



**Searching for a Balance: Britain's Trade Policy
towards Japan, 1950-54**

Noriko Yokoi

A thesis submitted for the degree of Ph.D.
International History Department
London School of Economics and Political Science
July 1998



UMI Number: U615516

All rights reserved

INFORMATION TO ALL USERS

The quality of this reproduction is dependent upon the quality of the copy submitted.

In the unlikely event that the author did not send a complete manuscript and there are missing pages, these will be noted. Also, if material had to be removed, a note will indicate the deletion.



UMI U615516

Published by ProQuest LLC 2014. Copyright in the Dissertation held by the Author.
Microform Edition © ProQuest LLC.

All rights reserved. This work is protected against
unauthorized copying under Title 17, United States Code.



ProQuest LLC
789 East Eisenhower Parkway
P.O. Box 1346
Ann Arbor, MI 48106-1346

THESES .

F.

9583 .



127882 .

Abstract

The purpose of this thesis is to examine Britain's trade policy towards Japan between 1950 and 1954. This period was chosen as these were the years when the foundations of Britain's post-war trade and diplomatic relations with Japan were established. Moreover, the study was undertaken to redress the imbalance in scholarly research which is dominated by U.S.-Japan relations. Although the study does not refute the dominant political and economic influence of the United States in Japan, it elucidates the role played by other countries during Japan's early post-war period.

The study contends that there was a period in the early fifties when Britain played an influential role in its trade relations with Japan. This was primarily because Japan relied on the sterling area for one-third of its imports. As a banker to the sterling area's dollar reserves, Britain had influence over the area's policy as a whole. In order to understand the reasons why Britain's influence over Japan waned, the thesis examines the sterling payments agreement talks between Japan and Britain. By studying the negotiations behind the agreement it is possible to ascertain the gradual independence of the sterling area countries from British control, and the establishment of their respective bilateral relations with Japan as Britain became sidelined. The other issue examined in the study is Britain's opposition to Japan's entry into the General Agreements on Tariffs and Trade and the factors which led to this policy. The study of the two issues highlights the complexity of the decision-making process in foreign policy formulation. In particular, it indicates the various interests that had to be taken into consideration, such as domestically the views of the textiles industry in Lancashire and those of the various ministries in Whitehall, and internationally Britain's relations with the United States, Japan and the Commonwealth.

Acknowledgements

I should like to thank my supervisor, Dr. Antony Best, for his encouragement, guidance and patience. I am deeply indebted to him for pointing me towards William Borden's book and challenging me to write the British perspective on Japan's economic recovery. Furthermore, I would like to thank Professor Ralph Smith for introducing me to the Bank of England Archives. I wish to also extend my appreciation to Professor Sugihara Kaoru for directing me to invaluable Japanese sources.

Moreover, I wish to thank Dr. Janet Hunter, Dr. John Kent and Professor Ian Nish for their comments on earlier drafts of the thesis. I would also like to thank Dr. Aaron Forsberg, Professor Burton Kaufman, Professor Kibata Yôichi and Professor Nakanishi Hiroshi for their advice and encouragement.

I would like to express my appreciation to archivists at the Bank of England, the Birmingham University Library, Bodleian Library in Oxford, Durham University Library, Manchester Central Library, the Modern Records Centre at Warwick University, the Public Records Office, and Trinity and Churchill Colleges in Cambridge. In the United States, I wish to thank the archivists at the Eisenhower and Truman Libraries, the National Archives, and Seeley G. Mudd Library. I wish to also extend my appreciation to the archivists at the Ministry of Foreign Affairs Archive in Japan.

A special thank you to Peter Busch and Chiara Levrini for reading large sections of my thesis, and for being such great friends. I am also grateful to Nicola Davies, Roger and Julia Kirkpatrick, Nishikawa Sugiko and Bryan Solomon for their support.

I would also like to thank the British Council and the Japan Foundation for funding part of my studies. My appreciation also extends to the Royal Historical Society and the Truman Library for making it possible for me to conduct research in the United States in Summer 1996.

My parents have supported me in all my endeavours, including this one. Without them, this would never have been written. I thus dedicate this thesis to them.

Table of Contents

	pages
List of Tables	6
Usage	7
Abbreviations	8
Introduction	10
Chapter One: British Trade Policy towards Japan in 1950	16
Introduction	16
The Post-War Economic Situation	16
Open Payments Agreement with Japan	23
Japan's Application to Enter the International Wheat Agreement	32
MFN Treatment for Japan	35
Conclusion	38
Tables	40
Chapter Two: On the Eve of Independence: Britain's Sterling Policy towards Japan in 1951	48
Introduction	48
Japan's Entry into International Organizations	49
Long-Term Relations between the Sterling Area and Japan	51
The Sterling Financial Conference	60
Anglo-Japanese Differences over the Sterling Payments Agreement	66
The Peace Treaty and the China Issue	71
Conclusion	82
Tables	83
Chapter Three: Britain's Policy Adrift, 1952	90
Introduction	90
Sterling Area-Japan Payments Relations in 1952	91
The MFN Issue	103
Conclusion	110
Tables	112

