THE WORLD ECONOMIC CRISIS AND JAPAN'S FOREIGN ECONOMIC POLICY

ŌSHIMA KIYOSHI

I. THE WORLD ECONOMIC CRISIS AND THE JAPANESE ECONOMY

World capitalism, after having fallen into a general crisis due to World War I and the Russian Revolution, shifted into the so-called "relatively stabilized period." During the intervening stages prior to this period, the crisis of 1920 and subsequent depression were successfully overcome; the German reparation problems were settled by the Dawes Plan in 1924; the gold standard was revived on a world-wide scale; and the European economy recovered under American leadership. The stabilization of capitalism at the 1920's, however, was literally "relative." The United States, which had established an overwhelmingly predominant position in the world economy both during and after the war, eulogized the blessing of "eternal prosperity" throughout the 1920's, while other capitalist countries including England were unable to extricate themselves from the sluggish economic conditions. The United States' simultaneous rise to a gigantic industrial country, while maintaining the part it had had as an exporter of agricultural products in the pre-war international division of labour, provoked and intensified the opposition and contradictions in world capitalism. In Table 1 are shown the indices of industrial production of capitalist countries in the 1920's with the pre-war 1913 as 100. We will find in this table that there was a great deal of inequality in the development of each country.

While the economy of the United States was prosperous on the whole, it did manifest such sluggish industries as coal-mining, cotton textiles, shipbuilding, and leather. The agricultural sector suffered a recession throughout the 1920's, due to overproduction and *Schere*; in particular, after 1926, the world-wide excessive supply of agricultural products, reinforced by the increase in export of wheat, meat, etc., from such colonial countries as Canada, Latin American countries, and Australia had a great influence on U. S. agriculture. Furthermore, in the

Table 1. INDUSTRIAL PRODUCTION OF MAJOR COUNTRIES IN THE 1920'S (1913=100)

	1921–1925 (Average)	1926–1929 (Average)	Increase Rate (%)
England	76.4	92.6	21.2
France	95.3	130.6	37.0
Germany	77.7	112.2	44.4
Austria	79.6	108.8	36.7
Europe (Total)	87.6	118.5	35.3
United States	129.3	163.6	26.5
Japan	203.3	289.8	42.5
World	103.5	138.9	34.3

Source: Yanai Katsumi 楊井克巳 ed., *Sekai keizai ron* 世界經濟論 (On World Economy), Tokyo, Tokyodaigaku-shuppankai, 1961, p. 46.

autumn of 1927 activity in such sectors as construction and investment in equipment began to slow down and soon a business recession became apparent. This recession, however, was overcome shortly by the low-interest policy of the Federal Reserve Bank, and in 1928–29 the so-called "Hoover's Prosperity" year emerged, accompanied by enthusiastic speculation in stocks.

In the summer of 1929, when this speculation reached its peak, the United States began to evidence a strong tendency towards overproduction. The efflux of short-term capital from Europe to the United States which was caused by the stock market boom raised the interest rate in Europe and provoked a crisis in the Vienna exchange market. Beginning with the crisis in Vienna, a heavy decline in prices of stocks at last attacked Wall Street on October 24, 1929, and thenceforth the world economy fell into the "World Great Economic Crisis." This event ended the relatively stabilized period.

A full-scale crisis developed from the spring of 1930 and had a destructive effect on the American economy, until it at last levelled off in the middle of 1932; the collapse of stock prices was immediately followed by a decline in commodity prices, the reduction of production, and a decrease in purchasing power and in shipping. The production indices showed a great fall of more than 50% in the period from 1929 to 1930; for example, iron and steel fell by 67%, transportation facilities by 72%, non-ferrous metals by 62%, etc. Agricultural production alone exceeded the 1929 level; this was because farmers endeavoured to increase production to cover the fall of more than 50% in prices for farm products. The number of unemployed was sharply increasing year after year and amounted to 12 million in 1932, 7.8 times that of 1929.

The deepening of the Economic Crisis naturally caused a decrease in foreign trade and in foreign investment of the United States. The decrease worsened the balance of payments of other countries whose economies had been constituted on the basis of the afore-mentioned relationships with the United States. This, in turn, constituted a factor which led to the dissolution of the international economic order. In this case, the decrease of United States foreign investment had the most vicious effect on Germany. On this account, it became difficult for Germany not only to pay her reparations but also to import the necessities of life for domestic consumption, including foodstuffs. At the same time, the Dawes Plan was brought to naught, because the plan intended to increase Germany's potential for payment of reparations by means of enabling her to recover her export capacity.

Under these circumstances, in Germany, the Nazis and the Communist Party made striking advances at the general election in September, 1930, which, in turn, brought about a considerable flight of capital to other countries. In particular, England's balance of payments was worsened and the pound sterling became unstable. Therefore, in September, 1931, she was forced to prohibit gold exports and to suspend the gold standard; at the same time, the pound sterling was devaluated.

The Economic Crisis affected not only the United States and Europe but also the entire world with the exception of the Soviet Union: it dealt acute blows to all sectors of every nation's economy—industry, agriculture, finance, trade, etc. It shook the ground on which the world economy had been constructed; destroyed the relations of production and of trade; and led to the collapse of the international gold standard. In this sense the Economic Crisis of 1929 was unprecedented in its world-wide extent and depth, and was undeniably the world's greatest one. It naturally had a grave effect on world capitalism. On the one hand, acute economic antagonism was caused among capitalist countries while, in the political field, the rise of nationalism was quickened, thus strengthening the tendency to the formation of bloc economies. The collapse of the gold standard symbolized, in this sense, the fall of the world economy. On the other hand, the governments of capitalist countries were required to intervene in the economic process to alleviate the various contradictions at home and to prevent capitalism from breaking down; class antagonism was so intensive that capitalist countries could not cope with socialism without adopting such a policy. In other words, capitalism was on the verge of crisis. The most influential policy in this case was, as is well known, the adoption and development of an inflationary policy based on managed currency. As a result of the Economic Crisis, capitalism inevitably plunged into the stage of the so-called "state monopolistic capitalism."

