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Japan and the General Agreement on Tariffs and Trade

*James E. Meade*¹

I am much honoured by the invitation which the University of Adelaide has extended to me to give this Joseph Fisher Lecture in Commerce. The subject which I have chosen to discuss is a current issue in commercial policy of great interest to Australians and Englishmen alike. But being an English man, it is my intention to discuss the problem today primarily from the point of view of the United Kingdom. I propose, therefore, in this lecture to examine the Japanese case for an easier access for her exports to world markets, to discuss what would be the effects of the treatment of Japan by the United Kingdom as a full member of the General Agreement on Tariffs and Trade, and to consider the difficulties which this course presents for the United Kingdom.

Let me start, then, by considering the basic facts of the present Japanese economy. Japan is a country with a large population relatively to her resources. If the following figures can be trusted, the density of population per square mile of cultivated land is more than twice as high as in such densely populated countries as China and the United Kingdom, fifteen times as high as in the United States, and more than twenty times as high as in Australia.

1 Twenty-seventh Joseph Fisher Lecture, 8 August 1956.

Table 27.1: Density of population per square mile (1948-50)

	Total area	Cultivated area
Australia	3	164
United States	42	213
China	203	1639
United Kingdom	537	1,764
Japan	563	3,596

Source: "Outlook of the Japanese Economy Today" Ministry of Finance, Japanese Government, Tokyo, 1951. Quoted by Jerome B. Cohen, "Economic Problems of Free Japan", Centre of International Studies, Princeton University, 1952.

Moreover, the Japanese population is growing rapidly. As the following figures show, the Japanese death-rate since pre-war years has been drastically reduced as a result of improvements in medical practice and hygiene, and it is now as low as the death-rate in such rich and advanced communities as the United States, the United Kingdom, and Australia.

Table 27.2: Crude birth-rates (BR) and death-rates (DR) per thousand of total population

		1937	1938	1953	1954
Australia	BR	17.4	17.5	22.9	22.5
	DR	9.4	9.6	9.1	9.1
United States	BR	17.1	17.6	24.6	24.9
	DR	11.3	10.6	9.6	9.2
United Kingdom	BR	15.3	15.5	15.9	15.6
	DR	12.6	11.8	11.4	11.4
Japan	BR	30.8	27.1	21.5	20.1
	DR	17.0	17.7	8.9	8.2

The Japanese birth rate has also fallen, but it has fallen rather less than the death rate, with the consequence that the natural rate of increase in the Japanese population is now as high as before the war. In 1938 it was just under and is now just over 1 per cent per annum. It is true that, as a result of a marked rise in fertility since the pre-war years, the natural rate of increase of population in a number of rich countries like the United States and Australia is of the same order

of magnitude. But it is a different problem in Japan with its 3,600 persons per square mile of cultivated land than in Australia with its 160 or the United States with its 210 persons per square mile of cultivated land. I do not myself believe that an overpopulated country should countenance a rapid and unrestrained further increase in its population and expect the other countries of the world to take the steps which are necessary to relieve the effects of its growing population pressure. It is up to the Japanese Government and people themselves to avoid ultimate economic catastrophe by restricting births in Japan. But such demographic changes are bound to be slow in their effects. We are inevitably faced by an overpopulated Japan with a rapidly growing population for many years to come.

Relatively to her population Japan is poorly endowed not only with land, but also with other natural resources. She must import some 20 per cent of her requirements of food; although she is again the world's leading exporter of textiles, she must import all her raw cotton; she must import 100 per cent of her requirements of raw wool, phosphates, rubber, nickel and bauxite, some 90 per cent of her oil, 80 per cent of her iron ore, tin, and salt, and 70 per cent of her cooking coal.

This dependence of Japan upon imported raw materials combined with the dense and rapidly growing population of Japan raises another important problem – that of maintaining full employment in Japan. If Japan cannot import her essential raw materials, she cannot maintain her factories at a level of operations which will avoid heavy unemployment among her workers. Japan is already experiencing difficulties of this kind. Some reflationary expansion of total domestic money expenditure (through lower taxes and more ample supplies of money by the banks) would be needed to stimulate economic activity in order to give employment at home. But Japan has had to do exactly the opposite. In recent years she has adopted a fairly restrictive domestic financial policy in order to restrain the growth of demand and the rise of prices at home so as to damp down the Japanese demand for imported raw materials and foodstuffs, to make the price of her exports more competitive in world markets, and so to keep the deficit on her balance of trade within manageable limits. This policy has been fairly successful in affording some immediate relief to the balance of payments; for there has recently been a considerable increase in Japanese exports and reduction in her imports. But it has naturally had an adverse effect upon the employment

situation. The number of workers recorded as wholly unemployed has grown from 450,000 in 1953 and 580,000 in 1954 to 680,000 in 1955. Moreover, these figures greatly underestimate the unemployment problem in Japan, where, as a result of the country's social and economic institutions, unemployment is likely to take the form of short time or of unrecorded unemployed persons supported without real opportunity for work on the land or in other similar positions. According to a recent official Japanese survey, the number of persons without jobs but seeking employment was in fact more than 3,000,000 in October 1954. It must also be remembered that some 700,000 new persons (a number equal to somewhat more than 3 per cent of the non-agricultural working population) seek employment each year.² The maintenance of full employment has become a testing point for the efficiency of the economic systems of the free countries of the world. If Japan is to be attracted to the free and democratic way of life, she must be able to sell her manufactures on world markets in sufficient quantities to pay for the imports of foodstuffs and raw materials needed to make possible a domestic full-employment policy.

