready to sign an agreement in which Mitsui would pay for the new storage capacity and new oil stocks while Rising Sun Petroleum and Stanvac would lease and then purchase - as their commercial operations in Japan expanded - these oil stocks in order to 'fulfil' the six month stockholding requirement, and yet still not maintain more than three months of their own oil stocks in Japan.²⁰⁴ The auspices for the arrangement with Mitsui appeared good, as it had the full backing of the Japanese government.²⁰⁵ Not only had the Japanese government agreed to compensate Mitsui for its capital outlay, Rising Sun Petroleum believed that the Japanese Ministry of Commerce and Industry had actually pushed Mitsui into the arrangement with Rising Sun Petroleum and Stanvac.²⁰⁶ Thus the arrangement with Mitsui appeared to presage a period of stability for the two companies in Japan.

However, once again another change of direction in the enforcement of the Petroleum Law by the Japanese government threatened the foreign oil companies' position in Japan and jeopardised the stockholding arrangement with Mitsui. In late October 1936 the Ministry of Commerce and Industry's refusal to confirm in writing that the arrangement with Mitsui was acceptable to the Japanese government²⁰⁷ prevented Rising Sun Petroleum

202. Rising Sun Petroleum (Yokohama) to Royal Dutch Shell (London), 20 March 1936, FO371/20280,F1597/105/23.

203. Mitsui was chosen because they already distributed approximately half of Stanvac's product throughout Japan, Royal Dutch Shell (London) to Rising Sun Petroleum (Yokohama), 19 March 1936, FO371/20280,F1597/105/23; Anderson I. H., p. 99.

204. Rising Sun Petroleum (Yokohama) to Royal Dutch Shell (London), 27 March 1936, and 16 April 1936, FO371/20280,F1774,F2255/105/23; Royal Dutch Shell (London) to Rising Sun Petroleum (Yokohama), 17 April 1936, FO371/20820,F2255/105/23; Royal Dutch Shell (New York) to Royal Dutch Shell (London), 22 April 1936, and Royal Dutch Shell (London) to Royal Dutch Shell (New York), 24 April 1936, FO371/20280,F2403/105/23; Starling (Petroleum Department) to Orde, 2 October 1936, and memorandum by Agnew (Royal Dutch Shell), 29 October 1936, FO371/20820,F6040/105/23; Anderson I. H., pp. 99-100.

205. Yoshino and Kurusu had only one mild criticism of the arrangement with Mitsui, that since the large zaibatsu like Mitsui were out of political favour in Japan it might be better if Rising Sun Petroleum and Stanvac established their stockholding arrangement with one or two of the smaller zaibatsu, like Sumitomo and/or Ogura, Rising Sun Petroleum (Yokohama) to Royal Dutch Shell (London), 24 March 1936, FO371/20280,F1674/105/23.

206. Memorandum by Agnew (Royal Dutch Shell), 29 October 1936, FO371/20280,F6040/105/23.

207. Rising Sun Petroleum (Yokohama) to Royal Dutch Shell (London), 2 November 1936, FO371/20280,F6764/105/23; Starling (Petroleum Department) to Orde, 19 December 1936, FO371/20280,F7853/105/23; Minute by Warner, 4 December 1936, FO371/20280,F7483/105/23; Anderson I. H., pp. 100-101.

and Stanvac from formalising the stockholding arrangement with Mitsui.²⁰⁸ In December 1936 the revised kerosene sales quotas for the first half of 1937 reduced both Rising Sun Petroleum and Stanvac's sales quotas while increasing quotas for the Japanese oil companies.²⁰⁹ Next, the Japanese government again increased the import duty on refined petroleum products.²¹⁰ Then on 21 November 1936, Haruhiko Ogai, the Director of the Mining Bureau of the Ministry of Commerce and Industry, reprimanded the two western companies for their non-fulfilment of the six month stockholding requirement.²¹¹ In response to these developments Rising Sun Petroleum warned head office that, "we feel ... that henceforth we may be faced with more ruthless nationalistic policy".²¹² In response to this change of direction from the Japanese authorities both the British and American Embassies protested at the 'discriminatory' kerosene quota, revision of the petroleum tariff, and failure to sanction the Mitsui arrangement.²¹³ Both the Foreign Office and Rising Sun Petroleum's representative in Japan were unconvinced by the Japanese response to the British and American diplomatic protests,²¹⁴ and the latter recommended that the recent Japanese actions should be met with restrictions on oil supplies to Japan.²¹⁵ However, this suggestion was immediately rebuffed by Royal Dutch Shell in London, who viewed the recent action of the Japanese government as mild when compared with previous 'discrimination' against themselves. Royal Dutch Shell concluded that so long as a stable working relationship with the Japanese authorities could be maintained, especially via the Mitsui arrangement, then 'discrimination' in the less important kerosene market could be tolerated.²¹⁶

208. Memorandum by Agnew (Royal Dutch Shell), 15 December 1936, FO371/20280,F7853/105/23.

209. Rising Sun Petroleum (Yokohama) to Royal Dutch Shell (London), 4 December 1936, FO371/20280,F7853/105/23; Starling (Petroleum Department) to the Foreign Office, 12 January 1937, FO371/21032,F246/66/23.

210. Rising Sun Petroleum (Yokohama) to Royal Dutch Shell (London), 4 December 1936, FO371/20280,F7853/105/23; Starling (Petroleum Department) to the Foreign Office, 12 January 1937, FO371/21032,F240/66/23.

211. Clive (Tokyo) to the Foreign Office, 6 and 27 January 1937, FO371/21032,F119,F1250/66/23.

212. Rising Sun Petroleum (Yokohama) to Royal Dutch Shell (London), 4 December 1936, FO371/20280,F7483/105/23.

213. Clive (Tokyo) to the Foreign Office, 17, 19, 24, and 29 December 1936, FO371/20820,21032/7769,F7827,F7962,F513/105,66/23; Anderson I. H., p. 101.

214. Clive (Tokyo) to the Foreign Office, 16 January 1937, FO371/21032,F322,F333/66/23; Rising Sun Petroleum (Yokohama) to Royal Dutch Shell (London), 20 January 1937, FO371/21032,F445/66/23.

215. Royal Dutch Shell (London) to Rising Sun Petroleum (Yokohama), 29 January 1937, FO371/21032,F710/66/23.

216. Royal Dutch Shell (London) to Rising Sun Petroleum (Yokohama), 29 January 1937, and Starling

In order to maintain a stable working arrangement with the Japanese authorities Royal Dutch Shell and Stanvac were prepared to go much further than ignoring the 'discriminatory' kerosene quota. After three years of fruitless negotiations with the Japanese authorities both foreign oil companies were prepared to 'sacrifice' their earlier demands for a proportionate share of the growth in the Japanese petroleum market. In response to the recent change in Japanese petroleum policy, the two firms told their representatives in Japan that they should now request sales quotas commensurate with their capital investments in Japan.²¹⁷ Consequently, since neither Rising Sun Petroleum nor Stanvac had invested heavily in Japan after the promulgation of the Petroleum Law - in contrast to the Japanese oil companies who had invested capital in both the six month stockholding facilities and oil refining capacity - this meant that both companies were prepared to forego previous demands of a proportionate share in the growth of the Japanese oil market. In return for this conceding the right of the Japanese authorities to determine oil quotas in favour of domestic oil refiners, both oil companies merely requested guarantees that their operations in Japan should be reasonably remunerative, they should have equality in matters of taxation, and recognition from the Japanese authorities of their arrangement with Mitsui.²¹⁸ Thus, prior to the Sino-Japanese War, while Rising Sun Petroleum and Stanvac were able to retain a substantial share of the Japanese refined petroleum products market and avoid many of the requirements of the Petroleum Law, they were forced to accept that the Japanese government's determination to pursue an import substitution policy and increased stockholding requirement meant a significant reduction of their share of the Japanese petroleum market and continued uncertainty over their prospects in the Japanese market.²¹⁹ However, it is noticeable that even after the British and American governments had abandoned the oil embargo threat policy, Rising Sun Petroleum and Stanvac's own opposition prevented the Japanese government from forcing them into a strict compliance with the Petroleum Law.

(Petroleum Department) to the Foreign Office, 2 February 1937, FO371/21032,F710/66/23.

217. Royal Dutch Shell (London) to Rising Sun Petroleum (Yokohama), 29 January 1937, FO371/21032,F710/66/23.

218. Royal Dutch Shell (London) to Rising Sun Petroleum (Yokohama), 29 January 1937, and Starling (Petroleum Department) to the Foreign Office, 2 February 1937, FO371/21032,F710/66/23.

219. This uncertainty was again emphasised on the eve of the Sino-Japanese War when it was reported that Mitsui intended to pull out of the as yet unsigned arrangement with Rising Sun Petroleum and Stanvac, the Admiralty to the Foreign Office, 28 June 1937, FO371/21032,F3718/66/23.

Conclusion.

The promulgation of the Japanese Petroleum Law and the Manchukuo Oil Monopoly Law in 1934 affected both Royal Dutch Shell's oil interests and Anglo-Japanese relations. However, the most noticeable impact was upon Royal Dutch Shell's trade in Japan and Manchukuo. In Manchukuo the effect of the Oil Monopoly Law on Royal Dutch Shell's commercial operations was clear cut. In 1935, as a result of the Oil Monopoly Law, its subsidiary Asiatic Petroleum was forced to withdraw in protest, and without compensation, from ~~the~~ Manchukuo. In Japan the commercial effect of the Petroleum Law on Royal Dutch Shell's subsidiary Rising Sun Petroleum was more complex. Both Rising Sun Petroleum and Stanvac were able to avoid the capital investment required for the six month stockholding requirement. Yet at the same time they suffered a marked decline of their share of the Japanese refined petroleum products market. In particular the implementation and operation of the Petroleum Law resulted in a substantial fall of their combined market share of the Japanese gasoline market: in 1933 prior to the implementation of the Japan Petroleum Law they held 52.9% of the Japanese gasoline market, by 1937 their combined share of the gasoline market had fallen to 38.2%.²²⁰ Thus although Rising Sun Petroleum survived in Japan without increasing their stock holding commitment, this represented only a partial victory. The price was Rising Sun Petroleum's non-participation in the growth of the Japanese oil market, and its continued operations in Japan were always subject to a high degree of political pressure and uncertainty.²²¹ Furthermore, it was clear that Rising Sun Petroleum and Stanvac's survival in Japan was due less to the resistance of both oil companies than the limits of Japan's import substitution policy. So long as Japan did not have the domestic capacity to meet demand for refined petroleum products the need for

220. Royal Dutch Shell (London) to Rising Sun Oil (Yokohama), 29 January 1937, FO371/21032,F710/66/23; Udagawa M., p. 23. Furthermore, in Korea Royal Dutch Shell and Stanvac's operations suffered a similar decline, as a result of Japanese administrative 'discrimination' after the formation of the government controlled Chôsen Sekiyu Kaisha (Korea Petroleum Company) in June 1935, Kermode (British Consul in Seoul) to the Department of Overseas Trade, 12 June 1935, FO371/19352,F3765/94/23; Rising Sun Petroleum (Yokohama) to Royal Dutch Shell (London), 18 September 1935, FO371/19353,F6321/94/23. Between 1933 and 1937 Royal Dutch Shell and Stanvac's share of the Korean gasoline market fell from 63.63% to only 25.61%, Royal Dutch Shell (London) to Rising Sun Petroleum (Yokohama), 29 January 1937, FO371/21032,F710/66/23.

221. This is in contrast to several authors who suggest that the Petroleum Law was ineffective because Rising Sun Petroleum and Stanvac were able to evade the six month stockholding and continue operations in Japan, Anderson I. H., p. 105; Davenport-Hines R. T. P., and Jones G., 'British Business in Japan since 1868', in Davenport-Hines R. T. P., and Jones G. (eds.), *British Business in Asia since 1860* (Cambridge University Press, Cambridge; 1989), p. 232; Wilkins M., 'The Contribution of Foreign Enterprises to Japanese Economic Development', pp. 41-42; Wilkins M., 'The Role of U.S. Business', pp. 362-365.

imports of refined petroleum products continued.

In contrast to the dramatic impact of the Petroleum and Oil Monopoly Laws upon Royal Dutch Shell's operations, the repercussions upon Anglo-Japanese relations were minimal. This is the more surprising given Foreign Office alarm that promulgation of the Manchukuo oil monopoly posed a serious threat to British commercial operations in China. Although concerned at Japan and Manchukuo's breach of the Open Door, the Foreign Office had no desire to escalate Royal Dutch Shell's difficulties beyond that of a commercial dispute ~~between~~ Royal Dutch Shell and Manchukuoan authorities. Within the context of a commercial dispute ~~between~~ Royal Dutch Shell, Stanvac, and the Foreign Office sought to maximise both oil companies' chances of forcing the Japanese and Manchukuoan authorities into a compromise. However, the plan to bolster the oil companies' resistance through a commercially organised oil embargo against Japan and Manchukuo collapsed in December 1934 when the American government realised it could not enforce the participation of the independent American oil companies. The commercial embargo thus collapsed not out of fear of Japanese retaliation but because of the limited authority of the American government over its oil producers. After this failure to orchestrate a commercial oil embargo against Japan, Royal Dutch Shell and Stanvac's resistance to the Petroleum and Oil Monopoly Laws was treated as a purely commercial dispute which had no direct impact upon Anglo-Japanese relations.

Table 4.1 : Japan's annual production, import, and total supply of crude oil, 1930/31-1939/40 (kilolitres).

	Production	Imports	Total Supply
1930-31	316,560	570,120	886,680
1931-32	305,760	616,020	921,792
1932-33	235,500	852,516	1,106,016
1933-34	225,564	1,018,356	1,234,920
1934-35	283,860	1,200,324	1,484,184
1935-36	350,952	1,332,048	1,683,012
1936-36	390,696	1,678,320	2,066,796
1937-38	392,640	2,326,320	2,718,972
1938-39	391,880	1,975,896	2,367,756
1939-40	370,752	1,745,664	2,116,416

[Source: GHQ SCAP., *Japanese Economic Statistics* (GHQ SCAP Economic and Scientific Section Programs and Statistics Division, Bulletin No. 60, Section 1 - Industrial Production; August 1951), pp. 19-20.]

Table 4.2 : Sales of petroleum products by volume in Japan, 1930-1938 (kilolitres).

Year	Gasoline	Kerosene	Light fuel oil	Crude oil	Lubricating oil	Total
1930	555,060	144,726	227,997	1,091,908	206,111	2,225,802
1931	615,692	121,599	191,731	1,265,100	178,583	2,372,705
1932	692,470	140,442	223,784	1,418,246	171,954	2,646,290
1933	711,027	132,386	200,352	1,530,810	215,810	2,790,385
1934	870,831	174,994	201,090	1,792,793	286,610	3,308,323
1935	1,025,097	136,653	133,889	2,381,091	277,350	3,954,080
1936	1,035,694	134,306	107,392	2,164,594	320,070	3,762,056
1937	1,301,293	179,727	143,336	3,046,139	351,000	5,063,435
1938	1,006,507	148,684	207,280	2,578,838	446,000	4,292,309

[Source: Inokuchi T., *Gendai Nippon Sangyô Hattatsu-shi, Vol. II., Sekiyu* [History of the development of modern Japanese industries II, Petroleum industry] (Gendai Nippon Sangyô Hattatsu-Shi Kenkyû-Kai, Tokyo; 1963), table 35, p. 245.]

Table 4.3 : Imported crude oil as a percentage of Japan's total consumption, and the percentage of petroleum products derived from imported crude oil, 1930/31-1938/39.

Year	Crude oil	Gasoline	Kerosene	Gas oil	Diesel oil	Lubricating oil
1930-31	64.30	70.06	58.75	51.12	54.60	66.47
1931-32	66.83	72.75	65.81	53.74	25.70	68.08
1932-33	77.08	83.16	70.29	66.91	71.20	68.87
1933-34	81.87	89.95	73.86	71.36	83.21	77.35
1934-35	80.87	92.70	77.45	66.76	83.27	74.82
1935-36	79.15	92.44	73.65	66.04	73.42	68.70
1936-37	81.20	90.74	71.81	63.53	70.97	74.11
1937-38	85.56	92.90	69.72	65.84	78.54	78.58
1938-39	83.45	92.57	67.07	68.03	78.26	79.97

[Source: GHQ SCAP., *Japanese Economic Statistics* (GHQ SCAP Economic and Scientific Section Programs and Statistics Division, Bulletin No. 60, Section - 1 Industrial Production; August 1951), pp. 19-20.]

Table 4.4 : Petroleum products market price, 1926-1937 (yen per kilolitre).

Year	Gasoline	Kerosene	Light fuel oil	Machine oil
1926	202.78	152.78	114.45	128.89
1927	187.67	143.97	85.89	136.33
1928	168.53	133.81	74.08	118.53
1929	137.03	129.39	78.70	103.25
1930	127.31	118.53	70.61	90.50
1931	124.17	110.83	60.00	79.72
1932	119.45	116.67	75.00	94.45
1933	130.56	138.89	86.11	116.67
1934	117.36	121.75	79.17	95.61
1935	139.95	116.67	84.72	111.11
1936	154.17	116.89	85.89	111.81
1937	185.00	162.78	133.89	163.33

[Source: Inokuchi T., *Gendai Nippon Sangyô Hattatsu-shi, Vol. II., Sekiyu* [History of the development of modern Japanese industries II, Petroleum industry] (Gendai Nippon Sangyô Hattatsu-Shi Kenkyû-Kai, Tokyo; 1963), table 36, p. 245.]

Table 4.5 : Price of petroleum products (yen per box).

		Gasoline	Kerosene	Light fuel oil	Machine oil	Crude oil
1929	December	5.60	5.30	3.40	4.30	1.70
1930	December	4.90	4.80	2.60	3.60	1.70
1931	March	4.80	4.60	2.50	3.40	1.40
	June	4.80	4.70	2.70	3.60	1.20
	September	4.90	4.70	2.70	3.60	1.10
	December	5.00	4.80	2.80	3.70	1.20
1932	March	4.40	4.80	2.70	3.50	1.25
	June	4.00	4.00	2.60	3.30	1.30
	September	4.70	4.40	3.10	3.70	1.45
	December	5.60	5.40	3.50	4.50	1.60
1933	March	5.40	5.50	3.60	4.50	1.60
	June	5.10	5.20	3.50	4.50	1.60
	September	4.20	4.50	2.80	3.60	1.45
	December	4.00	4.40	2.90	3.60	1.45

[Source: Inokuchi T., *Gendai Nippon Sangyô Hattatsu-shi, Vol. II., Sekiyu* [History of the development of modern Japanese industries II, Petroleum industry] (Gendai Nippon Sangyô Hattatsu-Shi Kenkyû-Kai, Tokyo; 1963), table 37, p. 250.]

