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TRADE AND TRADE RIVALRY BETWEEN THE UNITED STATES AND JAPAN

WILLIAM W. LOCKWOOD, JR.

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AMERICAN COUNCIL
INSTITUTE OF PACIFIC RELATIONS

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PREPARED FOR THE SIXTH INTERNATIONAL CONFERENCE OF THE INSTITUTE OF PACIFIC RELATIONS, TO BE HELD AT YOSEMITE, CALIFORNIA, AUGUST 15 TO 29, 1936

AMERICAN COUNCIL PAPERS, NUMBER 6

AMERICAN COUNCIL
INSTITUTE OF PACIFIC RELATIONS
129 EAST 52ND STREET, NEW YORK

1936

BAT. GENOOTSCHAP VAN K. EN W.

PERPUSTAKAAN NASIONAL

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Price 50 cents

Item id:
PERPUSTAKAAN NASIONAL R.I.
Tanggal : 28-06-2010
Nomor Induk : 26/PH-Museum/'10
BIB - ID :
ITEM - ID : 00003783773
Asal : Museum Pusat

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FOREWORD

THE importance of Japan in the Pacific trade of the United States — as supplier, market and industrial competitor — gives focal significance to this aspect of American relations with the Far East. Striking shifts in the currents of Japanese-American trade and trade rivalry reflect the economic instability of both countries in recent years; they also condition their political relationships. The following account of economic relations between the United States and Japan has been prepared under the auspices of the American Council as documentation for round-table discussions of this subject at the Yosemite Conference of the Institute of Pacific Relations. The American Council, of course, assumes no responsibility for statements of fact or of opinion. This responsibility rests upon the author alone.

April 1936

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TRADE AND TRADE RIVALRY BETWEEN THE UNITED STATES AND JAPAN

INTRODUCTION

Japanese Expansion and American Policy

THE PAST five years have witnessed a radical alteration in the balance of political and economic forces in the Pacific. Coincident with Japan's political thrust on the continent of Asia has come an economic outreach in world markets which has produced significant changes in her position in the world's economy. These events, in turn, have reacted upon economic and political tendencies in the United States. They have also evoked widespread discussion concerning American policy in the Far East — its proper objectives, and the procedures best calculated to attain those objectives.

The motive forces underlying traditional American policy in the Orient have been various. Questions of national prestige as well as the conviction that a stable peace in the Pacific is contingent upon the creation of a strong and independent China have played their part. But it is clear that the economic motive has been a significant element in shaping national policy. It is equally clear, parenthetically, that what counts in such matters is the idea of national interest, and more often of group or class interest, which may or may not accord with economic realities themselves.

Supporting the idea of American economic expansion abroad has been the viewpoint widely held by American business interests, and affirmed as well by radical critics of American capitalism, that domestic markets are becoming overloaded and that the maintenance of profits under capitalism requires the acquisition of foreign markets for the disposal of surpluses. Others, who deny that there is anything

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inherent in capitalistic modes of production and distribution which makes such foreign outlets essential, yet favor international specialization as an efficient way of utilizing productive resources to enlarge the national income. Whatever the rationale, American policy has concerned itself with the promotion of opportunity for American business in foreign countries, including those of the Far East.

Since 1931, however, the opinion has gained ground in certain quarters in the United States that the extension of economic opportunity for American capital and American goods may be menaced by the political and economic expansion of Japan. This expansion is held in certain quarters to constitute a growing blight on the commercial interests of the United States. Japan's conquest of new export markets, extending to all quarters of the globe in the case of textiles, has occasioned a fear of important adverse effects on the export trade and the domestic market of American industry. Again, there is apprehension that the extension of Japan's political hegemony on the continent of Asia means the closing of the door of economic opportunity to American traders and investors in what is still widely conceived, rightly or wrongly, to be the great potential market of the future. Finally, there are many who see in Japan's efforts to dominate China the laying of a powder train which will precipitate prolonged conflict and probably social revolution in China and Japan — all of which would bode ill for Western commercial and financial enterprise in this area.

Given a situation in which recent American policy in the Far East is believed to be largely ineffectual in achieving its traditional aim of commercial opportunity, the question naturally has arisen in certain quarters as to whether the aims of policy should be revised or the means appropriately strengthened. The withdrawal of the United States and the abandonment of its commercial interests in this area are conceivable, though some believe that a necessary condition is the drastic modification of American capitalism. To others of the isolationist faith, withdrawal appears feasible if groups with dominant political influence in the United States can once be shown that the game is not worth the candle even for them — as is believed to be the case.

The debate is probably academic. There is little in recent tendencies to indicate any inclination whole-heartedly to abandon the field, while there is evidence to suggest the reverse. The only immediate and practical issue concerns the limits to which the United States

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will go in identifying its security and prosperity with economic expansion abroad and the policy to be adopted in pursuit of this end. If there is, in fact, any real danger that such a policy will eventually involve the country in conflict in the Far East, this danger probably lies in the tinder of economic rivalries, real or imaginary.

Trade and Trade Rivalry

This being the case, it is a matter of some importance to understand the nature of trade and trade rivalry between the United States and Japan. For among the countries of the Far East it is only Japan that has undergone sufficient industrialization to offer much competition to American factories. This competition has already evoked an emotional response in the United States reminiscent of the alarums in pre-war England over the German "trade menace." Yet, characteristically enough, Japan now occupies a preponderant place in American trade with the Orient. Of total American imports from eastern and southern Asia (including India) Japan supplied 26% in 1935. Of total exports from the United States to that area she took as much as 57%. The importance of the Orient in American trade has doubled since 1911-1915 in the case of imports and tripled in the case of exports. In 1935 it supplied 29% of the former and took 16% of the latter. With silk prices remaining at low levels, Japan's share in American imports from Asia has declined of late; but her relative importance as a market for American goods, as measured by export values, has recently increased until in 1935 it was approximately four times that of either China or the Philippine Islands, the two countries next in importance in this region. As a matter of fact, it exceeded that of the whole of South America. Thus, even discounting the abnormal circumstances of last year, the export interests of the United States are now bound into the economy of Japan more than of any other Far Eastern country, while for Japan the dependence is even greater.

During the past six years these economic ties have undergone a marked change in character, though in some degree the shift is probably of only temporary duration. The most dramatic elements in this change have been the decline in the value of American silk purchases and the expansion of American cotton sales in Japan. The one reflects the severity of the depression in the United States and the steady development of rayon; the other has accompanied the rapid growth of the Japanese cotton industry with its attendant repercus-

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sions on competitive textile industries abroad, including that of the United States. These are not two independent variables, it should be observed. The first stands in a significant causal relationship to the second, as will be shown later. Moreover, this disruption of the economic status quo has contributed powerfully to the upset in the post-war political equilibrium in the Pacific, such as it was. It is thus apparent that recent and future developments in these economic relationships involve the well-being of large sections of the agrarian and industrial populations of both countries in an important degree.

Opinion in the United States

Public response in the United States to the expansion of Japanese trade has been varied, depending on the nature of the group interests affected. A large section of the public has remained indifferent, if not oblivious. Various business interests have expressed concern over Japanese competition, especially as it has appeared in the American market, ranging from vague worriment to emphatic appeals for government aid in the case of the cotton textile industry. Proponents of "Buy-Americanism" have made effective propaganda for their cause out of this alleged threat to the American standard of living. The Hearst press, for example, has industriously inflated the "Japanese menace" with graphic accounts "of darkened American factories, of poverty and despair in homes of honest, able workmen — a story of cunning Oriental subtlety spreading ruin while Brain Trusters talk of 'Trade Balances.' "[1] "That 'brain-trust,' " said the late Senator Schall in the Senate on April 19, 1935, "if it has not gone to Russia, may now be retired to Tokyo, receiving medals made in Japan, and even the rubber stamp that is the token of our subservience will soon wear the tag 'Made in Japan.' "[2]

These are by no means representative opinions. By and large, however, there is little doubt that the issue of trade rivalry has aroused a good deal of public apprehension and has also served to sharpen the general suspicion and hostility directed against Japan for her imperialist policy in Asia. Moreover, the question has assumed even wider significance when, as has sometimes been the case, the pressure of Japanese competition has furnished ammunition for attacks on various measures of the New Deal: AAA processing taxes on cotton,

(1) Cf. an extensive series of articles in the *Washington Herald* and other Hearst papers, April 1935.
(2) *Congressional Record*, vol. 79, no. 81, p. 6231.

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wage-raising provisions of NRA codes, and especially tariff reduction under the Trade Agreements Act.

In the South, where Japanese cotton purchases for several years offered the only bright spot in an otherwise dismal foreign trade outlook, sentiment concerning Japan has naturally been more friendly. The Roosevelt Administration, as well, has sought to allay the hue and cry over Japanese competition as it appeared in the domestic and foreign markets of certain American industries. In the realm of diplomacy, agitation over Japanese competition was an unwelcome complication of diplomatic relations already strained; in economic policy, higher protection against Japanese goods was directly counter to Secretary Hull's tariff reduction program and, in addition, ran the risk of retaliation. Import restrictions were imposed, it is true, in a few cases where increasing shipments of competitive goods from Japan followed upon the depreciation of the yen. But, in general, the official attitude has been one of minimizing and seeking to restrain by informal negotiation any threatened invasion of American markets by Japanese exporters.

The remainder of this paper will be devoted to a summary of recent developments in the trading relations of the United States and Japan. The two chief characteristics — mutual dependence, on the one hand, and rivalry, on the other — are worthy of attention in any consideration of national policy in the Pacific. No attempt whatever is made here to propose lines of political action. This review of Japanese-American trade relations is presented, however, in the belief that for the explanation and evaluation of foreign policy the facts of trade and ideas about trade are pertinent data. Since perspective is necessary to understanding, analysis of direct trade contacts between the United States and Japan will be preceded by certain broad comparisons between the foreign trade of the two countries in recent years.

CONTRASTS IN THE FOREIGN TRADE OF THE UNITED STATES AND JAPAN

Course of United States Trade

Since the year 1929 both the United States and Japan have suffered a major economic collapse, followed by a measure of recovery. In the United States the national income measured in current dollars declined about 40% between 1929 and 1932; industrial production was cut almost in half; and farm prices and income declined by more

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than one-half. The consequences in terms of human and property values are now a familiar story.

The collapse of American foreign trade was especially severe. As in domestic trade, credit expansion had played a large part in building up the record levels of 1929, and now the cessation of foreign lending, the piling up of trade barriers and the breakdown of credit and currency structures brought a general demoralization of international markets. By 1932 the foreign trade of the United States had sunk to less than one-third its 1929 value, something like a half of this decline being attributable to the fall in prices. The relative severity of the decline is indicated by the fact that the proportion of exports to the volume of "movable production" in the United States stood at only 6.6% in 1933 as compared with 10% in the prosperous twenties.[3] In the recovery which pursued its halting way from 1933 to 1935 foreign trade participated unevenly. In general, manufactures rose more in quantity than in price, while crude products gained more in price than in quantity, thus reversing the relative trends of the years immediately preceding. Measured in gold values, the trade of the United States in 1934 was farther below the level of 1929 than that of any other of the twenty-one leading countries in world trade.[4]

The policies of the New Deal worked at some points to expand foreign trade, elsewhere to check it. Dollar devaluation, for example, probably tended eventually to stimulate the volume of exports at the expense of imports. Reciprocal trade agreements accomplished small reductions in the two-way barriers blocking trade recovery. By and large, however, we may accept the statement that the Roosevelt Administration in its first three years concentrated on domestic recovery, though there is less of an antithesis between domestic and international recovery measures than is usually implied in the remark. Even currency depreciation was undertaken primarily to facilitate domestic reflation. Its effects on foreign trade were overlaid by the force of several policies working in other directions: crop curtailment and loan programs, reinforced by the 1934 drought; price increases instituted by industry under the regime of NRA and continued after its demise; inflationary government spending; and finally the silver purchase program with its disastrous repercussions on the China trade.

(3) U. S. Department of Commerce, *Foreign Trade of the United States, 1934* (Washington, 1935), p. 13. Movable production excludes construction and services incapable of exportation. The estimate is based on the value of output of agricultural, mining and manufacturing industries plus transportation costs.

(4) League of Nations, *Review of World Trade, 1934* (Geneva, 1935), p. 29.

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Japan's Export Boom

In Japan the year 1932 marked the turn from industrial and financial depression, which had deepened steadily in the preceding two years with the impact of world depression and the government's retrenchment policy. Aided by a conjuncture of favorable circumstances, many of Japan's export industries, with the notable exception of raw silk, made rapid advances. In fact, a substantial share of the recent high level of profits and prosperity in Japanese industry, as distinguished from agriculture, has been based on foreign trade expansion. In most other countries, by contrast, recovery has been primarily "nationalistic" — that is, it has proceeded amid a general stagnation of international trade and lending. But in Japan, as elsewhere, huge outlays from the public purse, especially on armaments, have been an important prop to industrial recovery.

The factors associated with Japan's successful drive in foreign markets cannot be examined here at length. It is generally agreed that low wage levels, further depressed by agrarian distress, and coupled with intensive rationalization in the organization and production technique of numerous industries, have played an important part. Exports have also been stimulated by a net outward movement of loans and remittances, chiefly in connection with military and industrial enterprise in Manchuria. But the spectacular character of export gains is probably attributable primarily to the precipitous decline of the yen. This followed directly on the transfer crisis precipitated in 1931 by the inopportune attempt to return the yen to its old gold parity and to maintain it there just as the collapse of the American silk market, the reduction of merchandise exports to China and a net outflow of capital cut away the credit balances upon which the exchange market had previously relied.

Since November 1931 the yen has lost about two-thirds of its former gold value, most of this drop occurring in the first year. Despite concurrent depreciation elsewhere, the competitive advantage thus afforded Japanese goods in foreign markets has commonly been substantial, particularly in foreign markets where reduced purchasing power has placed beyond the reach of many consumers the higher-priced, even if better-quality, goods of competitors. At the same time, currency depreciation, while it forced up the prices of imported raw materials as time went on, did not thereby produce an equivalent rise in total costs of production of exportable goods. The level of costs

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TABLE 1. FOREIGN TRADE OF THE UNITED STATES AND OF JAPAN

Yearly Average or Year	United States (millions of dollars)			Japan (millions of yen)			Dollar-Yen Exchange Rate (cents per yen)
	Imports	Exports	Balance	Imports	Exports	Balance	
1921–25	3,450	4,397	+947	2,103	1,690	—412	45.37
1926–30	4,034	4,777	+744	2,103	1,925	—178	47.29
1929	4,399	5,241	+842	2,216	2,149	— 68	46.10
1930	3,061	3,843	+782	1,546	1,470	— 76	49.39
1931	2,091	2,424	+334	1,236	1,147	— 89	48.85
1932	1,323	1,611	+288	1,431	1,410	— 21	28.11
1933	1,450	1,675	+225	1,917	1,861	— 56	25.65
1934	1,655	2,133	+478	2,283	2,172	—111	29.72
1935	2,047	2,282	+235	2,472	2,499	+ 27	28.71

Sources: *Statistical Abstract of the U. S., Financial and Economic Annual of Japan,* and other official sources.

was thus abruptly lowered relative to that of foreign competitors, while the international adjustments of prices, costs and exchange rates, which might have been expected, other things being equal, to limit the resulting dislocation in world markets, either failed to appear or proceeded slowly and with difficulty. Japanese exports have recently attracted widespread attention, however, less from their rate of expansion as a whole than from their dramatic spread into relatively new lines of trade and foreign markets.

Foreign Trade Comparisons

If we compare changes in the *dollar* value of American foreign trade with changes in the *yen* value of Japanese trade (Table 1), we find that in the two years following 1929 the foreign trade of the United States fell by more than one-half and that of Japan by something less than one-half. By 1935, however, Japanese trade had risen to exceed its yen value of 1929, despite a tremendous decrease in the value of raw silk exports, while that of the United States was still more than 50% below its 1929 value. But this comparison of yen and dollar values is influenced by the relatively greater depreciation of the yen, which had meanwhile lost about 38% of its former dollar value. In terms of current dollars, Japan's imports and exports

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in 1935 had not regained their 1929 level but were still almost 30% below, as compared with a reduction of about three-fifths in the case of the United States.