Now what would one expect to be the economic situation in a country which, like Japan, is endowed with much labour but little land and other natural resources? Labour which is plentiful will be cheap; and land and natural resources which are scarce will be expensive. For this reason it will be easy and cheap to produce labour-intensive products (like cotton textiles) which require little land but much labour to produce; and it will be excessively difficult and expensive to produce land intensive products (like wheat and wool) which require much land but little labour to produce. Indeed, it may well be impossible for such a country to produce adequate supplies of food and raw materials for itself. In such a case, either its excess population must emigrate or it must be able to export large quantities of its cheap manufactures in order to acquire the foreign exchange needed for the purchase of a large part of its own foodstuffs, for the purchase of raw materials for the production of the manufactures needed for its own use, and for the purchase of the raw materials to be embodied in the manufactures which it is exporting.

2 *Economic Survey of Japan, 1954-55*, p. 19. Published by the Japanese Economic Planning Board.

We can, I think, rule out as totally impracticable any solution of this problem through the mass emigration of the Japanese into less densely populated areas. The Japanese in pre-war years, when there were overseas territories into which they could have moved, showed little willingness to migrate. Human beings are in any case expensive things to move in a civilised manner, particularly when regard is paid to the need to provide new houses and other social services which cannot be transported with the migrants from their old to their new land. Any emigration from Japan on a scale which would appreciably affect the economic position of that country would be a fantastically expensive operation. Finally, I need not remind an Australian audience of the very real difficulties of linguistic, cultural, social, and political assimilation involved, and – since this is a lecture on economic problems – I will not pause to consider them now. There remains only the solution through foreign trade. A country like Japan which is very densely populated, which lacks most natural resources, and for which there is no possibility of large-scale emigration, must rely on selling its labour-intensive manufactured exports and upon importing land-intensive food stuffs and raw materials. Let us accordingly consider what is in fact the present position of Japan in international trade. As the following figures show, Japanese domestic production has shown a very remarkable recovery since the end of the Second World War.

Table 27.3: Japanese population, industrial production and foreign trade

	1934-36	1954	1955
Population	100	128	130
Industrial Production	100	167	181
Volume of Exports	100	55	72
Volume of Imports	100	86	90

In 1955 the Japanese population was some 129.5 per cent of the pre-war level, but her industrial production was 181 per cent of the pre-war figure, or in other words, her output of industrial products per head of the population was 140 per cent of its level before the war. But her position in world export markets had lagged alarmingly behind this domestic recovery and expansion. The volume of her total exports in 1955 was only 72 per cent of the pre-war level, which means that the volume of her exports per head of her population

was as low as 56 per cent of the pre-war figure. Before the Second World War, in 1937, Japanese exports accounted for about 5.1 per cent of total world exports; in 1954 the corresponding percentage was only 2.1 per cent.³ Japan has indeed a long way to go to achieve an adequate volume of exports to support her domestic economy; and she could expand her exports greatly before she regained the share of world markets which she enjoyed immediately before the second World War.

In view of the figures which I have just quoted, one may well ask how the Japanese economy has been able to sustain itself upon so exiguous a volume of exports. A part of the answer to this question is to be found in the fact that, because of direct and indirect United States aid and support, Japan has been able to acquire a larger volume of essential imports than she could purchase with the very low level of exports revealed in the figures which I have just quoted. Indeed, whereas the volume of Japanese exports in 1955 was only 72 per cent of its pre-war level, the volume of her imports was as much as 90 per cent of pre-war. During the occupation of Japan, the United States, as is the way with those wealthy and generous victors, instead of extracting reparations gave no less than \$2,000m in direct economic aid to Japan. It is true that since the end of the occupation direct United States economic aid to Japan has amounted to the much smaller figure of \$150m. But since the outbreak of the Korean War in June 1950 the United States has spent about \$3,000m in Japan on special procurements for its armed forces in that part of the world; and the receipt of these dollars has, of course, enabled Japan to spend so much more on imports from the outside world than its receipts from its exports to the outside world.

But even so, Japanese imports in 1955 were 10 per cent lower than pre-war although her population (which affects her need for imported foods) was 29.5 per cent higher than pre war and her industrial production (which affects her need for imported raw materials) was 81 per cent above pre-war. Japan has been able to manage on so low a volume of imports only by means of the most severe quantitative restriction and licensing of imports so as to limit them to the most essential items.