Table 4.6 : Comparative sale of petroleum by British and American oil companies in Manchuria and Japan in 1933 (thousands of 42-gallon barrels).

	Manchuria	Japan
Shell (Anglo-Dutch)	253	5,960
Stanvac (USA)	197	3,128(a)
Texas (USA)	82	53
Total	532	9,087

[Source: Butler (Mukden) to the British Legation in Peking, 14 June 1934, FO371/18109,F5158/142/10.]

Note : (a) Of this total approximately half was sold to customers through Mitsui and the remainder through Stanvac's own distributions network.

Table 4.7 : Effect of the August 1934 gasoline quota on the Japanese and western oil companies' market share.

Company	Nationality of Ownership	Market share based on actual sales, June-August 1934	Authorised sales quota, July-December 1934	Percentage change of market share between actual sales and authorised quota
Rising Sun Petroleum	Anglo-Dutch	29.47	27.65	-6.7
Stanvac	American	19.18	17.87	-7.14
Nippon Sekiyu	Japanese	21.87	23.93	+9.60
Ogura	Japanese	12.74	13.36	+4.87
Mitsubishi	American-Japanese	8.36	8.90	+6.46
Matsukata	Japanese	4.94	4.64	-6.07
Others	All Japanese	3.44	3.94	+14.53

[Sources: Starling (Petroleum Department) to the Foreign Office, 8 September 1934, FO371/18189,F5436/1659/23; Anderson I. H., *The Standard Vacuum Company and United States East Asian Policy, 1931-1941* (Princeton University Press, Princeton; 1975), footnote 14, p. 77.]

Table 4.8 : Claims by the foreign oil companies for compensation from the Manchukuo government.

Company	Compensation claim
Asiatic Petroleum	£418,000
Stanvac	\$1,781,880
Texas Oil	\$456,737

[Sources: Butler (Mukden) to the Foreign Office, 10 May 1935, FO371/19352,F3004/94/23; Anderson I. H., *The Standard Vacuum Company and United States East Asian Policy, 1931-1941* (Princeton University Press, Princeton, 1975), p. 67.]

Table 4.9 : Source of supply of imported petroleum into Japan in 1933 (tons).

Type of Petroleum	Controlled by British interests		Controlled by American interests		Controlled by the Soviet Union		Total
	Volume	Percentage of total imports	Volume	Percentage of total imports	Volume	Percentage of total imports	
Crude Oil	104,000	10.52	884,000	89.47			988,000
Fuel Oil	483,000	33.99	662,000	46.59	276,000	19.42	1,421,000
Kerosene	33,000	54.09	28,000	45.90			61,000
Benzine	233,000	57.81	180,000	44.66			403,000
Total	843,000	29.34	1,754,000	61.05	276,000	9.60	2,873,000

[Source: Agnew (Royal-Dutch Shell) to Starling (Petroleum Department), 28 November 1934, FO371/18191,F7207/1659/23.]

Table 4.10 : Petroleum stocks possessed by the three foreign oil companies in Manchuria (excluding the Kwantung Leased Territories) on the eve of the implementation of the Oil Monopoly Law (tons).

Company	Kerosene	Gasoline
Asiatic Petroleum	1,279,190	287,440
Stanvac	1,915,910	369,600
Texas Oil	577,155	106,840

[Source: Butler (Mukden) to the Foreign Office, 28 March 1935, FO371/19351,F2481/94/23.]

Chapter 5.

The British shipping industry and Japanese competition.

Introduction.

When Japanese competition emerged in the mid to late-1930s as the greatest threat to British shipping interests in the Pacific-East Asia region, it entered an arena that had already seen considerable British debate on the requirements for British shipping to meet foreign competition. For the world shipping industry the interwar years were a time of unprecedented economic severity; from the end of the postwar boom in 1920 to shortly before the Second World War, there was little relief from the twin problems of low trade volumes and gross overcapacity. Naturally, this dismal situation was accentuated by the impact of the Depression as the world shipping industry adjusted slowly to the sudden downturn in world trade. However, for the British shipping industry the problem of overcapacity and low freight rates was further compounded by the common interwar policy resorted to by most of the important maritime countries of extending state aid to their own merchant marines. The experience of the First World War justified the need to maintain an effective merchant marine as an insurance for future national emergencies; state financial aid was therefore readily used to support various mercantile establishments. Thus for the relatively unsubsidised British shipping industry state aid to foreign competitors added to the commercial difficulties of the poor economic environment. Consequently, during the 1930s, and prior to the emergence of Japanese competition, the previously free trade British shipping industry turned to the government for support to enable it to compete on a level footing with its subsidised competitors.

However, while the British shipping industry looked to the British, Dominion, and Colonial strength as the means of improving its commercial position, calls for the protection of imperial trade and countervailing shipping subsidies had to be balanced against the wider needs of the shipping industry and Britain's trade policy. Subsidies and trade protection challenged Britain's perceived need of limited government spending, and its long-term requirement of a freer world economy. Both the British government and large sections of the shipping industry remained reluctant to endorse widespread government intervention. Furthermore, intervention in support of the shipping industry could not be divorced from Britain's foreign and trade policy requirements, and intra-imperial relations. Any form of British sponsored restrictions on foreign shipping access to its vast imperial shipping routes would hardly be welcomed by Britain's trading partners: consequently such a policy ran the risk of enormous political and economic retaliation. However, even if the British

government endorsed imperial shipping reservation a final consideration for British policy makers was the impact of this policy upon intra-imperial relations. An effective imperial policy for British shipping would be dependent upon the support of the Dominion and Indian governments. However, this support was conditional upon the extent to which Britain's imperial shipping policy advanced Dominion and Indian commercial interests.

Therefore the British clash with Japan was part of the general demands of British shipping interests for some government protection against subsidised shipping competition, yet unlike the cotton dispute, this British campaign was not specific to Japan. The British saw foreign shipping subsidies as an international problem of which Japan was only one of many contributors. Thus even though Japan was regarded as an unstable power, any domestic or international constraints upon Britain's response to other subsidising countries were equally applicable to Japan. Furthermore, Anglo-Japanese shipping rivalry in the 1930s was part of a long history of intense Anglo-Japanese commercial friction over the regulation of respective shipping interests in various shipping conferences.¹ Before World War One it was only through some aggressive commercial diplomacy that the Nippon Yusen Kaisha (NYK), in the face of strong British competition, had been able to maintain its position in the Far Eastern Shipping Conference.² Such commercial disputes continued throughout the 1920s and 1930s.³ Thus while Anglo-Japanese shipping rivalries intensified in the mid to late-1930s it represented a continuation of an established pattern of commercial friction between Britain and Japan, and between Britain and other competitors.

1. The shipping industry was organised into two distinct categories: liners which engaged in scheduled sailings and conference trade, and tramps that plied an independent carrying trade. Shipping conferences consisted of bodies of independent shipping lines on specific routes that agreed for a fixed period to set minimum freight quotes and regulate the apportionment of traffic. However, such conferences were subject to renegotiation and competition from outside lines, Sturmev S. G., *British Shipping and World Competition* (Athlone Press, University of London; 1962), chapter XIII; Imperial Shipping Committee, *British Shipping in the Orient* (HMSO, London; 1939), pp. 77-78.

2. Chida T., and Davies P. N., *The Japanese Shipping and Shipbuilding industries: A history of modern growth* (The Athlone Press, London; 1990), pp. 20-1; Imperial Shipping Committee, pp. 79-80; Wray W. D., *Mitsubishi and the N.Y.K., 1870-1914* (Harvard University Press, Cambridge Massachusetts; 1984), pp. 293-302.

3. Imperial Shipping Committee, pp. 80-81, 84, 86; Wray W. D., 'NYK and the Commercial Diplomacy of the Far Eastern Freight Conference, 1896-1956', in Yui T., and Nakagawa K. (eds.), *Business History of Shipping: Strategy and Structure* (University of Tokyo, Tokyo; 1985), pp. 284-298.

The British and world shipping industries in the interwar period.

The underlying problem for the world shipping industry in the interwar period was the overcapacity of shipping tonnage in relation to the stagnant levels of world trade.⁴ The carrying of transnational seaborne trade was crucial to the shipping industry and obviously it could not isolate itself from the fluctuations of world trade. Following the postwar slump there was a dramatic decline in world trade from which there was only a limited recovery. In 1921 world seaborne trade was nearly 20% below its 1913 level, and while there was a rise in world trade until 1929, the onset of the Depression again saw volumes of world trade ~~fall~~ fall to 1913 levels by 1932. Only in 1937 with the arrival of the prewar boom did world seaborne trade exceed its previous interwar peak.⁵ However, during the interwar period shipping capacity did not respond elastically to the falls in seaborne trade, and in relation to 1913 levels, there was virtually a continual excess of shipping tonnage in relation to volumes of trade.⁶ Naturally, the Depression exacerbated this problem, so that in 1932 despite the fall in world trade volumes world shipping capacity still remained some 50% above its 1913 level.⁷ Thus for the shipping industry the excess of shipping capacity and the stagnation of world trade acted as a continual drag upon the industry.

Although problems in the world shipping industry were universal, for British shipowners, the owners of the largest merchant shipping fleet in the world, their sole concern was the relative position of the British shipping industry. Measured in terms of gross tonnage figures for the interwar period revealed an alarming decline in the relative position of the British shipping industry, and confirmed "the gloomy view taken in the shipping journals of the position of our shipping industry".⁸ Throughout the interwar period British tonnage stagnated at around 20 million tons, little above its 1914 level, while total world tonnage continued to expand. The result was a decline in the share of British registered tonnage as a percentage of world tonnage from 39.3% in 1914, to 30.1% by 1930, a trend

4. Board of Trade memorandum, 'Ships and Shipping Policy', 31 May 1933, FO371/17328,W9109/5461/50.

5. Sturmev S. G., p. 65; Hope R., *A New History of British Shipping* (John Murray, London; 1990), p. 358; See table 5.1.

6. See table 5.1.

7. Hope R., p. 358.

8. Board of Trade memorandum, 'Ships and Shipping Policy', 31 May 1933, FO371/17328,W9109/5461/50; Sturmev S. G., p. 85.

which continued until 1939.⁹ Industry leaders complained loudly that it was British tonnage that bore the brunt of the adjustment in the imbalance between world demand and supply. This complaint seemed not unjustified when during the Depression only the British merchant marine showed any significant shrinkage in response to global shipping overcapacity.¹⁰ By the late-1930s the continual contraction of British shipping tonnage appeared so great that British opinion feared that in time of war vital British and imperial sea communications would be endangered by an insufficient merchant marine.¹¹

However, from a commercial standpoint idle capacity was of secondary importance when compared with the main problem of low freight rates and low earnings. Stagnant world trade and shipping overcapacity severely eroded the earning capacity of British shipping, at a time of increased operating and shipbuilding costs.¹² After the end of the postwar boom, the fall of freight rates in the 1920s was dramatic; for example, the rate for shipment of a ton of coal from the Tyne to Port Said fell from £10 during World War One to only 11s/3d by 1923.¹³ Earnings, especially in tramp shipping, were again further eroded during the Depression.¹⁴ For example, among British shipping interests which owned some 6 million tons of liner capacity, dividend payments fell from 6.23% in 1929 to 1.56% in 1933,¹⁵ while in 1935 profits in the British shipping industry in relation to capitalisation were only one-seventh those of the motor industry, and the lowest ratio for any British industry.¹⁶ Furthermore, while the war years and the postwar boom had left many companies with substantial capital assets, in the 1920s these reserves were rapidly exhausted in sustaining uneconomic shipping operations, and as a result of the dramatic depreciation of these inflated capital values during the 1920s.¹⁷ This left many British shipping companies in a critical position by the early 1930s as their capital reserves, already squandered in the 1920s, left little available to sustain operations in a prolonged economic downturn against

9. Sturmev S. G., p. 61; Hope R., p. 359; See table 5.2, and 5.3.

10. See table 5.4.

11. *Annual Report: Chamber of Shipping of the United Kingdom, 1936-1937*, pp. 57-60.

12. Sturmev S. G., p. 65.

13. Hope R., p. 357; See table 5.1.

14. Sturmev S. G., p. 85; See tables 5.1, and 5.5.

15. Hope R., p. 358; Sturmev S. G., p. 86.

16. Hope R., 'Profits in British industry, 1924-1935' (Unpublished thesis, Oxford University, 1984), cited in Hope R., p. 358.

17. Sturmev S. G., pp. 85-86; Hope R., pp. 363-365.

subsidised competitors.

In the interwar period the imbalance between shipping capacity and seaborne trade was intensified by the widespread adoption of state subsidies for both shipping operations and ship building. For non-subsidised British operators,¹⁸ shipping subsidies not only exacerbated the crisis in the shipping industry, they were its primary cause.¹⁹ However, since all the principal maritime nations saw a large merchant marine as a vital arm of their national interest they refused to accept significant reductions in their flag tonnage. Therefore when market forces threatened a significant reduction of tonnage, they accepted subsidies as a legitimate means to preserve vital levels of national tonnage, and were extremely reluctant to reduce them.²⁰ In the 1920s several important maritime nations, Germany, Italy and Japan, and from the start of the Depression France, either adopted or continued to offer subsidies to their respective merchant fleets.²¹ However, in the 1920s the most important country to adopt a subsidy policy was the United States. In a complete reversal of its prewar attitude, on the grounds of World War One experience, the post-Wilson administrations proved determined, for the purpose of national defence, to maintain a substantial merchant fleet in defiance of economic conditions.²² In 1920 the American government passed the United States Merchant Marine Act to promote and maintain the American merchant fleet.²³ Following this legislation the United States Shipping Board was authorised to spend \$25 million in five years to build new vessels for operations on routes that were deemed essential to American interests, and which no private concern would undertake.²⁴ The activities of the

18. In common with many other countries British shipping companies received certain state support in the form of postal subventions: in 1938, for example, the annual postal subvention was a £295,000 fixed grant to the Peninsular & Oriental Steam Navigation Company (P&O), Imperial Shipping Committee, pp. 52-53; Sturmeý S. G., p. 106.

19. However, in contrast to the British shipping industry, due to the rapid adoption of technical advances and utilisation of innovative management techniques, the unsubsidised Scandinavian shipping fleets increased from 3.6 million ton in 1919 to 7.6 million tons by 1939, Sturmeý S. G., pp. 91, 94; Mance O., *International Sea Transport* (London, 1945), p. 81.

20. Board of Trade memorandum, 'Ships and Shipping Policy', 31 May 1933, FO371/17328,W9109/5461/50.

21. Board of Trade memorandum, 'Ships and Shipping Policy', 31 May 1933, FO371/17328,W9190/5461/50; Carter (Board of Trade) to the Foreign Office, 25 September 1934, FO371/1846,W8586/291/50; Imperial Shipping Committee, pp. 53-56, 59-63; Sturmeý S. G., pp. 113-122; Hope R., pp. 361-362.

22. T. W. O' Connor, Chairman of the United States Shipping Board, and Senator Copeland of New York, in Lindsay (Washington) to Simon, 6 January 1933, FO371/16601,A556/29/45; Hope R., p. 360.

23. Sturmeý S. G., pp. 122-123.

24. Sturmeý S. G., pp. 38-39; Hope R., p. 360. Ironically, given later British condemnation of subsidies, in

Shipping Board continued into the 1930s so that by 1937 they had spent some \$900 million in support of American shipping.²⁵ The Americans deemed that these subsidies were necessary to compensate for the higher operating costs of American vessels.²⁶ Thus state subsidies to shipping had a considerable impact upon the shipping industry in the interwar period.²⁷

Like many other maritime powers the Japanese government also provided state financial assistance to its merchant marine. Indeed in contrast to the cotton industry - where the British falsely alleged that the industry received state subsidies²⁸ - it was not in dispute that Japan subsidised its shipping industry. From the Meiji era onwards various Japanese shipping interests, particularly liner operations, had received state aid and this policy continued during the interwar period.²⁹ Subsidies were increased in 1929 with the onset of the Depression and while Japanese shipping operators coped with the appreciation of the yen as Japan returned to its prewar gold parity.³⁰ The new level of state support remained intact throughout the 1930s even after the dramatic devaluation of the yen in December 1931. Then in 1932, again like many other countries, government support was extended when the Japanese introduced a state supported 'scrap and build' scheme.³¹ Furthermore, although British shipping interests complained about the use of administrative discrimination against foreign shipping operations in the Japanese Empire, British officials regularly found such

the 1920s there was little criticism of these subsidies. British shipping interests accepted that subsidies were the concern of individual countries, and acted as a stimulant to the shipping industry since they increased global capacity and therefore increased competition, *Annual Report of the Liverpool Steam Ship Owners' Association, 1922*, pp. 7-9.

25. Board of Trade memorandum, 'Ships and Shipping Policy', 31 May 1933, FO371/17328, W9109/5461/50; Imperial Shipping Committee, pp. 57-59; Thornton R. H., *British Shipping* (Cambridge University Press, Cambridge; 1959), chapter VI; Sturmeý S. G., pp. 123-124; Stafford J. J., 'The United States Merchant Marine in Foreign Trade, 1800-1939', in Yui T., and Nakagawa K. (eds.), *Business History of Shipping: Strategy and Structure* (University of Tokyo, Tokyo; 1985), pp. 102-114; Hope R., pp. 359-360.
26. T. V O' Connor, Chairman of the United States Shipping Board, and Senator Copeland of New York, in Lindsay (Washington) to Simon, 6 January 1933, FO371/16601, A556/29/45; Sturmeý S. G., p. 72.
27. Sturmeý S. G., chapters IV, and V; Hope R., p. 360.
28. See chapter 1.
29. Mance O., p. 80; Sturmeý S. G., pp. 120-121; Imperial Shipping Committee, p. 59; Chida T., and Davies P. N., pp. 5-10, 16-19, 37.
30. Imperial Shipping Committee, p. 59.
31. Chida T., and Davies P. N., pp. 44, 47-50; Sturmeý S. G., p. 121; Imperial Shipping Committee, pp. 60-62; Miwa R., 'Maritime Policy in Japan: 1868-1936', in Yui T., and Nakagawa K., (eds.), *Business History of Shipping: Strategy and Structure* (University of Tokyo, Tokyo; 1985), pp. 123-146.

claims to be unjustified,³² and that the Japanese government did not discriminate against foreign shipping as a means of promoting its own shipping industry.³³ Thus in regard to the question of Japanese shipping subsidies and shipping practice Japan adhered to contemporary norms. Consequently, it would be difficult to single out Japan for pursuing unorthodox shipping policies in the interwar period, as a means of justifying discrimination solely against Japanese shipping.