Let us now examine how Japanese capitalism was situated in world capitalism, in the context of the process outlined above. The Economic Crisis pursued Japanese capitalism, which had been acutely influenced by the financial crisis of 1927; and concurrently with the lifting of the gold embargo enforced in January, 1930, the Japanese economy was led to the verge of collapse.

The financial crisis of 1927 broke out in direct connexion with the handling of the Earthquake Bills (*Shinsai tegata*: 震災手形). The cause of the crisis, however, was traced to the unsound credit relations between banks and industries which had increased since World War I. The crisis commenced on May 15 with the suspension of business by the Watanabe 渡邊 Bank of Tokyo and it took a sudden turn for the worse when the Bank of Taiwan (which had been recklessly financing Suzuki 鈴木 & Co., a speculative trading firm, since the War,) stopped its business. Thereupon the Wakatsuki 若槻 cabinet introduced an urgent Imperial Ordinance draft to the Privy Council in order to relieve the Bank of Taiwan; the draft was, however, rejected and, on the contrary, the cabinet was driven into general resignation as a result of having been open to the charge of its "weak diplomacy" against China. The Tanaka 田中 cabinet, which replaced the Wakatsuki cabinet, proclaimed a 3-week moratorium and, at the same time, had the Bank of Japan's Special Loan and Loss Compensation Bill and the Bill for Loan for the Financial Institutions in Taiwan passed by the 53rd Diet. Thus, the crisis at last abated. The banks which were forced to close owing to the crisis amounted to 37; their authorized capital totalled ¥228,225 thousand and the total amount of deposits was ¥886,661 thousand. In this case, the bankrupt banks were chiefly those of medium and small scale in local districts; and a result of the subsequent concentration of deposits in big banks and city banks was accelerated while the monopolistic power of these banks was strengthened all the more. This crisis, in particular, drove medium and small industries into distressed circumstances and many of them were brought to ruin: concentration of capital was accelerated and the rule of "gigantic capital" became all the more stronger. In such a way the monopolization of Japanese economy mainly by the *zaibatsu* was accomplished on a large scale during this period.

When the crisis had almost died down, Tanaka Giichi 田中義一 who had come into power in the midst of the financial crisis, decided on May 27, 1927 to dispatch troops to Shantung in order to check the Chinese National Revolutionary Army which was approaching Suchow. The policy of the Tanaka cabinet towards China was very " active " compared with the "weak" diplomacy of the Wakatsuki administration. It goes without saying that the policy aimed at enlarging the Japanese rights and interests in China by assisting those Chinese military cliques which were useful to Japan in maintaining her vested interests.

The Japanese economy, after the financial crisis, was stagnant and the foreign exchange rate fluctuated sharply: the lifting of the gold embargo seemed inevitable when France returned to the gold standard in 1928. The Hamaguchi 濱口 cabinet took the place of the Tanaka cabinet in July, 1929. The Hamaguchi cabinet proclaimed that it would carry out the lifting of the gold embargo in accordance with a long-standing part of the platform of the Minseitō 民政黨 (Constitutional Democratic Party) as a means to extricate the Japanese economy from the depression which followed the crisis. As prerequisites for implementing for the said policy, the cabinet reformed the inflationary relief measures which had been taken since World War I and enforced measures to ensure carrying out of such deflationary policies as reduction of consumption and encouragement of savings, laying stress on a tight financial policy. The cabinet also attempted to raise Japan's competitive power through rationalization of industry, and in so doing intended to " revive the national economy."

The problem of the lifting of the gold embargo had been discussed with vigour since 1924 or 1925, when the exchange rates fell and some countries returned to the gold standard. The consolidation of the Earthquake Bills was one of the means devised to return to the gold standard; however, a return based on the above method became difficult due to the financial crisis of 1927. In 1928, the shortage of specie at home, uneasiness of Chinese problems and France's return to the gold standard caused a sharp fluctuation of exchange rates in Japan, and, therefore, the return to the gold standard came to the fore again. In fact, this was the final effort of Japan's bourgeoisie who were attempting to return Japan's economy to a sound condition.

Thus, on January 11, 1930, the lifting of the gold embargo became effective. In October of the preceding year, however, the Great Economic Crisis had already commenced in the United States and Japan was rapidly entangled in that crisis. As a natural course of events, the lifting of the gold embargo brought about an effect, as if windows had been opened against a stormy wind. In other words, the effect produced by the above-mentioned deflationary policy was doubled by the Great Economic Crisis; in addition, Japan's financial crisis was directly connected with the Economic Crisis. Thus the crisis in Japan grew more and more violent. Now, let us examine the process in more detail. The return to the gold standard by lifting the gold embargo brought about the sudden rise of exchange rates and a violent efflux of specie from Japan. The gold drain was far greater than had been expected. Consequently, the gold reserve decreased and the issue of the Bank of Japan notes was deflated, as a result of which credit reduced. This naturally intensified the crisis in Japan. The prices of commodities and stocks fell heavily; foreign trade showed an abnormal decrease; and the decrease in the funded capital of enterprises and/or their dissolution was severe.