3 United Nations. Yearbook of International Trade Statistics, 1954.

If my argument is correct there are four important reasons why Japan needs to increase her exports substantially. First, as an unrepentant, if somewhat old-fashioned, believer in the gains to be won all round by freer trade and the international division of labour, I personally would stress the undesirability of a system which makes it necessary for a country to restrict its imports as rigidly as Japan is restricting hers at present. If Japan could export more of the products (like cheap textiles) in the production of which she has a clear comparative advantage and could thereby earn the foreign exchange which would enable her to import more freely the products (like United Kingdom machinery or Australian raw wool) in the production of which other countries have a marked comparative advantage, then it should be possible for standards of living to be raised all round. Second, it cannot be assumed that American aid to Japan or the expenditure by the United States on special procurements for her forces in that part of the world will continue indefinitely at the high level of recent years. At present the Japanese balance of payments is kept in good shape by these exceptional receipts, but their disappearance or substantial reduction would mean that Japan would have to increase her exports substantially in order to maintain even her present low level of imports. Third, if Japan, like other countries in the free world, is to have an effective full-employment policy, then she must be able to finance through larger exports the increased imports of raw materials which will be required to raise the level of output and production in her factories. Fourth, the increase in population in Japan over the next years will also necessitate substantial increases in imports of foodstuffs and raw materials. I cannot now enter into a discussion of the various estimates which have been made of the increase in Japanese exports which would be necessary to meet these different needs. Suffice it to say that the needed increase is very great. But may I remind you that the volume of Japanese exports in 1955 would have had to have been more than $1\frac{3}{4}$ times as great as it was to have regained the pre-war level of exports per head of population, over $2\frac{1}{2}$ times as great as it was to have regained the pre-war relationship with domestic industrial production, and about 2.33 times as great as it was to have regained its pre-war share of world trade? It is necessary to think in terms of a doubling of Japanese exports over the next few years. But granted that Japan needs to find additional openings for her foreign trade, would it not be possible for her to find a solution by the restoration of her trade with China to its important pre-war

level? The following figures⁴ show how much the reduction in Japan's foreign trade is to be ascribed to the loss of her trade with this part of the world, in large measure as a result of the embargo on trade with communist China.

Table 27.4: Volume of Japanese trade (Measured in millions of US dollars with trade valued at 1934-36 prices)

	Japanese exports to:		Japanese imports from:	
	Mainland China and Korea	Rest of the world	Mainland China and Korea	Rest of the world
1934-36 (annual ave.)	307	599	197	744
1954	23	404	15	731

A little simple arithmetic from these figures leads to the conclusion that if in 1954 Japan had been able to send the same volume of exports to Mainland China and Korea as before the war without diverting any of her exports from other foreign markets, this would have involved an increase of roughly 66 per cent in her total exports. From this we can, I think, conclude that a re-opening of trade with the Chinese Mainland might make a substantial contribution to the solution of Japan's trading problem. I have no desire in this lecture to enter into the important political issue whether the restrictions on trade with communist China should be relaxed or not. But it is clear that even if all such restrictions were removed, Japan's export problem would be alleviated but not wholly solved. For in the first place as I have already argued, we must think in terms of a doubling of the volume of Japanese exports rather than in terms of a 66 per cent increase in it. And, secondly, it is certainly very over optimistic to think of Japan restoring her pre-war position in these markets. Before the war she was herself in control of much of the Chinese mainland. She imported from these markets large quantities of ore, coking coal, salt, and similar raw materials for her heavy and chemical industries; and in exchange she exported to them her textiles and other manufactured products. But the probability now is that China will need much of her own ore, coal, and other materials for her own industrial development, which will reduce the supplies of these things available for export to Japan, while

⁴ Based on a report of the US Department of State, 29th March, 1955.

her own industrialisation will lessen her own need for Japanese textiles and other manufactured goods.

There are perhaps other hopeful possibilities for the expansion of Japanese trade. Japan has reasonably low costs in the production of some forms of capital equipment. Such goods might be produced for the countries of South-East Asia to help them in their programmes of economic development, and Japan might import from these countries increased quantities of some of the primary products which she needs. This concept of Japan playing a leading role in the industrialisation of South East Asia is perhaps a promising one, and there have in recent years been some developments of this kind.

But all these developments are somewhat problematic and the Japanese need for expanded export markets is great. The full solution of the problem therefore involves also an expansion of Japanese trade with the main trading countries of the Western world – with the countries of Europe, the United States, and the members of the British Commonwealth. The admission of Japan as a full and equal member into the General Agreement on Tariffs and Trade – or the GATT as I shall call it in the rest of this lecture – has naturally come to stand as a symbol for this development. I intend, therefore, now to describe briefly the steps which have been taken towards the treatment of Japan as a full member of GATT, the attitude of the United Kingdom to this development, and the difficulties which this development raises for the United Kingdom.

The GATT is a multilateral trade agreement. Each contracting party – or, as I shall inaccurately call it in what follows, each member of the GATT – must in general be prepared to undertake a bilateral tariff negotiation with each of the other members. Each of these negotiations results in the binding or reduction of certain rates of duty which the two members concerned levy on their imports from each other. But the benefits of these tariff concessions are then passed on to all the other members of the GATT through the operation of the Most-Favoured-Nation clause which provides that, when any member undertakes to reduce any duty which it levies on imports from any particular country, it must reduce the duty also on the same imports coming from any other member of the GATT.

In addition to the obligation to enter into tariff negotiations of this kind and to grant to all other GATT members treatment which is as favourable as that which it grants to any other country, the GATT contains a number of additional articles, some of which (as for example, the article which in general prohibits the use of quantitative import restrictions) are designed to set limits to trade barriers other than tariffs, and others of which (such as the article which allows countries with serious balance-of-payments difficulties to restrict their imports) are designed to allow certain escapes and exceptions to the general rules for the freeing of trade.