32. When the Foreign Office investigated claims of Japanese shipping malpractice they usually found little evidence to support these assertions, for example, the British consuls in Kobe, Nagasaki, and Yokohama found no evidence to support the allegation, made in 1934, that while in Japanese ports, unlike their British rivals, Japanese vessels were not charged tonnage dues, see FO371/18193,F4886/2609/23. In a similar fashion, again in 1934, the Foreign Office rejected British shipping operators claims that the Japanese manipulated its foreign exchange control law to the disadvantage of the British, FO371/18193,F3250/3250/23.

33. The Imperial Shipping Committee report of 1938, *British Shipping in the Orient* levelled no charge of unfair government discrimination against foreign shipping. However, the British did raise more commercially motivated complaints of 'sharp practice' by individual Japanese concerns and rate cutting, Mance O., p. 93; Hope R., p. 360.

British shipping interests and British shipping policy.

Faced by both the domestic and international economic crisis of the Depression³⁴ British shipping interests and their supporters furiously turned upon subsidised foreign competition as the prime cause of the current economic difficulties.³⁵ The British argued that not only did subsidies discriminate against non-subsidised competitors, they also retarded the recovery of the world ~~the~~ shipping industry since they allowed subsidised shipowners to sustain operations at uneconomic freight rates.³⁶ However, while the British could easily identify the source of its economic difficulties they remained uncertain in how to deal with this problem. Even though the British government had adopted domestic protection and imperial preference between 1931 and 1932, the shipping industry, like the British government, remained reluctant to harness government sponsored protection of its carrying trade and state subsidies as a means of alleviating its current difficulties. The shipping industry shared the Board of Trade's firm belief that the recovery of the British shipping industry was dependent upon a recovery of world trade through the reduction of trade barriers and not by extending protection to the British shipping industry.³⁷ The industry had a long tradition of support for free trade, as outlined in the 1849 Navigation Laws, and in general it was loathe to abandon this stance.³⁸ However, its current reluctance to abandon free trade rested upon more practical economic considerations. Given the global scale of British shipping operations, shipowners realised that any form of imperial protection or counter subsidy policy would not only risk more extensive foreign retaliation it would have only a limited impact in halting the immediate decline of their industry. The only hope for

34. By July 1932 some 3.56 million tons of British merchant shipping - 17% of the total fleet - was laid up, Sturmev S. G., p. 66.

35. *Annual Report: Chamber of Shipping of the United Kingdom, 1929-1930*, pp. 58-59, and *1932-1933*, pp. 8-9, 183-184, 196-200; *Annual Report of the Liverpool Steam Ship Owners' Association, 1932*, pp. 11-12, and *1933*, pp. 14-15; *Peninsular and Oriental Steam Navigation Company: Report of the Proceedings at the Ninety-Second General Meeting of the Proprietors, 1932*, pp. 31-33; Memoranda of the Liverpool Steam Ship Owners' Association, and the Chamber of Shipping of the United Kingdom, in Board of Trade Memorandum, 'Ships and Shipping Policy', 31 May 1933, FO371/17328,W9190/5461/50; Parliamentary question by Colonel Ropner, the Conservative MP for Barkston Ash who was also a member of the Chamber of Shipping, to the President of the Board of Trade, 11 May 1933, FO371/17328,W5461/5461/50.

36. *Annual Report of the Liverpool Steam Ship Owners' Association, 1932*, pp. 11-12, and *1933*, pp. 14-15; Sturmev S. G., p. 67.

37. Board of Trade memorandum, 'Ships and Shipping Policy', 31 May 1933, FO371/17328,W9109/5461/50.

38. Although the Chamber of Shipping of the United Kingdom was increasingly reluctant to give unconditional support to an anti-British subsidy and pro-free trade policy, see below.

the British shipping industry remained the reduction of protectionist measures and the resumption of growth in world trade. Thus the two main representative bodies of the British shipping industry, the Liverpool Steam Ship Owners' Association and the Chamber of Shipping of the United Kingdom, in preparation for the June 1933 World Economic Conference's planned check of the spread of protectionism and return to more free trade policies - which included discussions on the way to reduce subsidies and restrictive practices in the shipping industry³⁹ - rejected subsidies and the protection of imperial carrying trade. Both bodies feared the consequences of: foreign retaliation to British carrying trade protection; the estimated £21 million *per annum* cost of meeting all foreign subsidised competition; the further risk of a grotesque subsidy race with foreign competitors; the inefficiency subsidies would promote; and unfairness of subsidised British vessels competing against unsubsidised British vessels.⁴⁰ Consequently, prior to the Conference the shipowners remained committed to the principles of free trade and non-subsidised operations.

However, the failure of the World Economic Conference to either remove trade barriers or deal with the specific problems of the world shipping industry undermined the previous unified commitment of the British shipping industry to free trade. The shipping industry split on sectional lines over the advocacy of subsidies for British shipping operations and the need to reserve Britain's carrying trade for non-subsidised - i.e. British - vessels. While the Liverpool Steam Ship Owners' Association, representative of liner interests,⁴¹ remained hostile to the protection of British carrying trade and silent on the subsidy question,⁴² the larger Chamber of Shipping of the United Kingdom, representative of both the tramp and liner interests,⁴³ advocated the immediate introduction of subsidies and

39. *Annual Report of the Liverpool Steam Ship Owners' Association, 1933*, pp. 10-12, 15-16; Parliamentary reply of the President of the Board of Trade, 11 May 1933, FO371/17328,W5461/5461/50.

40. *Annual Report: Chamber of Shipping of the United Kingdom, 1932-1933*, pp. 15, 157, 181, 187-197; *Annual Report of the Liverpool Steam Ship Owners' Association, 1933*, pp. 12-14, 16-23; Memoranda of the Liverpool Steam Ship Owners' Association, and of the Chamber of Shipping of the United Kingdom, in the Board of Trade memorandum, 'Ships and Shipping Policy', 31 May 1933, FO371/17328,W9190/5461/50.

41. The Liverpool Steam Ship Owners Association represented some 4.75 million gross tons, some 25% of total British shipping, of mainly passenger and cargo liners, Memorandum of the President of the Board of Trade, 11 December 1933, CAB 24 CP. 298(33).

42. Memorandum of the Liverpool Steam Ship Owners' Association, 22 September 1933, FO371/17328,W10903/5461/50; *Annual Report of the Liverpool Steam Ship Owners' Association, 1934*, pp. 11-12.

43. The Chamber of Shipping of the United Kingdom represented some 13 million gross tons, nearly 70% of

the reservation of Britain's carrying trade. In particular the Chamber of Shipping was concerned that British tramp shipping faced an immediate crisis which demanded urgent government support.⁴⁴ Even before the start of the Conference the Chamber of Shipping's waning commitment to free trade was evidenced by their demand that in the event of failure Britain should adopt retaliatory subsidies and seek to reserve Britain's carrying trade for British vessels.⁴⁵ This was confirmed in July 1933, prior to the formal conclusion of the Conference, when the Chamber of Shipping adopted a resolution that, in the event of its failure, called for: the immediate introduction of British subsidies; the threat of the withdrawal of Britain's most favoured nation clause from countries that would not participate in a low tariff non-subsidy trade group; and the exclusion from Britain's intra-imperial trade of third parties who refused to extend similar concessions to British vessels in their intra-imperial and coasting trades.⁴⁶ In December 1933 the Chamber of Shipping again complained of the crisis in the tramp shipping section and repeated earlier demands for government support.⁴⁷ Finally, in March 1934 the annual conference of the Chamber of Shipping adopted the resolutions that: pending a revival of world trade any foreign subsidy must be met by an equivalent British subsidy; the need for a formation of a low tariff group; and the use of the threatened reservation of Britain's intra-imperial trade.⁴⁸

In recognition of the intense pressure it was under from the Chamber of Shipping of

Britain's shipping capacity, of both tramp and liners, Memorandum of the President of the Board of Trade, 11 December 1933, CAB 24 CP. 298(33).

44. Report of the Chamber of Shipping of the United Kingdom, 'British tramp Shipping before the war and in 1933', July 1933, FO371/17328, W9491/5461/50; *Annual Report: Chamber of Shipping of the United Kingdom, 1933-1934*, pp. 38-39. The fall of the freight index for tramp ships had been far greater than the fall of the index for liners, Board of Trade memorandum, 'Ships and Shipping Policy', 31 May 1933, FO371/17328, W9109/5461/50; See table 5.1. However, it was recognised that the fall in trade volumes meant that liners frequently sailed without a full cargo and thus the index for liners underestimated the fall in earning capacity of liners, Board of Trade memorandum, 'Ships and Shipping Policy', 31 May 1933, FO371/17328, W9109/5461/50; Sturmev S. G., pp. 66-67.
45. *Annual Report: Chamber of Shipping of the United Kingdom, 1932-1933*, pp. 15-16; Memorandum of the Chamber of Shipping of the United Kingdom, in Board of Trade memorandum, 'Ships and Shipping Policy', 31 May 1933, FO371/17328, W9109/5461/50.
46. Recommendations of the Shipping Policy Committee of the Chamber of Shipping of the United Kingdom, 28 July 1933, FO371/17328, W9491/5461/50.
47. Report of the Chamber of Shipping Special Committee on Tramp Shipping, 11 December 1933, CAB 24 CP. 298(33); see table 5.5.
48. *Annual Report: Chamber of Shipping of the United Kingdom, 1933-1934*, pp. 42-44, 103-107; Annual Meeting of the Chamber of Shipping of the United Kingdom, 1 March 1934, in FO371/18485, W2430/291/50.

the United Kingdom for a domestic solution to the current shipping crisis,⁴⁹ the British government gave only halfhearted support⁵⁰ to the non-subsidising Dutch and Scandinavian countries' request for further international discussions on the shipping subsidy question.⁵¹ Following the collapse of the World Economic Conference the government was increasingly sympathetic to the demands of the shipping industry for some form of government intervention. Even Sir Walter Runciman, the President of the Board of Trade who came from an orthodox free trade background in the shipping industry⁵² and was a reluctant protectionist and advocate of state involvement in industry,⁵³ was alarmed at the plight of British tramp shipping. In response to the demands of the Chamber of Shipping, Runciman, together with Neville Chamberlain, the Chancellor of the Exchequer, publicly declared that they would not allow the collapse of the British shipping industry.⁵⁴ Consequently, on 13 December 1933 a cabinet committee was established to examine the demands of the Chamber of Shipping.⁵⁵ However, while the committee recognised the need to offer some form of state aid to the shipping industry it refused to endorse the Chamber of Shipping's demand for extensive subsidies to the whole shipping industry, and proposed only a limited subsidy to the tramp section together with a state funded 'scrap and build' scheme.⁵⁶ One of the main reasons for rejecting subsidies for the entire British merchant fleet was because the shipping industry itself was deeply divided over the need for extensive state subsidies.⁵⁷ In recognition of the crisis in the shipping industry the cabinet accepted the committee's recommendation and agreed a British counter-subsidy to the tramp section together with a 'scrap and build' scheme as the only way to counter shipping industry demands for support in

49. Minute by Clarke, 17 August 1933, FO371/17328,W9491/5461/50.

50. Foley (Board of Trade) to the Foreign Office, 13 April 1934, and 25 May 1934, FO371/18486,W3557,W5115/291/50.

51. Danish Minister (London) to the Foreign Office, 22 March 1934, FO371/18486,W2863/291/50.

52. Runciman was the President of the Chamber of Shipping of the United Kingdom in 1926.

53. Speech of Sir W. Runciman at the annual banquet of the Chamber of Shipping of the United Kingdom, 10 February 1933, *Annual Report: Chamber of Shipping of the United Kingdom, 1932-1933*, pp. 227-228.

54. Cabinet Conclusions, 13 December 1933, CAB 23 69(33)5.

55. Memorandum of the President of the Board of Trade, 'The Position of British Mercantile Marine', 25 June 1934, CAB 24 CP. 161(34).

56. Memorandum of the President of the Board of Trade, 'The Position of British Mercantile Marine', 25 June 1934, CAB 24 CP. 161(34).

57. Memorandum of the President of the Board of Trade, 'The Position of British Mercantile Marine', 25 June 1934, CAB 24 CP. 161(34); *Annual Report of the Liverpool Steam Ship Owners' Association, 1934*, pp. 38-40; *Annual Report: Chamber of Shipping of the United Kingdom, 1934-1935*, pp. 50-53.

its fight against subsidised competition.⁵⁸ No strong objections were raised to the tramp subsidy or the 'scrap and build' scheme; the Foreign Office accepted that in a protectionist age these measures had few international ramifications.⁵⁹ Both the 'scrap and build' scheme and a £2 million annual subsidy to tramp shipping were introduced in 1935.⁶⁰ However, while the Board of Trade accepted limited operating subsidies for the tramp section, it remained unwilling to endorse any measure of shipping restriction. The Board argued that the Chamber of Shipping's concept of a low tariff non-subsidy group would prove ineffective; the threat of reserving intra-imperial trade risked substantial economic retaliation and dangerous economic estrangement from the United States; while the Board doubted if Britain's existing commercial treaties would allow for the reservation of intra-imperial trade.⁶¹ Finally, in rejecting the various proposals to enhance Britain's carrying trade the Board pointed out that divisions within the shipping industry underlined the dangers of these measures.⁶²

While the introduction of the tramp subsidy met the demand of the tramp section for government support, it did nothing for other sectors of the British shipping industry. Although the British shipping industry had been unwilling to endorse extensive shipping subsidies, this did not mean that liner operators had abandoned their opposition to subsidised foreign competition and the need for some form of government support.⁶³ In both the North Atlantic and Pacific routes the British shipping industry complained of the dire effect of such subsidised competition. British shipowners were particularly concerned over the effects of American competition upon established British services. The British argued that because of the \$3 billion subsidy paid to the American merchant marine since 1920, British ships were unable to compete against subsidised American vessels.⁶⁴ Further, Alexander Shaw, the

58. Cabinet Conclusions, 27 June 1934, CAB 23 26(34)9, and 5 December 1934, CAB 23 45(34)12.

59. Minute by Shuckburg, 26 June 1934, FO371/18486,W6248/291/50; Memorandum by Ashton-Gwatkin, 27 November 1934, FO371/18487,W10494/291/50.

60. Sturmev S G., pp. 108-110; Hope R., pp. 366-367.

61. Board of Trade memorandum, 16 September 1933, FO371/17328,W10596/5461/50; Low (Board of Trade) to Malkin (Foreign Office), 9 January 1934, FO371/18485,W291/291/50; Board of Trade to the Foreign Office, 5 February 1934, FO371/18485,W1338/291/50; Foley (Board of Trade) to the Foreign Office, 25 May 1934, FO371/18486,W5115/291/50.

62. Memorandum of the President of the Board of Trade, 'The Position of British Mercantile Marine', 25 June 1934, CAB 24 CP. 161(34).

63. *Annual Report: Chamber of Shipping of the United Kingdom, 1935-1936*, p. 60.

64. Statement by Sir Alan Anderson, Chairman of the Orient Line, 28 December 1932, in FO371/16601,A2723/29/45.

forceful Chairman of the Peninsular and Oriental Steam Navigation Company (P&O), added his considerable weight to these complaints. Shaw emphasised the disadvantages British shipowners faced. Not only did American ships receive considerable subsidies, these vessels remained free to participate in the British coasting trade while unsubsidised British vessels were excluded from the extensive American coasting trade.⁶⁵ However, in response to this British attack, leading Americans, including T. V. O' Connor, the Chairman of the United States Shipping Board, strongly defended their position: the British exaggerated the extent of the subsidy to American vessels, since they had included the inflated price of American wartime construction which had been sold cheaply after the war to American owners but which had been built in response to appeals from America's wartime allies; American vessels competed at a fair freight rate, since subsidies were only intended to equalize competition; the British subsidised their merchant fleet; and finally, the merchant marine of America was a great national asset that should not be dissipated.⁶⁶ Thus the Depression witnessed considerable public friction between leaders of the British shipping industry and their American counterparts.

In contrast to British shipping interests, who were outspoken in their criticism of American shipping policy, the British government remained reluctant to be drawn into this dispute in support of their shipping industry. Officials realised that if the subsidy issue was to be addressed, Britain would have to apportion blame and thus risk inflaming American opinion. For the British government the importance of maintaining American goodwill dictated a more delicate approach on a matter involving domestic American policy. Such were British sensitivities to American opinion on the subsidy issue that, at the Foreign Office's request and with the concurrence of the Board of Trade, a White Paper on foreign shipping subsidies - which had been prepared to meet British demands for official information on the subject - was not released between April and June 1933, to avoid antagonising American opinion during the World Economic Conference.⁶⁷ Even after the failure of the Conference, the British government still depended upon American goodwill, and thus refused to antagonise American opinion over the question of American shipping subsidies. One Board of Trade official informed the Foreign Office that on the question of

65. A. Shaw, 11 December 1932, *Peninsular and Oriental Steam Navigation Company: Report of the Proceedings at the Ninety-Second General Meeting of the Proprietors, 1932*, p. 17.

66. T. V. O' Connor, Chairman of the United States Shipping Board, and Senator Copeland of New York, in Lindsay (Washington) to Simon, 6 January 1933, FO371/16601,A556/29/45.