Chapter Four: Britain at the Helm?	119
Introduction	119
Talks in Tokyo	120
Tôjô's Visit to London	125
American Observations	128
Britain's Policy towards the Intersessional Committee	129
The Intersessional Committee Meeting	134
The Report	139
Towards the Temporary Accession of Japan in the GATT	146
The Eighth Session of the GATT	149
Sterling Payments Agreement	153
Conclusion	159
Tables	161
Chapter Five: Limits to Britain's Policy towards Japan	175
Introduction	175
Sterling Payments Agreement	176
The Postponement of Yoshida's Visit to the UK	187
Japan's Application to the GATT	191
The Report on a Commercial Treaty with Japan	192
Yoshida's UK Visit	199
Ninth Session of the GATT and the Japanese Response to the British Aide-Mémoire	201
Japan's Membership of the ECAFE and the Colombo Plan	203
Conclusion	206
Tables	207
Conclusion	215
Appendices	221
One: The Japanese Proposal	221
Two: Sterling Payments Agreement between the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of Japan	223
Three: The Yoshida Letter	227
Four: The Text of GATT Articles 19, 23, 25 and 35	228
Five: Agreed Minute	231
Bibliography	235

List of Figures and Tables

	pages
Figure 1: The Sterling Account System, 1952	40
Table 1.1: Japan's Exports of Cotton Textiles to Great Britain, 1947-1955	41
Table 1.2: Japan's Rice Imports by Country, 1949-1954	42
Table 1.3: Percentage of Japan's Rice Imports from Burma, 1949-1954	42
Table 1.4: Estimated Purchases by Source and Savings per Year by Membership in IWA	43
Tables 2.1-2.6: Cotton Imports into the Congo Basin	83
Table 3.1: Japan's Sterling Reserves, January 1950-December 1953	112
Table 3.2: Annual Trade with Japan (Select Sterling Area Countries), 1950-1958	113
Table 3.3: Sterling Area's Gold and Dollar Reserves, 1948-1954	114
Table 3.4: Japanese Imports and Exports based on Letters of Credit, 1951-1952	115
Table 4.1: Japan's Balance of Payments, 1945-1956	161
Table 4.2: Japan's Exports to the Sterling Area, 1951-1954	162
Table 4.3: Japan's Imports from the Sterling Area, 1951-1954	163
Table 4.4: Commonwealth Exports to Japan, 1950-1952	164
Table 5.1: Cotton Piece Goods into Nigeria, 1937-1954	207

Usage

The usual conventions concerning Japanese names are observed throughout this thesis, with the family name followed by the given name. The exceptions are for Japanese scholars who publish in English. Japanese words are romanized according to the modified Hepburn system. Long vowels are indicated by circumflexes but they do not appear in well-known place names such as Tokyo. Chinese names are given in Pinyin. The terms 'Far East' and 'East Asia' have been used intermittently in the thesis due to the popular usage of the term Far East in the 1950s. An attempt has however been made to use East Asia wherever possible. Moreover, the geographical area described by both terms refer to China, Mongolia, Manchuria, Korea and Japan. The term 'Southeast Asia' refers to Burma, Thailand, Indochina, Malaya, Singapore, North Borneo, Indonesia and the Philippines. British interests in Southeast Asia refer to Britain's colonies in the region.

Abbreviations

cif	cost, insurance, freight
COCOM	Coordinating Committee
CHINCOM	China Committee
CLC	Commonwealth Liaison Committee
CPCE	Committee on Preparations for Commonwealth Economic Conference
ECA	Economic Cooperation Administration
ECAFE	Economic Commission for Asia and the Far East
ECOSOC	Economic and Social Council
EPB	Economic Planning Board
EPC	Economic Policy Committee
EPU	European Payments Union
ERP	European Recovery Program
ESB	Economic Stabilization Board
ESC	Economic Steering Committee
ESS	Economic and Scientific Section
FEC	Far Eastern Commission
FECB	Foreign Exchange Control Board
FE(O)C	Far Eastern (Official) Committee
FOA	Foreign Operations Administration
GARIOA	Government and Relief in Occupied Areas
GATT	General Agreements on Tariffs and Trade
IBRD	International Bank for Reconstruction and Development
IC/DV	Import Certificate, Delivery Verification
ILO	International Labour Organization
ISA	Independent Sterling Area
IMF	International Monetary Fund
ITO	International Trade Organization
IWA	International Wheat Agreement
IWC	International Wheat Council
l/c's	letter of credit(s)
MFN	Most Favoured Nation
MITI	Ministry of International Trade and Industry
MOF	Ministry of Finance
MOFA	Ministry of Foreign Affairs
NAC	National Advisory Council

NATO	North Atlantic Treaty Organization
NSC	National Security Council
OGL	Open General License
ONC	Overseas Negotiations Committee
OPA	Open Payments Agreement
PRC	People's Republic of China
RFB	Reconstruction Finance Bank
ROC	Republic of China
RSA	Rest of the Sterling Area
SCAP	Supreme Commander of the Allied Powers
SEATO	Southeast Asia Treaty Organization
UKLM	United Kingdom Liaison Mission
UN	United Nations

