

Trade, Investment and Economic Relations Between Japan and Australia : The Pre-War Interlude 1932-41.

By

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During the post-war era Japan and Australia have developed an economic relationship which is of major importance to the economies of both nations and of considerable international significance.¹⁾ By the early 1970s Japan had displaced Great Britain and the United States as Australia's principal trading partner. Australia's importance in Japan's international trade is exemplified by its strategic role as the critical supplier of many key industrial raw materials as well as being a leading market for a variety of Japanese exports.²⁾ Since the liberalisation of Japan's restrictions on overseas investment in the late 1960s, she has also become a major investor in Australia, particularly in the area of resources development. By 1975-76 accumulated Japanese investment in Australia exceeded \$450 million. During this period, however, the "special" relationship enjoyed by the two countries has been strained at various times by trade disputes. Recent events, including the failure of the beef negotiations in Tokyo and the protracted dispute over sugar contracts have brought Australian threats of retaliatory action and typify a long history of pitfalls along the road to N. A. R. A.³⁾ Notwithstanding this resistance, and despite other cultural barriers to trade, the high degree of resource complementarity between the two economies and advantages of geographic proximity have continued to expand the gains to be made by both countries through bilateral specialisation and

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1) J. G. Crawford & S. Okita, *Australia, Japan and the Western Pacific Economic Relations: A Report to the Governments of Australia and Japan*, (Canberra, 1976) p. 1.

2) In 1973 Australia supplied Japan with 47 per cent of her iron ore imports, 37 per cent of coking coal imports, 58 per cent of bauxite imports and was Japan's key supplier of wool, alumina and beef. During the same year Japan took 87 per cent of Australia's coking coal exports, 86 per cent of her iron ore exports and an estimated 38 per cent of her bauxite exports.

3) E. G. Whitlam's Nippon Australia Relations Agreement.

exchange.

My purpose here, however, is not to further analyse the post-war development of Japanese-Australian trade or the trading relations between the two countries. A myriad of research has been published on every aspect of these topics and the facts are well known. This article focuses its attention on the largely unexplored but nevertheless significant developments which occurred in Japanese-Australian economic relations during the pre-war decade of the '1930s. Its principal objectives are to examine the rapid growth in bilateral commodity trade which took place during this period; to review Japan's first attempt at direct private investment in Australia; and to provide an account of the political and institutional resistances which ultimately determined the pattern of economic relations between the two economies.

I An Overview

The opening of the period witnessed the Australian economy plummet into the depths of world depression. Gross National Product in current prices fell by a massive 34 per cent between 1929-30 and the trough year 1931-32.⁴⁾ Unemployment in Australia, which had averaged 8 per cent during the 1920s reached a peak of 28 per cent in 1932.⁵⁾ World commodity prices crashed. Even recovery which was evident by the end of 1932 was a slow and protracted process.⁶⁾ In line with the sharp contraction in the volume of world trade during the early 1930s which was accompanied by an era of extreme protectionism, the general level of Australia's overseas trade floundered.⁷⁾ However, at the same time as Australia's traditional overseas markets were either contracting or collapsing, Japan greatly increased her purchases of Australian foodstuffs and raw materials. During the depression years Japanese imports of Australian wool more than doubled while imports of wheat increased at an even faster pace. Japanese exports to Australia also witnessed an unprecedented increase. In the two years between 1931 and 1933 the value of Japanese trade with Australia increased by 94 per cent, from 131.7 million yen to

4) N. G. Butlin, *Australian Domestic Product, Investment and Foreign Borrowing, 1861-1938/39*, (Cambridge, 1962) Table 269, pp. 460-461.

5) Commonwealth Bureau of Census and Statistics, *Official Yearbook of the Commonwealth of Australia*, No. 26 (Canberra, 1934) p. 743.

6) See C. B. Schedvin, *Australia and the Great Depression*, (Sydney, 1970) pp. 372-380.

7) In 1929-30, 256,208,000; 1930-31 149,864,000; 1931-32, 129,716,000 *Official Yearbook*, (f.n. 5), No. 27, p. 244.

256.0 million yen.⁸⁾ This increase was considerably greater than the striking rate of growth of Japanese foreign trade as a whole (58 per cent), which accompanied the rapid expansion of Japan's industrial economy after 1932.

By 1935 Japanese-Australian trade had increased nearly threefold over its 1930 level to a value of 336.9 million yen. Moreover, between 1929-30 and 1935-36 Australia's exports earnings to Japan more than trebled. This trade expansion placed Japan as Australia's second largest export customer next to the British Empire and her third largest import market. Imports from Japan as a proportion of the Australian total increased from less than 3 per cent during the 1920s to well over six per cent by the mid 1930s; exports to Japan rose from a level of about seven per cent to 14 per cent of the Australian total. Taking re-exports into consideration, by 1935 Japan had surpassed the United Kingdom as the largest manufacturer of Australian wool: almost 32 per cent of Australia's wool exports were sold to Japan and this amount satisfied about 95 per cent of Japan's raw wool requirements.⁹⁾

Australia's share in Japan's import trade also increased substantially; from five per cent during the late 1920s to nearly ten per cent of the total by 1935. Exports to Australia during the same period rose from two per cent to nearly four per cent of Japan's commodity exports, a level of importance not again equalled until the late 1960s.

The peculiar nature of this sudden and intensive concentration of Japanese activity in Australia, particularly in the textile market was manifested not so much in the increased total value of trade as in the amazing growth in its volume. In cotton as well as rayon textiles the trade rapidly passed from the United Kingdom and Continental manufacturers to the Japanese. Japan's share in Australian imports of cotton and rayon textiles rose from 3.3 per cent in 1929-30 to 34.6 per cent by 1935-36, whereas Great Britain's share declined from 82.2 per cent to 59.2 per cent during the same period. The largest gains were made in rayon piece goods where Japan's share of the market rose from less than one per cent in 1929-30 to 59 per cent by 1935-36, while Great Britain's share declined

8) Okurasho, *Dai nippon gaikoku boeki nempyo*, [Annual Return of the Foreign Trade of Japan], 1933, (Tokyo, 1934) p. 2.

9) Department of the Prime Minister, 'Australian Wool in the Far East: Confidential Report on the Australian Eastern Mission', 1934, Australian Archives, (hereafter A. A.) CP 290/1 item 10; Commonwealth Bureau of Agricultural Economics, *Statistical Handbook of the Sheep and Wool Industry* (Canberra, 1961) p. 95; For a general history of the development of Japan's woollen textile industry see K. Ito, *Nihon Yomo Kogyoron*, (Tokyo, 1957), *passim*.

from 52 per cent to 29 per cent over the same period.¹⁰⁾ All of this was accomplished despite significant, and after Ottawa, increasing tariff margins which discriminated in favour of Empire goods.

Nevertheless, the very low prices of Japanese textiles enabled the latter in 1935 to import into Australia 86 million square yards of cotton tissues and 65 million square yards of rayon tissues, thereby seriously threatening the United Kingdom's position in the Australian textile market.¹¹⁾ Japan's trade drive in Australia was successful, as it was elsewhere, because of her ability to engage in sustained and effective price competition. Price differentials between the British and the Japanese products involved became so large that they greatly reduced the impact of the *ad valorem* preferential duties applicable to them.

