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**FAR EASTERN TRADE OF THE UNITED STATES**

FAR EASTERN TRADE OF THE  
UNITED STATES

*By*

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*I. P. R. INQUIRY SERIES*

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## FOREWORD

This study forms part of the documentation of an Inquiry organized by the Institute of Pacific Relations into the problems arising from the conflict in the Far East.

It has been prepared by Dr. Ethel B. Dietrich, Professor of Economics, Mount Holyoke College.

The study has been submitted in draft to a number of authorities including the following, many of whom made suggestions and criticisms which were of great value in the process of revision: Mr. William W. Lockwood, Jr., and Mr. Jack Shepherd.

Though many of the comments received have been incorporated in the final text, the above authorities do not of course accept responsibility for the study. The statements of fact or of opinion appearing herein do not represent the views of the Institute of Pacific Relations or of the Pacific Council or of any of the National Councils. Such statements are made on the sole responsibility of the author. The Japanese Council has not found it possible to participate in the Inquiry, and assumes, therefore, no responsibility either for its results or for its organization.

During 1938 the Inquiry was carried on under the general direction of Dr. J. W. Dafoe as Chairman of the Pacific Council and in 1939 under his successor, Dr. Philip C. Jessup. Every member of the International Secretariat has contributed to the research and editorial work in connection with the Inquiry, but special mention should be made of Mr. W. L. Holland, Miss Kate Mitchell and Miss Hilda Austern, who have carried the major share of this responsibility.

In the general conduct of this Inquiry into the problems arising from the conflict in the Far East the Institute has benefited by the counsel of the following Advisers:

Professor H. F. Angus of the University of British Columbia

Dr. J. B. Condliffe of the University of California

M. Etienne Dennery of the Ecole des Sciences Politiques.

These Advisers have co-operated with the Chairman and the Secretary-General in an effort to insure that the publications issued in connection with the Inquiry conform to a proper standard of sound and impartial scholarship. Each manuscript has been submitted to at least two of the Advisers and although they do not necessarily subscribe to the statements or views in this or any of the studies, they consider this study to be a useful contribution to the subject of the Inquiry.

The purpose of this Inquiry is to relate unofficial scholarship to the problems arising from the present situation in the Far East. Its purpose is to provide members of the Institute in all countries and the members of I.P.R. Conferences with an impartial and constructive analysis of the situation in the Far East with a view to indicating the major issues which must

be considered in any future adjustment of international relations in that area. To this end, the analysis will include an account of the economic and political conditions which produced the situation existing in July 1937, with respect to China, to Japan and to the other foreign Powers concerned; an evaluation of developments during the war period which appear to indicate important trends in the policies and programs of all the Powers in relation to the Far Eastern situation; and finally, an estimate of the principal political, economic and social conditions which may be expected in a post-war period, the possible forms of adjustment which might be applied under these conditions, and the effects of such adjustments upon the countries concerned.

The Inquiry does not propose to "document" a specific plan for dealing with the Far Eastern situation. Its aim is to focus available information on the present crisis in forms which will be useful to those who lack either the time or the expert knowledge to study the vast amount of material now appearing or already published in a number of languages. Attention may also be drawn to a series of studies on topics bearing on the Far Eastern situation which is being prepared by the Japanese Council. That series is being undertaken entirely independently of this Inquiry, and for its organization and publication the Japanese Council alone is responsible.

The present study, "Far Eastern Trade of the United States," falls within the framework of the first of the four general groups of studies which it is proposed to make as follows:

I. The political and economic conditions which have contributed to the present course of the policies of Western Powers in the Far East; their territorial and economic interests; the effects on their Far Eastern policies of internal economic and political developments and of developments in their foreign policies vis-à-vis other parts of the world; the probable effects of the present conflict on their positions in the Far East; their changing attitudes and policies with respect to their future relations in that area.

II. The political and economic conditions which have contributed to the present course of Japanese foreign policy and possible important future developments; the extent to which Japan's policy toward China has been influenced by Japan's geographic conditions and material resources, by special features in the political and economic organization of Japan which directly or indirectly affect the formulation of her present foreign policy, by economic and political developments in China, by the external policies of other Powers affecting Japan; the principal political, economic and social factors which may be expected in a post-war Japan; possible and probable adjustments on the part of other nations which could aid in the solution of Japan's fundamental problems.

III. The political and economic conditions which have contributed to the present course of Chinese foreign policy and possible important future developments; Chinese unification and reconstruction, 1931-37, and steps leading toward the policy of united national resistance to Japan; the present degree of political cohesion and economic strength; effects of resistance and current developments on the position of foreign interests in China and changes in China's relations with foreign Powers; the principal political, economic and social factors which may be expected in a post-war China;

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possible and probable adjustments on the part of other nations which could aid in the solution of China's fundamental problems.

IV. Possible methods for the adjustment of specific problems, in the light of information and suggestions presented in the three studies outlined above; analysis of previous attempts at bilateral or multilateral adjustments of political and economic relations in the Pacific and causes of their success or failure; types of administrative procedures and controls already tried out and their relative effectiveness; the major issues likely to require international adjustment in a post-war period and the most hopeful methods which might be devised to meet them; necessary adjustments by the Powers concerned; the basic requirements of a practical system of international organization which could promote the security and peaceful development of the countries of the Pacific area.

**EDWARD C. CARTER**  
*Secretary-General*

*New York,*  
*September 15, 1940*



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**FAR EASTERN TRADE OF THE UNITED STATES**

## CHAPTER I

### GENERAL REVIEW OF AMERICAN FAR EASTERN TRADE

Trade forms the principal focus of American interest in the Far East and will undoubtedly prove, in the future as in the past, an all important determinant of American policy in that area. In the present crisis in the Far East American trade and trade policy has played a vastly significant role. It is clear too that any general settlement that may be sought in this area, entailing as it must a complex process of economic readjustment, will both influence and be influenced by American commercial interests and commercial policies.

American participation in the commercial life of the Orient is as old as the American republic itself. Some of those New England merchants who helped finance the American Revolution were among the first to finance trading ventures to China during the closing years of the eighteenth century—ventures which yielded such huge profits that others quickly followed and a regular trade was inaugurated, which despite fluctuations has generally tended to increase ever since. It was not long before American ships were plying regularly to all the countries in the Far East which were open at all to European trade, notably—China, Java, Sumatra, Siam, India and the Philippines. The United States was quick to profit by the forcible opening of new ports in China following the Anglo-Chinese War, and Caleb Cushing acting for President Tyler negotiated in 1844 the first Sino-American treaty securing for his fellow-countrymen commercial and extraterritorial rights similar to those obtained by the English under the Treaty of Nanking. In the opening of Japan to Western merchants the United States herself took the initiative in the fifties, using Commodore Perry and Townsend Harris as her agents.

The Civil War slowed down the American advance in the Orient, but before the end of the nineteenth century the American flag had followed American trade across the Pacific,

the United States had acquired the Philippines and Secretary Hay was seeking to ensure America's share of the China trade for the future by proclaiming the policy of the Open Door.

But, despite the long continuity of its history, American trade with the Far East has changed radically in character with the passage of time, in a manner determined partly by the revolutionary changes brought about in the Orient by the impact of Western imperialism, partly by the development of the American economy itself, and partly by shifts in the world balance of economic and political forces.

In its early stages American trade with the Far East was primarily a quest for Oriental products for which there was a demand in the United States as in other parts of the Western world. There were few articles of her own production which the United States could offer the Far Eastern countries in return, and so the trade at first was very one-sided. In China, for instance, there was little demand for any American products, and the tea, silks and nankeen cloths which American ships carried away from Chinese ports had originally to be paid for in specie and bullion. Only gradually were commodities found which China needed from the outside world—such things as ginseng, furs, sandalwood and, a little later, cotton goods; most of these had to be picked up in third countries en route to China, and America's Far Eastern trade thus took on a triangular form, which it retained even after the growing demand for opium had swung the balance of China's trade heavily in favor of the foreigners.

Although the Far East first achieved commercial importance for the United States as a source of supply it was not long before rising American industrialists, especially the cotton-spinners, began to look to the Orient as a possible market for their manufactures. There arose before their eyes the magnificent vision of millions of Asiatic people eagerly waiting for Western manufactured goods to be brought to their doors. In reality the Oriental demand for these goods was to grow slowly—limited as it was, and is, by the poverty of the masses—but the mirage of almost limitless markets persisted as a major stimulus to American, as to European, interest in the Far East. Sales of textiles and later of oil, to mention only two of the commodities for which the spread of Western influence created a demand in the Far East, did increase sufficiently in the latter

part of the nineteenth century to lend some substance to this mirage, but it is safe to say that hopes for the future did more to encourage American interest in the Far East than the actual returns of the trade which was built up slowly over the century.

By far the greatest changes in the character of American trade with the Far East have come about, however, during the present century. The first two decades saw important new commodities added to the list of major imports to the United States from the Far East—commodities for which American industrialization created a vast demand. Most notable of these were tin and rubber from British Malaya and from Netherlands India; the East Indian plantations had soon displaced the forests of the Congo as the principal source of the world's rubber supply. More important still was the emergence of Japan as an industrial power, challenging the nations of the West on their own ground—a competitor not only in the overseas markets but in the domestic markets of the West. More recently other Oriental countries have embarked upon their own programs of industrialization. In India and in the Yangtze area of China the movement is well advanced and other areas like Netherlands India, Indo-China and the Philippines stand upon the threshold.

In future history the first half or three-quarters of the twentieth century will probably be characterized as the period when the factory system completed its migration, as the period when scientific agriculture made possible a wider distribution of basic crops, and as the period when prospectors for metals and oils opened up the bulk of the world's resources. In this story, the developments in Far Eastern countries outlined above are likely to constitute one of the later and more important chapters.

All these changes, complicated and accelerated by self-conscious nationalism expressing itself in the economic sphere through various forms of control over trade and industry, have had their effect upon commercial relations between the United States and the Far East, and upon American commercial policy in that area. The extension of scientific agriculture to Far Eastern countries and the opening up of their mineral resources have on the one hand threatened to reduce their demand for foodstuffs and raw materials formerly supplied by the United States, and on the other have made some of them more im-

portant as sources of raw material, especially tin and rubber, than ever before. Far Eastern industrialization has not only helped further to tarnish fading dreams of a vast Oriental market for certain American manufactured goods but has also given rise to fears that cheap Oriental products, especially textiles, might displace American manufactures in the home market.

Before 1930 American trade with the Far East had been a simple complementary relationship involving principally the exchange of non-competitive raw materials; cheap Oriental products had not been able to penetrate the protected markets of the United States; and American farmers had regarded the Far Eastern countries as purchasers rather than as competitors. But during the past decade swelling imports of Oriental products to the United States, especially cotton textiles, alarmed American manufacturers of these commodities; hard-pressed agriculturists, forgetful of raw cotton exports, discovered a threat to their own interests in the importation of certain foods and raw materials from the Far East; and finally in an increasingly warlike world, grave concern was aroused by the realization of American dependence on the Far East for supplies of certain vital raw materials.

The changes affecting American trade with the Far East have not all been for the worse by any means; even in her losses the United States has been more fortunate than the United Kingdom. Though American agriculture may be hit by the decline of Far Eastern markets, few, if any, American industries are so dependent upon those markets that the cessation of exports would involve their liquidation or even partial liquidation. On the more positive side it is important to notice that changing conditions in the Far East have created new demands which the United States is peculiarly well fitted to supply.

If plans for industrialization, the modernization of agriculture, the development of communications, the exploitation of mineral resources, and so forth, are allowed to proceed in the Far Eastern countries, the United States will be capable of supplying much of the equipment which will be needed. The needs of new Far Eastern industries will range from machines for the fabrication of simple consumer products to elaborate and complicated machine tools. American machinery, because

it is efficient and because much of it is designed for operation by unskilled labor, is well suited to these needs.

Indispensable for industrial, agricultural and mineral development of the kind planned in various Far Eastern countries during recent years, are adequate transportation facilities. Except for Japan, the Asiatic countries are as yet notably deficient in railroad mileage. At the outbreak of the present Sino-Japanese conflict in 1937 China had only 6,700 miles of railroads, as compared with 254,000 miles in the United States. The exigencies of war have stimulated transportation development in both China and Manchoukuo, though some of the gains have been offset by destruction resulting from the "scorched earth" policy. Despite much recent construction, good roads for motor vehicles are still very few. Away from the seaboard, large areas of these countries are still in the ox-cart era. Air transport has been developed to an extent more nearly comparable to that in Western countries, largely because of the lack of other means of communication, but much remains to be done. A basic prerequisite for the development of transportation facilities, as well as for the establishment of factories, is the creation of supplies of power. The provision of all these facilities, according to plans formulated in the various Far Eastern countries during the past decade, will necessitate a supply of such essentials as rails and rolling stock, turbines and dynamos, electrical transmission equipment, road-building machinery and vehicles to operate on the roads when built. The United States is especially well suited to provide equipment of this type, since she has herself faced the problem of opening up wide areas of country of varying terrain and has developed the necessary plant and the techniques for the task.

Schemes for mineral and oil exploitation in China, Manchoukuo, Netherlands India and the Philippines will require mining and petroleum machinery. In Manchoukuo the new agricultural plans call for tractors, for which, hitherto, there has been little demand in the Asiatic countries because of the abundant supply of cheap labor and the small area of land holdings. In the warmer countries of Southeast Asia a demand has already grown up for air-conditioning and refrigeration equipment.

Such are some of the new demands, actual and potential, produced in the Far East by recent developments—demands



which America is equipped to supply. Of course it is not wise to build too much on paper schemes expressive merely of hopes and possibilities, and it would be a mistake to revive in too glowing form the ancient dream of populous Oriental markets. But there have already been substantial achievements as an earnest of future progress, and with the turn to national economic planning which has occurred in most of the Far Eastern countries, predictions of future developments are a little easier to make than they used to be. Nations in their economic "coming-of-age" no longer grow like Topsy. The U.S.S.R. in the speed of her economic progress has accomplished the incredible. It remains to be seen whether the Oriental countries can emulate the successes of the Soviets in economic planning.

For the moment the war in China, the conquest by Germany of France and the Netherlands, and the strained relations prevailing between Britain and Japan, make the whole political future of the Far Eastern countries hopelessly uncertain and inevitably retard any effort to continue the execution of plans launched in the years before 1937. Even so some progress is being made, especially in Western China, and the long term trend is very clear. Whether the United States will be able to take advantage of the opportunities which planned economic development in the Far East will offer, must depend partly upon the outcome of the current European and Asiatic conflicts. But it will also depend in large measure upon the policy which the United States chooses to follow in the Far East in the immediate future. There are other countries capable of supplying most of the new needs created by schemes for development in the Far East. Those who supply these markets today will provide the replacements of tomorrow. In 1932 Germany supplied one half of the world's machinery exports, the United Kingdom slightly over 25 per cent and the United States slightly under 25 per cent. Only in 1935 did the United States outstrip Germany, thereafter to hold the lead, while her two principal competitors were absorbed in military preparations. More significant still, perhaps, is the fact that Japan had entered the ranks of machinery exporters before the outbreak of the war with China.

From the commercial point of view two alternatives lie before the United States in the Far East. One is to adopt a purely passive policy toward the export trade while at the

same time striving to lessen American dependence on imports from the Orient by turning to substitutes produced domestically or purchased from "good neighbors" to the north and south. The other alternative is to take the measure of the Far Eastern markets realistically and to devise a positive commercial policy which will assure for the United States a role in the drama of Far Eastern industrialization. Each of these alternatives of course has necessary political corollaries which, though all-important, do not fall within the purview of the present study.

While any analysis of the importance of Far Eastern trade to the United States in the future must of necessity be highly speculative, and somewhat unrealistic when confined to the economic plane, as the foregoing has had to be, important conclusions as to the importance of this trade at present and in the immediate past can be drawn from a careful examination of the relevant statistics.

All the tests of statistical analysis emphasize that as a whole American trade with the Far East has been of growing significance. During the period 1926-30, 28.8 per cent of American imports, by value, came from Eastern Asia; in 1937, 29.9 per cent. During the period 1926-30, 11.4 per cent of American exports went to this region; in 1937, 16.1 per cent. In 1937 total imports of the United States were 23.5 per cent lower than the average for 1926-30. From Eastern Asia they were 20.5 per cent lower. In 1937 total exports of the United States were 30.0 per cent lower than the average for 1926-30. To Eastern Asia, they were only 3 per cent lower. Thus it is clear that American trade with the Orient fared better during these difficult years than trade with the rest of the world. (For trade by value see Appendix I.)

Classified into trade with separate countries, the statistics show considerable variation in the importance of these markets. All except India ranked among the first ten as sources of imports for the United States in 1937, while only one, Japan, ranked among the first ten export markets. The only three countries which did not increase their percentage of total American imports were China, India and Japan. On the other hand, only three countries, India, Japan and the Philippines, increased their percentages of American exports. They, there-

TABLE 1  
PERCENTAGE DISTRIBUTION OF UNITED STATES TRADE WITH  
SELECTED FAR EASTERN COUNTRIES

	<i>Imports</i>				<i>Exports</i>			
	1926-30		1937		1926-30		1937	
	<i>Per</i>		<i>Per</i>		<i>Per</i>		<i>Per</i>	
	<i>Cent</i>		<i>Cent</i>		<i>Cent</i>		<i>Cent</i>	
	<i>of</i>		<i>of</i>		<i>of</i>		<i>of</i>	
	<i>Total</i>	<i>Rank</i>	<i>Total</i>	<i>Rank</i>	<i>Total</i>	<i>Rank</i>	<i>Total</i>	<i>Rank</i>
China.....	3.5	9	3.4	10	2.3	19	1.5	16
India.....	3.4	10	3.1	11	1.1	17	1.3	19
Japan.....	9.4	2	6.6	3	5.2	4	8.6	3
Malaya.....	6.2	4	7.9	2	.3	35	.3	39
Netherlands Indies..	2.2	16	3.7	9	.7	27	.7	23
Philippines.....	2.8	12	4.1	7	1.5	16	2.5	12

fore, accounted for the percentage increase in the total exports to the Far East.

An analysis of the importance of the trade of the United States to these countries reveals a different picture. In both the export and import trade of each of them the United States ranks among the first five countries, except in the case of Malayan imports where she holds sixth place. She ranks first in three of the import markets, Japan, China and the Philippines, and in four of the export markets, China, Japan, Malaya and the Philippines. Trade with the United States is thus a matter of deep concern to these countries.

TABLE 2  
PERCENTAGE OF TRADE WITH THE UNITED STATES IN SELECTED  
FAR EASTERN COUNTRIES

	<i>Imports</i>				<i>Exports</i>			
	1931-32		1937		1931-32		1937	
	<i>Per</i>		<i>Per</i>		<i>Per</i>		<i>Per</i>	
	<i>Cent</i>	<i>Rank</i>	<i>Cent</i>	<i>Rank</i>	<i>Cent</i>	<i>Rank</i>	<i>Cent</i>	<i>Rank</i>
China.....	25.4	1	19.8	1	19.0	3	27.6	1
India.....	8.5	3	6.4	4	7.5	3	10.6	3
Japan.....	36.5	1	33.6	1	32.1	1	20.6	1
Malaya.....	1.6 <sup>a</sup>	6	1.9	6	31.8 <sup>a</sup>	1	47.1	1
Netherlands Indies..	6.7	5	10.2	3	12.1	3	18.7	3
Philippines.....	63.0 <sup>b</sup>	1	59.0	1	80.0 <sup>b</sup>	1	80.1	1

<sup>a</sup> 1933. <sup>b</sup> 1931.

United States trade with Asia has been characterized by a large import balance which has been declining. During the period 1926-30 imports from Asia amounted to 208.7 per cent of exports; in 1937 they were 166.8 per cent of exports. For

the "Far East" including Oceania, the figures were 118.2 for the period 1926-30 and 110.3 for 1937. Due to war conditions imports dropped to 96.9 per cent of exports in 1938 and for the first time the United States exports exceeded imports from this region. Balances for the separate countries under special consideration are shown in Table 3.

TABLE 3  
BALANCE OF UNITED STATES TRADE WITH SELECTED COUNTRIES

	1926-30		1937	
	\$1,000	Imports as Per Cent of Exports	\$1,000	Imports as Per Cent of Exports
China.....	- 31,485	129	- 53,919	208
India.....	- 83,357	256	- 52,195	219
Japan.....	-133,596	154	+ 84,357	71
Malaya.....	-237,180	1,975	-234,036	2,749
Netherlands Indies....	- 53,617	258	- 90,139	460
Philippines.....	- 40,426	155	- 41,029	148

In 1937 the largest percentage import balances were with the colonial areas. In the case of Malaya and Netherlands India, they formed a part of a triangular trade, in which the mother countries were the third parties, and helped to settle the import balances of the latter with the United States. The export balance of the Philippines with the United States was used in part to settle import balances with other countries. The most significant change took place in the trade balance between Japan and the United States, which shifted from an import balance to an export balance.

The growing importance of Asia to the American economy as a supplier and as a market is also apparent in Table 4. Except for foodstuffs where the percentage Asia took or furnished of total United States trade remained the same, a larger proportion of United States exports of each class went there in

TABLE 4  
PERCENTAGE ASIA TAKES OR FURNISHES OF TOTAL UNITED STATES TRADE

	Exports		Imports	
	1926-30 (average)	1937	1926-30 (average)	1937
Crude materials.....	15.1	15.8	52.9	51.5
Foodstuffs and beverages.....	6.5	6.5	13.2	16.8
Semi-manufactures.....	13.5	28.0	18.6	28.9
Finished manufactures.....	12.3	15.8	16.5	21.5

TABLE 5  
LEADING UNITED STATES EXPORTS TO THE FAR EAST IN 1937  
(Value in 1,000 dollars)

Commodity	Total For East	Total Per Cent of U. S. Exports	India	Malaya	Ceylon	China	Nether- lands Indies	Indo- China	Hong- kong	Japan	Kwan- tung	Philip- pines Islands	Siam
Iron and Steel Products.....	117,776	33	3,162	1,590	151	9,705	3,484	248	3,858	78,101	6,829	10,568	80
Petroleum and Products.....	69,853	19	4,429	1,062	183	5,507	1,302	339	4,516	43,733	3,561	5,076	145
Cotton.....	70,178	19	5,773	...	...	584	...	817	...	61,724	1,227	53	...
Automobiles and Other Vehicles....	50,009	12	8,908	698	195	7,150	4,337	370	2,347	16,754	1,694	7,384	172
Industrial Machinery	36,439	15	3,037	1,433	37	1,874	6,160	39	505	15,349	549	7,231	225
Copper.....	23,979	26	1,202	15	(*)	1,768	40	2	791	19,298	189	588	86
Paper and Base Stocks	21,710	40	787	97	45	1,882	800	12	701	14,693	56	2,622	15
Tobacco and Products	18,397	12	1,628	21	303	6,671	652	117	226	2,012	219	5,657	791
Cotton Manufactures	12,206	28	406	74	7	108	582	(*)	86	29	3	10,903	8
Aircraft and Parts ...	9,431	24	169	(*)	1	3,962	547	...	483	2,484	8	622	1,555
Lumber and Products	7,542	12	91	...	(*)	2,096	9	...	422	4,467	193	259	5
Chemicals.....	5,802	15	551	102	27	772	873	8	292	2,073	78	1,000	26
Fertilizers.....	5,283	31	53	52	...	14	671	...	7	3,371	14	1,101	...
Rubber and Manufactures.....	4,995	15	640	178	30	479	250	19	309	434	8	2,618	30
Photographic Supplies	4,309	19	864	233	15	613	148	3	219	1,449	115	601	49
Leather and Manufactures.....	3,377	13	656	75	11	202	161	10	85	300	10	1,862	5
Office Equipment ...	2,877	8	782	190	30	172	458	39	71	443	29	605	58
Paints and Varnishes.	2,808	13	354	100	30	218	203	5	50	943	6	874	25
Silk Manufactures ...	1,206	17	31	50	6	62	43	1	62	547	2	401	1
Lead Products.....	946	34	3	(*)	...	54	1	(*)	(*)	756	(*)	131	1
Total.....	469,123												

\* Less than \$1,000.  
Source: Bureau of Foreign and Domestic Commerce, Foreign Commerce and Navigation of the United States, 1937 (1939).

1937 than in the years from 1926 to 1930. The largest gain in position was in semi-manufactures (iron and steel, copper, petroleum and lumber). Except for a slight loss in crude materials, Asia has increased its position as a supplier in the other three classes.

Major exports of the United States to the Far East in 1937 are listed in Table 5, which includes 86 per cent of the total American exports to that region. With the exception of certain food products, the list includes the chief exports of the United States. The outstanding differences in order of importance are in the ranking of iron and steel products and industrial machinery, the positions of which are reversed in the schedule of total American exports. With the exception of textiles and portions of other classes, the commodities consist of products for industry, agriculture and business. With the exception of office equipment, which should have a growing market, all of the groups comprise 12 per cent or more of American exports and ten groups comprise 19 per cent or more.