In the course of the crisis mentioned above, already large enterprises enlarged further and strengthened the monopolistic system by such devices as the cartel, etc.; by enforcing price agreements, curtailed production and export agreements, they intended to overcome the crisis and integrate minute-scale enterprises. Moreover, the government soon attempted to promote legislation favouring the formation of cartels by passing the Law for the Control of Important Industries and the Law for the Industrialist Co-operative Association. These measures paved the way for a state-controlled economy, in which may be seen one of the characteristics of state-monopolistic capitalism. On the other hand, one of capitalistic rationalization policies, the reduction of production costs, was carried out through wage cutbacks, reduction in the number of employees, and prolongation of working hours. As a result, unemployment increased sharply and social unrest was tremendously heightened.

The World Economic Crisis hit agriculture particularly hard. In the 1927 crisis, agricultural villages were not affected directly but were afflicted with chronic depression. But the sharp decline in the prices of agricultural goods since 1930, as well as poor harvests, put the agricultural villages into extreme difficulties. Furthermore, in comparison with the depression in other sectors, that in agriculture was protracted, lasting until around 1936. The rate of decline in prices of agricultural products was proportionally much larger than the rate of decline in prices of products purchased by peasants or even in general prices; in particular the price of rice fell to half that just before the crisis and that of cocoons to one-fourth. Moreover, as a result of the sharp increase in unemployment, the unemployed urban population returned to the original agricultural villages, and the natural drift of population from agricultural villages to cities was stopped. In addition to this factor, which heightened the population pressure, peasants' subsidiary business income was forced to decrease owing to the decrease in opportunities to undertake such business. Under these circumstances, the crisis in agriculture was intensively accelerated. In the course of the crisis, however, the tendency to "standardization of middle-class farmers" which had started from the preceding period, still continued. In the short run, the number of tenant-peasants increased temporarily after the crisis; in 1929 tenant land occupied 48% of the total agricultural land, the highest percentage in Japanese history. Even in the crisis, however, the tendency towards an increase in the number of owner-farmers was pronounced; thus, the crisis gave a blow to the landlord-system and played a role in expediting its decline. The social unrest based on aggravation of the crisis intensified the peasant-worker movement and labour-tenancy disputes occurred frequently.

At that time, there existed strong public opinion all over the world calling for disarmaments and for peace, and thus a disarmament conference was held. The rightist groups at home started their activities against ratification of the disarmament treaty concluded at the conference. The premier, Hamaguchi, was shot in November, 1930. In conspiracy with those in the non-official world, the Fascist elements in the Japanese military gradually intended to establish a dictatorial government by the military authorities. The outbreak of the Manchurian Incident in September, 1931 was the turning-point of Japan towards the military dictatorship. Following the Incident, England suspended the gold standard on September 21. These two events gave a decisive blow to the Japanese policy of lifting the gold embargo. The reimposition of the gold embargo had already been advocated in the first half of 1930 when a large sum of specie had flowed out and then continued. But after the two events, there was general anticipation that reimposition of the gold embargo was inevitable. Thus, the speculative buying of dollars with yen was intensified. This speculative buying of dollars was at first exercised by big banks, big trust companies, and big trading companies, but soon in October private investors began to contribute to the outflow of yen capital. The government engaged in such measures as shipment of specie, raising the Bank of Japan rates, etc., to check the speculation, but these efforts failed when the Wakatsuki cabinet resigned *en masse* on October 12. The succeeding Inukai 犬養 cabinet enforced the reimposition of the gold embargo on October 13, as a result of which those who had bought dollars gained gigantic profits.

The dollar buying incited the people's ill feeling against the *zaibatsu* and the existing political parties, while the military authorities and rightists attempted to take advantage of the circumstances to extend their Fascist influence. For example, in early 1932, the Ketsumeidan 血盟團 (Blood Pledge Corps) assassinated former Finance Minister Inoue Junnosuke 井上準之助 and Dan Takuma 團琢磨 of the Mitsui 三井 *zaibatsu*, for a number of reasons, one of which certainly was connected with the dollar buying. The reimposition of the gold embargo not only converted the conventional tight-money policy into an inflationary policy which was based on military finance, but also promoted, in the political world, the way to the ultra-nationalism.

II. THE UNFOLDING OF FOREIGN ECONOMIC POLICY AFTER THE WORLD ECONOMIC CRISIS

As stated in Part I, the development of the World Economic Crisis, the suspension of the gold standard and the unfolding of an inflationary policy together formed a process in which each element had an inevitable correlation with the other: when capitalism endeavours to avoid a crisis deriving from the nature of its system, the state will inevitably intervene actively in the economic process. It is clear that each nation preferred an equilibrium of national economy rather than an international one; in other words, by displacing outside itself the contradictions inherent in the national economy each nation intended to ease the contradictions at home. The suspension of the gold standard and competitive devaluation were powerful measures for such economic nationalism, and Japan herself, in fact, took advantage of these measures to the utmost. The suspension of the gold standard intensified antagonism in international economic relations and in the end caused powerful imperialistic nations to form their individual bloc economies. The formation of the sterling bloc based on the Ottawa Agreement exemplifies how the abandonment of the gold standard constituted an essential basis for the formation of an economic bloc. The Ottawa Agreement was originally advocated by agricultural nations within the British Empire because of their agricultural depression. At the Conference of the British Empire of 1930, such countries as Canada and Australia insisted that England should buy surplus agricultural goods at favourable prices only from Commonwealth countries. England could not at that time accept the demand, as she still adhered to the gold standard and free trade. However, when she suspended the gold standard in September, 1931 and began to attempt to overcome the effects of the World Economic Crisis by means of expansion of finance and an inflationary policy, she naturally intended also to mitigate the crisis by adopting a policy of forming a sterling bloc rather than by maintaining international trade relations. As a result of these measures, England and other states in the British Empire improved their balance of payments. Concomitantly, Germany, who had to obtain raw materials from overseas, formed an economic bloc which was constituted of the six nations in East Europe. Furthermore, Japan advocated a Japan-Manchurian bloc economy. However, the Japan-Manchurian bloc had no potential at all for forming a self-sufficient economy; on the contrary, the bloc resulted in an increase in the import of materials necessary for the development of Manchukuo and, as a result, continually depressed Japan's ability to maintain a favourable balance of payments.