Much of this progress stemmed directly from the fundamental changes which took place in the Japanese economy as a result of the impact of the Great Depression. Rationalisation of Japanese industry, which entailed a substantial reduction in cost structures as well as significant improvements¹²⁾ in the level of technical efficiency, laid the foundations for Japan's export drive. Recovery in Japan was characterised by a substantial increase in production and employment as well as by the advance in foreign trade. From the low point of the depression in 1931 until the outbreak of hostilities with China in 1937, the volume of Japanese output doubled, employment increased by 60 per cent and the volume of foreign trade more than doubled. The depression also had important effects upon Japan's political institutions and led in the years under review to some striking alterations in her economic policy. The restoration of the militarist influence over policy, demonstrated by Japan's actions in Manchuria and by the movement towards *junsenji keizai* (quasi-war economy) inevitably forced the abandonment of deflationary policies and the introduction of a deliberate strategy of reflation.¹³⁾ The repercussions of reflation were far reaching in that Japan's industrial structure and her economic policies

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- 10) Prime Ministers Department, 'Commercial Relations-Japan 1936', A. A. CP 290/1 item B1/17, p. 6.
 - 11) Department of Commerce, 'Japan General File: 1435-1938', A. A. CRS A601, item 402/17/2, Pt Z.
 - 12) See G. G. Allen, *Japanese Industry: Its Recent Development and Present Condition*, (New York; 1940), Chapter 3; T. Uyeda, *The Small Industries of Japan* (London 1938), T. Uyeda and T. Soda, *The Rayon Textile Industry* (Tokyo, 1934).
 - 13) G. C. Allen, in E. B. Schumpeter (ed), *The Industrialisation of Japan and Manchukuo, 1930-1940*, (New York, 1940) pp. 647-727.

in general became closely aligned after 1936 to rearmament and to the subsequent diversion of raw materials to military based industries.

During this period Australia became a significant source of raw materials for Japan's growing industries. Australian wool and wheat occupied premier positions in Japanese buying markets, supplying 95 per cent and 72 per cent respectively of Japan's import requirements and in these commodities enjoyed special advantages over alternate suppliers.¹⁴⁾ By the mid 1930s Australia was one of Japan's major suppliers of non-ferrous metals and was also an important supplier of iron ore and scrap metal. Next to the United States and India, Australia was commonly Japan's third largest raw material supplier.¹⁵⁾

The good relations and expanding bilateral trade enjoyed by the two countries until the mid 1930s was abruptly interrupted in 1936, however, by an acute trade controversy. Ostensibly on its own initiative and on the basis of a reassessment of its Ottawa commitments, the Commonwealth Government in April 1936 proceeded to impose new and greatly increased tariffs which were directed specifically against Japanese textiles.

The Japanese commercial sector retaliated by boycotting Australian wool sales and later the Imperial Government invoked Japan's Trade Protection Law under which a strict import licencing system was imposed on Australian wool, wheat and flour and prohibitive tariffs were placed on most other Australian produce. After protracted negotiations an accord was finally reached in December 1936. Under the terms of the negotiated settlement Australia agreed to reduce intermediate tariff rates on Japanese textiles, to lift import restrictions on certain Japanese goods and to permit a specified annual quota of Japanese textiles. Japan in return agreed to abolish the 50 per cent surcharge placed on Australian imports during the dispute and authorised the purchase of 800,000 bales of wool during the eighteen month period ending June 30th 1938.¹⁶⁾ From then until the outbreak of the Pacific War, trade between the two countries continued on a reduced scale with the trade balance very much less in Australia's favour than before the trade diversion episode.

By 1938-39, the last full year of normal trading before Australia entered the Second

14) Boeki Nempyo, 1935 (f. n. 8), pp. 2, 963-965.

15) Nancy M. Windett, *Australia as Producer and Trader, 1920-1932*, (London, 1933) pp. 274-277.

16) Prime Ministers Department, Memorandum, 31st December, 1936; 'Trade With Japan: Policy 1936-1940', A. A. A461, item J323/1/5.

World War, the value of trade between the two countries had declined significantly and Japan was taking only 9 per cent of Australia's wool exports and four per cent of her exports as a whole.¹⁷⁾ The events of 1941 which ultimately culminated in the outbreak of war between Japan and Australia brought to a close this important era in Japanese-Australian commerce. On July 27th, 1941, Japanese trading company operations in Australia were officially suspended and their assets frozen. After the Australian declaration of war against Japan was announced on December 8th of the same year all trade between the two countries was officially banned under the 'Trading with the Enemy Act' of 1939-40.

II Japanese-Australian Trade 1931-32 to 1935-36.

The remarkable growth in Japanese-Australian commodity trade which occurred between 1931-32 and 1935-36 has already been briefly referred to in the overview section of this paper. As disastrous as Japan's export expansion proved to be to the western industrialised nations, its effect upon Australia as a primary producing region was almost wholly beneficial. As one contemporary commentator noted,

"From the Australian point of view, Japan now became not a dangerous competitor, but an invaluable market for raw materials and goodstuffs."¹⁸⁾

At a period in time when Australia urgently required to enlarge the volume of her exports, Japan's industrial development led her to substantially increase the volume of her purchases of Australian wool, wheat and other produce. Moreover, in the total trade with Japan, increased exports gave Australia a favourable trading balance amounting in 1935-36 to \$9 million; more than one-third of the sum needed to meet Australia's annual overseas interest remittance.¹⁹⁾ In assessing Australia's favourable balance of trade with Japan, the value of the carrying trade, however, should be taken into account, in light of the fact that Japanese shipping lines during this period exercised a virtual monopoly over both the import and export trade.²⁰⁾

Three Japanese shipping companies operated at least nine vessels on a regular basis

17) *Official Yearbook*, (f. n. 5), pp. 508, 510.

18) Jack Shepherd, *Australia's Interests and Policies in the Far East*, (New York, 1939) p. 26.

19) By 1929 Australia's annual overseas interest burden reached 27.5 million or 3.4 per cent of G. N. P. as compared with 2.3 per cent in 1921. Of more immediate significance was the rapid increase in exports committed to overseas payments (28 per cent by 1929), for in the final analysis Australia's international solvency depended upon the ability of exports to finance these obligations. See C. B. Schedvin, *Australia and the Great Depression*, (f. n 6), pp. 72-73.

20) Nippon Yusen, Osaka Shosen & Yamshita Shosen.

between Australia and Japan. Earnings also accrued to Japanese interests by way of insurance and other changes incurred in connection with the shipping trade. An approximate estimate of the freight earnings by Japanese vessels in the export of wool, wheat, tallow, zinc and iron ore during the year 1933-34 is presented below.²¹⁾

Wool-173,000,000 lbs @ 1¼d per lb less 10%	820,000
Wheat-206,700 tons @ average of 15/- per ton	155,000
Tallow-10,000 tons @ £2/10/- per ton	25,000
Zinc-42,000 tons @ £1/10/- per ton	63,000
Iron-25,000 tons @ £1/5/-per ton	25,000
	<u>1,088,000</u>

Allowing for other charges a sum of £(A), 1,750,000 would be a conservative estimate of the total value of outward Japanese freight earnings.²²⁾ On 1933-34 figures this amount would have reduced the annual trade balance by more than 20 per cent. Nevertheless, the surplus was still considerable with the balance being still almost two to one in Australia's favour.

The principal items of exchange between the two countries for the period are presented in the following Table 1 and 2. Quantitatively, wool remained Australia's principal export to Japan, and supplied about 95 per cent of Japan's requirements. Australian

JAPAN'S WOOL PURCHASES FROM AUSTRALIA 1926-27 to 1935-36

YEAR	EXPOPTS FROM AUSTALIA TO JAPAN Bales (a)	YEAR	IMPORTS, JAPAN FROM AUSTRALIA. Bales (b)
1926-27	239,000	1927	328,000
1927-28	330,000	1928	365,000
1929-29	345,000	1929	350,000
1929-30	334,000	1930	374,000
1933-31	514,000	1931	605,000
1931-32	615,000	1932	656,000
1932-33	644,000	1933	752,000
1933-34	572,000	1934	514,000
1934-35	710,000	1935	762,000
1935-36	785,000	1936	516,000

Source (a) *Dalgety's Annual Wool Review 1935-36*

(b) *Dainippon gaikoku boeki mempyo* (converted from piculs to bales on the basis of 2.27 piculs 300 lbs per bale)

21) Department of Commerce, 'Japan: Trade Treaties with Eastern Countries, 1934-36' A. A., A601, item 406/1/13.

