

MEMORANDUM
ON
JAPANESE
COMPETITION.
By T. E. GREGORY.

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PART. I.—ANALYSIS.

I.—THE NATURE OF THE PROBLEM.

1. Though "Japanese Competition" has featured conspicuously in the public discussions of the last two years as at least a partial—or, on the part of less cautious commentators, as a complete—explanation of the continuance of depression in certain industries and countries, it appears desirable to begin this memorandum by a somewhat closer definition than is usually attempted of precisely what is significant when the phrase is being used.

International competition is no new thing, though the growth of a world economy necessarily brings with it—along with international division of labour and of production—an increase in the number of *potential* areas of supply. The mere fact that the industrialisation of Japan should increase the pressure of competition in certain directions should not, and does not, constitute the essence of the problem under discussion: it is not even true that competition between the East and the West is something of recent growth. The opening up of the seaways to the East to Western traders first raised the issue of the danger to the indigenous textile industries of Europe of the importation of oriental products. The swamping of the Eastern "domestic" textile industries by the products of the factory industry of Lancashire was a phase of the very early days of the "industrial revolution." These episodes in the constantly changing relations between the East and the West have long since passed out of popular consciousness: but during the nineteenth century we have witnessed the growth of industrialism, not only in Japan but in India and in the coastal area of China as well. Whilst it would not be true to say that these developments were at all times regarded with unmixed feelings by the Western industries whose quasi-monopolistic position was affected, it is an historical fact that these historical events were compatible with a constantly increasing volume of international trade and of a constant expansion of the scale even of the industries most directly affected, as well as with a rise in the standard of life in East and West alike.

2. Mention of the standard of life brings one to the

second point which it is important to emphasise. The mere fact that a given area of potential supply has a lower "standard of life" furnishes no proof whatever of its superior competitive efficiency. The machine industries of the early nineteenth century found no difficulty in competing successfully with the industries of the East, in spite of the lower standard of life of these areas, any more than it has proved impossible for the highly paid workers of the U.S.A. to compete successfully in certain directions with the lower paid artisans of Europe. Moreover, the "differential" in favour of the East in this respect is by no means a new feature of the situation and, as already mentioned, the fact that the East had a lower standard of life did not prevent an expansion of competing industries in the West. The explanation is, of course, simply that in certain cases a lower standard of life is insufficient completely to compensate for a lower standard of skill: so that unit costs of production are actually higher in the lower standard country than in the country with the higher standard. (This fact is self-evident, but it may be pointed out here that a low standard of life *is in itself* presumption of relative inefficiency in production and therefore of high unit costs of production. If each country were self-sufficing, countries with a low average standard of life would soon clearly be seen to be also countries of relatively low productive efficiency—though this "low" efficiency would not necessarily reflect low absolute standards of *skill*. Obviously the situation is affected by natural resources and the pressure of population.)

Neither the fact of competition as such, nor the existence of lower standards of life in the East therefore constitutes the problem of "Japanese competition." The widespread alarm on the subject results from the conviction that the recent rapid growth of Japanese production reflects differential advantages arising partly from currency conditions, but mainly from the circumstance that the Japanese cost level for various reasons stands in by no means the same relation to the Japanese level of efficiency as the British cost level does to British standards of efficiency. This conviction sometimes finds expression in somewhat question-begging phrases, such as that which sums up the dynamic factor in Japanese competition as being the "starvation level of wages" ruling in that country. Such phrases, besides conveying an inaccurate idea of the facts of the case, fail also to convey the true nature of the problem. As already pointed out, a low level of wages by no means necessarily implies a low level of costs, or a high level of wages a high level of costs. It is true, of course, that the absolute level of Japanese wages is considerably lower than the absolute level of British wages,

even if "payments in kind" are included in the former, as in certain cases they must be. But it is not the resulting absolute differences in wages which are the important matter. What is significant is the fact that the differences in costs are greater than the differences in wages, so that costs are lower per unit of output in Japan, and the Japanese product can out the British product.

3. As so far defined, the significance of intensified Japanese competition consists in its reflection of the fact that two different civilisations with two very different standards of life are in direct competition with one another over a part at least of the field of production. Differences in unit costs of production which outweigh differences in wage-rates may of course be due to "natural" advantages, such as superior natural resources, easier access to markets or to sources of supply, and no doubt in certain branches of production such considerations cannot be wholly excluded when we are considering the case of Japan. But that Japan possesses no general or universal superiority in this respect is known: indeed the reverse is rather the case. The fundamental factor alleged is that the Japanese are capable of a high standard of output, approximating to, or superior to, that of the Western European countries, consistently with the retention of a consumption standard lower than that of the West. It is not at all the case that the Japanese standard is necessarily absolutely low, or that it has not risen during the period of Japanese industrialisation, or that it is not capable of rising in the future: but these considerations are not the decisive ones. The decisive consideration is the co-existence of a relatively high (and rising) standard of efficiency with a standard of life low in relation to that efficiency.

4. I do not think that the usual way of posing the problem of Japanese competition is completely satisfactory: in my judgment a different emphasis is required. The fact of intensified competition is not in doubt, but public opinion has become accustomed to seek the explanation of the lower level of unit costs in the abnormal lowness of the standard of life in the East, and to think solely in terms of relative standards of consumption. But it is equally consistent with the facts of the case to think of the standard of life as rising, but of efficiency rising still faster. The analysis above is consistent with this changed emphasis, but it alters the whole tone of the discussion if we cease to think so exclusively of the superior wage-level here and begin to think more of the changes in Japanese efficiency brought about by the more widespread use of mass production methods, integration of processes and the like—in other words, the adoption of

rationalisation in a very whole-hearted way by Japanese industry.* The low standard of life in Eastern countries is no new thing: it is a permanent element in the problem rather than a factor making for *intensification* of competition and it is with the intensification of competition rather than with the existence of competition that public opinion, rightly, is concerned. It may, of course, be the case that the Japanese level of wage costs is more flexible than our own and that the pressure to obtain employment (which is one of the indirect causes of a low standard) makes the Japanese workman more willing to make sacrifices in times of depression; but a flexible wage-system is not a direct product of a low standard of life. In fact rates of wages fell (average for 1926=100) to an average of 85.1 in 1933 and were still falling in the latter part of 1934.† Our own wage-reductions were, of course, much less significant. When an intensification of competition is under review, the reorganisation of industry and the fall of money-wages may be more important short-run dynamic factors than a low standard of life.

5. There remains another and vital factor to be taken into account: the influence of currency policy. Great Britain abandoned the gold standard in September, 1931, Japan at the end of the year. Had the yen, which on the average of 1931 was worth 2/2.021 sterling, merely fallen in terms of gold as fast as the pound, the abandonment of gold on the part of Japan would not have altered the competitive position of the two countries in neutral markets, but the yen in fact fell further than sterling. By the end of 1932 the sterling value of the yen was worth barely more than 1s. 3d. sterling: though from the beginning of 1933 onwards the sterling value has been stabilised in the neighbourhood of 1s. 2d. Whatever influence may have been or is still exerted by the decline in the external value of the Japanese currency

* Cf. the very significant remarks in the B.O.T. Report on Japan, 1932, s.v. "Rationalisation," and *The Thirty-fourth Financial and Economic Annual of Japan*, 1934, from which the following striking figures are taken:

| Coal | | | Cotton Spinning | | | | |
|---------------|----------------------|------------|------------------|------------|---------|---------|----------------------|
| | | | No. of Factories | Operatives | | | Metric tons produced |
| No. of Miners | Metric tons produced | Male | | Female | Total | | |
| 1923 | 278,000 | 29,000,000 | 177 | 38,000 | 144,000 | 182,000 | 343,000 |
| 1932 | 138,000 | 28,000,000 | 312 | 23,000 | 123,000 | 146,000 | 551,000 |

† *Mitsubishi Economic Circular*, February, 1935, p. 26.

on the international trade position, or on the domestic economy of the country, it cannot be said with justice that the Japanese have made a *progressive* use of currency depreciation in order to reap additional advantages.

6. Up to the date of the depreciation of the yen, Japan had felt the effect of the world-depression, if not to the same extent as other countries, yet sufficiently to affect markedly the various indices of reflecting economic activity. The volume of railway goods traffic (1921-5 average = 100) fell from 115 in 1929 to 89 in 1931: the Mitsubishi index of production (12 articles: 1927 = 100) fell from 120.6 in 1929 to 109 in 1931: employment (1926 = 100) fell from 91.1 to 74.5 and rates of wages from 98.6 to 91.3. From the beginning of the second half of 1931, however, a not inappreciable recovery took place, averaging about six per cent. *Recovery thus preceded the abandonment of gold.* During 1932, when depreciation was most rapid, the general index rose from 108 in January to 116 in December, or by approximately $7\frac{3}{4}$ per cent. In 1933-4, when depreciation in terms of sterling had come to an end, the index continued to rise from 122.2 approx. in January, 1933 to 139.8 approx. in October, 1934, or about 14 per cent. (Basis 1930 = 100: revised index of production: *Mitsubishi Bulletin.*)* That is, the rate of recovery did not vary appreciably before, during and after the period of depreciation. This in itself is sufficient to show that the recovery must in part have been brought about by other factors: some world recovery: orders from the Army in consequence of the operations in Manchuria, and similar measures, including the rationalisation efforts already referred to. It is not without significance that the improvement in the category "Producers' Goods" has been more marked than in the category "Consumers' Goods," the index of the former standing at 145.7 in October, 1934 and the latter at 133.0. The former includes raw silk, cotton yarn, rayon, woollen yarn, industrial chemicals, glass plate, cement, copper, iron, steel, coal, crude petroleum and sulphur: the latter index comprehends silk and cotton piece goods, paper, fertilizer, beer, refined sugar and wheat flour. A more rapid improvement in the category "Producers Goods" would seem to imply that the broad mass of the population has not yet increased its purchasing power in proportion to the decline in the value of the yen, and this fact is confirmed by the labour indices available. Actual earnings (average for 1926 = 100) were 90.7 on the average of January-October, 1934 as against

* Special article in the May, 1934, number, and February, 1935.

103.9 in 1929: wage-rates 83.0 against 98.6 and employment 90.4 against 91.1. The figures of actual earnings and of employment would appear to confirm the view that the rationalisation movement is in part responsible for the increase in the volume of production, and that currency depreciation is by no means the only factor to be taken into account.