67. Craigie, Foreign Office minute, 5 April 1933, FO371/16601,A2723/29/45.

the proposed introduction of British shipping subsidies care must be taken not to offend American opinion, because of the "delicate negotiations [which] are in progress with the United States for the settlement of debts, ... obviously a policy of economic unfriendliness to the United States is not to be encouraged".⁶⁸ Following this line, when Britain finally introduced its own shipping subsidy special care was taken, on Foreign Office advice, not to enrage American opinion by giving the impression that British subsidies were imposed in retaliation to American subsidies.⁶⁹ Consequently, the Board of Trade changed the name of the tramp subsidy from a 'fighting subsidy' to a more modest 'defensive subsidy'.⁷⁰ In a continuation of this policy, British shipowners recognised that the desire not to offend American opinion was a major factor in the British government's refusal to extend subsidies to specific liner services that were suffering from subsidised American competition.⁷¹

The reluctance of the British government to criticise American shipping policy did not halt shipping leaders from continuing their attacks upon the American threat to specific British liner services, or demands for government action in defence of these services. Even after the introduction of the tramp subsidy liner operators remained concerned that specific British services not entitled to the tramp subsidy were still threatened by grossly over-subsidised foreign competitors. In regard to unfair American competition in the Pacific British resentment focused upon the American owned Matson Line, that was in direct competition with the British owned Union Steam Ship Company on the New-Zealand-Australia-Canada-United States trade route.⁷² Led by Alexander Shaw, whose P&O group owned the Union Steam Ship Company,⁷³ the British complained that this subsidised service

68. Baker (Board of Trade) to Leigh-Smith (Foreign Office), 16 September 1933, FO371/F17328/W10596/5461/50.

69. Lindsay (Washington) to Foreign Office, 20 June 1934, FO371/18486,W5979/291/50.

70. Marder (Board of Trade) to Foreign Office, 28 June 1934, FO371/18486,W6346/291/50.

71. *Annual Report: Chamber of Shipping of the United Kingdom, 1935-1936*, p. 60.

72. As an indication of the importance British shipping attached to the need to deal with the Matson Line issue, in the *Shipping Policy Committee of the Chamber of United Kingdom Shipping*, the question of the Matson Line was considered as important as the formation of a low tariff group and the reservation of intra-imperial trade, *Recommendations of the Shipping Policy Committee of the Chamber of Shipping of the United Kingdom*, 28 July 1933, FO371/17328,W9491/5461/50. In contrast British complaints over various other specific shipping issues never received such prominence, for example, complaints by British shipping interests over the manipulation of the German exchange control law to favour the shipment of North American apples in German vessels to the United Kingdom did not receive such a formal display of concern, Foley (Board of Trade) to the Foreign Office, 13 December 1934, FO371/17774,C8555/8555/18.

73. Sturmev S. G., p. 131.

was a direct threat to the continued existence of the British service upon this important imperial trade route. Since 1928 the Matson Line had been in receipt of an annual operating subsidy of \$800,000 *per annum*, however, when this subsidy was increased to \$1 million *per annum* in 1932 together with a low interest government loan for the completion of two modern vessels,⁷⁴ British complaints increased dramatically. From 1932 Shaw led a campaign, which had widespread support within the British shipping industry,⁷⁵ that emphasised how an important unsubsidised British service was threatened with extinction by a subsidised American competitor. Furthermore, he noted that the American exclusion of foreign vessels from its coasting trade meant that while the Matson Line vessels could ply the British trans-oceanic imperial trade routes between Canada, Australia, and New Zealand, British competitors were barred from similar trans-oceanic American coasting routes, e.g. Hawaii to San Francisco, and San Francisco to New York. Consequently, the combination of the operating and building subsidies together with American shipping policy restrictions demanded some form of British government retaliation, in the form of a subsidy to the British line or the exclusion of the Matson Line from these imperial trade routes.⁷⁶

Even though the shipping industry ran a vociferous campaign against the Matson Line the British government remained reluctant to intervene to aid the Union Steam Ship Company. Calls for the exclusion of the Matson Line from imperial trade routes were easily dealt with by the British government, especially because the shipping industry remained equally unwilling to give its wholehearted endorsement to this policy. Although the Chamber of Shipping of the United Kingdom had advocated the barring of the Matson Line it accepted that this should not be done at the risk of American retaliation against British shipping, since "the disadvantage arising from a general conflict in which British ships were excluded from American trades would exceed the advantages to be derived from counteracting a specific evil in the Pacific".⁷⁷ Thus in September 1933, because of these

74. Imperial Shipping Committee, *The Possibilities of a British Passenger and Cargo Service between Western Canada and Australia and New Zealand* (HMSO, London; 1936), p. 12; Sturmev S. G., p. 131.

75. A. Shaw, 11 December 1932, *Peninsular and Oriental Steam Navigation Company: Report of the Proceedings at the Ninety-Second General Meeting of the Proprietors, 1932*, p. 17; Memorandum of the Chamber of Shipping of the United Kingdom, 8 August 1933, FO371/17328, W9491/5461/50; *Annual Report: Chamber of Shipping of the United Kingdom, 1935-1936*, pp. 60-61.

76. *The Times*, 7 December 1933; Memorandum of the Chamber of Shipping of the United Kingdom, 8 August 1933, FO371/17328, W9491/5461/50; *Peninsular and Oriental Steam Navigation Company: Report of the Proceedings at the Ninety-Fifth General Meeting of the Proprietors, 1935*, pp. 27-31.

77. Recommendations of the Shipping Policy Committee of the Chamber of Shipping of the United Kingdom, 28 July 1933, FO371/17328, W9491/5461/50.

precise fears, the Board of Trade firmly rejected demands for the exclusion of the Matson Line from the Australia, New Zealand, and Fiji trade routes.⁷⁸ On the question of providing a counter subsidy to the Union Steam Ship Company the British government's reluctance to provide the financial backing for such a measure⁷⁹ and refusal to appear to be engaged in a subsidy war with the United States,⁸⁰ was compounded by a similar reluctance by the respective Dominion governments.⁸¹ Neither the Australian, Canadian, nor New Zealand governments displayed any strong desire to subsidise a British shipping line against its American competitor. Both the Canadian and Australian governments had shown an inclination to develop domestic shipping services,⁸² whilst various Dominion authorities showed an increased hostility to British competition with their own domestic shipping industries.⁸³ Moreover, the American subsidised Matson Line offered the significant advantage to Dominion traders and passengers of a superior below-cost service, paid for by American taxpayers, which was more than could be offered by free competition in the Australasian-North American service.⁸⁴ Thus the British and Dominion governments showed no inclination to offer the Union Steam Ship Company any counter subsidy to enable it to compete with the subsidised Matson Line vessels.

However, attitudes towards the need to support the Union Steam Ship Company began to change when the British owners combined the withdrawal of their Australia-New Zealand-San Francisco service in 1935 with the threatened withdrawal of the British Australia-New Zealand-Vancouver service.⁸⁵ In response to this display of British commercial retreat Runciman accepted, "now the threat especially on the Pacific is so grave

78. Baker (Board of Trade) to Leigh-Smith (Foreign Office), 16 September 1933, FO371/17328, W10596/5461/50.

79. *Annual Report: Chamber of Shipping of the United Kingdom, 1935-1936*, p. 60; *The Shipping World*, 26 February 1936, p. 244.

80. Minute by Shuckburg, 26 June 1934, FO371/18486, W6428/291/50.

81. Cabinet Conclusions, 27 June 1934, CAB 23 26(34)9.

82. *Annual Report of the Liverpool Steam Ship Owners' Association, 1929*, p. 15; Sturmev S. G., pp. 100-101.

83. *The Shipping World*, 10 June 1936, p. 639.

84. *The Shipping World*, 1 July 1936, pp. 1-2.

85. *Peninsular and Oriental Steam Navigation Company: Report of the Proceedings at the Ninety-Fifth General Meeting of the Proprietors, 1935*, p. 28; *The Shipping World*, 26 May 1937, pp. 639-640.

that something will have to be done",⁸⁶ a concern that was echoed in both New Zealand and Australia.⁸⁷ Consequently, in July 1936 the Matson Line issue was put before the prestigious Imperial Shipping Committee,⁸⁸ which concluded that successful British competition was only possible with some form of state assistance.⁸⁹ Furthermore, the Australian and New Zealand governments began preparations for the introduction of legislation to exclude foreign shipping from the Tasman Sea, pending negotiations with the American government.⁹⁰ Nevertheless, even after this consensus had been reached, British shipowners found a general reluctance to take the recommended action. In February 1937 *The Shipping World*, which had offered powerful support for Shaw's campaign, regretted that the proposal to introduce a subsidy to the British line still awaited Parliamentary approval, while the attitudes of the Australian, Canadian and New Zealand governments on the subsidy and to the reservation of the Tasman Sea also remained unclear.⁹¹ Thus the British and Dominion governments' response to the Matson Line question once again indicated the unwillingness of British imperial authorities to become deeply involved in specific commercial issues within the shipping industry.

86. *The Shipping World*, 26 February 1936, p. 244.

87. *The Shipping World*, 15 April 1936, p. 450, and 17 June 1936, pp. 664, 667.

88. *The Shipping World*, 1 July 1936, pp. 1-2.

89. The Imperial Shipping Committee recommended an annual subsidy of £372,00 for two 25,000 ton 21 knot vessels, thought it did not suggest which governments should pay the subsidy, *The Shipping World*, 9 December 1936, pp. 617-618.

90. *The Shipping World*, 4 November 1936, p. 453, and 17 February 1937, p. 205.

91. *Annual Report: Chamber of Shipping of the United Kingdom, 1937-1938*, p. 80; *The Shipping World*, 17 February 1937, pp. 205-206, and 26 May 1937, pp. 639-640.

British shipping interests and the rise of Japanese competition in the Pacific-East Asia region.

Although the British shipping industry faced numerous competitive challenges in the 1930s, by the latter half of the decade Japanese shipping emerged as one of its most dangerous rivals. In the twentieth century Japanese owned merchant tonnage increased spectacularly, from 1.7 million tons in 1914, to 2.99 million tons in 1920, and 4.3 million tons by 1930.⁹² By the mid-1930s, despite some scepticism,⁹³ the British were acutely aware of the competitive advantages held by the Japanese shipping industry. One was the depreciation of the yen (although the British denied that the depreciation of the pound had given them any unfair advantage against German and Dutch competition) which, backed by a low standard of living and comparatively low wage inflation, gave the Japanese a substantial cost advantage over British operators in both the building and operation of vessels.⁹⁴ Another was the vertical integration of the Zaibatsu merchant-shipping enterprises which gave the Japanese greater organisational flexibility over the numerous independent British shippers.⁹⁵ A third was the high quality of management in the Japanese shipping industry, and its close cooperation with the Japanese government.⁹⁶ Finally, changes in trade patterns in the Pacific-East Asia region favoured shipping based in Japan: one resulted from Japan's rapid recovery from the Depression which benefited Japanese shipping and which made Japanese shipping services more cost effective;⁹⁷ the second was the role of Japanese shipping firms in

92. Chida T., and Davies P. N., Appendix, table H., p. 205; see table 5.6.

93. Some British commentators suggested that the British merchant fleet was superior because of the relative modernity of British vessels when compared to the Japanese merchant fleet, table 5.7.

94. Of course such wage advantages would not apply if the British were operating non-British crews in their British registered vessels, and the advantage in building costs was available to British shipowners if they placed orders with Japanese yards, but presumably in the 1930s considerations of national pride made this politically unacceptable. Imperial Shipping Committee, *British Shipping in the Orient*, pp. 64-72; see table 5.8.

95. The British claimed the Zaibatsu could build, operate, fuel, insure, supply with cargo, warehouse the cargo, and supply the banking credit for its shipping operations, Imperial Shipping Committee, pp. 72-75; Tatsuki M., 'Intensifying Competition and Streamlining of Japanese Shipping Companies: The Pacific Routes between the Two World Wars', *Business History* (1993), p. 89.

96. For example in the interwar period Japanese firms were some of the first to pioneer time charter management for cargo vessels, Chida T., and Davies P. N., pp. 41-3; Mance O., p. 93. *The Shipping World* admired the cooperation between business and government in the success of the Japanese shipping industry, *The Shipping World*, 21 October 1936, p. 105; see tables 5.5 and 5.9.

97. Japanese trade volumes increased from 1.18 billion yen in 1914, to 3.6 billion yen in 1918, 4.37 billion yen in 1929, and 6.69 billion yen in 1937, further, in the 1930s Japan's trade recovered quickly from the Depression, Chida T., and Davies P. N., p. 29; Imperial Shipping Committee, *British Shipping in the Orient*, pp. 4, 10, 31-33; *Annual Report of the Liverpool Steam Ship Owners' Association, 1937*, pp.

the 1930s in developing trans-oceanic cargo services that captured much of the carrying trade between Asia and America which had formerly gone in European vessels via the Suez canal.⁹⁸ Thus in the 1930s the Japanese shipping industry emerged as a formidable international competitor, no longer solely concerned with the carrying trade of Japan.

British shipping interests had every reason to be gloomy. Not only had Japan developed an efficient shipping industry which had made substantial inroads into British shipping's Pacific-East Asian carrying trade, but future Japanese expansion plans threatened a further retreat of Britain's still unsubsidised liner services. The British shipping industry was furious that state subsidised Japanese vessels now dominated several shipping routes that had been pioneered by British shipping interests in the nineteenth century. In 1936 the British complained that the Japanese now carried 73% of the Bombay-Japan trade, and 79% of the Australia-Japan trade, on routes which until 1914 had been dominated by British vessels.⁹⁹ However, despite these successes, it was the future government-sponsored expansion plans for the Japanese merchant fleet that added to the industry's worries. The British anticipated that this expansion of shipping services would be in the Pacific-East Asia region, and in direct competition with established British shipping services. In 1936 the Japanese Diet proposed a further 'scrap and build' scheme to expand the Japanese merchant fleet by 2 million tons to a total of 6 million tons. Japanese plans focused upon the building of large and fast cargo liners which were considered particularly suited to exploiting the long haul routes of the Pacific-East Asia region.¹⁰⁰ These expansion plans posed a considerable

18-19. Moreover, Japanese trade was dominated by Japanese shipping, in 1936 66% of all Japan's trade was carried by Japanese vessels, Imperial Shipping Committee, *British Shipping in the Orient*, pp. 4, 33; Tatsuki M., pp. 89-90.

98. *Le Canal de Suez*, *Bulletin Decadaire de la Compagnie Universelle du Canal Maritime de Suez*, 25 April 1937; *The Shipping World*, 12 May 1937, pp. 582-583; Wray W. D., 'NYK and the Commercial Diplomacy of the Far Eastern Freight Conference, 1896-1956', pp. 296-297; Radius W. A., *United States Shipping in Transpacific trade*, (Stanford University, California; 1944), pp. 111-128; Goto S., 'The Progress of Shipping Operators Belonging to Trading Companies: The Scheduled Services to North America of the Shipping Division of Mitsui Trading Company Between the Two World Wars', *Japan Yearbook on Business History* (1986), pp. 68-69; Tatsuki M., pp. 88-107.

99. *The Shipping World*, 24 June 1936, p. 639; *Annual Report: Chamber of Shipping of the United Kingdom, 1936-1937*, pp. 62-36; Imperial Shipping Committee, *British Shipping in the Orient*, pp. 19-20.

100. Between 1931 and 1935 only 64.3% of British ocean-going merchant ship construction (by tonnage and excluding tankers) consisted of cargo liners, while for the same period 88.9% of all Japanese ocean-going merchant ship construction (by tonnage and excluding tankers) consisted of cargo liners, see table 5.10. Further it was rumoured that the Japanese government was encouraging Japanese shipowners to order +20 knot cargo liners, *The Shipping World*, 12 August 1936, p. 151, 23 December 1936, pp. 675-676, and 9 June 1937, p. 687; *The Shipping World*, 24 June 1936, p. 639, and 24 March 1937, pp. 364-365; *Annual Report: Chamber of Shipping of the United Kingdom, 1936-1937*, pp. 60-63; Chida T. and

threat to Britain's still profitable and extensive carrying trade in the region. The Chamber of Shipping of the United Kingdom estimated that in 1936 British shipowners earned £33 million, some 25% of total shipping earnings, from external and internal trade in the Pacific-East Asia region. Moreover, £21 million, or 63.6% of this total came from liner freight earnings.¹⁰¹ Consequently, further intensified competition in the region was unwelcome to the British, especially since cargo volume and rates were described as so low.¹⁰²

The fears of the expansion of the Japanese merchant fleet prompted a sudden change in attitude to Japanese competition between 1936-37, especially after December 1936.¹⁰³ Japanese competition was now portrayed as the new menace to British shipping.¹⁰⁴ However, there remained a strong element of continuity in the British position, which followed the same pattern of hostility that had been displayed towards subsidised American liner competition. First came demands for government support for British shipping services threatened by subsidised foreign competition, and as in the case of subsidised American competition, the British shipping interests launched both a general attack on Japanese subsidy practices and specific attacks upon particularly threatening Japanese operations. The similarity between the Japanese and American shipping threat was explicitly linked in the early stages of the British anti-Japanese campaign. For the British the emergent Japanese competition followed the example of previous American predators: the Japanese like other nations saw British Empire trade routes as an easy target, as *The Shipping World* stated, "Like all other maritime powers seeking new trade routes, she has cast her eyes on the expanding trade of the British Empire".¹⁰⁵ The same article put American and Japanese competition under the same banner: each was part of the same threat to British Empire trade, "both countries subsidise their shipping, both concentrate on the development of liner

Davies P. N., pp. 44, 47-49; Nakagawa K., 'Japanese Shipping in the Nineteenth and Twentieth Centuries: Strategy and Organisation', in Yui T., and Nakagawa K., (eds.), *Business History of Shipping: Strategy and Structure* (University of Tokyo, Tokyo; 1985), pp. 12-15; Tatsuki M., p. 91.

101. Imperial Shipping Committee, *British Shipping in the Orient*, p. 10.

102. Apart from the expansion of Japan's foreign trade most countries' foreign trade in the Pacific-East Asia region was slow to recover from the Depression, Imperial Shipping Committee, *British Shipping in the Orient*, p. 10; *The Shipping World*, 17 July 1935, pp. 50-51.

103. *The Shipping World*, 9 January 1935, p. 48-9, 5 June 1935, p. 653, and 30 October 1935, p. 443; Lord Essenden, chairman of the Prince Line, address to shareholders, in *The Shipping World*, 21 October 1936, p. 105.