22) *ibid.*

Table 1 *Australia: principal Exports to Japan, 1931-32/1935-36*

Year	1931-32		1932-33		1933-34		1934-35		1935-36	
Total Exports to Japan £A'000	£A11,695,000		£A11,468,000		£A13,906,000		£A12,096,000		£A17,661,000	
	Exports to Jap.	% of tot Ex to Jap	Exports to Jap.	% of tot EX to Jap	Exports to Jap.	% of tot EX to Jap	Exports to Jap.	% of tot EX to Jap	Exports to Jap.	% of tot EX to Jap
Wool (greasy, scouled, tops)	7514	64.44	7970	69.49	12,128	87.22	8680	71.76	14,594	82.64
Wheat	3384	29.02	2730	23.81	1,042	7.49	2274	18.80	1,924	10.89
Flour	11	0.09	23	0.22	32	0.23	8	0.70	75	0.42
Zinc	139	1.19	148	1.29	113	0.81	164	1.36	242	1.37
Iron Ore	8	0.07	8	0.07	26	0.19	141	1.17	158	0.89
Iron & Steel Scrap	36	0.31	43	0.38	77	0.55	138	1.14	116	0.66
Lead	31	0.27	21	0.18	25	0.18	37	0.30	32	0.18
Hides & Skins	24	0.21	17	0.15	53	0.38	115	0.95	139	0.79
Tallow	261	2.24	205	1.79	158	1.14	174	1.44	81	0.46
Casein	22	0.19	14	0.12	19	0.14	31	0.26	35	0.20
Milk & Cream	18	0.15	15	0.13	33	0.24	43	0.35	37	0.21
Meat	44	0.38	23	0.20	25	0.18	29	0.24	34	0.19
All other	167	1.44	249	2.17	175	1.25	262	2.16	194	1.10

Source: Commonwealth Bureau of Census and Statistics, *Overseas Trade Bulletin*.Table 2 *Australia: Principal Imports from Japan, 1931-32 to 1935-36*

Year	1931-32		1932-33		1933-34		1934-35		1935-36	
Total Imports from Japan £'000	£2,397,000		£3,537,000		£3,677,000		£4,625,000		£4,970,000	
	IM from Japan	% of tot IMP from Japan	IM from Japan	% of tot IMP from Japan	IMP from Japan	% of tot IMP from Japan	IMP from Japan	% of tot IMP from Japan	IMP from Japan	% of tot IMP from Japan
Raw Silk	301	12.65	256	7.24	268	7.29	195	4.22	327	6.58
Apparel	48	2.00	107	3.03	107	2.91	135	2.92	162	3.26
Piece Goods-Canvas & Duck	1	0.04	16	0.45	21	0.57	58	1.25	72	1.45
Cotton & Linen	302	12.60	539	15.24	581	15.80	929	20.09	913	18.37
Silk	1048	43.72	1048	29.63	665	18.08	457	9.88	268	5.39
Artificial Silk	132	5.50	427	12.07	856	23.28	1394	30.14	1398	28.13
Other	17	0.71	79	2.23	94	2.56	109	2.36	129	2.59
Yarns	74	3.09	113	3.19	55	1.50	67	1.45	132	2.66
Metals & Metal Manufactures	36	1.50	95	2.69	133	3.62	181	3.91	238	4.79
Crockery & Household ware	91	3.80	151	4.27	138	3.75	162	3.50	161	3.24
Spicy Goods & Toys	40	1.67	75	2.12	101	2.75	111	2.40	121	2.43
Sulphur	16	0.67	110	3.11	67	1.82	72	1.56	132	2.66
All other	291	12.14	521	14.73	591	16.07	755	16.32	917	18.45

Source: Commonwealth Bureau of Census and Statistics, *Overseas Trade Bulletin*.

wool enjoyed special advantages in the Japanese buying market over substitute suppliers from South Africa and South America.

Not only was the quality of Australian wool superior to other substitutes and more suited to Japanese requirements, but as well geographic proximity allowed Australian wool to be landed in Japanese ports at £1 per bale less than similarly priced wool from South Africa or Argentina.²³⁾ Exports of wool from Australia to Japan during the ten year period 1926-27 to 1935-36 and imports into Japan during the calendar years 1927 to 1936 are presented below.

The discrepancies between the two set of figures are due to factors which are common in the compilation of trade statistics, as for example, the differences in statistical periods, the time lag between the dates of exportation and importation and the different basis adopted for the purposes of measuring the volume of imports and exports.

Together with wheat, wool accounted for more than 90 per cent of Australia's exports to Japan during the period under review. Although metals and ores were a minor component of total exports, their rapid growth was evidence of the expanding role Australia came to play as a raw material supplier to Japan. For example, Japanese purchases of Australian iron ore increased from a mere 13,000 tons in 1931-32 to 300,000 tons by 1935-36;²⁴⁾ exports of iron and steel scrap approached 50,000 tons per annum by the middle of the decade.²⁵⁾ Australia also maintained her position as Japan's major supplier of non-ferrous ore concentrates. By comparison with her imports from Australia, Japan's exports to Australia were diffused over a much larger range of commodities. The large increase in the range of goods imported from Japan during this period is inferred in Table 2 by the expansion in the value of the miscellaneous category from £291,000 to £917,000 between 1931-32 and 1935-36. Not only did Japanese exports to Australia grow rapidly during this period, there were also some notable changes in its composition. Most obvious was the displacement of silk textiles by artificial silk piece goods. Whereas silk piece goods accounted for 43.7 per cent of Japanese exports to Australia at the beginning of the period, by 1935-36 they had declined to 5.39 per cent of the total, and from a value of £1,048,000 to £268,000. The change in export composition reflected

23) Department of the Prime Minister, 'Confidential Report' (f. n. 9) ; and 'Japan'-Appendix : Features of Australian Japanese Trade, A. A., CP 290/1 item B1/17.

24) Commonwealth Bureau of Census and Statistics, *Overseas Trade Bulletin*, No. 33, (Canberra, 1936), p. 85.

25) *ibid*, p. 95.

both structural changes in Japanese production as well as increasing world demand for cotton and rayon piece goods. Cotton and rayon textiles increased from 12.6 per cent and 5.5 per cent respectively, to 18.4 per cent and 28.1 per cent of Japanese exports to Australia.

Even more striking than the increased value of Japanese textile imports was the quantitative increase in the volume of cotton and rayon textiles, which constituted the principal items in the import trade by 1935-36.

During 1932 Japan supplied Australia with 36 million square yards of cotton goods out of a total of 222 million square yards imported. By 1935 her share had risen to 87 million square yards of a total in that year of approximately 210 million square yards imported. Similarly in 1932 Australia purchased 8.5 million square yards of rayon piece goods from Japan. Two years later the total had risen to 66 million square yards. Of a total volume of 233 million square yards of cotton and rayon piece goods imported into Australia during 1932, the United Kingdom supplied 175 million, Japan 44 million and other countries 14 million. In 1935, of a total of 286 million square yards, the United Kingdom supplied 126 million, Japan 152 million and other countries eight million. During this short period Japan had secured not only the whole of the increase in total imports of 53 million square yards, but had also diverted 49 million square yards from the United Kingdom and six million square yards from other countries, and the rate of diversion showed no signs of abating.²⁶⁾

In part the growth in bilateral trade between 1931-32 and 1935-36 reflected a significant increase in the degree of complementarity between the two economies.²⁷⁾ Australia's exports had always been highly specialised towards wool and after 1929 specialisation in wool and in new export commodities such as metals, ores, hides and skins increased markedly. Japan's imports were also heavily biased towards these commodity items. Similarly Japan's exports were highly specialised towards textiles, particularly cotton and rayon, and a miscellaneous variety of light industrial manufactures (chinaware, glassware, paper products etc.) whilst Australia's import specialisation in these commodity groups was also very strong.²⁸⁾

26) Department of Commerce, 'Commercial Relations Between Australia and Japan: Causes leading to the Textile Dispute', A. A., A601, item 402/17/15 Pt 1, P7.

27) See P. Drysdale, 'Japanese-Australian Trade: An Approach to the Study of Bilateral Trade Flows', (Unpublished PhD Thesis, A. N. U., 1968), which is expressly concerned with the measurement of bilateral commodity bias.