After the reimposition of the gold embargo in December, 1931, Japan's foreign trade confronted a new phase. With the development of the World Economic Crisis, there was a marked decrease in the amount of foreign trade in each nation. Japan's trade was no exception; in 1931 her trade recorded the lowest figure since 1910, that is, ¥2,300 million. But with the reimposition of the gold embargo in 1931 her trade began to recover, in advance of other countries. As is shown in Table 2, the foreign trade of all major industrial countries decreased sharply from the 1929 peak until the 1932 low. In particular, the United States showed such a sharp decline that its rate of decrease was nearly 70%. Since 1932, the United States, England, Sweden, etc., exhibited signs of recovery. All of these countries belonged to the group which suffered a fall of exchange rates. France, who still maintained the gold standard at that time, suffered a continuous decline in exports until 1936. German imports which had been effected by a severely enforced exchange control after 1931 began to increase with the brisk recovery of industry based on the Nazi economic policy, but her rate of export was minimal up to 1936. In such a context of slack international trade, Japan's exports and imports showed a recovery which, in 1934, was not only up from the bottom of 1931 but even exceeded the 1929 level, and thenceforth increased continuously. This development of Japan's foreign trade was brought about by a flood of Japanese merchandise, especially cotton goods, on to the world market with a support of heavy fall of exchange rates caused by the reimposition of the gold embargo. Such an exceptional leap in Japan's exports in the general depression of world trade evoked fears and antagonism among various countries, who raised an international cry that Japan's exports were derived from "social dumping," and enacted protective measures against Japanese goods such as raising of tariffs, etc., to which we will refer later. The enactment of protective measures was, too, a reason for the dissolution of the world market and the intensification of international contradictions, and in this sense, the event was noteworthy.

Table 2. FOREIGN TRADE OF MAJOR COUNTRIES

	Japan (in million yen)		England (in million pounds)		United States (in million dollars)		Germany (in million marks)		France (in million francs)	
	Export	Import	Export	Import	Export	Import	Export	Import	Export	Import
1929	2,149	2,216	729	1,111	5,157	4,339	13,482	13,447	50,139	58,220
	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)
1931	1,147	1,236	391	797	2,378	2,088	9,599	6,727	30,436	42,205
	(53.4)	(55.8)	(53.6)	(71.8)	(46.1)	(48.1)	(71.2)	(50.0)	(60.7)	(72.5)
1932	1,410	1,431	365	651	1,576	1,325	4,739	4,667	19,705	29,808
	(56.6)	(64.6)	(50.1)	(58.6)	(30.6)	(30.5)	(42.6)	(34.7)	(39.3)	(51.2)
1933	1,861	1,967	368	626	1,647	1,433	4,871	4,204	18,474	28,430
	(86.6)	(86.5)	(50.4)	(56.3)	(31.9)	(33.0)	(36.1)	(31.3)	(36.8)	(48.8)
1934	2,172	2,283	396	681	2,100	1,636	4,167	4,451	17,822	23,060
	(101.1)	(103.0)	(54.3)	(61.3)	(40.7)	(37.7)	(30.9)	(33.1)	(35.5)	(39.6)
1935	2,499	2,472	426	702	2,243	2,047	4,270	4,159	15,492	20,974
	(111.6)	(111.1)	(58.4)	(63.2)	(43.3)	(47.2)	(31.7)	(30.9)	(30.9)	(36.0)
1936	2,693	2,764	441	789	3,419	2,423	4,768	4,218	15,492	25,414
	(125.3)	(124.7)	(60.5)	(71.0)	(46.9)	(55.8)	(35.4)	(31.4)	(30.9)	(43.7)
1937	3,175	3,783	522	954	3,299	3,084	5,911	5,468	23,935	42,316
	(147.7)	(179.7)	(71.6)	(85.9)	(64.0)	(71.1)	(43.8)	(40.7)	(47.7)	(72.7)

Note: The figures in parentheses are indices with 1929 as 100.
Source: Bureau of Foreign and Domestic Commerce, U. S. Department of Commerce, *Foreign Commerce Yearbook*, 1938.