7. But it is clear that, from the standpoint of international competition, the depreciation of the yen assisted to create favourable conditions, which have *persisted*, in part, if not in whole. A fall in the external value of a currency greater than is justified by a rise in the internal level of costs implies the under-valuation of a currency. It is sometimes urged that in so far as Japan is dependent upon imported supplies of raw materials, she must lose through the depreciation of the yen in one direction what she gains in another: but, except as regards commodities imported for domestic consumption, it is obvious that the selling price of exports in terms of yen will compensate for the higher cost (also in terms of yen) of the raw materials used in the manufacture of commodities which have previously had to be imported. Moreover, Japan is an important exporter of services, e.g. Shipping, her net earnings from this source amounting to 167 million yen in 1932. It is true that, in so far as a rising yen price for imported and domestically consumed commodities affects the cost of production—through a rise in the level of wages, for instance—a falling yen will not bring any, or at least not commensurate advantages with it, but so far there can be no question that the fall in the yen has been of advantage to Japan, *except* in so far as it has been an (indirect) contributory cause of the steadily mounting trade barriers and exclusions which have been so marked a feature of the present world-depression. Currency depreciation, in the case of Japan, as in the case of Great Britain, may have failed to do all that was hoped of it because the conditions for a successful use of this instrument for forcing expansion have not been present to the full extent.

II.—THE MAGNITUDE OF THE PROBLEM OF JAPANESE COMPETITION.

8.—It is with the intensity of Japanese international trade competition and not with the expansion of Japanese production that the world is directly concerned: and so much feeling has been roused by this question that it is highly important to get a clear picture of the whole situation. On

the basis of 1930=100, the index of exports in volume by the end of 1934 stood at 139.5 against an index of industrial production standing at 139.8 in October, 1934, but during the years 1931-1933 the growth in the *volume* of exports had at times much exceeded the growth in the volume of production as a whole: thus in the second half of 1932 the export index stood at 149.8 against a growth in the index of industrial production of only 11 per cent. approximately. So marked a rise may, however, lead to quite erroneous ideas, unless it is compared, not only with the state of affairs prevailing before the depression and subsequent recovery, but also with the state of affairs prevailing in the world as a whole. It is not the mere fact of an expansion of Japanese international trade which creates alarm, but the fact that it should have taken place during a period when the trade of the world was in general undergoing a considerable shrinkage. What people desire to know now is how far the relative position of different countries has been affected, and upon this problem the following table sheds considerable light:

I. *World Trade in Million Gold \$.**

| | 1929 | 1931 | 1932 | 1933 |
|------------------------------|--------|--------|--------|--------|
| I.—Total world trade: | | | | |
| Imports . . . | 35,601 | 20,818 | 13,996 | 12,485 |
| Exports . . . | 33,040 | 18,908 | 12,902 | 11,694 |
| II.—Imports: | | | | |
| United Kingdom . . . | 5,407 | 3,585 | 2,276 | 2,073 |
| U.S.A. . . . | 4,339 | 2,088 | 1,325 | 1,112 |
| Japan | 995 | 589 | 395 | 380 |
| III.—Exports: | | | | |
| United Kingdom . . . | 3,549 | 1,772 | 1,279 | 1,213 |
| U.S.A. . . . | 5,157 | 2,378 | 1,576 | 1,280 |
| Japan | 970 | 547 | 364 | 366 |

II. *Proportions of World Trade.*

| | 1929 | 1931 | 1932 | 1933 |
|------------------------|------|------|------|------|
| I.—Imports: | | | | |
| United Kingdom . . . % | 15.2 | 17.2 | 16.3 | 16.6 |
| U.S.A. . . . % | 12.2 | 10.0 | 9.5 | 8.9 |
| Japan % | 2.8 | 2.8 | 2.8 | 3.0 |
| II.—Exports: | | | | |
| United Kingdom . . . % | 10.7 | 9.4 | 9.9 | 10.4 |
| U.S.A. . . . % | 15.6 | 12.6 | 12.2 | 11.0 |
| Japan % | 2.9 | 2.9 | 2.8 | 3.1 |

* League of Nations, *Review of World Trade*, 1933, Table III., p. 18.

(a) From this table it would appear that the *net* effect upon the trade of the world of Japan's industrial and foreign trade recovery is less than is commonly thought. (Since Japan's foreign trade is included in the total of world trade, any considerable increase in that trade would of course increase the base upon which the percentage is calculated.) On balance, Great Britain's proportion of world exports has fallen between 1929 and 1933 by 0.3 per cent., and the Japanese proportion has gone up by 0.2; whereas in 1929 Japan's exports in value were equal to 27 per cent. approx. of those of Great Britain, by 1933 they were equal to nearly 30 per cent. of Great Britain's. The change is important, but it is not catastrophic.

(b) So far as comparison with pre-depression conditions is concerned, the average monthly value of Japanese exports is still below what it was at the height of the boom, though even in monetary value the figures are again nearing the pre-depression maximum of 1929. But account must be taken of the fall in the level of prices which has taken place since then and when this is done it will be seen that the actual *volume* of Japanese exports is considerably larger than it was in 1929.

| | Mill. Yen. | Price level of producers goods. | Trade at 1934 prices. | Index of growth. |
|------------------------------------------|---------------|---------------------------------------|-----------------------------|------------------------|
| Monthly average value of Exports 1929 | 179 | 167 | 135 | 100 |
| " " " 1933 | 155 | 133 | 147 | 109 |
| " " " 1934 | 181 | 126 | 181 | 134 |

(c) A growth in the *volume* of foreign trade measures the degree to which employment has been afforded to the local population: changes in the *value* of foreign trade measure the extent to which the country in question is able to pay off indebtedness, add to its overseas investments or buy from abroad the equivalent of what it has exported. From the standpoint of international competition, it is important to know whether the trade of a country shows signs of becoming more generalised, both as regards area and commodities. The direct substitution of the products of one country by that of another, though a test of the intensity of competition, is a very incomplete test: it is just as important to country A if country B replaces its products, previously exported to a certain area, by a dissimilar product. On the other hand, the growth of a country's exports to a given area, accompanied by the decline of exports to the same area from

another country, is no conclusive proof of real international competition, especially during a period of depression. For if the buying power of the importing area has diminished, in the absence of competing imports, or what are assumed to be such, it would in every case not have bought as much as before: the decline in imports from the old area of supply in that case may be rather the cause than the consequence of the imports from the new area of supply: just as, inside a particular country, the loss of income on the part of a certain social class may be the cause why it ceases to buy one kind of commodity and turns over to another. These considerations all point to the extreme necessity of caution in the handling of foreign trade figures.

Japanese foreign trade has undoubtedly spread over a wider geographical area since the depression: the figures in the table below show this very clearly:

Japanese exports (mill. yen)

| | 1929 | 1930 | 1932 | 1933 | 1934 (Jan.-Nov.) |
|-------------|--------|--------|--------|--------|------------------|
| Asia . | 915.2 | 704.0 | 677.6 | 921.0 | 1049.9 |
| Europe . | 147.2 | 128.0 | 125.8 | 191.7 | 214.6 |
| America . | 970.8 | 545.2 | 472.3 | 552.2 | 468.2 |
| All Other . | 115.4 | 92.7 | 133.0 | 196.1 | 230.1 |
| | 2148.6 | 1469.9 | 1408.7 | 1861.0 | 1962.8 |

% Distribution.

| | 1929 | 1930 | 1932 | 1933 | 1934 (Jan.-Nov.) |
|-------------|------|------|------|------|------------------|
| Asia . | 42.5 | 48.0 | 48.2 | 49.4 | 53.5 |
| Europe . | 6.9 | 8.7 | 8.9 | 10.3 | 10.9 |
| America . | 45.2 | 37.0 | 33.5 | 29.7 | 23.8 |
| All Other . | 5.4 | 6.3 | 9.4 | 10.6 | 11.8 |
| | 100% | 100% | 100% | 100% | 100% |

The most significant single factor which emerges from this table is the enormous decline in the significance of America as a market for Japanese products—primarily of course a by-product of the American depression. Japanese business with North America improved somewhat in 1933 as compared with 1932, but the *proportionate* improvement in

trade with other parts of America, as well as with Africa and Oceania has been much greater:

| | 1932 | 1933 | 1934 (Jan.-Nov.) |
|-----------------------|-----------------------|-------|------------------|
| | <i>(in mill. yen)</i> | | |
| North America . . . | 460.6 | 505.6 | 375.5 |
| Central America . . . | 5.1 | 16.2 | 38.9 |
| South America . . . | 13.1 | 30.4 | 53.8 |
| Africa | 85.7 | 137.2 | 162.6 |
| Oceania | 40.6 | 58.9 | 67.5 |

These "minor" areas have, therefore, absorbed 13 per cent. of Japanese exports in 1933 and 16 per cent. from January to November, 1934, a by no means insignificant rate of increase: nor can the trade of these areas be regarded as absolutely unimportant. Since it is these areas which represent the raw material states of the world, which have been most hard hit by the depression, it is precisely there that one would expect the low price of Japanese exports to have the greatest attractive power in the building up of new business.

(d) Considerable changes have taken place in recent years in the various categories of Japanese exports. Neglecting changes in prices, and considering only aggregate value, semi-manufactured articles and raw materials had decreased in importance, foodstuffs had recovered their pre-depression value by 1933 and the aggregate of finished goods had very considerably increased. It is notorious and is emphasised by the Japanese themselves that in this development textile goods of all kinds play a decided rôle.

*Index of Exports (1930=100).**

| | Index of Textile Produc- tion. | Woollen or Cotton | | | Silk and Rayon | | |
|---------------|-----------------------------------------|-------------------------|----------------------------|------------------|-------------------|-----------------|-----|
| | | Raw Silk. | Cotton Worsted Yarn. | Worsted Yarn. | Rayon. Goods | Piece Goods. | |
| 1st half 1931 | 107 | 98 | 41 | 72 | 97 | 89 | 86 |
| 2nd „ 1931 | 110 | 139 | 65 | 155 | 63 | 91 | 78 |
| 1st „ 1932 | 109 | 96 | 140 | 49 | 287 | 104 | 95 |
| 2nd „ 1932 | 117 | 137 | 161 | 369 | 175 | 155 | 125 |
| 1st „ 1933 | 121 | 92 | 89 | 374 | 168 | 132 | 126 |
| 2nd „ 1933 | 130 | 114 | 73 | 653 | 389 | 134 | 154 |
| Feb. 1934 | 141 | 105 | 95 | <u>393</u> | <u>673</u> | 156 | 165 |

(Index for silk and rayon piece goods based on value, others on volume.)

* *Mitsubishi Circular*, May, 1934, p. 10.

These figures are misleading if they are taken as guides to the present relative importance of the various branches of the textile industry: they are of great significance as indications of competitive trends. Japan is not confining herself to the older branches of the textile industry, silk and cotton, but is pushing vigorously into the newer field of rayon and what is to her a new industry, viz., woollens. She has pushed Great Britain into an inferior position as exporter of textiles* and between 1929 and 1932 increased her output of rayon from 6 to 12 per cent. of the world's output. The significance of these figures does not turn, however, exclusively upon quantitative magnitude: a great deal turns upon whether the market for a product is an expanding one, or whether the demand for a given commodity is inelastic, so that the expansion in the exports of one country is almost necessarily at the expense of the sales of another. To these considerations it will be necessary to return later.