28) *ibid.*

More remarkable than the rapid penetration of the Australian textile market by the Japanese was the fact that it was achieved despite increasing preferential tariff rates which discriminated in favour of British goods. The extent of the discrimination in favour of imported goods from the United Kingdom over similar goods arriving in Australia from Japan was underlined by the tariffs placed on the two main commodities which Japan competed with the United Kingdom. Before Ottawa, artificial silk piece goods carried a preferential tariff rate of 20 per cent *ad valorem*, those from Japan entered under a general tariff of 35 per cent *ad valorem*. After Ottawa, the preferential tariff remained stationary at 20 per cent, while the general rate on artificial silk piece goods from Japan rose to 40 per cent. Cotton piece goods from the United Kingdom entered duty free before Ottawa, those from Japan at 15 per cent *ad valorem*. After Ottawa the preferential tariff rose to 5 per cent and the general tariff was lifted to 25 per cent.²⁹⁾

Despite discrimination against her goods, Japan's trade drive was successful in Australia because of her ability to compete on a price basis in the Australian market. As tariff duties on textile piecegoods entering Australia were based mainly on *ad valorem* rates, successive reductions in the price of Japanese textiles resulted in the virtual disappearance of the preference expressed by the *ad valorem* duties. This situation was particularly evident in the case of artificial silk piece goods during 1935. In January of that year substantial reductions were made in the prices of Japanese rayon goods; in the July a further reduction of 25 per cent was made and this was followed in January 1936 by yet further price reductions in the order of 20-35 per cent. In many cases the incidence of duties actually conferred a tariff preference on Japanese textiles over comparable British goods. By February 1936, the average value-for-duty price of British artificial silk piece goods imported into Australia was 14.08d per square yard and under the B. P. T. rate of 20 per cent plus 10 per cent primage, the average duty payable was 4.23d. At a value-for-duty price of 5.9d Japanese artificial silk piece goods were dutiable at an average of 2.36d per square yard and thus with a preferential tariff margin of 20 per cent *ad valorem*, British artificial silk textiles paid an average of almost 2d per square yard more duty than the Japanese goods.³⁰⁾ Where the United Kingdom, although

29) Commonwealth of Australia, *Imperial Economic Conference, Ottawa 1932: Report of the Conference Together with Appendices and Annexes*, (Canberra, 1932, pp. 125-128.

30) *Commercial Relations Between Australia and Japan*, (f. n. 10), p. 6.

supported by a preferential tariff was in fact losing ground, it was inevitable that other foreign textile manufacturers competing on an equal tariff basis with Japanese manufacturers were practically eliminated from the Australian market. Only certain specialty lines were able to maintain their position *vis a vis* Japanese competition.³¹⁾

III Japanese-Australian Commercial Relations 1931-32 to 1935-36.

In appearance the depression years witnessed some change in attitude of the Australian Government towards Australia's trading relations with foreign countries and especially the Asian nations. In the case of Japan, her rapidly expanding purchases of Australian raw materials, at a time when Australia's trade with Great Britain and her other traditional trading partners was either collapsing or sharply contracting, was a crucial determinant in Australia being able to meet her overseas interest commitments. Hence economic sanctions against Japan during this period were never seriously considered.

However, despite persistent attempts during 1930, 1931 and again in 1932 the Japanese Consul-General sought unsuccessfully to negotiate a commercial accord with Australia. The Commonwealth Government advised the Japanese Consulate that while in sympathy with the idea of entering into foreign trade agreements it was not yet in a position to proceed with negotiations until the questions to be discussed at Ottawa had finally been decided upon.³²⁾ However, Australia would not have been breaking any undertaking or covenant with her Empire trading partners by entering into a commercial treaty with Japan. Australia was in fact the only major Empire country not to have entered into a trading agreement with Japan, despite triple scale provisions in her tariff schedule which would have maintained the B. P. T. and admitted Japanese produce at a level intermediate to the B. P. T. and the general rate, under most favoured nation provisions.³³⁾

31) Between 1932-33 and 1934-35 the United Kingdom's share in the Australian rayon piece goods trade declined from 34 per cent to 14 per cent. Japan's share during the same period rose from 46 per cent to 82 per cent, while the proportion supplied by Continental manufacturers fell from 19 per cent to 4 per cent. See Department of Commerce, Memorandum 'Artificial Silk Piece Goods: Diversion of Trade from the United Kingdom to Japan', 27th November, 1935, A. A. ST 127, Series 2/1, B36/274.

32) Department of the Prime Minister, 'Trade Negotiations with Japan, Commercial Relations: Japan 1936', A. A. CP 290/1, item B1/17/18.

33) Australia was the only major Empire member not to have accorded Japan with most favoured nation status. The U. K. granted Japan m. f. n. status under the Commercial Convention of 1925. The Irish Free State, Canada and Newfoundland had received and granted m. f. n. treatment by accession to this treaty. New Zealand was granted m. f. n. treatment under a convention of 1900. See also A. C. V. Melbourne, *Report on Australian Intercourse with Japan and China*, (Brisbane), pp. 36-80.

Privately the Australian Government believed there was potentially much to lose and certainly very little gain to be made through a most favoured nation pact with Japan. One official report concluded,³⁴⁾

"At present Japan offers a market for certain Australian primary products which have not been subject to any form of tariff i. e. wool, wheat, tallow and the metals zinc, lead and iron ore. It is rather difficult to conceive of any increase in trade in other commodities even if preferential duties were granted as the result of any negotiations which might be undertaken."

Because of the large volume of work entailed by post-Ottawa legislation, trade discussions with the Japanese Government did not proceed until January 1935. Included in the draft treaty presented by the Japanese was a schedule of requests which covered a wide range of goods in which reductions in the duty to the level of the British Preferential Tariff were desired.³⁵⁾

The Australian Government's response to the Japanese proposals was clearly determined on the basis of its perceived Ottawa obligations and in its view, Australia's complete reliance on the markets of the United Kingdom for the absorption of her exportable surplus of "difficult selling commodities". The government reiterated Australia's protection policies and the principles of Empire preference and it pointed out that the unique advantages enjoyed by Japanese manufacturers in world markets made it impossible to grant to Japan the tariff levels applicable to goods from the United Kingdom, and that moreover, the treaty obligations of the Commonwealth legally precluded the granting of B. P. T. concessional rates to Japan.

In April 1935, the Japanese Consul-General presented a revised draft treaty and list of requests which whilst retaining some of the unacceptable features incorporated in the original drafts, had been substantially modified. The major obstacle to the finalisation of the negotiations remained the treatment to be accorded to Japanese textiles. The Japanese pressed the Australian negotiators for a consolidation of the existing *ad valorem* duties, but Australian officials advised Japan that not only must the request be refused, but that the development of the textile trade by Japan and the exigency of preserving the export market in the United Kingdom foreshadowed alterations in the basis of the duties

34) Department of Commerce, 'Trade Treaties With Eastern Countries, 1934-36', A. A. A601, item 406/1/13, p. 3.

35) Department of Commerce 'Trade with Japan-Policy 1936-1940', A. A. A461, item J323/1/5.

calculated, to ensure the United Kingdom the preferences which the duties agreed to at Ottawa had been designed to secure.

Another aspect which influenced the Government's attitude on this question was the position taken by the Continental countries with whom the government was also negotiating. The criticism most frequently expressed by the European nations in connection with Commonwealth legislation, which implemented Australia's policy of non-discriminatory tariffs between foreign countries, was that such legislation was only nominally non-discriminatory and the matter of textiles was a case in point. The incidence of duties imposed on an *ad valorem* basis discriminated in favour of any country which had a comparative advantage over others in manufacturing costs. For example the average value-for-duty prices per square yard of artificial silk piece goods imported into Australia in February 1936 were:

Japan 4.73d, Belgium 14.74d, France 38.28d and Germany 28.7d,
and the incidence of tariff rates applicable (40 per cent and 10 per cent primage) was therefore: Japan 2.36d, Belgium 7.37d, France 19.14d and Germany 14.13d³⁶⁾.

The developments in the textile trade in cotton and artificial silk and the rapid passing of the trade from the United Kingdom manufacturers was clearly the fundamental point at issue but there was no easy solution to the dilemma. On the one hand Japan was pressing for recognition of her position as a woolbuyer and a market Australia could ill afford to lose. As well, textiles bulked largely in Japan's exports to Australia. On the other hand the United Kingdom was practically the only market Australia had for many of its primary products and it was within these parameters that the Australian Government's position evolved.

