Japanese Cotton-textile Diplomacy in the First Half of the 1930s: The Case of the Dutch-Japanese Trade Negotiations in 1934

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The purpose of this paper is to discuss the nature of Japan's diplomatic policy toward Europe, especially Holland, during the first half of the 1930s, taking the case of the Dutch-Japanese trade negotiations in 1934. The materials I have used for this paper were originally collected and compiled and have since been held by the Japan Cotton Spinners' Association, one of the most powerful industrial bodies, which represented 90% of the large cotton mills.(1) The trade negotiations were held in order to settle the commercial conflict between the Dutch cotton textiles and Japanese ones in the Dutch East Indies market. In the first half of the 1930s Japan was able to take advantage of her proximity to the market to compete successfully with European goods in India and Southeast Asia. The main factors behind the increase in exports of Japanese cotton textiles were their low prices, which had been realized through the rationalization of cotton firms since the 1920s and the devaluation of the Japanese yen, particularly during the year of 1932. The Japanese yen fell very rapidly in value relative to the Dutch guilder and Indian rupee. This accelerated the increase in exports of Japanese cotton textiles to British India and the Dutch East Indies. The increase in exports of Japanese textiles became a focus of Anglo-Japanese and Dutch-Japanese commercial conflicts, and so prompted Japan to hold trade negotiations with Britain and India in 1933 and with the

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Dutch in 1934. This paper will examine Japan's policy in the latter case and emphasize that Japan's Foreign Ministry not only kept in mind the interests of the Dutch cotton textile industry but also the "financial" interests of the Dutch in Southeast Asia.

Up to now, Japanese historiography has considered these trade negotiations as a process of adjusting the differences of industrial interests between the European and Japanese cotton industries. Thus they have had a tendency to suppose that each country's diplomatic policies toward the trade negotiations were formulated to serve the interests of each country's cotton textile industry, that is, to secure its markets abroad. The increase in exports of Japanese cotton textiles to the European colonies in Asia made European powers intensify their protectionist policies, and isolated Japan from the world. It has been supposed that these processes took place especially after the Dutch-Japanese trade negotiations, which had been suspended in December 1934. Japanese historiography has further supposed that the negotiations "were broken off", and that Japan began to abandon cooperation with industrial Europe at this time(2). Thus Japan's diplomatic policy toward Europe in the 1930s was formulated to serve the interests of its cotton textile industry, and did not maintain the status quo.

By contrast, this paper will argue that Japan's diplomatic policy toward Europe was formulated in the spirit of cooperative diplomacy. After the Manchurian incident in 1931, the Japanese government tried to establish an independent state of Manchukuo, a puppet goverment, to increase its influence in North-East Asia. These territorial designs inevitably made China resist the Japanese assault on North-East China, and increased tensions with the European powers, who had strong economic interests in China. Thus, Japan's Foreign Ministry attempted to prevent Japan's designs from offending Europe by avoiding a rapid Japanese assault on the world's textile markets, especially those within the European spheres of influence. In fact, there was a important difference in policy stance between the Japanese government and the cotton textile industries as far as diplomatic policy in the 1930s are concerned.(3) Japan's Foreign Ministry regarded that the main economic relationships between Europe and the colonies in South-East and South Asia lay in the former's financial interests in the latter. This paper will present the case for the dominance of Japanese cooperative diplomacy through the analysis of the Dutch-Japanese trade negotiations in 1934.

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After December 1934 the Dutch-Japanese negotiations were suspended, and the government of the Dutch East Indies decided to continue the imposition of restrictions on Japanese textile goods. That is why the negotiations are understood to have been broken off by the existing Japanese literature. They have also thought that the government of the Dutch East Indies imposed the restrictions on imports in order to give the Dutch textile industry the chance to secure the overseas market. Indeed the restriction provisions included a quota for Dutch goods. It is supposed that British and Dutch attempts to block Japanese goods, by setting up tariffs and quotas in the 1933 Indo-Japanese and the 1934 Dutch-Japanese trade negotiations, were necessary for their respective home textile industries. In other words, bloc economies, giving preference to the goods produced within the Empire, are supposed to have been created in order to preserve the markets for textile industries.