(e) The important question is the extent to which in fact there has been a substitution of Japanese goods for the goods of other countries. It is known that Japan has been increasing her export of a large variety of miscellaneous products in the last two years; but the absolute quantity of most of these remains relatively small. Of the 1,963 million yen of exports in 1934 (January to November) over half belonged to the following categories:

| | | |
|-------------------------------|-------|-------------|
| Cotton piece goods | 445 | million yen |
| Raw silk | 261 | ” ” |
| Rayon piece goods | 101 | ” ” |
| Iron and iron manufactures . | 81 | ” ” |
| Silk piece goods | 70 | ” ” |
| Machinery | 52 | ” ” |
| Comestibles in tin and bottle | 47 | ” ” |
| Knitted goods | 43 | ” ” |
| | <hr/> | |
| | 1100 | ” ” |
| | <hr/> | |

No other category except canned goods amounted to more than 40 million yen, or over 2 per cent. of Japanese exports. No doubt, in particular cases, where the total world production of a commodity is not great, even small absolute amounts may represent a disturbing element in the market,

* Export of cotton textiles in million sq. yards:

| | <i>Japan.</i> | <i>Great Britain.</i> |
|------|---------------|-----------------------|
| 1930 | 1,572 | 2,500 |
| 1933 | 2,087 | 2,031 |
| | <hr/> | <hr/> |
| | + 515 | - 469 |

but, except as symptoms of Japanese capacity to extend the range of her productions, the significance of some of these exports, rapid as the growth may have been in recent years, can easily be exaggerated.

(f) An attempt to measure the degree of substitution in a single market in the case of some Japanese exports has recently been made in the League of Nations publication, *Review of World Trade*,† from which the following table is taken :

Imports into India.

| | FROM JAPAN. | | | | | FROM OTHER COUNTRIES. | | | | |
|---------------------------------------------------|-------------|------|------|-------|------|-----------------------|------|------|------|------|
| | 1928 | 1929 | 1931 | 1932 | 1933 | 1928 | 1929 | 1931 | 1932 | 1933 |
| Piece goods : Rayon (mil- lion yds.) | 2.1 | 16.2 | 72.1 | 106.9 | 65.8 | 56.7 | 30.9 | 10.9 | 9.4 | 9.5 |
| Do. : natural silk | 12.6 | 13.6 | 9.9 | 22.9 | 31.7 | 10.0 | 9.1 | 9.3 | 7.9 | 7.0 |
| Electric Bulbs for Torches (million pieces) | — | — | 1.0 | 6.4 | 7.3 | — | 0.9 | 2.1 | 1.7 | 0.9 |

The comment made is worth quoting, since it emphasises a point of great importance: "The figures suggest that the expansion of Japanese exports has sometimes—as in the case of artificial silk manufactures—taken place at the expense of other countries, while in other cases it is reflected mainly in an increase in the quantity of goods entering into trade. It would appear that some of the Japanese exports are not directly competing with the higher priced goods of other countries, but are opening up new markets in the sense of inducing people to buy who never bought before. To the extent that this is so, these exports are beneficent to all the parties involved, particularly to the producers of raw materials, the demand for which accordingly increases. Between 1929 and 1933, the gold value of Japanese imports, which mainly consist of raw materials, fell less than that of Japanese exports, and the share of Japanese imports in world imports rose more than that of Japanese exports in world exports."

† Edition of 1934, p. 32.

III.—SUMMARY.

1. The intensity of Japanese competition is generally attributed to the existence of a relatively low standard of life in that country, but this in itself would constitute no proof that unit costs of production are lower in Japan than elsewhere. The important point is the relationship between standard of life and standard of efficiency, and available evidence points to this relationship being affected rather by technical improvements (rationalisation) than by inability of the Japanese standard to change. In any event, differences in the standards of life between East and West are permanent factors in the world situation: what has to be explained is the growth in the *intensity* of competition.

2. The recovery in Japan began in 1931, *before* the depreciation of the currency, and continued in 1933, *after* the process of depreciation had been brought to an end. Currency depreciation, therefore, cannot be regarded as the *sole* cause of the intensified pressure which has been felt in the last two years. But, so long as internal costs have not responded to the lowering of the external value of the yen, even a single year of depreciation may have powerfully assisted the process of external expansion, though it may not be the unique cause of expansion.

3. There is very general exaggeration of the part played by Japan in the aggregate of world trade, and a tendency to overlook the quantitative superiority of the part played by Great Britain.

4. Japanese export trade, to the extent of nearly 50 per cent., is concentrated in the East; the part played by North America has declined and there has been a fairly rapid proportionate growth in the trade to outside areas, but the trade is still a small proportion of the whole.

5. Textiles continue to be overwhelmingly important in Japanese exports, but textiles now include a wider range than formerly, in consequence of the development of rayon and woollens. Nevertheless, the actual quantitative significance of these "newer" products can be exaggerated.

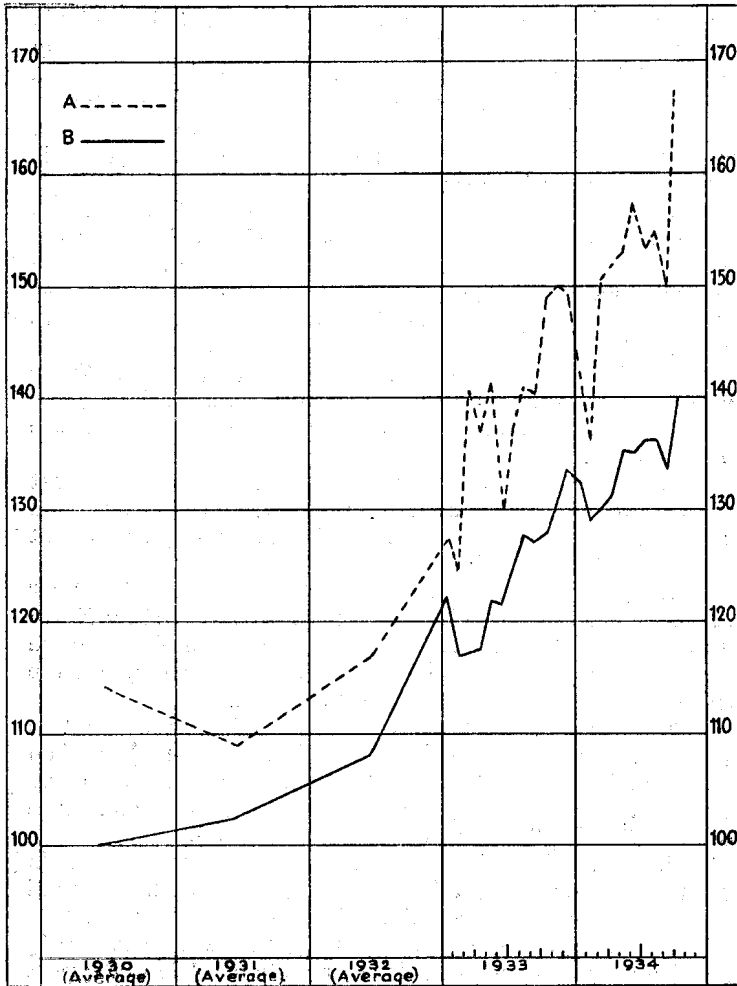
6. There have been striking proportionate increases in other commodities also, but their significance in the total export trade is actually smaller than is usually imagined.

7. The growth in the exports of Japan is not necessarily proof of the growth of intensified competition. Allowance must be made for the nature of the market to be served and the type of commodity involved: a matter to be more fully investigated in a later section.

GENERAL INDICES OF PRODUCTION.

A = Simple index, 12 Articles, 1927 = 100.

B = Weighted index, 26 Articles, 1930 = 100.



GENERAL INDICES OF PRODUCTION.*

| | A. <i>Simple Index,</i> 12 Articles 1927 = 100 | B. <i>Weighted Index,</i> 26 Articles 1930 = 100 |
|--------------|---------------------------------------------------------|-----------------------------------------------------------|
| 1930 Average | 114.2 | 100.0 |
| 1931 Average | 109.0 | 102.4 |
| 1932 Average | 116.8 | 107.9 |
| 1933 January | 127.6 | 122.2 |
| February | 124.5 | 116.8 |
| March | 140.7 | 117.3 |
| April | 136.9 | 117.5 |
| May | 141.4 | 121.9 |
| June | 129.8 | 121.5 |
| July | 137.3 | 125.0 |
| August | 141.1 | 127.7 |
| September | 140.5 | 127.2 |
| October | 148.9 | 127.9 |
| November | 150.1 | 130.5 |
| December | 149.4 | 133.5 |
| 1934 January | 144.3 | 132.4 |
| February | 136.0 | 129.2 |
| March | 150.3 | 130.1 |
| April | 152.0 | 131.4 |
| May | 153.2 | 135.3 |
| June | 157.1 | 135.1 |
| July | 153.2 | 136.1 |
| August | 154.8 | 136.1 |
| September | 150.0 | 133.6 |
| October | 166.7 | 139.8 |

* From the *Mitsubishi Economic Research Bureau's Monthly Bulletin*, February, 1935.

INDEX OF INDUSTRIAL PRODUCTION. (COMMODITIES)

(1930=100)