Introduction

Since Japan's high-speed growth in the 1960s, there has been a growing amount of scholarly work on Japan's post-war 'success' and these reached a peak in the 1980s when Japan became the world's second strongest economy and the world's largest creditor nation. The focus of the inquiry was the western desire to understand how a country deficient in raw materials, devastated in the second world war and stripped of its empire could have recovered so quickly from defeat and risen to become one of the strongest economies in the world in a matter of few decades.¹ Much of the focus on Japan's so-called 'economic miracle' examined the peculiarities of Japan's political and economic framework such as the emphasis on consensus and cooperation between the ruling party, the bureaucracy and big business.² There have also been studies on institutional characteristics such as the seniority wage system and the practice of life-time employment.³ Other factors that have been highlighted are Japan's education system, the 'paternalistic orientation behind the notion of labour and management ... enthusiastic acceptance of benevolent guidance, the work ethic and an inclination to save'.⁴ Although there have been numerous works emphasizing one aspect of Japan's society or the other to explain the reasons for Japan's 'economic miracle', the factors have become clichéd over the years. At times, they have fuelled the notion that Japan is 'unique' or that it is 'different' from the rest of the world which has not been very constructive nor particularly insightful.

In 1982, this trend to 'mystify' Japan was broken when Chalmers Johnson published his work, MITI and the Japanese Miracle. Johnson focuses his research on Japan's industrial policy and in particular on the Ministry of International Trade and Industry and its predecessor, the Ministry of Commerce and Industry. He has concentrated on the MITI to argue the position that Japan's economy had far more 'state' intervention than its American counterpart, and it was this 'state' involvement that enabled Japan to recover at such a rapid pace.⁵ Johnson's work is of great interest to the historian for two reasons. First, because Johnson highlights the continuity in Japan's industrial policymaking dating back to the inter-war period, therefore, elucidating the fact that the post-war 'economic miracle' did not occur 'out of the blue'.⁶ Second, by taking a historic approach, it has been possible to understand with greater clarity that many of the policies enacted by the Japanese government in the post-war period were in reaction to internal and external factors. Therefore, Johnson's work highlights the continuities in Japan's industrial policy and the flexible response of the policymakers to the post-war situation.

As mentioned above, much of the research on Japan's economic recovery has been on internal factors, but this trend has also been broken with the thirty-year rule governing the release of American and British government documents. The appearance of such documents has enabled diplomatic historians to examine the United States and British policy towards Japan in the post-war period, thereby highlighting the external factors which governed Japan's post-war foreign relations. Works of note are, Michael Schaller's The American Occupation of Japan; Andrew J. Rotter's The Path to Vietnam; and William Borden's The Pacific Alliance. Schaller's work focuses on Washington's decision to reverse the course of the occupation due to the deepening of the cold war and places the role of the Supreme Commander of the Allied Powers, Douglas MacArthur, in the occupation firmly back in its proper perspective. Moreover, he highlights the decision by American policymakers to promote Japan's 'Greater Co-Prosperity Sphere' by linking Japan's economy with that of Southeast Asia in order to promote Japan's economic recovery and to ensure that Southeast Asia did not enter the communist orbit. Rotter has gone one step further by linking American policymakers' decision to sponsor Japan's economic recovery with the eventual American involvement in the Vietnam war. Although Borden also argues that the United States actively supported Japan's economic recovery, he highlights the importance of Japan's economic recovery to America's plans for a multilateral trading system in the non-communist world. For such a system to succeed, the United States needed to provide sufficient economic aid to Europe and Asia, to enable the 'free' world to continue purchasing American products.

All of the three works cited above refer in passing to Britain's postwar Asian interests. Schaller has dealt the least with Britain's perspective, while Borden has conducted some research based on American documents. Rotter, who has conducted archival research at the Public ^{Records} Office in Kew, deals in greater detail on Britain's interests in Southeast Asia. All three indicate the importance that Britain placed on its economic ties with Southeast Asia and argue that British industrialists felt threatened by Japan's economic links with the region, but they produce little convincing research on Britain's response to Japan's trade recovery. Although Rotter elucidates the possibility of a clash of British and Japanese interests, he has not converged the two strands of his research with great success.

The problem with the approach of the three scholars mentioned above has been their acceptance of the argument that Britain felt threatened by Japanese competition in Southeast Asia. The reason why this argument has not been challenged in the United States is largely due to their examination of British policy through contemporary US assessment of Britain. In fact, this argument, cited as early as 1979 in John Dower's

Empire and Aftermath, has become proverbial in that it has been widely accepted by American scholars dealing in this area of research. This is evident in the research conducted by American scholars in the 1990s as none have so far tackled this 'accepted view'.⁷ Many have either accepted earlier scholars' views, or accepted American officials' views concerning British policy towards Japan.⁸ Thus crystallizing the notion that Japan's economic recovery was due to the extensive effort of the United States, and that this effort was obstructed by the United Kingdom which felt threatened by Japanese competition in its traditional trading area.⁹