The idea of "gentlemanly capitalism", however, has offered an alternative interpretation about the motivation behind the British policy in Asia.(4) The colonies were expected to not only serve as markets for European goods, but also pay the interest on government loans, dividends on investments,and the political costs needed by the home government such as the home charges in the case of British India, and pension payments in the case of Dutch East Indies. The idea of "gentlemanly capitalism" supposes that restoring the flow ofoverseas investment and re-establishing London's position as the world's leading financial services centre was the main concern of the British authorities after World War I. This perspective implies that the concerns of the City of London as the centre of financial business were of greater significance to the prosperity of Britain than were those of Manchester, Birmingham or Glasgow, and that the City of London had an enormous influence on overseas policy as well as domestic. The economic relations between Britain and her empire were seen through this perspective. It is suggested that the interests of the manufacturing sector were sometimes sacrificed to the financial good.

Two kinds of economic polices were needed to enable the colonies to pay interest, dividends, and political costs on a regular basis. One was to maintain an export surplus from the colonies, which was necesary for payment of their debts to Europe. Therefore the colonies were encouraged to promote exports of primary products, such as raw cotton, tin, rubber, sugar and timber, to the industrial countries. This is why Britain was prepared to open its home market to the Dominions in the 1930s. The Ottawa preferential arrangements led to a far more rapid rise in colonial imports to Britain than in British exports to the colonies.(5) Whithout securing a significant slice of the British market, many colonies and dominions, including India, could not have paid their debts to Britain. These relationships are also supposed to have existed between Holland and the Dutch colonies in Southeast India. The Dutch colonies, however, were encouraged to increase the exports of primary products to industrial countries, especially to the United States and Japan. Japan was a particularly attractive market, because her recovery from the Great Depression was very rapid after 1932.(6)

The Indo-Japanese negotiations were completed early in January 1934. The agreement was on a barter basis. Japan was allowed to export 400 million yards of cotton textiles to India, provided that she imported 1.5 million bales of Indian cotton in return. This implied that the Japanese market was also necessary in order for British India to secure an export surplus from the point of view of maintaining London's financial position and the stability of the Empire in the 1930s.

The second policy was to force the colonies in Asia to set their exchange rates relatively high. Prof. Kaoru Sugihara indicates that East Asian countres, such as Japan after 1932 and China after 1935, had a tendency to devalue their currency, and that South and Southeast Asia increased or set their exchange rates relatively high. In the latter case the exchange rate was often more or less fixed, because exchange rate fluctuations were not desirable from the point of view of regular debt payments.(7)

At the same time these relatively high exchange rates aggravated deflation in the colonies in the 1930s. Because the purchasing power of consumers in the colonies was being weakened in the 1930s, the colonies needed Japanese exports, which consisted mostly of cheap consumer goods. Japan's reembargo of gold exports in December 1931 and the subsequent depreciation of the Japanese yen faciliated a rapid increase in Japanese exports, especially to the Dutch East Indies, which kept the gold standard until 1936; Japanese exports were promoted by the the fact that the exchange rate was set relativly high. In 1933, as low-priced Japanese exports increased, Dutch and other European importers, which had been financed by Dutch capital and therefore had to pay dividends for them, began to show an interest in handling Japanese goods, which were profitable for Dutch importers.(8) The Japanese share in the imports of the Dutch East Indies (and British India) increased rather than decreased after 1932. There was clearly a sense of complementarity between Dutch financial interests and Japanese exports to the Dutch East Indies.(9)

The government of the Dutch East Indies recognized that consumers needed Japanese goods at a time when purchasing power was being weakened. And so the government introduced an import quota system, not tariffs, aimed at limiting imports of Japanese cotton textile goods based on the import results of 1933, when the level of imports of Japanese goods was particularly high. If they had wanted to strictly limit Japanese imports, they would have chosen the import results of a year before 1933.