| | | Raw silk†* | Cotton yarn* | Rayon Yarn | Wool- len yarn | Silk piece goods | Rayon piece goods | Cotton piece goods* | Caustic soda | Bleach- ing powder | Paper | Super- phos- phate of lime | Sulphate of am- monia | Cyana- mide | Soda ash‡ | |
|------|-----------|---------------|-----------------|---------------|----------------------|------------------------|-------------------------|---------------------------|-----------------|--------------------------|-------|-------------------------------------|-----------------------------|----------------|--------------|-------|
| 1931 | Jan. ... | 150.5 | 97.1 | 112.5 | 108.6 | 89.7 | 130.0 | 96.6 | 104.9 | 101.3 | 95.3 | 76.9 | 111.5 | 57.0 | 141.0 | |
| | Feb. ... | 123.1 | 95.1 | 112.2 | 112.7 | 90.4 | Av. for yr. | 96.3 | 101.2 | 93.4 | 99.0 | 77.2 | 119.4 | 54.2 | Av. for yr. | |
| | Mar. ... | 89.9 | 95.5 | 119.8 | 122.1 | 108.1 | | 93.7 | 104.8 | 85.9 | 94.9 | 89.9 | 120.2 | 43.7 | | |
| | April ... | 67.9 | 96.1 | 120.4 | 134.3 | 106.8 | | 97.1 | 98.8 | 74.3 | 101.2 | 90.7 | 129.0 | 39.6 | | |
| | May ... | 99.0 | 98.9 | 127.3 | 136.9 | 100.0 | | 100.3 | 109.5 | 79.9 | 99.5 | 96.7 | 136.1 | 34.8 | | |
| | June ... | 109.5 | 100.7 | 129.1 | 126.9 | 91.8 | | 101.6 | 115.8 | 77.9 | 96.9 | 89.2 | 234.0 | 48.0 | | |
| | July ... | 112.0 | 106.5 | 134.9 | 136.1 | 111.7 | | 105.7 | 117.0 | 77.7 | 98.3 | 76.6 | 275.7 | 63.6 | | |
| | Aug. ... | 106.4 | 109.0 | 139.9 | 140.7 | 119.1 | | 109.0 | 121.4 | 78.1 | 99.3 | 67.6 | 287.4 | 55.9 | | |
| | Sept. ... | 107.1 | 108.1 | 138.6 | 143.7 | 109.8 | | 104.3 | 114.9 | 85.2 | 97.0 | 59.7 | 292.2 | 48.1 | | |
| | Oct. ... | 104.1 | 106.2 | 146.4 | 133.0 | 124.6 | | 104.9 | 114.4 | 76.1 | 95.1 | 76.7 | 315.5 | 62.5 | | |
| | Nov. ... | 104.6 | 103.5 | 133.5 | 128.5 | 117.1 | | 103.4 | 117.3 | 81.5 | 98.4 | 84.2 | 315.8 | 74.8 | | |
| | Dec. ... | 103.1 | 103.8 | 146.0 | 154.8 | 133.5 | | 101.9 | 115.5 | 79.7 | 92.8 | 93.4 | 308.3 | 122.3 | | |
| 1932 | Jan. ... | 109.9 | 111.0 | 135.2 | 126.5 | 97.5 | 189.0 | 106.5 | 115.6 | 81.0 | 91.6 | 101.6 | 296.0 | 45.4 | 161.0 | |
| | Feb. ... | 103.7 | 112.3 | 146.2 | 133.2 | 90.5 | Av. for yr. | 107.3 | 120.9 | 88.9 | 92.1 | 109.0 | 285.5 | 54.4 | Av. for yr. | |
| | Mar. ... | 95.4 | 112.1 | 161.3 | 149.1 | 100.3 | | 160.0 | 107.2 | 123.3 | 90.6 | 121.6 | 293.8 | 64.7 | | |
| | April ... | 76.5 | 111.9 | 166.8 | 142.1 | 101.1 | | 174.0 | 107.8 | 120.6 | 84.6 | 96.1 | 242.2 | 60.7 | | |
| | May ... | 69.3 | 109.4 | 180.4 | 145.8 | 106.6 | | 197.0 | 105.4 | 127.3 | 85.6 | 97.0 | 274.7 | 78.2 | | |
| | June ... | 69.9 | 112.2 | 183.3 | 156.8 | 103.4 | | 188.0 | 108.8 | 126.1 | 88.1 | 94.3 | 285.5 | 85.7 | 143.0 | |
| | July ... | 81.9 | 112.8 | 186.5 | 147.6 | 98.6 | | 193.0 | 111.1 | 127.3 | 87.6 | 95.9 | 80.3 | 295.0 | 72.5 | 149.0 |
| | Aug. ... | 95.8 | 113.2 | 190.7 | 145.8 | 128.2 | | 197.0 | 114.3 | 121.9 | 90.4 | 96.0 | 79.9 | 317.3 | 64.5 | 137.0 |
| | Sept. ... | 102.3 | 111.1 | 191.4 | 152.8 | 131.3 | | 209.0 | 114.9 | 124.2 | 91.7 | 97.3 | 81.7 | 296.7 | 89.1 | 148.0 |
| | Oct. ... | 100.0 | 109.2 | 197.4 | 156.3 | 119.9 | | 227.0 | 113.4 | 136.6 | 97.3 | 98.1 | 89.6 | 245.2 | 91.2 | 177.0 |
| | Nov. ... | 97.0 | 109.9 | 205.0 | 167.0 | 124.1 | | 224.0 | 113.8 | 139.2 | 131.2 | 98.3 | 104.3 | 236.7 | 86.2 | 176.0 |
| | Dec. ... | 97.7 | 110.9 | 205.3 | 176.7 | 129.7 | | 226.0 | 114.9 | 145.6 | 139.6 | 99.4 | 109.4 | 240.4 | 99.8 | 188.0 |

| | | | | | | | | | | | | | | | |
|------|-----------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 1933 | Jan. ... | 93.4 | 119.3 | 204.3 | 153.8 | 94.1 | 195.0 | 116.2 | 153.8 | 157.3 | 100.5 | 113.7 | 248.4 | 108.8 | 207.0 |
| | Feb. ... | 86.9 | 119.5 | 203.9 | 157.5 | 80.5 | 150.0 | 119.4 | 149.7 | 146.5 | 99.0 | 109.2 | 212.7 | 79.9 | 197.0 |
| | Mar. ... | 81.3 | 118.7 | 213.7 | 173.7 | 107.8 | 210.0 | 118.1 | 155.5 | 149.9 | 101.0 | 122.7 | 252.1 | 104.1 | 230.0 |
| | April ... | 87.3 | 120.1 | 220.1 | 168.4 | 109.3 | 218.0 | 122.4 | 159.4 | 130.5 | 103.4 | 105.7 | 278.5 | 91.6 | 225.0 |
| | May ... | 94.3 | 118.8 | 248.7 | 173.0 | 127.4 | 210.0 | 118.4 | 158.0 | 117.1 | 106.0 | 101.1 | 303.3 | 120.5 | 242.0 |
| | June ... | 99.8 | 121.1 | 255.7 | 181.5 | 105.9 | 213.0 | 120.4 | 142.7 | 92.2 | 97.6 | 93.8 | 324.3 | 103.6 | 237.0 |
| | July ... | 99.2 | 122.1 | 266.3 | 182.0 | 103.5 | 210.0 | 123.1 | 156.3 | 105.3 | 105.6 | 93.9 | 339.7 | 75.6 | 224.0 |
| | Aug. ... | 94.7 | 124.7 | 272.6 | 182.2 | 127.6 | 217.0 | 128.1 | 167.9 | 129.8 | 105.9 | 88.3 | 328.5 | 98.9 | 201.0 |
| | Sept. ... | 91.0 | 125.5 | 267.1 | 189.8 | 113.1 | 221.0 | 121.3 | 166.2 | 135.5 | 109.1 | 82.5 | 306.6 | 100.4 | 223.0 |
| | Oct. ... | 89.2 | 126.5 | 274.9 | 172.0 | 113.6 | 248.0 | 119.6 | 168.6 | 144.7 | 110.0 | 98.2 | 294.0 | 133.6 | 228.0 |
| | Nov. ... | 88.0 | 128.2 | 285.3 | 184.0 | 121.4 | 236.0 | 120.2 | 161.3 | 152.2 | 115.5 | 116.6 | 278.9 | 137.1 | 233.0 |
| | Dec. ... | 128.2 | 128.4 | 305.1 | 185.5 | 128.4 | 208.0 | 120.1 | 169.4 | 139.9 | 113.6 | 116.4 | 276.0 | 120.2 | 259.0 |
| 1934 | Jan. ... | 142.0 | 131.0 | 297.0 | 155.0 | 95.0 | 185.0 | 122.0 | 152.0 | 130.0 | 109.0 | 119.0 | 272.0 | 103.0 | 289.0 |
| | Feb. ... | 142.0 | 132.0 | 306.0 | 165.0 | 103.0 | 158.0 | 125.0 | 138.0 | 118.0 | 111.0 | 106.0 | 252.0 | 62.0 | 249.0 |
| | Mar. ... | 102.0 | 129.0 | 356.0 | 178.0 | 125.0 | 235.0 | 124.0 | 163.0 | 125.0 | 104.0 | 116.0 | 281.0 | 77.0 | 290.0 |
| | April ... | 90.0 | 132.0 | 383.0 | 169.0 | 131.0 | 277.0 | 128.0 | 169.0 | 120.0 | 114.0 | 110.0 | 266.0 | 136.0 | 289.0 |
| | May ... | 97.0 | 132.0 | 404.0 | 168.0 | 127.0 | 295.0 | 126.0 | 176.0 | 139.0 | 114.0 | 102.0 | 359.0 | 108.0 | 296.0 |
| | June ... | 94.0 | 135.0 | 403.0 | 180.0 | 115.0 | 296.0 | 129.0 | 177.0 | 150.0 | 117.0 | 88.0 | 360.0 | 56.0 | 309.0 |
| | July ... | 92.0 | 139.0 | 396.0 | 171.0 | 126.0 | 289.0 | 132.0 | 181.0 | 148.0 | 118.0 | 105.0 | 339.0 | 62.0 | 236.0 |
| | Aug. ... | 84.0 | 143.0 | 415.0 | 181.0 | 139.0 | 295.0 | 138.0 | 180.0 | 137.0 | 123.0 | 80.0 | 311.0 | 50.0 | 263.0 |
| | Sept. ... | 87.0 | 139.0 | 394.0 | 180.0 | 123.0 | 280.0 | 131.0 | 171.0 | 145.0 | 119.0 | 68.0 | 353.0 | 106.0 | 269.0 |
| | Oct. ... | 83.0 | 146.0 | 409.0 | 168.0 | 145.0 | 318.0 | 131.0 | 179.0 | 192.0 | 122.0 | 79.0 | 356.0 | 136.0 | 321.0 |
| | Nov. ... | 85.0 | 147.0 | 410.0 | | | | 133.0 | 180.0 | 187.0 | 123.0 | | | | |
| | Dec. ... | | 146.0 | 426.0 | | | | 133.0 | 185.0 | 170.0 | 123.0 | | | | |

* Adjusted for seasonal variation.

† Moving average for 3 months.

‡ Revised Index.

INDEX OF INDUSTRIAL PRODUCTION. (COMMODITIES)
(Contd.)