The members of the GATT are able to admit new members to the agreement by a two-thirds majority vote. The admission of a new member to the GATT would automatically entitle that new member to receive Most-Favoured-Nation treatment from all the existing members; or in other words, the new member would automatically receive the advantages of all the reductions or bindings of duties which the existing members had previously negotiated among themselves. In order to prevent a new member from obtaining such benefits without itself giving similar concessions in the form of reductions and bindings in the rates of its own import duties, the practice has grown up of admitting new members to GATT only after there has been a series of bilateral tariff negotiations between the new member and a sufficient number of the existing members. By this means it is hoped to achieve a sufficiently extensive reduction in the tariff of the new member to make its admission a fair bargain for the existing members of the GATT. Finally, I must mention the important Article 35 of the GATT, which may be invoked by any existing member who has not entered into tariff negotiations with the new member. Any existing member who invokes Article 35 can refuse to extend to the new member the concessions and benefits which it would otherwise be obliged to extend to it; and in this case, of course, the new member is similarly relieved of the obligations which it would otherwise have incurred towards the member which had invoked Article 35. In other words, a new member may be admitted into the club by a two-thirds majority vote of existing members; it is normally not admitted unless it has paid, as it were, its entrance fee in the form of negotiating a suitable reduction in the duties which it imposes on imports from other members; but any old member can decide to treat the new member as if he were not a member of the club, in which case the new member in turn can treat the old member as if he were not a member of the club.

Japan made formal application for membership in July 1952. There then followed a long period of enquiry, negotiation, and discussion, into the details of which I will not enter. Certain countries of which the United Kingdom may be taken as the leading example expressed their inability to commit themselves to extend the full privileges of membership of GATT to Japan. The United Kingdom was influenced by memories of the nineteen thirties when many existing lines of trade and production were disrupted by a sudden incursion of cheap Japanese products, sold in many cases by means of questionable commercial devices which misled customers about the original content, or quality of the goods, which relied upon the copying of other traders' designs, and which involved export subsidies of one kind or another.

In the course of these negotiations the question arose whether there were not sufficient escape clauses already in the GATT for it to be possible for a country like the United Kingdom to take the necessary remedial measures against any repeated experience of this kind even if she had accepted Japan as a full member of the GATT. There are two provisions in the GATT which are relevant in this connection. The first is Article XIX which allows a country to take emergency action to restrict the import of particular products if as the result of concessions given under the GATT imports are coming into its territories in such quantities as to cause serious injury to its domestic producers. The argument against relying on this provision was that it did not exempt a member of GATT from its obligation not to discriminate against imports from any other member. In other words, if cheap Japanese textiles flooded into the United Kingdom, the United Kingdom would have had to restrict imports of textiles from all members of the GATT, which it might not wish to do, in order to protect her own textile industry from an expansion of cheap Japanese textiles. The other escape clause on which, in the opinion of some, reliance might have been placed was Article XXIII, under which, if action was taken by any member which had the effect of nullifying or impairing the purposes of the GATT, other members might, with the agreement of GATT as a whole, take action to offset the effects of the offending member. A proposal was made for an official GATT interpretation of this Article which would remove some of its procedural delays; but in spite of this the United Kingdom was not ready to rely upon it since, in its opinion, action under it was too uncertain.

In October 1953 a temporary compromise was reached. Japan was invited by the members of GATT as a whole to take part in all the meetings, discussions, and work of GATT. At the same time a declaration was drawn up under which any particular member of GATT which wished to do so could state that commercial relations between it and Japan would be governed by the provisions of GATT for the period which must elapse before Japan could finally accede to the GATT after suitable tariff negotiations between it and the other members of GATT. A number of GATT countries accepted this declaration and so in effect extended the full privileges of GATT membership forthwith to Japan. A number of other countries, including Australia and the United Kingdom, did not do so.

In February 1955 tariff negotiations were opened in Geneva between Japan and a number of the GATT countries, including the United States, as a result of which Japan gave concessions in her duties and received further concessions in the duties of the other negotiating countries. In September 1955 Japan was admitted as a full member of the GATT. But that was by no means the end of the story; for no less than fourteen countries, including Australia and the United Kingdom, and accounting for more than 40 per cent of Japan's trade with GATT countries, did not undertake tariff negotiations with Japan and invoked Article 35 of the GATT, so that in effect commercial relations between these countries and Japan remain as if Japan had not been admitted to the GATT.

So far I have considered only the negative side of the United Kingdom's position. But the United Kingdom has stressed the fact that there was at no time any desire on her part to prevent Japan from regaining her status as a great trading nation. Membership of the GATT had become a symbol of this status, and Japanese membership of the GATT as such was not opposed by the United Kingdom. Indeed, in its official statement of policy on this subject, issued in April 1955, the United Kingdom Government expressed the "hope that the United Kingdom's trading relations with Japan and Japan's trading relations with the rest of the world will so develop as to enable the United Kingdom and the Colonial territories in due course to accept the full application of the provisions of the General Agreement to their trade with Japan". But until there was more assurance of the course which Japanese trading practices would take, the United Kingdom required more adequate safeguards against excessive competition from Japan than were written into the existing GATT. Nor had the United Kingdom

any desire to prevent the expansion of Japanese export trade. Indeed, in a series of bilateral trade and payments arrangements outside the GATT, which concerned the total trade of Japan with the sterling area, and to which I shall return shortly, the United Kingdom, had taken steps to make possible an expansion of trade between Japan and the sterling area. But the United Kingdom was unwilling to undertake to impose no more controls over her trade with Japan than over trade with the other members of GATT. She would have preferred that the issue of principle should not have been raised, so that she could have continued gradually to relax her controls over Japanese trade by the *ad hoc* development of her special trade and payments agreements with Japan. Experience could then have shown whether the dangers which were feared in some quarters in the United Kingdom would or would not prove well grounded.