104. A. Shaw, chairman of P&O, annual address to shareholders, in *The Shipping World*, 16 December 1936, pp. 641-643.

105. *The Shipping World*, 4 December 1935, p. 597.

services and are little interested in tramp shipping, and both are Pacific Powers".¹⁰⁶ Thus from the viewpoint of British shipping there was a strong continuity in its demands for government support to combat both American and Japanese competition in the Pacific.

Faced by the threat of increased Japanese competition British shipping interests once again demanded government support in defence of their vital commercial interests: little interest was displayed in reducing commercial friction through cooperation.¹⁰⁷ Moreover, at a time of increased concern over the ability of the British merchant fleet to maintain imperial communications in time of war,¹⁰⁸ the British shipping industry bolstered its demands for government support by implying that Japanese competition posed a threat to Britain's imperial defence interests. In wartime the speed and size of a cargo liner offered distinct tactical and strategic advantages, and thus "it is not without significance that the three principal liner owning countries of the world - Great Britain, the United States and Japan - are also the three principal Naval Powers".¹⁰⁹ Therefore it was a disadvantage to Britain's rearmament programme and intra-imperial communications, if British cargo liners were not replaced due to subsidised foreign competition.¹¹⁰ Thus in response to the needs of British shipping and British imperial defence interests towards the end of 1936, again led by Alexander Shaw and the Chamber of Shipping of the United Kingdom, British shipping interests launched a campaign to denounce subsidised Japanese competition.¹¹¹ Demands of these shipping interests again focused on the need for government subsidies to specific liner services and the possible exclusion of Japanese services from British imperial carrying trade. In Parliament W. H. G. Gritten, the Conservative MP for The Hartlepoons, demanded that the British government coordinate the various imperial authorities in restricting Japanese competition in imperial waters.¹¹² To further these demands, on 21 December

106. *The Shipping World*, 4 December 1935, p. 597.

107. *Annual Report: Chamber of Shipping of the United Kingdom, 1936-1937*, p. 150. *The Shipping World* did state that the termination of the Anglo-Japanese alliance was a matter of regret, since it had led to Japan's pursuit of her own forceful foreign and shipping policies, however, there was no suggestion that a new political understanding could offer a solution to the current shipping problem, *The Shipping World*, 23 December 1936, p. 695.

108. One of the tasks of the 1937 Imperial Conference was to see if the British Empire had a adequate merchant marine to meet wartime requirements, *Annual Report: Chamber of Shipping of the United Kingdom, 1936-1937*, pp. 57-60.

109. *The Shipping World*, 29 April 1936, p. 495.

110. *Annual Report: Chamber of Shipping of the United Kingdom, 1936-1937*, pp. 150-154.

111. *Annual Report: Chamber of Shipping of the United Kingdom, 1936-1937*, pp. 61-63.

112. House of Commons Debates, 25 November 1936, *Parliamentary Debates. Official Report, 5th Series*,

1936, the President of the Chamber of Shipping led a delegation to the India Office to complain of Japanese shipping in Asia.¹¹³

Within the shipping industry the demand for the exclusion of Japanese shipping was more modest than previous demands for the exclusion of foreign shipping from British intra-imperial trade. In 1935 Shaw had demanded that any foreign shipping restriction should be met by a similar British restriction.¹¹⁴ However, the following year, while he complained of the injustice of the fact that while British vessels were excluded from the Japanese Empire coasting trade, he only suggested that Japanese vessels should be barred from various British Empire coasting trades, and not Britain's intra-imperial trade routes.¹¹⁵ Nevertheless, despite the claim that Shaw's remarks had widespread support within the shipping industry,¹¹⁶ even his modest proposal incurred the wrath of the still considerable free trade shipping lobby. The Liverpool Steam Ship Owners' Association thundered against any suggestion that success of Japanese competition should be used as some form of pretext for the reservation of Britain's intra-imperial trade,

The Association finds it difficult to envisage any proposal more destructive than this of its main object in view, or more certain to create another and drastic barrier to the resumption of normal economic commercial relations, or more capable of increasing international embitterment.¹¹⁷

Ironically this view that the recovery of the British shipping industry depended upon the removal of barriers to trade had widespread support in the Chamber of Shipping.¹¹⁸ The Association was equally dismissive of claims that subsidies had played a prominent part in the expansion of the Japanese shipping industry. Not only did it now consider fears of the detrimental effect of foreign subsidies on British shipping to be exaggerated,¹¹⁹ it also

volume 318 (HMSO, London, 1937), p. 500.

113. *Annual Report: Chamber of Shipping of the United Kingdom, 1936-1937*, pp. 60-63.

114. *Peninsular and Oriental Steam Navigation Company: Report of the Proceedings at the Ninety-Fifth General Meeting of the Proprietors, 1935*, pp. 32-34.

115. *Annual Report: Chamber of Shipping of the United Kingdom, 1936-1937*, pp. 60-63.

116. *The Shipping World*, 16 December 1936, p. 644, and 3 February 1937, p. 150.

117. *Annual Report of the Liverpool Steam Ship Owners' Association, 1938*, p. 15.

118. *Annual Report: Chamber of Shipping of the United Kingdom, 1935-1936*, pp. 136-139, *1936-1937*, pp. 55-57, 154-157, and *1937-1938*, pp. 168-171.

119. *Annual Report of the Liverpool Steam Ship Owners' Association, 1936*, pp. 8-24.

dismissed claims that the Japanese shipping industry was heavily subsidised.¹²⁰ In the view of the Association there was no easy solution to the problem of Japanese competition.¹²¹ Thus the force of the British shipping interests' demand for government support was severely weakened by divisions within the British shipping industry over the appropriate response to Japanese competition.

In campaigning for assistance against Japanese competition the British shipping industry also focused upon the various imperial authorities that it would have to rely upon for the grant of any counter-subsidies or the enforcement of anti-Japanese measures. The Chamber of Shipping of the United Kingdom based its plea for joint imperial action against Japanese shipping on the grounds that the defence of imperial sea communications was vital to all imperial authorities. "The communications of the British Empire are a vital Common interest and an attack by foreign subsidised competition upon both Empire and inter-Empire [sic] routes concerns the Empire as a whole and calls for joint consideration by all its Governments."¹²² However, the British shipping interests had well-founded fears, as the case of the Matson Line had demonstrated, over the willingness of the British and Dominion governments to cooperate over the question of subsidised foreign shipping competition. In 1936, while underlining the threat of Japanese competition, the Chamber of Shipping ruefully noted that in the four years since the initiation of the anti-Matson Line campaign little had been done by the various imperial governments to support the Union Steam Ship Company.¹²³ Again, as in the case of the Matson Line, the Dominions had no incentive to match Japanese subsidies or exclude low cost Japanese services from its ports. In December 1935 the New Zealand Minister of Industries and Commerce warmly welcomed the introduction by a Japanese company of a new Japan-New Zealand service, since it would improve the competitive position of all New Zealand industries in the world market.¹²⁴ Once the campaign against Japanese competition began, complaints about the extent of British, Dominion and Indian government support quickly surfaced. *The Shipping World* deplored the indifference of the British, Dominion and Indian governments. "The apathy of the

120. *Annual Report of the Liverpool Steam Ship Owners' Association, 1937*, pp. 18-19.

121. *Annual Report of the Liverpool Steam Ship Owners' Association, 1937*, pp. 18-19.

122. *Annual Report: Chamber of Shipping of the United Kingdom, 1936-1937*, pp. 60-63.

123. *Annual Report: Chamber of Shipping of the United Kingdom, 1936-1937*, pp. 60-63; *The Shipping World* 26 May 1937, pp. 639-640.

124. *Shipping World*, 4 December 1935, p. 597.

Government of India towards the interests of British shipping - an apathy which it shares with the Government of this country and the Dominions, with the possible exception of New Zealand - is one of the distinguishing facts of to-day."¹²⁵ Consequently, this indifference indicated that even if the British government was willing to initiate vigorous action in defence of British shipping interests it might receive only limited support from the various Empire authorities.

125. *The Shipping World*, 23 December 1936, pp. 672-673. In keeping with this line of attack, *The Shipping World* called the report of the 1937 Imperial Conference on shipping a 'colourless document', and branded the Dominions as having no interest in shipping, *The Shipping World*, 23 June 1937, pp. 737-738.

The failure of the British shipping industry's campaign against Japanese competition.

With the start of the anti-Japanese campaign in 1936, while the British government was not hostile to the shipping industry's demands for support there was little evidence that it regarded the threat of Japanese shipping competition as a priority. In disseminating information on Japanese shipping competition the Board of Trade gave no indication that an urgent resolution of this question was required. There were no hurried consultations between the Board and various other departments on the need for an immediate response to the demands of the shipping industry. Furthermore, this general disinclination to do anything in the short-run was reflected in other departments. One Foreign Office official noted that many of the British complaints against Japanese shipping practices were exaggerated. The effect of the 1931 devaluation of the yen upon Japanese shipping costs was now exhausted, in economic terms the reservation of Japan's coasting trade was unimportant, while annual Japanese operating subsidies, at £640,000 in 1936, were considerably less than the £2,000,000 British subsidy paid to tramp shipping.¹²⁶ A similar disinterest to the plight of British shipping was shown by the India Office. While it agreed that it was prepared to preserve the relatively unimportant Indian coasting trade as an Anglo-Indian preserve, even though it did not regard Japanese participation in this carrying trade as detrimental to Indian interests,¹²⁷ it informed the Foreign Office that it was reluctant to see India's more important overseas carrying trade as a purely British preserve.¹²⁸ Thus, given this official disinterest in Japanese shipping competition, the whole question of Britain's response was handed over to the Imperial Shipping Committee,¹²⁹ which relieved the British government of the need to undertake any general response to the demands of the British shipping industry. Consequently, there was no immediate need for the Foreign Office to consider the implications for Anglo-Japanese relations of British restrictions upon Japanese shipping.¹³⁰

However, while the Imperial Shipping Committee was delegated the responsibility

126. Memorandum by Scott-Fox, 15 February 1937, FO371/21032,F949/63/23.

127. Carter (Board of Trade) to Ronald (Foreign Office), 25 February 1937, FO371/21032,F1208/63/23.

128. Memorandum by Scott-Fox, 17 February 1937, FO371/21032,F949/63/23.

129. Memorandum by Scott-Fox, 15 February 1937, FO371/21032,F949/63/23.

130. Minute by Ashton-Gwatkin, 6 February 1937, FO371/21032,F949/63/23; Minute by Orde, February 1937, FO371/21032,F949/63/23.

of defining Britain's overall response to Japanese shipping competition, British shipping interests maintained pressure upon individual imperial authorities for an immediate response to the inroads of Japanese competition. In December 1936 concerns were raised over the need to restrain Japanese shipping's penetration of Singapore's carrying trade, and in particular Japanese penetration, partially at British shipping's expense, of the Singapore to North America rubber carrying trade.¹³¹ Between 1934 and 1935 Japanese vessels had increased their total share of these rubber shipments from 3% to 27%, while at the same time Britain's share of these shipments had fallen from 58% to 41%.¹³² The Japanese success was attributed to their willingness to offer higher prices for rubber in Malaya, and yet still being able to sell at a fair price in New York.¹³³ In response to this challenge, the shipping lines of the Straits-American Shipping Conference, all of whom were non-Japanese, sought an agreement with Mitsui - which was not a member of the Straits Conference but was responsible for the Japanese penetration of the North American rubber carrying trade - over its volume and share of the Malaya-North America rubber trade. While the Straits government was prepared to impose a quota arrangement upon rubber shipments - that would have given Mitsui a 25% share of the North American trade¹³⁴ - the Straits Conference lines and Mitsui were also on the verge of reaching a voluntary arrangement that would have given Mitsui a slightly smaller share of the North American rubber trade. However, this voluntary agreement fell apart due to the opposition to the Malayan rubber dealers. Nevertheless, the collapse of this voluntary arrangement did not result in further demands for the restriction of Japanese shipping as the outbreak of the Sino-Japanese War led to friction between the Japanese and their Chinese rubber suppliers,¹³⁵ while other commercial commitments for Mitsui's vessels from the start of 1937, and then Japan's needs for merchant shipping during the war, reduced the availability of Mitsui's vessels for the Malaya-North America rubber trade.¹³⁶ Thus the problem of Japanese penetration of the Malaya-North

131. *The Shipping World*, 23 December 1936; *The Times*, 24 December 1936.

132. Hartland (Office of H. M. Trade Commissioners, Straits Settlement) to Braddock (Department of Overseas Trade), 15 October 1936, FO371/20288,F6909/728/23; Weston (Board of Trade) to Ronald (Foreign Office), 30 March 1937, FO371/21032,F1912/63/23; Imperial Shipping Committee, *British Shipping in the Orient*, p. 88; Radius W. A., p. 113; Wray W. D., 'NYK and the Commercial Diplomacy of the Far Eastern Freight Conference, 1896-1956'; See tables 5.11, and 5.12.

133. *The Shipping World*, 23 December 1936, pp. 695-696; *The Times*, 24 December 1936; Imperial Shipping Committee, *British Shipping in the Orient*, p. 89.

134. Imperial Shipping Committee, *British Shipping in the Orient*, p. 88.

135. Imperial Shipping Committee, *British Shipping in the Orient*, p. 90.

136. See table 5.13.

America rubber trade was resolved without the need for intervention on behalf of British shipping by the Straits government.

At the same time as fears of Japanese penetration of the Malaya-North America rubber trade surfaced, demands were raised in Singapore over the need to exclude 'foreign', that is to say Japanese, shipping from the Malayan coasting trade. For example, Mr. J. Dick, of the Malayan Chamber of Commerce, while urging British manufacturers to improve their methods to deal with Japanese competition, at the same time demanded the protection of the Malayan coasting trade: "I consider it would be a timely action if the Straits Government arranged with the Home authorities that the coasting trade of Malaya should be reserved for British tonnage only",¹³⁷ a view shared by *The Straits Times*.¹³⁸ However, this campaign quickly petered out as British shipping had little interest in the reservation of the Malayan coasting trade, and there was little attempt to sustain the campaign into 1937. *The Shipping World* took a sanguine view of the calls to restrict the Malayan coasting trade; it rejected the need to discriminate against Japanese shipping and merely called for the improvement of British shipping organisation to meet the Japanese challenge.¹³⁹ Indeed there was little benefit to British shipping by excluding Japanese vessels from this coasting trade. In 1936, despite worries in Singapore, no Japanese ships engaged in the Malayan coasting trade from Singapore, whilst in 1935 only one Japanese vessel of 2,900 gross tons, under 1% of all foreign vessels, had engaged in the Malayan coasting trade out of Singapore.¹⁴⁰ Thus, given the small scale of Japanese participation, there was virtually no commercial incentive to exclude Japanese shipping from the Malayan coasting trade.

In contrast with Malaya, British shipowners mounted a much stronger campaign over Japanese shipping competition in India's carrying and coasting trade. In December 1936 Alexander Shaw complained to the P&O shareholders that due to subsidised Japanese competition the outlook for British shipping in Indian waters was bleak and that effective counter measures had been stifled by the indifference of the Indian government.¹⁴¹ By 1936 the British lines participating in the Bombay-Japan and Calcutta-Japan Shipping

137. *The Straits Times*, 30 September 1936.

138. 'Trade War', *The Straits Times*, 1 October 1936.

139. *The Shipping World*, 23 December 1936.

140. See tables 5.13, and 5.14.

141. *The Shipping World*, 16 December 1936, pp. 641-643.

Conferences - collectively part of the Far Eastern Freight Conference - were worried that in the near future Japanese competition might force them to withdraw from both conferences. They complained that the present conference arrangements did not protect the non-Japanese members, and that the Japanese had refused to respond to British attempts to negotiate new conference arrangements that were more favourable to the British lines.¹⁴² British shipping interests now wanted the Indian government to pressure the Japanese government into forcing Japanese shipping interests into a compromise.¹⁴³ In regard to the Indian coasting trade, British shipowners complained that the March 1934 Indo-Japanese Gentleman's Agreement or the Sawada Agreement - in which the Japanese government undertook to dissuade Japanese vessels from participating in the Indian coasting trade¹⁴⁴ - was being breached by the increased Japanese tonnage operating in Indian coastal waters.¹⁴⁵ Furthermore, Indian shipping interests also mounted a separate campaign, based on Japan's violation of the same 1934 Gentleman's Agreement, to exclude Japanese vessels from the Indian coasting trade.¹⁴⁶ However, as with Malaya, Japanese involvement in the Indian coasting trade was insignificant when compared to Japanese involvement in India's carrying trade with Japan. In 1936 some seven Japanese vessels engaged in the former, while over 200 Japanese vessels engaged in the latter.¹⁴⁷ Consequently, the formal exclusion of

142. *Annual Report: Chamber of Shipping of the United Kingdom, 1936-1937*, pp. 60-63; Carter (Board of Trade) to Ronald (Foreign Office), 25 February 1937, FO371/21032,F1208/63/23; Imperial Shipping Committee, *British Shipping in the Orient*, pp. 80-85.

143. Carter (Board of Trade) to Ronald (Foreign Office), 25 February 1937, FO371/21063,F1208/63/23; Mackinnon, Mackenzie & Co., to the Bengal Chamber of Commerce, 14 April 1937, *Report of the Committee of the Bengal Chamber of Commerce, 1937*, pp. 512-514.

144. There was in fact no formal undertaking by the Japanese government, however, the Japanese negotiators of the 1934 Indo-Japanese Trade Agreement had given a verbal undertaking that the Japanese government would attempt to ensure Japanese vessels did not participate in the Indian coasting trade, Carter (Board of Trade) to Ronald (Foreign Office), 25 February 1937, FO371/21032,F1208/63/23; Sir F. Stewart (India Office) to A. Shaw (Foreign Office), 19 March 1937, FO371/21032,F1208/63/23.

145. Mackinnon, Mackenzie & Co., to the Bengal Chamber of Commerce, 14 April 1937, *Report of the Committee of the Bengal Chamber of Commerce, 1937*, p. 513.

146. Indian Chamber of Commerce, Calcutta, to the Indian government, 27 January 1937, and 29 May 1937, *Indian Chamber of Commerce, Calcutta: Annual Report of the Committee, 1937*, pp. 390-393, 396-397; *Annual Report of the Indian Merchants' Chamber, 1937*, p. 5.