On the question of Australia's vulnerability to future competition in wool from other countries, the government adopted the position that world demand would obviate any decline in prices which might have been expected to follow from a Japanese boycott of Australian wool sales. It was also reassured by expert trade opinion sought in Japan that "Australia had nothing to fear from either South Africa or the Argentine". Not only were transport cost differentials significant but the manufacturing machinery in use in Japan was of a type specifically suited to the manufacture of Australian merino wool. Confidential assurances were also tendered to the Latham Mission in 1934 by Tsurujiro Goto, Managing Director of Kyōdō Keori Kaisha, one of Japan's leading textile manufac-

36) 'Commercial Relations between Australia and Japan', (f. n. 10), p. 7.

tures,

"that woollen manufacturers would exert the greatest pressure on the government in order to prevent any retaliatory action being taken against Australian wool"³⁷⁾

and also

"that Japanese manufacturers would always resist any proposal for the imposition of a tariff tax on Australian wool or any proposal to restrict its importation"³⁸⁾.

Viewing its bargaining position *vis a vis* the Japanese as being very strong, Australia's position consolidated around the formal cognisance,

"that Australian primary producers depend largely on United Kingdom markets to assure the satisfactory disposal of their surplus products to clear local markets from the depressing influence of excessive supplies and enables remunerative prices to be obtained over the *whole* range of primary products"³⁹⁾.

The Commonwealth Government, therefore, rationalised that it was essential that the reciprocal preferences agreed to at Ottawa be made effective.⁴⁰⁾

This decision involved the imposition of definite quantitative limits on the entry of Japanese cotton piece goods and artificial silk piece goods, or the alternative of an increase in the tariff rates to such levels as would produce approximately the same result. On February 20th, 1936 the Commonwealth Government proposed to the Japanese that voluntary restrictions be imposed on the export of cotton and rayon textile goods from Japan to Australia.⁴¹⁾ The quotas proposed reduced imports of cotton and rayon piece goods by more than 50 per cent of the 1935 levels, from 152 million square yards to 75 million square yards. The Japanese, however, rejected out of hand any quantitative limitations on cotton piece goods and declined to consider any restriction on artificial silks which would reduce the volume below that exported to Australia during 1935. In response the Commonwealth Government then proceeded to amend textile duties and new

37) *ibid*, p. 5.

38) Department of Prime Minister, 'Confidential Report of the Australian Eastern Mission : Australian Wool in the East', A. A. CP. 290/1, item 10.

39) *ibid*.

40) For example it was estimated that during the period 1932-34 the average cost per square yard of cotton goods from Japan was 4.52d while those from the U. K. stood at 8.02d. Department of Commerce, Memorandum 'Cotton Piece Goods : Diversion of Trade from the United Kingdom to Japan' 27th November 1935, A. A. ST 127 Series 2/1, B36/274.

41) Department of Commerce, 'Cullet to Japanese Consul-General', 5th March, 1936, A. A. A601, item 402/17/28. See also D. B. Copland & C. V. Janes, *Australian Trade Policy : A Book of Documents 1932-37*, (Sydney, 1937) p. 267.

rates were subsequently applied on May 23rd, 1936, retrospective to March 15th. The new duties replaced the 25 per cent *ad valorem* rates on cotton with specific duties equivalent to between 68 per cent *ad valorem* and 85 per cent *ad valorem* and the 40 per cent duty on rayons by specific duties equivalent to between 147 per cent and 220 per cent *ad valorem* rates. These compared with the new B. P. T. rates of 10 per cent and 5 per cent respectively for each of these commodities.

IV The Trade Diversion Dispute of 1936.

Australia's policy of Trade Diversion clearly verified the resistance faced by the Japanese in relation to the rapid expansion of their commercial activities in Australia, particularly the sudden attempt to monopolise the textile trade and also emphasised the strength of Australia's imperial connection.

The policy as announced by the government's Minister Directing Negotiations for Trade Treaties, Sir Henry Gullet, formed the basis of a new trade and development strategy designed to expand Australia's exports and to promote growth in the domestic manufacturing sector. In order to develop manufacturing industry, imports were to be restricted, and preferences given to those countries who were 'good' customers of Australia.⁴²⁾ Under the tariff revisions two methods were to be applied to meet those objectives. The first involved the replacement of *ad valorem* rates with specific tariff duties. The second was to be achieved through a special licencing system applied to a limited range of imports.⁴³⁾ Import licences were to be granted freely to customers who had good trade balances with Australia.⁴⁴⁾ In the case of motor vehicle chassis around which the government's plans for industrial expansion were centred, a bounty was proposed in order to stimulate the development of a domestic motor vehicle industry.

Despite this pretence, however, the new trade policy was specifically directed against Japan. The United States and Japan were both mentioned in the Minister's proposals. The higher duties on motor chassis were directed mainly against American exports, but had only a marginal impact on the total trade between the United States and Australia.⁴⁵⁾

42) Commonwealth of Australia, *Commonwealth Parliamentary Debates*, (hereafter C. P. D.), Vol. 150, p. 2211.

43) *ibid.*, pp. 2211-2213.

44) *ibid.*

45) Firstly, the bulk of American exports to Australia were not affected by tariff changes and secondly, quotas on motor vehicle chassis were very favourable in relation to market demand. P. B. Murphy 'Australian-Japanese Relations, 1931-1941', (unpublished PhD thesis, UNSW, 1975) pp. 191-192.

In the case of Japan, the new duties and restrictions affected the bulk of her trade with Australia. Moreover, the imposition of specific duties offset any advantage that liberal licencing arrangements might have conferred. Under the new tariff rates Japanese voiles costing 16 sen per yard were dutiable at 63 sen under the revised schedules, while British voiles worth 40 sen per yard had to pay only 10-15 sen in duty. Japanese cotton goods worth 14 sen per yard were taxed at the rate of 19 sen, while on British goods worth 20 sen the rate was only 3.5 sen.⁴⁶⁾ Not only did the new duties represent a considerable increase in the duties on Japanese goods, they also represented a substantial reduction in the rates applicable to British goods.

Even in terms of its own logic the Australian policy of trade diversion was full of glaring inconsistencies. Under any criteria Japan was certainly a 'good' customer. In fact she was Australia's second largest after the United Kingdom and an important buyer of Australian export staples. Since the depression Japanese purchases of Australian produce had risen from 5.24 per cent to 13.07 per cent of Australian exports by 1935-36. The balance of trade between the two countries remained more than 2:1 in Australia's favour. Nor were Japan's exports competitive with domestic manufactures. On Gullet's own admission, Japanese cotton and rayon goods posed no threat to Australian based textile industries.⁴⁷⁾

As the Australian economist L. F. Giblin noted, at the time,⁴⁸⁾

"the most disturbing feature of the new trade policy is the total absence of any national principle behind it . . . the government appears to have exposed the whole structure of tariff policy to the vagaries of political expediency and the log-rolling of interested parties."

The Japanese business sector and the Imperial Government alleged that Australia had bowed to the pressure of vested interests and placed great emphasis on the train of events which began with the Australian Prime Minister's visit to Manchester in June 1935 and his private meeting with representatives of the cotton trade (to hear their representations on the effect of the Australian tariff on Lancashire exports and on the question of Japanese competition) and ended with the timely coincidence of the arrival

46) 'Australia and Japan Reach Trade Agreement', *Far Eastern Survey* Vol. 6. Jan. 20th, 1937, pp. 23-24.

47) C. P. D. (f. n. 42), Vol. 150, p. 2215.