But Japan did raise the issue of principle by applying for membership of GATT. In the first place, she needed an expansion of her export markets; and the commercial benefits which she would obtain not only in the markets of the United Kingdom, but in those of the other members of GATT through the application of GATT principles to her trade were of importance to her. Secondly, exclusion from GATT carried with it some stigma; and it was politically important to Japan to re-establish herself as a full member of the commercial club of the main trading countries of the free world.

Let me turn now to a brief description of the development of trade and payments between Japan and the United Kingdom since the end of the Second World War. At first during the Occupation of Japan trade between Japan and the countries of the sterling area was very low. It would in any case have been low because of the initial disruption of Japan's economy after the war. But it was specially restricted by the fact that the payments arrangements were such as to make Japan for currency purposes a member of the dollar area. Any excess of payments by the sterling area would have had to be settled in gold or dollars and thus imports from Japan had to be restricted as severely as imports from the United States. This was altered by the Anglo-Japanese payments agreement of September 1951, whereby payments between Japan and the sterling area were to be settled in sterling. If Japan ran up a balance of sterling because of heavy imports of Japanese products into sterling area countries, these sums could not be converted by Japan into gold or dollars. The intention was that a broad bilateral

balance should be maintained between Japanese payments to the sterling area and the sterling-area payments in Japan. If an unbalance developed, then this would be corrected by a change in import controls on the one side or the other so as to encourage Japanese purchases from the sterling area and to discourage sterling-area purchases from Japan when Japan had large balances of sterling, and vice versa.

This original Anglo-Japanese agreement was to run for twelve months. It has been followed by a number of new agreements which are basically of the same pattern. There have been times when Japan has accumulated large balances of sterling. Such situations have been met to some extent by a tightening of restrictions on imports of Japanese products into sterling-area countries, but also by a relaxation of Japanese restrictions on imports from the sterling-area. At other times Japan has been running down her sterling balances; and in this case the situation has been met partly by a tightening of Japanese restrictions on imports from the sterling area, but also by a relaxation of sterling-area restrictions on imports from Japan. The general development of these Anglo-Japanese payments agreements has been to plan each time for an expanded, but still a bilaterally balanced, volume of transactions between Japan and the sterling area.

At first these Anglo-Japanese agreements were reached multilaterally between Japan on the one side and many countries of the sterling area on the other side. That is to say, delegation from the United Kingdom) would attempt to work out simultaneously with the Japanese a programme of Japanese imports from the various sterling-area countries concerned and a set of programmes of imports of Japanese products into the sterling-area countries concerned which would result in a balance between Japanese payments to, and receipts from, the sterling area as a whole. But the more recent agreements have been strictly bilateral agreements between Japan and the United Kingdom. In these negotiations statistical estimates have been made of the total amount which, under their separate trade arrangements, independent sterling-area countries are likely to spend on Japanese products. Moreover, since 1954 there have been virtually no quota restrictions on the import of Japanese products into the dependent colonies of the United Kingdom, so that the imports of these territories can also merely be taken as a statistical estimate of what will be the result of such free importation into the colonies. Balance between the sterling payments and receipts of Japan as a whole

can then be maintained in the Anglo-Japanese agreement only by changing the restrictions on imports of Japanese products into the United Kingdom itself or, on the other side, by a change in Japanese restrictions on imports from the sterling area. It is in terms of these two variables that a balance has been sought in the most recent Anglo-Japanese agreements.

As the following figures show, these Anglo-Japanese payments agreements have made possible an expansion of Japan's export markets in the United Kingdom and in the rest of the sterling area. But this expansion has been at an uneven rate. In particular in 1953 there was a severe cut-back in the United Kingdom and other sterling-area imports from Japan to meet the situation which had arisen from the greatly increased – purchases of the sterling area from Japan in 1951 and 1952 with the resulting heavy accumulation of sterling balances by Japan.

Table 27.5: Value of Japan's exports, monthly averages (million yen)

	Exports to United Kingdom	Exports to rest of Sterling area	Total exports
1949	1,264	6,195	15,293
1950	781	8,140	24,606
1951	1,620	16,758	40,637
1952	2,194	14,009	38,187
1953	994	8,526	38,245
1954	1,534	13,242	48,880
1955	1,823	17,649	60,320

The sterling area provides an important market for Japan. The proportion of Japanese exports going to the sterling area has ranged from nearly one half in 1949 to one quarter in 1953, and in 1955 was about one third.

Let us now consider against the background of these arrangements the particular difficulties which the United Kingdom would encounter if she were to accept full GATT obligations towards Japan.