147. In 1935 Japanese involvement in the Indian coasting trade amounted to 1 vessel carrying 8,000 bags of groundnuts: between January and June 1936, 3 vessels carrying 4,000 bags of wheat flour and 3,600 steel bars: between June and December 1936, 4 vessels carrying 6,035 bags of wheat flour and 600 bags of wheat. A further vessel, the *Alice Möller*, on charter to the Japanese firm, Yamashita Kisen Kaisha, carried some 6,700 tons of rice in the Indian coasting trade. However, despite the limited number of Japanese vessels, the Indian shipping interests were worried that following this upward trend there might be an explosion of Japanese involvement in the Indian coasting trade, especially since Mitsui were reported to be canvassing among Burmese rice merchants for their carrying trade with Bombay, Indian

Japanese shipping from the Indian coasting trade would be more of a symbolic gesture than providing practical support from Japanese competition to British and Indian shipping.

However, as in the case of British demands for tariff preference against Japanese competition in the Indian cotton piece-goods market, British demands for the reservation of the Indian coasting trade caused greater friction between Anglo-Indian shipping interests than between Anglo-Japanese interests. Since the mid-1920s Indian shipowners had mounted a campaign to encourage native shipping, and had consistently sought the reservation of the Indian coasting trade for 'indigenous' shipping. This campaign gained credibility with the approach in April 1937 of the enforcement of the new Indian constitution, and the emergence of British demands for the exclusion of 'foreign' shipping from the Indian coasting trade. Indian shipping interests angrily pointed out the injustice of India's coasting trade being reserved for British vessels, and the subordination of India's shipping interests.¹⁴⁸ Spurred on by the approach of the new constitution and a new Bill to control India's coasting trade, the Indian shipping interests put forward their own proposals which envisaged little room for British participation. It was proposed that: after the separation of Burma from the Indian Empire in 1937, the Indian government should press the Burmese government into accepting that all non-Indian shipping should be excluded from the Indo-Burmese carrying trade; and that 50% of the Indian coasting trade should be reserved for vessels owned and operated by Indian nationals.¹⁴⁹ Worried by the Indian campaign¹⁵⁰ the British responded that these demands were not viable. Native Indians possessed no ocean-going tonnage from which to benefit from the reservation of coastal shipping, and lacked the necessary capital with which to develop such tonnage. Further, the

Chamber of Commerce, Calcutta, to the Indian Government, 27 January 1937, *Indian Chamber of Commerce, Calcutta: Annual Report of the Committee, 1937*, pp. 390-393; See table 5.15.

148. Indian Chamber of Commerce, Calcutta, to the Indian government and the Imperial Shipping Committee, 18 January 1937, 20 March 1937, 22 April 1937, and 29 April 1937, *Indian Chamber of Commerce, Calcutta: Annual Report of the Committee, 1937*, pp. 388-389, 393-395, 416-417, 418-421; Indian Merchants' Chamber to the Indian government, 8 January 1937, 4 February 1937, 8 March 1937, 21 April 1937, *Annual Report of the Indian Merchants' Chamber, 1937*, pp. 1-5, 107-111, 112, 114-115, 117, 117-120; Speech of Walchand Hirachand, Chairman of Scindia Steam Navigation Company, *The Shipping World*, 13 January 1937, p. 46; Address of B. M. Birla, to the Indian Chamber of Commerce, Calcutta, *The Shipping World*, 17 February 1937, p. 213.

149. *Annual Report of the Indian Merchants' Chamber, 1937*, pp. 6-7; Indian Merchants' Chamber to the Government of Bombay, 6 January 1937, *Annual Report of the Indian Merchants' Chamber, 1937*, pp. 121-124; *The Shipping World*, 24 March 1937, pp. 364-365, 23 June 1937, pp. 741-742, and 30 June 1937, p. 762.

150. *The Shipping World*, 24 March 1937, pp. 364-365.

exclusion of British shipping from the Indian coasting trade violated the clause in the Government of India Act which precluded Indian discrimination against British goods and services.¹⁵¹ Thus the separate British and Indian campaigns for the exclusion of Japanese shipping interests from India's coasting trade led to far greater friction between Anglo-Indian shipping interests than it did between Britain and Japan.

However, while the British shipping industry mounted its campaign for government support against Japanese shipping competition from both the British and Indian governments, both proved extremely reluctant to endorse any measure that would seriously reduce Japanese shipping's access to Indian waters. In regard to the British shipping industry's demand for the reapportionment of the carrying trade in the Far Eastern Shipping Conference, neither the British nor Indian government foresaw any need for immediate government involvement. Intervention in the dispute was only envisaged after the report of the Imperial Shipping Committee. Within the British government, only the Board of Trade remained keen to involve both governments in the commercial negotiations of the Far Eastern Conference. However, since it refused to contemplate any action until after the report of the Committee in the summer of 1937,¹⁵² a view shared by the Indian government,¹⁵³ there was no possibility of an immediate intervention on behalf of British shipping. Furthermore, the Indian government's unwillingness to raise this shipping issue until after the conclusion of the Indo-Japanese Trade Agreement,¹⁵⁴ ruled out the use of these trade negotiations as a lever in the Far Eastern Conference dispute.¹⁵⁵ A final constraint on the Indian government was that domestic shipping interests now demanded that their government should secure for them a certain percentage of the Indo-Japan carrying trade,¹⁵⁶ thus any involvement by the Indian government in the Far Eastern conference negotiation on behalf of British shipping would be seen as a betrayal of Indian shipping interests. Like the Indian government and the Board of Trade, the Foreign Office also displayed a similar

151. *The Shipping World*, 1 July 1936, p. 3, 23 June 1937, pp. 741-742, and 30 June 1937, p. 762.

152. Carter (Board of Trade) to Orde (Foreign Office), 2 February 1937, FO371/21032,F681/63/23; Minute by Scott-Fox, 10 February 1937, FO371/21032,F681/63/23.

153. Sir F. Stewart (India Office) to A. Shaw (Foreign Office), 19 March 1937, FO371/21032,F1787/63/23.

154. See chapter 3.

155. Carter (Board of Trade) to Orde (Foreign Office), 2 February 1937, FO371/21032,F681/63/23.

156. *Annual Report of the Indian Merchant's Chamber, 1937*, pp. 6-7; Indian Merchants' Chamber to the Government of Bombay, 6 January 1937, *Annual Report of the Indian Merchants' Chamber, 1937*, pp. 121-124.

caution over the question of Anglo-Japanese rivalry in the Far Eastern Conference. It endorsed the view that no government involvement should precede the report of the Imperial Shipping Committee, and added the mild suggestion that any action against Japan should be considered together with the general question of restrictions on Japanese trade.¹⁵⁷ Consequently, the British and Indian governments refused to offer immediate support to the British shipping industry's attempt to renegotiate more favourable commercial terms with its Japanese competitors in the Far Eastern Conference. Indeed, in a similar fashion to the Malayan-North American rubber carrying trade, British concerns over Japanese competition in the Indian overseas carrying trade ended with the reduction of Japanese shipping capacity for commercial operations following the outbreak of the Sino-Japanese War,¹⁵⁸ and not as a result of British and Indian government intervention on behalf of the British shipping industry.

On the less important issue of Japanese participation in the Indian coasting trade, the Indian government was prepared to restrict Japanese access to this trade. The Indian government was already pressing the Japanese to ban the involvement of Japanese vessels in the Calcutta-Japan conference in this trade. Furthermore, despite the Foreign Office's belief in the need for caution in the Indo-Japan conference issue, they had no qualms over excluding Japanese vessels from the unimportant Indian coasting trade. Sir Robert Clive, the British ambassador in Tokyo, was authorised to back up Indian government efforts to gain Japanese acquiescence.¹⁵⁹ In April 1937, Clive presented the British and Indian case to the Japanese Vice Minister of Foreign Affairs, in which he stated that: since both governments attached great importance to the stability of the Indian coasting trade they urged the Japanese government to arrange that its shipowners enter talks with their British and Indian counterparts with the aim of ^{obtaining} some form of voluntary restriction of Japanese shipping.¹⁶⁰ Unfortunately, the Japanese reply gave little room for optimism, as they stated correctly that Japanese vessels were not barred from the Indian coasting trade and it was up to the various commercial concerns to reach an agreement. Further, they pointed out that an earlier and reasonable proposal of the Japanese shipping industry had been rejected by their

157. Minute by Ashton-Gwatkin, 6 February 1937, FO371/21032,F1787/63/23; Minute by Orde, 8 February 1937, FO371/21032,F1787/63/23.

158. See table 5.15.

159. Interdepartmental meeting, the Foreign Office, the Board of Trade, and the India Office, 1 March 1937, FO371/21032,F1298/63/23.

160. Clive (Tokyo) to the Foreign Office, 9 April 1937, FO371/21032,F2512/63/23.

British and Indian counterparts. However, the Japanese government did indicate that any agreement reached between the British and Japanese Far Eastern Conference members - over their non-participation in the Indian coasting trade - would not be breached by any Japanese shipping concern that was not part¹⁶¹ to the same shipping conference. With no further progress made over the issue, the Indian government took unilateral action, and in August 1937, it decided to repeal the 1850 Indian Coasting Trade Act in order to exclude foreign shipping - i.e. Japanese shipping - from the Indian coasting trade.¹⁶² The Foreign Office was not alarmed by this action, and expected no Japanese reaction since the banning of Japanese shipping would have only a limited impact on the Japanese shipping industry.¹⁶³ Thus the exclusion of Japanese shipping from the Indian coasting trade represented the only victory for British shipping in its campaign for government support in its fight against Japanese shipping, a victory of little consequence given the relative scale of Japanese participation in this trade.

Following the failure of this piecemeal approach to Japanese shipping competition, the report of the Imperial Shipping Committee, *British Shipping in the Orient*, in December 1938, confirmed the unwillingness or inability of the British, Dominion, and Indian governments to take collective action against Japanese shipping competition in British imperial waters. On the question of subsidies to British lines suffering from subsidised Japanese competition, the Committee struck a cautious note and confirmed that, since shipping subsidies were dependent upon individual imperial authorities, there could be no imperial counter-subsidy policy.¹⁶⁴ The Committee also took a cautious line over the restriction of Japanese shipping's participation in British imperial waters, and saw little advantage in the use, or threatened use, of either the exclusion of Japanese shipping from imperial coasting trade or the apportionment of Japanese participation in imperial overseas carrying trade, as a means of controlling Japanese shipping competition in imperial waters. With regard to the reservation of coasting trades, the report noted that most of the Empire coasting trades were still dominated by British vessels, and therefore the threatened withdrawal of this trade would hardly be an effective bargaining counter in shipping negotiations with Japan. The Committee explained:

161. Dodds (Tokyo) to the Foreign Office, 25 May 1937, FO371/21032,F3746/63/23.

162. Turner (India Office) to the Foreign Office, 17 August 1937, FO371/21032,F5339/63/23.

163. Orde to the India Office, 27 August 1937, FO371/21032,F5339/63/23.

164. Imperial Shipping Committee, *British Shipping in the Orient*, pp. 101-103, 107-109.

such action would not materially alter the present position, and a threat to reserve coastal trades in eastern waters to the British flag would obviously be of little or no value in negotiation for a proper division of the overseas trades between the British territories concerned on the one hand and Japan on the other.¹⁶⁵

In regard to apportionment of Japanese participation in imperial overseas carrying trade, the Imperial Shipping Committee noted that since this measure risked similar Japanese retaliation it offered only a limited improvement for British imperial shipping.¹⁶⁶ Furthermore, this measure had no support within the British shipping industry, as it ran counter to both the Liverpool Steam Ship Owners' and the Chamber of Shipping of the United Kingdoms' now categorical commitment to the reduction of world trade barriers.¹⁶⁷ Finally, the Committee also rejected unconditional government intervention in shipping conference negotiations on behalf of British shipping. The Committee argued that there was little evidence to suggest that such intervention could restore the fortunes of British shipping in shipping conferences which had already witnessed substantial inroads by Japanese shipping.¹⁶⁸ Thus the Imperial Shipping Committee confirmed that there would be no immediate government intervention to counter Japanese shipping competition in British imperial waters in the Pacific-East Asia region.

165. Imperial Shipping Committee, *British Shipping in the Orient*, pp. 104-105.

166. Imperial Shipping Committee, *British Shipping in the Orient*, p. 107.

167. Imperial Shipping Committee, *British Shipping in the Orient*, p. 105.

168. Imperial Shipping Committee, *British Shipping in the Orient*, pp. 85-87, 105-107.

Conclusion.

Like other commercial issues of potential importance to Anglo-Japanese relations, the question of protecting the British shipping industry from Japanese competition illustrated the reluctance of the British government to play an antagonistic role within this commercial dispute. A combination of international and domestic constraints, together with deep divisions within the shipping industry, were the foundation of the British government's rejection of extensive aid to the shipping industry. The fear of economic retaliation, especially from either America or Japan, led the government to consistently reject any measures to restrict subsidised foreign shipping's access to British imperial waters, a view that had widespread support within the shipping industry. On the question of counter-subsidies to British shipping, the British government proved equally reluctant to take any decisive action against specific subsidised services that were in competition with British shipping. While tramp subsidies were introduced in 1935 for the benefit of the British shipping industry, the government consistently refrained from extending operational subsidies to specific liner services. A combination of the fear of foreign resentment - particularly American - to such countermeasures, and the need to avoid increased government expenditure, led the government - as in the case of the Union Steam Ship Company - consistently to avoid extending subsidies to liner services. Thus, for commercial and economic reasons, the British government proved equally reluctant to support the sections of the shipping industry that demanded support for their commercial operations against Japanese competition.

Aside from the reluctance of the British government to support the shipping industry, the issue also illustrated the lack of unity within the British Empire over imperial economic and commercial questions. Clashes within the Empire between various imperial economic interests were a huge constraint upon the development of an organised imperial response to the needs of the British shipping industry. Initially, none of the major British territories in the Pacific-East Asia region had any interest in incurring the economic burdens that would result from subsidising British shipping services or ousting subsidised non-British services from their overseas carrying trade, while the Indian government remained concerned over the effect of its support upon nationalist opinion. Only slowly did Dominion opinion change as the need for British and imperial rearmament raised the question of imperial economic and military security in wartime. However, before 1938 these shifts in sentiment did not

result in substantial support from the Dominions or the Indian government for the British shipping industry's fight against Japanese competition. The Indian government's exclusion of Japanese shipping from its coasting trade in 1937 was little more than a symbolic act, while the Australian government's support of the Eastern & Australian Steamship Company against its Japanese competitors, did not result in the Australian company's recapturing a large proportion of the Australia-Japan carrying trade.¹⁶⁹ Thus the absence of an effective consensus on the role of the various British imperial authorities prevented a concerted imperial response to Japanese shipping competition.

As a result of British and imperial indifference, Japanese shipping competition had a minimal impact upon Anglo-Japanese relations. Because there was no attempt to restrict Japanese shipping access to British imperial waters, the question of the political and economic impact of these measures was never debated within either the British government or the Foreign Office. The only exception to this trend was the exclusion of Japanese shipping from the Indian coasting trade. However, given the insignificance of this measure it never prompted fears of a substantial Japanese response within the Foreign Office. Thus despite the importance of the shipping industry to Britain and the British Empire, and the scale of the Japanese competitive threat within the Pacific-East Asia region, before 1938 Anglo-Japanese shipping rivalry never emerged as a substantive issue within Anglo-Japanese relations.

169. Tsokhas K., 'The Eastern & Australian Steamship Company and the Shipping dispute between Australia and Japan, 1936-39', *Business History* (1992), pp. 50-66.

Table 5.1 : Indices of world trade, shipping and freight rates, 1920-1938 (1913=100).

Year	Index of world sea-borne trade	Index of shipping tonnage		Indices of freight rates			
		Total	Active	<i>The Economist</i>	German liner	German tramp	Norwegian
1920	83	122		438.7			
1921	82	132		158.4			
1922	92	135	119	122.0			
1923	94	139	126	109.7			
1924	106	134	126	113.4		103	247
1925	114	136	128	102.2		96	206
1926	115	136	128	109.7		110	178
1927	127	139	133	109.6	120	99	170
1928	130	143	137	98.8	113	96	152
1929	135	145	141	96.8	117	100	151
1930	126	148	140	79.1	112	77	125
1931	112	150	130	79.6	95	73	102
1932	101	148	122	75.4	69	60	107
1933	103	145	123	72.7	66	49	110
1934	112	140	126	74.2	62	48	120
1935	118	136	130	74.4	63	50	125
1936	124	139	134	84.6	66	62	140
1937	141	141	140	128.3	73	86	
1938	135	144	142	97.6	77	64	

[Source: Sturmev S. G., *British Shipping and World Competition* (Athlone Press, University of London; 1962), table 4, p. 65.]

Table 5.2 : British and world shipping tonnage, 1914-1939 (millions of gross tons).

Year	UK registered tonnage	World tonnage	UK registered tonnage as a percentage of world tonnage
1914	19.3	49.1	39.3
1921	19.3	58.8	32.8
1922	19.1	61.3	31.2
1923	19.1	62.3	30.7
1924	19.0	61.5	30.9
1925	19.3	62.4	30.9
1926	19.3	62.7	30.8
1927	19.2	63.3	30.3
1928	19.8	65.2	30.4
1929	20.0	66.4	30.1
1930	20.3	68.0	29.9
1931	20.2	68.7	29.4
1932	19.6	68.4	28.7
1933	18.6	66.6	27.9
1934	17.6	64.4	27.3
1935	17.3	63.7	27.2
1936	17.2	64.0	26.9
1937	17.4	65.3	26.6
1938	17.7	66.9	26.5
1939	17.9	68.5	26.1

[Source: Hope R., *A New History of British shipping* (John Murray, London; 1990), figure 9, p. 359.]

Table 5.3 : Changes in the tonnage of the principal merchant marines between 1914 and 1931 (millions of gross tons).

Country	1914	1931	Percentage change between 1914 and 1931
Britain (and Empire)	20.5	23.1	+12
USA (Sea)	2.0	10.3	+415
Japan	1.7	4.3	+153
Italy	1.4	3.3	+136
Holland	1.5	3.1	+107
Norway	2.0	4.1	+105
France	1.9	3.5	+84
Germany	5.1	4.2	-18

[Source: Board of Trade memorandum, 'Ships and Shipping Policy', 31 May 1933, FO371/17328,W9190/5461/50.]