As stated earlier, the market for machinery is of particular interest in the industrialization of the Far East. From figures given in Table 6, it can be seen that the Far East in the five

TABLE 6  
UNITED STATES EXPORTS OF INDUSTRIAL MACHINERY TO THE  
FAR EAST, 1934-1938

<i>Countries</i>	1934	1935	1936	1937	1938
	\$	\$	\$	\$	\$
British India . . . .	2,007,512	2,979,071	2,407,739	3,036,611	3,917,552
British Malaya . . .	321,383	409,215	506,469	1,432,980	2,024,277
Ceylon . . . . .	23,755	14,065	14,400	37,071	408,050
China . . . . .	1,610,936	1,672,580	1,241,183	1,873,626	1,637,255
Burma* . . . . .	.....	.....	.....	.....	474,385
Netherlands Indies	1,278,201	1,654,433	2,695,231	6,159,769	4,464,535
French Indo-China	29,116	28,368	44,773	39,335	53,506
Hongkong . . . . .	809,294	606,684	154,968	504,695	806,819
Japan . . . . .	5,155,267	5,006,536	5,770,075	15,348,932	26,307,443
Kwantung . . . . .	306,575	347,999	136,979	548,954	1,311,594
Philippine Islands	2,425,293	3,075,622	3,615,877	7,230,614	7,075,526
Siam . . . . .	30,487	77,520	76,127	224,624	264,315
<b>Total Far East . . .</b>	<b>13,997,819</b>	<b>15,872,093</b>	<b>16,663,821</b>	<b>36,437,211</b>	<b>48,745,257</b>
<b>Total All Countries</b>	<b>98,353,784</b>	<b>121,783,504</b>	<b>158,493,052</b>	<b>240,470,629</b>	<b>269,848,690</b>
<b>Per cent to Far East</b>	<b>14.23</b>	<b>13.03</b>	<b>10.51</b>	<b>15.15</b>	<b>18.06</b>

(\* Included in British India up to 1935.)

years, 1934-1938, increased its relative share from 14.23 per cent to 18.6 per cent of total American machinery exports. During those years exports of industrial machinery increased 248 per cent in value. If Japan be excluded because her war-time demand is exceptional, exports increased 154 per cent. Except for Hongkong, the increase was shared by every country. The most important types have been metal-working machinery and mining, well and pumping equipment, though the list includes a wide variety.

Offsetting these substantial gains are losses in cotton and tobacco exports, which seriously affect the American farmer. In the case of cotton, except for 1937-38, the position of the Far East has not changed significantly, but rather it has reflected the general decline in world demand for American cotton, due to the rise of other sources of supply and the competition of rayon.

TABLE 7  
CONSUMPTION OF AMERICAN AND OTHER FOREIGN COTTONS  
IN THE ORIENT<sup>1</sup>

(1,000 bales)

	<i>American Cotton</i>	<i>Other Foreign Cotton</i>	<i>Per Cent American Cotton</i>
1930-31.....	1,384	5,702	24
1931-32.....	2,696	4,775	56
1932-33.....	2,701	5,196	52
1933-34.....	2,321	5,779	40
1934-35.....	2,032	7,009	29
1935-36.....	1,757	7,264	24
1936-37.....	1,420	8,369	17
1937-38.....	1,322	7,085	18

<sup>1</sup> (a) American cotton in running bales. Foreign cottons in 478 pound bales.

(b) Figures for Oriental countries other than India, China and Japan have shown increases and amount yearly to about 5 per cent of the total.

New York Cotton Exchange, Weekly Trade Reports, November 14, 1938 and November 20, 1939.

Figures in Table 7 illustrate the decreasing percentage of American cotton consumed by Oriental countries at a time when their total consumption was increasing. Among the chief competitors is Brazil, now the third largest exporter to this region, whose exports to the Orient increased from around three million bales in 1935-36 to about 550 million bales in 1939. The future outlook for American cotton in the Orient is the darker because of the Chinese and Japanese plans for increased production of raw cotton in China, though war demands may temporarily increase purchases from the United

States. In 1931, China produced 2,092,000 bales; in 1937, 3,560,000 bales.

TABLE 8  
UNITED STATES EXPORTS OF COTTON TO THE FAR EAST  
(1,000 bales)

	1930-31	1931-32	1932-33	1933-34	1934-35	1935-36	1936-37	1937-38	1938-39
Japan.....	1,233	2,396	1,717	2,060	1,605	1,585	1,600	677	948
China.....	393	1,143	352	366	163	38	15	23	86
British India...	113	252	61	21	50	7	14	148	
	<u>1,739</u>	<u>3,791</u>	<u>2,130</u>	<u>2,447</u>	<u>1,818</u>	<u>1,630</u>	<u>1,629</u>	<u>848</u>	<u>1,034*</u>
Per cent of total exports.....	25	42	25	29	36	25	28	14	29

Source: United States Department of Agriculture, Separate for Agricultural Statistics, 1939 No. 37, p. 439.

\* Incomplete.

Tobacco exports to the Far East have not only declined in quantity but also in proportion to total American tobacco exports. In 1930-31, 36 per cent of total American exports went to this region, whereas in 1937-38 only 12 per cent went there. Even in 1936, before the Japanese incident had disrupted trade and production, only 18 per cent was purchased by these countries. The answer is again to be found in advances in Chinese agriculture. In 1930 China produced 83.5 million pounds; in 1937, 210.0 million pounds.

TABLE 9  
UNITED STATES EXPORTS OF FLUE-CURED TOBACCO LEAF TO THE FAR EAST  
(1,000 pounds)

	1930-31	1931-32	1932-33	1933-34	1934-35	1935-36	1936-37	1937-38	1938-39
China.....	143,942	77,436	76,067	87,029	28,976	24,039	43,096	40,162	53,854
Japan.....	11,604	4,128	4,735	7,753	9,370	6,702	9,909	1,718	0
British India...	1,162	3,721	3,293	2,236	1,659	2,299	2,901	2,968	
	<u>156,708</u>	<u>85,285</u>	<u>84,635</u>	<u>97,018</u>	<u>40,005</u>	<u>33,040</u>	<u>55,906</u>	<u>44,848</u>	<u>53,854*</u>
Per cent of total exports.....	36	30	31	29	16	10	18	12	15

Source: United States Department of Agriculture, Separate for Agricultural Statistics, 1939, No. 37, p. 448.

\* Incomplete.

Until 1938 the Orient was more important to the United States as a source of raw materials than as an export outlet; and trade with the United States still is of much greater concern to most of these countries than their trade is to the United States. But it is important to notice that figures showing the value and quantity of trade do not tell the whole story. In



TABLE 10

SELECTED COMMODITIES IMPORTED BY UNITED STATES FROM  
LEADING FAR EASTERN COUNTRIES IN 1937

(In percentage of total quantity of each commodity imported)

Commodity	British India	British Malaya	China	Japan	Nether- lands Indies	Philip- pines	Total
Agar-agar . . . . .	...	...	...	98.81	...	...	98.81
Antimony . . . . .	...	...	8.51	...	...	...	8.51
Bristles . . . . .	.35	...	77.38	7.71	...	...	85.44
Camphor . . . . .	...	...	...	100.00	...	...	100.00
Chrome . . . . .	4.33	...	...	...	...	7.92	12.25
Cinchona bark . . . . .	...	...	...	...	98.50	...	98.50*
Coconut oil and shells . . . . .	...	...	...	...	...	86.03	86.03
Copra . . . . .	...	.73	...	...	3.22	87.62	91.57
Fish products . . . . .	...	...	...	13.08	...	...	13.08
Hemp and other veg- etable fibers . . . . .	1.53	...	.06	.04	2.76	64.61	69.00
Hides and skins . . . . .	16.09	.36	8.76	1.00	9.60	.07	35.88
Jute . . . . .	98.96	...	.10	...	...	...	99.06
Kapok . . . . .	.24	...	.03	...	93.13	3.81	97.21
Lac (shellac) . . . . .	97.85	...	...	...	...	...	97.85
Menthol . . . . .	...	...	...	99.99	...	...	99.99
Mica . . . . .	33.31	...	...	...	...	...	33.31
Nux vomica . . . . .	41.10	...	...	...	...	...	98.27†
Oil seeds . . . . .	.33	...	1.27	58.75	.71	...	61.06
Palm oil . . . . .	...	1.04	...	...	69.47	12.22	82.73
Pepper and spices . . . . .	2.39	.83	8.40	1.49	36.12	...	49.12
Perilla oil . . . . .	...	...	54.97	37.24	...	...	92.21
Pineapple, prepared . . . . .	...	15.21	...	10.19	...	58.63	84.03
Pyrethrum . . . . .	...	...	...	88.84	...	...	88.84
Rubber . . . . .	3.46	61.45	...	.01	25.37	.05	90.34
Sausage casings . . . . .	1.10	.04	7.77	.32	...	...	9.23
Silk . . . . .	...	...	4.73	93.27	...	...	98.00
Sisal and henequen . . . . .	.06	...	...	...	29.78	.10	29.94
Soya beans . . . . .	.18	...	62.99	33.94	...	...	96.93
Soybean oil . . . . .	...	...	29.94	1.91	...	...	31.85
Sugar, cane . . . . .	...	...	...	...	.13	30.20	30.33
Tapioca . . . . .	...	.44	.03	.02	97.53	...	98.02
Tea . . . . .	10.68	...	6.98	30.32	19.76	...	88.80‡
Tin . . . . .	.23	75.71	5.07	...	4.61	...	85.62
Tung oil . . . . .	...	...	91.11	...	...	.03	91.14
Tungsten . . . . .	...	14.24	71.17	.01	...	...	85.42
Wool . . . . .	8.79	...	9.73	...	...	...	18.52

\* Including imports from the Netherlands.

† Including 57.07 per cent from French Indo-China.

‡ Including 21.06 per cent from Ceylon.

Source: Bureau of Foreign and Domestic Commerce, Foreign Commerce and Navigation of the United States, 1937.

almost all types of industrial production there are key materials which, even though they may be of small value or required only in limited quantities, are nevertheless of vital importance in the whole process. A number of such essential materials are included among the important commodities imported to the United States from the Far East as listed in Table 10. Of the twenty-one war essentials<sup>1</sup> which the United States lacks, twelve (antimony, chromium, coconut shells, hides, manila fiber, mica, quinine, rubber, silk, tin, tungsten, wool) come in part from the Orient. In the case of seven of these (coconut shells, cinchona bark, vegetable fibers, rubber, silk, tin and tungsten), 70 per cent or more of the supplies come from this area. Only three (antimony, chromium and wool) compose less than 30 per cent of our total imports. Other commodities vitally important to American industries, if not themselves war necessities, include bristles, coconut oil and copra, jute and kapok, shellac, perilla oil, pyrethrum, soya beans, tapioca and tung oil, over 75 per cent of which come from these countries. Among the food imports, tea, pepper and spices come almost wholly from Southeastern Asia. Medical supplies include, in addition to quinine, camphor, menthol, agar-agar and nux vomica.

Such is the picture of the trade of the United States with the Far Eastern area as a whole. Complex though the analysis may seem when presented in this form, it is necessary to examine the position even more closely still, considering trade with each of the political areas of the Far East separately, in order to determine precisely the present status of American commercial interests and their future prospects in this area. In any process of general Far Eastern economic readjustment in which the United States might be called upon to participate specific arrangements would have to be made with each of a series of distinct political units, and only a careful examination of the existing relations between the United States and these units can furnish clues as to the nature of arrangements which might be made.

<sup>1</sup> Aluminum, antimony, chromium, coconut shells, coffee, hides, iodine, manganese, manila fiber, mica, nickel, opium, optical glass, quartz crystal, quicksilver, quinine, rubber, silk, tin, tungsten, wool.

## CHAPTER II

### TRADE WITH JAPAN

The decade of the thirties will stand out as an extraordinary epoch in Japan's commercial history. It was marked by her assumption of the role of leading cotton textile exporter; the increase of her total exports from 1,470 million yen in 1930 to 3,175 million yen in 1937; the rapid closing of market doors by other countries as defense against her commercial war; the distortion of her trade to fit military demands; the adoption of centralized control under the National Mobilization Law; the creation of a greatly enlarged sphere of Japanese economic influence, known as the yen bloc. Since the United States held a foremost place in both the export and import trade of Japan, it was inevitable that American commerce should feel the impact of all these changes.

The role of the United States as a supplier of war materials to Japan has also attracted much attention. Between 1936 and 1937 American exports to Japan increased by 41 per cent, but a breakdown of the export figures by commodities reveals an increase of 124 per cent in shipments of war essentials.<sup>1</sup> In 1937 such materials formed no less than 58.8 per cent of all American exports to Japan and in 1938 the proportion increased to 66.3 per cent.

The balance of trade between Japan and the United States before 1932 was consistently favorable to the former except during the period of the Russo-Japanese War. But in 1932 the

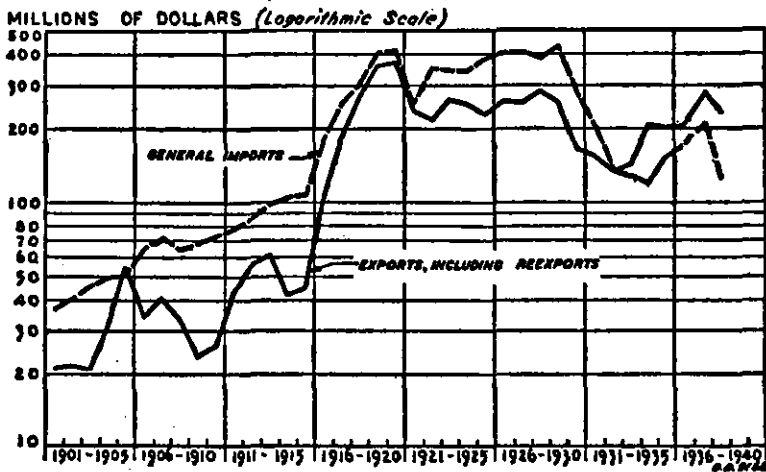
<sup>1</sup>The following figures show the United States' share in Japan's imports of materials essential for war purposes:

<i>Commodity Class</i>	<i>Percentage of Total Japanese Imports (1937)</i>
Copper.....	92.9
Automobiles and parts.....	91.2
All oil.....	60.5
Pig iron.....	41.6
Other iron.....	59.7
Machinery and engines.....	48.5
Zinc.....	20.4
Total in aggregate.....	54.4

Source: The Chinese Council for Economic Research, *Japan's Ability to Finance Purchases of War Materials*, Part I, (Washington, March 1938).

balance swung in favor of the United States and has remained so ever since. At the same time Japan's balance of trade with the rest of the world, excluding the United States, changed from a debit to a credit balance. It was thus possible for Japan to settle with credit both shipping and export balances with third countries. Japan bought cotton from the United States and sold piece goods to Far Eastern countries. They in

FIGURE 1. TRADE OF THE UNITED STATES WITH JAPAN (INCLUDING CHOSEN AND TAIWAN)



turn sold raw materials to the United States. When these countries in rapid succession erected trade barriers against Japanese textiles, Japanese trade with the United States was bound to be affected. Not only was the triangular relationship disrupted, but the Japanese demand for American cotton was diminished.

The spectacular advance of Japanese textile exports has now undoubtedly been arrested to some extent by the development of textile manufactures in other countries and by the effective use of trade controls in domestic, colonial and foreign markets. In an interview during May 1939 Shingo Tanda, President of the Cotton Spinners' Association, advocated the transfer of the textile industry to the Asiatic mainland, where labor costs are lower, on the ground that the industry in Japan Proper was losing its competitive vigor.

On the whole however the United States benefited by the great growth of Japan's textile trade during the past decade.

She gained by increased sales of raw cotton and lumber to Japan;<sup>2</sup> and her losses were small since she was not an important competitor in the textile markets captured by the Japanese, except in the case of the Philippines where she took early action to safeguard her own position.

Raw materials, particularly silk and cotton, formerly bulked large in the trade between the United States and Japan. In 1931 82.6 per cent of United States imports from Japan, by value, consisted of raw silk, and 42.3 per cent of United States exports to Japan consisted of raw cotton. Since 1932, however, this simple, somewhat complementary, relationship has changed. In 1937 only 51 per cent of total American imports was silk, and only 23 per cent of total Japanese imports was cotton.<sup>3</sup> During this period the price fluctuations of these two commodities bore heavily on Japan. In 1929 a pound of raw silk was worth twenty-six times as much as a pound of raw cotton; in 1934, it was worth only ten times as much. This slump was particularly serious for Japan, since the quantity of her exports of silk to the United States dropped during this period by 21 per cent and imports of cotton from the United States increased 73 per cent in quantity, as shown in Table 11.

TABLE 11  
QUANTITY AND VALUE OF AMERICAN-JAPANESE TRADE IN RAW SILK AND RAW COTTON

Year	<i>U. S. Imports of Raw Silk from Japan</i>		<i>U. S. Cotton Exports to Japan</i>	
	<i>Pounds</i>	<i>\$1,000</i>	<i>1,000 Bales</i>	<i>\$1,000</i>
1929 .....	69,759,131	356,122,234	1,001	109,399
1930 .....	59,918,271	221,468,108	889	65,910
1931 .....	69,526,075	163,069,875	1,744	79,740
1932 .....	69,136,785	106,188,063	2,249	85,921
1933 .....	60,213,037	91,659,271	1,814	86,699
1934 .....	54,989,228	69,846,669	1,737	112,178
1935 .....	63,769,130	90,038,915	1,518	98,587
1936 .....	55,684,540	94,967,422	1,356	88,338
1937 .....	53,915,145	99,572,976	890	61,724
1938 .....	51,315,659	83,644,281	1,028	52,850
1939 .....	...	...	829	42,488

Source: Bureau of Foreign and Domestic Commerce, Textile Division.

<sup>2</sup> When Japanese gains represented losses of other countries using American cotton this would not be the case. When they represented increased consumption because of cheaper prices or substitution for other textiles, there was a gain.

<sup>3</sup> Due to war controls, this percentage rose to 63 in 1938.

Trade with Japan is obviously important to the United States. In 1938 Japan ranked as her third best export market, taking 7.7 per cent of her total exports, and as her second best supplier sending 6.5 per cent of her total imports. But Japan's share has been declining as the figures in Table 12 indicate.

TABLE 12  
JAPAN'S SHARE OF UNITED STATES TRADE

	<i>Per Cent of Total U. S. Exports</i>	<i>Per Cent of Total U. S. Imports</i>
1926-30 average.....	5.2	9.7
1931-35 average.....	8.4	8.7
1934.....	9.9	7.2
1935.....	8.9	7.5
1936.....	8.3	7.1
1937.....	8.6	6.6
1938.....	7.7	6.5

In Japan's trade the United States has held a much more important position. She ranks first among suppliers of Japan's imports, accounting for about one third of the total, and until 1938 had for many years ranked first as a market for Japanese exports. In 1938 the Kwantung Leased Territory, the doorway to Manchoukuo, became the leading outlet for Japanese exports, taking 19.9 per cent of the total. Since the Leased Territory is in the yen bloc, its trade is not strictly foreign.

TABLE 13  
UNITED STATES' SHARE OF JAPAN'S TRADE

	<i>Per Cent of Total Japanese Exports</i>	<i>Per Cent of Total Japanese Imports</i>
1925.....	43.6	25.8
1929.....	42.5	29.5
1933.....	26.4	32.4
1934.....	18.4	33.7
1935.....	21.4	32.8
1936.....	22.5	30.7
1937.....	20.1	33.5
1938.....	15.8	34.5

The figures in Table 13, however, show startling changes. The American share of Japan's total exports declined from 43.6 per cent in 1925 to 15.8 per cent in 1938. America's share of her import trade increased from 25.8 per cent in 1925 to 34.5 per cent in 1938. If trade with foreign currency countries only is

considered, the United States supplied nearly 44 per cent of Japan's imports and bought 27.9 per cent of her exports. As can be seen from Table 14, the United States has a very substantial lead over other countries.

TABLE 14  
SHARE OF LEADING AREAS AND COUNTRIES IN JAPAN'S  
FOREIGN TRADE

(Value in 1,000 dollars)

	1938	% of Total	10 Months Jan.-Oct. 1939	% of Total
Total Imports.....	757,719	100.0	599,776	100.0
China and Manchuria.....	160,473	21.2	137,144	22.9
All other (Foreign Currency Countries).....	597,246	78.8	462,632	77.1
Total Imports from Foreign				
Currency Countries....	597,246	100.0	462,632	100.0
United States.....	260,418	43.6	202,237	43.7
India.....	49,000	8.2	37,930	8.2
Netherlands Indies.....	25,107	4.2	15,100	3.3
Germany.....	48,698	8.2	33,003	7.1
Great Britain.....	17,968	3.0	5,544	1.3
Canada.....	25,963	4.3	26,995	5.8
Australia.....	23,578	3.9	15,984	3.5
South America.....	25,956	4.3	24,275	5.2
Africa.....	17,247	2.9	19,521	4.2
Sweden.....	6,848	1.1	5,206	1.1
Norway.....	4,472	.8	4,771	1.0
All other.....	91,991	15.5	72,066	15.6
Total Exports.....	765,213	100.0	694,717	100.0
China and Manchuria.....	331,596	43.3	341,608	49.2
All other (Foreign Currency Countries).....	433,617	56.7	353,109	50.8
Total Exports to Foreign Cur-				
rency Countries.....	433,617	100.0	353,109	100.0
United States.....	120,947	27.9	118,826	33.7
India.....	53,497	12.3	41,741	11.8
Netherlands Indies.....	29,629	6.8	25,697	7.3
Great Britain.....	38,400	8.9	26,567	7.5
Germany.....	9,393	2.2	6,090	1.6
France.....	10,474	2.4	5,181	1.4
Central America.....	8,369	1.9	8,057	2.3
South America.....	17,113	3.9	11,926	3.4
Africa.....	39,072	9.0	30,483	8.5
Australia.....	19,741	4.6	14,231	4.0
New Zealand.....	4,213	1.0	2,655	.8
All other.....	82,769	19.1	61,655	17.7

Source: Monthly Returns of the Foreign Trade of Japan, Department of Finance, Tokyo.  
Yen values converted to U.S. dollars at average exchange rates.

1014 U.S. Department of Commerce, Press release, January 26, 1940.

During the last ten years there have also been significant changes in the composition of the trade between the two countries:

TABLE 15  
TRADE OF THE UNITED STATES WITH JAPAN  
INCLUDING CHOSEN AND TAIWAN BY ECO-  
NOMIC CLASSES

<i>Class</i>	<i>Per Cent of Total</i>	
	<i>1929</i>	<i>1937</i>
<i>Exports</i>		
Crude materials .....	48.2	32.0
Crude foodstuffs .....	3.4	.1
Manufactured foodstuffs .....	2.6	.5
Semi-manufactures .....	18.1	48.3
Finished manufactures .....	27.7	19.2
	<hr/> 100.0	<hr/> 100.0
<i>Imports</i>		
Crude materials .....	85.0	57.5
Crude foodstuffs .....	2.1	3.3
Manufactured foodstuffs .....	2.0	6.7
Semi-manufactures .....	2.1	6.4
Finished manufactures .....	8.8	26.2
	<hr/> 100.0	<hr/> 100.0

Changes in the American export ratios reflect the needs of the expanding industries of Japan, especially the heavy industries, the growth of industries providing products previously imported, and the decline of cotton. During the years 1924-32 Japan bought on the average 66 per cent of her cotton from the United States, while in 1938-39 her American purchases represented only 41 per cent. Changes in the import ratios indicate the decline of silk, due partly to low prices and partly to rayon competition, and increased imports of canned products, such as fish and pineapples, and cheap manufactured goods. Between 1932 and 1936 the proportion of manufactured goods in total imports increased from 10 to 29 per cent. In 1937 they dropped to 26 per cent and in 1938 to 20 per cent, due to the concentration of Japanese industries on war activities.

Trade in electric light bulbs can be cited as an example of Japanese manufactures which showed a considerable increase during this period. Japan's rapid rise as a producer of incandescent electric lamps represents one of her outstanding achievements in the light industrial field. Although the in-



dustry was established many years ago, her position as an important producer has only been secured within the last fifteen years. By 1928 she ranked second to the United States in quantity production. Price studies show that a 60-watt lamp in the United States costs fifteen cents as compared with seven cents in Japan, though lower efficiency in the Japanese product is generally conceded. The United States tariff is 20 per cent *ad valorem*, which is an unnecessary protection against any other country than Japan. Between 1929 and 1936, following the expiration of the tungsten filament patent of incandescent lamps, American imports from Japan aided by the depreciation of the yen increased from 42,756,000 items to 149,593,999 (Japanese figures) or from 36 to 48 per cent of total Japanese lamp exports. The value of these imports in 1936 was a little over one million dollars. Eighty per cent were miniature lamps used principally for Christmas trees, flashlights and toys. There were marked declines in 1937 and 1938 due to emergency conditions. In 1938, total imports of Japanese lamps, 66 per cent of which were miniature lamps, amounted to 33 per cent of American domestic production. Imports of Christmas tree lamps have for a number of years exceeded domestic production.<sup>4</sup>

American imports of toys present a similar story. The United States is the largest toy manufacturer. Exports amounted to 4 per cent of production in 1937; imports also amounted to 4 per cent of production. In 1932 Japan supplied 38 per cent of American imports; while in 1937 she supplied 78 per cent, supplanting Germany during the intervening years. Her exports to the United States amounted to 39 per cent of her total toy exports. In 1932 American imports of toys from Japan were valued at five million dollars; in 1937 at 16.5 million dollars. In 1938 there was a sharp drop caused by various factors related to the Sino-Japanese war.