(1930=100)

| | | Glass-plate | Cement* | Beer* | Refined sugar† | Wheat flour | Gold | Silver | Copper | Iron | Steel | Coal* | Crude petroleum | Sulphur |
|------|-----------|-------------|---------|-------|----------------|-------------|-------|--------|--------|-------|-------|-------|-----------------|---------|
| 1931 | Jan. ... | 74.3 | 98.7 | 88.8 | 99.5 | 89.9 | 104.7 | 104.2 | 91.3 | 86.4 | 69.0 | 96.0 | 101.7 | 94.2 |
| | Feb. ... | 95.4 | 99.4 | 112.3 | 85.6 | 85.5 | 121.8 | 108.6 | 97.3 | 81.0 | 80.4 | 94.7 | 95.8 | 88.3 |
| | Mar. ... | 99.6 | 99.8 | 111.7 | 82.8 | 105.8 | 108.8 | 101.1 | 99.9 | 88.7 | 84.9 | 90.1 | 106.1 | 91.7 |
| | April ... | 99.0 | 99.7 | 91.7 | 84.8 | 122.4 | 110.5 | 115.6 | 103.0 | 84.3 | 91.4 | 90.6 | 104.7 | 93.7 |
| | May ... | 114.3 | 97.5 | 91.0 | 83.4 | 110.5 | 114.0 | 108.4 | 98.1 | 89.4 | 90.4 | 85.8 | 107.2 | 98.8 |
| | June ... | 100.3 | 95.7 | 87.6 | 89.5 | 88.2 | 105.6 | 97.6 | 93.7 | 88.8 | 88.2 | 88.1 | 100.5 | 96.4 |
| | July ... | 92.5 | 96.6 | 78.0 | 103.6 | 102.1 | 106.4 | 97.2 | 96.1 | 89.0 | 82.4 | 90.0 | 104.1 | 102.0 |
| | Aug. ... | 96.5 | 96.2 | 93.3 | 102.7 | 114.9 | 104.2 | 102.4 | 88.5 | 87.2 | 76.2 | 86.8 | 100.6 | 101.1 |
| | Sept. ... | 102.7 | 99.2 | 93.8 | 83.5 | 100.1 | 110.3 | 109.2 | 96.0 | 86.8 | 84.9 | 89.0 | 94.6 | 97.7 |
| | Oct. ... | 108.1 | 91.2 | 109.3 | 61.1 | 94.1 | 108.1 | 113.3 | 97.5 | 83.2 | 92.5 | 86.8 | 95.7 | 102.5 |
| | Nov. ... | 121.8 | 93.1 | 76.5 | 57.0 | 88.4 | 106.3 | 107.4 | 95.3 | 79.3 | 83.7 | 80.1 | 87.9 | 98.7 |
| | Dec. ... | 118.5 | 90.7 | 96.5 | 71.6 | 94.4 | 105.9 | 104.5 | 95.4 | 76.4 | 92.6 | 79.6 | 88.3 | 104.4 |
| 1932 | Jan. ... | 116.7 | 91.4 | 114.8 | 73.4 | 84.5 | 100.1 | 93.2 | 91.0 | 86.8 | 91.4 | 93.2 | 88.3 | 109.8 |
| | Feb. ... | 123.4 | 98.7 | 186.9 | 81.0 | 85.8 | 104.7 | 94.1 | 94.0 | 85.3 | 106.1 | 93.3 | 81.3 | 104.9 |
| | Mar. ... | 122.4 | 101.4 | 109.2 | 63.4 | 105.6 | 118.1 | 103.5 | 96.8 | 97.3 | 109.1 | 93.9 | 86.3 | 116.4 |
| | April ... | 100.1 | 100.3 | 71.6 | 61.5 | 85.6 | 107.0 | 94.5 | 87.5 | 97.0 | 105.9 | 90.3 | 82.8 | 116.5 |
| | May ... | 100.6 | 100.4 | 65.8 | 49.5 | 104.2 | 104.0 | 95.2 | 92.2 | 97.2 | 114.0 | 90.8 | 87.0 | 131.6 |
| | June ... | 78.1 | 96.1 | 86.5 | 65.0 | 115.2 | 103.0 | 95.2 | 90.9 | 100.5 | 105.4 | 90.1 | 81.6 | 137.3 |
| | July ... | 71.6 | 89.4 | 91.9 | 67.3 | 109.8 | 110.3 | 107.4 | 89.0 | 98.2 | 94.0 | 87.8 | 86.5 | 145.1 |
| | Aug. ... | 61.0 | 93.0 | 94.0 | 64.0 | 110.7 | 110.8 | 105.9 | 83.1 | 85.4 | 91.7 | 87.2 | 84.4 | 153.0 |
| | Sept. ... | 93.8 | 97.3 | 83.2 | 50.6 | 99.0 | 111.9 | 109.9 | 93.8 | 80.9 | 105.1 | 85.5 | 78.7 | 144.2 |
| | Oct. ... | 104.9 | 102.6 | 99.0 | 51.7 | 101.4 | 115.9 | 110.4 | 94.5 | 85.5 | 115.7 | 84.8 | 79.4 | 159.5 |
| | Nov. ... | 104.4 | 105.7 | 129.0 | 68.1 | 97.6 | 114.0 | 114.3 | 89.9 | 94.5 | 126.2 | 83.6 | 75.4 | 156.9 |
| | Dec. ... | 133.5 | 116.5 | 130.1 | 74.6 | 114.9 | 106.4 | 103.0 | 91.1 | 108.8 | 137.0 | 85.4 | 77.8 | 161.2 |

| | | | | | | | | | | | | | | |
|------|-----------|-------|-------|-------|------|-------|-------|-------|-------|-------|-------|-------|------|-------|
| 1933 | Jan. ... | 135.3 | 117.1 | 228.2 | 70.4 | 100.5 | 106.1 | 98.0 | 86.6 | 107.9 | 117.1 | 95.1 | 76.1 | 160.1 |
| | Feb. ... | 130.7 | 116.3 | 165.2 | 65.6 | 103.8 | 104.2 | 97.5 | 84.4 | 99.5 | 124.9 | 102.8 | 66.5 | 149.5 |
| | Mar. ... | 131.5 | 126.8 | 88.7 | 73.7 | 118.8 | 119.0 | 118.9 | 101.4 | 116.3 | 142.0 | 100.6 | 73.7 | 169.1 |
| | April ... | 110.2 | 130.4 | 86.4 | 73.3 | 113.8 | 115.7 | 118.3 | 88.0 | 113.7 | 129.6 | 98.6 | 71.3 | 167.3 |
| | May ... | 117.0 | 135.9 | 114.2 | 67.5 | 115.8 | 117.0 | 113.5 | 86.9 | 118.7 | 144.5 | 101.3 | 74.4 | 183.3 |
| | June ... | 115.4 | 116.8 | 123.1 | 74.7 | 114.6 | 113.3 | 105.9 | 83.6 | 124.4 | 135.1 | 102.1 | 70.9 | 184.8 |
| | July ... | 109.6 | 124.5 | 135.2 | 93.8 | 131.4 | 120.3 | 118.5 | 82.1 | 126.1 | 126.5 | 101.5 | 73.9 | 195.7 |
| | Aug. ... | 109.4 | 131.1 | 129.8 | 98.9 | 126.2 | 115.0 | 107.1 | 83.2 | 125.6 | 132.2 | 107.6 | 73.1 | 195.8 |
| | Sept. ... | 118.8 | 136.1 | 158.1 | 95.0 | 118.0 | 134.9 | 136.3 | 85.4 | 124.8 | 137.9 | 104.1 | 70.6 | 192.9 |
| | Oct. ... | 138.5 | 135.0 | 153.4 | 83.5 | 121.5 | 131.4 | 131.8 | 98.0 | 132.6 | 155.1 | 105.8 | 73.5 | 209.3 |
| | Nov. ... | 173.0 | 133.9 | 164.8 | 84.0 | 108.7 | 126.5 | 115.5 | 86.3 | 137.6 | 148.8 | 106.0 | 69.8 | 196.5 |
| | Dec. ... | 176.6 | 125.2 | 148.9 | 71.4 | 124.4 | 125.5 | 133.3 | 88.5 | 144.7 | 148.7 | 105.3 | 71.7 | 204.5 |
| 1934 | Jan. ... | 164.0 | 125.0 | 133.0 | 68.0 | 111.0 | 115.0 | 120.0 | 78.0 | 145.0 | 144.0 | 119.0 | 71.0 | 184.0 |
| | Feb. ... | 147.0 | 123.0 | 103.0 | 57.0 | 104.0 | 121.0 | 125.0 | 83.0 | 128.0 | 142.0 | 123.0 | 63.0 | 175.0 |
| | Mar. ... | 155.0 | 132.0 | 91.0 | 65.0 | 109.0 | 131.0 | 135.0 | 92.0 | 145.0 | 167.0 | 123.0 | 69.0 | 207.0 |
| | April ... | 147.0 | 134.0 | 92.0 | 69.0 | 109.0 | 130.0 | 143.0 | 93.0 | 144.0 | 173.0 | 118.0 | 70.0 | 214.0 |
| | May ... | 147.0 | 137.0 | 116.0 | 74.0 | 120.0 | 119.0 | 128.0 | 79.0 | 148.0 | 163.0 | 117.0 | 75.0 | 219.0 |
| | June ... | 153.0 | 124.0 | 127.0 | 75.0 | 104.0 | 123.0 | 130.0 | 87.0 | 145.0 | 215.0 | 112.0 | 76.0 | 215.0 |
| | July ... | 119.0 | 126.0 | 147.0 | 92.0 | 130.0 | 127.0 | 124.0 | 90.0 | 135.0 | 163.0 | 107.0 | 82.0 | 236.0 |
| | Aug. ... | 84.0 | 128.0 | 139.0 | 93.0 | 145.0 | 133.0 | 142.0 | 87.0 | 141.0 | 173.0 | 109.0 | 86.0 | 237.0 |
| | Sept. ... | 120.0 | 123.0 | 115.0 | 92.0 | 126.0 | 141.0 | 142.0 | 88.0 | 141.0 | 162.0 | 107.0 | 80.0 | 234.0 |
| | Oct. ... | 161.0 | 137.0 | 134.0 | 70.0 | 143.0 | 135.0 | 136.0 | 93.0 | 157.0 | 178.0 | 111.0 | 84.0 | 256.0 |
| | Nov. ... | | 136.0 | 145.0 | | | | | 82.0 | | | 106.0 | | |
| | Dec. ... | | | 119.0 | | | | | | | | | | |

* Adjusted for seasonal variation.

† Moving averages for 3 months.

EXPORTS OF PRINCIPAL COMMODITIES (JAPAN PROPER).

YEN 1000.

| | Jan.-Nov. | Whole Year | |
|-------------------------------------------------|-----------|------------|---------|
| | 1934 | 1933 | 1932 |
| Rice and paddy | 8,208 | 2,124 | 4,786 |
| Beans and pease | 7,883 | 7,161 | 5,905 |
| Wheat flour | 24,558 | 34,955 | 20,539 |
| Fresh and dried vegetables | 6,470 | 4,888 | 4,230 |
| Fruits and nuts | 4,141 | 4,325 | 2,881 |
| Tea | 8,831 | 8,450 | 8,173 |
| Refined sugar | 12,591 | 14,909 | 7,797 |
| Aquatic products | 14,433 | 10,302 | 7,757 |
| Colle or isinglass, vegetables | 3,123 | 3,199 | 3,166 |
| Comestibles in tin and bottle | 46,823 | 46,984 | 22,774 |
| Beer | 5,324 | 7,684 | 4,835 |
| Vegetable fatty oils | 10,849 | 8,300 | 5,297 |
| Fish oil and whale oil | 2,817 | 2,529 | 3,234 |
| Hardened oil | 4,385 | 4,940 | 4,221 |
| Soap | 3,251 | 3,203 | 1,197 |
| Dried plants for insectifuge | 6,867 | 6,350 | 4,752 |
| Camphor | 4,222 | 4,445 | 3,541 |
| Menthol cristal | 4,219 | 5,284 | 3,690 |
| Cotton yarns | 21,095 | 15,712 | 21,547 |
| Woollen or worsted yarns | 11,413 | 5,293 | 1,697 |
| Raw silk | 260,958 | 390,901 | 382,366 |
| Spun silk yarns | 4,351 | 2,067 | 3,010 |
| Rayon yarns | 20,957 | 9,483 | 5,911 |
| Cotton piece goods | 445,205 | 383,215 | 288,713 |
| Woollen piece goods | 26,892 | 12,377 | 4,481 |
| Silk piece goods (incl. cotton mixtures) | 70,217 | 63,545 | 50,288 |
| Rayon piece goods (incl. mixed) | 101,122 | 77,382 | 60,540 |
| Rags | 8,030 | 6,328 | 5,348 |
| Cotton blanket | 4,899 | 3,662 | 1,709 |
| Carpets and carpetings | 5,238 | 5,924 | 3,202 |
| Silk handkerchief | 3,935 | 2,464 | 1,403 |
| Cotton handkerchief | 3,659 | 3,646 | 1,764 |
| Cotton towel | 6,532 | 6,041 | 3,824 |
| White shirts, stiffened | 3,990 | 4,005 | 2,243 |
| Knitted goods | 42,774 | 42,047 | 26,935 |
| Hats, caps and bonnets | 15,894 | 13,927 | 7,713 |
| Boots, shoes, clogs | 19,754 | 29,630 | 20,666 |
| <i>Rubber boots and shoes</i> | 3,067 | 8,213 | 4,890 |
| <i>Other</i> | 16,687 | 21,417 | 15,776 |
| Buttons | 8,646 | 7,749 | 5,863 |
| Jewellery for personal adornment | 8,836 | 8,367 | 5,435 |
| " Kimono " | 11,095 | 9,177 | 4,951 |