Table 5.4 : Percentage changes in shipping tonnage of the principal maritime nations between June 1931 and June 1932.

Country	Percentage change	Country	Percentage change
United Kingdom	-3	Greece	+5
Holland	+5	Denmark	c.+3
USA	+1	Norway	c.+3
Germany	+2	Italy	+1

[Source: Board of Trade memorandum, 'Ships and Shipping Policy', 31 May 1933, FO371/17328,W9190/5461/50.]

Table 5.5 : Financial performance of selected companies in the Japanese shipping industry (percentage of profit on paid up capital) compared with the financial performance of the British tramp shipping industry, 1932-1937.

Shipping company	Year											
	1932		1933		1934		1935		1936		1937	
	1st	2nd	1st	2nd	1st	2nd	1st	2nd	1st	2nd	1st	2nd
Yamashita Kisen	0.94		loss		11.6		11.6		8.5		15	
Daido Kaisen	10.32		22.04		29.56		16.8		32.44		169.48	
Kawasaki Kisen	loss	1.0	4.7	loss	6.4	9.0	10.5	12.8	23.7	26.5	30.7	n/a
British tramp shipping companies (on a different basis)	5.1		loss		loss		1.3		3.3			

[Source: Chida T., and Davies P. N., *The Japanese Shipping and Shipbuilding industries: A history of modern growth* (Athlone Press, London; 1990), table 2.2, p. 4.]

Table 5.6 : Changes in tonnage of the principal merchant marines, 1914-1935 (millions of gross tons).

Country	Year					
	1914	1922	1929	1931	1934	1935
Britain	19.9	19.1	20.0	20.2	17.6	17.3
British Dominions	1.6	2.5	2.8	2.9	3.0	3.0
Total British	20.5	21.6	22.8	23.1	20.6	20.3
Denmark	0.8	1.0	1.0	1.1	1.1	1.1
France	1.9	3.5	3.3	3.5	3.3	3.0
Germany	5.1	1.8	4.0	4.2	3.7	3.7
Greece	0.8	0.7	1.3	1.4	1.5	1.7
Holland	1.5	2.6	2.9	3.1	2.6	2.6
Italy	1.4	2.7	3.2	3.3	2.9	2.8
Japan	1.7	3.6	4.2	4.3	4.0	4.0
Norway	1.9	2.4	3.2	4.1	4.0	4.0
Spain	0.9	1.2	1.1	1.2	1.2	1.2
Sweeden	1.0	1.0	1.5	1.7	1.6	1.5
USA (Sea)	2.0	13.6	11.0	10.4	9.8	9.7
Others	3.6	3.5	4.4	4.9	5.5	5.6
World total	43.1	59.2	63.9	66.3	61.8	61.2

[Source: *The Shipping World*, 31 July 1935, pp. 113-114.]

Table 5.7 : Average age of merchant vessels of over 100 tons gross for Britain, the British Dominions, and Japan, in 1935.

Country	Age of merchant fleet by percent		
	Under 10 years old	10 to 20 years old	Over 20 years old
Britain	34.4	46.1	19.5
British Dominions	29.1	30.7	40.2
British average	33.6	43.9	22.5
Japan	24.7	50.7	24.6
World average	26.5	45.5	28.0

[Source: *The Shipping World*, 31 July 1935, pp. 113-114.]

Table 5.8 : Monthly crew and victualling expenses on British and Japanese cargo liners in 1936.

Expense by crew type and other costs	British cargo liner				Japanese cargo liner (ii)			
	Number	Cost			Number	Cost		
		£	s.	d.		£	s.	d.
Middle seniority rates	13	334	15	0	13	108	11	2
Deck crew	26	58	10	0	18	62	18	10
Engine crew	28	50	18	6	24	82	6	2
Saloon crew	10	29	11	0	6	23	14	10
Messing		132	8	3		66	12	4
Leave pay (i)		49	7	6				
Crew expense per month	77	655	10	3	61	344	3	4

[Source: Imperial Shipping Committee, *British Shipping in the Orient* (HMSO, London; 1939), Appendix VIII, pp. 123-125.]

Notes : (i) One sixth of pay rates, for officers and engineers only.

(ii) Official wage lists increased by 25% to accommodate unspecified allowances and to allow for a 'reasonable liner standard'.

Table 5.9 : Proportion of principal maritime nations' merchant fleets laid up or idle in February 1931.

Country	Per- cent	Country	Per- cent	Country	Per- cent
USA	20	Germany	22	Denmark	16
France	29	Italy	19	United Kingdom	16
Holland	26	Norway	17	Japan	5
		Sweden	17		

[Source: Board of Trade memorandum, 'Ships and Shipping Policy', 31 May 1933, FO371/17328, W9190/5461/50.]

Table 5.10 : Type of ocean-going tonnage built between 1931 and 1935, owned by the principal maritime nations at the end of January 1936.

Country	Type of vessel							
	Liners (i)		Cargo vessels (tramps)		Tankers		Total	
	Number	Tons	Number	Tons	Number	Tons	Number	Tons
Denmark	15	87,579	2	7,612	1	10,517	18	105,708
France	22	260,208	6	30,275	5	53,917	33	344,400
Germany	19	141,469	2	8,892	1	8,117	22	158,478
Greece	-	-	-	-	-	-	-	-
Holland	10	82,791	1	4,652	19	136,024	30	223,467
Italy	6	155,627	2	10,584	3	27,122	11	193,333
Japan	48	304,336	10	38,075	6	56,903	64	399,314
Norway	19	105,305	9	39,170	67	546,027	95	690,502
Spain	5	45,942	-	-	8	51,412	13	97,354
Sweden	9	44,801	2	6,632	5	38,973	16	90,406
USA	28	280,097	-	-	8	69,777	36	349,874
Total	181	1,508,155	34	145,892	123	998,789	338	2,652,836
UK	53	630,873	72	349,723	49	374,081	174	1,354,667
World total	234	2,139,028	106	495,615	172	1,372,870	512	4,007,513

[Source: *The Shipping World*, 29 April 1936, p. 495.]

Note : (i) Liner defined as a vessel of greater than 12 knots.

Table 5.11 : Japanese shipping penetration of the Malayan export trade, 1933-1936
(thousands of piculs).

Route	January-June 1933		January-June 1934		January-June 1936		January-June 1936	
	Total volume	Percentage of total volume carried in Japanese vessels	Total volume	Percentage of total volume carried in Japanese vessels	Total volume	Percentage of total volume carried in Japanese vessels	Total volume	Percentage of total volume carried in Japanese vessels
Penang to Britain	371.9	11.3	518.8	12.5	600.5	12.8	395.4	16.2
Penang to Europe	534.3	4.4	579.8	4.0	460.3	5.7	21.1	5.1
Penang to North America	729.2	1.6	949.1	1.6	914.7	25.1	1,041.1	23.3

[Source: Hartland (Office of H. M. Trade Commissioner, Straits Settlement) to Braddock (Department of Overseas Trade), 15 October 1936, FO371/20288,F6909/728/23.]

Table 5.12 : Volume of rubber exported from Malaya and Singapore to North America, carried in British, American, Dutch and Japanese vessels, 1930-1935 (in piculs).

Year	Nationality of vessels							
	British		American		Dutch		Japanese	
	Volume	Percent- age of total volume	Volume	Percent- age of total volume	Volume	Percent- age of total volume	Volume	Percent- age of total volume
1930	198,197	70	77,432	27	8,386	3		
1931	196,904	67	85,044	29	12,261	4		
1932	149,516	65	73,529	32	5,419	3		
1933	165,730	57	103,994	36	22,011	7		
1934	176,212	58	104,992	34	14,835	5	10,680	3
1935	113,365	41	75,752	28	10,574	4	73,395	27

[Source: Weston (Board of Trade) to Ronald (Foreign Office), 30 March 1937, FO371/21032,F1912/63/23.]

Table 5.13 : Comparison of the number and tonnage of British, American, Dutch, and Japanese vessels engaged in the overseas carrying trade of Singapore(i), 1933-1938.

Year	British		American		Dutch		Japanese		Total	
	Number	Tonnage (millions)	Number	Tonnage (millions)	Number	Tonnage (millions)	Number	Tonnage (millions)	Number	Tonnage (millions)
1933	1,628	4.53	42	0.23	2,122	3.11	639	2.56	5,634	13.93
1934	1,797	4.97	46	0.24	2,212	3.27	591	2.45	5,982	14.59
1935	1,718	4.81	43	0.23	2,199	3.32	623	2.63	5,932	14.79
1936	1,701	4.73	38	0.19	2,008	3.43	657	2.77	5,753	14.88
1937	1,889	5.31	40	0.19	2,159	3.77	597	2.53	6,031	16.08
1938	1,803	5.16	23	0.10	2,201	3.87	425	1.87	5,886	15.35

[Source: *Straits Settlements: Blue Book* (Department of Statistics, Singapore; various years).]

Note : (i) including repeated voyages, entrances and clearances, and vessels in cargo and ballast.

Table 5.14 : Comparison of the number and tonnage of British, Dutch, and Japanese vessels engaged in the coasting trade of Singapore(i), 1933-1938.

Year	British		Dutch		Japanese		Total	
	Number	Ton- nage (thou- sands)	Number	Ton- nage (thou- sands)	Number	Ton- nage (thou- sands)	Number	Ton- nage (thou- sands)
1933	583	243.1	111	10.5			795	283.6
1934	631	265.9	115	17.1	1	2.9	840	312.7
1935	625	286.9	130	16.5	1	2.9	866	338.2
1936	538	255.4	145	18.5			780	298.6
1937	567	296.6	99	14.7			701	317.9
1938	507	267.9	47	7.9			586	279.0

[Source: *Straits Settlements: Blue Book* (Department of Statistics, Singapore; various years).]

Note : including repeated voyages, entrances and clearances, and vessels in cargo and ballast.

Table 5.15 : Comparison of the number and tonnage of British, British Indian, and Japanese vessels engaged in the overseas carrying trade of India(i), 1931/32-1938/39.

Year	British (other than British Indian)		British Indian (other than native Indian)		Japanese		Total foreign (excluding British, British Indian, and native Indian)		Total (including British, British Indian, native Indian, and total foreign)	
	Number	Tonnage (millions)	Number	Tonnage (millions)	Number	Tonnage (millions)	Number	Tonnage (millions)	Number	Tonnage (millions)
1931-32	1,803	5.49	30	0.06	171	0.59	733	2.65	3,428	8.27
1932-33	1,737	5.29	16	0.03	168	0.58	641	2.46	3,258	7.85
1933-34	1,775	5.41	21	0.02	154	0.56	704	2.82	3,309	8.31
1934-35	1,865	5.69	14	0.02	179	0.68	787	3.01	3,630	8.81
1935-36	1,905	5.97	23	0.04	199	0.78	792	3.06	3,600	9.16
1936-37	1,973	6.12	23	0.07	218	0.84	821	3.18	3,742	9.45
1937-38	2,272	7.09	156	0.41	169	0.65	774	3.23	4,263	10.80
1938-39	2,305	7.33	132	0.37	171	0.69	754	3.26	4,370	11.05

[Source: *Review of the Trade of India: Annual Statement of the Sea-Borne Trade of British India with the British Empire and Foreign Countries* (Department of Commercial Intelligence and Statistics, Delhi; various years).]

Note : including repeated voyages, entrances and clearances, and vessels in cargo and ballast.

Conclusion.

Conclusion.

Between 1933 and 1937 Anglo-Japanese commercial friction, outside China, emerged as a substantial issue in the already strained Anglo-Japanese political relationship. Japanese success in the world cotton textile market and shipping industry contrasted with the relative failure of their British counterparts, while state intervention in the Japanese and Manchukuoan oil markets undermined Royal Dutch Shell's operations. In the former instances this success reflected Japanese economic achievement, and in the latter it was largely due to changes in the international oil market that favoured the adoption of import substitution of refined petroleum products. However, at a time of world economic depression this commercial friction spilled over into political tension between Britain and Japan, as British industrialists sought government assistance to combat Japanese commercial success and interference in British oil operations.

In response to these demands the British government introduced trade discrimination against Japanese cotton textiles in the British Crown Colonies in 1934; sought to increase trade preferences for Lancashire in the Dominion, Indian and third country markets; supported Royal Dutch Shell in its attempt to evade Japanese and Manchukuoan oil policies; and after December 1936 debated methods of supporting the British shipping industry in the Pacific-East Asia region against Japanese competition. Nevertheless, these measures had only a limited impact in restraining Japanese competition and economic encroachment. Both the British government and industry shied away from extensive trade discrimination against Japan on the grounds that: Japanese economic retaliation would make such measures counterproductive; it would be difficult to achieve outside the limited scope of the British colonies without substantial international cooperation; protection of Royal Dutch Shell was impossible without American cooperation; and the greater British trade discrimination against Japan the greater was the risk of Japanese political and military retaliation. Consequently, the limited extent of trade discrimination and British interference in Anglo-Japanese economic problems resulted only in modest foreign policy friction. As 'traditional' diplomatic histories have emphasised, economic friction proved to be only a secondary factor in the already difficult Anglo-Japanese political relationship and not a fundamental element that propelled Britain and Japan into political confrontation.

However, for British business interests, given domestic and world economic problems, the emergence of Japanese competition in the 1930s provoked a strong response. Not only was Japanese export success resented, it was also perceived as a peculiarly sinister threat to British industry and society. The combination of 'western' technology and industrial methods with an 'Asiatic' standard of living terrified British industrialists, and led to fears that, "the competition of Japanese standards of life could reduce industrial Britain to a shambles".¹ Industrialists were equally resentful of the 'aggression' of Japanese export expansion during the post-1929 Depression, and the perceived links between Japanese business and their government in the promotion of industrial expansion. In May 1933 the Federation of British Industries condemned the recent surge in Japanese exports, at a time of global economic depression, as both 'reckless' and part of a national sales policy that had been disastrous for British industry.² While such sentiments were prevalent in the cotton and shipping industries, Royal Dutch Shell similarly perceived itself a victim of Japanese industrial policy, which was hellbent on driving foreign oil companies out of the Japanese and Manchukuoan petroleum markets or bending them to the needs of Japan's militarists. Thus not only was Japanese competition a menace to British industry and society, the relationship between the Japanese government and business contrasted unfavourably with the perceived indifference of the British government to domestic industries suffering from this new source of overseas competition. Consequently, given the fear of Japanese competition and the perceived close cooperation between government and industrial policy, the initial British response to Japanese trade competition appeared to foreshadow demands for extensive support from the British government.

Even prior to the identification of the new Japanese threat, British industrialists had already abandoned free-trade principles and turned to the government, which introduced domestic protection in 1931 and imperial preference in 1932. British demands for trade discrimination against Japan now coincided with the broad protectionist strategy of British commercial policy. However, the failure of the British government to extend trade protection to industries threatened by Japanese and other competitors led to a radicalisation of business opinion on the question of Japanese competition. Radical demands for trade protection via treaty denunciation and export and operational subsidies reflected not only a

1. *The Manchester Chamber of Commerce, Monthly Record*, February 1933, p. 36.

2. Cited in Hubbard G. E., *Eastern Industrialisation and its Effect on the West* (Oxford University Press, London; 1935), p. 97.

disenchantment with government but also the failure of more traditional means of business pressure to secure government support. In the cotton industry it was the failure of the Manchester Chamber of Commerce's private talks with the government over the summer of 1932 that spurred on the foundation of the Cotton Trade League and the instigation of a highly public campaign for trade protection via treaty denunciation. In the shipping industry the failure of the June 1933 World Economic Conference split the industry over the question of the exclusion of subsidised foreign shipping from Britain's carrying trade and the demands for a counter-subsidy policy. This division was again reflected with the beginning of the December 1936 campaign against Japanese shipping competition in the Pacific-East Asia region. It was only in Royal Dutch Shell's fight against Japanese and Manchukuoan intervention that there was no public criticism of government support. The government's sympathetic attitude obviated the need for more forceful representations. However, in general Japanese competition not only resulted in increased demands for government support; it also split industries over the means of pressuring the government and achieving protection from Japanese competition. In the early stages of the cotton industry's, and to a lesser extent the shipping industry's, anti-Japan campaigns radicalism held sway, which proved critical of government inaction and insistent upon strong measures of support.

The development of Japanese competition had an important effect upon the form of British industries' demand for trade protection. Particularly in the early-1930s, when the fear of Japanese competition focused upon the Lancashire cotton industry, anti-Japanese sentiment spread rapidly throughout the industry. The inauguration of the Cotton Trade League in December 1932 posed an enormous challenge to the Manchester Chamber of Commerce's claim of leadership of the cotton industry. In response the chamber not only publicised its own earlier demands, for trade protection via treaty denunciation, but established a 'Special Committee on Japanese Competition', which reflected the League's belief that the failure to place effective pressure on the government was solely responsible for government indifference to Japanese competition. Nevertheless, radicalism on trade questions proved a short-run phenomenon, as industry leaders recognised that for export orientated industries treaty denunciation was a double-edged sword. In 1934 the Federation of British Industries and the Chamber recognised the dangers of the denunciation of the 1911 Anglo-Japanese Trade Treaty as a prelude to trade discrimination against Japan.³ Not only

3. The Federation of British Industries Report on Japanese Competition, 13 June 1934, FO371/18172,F3293/159/23; *The Manchester Chamber of Commerce, Monthly Record*, June 1934, p. 167.

did treaty denunciation risk more substantial Japanese retaliation, it would do little for British goods in important markets outside the British colonies. Thus, after Colonial quotas were introduced in 1934, Lancashire virtually abandoned calls for trade protection against Japan via treaty denunciation. Similarly, even before the emergence of Japanese competition, the hostility of the Liverpool Steam Ship Owners' Association to carrying trade reservation and treaty denunciation provided a critical counterweight to the Chamber of Shipping of the United Kingdoms demand for the exclusion of subsidised shipping from Britain's overseas carrying trade. This division became even less pronounced during the shipping industry's anti-Japan campaign as the Chamber of Shipping recognised the threat to world trade recovery through an extension of British protectionism.⁴ Rejection of outright confrontation with Japan was also prevalent in Royal Dutch Shell's response to Japanese and Manchukuoan oil policies. Once the chance of an oil embargo threat had evaporated the company prepared to endorse any acceptable *modus vivendi*, since it had always recognised that the equally undesirable withdrawal from the Japanese and Manchukuoan oil markets was the only sanction it had against Japanese interference.⁵ Thus the rejection of excessive confrontation and trade discrimination by the majority of British business moderated pressure on the British government and neutralised the radicals. By 1934 the 'ginger group' of radical Lancashire MPs were isolated, while in the later-1930s the Chamber of Shipping, which had always recognised the inherent dangers of an exclusion policy for shipping, re-endorsed support for a reduction of barriers to world trade. Therefore the moderation of business attitudes to commercial friction with Japan meant that business itself acted as a fundamental constraint upon the exacerbation of Anglo-Japanese commercial friction.