On the export side a factor which may affect future American sales to Japan is the growth of the "substitute industries." Like Germany, Japan has developed a flourishing group of *ersatz* industries aided by the government. Without going into details it may be inferred, from a study of the nineteen listed important imports from the United States, that eight at least

<sup>4</sup> United States Tariff Commission, *Incandescent Lamps*, Report No. 133, Second series, Washington, 1939.

of these new industries are producing competitive products. These include marine leathers as substitutes for hides and skins; staple fiber for cotton; soya beans and a wide range of other materials for wood pulp; artificial petroleum for mineral oils; porcelain and cement for lead; alunite for aluminum; potassium from bittern and as a by-product from alunite for potash; synthetic resins for rosin; cement for metals, glass for metals.<sup>5</sup> Japan had begun some of these industries before 1937, and their development has now been intensified as a result of wartime mobilization of materials. How far they will replace the imports listed above it is too soon to predict.

#### *United States-Japanese Commercial Policy*

Until the new regulations came into force the Japanese customs tariff consisted of a single column of general rates, specific and *ad valorem*, last revised by legislation in 1936, with certain conventionalized rates (generalized to most-favored-nation countries) which had been made the subject of treaty arrangements by Japan with France and Italy. Between 1932-1937 rates were raised several times. The tariff policy was definitely protective. In 1936, 71 per cent of Japanese imports, raw materials or commodities necessary for industrial expansion, were duty free. The average *ad valorem* rate on dutiable imports was 20 per cent.

Trade relations between the United States and Japan have been based upon the conditional most-favored-nation principle contained in the Treaty of Commerce and Navigation of 1911. Japan has nevertheless felt the force of our trade controls. From the time of her appearance as an exporter of manufactured products the markets of the United States have been well barricaded by high tariffs. Since Americans were eager for Japanese silk, however, it remained possible for her to develop a two-way trade. In 1930, 85 per cent of Japan's exports were on the American free list—a situation which meant that the Hawley-Smoot Tariff Act of 1930 did not at first cause any appreciable dislocation of existing trade, though Japanese merchants registered a protest. After 1932, however, as the result of the changing character of her exports the

<sup>5</sup>Boehringer, Carl H., *Increased Japanese Production of Substitute Products*, Tokyo Office Special Report No. 121, March 14, 1939. U.S. Department of Commerce, Washington.

percentage of Japanese commodities admitted free of duty dropped steadily to 59 in 1937.<sup>6</sup> Japan has been one of the chief countries against which Sec. 336 of the Tariff Act<sup>7</sup> has been invoked. Among the various items on which the rates have been raised are cordage, footwear, clams, swordfish, knit gloves, and cotton cloth. If the statutory power to increase the tariff was not sufficient, the basis of valuation has been changed to American selling prices, or *ad valorem* duties have been substituted for specific duties.

The Revenue Act of 1936 which included excise taxes on certain oils affected Japanese exports of perilla oil and rapeseed oil. The excise tax on both is 4½ cents a pound. Between 1936 and 1937, American imports of perilla oil from Japan dropped from 51 million pounds to 16 million pounds, and imports of rapeseed (colza) oil fell from 7,769,000 gallons to 591,000 gallons. In value, the combined imports declined from \$8,312,000 to \$1,179,000. Production of these oils had been built up by Japan chiefly for the United States market which in 1935 took 83 per cent of her exports. The sudden and drastic decline, therefore, had serious repercussions in these two industries.

By 1934 the United States began to feel the effects of Japan's export expansion which was greatly aided by the devaluation of the yen and rising domestic prices in the United States. Significant increases in exports to the United States took place, particularly in the field of textile products, slide fasteners, toys and glassware. For example, cotton textile exports rose from 1.22 million square yards in 1929 to 7.29 million square yards in 1934, and to 36.5 million square yards in 1935. By the end of 1936 bookings for 150 million square yards had been made for 1937.

As tariffs seemed impotent to check the increase, voluntary

<sup>6</sup> Yearly changes in the percentage of dutiable imports into the United States are given below:

1929.....	87.4	1932.....	85.8	1935.....	70.1
1930.....	85.5	1933.....	79.7	1936.....	67.4
1931.....	84.5	1934.....	70.5	1937.....	59.9

<sup>7</sup> Section 336 of the Tariff Act of 1930 is entitled "Equalization of Costs of Production." It is based on the principle that customs rates should be used to equalize foreign costs of production with domestic costs. The President is given power to raise or lower existing rates by 50 per cent, to change the classification, or to change the method of valuation, as by using the American selling price as the basis for the duty.

import quotas were adopted. By a gentlemen's agreement between the manufacturers of the two countries<sup>8</sup> a two-year import quota of 155 million square yards for 1937 and 100 million square yards for 1938 was adopted for 1937-39 in the year 1936. In December, 1938, the agreement was renewed for another two years beginning January 1, 1939. Annual import quotas of 100,000,000 square yards are now permitted with the provision that 20 million square yards may be transferred from one year to the other. Owing to wartime restriction in Japan, imports to the United States have been running far below the quota and are likely to continue to do so until the war in China is over. In 1937 similar agreements were negotiated covering velveteens and corduroys and seamless cotton hosiery. There are, in addition, voluntary quota restrictions covering three types of cotton rugs and wood-cased lead pencils which were made while the National Industrial Recovery Administration was in force.

Lack of executive authority to initiate import quotas as a form of trade control except as found in the Reciprocal Trade Agreements Act made it necessary for the United States to adopt these checks in the form of gentlemen's agreements. Except for those under the N.I.R.A. they have been negotiated by the producers themselves with the consent, if not the blessing, of the governments. This was not a new policy for Japan, as she had for three years been regulating her trade with India in this manner, and had used the same method in trade with Australia, Burma and several of the British dependencies.

In consideration of the fact that Japan ranks as our third best export market and our second best supplier, it may seem strange that a reciprocal trade agreement has not been negotiated with her. The reasons, however, are not difficult to find. Though it is quite possible that the United States would have liked to receive concessions on certain high Japanese tariffs she would have had little to offer in return. Since 60 to 80 per cent of imports from Japan are on the free list, these could only be "frozen" there as a gesture. With regard to other

<sup>8</sup> The agreement (dated January 22, 1937) between the American Committee (headed by Claudius T. Murchison) representing the Cotton Textile Institute, the American Cotton Manufacturers' Association and the National Association of Cotton Manufacturers, and the Japanese Committee (headed by O. Shoji) representing the Japan Cotton Spinners' Association, The Cotton Yarn and Cloth Exporters' Association.

imports, United States producers are agitating for more rather than less protection, and any lowering of barriers might easily have caused a revolt against the whole program. In fact, the bogey of increased Japanese trade through generalization of concessions has been one of the chief difficulties which American negotiators have had to face in concluding other agreements. Lastly, public sentiment as well as American diplomacy has not been friendly to Japan's Asiatic ambitions.

In applying the principle of unconditional most-favored-nation treatment, the concessions given in any reciprocal trade agreement are generalized to all countries which do not discriminate against American trade. To safeguard American interests, the agreements contain a protective clause, known as the "third country" clause, according to which a concession may be withdrawn if a third country benefits more from the concession than the country to which the concession is given. It has as yet not been necessary to take such action because of increased imports from Japan.

This is in large part due to the careful definitions of the commodities on which concessions are given. Narrowly detailed descriptions of commodities, specifying such things as the minimum value per unit, the number of threads to the inch in woven fabrics, or the color of match stems, have limited the range of application. Before the British and second Canadian agreements were signed, it was estimated that 5 per cent or more of Japan's dutiable imports had benefited from the American trade agreements. The chief articles aided included ribbon and fly catchers under the Belgian agreement, rayon fabric, elastic fabrics, opera glasses and field glasses under the French agreement, and glass tables and kitchen articles under the Czechoslovakian agreement, now inoperative. Between one and three per cent of Japan's normal trade would possibly benefit by the British and Canadian agreements<sup>9</sup> under normal conditions.

On July 26, 1939, the United States denounced the Treaty of Commerce and Navigation together with the accompanying protocol which had governed her commercial relations with Japan for over twenty-eight years. The Treaty expired on January 26, 1940. Though there is little doubt that political

<sup>9</sup> Bloch, Kurt, "British-American Trade Agreements with Japan," *Far Eastern Survey*, December 7, 1938, pp. 282-3.

motives lay behind the denunciation there were plausible reasons for negotiating a new agreement. The old treaty contained a conditional most-favored-nation clause which is out of harmony with the present Hull program based upon the unconditional form. Since 1911 new areas have been added to the Japanese Empire and the extent of application of the treaty needs clarification. Although Japan has pressed for the negotiation of a *modus vivendi* at least, no official arrangements have yet been made (March 1940). The termination of the agreement removes the technical barrier to trade reprisals against Japan and in the words of the newspaper *Asahi*, "suspends a Damocles sword over Japan." Possible executive or legislative measures which the United States is now free to take include: (1) a suspension of Treasury purchases of Japanese gold; (2) the imposition of countervailing duties; (3) placing Japan on the blacklist of the Reciprocal Trade Agreements program; (4) imposition of a supplemental tariff duty of 10 per cent on goods imported in Japanese bottoms; (5) an embargo on American exports to Japan.<sup>10</sup> The threat of a duty on silk might be added. Certainly with respect to methods (2), (3) and (5), the United States would be well within her legitimate rights. By denying the United States most-favored-

<sup>10</sup> The two most important resolutions before the Senate Foreign Relations Committee at the time of writing (March 1940) were the following:

S.J. Res. 123. (Amendment, in the nature of a substitute for S.J. 123 introduced April 27, 1939.) Introduced by Senator Pittman, July 11, 1939. "Until May 1, 1940, whenever the President shall find that any foreign state which is a party to the Nine Power Pact, is endangering the lives of citizens of the United States, or depriving such citizens of their legal rights and privileges in violation of the express provisions and guaranties in said treaty, the President is authorized to restrict or prohibit the export to such foreign state of arms, ammunition, implements of war, iron, steel, oil, gasoline, scrap-iron, scrap-steel and scrap-metal. The authority granted to the President shall be exercised only to the extent necessary for the protection of the lives of citizens of the United States and the rights and privileges guaranteed to them under the Nine Power Pact."

S.J. Res. 143. Introduced by Lewis B. Schwellenbach, June 1, 1939. "There shall be denied export to all merchandise, munitions, etc. (except agricultural products) which there is reason to believe will be used in violation of the sovereignty, independence, etc. of any nation the United States is obligated by treaty to respect. The President shall issue proclamations specifying the articles and materials to be denied export whereupon it shall become unlawful to export or attempt to export such articles or materials. Congress may disapprove proclamations by concurrent resolutions."

Cf. *Our Far Eastern Record*, edited by William W. Lockwood, American Council, Institute of Pacific Relations, New York, January 1940.

nation rights in her present spheres of influence, Japan has qualified for a position on the Reciprocal Trade Agreements blacklist or an executive embargo. By subsidizing her export industries to free exchange countries she has placed her exports in the position against which the countervailing duties were devised as a method of defense. As yet the American Government has given no hint of future moves. A treatyless relation is not satisfactory to either party and can be justified only insofar as it has leverage value to the United States in the present Far Eastern crisis. Eventually the statesmen of both nations must return to negotiations which may involve not only the trade of the two countries but a larger Far Eastern area as well.

Does the United States wish to trade with Japan? If so, under what conditions? Except for natural camphor and silk, both of which are threatened by synthetic products, the United States is not dependent for strategic supplies on Japan. Except for high grade oils and scrap iron<sup>11</sup> Japan would not be dependent on supplies from the United States if it were not for the European war. There is, however, a large group of products which each can buy from the other. It is obvious that it will be many years before the Japanese machine tool industry can be sufficiently equipped to supply the Asiatic markets under her hegemony. Only after a long period will Japan's iron and steel industry be able to meet Far Eastern demands. She needs the grade of oil and the grade of cotton now purchased in the United States and has proved herself especially dextrous in mixing it with other types. In industrial techniques she prefers the United States as a model. In Europe, however, when industry has returned to a peacetime basis, she will be able to find large suppliers if the United States does not offer satisfactory concessions.

Apart from silk and camphor, American imports from Japan are composed chiefly of cheap consumer products. That there is a widespread demand for these articles is apparent from their success whenever they have been able to pass the tariff barriers. Consumers, however, represent an unorganized group who are not represented at tariff hearings. Should the demand for silk be drastically curtailed it is this class of consumer

<sup>11</sup> The Japanese steel industry is reported to be making rapid strides toward freeing itself of dependence on foreign scrap.

products whose sales will have to be expanded if trade is to be maintained, for a Japan drained of her gold and with few foreign investments outside her own sphere of influence will be more dependent than ever on two-way trade.

Both countries are well equipped for bargaining. Japan has a closely integrated economy. Export promotion has been developed to a high point under the leadership of the government with close coordination between producers and exporters and between exporters and shippers all with government affiliations. Strict foreign exchange control, the export-import link system<sup>12</sup> and quantity control under the Emergency Foreign Trade Control Law govern her trade with totalitarian efficiency. She has had experience of barter with Germany and Italy. The United States has four methods on which to rely: the negotiation of a reciprocal trade agreement, the negotiation of a triangular treaty including the Philippines, the use of penalty powers such as the blacklist supplemented by executive controls included in the tariff acts, and an embargo on trade by Congressional action. The last two methods are negative and would be used only if the intention were to cut off trade.

Through the voluntary quota agreements, the United States has had some experience in regulating trade with Japan for purposes of protecting American industry. The use of import quotas could be extended to include a wider range of products assured of admittance. An expansion of the program of controlled imports would call for negotiation by the Department of State, both because there are few American industries as highly organized as the cotton textile industry to make voluntary agreements, and because such a scheme would be directed toward trade-balancing which would require a diversified list. Tariff quotas of the type used in a number of reciprocal trade agreements could be used to advantage. By granting sufficiently generous tariff concessions for carefully determined quotas on a wide range of imports, total imports from Japan could be increased without serious detriment to any domestic industry and with benefit to American consumers.<sup>13</sup> One of the reasons,

<sup>12</sup> The link system devised in the summer of 1938 permits the purchase of foreign exchange to buy foreign raw materials which are to be fabricated into commodities for export.

<sup>13</sup> As for example canned mandarin oranges.



in the past, why increasing Japanese imports have caused such an outcry is that the impact has been concentrated on very few industries.

Except from the psychological and moral angles, the problem of arriving at some sort of agreement should be no more difficult than that involved in the negotiations with the United Kingdom. Though the cost differential between American and Japanese products is much greater than it was between British and American products, so in general is the difference in quality. In many cases articles are not competitive, but are purchased by different income groups. For instance Japanese bicycles are much cheaper than American, and in a low income group, the problem of buying a bicycle is that of taking a cheap foreign one or none at all. If the foreign article is unavailable the demand is simply left unfilled. The same could be said for many of the items offered by Japan, including novelties and specialties.

The other possibility which seems practical would be the negotiation of a triangular treaty including the Philippines. Although American textile interests would oppose any threatened competition in their second ranking foreign market, they might prefer some loss of position there to a loss in the domestic market. Certainly from the point of view of purchasing power, the Philippine Islands offer a natural outlet for cheap products and have proved a ready buyer. This point will be touched on later.

At the present time it is possible that the United States is at the peak of her bargaining position with Japan. We have what Japan needs to buy and we have large credit facilities which to date have been denied her although she has not defaulted on a foreign loan for the last 70 years.<sup>14</sup> Alternative purchases from Europe amounting to some 400 million yen have been cut off by the outbreak of the European conflict and the prospect for alternative purchases of raw materials in Latin America is not great with the exception possibly of cotton and copper.<sup>15</sup> Acknowledging the importance of her imports from us, Japan has pegged the yen to the dollar.<sup>16</sup>

<sup>14</sup> Japanese purchases have been on a cash basis since 1937. The Export-Import Bank has not given any assistance.

<sup>15</sup> During 1931-35 Japan bought 1.6 per cent of her cotton from Brazil; in 1938, 22.4 per cent. Brazil now ranks third as a source for Japanese cotton imports.

<sup>16</sup> Almost as important as the treaty denunciation by the United States was

The mixture of economic, moral and political motives in the determination of trade policy makes it difficult to come to any clear conclusion regarding the future of American-Japanese commercial relations. If American policy is to be influenced mainly by political and moral considerations punitive action against Japanese trade might be taken in order to reduce the effectiveness of Japan's military operations in China. If economic considerations are to be given the greater weight the opportunity exists for America not only to continue those exports which she has been accustomed to furnish to Japan, but to supplant Germany and the United Kingdom as suppliers of additional goods, cut off for the moment by the European war. On the other hand Japan has the opportunity, for a second time, to enlarge her export trade in Far Eastern markets which the European belligerents have hitherto supplied, though the possibilities are less dramatic than they were during the war of 1914-1918. Japan could settle import balances with the United States by means of export balances in those Eastern countries with which the latter has import balances. The difficulties in the path of a restoration of mutually advantageous trade relations between the United States and Japan are political. American diplomatic utterances make it clear that any negotiations with Japan will involve the complex problem of Japan's aims and actions in Asia.

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the decision of the Japanese government, announced on October 24, 1939, to link the yen with the dollar rather than with sterling. The link with sterling for nearly eight years had been predicated on the importance of Japan's export markets for fabricated goods which were predominantly in the sterling area. Today imports have assumed the more important role for Japan and it is essential to maintain the foreign purchasing power of the yen. Any further depreciation of sterling would have had serious repercussions for Japan, since she is more interested in buying than in selling.

## CHAPTER III

### TRADE WITH CHINA

From about 1933 it seemed as if China had at last overcome some of the handicaps to her economic development. The growth of national unity, control over her own tariffs, extension of communication and transport, the monetary, banking and tax reforms, and the scope for her economic planning program all seemed to promise a new era, despite the continued existence of an age-old agrarian problem. Exporters from the industrial nations, particularly the United Kingdom, Germany and the United States, laid plans for an expanding export market. Foreign economic missions came and went.

Though economic planning in China can be said to go back to the Reconstruction Movement of Dr. Sun Yat Sen, changing governments accompanied by changing ideologies had hindered progress. Following the establishment of the National Economic Council as a central planning agency in 1931 the movement gained momentum. The League of Nations assisted. In 1936 it could be said that the principle of state control over economic planning was, in theory at least, generally accepted. The need for collaboration with foreign capital was recognized as vital.

The objectives of all the schemes were similar: railway building, road building, river conservation, harbor construction, power, development of basic industries, introduction of scientific agriculture and crop diversification, colonization of the northwest provinces. For industry the policy had been adopted that light industries would generally be left to the field of private enterprise and that the heavy industries requiring large capital commitments would be owned by the state. A few export regulations such as those for tin and tungsten were put into operation. Two government corporations, the China National Tea Corporation and the China Vegetable Oil Corporation, had been set up to improve these products for the export trade. Before the present hostilities the most significant accom-

plishments were in the field of communications and transport; most of the other schemes were still in the blueprint stage. But China's capacity to industrialize with the aid of foreign capital was demonstrated by the textile industry. By 1933 China was practically self-sufficient in this field.

Full control over foreign trade is basic to the execution of any such national economic plan. This China did not have until 1929. As the result of treaties dictated by foreign Powers she had what has been called a semi-colonial status. Her tariff rates were fixed at 5 to 10 per cent and much of this revenue was pledged to loans; in her treaty ports foreigners lived in concessions and settlements with extraterritorial rights; the doctrine of the Open Door enforced by others limited any special bargaining. In 1928 the beginning of her tariff independence was initiated with the Sino-American treaty which granted to China "complete national autonomy subject to avoidance of discriminatory treatment." Similar treaties with other countries followed soon after.

The first tariff schedules contained moderate rates of duty varying from  $7\frac{1}{2}$  per cent and were levied principally to raise revenue. Subsequent revisions showed upward tendencies which were somewhat stayed until the expiration of the Sino-Japanese Treaty 1929-1933, which guaranteed rates on certain cotton goods, sea products and miscellaneous items. The 1933 revision had several objects in view: higher revenue to supplant the loss of Manchurian customs; protection of domestic industries—and this fell particularly heavily on some imports from Japan;<sup>1</sup> lightening of certain rates on machinery and vehicles. Another upward change had been planned for 1936 but was held in abeyance because of difficulties with Japan. Reduction of export taxes was also begun. This was a wise move, as it had become evident that China was losing valuable trade because of them. The tariff schedules consisted of a single column of rates, applicable alike to all countries according to the Open Door principle. The only other change in trade policy which seemed imminent in 1936 was the movement to liquidate the special rights of foreigners in Chinese territory. Plans to surrender these rights were under consideration by interested countries. Though foreign traders saw certain diffi-

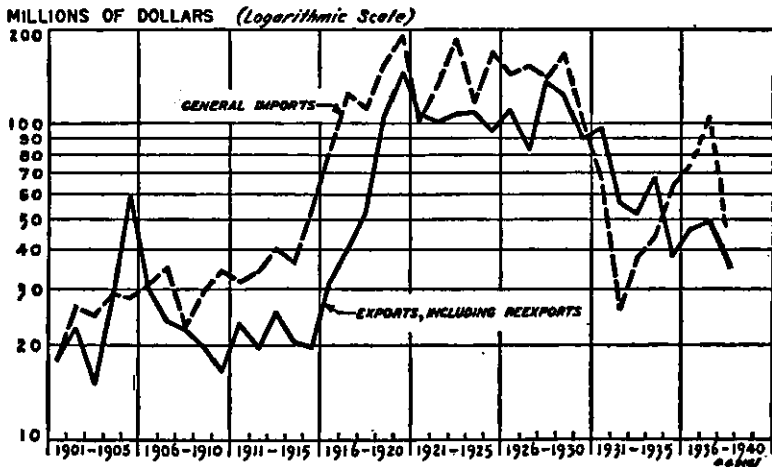
<sup>1</sup> In 1934 there were some reductions in these rates due to diplomatic pressure from Japan.

culties ahead, the optimistic view was generally held before the outbreak of the war that China offered a profitable export field for the industrialized nations.

Viewed against this background, Sino-American trade seemed in 1936-7 to be undergoing a marked change in character. In earlier years American attention had been concentrated on the possibilities of selling consumer goods to a country with nearly a fourth of the world's population, but it had been increasingly realized that the attainment by the Chinese masses of a standard of living which would enable them to absorb large quantities of American consumer products was extremely remote. Consequently trade between the two countries had come to consist mainly in the interchange of raw materials. But by 1936, when the reconstruction movement had borne its first fruit, there were indications of a new trend. The prospect appeared of a substantial market for capital goods which would offer great opportunities to the United States.

Until 1930 the United States had a debit balance with China. In the early thirties, however, there was a shift to a credit balance caused by the swift decline in American imports during

FIGURE 2. TRADE OF THE UNITED STATES WITH CHINA PROPER



the depression. This was sharper than the drop in American exports to China, resulting from the loss of Manchuria, currency difficulties arising out of the silver problem, and a de-

pression in China itself. The American business pickup later returned the balance to the former status.

Part of the decline in trade with China Proper was offset for the years 1937 and 1938 by increased American exports to Hongkong. After the closing of the Yangtze, much of the trade with South and Central China was diverted from Shanghai to Hongkong. The total foreign trade of that port showed the following gains:

(Millions of Hongkong dollars)

	1936	1937	1938
Imports.....	212.3	286.4	342.2
Exports.....	163.4	218.9	269.9

Trade with the United States showed the same tendency except for the decline in exports in 1938, caused by the falling off in American demand for raw materials.

(Millions of Hongkong dollars)

	1936	1937	1938
Imports.....	8.5	20.3	21.3
Exports.....	8.6	9.2	3.4

Individual items imported from the United States which have been of particular importance to China include the following:

- 80-100 per cent of imports of copper, leaf tobacco, office machinery, motion picture films, aircraft and accessories, certain fresh fruits and canned foodstuffs.
- 60-80 per cent of imports of lubricating oils and grease, asphalt, typewriters, banknote and bond paper, and ink.
- 40-60 per cent of imports of tin plates, plate cuttings, bamboo steel, lumber, acids, photographic materials, railway sleepers, office supplies, toilet soaps and radio equipment.
- 25-40 per cent of imports of kerosene, gasoline, liquid fuel, and machine tools.

Individual items in Chinese export trade to the United States which have been of particular importance include:

- 80-100 per cent of exports of skins and furs, tea, seed oil, and vegetable tallow.
- 60-80 per cent of exports of tung oil, embroideries, sheep's wool, cottonseed oil, and human hair.
- 40-60 per cent of exports of bristles, woolen rugs, horse and goat hair, curios, and chinaware.
- 25-40 per cent of China's tins, raw cotton, peanut oil, cowhides, and sausage casings.

The dependence of China on single markets,<sup>2</sup> particularly the United States, for her important exports has been considered a weakness.

The changing composition of trade by economic classes can be seen in Table 16.

TABLE 16  
TRADE OF THE UNITED STATES WITH CHINA  
BY ECONOMIC CLASSES

(Value in 1,000 dollars)

Class	Per Cent of <sup>2</sup> Total	
	1929	1937
Exports (U. S. Merchandise)		
Crude materials.....	30.0	14.7
Crude foodstuffs.....	1.8	.5
Manufactured foodstuffs*.....	7.5	1.8
Semi-manufactures.....	15.4	30.0
Finished manufactures.....	45.3	52.3
Total.....	100.0	100.0
Imports †		
Crude materials.....	61.6	37.7
Crude foodstuffs.....	1.4	2.0
Manufactured foodstuffs*.....	7.1	8.6
Semi-manufactures.....	20.9	38.8
Finished manufactures.....	9.1	13.0
Total.....	100.0	100.0

\* Includes wines, spirits and other beverages.