| | Jan.-Nov. | Whole Year | |
|--------------------------------------------|-----------|------------|--------|
| | 1934 | 1933 | 1932 |
| Papers | 18,556 | 17,687 | 14,022 |
| Potteries | 37,578 | 35,634 | 22,937 |
| Glass and glass manufactures | 17,208 | 15,327 | 9,282 |
| Cement | 7,651 | 7,395 | 8,546 |
| Coal | 9,634 | 14,158 | 13,451 |
| Iron (including waste or old) | 48,808 | 34,666 | 12,278 |
| Copper | 7,583 | 6,457 | 10,518 |
| Brass | 6,843 | 5,498 | 3,740 |
| Insulated electric wire | 6,643 | 4,598 | 1,997 |
| Iron manufactures | 32,147 | 26,897 | 14,193 |
| Vehicles and parts thereof | 32,986 | 19,503 | 7,128 |
| Gum tyres | 8,995 | 8,839 | 4,378 |
| Machinery and parts and accessories | 51,757 | 25,857 | 10,943 |
| Wood | 21,833 | 18,638 | 11,329 |
| Plaits | 7,193 | 7,205 | 3,228 |
| Brushes | 4,679 | 4,453 | 2,928 |
| Lamps and parts thereof | 14,371 | 15,863 | 12,754 |
| Toys | 27,489 | 26,375 | 15,119 |
| Matches | 2,649 | 3,249 | 938 |

PART II.—REMEDIAL MEASURES.

IV.—JAPAN'S FUNDAMENTAL PROBLEM.

Any attempt at a reasonable solution of the problem of Japanese competition—if any solution is possible at all—requires us to consider, not only what in the interests of Great Britain should be done or not done, but also what it is reasonable to expect of Japan, in view of the actual circumstances in which she is placed. The problem of Japanese competition is in part a special problem of Great Britain, in so far as one is considering the position of particular British industries: but it is also in part a European problem, in so far as Japanese goods enter into competition with the products of other countries, and the feelings of antagonism which have been roused in recent months have been by no means confined to Great Britain. One has consequently to take into account, not only the direct effects of what action we undertake upon Japan and upon ourselves, but also the international repercussions—including, therefore, a discussion of the desirability of replacing single action on our part by joint action on the part of European governments or action by particular groups of producers, internationally

organised. No action can be justified which rests simply upon prejudice and which fails to take account of Japan's fundamental problem. That is the problem of population.

The nature of that problem and its relation to the problem of Japanese competition are very frequently misunderstood. In the first place, the Japanese population problem is *not a question of an ever-increasing birth-rate*; in the ten years 1922-1932 there is, if anything, a slight downward trend in the *birth-rate*. During the same period of time there has, however, been a not inconsiderable *rise* in the survival rate, *i.e.* the excess of births over deaths (with an expanding population with a somewhat rising standard of life this is to be expected). The actual annual increase has risen from some 760,000 in 1922 and was in the neighbourhood of 1,000,000 per annum in 1932. The total population is expanding, and the problem of Japan is to find employment, not for *potential* births, but for *people already born*. How is this growing population to be employed?

A. It remains an open scientific question whether the mass migrations of the European populations of the nineteenth century have really resulted in reducing the density of population in Europe or whether, by leaving "room" for others, at a time of great industrial advances, such emigration movements did not in the end actually stimulate the growth of population. However that may be, emigration as a remedy for Japanese population pressure hardly comes into the picture, and that for obvious reasons: the greater part of the world is closed to effective mass emigration by Japanese subjects and, even if it were not, there appear to be considerable psychological difficulties in the way of inducing Japanese to emigrate upon a large scale; both causes explain why, in spite of an increase in the population of Japan proper between 1922 and 1932 of 10.3 millions, accompanied by an increase in the density of population²⁵ of 26.9 per square kilometre (from 153.3 to 180.2), the number of Japanese subjects residing abroad only increased from 674.5 thousands to 762.6 thousands between 1927 and 1929 and actually fell to 672.3 thousands in 1932 (though the depression itself no doubt plays a great rôle in the absolute fall). It is useless to look to the Japanese "colonial" empire as a source of relief; for over the areas over which Japan has sway the immigrant has to contend with indigenous inhabitants or with Chinese competing immigrants with an even lower standard of life than the Japanese.*

B. Nor can relief be found in the intensification of

* Figures from 34th *Financial and Economic Annual of Japan*.

land-settlement. Fifty-four per cent. of the Japanese population are already associated with agriculture, forestry and fisheries occupationally as compared with 7 per cent. in England and Wales, 35 per cent. in Canada and 22 per cent. in the U.S.A. Of the 5.6 millions of farm households, 5 millions were engaged in the cultivation of holdings under 1.98 hectares in area, or less than 4.8 acres.* It is quite obvious from the figures that the area of Japan being limited, the scope of land settlement is also limited: any rationalisation of agriculture in the technical sense would involve a decrease in the number of cultivators and an intensification of the problem of industrialisation. It is, indeed, notorious that the low standard of life of the Japanese farming population is one of the standing political as well as economic problems of Japan.†

C. Why cannot the increasing population of Japan be employed in directly raising the standard of life of the Japanese people? In every advancing Western community, the provision of "services" (including clerical work, distribution and the amusement industries) is absorbing a growing proportion of the population as the advance of technique makes it possible to carry out industrial operations with a smaller number of persons or hours of work per unit of output. Why should one not find the same to be true of Japan?

The answer is a twofold one. Given an increasing pressure of population upon a limited area of land, one would expect to find, in any case, an increasing necessity of importing foodstuffs: this is true even if the standard of life remains a traditional one, so far as the dietary is concerned, whereas in Japan this does not appear to be entirely the case. Apart from this, however, the absolute standard of life in Japan is by no means so high as to justify the view that the next step in evolution should not rather be the improvement of the *per capita* consumption of material things rather than in an increasing consumption of services exclusively. But any improvement in the standard involves an increase in the volume of imports and these imports have to be paid for. Japan has no accumulated capital assets abroad, interest upon which can be expected to provide the basis for a large volume of imports without a corresponding volume of exports. We reach the conclusion that the rise in the standard of life in Japan, which

* *Statistical Abstract of the Japanese Ministry of Agriculture and Forestry, 1932/3 (1934), p. 3, and p. 192.*

† G. C. Allen in *International Affairs*, Vol. XIII., No. 4, pp. 548/52.

is so ardently desired by many as a means of checking the expansion of Japanese exports, is much more likely to be a cause of increasing them: for Japan has not the natural resources available out of which to provide for the rising standard. In any case a rising standard of life, as indicated by an increased *per capita* consumption of "services," is not in the least inconsistent with a simultaneous increase in the consumption of material objects, in the manufacture of which foreign imports have entered and which have to be paid for by a growing volume of exports.

This fact—the necessity for imports—is a very important one, which is constantly overlooked, both as an element in Japan's economy and as an element which must be taken into account in considering the repercussion of any remedial or restrictive measures on ourselves and upon the world as a whole.* The Japanese balance of trade is normally "unfavourable": between 1898 and 1933 (inclusive) the only years in which this was *not* true were the war years 1915-8 and the years 1906 and 1909. It is true that since 1929 the absolute excess of imports has been considerably reduced; but until 1932 the excess per head of the population actually increased,† *viz.* :

* Figures later than 1932 are not yet available for Japan's balance of payments. The following table (which comprehends Japan proper, Formosa and Korea) represents a re-worded extract from the League of Nations' publication, *Balances of Payments 1933* (Geneva, 1934), p.113 *et seq.*

| | 1928 | 1929 | 1930 | 1931 | 1932 |
|-------------------------------------------|------|------|------|------|------|
| Excess of Imports | 332 | 164 | 155 | 142 | 57 |
| „ Interest payments abroad | 24 | 20 | 25 | 24 | 38 |
| „ of Exports of Services | 347 | 184 | 180 | 166 | 95 |
| „ „ Payments to be provided for | -172 | | -27 | -58 | +56 |
| Do. to be received | | +19 | | | |
| Imports of Capital | 117 | | | | |
| Exports „ „ | | 57 | 295 | 314 | 329 |
| Net Export of Gold | - | - | 287 | 388 | 112 |

The gold movements as well as the capital exports of 1930 and 1931 are clearly abnormal and stand in relation to the world depression and apprehensions as to the future of Japanese currency.

† *Financial and Economic Annual*, 1933 (33rd issue), p. 124.

| | | | |
|--------------------------|------|-----|------|
| Excess <i>per capita</i> | 1929 | yen | 1.02 |
| | 1930 | „ | 1.14 |
| | 1931 | „ | 1.30 |
| | 1932 | „ | 0.32 |
| | 1933 | „ | 0.82 |

It is certainly too early to prognosticate as to the future course of the balance of payments or of the balance of trade, even if these concepts were ultimate categories of the problem in hand, which they certainly are not. Enough has been said however to show that Japan is as important a factor in the world market as a buyer as she is as a seller: that really is the relevant point when remedial measures are being considered.

V.—SOME FUNDAMENTAL ECONOMIC ISSUES.

1. The fact that Japan is a buyer as well as a seller has a significance which is not always fully grasped. It means that the raw material States of the world will not necessarily welcome measures designed to restrict Japanese competition, even though it be true that some "transfer" of demand between the various competing countries requiring raw materials is possible. I take as an example the purchases by Japan of South American wool. If barriers are put upon Japanese exports of woollens it seems tempting to say that this will not harm South American wool exporters: "what Japan does not take, others now will; just as the increase in Japanese exports has merely meant a restriction of wool exports to older manufacturing areas." But this argument would only be true on the assumption that the total world demand for woollen goods is fixed in amount: if the absolute quantity of woollen goods sold is affected by the price at which they are disposed, the net quantity of raw wool disposed of *will* be affected. It might be the case that the net and gross receipts of wool growers selling a smaller quantity of wool are as great as if they sell a larger quantity: that depends on the "elasticity of demand" for wool. But if Japan, by selling cheaper woollens, actually increases total world demand and therefore increases total demand for wool (especially the aggregate demand for the coarser qualities), without the price of wool being lowered in proportion to the increases in sales, the wool growing countries as a whole would suffer in their incomes. The ultimate result might be that the burden of restriction would be borne by those whose market is restricted by the diminished buying power of the wool-growing areas.