Ready generalizations concerning relative changes in the total quantity of trade are of little value, for averages only conceal wide variations in individual classes of goods. It may be noted, however, that quantity indices of Japan's foreign trade show a general rise over the past six years, especially marked in the case of exports other than raw silk. According to a rough estimate of the League of Nations Secretariat, the quantum of Japan's exports of manufactures doubled between 1931 and 1934.[5] On the other hand, the trade of the United States in all classes excepting exports of crude materials declined drastically through 1932 in quantity as well as in value. Except for imported foodstuffs, moreover, the volume of trade in all classes remained in 1934 below the level of 1923-25. The last quarter of 1935, however, witnessed an upswing which brought the volume of exports to the highest level since 1930, while imports were larger than in any corresponding quarter since 1929.

A similar difficulty of comparison holds for the relative magnitudes of Japanese and American foreign trade today. In 1935, the trade of the United States was still about three times the value of Japan's trade in the case of both imports and exports, measured in dollar values. But these value totals represent quite different lists of items. So great is the contrast between Japan and the United States in resources and aptitudes that few commodities bulk large in the trade of both countries. It is true that in both cases raw materials constitute the largest class of imports and finished manufactures the largest among exports. Japanese trade, however, is much less diversified. Despite growing exports of miscellaneous manufactures of wide variety, textiles still overshadow all other classes. Thus, in 1935 raw silk contributed 15% of the value of Japan's exports, cotton piece goods 20% and other textile products another 23%. It is chiefly in cotton piece goods that American exporters have experienced increasingly keen competition from Japan in third markets; but even this item accounted for only 1.5% of the total value of United States exports in the years 1925-29. In addition, we may list a few other competitive lines of trade — for example, canned fish, condensed milk, rubber footwear, toilet preparations, electric lamps, enameled ware and cutlery, table

(5) Ibid., p. 63.

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glassware, and a few types of chemicals and machinery.[6] None of these items, however, is of quantitative significance in the total export trade of the United States.

Preponderance of the United States

Notwithstanding this dissimilarity it may be worth while to observe the aggregate value of Japanese and American commerce in different areas, if only to dispel the notion that Japan has rapidly outdistanced the United States in the magnitude of her foreign trade. The accompanying map presents the trade of the two countries by continental regions in 1935, excluding from regional totals the direct exchange of goods between the United States and Japan.[7] For purposes of comparison, the yen values of Japanese trade are converted into dollars at the average exchange rate for the year (28.7 cents). The preponderance of the United States is striking, even in certain areas where Japanese trade has recorded rapid gains. When direct trade between the two countries is excluded, American trade exceeds that of Japan in every case except exports to Asia, which takes over half of Japan's exports, and imports from Oceania (chiefly Australia), where Japan buys most of her wool. So great were American exports to Europe, even at the reduced level of 1935, that they exceeded in value the entire export trade of Japan by as much as 43%. The bulk of American exports, in fact, has long gone to Europe and to Canada and Latin America, where Japanese trade is still comparatively unimportant.

The export trade of Japan, on the other hand, centers in Asia and the United States. Her much-publicized and dramatic gains in Latin America and elsewhere have modified this fact in only slight degree. Let us take, for example, the case of Chile. Japan's exports to that country jumped 2,500% in yen value between 1932 and 1934. This is a startling *rate* of increase. Chile became Japan's third largest market in South America. Yet the total value of this trade after the increase was only equivalent to $2.2 millions—one-fifth of exports from the United States to the same market; 0.3% of Japan's total exports. Moreover, the Japanese trade boom in Latin America tapered

(6) Cf. United States Tariff Commission, *Recent Developments in the Foreign Trade of Japan,* Report No. 105, Second Series (Washington, 1936), p. 68.

(7) As explained in Table 7 (page 66), the comparisons depicted on the map are only approximate. It should be noted especially that Japanese imports appear to have been somewhat larger relative to United States imports than they actually were, owing to the inclusion of shipping charges in the value of the former and not of the latter.

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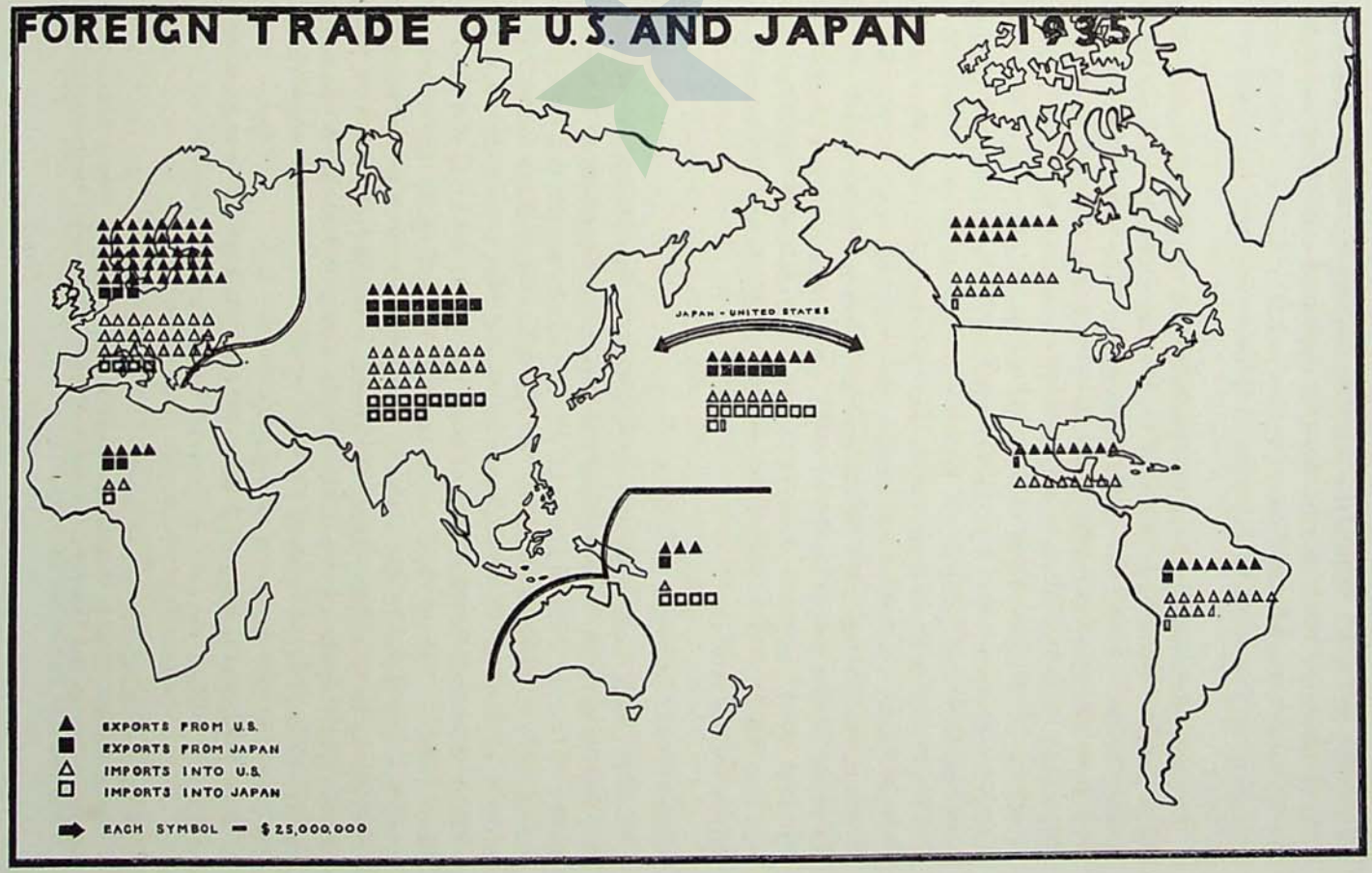

off rapidly in 1935. While the yen value of exports to this area more than doubled in 1933 and in 1934, it increased only 4.4% in 1935. At the same time, United States exports to Latin America, which were eleven times the value of Japanese shipments in 1934, increased 17% in 1935.

As previously noted, these comparisons are concerned merely with value totals. In certain items of trade, especially in textiles, Japan predominates. Moreover, dollar conversions like those above fail to represent adequately year-to-year changes in the relative volume of shipments from the two countries, for the prices of Japanese exports, in terms of dollars, have commonly fallen farther than those of American exports. Yet it is obvious that while there have been gains, both absolute and relative, in Japan's foreign trade as a whole, it is still small and in some areas negligible by comparison with that of the United States. Further perspective for judging the magnitude of Japanese trade is afforded by the estimate that it represented 3.3% of the trade of the entire world in 1934, as measured in gold values.[8] Of total world exports of manufactured goods alone, Japan's share was roughly 5 to 6%, about two-thirds of this being attributable to textile manufactures.

Competition in the Philippines

It is in Asia, and especially in China and the Philippine Islands, that Japanese manufactures offer the keenest competition to American goods. Of total Philippine imports, Japan has supplied a little more than 9% in most years since the World War. Her share fell to 7.8% in 1932 as a result of the boycott instituted by Chinese shopkeepers, who at that time handled about half the retail trade of the Islands. This setback led to the organization by Japanese importers of branches and subsidiaries and the encouragement of other Japanese retail shops to distribute Japanese goods. By the end of 1935 a third of the retail trade of the Islands was estimated to be in Japanese hands, as compared with a fifth in 1932, and Japan's share in the import trade had mounted perceptibly.[9]

This Japanese commercial advance has taken place at the expense of United States exports in certain lines, notably textiles. Cotton,

(8) League of Nations, op. cit., p. 27.

(9) J. Bartlett Richards, "Japanese Competition in Philippine Import Trade," U. S. Bureau of Foreign and Domestic Commerce, Division of Regional Information, Special Circular No. 349, November 30, 1935.

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silk and rayon goods made up as much as 62% of Philippine imports from Japan in 1934. In cotton piece goods, the leading item, Japan supplied 58% of the market in the first eight months of 1935, while the American share, which had amounted to 57% in the years 1930-33, dropped to 38%. This led in October 1935 to the conclusion of an agreement between the United States and Japan limiting shipments of cotton textiles from Japan to the Islands for a period of two years beginning August 1, 1935 (see page 56). In addition, increasing amounts of Japanese canned fish, condensed milk, flour, enameled utensils, toilet preparations, rubber footwear and a few types of chemicals and machinery have entered the Philippine market in competition with similar American goods.

The sum total of Japan's share in the total Philippine import trade, however, does not yet bulk large. Nor has its increase served to reduce perceptibly the dominance of duty-free imports from the United States. American exporters during the past four years have supplied over 64% of total imports, as compared with an average of 62% over the 16 years (1919-34) following the World War. Exports from the United States to the Islands, while only 2.3% of total American exports in 1935, constituted 63.6% of Philippine imports during the year, as contrasted with the 14.2% contributed by Japan. To judge by statistics for the first half of 1935, in all the main import commodity groups excepting textiles, fish and vegetables, American goods still preponderate overwhelmingly in comparison with Japanese goods.

This preponderance is attributable in an important degree to the Closed Door policy of the United States, which has established American products in a preferential position. Consequently, the future distribution and magnitude of Philippine foreign trade depends upon the future course of commercial policy, which is now a matter of much uncertainty. If Philippine produce is increasingly restricted in the American market, as provided in the Tydings-McDuffie Act, there will be a corresponding pressure to seek new export outlets elsewhere. Japan offers a limited market which might be enlarged by admitting Japanese goods into the Islands on more favorable terms. Such a development, however, seems rather unlikely under the Commonwealth regime, for even had the Commonwealth government unrestricted authority over its own tariffs (which it has not), its power to alter its tariff schedules in such a way as to shift the balance of advantage from American to Japanese products would be circum-

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scribed by the necessity of retaining as large a share of the American market for Philippine exports as possible. As yet the commercial policy of the United States respecting the Islands is by no means settled. But the recent restriction of Japanese textile shipments suggests that further inroads of Japanese goods in the Philippines will be resisted by political action in Washington.

China — "The Great Potential Market"

In Asiatic markets generally, Japan is in a position to derive advantages from geographical proximity and from her ability to fabricate various types of goods adapted to the needs and the purchasing power of Oriental consumers. Moreover, in China the likelihood of further economic penetration by Japan is now increased by the rapid extension of Japan's political hegemony on the mainland. Past experience in Manchuria demonstrates how Japanese investments, especially those involving political as well as economic motives, may redound to the advantage of industries in Japan which are in a position to supply materials and equipment,[10] and it is perhaps significant that 75.6% of the import trade of Manchukuo is now monopolized by Japan. Attempts on the part of Japan to foster her trade with China Proper are now being made, not only by formulating ambitious developmental schemes,[11] but also by limiting China's power to determine her own tariff schedules and to deal with the smuggling of Japanese goods, which has recently developed on a huge scale. The current political and economic situation is of course too uncertain to warrant prediction concerning the future of China's trade; but it is likely that Japan's political program, if it succeeds, will increase her share of China's imports of manufactures, whatever its effect on the total volume of foreign trade.

So far as exports from the United States to China are concerned, several further points should be noted. A considerable share of this trade has long been in lines where Japanese competition is unimportant. Thus during the decade 1923-33 more than half the total value of American exports represented shipments of raw cotton, wheat and flour, leaf tobacco and kerosene oil. The 31% drop in the value of

(10) On the other hand, the use of Japanese capital to foster industrial enterprise abroad may react to curtail the export markets of competitive industries in Japan—see, for example, Japanese cotton mills in China, and the iron and steel and cement industries of Manchukuo.

(11) Cf. Russell G. Shiman, "North China in a Japanese Economic Bloc," *Far Eastern Survey*, December 18, 1935.

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Chinese purchases of American goods in 1935, though it coincided suspiciously with a 17% increase in purchases of Japanese goods, is in fact very largely to be explained by reductions in raw cotton, leaf tobacco, wheat and flour — reductions which cannot be attributed to competing shipments from Japan, and which have to do mainly with internal conditions in the United States and China. But in addition to such commodities there are a number of general categories of goods within which American firms have met with increasing Japanese competition in greater or less degree. These include metal semi-manufactures, machinery and tools, electrical equipment, sea foods, dyes and ink, rubber tires, chemicals and pharmaceuticals. Here in various lines it may be that Japanese exporters of fabricated goods will acquire a growing share of the business, as they already have, for example, in the case of tires and machinery. But the fact should not be overlooked that England, Germany and other European countries are also important, and commonly more important, rivals in the Chinese market for such goods than is Japan. Moreover, Chinese industry itself has already developed to the point where it is able to compete extensively in the domestic market with such foreign products as cigarettes, cotton textiles, flour, canned goods, electrical appliances, leather manufactures and sundries such as flashlights, matches, soap, perfumery and cosmetics.

The most noteworthy fact about the Chinese market for foreign products today, in the light of numerous glowing predictions over many decades concerning its magnificent potentialities, is its very limited scope. In the period 1926-30 China (including Hongkong and Kwantung) took only 2.8% of United States exports; in 1934, 3.8%; and in 1935, 2.3% — less than Australia or the Philippine Islands. Whatever the utility of Chinese tung oil, carpet wool or sausage casings for Americans — or of American tobacco or airplanes for the Chinese — the China market has never been anything but insignificant by comparison with the total output of American industry or agriculture. Yet this is not because American exporters as a whole have fared badly in competition. In the period 1926-30 the United States supplied 17% of China's imports, 26% in 1934 and 19% in 1935. Omitting Hongkong, the United States stood second to Japan as a source of recorded imports in the pre-depression decade and has ranked first since 1931, with Manchuria now excluded. Thus the United States holds a prominent place in the trade. Despite her vast population and resources, however, China (including Man-

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churia) accounted for only 2.3% of the world's import trade in 1929 and 2.6% in 1934. Her per capita imports at their peak in 1920 in terms of old gold dollars were a little over $2.00. In 1934 they were $0.47.