† General imports, 1929, and "Imports for Consumption," 1937.

In both sets of figures the loss of Manchuria had some effect. Between 1929 and 1937 American exports to China fell off in value by 60 per cent. In 1929, 39.3 per cent of the exports was composed of crude materials and foods; in 1937 only 17.0 per cent was made up of these products. The underlying cause of this change was the growing self-sufficiency of China in agricultural products and a series of good harvests which freed foreign exchange for purchases of other goods, together with the trend toward industrialization for which China has many of the crude materials but needs capital goods. American imports from China between the two periods declined in value by 40 per cent. In 1929 crude materials and foods represented 70.1 per cent of the total imports from China; in 1937, only 48.3 per cent. In absolute figures the only class to show an increase

<sup>2</sup> The United Kingdom for eggs; Japan for raw cotton.

in value in 1937 over 1929 was imports of semi-manufactures. These include hides and skins, bristles, tung oil, cotton and silk waste, antimony, tungsten, tin and antimony oxide.

Trade with China has not been as important to the United States as trade with Japan. In 1937 China ranked thirteenth among American export markets, taking 1.5 per cent of total exports, and seventh among suppliers, sending 3.4 per cent of total United States imports. Her position in the import market has remained relatively stable, while her position in American export trade has shown a generally declining tendency since 1931.

The United States occupies a much more important position in the foreign trade of China than China does in the foreign trade of the United States. In this respect China's situation resembles that of Japan. Both as an outlet for Chinese exports and as a supplier of imports America has usually held first rank. In 1937 she took 17 per cent more of China's exports than Japan. The American share of Chinese imports, however, exceeded Japan's by only 4 per cent in 1937 and in 1938 Japanese imports took first place making up 34 per cent of the total.

A comparison of Tables 17 and 18 shows the increasing importance of the American market for Chinese exports and the

TABLE 17  
CHINA'S SHARE OF UNITED STATES TRADE

	<i>Per Cent of Total U. S. Exports</i>	<i>Per Cent of Total U. S. Imports</i>
1929.....	2.4	3.8
1930.....	2.3	3.3
1931.....	4.0	3.2
1932.....	3.5	2.0
1933.....	3.1	2.6
1934.....	3.2	2.7
1935.....	1.7	3.1
1936.....	1.9	3.1
1937.....	1.5	3.4

declining importance of the United States as a supplier of Chinese imports. During the last decade there has been little change in the types of products demanded by the American market and the changes in value have been mainly due to cyclical trends in business. Sharp changes, on the other hand, have occurred in Chinese imports. In 1930 the bulk of imports



TABLE 18  
UNITED STATES' SHARE OF CHINA'S TRADE

	<i>Per Cent of Total Chinese Exports</i>	<i>Per Cent of Total Chinese Imports</i>
1929.....	13.5	18.2
1930.....	14.7	17.7
1931.....	13.2	22.4
1932.....	12.3	25.4
1933.....	18.6	21.9
1934.....	17.7	26.2
1935.....	23.7	19.0
1936.....	26.4	19.6
1937.....	27.6	19.8
1938.....	27.0	15.6

from the United States had consisted of cotton, wheat, flour, tobacco, dairy products and fruits<sup>3</sup> valued at 44 million dollars. In 1936 the value of these imports dropped to nine million dollars.<sup>4</sup> China is herself an important producer of cotton, wheat and tobacco, ranking among the three first countries in the world in each case. But her agricultural production has been characterized by violent fluctuations due to civil wars and irregular rainfall or floods. When conditions are favorable, as they were in 1936-37, China can be practically self-sufficient in cotton, wheat and tobacco.<sup>5</sup> The future of the Chinese market for American agricultural exports, therefore, depends in large measure upon political vicissitudes and "acts of God." According to the United States Department of Agriculture, China, even with economic planning, will frequently provide a market for these products.

In the Chinese market for capital goods the United States has met with stiff competition from the United Kingdom and Germany in which export credits, use of the Boxer Indemnity Funds, export subsidies and barter have been formidable weapons. Between 1935 and 1937 the percentage of imports from Germany in the total imports of China increased from 11.2

<sup>3</sup> Dairy products and fruits are much less important.

<sup>4</sup> Between 1930-34 China imported from the United States an average of 5,747,000 bushels of wheat and 1,214,000 barrels of flour; in 1937 less than 500 bushels of wheat and 80,000 barrels of flour. In 1932 China imported 413,636,000 pounds of American cotton; in 1937, 5,449,000 pounds. In 1931 China imported 160,886,000 pounds of American tobacco, in 1937, 33,508,000 pounds.

<sup>5</sup> Tobacco production, though old, has been tremendously increased in the past decade. In 1928, China produced 41,606,000 pounds; in 1937, 210,000,000 pounds. U.S. Department of Agriculture, *Foreign Agriculture*, October 1939, Vol. III, page 485.

per cent to 15.3 per cent; the percentage of imports from the United Kingdom increased from 10.6 per cent to 11.7 per cent; the percentage of imports from the United States increased from 19.0 to 19.8 per cent. Except for increasing political friction, Japan would have presented a greater challenge. As it was, during this period Japan's share increased from 15.0 to 15.7 per cent. In 1936 her share was 16.3 per cent, supplemented by an active North China trade in smuggled goods.

### *Commercial Policy*

With the principle of unconditional most-favored-nation treatment in effect and the use of unilateral tariff schedules, the regulations affecting trade between China and the United States were singularly uncomplicated. The major portion of the exports of China to the United States entered free of duty as the following figures show:

Per Cent of United States Imports from China Free of Duty					
1929.....	66.6	1932.....	59.9	1935.....	58.3
1930.....	65.1	1933.....	63.4	1936.....	59.2
1931.....	65.0	1934.....	58.8	1937.....	54.8

Raw material imports on the free list dominated the trade. If it had not been for high protective American tariffs, it is possible that other Chinese products, such as embroideries, would have entered in greater quantity. As in the case of Japan, the excise taxes on oils in the Revenue Act of 1936 had an adverse effect. The tariffs of China, also, fell rather heavily on her imports from the United States. Calculations made for the American Economic Mission to the Far East by an American attaché in 1934 brought out the fact that there were no important American imports into China on the free list. Tariffs on American items ranged from 13 per cent on raw cotton to 175 per cent on kerosene.

### *The Open Door*

As long as the American exporters were assured of equal treatment under the Open Door policy, there was little cause for complaint. Bulwarked by treaties with other world Powers, the Open Door has been the cornerstone of commercial relations between China and the United States. After China obtained control over her own foreign trade it became in reality the unconditional most-favored-nation principle as applied to

the tariff. The following excerpts from the American note of December 31, 1938 give the present American interpretation of the policy.<sup>6</sup>

. . . This country's adherence to and its advocacy of the principle of equality of opportunity do not flow solely from a desire to obtain the commercial benefits which naturally result from the carrying out of that principle. They flow from a firm conviction that observance of that principle leads to economic and political stability, which are conducive both to the internal well-being of nations and to mutually beneficial and peaceful relationships between and among nations; from a firm conviction that failure to observe that principle breeds international friction and ill-will, with consequences injurious to all countries, including in particular those countries which fail to observe it; and from an equally firm conviction that observance of that principle promotes the opening of trade channels thereby making available the markets, the raw materials and the manufactured products of the community of nations on a mutually and reciprocally beneficial basis. . . .

It is known to all the world that various of the parties to treaties concluded for the purpose of regulating contacts in the Far East and avoiding friction therein and therefrom—which treaties contained, for those purposes, various restrictive provisions—have from time to time and by processes of negotiation and agreement contributed, in the light of changed situations, toward the removal of restrictions and toward bringing about of further developments which would warrant, in the light of further changes in the situation, further removals of restrictions. By such methods and processes, early restrictions upon the tariff autonomy of all countries in the Far East were removed. By such methods and processes, the rights of extraterritorial jurisdiction once enjoyed by occidental countries in relations with countries in the Far East have been given up in relations with all of those countries except China; and in the years immediately preceding and including the year 1931, countries which still possess those rights in China, including the United States, were actively engaged in negotiations—far advanced—looking toward surrender of those rights. All discerning and impartial observers have realized that the United States and other of the "treaty powers" have not during recent decades clung tenaciously to their so-called "special" rights and privileges in countries of the Far East but on the contrary have steadily encouraged the development in those countries of institutions and practices in the presence of which such rights and privileges may safely and readily be given up; and all observers have seen those rights and privileges gradually being surrendered voluntarily, through agreement, by the powers which have possessed them. On one point only has the Government of the United States, along with several other governments, insisted: namely, that new situations must have developed to a point warranting the removal of "special" safeguarding restrictions and that the removals be effected by orderly processes.

<sup>6</sup> U.S. Department of State. Press release, December 31, 1938, No. 636.

*Credits*

American investments in China have been curiously small. According to Professor C. F. Remer,<sup>7</sup> in 1914 the United States ranked sixth among the creditors of China, having \$42 million in business investments and \$7.3 million in government obligations. The United Kingdom, Japan, Germany, Russia and France all had considerably more of the total foreign investments of \$1,610.3 million. In 1931, the last date covered by Remer, the United States ranked fourth, having \$155.1 million in business investments and \$41.7 million in government obligations. Her interests slightly exceeded those of France and were more than double those of Germany, whose investments had declined. Compared to British investments (\$1,189.2 million) and Japanese investments (\$1,136.9 million), the American share was insignificant.<sup>8</sup> It has been estimated that in 1936 American investments in China amounted to about \$250,000,000, of which amount one fourth was connected with the oil import business, another fourth with philanthropic and educational institutions and the remaining half chiefly concentrated in Shanghai in real estate and two public utilities (power and telephone). In all, the financial stake amounted to about one fifth of the British interests and two fifths of the Japanese exclusive of Manchoukuo.<sup>9</sup>

There are probably a number of reasons for the lack of interest of American investors. The instability of Chinese Governments did not inspire confidence in the future security of capital, though nearer home this has not always been a deterring factor. The branch factory movement of the twenties was not tempted by potential consumer markets for products; the Chinese Government offered no special inducements; and the foreign control of tariffs had reduced the necessity for this

<sup>7</sup> Remer, *Foreign Investments in China*, New York, 1933.

<sup>8</sup> The major proportion of both the Russian and Japanese business investments was in Manchuria, where both British and American investment was slight.

<sup>9</sup> According to the findings of the Bureau of Foreign and Domestic Commerce, American direct investments in China amounted to 91 million dollars in 1936 which was about a million less than direct investments in the Philippines. This was distributed as follows:

	<i>Number</i>	<i>Value</i>
Manufacturing.....	23	\$ 7,164,000
Distribution.....	25	7,190,000
Miscellaneous.....	19	76,239,000
	<hr/>	<hr/>
Total.....	67	\$90,593,000

method of hurdling them. American industries did not feel the necessity for controlling and operating supplies of raw materials as they have done in Latin America. Except for oil, the characteristic American exports to China did not require distributing agencies. Exports of capital goods needing middle-term credits were not large. In addition, the other capital lending nations had entrenched themselves in China before the United States had become a creditor nation.

Interest in "doing something for agriculture" was the reason for the first governmental interest in loans for trade. In 1931 the Farm Credit Administration extended a loan to China for the purchase of 15,000,000 bushels of wheat and in 1933 the Reconstruction Finance Corporation extended a three-year credit of \$50,000,000 for the sale of cotton, wheat and flour. As security the Chinese Government pledged certain revenue including taxes on roll tobacco, flour, cotton, yarn, matches, and cement. In 1936 what remained of these two loans was transferred to the Export-Import Bank of Washington. The Export-Import Bank did not extend any credits to China on its own behalf until two loans in 1937 for the sale of sulphur and locomotives. Meanwhile both the United Kingdom and Germany had been active in this field and the British Export Credit Guarantee Department had stationed a permanent representative in China.

On December 15, 1938, the Export-Import Bank announced the extension of a \$25,000,000 credit to China, called "the most important American political loan since the World War."<sup>10</sup> The credit is guaranteed by the government-controlled Central Bank of China. The medium used was the Universal Trading Corporation of New York, a private concern owned by Chinese interests.<sup>11</sup> According to the announcement, the proceeds of the loan were to be used to finance the "exportation of American agricultural and manufactured products to China, and the importation of wood oil from China."<sup>12</sup> Up to March 1940 credits

<sup>10</sup> Williams, Benjamin H., *Foreign Loan Policy of the United States Since 1933*, Council on Foreign Relations, 1939, p. 42.

<sup>11</sup> The fact that Mr. Archie Locheed who had been in charge of the operation of the American Stabilization Fund and the government buying under the Silver Purchase Act resigned from his government post in September 1939 to join the Universal Trading Corporation is indicative of the importance attributed to the organization.

<sup>12</sup> Reconstruction Finance Corporation, Press release, December 15, 1938.

for \$19,254,000 had been extended and \$2,558,000 had been repaid. Over 50 per cent of the credits have been expended for automotive equipment and petroleum products, the former accounting for 32 per cent of the total. On February 13, 1940 the capitalization of the Export-Import Bank was increased from \$100 million to \$200 million, thus making possible an additional credit of \$20 million to China, authorized early in March. Commodities suggested for repayment, in addition to wood oil, include tin, tungsten, antimony, silk and tea.

Though they are primarily financial in nature, mention should also be made of the arrangements between the United States Treasury and the Central Bank of China. When the new national currency of China was created, the reserves needed to safeguard it were mobilized by sales of demonetized silver to the United States Treasury in return for gold. Since 1936 the Treasury has continued to make it possible for the Central Bank of China to obtain dollar credits against gold obtained from the purchase of silver.<sup>28</sup> Though the currency is linked to sterling and has been vitally aided by the 50 per cent share of the British in the £10,000,000 Chinese stabilization fund, the United States has been a pivotal factor in the support of the currency. When peace-time trading relations are resumed, this working currency relationship which has been erected for the support of the Chinese exchange might well prove to be an asset in the rebuilding of commercial relations.

#### *Future Trade with Free China*

At present China is linked to the outside world by three main routes: by rail, highway and river to Indo-China; by highway, rail and river to Burma; and by highway and caravan trails to the U.S.S.R. American exports to China have therefore to be shipped through territory under the control of third parties—either Britain, France or the U.S.S.R. These third parties enjoy certain advantages over the United States in trading with China since their access is more direct and they control established transportation services. In some cases their shipping conferred an additional advantage and special negotiations may be necessary to assure equal treatment for the goods

<sup>28</sup> These operations have been made possible by the powers granted to the Secretary of the Treasury in the Administration of the Stabilization Fund and the Silver Purchase Act of 1934.

TABLE 19  
CREDITS EXTENDED BY THE EXPORT-IMPORT BANK TO CHINA, 1936-1938

<i>Date Approved</i>	<i>Applicant</i>	<i>Commodity</i>	<i>Amount of Commitment</i>	<i>Amount Disbursed</i>	<i>Amount Repaid</i>	<i>Amount Outstanding</i>	<i>Amount of Commitment Now Available to Exporter</i>	<i>Remarks</i>
May 28, 1936	Reconstruction Finance Corp., (\$13,537,387.79) and Farm Credit Adm. (\$3,070,942.20)	Cotton and Wheat	\$16,608,329.99	\$16,608,329.99	\$6,108,329.99	\$10,500,000.00	None	Payable in instalments through 1942
Feb. 10, 1937	Wah Chang Trading Corp., New York, New York	Sulphur	85,000.00	75,000.00	75,000.00	..	None-Balance of commitment canceled	Full recourse against applicant
May 4, 1937	Anderson, Meyer and Co., New York, New York Baldwin Locomotive Works, Philadelphia, Pennsylvania American Locomotive Sales, New York, New York	Locomotives	1,600,000.00	733,200.00	201,630.00	531,570.00	None-Balance of commitment canceled	Applicant carries 50% term; 5 years monthly
Dec. 13, 1938	Universal Trading Corp., New York, New York	Agricultural and Mfg. Products	25,000,000.00	9,160,000.00	480,000.00	8,680,000.00	\$15,840,000.00	Term 5 years instalments. Obligation is guaranteed by Bank of China

Source: Export-Import Bank, Washington.

of the United States and other outside countries passing to and from China over the intervening territories. Since the United States is contributing to the development of China's external trade routes it is important to her that the position of her commerce over them in the future should be made clear.

In addition to the developments already mentioned, plans for the rehabilitation of areas devastated by war and for the exploitation of resources in Western China—a hitherto untouched commercial frontier—must be taken into account in estimating the character and extent of the market which China may offer to the United States in the future. The market created by the execution of such plans would be principally one for capital goods and its extent would be limited by the availability of foreign credit and China's own capacity to carry out her schemes. Whether or not the principle of the Open Door survives, the future Chinese market is not likely to be a free one; it is certain to be subject to a large measure of government regulation. Already the status of secondary industries has changed; whereas formerly they were left to private enterprise, today they are being rapidly developed by the Chinese Industrial Cooperatives Society, financed in large part by the government. Trade has been strictly regulated by the Export Restriction Law (July 13, 1939) which applies to thirty-eight tariff classes and the Import Restriction Law (August 31, 1939) which includes 167 tariff items.

If she is to provide a share of Chinese imports in the future, the United States will have to use all her bargaining equipment to offset the effect of barter schemes<sup>14</sup> and the subsidized exports offered by other nations. Also she will have to show some willingness to receive Chinese exports.<sup>15</sup> American dependence on China has never been great and has been materially lessened during the past few years. Tungsten and antimony are being bought in other areas and replaced by satisfactory substitutes;

<sup>14</sup> On March 31, 1939, China and Germany concluded a barter agreement involving the export of raw materials to the value of 10,000,000 Chinese dollars in exchange for manufactured goods including railway equipment.

<sup>15</sup> Though somewhat beside the point, the case of Chinese handkerchiefs is of interest. In the Anglo-Swiss agreement a concession was given on embroidered handkerchiefs by the United States. Under the generalization of benefits, large quantities of Chinese hand embroidered handkerchiefs have been admitted, which have caused complaints from Puerto Rico. In consequence, in February 1940, the United States sought a modification of the Agreement to make clear that the concession applies only to machine-made articles.



tung oil, once considered an essential, is being replaced by oils from Latin America and synthetics produced in the United States. Wool can be purchased in Argentina. A basis for mutually beneficial complementary trade does exist between China and America but each can satisfy her essential needs elsewhere if necessary.

*The Future of the Open Door in Manchuria and Occupied China*

American experience with the Japanese interpretation of the Open Door policy in Manchoukuo and the occupied areas of China has shown it to be a farce and gives a clue to future prospects in territory under the aegis of Japan. Briefly it has meant that the door is open only to that proportion of the trade which Japan cannot supply. In other words, Japanese trade has been placed in a preferred position by means of various trade controls and currency measures. There was until recently a further possibility that other sympathetic countries such as Germany would be permitted to enter by the back door, using barter and compensation agreements.

These policies have been condemned by the United States Department of State. In the notes to Japan under dates of October 26, 1938 and December 31, 1938, the following specific points were mentioned as a contravention of the Open Door:

1. Arrangements which allow the free movement of goods and funds between Manchuria and Japan but which restrict rigidly the movement of goods and funds between Manchuria and other countries.—“This channeling of the movement of goods is effected primarily by means of exchange control exercised under the authority of regulations issued under an enabling law which provides expressly that for the purposes of the law Japan shall not be considered a foreign country nor the Japanese yen a foreign currency. In the opinion of my Government equality of opportunity or the Open Door has virtually ceased to exist in Manchuria notwithstanding the assurances of the Japanese Government that it would be maintained in that area.”
2. Alterations of the Chinese customs tariff.—“It is hardly necessary to add that there can be no equality of opportunity or Open Door in China so long as the ultimate authority to regulate, tax, or prohibit trade is exercised, whether directly or indirectly, by the authorities of one ‘foreign’ power in furtherance of the interests of that power.”
3. Creation of monopolies.—“It would appear to be self-evident that a fundamental prerequisite of a condition of equality of opportunity or Open Door in China is the absence in the economic life of that country

of preferences or monopolistic rights operating directly or indirectly in favor of any foreign country or its nationals."

Under the old trading methods the Open Door principle provided a relatively satisfactory guarantee of fair treatment. But the widespread introduction of trade controls of one kind or another tended to lessen its effectiveness. Foreign exchange controls, especially when operated according to the principles of bilateralism, import quotas, barter agreements and government monopolies of exports and imports present complex problems in the interpretation of most-favored-nation rights. Even without Japanese intervention in Eastern Asia the continued application of the Open Door principle there would probably have involved many difficulties as centralized controls developed.

The present Japanese interpretation of the Open Door is another matter. Various high officials have avowed that Japan intends to maintain the Open Door under the "New Order"; that Japan does not aim at monopoly in these areas; and that present restrictions are only emergency regulations during the period of hostilities. Although the exact position will not be known until these temporary restrictions are both defined and removed, experience with the "Open Door" in Manchoukuo is indicative of the Japanese view as to the proper width of the opening. Banking and currency control, purchases and sales by government monopolies, economic development directed by Japanese capital, tariff changes and linked trade agreements all have tremendous power of trade diversion.

According to Professor Griswold,<sup>18</sup> a "Japanese guarantee [to other countries] of unconditional most-favored-nation treatment applying to Manchoukuo and the amorphous Yen Bloc would . . . come very close to approximating the historical open door in China." Under the former treaties the guarantors reserved certain powers in their territorial concessions, and in other "spheres of influence" over which they had no legal sovereignty, they exercised a variety of discriminations against competitors in favor of their nationals. American exporters under a Japanese guarantee would be placed upon an equal footing with all other exporters except Japan. The trade of countries whose exports did not compete with Japan would not suffer under

<sup>18</sup> Griswold, A. Whitney, "Facing Facts about a New Japanese-American Treaty," *Asia*, November 1939, p. 617.

such an arrangement, but trade in commodities competitive with Japanese products would be placed under a decided handicap. Such an interpretation would reverse the avowed stand of the United States government.

Ambassador Grew in his Tokyo speech of October 20, 1939 scouted any such possibility. He warned Japan that a door could not be opened to her trade in the United States and closed on America's trade in China. Though the United States has acquiesced in the principle of Empire preference in dealing with the British Commonwealth and has practiced it herself in her dependencies, she has to date refused to recognize such a relationship imposed by military forces on independent China. The United States has, also, taken a liberal stand on multi-lateral agreements which reduce trade barriers among the signatories and has recognized special relations of neighbors. In the reciprocal trade agreement with Czechoslovakia, for example, the United States waived her most-favored-nation rights in the case of Czechoslovakian trade with Austria, Hungary, Yugoslavia and Rumania. Her policy and point of view, which are well known and clearly stated, leave the way open *if* Japan should revise her tactics.

From the evidence at hand, it seems clear that Japan is looking toward the Asiatic territories as sources of supplies of raw materials which she needs and as markets for her manufactures, particularly those which require a more advanced industrial technique. She has initiated various trade controls to accomplish her ends. Patterns for similar arrangements can be found in many of the colonial empires of the Pacific. In accordance with Japanese interests, the opportunity for outsiders such as the United States will probably be limited to satisfying the needs which Japan herself cannot supply and the door will be opened mainly to those countries whose import takings will offset debit accounts. Unless the pace is slow, it is extremely doubtful if Japan will have sufficient capital to carry out her plans. Loans with agreements to purchase in the creditor country would offer the most likely method but the control and policies would be in the hands of the Japanese whose bargaining power would be greatly enhanced. Also, triangular trade agreements, such as those made with Germany, would probably be used, since Eastern Asia would function as a bloc under Japanese domination.

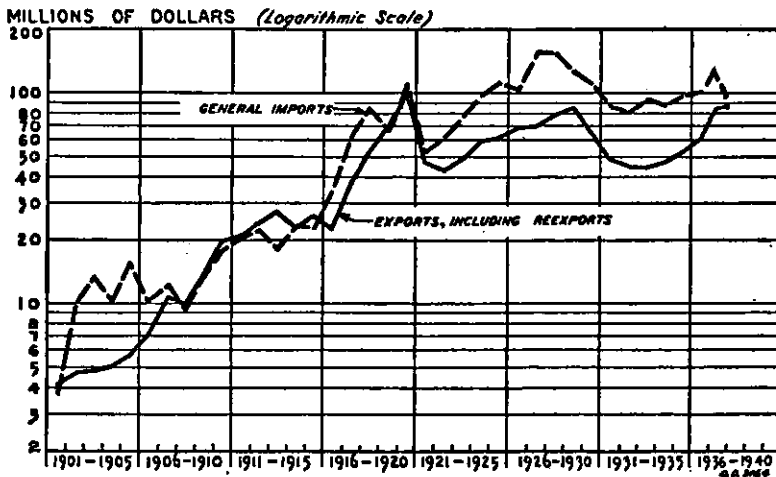
Whatever the outcome of the present conflict, the economic development of China will go forward. China as well as Japan has a plan for the territory under her control. The former looks toward a balanced national program, the latter lays emphasis on the development of complementary relationships. Under either régime commercial policies will be dictated by highly centralized governments. There would however be this major difference. Trade control in Japanese dominated areas would be exercised in Japan's favor. Trade controls in a free China would probably be exercised without discrimination.