Conversely, there has been comparatively less interest in Britain in regard to Japan's economic recovery and Britain's role vis-à-vis Japan in the postwar period. The most comprehensive study undertaken in the 1980s was Roger Buckley's Occupation Diplomacy. Buckley undertook research on Britain's occupation policy towards Japan from 1945 to 1952 in order to highlight an alternative perspective of the allied occupation experience. He has elucidated differences between the American and British policymakers' views towards the occupation, and British policy towards Japan in the immediate post-war period. Although Buckley argues that Anglo-Japanese relations in the post-war period were primarily based on commercial relations, his work is curiously lacking in Treasury, Board of Trade and Bank of England document citations. Buckley has managed to argue his case using Foreign Office documents (primarily FO 371 documents), but one is left wondering about the views of the other ministries in Whitehall. Another scholar who has been working extensively on Britain's policy towards East Asia in the 1950s is Peter Lowe. He has undertaken extensive research on British policy towards Korea, China and Japan, but his focus has been primarily diplomatic.¹⁰

The reason why Anglo-Japanese relations have not enjoyed greater academic interest in Britain is the fact that historians have expressed stronger regard for topics relating to its former empire and the decolonization process. One of the topics which has fuelled an extensive amount of research among scholars in the last few years has been the sterling area system. The sterling area as an informal economic and financial 'club' has been seen as one of the factors that have kept the British Empire together and therefore a number of scholars have conducted research on the ties between the city of London and Britain's formal and informal Empire,¹¹ while others have concentrated on the sterling area system.¹² Although most scholars working on the sterling area have until now concentrated on the internal dynamics of the informal financial system, studying the sterling area's external relations is as important as it highlights how important the sterling area was for Britain as its power-base in the 1950s. Britain, which could no longer consider itself in league with the superpowers, needed a foundation on which it

could wield its power in the post-war world, and it was the sterling area and the Commonwealth which became the source of its influence. Therefore, it is within this setting that Anglo-Japanese relations will be examined.

In Japan, although there have been an increasing number of historians conducting research on Japan's post-war external relations, most have concentrated on its relations with the United States for obvious reasons. Some academics have, however, focused on British and Commonwealth policy towards Japan such as Hosoya Chihiro and Kibata Yôichi. The former has written an outstanding account of the lead up to the San Francisco Peace Treaty, but it does not deal with post-occupation relations. The latter has conducted extensive archival research in Britain, Malaysia and Australia, but his emphasis has been on Malaya.¹³ On Japan's entry to the GATT (General Agreement on Tariffs and Trade), Akaneya Tatsuo's work is the most comprehensive work to date in any language.¹⁴ Akaneya has, however, gathered most of his documentary evidence in Australia and therefore, his perspective on British policymaking is limited. Although there has been growing interest in Japan's trade relations with the sterling area, publications to date suggest that scholars are examining Japan's bilateral relations with former sterling area countries without reference to Britain's sterling policy.¹⁵ This approach is short-sighted as Britain as the banker of the sterling area set the guide-lines for the sterling area for much of the 1950s, therefore, without the British perspective, it is difficult to understand the complete picture.

Therefore, despite the increasing amount of research in the field of foreign relations and a greater sophistication in the use of government documents, there is scope for research on Britain's trade policy towards Japan as there are still visible gaps in current scholarship due to the narrow parameters set by researchers and general acceptance of unchallenged views.

This thesis deals with an aspect of foreign relations that is gaining increasing recognition, namely, economic diplomacy. The thesis examines the decision-making process in Britain's formulation of sterling and GATT policies towards Japan. Therefore, the emphasis is on various cabinet committees and cabinet conclusions. The views of different players in the decision-making process have been incorporated in the thesis, including cabinet ministers, middle-ranking officials, and British officials in Japan, Southeast Asia and the United States. On the whole, Britain's sterling policy was dealt by middle-ranking civil servants and British officials in Japan and Southeast Asia. Conversely, Britain's GATT policy reached the Cabinet level from an early stage, indicating the relative sensitivity of the latter issue in contrast to the former. Britain's sterling policy was dealt with without much 'fanfare' until 1954. It should be noted that

Britain kept in close contact with the Commonwealth over various issues, but on the whole the sterling area policy was dealt by Britain, and the Commonwealth members were guided in their policy towards Japan. 1950 has been chosen as the starting point of this study as this year saw the outbreak of the Korean war, and thus accelerated American and British policymaking towards Japan. Conversely, 1954 has been chosen as the end point because the year clearly illustrated Britain's inability to find a consistent policy towards Japan.