48) L. F. Giblin, *Some Economic Effects of the Australian Tariff*, [Joseph Fisher Memorial Lecture, 1936], (Adelaide, 1936) p. 25.

of the Manchester Trade Delegation to Australia and the announcement of Australia's trade diversion policies in the early months of 1936.⁴⁹⁾ Japan was also hostile to the imposition of severe quota restrictions at a time when her trade balance with Australia was so adverse and further pressed Australia for *more* favourable tariff treatment rather than less, claiming that in Australia's determination of 'good' customers she was the exception. Later Japanese commercial representatives privately offered to increase the price of higher quality rayon piece goods by some 23 per cent and were also agreeable to petitioning the Japanese Government to accept quotas on rayon piece goods at a figure less than the 1935 export volume.⁵⁰⁾ The Australian Government, however, confident that its wool markets were quite invulnerable and that Japan had little scope for effective retaliation remained intransigent, trying to swing the balance completely in its favour. The Japanese Government retaliated by invoking its Law Concerning the Adjustment of Trade and Safeguarding Commerce on June 25th, 1936. Import licences were required for Australian wool, wheat and flour imports and an additional 50 per cent *ad valorem* duty was placed on other Australian produce. Japanese industry maintained its boycott of Australian wool sales, which had been operating since February and which remained in force throughout the dispute.

When a settlement to the dispute was finally negotiated in December 1936, it represented a compromise and a clear loss to both parties.⁵¹⁾ One point, however, was clear: Australia's Trade Diversion policy, predicated on the assumption of increasing exports, was a gamble that had failed. Under the terms of the settlement both countries agreed to remove the special licencing requirements implemented during 1936. The Japanese Government also withdrew the 50 per cent *ad valorem* tariff placed on Australian produce and undertook to issue permits for the importation into Japan during the 18 month period beginning January 1st 1937, of not less than 800,000 bales of Australian wool. This was equivalent to an annual quantity of 533,000 bales compared with 762,000 bales in

49) For an analysis of British involvement in the dispute see, D. C. Sissons, *Manchester versus Japan: The Imperial Background of the Australian Trade Diversion Dispute with Japan, 1936* (mimeograph). See also Commonwealth Government, 'Cabinet Minutes 25th February 1936'. A. A. A2694 Vol. 15-1 agenda item 1324, for evidence of Lancashire involvement.

50) Department of External Affairs, 'Japan Chamber of Commerce to External Affairs', 13th May 1936, A. A. A981, Trade 68 Pt. 2.

51) For precise terms of the settlement see, *Australian Trade Policy*, (f. n. 41), pp. 286-289. Copies of the actual exchange of notes between Murai and Gullett are to be found in 'Papers Collected in the Office of the Secretary and the Prime Minister-Commercial Relations: Japan 1936', A. A. CP 290/1, item B1/17.

1935. The Australian Government for its part reduced the specific rates of duty which were imposed in May 1936 to a level which approximated a return to the 'pre-war' parity. Australia agreed to admit 76,875,000 square yards of cotton piece goods and the same period ending June 30th 1938, at a rate of 52,250,000 square yards per annum for each of the two classes of piece goods.

In view of the relative importance of wool and textiles in Japanese-Australian trade the quantitative restrictions which set limits on the exchange of these two commodities rendered impossible any return to 1935 trade levels. The relative positions of wool exports to Japan and textiles piece goods from Japan under the concluded agreement set trade between the two economies at roughly their respective volumes for 1934. The agreement also postulated a much closer trading balance. The net effect of the dispute for Australia was less exports and hence *ceteris paribus*, less foreign exchange. The decline in Australian exports to Japan during the period 1936-37 reveals the extent of the setback which Australia suffered. From a total of £17.7 million during 1935-36, exports to Japan in the following year declined by £8 million to £9.7 million. On the other hand, imports from Japan declined by only £1.3 million, from £6.3 to £5.0 million. Consequently Australic's trading surplus with Japan was reduced by nearly two-thirds from £9.1 million to £3.7 million.

Events also conclusively proved that there was no certain *quid pro quo* for Australian protection of the Lancashire textile trade. Australia's gains in British markets had been miniscule as compared with the export loss to Japan. Japan on the other hand was able to demonstrate her capacity to diversify her sources of wool supply and also succeeded in substituting synthetic fibre for about 30 per cent of her wool requirements.

V Japanese-Australian Trade 1939-37 to 1940-41.

During the period between 1936 and 1941 Australia's exports to Japan declined dramatically from 14.19 per cent of total Australian exports to 3.97 per cent.⁵²⁾ In value terms this represented a virtual halving of Australian exports to Japan between 1935-36 and 1936-37 (the period of trade diversion) from £17.6 million to £9.7 million, and a further halving of the export trade during the following year 1937-38 to a value of £5.9 million. Thereafter, the value of exports levelled out at about £5 million per annum until

52) *Official Yearbook*, (f. n. 5) No. 34, p. 665.

the end of the period.⁵³⁾

The major reason for the decline in Australia's export trade with Japan was the reduction in Japanese purchases of Australian wool from £14.8 million to a figure of less than £4 million per annum between 1937-38 and 1940-41. After the settlement of the trade diversion dispute Japan continued to buy wool from South Africa, New Zealand and the Argentine, despite the heavier cost and poorer quality of wool from these sources. After trade diversion Australia supplied only 40 per cent of Japan's raw wool requirements.

On the other hand Japanese purchases of ores and metals increased substantially. Their share in Australia's export trade with Japan rose from 3.17 per cent in 1935-36 to 16 per cent in 1939-40. Despite the restrictions placed on the volume of Japanese textiles entering Australia, Japanese exports to Australia continued to increase, surpassing 'pre-war' levels. During 1939-40, the last full year of trade between the two countries, the value of imports from Japan amounted to £5.8 million as compared with £4.9 million during 1935-36. The most immediate effect, particularly the reduction in Japanese purchases of Australian primary produce, was the adverse effect on Australia's balance of payments. From a trading surplus with Japan of £12.5 million during 1935-36, the balance was reduced to £551,000 by 1937-38. Not only was this adverse with respect to Australia's trading balance, the consequent reduction in the demand for Australian wool was a singularly important factor in the price decline of Australia's most important export item. The price of Australian wool fell from 16.9d per pound in July 1937 to 12d per pound in July 1938 and during 1939 it averaged only 10.6d per pound.⁵⁴⁾ Thus, both directly and indirectly the curtailment of Japanese wool purchases in Australia crucially affected Australia's external balance.

Apart from the limits placed on bilateral exchange by the negotiated settlement of December 1936, the major influence on the size and pattern of trade between the two economies during the period, derived from the rigid adoption of *junsenji keizai* and from July 1937, the exigencies of war with China. The main features of this policy entailed the rapid expansion of Japan's heavy industries and state control over most areas of economic activity. The former was an obvious *sine qua non* for strengthening Japan's national

53) *Ibid.*

54) Commonwealth Bureau of Census and Statistics, *Quarterly Summary of Australian Statistics, 1938* (Canberra, 1938) p. 24.

Table 3: Australia: Principal Exports to Japan 1936-37 to 1940-41

	1936-37	1937-38	1938-39	1939-40	1940-41 ^a
Total Exports to Japan	9,705,738	5,900,098	4,865,469	5,462,989	5,364,015
Wool £A	7,513,956	4,042,268	3,814,120	3,896,178	3,918,906
Bdles	231,800	235,700	247,600	174,000	176,100
Wheat £A	679,266	698,948	61,944	995,288	706,618
Cntl	194,384	1,706,964	258,942	3,822,855	2,250,716
Flour £A	1,011	604	65	39	181,152
Cnt	2,035	1,160	164	98	383,091
Zinc ^b £A	533,106	211,980	244,890	181,351	93,079
Tons	19,645	8,103	13,569	21,184	—
Iron Ore £A	103,974	48,614	51,477	—	—
Tons	194,502	87,601	74,833	—	—
Iron & Steel Scrap	217,021	214,458	238,302	300,115	179,136
Tons	66,795	46,268	71,756	71,688	35,372
Lead £A	129,158	79,177	7,050	174,226	143,181
Tons	3,899	3,584	349	6,587	5,962
Hides & Skins £A	136,387	302,227	143,882	115,823	12,373
No	119,168	258,407	161,742	89,910	11,690
Tallow £A	32,439	2,740	7,653	7,499	6,914
Tons	1,111	1,755	394	370	346

(a) Trading with Japan ceased on outbreak of war on December 8th, 1941 under 'Trading with Enemy Act'.

(b) Includes ore concentrates.

Source: Commonwealth Bureau of Census and Statistics, *Overseas Trade Bulletin*.

Table 4: Australia: Principal Imports to Japan 1936-37 to 1940-41 (A).