## CHAPTER IV

### TRADE WITH THE PHILIPPINE ISLANDS

The Philippines have developed economically in a typically colonial fashion. Money crops for which there was a duty-free market with protected price levels in the United States have been stimulated by the use of American capital; foodstuffs for domestic consumption have been crowded out; domestic industries have not been much encouraged. Consumers' goods, products of the so-called secondary industries, have been customary imports from the suzerain. An increasing proportion of the Islands' trade has been absorbed by the United States. In 1900,

FIGURE 3. TRADE OF THE UNITED STATES WITH PHILIPPINE ISLANDS



Source: Bureau of Foreign and Domestic Commerce

two years after occupation, 11 per cent of the total Philippine import-export trade was with the United States. In 1910, 41 per cent; in 1920, 65 per cent; and in 1937, 71 per cent. The United States, on the other hand, is far less dependent on Philippine trade.<sup>1</sup> In 1900, only .04 per cent of the total trade of the

<sup>1</sup> U. S. Bureau of Foreign and Domestic Commerce, *Trade of the United States with the Philippine Islands* (adapted), September 9, 1938.

United States was with the Philippines; in 1910, 1.5 per cent; and in 1937, 3.2 per cent.

From 1905 until the end of the first World War, trade between the two countries was pretty well balanced. (Figure 3.) After the war a "scissors" condition was created. The difference in spread was utilized to offset the increasing invisible exports of the United States and to settle unfavorable balances in both with the rest of the world. Since the restrictive policies of the United States inaugurated in 1934, the blades of the scissors have tended to come nearer together. Due to war conditions in the Far East, the trade balance was reversed in 1938.

During the period 1927-1937 (Table 20) the importance of Philippine trade to the United States increased from 1.7 per

TABLE 20  
TRADE OF THE UNITED STATES WITH THE PHILIPPINE ISLANDS  
BY ECONOMIC CLASSES, 1929 AND 1937

Class	Per Cent of Total	Ratio <sup>a</sup> Phil. Is. to Total	Per Cent of Total	Ratio <sup>a</sup> Phil. Is. to Total
	1929		1937	
<b>EXPORTS (U. S. Merchandise)</b>				
Total.....	100.0	1.7	100.0	2.6
Crude materials.....	.7	.1	.8	.1
Crude foodstuffs.....	1.4	.4	1.5	1.3
Manufactured foodstuffs <sup>b</sup> .....	14.8	2.6	9.7	4.6
Semi-manufactures.....	11.2	1.3	10.9	1.4
Finished manufactures.....	71.9	2.4	77.1	4.0
<b>IMPORTS<sup>c</sup></b>				
Total.....	100.0	2.9	100.0	4.2
Crude materials.....	21.9	1.8	19.8	2.6
Crude foodstuffs.....	...	...	.1	<sup>d</sup>
Manufactured foodstuffs.....	42.6	12.7	55.2	15.8
Semi-manufactures.....	24.8	3.5	17.3	3.4
Finished manufactures.....	10.8	1.4	7.7	1.8

<sup>a</sup> Per cent of United States total of each economic class exported to or imported from the Philippine Islands.

<sup>b</sup> Includes wines, spirits and other beverages.

<sup>c</sup> General Imports, 1929, and "Imports for Consumption," 1937.

<sup>d</sup> Less than one-tenth of one per cent.

cent of total United States exports to 2.6 per cent; from 2.9 per cent of total imports to 4.2 per cent. Each classification of exports, with the exception of crude materials which remained the same, increased its percentage share of total American ex-

ports; each classification of imports, with the exception of crude materials which decreased slightly, increased its share of total American imports.

In both years 87 per cent of the exports of the United States to the Philippines consisted of manufactured goods—finished

TABLE 21

UNITED STATES EXPORTS TO PHILIPPINES OF SELECTED DOMESTIC COMMODITIES FOR WHICH THE PHILIPPINES RANKED FIRST OR SECOND AMONG UNITED STATES EXPORT MARKETS, 1936\*

<i>Commodity</i>	<i>Value</i>	<i>Rank of the Philippines</i>
Cotton manufactures, total.....	\$6,481,731	2†
Cigarettes.....	3,651,557	1
Rubber and manufactures.....	2,057,729	2
Steel sheets, galvanized.....	1,896,706	1
Wheat flour, wholly of United States wheat.....	1,573,210	1
Dairy products.....	1,164,713	1
Nitrogenous fertilizer materials.....	1,112,093	2
Explosives, fuses, and blasting-caps.....	946,333	1
Sewing-machines for domestic use.....	927,183	1
Toilet preparations.....	673,856	1
Educational textbooks, bound.....	389,145	1
Soaps.....	476,981	1
Canned sardines.....	410,376	1
Ready mixed paints, stains, and enamels.....	384,366	1
Cornstarch and corn flour.....	291,789	2
Chewing-tobacco, plug and other.....	287,564	1
Cigar leaf.....	264,288	1
Coffee, green.....	255,929	2
Malt liquors (beer, ale, stout, etc.).....	236,556	1
Steel bars other than iron bars, and concrete reinforcement bars.....	225,279	1
Internal-combustion engines, diesel and semi diesel..	200,610	1
Beef and veal, fresh and frozen.....	198,818	2
Wire rope and wire strand.....	188,739	2
Upper leather (except patent), cattle side, grain, other than black.....	176,405	2
Sugar-mill machinery other than cane mills.....	169,911	2
Glucose (corn sirup).....	142,274	2
Confectionery, chocolate.....	133,018	1
Welded galvanized pipe, steel.....	125,869	1
Canned pork.....	122,670	2
Cocoa, powdered.....	121,086	1
Canned sausage.....	120,168	1
Household refrigerators, except electric.....	118,239	2
Salves and ointments for coughs, colds, etc.....	112,524	2

\* The Philippines also ranked first or second among the export markets of the U.S. for a large number of other products, the value of which ranged between \$50,000 and \$100,000 in 1936; these products were: boots and shoes, cut outer soles; pickles; ketchup and other tomato sauces; chocolate; roasted coffee; confectionery other than chocolate; paper boxes and cartons; sanitary closet bowls; plaster of paris manufactures; iron or steel sashes and frames; cast-iron screwed pipe-fittings; cast-iron soil pipe and fittings; woven wire fencing; and others.

† Regained first place in 1937.

manufactures and manufactured foodstuffs. In 1937 the increase in the share of the former offset the loss in the share of the latter. The importance to the United States of trade with the Philippines is, therefore, in the main as an outlet for manufactured products. Import trade is shared more evenly by foodstuffs (partly and wholly manufactured) and raw materials, with a tendency for manufactured foodstuffs to take the lead. The importance of this source of supplies to the United States depends upon the opportunity and desirability of securing these products in other markets or at home.

Principal American exports to the Philippines can be seen in Table 21. In six of the twenty-one classes the United States

TABLE 22  
VALUES OF PRINCIPAL PHILIPPINE IMPORTS FROM ALL COUNTRIES AND VALUES AND PROPORTIONS OF TOTALS IMPORTED FROM THE UNITED STATES, 1936 AND 1937 (PRELIMINARY)\*

(Value in 1,000 dollars)

Commodity	1936			1937		
	Total	From the United States	Ratio of imports from the United States to total imports Per Cent	Total	From the United States	Ratio of imports from the United States to total imports Per Cent
Iron and steel manufactures.....	16,016	12,291	77	19,340	14,071	73
Cotton goods.....	15,268	6,782	44	17,454	7,658	44
Mineral oil.....	7,163	6,093	85	6,502	4,859	75
Automobiles and parts (exclusive of rubber tires).....	4,272	4,255	100	4,610	4,566	99
Wheat flour.....	3,950	1,547	39	4,102	1,574	38
Dairy products.....	4,069	1,222	30	3,719	959	26
Tobacco products.....	3,565	3,516	99	3,670	3,626	99
Electrical machinery, apparatus, and appliances.....	2,915	2,520	86	3,427	2,908	85
Silk, rayon, and manufactures.....	2,882	842	29	3,098	1,124	36
Paper, unprinted.....	2,266	1,475	65	2,870	1,891	66
Chemicals, drugs, dyes and medicines.....	2,788	1,854	66	2,851	1,877	66
India rubber and manufactures....	2,235	1,996	89	2,271	1,957	86
Vegetable fibers and manufactures (other than cotton).....	1,941	52	3	2,072	62	3
Fish and fish products.....	1,529	784	51	1,780	536	30
Fertilisers.....	2,136	1,304	61	1,752	703	40
Vegetables.....	1,691	834	49	1,751	742	42
Leather and manufactures.....	1,259	1,173	93	1,493	1,359	91
Meat products.....	1,443	892	62	1,321	631	48
Fruits and nuts.....	1,417	1,074	76	1,196	762	64
Glass and glassware.....	753	319	42	1,025	314	31
All other.....	21,126	10,673	49	22,719	11,124	49
<b>TOTAL.....</b>	<b>101,125</b>	<b>61,497</b>	<b>61</b>	<b>109,026</b>	<b>63,302</b>	<b>58</b>

\* Joint Preparatory Committee on Philippine Affairs, Report of May 20, 1938, Volume I, p. 30



supplies 50 per cent to 99 per cent of the imports; in eleven, 30 per cent to 49 per cent. The importance of the Islands to the United States is shown more vividly in the last column of Table 21 which indicates the rank of the Philippine market among outlets for specific American commodities.<sup>2</sup> For sixty-two classes of commodities the Philippine market stands first or second. The question of retaining the Philippine market as an outlet for surplus manufactured products of these industries is thus a matter of serious concern.<sup>3</sup>

The principal Philippine exports to the United States are listed in Table 23.<sup>4</sup> Analyzed from the point of view of the Philippines, the figures show excessive dependence on the American market. In the case of four commodities comprising roughly 40 per cent of their total world trade, 100 per cent goes to the United States; in seven, 50 to 99 per cent; and in four, 30 to 49 per cent.

A consideration of the actual commercial intercourse between the two countries makes obvious certain facts. In 1937 the United States supplied 58 per cent of the Philippine market. Because of abnormal conditions in 1938 the percentage rose to 68 per cent. But her exports to the Philippines amount to only 2.6 per cent of total American exports. In every case the American domestic market is the chief consumer of the product, and the exports represent a surplus. Also, in many cases these products could be bought by the Philippines from other countries. The prospect of finding alternative markets for American manufactured products in the present state of world trade is not too hopeful.

<sup>2</sup> Joint Preparatory Committee on Philippine Affairs, Report of May 20, 1939, Washington, Vol. I, pp. 31-33, (adapted).

<sup>3</sup> The Philippine market for electrical equipment is a case in point. In 1937 American exports of these products totaled over three and one-half million dollars. The following comment by a government official illustrates the advantages of the present economic relationship in this case:—

"American electrical machinery and apparatus comprise approximately 85 per cent of that country's electrical imports. Aside from the advantages stemming from free trade, American electrical products derive added competitive strength from such other factors as the Flag Law, which provides price concessions to American manufacturers who participate in bidding on Government projects, and the fact that many Filipino engineers and technicians have been educated along American lines has made for a fairly general acceptance of and preference for American electrical standards and equipment." (Bernard I. Feig, "Million Dollar Electrical Export Markets—Philippine Islands," *Commerce Reports*, February 26, 1940, pp. 188-9.)

<sup>4</sup> Joint Preparatory Committee on Philippine Affairs, *ibid.*, p. 28.

TABLE 23  
VALUES OF PRINCIPAL PHILIPPINE EXPORTS TO THE WORLD  
AND VALUES AND PROPORTIONS OF TOTALS EXPORTED  
TO THE UNITED STATES, 1936 AND 1937 (PRELIMINARY)\*

Commodity	1936			1937		
	Total	To the United States	Ratio of exports to the United States to total exports Per Cent	Total	To the United States	Ratio of exports to the United States to total exports Per Cent
Sugar.....	61,937	69,927	100	57,706	57,611	100
Abaca.....	17,089	5,337	31	21,640	6,851	32
Coconut oil.....	13,789	13,137	95	20,526	20,174	98
Copra.....	15,000	9,772	65	15,985	14,425	90
Desiccated coconut.....	4,397	4,353	99	6,347	6,304	99
Tobacco and products.....	5,245	2,562	49	4,983	3,290	66
Timber and lumber.....	3,100	1,190	38	3,943	1,263	32
Embroideries.....	4,192	4,184	100	3,700	3,681	99
Copra cake and meal.....	1,830	1,034	57	2,900	1,419	49
Canned pineapple.....	502	501	100	1,673	1,673	100
Cordage.....	1,199	450	38	1,436	496	35
Iron ore.....	1,432	..	..	1,326	8	1
Maguay.....	1,058	148	14	1,087	39	4
Chrome ore.....	154	118	77	771	703	91
Vegetable butter (margarine)...	336	103	31	513	113	22
Hats.....	588	480	82	467	383	82
Gums and resins.....	337	230	68	375	231	61
Cutch.....	323	323	100	348	348	100
Hides and skins.....	145	3	2	319	9	3
Buntal fiber.....	341	..	..	301	..	..
Molasses and sirup.....	252	110	43	276	43	16
Pearl buttons.....	219	219	100	275	274	100
Vegetable lard.....	450	340	76	248	66	27
All other.....	6,271	4,828	77	6,133	1,340	22
<b>TOTAL</b>	<b>136,445</b>	<b>107,525</b>	<b>79</b>	<b>153,278</b>	<b>122,755</b>	<b>80</b>

\* The exports are exclusive of gold bullion and ore.

On the other hand the Philippines send by far the largest part of their total exports to the United States—80 per cent in 1937. Moreover, most of the commodities involved in this trade are produced primarily for export and have only a very limited domestic market. Should the United States market be lost, there would be little possibility of finding alternative outlets and whole industries would be faced with ruin. Only two of the commodities exported from the Philippines to the United States are ranked as essential raw materials, namely chromite<sup>5</sup> and manila fiber; but Cuba and Brazil could supply

<sup>5</sup> Comment should be made here on the status of Philippine chrome ore about which there is considerable misunderstanding. Chromite has three major uses—metallurgical, chemical and refractory, each of which requires ore of different chemical and physical properties. Ore suitable for metallurgical purposes is the most important for strategic purposes. At present there is no known process for converting lower grade ore into metallurgical chromite. To date the

American requirements of chrome ore and a number of Latin American countries produce fibers which could be substituted satisfactorily for manila hemp. The continuance of the present exchange of goods between America and the Philippines is thus very much more vital to the Islands than it is to the United States.

The explanation of the development of Philippine-American trade to its present level of importance is to be found in the virtual absence until recently of any restrictive regulation or control by either party. In 1909, when the Treaty of Paris expired, the Philippines opposed the extension of the principle of free trade with the United States. Despite opposition it was imposed upon them. By the United States Tariff Act of 1909 and the Philippine Tariff Act of that year, reciprocal free trade was inaugurated. The minor exceptions included at that time were for the most part removed in the United States Tariff Act of 1913. The United States has never attempted to assimilate the Philippine tariff, and, except for the preferential trade relations between the two countries, the Philippines have been left free to determine their own tariff schedules which have been relatively low except on tobacco. The chief handicap to the Philippine government was its lack of power to negotiate commercial agreements with other countries.

Not until 1934 were there any basic changes in these relations. Since then several measures have been passed by the United States Congress which have altered fundamentally the import regulations of the United States. The Philippine Independence Act (Public No. 127, 73rd Congress) was passed in March, 1934 and accepted by the Philippine Legislature in 1935. So far as trade is concerned, its purpose is to sever the Philippines gradually from dependence upon the United States market. The period of emancipation covers ten years from November 15, 1935 to July 4, 1946. During the period from November 15, 1935 to November 15, 1940, "free" trade is to be continued with certain exceptions discussed below. During the succeeding five years the Philippine Commonwealth has undertaken to assess increasing export taxes against exports to the United States which are not on the free list. The rates will

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chief shipments of Philippine chromite have been of the metallurgical variety. But the reserves of this grade are limited and known deposits small. The large publicized reserves are of chromite suitable for refractories.

progress from 5 per cent of prevailing United States duties in 1941 to 25 per cent of the existing United States duties in 1945. They were designed to operate as if they were American protective tariffs. No provision was included to curtail United States exports to the Philippines, nor has the Philippine Commonwealth the legal power to impose any.

In addition, other trade control measures have been adopted by the United States to the immediate, if not the long-run, detriment of Philippine exports; they include the Jones-Costigan Act of 1934, the Revenue Acts of 1934, 1935 and 1936, and the Cordage Act of 1935. The Jones-Costigan Act put absolute limits on the amounts of sugar which could be exported to the United States, whereas the Independence Act merely limited the amount which could enter duty free. Since the expiration of the Jones-Costigan Act, the quota provisions have been continued under the Sugar Act of 1937. In the Revenue Act of 1934, later somewhat modified by the Acts of 1935 and 1936, there was included a processing tax of three cents per pound on coconut oil expressed from Philippine copra, the proceeds of which are remitted to the Philippines. As foreign oils pay a tax of five cents, the Philippine products have a two-cent preference. The Cordage Act of 1935, since extended to 1941 by Presidential Proclamation, enlarged the duty free quota permitted under the Independence Act, but changed it to an absolute quota. Because of the wide fluctuations in agricultural prices it should be noted here that quotas based on quantity rather than value fall heavily on a country which imports manufactured products. For example, in 1938 exports of Philippine sugar to the United States were substantially unchanged in volume, but their value dropped 13 per cent.

Looked at in the large, it can be said that the United States has placed rather strict regulations on Philippine exports in her own interests. In only one case, however, has she openly dictated to the Philippines a restrictive trade policy affecting a third country—the exception being Japan. Prior to 1935 the Philippines were the leading market for American cotton piece goods, taking 31 per cent of American cotton textile exports. Seventy-two per cent of all Philippine textile imports came from the United States. Following Japan's export drive, which put her in first place among suppliers to the Philippines, the American share dropped to 33 per cent in 1935. In terms of

quantity, imports from the United States dropped from 68 million square meters in 1933 to 35 million square meters in 1935, whereas those from Japan increased from 24 million square meters in 1933 to 72 million in 1935. In order to maintain a hold on the Philippine cotton textile market, or in the words of the government publications, "to stabilize conditions," the United States persuaded Japan in 1935 to enter into a "gentlemen's agreement" to limit exports to the Philippines to 45 million square meters for two years in return for a pledge not to increase tariffs. This agreement has subsequently been renewed for three one-year periods with minor modifications.<sup>6</sup> The following comment of the Joint Preparatory Committee on this point is of interest:

As a result of the restriction, prices of Japanese textiles in the Philippine market have been increased, the effect of which has been to tax Philippine consumers for the direct benefit of Japanese producers and for the indirect benefit of American producers.<sup>7</sup>

The Committee recommended an increased tariff, to accomplish the same purpose which would benefit the Philippine treasury.<sup>8</sup>

In a sense, also, the failure of Philippine sugar to obtain a share in the world's free sugar market has been due to the link with the United States. Under the terms of the International Sugar Agreement (1937) the Government of the Commonwealth of the Philippines has agreed not to export to countries other than the United States and her possessions so long as the United States maintains a quota for Philippine sugar equal to 800,000 long tons of unrefined sugar plus 50,000 long tons of refined sugar per calendar year, and so long as other exporters are not given additional world quotas. If world consumption is increased, the Islands are to be allocated 4 per cent of world import needs.

Events in the Orient moved swiftly after the signing of the Independence Act. Subsequent reflection has emphasized the

<sup>6</sup> In 1937 the United States regained first place among suppliers to the Philippines, chiefly because the Japanese were not able to fulfill their quota, owing to war conditions. Increased exports from the United States also made the Philippines the leading market for American cotton textiles.

<sup>7</sup> Joint Preparatory Committee on Philippine Affairs, Report of May 20, 1938, p. 98.

<sup>8</sup> In 1938, as a result of the China "Incident," America's share of Philippine textile imports increased 33 per cent and Japan's share declined by 22 per cent.

scars which the severance of the tie will leave on trade relations as well as the instability likely to result from increased dependence upon unprotected markets. While there is no thought of departing from the basic principle involved, there is still opportunity to define the future economic relationship more satisfactorily. In the United States there are three schools of thought: those who desire the abandonment of all ties and the treatment of the Philippines as a foreign country; those who wish to retain the free trade relationship; and those who favor the development of preferential relations looking toward a kind of economic Dominion status.

Arguments in favor of the first position are brought forward by two groups. The "Farm Bloc" looks upon imports from the Philippines as a menace. Sugar and coconut products which compose over 80 per cent of our purchases (if oleomargarine and butter substitutes are included) are definitely competitive with beet sugar, cottonseed derivatives and certain dairy products. With raw cotton hard pressed in world markets and experiments under way to grow cotton with bigger and oilier seeds, the complaints of the cotton growers carry a special appeal. In answer to the arguments of this group, however, Edgar Snow<sup>9</sup> has aptly pointed out that they have failed to recognize their own interests. Counterbalancing the competitive effect of imported oils upon domestic cottonseed oil is the fact that the Philippines are the best external market for American cotton piece goods. Imports of Manila cigars are competitive, but the Philippines are the best American export market for cigarettes. Competition is offered by imports of Philippine edible oils, yet the Philippines import a greater value of such products as milk, flour, meat and other agricultural products. Not only do the Philippines supply certain essential oils for the soap industries not available at home, but they are the best soap export market.

The other group urging complete separation by 1946 lacks any formal organization, but is composed of Americans who would like to break off all our economic ties with the Orient, either because they believe that such a rupture is eventually inevitable, or because they are more interested in developing the countries of the two Americas as a regional group, by favoring new imports from Latin America. It suffices to state here

<sup>9</sup> Snow, Edgar, "Filipinos Change Their Minds," *Asia*, September, 1939, p. 495.

that the Caribbean, Central American and tropical South American countries could supply most of the imports which now come from the Philippines.

The second proposal—to maintain the existing free trade relationship between the two countries—is influenced by both utilitarian and idealistic motives. With the decline in world market opportunities, the remaining free markets are assuming increasing importance. As pointed out in recent official studies, the Philippines are America's first or second largest export market for a wide range of manufactures. Naturally the exporters concerned are unwilling to risk the loss of this market. Moreover it is to the interest of the American exporters to see that the export of Philippine raw materials remains profitable, since there will then be less pressure to develop competitive industries in the Islands. On more idealistic grounds it is felt by many that the cessation of free trade between America and the Philippines would be a backward step. Since the United States is striving to open up the channels of trade, they ask, why deliberately erect barriers in a market where there are none? Though the policy advocated by these groups would not necessarily preclude regulation of Philippine trade comparable to that now exercised by the United States, it would delay the plans for a more diversified economy which the Filipinos already envisage, and would tend to develop a complementary relationship such as France has sought to establish with her colonies.

The third proposal is for the Philippines to take a middle way analogous to Dominion status in the economic sphere. The United States and the Philippines would each regulate their own trade independently, but the exports of each to the other would be given special treatment in competition with the products of third countries. The regulation of American trade with Cuba offers a model for this type of arrangement. In this connection it is interesting to note that since the signing of the reciprocal trade agreement with Cuba the United States has increased its share of Cuba's import trade from 58.3 per cent in 1935 to 70.9 per cent in 1938, a percentage comparable to the American share of the Philippine import trade. In the case of Cuba, trade relations have also been strengthened by means of loans from the Export-Import Bank; similar loans might be

extended to the Philippines, where they would stimulate development, if that were deemed desirable.

Such a policy would necessitate a clarification if not a revision of American commitments to Cuba. Both in the United States Commercial Convention of 1902 with Cuba and in the United States-Cuban reciprocal trade agreement of 1934 Cuba was guaranteed special advantages. The relevant clause in the latter agreement provides that dutiable products of Cuban origin "shall be granted an exclusive and preferential reduction in duty of not less than 20 per centum, such percentage of reduction being applied to the lowest rate of duty now or hereafter payable on the like article the growth, produce, or manufacture of any foreign country." There is, however, an additional clause which states: "The provisions of the agreement shall not apply to the Philippine Islands. . . ." But it is not clear whether this commitment would apply after the Philippines had become a foreign country. If the reciprocal trade agreement with Cuba should be terminated, the 1902 Convention, which has no Philippine clause, would automatically come into operation. In the opinion of the United States Tariff Commission, if a preferential relationship is contemplated, steps should be taken to remove legal impediments which Cuba might raise. Judging by provisions included in the reciprocal trade agreements, it would seem that the State Department has this in mind.

With the exception of the Belgian-Luxembourg agreement, all the other reciprocal trade agreements contain a reservation excepting from the obligation of most-favored-nation treatment any advantages which the United States and the Philippine Islands may accord to each other "irrespective of any change in the political status of the Philippine Islands."<sup>10</sup> However, no agreement under the Reciprocal Trade Agreement Act can be negotiated with the Philippines until it becomes a foreign country.

#### *Report of the Joint Preparatory Committee*

As a result of an agreement between the Presidents of the United States and the Philippines, a committee known as the Joint Preparatory Committee on Philippine Affairs was organized on April 14, 1937. It was given a mandate to study

<sup>10</sup> The clause in the Brazilian agreement is somewhat different.



trade relations between the United States and the Philippines and to recommend a program for the adjustment of the Philippine national economy.<sup>11</sup>

As a result of their investigations, the Committee came to the conclusion that the date set for the termination of preferential relations, July 4, 1936, was too soon for the necessary readjustment of the two economies. The Committee prophesied that with the loss of preferential treatment "the Philippines would be obliged either to curtail sharply, or to discontinue altogether, its exports of such commodities as coconut oil, cigars and other tobacco products, embroideries and pearl buttons." Exports of cordage, desiccated coconut, straw hats, canned pineapples, abaca and mahogany would probably hold their own, as would those of high grade chrome ore as long as the supply lasts. The future of copra and sugar would depend upon legislation effective in 1946. The Committee also expected a shrinkage in American exports and a lessened demand for such services as shipping, banking and insurance.