Japan's foreign exchange rate began to fall with the reimposition of the gold embargo; Japan's exchange rate with America, which had been \$49.375, that is, near par, just before the reimposition of the gold embargo, recorded such a fall as to show \$34 in just the final two weeks of the year. The fall did not stop even in 1932. As seen from Table 3, the exchange rate of specie and open market quotation showed a sharp decline; the open market quotation fell below the high mark of \$20 and at the end of November, 1932 it showed \$19⅞, the lowest ever. Compared with \$49⅜ just before the reimposition of the gold embargo, this heavy fall corresponds to \$29⅓, that is, 60%. The fall of exchange rates was, of course, due principally to the expansion of finance subsequent to the Manchurian Incident and the development of inflation. When the expanded budget bill of ¥2,200 million for fiscal

1933, and the deficit-covering bond issue of ¥800 million were authorized in the autumn of 1932, the open market quotation at last fell below the high mark of $20. Of course, the reasons mentioned above do not constitute the whole cause; the tendency towards heavy decline was expedited by other factors such as, first, the speculative selling of yen by Shanghai and Talien circles; second, the flight of capital due to export without draft; third, a scanty flow of exchange on the market on account of the concentration of exchange on specie. This falling tendency lasted until March, 1933 when the United States sustained the gold standard. In the course of the falling foreign exchange rate, the basic attitude of the Japanese government was to support the fall by allowing the matter to run its own course. To give an example, then Finance Minister Takahashi Korekiyo 高橋是清 announced immediately after the reimposition of the gold embargo that "the fall of the exchange rate will promote industries by performing the same function as that of tariffs."[1] Furthermore, on January 28, 1932, he stated, "To state my own view on what policy the government should employ in regard to foreign exchange, it is better to leave the matter unchecked rather than to employ any measure."[2] It is, however, not true that the government did not take any measure at all against the fall. For

Table 3. FOREIGN EXCHANGE RATES WITH THE UNITED STATES

(in dollar)

	Specie Banks			Open Market		
	Highest	Lowest	Average	Highest	Lowest	Average
1931						
December	49⅜	49⅜	49.375	49⅝	34½	44.393
1932						
March	33⅜	31	32.043	33⅝	31	32.204
June	32¾	26½	30.298	32⅞	27⅞	30.469
September	24¼	22½	23.515	22½	22½	23.555
November	21¼	20	20.723	19⅞	19⅞	20.591
December	21⅜	20	20.699	20	20	20.297
1933						
March	21¼	20⅝	21.118	20½	20½	21.134
April	23½	21¼	21.761	21⅛	21⅛	21.852
May	24⅛	23¼	32.662	23¾	23¾	23.944

Source: Bank of Japan, *Manshū jihen igo no zaisei kinyū shi* 滿洲事變以後の財政金融史 (Fiscal and Monetary History after the Manchurian Incident), p. 138. (The figures are originally calculated from *Keizai nenkan* 經濟年鑑 [The Economic Yearbook], Tokyo, Tōyōkeizai-shimpōsha.)

1 *Asahi shimbun* 朝日新聞, December 14, 1931.

2 *Jiji shimpō* 時事新報, January 29, 1932.

example, the government established the Law for Prevention of Capital Flight at the end of June, 1932, which was enforced on July 1. This law, however, was not aimed at impeding the exchange fall but only at preventing shipment of gold and sharp fluctuations of exchange rates. It goes without saying that such "*laissez-faire*" attitude on the part of the government against the fall of exchange rates derived from the intention to overcome the depression and thus to enlarge production. Antecedent to the establishment of the above-mentioned law, the government enforced a purchase of newly-mined gold at current prices in March, 1932. This was intended mainly to promote the gold mining industry at home; objectively speaking, it was in a sense a measure to counter the fall of exchange rates. With the enforcement of the purchase of newly-mined gold at current prices, the price of gold on the open market rose sharply to exceed the purchasing price by the government and therefore the gold-mining industry showed signs of lively activity. Gold bullion purchased by the government in 1932 amounted to 9,843 *kan* 貫 (36.9 tons), worth ¥77,776 thousand, of which the government shipped abroad 9,405 *kan* (35.3 tons), worth ¥73,618 thousand. It may be true that shipment of gold mitigated the fall of exchange rates, but this could not change the basic trend of the heavy fall.

It was not until the exchange rate with America fell below the high mark of $20 in November, 1932 that the government embarked on an active policy for checking the fall. The fall of exchange rates promoted exports but at the same time also raised the prices of those raw materials used in making goods for export. Therefore, it brought about below-cost export in those industries which were largely dependent on imported raw materials. When the exchange rate fell to 60% of par, the deficiencies in the export situation could not be ignored.

The fall of exchange rates also caused increases in payment of principal and interest on foreign bonds, in salaries for those on overseas duty, and in amount of difference in exchange of currency. Furthermore, it gave rise to such forms of capital outflow as export without draft, export of domestic and foreign bonds, etc., which were accomplished by evading the Law for Prevention of Capital Flight. Thus, it became necessary to prevent the fall of exchange rate by all means. Under these circumstances the Foreign Exchange Control Law was promulgated in March, 1933 and took effect on May 1. However, as this law was, in content, a succession to the Law for Prevention of Capital Flight, its principal characteristic was merely the provision for rigid enforcement of the former law. With the establishment of the law the government was empowered to control almost all foreign exchange transactions. The first regulation based on the Control Law was promulgated as the Subject on the Regulation on the Basis of the Foreign Exchange Control Law on April 26, 1933, and took effect on May 1 together with the Control Law. The regulation provided for prohibition of exchange transactions for the purpose of speculation; limitations on purchasing foreign exchange and/or of selling the same to banks other than foreign exchange banks; limitations on remittance abroad, on obtaining foreign securities with yen, and on foreign transactions in securities; prohibition of export without draft; assignment of duties to collect bills, etc.

The standard exchange rate was changed from quotation in the dollar to quotation in the pound sterling on and after March 8. At that time the government established a policy of pegging the yen-sterling rate at 1 shilling 2 pence. The maintenance of this exchange rate at the level of 1 shilling 2 pence by such a policy succeeded, with the help of the above-mentioned policy for controlling exchange. Consequently, the period of stabilization of exchange rates at a low level was realized over some three years until the latter half of 1936. This may be seen in Table 4; the wide fluctuations in rates of more than $17 in case of the United States and 10 pence in case of England in 1932 were remarkably narrowed in 1933; and, although the exchange rate with the United States still showed a fluctuation of some $11 because of the afore-mentioned situation in the United States, the exchange rate with England remained within a fluctuation of one penny; after 1934 it showed almost no fluctuation.