	1936-37	1937-38	1938-39	1939-40	1940-41 ^a
Total Imports from Japan	4,004,465	5,349,087	4,093,191	5,794,484	3,600,304
Foodstuffs	90,288	263,781	208,010	192,088	131,794
Raw Silk	390,700	577,495	390,900	797,332	558,860
Apparel	169,050	208,122	188,547	229,704	104,176
Piece Goods	543,192	888,497	726,050	1,037,421	882,057
Canvos & Duck	—	—	—	—	—
Cotton	1,289,110	1,510,019	1,160,761	1,677,876	1,048,986
Silk	71,827	141,553	124,454	184,986	93,827
Yarns	48,980	85,145	56,244	152,238	35,320
Crockery	183,558	228,858	182,983	197,834	52,210
Fancy Goods & Toys	154,890	162,532	136,500	174,937	36,464
Sulphur	83,160	80,422	—	—	—

a) Includes up until beginning of Trade under 'Trading with Enemy Act', December, 1941.

Source: Commonwealth Bureau of Cansus and Statistics, *Overseas Trade Bulletin*

defence capabilities and the latter became necessary as the financial strain of massive capital expenditures in Japan Proper and in Manchukuo began to show through.

Following the outbreak of war with China the Japanese Diet passed a series of drastic measures for mobilising Japan's resources. Under the Law Relating to the Adjustment of Foreign Trade and Related Industries, the Foreign Trade Association Law, and the Law Relating to Measure for Import and Export, the Government was empowered to prohibit and restrict the import and export of any commodity deemed necessary for the adjustment of the balance of payments and for the supply of important materials. Wide powers were also conferred upon the Government in relation to production, distribution and consumption. Under the import-export order 289 commodities became either prohibited or restricted trade items.⁵⁵⁾ As imports were thus controlled, total imports during 1938 were greatly reduced and a trade surplus of 60 million yen was recorded as against a deficit of 630 million yen during the previous year.⁵⁶⁾ However, the decrease in imports was brought about by an accompanying decrease in exports and although the excess of imports was greatly reduced, the export trade began to suffer because of a shortage of raw materials. Accordingly, in 1938 a trade policy to encourage specified export promotion was adopted. For this purpose an import-export 'link' system was introduced. Although the link system helped to ameliorate the potential effect of declining raw wool exports from Australia, the wool trade declined both absolutely and relatively in importance in Australia's export trade with Japan. Whilst Japanese imports from Australia contracted rapidly after 1937, her exports to Australia increased. The link system enabled Japan to export her quota limit of textiles to Australia and in other items such as food-stuffs, raw silk, glassware and scientific instruments which were not affected by either Japanese control regulations or by the bilateral trading agreement, Japanese exports expanded rapidly.

After 1937 expansion of the strategic industries became Japan's prime economic objective and this had important consequences for the future pattern of bilateral exchange. The expansion of the producer goods sector and the structural reorientation of the economy from light to heavy industrial manufactures occasioned a substantial shift in the pattern of demand for raw materials.⁵⁷⁾ Wool for example fell from 7.9 per cent of

55) Details of the laws imposed from 1937 are shown in *Mitsubishi Monthly Circular*, June 1940, pp. 11-18.

56) *boeki nempyo* (f. n. 8).

57) Between 1931-1937 the Oriental Economist's index of producer goods rose from 87.2 to

Japan's total imports in 1937 to 2.5 per cent by 1939. For strategic reasons imports of metals and ores were not published in 1939 but whilst imports of raw materials for the textile industries declined, raw materials for the strategic industries, particularly iron ore, increased rapidly. Despite massive capital investment in Manchukuo to develop and beneficiate low grade ores "a lack of domestic resources of iron ore and the necessity for importing ever increasing tonnages of this vital raw material as well as pig iron and scrap was the most serious problem confronting Japanese industry at the end of 1937"⁵⁸⁾. By this time Japan's Empire was supplying less than 20 per cent of her total iron ore requirements.

The problem of the failure of the Empire to supply Japan's iron ore needs was exacerbated by the growing arms race in Europe and America. The subsequent shortages and price rises further increased the problem of balancing Japan's ore requirements from these traditional sources. As a result attention in Japan focused upon more proximate sources of supply. A feature article in the *Japan Times* in December 1936 listed possible new sources of supply and indicated their advantages:

"Tremendous iron deposits are found in North China, the Yangtze Valley region, the Philippines, French Indo China, Malaya and Australia. Under normal conditions, these iron ore resources in the Far Eastern and South Sea countries can be developed by Japan in an advantageous manner. It may be said that the distance between these countries is rather shorter than that between the mines and furnaces in either the United States or Germany. The cheaper transportation facilities, namely ships, can be utilised by Japan in this connection, as against the railway in the case of the United States and Germany"⁵⁹⁾

On this basis Japan planned to substantially expand her purchases of ore from these sources. With the exception of Indo-China, Japan imported some iron ore from all these sources prior to 1936. In Australia's case iron ore had been periodically exported to Japan in small quantities since the outbreak of the First World War. By 1931-32, however, exports amounted to only 13,000 tons per annum, but thereafter, as Japanese industry expanded, imports of Australian ore increased rapidly. By 1935-36 nearly 300,000 tons of Australian ore was being annually exported to Japan. It was within this

197.9 *Oriental Economist*, August 1938, pp. 500-502.

58) *Minerals Yearbook*, 1938, p. 56.

59) *Japan Times*, December 29th, 1936.

context of structural change and the increased demand for metals and metal ores that a reorientation of Japanese economic interest in Australia away from wool and towards iron ore occurred. After the lessons of the trade diversion era and with the principle of ensuring reliable raw material supplies firmly in mind, Japanese policy aimed at securing equity in overseas extractive industries. Wherever possible it was also hoped that the new sources of supply would be developed by Japanese mining companies.

During 1936 the Nippon Mining Company, through a British Construction firm (H. A. Brassert and Co. Ltd) invested more than £450,000 to develop the Koolan Island ore deposits at Yampi Sound in Western Australia. Through an operating 'dummy', the Yampi Sound Mining Company, Japanese steel interests were guaranteed 500,000 tons of iron ore during 1938 and a minimum of one million tons per annum thereafter from this single source of supply.⁶⁰⁾ In light of Japan's expected import requirements of 4,500,000 tons of iron ore during 1938 when the plans were initiated the significance of Australia's envisaged role in Japanese industrial development can hardly be underestimated. Even under the revised five year plan estimates, this represented a minimum of 15-20 per cent of Japan's total requirements.⁶¹⁾

It was, however, not only with respect to iron ore that Japanese commercial interest in Australia turned. Given shortages in Japan's iron-ore requirements, metal scrap had become an important component in Japanese steelmaking. In some Japanese steel, scrap constituted about 70 per cent of the raw material and over all 20 per cent of the total steel output. By 1936 more than 50 per cent of Japan's metal scrap was supplied by foreign countries. Next to the United States and Canada, Australia was usually Japan's next largest supplier during this period, exporting in excess of 70,000 tons of scrap metal annually by 1938.

VI Australian Policy and Resistances to Trade With Japan 1936-37 to 1940-41.

Policy decisions during the period reflected the strangely ambivalent attitude of Australia towards Japan. Unlike the period of trade diversion, the official attitude towards Japan in trade negotiations was highly conciliatory and focused on restoring Australia's

60) For a full account of Japanese investment at Yampi Sound see present author, "The Nature and Extent of Japanese Commercial and Economic Interests in Australia, 1932-41" Paper Presented to the Asian Studies Association of Australia, Second National Conference, May 1978, pp. 34-43.

61) See 'Minutes of Cabinet' 18th March 1938, A. A. A26941 XM, Vol. 18/2, item 221.

former trade levels with Japan. Like the period of trade diversion, however, policy decisions aimed specifically against Japan were made under unilateral guise, but nevertheless reflected the deep-seated fears of Australians towards the expansion of Japanese economic presence in Australia. Three particular events form the basis of this short discussion. The first relates to the renegotiated trade settlement of July 1938. The second concerns the unilateral embargo on Australian iron ore and the third event centres upon the Government's bitter conflict with Port Kembla waterside workers over their refusal to load pig iron bound for Japan in October 1937.