In order to give American and Philippine interests a reasonable opportunity to adjust themselves, the Committee recommended that trade preferences "should not be terminated on July 4, 1946, but should, by a process of gradual elimination, be terminated at the end of the year 1960." It accepted the graduated export taxes included in the Independence Act, but suggested postponing the effective date to January 1, 1941, at which time they would equal 25 per cent of prevailing United States duties. After independence graduated import duties would be applied by the Philippines against United States products, and by the United States against imports from the Philippines. These would begin at 25 per cent of the full duties and would be increased 5 per cent each year until 1961.

For the products of certain industries, which under the present arrangement would be especially affected by the abrupt imposition of duties, the Committee suggested a system of declining quotas, exempt from export taxes or import duties. The commodities listed for this special treatment were cigars, scrap and filler tobacco, cigarettes, coconut oil and pearl buttons. Special recommendations were also made regarding tariff rates and excise tax rates for abaca, copra, embroideries, cotton tex-

<sup>11</sup> Joint Preparatory Committee on Philippine Affairs, Report of May 20, 1938, (3 Vols.), U. S. Government Printing Office, Washington.

tiles, evaporated milk and canned fish with a view to increased American participation in the Philippine market.

Following the presentation of the report of the Preparatory Committee, Senator Tydings in January 1939 introduced a bill (S. 1028) which embodied the main recommendations of the Committee. After suffering various vicissitudes and buffetings by lobbyists, a measure was finally enacted by Congress in August 1939, and became law when accepted by the Philippine legislature later in the year. Although this legislation includes no provision governing the conduct of trade relations beyond July 3, 1946 on the lines recommended by the Joint Preparatory Committee, it does make several important changes designed to cushion the blow of separation. In the case of cigars, scrap tobacco, coconut oil and pearl buttons (four of the five doomed industries) very generous duty-free quotas have been established as a substitute for the export taxes; these quotas will be diminished by 5 per cent each year to January 1, 1941. Exports above the amount of the quotas will pay full duties in order that there will be no temptation to expand the production of these industries for sale in our protected markets. The export tax on embroideries (the fifth industry) has been kept, but will not be collected on that part of the cloth originally manufactured in the United States. The value of the cloth, plus transportation and other charges, will be deducted from the total valuation before the tax is paid.

Other changes important to the Philippines include a freezing of the present absolute quota on cordage and the binding of abaca and copra on the free list until 1946. The date of a conference of governmental representatives to formulate recommendations for trade relations was advanced one year to 1944. There is also a broader interpretation of the uses to which the excise tax on coconut oil may be put, which will make coming readjustments easier.

#### *The Balance of Payments*

The export balance of the Philippine Islands is characteristic of a young debtor country. If the total trade is classified into trade with the United States and trade with other countries (Table 24)<sup>12</sup> it becomes apparent, however, that the export

<sup>12</sup> *Op. cit.*, Vol. I, p. 26.

TABLE 24  
 TRADE OF THE PHILIPPINES WITH ALL COUNTRIES AND WITH CONTINENTAL UNITED STATES, 1928-1937  
 (General exports and imports, excluding gold and silver ore, bullion, and coin)  
 (Value in 1,000 dollars)

Year	Philippine Exports			Philippine Imports			Excess of Exports (+) Excess of Imports (-)	
	To All Countries	To Con- tinental United States	Ratio of Exports to the United States to Total Exports Per Cent	From All Countries	From Con- tinental United States	Ratio of Imports from the United States to Total Imports Per Cent	Trade with All Countries	Trade with Con- tinental United States
1928.....	155,055	115,586	75	134,657	82,858	62	+20,398	+31,728
1929.....	164,447	124,465	76	147,160	92,593	63	+17,287	+31,872
1930.....	133,167	105,342	79	123,093	78,183	64	+10,074	+27,159
1931.....	103,972	83,422	80	99,179	62,140	63	+ 4,793	+21,282
1932.....	95,338	82,648	87	79,395	51,298	65	+15,943	+31,350
1933.....	105,771	91,313	86	67,361	43,540	65	+31,090	+47,773
1934.....	110,404	91,844	83	83,607	54,376	65	+26,797	+37,468
1935.....	94,246	74,936	80	85,524	54,367	64	+ 8,722	+20,569
1936.....	136,445	107,525	79	101,126	61,497	61	+35,319	+46,028
1937.....	153,278	122,755	80	109,026	63,302	59	+44,252	+59,453

Source: Annual Reports, Insular Collector of Customs. From Joint Preparatory Committee on Philippine Affairs, Report of May 20, 1938, Volume I, p. 26. Peso values have been converted into dollar value. Figures for 1936 are preliminary.

balance arises from her trade with the United States.<sup>13</sup> Trade with other countries shows an excess of imports. Although the value of imports from the United States has increased since the record slump of 1933 and is larger than in 1931, the percentage of imports from other countries by value has risen from 37 per cent in 1931 to 42 per cent in 1937.

The percentage of exports to other countries remained relatively stable, being 20 per cent for 1931 and 1937. Thus the trend toward increasing dependence on other countries for imports has set in. Though interrupted by the military activities in the Far East, there is little doubt that it will be renewed, unless trade regulations prevent it.

As can be seen in Table 25, Japan is the only other single supplier of any importance in the total import trade. A com-

TABLE 25  
PHILIPPINE IMPORT TRADE BY COUNTRIES OF ORIGIN  
Per Cent of Total Imports

	1931	1937	1938
United States.....	62.7	58.1	68.1
Japan.....	11.1	14.8	6.9
China.....	5.9	3.0	2.3
Germany.....	3.7	3.8	3.1
Netherlands Indies.....	2.9	2.1	2.2
Great Britain and Ireland.....	3.0	2.5	2.0
British East Indies.....	1.9	2.2	1.8
Australia.....	1.6	2.3	1.8
All other countries.....	7.2	11.2	11.8
TOTAL.....	100.0	100.0	100.0

parison of the changes in position of the various suppliers of the Philippine market in 1931, 1937 and 1938 shows the loss of the United States as 4.6 per cent; the gain of Japan as 3.7 per cent.<sup>14</sup> There were small improvements in relative positions of Germany, the British East Indies and Australia, and a 3.7 per cent gain for "other countries." The positions of

<sup>13</sup> In 1938, owing to the decline in exports to the United States which accompanied the American business recession, the Philippine trade balance, excluding gold, showed an import surplus for the first time since 1931.

<sup>14</sup> Japanese gains have not been as spectacular as indicated by the published figures. According to the Philippine Parity Act of 1932, the customs convert foreign invoice values into values in pesos at the parities of exchange established in the act. The yen was valued at approximately 1 peso for duty assessment purchases, whereas in 1938 it averaged actually 0.40 peso. During 1933-35 import statistics were published at assessed duty values rather than at market values.

China, the United Kingdom and the Netherlands Indies declined. In 1938 the position of the United States improved by 10 per cent, chiefly at the expense of Japan.

Before the outbreak of the Sino-Japanese conflict there had been a marked increase in Japanese interest in the Philippines. In 1933 Japanese goods accounted for 8.4 per cent of total imports into the Philippines; in 1934, 12.4 per cent and in 1935, over 14.2 per cent. After 1935 imports of Japanese textiles were held in check, but imports of canned fish, electrical equipment and kitchen utensils from Japan began to displace imports from the United States. The trade diversification program of Japan, when it is again resumed, will no doubt provide added wares of a type suitable to the Philippine standard of living. Increasing numbers of Japanese merchants have been operating in the Islands. Japanese competition has already begun to be felt in the case of galvanized iron sheets. The only other countries to make serious inroads so far have been the Netherlands, which has become the principal supplier of evaporated milk, Australia, which has been sending flour and lower grades of sole leather, and Canada, which has been sending flour.

Triangular trade agreements offer interesting possibilities for experiment, at least until 1946. As pointed out above, the Philippines have an unfavorable balance of trade with countries other than the United States. With a number of these countries—for example, Japan—the United States has a favorable trade balance. Such a situation makes possible the negotiation of triangular agreements such as that concluded between Japan, Manchoukuo and Germany. Under such an agreement American exporters might well make up, in other markets with higher purchasing power, any losses they might suffer through the opening of the Philippine market more generously to third parties. The United States has already participated in this type of agreement with colonial empires—the colonies being the “third countries.” The present political relationship between the Philippines and the United States puts the latter in a good bargaining position for the conclusion of similar agreements, especially with other Pacific countries.

If the Philippines sell less to the United States, they will perforce have less purchasing power with which to buy. Theoretically at least they could continue to buy from the United

States even if exports were considerably reduced.<sup>15</sup> In 1937 about 25 per cent of her \$59,453,000 excess balance of trade from the United States was used to settle debit trade balances with other countries. Another 30 per cent was used for settling debit balances with other countries for services, or to pay returns on foreign investments made by these countries in the Islands. According to any theory of bilateralism between the United States and the Philippines, these debits would have to be met either by increasing exports to the countries concerned, or by decreasing imports or services from them.

The remainder of the excess balance was used to pay for American service items, interest and dividends on invested American capital and repayment of loans. According to present plans, a substantial part of the Philippine debt to the United States will be liquidated by 1946. This will reduce interest payments and capital transfers. It is difficult to gauge the changes in the service items which will occur after the withdrawal of the administrative and military expenditures of the United States. The principal ones which will remain are shipping and insurance items. The net balance of these plus the net dividend and interest outpayments is comfortably met at present figures by shipments of gold, the third largest export.

Thus theoretically, if other countries would absorb the excess exports now taken by the United States, there would be no need to disturb the present level of American exports to the Philippines. Or, if the Philippine Islands, through a development program, should divert a portion of the capital invested in export industries to domestic production of products which would reduce their dependence on imports from countries other than the United States, such as Japanese textiles, they could still continue to buy at present levels from the United States.

The likelihood of such a neat arrangement is contingent on many factors. President Quezon has openly stated that he believes in planning and government leadership in production activities. Much will depend on what the new industries are to be—whether or not they will be competitive with imports from the United States. Projects already approved include cot-

<sup>15</sup> In 1938, for the first time since 1921, the Philippines had an unfavorable balance of trade with the United States amounting to 29 million pesos which was taken care of by increased gold exports. This, however, can be considered a "war" market.

ton textiles,<sup>16</sup> rayon, basic chemicals, pulp and paper. There is also the question of alternative exports, both to the United States and other countries. Two decades ago the United States Geological Survey reported that the Philippine Islands were "mineralized from one end to the other." The process of exploitation, slow at first, has been accelerated. In 1938 the Philippines ranked sixth in world mineral production. Beginning with gold mining, capital has been flowing into the development of iron, chrome, molybdenum, manganese, zinc and lead during the last decade. Of particular interest to the United States are chrome and manganese. All are of interest to Japan, the nearest market, which has given concrete evidence of willingness to participate in their development.

### *Conclusion*

From the point of view of the United States there are both advantages and disadvantages in the severance of the Philippine market. These will have to be carefully weighed in the final decision on commercial policy. So far as imports are concerned, the United States is not dependent upon the Philippines for supplies of essential products. Moreover, the United States is definitely trying to increase the production of some of the Philippine imports in Latin American countries. In the case of sugar, the United States Treasury would gain from the payment of an import tax. But there is a question, however, as to whether these Islands have not potentialities for other products, such as rubber and quinine, which the United States does need. If the United States Government so wished, it could take active measures in the Philippines similar to those taken in South American countries, to develop the production of goods which are essential. Such measures would not be likely to arouse criticism at home.

The major problem from the selfish American point of view is the effect of independence on American exports. With the removal of American military and administrative units, exports to meet their needs will axiomatically decline. Any handicap placed on the importation of Philippine embroideries to the United States would affect American cotton textile exports which are used for this purpose, although these might be shifted

<sup>16</sup> During the last week of June 1939 the Philippine National Development Company announced the first sale of its cotton textiles.

to Puerto Rico. The Philippine market for consumers' goods will be affected by the development of new domestic industries and by the efforts of foreign competitors whose position will be eased after independence. The probable decline in the standard of living will make necessary the use of cheaper imported products, a number of which have begun to displace American products even under present tariff handicaps.

Whatever the future political status of the Philippines, it is evident that they will provide a market for capital goods. New industries will need equipment; the expansion programs for public utilities, road building and mining offer tempting possibilities. Lack of coal makes it unlikely that the iron and steel industry will be promoted to any great extent. Hence the demand for imported iron and steel products will continue. A number of countries including Japan, when her military needs decline, will be competitors in the provision of these products. Since the Philippines will be in need of capital, credit terms as well as trade regulations will decide who are to be the suppliers.

The status of the Philippine currency will be another important factor. If it is tied to the dollar, trade with the United States will be favored by lessening the problems of foreign exchange. If it remains independent with any tendency to veer toward the yen bloc, there would be a stimulus toward increased Oriental commerce. The present link of the yen with the dollar brings both currencies into the same orbit and if this relationship is maintained it may serve to reduce somewhat the threat of Japanese imports and help to pave the way for triangular relations.

The year 1946 is ominously near. Before that time the American and Philippine governments together must settle their future commercial relationships. Their choices are three: a complete break, with each treating the other as a foreign nation; a preferential arrangement like that of the United States with Cuba; or the continuance of free trade, subject to certain restrictions, such as the quotas which the United States has already imposed. While there is much to be said in favor of the third course, provided that the Philippines were given power of control similar to that which the United States has exercised, there is little likelihood that the American agricultural bloc would permit it. The first method would result in



the dislocation of trade of both countries. But the effect on American industries would be infinitesimal in comparison with the effect on Philippine economic life. If the professed interest of the United States in stabilizing international economic relations involves more than hollow gestures, it would seem that she can scarcely avoid responsibility for a program which would shore up the Philippine economy during the critical years of transition.

Since it would be difficult, if not impossible, to give special aid under a completely free status according to the interpretation of unconditional most-favored-nation treatment, the preferential status would seem to offer the most desirable solution of the problem. The United States would then be in a position not only to negotiate a reciprocal trade agreement with the Philippines, but to give to the Philippines favors, based on their needs, which it would not have to generalize. At the present time, however, the possibility of this solution is dwindling, chiefly because of the cost of defense to the United States and because of the exposed position of the Islands as the first point of attack in event of a Japanese-American conflict. Nevertheless the United States today holds the key to the attainment of economic stability of the Islands—a position which carries with it an obligation which need not be a liability but on the contrary could be an asset to both countries.

## CHAPTER V

### TRADE WITH MALAYA AND THE NETHERLANDS INDIES

The present economic dependence of the United States on supplies from British Malaya and the Netherlands Indies is in sharp contrast with the relative unimportance to her of imports from the Philippines, with which she has political ties. From these two possessions of other empires, the United States now obtains 86 per cent of her rubber and 87 per cent of her tin, both vital raw materials of basic industries; she also imports from them cinchona, kapok, tapioca, and certain foods such as tea and spices which cannot be obtained elsewhere in sufficient quantities. Before the nineteen thirties little anxiety was felt about America's lack of control over these strategic materials. But today her economic relations with these islands are a matter of grave concern to the United States for a variety of reasons.

The first reason for American concern has been the change in the trade policy of the Powers controlling these territories. Before the beginning of the last decade the colonial markets of the United Kingdom and the Netherlands were, with few exceptions, open to all nations. Tariffs, both on imports and exports, were levied primarily for revenue purposes and the mother countries took their chance in trade on the same basis as other foreigners. But the application in Malaya of a system of British preferential tariffs under the Ottawa pacts of 1932, the imposition of import quotas for Malaya in 1934, and the inauguration of strict trade controls in the Netherlands Indies in 1933, have changed these outposts of the free trade tradition into highly controlled markets—a situation which has now been severely aggravated by additional war measures. In the second place, the strengthening of the international cartel movement, which in the twenties was still in the experimental stage, has given cause for uneasiness. In the third place, signs of increasing Japanese interest in these rich possessions has

raised the question of a possible change of ownership. One writer in *The Pacific*, journal of a newly formed Japanese society known as "The Institute of the Pacific," formulated their case in the following words:

The South Seas belong to the Far East and Japan is entitled to share the wealth of those regions which Europe snatched while Japan was self-isolated. It is necessary to rectify Japan's economic position, and now is the psychological moment, while European powers with interests in the South Seas are preoccupied. To achieve fruition of our continental policy and make the New Order self-sufficient it is absolutely essential to utilize the resources of the South Seas. . . .

### *Tin and Rubber*

Dominating the scene are tin and rubber, which make up about one-half by value of the total American imports from the Far East. The problem of tin first came up in 1903 when a differential export duty on tin ore was established in British Malaya.<sup>1</sup> To the export duty on tin ore was added a second rate of 80 British or Mexican dollars per picul on all ore exported without guarantees that it would be smelted in the Straits Settlements. In 1904 the United Kingdom was exempted from the second tax, and in 1916 Australia. As a result of its imposition on shipments to the United States, however, a smelting works erected in 1903 at Bayonne, New Jersey, by the International Tin Company was never put into operation and today the United States has no tin smelting facilities. Though a number of reasons have been offered in explanation of the regulation, it was undoubtedly adopted because of fear that without it the United States, as the largest purchaser, would obtain control of Malayan tin production, thus destroying the smelting industry there. In retrospect, it is surprising that the United States did not raise a protest but seemed instead to be reasonably content to buy smelted tin rather than crude ore.

The formation of the International Tin Cartel in 1931 definitely changed the picture. This is an international organization controlled by governments (United Kingdom, France, Belgium, Bolivia, and Siam), with the primary aim of regulating production with a view to "adjusting production to consumption, preventing rapid and severe oscillations of price and maintaining reasonable stocks." Prior to September 1939, pro-

<sup>1</sup> U.S. Tariff Commission, *Colonial Tariff Policies*, Washington, 1922, pp. 337-9.

duction was held down to 45 per cent of basic quotas. The United States, which customarily takes 45 to 50 per cent of world consumption, is without power to influence decisions except by registering complaints as a voteless member of the consumers' panel of two.<sup>2</sup> There is little opportunity to threaten a shift in her purchases because of the lack of smelting facilities. Under normal conditions, slightly over a third of world tin ore is smelted outside of southeastern Asia, and this amount is divided between the United Kingdom and the Netherlands. Plans have been initiated,<sup>3</sup> however, by the Phelps Dodge Refining Corporation and the American Metal Company to set up plants in the New York area for the treatment of ore from the lode deposits of Bolivia and other "reachable sources of supply." The proposed output will be small in comparison to our needs, but it is at least a beginning. There is also the possibility that the New York Commodity Exchange will play an active role in the determination of the price of tin, since the London Metals Exchange has become inactive because of official wartime price fixing.

On a value basis, crude rubber ranks first among American imports from the areas under consideration. About 97 per cent of the world output of rubber comes from the Far East—52 per cent being accounted for by Malaya and other British possessions, 6 per cent by French Indo-China and 33 per cent by the Netherlands Indies. The total supply<sup>4</sup> from this area is under the control of the International Rubber Regulation Commit-

<sup>2</sup> Though the United States is a present member of the consumers' panel there is no statutory regulation that she always be included. For the methods of operation of these cartels, see E. B. Dietrich, *World Trade*, 1939, and Alvin Barber, "Tin Control in a Major War," *Far Eastern Survey*, November 22, 1939.

<sup>3</sup> Tuthill, Marshall W., "Two Companies Plan Tin Refining in the U.S.," *Metals*, Monthly Supplement, December, 1939, p. 13.

<sup>4</sup> Shipments from rubber plantations owned by American rubber companies in this area are subject to the control of the International Rubber Regulation Committee. These include the following:

- (1) 132,000 acres in the Netherlands Indies and British Malaya belonging to the United States Rubber Company, of which 99,000 acres are bearing.
- (2) 94,000 acres in the Netherlands Indies belonging to the Goodyear Tire and Rubber Company of which 60,000 acres are bearing.
- (3) 2,000 acres in the Netherlands Indies belonging to the Manhattan Rubber Manufacturing Division of Raybestos-Manhattan, Inc., and 5,000 acres in the Netherlands Indies belonging to the Intercontinental Rubber Company.

tee, organized in 1934, and comprising members appointed by the governments of the United Kingdom, the Netherlands, France and Siam, respectively. Representatives of manufacturers in Europe and America are invited to sit on an advisory panel of 31 members. The Rubber Committee's objects are the same as those of the International Tin Cartel, namely the regulation of production and export in order to adjust "supply to demand." As in the case of tin, the United States—consumer of 44 per cent of the world production—has to deal with a world monopoly controlled by other governments.

This is not the place to discuss the methods and techniques of international cartels or the need for adequate consumer representation with power. Suffice it to say that a study of the rubber prices and export quotas fixed indicates that the "screw" has worked pretty efficiently to stabilize prices at generous levels by sharp curtailment of supplies—that is by comparison with unregulated commodities. According to the United States Tariff Commission, ". . . if shipments [of rubber] were not controlled they undoubtedly would be considerably larger than they actually are, and the price would be lower."<sup>6</sup> The higher profits resulting from control schemes, moreover, do not benefit the worker in the mines but rather the foreign capitalist; hence they do not stimulate the import markets in the producing countries by raising the workers' standard of living.

The most immediate problem associated with the export of tin and rubber from Malaya and the Indies to the United States is that of providing shipping facilities. In 1938 about one-half of the rubber shipments were carried by British vessels, one-fifth by Netherlands vessels and one-fifth by American vessels. Although the United States Maritime Commission has recognized the danger and promised to effect an improvement, the necessary readjustment will not be easy to make. As one step in the program it was stipulated in the British-American cotton-rubber barter agreement that one-half of the rubber was to be carried in American vessels. The Holland-America line has re-entered the New York-Java service with three new ships and the promise of another if the service warrants.

Both freight and insurance rates have risen by some 20 per cent since the outbreak of hostilities in Europe, and in addition, the new route now followed is longer than the old. Before

<sup>6</sup> U. S. Tariff Commission, *Crude Rubber*, November, 1939, p. 1.

1936 rubber was shipped from southeastern Asia principally via the Suez Canal and the Mediterranean. Because of troubled conditions in the Mediterranean, practically all shipping has moved via the Cape of Good Hope and across the Atlantic.<sup>6</sup>

As long as present political relationships are maintained, the existing tin and rubber situation involves no threat to the United States. The European nations concerned are all eager to obtain foreign exchange to use for purchases in the United States. If, however, control of these resources should fall under Japanese domination, the situation might become hazardous. While political relations remained friendly, the Japanese would no doubt be as content to sell to the United States as the other nations now are, and for similar reasons. Under less favorable political conditions, however, an embargo imposed by Japan on exports of tin and rubber to the United States, comparable to the embargo on exports to Japan now advocated by certain American groups, might seriously cripple American industries. Moreover, naval operations in the Pacific would certainly be directed against American or allied shipping, carrying supplies across the vast stretch of ocean.

Can the United States escape from her dependence on these two countries? In the case of tin, Bolivia is suggested as a possible source of supply. But although Bolivia's full basic quota set by the International Tin Cartel is 46,000 tons, it is considered doubtful whether she could reach that point of production in spite of the improved outlook for her industry. In bad years Bolivian ore might suffice,<sup>7</sup> but in more normal years American consumption fluctuates between 70,000 and 87,000 long tons. There is also the possibility of substitution at higher cost of cadmium, chromium and other alloys, copper, aluminum, lead, zirconium, cellophane, waxed paper, glass and rayon, depending on the use; and there is the possibility of further developments in the reclamation of used tin by which means about one-fourth of America's annual requirements are now supplied.

There are better prospects of replacing Far Eastern sources of rubber for the United States. The most promising alterna-

<sup>6</sup> U.S. Tariff Commission, *op. cit.*, p. 21.

<sup>7</sup> United States consumption amounted to 50,693 long tons in 1938 and only 35,477 long tons in 1932.

tives are offered by reclamation projects<sup>8</sup> and the domestic manufacture of synthetic rubber. Much has been heard about the production of synthetic rubber in Germany, Italy and the U.S.S.R., and experimental research has been carried on in the United States. Although for many purposes the synthetic product is superior to natural rubber, its large-scale production in the United States had not received serious consideration until recently because of the higher costs involved. The first commercial project was announced in January, 1940. The Standard Oil Company of New Jersey has acquired rights to the process evolved by the I. G. Farben Industrie, requiring only oil and air, and the American company plans to have a million-dollar plant in operation by the end of 1940. It is estimated that the synthetic product can be manufactured at slightly less than 20 cents a pound<sup>9</sup> which compares favorably with the present price of 19 cents for natural rubber. However, if the control of the International Rubber Cartel were lifted, it has also been estimated that rubber from the Far East could be sold here at ten cents a pound with a moderate profit to the grower. If the United States wishes to encourage the synthetic rubber industry by protection or subsidies,<sup>10</sup> the opportunity would seem to be at hand for her to free herself from dependence on the Orient. The consumer would be no worse off than at present under the controlled prices of the cartel, but he would be denied the advantages of cheaper rubber if the foreign price should drop.