While the long-run moderation of business attitudes eased pressure on the government, short-run business fears of Japanese competition jolted government policy in two respects. Demands for trade discrimination against Japan ran counter to the government's desire to avoid further political confrontation against Japan. British officials took the view that with an unstable situation in Europe and the unpredictability of Japanese foreign policy, British trade discrimination was an unwarranted distraction for Anglo-Japanese relations. Secondly, following the introduction of domestic protection and imperial preference the British government, led by Sir Walter Runciman, the strongly pro-free trade President of the Board of Trade, had rejected a further radicalisation of trade

4. Imperial Shipping Committee, *British Shipping in the Orient* (HMSO, London; 1939), p. 105.

5. Starling (Petroleum Department) to Randall, 20 July 1934, FO371/18189,F4477/1659/23.

policy. In 1932 Runciman defeated demands for the widespread abrogation of trade treaties as a prelude to the renegotiation of the most-favoured-nation clause, on the grounds that it would be more damaging to British trade. Thus while the British government had strong political reasons for avoiding economic confrontation with Japan, it was the Board of Trade's fear of the commercial dangers of excessive trade discrimination that proved the main long-run determinant of the British government's response to business pressure.

The demands of the Lancashire cotton industry in early 1933 for extensive imperial and third market trade discrimination against Japan proved to be the most critical challenge to the British government's desire to avoid further economic and political confrontation with Japan. Not only did the extent of Lancashire's demands threaten radically to expand the extent of British trade barriers, it also occurred at a critical time in Anglo-Japanese political relations. Political tensions had increased significantly following the solitary imposition by Britain of the League of Nations inspired embargo of military exports to Japan and China while the two powers were in conflict. However, even during this acute phase of Anglo-Japanese relations, foreign policy considerations proved less important than the Board of Trade's outright hostility, on commercial grounds, to extensive trade discrimination against Japan. In keeping with Foreign Office recommendations, the debate on discrimination against Japanese cotton textiles^{in British colonies} was delayed until the repercussions of the arms embargo had evaporated, yet throughout the course of this debate foreign policy considerations proved secondary. The prime determinant of the government's response to Lancashire was the Board's rejection of extensive trade discrimination and treaty denunciation on the grounds that possible Japanese commercial retaliation would render such measures counterproductive. In cabinet meetings in March 1933 and April 1934 Runciman firmly rejected any notion of treaty denunciation (a view that only received the limited endorsement of the Colonial Secretary Sir Philip Cunliffe-Lister),⁶ excessive trade discrimination, or the promotion of trade discrimination against Japan in Dominion and third country markets.⁷ Thus it was fears over Japanese commercial retaliation and not political retaliation by Japan that formed the cornerstone of the government's rejection of extensive trade discrimination against Japanese cotton textiles. Lancashire would be

6. Memorandum by the Colonial Secretary, 'Japanese Competition in the Textile Trade', 3 March 1933, CAB 24 CP. 54(33).

7. Memorandum of the President of the Board of Trade, 'Japanese Competition in the Textile Trade', 6 March 1933, CAB 24 CP. 55(33); Memorandum of the President of the Board of Trade, March 1934, CAB 24 CP. 81(34); Cabinet Conclusions, 18 April 1934, CAB 23 16(34)4.

appeased through limited trade discrimination in the relatively unimportant British colonial markets which the Foreign Office considered unlikely to provoke any Japanese response.⁸ Similar concerns, aided by deep divisions within the shipping industry, lay behind the government's rejection of the Chamber of Shipping of the United Kingdom's demand in 1933-34 for the exclusion of subsidised foreign shipping from Britain's overseas carrying trade and imperial shipping routes. For the Board and the Liverpool Steam Ship Owners' Association the exclusion of foreign shipping from British and British imperial carrying trade was unwarranted because of the risk of more substantial foreign retaliation against British shipping outside of imperial waters.⁹ This view was again endorsed by the Imperial Shipping Committee in 1938 over the question of excluding Japanese shipping from British Empire carrying trade.¹⁰ Thus like the cotton industry it was principally concern over the damaging effect of commercial retaliation to any measure of British trade discrimination that determined the government's rejection of excessive trade discrimination against Japan.

While the British government strove to avoid excessive trade discrimination against Japan, both Indian trade discrimination against Japan and Britain's response to state intervention in Japan and Manchukuo's oil markets veered towards confrontation with Japan. However, there were important limits to the role of the British government's involvement in these disputes. In regard to India the British cabinet's endorsement of the denunciation of the 1904 Indo-Japan Trade Convention and imposition of penal tariff rates reflected its desire to appease Indian nationalist demands for protection of the Indian cotton industry from Japanese competition. As Samuel Hoare, the Secretary of State for India, told the cabinet, a failure to agree to these measures would do irreparable damage to Anglo-Indian relations.¹¹ The abrogation of the Trade Convention was a necessary price for a government whose prime concern was the preservation of Indian cooperation with British rule. In contrast both the British and Indian governments undertook only limited support of Lancashire's interests in India. Despite strong protests from Lancashire, and threats to sabotage Indian constitutional reform, neither governments was prepared to reduce

8. Lindley (Tokyo) to the Foreign Office, 13 March 1933, FO371/17153,F1720/583/23; Foreign Office Memorandum, 12 March 1934, FO371/18177,F1278/347/23; Lindley (Tokyo) to the Foreign Office, 6 April 1934, FO371/18178,F1938/347/23.

9. Memorandum of the President of the Board of Trade, 'The Position of British Mercantile Marine', 25 June 1934, CAB 24 CP. 161(34); Cabinet Conclusions, 27 June 1934, CAB 23 23(34)9, and 5 December 1934, CAB 23 45(34)12.

10. Imperial Shipping Committee, p. 107.

11. Cabinet Conclusions, 29 March 1933, CAB 23(33)4, and 24 May 1933, CAB 23 36(33)11.

Lancashire's rate of tariff preference against the wishes of Indian nationalist opinion until 1936. During the Indo-Japanese trade negotiations, despite the ostentatious intervention by Neville Chamberlain, the Chancellor of the Exchequer, in the Cabinet Committee on Indian Cotton, the defence of Lancashire's bleached piece-goods exports proved an irrelevance to the long-term decline of its commercial interests in India. Thus the main reason for Indian treaty abrogation and trade discrimination against Japan stemmed from Indian demands and was not due to pressure from British commercial interests on the British and Indian governments.

It was in regard to the defence of Royal Dutch Shell that the British government appeared most willing to confront the Japanese government. Despite warnings over the seriousness with which an oil embargo would be viewed in Japan, in November 1934 the British government began to explore the possibility of supporting this request from Royal Dutch Shell and Stanvac as a means of pressuring the Japanese and Manchukuo authorities. It was the Foreign Office that had always cautioned against strong economic measures against Japan that proved the champion of this policy in cabinet. Board of Trade and Admiralty fears over Japanese economic and military retaliation were brushed aside on the grounds that a failure to offer concrete resistance to these measures, particularly the Manchukuo Oil Monopoly, would encourage assaults by China and Japan on other British economic interests in East Asia. Nevertheless, there were clear limits to the Foreign Office's support for this measure. For both practical and political reasons Royal Dutch Shell would only be allowed to pursue the oil embargo if American support was forthcoming; the application of this policy would be the responsibility of the two companies; there would be no direct involvement of either the American or British governments in the oil embargo against Japan; initially the two companies, as in the case of similar confrontation against German oil policies, would only use the threat of an oil embargo to pressure the Japanese to back-down; if this failed, the authorisation of an oil embargo would have to await the sanction of the British and American governments. However, by December 1934 this whole policy had to be abandoned once the American government stated that, because of the refusal of the independent oil companies to cooperate, an oil embargo against Japan would be impracticable. Thus this potential confrontation against Japan was avoided not because the Foreign Office feared Japanese retaliation but because the American government was unable to interfere in the operations of its domestic oil companies.

The course of Anglo-Japanese trade friction revealed several important aspects of business-government relations. While business-government relations were dominated by periods of rancour, in the final analysis there were very few who were prepared to say that the government had not done everything reasonably within its power to defend British business from Japanese competition. The decline of radical demands for treaty denunciation and intervention in third markets revealed the industrialists' appreciation of the limits of British power and influence on specific trade questions. Furthermore, while the government was prepared to endorse only limited measures of trade discrimination against Japan, it equally recognised that British business could not be forced into unworkable cartels and commercial compromises with their Japanese counterparts. Although Runciman and Cunliffe-Lister, with full cabinet support, forced the reluctant Lancashire cotton industry into cartel negotiations with Osaka, as the price of colonial trade discrimination, at no time did they demand a settlement with Osaka on any terms. As Sir Horace Wilson, the economic advisor to the cabinet, told the Lancashire delegation prior to its departure for the tripartite negotiations in India in the summer of 1933, while Britain had a desire for friendly relations with Japan there was no pressure on the Lancashire delegates to reach any compromise agreement with the Japanese.¹² When cartel negotiations broke down in London, aside from *the desire* of Chamberlain and the Foreign Secretary, Sir John Simon, ~~to~~ to delay colonial protection in the hope of receiving another Japanese proposal, no pressure was put on the Lancashire delegates to continue negotiations in the vague hope of securing a Lancashire-Japan understanding. After the introduction of Colonial quotas both the Board of Trade and Foreign Office proved, in deference to Lancashire, unwilling to consider its modification unless the Japanese put forward concrete proposals prior to any new set of trade talks. Sir Frederick Leith-Ross, the Chief Economic Advisor to the British government and head of the British Economic Mission to China and, the Japanese Ambassador, Yoshida Shigeru, made separate suggestions for the improvement of Anglo-Japanese relations through the modification of Colonial quotas, which were regarded with dismay in the Board of Trade and Foreign Office. Not only were both proposals regarded as politically unworkable, they would almost certainly be rejected out of hand by Lancashire.¹³ Similarly the British government proved unwilling to direct Royal Dutch Shell's negotiations with the Japanese and Manchukuoan authorities. In early-1935, when talks with the Manchukuo authorities

12. Meeting of the Lancashire Textile Delegation to India at the Board of Trade, 24 August 1933, FO371/17162,F5839/1203/23.

13. Draft of letter to Leith-Ross, to Brenan (Shanghai), 30 May 1936, FO371/20290,F3095/1391/23; Aide Memoire from Eden to Yoshida, 18 January 1937, FO371/21029,F357/28/23.

indicated that Royal Dutch Shell's subsidiary, Asiatic Petroleum, could continue operations, the Foreign Office raised no objections in spite of the oil monopoly's overt breach of the Open Door.¹⁴ The Foreign Office was equally content to allow Royal Dutch Shell freely to conduct negotiations with the Japanese authorities over the fulfilment of the Petroleum Law, and once again, despite Admiralty reservations, acquiesced in Royal Dutch Shell and Stanvac's offer of the rights to their hydrogenation process to the Japanese.¹⁵ Thus in the substantial talks between British cotton or oil industry representatives and the Japanese, the British government showed no desire to direct the course of negotiations for the benefit of wider British industrial and political interests.

In regard to policy formulation within the British administration, unlike Britain's policy to China, the question of Anglo-Japanese commercial friction revealed no substantial internal divisions. Both the Board of Trade and the Foreign Office were left to conduct commercial and political relations with Japan, without any interference from the Treasury Group. On only one occasion did Chamberlain and Simon, both members of the Treasury Group, seek to use the resolution of commercial friction as a means of improving Anglo-Japanese relations. In April 1934 in the cabinet committee on Japanese competition, both men preferred to wait for a final Japanese proposal in the hope that Anglo-Japanese political difficulties would not be exacerbated through the imposition of Colonial quotas.¹⁶ This proved untenable as the Japanese had already accepted some form of British colonial trade discrimination in preference to an unworkable Lancashire-Japan cartel agreement. Thus the resolution of Anglo-Japanese friction in the cotton piece-good market provided no basis for the improvement in Anglo-Japanese relations, and left the various government departments free to manage Anglo-Japanese commercial friction without reference to this separate foreign policy agenda.

The government departments involved were able to establish a broad consensus over the management of Anglo-Japanese commercial friction. This consensus ensured that although the Foreign Office might not be at the forefront of policy making, shared objectives

14. Minute by Orde, 12 February 1935, FO371/19350,F2125/94/23.

15. Meeting between Agnew, Godber, Darch (all Royal Dutch Shell), Starling (Petroleum Department), and Gascoigne (Foreign Office, 4 December 1935, FO371/19353,F7651/94/23; Royal Dutch Shell (New York) to Royal Dutch Shell (London), 6 December 1935, FO371/19353,F7780/94/23; Royal Dutch Shell (London) to Rising Sun Petroleum (Yokohama), 9 December 1935, FO371/19353,F7787/94/23; Minute by Orde, 12 December 1935, FO371/19353,F7787/94/23.

16. Cabinet Committee, 'Japanese Trade Competition', 27 March 1934, CAB 27/568.

ensured that foreign policy considerations were always manifest in the government's response to Anglo-Japanese commercial rivalry. In particular the Board of Trade and the Foreign Office established a close working partnership that witnessed the coalescence of departmental policy. The Board's desire to avoid excessive trade discrimination neatly complemented the Foreign Office's desire to minimise Anglo-Japanese political friction. While the Foreign Office appreciated the domestic pressures that resulted in limited colonial trade discrimination against Japan, the Board also recognised the need to ensure that the timing of British trade discrimination did not disrupt Anglo-Japanese relations. This was most clearly shown during the government's response to Lancashire in 1932 to 1933. The Board consulted the Foreign Office to ascertain if the political situation was stable enough to introduce limited colonial trade protection, while the Foreign Office accepted that some form of trade discrimination would have to be introduced to appease Lancashire. There were occasions when divergent departmental policy challenged this consensus, yet such occasions did not reveal the eclipse of the Foreign Office in policy formulation. The most notable example was the success of the Foreign Office's pursuit of the oil embargo threat, where despite Board of Trade and Admiralty opposition, it gained cabinet approval for the further evaluation of this policy.¹⁷ Other examples included the suspension of increased duties on silk and artificial silk for the duration of the London cartel negotiations despite the opposition of the Board and the silk and artificial silk industries. Friction on other issues, such as the India Office's conduct of the 1936-37 Indo-Japan trade negotiations,¹⁸ proved relatively minor, and reflected little more than a bureaucratic concern for the lack of due process. Indeed the major departmental dispute, between the India Office and the Indian government on the one hand, and the Board of Trade on the other over the defence of Lancashire's bleached piece-good interests did not even involve the Foreign Office. Thus between 1933 and 1937 the question of Anglo-Japanese commercial friction was managed within the economic and foreign policy consensus of the Board of Trade and Foreign Office, and there was no sustained eclipse of the Foreign Office in policy formulation.

Critical to the British government's desire to minimise the impact of commercial friction on Anglo-Japanese relations was the response of Japan. The rejection of managed commercial friction through limited trade discrimination by Japanese government and business would have destroyed British attempts to minimise its political impact. However,

17. Cabinet Conclusions, 21 November 1934, CAB 23 41(34)4.

18. Minute by Orde, 30 March 1937, FO371/21031,F1632/52/23.

the Japanese government, and in particular the Ministry of Foreign Affairs, displayed an equal desire to minimise commercial tensions. Like their British counterparts the Japanese government feared the commercial effect of the radicalisation of trade issues, in particular the abrogation of the 1904 Indo-Japan Trade Convention, and the impact commercial friction had upon political relations. The Ministry took a leading role in ensuring that business resentment over British and Indian discrimination against Japanese cotton piece goods did not affect political relations. Cotton industrialists were persuaded to participate in the various trade negotiations while in December 1933 both the Foreign Ministry and the Ministry of Commerce and Industry played the key role in forcing Osaka to accept the Indo-Japanese trade agreement.¹⁹ Only in regard to the Manchukuo Oil Monopoly did the Foreign Ministry fail to moderate Anglo-Japanese commercial friction. As the Foreign Office perceived, the Japanese military leaders in Manchukuo rejected Foreign Ministry advice that the oil monopoly should be modified in order to reduce British and American resentment.²⁰ The long-run acceptance by Japanese industrialists of foreign trade restraint proved a key element in enabling the Foreign Ministry to divorce commercial and political friction. In 1933 Japanese industrial interests were outraged by India's denunciation of the trade treaty, the imposition of penal tariffs, and the new Indo-Japanese Trade Convention. Against the wishes of their government they initiated a boycott of Indian raw cotton in June 1933, and proved consistently obdurate during the subsequent trade negotiations. However, by 1936 and 1937 these same cotton interests had reconciled themselves to foreign trade discrimination. Prior to the departure of the Kadono mission in 1937, Sir Robert Clive, the British Ambassador, reported that Japanese cotton interests preferred trade restraint to voluntary agreements, and thus there was little prospect of a Lancashire-Japan cartel agreement.²¹ Similarly, the renegotiation of the 1934 Indo-Japanese Trade Convention between 1936 and 1937 provoked little outcry in Japan, as the Japanese now accepted limited trade restraint as a facet of international trade. Thus the common desire of the British and Japanese governments to minimise commercial friction together with the belated recognition by British and Japanese business of the limits of government intervention in economic disputes, resulted in the progressive disengagement of Anglo-Japanese commercial rivalries from political relations. Although economic friction certainly had

19. Snow (Tokyo) to the Foreign Office, 12 December 1933, FO371/17165,F7690/1203/23.

20. Minute by Allen, 10 April 1935, FO371/19351,F2323/94/23; Butler (Mukden) to the Foreign Office, 2 March 1935, FO371/19351,F2323/94/23.

21. Clive (Tokyo) to the Foreign Office, 22 April 1937, FO371/21039,F2313/277/23.

political implications, mutual desires to manage commercial rivalry and the moderation of business opinion ensured that commercial friction had no sustained impact upon Anglo-Japanese relations.

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