The decision to link the yen with the pound sterling rather than the dollar was brought about fundamentally by a crisis in the United States. That is, in the United States a financial crisis broke out in early 1933. On March 5 the President made an emergency proclamation and on April 20 the gold standard was suspended. At the same time an inflationary policy was launched to mitigate the economic crisis. Under these circumstances the dollar fluctuated widely, and therefore the yen, which had been linked to dollar, was subject to the influence of the fluctuation. As a result, it was supposed that the pound sterling was the sole powerful and comparatively stabilized currency in the international money market. In fact, after the reimposition of the gold embargo in Japan, the proportion of Japanese foreign trade conducted in pound sterling increased rapidly, to become predominant over that part of foreign trade conducted in dollars.

Table 4. VARIATION IN EXCHANGE RATES ON THE OPEN MARKET

	On England (in penny)	On United States (in dollar)
1932	10 7/16	17 3/8
1933	1 1/4	11 5/16
1934	5/8	2 3/8
1935	1/4	1 11/16
1936	3/16	1 5/16

Source: Bank of Japan, *Manshū jihen igo no zaisei kinyū shi*, p. 147.

Here, mention should be made in more detail of the promotion of exports after the reimposition of the gold embargo. The structure of Japanese trade began to change again under the influence of the promotion of heavy and chemical industries which had for a time been stopped due to the depression. In 1934, finished goods comprised 62% of total exports, and raw materials and semi-finished goods 80.1% of total imports, both of which surpassed the 1929 level. (In 1929, the percentages were 43.6% and 71.2%, respectively.) A brief survey of the principal export items includes the following: in 1934 those items, whose total export value contributed more than ¥10 million, were 25 in number; in 1931, when exports were at their nadir the number of items amounted to only 14, cotton fabrics, raw silk, rayon fabrics, machines, bottled and canned foods, silk fabrics, ceramic, knitted goods, iron goods, footwears, paper, headgear, refined sugar, and coal. The total export value of these goods in 1934 was ¥1,280 million, i. e., 59% of all exports. Compared with the 1929 figure, the export of cotton fabrics showed a great leap; but that of raw silk, a remarkable decrease. Still these two items constituted the two major goods in Japanese export, as they had before. However, it is noteworthy that raw silk, which had ranked first among Japanese exports for many years, yielded place to cotton fabrics in the 1930's. This was caused on the one hand by the depression in the United States and, on the other, by the increase of rayon on the market.

Next, let us examine Japan's import at the same period. Among 23 principal items, the first-ranked raw cotton exceeded 30% of total imports in every year. In 1936 wool occupied the second place, and iron and mineral oil followed wool. These four items accounted for more than 50% of all imports, and each of the four items exceeded ¥100 million in value. The items which exceeded ¥50 million in value were pulse, crude rubber, pulp, woods, ores (mainly iron ores) and coal; exceeding ¥30 million in value were fertilizers, seeds for use in oil extraction, copper, ammonium sulphate, wheat, and automobiles and

Table 5. VALUE OF EXPORTS BY MAJOR ITEMS

(in million yen)

	1929	1931	1934	1936
Cotton Fabrics	413	199	492	484
Raw Silk	781	355	287	394
Rayon Fabrics	—	40	113	149
Machines & Parts	14	14	58	82
Bottled & Canned Foods	26	19	50	71
Silk Fabrics	150[1]	43	77	68
Chinaware	37	19	42	43
Knitted Goods	38	22	53	50
Iron Goods	15	10	35	40
Footwears	15	18	22	20
Paper	26	21	21	28
Headgears	18	11	18	20
Refined Sugar	30	15	14	21
Coal	23	15	10	10
Iron	5	7	53	76
Vehicles & Parts	13	8	47	59
Toys	14	0.9	30	37
Wool Fabrics	4	1	30	46
Wheat Flour	27	0.9	28	18
Wood	21	0.9	24	25
Cotton Yarn	27	9	23	38
Rayon Yarn	0.1	2	22	29
Glass & Parts	13	7	19	26
Lamps & Parts	9	8	16	19
Vegetable Oil	7	4	11	37

Note: 1) Includes rayon fabrics.
Source: *Nihon bōeki nempō* 日本貿易年報 (Annual Report of Japanese Foreign Trade).

their parts; exceeding ¥10 million in value were lead, hide, phosphate ore, metal- and wood-working machines, internal combustion engines, and aluminium. As is revealed in the above, the principal import items consisted of raw material for industry; other than raw material there were only five items, i.e., automobiles and their parts, internal combustion engines, metal- and wood-working machines and such foodstuffs as pulse and wheat.

Viewed from the composition of Japan's market after the reimposition of the gold embargo, exports to Asia, Europe, Latin America, Africa, and Oceania increased and those to North America decreased in great degree. As for imports, those from North America as well as from Latin America, Africa, and Oceania increased, and only those from Europe decreased.