As far as tariffs are concerned, there would be no difficulties. Both the United Kingdom and her Colonies (unlike Australia) already extend Most-Favoured-Nation treatment to Japanese imports in so far as import duties are

concerned. That is to say they do not levy higher duties on Japanese products than those which they levy on the products of any other country which does not enjoy Imperial Preference in the United Kingdom and Colonial markets. Of course, the United Kingdom and the Colonies do give preferential tariff treatment to other Commonwealth countries; but these existing Imperial Preferences are permitted under the GATT rules and they would not be counted as a discrimination against Japanese products.

The difficulties which the United Kingdom would experience relate to the quantitative restriction of imports by import licensing. In this connection we must consider, first, the question of the restriction of imports of Japanese products into the British Colonies and, secondly, the restriction of imports of Japanese products into the United Kingdom itself.

In the nineteen thirties quantitative restrictions were placed on imports of Japanese products into many of the British Colonies as part of the general development of commercial policy to counteract the disruptive effects of the great flood of cheap Japanese manufactures. After the second World War imports of Japanese products into the Colonial territories, just as imports of Japanese products into other sterling-area countries, were at first controlled on balance-of-payments grounds in order to prevent the accumulation in Japanese hands of excessive balances of sterling which directly or indirectly would lead to a pressure on the gold and dollar reserves of the sterling area. But since 1954, as I have already explained, restrictions on Japanese imports into the Colonies have not been used in this way. Colonial governments have been free to licence the import of Japanese products in any quantities which they desire. The old criticism that the United Kingdom has employed quota restrictions in order to protect expensive Lancashire products against cheap Japanese products at the cost of the inhabitants of Colonial areas can no longer be sustained.

It is true that the apparatus of import licensing is maintained in the Colonies against Japanese products, but not against the products of the sterling area or of the European countries which are members of the European Payments Union. But the quotas set for Japanese products are now so large that they are in many cases ineffective and not fully used; and where the quotas are fully used, additional licences are fairly freely obtainable upon application. The reason for

the maintenance of this system is in order that the United Kingdom may hold ready in reserve a weapon which it might need to use once more on balance-of-payments grounds, if there were another sudden surge of cheap Japanese products into sterling markets. This system is, of course, formally discriminatory under the GATT rules and would have to be abolished if the United Kingdom applied the GATT rules to Japanese trade. This might have some slight beneficial effect upon Japanese exports, since the maintenance of the apparatus of licensing may itself somewhat discourage Japanese trade. A Colonial importer must go through the tiresome drill of using an import licence if he buys from Japan, but not if he buys from Europe or the British Commonwealth; and there may be a tendency for the issue of the licences to concentrate the trade in the hands of existing traders who, because of their existing commercial connections, are somewhat less likely to buy from Japanese than from other sources. But the discriminatory effect is no longer substantial and the abolition of this system would not have any very direct favourable effect upon Japanese, or adverse effects upon British, trade.

Quantitative restrictions on the import of Japanese products into the United Kingdom itself are quite a different matter. In this case there are quotas on the import of Japanese products which effectively restrain the imports of Japanese textiles, toys, and other products. To give GATT non-discriminatory treatment to Japan would mean the removal of these restrictions; for the import of these products is not similarly restricted when they come from other countries of the Commonwealth or of Western Europe. It is this requirement which presents the most direct and obvious difficulty which stands in the way of the United Kingdom giving GATT treatment to Japan. To let these Japanese products enter the United Kingdom without licence restrictions would not be catastrophic for the United Kingdom. These products are not basic essentials; and neither on military nor on economic grounds would a contraction of these industries in the United Kingdom be disastrous. Moreover, the problem of industrial readjustment would be easier now than it was in the nineteen thirties. In the first place, we now live in an inflationary instead of a deflationary atmosphere. Alternative opportunities for employment would now exist in the rest of the country for workers dismissed from factories hit by Japanese competition. Secondly, largely as a result of readjustments made in the second World War industry is now more diversified in Lancashire where there are now many light engineering and other industries available to give more local employment if the cotton industry were contracted.

But the transitional problems would nevertheless be very real ones. The difficulty of the problem for the United Kingdom is particularly great because the increased competition from Japanese products would be highly concentrated on a few industries in the United Kingdom. The removal of import restriction on Japanese products would not cause a little extra competition for a large number of industries; it would cause a great deal of extra competition for a small number of industries. Certain branches of the textile industry would be very seriously cut back. Certain small industries, like the cheap toy industry or the net-making industry, might be faced virtually with complete ruin. It is politically and economically a serious matter to take steps which may substantially effect the fortunes of a traditionally basic industry like the Lancashire cotton industry and which may bring concentrated loss on a few small producers.