Although statistics have been incorporated in the thesis, they have been included purely to highlight trade volumes. Furthermore, the thesis does not examine the views of British businesses in Japan or the views of individual British industries, although documents from the Manchester Chamber of Commerce and the Federation of British Industries have been incorporated in the thesis in order to illustrate industrial influence on government decision making. There will be reference to Anglo-Japanese competition in Southeast Asia, but this will be explained only when the issues were significant enough to reach Cabinet level, or if a particular incident had a notable effect on British policy. Moreover, the rice allocation issue which is discussed in chapter one is highly political and complicated, and deserves to be researched as a separate Ph.D., topic, therefore, the researcher has not ventured to follow the issue beyond 1950. Lastly, although American and Japanese archival documents have been used, the researcher has not made an attempt to analyze American and Japanese policymaking in as much depth as the British documents. The above documents were consulted to highlight the fact that British policymaking was not conducted in a vacuum, and that Britain's policies were part of an inter-play of decisions which led to international agreements or disagreements between the countries concerned.

Endnotes

- 1 One of the first works on the subject, which has subsequently stood the test of time is Jerome B. Cohen's *Japan's Postwar Economy*, (Bloomington: Indiana University Press, 1958).
- 2 One example of such work is Yanaga Chitoshi, *Big Business in Japanese Politics* (New Haven and London: Yale University Press, 1968).
- 3 See for example Kanji Haitani, *The Japanese Economic System: An Institutional Overview*, (Lexington: DC Heath and Company, 1976).
- 4 Ross Mouer and Yoshio Sugimoto, *Images of Japanese Society: A Study in the Structure of Social Reality* (London: KPI Ltd., 1986), pp. 2-3.
- 5 See chapter one of Chalmers Johnson, *MITI and the Japanese Miracle: the Growth of Industrial Policy, 1925-1975*, (Stanford: Stanford University Press, 1982).
- 6 Another work which highlights continuities is Takafusa Nakamura's *The Postwar Japanese Economy: the Development and Structure, 1937-1994* (Tokyo: University of Tokyo Press, 1995).
- 7 Some of the more recent research undertaken in the United States concerning Japan's economic recovery include Aaron Forsberg, *America and the Resurgence of Postwar Japan: After the Occupation* (Ph.D. Dissertation. The University of Texas at Austin, 1992); and Sayuri Shimizu, *Creating People of Plenty: The United States and Japan's Economic Alternatives, 1953-1958* (Ph.D. Dissertation. Cornell University, 1991).
- 8 See for example Sayuri Shimizu, *Creating People of Plenty*, p. 197.
- 9 See for example the case of the Yoshida Letter in chapter two.
- 10 See Peter Lowe, *Containing the Cold War in East Asia: British policies towards Japan, China and Korea, 1948-53*, (Manchester and New York: Manchester University Press, 1997).
- 11 See for example PJ Cain and AG Hopkins, *British Imperialism: Innovation and Expansion, 1688-1914*, and *British Imperialism: Crisis and Deconstruction, 1914-1990*, (London and New York: Longman, 1993).
- 12 See Catherine Schenk, *Britain and the Sterling Area: From Devaluation to Convertibility in the 1950s* London and New York: Routledge, 1994..
- 13 Hosoya Chihiro, *San Francisco Kōwa e no Michi* [The Road to the San Francisco Peace Treaty] (Tokyo: Chūō Kōrōnsha, 1984) and Kibata Yōichi, *Teikoku no Tasogare: Reisenka no Igrisu to Ajia* [The Twilight of the Empire: British Policy towards Japan and Malaya, 1947-1955] (Tokyo: University of Tokyo Press, 1996).
- 14 See Akaneya Tatsuo, *Nihon no GATT Kanyū Mondai: Regīmu Riron no Bunseki Shikaku ni yoru Jirei Kenkyū* [The Problem of Japanese Accession to the GATT: A Case Study in Regime Theory] (Tokyo: University of Tokyo Press, 1992).
- 15 See for example, Fukushima Teruhiko, 'Sengo Nihon no Bōeki Senryaku ni okeru Australia 1947-54' [Japan's post-war trade strategy towards Australia, 1947-1954] in *Gendai Nihon Gaikō no Bunseki* [An Analysis of Japan's Foreign Diplomacy], (eds.) Kusano Atsushi and Umemoto Tetsuya (Tokyo: Tokyo Daigaku Shuppankai, 1995).

Chapter One: British Trade Policy towards Japan in 1950

Introduction

This chapter aims to establish the setting for the thesis. The first section deals with the development of the post-war economic system, and the problems that ensued for Britain. This section also deals with the Cold War that affected both sides of the globe, and in particular, its effects on America's policy towards Japan. The second part of the chapter focuses on the opening of Britain's trade relations with Japan, and Britain's views towards extending most-favoured-nation treatment to Japan.