2. It is, from the purely business standpoint, useless

to deprive Japan of markets in which she has acquired a footing through the cheapness of her products if the effect of raising the price is to destroy the market. It must not be overlooked that over a large part of the world a whole series of commodities, which play a relatively small part in the total expenditure of Western nations, are just beginning to be introduced. To prevent Japan selling cheaply commodities like rubber boots or electric torches to Indian peasants is not to conserve a market which we would otherwise have retained, but simply to prevent the growth of new consumers' habits, which, when once ingrained, would enable sales to be made later on on the basis of improved quality.

3. Even if Japan is not a direct buyer on a large scale of the products of a particular area, it is not desirable that anti-British sentiment should be worked up on the ground that we are depriving the "local consumer" of the chance of buying a commodity cheaply, unless we are fairly certain that the resentment so caused will not, in the long run, destroy the British market. [Cf. the recent protests in the case of Ceylon.]

4. A uniform treatment of all Japanese goods and all Japanese markets thus appears *intrinsically* undesirable. The case for restriction appears greatest, if there is a case for restriction at all, where (a) the demand is inelastic, so that there is a *real* transfer from one area of supply to another; (b) the local community is not itself largely dependent on sales to Japan, so that the action will not meet the united opposition of both buyers *and* sellers; (c) where the industry at home is an old-established one upon which the prosperity of a large and not easily transferable population is dependent and one, moreover, which cannot fairly be alleged to be indulging in monopolistic practices at the expense of consumers.

5. The expediency of any restrictive action must also turn upon certain wider considerations. (a) The course of the world depression. The social and economic consequences of the impact of intensified competition will necessarily be more severe the more intense the general depression; for, the longer the depression lasts, the greater will be the difficulties experienced in transferring labour and capital to new and alternative employments. (b) The intensity with which the competition is pressed. Naturally the *first* impact of the new competition is always felt most severely, since no time has been allowed for adjustment, and the very pessimism engendered by the new competition is in itself a factor militating against adjustment. It may be suggested that in both these respects the situation has improved rather than

deteriorated in the last few months ; one of the signs of which is the lessening of excitement on the subject of Japanese competition.

VI.—EXPEDIENCY AND ECONOMIC THEORY:

A SUMMING UP.

1. It is not the case that accredited economic theory denies that in certain cases and under certain conditions protective tariffs or other restrictive measures "pay" in the sense of enabling a particular area or a given group of producers to maintain or to gain a higher income than would have been possible without resort to these devices. Nor is it any part of accepted theory to deny that shifts in public demand or in relative costs of production may in certain cases result in the deterioration of the position of a given area or industry. Nor is it any part of the theory of economics to determine the ultimate social ideal which should govern policy. Particular areas (*e.g.* Lancashire) or particular industries might on balance gain by the annihilation of Japanese competition—though possibly at the expense of the local consumer* and possibly not to the degree which might be anticipated. What is more doubtful is the extent to which the interests of the collectivity is served by measures which, admittedly, might benefit particular sections. What economic theory in general denies is that restrictive policies which serve particular interests are necessarily consistent with the general interest. Neither statesmen nor business men have the right to assume that what may be true in a particular case must necessarily be true of all cases taken together.

2. A general and universal displacement of the products of one country by those of another in their mutual trade is an economic impossibility. Given a *general* advantage of Japan over Great Britain in the production of every conceivable commodity (for which no evidence whatever exists), it is still not the case that this advantage is uniform quantitatively over the entire range of existent products ; still less that it is uniform over all possible commodities. It follows that the most that could be expected from a general superiority (as regards costs) of Japanese over British industry is a redistribution of the articles imported and exported by the two countries. From the standpoint of Japanese self-interest, it simply does not pay to produce

* Damaging the purchasing power of the local consumer may simply mean that some other industry which *might* have obtained increased custom is now deprived of its opportunities.

those things in the production of which Japanese advantages are (relatively) least—it will pay her to concentrate upon the production of those things at which her advantages are (relatively) greatest. The actual concentration, geographically and industrially, of Japanese economic effort confirms this *a priori* analysis.

But, it may be asked, what reason is there to suppose that the *a priori* arguments derived from general economic “theory” will be confirmed by the arrangements of the existent world? It may be pointed out therefore, explicitly, that the reason why countries are *constrained* to confine their industrial activities, in general, to those in which their relative advantages of production are greatest, results from the repercussions in the field of exchange rates and international prices. Supposing that Japan were really to be able to undersell the rest of the industrial nations, the effect would necessarily be to turn the exchanges *very* sharply in her favour and therefore to reduce the attractiveness of buying *some* Japanese goods. But which goods? Naturally those at which Japan’s advantage over the rest of the world was least. *These* would then be bought by Japan because the very factor, *i.e.*, the rise in the world value of the yen, which caused them to be more expensive would make *some* goods in the outside world now cheaper to Japanese buyers, owing to the fall in the yen value of outside currencies. By the same line of reasoning, supposing the world were back upon an international gold standard, universal undercutting on the part of Japan would simply result in a drain of gold to Japan on a very large scale. This would necessarily have a deflationary effect upon the rest of the world, and an inflationary effect upon Japan, with again the inevitable consequence of reducing the attractiveness, from the standpoint of the outside, of buying those particular Japanese products whose costs of production were least below those ruling Japan.

3. In considering the question of Japanese competition, three broad alternatives are open to this country :

- (1) Leaving economic forces to work themselves out ;
- (2) Restrictive measures ;
- (3) Co-operation with Japanese interests.

These measures are not entirely inconsistent with one another. A *laissez-faire* policy in general does not altogether exclude the possibility of agreements between particular groups of producers in the Empire and in Japan, but they would, presumably, be arrived at without Government pressure on either side. Again, restrictive measures in the case of particular areas or particular articles are not incon-

sistent with co-operation with Japanese interests in other directions, though naturally, as a matter of *tactics*, it may be better to leave restrictive measures in abeyance if they impede negotiation; or, alternatively, it might be considered advisable to push on with them if it is considered that they serve as a useful weapon for bringing agreement about. Such tactical considerations are for the statesman and the business man to consider; they do not, as such, fall within the ambit of the economic consideration with which this memorandum is primarily concerned.

4. To leave economic forces to work themselves out does *not* imply the abandonment of a tariff policy by Great Britain. It *does* imply the absence in this country and in those parts of the Empire under her control of any *special discrimination* against Japanese products. No doubt the fact that Japan is a serious competitor may influence the course of British tariff policy, even if no special measures are taken. On the other hand, the policy does imply also that, if a particular Japanese industry can manufacture a product, or a range of products, at a lower per unit cost and is selling in competition with this country, the Japanese product will capture the market. Can such a policy, involving such consequences, be justified? Its intellectual bases, at any rate, can be set forth.

(1) The first point to make clear is that industry is much more specialised and detailed than appears at first sight. The transference of a given range of production from one country to another is not tantamount, without further proof, to a demonstration that the whole industry must be transferred from one country to another. The continuance of the industry in *both* countries is perfectly consistent with an alteration in the distribution of grades and qualities of products between the two. Indeed it is notorious that throughout the last third of the nineteenth century and the opening years of the present one a change in the distribution of grades of cotton products turned out in the East and in Lancashire was consistent with an aggregate growth of world production as a whole. The more "advanced" country simply pushed its production still more in the direction of the finer end of the trade. Thus the loss of a "market" in a particular species of a given product is by no means tantamount to a loss of the industry altogether.

(2) The loss of the industry as a whole must, however, be frankly faced. The obvious disadvantages of such loss have already been referred to in paragraph 4 above. Specialised skill and specialised capital suffer prolonged, perhaps permanent, unemployment, and the resultant suffering and loss are only partly to be assessed in terms of the

economic calculus. The supporters of the view represented in this section would, however, urge that the chances of alternative employment, both for labour and capital, are increased if consumers are deliberately allowed to buy the cheaper product. This is so, not only because a consumer, once having become accustomed to a product, *may* be induced to buy a better article of the same kind as his circumstances improve, but because, if his purchase allows him a margin of income which he can now devote to additional consumption of *something*, this margin in fact affords the source from which new industries can draw the demand for their products.

(3) The upholders of this view would be inclined to say that it is only by the process outlined above, *i.e.*, the freeing of a margin of purchasing power that new industries can arise successfully at all. They would say that it is impossible to tell in advance what will be the kind of things which will be asked for; that must be left to time and circumstance, *i.e.*, to technological changes and the changing views of consumers, to decide. But they would say that to *prevent* change by restrictions having the effect of keeping prices up is not to solve the problem but only to postpone the solution. History shows that new industries constantly do arise and that the most advanced countries, those with the cheapest capital and the most varied resources in the way of skilled labour of many kinds, are in the best position to take advantage of industrial advances, provided they wish to do so.

(4) So far as Anglo-Japanese difficulties are caused by the special problem of cotton textiles, the upholders of this view would argue that to allow the tone and temper of British policy to be decided by this industry alone (important as it is) is to mistake the whole tendencies of the time. As new industrial competitors arise, they naturally take up the simpler industries first, and Japan's threat to the superiority of Lancashire is merely a striking illustration of a more general phenomenon. The shrinking of the market in agricultural produce (partly the result of artificial measures of various kinds, but primarily to be connected with population changes) in the West cannot be prevented: it has as its natural consequence some degree of "industrialisation" of the new areas. They will turn over to the simpler branches of the cotton and woollen industries in any case. Seen from this angle, the best policy for the more advanced industrial areas is to push forward as far as possible with the development of the newer industries, trusting to the growing standard of life—as in the future as in the past—to provide these new industries with markets. The positive policy to which such a point of view leads needs hardly to be explicitly stated: it is a policy

of world pacification and of adaptation to the trends of world production. How far objective world conditions can be held to justify hopes of this kind is another matter: but it is important to note that belief is itself an element in that objective world situation. It is because erroneous opinions, not only upon matters of fact, but also upon the relatively simple principles which underlie international trade and the evolution of economic institutions, are widely entertained, that pessimism is so widespread. In any case, a refusal to accept a particular policy on the ground that it offends public opinion or is in conflict with other ends also regarded as desirable, is no proof that, *if applied*, it would not attain its objective.