There is another possible danger for the United Kingdom which might turn out to be more important economically, although it presents less obvious political difficulty. Japan since the war has continuously spent a great deal more on dollar products than she has earned by her sales to the dollar area. There have been some structural changes in Japan's trade which have emphasised this lack of dollar balance. For example, the development of competing synthetic fabrics in the United States has greatly restricted the United States demand for natural silks, one of Japan's most important exports to the United States; and the collapse of the Chinese mainland as a main source of supply of important Japanese imports like cooking coal has meant that Japan must make heavy purchases of these products in the United States. This natural and perhaps inevitable structural change has been artificially reinforced by certain types of United States aid to Japan. For example, disposals of United States surplus wheat on special payments terms in Japan may have restricted the Japanese demand for Australian and so for sterling wheat. In 1954 the volume of Japanese exports to North America was only 57 per cent of its pre war level, whereas the volume of Japanese imports from North America was 135 per cent of its pre-war level. In 1954 Japan's exports to North America were worth \$349m, but her imports from North America were \$1,102m. On the other hand, in many post-war years there has been a tendency for the purchases of the sterling area from Japan to exceed Japan's imports from the sterling area. In these circumstances there might well be an underlying tendency for Japan to earn sterling for her exports and to convert this into dollars for the purchase of her imports, thus putting a strain upon the sterling areas gold and dollar reserves in London.

This tendency has up to now been avoided by the Anglo Japanese trade and payments agreements to which I have already referred. United Kingdom restrictions on purchases from Japan have been deliberately maintained and Japanese restrictions on sterling-area products have been deliberately relaxed so as to keep a rough balance between Japan's sales and purchases in sterling. It is not at all certain that this would be permissible if Japan and the United Kingdom applied GATT rules to their mutual commercial relations. Under the GATT rules a country can restrict imports so long as its balance of payments is in serious disequilibrium. But the general GATT rule is that such restrictions should be non-discriminatory; and if Japan were not free to discriminate in favour of sterling products and the United Kingdom were not free to discriminate against Japanese products, it would not be possible to offset any underlying tendency for Japan to sell to the sterling area but to buy from the dollar area. It is true that the GATT rules do in certain circumstances also permit discriminations in import restrictions on balance-of-payments grounds. I cannot on this occasion go into these complicated rules in detail. Suffice it to say that the freedom of Japan and the United Kingdom to seek a bilateral yen-sterling balance would be more circumscribed than at present.

Thus there are some very real difficulties in the way of the extension by the United Kingdom of full GATT treatment to Japanese products. There would, of course, probably be some compensating advantages to the United Kingdom in achieving a removal of barriers to Anglo-Japanese trade. While the transitional difficulties might be considerable, the change in the structure of United Kingdom industries would probably in the long-run bring some gains. Consumers in the United Kingdom would obtain cheaper supplies of certain products (like textiles and toys) which would be obtained from the export of products (like machinery) in the production of which United Kingdom industry was more economical. The main danger would be the instability of industrial production which would occur if there were ever once more a sudden surge of cheap Japanese products into the relatively unprotected markets of the United Kingdom, as happened in the nineteen thirties. But that development was a product of the Great Depression. In the early nineteen thirties the American market for Japanese silk and other products collapsed as a result of the collapse of buying power inside the United States combined with the erection of the excessive Hawley-Smoot tariff by that country. This was the main reason why the Japanese suddenly sought alternative

outlets for their exports at excessively low prices and by questionable commercial devices in markets such as the British which enjoyed little protection from them. In my view, we can rule out the possibility that the United States will once again permit a major domestic economic depression to develop, or will reverse their commercial policy and build once more an excessively high tariff. And if these things should occur, it is certain that the GATT, as we know it now, would not long survive. In present conditions Japanese products are not so excessively cheap as to cause an overwhelming flood of cheap goods into British markets.

Of course, the United Kingdom is not the only country which has difficulty in giving full GATT treatment to Japanese trade. There are the thirteen other members of the GATT – Australia, Austria, Belgium, Brazil, Cuba, France, Haiti, India, Luxembourg, the Netherlands, New Zealand, Rhodesia and Nyasaland, and the Union of South Africa – which have followed the same course as the United Kingdom in invoking Article 35 so as not to be obliged to give GATT treatment to Japanese trade. But the United Kingdom is the leading trading country which has invoked Article 35 of the GATT in order to refrain from giving GATT treatment to Japan. It is probable that the United Kingdom's example has been important. If she ceased to invoke Article 35, a number of the other thirteen countries which at present also invoke Article 35 might be persuaded not to do so. The indirect effects of this might be important for the United Kingdom. Suppose that some third countries remove some barriers on imports of Japanese products. In so far as similar products were previously being imported from the United Kingdom the result may be that Japanese products are purchased instead of United Kingdom products by the countries concerned; and this would mean contraction in the market for United Kingdom products. Such unfavourable developments are in fact likely to occur in some cases as Japan finds an easier access into third countries. But in so far as the easier access into third markets enables Japanese products to compete successfully in those markets against the domestic production of the third countries themselves, the effect may be to ease the pressure on the United Kingdom. For the more readily Japanese products are absorbed into such third markets, the less plentiful and cheap will be the remaining supplies of Japanese products available for sale in United Kingdom markets or in markets in which they compete directly with United Kingdom products. The extension of full GATT treatment to Japan by all

the other members of GATT might thus have some adverse effects upon United Kingdom exports, but at the same time it might relieve the pressure of Japanese competition in other United Kingdom markets.