The Post-War Economic Situation

The post-war economic system was designed to prevent the world from returning to the economic nationalism, discriminatory trading blocs and 'beggar-my-neighbour-policies' of the inter-war period.¹ In order to achieve international stability it therefore aimed to encourage domestically full employment and economic growth, and internationally the establishment of a stable world economic order where countries had fixed exchange rates and fair and competitive tariff rates.² Plans for the post-war economic order were discussed as early as 1942, and negotiations for the blue-print of the world economic order began between Britain and the United States in 1943. The economic experts who prepared documents for the negotiations were John Maynard Keynes and Harry Dexter White.³ Disagreements occurred between the two sides during the course of the discussions, but US economic dominance guaranteed that its plans would be implemented at the Bretton Woods Conference of 1944.⁴ The two institutions established at Bretton Woods were the IMF (International Monetary Fund) and the IBRD (International Bank for Reconstruction and Development). The IMF's role was to monitor exchange stability and balance of payments, while the IBRD's function was 'to encourage long-term international investment'.⁵ As a by-product of the conference, the GATT was established in 1946.⁶ Initially, it was a temporary meeting between the original member countries until the ITO (International Trade Organization) Charter was ratified. However, with the failure of the United States to ratify the charter, the ITO was never realized as an organization.⁷ Instead, the GATT became the alternative body and replaced the ITO as the third pillar of the post-war economic system. The two aims behind the GATT were, first, 'a multilateral and non-discriminatory approach to international trade'; and second, 'condemnation of quantitative trade restrictions'.⁸

Although much planning and discussion had taken place to establish the Bretton Woods system, in reality, the world that emerged after the war was in no condition to implement it. The reason behind this was the physical devastation in Europe and Asia

which meant that governments were far more concerned with domestic reconstruction than with liberal international trade. One of the countries most affected by the war was Britain. During the war, it had run down its gold and dollar reserves as well as its overseas assets. Furthermore, Britain had accumulated huge sterling liabilities with the sterling area countries in order to finance the war. The loss of its overseas assets, continuing military commitments abroad and the sterling liabilities meant that Britain faced a very serious balance of payments problem. In addition to these problems, Britain, like so many other countries, was facing a dollar shortage or a dollar-gap. What this meant was that Britain sought American goods, but did not have enough foreign exchange to buy them. Furthermore, the abrupt decision by the United States to end the Lend-Lease (Mutual Aid) programme on 17 August 1945, in order to prevent the recipient countries from using American aid for reconstruction, only exacerbated British difficulties.⁹

Recognizing Britain's financial problems, the United States agreed to extend a loan. Negotiations began in September and an agreement was signed on 6 December 1945.¹⁰ There were several conditions to the loan. First, the loan of \$3.75 billion was not interest-free. Britain was to pay two percent interest on the loan from 31 December 1951 in fifty annual instalments. Second, Britain had to pledge to make sterling convertible to countries outside of the sterling and dollar areas on all current transactions after 31 December 1946. Third, an attempt was made to solve the problem of the sterling balances, and it was agreed that 'some balances would be written off, some funded, and some immediately released'.¹¹

After the signing of the loan agreement, Britain made preparations for the convertibility of sterling by concluding bilateral agreements with holders of sterling starting with the Anglo-Argentine Agreement of September 1946.¹² Britain expected the convertibility of sterling to be carried out in an orderly fashion, and furthermore, it expected many countries to continue holding sterling as a medium of foreign exchange. However, when convertibility was put into place on 15 July 1947, a major disaster struck, as dollars drained rapidly from Britain. In order to stop the tide of the dollar drain, convertibility was suspended from 20 August, and full convertibility did not then take effect until 1958. The attempt and the failure to make sterling convertible signified that convertibility of currencies was premature. Given that there was an overall sterling surplus and dollar shortage, it should have been clear to officials that sterling convertibility would not work. Furthermore, an attempt to convert sterling in a world where most currencies were inconvertible was a recipe for disaster.

For the first half of its inconvertibility, therefore, the sterling area was established into a trading bloc with four different account areas: the sterling, the American, the transferable and the bilateral. Sterling transfers within each bloc were permissible, with the exception of the bilateral account. Bilateral account countries were able to transfer sterling automatically to sterling account countries, but were unable to transfer sterling to another member of the bilateral account without the approval of the Bank of England. Transferable account countries were able to transfer sterling within the account group and to sterling account countries, but they were not permitted to transfer sterling to American account countries. The greatest freedom was given to the members of the American account group who were able to exchange their sterling into dollars and vice versa. They were also allowed to transfer their sterling to the sterling account or the transferable account groups. This complicated division of countries into different groups was designed so as to restrict convertibility of sterling into dollars (see figure 1).¹³

The United States attempt to rid the post-war international economic order of unfair trade practices was also unsuccessful. As mentioned above, the ITO was never ratified because of differences in British and American aims. The United States wished to see an end to quota restrictions and imperial preferences. In the negotiations for the charter of the ITO, the United States agreed that quota restrictions should be applied only during a transitional period ending in 1949, but Britain was unable to accept a set date as it was uncertain of the conditions which might prevail after convertibility; therefore, Britain was determined to keep quota restrictions indefinitely. The United States' intention concerning imperial preferences was to abolish them. Commonwealth imperial preferences dated back to the Ottawa conference of August 1932, and it was these that they wished to eliminate, but their quest was unsuccessful. At the Geneva Conference of 1947, it was able to terminate preferences for Commonwealth goods going to Britain, but it was unable to terminate preferences for British goods going to the Commonwealth. The former was easier to accomplish as the Commonwealth countries were not very enthusiastic about imperial preferences. During tariff negotiations, Britain terminated a mere five percent of its pre-war preferences to the Commonwealth, while 70 percent were kept in tact.¹⁴ Imperial preferences were important for Britain to ensure favourable export markets for its goods, and to maintain full domestic employment. Although the United States was also concerned with full employment, it was to America's advantage to press for free trade in order to achieve full economic activity in the United States. With the breakdown of the ITO talks, Britain was allowed to maintain quantitative restrictions, and to continue the practice of imperial preferences for existing agreements, but the ultimate US goal was still equal trade tariffs and the abolition of preferential blocs.