This limited development can hardly be ascribed to the indifference of foreign business men or of foreign governments, as the long history of China's foreign relations reveals. So far as market surveys are concerned, we have it on the authority of Mr. Charles K. Moser, of the United States Department of Commerce, that "generally speaking, the possibilities of the China market are fairly well known to the experienced foreign trader on the China coast." With reference to cotton goods, kerosene oil and tobacco products, Mr. Moser writes: "It is possible that few areas have been more carefully canvassed by a superior corps of experts than the China field . . ."[12] Oft-repeated and optimistic forecasts concerning opportunities for Western traders in China have failed of fulfillment to date because — to put it briefly — they were based either on the simple fallacy of estimating markets by counting heads,[13] or on the easy assumption that China would readily follow the path marked out by Japan and other formerly "backward" countries and adopt the social institutions which characterize Western capitalist countries. The subject goes far beyond the scope of this paper; we may merely submit that the record thus far clearly places the burden of proof on those who, like the American Economic Mission to the Far East (1935), hold that "the one point that should be kept constantly in mind by American business is trade opportunity in China. . . . It is a field which now offers, perhaps more surely than any other, the greatest promise of expanding trade."[14]

Relative Self-Sufficiency

Returning to our consideration of broad contrasts in the foreign trade position of the United States and Japan, what comparison may be made of the relative importance of such trade in the economies of the two countries? There are several possible bases for such a com-

(12) U. S. Department of Commerce, *Where China Buys and Sells*, Trade Information Bulletin No. 827 (Washington, 1935), p. 3.

(13) "The simple fact that the estimated 400 million people of China must be fed and clothed, presents to American agriculture a field for expanding markets that, for all practical purposes, is unlimited." *American Trade Prospects in the Orient*, Report of the American Economic Mission to the Far East (National Foreign Trade Council, New York, 1935), pp. 45-46.

(14) Ibid., p. 59.

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parison. In terms of the relation of exports to total production, domestic trade heavily outranks foreign trade in both countries. For particular industries, of course, the export market may be of vital significance, as it is for American cotton and Japanese silk. Moreover, with an economy geared to a certain level of exports, the loss of foreign markets can bring dislocation far greater than what might be indicated by any average ratio of exports to domestic output.

Nevertheless, it is worthy of note that for the United States exports averaged only 10% of "movable production" even in the period 1925-29. Despite the growth of foreign trade the ratio was no greater than in 1914. By 1934 it was only 7.5%. For manufactures alone, the percentage has been even smaller: 9 to 10% in 1914; 8% in 1929; and less than 5% in 1933, the latest year for which figures are available. Comparable estimates are lacking for Japan. The proportion may well be greater there, but it is to be doubted if exports exceed one-seventh of movable output. One investigator[15] has recently estimated that of total industrial production in Japan, valued at ¥13 billions in 1932, 10% went abroad for its market. For factory industry the figure must be greater; but for raw materials and foodstuffs it is less. Allowing for a wide margin of error in these estimates, the ratio of Japanese exports to production, including the output of agriculture and small trades as well as of factory industry, is less than is commonly supposed. Here, as in the United States, the home market predominates.

But the relative importance of foreign trade is also to be judged by the qualitative significance of imports, which provide the fundamental *raison d'être* of trade. Though her consumption requirements are typically much smaller, Japan is far more vitally dependent than the United States on foreign supplies of numerous raw materials of critical importance — notably iron, oil and cotton. Her industrial activity, in fact, consists very largely of the fabrication of imported materials. Without minimizing the deficiency of the United States in commodities like rubber and certain key minerals, it is apparent that her natural endowment stands in marked contrast to that of Japan in terms of providing the material basis for a satisfactory peacetime livelihood as well as for security in time of war.

(15) Junshiro Asari: "The Development of Japanese Industry" (unpublished report prepared for the Institute of Pacific Relations), chap. 1.

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DIRECT TRADE BETWEEN THE UNITED STATES AND JAPAN

Reversal of the Balance

Since 1932 the trade of the United States with Japan has shown a credit balance — that is, exports have exceeded imports. This represents a striking reversal of the debit balance of many years' standing. Previously, purchases from Japan customarily exceeded sales by a wide margin. Chart 1 (see Table 5, page 63) indicates that this reversal of the trade balance resulted primarily from a reduction in the value of United States imports from Japan. That was, in turn, chiefly a matter of the price of silk. From 1929 imports fell steadily in dollar value until 1935. Exports to Japan, on the other hand, recovered in value after 1932, and have recently expanded to a level not far below that of 1929, in contrast to exports to other regions.

The course of this trade is somewhat different as recorded in yen, chiefly because of fluctuations in the exchange rate.[16] From December 1931 through the year 1932 the yen declined approximately from 50 cents to 20 cents. In the following year, 1933, with the dollar now depreciating in terms of gold, the yen rose to a value of about 30 cents. Since then it has declined slightly in relation to gold and the dollar. Thus the yen value of trade in the years following 1931 has risen relative to its dollar value; the trade balance, however, shows the same reversal resulting from a reduction in the value of Japan's exports.

The sudden, though probably temporary, shift in Japan's trade balance with the United States, it is important to note, is related in several ways to the expansion of her trade elsewhere. The collapse of prosperity in the United States brought a sharp reduction in the value of silk purchases from Japan. Between 1929 and 1931 the value of Japan's total exports was cut almost in half. Silk shipments to the United States accounted for 41% of the billion-yen decrease. This reduction, together with other adverse developments in Japan's inter-

(16) This discussion of Japanese-American trade is based largely on United States trade figures, as reported by the Department of Commerce. Apart from the difficulty of comparing Japanese and American statistics during a period of exchange fluctuations, the two sets of figures will naturally disagree to some extent in that year-end shipments may be credited to one year in the exporting country and to the next year in the importing country. The Japanese valuations of American shipments to Japan also are consistently larger than the American because they include insurance, freight and other charges. There are a few other differences which occasion only minor discrepancies.

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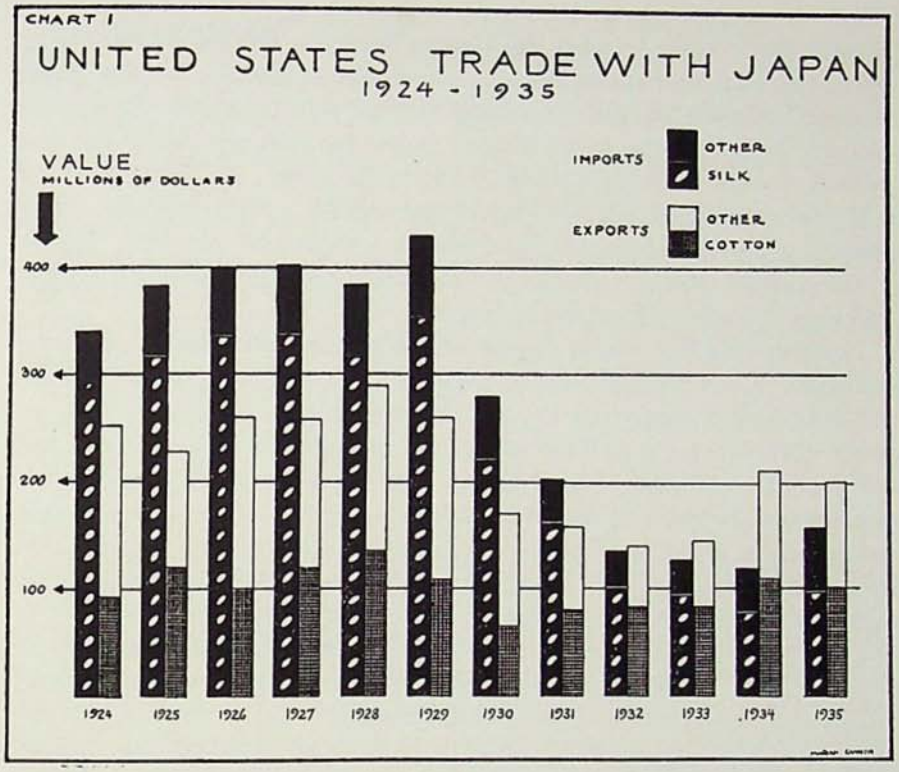

national economic position in 1930 and 1931, finally brought about the reimposition of the gold embargo in December 1931, only twenty-three months after it had been lifted by the Hamaguchi ministry in fulfillment of its policy of retrenchment and deflation. The result was immediate depreciation of the yen. To have attempted to continue the yen at parity would probably have meant inviting an intolerable degree of deflation in Japan's domestic economy as a means of restoring equilibrium in the balance of payments. Even as it was, the fall of export values had drastically reduced income levels in Japanese agriculture and industry. Internal deflation, as well as exchange depreciation, served in turn to stimulate export expansion in a number of industries and to many markets. As a result, the United States, as well as other countries, has felt both at home and abroad the increased competitive pressure of Japanese manufactures.

But this industrial activity has required increasing supplies of raw materials, some of which have been procured in the United States. Thus we reach the obvious conclusion that the current reversal in

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Japan's trade balance with the United States is related to her rising credit balances elsewhere, both as cause and as effect. A more paradoxical outcome of the reasoning is that in a measure Japan has recently bought more in the United States because she could sell less in that market. Despite these changes, however, the United States still tops the list of Japan's export markets by a wide margin, while assuming a preponderant importance as a source of imports. Japan, in turn, ranks next to Canada and the United Kingdom in the import and export trade of the United States.

In reviewing the recent course of trade relations between the two countries it has seemed best to avoid a routine cataloguing of commodities and to single out the dominant features. These are silk imports, cotton exports and cotton textile competition. Silk constituted 80% of the value of United States imports from Japan prior to the depression; recently it has approximated 60%. Cotton has lately amounted to about half of the export trade. Cotton textile imports, by contrast, are a minor item, but the rise of the Japanese industry and the public attention centered upon textile competition both in the United States and in third markets makes the subject worthy of consideration. The remainder of the direct trade between the United States and Japan will be briefly characterized.

Collapse of Raw Silk

Enough has been said above to suggest that the debacle of the silk market was a major event in the history of the Far East during the period 1929-35.[17] Raw silk had been for decades the mainstay of Japan's export trade, especially with the United States. A half century of expanding commerce had spun a silken web across the Pacific upon which depended in greater or less degree the livelihood of three out of eight farm families in Japan. But with the end of the post-war American boom this "life line" sagged alarmingly. From June 1929 to June 1931 the price of silk fell 60%. Three years later it had slumped even lower, its world price having fallen farther than that of any other leading staple. For the entire period 1930-34 the value of the cocoon crop was just half its level in the preceding five years. The repercussions were far-reaching. On the one hand, as previously noted, it fostered that export expansion in Japanese

[17] This account of the silk trade is taken very largely from the author's "Japanese Silk and the American Market," *Far Eastern Survey*, February 12, 1936.

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TABLE 2. UNITED STATES IMPORTS OF SILK FROM JAPAN, 1924-35[a]

Year	Quantity (million pounds)	Value (million dollars)	Average Price (dollars per lb.)	Per Cent of Value of Total Silk Imports	Per Cent of Value of Total Imports from Japan
1924	44.3	285.9	6.50	87	84
1929	69.8	356.1	5.11	83	82
1930	59.9	221.5	3.70	84	79
1931	69.5	163.1	2.35	85	79
1932	69.1	106.2	1.54	93	79
1933	60.2	91.7	1.52	89	72
1934	55.0	69.8	1.27	97	59
1935	63.8	90.0	1.41	94	59

(*a*) Data are for general imports through 1933; imports for consumption thereafter.
Sources: *Foreign Commerce and Navigation of the U. S.*, and other official sources.

industry which has made itself felt in remote corners of the world. On the other, it introduced strains in Japan's social structure which reacted on political tendencies in Japan. As Professor T. Mori has put it, "the Far Eastern situation especially seems to be particularly sensitive to the state of Japan's agricultural population."[18]

The causes of the decline are to be sought in a combination of factors. Silk has been exposed to the full effect of world depression and especially to the contraction of the buying power of urban classes in the United States. At the same time it has had to suffer severe competition in both the United States and Japan from synthetic textile fibers continually better in quality and cheaper in price. This two-fold pressure on the market has taken effect on price rather than on the volume of production and consumption. For this there are two main reasons. The first is the depreciation of the yen, which probably served to depress the price and maintain consumption in the United States. The second has to do with the characteristics of silk production in Japan, which make output sluggish in responding to shrinkage in demand. This latter factor is perhaps the more important one, and deserves closer examination.

(18) "Silk Control in Japan," *Commodity Control in the Pacific Area*, W. L. Holland, ed. (Stanford University, 1935), p. 192.

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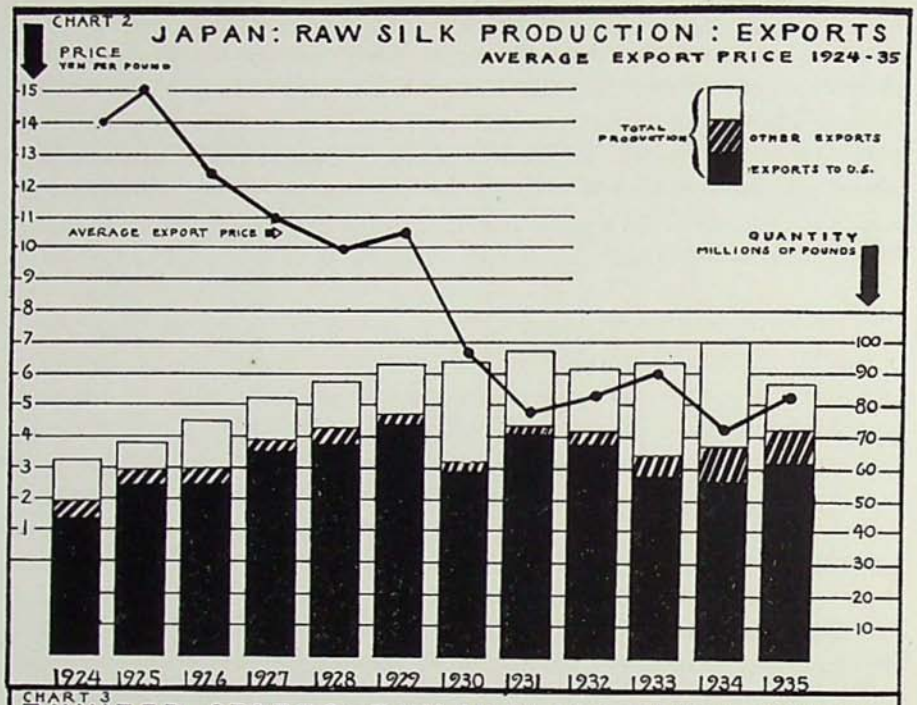

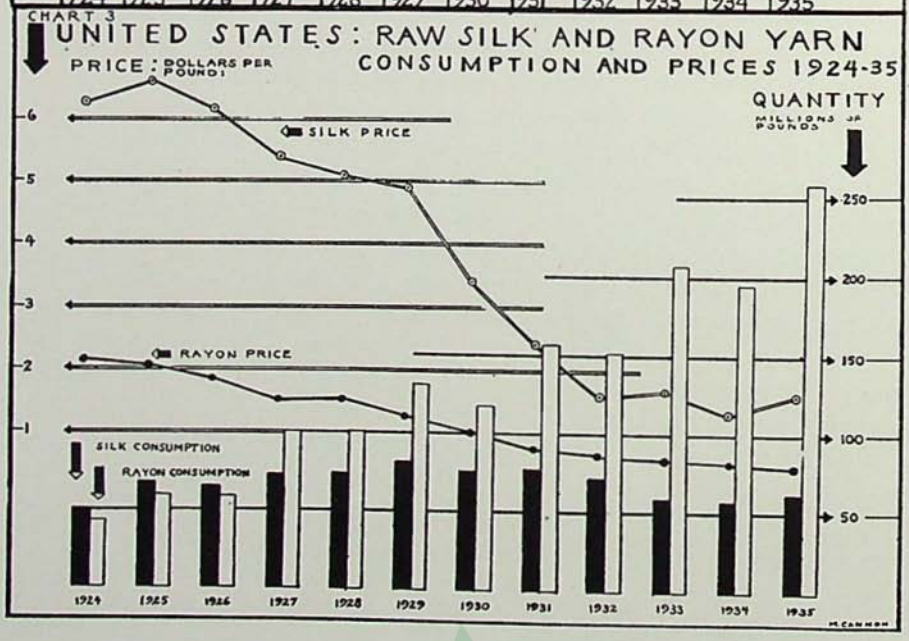

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With her advantageous climate, her vast reservoir of farm labor and her industrious and skillful promotion of scientific technique in the silk industry, Japan supplies four-fifths of the world's silk produced outside China, and has far outdistanced China in the export trade. Her cocoon crop has increased eightfold in the last half century, its steady growth becoming almost axiomatic. Sericulture engages the labor in whole or in part of two million agrarian households. It is second only to rice as a source of farm income. Silk reeling, as well, is an important industry, giving at least part-time employment to some 400,000 workers in 1933. Of the total output of silk in the 1934-35 season, the domestic weaving industry took some 30%, the United States 60% and the rest of the world 10%. Thus silk is anything but a sheltered industry; its fortunes ebb and flow on the tide of American prosperity.