Let us view what foreign policies were taken given the circumstances

Table 6. VALUE OF IMPORTS BY MAJOR ITEMS

(in million yen and %)

	1929	1931	1934	1936
Seed-cotton & Ginned Cotton	573 (25.9)	296 (24.0)	731 (32.0)	851 (30.7)
Wool	102 (4.6)	86 (7.0)	187 (8.2)	201 (7.3)
Iron	160 (7.2)	48 (3.9)	172 (7.5)	192 (7.0)
Minerals	93 (4.2)	86 (7.0)	124 (5.5)	183 (6.6)
Pulses	79 (3.6)	37 (3.0)	52 (2.3)	83 (3.0)
Crude Rubber	34 (1.5)	13 (1.1)	57 (2.5)	73 (2.7)
Pulp	14 (0.6)	12 (1.0)	44 (1.9)	67 (2.4)
Wood	89 (4.0)	43 (3.5)	40 (1.8)	56 (2.0)
Ore	26 (1.2)	15 (1.2)	28 (1.2)	51 (1.9)
Coal	43 (1.9)	28 (2.3)	47 (2.1)	51 (1.9)
Fertilizer	96 (4.4)	48 (3.9)	45 (2.0)	44 (1.6)
Seeds for Oil	30 (1.4)	14 (1.2)	24 (1.1)	43 (1.6)
Copper	6 (0.3)	0.8 (0.1)	28 (1.2)	36 (1.3)
Crude Ammonium Sulphate	48 (2.2)	16 (1.3)	14 (0.6)	34 (1.2)
Wheat	71 (3.2)	33 (2.7)	41 (1.9)	34 (1.2)
Automobiles & Parts	24 (1.1)	13 (1.1)	29 (1.3)	34 (1.2)
Lead	15 (0.7)	8 (0.7)	18 (0.8)	27 (1.0)
Leather	13 (0.6)	7 (0.5)	16 (0.7)	24 (0.9)
Phosphate Rock	14 (0.6)	7 (0.5)	17 (0.7)	22 (0.8)
Metal- & Wood-working Machines	6 (0.3)	3 (0.3)	21 (0.9)	19 (0.7)
Internal Combustion Engines	18 (0.8)	11 (0.9)	21 (0.9)	14 (0.5)
Aluminium	11 (0.5)	3 (0.3)	13 (0.6)	13 (0.5)
Feedstuff	12 (0.6)	12 (1.0)	31 (1.3)	9 (0.3)
Total	2,104 (100.0)	1,232 (100.0)	2,277 (100.0)	2,753 (100.0)

Source: Ministry of Finance, *Nihon bōeki nempyō* 日本貿易年表 (Chronological Table of Japan's Foreign Trade).

of trade mentioned above, and the tendency to the formation of bloc economies. A world-wide tendency in trade policy may be seen in the protectionist measures taken, including such direct measures for restricting imports as import quota systems, import licensing systems, import restrictions, import prohibitions, in addition to the traditional indirect measures for restriction by tariff barriers. As the adoption of these measures became popular internationally, the world-wide rush of Japanese goods by exchange dumping could not but be confronted with import barriers. In particular, those territories which belonged to the British Empire bloc took the most powerful measures against Japanese goods. India raised her duty on a differential basis on the import of cotton fabrics immediately after the establishment of the Ottawa Agreement, and levied an *ad valorem* duty of 50% on Japanese fabrics, twice as high as that on goods from England; in April, 1933 she denounced the Japan-India Trade Agreement and in June she again raised the *ad valorem* duty to 75%, which was almost a prohibitive tariff. Against these measures, Japan adopted a policy of boycotting Indian raw cotton. In July, 1934, however, a new trade agreement between Japan and India was concluded as a result of the Simla Negotiations; in the new agreement a quota system in which the amount of exported cotton fabrics would be related to the amount of imported raw cotton from India was employed, while the maximum amount of export would be limited to 400 million yards.

It was England's cotton industry which suffered from the inroad of Japanese cotton fabrics into the world market. Therefore, England proposed a conference between producers of cotton fabrics of both countries and in April, 1933 a Japan-England negotiation was held. But difficulties were felt in the course of negotiation and at last in March, 1934 it collapsed. England then adopted an import quota system for cotton and rayon fabrics applicable to all her colonies, as a result of which Japanese export of cotton fabrics to British colonies decreased from 140 million yards to 100 million. Canada, too, employed such protective measures against imports from Japan as duty on exchange dumping, duty for the protection of domestic industries as well as the raising of import duties immediately after the establishment of the Ottawa Agreement. Imports from Canada had always exceeded Japan's exports to that country and Japan's unfavourable balance of payments reached ¥4.5 million in 1934. Therefore, Japan requested that the one-sided trade be alleviated by increasing Japanese exports to Canada, but Canada did not accept this proposal. In consequence, in July, 1935, Japan at last invoked for the first time the Law for Protection of Trade[8] against imports from Canada. As a result, in addition to the existing duty an import duty of 50% *ad valorem* was imposed for the following year on the eight major items imported from Canada—wood, wheat, wheat flour, wheat starch, pulp, felt for use in machinery, wheat bran, and packing paper. However, as signs of mutual co-operation again appeared between the two nations, in December, 1935 a trade agreement was concluded, as a result of which the invocation of the Law was stopped.