Despite changed international circumstances and Japan's aggression in China, Australia's attitude towards Japan in the trade negotiations of 1938 was based on conciliation and appeasement. Unlike two years earlier, the draft treaty presented by the new Japanese Consul-General to Australia, Iwao Wakamatsu, formed the basis of the eventual agreement which took effect from July 1938. Again unlike previous negotiations the Australian Government did not bear very heavily in the discussions, despite the fact that Australia's negotiating position was decidedly stronger than it had been in 1936. Japan had purchased only 503,000 bales of the 800,000 bales of wool provided for in the 1937 accord, and *ceterus parabus*, Australia had some justification in pressing for a reduction in textile quotas on Japanese imports. The Commonwealth Government, however, readily acquiesced to a Japanese request that the textile quota remain fixed at 102,500,000 square yards per annum and accepted Japan's explanation that foreign exchange difficulties had resulted in Japanese wool purchases being considerably below the agreed quota levels.⁶²⁾ The Japanese, however, undertook to purchase no less than two thirds of their wool requirements from Australia.⁶³⁾

The only really negotiable issue involved Japan's request for most favoured nation status. Australia acceded to the request on the proviso that restrictions on Australian wheat⁶⁴⁾

62) In his letter to the Prime Minister dated 1st July, 1938, Wakamatsu explained that the Japanese Government would "permit the importation into Japan from Australia of such quantities of wool as will correspond to two-thirds of the total quantity of sheep's wool imported into Japan from all countries during that period and in the event that the total quantity exceeds 500,000 bales, permit the importation of such additional quantity of Australian sheep's wool as will correspond to three-fourths of the total." Department of the Prime Minister, Wakamatsu to Lyons, 1st July 1938, Correspondence File "Trade With Japan : Policy 1936-40" A. A. A461, item J323/1/5, Pt 2.

63) 'Minutes of Cabinet' 15th July 1938. A. A. A2694/XM, Vol. 18/2, item 221.

64) Department of Commerce, Memorandum 'Eastern and Australian Shipping Company : Competition With Japanese Lines' (n. d.) in, Lyon's Ministry Minutes and Submissions (Cabinet Secretariat Folders), A. A. A2694, Vol. 18/2.

exports to Manchukuo be lifted, and that the Eastern and Australian Shipping Company's quota of the Japanese-Australian cargo trade be lifted from 20 per cent to 22.5 per cent.⁶⁴⁾

Of more serious consequence was the embargo placed on iron ore exports from Australia during March 1938. It had been variously charged in the press and elsewhere that Japan was a potential invader of Australia and that Australian ore deposits were insufficient to permit their being depleted except in the national interest and at a time of national emergency. Of these charges the Lyons Government, at least publicly, took only the last issue at all seriously. In August 1937 the Prime Minister informed the Parliament that the deposits would hold out for many years and accordingly that there was no justification for any interference with the development at Yampi Sound. He also argued that the Yampi development was actually making available for the Government a new source of supply which could be taken over in a time of national emergency and which otherwise would not be available. However, after much pressure a thorough investigation of Australian iron ore reserves was authorised. Soon after Prime Minister Lyons again declared that preliminary investigations had shown deposits to be larger than originally estimated and that no reason for banning exports to Japan existed. However, in March 1938 the official attitude was summarily reversed following a report from the Government's Chief Geological Advisor, Dr. Woolnough, which concluded that Australian iron ore deposits appeared insufficient for the requirements of more than two generations.⁶⁵⁾

The conclusions of the report must be viewed as scientifically questionable and undoubtedly political. Not only was the report vague, imprecise and incomplete, but the views expressed in it were directly at variance with the interim survey findings and to a geological survey being conducted by the Western Australian Government. The latter indicated that more than 97 million tons of high grade ore lay above water level at Yampi Sound alone.⁶⁶⁾ Moreover, no geological sampling had been conducted at Yampi by Commonwealth authorities to determine the grade of deposits there.⁶⁷⁾ What then accounts for the Commonwealth Government's about-face in relation to iron ore exports to Japan? The change in the Commonwealth's attitude seems to have occurred late in 1937 following an exchange of letters between Longfield Lloyd, Australia's Trade Commis-

65) Commonwealth of Australia, *Report by Dr. W. G. Woolnough, Commonwealth Geological Advisor on Technical Aspects of the Iron Ore Reserves in Australia*, 14th April 1938, (Canberra, 1938) pp. 3-4

66) F. J. Finucane, *The Iron Ore Deposits of Yampi Sound, Western Australia* (Canberra, 1939) p. 2.

67) *ibid*, p. 5.

sioner in Tokyo and Government authorities. Lloyd notified the Government that the known investment of £450,000 by the Nippon Mining Company was to be followed by a further £750,000 from Nippon Sangyō, another mining company, and that other Japanese interests including Ishihara Sangyō were also poised to make similar investments in the Cape York Peninsula.⁶⁸⁾ Lloyd was convinced that Yampi was only the 'tip of the iceberg' and Japanese plans to monopolise Australian ore reserves formed only part of a plan to integrate Australia's north-western frontiers, and were part of an expansionist southward movement which was underway through diverse investment in Malaya, Indonesia and the Philippines.

It was on the basis of the longer term implications of Japanese⁶⁹⁾ ownership of Australian resources and the extension of Japanese economic interests in Australia that the Commonwealth's decision was made. In his letter to Bruce in London, Lyons concluded that Australia would not tolerate,

"what was in effect a Japanese Government enterprise well installed in North-Western Australian, close to Broome where there are already large numbers of Japanese engaged in pearl shell industry"⁷⁰⁾

On the basis of the Government's decision to place an embargo on exports of Australia iron ore, its confrontation during 1939 with Port Kembla unionists over their refusal to load pig-iron bound for Japan seems at best illogical. The dispute itself centred around the application of "working class sanctions" against Japan through the refusal of water-side workers at Port Kembla during October 1938 to load scrap metal and pig iron bound for Japan and followed the League of Nations failure to impose sanctions against aggressor nations. The dispute later became enmeshed in the question of the rights of workers to withdraw their labour on non-industrial matters.⁷¹⁾

Three quite separate issues determined the government's policy; its threat to impose penal sanctions; to invoke the Transport Workers Act and to licence labour to man the docks. The first was a continuation of the conciliation policy adopted by the Commonwealth after the trade diversion episode and a policy of appeasement after the outbreak

68) Department of Commerce, L. Lloyd to Commerce, 20th March 1937; June 18th 1937, 'Correspondence Files 1935-43' A. A. A601, item 402/17/30.

69) *ibid*, 6th October 1937.

70) Department of External Affairs, Lyons to Bruce, 7th April, 1938, "Correspondence Files 1927-1942" A. A. A981 Australia: General 90.

71) C. P. D. Vol. 158, p. 1755.

of hostilities with China. The second factor was the government's determination to salvage what was left of the Australian export trade with Japan and to mitigate the effect of its embargo on iron ore. The third factor which the Government *made* an issue was the question as to whether government policy was to be determined by representative government or by sectional interests. The dispute was finally settled in February of 1939 and the course of events are widely known and need no further elaboration here.⁷²⁾ Two points, however, in conclusion need to be noted. The first was the general public support for 'working class' sanctions being applied against Japan. The second was that in all its dealings with Japan after 1936, the Government was far more concerned with pursuing the restoration of Australian-Japanese trade than it was to yield to pressure from those who advocated sanctions on Australian exports to Japan. At the same time, however, the paradoxical policy of the embargo placed on Australian exports of iron ore demonstrated clearly that whilst official resistances to trade had been gradually eroded and bilateral commodity transfers between the two countries had become generally acceptable, extension of Japanese interests in Australia through direct equity capital had not. That acceptance would form an important component of the post 1945 *Nichi-go* relationship.

72) See P. B. Murphy, (f. n. 45) pp. 339-348; L. Richardson, 'Dole Queue Patriots: The Port Kem Kempla Pig Iron Strike of 1938' in J. Ironmonger (ed) *Strikes: Studies in Twentieth Century Australian Social History* (Sydney 1973) pp. 143-145.