Until recently Japan paid her way internationally with silk. The volume of raw silk exports (excluding waste) almost tripled from 1913 to 1929, contributing 30% of the total value of exports in the former year, and 36% in the latter. Silk piece goods added another 7% in 1929. In the United States, as someone has said, silk had become a middle class habit. By 1934, however, total raw silk shipments had lost as much as five-eighths of their 1929 value, even in terms of the now depreciated yen, while piece goods exports had also declined heavily in value. The course of Japanese production and exports of raw silk since 1924 is depicted in Chart 2; that of American purchases, which still constitute 85% or more of Japan's silk exports, is shown in Table 2 (page 25) and Chart 1 (page 12).

In foreign trade, it is true, this decline was more than counterbalanced by an expansion in numerous other exports. In Japanese agriculture, however, there appeared no such compensation for this shrinkage in income. A supplementary industry in wide areas, silk is a major source of livelihood in certain mountainous prefectures of central Japan where the land is suitable for little else than mulberry trees and there are few alternative occupations for the labor of the farmer and his family. The consequence of the collapse of cocoon prices for the hard-driven Japanese farmer, heavily taxed and burdened with debt as he is, was serious.[19] In conjunction with other adverse developments, in fact, it brought rural bankruptcy. In the

(19) Cf. William L. Holland, "The Plight of Japanese Agriculture," *Far Eastern Survey*, January 1, 1936.

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reeling industry, as well, this deflationary pressure caused wage reductions, intensification of labor, and the elimination of thousands of small establishments, many of them simply small rural units providing a certain amount of seasonal employment.

Production has responded but slowly to the contraction of demand. Although prices showed a downward drift even in the twenties, the cocoon crop increased 44% and silk output 50% from 1924 to 1930. (See Chart 2.) Since then, it is true, there has been a tendency to curtailment interrupted by the ill-timed encouragement offered by the fall of the yen in 1932 and the short-lived pre-NRA boom of the American market in 1933. With the disastrous season of 1934, this tendency gained ground, aided by bad weather conditions. The 1935 crop is estimated to have been the smallest in a decade, dropping 23% from the peak of 1930. Given, however, the inflexibility of supply in downward readjustments which characterizes agricultural industries generally, and especially one which depends so largely on subsidiary farm labor, curtailment has made slow headway even though it has recently been encouraged by government subsidy on a modest scale. The government, it is true, has taken certain steps in the direction of rationalization and control of the industry, especially with a view to aiding the cocoon farmer. But it appears to have found itself faced with two major obstacles: (1) the opposition of powerful groups within the industry, and (2) the problem of finding alternative occupations for the labor likely to be displaced by either restriction or rationalization.

Rayon Competition in the United States

To what extent has the phenomenal rise of rayon in the United States permanently reduced the demand for Japanese silk? In recent years there is no doubt that the rapid invasion of textile markets by improved synthetic fibers has affected silk substantially, especially by way of forcing down the price, and to a lesser extent by curtailing consumption. (See Chart 3.) In the total American market for the four leading fibers — cotton, wool, silk and rayon — the share of silk rose from 1.3% of the total quantity in 1923 to 2.4% in 1930, but has since declined to 1.8%. During the same twelve years rayon has increased its share steadily from 0.9 to 7.2%. In dealing with rayon competition we must distinguish between hosiery on the one hand, and broad goods (woven fabrics over 12 inches in width, with unpiled surface) on the other. Fully half the entire amount of silk

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consumed in the United States now goes into hosiery. This is principally women's full-fashioned hosiery, consumption of which has held up surprisingly well through the depression, setting a new record in 1935. Here rayon has yet made little or no headway. But in woven fabrics the synthetic fibers have rapidly taken an increasing share of the market. Early in 1935 rayon accounted for as much as 72% of the combined output of silk and rayon broad goods, silk for 26% and mixtures for 2%.[20] This represents a sizable shift from the proportions of several years ago. Taking the output of the silk and rayon goods industry, for example, the yardage of silk broad goods decreased 51% between 1929 and 1933, while that of rayon increased 159%. Rayon now competes extensively with silk in staple lines of dress goods, linings for suits and coats, underwear and lingerie. Nearly every broad silk manufacturer, in fact, now weaves rayon as well, his looms and equipment being largely interchangeable between the two materials. Thus in the realm of woven fabrics, as distinguished from women's hosiery, the new fibers have made heavy inroads in markets formerly dominated by silk, despite its fall in price.

Apart from the competition of rayon, another factor handicaps silk in competing for a share of the American consumer's dollar. The silk and rayon broad goods industry as a whole, despite certain technical advances in the design and production of fabrics, suffers from several serious deficiencies. Its structure is complicated, its equipment is in part out of date, its merchandising business has been in a chaotic state, and its labor conditions are such as to produce periodic conflicts in various sections of the industry. The long decline of silk prices, bringing recurrent inventory losses, has helped to produce these conditions. Whatever the cause or the remedy, such inadequacies of equipment and industrial organization operate not only to depress the livelihood of those engaged in the American silk industry, but also to handicap the silk producer in Japan in securing an outlet for his product.

Future of Silk

The latter part of 1935 brought a rapid recovery of silk prices under the stimulus of expanding demand and short cocoon crops in Japan. Though the 1935 crop is estimated to have been about 6%

(20) M. T. Copeland and W. H. Turner, *Production and Distribution of Silk and Rayon Broad Goods* (National Federation of Textiles, Inc., New York, 1935), p. 65.

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below that of the previous year in quantity, its yen value was 72% greater. Higher silk prices, it is true, tended to restrict silk weaving in Japan, where it had been on the increase, and in the United States brought a definite trend to rayon in lower-grade fabrics. But American hosiery manufacturers, especially the full-fashioned group, cannot as yet substitute other fibers for silk. Moreover, in the realm of broad goods, improved business conditions and the gradual development of a "truth in fabrics" movement to enlighten the innocent American consumer are expected to enlarge somewhat the market for quality goods, where silk is still preeminent. It may be noted in Chart 2, furthermore, that the demand for Japanese silk has recently expanded in countries other than the United States (chiefly Great Britain and France), though it is still limited. In other words, gloomy prophecies of the wholesale displacement of silk by the synthetic fibers seem hardly warranted by present prospects. The current revival of the silk market, however, even if it continues through 1936, will hardly solve Japan's silk problem. This is the problem of how to stabilize the livelihood of a multitude of silk producers whose welfare still depends in large degree on the vagaries of American prosperity and on the success or failure of intensive experimentation now going on in rayon laboratories the world over.

Imports Other Than Silk

Raw silk, valued at $90 millions in 1935, still dominates easily the list of imports from Japan. Other imports for consumption, however, have increased steadily since 1932, reaching a value of $61 millions in 1935. Of this part of the trade, roughly a third has been made up in recent years of duty-free goods, mostly non-competitive crude materials, and the remainder of numerous types of dutiable and often competitive articles, the bulk more or less highly fabricated.[21]

The leading imports, other than silk, which are still on the free list are (see Table 6, pages 64-65): undressed furs, chiefly mink, which supplement the domestic supply; fish scrap and fish meal, used for fertilizer and stock and poultry feed; tea (Japan supplies 80% of

(21) The description of imports contained in this section is taken largely from the recent report of the United States Tariff Commission, cited above. For a more extensive classification and analysis of competitive imports, based on the Tariff Commission study, see also T. A. Bisson, "Japan's Trade Boom—Does It Menace the United States?", *Foreign Policy Reports*, March 15, 1936.

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green tea imports and 10% of the black teas); pyrethrum, an insectifuge derived from a species of chrysanthemum; perilla and inedible rapeseed oils, the former a valuable constituent of paints and varnishes and the latter of lubricating oils for marine engines; cotton waste, imports of which increased sharply in 1935; and several types of nitrogenous fertilizers, used mainly on the West coast where domestic supplies are expensive due to the costly freight haul from the East. Some of these are not produced at all in the United States; most of them are complementary to rather than competitive with domestic production; and those which might be regarded as competitive, chiefly fertilizers, are purchased by groups enjoying sufficient political power to keep them on the free list.

The list of dutiable imports from Japan covers hundreds of items of almost infinite variety. Taken together, however, they probably totaled only about $40 millions in 1935, or roughly one-quarter of total imports, despite the increases in quantity characteristic of recent years. Among the more important commodities of which the United States has little or no domestic production are the following: natural camphor, of which Japan through her control of Formosa enjoys a world monopoly; natural menthol, derived from the Japanese peppermint plant and widely used for medicinal purposes; bristles, the raw material of most brushes; agar-agar, from Japan's abundant seaweed; Easter lily bulbs, which come largely from Japan; rattan and bamboo manufactures; cosmetics, rice wine, vegetable sauces, etc., especially adapted to the tastes of resident Orientals; and a large share of the straw and hemp braids and plaits made up domestically into straw hats.

Competition of Japanese Manufactures

There remains a wide variety of miscellaneous manufactures. Of these it is not surprising that textiles other than raw silk form a large class. Excluding hats and hat materials, about half the value of Japanese textile shipments to the United States now represents cotton goods, which will be dealt with at a later point. Most of the remainder is silk fabrics and wearing apparel, dutiable at 55% to 65%. Whereas Japanese cotton goods have shown a marked upward tendency in imports, silk fabrics have declined in both price and quantity since 1929. Of the two principal types imported from Japan — Fuji cloth and pongee — the former is not produced in the United States at all, and the latter is produced only in the form of

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imitation pongee of inferior quality. The silk wearing apparel consists mainly of kimonos and other articles of Oriental design.

In addition to textiles, Japan has recently shipped to the American market an increasing variety of such goods as canned clams, crabmeat, tunafish, cottonseed oil, toys, pottery, brushes, combs, silverplated tableware, paper hats, rubber footwear, matches, smokers' articles, electric lamps and other manufactures of wood and paper. In most of these lines the United States takes a substantial share of Japan's exports. To a considerable extent these manufactures are products of small-scale industry requiring a good deal of hand labor and only simple equipment in their fabrication. Many of them are of inferior quality, selling at prices well below those of comparable domestic products. They crowd the counters of five-and-ten-cent stores, bargain basements and sidewalk peddlers — to the distress of "buy-American" protagonists. The fall of the yen in 1932 made possible substantial price reductions. This in turn promptly attracted American buyers to Japan and led to rapid increases in the volume of sales in the United States.[22]

Not all of this increase, however, represented business taken away from American producers, even if we ignore the matter of compensating exports. Many of these articles are novelty and specialty goods which could be called directly competitive only by a wide stretch of the term — for example, various types of Oriental foodstuffs, wearing apparel, household utensils, toys and souvenirs. In a number of lines — china, toys, dolls, mirrors, harmonicas, combs etc. — Japanese goods have displaced German and other European goods which long held the market. The partial boycott of German goods worked in Japan's favor. Moreover, it is fair to assume that at such low prices as prevailed in many instances, consumers, especially in depression years, were able to acquire articles they would otherwise have had to do without. In fact there is evidence in some instances that price reductions forced by the influx of cheap Japanese manufactures expanded the consumption of American as well as Japanese goods.

(22) The role of American importers was described and, by implication, criticized by Secretary of Commerce Roper in a speech in San Francisco on June 12, 1935. "Certain of our importers," said Mr. Roper, "are flocking to Japan on every steamer with samples of articles they want imitated by Japanese manufacturers employing cheap labor with cheap living standards. Once they have established their contacts, they give blanket orders for unlimited quantities of the cheap imitations and then come home to slash prices against competitors trying to support American labor at an American wage sufficient to maintain our own living standards."

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Nevertheless, the profits of domestic producers in certain lines have undoubtedly been curtailed in some degree. Mr. T. A. Bisson concludes after careful statistical analysis that 8.2% of the total value of imports from Japan in 1934, or $9.7 millions, represented dutiable articles "substantially competitive" in character.[23] If imports of duty-free competitive goods were added, the figure would be raised to about 10%. Within these limits Japanese competition has often been direct and intense, as for example in china and earthenware, pencils, canned clams, electric lamps, cotton rugs and bleached cotton cloth. Usually concentrated in a particular branch of a trade, its effect there on domestic prices is commonly said to have been greater than one might anticipate from observing only the actual volume of imports, generally small in comparison with domestic output even at depression levels. The hostility to such imported wares expressed in protests from manufacturers, as distinguished from consumer buying, is partly to be explained by the character of the price competition, its timing, and the uncertainties it engendered concerning future imports, rather than by the quantities themselves. Yet, of course, no producer welcomes competition in his own business, however much he may sing its praises in the abstract, and this is especially true when the competition is from a foreign country.

United States Tariff Restrictions

Such competition as Japanese manufacturers are able to offer in the American market has developed despite a conspicuously high tariff in most lines. In fact, the extent and character of the import trade with Japan is determined to a considerable degree by the tariff. Some 70% to 80% of recent imports have come in duty-free, it is true. This testifies not to the absence of general tariff protection but rather to the fact that the American demand for one non-competitive and duty-free raw material — silk — is large, and also to the probability that the level of duties on actual and potential imports of a competitive character is highly restrictive. A tariff structure with rates generally progressive on articles according to their degree of fabrication bears with especial weight on a country like Japan, poor in natural resources but abundantly supplied with labor for use in the fabrication of imported raw materials.

In recent years this level of duties has risen. The Tariff Act of 1930

(23) Op. cit., p. 7.

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not only raised many rates, but in some instances imposed specific duties (cents per unit) which mounted rapidly in ad valorem terms as the dollar prices of Japanese goods fell during the depression. To this extent the American market was protected against the effects of yen depreciation in fostering imports. The following instances of duty charges on Japanese goods entering the country during the first eight months of 1935 illustrate the point: china and porcelain household table and kitchen articles, undecorated, 111%; decorated, 93%; mushrooms, prepared or preserved, 90%; dried beans, 163%; toothbrushes with cellulose handles, 139%; ocean-pearl buttons, 152%; dolls of cellulose, having movable parts, 129%; toys of cellulose, not having movable parts, 108%; "stamped" pencils, 255%; thermos bottles, 192%. Imports of household table and kitchen pottery have declined relative to domestic production since 1929; while imports of cellulose dolls and toys, which constitute another important class, have fallen drastically in quantity since 1931. That trade in these higher-duty brackets could continue at all and in some instances actually increase testifies to the relatively low level of Japanese prices, or the difficulty of substituting comparable domestic goods. The rates cited above are not typical of rates in general. But few Japanese manufactures can enter the United States at rates lower than 25%; on highly competitive goods the duties are typically above 50%; and in many cases they exceed 100%.