The government invoked the same protection law against Australia in June, 1936. A negotiation had been held continuously since January, 1935 between Japan and Australia with the aim of setting up a trade agreement rectifying the trade between the two. However, in April, 1936, Australia gave up her co-operative attitude towards Japan by planning a new raise in tariffs and control in import amounts, so that the negotiation became deadlocked. For example, the Australian government pronounced suddenly in May of the same year that she would raise the duty on rayon fabrics and employ an import quota system for some ten items including cotton and rayon fabrics. In response to these measures, Japan invoked her protective law as a counter-measure against Australia. Measures which were taken at that time were (1) introduction of an import quota system on raw wool, shoddy, wheat, and wheat flour imported from Australia and (2) imposition of an additional duty of 50% *ad valorem* in addition to the existing import duty on such items as beef, butter, condensed milk, leather, beef tallow, and casein. In the antagonism between the two countries, trade was brought to a standstill for a time; but in the latter half of December of the same year, a new trade agreement was established and the invocation of the Law for

8 With the increase in measures against Japanese goods, the Japanese government was compelled to adopt some counter-measures and in July, 1933, it organized the Trade Council in the Ministry of Foreign Affairs. In April, 1934, the government promulgated a law entitled the Law for the Control and Protection of Trade which was established on the basis of a proposition from the Council. The main points of the law were that "this law provides the government with the right to employ the prohibition of and/or limitation of specific goods, or to impose additional duties, or to reduce or exempt tariffs, for the purposes of controlling or protecting trade in response to the measures which have been already taken or are to be taken.... That is to say, the law prescribed the raising of tariffs and/or the limitation of imports as a retaliatory measure on the one hand, and on the other, it intended to enlarge Japan's exports on the basis of the principle of trade agreements." [Shōkō gyōseishi kankōkai 商工行政史刊行會 (Association for the Publication of the History of Administrations in Regard to Commerce and Industry) *Shōkō gyōseishi* 商工行政史, Tokyo, 1955, Volume II, pp. 438–439]

Protection of Trade was withdrawn. Under the new agreement a barter system was established with Australian wool to be traded for Japanese cotton and rayon fabrics; as the result, Japanese exports to Australia were depressed. Together with these measures in Canada and Australia, other British bloc countries took measures against Japanese goods—the movement for a boycott of Japanese cotton fabrics in Cyprus (in March, 1933); the raising of tariffs in the Federation of Malaya on Japanese cotton fabrics (in June, 1933); the raising of tariffs on Japanese goods in British East Africa (in August, 1933); the additional imposition of duties on exchange dumping in the Union of South Africa and the additional imposition of 200% duties on Japanese beer in Ceylon (in January, 1934); British West Africa's withdrawal from the Japan-British Trade Agreement (in May, 1934); the employment of an import quota system on Japanese electric bulbs (in August, 1934) and the raising of import duties on Japanese pencils (in December, 1934) in England. Egypt abrogated the Japan-Egypt Trade Agreement in July, 1935; in September of that year she imposed an exchange compensation duty of 40% *ad valorem* on Japanese cotton and rayon products; and in April, 1936 raised remarkably the duties on as many as 48 import items from Japan. The negotiations which the two had been holding for the purpose of discussing the situation in fact broke down. As stated above, the British bloc had constituted the most important market for the Japanese export. Therefore, the measures taken against Japanese goods in that bloc gave a decisive blow to Japanese exports. Necessarily relations between England and Japan went from bad to worse.

Apart from the nations in the British bloc, the Dutch East Indies employed a stringent boycott of Japanese goods. The Dutch East Indies provided a typical market into which the flow of Japanese exports had increased greatly after the reimposition of the gold embargo. Japanese goods incessantly drove out goods imported from Holland and England. Thus in September, 1933 the government of the Dutch East Indies proclaimed an emergency regulation for controlling imports, under the provisions of which the government intended to severely impede the import of such Japanese goods as cement, beer, sarongs, bleached cotton fabrics, etc. As a result of Japan's protest to Holland a negotiation was held between the two from June, 1934. However, there was no room for compromise between the Dutch East Indies' principle of compensation and Japan's principle of free trade, and thus the negotiation did not progress. The United States, too, in October, 1932 applied an anti-dumping law on Japanese chinaware, canned tuna, electric bulbs, and rubber shoes and raised its duties according to a flexible provision. Due to these measures the quantity of some Japanese export goods to the United States decreased to almost naught. With such a protective wall raised against Japanese goods in the United States, which had so far constituted the largest market for Japanese goods, Japan's total exports decreased all the more. Thus, as Japan met with obstacles everywhere in her traditional markets, she had to cultivate new markets in Southeast Asia, Africa, and Latin America. However, in these areas, too, strong claims were put forth in 1934–35 for Japan to rectify her one-sided trade; in particular, Siam, Turkey, and the Union of South Africa demanded agreements to amend the one-sided trade. Japan's export faced obstacles there, too.

In Japan a group of businessmen started to attempt mitigation of the antagonism between Japan and those regions by adopting a principle of export control in response to external preventive measures. They looked forward, in particular, to the export control measures by the Yushutsu kumiai 輸出組合 (Exporters Association).[4] In reality, however, the measures taken by the association did not have a powerful influence in alleviating the antagonism.

In summary, when we view the period from the reimposition of the gold embargo to the Sino-Japanese Incident, we find that Japan's economic policy increasingly tended towards a deadlock in which it would be unable to choose between alternatives to action. This accelerated the tendency towards World War II.

4 The Trade Association which aimed at the promotion of Japanese exports was established on the basis of the Law for Trade Associations promulgated in March, 1925. Part of the law was amended in March, 1931 and in March, 1934 reamended, effective June 1 of the same year. The main point of the amendment is said to be seen in that "when a control is decided in relation to the export price or to the export amount, the decision should be brought to the attention of the competent Minister and the Minister has been empowered to order the alteration of the decision when necessary. Furthermore, this order governs not only the non-members of the Association but also the members." (*Shōkō gyōsei-shi*, Volume II, p. 435) The Law for Trade Associations originally was aimed at the organization and promotion of small- and medium-scale industries which produced goods for export. Up to 1935 those who in fact controlled the amount of exports and/or export prices on the basis of this revision amounted to 30 of 82 export federations including the Exporters' Association.