5. Restrictive measures fall into two not very clearly distinguishable categories, *viz.*, tariffs on the one hand and prohibitions and quotas on the other. The much discussed abrogation of the unlimited form of the Most Favoured Nation Clause is, of course, a method of legal discrimination, but its effect is negative rather than positive in the first instance. The mere refusal of most favoured nation treatment only involves a positive disadvantage to the nation deprived of it, if its refusal is accompanied or followed by some method of differentiating between the *duties* imposed upon goods coming from different sources of supply, or if the *amounts* admitted into a particular area from outside are varied according to country of origin. The important preliminary question raised by the suggestion that most favoured nation treatment be refused to Japan is simply, how far the general retention of treaties containing the unlimited form of the clause is desirable in the general interests of Great Britain and the Empire. In so far as the retention of the clause inhibits discriminatory action and to the extent that such action is regarded as desirable, the sacrifice of principle will have to be made. But then, in addition to the specific consequences of the discriminatory action itself, the possible general effect of the partial or complete abandonment of the most favoured nation clause on the part of Great Britain must be taken into account. To pursue this issue would be to transcend the direct subject-matter of this memorandum.

Tariffs and quotas (including prohibitions under the last) differ from one another primarily in the degree of certainty which they afford to the country practising discrimination. It is always possible, by means of export subsidies or exchange depreciation, or both combined, to neutralise in whole or in part the effect of a given tariff rate. Prohibitions and quotas define the situation accurately. Given the desirability of discrimination, the latter are more effective

than the former: but the mere technical superiority of the one over the other is not of course evidence of the desirability of discrimination *per se*.

The disadvantages of a policy of discrimination must be frankly faced. They appear to be four in number. In the first place, there is the danger of retaliation. It is possible to discriminate against Japan; but it is *also* possible for Japan to discriminate. So far as Great Britain herself is concerned, the balance of advantage is in all probability in her favour, *i.e.*, the markets under Great Britain's control are of greater potential importance to Japan than Japanese markets appear likely to be to Great Britain, so that a "tariff war," whilst inflicting losses on both sides, would probably inflict the greater losses upon Japan. Nevertheless, it is desirable to take indirect as well as direct losses into account: in so far as Japanese raw material imports were checked drastically as a consequence of a check to her exports, part of the consequential loss would be transferred to Great Britain through a reduction of sales to areas whose incomes were affected by a reduction of the prices of raw material exports. Secondly, there is the danger that Japanese competition in all neutral markets (especially the Far East and the South American States) would be intensified; so that the net effect of discrimination would be not a diminution of Japanese competitive pressure, as such, but only its concentration in particular areas. Thirdly, there is the danger of rousing resentment in those areas subject to British jurisdiction where the consumer, in consequence of discrimination, is now forced to pay a higher price. Fourthly, there is the danger that in checking Japanese imports into a given market, no particular benefit will result to the British manufacturer, simply on the ground that at the prices at which he can lay his product down, demand is too restricted; whereas if a cheaper Japanese product were allowed to be sold, there is the chance that (a) the cheapness of the Japanese product will allow a margin for the purchase of other (including British) goods; (b) the introduction even of an inferior (though cheaper) article may help to create higher standards of life from which British manufacturers may in the long run also benefit.

The question of discrimination cannot be disposed of without reference to three further considerations, somewhat wider in character than those previously referred to. Firstly, the immediate and short-run pressure which could be exerted upon Japan would undoubtedly be strengthened in proportion as the area in which she were discriminated against were increased. A general European coalition against Japan, still more a European-American coalition against Japan, would

most certainly subject her people to great economic suffering, since such a united policy would involve not only the European-American mainland, but also large parts of Africa and Asia. Whether such a united policy could ever be attempted, in the present era of exaggerated international suspicions, is more than doubtful moreover. It would certainly not be accomplished without mutual compensations which it would not be easy to arrange and would also involve loss to exporters to Japan and the areas under its control, a fact which must not be lost sight of.

Such a policy, secondly, could hardly be carried out without greatly increasing the danger of war upon a great scale. It is hardly to be expected that a great Power, with an expanding population largely dependent upon importations of raw materials and exports of manufactured goods, will submit to a throttling of its overseas markets without making a vigorous attempt to carve out for itself an area under its own control where it would be immune from interference and which would compensate it, if not fully, at least to some extent for losses elsewhere. If war were to break out—say over China—it could not altogether without justification be represented as the alternative to economic extinction; the more desperate the outlook for Japan, the fiercer the conflict would be likely to prove. In a world of warring and conflicting racial feelings, even the remote contingency of such an outcome of an economic policy should be very carefully weighed.

There is some danger, also, of overlooking that a policy of discrimination does not in any way *remove* the grounds of complaint which are brought forward as the short-run justification for the policy. "The recovery of a great foreign market will generally more than compensate the transitory inconvenience of paying dearer during a short time for some sorts of goods." So wrote Adam Smith a century and a half ago, but he added: "To judge whether such retaliations are likely to produce such an effect, does not perhaps belong so much to the science of a legislator whose deliberations ought to be governed by general principles which are always the same, as to the skill of that insidious and crafty animal, vulgarly called a statesman or politician, whose councils are directed by the momentary fluctuations of affairs. Where there is no probability that any such repeal can be procured, it seems a bad method of compensating the injury done to certain classes of our people, to do another injury ourselves, not only to those classes, but to almost all the other classes of them." Is a lower standard of life in Japan reflected (in certain cases) in lower production costs, one of those factors which can be

removed by discrimination? On the contrary: it is certain that serious economic pressure upon Japan, produced by discriminative measures, must lead to a depression of the Japanese standard of life and therefore to an *accentuation* of competition. No doubt it might be possible to offset the increased intensity of this competition by increasing measures of discrimination, but the outlook in that case would not be a particularly comforting one.

6. The alternative *positive* policy consists in a policy of co-operation with Japanese interests. Such co-operation may consist in:

i. Reservation of particular areas to the producers of the two countries—the policy of the geographical “clean-cut.”

ii. Reservation of the manufacture of particular grades of a given commodity or the entire manufacture of particular commodities to the industrialists of each country—the policy of the functional “clean-cut.”

iii. The policy of contingents, *i.e.*

(1) The fixing of maximum or minimum *absolute* amounts to be consigned to particular areas by the nationals of each country into a particular market.

(2) The fixing of a *proportion* of total imports into a particular market which may be supplied by the nationals of each country.

It is obvious that these alternatives are not completely exclusive, but the important matter at stake is not the drawing up of a comprehensive list of detailed possibilities, but the expediency of the principle of co-operation and the major considerations to be borne in mind in discussing that principle.

(I.) The first point is obviously concerned with the practicability of such arrangements from the standpoint of the two parties concerned. There is inequality of bargaining power, though such bargaining power is less unequally distributed than appears at first sight. For, if in general Japan possesses the advantage of greater vigour and ambition and also (*ex hypothesi*) lower costs, Great Britain possesses the advantages of greater financial power, a command over the fiscal policy of wide areas and older-established connections in many parts of the globe. Moreover, as has already been shown earlier, the cost advantage of Japan is capable of gross exaggeration and is certainly not uniform for all grades of products of all kinds of articles. Moreover, if British manufacturers are in general anxious to limit the potential competition to which they are exposed, it is equally to the advantage of Japan to be given a certain assurance as

to the future of her export markets. Moreover, in view of the relatively weak diplomatic position of Japan at the present time, the renewal of a perpetual source of irritation is a powerful, if non-economic, consideration to be borne in mind. The conclusion to be gathered is that the inequalities of bargaining power are not so great as to make a reasonable settlement, *in general*, impossible.

(II.) Good-will and self-interest on both sides are not, however, a guarantee against a breakdown of negotiations if the technical difficulties prove insuperable. An enormous variety of products and a large number of countries come into question; the *de facto* competitive position of both groups of competitors in each commodity and market is subject to different interpretations as regards the past and is obviously still more subject to different interpretations as regards the future. Moreover, any estimate of the future is subject to quite incalculable elements as regards the significance of particular products and markets in the future. Shifts in demand, changes in the total economic situation of particular markets and the possibility that new technical inventions may upset the most careful estimates of future consumption of particular commodities are factors which must never be lost sight of. An agreement necessarily involves assumptions which may be hopelessly defeated by events.

(III.) Moreover, general agreements involve the grave risk of injustice to individual firms. The trade of the world is still carried on for the greater part by competitive units. It may be possible for a fully integrated industry or export group to compensate loss of a particular market by increased rates elsewhere; but the sacrifice of Market A., of interest primarily to one group of firms, will not be compensated, from their point of view, by a gain in Market B., of interest primarily to quite another group of firms. In this particular respect, the greater integration of some Japanese industries, especially cotton textiles, would give them a superior bargaining power.

(IV.) For these reasons it appears desirable, if agreements are to be entered upon, that certain guiding principles should be borne in mind.

(a) Attractive as the principle of geographical "spheres of influence" may be, it would appear to be better to accept the division of a market on some agreed basis, rather than divide markets up between the various groups concerned. This follows not only from the risk of doing injustice to particular groups, but also from the consideration that—especially in the case of relatively new commodities—the

potentialities of particular markets are comparatively unknown at any particular moment of time.

(b) The principles which should be followed in apportioning proportions or quotas in a market to the manufacturers of both countries must naturally differ according to the views which are entertained on the "elasticity of demand" for particular commodities. Broadly speaking, a fall of prices will cause an increase in the quantity demanded, but the rate of increase will vary markedly for one article as compared with another. The problem of estimation is complicated by the circumstance that that extensibility of demand is affected by the general standard of life of different communities. Thus, the increase of demand for cotton textiles for any given percentage fall of price, is probably less, perhaps a good deal less, in Western than in Eastern communities. It follows that each market must be treated as a separate case.

The general conclusion to be derived from these considerations is as follows: Where the article in question in a particular market is subject to an "inelastic demand," the division between the co-contractants ought obviously to take place on the basis of a maximum/minimum arrangement. That is, the country which has hitherto been the less successful supplier of the commodity should be allowed to import not less than a particular quantity but not more than a particular quantity. Since each market is regarded as an entity in itself, this arrangement would obviously safeguard the "vested interests" of each country in the market where it is *weakest*; for it is where it is weakest that the greater danger of complete exclusion resides. On the other hand, where the demand for a particular commodity is "elastic" and where, therefore, a considerable increase in aggregate sales might be expected in the future, obviously the principle of proportions is the best and the proportions must be based on experience of past sales, though it would give both sides an opportunity of increasing the *absolute* amount of their exports to the area in question.

7. None of the arrangements suggested above are perfect in the sense that no objections can be raised against them. In the end, judgment on these matters must be governed by the view one takes of a series of fundamental matters: (1) the significance of Japan's lower standard of life as a vital element in international competition; (2) the place which foreign trade must take in the economic life of the British and Japanese; (3) the chances of world recovery, which would diminish the intensity of the struggle and diminish also the necessity either for restrictive or co-operative measures; (4) the non-economic repercussions

of any measures taken ; (5) the reaction of a policy either of co-operation or of restriction upon the fiscal and commercial policies of other countries. A full discussion of these matters would transcend the legitimate limits of this memorandum, but they must be constantly borne in mind as the background of any possible action.

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