The standard understanding has been that Western reactions to the influx of Japanese industrial goods to their colonies weakened Japanese foreign trade. But it can be argued that the Dutch East Indies government did not try to impose exclusive diplomatic policies in the 1930s, because the government wished to secure an export surplus by promoting to the export of raw materials, mainly sugar, to Japan. This has not been emphasised by the literature dealing with the effects of bloc economies in the 1930s.

3

Reflecting Dutch financial interests, the Dutch East Indies government tried to cooperate with third-country foreign markets, especially Japan and the United States, in order to export food and raw materials, and to secure smooth payments to Holland. Thus the following two points became the focus of the Dutch-Japanese trade negotiations in 1934.

(1) How large an amount of primary products, such as sugar, was Japan willing to buy from the Dutch East Indies, to enable the Dutch East Indies to secure an export surplus ?

(2) What proportion of the Japanese cotton textile goods would Japan grant to Dutch merchant importers, to allow them to profit in dealing with Japanese goods so that they could pay regular dividends to Holland?

That the increased Japanese competition in the Dutch East Indies was seen as at hreat by Dutch manufacturers was not the focus of the negotiations. Thus the Japanese delegation did not include a member of the cotton textile industry. The documents held by the Japan Cotton Spinners' Association record that they voluntarily went to the Dutch East Indies to observe the process of the negotiations, and to report to the Association in detail.[10]

The only private representative in the delegation was Seizaburo Nakayama, an employee of Mitsui Bussan, who dealt with sugar. Japan's Foreign Ministry needed him when the discussion about item (1) took place. If Japan was to give a preference to the Dutch East Indies in its raw sugar purchases, then Japan's Foreign Ministry would need to deal with the conflict of interests that would appear between the Javanese and the Taiwanese sugar industries.

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Because of the fact that the negotiations were suspended from Dec. 1934 until June 1936, it has been emphasized that the the Dutch-Japanese trade negotiations were not fully successful. But the negotiations had tried to make a compromise on the following two items:[11]

[1] The Japanese government "advised" the business circles concerned to give a preference to the Dutch East Indies in their raw sugar purchases.

[2] Japanese trading firms in the Dutch East Indies were to handle a quarter of the total imports on the basis of the 1933 figures.

Item [2] indicated that Japan's Foreign Ministry conceded to the Dutch East Indies government, because Japanese firms handled 38% of total imports in 1933. That is, the handling of 13% of total imports on the basis of the 1933 figures was conceded to Dutch importers, such as N.V. Internationale Crediet- en Handels-Vereeniging "Rotterdam", N.V. Nederlands Indische Maatschappij tot voortzertting der zaken Van der Linde & Teves en R.S. Stokvis & Zonen, Borneo-Sumatra Maatschappij, Jacobson & van den Berg and Geo. Wehry & Co.[12] The Japanese government included item [2] without asking the Japan Cotton Spinners' Association or the Japanese trading campanies dealing with Japanese cotton textile goods. The Japanese government negotiated on the basis that it wished to cooperate with the Netherlands and the Dutch East

Indies, not taking into account the interests of cotton industries.

The negotiations, however, were suspended due to antagonism on the Japanese side concerning item [1]. The increase in imports of Javanese sugar aroused the opposition of Taiwanese sugar interests. The Foreign Ministry decided not to make an agreement with the Dutch East Indies government, because the Governor-General of Taiwan opposed item [1]. The negotiations thus resulted only in a gentleman's agreement, wherein the Japanese government vaguely recommended the business circles concerned to show a preference for the Dutch East Indies in their raw sugar purchases.