In some instances barriers against Japanese goods have been raised recently by direct action in Washington. As previously observed, the Roosevelt Administration on the whole has evinced a desire to minimize the threat of Japanese competition as it has appeared in numerous small sectors of American industry. It has taken pains to point out the non-competitive character of most of the import trade and used sparingly the wide powers given it under Section 3(e) of the National Industrial Recovery Act, which authorized the President to restrict imports when such shipments were believed to endanger the maintenance of an NRA code or agreement. To have done otherwise would have been to contradict Secretary Hull's tariff reduction program. Nevertheless, fresh import restrictions of one sort or another have been imposed since March 1933 upon a number of commodities which Japan has recently shipped to the American market in increasing quantity. Under the "flexible tariff" clause (Section 336) of the Tariff Act of 1930, duties were raised on tuna fish packed in oil, canned clams (other than razor clams), frozen swordfish and wool

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knit gloves valued at not more than $1.75 per dozen pairs; fees were levied on various types of imported cotton rugs under Section 3(e) of the National Industrial Recovery Act; shipments of cotton rugs and wood-cased lead pencils were also limited by agreement with Japan specifying maximum amounts; and, finally, an informal agreement was secured restricting imports of Japanese cotton cloth to an unspecified but "moderate" level.[24]

One may wonder that this list of commodities is not longer, in view of the frequent and vociferous complaints to Washington from various groups of domestic producers. On the other hand, the only general tariff reductions under the present Administration affecting imports from Japan were one on cotton velveteens in 1933 and another on malt liquors in 1935. Tariff concessions embodied in trade agreements negotiated with various countries in the past two years have been freely extended to Japan in conformity with the official American policy of retaining the principle of reciprocal most-favored-nation treatment. But in classes of goods where Japan might be expected to benefit from such duty reductions, the concessions have been narrowly limited by precise descriptions which commonly exclude the types imported from Japan. That dutiable imports of Japanese goods needed no stimulation for the present, in the opinion of the United States government, is evidenced by the fact that as late as April 1936 no public announcement had been made of any intention to negotiate a reciprocal trade agreement with Japan, despite the efforts to secure such agreements elsewhere.

Raw Cotton Exports to Japan

Since 1932 Japan has become the world's leading exporter of cotton cloth. Her successful challenge to England, traditionally predominant in world textile markets, marks a milestone in the world trek of the textile industries. Textiles have been the pioneer of the factory system around the world, and the industrialization of Japan offers no exception. Since about 1860, when the first cotton textile factory was set up in Japan, the cotton industry has grown steadily. Periodic wars, proximity to Asiatic markets, constant improvements in organization and machine technique, energetic government support, and an almost inexhaustible supply of low-wage and docile female

(24) In February 1933 an increase in the duty on rubber-soled footwear and rubber footwear was proclaimed by President Hoover, to take effect on March 3, 1933.

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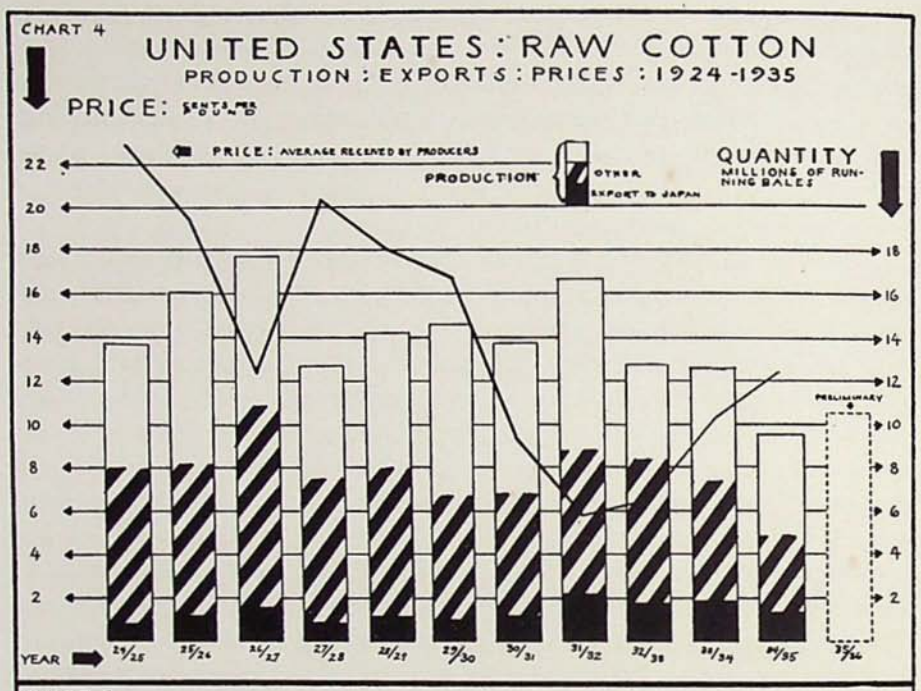

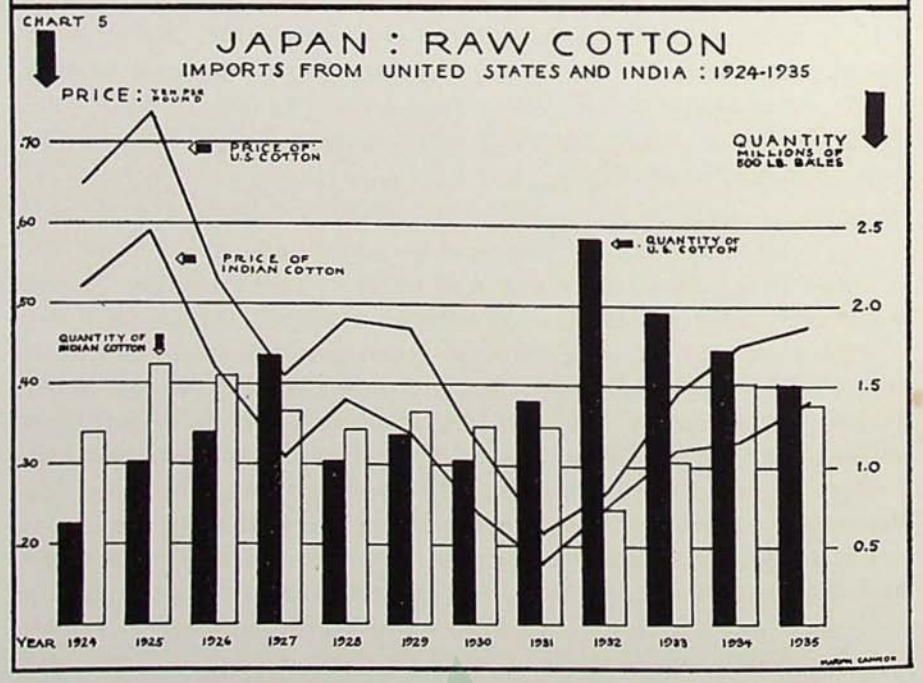

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labor readily utilizable in textile processes — these are some of the factors associated with its rise.

Japan emerged as a significant competitor in Asiatic cotton goods markets even before the World War, which in turn gave her industry further impetus. Huge profits accumulated during the prosperous war years provided funds used subsequently to strengthen and coordinate the industry, especially in its well-integrated export branch, and to carry the stronger firms through a series of post-war financial crises. Following the precipitous decline of the yen in 1931 and 1932, cotton cloth exports recorded a meteoric rise from 1,414 million square yards in 1931 to 2,725 million in 1935, spreading now beyond Asiatic markets through both hemispheres. Yet this expansion occurred despite the general stagnation of world trade in the early part of the period and the rise of hostile barriers against Japanese goods in the latter. While there are signs at present of a tapering off of the export boom, Japan appears to be securely established as one of the world's leading cotton textile producers and exporters, with a level of cotton consumption second only to that of the United States.

This development has had direct repercussions on Japanese-American trade relations. In export markets, and to a lesser extent at home, the cotton textile industry of the United States has felt the pinch of Japanese competition. But Japan's export advance has required increasing supplies of raw cotton, and these have come largely from the United States. Consequently the cotton South, source of the United States' leading export commodity, has recently acquired a large stake in the Japanese market. Japan, on the other hand, now finds herself in a position where of her two leading export industries — raw silk and cotton goods — one markets its product chiefly in the United States and the other relies heavily on that country for its raw material.

Well over half the entire American cotton crop has customarily been sold abroad. Of two million Americans engaged in producing directly for export in 1934 (excluding brokers, shippers etc.), one million were cotton farmers, according to the Department of Commerce. England was for many decades the best foreign customer, followed by Germany and other European countries. Most of the export cotton cargoes still move eastward across the Atlantic. Since the World War, however, Japan has emerged as an important consumer of American cotton, and in the four seasons, 1931-32 to 1934-35, her spinners took as much as a quarter of American exports. (See Chart 4.) In fact, the proportion rose as high as 32% in 1934-35; but with

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the rapid recovery of European demand in the first eight months of the current season, the Japanese share has again dropped to 26%.

To a considerable extent Japan's growing importance as a cotton market represents merely the displacement of demands from other textile-producing countries, notably Great Britain. It is true, of course, that cheap Japanese goods have tapped new levels of consumer demand. Total sales of cotton piece goods in Asia, Latin America and Africa have been larger as a result of Japan's successful trade drive than they otherwise would have been. Whether or not the net effect has been to increase consumption of American raw cotton, as distinguished from other growths, it is impossible to say.

American versus Indian Cotton

Japan's mounting purchases of American cotton reflect the long-term upward curve of activity in her textile centers. But they also indicate a gradual change in type of production. For purchases from the United States have increased relative to purchases from other areas over a long period of years. India and the United States have long furnished 85% to 90% of Japan's cotton requirements, as they do now. But her importers now buy more than a bale of American cotton for every bale of Indian cotton, whereas a decade ago they bought little more than half a bale, and in 1914 only a third of a bale. The explanation lies in the fact that Japanese mills have turned increasingly to finer yarns and better weaves — for which American cotton is definitely superior.

It may be observed, however, that the peak year of Japanese purchases was back in the 1931-32 season. Since then they have declined. In fact, total cotton exports from the United States have fallen off, the decline in the case of shipments to Japan being accompanied by a marked reduction in exports elsewhere from 1933 until a recovery set in late in 1935. Whereas the United States in pre-depression years contributed about 60% of the world's cotton crop, in the 1934-35 season her share dropped to 42%. This reduction led to widespread accusations that, notwithstanding dollar depreciation and making allowances for exchange difficulties abroad, the Administration's crop curtailment program and especially its loan operations were boosting the price of American cotton above world levels and imperiling a foreign market vital to the cotton farmer. From 1931-32 to 1934-35 the spot price of cotton in New York almost doubled, though, with the gold content of the dollar now reduced by 41%, the world price

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of American cotton in terms of gold rose considerably less than its dollar price, and, in fact, was probably depressed by the fall of the dollar. Was the New Deal, even as it temporarily boosted the income of the cotton farmer in the name of expediency, actually doing permanent and irreparable damage to his foreign market?

The broad aspects of this question we will leave to others to debate. In the case of Japanese purchases, in particular, the effect of these emergency measures seems to have been chiefly to facilitate a return to more normal price and market relationships, as indicated in Chart 5. Shipments of American cotton to Japan reached a peak in 1931-32, it is true. But this was an unusual year. Prior to the reintroduction of the gold embargo in December 1931 and the immediate fall of the yen, Japanese cotton importers bought heavily, accumulating stocks which were used subsequently. Moreover, a bumper crop and a huge carryover in the United States coincided with an unusually poor crop and a small carryover in India. American cotton prices were scraping bottom, with the usual price differential over Indian cotton largely eliminated. In the 1933-34 season, as well, the proportion of American to Indian cotton was sustained by the Indo-Japanese trade dispute. This precipitated a temporary boycott of Indian cotton by Japanese spinners, which was terminated in January 1934 by the Indo-Japanese Trade Agreement linking Japanese purchases of Indian cotton with piece goods sales in the Indian market. In other words, the decline in the value of shipments to Japan can be ascribed only in part to the agricultural adjustment program, and is less serious when viewed in comparison with some season more nearly approaching normalcy than 1931-32. Moreover, Japanese consumption of American cotton in 1935 was better maintained than would appear from the import figures, for warehoused stocks were drawn down to remarkably low levels in the latter part of the year.

Finally, we may note that while fewer bales of cotton have been shipped to Japan in recent years, their value rose substantially through 1934 in dollars, and even more in yen. In 1935, as compared with 1932, Japanese importers paid 16% more for 37% less cotton. The average price had almost doubled, but the demand continued at a fairly high level. Cotton has accounted for roughly half of Japan's purchases from the United States in the past two years, reaching a figure of $112 millions in 1934 and $99 millions in 1935. Relative to the status of the raw silk producer in Japan providing silk for American consumption, the improvement in the position of the

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American farmer supplying Japan with cotton has been marked: in the trend of reciprocal demands, in government policy respecting curtailment and subsidy, and in cash income.

New Sources of Supply

Recently there have been efforts in Japan to promote alternative sources of cotton as well as to push the synthetic fibers as substitutes. Why, it may be asked, should such an effort be made? Security in time of war or possibly of sanctions is apparently part of the answer. With her basic textile industry dependent upon the United States and the British Empire for more than 90% of its raw cotton — not to mention wool and wood pulp for rayon — Japan is conceived as perilously insecure. Moreover, Japan has been told in numerous areas that she must buy more if she would sell. In Brazil, in Peru, in Egypt, raw cotton may help to rectify Japan's one-sided trade balances. Finally, if necessary raw materials can be procured more cheaply in newer producing areas or from new substances, so much the better.

Such efforts as have been made, however, to purchase more cotton in South America, China and Egypt have as yet borne little fruit. In 1935 imports of raw cotton from areas other than India and the United States, though showing an increase over the preceding two years, amounted to only 11% of Japan's total cotton purchases — no more than in the years 1925-29. Lack of available acreage, low yields, the demands of domestic industries in producing countries, the comparatively high quality of American cotton — all these factors limit any shift to other sources of supply.[25] The difficulty is increased by the steady drift in Japan to the production of finer goods which require better cotton. Over a period of years something can undoubtedly be done — probably at a cost. The whole matter is full of uncertainties as to the economic position and policy of the United States as well as of Japan. In the mean time a substantial share of the foreign market for American cotton has shifted to Japan, and in the near future will probably remain there.

Exports Other Than Cotton

Cotton has accounted for a little over half the total value of United States exports to Japan during the past five years. The remainder of the trade can readily be summarized. It resembles cotton, in fact,

(25) Cf. Miriam S. Farley, "Japan as a Consumer of American Cotton," *Far Eastern Survey*, July 3, 1935.

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for with the exception of machinery and automobiles it now consists almost entirely of materials for use in Japanese industry — especially petroleum, metal and wood products. Of total exports, valued at $203.3 millions in 1935, raw cotton accounted for $98.6 millions; metals and metal manufactures, excluding machinery and vehicles, $27.2 millions; crude oil, gasoline, gas and fuel oil, $25.2 millions; machinery and vehicles, $20.5 millions; wood and paper, $11.7 millions; and chemicals and related products $6.8 millions.

Some commodities formerly important in the list of American exports to Japan have declined in recent years, as Japan has turned elsewhere for cheaper supplies or has developed her own production. Thus there have been substantial reductions since 1929 in shipments of foodstuffs (wheat and flour, rice, canned milk), leaf tobacco, sawmill products, gasoline and kerosene, rubber tires, sulphate of ammonia, tin plate, steel sheets and several other semi-manufactures of various metals. Some of these products have recovered part of the ground lost in the early years of the depression, and all of them are still of some importance in the trade except for the foodstuffs, kerosene, tires, sulphate of ammonia and steel sheets. (See Table 6, pages 64-65.)

Other American raw materials and semi-manufactures, in addition to cotton, have been shipped to Japan in increasing quantities in response to Japan's industrial boom — for example, crude oil, gas and fuel oil, sulphite wood pulp, iron and steel scrap, aluminum ingots, bars etc., refined copper, and hides and skins. Sales of American automobiles and of certain types of machinery have also advanced to record levels. In part, Japan's purchases from the United States have served directly or indirectly to feed her expanding export trade in manufactures, in which respect the depreciation of the yen may be said on the whole to have stimulated rather than curtailed export sales of American goods. American exporters have also aided in providing the material base for Japan's heavy armaments program, notably in the case of petroleum and metal products.

Tin-Plate Scrap Embargo

This latter aspect of the trade has incurred adverse criticism in the United States from those who do not relish this indirect support of Japan's growing military and naval establishments. In only one case, however, so far as is known — that of scrap tin — has the government of the United States undertaken the direct restriction of exports

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with the effect of limiting shipments of an important war material to Japan. On April 4, 1936 Secretary Hull announced that future exports of tin-plate scrap would be permitted only upon license from the National Munitions Control Board. From April 16 to July 1, moreover, a complete embargo would be placed upon shipments abroad. This action was taken under authority granted to the President in a recent act of Congress designed to conserve domestic sources of tin (approved February 15, 1936), and delegated by the President to the Secretary of State as chairman of the above-mentioned board.