Although Britain was able to keep the United States and its multilateral trading system at bay, it was faced with an additional challenge as the cold war deepened. Namely, Japan's economic recovery under US sponsorship. When the United States realized that its former war-time ally, the Soviet Union, was not to be trusted in Eastern Europe, the United States became determined that East Asia should not fall into the Soviet sphere. The area which particularly concerned the United States was Northeast Asia and Japan. The war-time allies had originally agreed to allow the Soviets to establish a sphere of influence over Manchuria in return for Russian entry into the Pacific war three months after Germany's defeat. After the defeat of Germany however, the American position shifted. It sought to curtail Soviet influence in Manchuria and even became ambivalent about Soviet entry into the Pacific war.¹⁵

On 6 August the US dropped an atom bomb on Hiroshima. This was followed by a bomb on Nagasaki a few days later. The bombs were used to avoid the unnecessary deaths of allied combatants but also potentially had the added benefit of ending the war without the need for Soviet entry. The Soviet Union declared war against Japan, however, a few days before Japan's surrender. With the end of the war, there was a scramble by the Guomindang, with the assistance of the United States, and the Chinese Communists for the key cities in Northeast China. Initially, both the Soviet Union and the United States supported the Guomindang government, and only with the support of both countries was the nationalist party guaranteed future control over the country. The growing rift between the two countries, however, cast a shadow over the Guomindang's ability to govern China. Moreover, domestic instability raised doubts about China's ability to fulfil its role as one of the four 'police' men in the post-war period. By the end of 1945, Guomindang and Chinese Communist forces were clashing over territory in Northeast China. In an attempt to find a peaceful solution, US President Harry Truman asked George Marshall to mediate. By January 1947, however, Marshall announced the failure of his mission.¹⁶ The uncertainty in China, together with the continued division along the Korean peninsula had a direct effect on America's policy towards Japan.

From September 1945 to 1947, the SCAP (Supreme Commander of the Allied Powers), General Douglas MacArthur, followed the post-war reform programme produced by the State-War-Navy Coordinating Committee entitled the 'Initial Post-Surrender Policy for Japan' (SWNCC 150/4/A).¹⁷ The reforms set out in SWNCC 150/4/A were far-reaching. They included destroying military power, building a representative government, changing the constitutional role of the monarch¹⁸ and establishing free labour unions to name but a few.¹⁹ One of the occupation force's main

aims was the dissolution of Japan's large business conglomerates or zaibatsu as many believed that their business interests and influence had enabled the militarists to wage war. In addition, during the early period of the occupation, there was talk of transferring Japan's industrial capacity to the rest of Asia as reparations. This undertaking would ensure that Japan would have to rely on Asia for manufactured goods, and it would also guarantee that Japan's economic strength would be no higher than that of its Asian neighbours.²⁰ During this period, Japan was only able to conduct trade under the strict control of the occupation authorities (also referred to as SCAP).²¹ Trade was a means to enable Japan to feed its population and to maintain a minimum standard of living, but Japan faced huge economic problems as it was cut off from its traditional trading areas in Northeast Asia. It had a growing population restricted to the four main islands and the post-war years saw domestic crop failures leading to famine. Furthermore, it was faced with a dollar shortage due to its inability to sell silk to the United States, which had been Japan's main export in the pre-war period. With the production of cheap synthetic fibre such as nylon, Japan's silk was no longer in demand; therefore, Japan had to rely extensively on the US Army's GARIOA (Government and Relief in Occupied Areas) programme for humanitarian aid.²²

With the failure of the Marshall mission in early 1947 as mentioned above, and increasing tension between the United States and the Soviet Union, the Truman administration was beginning to view very seriously the idea of reconstructing Germany and Japan, the so-called 'workshops' of Europe and Asia. The idea was a development of George Kennan's containment strategy which argued that US national security could only be maintained by protecting as many of the five centres of industrial power within the world as possible. The five were the United States, Great Britain, the Soviet Union, Germany, and Japan. With the Soviet Union, Eastern Europe, and later the PRC (People's Republic of China), firmly entrenched in the communist sphere, it became all the more important to safeguard Japan and Germany.²³ It was hoped that the two economies would act as economic pivots in Europe and Asia and encourage economic integration between the 'free' countries in their respective regions, thereby preventing more countries from going communist. Building up Japan's economy was, however, not only motivated by strategic reasons. Another motive was to aid the US economy by overcoming the post-war dollar gap. The dollar gap was created by the fact that 'the United States made the products that the rest of the world wanted to buy ... both for present consumption and for reconstruction, but the devastated areas did not have suitable goods and services to exchange'.²⁴ In order to safeguard American interests, it was imperative that Europe and Asian countries be given financial aid to purchase American goods. Therefore, the United States was motivated by two concerns: strengthening the economies of the 'free' countries in Europe and Asia