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It could be argued that the cooperative relation of Japan's Foreign Ministry with Holland and the Dutch East Indies was overwhelmed by the interests of the Japanese Empire, including Taiwan, that the negotiations were thus broken off, and that Japan began to abandon cooperation with industrial Europe. But the interdependence between Japan and the Dutch East Indies were in fact maintained, in line with the two points mentioned above. Japan increased its imports of Javanese sugar. Japan took 10% of total exports of Javanese sugar in 1930/33 and 17% in 1934/36; these increased in line with the fall in Javanese exports to British India.(13) Dutch merchants' share in imports of Japanese cotton textile goods also increased: they took 18.4% in 1932 and 44.3% in 1935. Toyo Menka, which handled about 10% of Japan's total exports of cotton textiles in the 1930s, reinforced its connection with Dutch merchants, such as N.V.Internationale Crediet- en Handels-Vereeniging "Rotterdam"(14). When a provisional commercial treaty, known as the Ishizawa-Hart Agreement, was signed in April 1937, Japanese merchants in the Dutch East Indies were to handle a quarter of the total imports on the basis of the 1933 figures, and Japan promised to gave a preference to the Dutch East Indies in its raw sugar purchases. These provisions were made in confirmation of accomplished facts.

The existing literature in Japan has argued that the Dutch-Japanese negotiations were broken off, and that the position of free-traders in Japan was weakened after these negotiations. The standard understanding has been that Western reactions to the exports of Japanese goods to their colonies helped strengthen the case for building a yen bloc. Japan then began to abandon cooperation with industrial Europe after these negotiations. Until 1937, however, Japan did not give up the intention of interdependence with the Dutch East Indies. Japan's diplomatic policy toward Europe in the 1930s was formulated by considering the financial interests of the Holland, not by taking into account the interest of the cotton textiles industry.

Note

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1) These documents were furnished by the late Tawa Yasuo, who was an executive director of the Japanese Cotton Spinners' Association, in 1987.

2) Sinya Sugiyama, 'The Expansion of Japan's Cotton Textile Exports into Southeast Asia', in S. Sugiyama and Milaigros C. Goerrero (eds.) *International Commercial Rivalry in Southesat Asia in the Interwar Period*, Yale University, 1994.

3) Naoto Kagotani, 'Nichi-inn kaisho no Rekisi-teki Igi: 1933-1934 (The Historical Significance of Indo-Japabese Negotiations),' in *Tochiseido-shigaku* (*The Journal of Agrarian History*), No. 117, 1987.

4) P. J. Cain and A. G. Hopkins, *British Imperialism: Crisis and Deconstruction, 1914-1990,* Longman, 1993, Chapter 8.

5) Basudev Chatterji, *Trade, Tarriffs, and Empire; Lancashire and British Policy in India 1919-1939*, Oxford University Press, 1992, Chapter 8.

6) Juro Hashimoto, *Daikyoko-ki no Nihon Shihonshugi* (*Japanese Capitalism in the Era of the Great Depression*), Toudai Shuppankai, 1984, Chapter 5.

7) Kaoru Sugihara, *Ajia-kan Boeki no Keisei to Kouzo* (*Patterns and Development of Intra-Asian Trade*), Mineruva Shobou, 1996, Chapter 4.

8) J. van Gelderen, *The Recent Development of Economic Foreign Policy in the Netherlands East Indies*, Longman, 1939, p.21.

9) Naoto Kagotani, 'Nichi-Ran Kaisho no Rekisi-teki Igi: 1934-1936 (The Historical Significance of Dutch-Japanese Negotiations),' forthcoming, *The Zinbun Gakuho* (*Journal of Humanities*), Vol. 81, 1997.

10) Tawa Yasuo (ed.), *Nichi-Ran Kaisho no Keika* (*The Progress of Dutch-Japanese Negotiations*), Dai-nihon Bouseki Rengou-kai (The Japanese Cotton Spinners' Association), April 1935.

11) *The Diary of Tawa Yasuo*, 24 December 1935.

12) Ibid.

13) Ibid, 3 November 1936.