There is, also, the possibility that the United States will actively push the development of rubber production in Brazil, Costa Rica, Panama and the Philippines, the source of two or three per cent of her supply at the present time. Or she may become more inclined to adopt a barter policy such as the Anglo-American rubber-cotton deal of June, 1939, which involved the exchange of 85,000 long tons of crude rubber for 600,000 bales of American cotton. Viewed from the standpoint of Malaya or the Netherlands Indies, any scheme which would result in a considerable decline in American takings would cause profound economic disorganization.

<sup>8</sup> It takes about two tons of reclaimed rubber to displace one ton of new crude rubber.

<sup>9</sup> New York Times, January 11, 1940.

<sup>10</sup> Rubber was bound on the free list in the 1939 Anglo-American reciprocal trade agreements.

*United States Trade with Malaya and the Netherlands Indies*

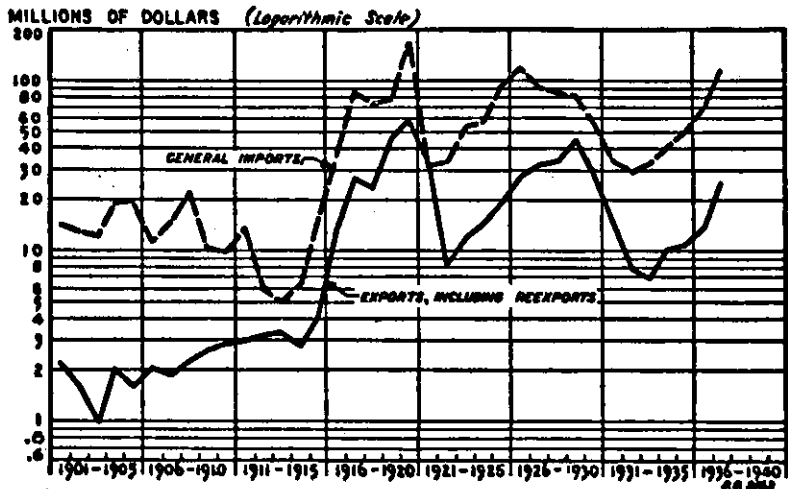
Turning to the more general problems of trade with these two colonies, a glance at Table 26 indicates two outstanding

TABLE 26  
FOREIGN TRADE OF MALAYA AND THE NETHERLANDS INDIES  
WITH THE UNITED STATES  
(Value in millions of dollars)

	Malaya			The Netherlands Indies					
	Imports		Exports	Imports		Exports	Bal- ance		
	Value	Per Cent of total	Value	Per Cent of total	Value	Per Cent of total			
1934..	4.2	1.8	105.5	34.7	10.2	6.2	42.4	11.5	-32.3
1935..	4.5	2.0	131.6	37.5	10.9	6.9	50.3	14.3	-39.4
1936..	5.0	1.9	168.0	47.1	13.8	7.7	69.8	17.8	-56.0
1937..	8.8	2.3	242.3	44.5	25.1	10.2	115.2	18.8	-90.1
1938..	8.9	3.1	112.3	30.0	27.5	12.6	68.7	13.6	-41.2

characteristics—the unbalance of the bilateral trade and the importance of the United States in the export trade of the islands.

FIGURE 4. TRADE OF THE UNITED STATES WITH THE NETHERLANDS INDIES



Note—1937 data are preliminary and subject to revision.  
Source: Bureau of Foreign and Domestic Commerce.

The United States furnishes between two and three per cent of Malayan imports as compared with between 15 and 16 per cent supplied by the United Kingdom. In the Netherlands



Indies the position of the United States as a supplier of imports is more favorable, her share having risen to 12 per cent in 1937; her position as an export outlet is less important. As a result of import controls the Netherlands has increased her share since 1934, from 13.3 per cent in 1934 to 19.1 per cent in 1937, while taking about 20 per cent of Netherland India's total exports. There are few if any of the commodities which these islands now import from their respective mother countries which the United States could not supply. Her present comparatively minor position as a supplier of imports is chiefly due to the colonial status of the territories.<sup>11</sup>

American imports from the Netherlands Indies are more diversified than those from Malaya. In addition to rubber and tin, the American market ranks first as an outlet for palm oil. Other important items include quinine, kapok, sisal and henequen, tapioca, tea, pepper and other spices, hides and skins.

Until the new interpretation of Empire trade relationships was developed at the Ottawa conferences, the tariff policy of British Malaya was in the liberal tradition. In addition to the usual import tariffs, export tariffs were employed as well for revenue purposes. Imperial preferences were first introduced in 1932. In order to be in a position to negotiate for concessions, following the Ottawa Conference (1932), the dutiable list was extended and the average level of duties was raised. Though the resulting benefits to the United Kingdom trade were not as great as was expected, it was felt that the new regime "mitigated the effects of severe Continental and U.S.A. competition." The high gasoline tax and the horsepower tax on motor vehicles have also served as handicaps on American cars in competition with the types furnished by the mother country. The next innovation came with the imposition of import quotas on textiles in 1934, followed by quotas on underwear and outer garments in 1938. While these were directed primarily against Japan, a small import trade from the United States was also affected.

In the negotiation of the Anglo-American Trade Agreement in November, 1938, the colonies played an important role. The chief colonial products were on the American free list, thus

<sup>11</sup> It should be added, also, that if it were not for the special relationship with the Philippines, the United States might buy more of certain products from the Netherlands Indies.

giving little opportunity for concessions except by binding, while most of the imports from Britain were included in the American schedules. On the other hand United States trade balance with the colonies showed a large import surplus while her trade with the United Kingdom showed surplus of exports. Concessions on American products in Far Eastern colonial markets were therefore exchanged for concessions on British products in the American market. The colonies did get a few concessions on their products entering the United States. The most important concessions gained by Malaya included duty reductions on mangrove extract, canned pineapples, coconuts and fruit juices. Malayan concessions to the United States consisted in a reduction of the margins of preference as follows:

<i>Article</i>	<i>Maximum Margin of Preference Per Cent</i>
Silk hosiery.....	5
Leather, dressed.....	5
Radios, etc.....	5
Batteries for flashlights.....	10
Canned salmon.....	7½
Automobiles, trucks and buses..	15

In Schedule III attached to the Agreement there are additional lists of articles. In some cases the margin of preference must not exceed 5 per cent; in others it must not be increased beyond the present margin; and in others no preference is permitted. Thus a small wedge was driven into this market, though the mother country is still well entrenched.

War regulations however have greatly reduced the new prospects opened to the United States in Malaya by the British agreement. Even the elimination of Germany as a competitor is of slight significance, since German imports were small. Strict foreign exchange control has been introduced in Malaya and imports of 76 products or classes have been subjected to a licensing system unless they come from countries on a sterling basis. The importation of an additional 236 items or classifications is prohibited except from countries of the British Empire. It has been estimated that 48 per cent of American imports will be affected by the licensing system and 7 per cent by the prohibitory regulations.<sup>13</sup> Not only will the present small American export trade to Malaya be injured, but the United

<sup>13</sup> *Commerce Reports*, January 27, 1940, p. 91.

States is denied the opportunity to develop a trade in products customarily supplied by England and other European countries but now cut off. Exports of certain products are permitted only to the United Kingdom, but while similar regulations in other Empire countries have affected the United States seriously, there is practically no danger that shipments of rubber and tin will be interfered with since supplies are plentiful.

### *The Netherlands Indies*

The Netherlands Indies were severely hit by the depression in the early thirties. Between 1930 and 1933, the gold value of exports declined 59 per cent while quantity exports declined only 15 per cent. Exports to the United States actually increased in tonnage by 40 per cent while in value they declined 62 per cent. For a capital importing country without balancing invisible items, such a situation necessitated a drastic curtailment of imports. So far as the mother country was concerned, the situation was further aggravated by the invasion of Japanese imports which in 1932 took leading rank over imports from all other countries.

In 1932-33 drastic measures were taken. The traditional Open Door was abandoned and a new commercial policy was substituted designed to restrict imports, to adjust bilateral trade balances, to improve the position of the Netherlands in the colonial market and to strengthen the islands' economy. Typical measures introduced under the Crisis Import Ordinance of 1933 and later regulations have included strict import quota and licensing systems, trading agreements including barter deals, clearing agreements and price control measures.

In addition to introducing an extremely strict trade control system, the Netherlands Indian government has embarked upon a comprehensive program of controls over domestic production. It is a member of the three great international cartels regulating production of tea, tin and rubber and is also a member of the Sugar Conference. Domestic control measures have also been applied to the production of a number of other Netherlands Indian commodities, including cinchona, of which the Dutch islands have a virtual monopoly, kapok, vegetable oils, tapioca, tobacco, coffee, gums and copra. Under the Regulation of Industry Ordinances (1934 and 1937) the government

has authority to intervene in all branches of industry and to regulate the creation of new industries.

In confronting such trade barriers, the United States has been in a more fortunate position than some exporters. Since the balance of trade between the two countries was favorable to the Netherlands Indies, imports from the United States were not singled out for any special restrictions, as imports from Japan were. As in the case of British Malaya, the balance of trade with the Dutch colonies has been redressed by a favorable balance with the mother country and also by some capital exports, particularly in the form of equipment for the rubber and petroleum industries. Moreover, the type of industries being developed in the islands will not be competitive with American exports to any large extent. Instead, the new schemes for industrialization, and for agricultural and mineral exploitation, will create a demand for equipment which will be of real interest to American exporters of iron and steel, automobiles, chemicals, electrical products and machinery.

#### *United States-Netherlands Trade Agreement*

Since December 20, 1935, American trade with the Netherlands Indies has been regulated according to the terms of the Reciprocal Trade Agreement with the Netherlands. In negotiating the agreement, factors which entered into the bargaining were the high tariffs designed for revenue, the new import quotas, the relatively large export balance of trade with the United States, which more than offset the mother country's unfavorable balance, and the presence of over 95 per cent of Netherlands exports according to value on the American free list. In the agreement, the Netherlands Indies' duty exemption on internal combustion engines and parts was bound, and import duties (including the surtax of one-half the duty) on eighteen important tariff classifications were bound not only against increases but against the establishment of unfavorable import quotas. A minimum import quota on fertilizers was set. The United States on her part could do little more than bind imports from the Netherlands Indies on the free list. In the case of palm oil, the processing tax of three cents per pound, provided for in the Revenue Act of 1934, was also bound. In commenting on the pact, the next year, the Assistant

to the British Commercial Agent in Batavia made the following statement, "The U.S.A. as the chief buyer (after Singapore) of Netherlands East Indies produce, expects in time to achieve first place as supplier, if local purchasing power continues and Japanese deliveries decline."

### *Conclusion*

The question of the future of American trade with these two colonies is difficult to forecast. If the peace which must come eventually out of the European war should include a guaranty of a more liberal colonial policy, it is possible that trade relations would continue along much the same lines as in the past but with increased opportunities for American exports to aid in the economic development of the territories. A factor which may powerfully influence any development along the latter line in Malaya is the threatened decline of American exports to the United Kingdom itself. Driven by the urgency of war, England is busily establishing certain industries, the products of which she has been accustomed to import from the United States. If this development, which is causing no little anxiety in the United States, should result in a reduced export balance with England, it can reasonably be expected that the United States will make a determined effort to gain a greater share of the colonial market.

There is also the possibility of another triangular arrangement. Before the imposition of import quotas in the British and Netherlands colonies, Japan had a flourishing export balance with them, the returns from which were used in large part to settle her import balance with the United States. If in a final settlement these markets were again opened to Japan, there would be the possibility that a satisfactory solution from the American standpoint could be worked out along these lines.

Thus from the purely economic point of view, the future would seem to hinge on four conditions: the continuance of the British and Netherlands import balances with the United States for which there is economic qualification, more liberal treatment of American exports to the colonies, more liberal treatment of Japanese exports to the colonies combined with the continuance of Japanese imports from the United States,

and liberal policies with respect to quantity quotas by the international cartels. If the United States is blocked from securing reciprocal outlets for her exports, there is every reason to believe that the plans to reduce her dependence suggested above will be pushed with renewed energy.

## CHAPTER VI

### INSTRUMENTS OF AMERICAN COMMERCIAL POLICY IN THE FAR EAST

American exporters to the Far East are today confronted with a formidable array of barriers to trade. In the colonial territories in the British Dominions across the Pacific and in the various independent national states in this area opportunities for the sale of American goods are limited by a wide variety of trade controls. The French and Japanese colonies are closely assimilated, in the economic sense, to their respective mother countries, and such commercial openings as remain for foreigners have been narrowed down, in recent years especially, by tariffs, import quotas and foreign exchange control. The British colonies have had recourse, since 1932, to import quotas and tariffs, and to these have now been added foreign exchange control and other special wartime restrictions. Imports of British products are exempted from the quotas and enjoy preferential tariff rates. In the Dutch colonies import quotas are fixed for a wide range of commodities in such a way as to favor the mother country, and systems of import licensing and export control are also in operation.

The two British Dominions, Australia and New Zealand, and the Indian Empire all grant preferential tariff rates on goods from the United Kingdom. In addition, Australia maintains various other forms of trade control and New Zealand has adopted a strict licensing system, with a view to balancing trade and protecting new industries. The Dominions also subject certain of their export products to centralized marketing control.

Similar difficulties confront the American exporter when he comes to deal with the "controlled" economies of China, Japan, Manchoukuo, Thailand (Siam), and the U.S.S.R., in each of which a centralized authority regulates imports either by quantity limitations, a monopoly of foreign exchange, or both. In each of these countries the flow of trade is deliberately

manipulated, both as to volume and direction. Free trade has been jettisoned and commerce has become an instrument of national policy.

In view of this situation it is important to examine the techniques of American commercial policy and to see whether they are flexible enough to be applied effectively under the difficult conditions prevailing in the Far East.

### *The Trade Agreements Policy*

The types of trade control mentioned above—import quotas, licensing systems, foreign exchange restrictions, government monopolies of buying and selling, and empire preferences—create serious difficulties in the interpretation of the most-favored-nation clause, which is the cornerstone of the American reciprocal trade agreements program. Moreover, when the trade of a country is allocated by its government, according to quantity or value, through the use of these controls the question of what constitutes equitable treatment is greatly complicated. Many of the difficulties which arise in negotiating agreements with countries where controls are applied have, however, been met and ironed out. The importance of the United States as an outlet for many of the products of the Far Eastern countries places her in a strong bargaining position, and written into the Reciprocal Trade Agreements Act is authority for the President to suspend the application of most-favored-nation treatment to any country which discriminates against American commerce or which acts in such a way as to defeat the principle of equitable treatment. The United States is thus in a position to threaten penalties which will act as a deterrent to discrimination against American trade in the Far East, at least so long as the United States remains a large consumer of Oriental produce.

The methods adopted by the United States in negotiating agreements involving Far Eastern trade have varied according to the political status of the country concerned, and it will be useful to consider separately the treatment accorded to colonial territories, the British Dominions in the Western Pacific, and the independent countries of the Far East.

Except in the case of Japan, the United States has negotiated trade agreements with the mother countries of each of the main Far Eastern colonial areas. In general it should be



noted that although the system of imperial preference as practiced by other colonial powers has been listed as one of the forms of trade control which place American exporters at a disadvantage in the markets of the Far East, the system is one which the United States has accepted without question. It has in fact applied it to its own dependencies. Should Japan emerge from her present struggle with an enlarged empire, the United States will almost certainly be called upon to recognize yet another and more intensive application of the "imperial preference" system.

The fact that most of the exports of the Far Eastern colonial territories are raw products already on the American free list, has made difficult any direct exchange of concessions with these territories with a view to improving trade between them and the United States. Almost the only direct concession the United States has been able to offer in such cases has been the freezing of existing tariff schedules. However, by granting favors to the mother countries in the American market, the United States has obtained concessions in the markets of the colonies. The large export balances of the colonies in their trade with the United States are normally used by the mother countries to offset the import surpluses which are characteristic of their own trade with the United States, while tariff preferences in favor of the mother countries keep down American exports to the colonies. The trade relationship covered in American agreements with the colonial powers is thus a triangular one, and as a result provisions for the adjustment of American trade with the main Far Eastern colonial areas have formed an important part of the reciprocal trade agreements concluded with the Netherlands, the United Kingdom and France.

In the United States-Netherlands agreement separate sections were devoted to the colonial trade which formed a very important part of the whole arrangement. On behalf of the Netherlands Indies provision was made for eighteen duty bindings, one import quota concession, the reduction or suppression of certain monopoly import fees and exemption from, or refunding of, certain crisis taxes. Except where the right to impose import quotas was specifically reserved, the articles on which concessions were given were guaranteed against the future establishment of import quotas.

In the Anglo-American reciprocal trade agreement, also, special sections dealt with the colonial trade. Since duties form an important source of revenue for Ceylon, Hongkong, and British Malaya, the concessions in these markets took the form of reduction in the margins of preference accorded to British goods.

In the French agreement exports of the American territories and possessions, along with those of the United States herself, were assured most-favored-nation treatment both in France and in the assimilated French colonies. The only exceptions were those contained in the Protocol of Signature; molasses, invert syrups and sugars shipped from the Philippines to Indo-China were to remain subject to the latter's general tariff rates. Special provision was made, however, for reductions in the Indo-Chinese duties on bottled beer and beer in barrels, originating in the Philippines, of 50 per cent and 20 per cent respectively.

The recent barter agreement involving an exchange of rubber and cotton between the governments of the United Kingdom and the United States is another case in which a mother country made use of a colonial product in bargaining for her own needs. While assurances have been given that this was an isolated military deal, it may well provide a model for similar transactions in the future.

One factor affecting American trade with Far Eastern colonial areas which has been a matter of increasing concern to the United States is the growth of government-sponsored international cartels controlling commodities which are of vital importance from the American point of view. Though the rubber, tin and tea restriction schemes originated before 1930, they have been reorganized and tightened within the last decade. Control of production and of new plantings has been made effective and the "screws" have worked efficiently to control prices in the interests of the producers. The United States consumes nearly one half of the world output of rubber and tin, but has no voice in the decisions made by European authorities regulating these Far Eastern products. Her influence is limited to representation on advisory consumer panels without voting privileges. Under these conditions the United States so far has been able to obtain only one small concession for herself by means of bargaining. In the Exchanges of Notes

appended to the Anglo-American trade agreement there is a letter from the British Ambassador to the Secretary of State which contains the following statement:

. . . the Government of the United Kingdom will consult the parties to the International Rubber Regulation Agreement as to the possibility, subject to the main objects of the Agreement as set out in the Preamble thereto not being prejudiced, of amending the Agreement so as to permit the exportation of rubber planting material to countries not parties to it.

If this permission is granted it will speed production of rubber in the Philippines and plans for an expanded output in Latin America.

Although the United States has now been able to conclude reciprocal agreements covering her trade with the principal colonial areas in the Western Pacific, no pacts have yet been concluded with either of the British Dominions in that area or with the Indian Empire. There have been rumors of negotiations but none has received any official confirmation. The fact that the principal export commodities of Australia and New Zealand are competitive with American products, for example wool, wheat and meat, makes any improvement of existing trade relationships difficult. The United States tariff on wool is a particularly serious stumbling block. Moreover with heavy interest payments to meet on external loans, the two Dominions are each intent on maintaining a favorable trade balance and for many years their balances with the United States have shown large import surpluses. Both countries are developing industries of their own under the protection of high tariffs and various forms of trade regulation which have already been mentioned. The emphasis on industrialization has been greatly increased in the Dominions as a result of their large-scale defense programs and their participation in the European war. A recent report from the American Trade Commissioner in Sydney states that new domestic production in Australia is replacing imports at the rate of £10,000,000 per annum. Plans for the manufacture of automobiles, tractors, machinery and tin-plate are of special interest to the United States. Some American industries are establishing branch plants in Australia, just as they have done in Canada.

Despite the difficulties it should be possible to negotiate reciprocal trade agreements with Australia and New Zealand along the same general lines as the Canadian-American agree-

ment. A necessary prerequisite however would be the revision of the existing agreements between the two Dominions and the United Kingdom. There has been growing dissatisfaction with the Ottawa pacts; the Dominions have come to realize that the market for their exports in the United Kingdom is at best a stationary one, and that they must look in other directions if their trade is to expand. New export markets can only be opened up if there is a prospect of a greater import trade and to make this possible a reduction in British preferences will be necessary.

If no positive results have been achieved as yet in the direction of improving American trade with the Dominions across the Pacific, the negative powers, conferred upon the President under the Reciprocal Trade Agreements Act, have been applied with some effect as a counter to measures discriminatory against the United States, which were applied by Australia in 1936. In an attempt to divert trade from "bad customer" to "good customer" countries the Australian government announced a list of commodities which would only be admitted under license, and it was indicated that these licenses would be so issued as to cut down drastically imports from countries with which Australia's balance of trade was unfavorable. The system was not to be applied to imports from the United Kingdom. Since a large number of the items listed for licensing were goods of which the United States was the only non-British supplier the implication was obvious, and Australia was accordingly placed on the United States "blacklist" of countries to which most-favored-nation treatment was not to be accorded. After some months the Australian government discontinued the system and Australia was restored to the most-favored-nation group.

The outlook for a trade agreement with India is somewhat brighter than in the case of the Dominions. In its trade with India the United States has a large import balance, and the revision of the Anglo-Indian agreement in 1939 reduced British preferences on a considerable list of imports and discontinued them completely on another list. Both these lists contained items of special interest to the United States. The industrialization of India is changing her import demands and creating a market for machinery and other capital goods.

Already one-third of America's exports to India consists of automobiles and accessories, lubricating oils and industrial machinery.

The negotiation of trade agreements by the United States with the independent countries of the Far East, such as Japan, China, Thailand and the U.S.S.R., is rendered difficult by the fact that the trade of each of these countries is under a greater or less degree of government control. Though no reciprocal trade agreements have yet been negotiated with a foreign government which monopolizes its foreign trade, there is nothing in the Reciprocal Trade Agreements Act to prevent the conclusion of a pact under such conditions. The pact would have to be somewhat different in character, however, from those already concluded. It might be possible to further the first object of the Reciprocal Trade Agreements program, by effecting an increase in the foreign trade of the United States, but there would be little prospect of making any gains along the second line contemplated by the Act, namely the reduction of trade barriers. The central problem for American negotiators has to do with safeguards for most-favored-nation treatment with reference to government controlled purchases.

In the case of the U.S.S.R., the problem has been solved by concluding a special type of pact distinct from the ordinary reciprocal trade agreement. The U.S.S.R. sets a minimum value limit for its total purchases during a given period and grants most-favored-nation treatment in respect of taxes of all kinds and internal regulations. In return, the United States guarantees most-favored-nation treatment for imports from the U.S.S.R. This special type of arrangement made with the U.S.S.R. would provide a precedent for dealing with any other Pacific country which might become totalitarian.

In several of the reciprocal trade agreements there have been special clauses dealing with purchases by government monopolies of certain imports from America. The Netherlands government, for example, through its central control system commits itself to purchase a minimum quantity of wheat and flour equivalent to 5 per cent of Netherland domestic consumption, under agreed price conditions. Article VIII of the Netherlands-American Agreement, quoted below, states the general safeguards:

In the event that the United States of America or the Kingdom of the Netherlands establishes or maintains a monopoly for the importation, production or sale of an article or grants exclusive privileges, formally or in effect, to one or more agencies to import, produce or sell an article, the Government of the country establishing or maintaining such monopoly, or granting such monopoly privileges, shall, in respect of the foreign purchases of such monopoly or agency, accord the commerce of the other country fair and equitable treatment. In making its foreign purchases of any article such monopoly or agency shall, within the quantitative limitations permitted by other provisions of the Agreement, be influenced solely by competitive consideration, such as price, quality, marketability, and terms of sale.

The same method could be used for monopolized imports of any government.

The trade of China, Japan and Thailand seems likely to be subjected to complete government control in the future, if present tendencies continue. If so, any future trade agreements negotiated with these countries could provide for American exports in a manner similar to that laid down in the several agreements with the U.S.S.R., as outlined above. So far as imports to the United States are concerned, there would be little difficulty in the case of China, since few of the commodities she sends to the United States are likely in the near future to compete with domestic products. The United States could offer few concessions, however, in any negotiations with China, other than to bind items now on the free list or to reduce excise duties. The bargaining power of the United States would depend on the liberality of the credits she was prepared to grant to China.

The problem of dealing with Japanese imports would be more difficult, particularly if the drastic cut which has been predicted in American silk requirements should materialize. Whereas, on a quality basis the products of Japan are dissimilar, their cheapness makes them satisfactory substitutes in many instances. Since the voluntary quota agreements have worked satisfactorily, there seems to be no reason why the government should not pursue this method. Quantity limitations allay the fears of the protectionists and can be made sufficiently generous to satisfy Japan, particularly if applied to a wide range of products. There is, also, the question as to whether or not the United States would consider a triangular treaty including the Asiatic puppet states, such as those already negotiated by

Japan with Germany and Italy. Or a triangular arrangement could be worked out between Japan and her dependencies, the Philippines and the United States. The situation would also be eased if Japan could regain her export position in the British and Netherlands' possessions which have much larger export balances with the United States.