Even those members of the GATT who did not invoke Article 35 have experienced difficulties in extending full GATT treatment to Japan. There was, for example, a very considerable expansion of cheap Japanese textiles into the United States after the mutual tariff reductions which took place before Japan's entry into GATT relationships with the United States. This caused some considerable concern among the New England textile producers. It became clear that the United States Administration might be forced to take steps (either through the escape clause in GATT which can be invoked if a domestic industry suffers serious injury from imports or by other means) to prevent this natural expansion of Japan's cheap labour intensive products. In fact, an uneasy *modus vivendi* has been found only through the agreement of the Japanese to restrict their exports to the United States. The formal GATT relationship between Japan and the United States has been accepted; but nevertheless some special restrictions on the trade with Japan have thus been continued. In other cases, of which Germany may be cited as an example, countries which have accepted Japan as a full member of the GATT have not yet found it possible so to liberalise their quota restrictions over imports of Japanese goods as fully to carry out the obligations which they have thus incurred. The United Kingdom should not perhaps be too severely criticised for having been willing to incur the odium of stating in advance that she could not extend full GATT treatment to Japan.

Is the assumption by Japan of the obligation to give GATT treatment to those members of GATT who do not invoke Article 35 likely to give rise to serious difficulties for Japan? Japan at the present is operating a system of very strict controls over her imports. As long as her balance of payments remains in its present difficult position it will be legitimate for her under the GATT rules to continue to control her imports. But her import controls will now be subject to review and challenge by the other members of the GATT on two counts: the Japanese restrictions must not be more severe than is necessary to cope with the Japanese balance-of-payments problem and they must be non-discriminatory as between the products of the other members of GATT which have accepted Japan as a full member of the GATT. It is possible that on both these counts Japan may

need to revise her restrictions. In particular, there have been serious complaints that the Japanese import restrictions have on occasions been administered in an arbitrary manner which has discriminated against the exports of particular countries.

Another feature of the Japanese trading system to which serious exception can be taken is the well-known "link system" in Japanese foreign exchange control. Under this system the right to acquire foreign exchange for the purchase of certain imports has been linked to the export of certain other products. Often the right to purchase imports of a certain raw material has been linked with the export of products made out of that material. But occasionally there has been no such obvious connection between the exported product and the imported product which is linked with it. Thus in the past the export of machinery, ships, and silk has carried with it a right to receive foreign exchange for the import of textile raw materials, sugar, petroleum, and bananas. This system is equivalent to a system of export subsidies. For the exporter will be willing to export, if necessary, at a price which does not fully cover his costs of production because his loss will be linked with the acquisition of a valuable right to acquire certain scarce imports. Until recently, the GATT rules did not include any direct prohibition of export subsidies on manufactured goods. They required only that such subsidies should be notified to the GATT and should be the subject of consultation with other aggrieved members. But the new GATT rules on this subject, proposed at the revision of the GATT in 1955, would provide for a standstill on export subsidies on industrial products until the end of 1957 and for their abolition at the earliest possible date after that. Japan has, in fact, recognised that the "link system" would be subject to criticism as not being in the spirit, even if it were within the letter, of the existing GATT rules. She is in the process of dismantling the whole system.

Japanese traders have been the subject of severe criticism in many countries and, above all, in the United Kingdom, for adopting unfair methods of competition, such as the copying of designs which are in reality the property of their competitors. There is no doubt that these complaints have in the past been justified. Recently after discussions with the British traders concerned steps have been taken to attempt to stop the pirating of designs in the case of textiles. A Japanese Textile Colour Design Centre has been set up and all members of the Japanese Cotton Textile Exporters' Association are required to obtain the approval

of the Design Centre for their designs before concluding a foreign sale. This method of control might have two forms of weakness. First, there is the problem how the Design Centre is to make sure that the foreign buyer of Japanese textiles who says that he is the owner of a foreign design is really the owner of that design. Secondly, there is the need to control the exports of the small Japanese producers and exporters who are not members of the Japanese Cotton Textile Exporters' Association. Recent legislation in Japan has enabled regulations controlling the designs used in Japanese exports to be applied to the producers and exporters who are not members of the Exporters' Association. It remains to be seen whether these measures will effectively put an end to objectionable trading practices in the case of textiles, and whether similar safeguards can be applied to other trades.

It is, in my opinion, greatly to be hoped that trading conditions will so develop, and that such safeguards will be found, that the United Kingdom will be able soon to apply GATT treatment to Japanese products. As I have tried to show, Japan is a country whose economic survival depends above all things upon being able to sell her manufactured produce in overseas markets; and for this reason there must be a reasonably ready access for Japanese products to world markets, if a healthy and contented Japan is to be attracted to the democratic and free way of life. In the nineteen thirties the countries of the free world made a double mistake in their attitude towards Japan. In the first place, they should have opposed Japanese military aggression more firmly. But, in the second place, they should have taken a more liberal line towards the expansion of Japanese export markets. They should have said to Japan: "You may not acquire the raw materials and foodstuffs which are necessary for your existence by force of arms; but it is possible for you to acquire them through a commercial expansion of your exports into our markets". Alas, they said something which was almost the exact reverse to this. Today we must avoid finding ourselves in the position of saying to Japan: "You may not, of course, sell your exports on equal terms with the products of other free countries in our markets; nor should you trade with communist China. But, pray, join with us in the prosperity which is offered by the free, democratic, western way of life". The old-fashioned, Cobdenite view that a reduction of trade barriers is a bulwark of this free, democratic, western way of life has often been overstated; but it is not always totally wrong.