The purpose of the embargo was reported to be the protection of the American detinning industry from the competition of Japanese buyers of tin-plate scrap, the industry being deemed by the War Department of importance to the country in time of war for the purpose of reconverting scrap tin into raw material. The effect of the embargo upon Japan is to cut off an important, but by no means irreplaceable source of tin, which comes, in its virgin form, principally from British Malaya. If cheaper supplies of the metal are an important desideratum for Japan, it seems that she might abolish her own duty on imports of tin ingots and slabs, which is said to have stimulated imports of duty-free tin-plate scrap from the United States. (Such action, it is true, would fail to safeguard Japanese consumers against the monopolistic manipulation of tin prices under the international output-restriction scheme now being carried out under the auspices of the International Tin Committee.) While of no great significance in itself, the control of tin-plate scrap exports from the United States is hardly calculated to lessen Japan's recent efforts to make herself more nearly self-sufficient, as evidenced, for example, in the oil control law, the proposed automobile control bill, the encouragement of her heavy industries, the promotion of wheat cultivation and the search for new sources of oil, iron, cotton, wool and other raw materials in Manchukuo, China and the South Seas.

In summary, the total value of exports from the United States to Japan, excluding raw cotton, stood at $150 millions in 1929, $49 millions in 1932 and $105 millions in 1935. It therefore exceeded imports from Japan, excluding raw silk, by about two-thirds in 1935. Whether we omit or include cotton from consideration, Japan has recently come to occupy a more important position as an outlet for American products, mainly in the raw or semi-manufactured state. Nevertheless, her place is not of great importance in total exports other than cotton. Including that leading commodity, Japan took

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8.9% of United States exports in 1935; without cotton the figure is only 5.5%. Moreover, Japan's share is likely to dwindle somewhat with the continued revival of American trade in other areas and the passing of the unstable combination of factors which produced the current industrial boom in Japan.

COTTON TEXTILE COMPETITION

International Position of the United States Industry

The appearance of aggressive Japanese competition in cotton goods marked a new phase in the international relations of the cotton textile industry of the United States. True, the American industry had long been primarily domestic in character. A once prosperous China trade in coarse sheetings and drills virtually disappeared before the World War as a result of competition from the rising industries of Japan and China. In the post-war decade exports dropped to a fairly stable level of about 500 million yards a year. Chiefly coarse and medium fabrics produced by Southern mills, these cotton goods found a market largely in the Philippine Islands, Latin America and Canada. While this was a respectable volume of business, it could hardly be considered vital to an industry which was producing around 8,000 million yards annually. Imports had been even more restricted. They were mainly quality fabrics, novelties and specialties from the United Kingdom and Europe. A high protective tariff on fine goods, combined with the competitive strength of the American mills in the staple lines which preponderate in production, had enabled them virtually to monopolize the home market. Thus the industry was not very vulnerable to foreign competition. Certainly this was true as compared with Lancashire, which relied heavily on a world market.

Nevertheless the American industry, and more particularly the New England section, was not prospering, even before 1929. Overcapacity relative to the market had been stimulated by war-time expansion and aggravated by the rapid shift of production to the South. Consumption of cotton goods had not been expanding. Moreover, rapid style changes imposed burdens which the marketing organization was not well adapted to meet. The industry, made up as it still is of numerous relatively small units, had been characterized by severe competition and periodic overproduction, which became acute as the depression deepened from 1929 to 1932. Consequently it did not welcome any new threat to profits and employment in the shape of

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TABLE 3. EXPORTS OF COTTON PIECE GOODS FROM THE UNITED STATES AND JAPAN TO THE LEADING MARKETS OF THE UNITED STATES[a]
(in thousands of square yards)

	Exports from United States					Exports from Japan				
	1929	1931	1933	1934	1935	1929	1931	1933	1934	1935
All countries	564,447	366,959	302,042	226,306	186,565	1,790,560	1,413,780	2,090,238	2,577,264	2,725,109
Leading U. S. markets	446,739	312,369	280,935	212,715	175,688	62,977	88,495	123,078	312,542	344,771
Philippine Islands	81,342	61,599	88,087	49,725	47,122	26,550	33,423	34,910	75,747	87,481
Canada	75,635	37,103	17,112	12,546	11,952	448	355	217	211	...[c]
Cuba	76,614	54,264	45,074	65,575	55,387	72	371	3,614	17,576	9,875
Haiti	14,519	14,726	13,138	2,555	4,893	...[c]	2,413	16,749	73,432	15,425
Dominican Republic	15,949	12,597	15,003	9,260	3,391					14,972
Other West Indies [b]	18,755	17,572	5,422	5,659	7,501					5,413
Central America [b]	60,462	44,678	44,382	33,499	21,366					23,124
Argentina	23,936	14,452	9,566	1,151	393	17,640	10,540	34,951	66,365	103,377
Chile	28,219	13,190	11,094	11,963	11,790	4,479	2,360	6,535	31,737	26,838
Colombia	26,028	26,403	25,594	15,986	8,839	...[c]	...[c]	...[c]	25,848	21,958
Venezuela	12,247	7,805	4,931	3,412	2,164	...[c]	...[c]	...[c]	5,448	10,069
Union of South Africa	13,033	7,980	1,532	1,233	890	13,788	39,033	26,102	16,178	26,239
Other countries	117,708	54,590	21,107	13,591	10,877	1,727,583	1,325,285	1,967,160	2,264,722	2,380,338

(*a*) All countries are enumerated to which piece goods exports from the United States exceeded 12 million yards in 1929. The figures for the United States and Japan differ slightly in their inclusiveness. For example, the Japanese statistics, unlike those of the United States, include velveteens, while they apparently exclude cotton and rayon mixtures in chief value of cotton. This discrepancy, however, does not materially affect the comparison.
(*b*) Exports from Japan, as given, fail to include small shipments to countries not separately reported in the official statistics.
(*c*) Not separately reported.
Sources: U. S. Department of Commerce, *Textiles and Allied Products;* U. S. Tariff Commission, *Recent Developments in the Foreign Trade of Japan; Annual* and *Monthly Returns of the Foreign Trade of Japan;* and other official sources.

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rising Japanese competition in areas which it had come to regard more or less as its own preserve.

This competition has appeared both at home and abroad. Though it concerns a variety of cotton goods, we shall simplify our discussion by confining it largely to cotton cloth, which comprises the great bulk of the output of the cotton textile industry in both the United States and Japan.

Decline of Cloth Exports

In 1929 the United States exported one yard of cotton cloth for every 3.2 yards exported by Japan; in 1931 the ratio was one to 3.9; in 1935 one to 14.6. From a level of 564 million square yards in 1929, shipments from the United States fell to 187 million in 1935. (British exports simultaneously dropped from 3,672 to 1,919 millions.) Japan's piece goods trade also declined through 1931: from 1,791 to 1,414 million square yards. In the next four years, however, it almost doubled, reaching a record level of 2,725 millions in 1935.

The earlier decrease in Japan's cloth exports had resulted largely from a contraction in her two leading markets, China and India. The China trade failed subsequently to recover, but by 1935 total piece goods exports to eastern and southern Asia had almost regained their 1929 level as a result of compensating advances in Netherlands India, Manchukuo, the Philippine Islands, British Malaya and Siam. In this region the Philippine market is the only one where American exporters have done a substantial volume of business since the war. But in other areas as well Japanese goods have penetrated rapidly, partly as a result of growing restrictions in older Asiatic markets. Whereas trade with eastern and southern Asia accounted for 85% of Japan's piece goods exports in 1929, it included only 55% in 1935. A large part of the export gain has occurred in shipments to Africa, Asia Minor and Australia, but among the newer Japanese markets are also the countries of Latin America, which together with Canada and the Philippines make up the territories of recent significance in the export business of the American cotton textile industry.

Table 3 records the recent decline in cotton cloth exports from the United States to most of its leading markets. A number of adverse factors have contributed to this trend. Among these Japanese competition, severe as it has been, is only one. First and foremost was the crushing impact of world depression on many of these countries, which were largely debtor and raw-material-producing areas. The

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inflow of foreign credits dried up; export prices collapsed; buying power was sharply curtailed; and in Latin America currencies depreciated and exchange restrictions multiplied. The reduction of purchases of American textiles in these countries from 1929 to 1932, amounting to more than 30% in the case of cotton cloth, was largely due to lack of the means of payment, especially for imported goods.

Their failure to recover subsequently, however, is chiefly a matter of competition. Some of this competition has come from domestic industries in importing areas, for textile production continues the process of dispersion begun many decades ago. Higher tariffs and exchange difficulties have recently accelerated the trend. Thus Canada, Mexico, Argentina, Brazil, Chile, Ecuador, Peru and even several Caribbean countries have added to their productive capacity in cotton goods since 1932. Canada and Brazil are now largely self-sufficient in cotton manufactures, while elsewhere production is gaining rapidly in volume and variety, aided by the active encouragement of governments. If this tendency continues, as seems likely, it promises to limit the import trade of most of these countries increasingly to finer grades of yarn, hosiery, piece goods and wearing apparel.

Japanese Competition Abroad

In addition to these restrictive factors, competition from other exporting countries, notably Japan, has further reduced American shipments. This competition has come mainly in the form of cotton goods, though in some degree Japanese rayon textiles have cut into better-quality cotton goods markets. Japanese penetration in these areas, as previously observed, appears to have been stimulated in some degree by the decline of the China market after 1929 and, more recently, by checks imposed upon further Japanese expansion in the colonial regions of southern Asia and Africa. From 1932 to 1934 sales of Japanese cotton piece goods recorded rapid advances in the Philippine Islands and Latin America, as shown in Table 3, although these markets still take only a small proportion of Japan's total cloth shipments. By 1934 her piece goods exports to the Philippines were almost 60% greater than those of the United States, and in the case of Argentina, Chile, Colombia and Venezuela, taken together, they were four times as great. In the Caribbean area, moreover, American exporters retained their lead only by a heavy preponderance in Cuba.

The year 1935, it will be noted in the table, brought a definite slacking in Japanese gains; in fact, total cloth exports from Japan to

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Latin America declined slightly from 1934. They would have registered a decided drop had it not been for a large increase in shipments to Argentina, the outstanding Latin American market. The rapid spread of severe restrictions on Japanese goods probably accounted for most of these losses, together with the overstocking of a number of markets in the previous year. Despite this setback, however, Japan's exports of cotton cloth exceeded American exports in the case of all the countries and regions enumerated in Table 3 except Canada, Cuba and "other West Indies" (chiefly Jamaica); for all of them as a group the Japanese figure is almost double. To attempt to determine what would have been the course of American exports after 1932 had the factor of Japanese competition been absent would carry us beyond the bounds of the present study, and would at best be only guesswork. Nevertheless, it seems reasonably clear that Japanese exporters have made substantial inroads in the foreign markets of the American cotton textile industry, even though total sales of American goods of all kinds in these same countries commonly run five, ten or even twenty times those of Japan.

Price was the lever of success for the Japanese piece goods exporter. His goods were usually inferior in quality at first, with a tendency to steady improvement. His local distribution methods, credit terms, packing and advertising apparently gave no substantial advantage. He had usually to surmount an initial resistance to handling his goods on the part of local dealers, many of whom are Europeans and in some areas Chinese. His tendency to overload the market aroused much resentment. Except for a restricted quality trade, however, the usual price differential of 30% to 40% on Japanese goods proved irresistible, especially in a depression market. It enlarged the market, to be sure; but it also attracted business from competitors.

A good deal of the price advantage on Japanese piece goods afforded by the depreciation of the yen was passed on to the foreign buyer, to judge by the low prices prevailing abroad and the moderate rise in the yen prices of exports. The 41% reduction in the gold content of the dollar, it is true, might have been expected to lead to substantial reductions in the gold prices of exports from the United States and a corresponding improvement in their competitive position relative to 1932 or the early part of 1933. But at the same time production costs and prices in the American cotton textile industry rose rapidly. In point of fact, the average gold price of cloth exports in 1934, after devaluation, was little below its level two years previously.

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Their dollar price, on the other hand, was 50% higher. Dollar depreciation, in other words, failed on the whole to improve the competitive position of American cotton cloth abroad, though it did tend to offset in some degree other unfavorable factors.[26]

While low prices were the primary advantage of the Japanese exporter, a further aspect of competition should be noted. There is a good deal of testimony to the effect that the Japanese catered more industriously to the peculiarities of foreign markets. They gathered first-hand information; their sampling was complete; they promptly executed small orders for special designs (often copied); and in general they adapted their goods more successfully to the style and price requirements of local markets. The American firm is more apt to display a "take-it-or-leave-it" attitude. It is a common complaint that the American industry with its preponderantly domestic market is not "export-minded." Nor does it have the established connections abroad and the reputation for quality which Lancashire commonly enjoys. These factors, as well as those cited above, present obstacles to the recovery of the export trade.

Bilateralism

On the other hand, if bilateral balancing of trade between individual countries becomes an established principle of commercial policy, Japan will be put at a heavy disadvantage in Latin America, where her purchases are negligible in comparison with those of the United States. In fact, Japanese goods have already been placed under severe restriction in many Latin American countries through the application of quotas, multiple tariff systems and exchange restrictions. The need for rectifying one-sided trade balances has been a common justification, though the real motives more often seem to have been simply the hope of forcing Japan to buy more, together with the protection of rising domestic industries. On both grounds Japan is in a vulnerable position, for not only do her sales greatly exceed her purchases, but her staple fabrics tend to compete severely with domestic output in these countries. In response to this pressure, Japan has been experimenting with schemes to encourage imports from Latin America, even imposing fees upon exports to secure funds for use in subsidizing imports. But these schemes have so far been attended

(26) Cf. *Cotton Textile Industry* (report of the Cabinet Committee), Senate Document No. 126, 74th Congress, 1st Session (Washington, 1935), pp. 106 et seq.

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with only slight success, because of her present self-sufficiency in commodities like sugar and wheat, her slight demand for others like coffee, and the varied difficulties involved in shifting from one source of supply to another, as from Australia to Argentina in the case of wool, or from the United States to Brazil and Peru in the case of cotton.

The contrast between the trade balances of Japan and the United States in Latin America, it is true, might be a powerful lever for the American government in securing a favored position for American goods in these markets, if the Administration chose to make use of it. Secretary Hull, however, has resolutely declined to adopt the primitive policy of bilateralism,[27] or to push for special concessions according preferential treatment to American products. It is the official view that the piling up of such restrictions on international trade in recent years has had much to do with the stagnation of American exports and of world trade in general. Thus whatever discrimination now exists against Japanese goods in Latin American markets is not the result of pressure from Washington. But irrespective of the tariff policy pursued by the United States, it may well be that the opportunity for a volume trade in staple cotton fabrics has now generally

(27) The triangular, or multilateral, trade of the United States and of other countries has played a significant role in the evolution of world trade and investment. In the early years of the depression, however, the elaborate system of international transfers, of which the current-account surplus of the United States in dealings with Europe and her deficit in trade with raw material areas was part and parcel, collapsed, largely as a result of intolerable strains imposed by huge reversals in capital movements. Its partial liquidation has had the effect of reducing the role of the United States in transferring capital payments to Europe, and, more importantly, of intensifying the fall of prices, the general decline of trade, and the maladjustments of prices and exchange rates which persist today.

Attempts on the part of governments to deal with these dislocations have hastened the trend to bilateral trade through the mechanism of quotas and clearing agreements which on the whole have only magnified the difficulties they sought to correct. The principle of bilateralism has been extensively adopted in Europe and Latin America as a club for forcing an expansion of a country's exports; but it has served more effectively to check imports than to increase exports. Cf. League of Nations, *Review of World Trade, 1934* (Geneva, 1935), pp. 67-74.

If bilateral channelizing of trade becomes a generally accepted commercial policy, it will force drastic revisions in the structure of world trade, as it already has in some degree. For the United States with its wealth of resources the problem is perhaps less acute than for many other countries. Yet it can readily be seen that under bilateral conditions agricultural exports to Europe can recover only at the price of enormously expanded imports of European manufactures. In other areas, as pointed out by Folke Hilgerdt (*Index,* Svenska Handelsbanken, Stockholm, August 1935, pp. 186-88), bilateralism, if perpetuated, will intensify competition among industrial countries to secure raw materials by direct exports to areas where production of such materials is often localized. In the political realm it thus threatens to sharpen political rivalries for control over undeveloped countries and to foster the Closed Door in colonial policy. Factors such as the above explain why the principle of bilateralism has not met with official favor in the United States any more than in Japan.