Though there are snags in the way and situations involving other Powers to be clarified, the trade agreements program does seem to be sufficiently flexible to meet the various contingencies which may arise in the Far Eastern arena. Each country presents different economic problems which require considerable variation in treatment. There will be little hope of reducing trade barriers in any of these countries where the will to industrialize is paramount, but there is opportunity to trade on lines consistent with their economic plans. The one principle upon which the United States will not compromise, as long as the present administration is in power, is equality of treatment. The American position has been summed up on this point by the former Assistant Secretary of State, Francis B. Sayre, in the following paragraph:

What this means is not that we will refuse to trade with totalitarian states or that we will make economic war upon them. We want their trade and they need ours. Through trade lies the way of peace. What it does mean is that in offering and hoping to trade with them we must not surrender our principles or adopt their commercial policies as our own. We want to make trade agreements with them, but these must be based fundamentally upon equality of commercial treatment and not upon a practice of exclusive privileges which discriminate against other nations or against our own trade. We will not make trade agreements based upon policies which make for economic conflict rather than for economic peace.

#### *United States Maritime Policy*

For the first time since the era of the clipper ships the United States merchant marine is in a position to aid American commerce. Under the Merchant Marine Act of 1936, the Maritime Commission was given the mandate to construct sufficient vessels to carry "a substantial portion" of United States water-born commerce. Six routes to the Far East and India have been planned.<sup>1</sup> Adequate subsidies for building and operation have

<sup>1</sup> The following Lines are operating in the Far East today:

American President Lines (Trans-Pacific Service) from Los Angeles and San Francisco to Japan, China and the Philippines via Hawaii

been provided. In the construction program sanctioned for 1939, one-third of the vessels were destined for Far Eastern trade if the "Round-the-World" service is included. War conditions will stimulate increased use of American shipping in the Orient. American ships formerly in the European service but now laid up as a result of the Pittman Act can be used to replace any Allied shipping which is withdrawn. The Chairman of the Maritime Commission has promised adequate service for strategic supplies in response to queries from anxious industrialists.

In peace times the Far East is an arena of stiff shipping competition, as the recent report of the British Imperial Shipping Committee has vividly pointed out.<sup>2</sup> All the merchant marines of the world meet on the Pacific where the United Kingdom has long been dominant. Japan with her aggressive and highly efficient merchant fleet has been the *enfant terrible*, and has now achieved the status of a great carrying nation. China and the Philippines have had embryo schemes for maritime development. Monopolies of coastal shipping for vessels flying national flags and preferential arrangements for vessels of the mother country in colonial ports limit foreign entries. It will be necessary to give supplementary aid by stipulating the use of ships flying the American flag for products purchased with credits furnished by the Export-Import Bank and by special arrangements included in trade agreements. Though no such measure seems likely, it would be possible, until 1946, to enforce preferential regulations affecting Philippine commerce. It will, also, be important to demand assurances of rights of entry into ports from which Western China is being serviced.

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American President Lines (Round the World Service) from New York and Boston via Los Angeles and San Francisco to Japan, China and the Philippines thence Straits Settlements, India, via Suez Canal, Mediterranean ports to New York

American Pioneer Line from North Atlantic ports via Hawaii to the Philippines and China

Isthmian Line from North Atlantic ports to Hawaiian Islands, China and the Philippines

Puget Sound Orient Line from Seattle and Tacoma to Japan, China and the Philippines.

<sup>2</sup> Imperial Shipping Committee, *Report on British Shipping in the Orient*, London, 1938.



*Air Transport*

The United States is also "stepping up" her air services. From the point of view of commerce, the promotion of air transportation, particularly to distant markets, is of increasing importance for mail, business representatives, samples, catalogs and certain merchandise. Preceded by the air services of the Imperial Airways and the Royal Netherlands Indies Airways, a trans-Pacific air service was begun in 1936. At the present time the Pan American Airways offers regular flights from San Francisco via Honolulu, Midway and Wake Islands and Guam to Manila and Hongkong, and via Honolulu; Canton Island, Noumea (New Caledonia) to Auckland. If present plans are completed, American commercial interests will have advantages in this respect similar to those enjoyed by their competitors.

*Export Credits*

In competing for Far Eastern trade the United States has three other instruments of commercial policy: the Export-Import Bank of Washington, the Webb-Pomerene Export Associations, and the cotton export subsidy. All the Far Eastern countries will need credits in the future. They are all in the mature debtor-borrower or debtor-lender stage of financial development. Their gold supplies and production are not sufficient to support an expansion of purchases. Imports of the character which these countries want particularly—capital goods and expensive manufactures—must be financed by what are called middle-term credits (1-5 years). Since the early twenties, aid in financing such exports has been given by many nations under varying forms of guaranteed credits. The United States did not undertake such a service until July 12, 1934 when the first Export-Import Bank was set up. After several reorganizations, the present Export-Import Bank of Washington was established in 1936.<sup>8</sup>

<sup>8</sup> According to the Bank's description of its functions, its object and purpose is to aid in financing, and to facilitate exports and imports and the exchange of commodities between the United States and any of its territories and insular possessions and any foreign country or the agencies or nationals thereof. In furtherance of said object and purpose the Export-Import Bank of Washington is authorized to do a general banking business; to purchase, sell, negotiate, and discount, with or without its endorsement, notes, drafts, bills of exchange, acceptances, including bankers' acceptances, cable transfers, and other evidences of indebtedness and, with the approval of the Secretary of the Treasury, to borrow money and rediscount notes, drafts, bills of exchange, and other evi-

During the first two years, little use was made of the service. The large exporters did not feel the need of its assistance, since many of them had extensive distributing organizations, while other exporters had to be educated to its use. Since 1937, however, considerable experience has been gained in Latin America. As a result of increased business the statutory limitations of total commitments have twice been enlarged. Although the Act of March, 1940, doubled the lending authority from \$100,000,000 to \$200,000,000, the limitation is still considerably less than the British Export Guarantee Fund of £75,000,000 which is supplemented by a so-called fighting fund of £10,000,000.

The advantages of this institution for the promotion of trade with the Orient are obvious. American private capital has had less experience there than that of the other creditor nations. The government, through its diplomatic and commercial representatives, is in a strong position to collect the necessary data.<sup>4</sup> Since industrial developments, for which capital is needed, will not be "hit-or-miss" affairs, but will be planned and coordinated, returns on these investments for productive enterprise can be forecast with some degree of accuracy. In competition with barter it is our most potent weapon, as experience has demonstrated. Independent nations prefer a method which gives greater freedom in commercial transactions and which does not tie up specific imports with specific exports.

Thus far the Bank's credit transactions with the Far East have been limited to China. Since no credits have been made available to Japan in spite of her excellent credit record, it can be assumed that the Government is using the Bank as a political weapon in the East. While this may be a more desirable technique than sending battleships, it is, in the opinion of the writer, an unfortunate use of the Bank as an economic institution. The British system of separating the funds for purely commercial credits from the funds for credits which serve primarily political ends, seems more forthright and does

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dences of debt; to purchase and sell securities, including obligations of the United States or any State thereof; but not including the purchase with its funds of any stock in any other corporation; to accept bills or drafts drawn upon it; to issue letters of credit; to purchase and sell coin, bullion, and exchange; to lend money; and to do and to perform the necessary functions permitted by law to be done or performed in conducting such enterprise or business.

<sup>4</sup> The British Export Credits Department has sent out a resident representative to China.

not compromise the function of the Bank as a financial institution. This much can be said, however. When the "China Incident" is over, Japan will be greatly in need of foreign credits and the promise of a generous use of our capital lending power may give us an important bargaining leverage.

### *The Webb-Law Associations*

Closer cooperation among American exporters to the Far East is another factor which will be important both in trading with the countries where foreign trade is regulated and in meeting competition from totalitarian countries. Originally the Webb-Pomerene Act of 1918 was passed to help American exporters, especially in European markets where cartels and combines had become highly organized as a result of wartime economies. It provides for concerted action by American exporters rather than destructive competition. These Associations, moreover, can avail themselves of the opportunities afforded through the banking facilities of the Export-Import Bank of Washington. Pooling of sales efforts, backed by financial aid, affords bargaining strength in dealing with regulated or centralized import trade, which is characteristic of the Oriental trade today; and it is an effective method for combating the centralized controls of other exporters. If the United States has any single lesson to be learned from Japan it is the advantage to be gained from coordinated export policies.

Although there is not at present any legislation encouraging concerted action among importers, this might well be another step to foster two-way trade and to offset the advantages of barter. *The Times* (London) in an editorial treating of German competition in the Balkans (May 2, 1939) made the following significant comments:

. . . Credits, which are very necessary, may tide them over for a period and help them to obtain goods urgently needed, but in the long run they are a hindrance rather than a help if no provision is made for repaying them by the sale of goods. Herr Hitler was talking sound sense, as he frequently does on economic questions, when he said that what mattered was that Germany was able not only to supply these countries with things which they needed but also to accept from them the things which they were able to export. This country, however, is not only an important consumers' market; it has built up great trading organizations with ramifications all over the world. Given the necessary coordination it should be able to pur-

chase for its own use some of the products which these countries have to sell, and where that is impracticable, it should be able to help them to find markets elsewhere.

The export monopolies of China, Manchuria, Japan and the Netherlands Indies; government marketing boards of Australia and New Zealand; and the international raw materials cartels all in their several ways set up united fronts which put individual importers at a disadvantage.

### *Regionalism*

Lastly, it may be asked whether American commercial policy is deflecting commerce from the Orient by concentrating on a "Western Hemisphere" program. Regionalism is a loose term which can be defined as the conscious development of complementary trade among areas with geographical and climatic differences for the purpose of achieving a balanced economy within the boundaries of the region. The concept, which is basic to the Japanese program, was expressed somewhat mystically by Tatsuo Kawai in the following sentence: "The characteristic of this century is the centripetal tendency of all peoples which causes the nations of the world to identify their interests with those of their respective regional powers."

When the ships of the Occident first sailed into their harbors, the peoples of the Far East were living self-sufficient, isolated lives. Impact with the factory system seriously disturbed their balance and stability. It was well over a century before the migration of modern industry reached the Orient. But today some think it possible to restore the balance. Japan in her plans for a "new order in Eastern Asia" confronts the United States with its "good neighbor" policy. Following "armed action" Japan has outlined her prodigious schemes. Capital goods and products requiring skilled techniques will be centered in Japan; the secondary industries will be developed in China, which Julean Arnold has characterized as "the richest treasure house of man power in the world on subsistence levels"; foodstuffs and crude materials will be grown or exploited in this vast territory stretching almost from the Arctic to the tropics. The most important deficiencies are near at hand—tin, rubber and oil in the East Indies, Indo-China and Malaya; iron in India, Malaya, the Philippines and Australia; chrome and nickel in the Philippines and New Caledonia; copper and

manganese in the Philippines; bauxite in the Netherlands Indies and the Philippines; lead in Burma and Australia; fibers in the Philippines and India; timber in the Philippines. Japan's present dependence upon the United States is limited to equipment and special high grade oils, and even this degree of dependence may only be temporary. Her cheap manufactures are admirably suited to the needs of the low purchasing power markets of her neighbors.

The so-called "longitudinal plans" of the United States include an even larger climatic range from the Arctic to the Antarctic. The hope, somewhat nebulous and unclarified, is to promote within the "Western Hemisphere" the development of raw materials which American industry needs and other agricultural products such as quinine, pyrethrum and tropical foods, which can be made the basis of complementary trade. In Latin America most of the products which the United States imports from the Orient are found or can be grown, though whether in sufficient amounts is still a matter for conjecture. During 1939 there have been significant shifts to the purchase of Argentine wool in place of Chinese wool and to Brazilian oils to replace Chinese tung oil.<sup>5</sup> Plans for greater use of Bolivian tin are being formulated. Antimony is bought in Bolivia and Mexico instead of China. Threats to Oriental suppliers from within the United States include the use of nylon instead of silk and bristles, the substitution of molybdenum for tungsten, synthetic ephedra, synthetic camphor, synthetic rubber, expansion of the soya bean crops and tung oil plantations.

The situation and methods differ. The United States has vast needs for established industries, some of which are almost wholly dependent today on supplies from the Far East, and the shift in her demand will be conditioned upon the rapidity with which the new developments can be pushed. In American policy there is no preconceived notion of suppressing the growth of balanced economies in the other American countries but rather the idea of promoting a trade which would meet obvious complementary needs. The pace must perforce be slow. Negotiation with twenty-two independent nations is a

<sup>5</sup> It has been estimated that, in 1939, 30 per cent to 50 per cent of former tung oil consumption has been satisfactorily supplied by substitute oils in the manufacture of paint.

painstaking process. The objects are to be attained under the reciprocal trade agreements program with the aid of capital exports which the proposed Hemisphere Bank would greatly facilitate, and the loan of experts which the government has been vigorously promoting. Trade will be fostered not by preferential arrangements but by mutual dependence.

Japan, on the other hand, has not completed her own industrialization and the shift in demand will depend upon the speed with which she can attain industrial maturity. The "new order in Eastern Asia," whatever that term is to include, will have been achieved, if it is to be achieved at all, by the sword and united by political accords. Economic control over the Asiatic economies would be exercised chiefly by banking and currency affiliations within the yen bloc, safeguarded by rigid foreign exchange control and trade regulations. The path for action may be cleared more quickly but the task of building is enormous. If Japan succeeds, the words of the Shogun in 1630 may again ring true: ". . . it is of slight importance to the Empire of Japan whether foreigners come or do not come to trade."

To which region will economic forces draw an independent Philippines? At present maintenance within the orbit of the United States is dependent upon preferential trade regulations and dominance of the American outlet for Philippine exports. A shift in either factor would change the present close relationship. In addition, any lowering of the Philippines' standard of living, caused by the reduction of exports to their sheltered market, would again lessen ability to buy high-priced American products. According to many observers, the Islands constitute a promising field for Japanese investment, exploitation and development. There is undeveloped arable land to be used for such projects as the hemp plantations in the province of Davao. There are metals, which Japan needs, such as iron, chromium, nickel, bauxite, manganese and gold. There is timber. As experience has already demonstrated, there is a market for low-priced Japanese consumer products, such as textiles, household goods and canned fish, marketed by Japanese retail merchants. There is also a market for her capital goods. The writing on the wall is clear. If there is a complete severance of political and economic ties between the Philippines and the United States, the trade of the Philippines will be deflected

irresistibly toward her neighbor. If there is a mutual desire to retain something of the commercial *status quo*, it can only be attained by the artificial method of preferred treatment.

American commercial policy in the Orient has reached a turning point. World forces have produced a crisis which necessitates far-reaching decisions. Though the intrusion of crucial political issues makes a solution on a purely economic basis impossible, experience with the economic consequences of the Versailles Treaty should at least provide a warning. Rather than allowing the problem to be attacked piecemeal, the time is ripe for a coordinated plan covering the region. Japan, the British Commonwealth, the Netherlands, and the United States are cast for the leading roles. All have trade interests involved; all have dependencies in the Far East and all are deeply concerned from an economic standpoint with the fate of China.

The United States, now interested in the Far East as a market for her manufactures, holds a unique bargaining position. With European supplies cut off, it has before it a seller's market; it has the largest credit facilities of any country in the world to be drawn upon for developmental purposes; and it has modern bargaining equipment. Its dependence on essential supplies from the Orient can be reduced. How is it to use these vast powers?

Specific suggestions have been made in the preceding pages. It remains to close with emphasis on general principles. Any plan for the economic stability of the Far East which would avoid future friction must be based on the following principles: (1) The recognition of the right of every country (whether an independent nation or a colony) to attain as well rounded an economy as its resources make feasible. (2) A new interpretation of the Open Door which will define equal opportunity under modern trade controls. (3) Recognition in commercial policies of the old adage that to sell, a nation must buy. (4) Acceptance of the obligations of law and contract as the basis of commercial relations.

Although these principles sound elementary, any study of Far Eastern trade will give ample proof that they have all been violated in overt act as well as in the spirit. There has been an effort to delay industrialization in the interests of the older countries. Natural markets have been closed, especially to Japan, in the interests of other nationals. Com-

mercial policies have been lopsidedly constructed with no concern for two-way trade. Treaties have been scrapped in the interests of power politics. Even the partial application of these precepts will involve some sacrifice of privileged status on the part of colonial Powers; some sacrifice on the part of domestic industries too weak to stand the impact of foreign imports or too selfish to yield a mite to the necessity of a broader base for trade; and the final relinquishment of special legal and economic privileges long enjoyed in China. Lastly, the problem of adequate outlets for Japanese exports must be faced realistically in consideration of her peculiar and vital needs.

The days of the Oriental grab bag are over. Governmental control has developed too far in all of these Eastern countries to justify the hope that these markets will be opened freely. If they are opened *fairly* and if the control of their foreign commerce is predicated upon policies permitting sound growth, trade with the Far East can be placed upon a more stable and equitable basis than ever before. To find the formula for the new orientations of Pacific trade will not be a simple or an easy task but it offers an unparalleled challenge to the new commercial diplomacy.



UNITED STATES EXPORTS TO AND IMPORTS FROM FAR EASTERN COUNTRIES

(Values in 1,000 dollars)

	<i>1926-30 Average</i>		<i>1930</i>		<i>1931</i>		<i>1932</i>		<i>1933</i>		<i>1934</i>	
	<i>Exports</i>	<i>Imports</i>	<i>Exports</i>	<i>Imports</i>	<i>Exports</i>	<i>Imports</i>	<i>Exports</i>	<i>Imports</i>	<i>Exports</i>	<i>Imports</i>	<i>Exports</i>	<i>Imports</i>
British India.....	53,512	136,869	45,195	104,148	36,698	58,521	24,915	33,204	19,858	43,759	27,442	55,082
British Malaya.....	12,649	249,829	9,601	144,032	4,735	83,073	2,497	34,806	2,397	59,912	4,216	105,499
Ceylon.....	2,584	36,106	1,796	20,707	1,258	10,906	737	5,915	815	7,014	1,256	11,567
Netherlands Indies	33,850	87,467	29,408	57,890	15,323	34,240	7,816	29,827	6,890	33,076	10,068	42,426
French Indo-China	1,886	124	1,549	219	967	236	1,484	76	610	145	1,636	1,038
Philippine Islands .	73,688	114,114	64,935	109,390	48,883	87,133	44,968	80,877	44,782	93,048	47,129	87,811
Thailand.....	2,391	477	2,365	400	1,313	263	683	57	841	78	1,617	245
China <sup>1</sup> .....	109,021	140,506	89,605	101,464	97,923	66,759	56,171	26,177	51,942	37,807	68,667	45,933
Hongkong.....	18,043	12,062	16,987	9,002	14,380	5,829	9,695	4,277	8,563	3,939	9,026	5,280
Kwantung.....	7,531	3,362	6,405	2,809	2,176	1,223	1,186	904	2,691	1,347	3,938	1,577
Japan.....	246,036	379,632	164,570	279,040	155,715	206,349	134,921	134,011	143,435	128,418	210,480	119,251
<b>Total.....</b>	<b>561,191</b>	<b>1,160,548</b>	<b>432,416</b>	<b>829,101</b>	<b>379,371</b>	<b>554,532</b>	<b>285,073</b>	<b>350,131</b>	<b>282,824</b>	<b>408,543</b>	<b>385,475</b>	<b>473,709</b>

	<i>1935</i>		<i>1936</i>		<i>1937</i>		<i>1938</i>		<i>1939</i>	
	<i>Exports</i>	<i>Imports</i>	<i>Exports</i>	<i>Imports</i>	<i>Exports</i>	<i>Imports</i>	<i>Exports</i>	<i>Imports</i>	<i>Exports</i>	<i>Imports</i>
British India.....	31,424	61,981	26,807	70,340	43,747	95,942	33,400	58,400	42,800	66,400
British Malaya.....	4,500	131,607	5,021	167,997	8,836	242,872	8,900	112,300	10,000	149,000
Ceylon.....	1,260	11,373	1,275	13,963	1,724	20,706	..	..	..	..
Netherlands Indies	10,873	50,295	13,752	69,805	25,050	115,189	..	..	..	..
French Indo-China	1,406	2,275	3,120	4,187	2,532	6,577	27,500	68,800	35,500	93,000
Philippine Islands.	52,640	96,999	60,350	101,679	85,032	126,061	3,100	7,100	8,200	9,600
Thailand.....	1,758	160	2,161	243	3,682	527	86,500	94,200	100,100	91,900
China <sup>1</sup> .....	38,153	64,200	46,819	74,232	49,703	103,622	..	300	..	400
Hongkong.....	9,104	8,937	8,550	8,541	20,266	9,213	34,700	47,200	55,800	61,700
Kwantung.....	4,188	5,312	3,542	3,988	16,068	3,708	21,300	3,400	18,100	3,600
Japan.....	203,283	152,902	204,348	171,744	288,558	204,201	17,000	1,600	15,500	1,500
<b>Total.....</b>	<b>358,589</b>	<b>586,041</b>	<b>375,745</b>	<b>686,719</b>	<b>545,198</b>	<b>928,618</b>	<b>239,700</b>	<b>126,800</b>	<b>231,400</b>	<b>161,200</b>

<sup>1</sup> Includes Manchuria.

Source: U. S. Bureau of Foreign and Domestic Commerce, Foreign Commerce and Navigation of the United States, 1931-1937.

## APPENDIX II

### SHARE OF CERTAIN FAR EASTERN COUNTRIES IN THE FOREIGN TRADE OF THE UNITED STATES

(Expressed as percentages of U. S. imports and exports respectively)

	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938	1939
<b>Imports from:</b>											
British Malaya....	5.4	4.7	4.0	2.6	4.1	6.4	6.4	6.9	7.9	5.7	6.4
China.....	3.8	3.3	3.2	2.0	2.6	2.7	3.1	3.0	3.4	2.4	2.7
French Indo-China	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.2	0.2	0.4	0.4
Hongkong.....	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.3	0.2	0.2
Japan.....	9.8	9.1	9.8	10.1	8.8	7.2	7.8	7.1	6.6	6.5	7.0
Kwantung.....	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.1	0.1	0.1
Netherlands Indies	1.9	1.9	1.6	2.3	2.3	2.6	2.5	2.9	3.8	3.5	4.0
Philippine Islands.	2.9	3.6	4.2	6.1	6.4	5.3	4.7	4.4	4.1	4.8	4.0
Thailand <sup>1</sup> .....	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Exports to:</b>											
British Malaya....	0.3	0.3	0.2	0.2	0.1	0.2	0.2	0.2	0.3	0.3	0.3
China.....	2.4	2.3	4.0	3.5	3.1	3.2	1.7	1.9	1.5	1.1	1.8
French Indo-China	0.0	0.0	0.0	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.3
Hongkong.....	0.4	0.4	0.6	0.6	0.5	0.4	0.4	0.4	0.6	0.7	0.6
Japan.....	4.9	4.3	6.4	8.4	8.5	9.8	8.9	8.3	8.6	7.7	7.3
Kwantung.....	0.2	0.2	0.1	0.1	0.2	0.2	0.2	0.1	0.5	0.5	0.5
Netherlands Indies	0.9	0.8	0.6	0.5	0.4	0.5	0.5	0.6	0.7	0.9	1.1
Philippine Islands.	1.6	1.7	2.0	2.8	2.7	2.2	2.3	2.5	2.5	2.8	3.2
Thailand <sup>1</sup> .....	0.1	0.0	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1

<sup>1</sup> Fiscal year ended in the year shown.

## APPENDIX III

### SHARE OF THE UNITED STATES IN THE FOREIGN TRADE OF CERTAIN FAR EASTERN COUNTRIES

(Expressed as percentages of their imports and exports respectively)

	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938	1939
<b>Share of the U. S. in</b>											
<b>Imports of:</b>											
British Malaya....	3.7	3.3	2.5	1.9	1.6	1.8	2.0	1.9	2.3	....	....
China.....	18.0	17.5	22.2	25.4	21.9	26.2	19.0	19.6	19.8	16.9	15.9
French Indo-China	5.1	5.4	3.5	3.4	3.5	2.1	2.3	2.4	3.3	....	....
Japan.....	29.5	28.6	28.2	36.5	33.0	34.2	33.0	30.7	33.6	34.4	34.3
Manchoukuo.....	....	....	....	....	....	5.9	4.1	3.4	6.5	....	....
Netherlands Indies	12.2	10.7	9.1	6.7	4.9	6.1	6.9	7.7	10.2	12.4	....
Philippine Islands.	63.4	63.5	62.3	64.6	64.6	64.6	63.4	60.8	58.1	68.1	....
Thailand <sup>1</sup> .....	3.6	4.1	3.7	3.2	2.4	3.0	2.7	3.0	3.8	....	....
<b>Share of U. S. in</b>											
<b>Exports of:</b>											
British Malaya....	42.2	34.0	31.3	19.8	31.2	34.7	37.5	47.1	44.4	....	....
China.....	13.6	14.7	13.2	12.1	18.5	17.7	23.7	26.4	27.6	11.4	21.9
French Indo-China	1.2	0.3	0.4	0.2	0.7	3.6	4.3	6.3	7.2	....	....
Japan.....	42.5	34.4	37.6	32.1	26.8	18.6	21.8	22.5	20.6	15.8	17.9
Manchoukuo.....	....	....	....	....	....	1.3	3.7	2.7	2.9	....	....
Netherlands Indies	11.4	12.2	11.8	12.1	11.7	11.5	14.3	17.8	18.7	13.5	....
Philippine Islands.	75.9	79.1	80.3	86.7	86.3	83.2	79.5	80.4	79.8	77.2	....
Thailand <sup>1</sup> .....	0.4	0.4	0.4	0.3	0.1	0.1	0.2	0.2	0.4	....	....

<sup>1</sup> Fiscal year ended in the year shown.

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