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TABLE 4. UNITED STATES IMPORTS OF COTTON GOODS FROM JAPAN[a]

(quantities in thousands of specified units; values in thousands of dollars)

	Quantity					Value			
	Unit	1929	1933	1934	1935	1929	1933	1934	1935
Total Cotton Goods	....	....	....	....	....	2,880	2,276	3,364	..[e]
Countable cloth.	sq. yds.	1,217	1,116	7,287	36,475	189	79	363	1,728
Velveteens.....	sq. yds.	...[b]	...[b]	84	1,794	...[b]	...[b]	16	268
Table covers, napkins, etc...	....	...	...	...	...	63	121	163	398
Handkerchiefs and mufflers...	dozens	...[b]	62	780	2,737	...[b]	6	80	254
Knit hosiery.....	doz. prs.	15	187	271	645	9	62	103	225
Floor coverings[c]	sq. yds.	4,653	9,869	10,578	12,622	1,880	1,146	1,346	1,421
Rags (except paper stock)..	pounds	...[d]	15,527	17,199	24,466	...[d]	465	713	1,082
Other goods.....	....	...	...	...	...	739	397	580	..[e]

(*a*) Data are for general imports through 1933; imports for consumption thereafter.
(*b*) No imports, or valued at less than $1,000.
(*c*) After 1933, includes rice straw and grass rugs, previously classified elsewhere.
(*d*) Included in "other goods."
(*e*) Data incomplete.
Sources: *Foreign Commerce and Navigation of the U. S.*, and other official sources.

disappeared, as it faded in the Orient twenty-five years ago. By 1935, export sales in the Philippine Islands and Cuba, even at their reduced levels, had come to represent more than half the total American export trade in cotton fabrics; and it was only in these two markets — one colonial and the other semi-colonial — that American exporters still did a substantial amount of business.

Cotton Goods Imports from Japan

Turning now to the domestic cotton goods market of the United States, we come to a phase of Japanese competition which is less significant quantitatively but which has aroused widespread concern among American manufacturers. Cotton manufactures imported from Japan, as indicated in Table 4, include a wide variety of products totaling $3.4 millions in 1934 and perhaps as much as $6 millions, or about one-sixth of cotton goods imports from all countries, in 1935.

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Three items are of preponderant importance: rags, rugs and countable cotton cloth.[28] Imports of certain other Japanese goods, notably cotton hosiery, handkerchiefs, fish nets, velveteens and corduroys have also mounted rapidly and have occasioned protests from American manufacturers. The remainder of the import trade consists largely of small amounts of household articles and wearing apparel, mostly novelties and specialties, which manage to surmount the high tariff fencing off the American market. In the domestic cotton goods market as a whole, these smaller imports are obviously of minor significance. The characteristics of Japanese textile competition will be sufficiently indicated by a consideration of the larger items which make up the bulk of the import trade.

Cotton Rugs

Cotton rags and rugs might almost be classed together, for, with the exception of small shipments of rather expensive cotton rugs from Europe, the former is the chief raw material of the latter, and imports of both come very largely from Japan. Imported rags consist principally of old kimonos and the like, torn up and processed for use as wiping rags, and dutiable at about 70% in 1934 and 1935. Cotton floor coverings present more of a competitive problem. They comprise a variety of woven, braided and hooked rugs, which are produced in the United States partly by factories and partly by rural workshops and public institutions. Shipments from Japan recorded a spectacular increase after 1930, despite duties ranging from 35% to 75%. By the end of 1933 they dominated the American market, so far as the cheaper grades were concerned. They also enlarged the market, it is fair to say, for 15- and 25-cent rugs, distributed through chain stores and bargain basements, provided the only type of floor coverings within the means of many consumers. Nevertheless, the market for domestic rugs, similar in character though generally superior in quality, was increasingly curtailed, and the Administration found itself handicapped in 1933 in its efforts to justify and maintain NRA wage increases and the processing tax on cotton, so far as this particular industry was concerned.

Here, as elsewhere, the fall of the yen played a large part in stimu-

(28) Countable cloth consists of woven goods over 12 inches in width and subject to United States tariff duties which progress according to yarn count. This excludes a few special classes of cloth but comprises the bulk of the goods woven by the domestic cotton textile industry.

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lating imports from Japan, while the rise in domestic costs and prices in the United States in 1933 was an added inducement. It should be added, however, that the cotton rug industry is one where Japanese competition is likely to be particularly effective, and had proved itself so even before 1933. The Japanese producer enjoys a competitive advantage in the relative cheapness of rags, waste and other materials which are a large item of cost. Moreover, the manufacture of rag rugs, chenille rugs and other types imported from Japan is a small-scale industry in both countries. Since it makes only limited use of mechanized equipment, direct labor costs are an important element in competition. Therefore the industry is one where the American wage scale, or anything approaching it, is likely to be a substantial handicap in international competition.

The influx of Japanese cotton rugs was checked by administrative action in June 1934. On several types of rugs substantial fees were imposed under Section 3(c) of the National Industrial Recovery Act. These fees were retained until the act was declared unconstitutional by the Supreme Court a year later. In addition, Japanese exporters agreed "voluntarily" to restrict their shipments to the United States within certain specified limits. These officially negotiated quotas, with slight modifications, are still in force. The maximum specified for all classes was originally set at 8 million square yards for the year ending May 31, 1935, as compared with imports for consumption in 1933 of 9 millions. In April 1935 this was lowered to 7.6 million yards. A year later, however, the limit on total imports from Japan for the year ending May 31, 1936 was readjusted upward to 8.1 millions, which is estimated to be about equal to current production in the United States.

Influx of Cotton Cloth

While cotton rugs are a minor item in textile production in the United States, cloth is the principal product of the cotton textile industry. Here rising imports from Japan have recently attracted widespread attention and led to urgent appeals from the industry for higher protection. During the decade prior to 1933 purchases of Japanese cloth had fallen from over 10 million square yards to less than 1 million. In fact, total cloth imports from all countries had dwindled from 219 million square yards to 29 millions, chiefly as a result of reduced purchases from Great Britain. But from the end of 1934 on, increasing shipments from Japan reversed the downward

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trend, as shown in the following import figures (in millions of square yards):[29]

	From Japan	From Other Countries	Total
1933	1.1	40.2	41.3
1934 —			
1st half	2.1	22.8	24.9
2nd half	5.2	10.4	15.6
	7.3	33.2	40.5
1935 —			
1st half	21.5	15.1	36.6
2nd half	15.0	12.1	27.1
	36.5	27.2	63.7

The first point to be noted with regard to imports from Japan is that even with the rapid rise recorded above, total imports remain small in quantity. They are small in comparison with former imports from England and Europe, and small in comparison with current exports. When it comes to total cotton cloth production in the United States, imports are almost microscopic by comparison. Domestic output of woven cotton goods is estimated to have exceeded 7,000 millions in 1934 and 1935. While recent figures are not available for countable cotton cloth alone, this class usually runs to 90% of total woven goods. Had Japanese shipments continued through 1935 at the record level set in the first quarter of the year, they would have amounted to less than 1% of domestic production. At their actual 1935 figure of 36 million yards, or at two or three times this figure for that matter, they could not possibly be a substantial factor in fluctuations of domestic cloth output, which may amount to as much as a billion yards in a single year.

The storm raised by domestic textile interests over Japanese goods is hardly to be explained by such comparisons as the above. Several further facts should be observed. First, the prices quoted on Japanese fabrics were well below domestic levels. Their effect on the market was probably somewhat greater than the small quantities actually imported would suggest, especially when dealers anticipated a continu-

[29] U. S. Department of Commerce, *Textiles and Allied Products*, passim. In addition to imports for consumption, as given here for 1934 and 1935, stocks of Japanese goods in bonded warehouses of the United States increased by 12.4 million square yards in 1935, owing chiefly to gains in the first half of the year.

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ing increase in shipments. "Japanese goods," said an eloquent attorney for the domestic industry before the Tariff Commission, "are a teaspoon of poison in the well." Second, Japanese competition was concentrated in a narrow range of goods where it was keenly felt by a few manufacturers. Imports have been confined chiefly to lightweight bleached underwear and handkerchief cloths, on which the duties have run from 25% to 30%. Shipments of other types have proved so far rather unsuccessful. These Japanese cloths are much more directly competitive with domestic production than the finer fabrics customarily imported from the United Kingdom and Switzerland or the hand-loom crepe cloth formerly imported in volume from Japan. If we narrow the comparison to the particular type of domestic cloth directly competitive with Japanese bleached goods — bleached print cloth — the imported fabric may have occupied as much as 20% or 25% of the market during the past year. It is obvious, however, that to get such a high percentage we are excluding from consideration all but a minute sector of the American cotton cloth market as a whole.

Finally, and most importantly, the influx of Japanese goods, commencing in December 1934, could hardly have been better timed for the purpose of creating alarm among domestic manufacturers. The year had been a poor one, a reaction from the boom of 1933. The coming of the New Deal had at first brought a rapid rise in profits and production. Costs had also mounted from the low levels of 1932, to be sure. On cotton print cloths, for example, unit labor costs in 21 representative mills rose 100% between March and October 1933, according to the Tariff Commission. The cost of raw cotton, with the processing tax now added, also doubled, and total unit costs rose 80%.[30] But prices soared even more rapidly. Profits reappeared, employment and payrolls mounted, and the NRA was hailed with enthusiasm.

Before long, however, it became apparent that the mills had overreached their market. In 1934 stocks piled up, depressing prices and mill margins once more. A great strike gripped textile centers in the fall; and with production again ebbing, the industry was once more in the red. It was at this juncture that comparatively large shipments of Japanese cloth began to arrive in American ports. Mill owners

(30) *Cotton Textile Industry*, cited, p. 55. It should be pointed out that the processing tax was not a factor materially affecting foreign trade in cotton manufactures. On exports, it was refunded, though commonly with some delay; and on imports, a compensating levy was imposed during the life of the tax.

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now found the uncertainties of Japanese competition at home added to the loss of foreign markets, the processing tax on cotton, the new wage minima under the code, militant unionism and most important, internal deficiencies in industrial organization which had long kept cotton textiles in the category of chronically sick industries.

Campaign for Import Restriction

In the spring of 1935 a determined campaign was launched by manufacturers against imports from Japan and the processing tax — two grievances for which remedies were at least ready at hand, if the Administration cared to use them. Chambers of commerce passed resolutions; textile associations circularized their members; governors of textile states descended upon Washington; and members of Congress, especially Republicans, urged on by a rising tide of telegrams and petitions, demanded that something be done to save the industry from disintegration. "This is no time for kid gloves in diplomacy," said the *Textile Bulletin,* March 14; "a real fight and raising a certain amount of 'hell' are the only things which will cause the administration to do anything to retard the flow of Japanese goods." Congresswoman Rogers from Massachusetts, in the words of the *Washington Herald,* April 18, "shook the House out of lethargy by declaring that every industry in the country is menaced by Japanese imports and invited members to a display in the cloakroom to see for themselves."

Among those groups with a direct stake in the cotton textile industry only organized labor refused to join in the hue and cry over Japanese competition and the processing tax. Regarding the former, John W. Edelman, director of research for the American Federation of Hosiery Workers, expressed himself as follows in a radio broadcast on April 13: "Labor in the textile industry today refuses to have its attention diverted from the basic evils of the industry by any scare over the menace of Japanese imports. The real cure for the ills of the textile industry does not lie in the direction of increased tariffs."

The Administration also lent a rather unsympathetic ear to the appeals from the industry for relief, so far as these two issues were concerned. Secretary Wallace was a bitter-end defender of the processing tax on cotton and had stood with Secretary Hull on the general principle of lowering rather than raising the American tariff. Nevertheless, two inquiries into the import situation were launched by the Tariff Commission, one under Section 3(e) of the National Indus-

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trial Recovery Act (subsequently dropped when the act was declared invalid) and the other under Section 336 of the Tariff Act. A Cabinet committee was also appointed by the President to examine broadly the plight of the industry. It was directed to give especial attention to the matter of obsolete equipment, which the President himself was reported in the press to have characterized as "the milk of the coconut." In due time an elaborate report was forthcoming, setting forth the problems of the industry at some length. As regards imports, in particular, it proposed a voluntary and friendly agreement with Japan limiting shipments of cotton textiles to the United States.

Such an understanding was, in fact, concluded at the end of 1935 on the initiative of the Department of State. On December 21, according to an announcement from that department, Ambassador Saito stated that Japanese exporters of cotton textiles had agreed voluntarily to hold shipments to the United States at "moderate levels," and that there was little likelihood of any recurrence of such abnormal increases as had occurred early in the year. In point of fact, some limitation was apparently already being attempted in Japan. For here as in other markets Japan had learned from experience the value of precautionary restraint in exporting to markets where hostile curbs threatened, and had instituted extensive machinery to restrict the volume and raise the price of exports when such action was deemed expedient.[31] Domestic textile interests in the United States, however, received the announcement of the agreement with disappointment and skepticism, pointing out that, unlike the agreement limiting cotton rug imports, it specified neither a definite maximum total nor quotas upon individual classes. But by this time imports of Japanese cloth had dwindled from their peak in the early part of the year. Moreover, the domestic industry staged a rapid comeback in the latter half of 1935. Prices rose, output increased, profits reappeared, and apprehension over the threat of imports was somewhat allayed.

This voluntary limitation on Japanese shipments of cotton goods to the United States followed closely upon a "gentleman's agreement" previously negotiated over the Philippine market. Here American exporting interests for some time had pressed for higher protection against the invasion of Japanese cotton textiles. In the Philippine agreement, concluded in October 1935, Japan consented to limit

(31) Cf. William W. Lockwood, Jr., and M. Matsuo, "Export Control in Japan," *Far Eastern Survey*, August 28, 1935.

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exports to a definite maximum of 45 million square meters annually for two years beginning August 1, 1935, provided a threatened increase in Philippine tariffs failed to materialize. The arrangement gives Japanese exporters 42% of the Philippine piece goods market at its 1931-34 level, or a somewhat larger share if one excludes from consideration the American cloth re-exported in the form of embroidered wearing apparel. It thus represents a compromise between the heavy Japanese shipments of 1934 and 1935 and the smaller amounts of earlier years. As such, it failed to elicit an enthusiastic response from cotton textile interests in the United States. The State Department, they felt, had dealt too gingerly with the Japanese in defending markets that rightfully belong to American producers.

Neither of these arrangements for restricting Japanese textiles in the Philippine and American markets is permanent and conclusive in character. The former is limited to a two-year period, and the latter is indefinite in character. Moreover, both have been attended with practical difficulties in application. Imports of Japanese piece goods into the United States rose sharply in the first two months of 1936, which seemed to call into question Ambassador Saito's assurances of the previous December that there would be no more abnormal increases. In the Philippines, as well, misunderstandings and difficulties arose over heavy pre-quota shipments from Japan which were only recorded in the Philippine statistics late in 1935, and over the continuation of large shipments under the quota (followed by their suspension for ten weeks). More recently heavy transshipments of Japanese cotton textiles through Hongkong dealers and increasing sales of cheap rayon piece goods have threatened to nullify the benefits of the quota to American exporters.

These difficulties were in process of adjustment in the spring of 1936. The Japanese government was apparently finding it hard to control the volume and direction of textile exports. The United States government meanwhile was under strong pressure from domestic textile interests to enforce rigid restriction. Tariff Commission investigations of imports of cotton cloth and velveteens were under way, while domestic interests had filed application for quantity restrictions on both items under Section 22 of the Agricultural Adjustment Act and Section 5 of the Soil Conservation and Domestic Allotment Act. In the American market, there seems to be little likelihood in the near future that Japan will be allowed to expand her piece goods business appreciably. In the Philippines the future of American policy is uncer-

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tain. At present the United States, while curbing her own imports of Philippine produce and taking steps eventually to abandon political control over the Islands, is tentatively aligning herself with the other colonial powers who have recently moved to curb the influx of Japanese textiles and to reserve colonial markets for their own exporters.

Campaign for Export Subsidy

Tariffs, quotas or promises exacted from Japanese exporters under threat of such restrictions might assure to the American textile industry the retention of its domestic and colonial markets. But how is the industry to revive its market in foreign countries where such devices are of no avail? By 1935 total exports of cotton cloth from the United States were just one-third of their 1929 yardage. Reciprocal trade treaties might help in the course of time, but for the present at least they offered only slim aid in regaining the lost trade in cotton goods, however beneficial they might be in other lines. Loyal support of the Administration in its domestic recovery program had raised labor costs, argued textile representatives, and thus brought exports to an impasse. There was only one fair solution of the problem: direct export subsidy. This would counterbalance higher production costs, take a load off the domestic cotton goods market, stimulate employment and "honest-to-God" recovery, and incidentally help to dispose of the country's surplus cotton.

An energetic campaign to secure such a government subsidy was launched by the industry in the fall of 1935. Various plans were broached. For one of them the mechanism was already at hand. By an amendment to the Agricultural Adjustment Act Congress had recently vested the Secretary of Agriculture with discretionary power to use 30% of the customs receipts for several purposes including the encouragement of exports of agricultural commodities "and products thereof." Textile men had been influential in extending the statute to include the quoted phrase. Representatives of the industry now asked that $15 millions from this source be allocated to provide a bounty on exports of cotton goods to the amount of 7 cents per pound of net cotton content. It was hoped in this way to open "a highway for the distribution of cotton products around the world."

Officials of the Agriculture and State Departments, however, were unreceptive. The Cabinet committee which had recently investigated the cotton textile industry was already on record as opposed to export subsidy. This would be straight dumping. It would stimulate price

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cutting and retaliation by competitors in world markets. Anti-dumping duties would at once be applied in countries with textile industries of their own. As a matter of fact the United States Treasury at this very time was in the act of applying a countervailing duty on bounty-fed exports of rye from Poland. Moreover, why should the cotton textile industry be singled out for export subsidy? It already had high tariffs protecting its home market. Its labor costs had been raised under NRA more than those of many other industries, to be sure, but on the other hand they were still well below the average for American industry as a whole. Furthermore, the industry was already benefiting from extensive government purchases of textiles for relief distribution. Should the government now undertake to subsidize foreign consumers from tax revenues? Secretary Wallace frowned upon the subsidy proposal but did not officially close the door to some form of aid. As late as April 1936, however, none of the various plans proposed appeared to have made much headway.[32]

CONCLUSION

Problems of Adjustment

Japan's rapid advance in world trade in manufactures serves to underscore the general problem arising when sudden dislocations in established price and exchange relationships redistribute markets. Coming as it did at a time when competitive industries in other countries were already suffering from falling demand and redundant capacity, it laid upon these industries an added burden of readjustment. There are of course checks upon displacement of this sort, and some of it is undoubtedly temporary in character. But to some extent such a new-found advantage may be cumulative, rather than self-limiting. In an expanding industry, for example, it is a commonplace that greater volume may bring economies of operation and also large profits which facilitate new installations of modern equip-

[32] It may be noted, however, that in the case of wheat exports from the Pacific Northwest the United States engaged in export subsidy on a substantial scale in 1933 and 1934. In fact, this form of aid was recently revived with the announcement on February 29, 1936 that flour sales in the Philippine Islands would be subsidized with funds derived from customs receipts under the provisions of the above-mentioned clause of the Agricultural Adjustment Act. The announced intention is to dump 1,500,000 bushels (in the form of flour) in the Islands during a four-month period. It is hoped thereby to remove burdensome stocks of wheat and to recapture the Philippine market, which has suffered heavily of late from the competition of lower-priced foreign flour. Some of the competition came from Japan, though the bulk was Australian and Canadian.

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ment and further gains in competitive strength. Elsewhere conditions are likely to be just the reverse. Moreover, in the period under discussion certain recovery policies in the United States apparently tended further to weaken the international competitive position of some American industries, among them the cotton textile industry. Without minimizing the difficulty of making such readjustments and restoring some kind of equilibrium, it should be recalled that Japan's successful drive in world markets was itself the outcome in good part of violent disturbances in her own economy early in the depression, which set in motion a train of repercussions in subsequent years. In some degree, as well, Japanese trade expansion may be said to have represented a belated response to the steady pressure of expanding population through a decade or more.

Broad Characteristics of Trade

The period under review is in almost every respect a highly abnormal one. In both the United States and Japan it has witnessed an economic crisis of the first magnitude, followed by a measure of recovery. Long-run tendencies in industry, trade and governmental policy have been obscured by erratic movements which reveal little except the instability of both economic systems, and the increasing tendency toward state intervention in one form or another. Currencies have fluctuated widely; governments have pursued emergency policies in finance, production controls and the like; and various industries have found opportunities or faced barriers in international competition which were essentially impermanent in character. Under these circumstances, it is idle to attempt to distinguish the short run from the long run, the ephemeral from the enduring.

Nevertheless it may be observed that the broad characteristics of trade between the United States and Japan remain as they were. The exchange of raw cotton for raw silk remains the dominant feature. Recent years, however, have substantially altered the relative quantities, prices and values of the two as a result of relative shifts in demand and the contrasting agricultural policies pursued by the two governments. A number of lesser items in both import and export trade have also increased in volume since 1931 — a gain associated largely with the increased competitive strength of Japanese manufactures in world markets since the depreciation of the yen. But the direct effects of Japan's industrial expansion on direct trade between the two countries have been, on the whole, slight, except as Japanese

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industries have turned to the United States for increasing supplies of materials and equipment.

It thus appears that as a result of long-standing tariff policies and contrasts in the comparative advantage of the two countries the bulk of Japanese-American trade is still the exchange of raw materials and semi-manufactures which are non-competitive with the domestic products of the receiving country. The remainder consists principally of a few American products of large-scale mechanized manufacture in the United States and a variety of miscellaneous wares from Japan. Most of the latter are still the products of small-scale industries employing a good deal of hand labor engaged in comparatively primitive processes of production, though there is evidence in recent Japanese trade with the United States, as well as elsewhere, of rapid advances in the industrial arts and in capitalistic modes of production, especially as applied to the textile industries.

So far as competition in third markets is concerned, the trade of the two countries is largely non-competitive, though Japan's successful drive in cotton textiles has been an important factor in the decline of cotton goods exports from the United States. By comparison, however, the growth of trade barriers and currency restrictions in Europe, which showed little sign of abatement as late as 1935, has had much more to do with continuing overcapacity in American export industries as a whole. Notwithstanding the uncertainties of trade with China and the Philippines, there is little evidence so far that American industry need fear Japanese competition on a sizable scale in its present markets. Nor is there anything to suggest that the national economic interests of the two countries, as distinguished from minority group interests, stand in opposition to each other. The past decade, however, abundantly proves that the economies of both countries are thoroughly unstable. As long as this continues to be true, future economic and perhaps political relationships between the two are largely unpredictable.

Questions of Policy

To the extent that new possibilities have recently developed for importing Japanese manufactures into the United States, two questions of national policy are presented: first, whether the United States should take advantage of offers from Japan of cheap consumers' goods; and second, if such goods are to be admitted in increasing quantities, how best to readjust whatever dislocations may result in

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domestic industry. But there is also a larger issue of policy vis-à-vis Japanese trade. Is a country like Japan to be allowed to procure raw materials and foodstuffs abroad through the processes of peaceful selling in world markets (and for Japan this means especially the Pacific area), or, in the face of rising barriers against her goods in the United States, and in the British, Dutch and French empires, must she seek the extension of political controls abroad by armed conquest and other means in order to assure herself of access to necessary supplies? To call attention to this alternative is not to imply a justification of Japanese imperialism as practiced today; but there is little doubt that the unreceptiveness of the outside world to Japanese goods provokes a feeling of insecurity and offers an incentive and a rationale for attempts at empire-building.

The fact is that the principal threat to the ready acquisition of raw materials by industrial countries today lies not in particular raw material monopolies organized by primary producers, but in the inability of needy customers to export their own goods in payment for such supplies. This results from the recent breakdown of international exchange, and from the piling up of trade barriers fostered by the spread of economic nationalism and the pressure of rival industrial interests seeking competitive advantages in the domestic and foreign markets which their governments control. The tendency to the erection of preferential systems has recently received enormous impetus from the general collapse of the world's trade and monetary structure. To the two great producing areas, the United States and the Soviet Union, one with its high tariff and the other with its direct governmental control and restriction of foreign trade, has now been added what may be called the sterling bloc, with its preferential trade arrangements and its exchange stabilization. Elsewhere tariff preferences, quotas and clearing agreements have multiplied in cumulative fashion as the world has reverted steadily to the nationalistic and combative mercantilism of the seventeenth century.

Viewed in this perspective, the outstanding issue in American foreign policy today is whether the United States can, by minimizing her foreign contacts and locking up her resources for her own use, remain aloof from the confusion and abandon the rest of the world to its own devices, or whether she must inevitably be involved, and should consequently throw the weight of her influence into the task of orderly economic adjustment on an international scale, with whatever domestic readjustments that may entail.

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TABLE 5. UNITED STATES TRADE WITH JAPAN, 1924-35

(values in millions of dollars)

Year	General Imports			Exports (Including Re-exports)			Balance
	Total	Raw Silk	Other	Total	Raw Cotton[a]	Other	
1924	340	286	54	250	95	155	— 90
1925	384	318	66	228	121	107	—156
1926	401	329	72	261	108	153	—140
1927	402	334	68	258	123	135	—144
1928	384	318	66	288	129	159	— 96
1929	432	356	76	259	109	150	—173
1930	279	221	58	165	66	99	—114
1931	206	163	43	156	80	76	— 50
1932	134	106	28	135	86	49	+ 1
1933	128	92	36	143	87	56	+ 15
1934	119	70[b]	49	210	112	98	+ 91
1935	153	90[b]	63	203	99	104	+ 50

(*a*) Excluding re-exports.
(*b*) Imports for consumption.
Source: U. S. Department of Commerce, *Foreign Commerce and Navigation of the United States*, and other official sources.

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TABLE 6. PRINCIPAL COMMODITIES IN UNITED STATES TRADE WITH JAPAN, 1929-35

Imports	Unit	Quantity (thousands of specified units)			Value (thousands of dollars)		
		1929	1932	1935[a]	1929	1932	1935[a]
Total Imports (general)	....	....	....	....	431,873	134,011	152,886
Tuna fish, canned	lbs.	1,036[b]	5,061	7,113	141[b]	653	1,158
Crabmeat	lbs.	10,681	5,545	8,783	5,001	1,988	3,130
Mink furs	no.	752	918	1,010	2,104	754	980
Bristles, assorted and prepared	lbs.	244	224	338	566	318	1,088
Beans, dried	lbs.	39,529	1,543	8,077	2,143	26	153
Tea	lbs.	24,539	24,594	21,848	5,152	1,967	2,326
Camphor, natural, crude and refined	lbs.	5,590	2,833	2,798	2,349	871	921
Pyrethrum flowers	lbs.	8,815	11,062	15,148	2,013	1,207	1,989
Perilla oil	lbs.	2,193	8,613	42,183	253	273	2,605
Cotton floor coverings	sq. yds.	4,653	6,718	12,622	1,880	600	1,421
Cotton rags	sq. yds.	...[c]	10,182	24,466	...[c]	280	1,082
Cotton cloth	sq. yds.	1,217	7,287	36,475	189	363	1,728
Silk, raw	lbs.	69,759	69,137	63,769	356,122	106,188	90,039
Silk fabrics	lbs.	2,363	1,228	18,477[d]	6,721	1,364	2,061
Hats of straw, etc	no.	5,255	8,331	5,469	2,807	1,143	910
China, porcelain and earthenware	....	....	....	....	5,058	1,328	4,365
Electric lamps	no.	41,761	113,424	104,625	1,218	1,141	980
Toys, including dolls	....	....	....	....	1,321	788	1,736
Brushes	doz.	6,841	6,293	7,317	2,024	468	638
All others	....	....	....	....	34,811	12,291	33,576

(*a*) Preliminary. (*b*) Includes other fish in oil. (*c*) Not separately classified. (*d*) Square yards.

Exports	Unit	Quantity (thousands of specified units)			Value (thousands of dollars)		
		1929	1932	1935[a]	1929	1932	1935[a]
Total Exports (including re-exports)	....	....	....	....	259,128	134,921	203,260
Wheat, grain	bus.	7,003	218	....	8,515	117	....
Tobacco, leaf	lbs.	13,995	2,958	7,034	4,880	795	£,810
Cotton, raw	bales	1,101	2,249	1,518	109,399	85,921	98,587
Cedar logs, etc	bd. ft.	170,029	33,907	...[b]	3,731	550	...[b]
Douglas fir, sawed timber	bd. ft.	247,874	177,637	164,282	4,756	1,546	1,971
Douglas fir, boards	bd. ft.	128,047	38,969	15,927	2,358	358	202
Wood pulp	tons	10	22	120	553	1,082	6,783
Petroleum, crude	bbls.	2,476	4,877	10,433	2,911	4,895	11,745
Gasoline and naphtha	bbls.	913	987	699	5,038	2,686	1,655
Kerosene	bbls.	1,304	978	32	5,466	1,758	62
Lubricating oil	bbls.	282	183	280	3,299	1,544	2,411
Gas and fuel oil	bbls.	5,172	4,986	9,292	4,379	4,216	9,368
Iron and steel scrap	tons	208	164	1,082	3,090	1,325	12,336
Tin plate and terneplate	lbs.	138,457	15,809	48,269	6,988	580	1,874
Steel sheets, black	lbs.	56,949	1,776	3,336	1,933	80	128
Copper, refined	lbs.	7,954	448	105,257	1,596	34	7,807
Lead, pigs and bars	lbs.	32,609	40,439	10,648	1,584	826	364
Autos, passenger	no. [c]	5,408	2,778	9,943	3,892	1,518	4,819
Autos, trucks	no. [c]	3,448	2,961	10,086	2,226	980	2,834
Auto parts, except engines	....	....	....	....	12,611	2,115	...[c]
Sulphate of ammonia	tons	60	1	14	2,523	18	345
All others	....	....	....	....	67,400	21,977	37,159

(*a*) Preliminary. (*b*) Not available. (*c*) Not in 1000's.
Sources: U. S. Department of Commerce, *Foreign Trade of the United States*, and other official sources.

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TABLE 7. FOREIGN TRADE OF THE UNITED STATES AND JAPAN, 1935[a]

(values in millions of dollars)

	Exports from:				Imports into:			
	United States		Japan		United States		Japan	
	Value	Per Cent	Value	Per Cent	Value	Per Cent	Value	Per Cent
Total	2,282	100.0	717	100.0	2,047	100.0	704	100.0
Europe	1,028	45.1	75	10.5	599	29.3	101	14.2
North America[b]	330	14.4	2	0.3	293	14.3	15	2.1
Central America, Mexico and the West Indies	202	8.8	10	1.4	202	9.8	2	0.3
South America	174	7.6	21	2.9	281	13.8	12	1.7
Asia[c]	174	7.7	374	52.2	452	22.1	250	35.4
Oceania	74	3.2	27	3.8	26	1.3	71	10.1
Africa	96	4.2	53	7.4	41	2.0	20	2.8
Japan	203[d]	8.8	...	...	153	7.4	...	...
United States	...	...	154	21.4	...	...	232[d]	33.0

(*a*) To make the comparison of imports more accurate, a correction should be made for the fact that Japan's import values include insurance, freight and other shipping charges while those of the United States are f.o.b. port of shipment. If this were done, Japanese imports would be smaller relative to those of the United States. Other sources of minor inaccuracies need not be detailed, for they do not affect the validity of these broad comparisons.

(*b*) Excluding Mexico and the United States.

(*c*) Excluding Japan.

(*d*) The discrepancy between the figures for Japanese imports from the United States and United States exports to Japan arises chiefly from the fact that the former represents c.i.f. values, and the latter f.o.b.

Sources: *Monthly Summary of the Foreign Commerce of the United States*, December 1935; *Monthly Return of the Foreign Trade of Japan*, December 1935. Yen values converted to dollars at the average exchange rate for the year, 28.71 cents.

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