against communism, and ensuring that those countries had enough dollars to continue purchasing American goods. The change in American attitude towards the two defeated nations meant an urgent formation of new policies. The new policy towards Japan was drawn up by Kennan, who was the head of the State Department's PPS (Policy Planning Staff). Kennan visited Japan in early 1948 to see the situation prevailing there for himself. His visit overlapped with that of the Under Secretary of the Army, William H. Draper. The findings of the Kennan and Draper missions were incorporated into the NSC document 13/2 which was approved and signed by Truman on 9 October 1948. This document initialled the beginning of the 'reverse course' in Japan.

The new role created for Japan was that of a bulwark against the spread of communism in Asia. In order to fulfil this role, Japan's economic recovery became crucial which meant reorganizing Japan's domestic economy, and encouraging Japan's trade with the outside world. The post-war period, however, saw rampant inflation in Japan as the 'wartime governments had printed money to finance arms production and the collapse of the civilian goods sector drove consumer prices skyward'.²⁵ Inflation was also encouraged by Japanese businesses, which wished to reduce the real burden of their financial debts to the government through increased prices. Moreover, the RFB (Reconstruction Finance Bank), which was established in October 1946, provided generous loans to various industries, further exacerbating the inflationary situation in Japan.²⁶ The inflation was a prime obstacle to Japan's economic recovery, as the economic conditions increased the cost of production in Japan, making them uncompetitive abroad. The person brought in to solve the Japanese economic problem was Joseph M. Dodge, a Detroit banker. The policy implemented by Dodge was a nine-point stabilization programme, which was aimed at balancing the budget and reducing inflation. The three main points of the Dodge Plan were first, a balanced budget through a large-scale reduction of the government workforce, a decrease in total government expenditure and an increase in taxes. Second, the phasing out of the RFB and its replacement by the Counterpart Fund which would be under Dodge's control, as it was thought that a more stringent loan system would prevent unnecessary government expenditure. Finally, the establishment of a single exchange rate, set at 360 yen to the dollar, to enable Japan to enter the western economic system.²⁷

One idea behind this programme was that Japan should achieve economic recovery without US aid. Therefore, emphasis was placed on Japan's trade expansion with its neighbouring countries.²⁸ America's plan was to see an expansion of Japan's trade with Southeast Asia so that Japan could gain access to raw materials there, and sell the raw materials to the United States to alleviate Japan's dollar gap. A key difficulty for this policy was, however, that Southeast Asia was not only linked with Japan's

economic recovery, it was also linked with Britain's. Britain as a Southeast Asian colonial power relied on sales of raw materials, such as Malayan tin and rubber, from this region to the United States for dollars. As Britain was experiencing a shortage of dollars in the post-war period, there was an attempt to re-establish this pre-war trade link which was known as the triangular trade.²⁹ Therefore, America's plans for the expansion of Japan's exports to Southeast Asia raised fears in some industrial sectors in Britain.

These fears were not unfounded, as Japan had been one of Britain's major competitors in the 1930s, particularly in the area of textiles. After the end of the First World War, Britain was unable to regain its pre-war share of the world's cotton goods export. This was due to various reasons ranging from the establishment of indigenous cotton industries in Britain's former traditional markets, Japan's successful penetration of the East Asian textiles market and the demand for cheaper textiles during the depression when quality became a secondary issue for most consumers.³⁰ By 1933, Japan had overtaken Lancashire as the world's largest exporter of cotton piece goods. As the Lancashire cotton industry became increasingly threatened, they began to accuse Japan of dumping goods, exploiting its labour, and of heavy state subsidies to the cotton industry, and from 1932 onwards a number of parliamentary members representing Cheshire and Lancashire began making 'bitter attacks' against Japanese competition in the House of Commons.³¹ In order to assist Britain's beleaguered industries, protectionist measures were implemented including the Ottawa Agreements of 1932 and colonial quotas against foreign textile imports starting in 1934. Although these measures checked Japanese exports British exports were never able to regain their pre-war market share.³²

The British textiles industry continued to have a voice in Britain in the immediate post-war period, as cotton textiles exports played a vital role in balancing Britain's economy between 1945-1951 when Britain was facing difficulties exporting enough goods to meet its imports.³³ It should also be noted that the cotton textiles interests had representation inside and outside the government through bodies such as the Manchester Chamber of Commerce and the Cotton Board, which kept the textiles issue alive.³⁴ Furthermore, members of parliament from Staffordshire, Lancashire and Manchester, such as Ralph Assheton (Blackburn, Conservative), Sydney Silverman (Nelson and Colne, Labour), Ellis Smith (Stoke-on-Trent, Labour) and Anthony Greenwood (Rossendale, Labour) continued to raise matters regarding Japanese competition in the House of Commons. The general view of the above MPs was that 'Lancashire could not, and should not be expected to compete' against Japanese competition.³⁵ There was also an element of racial prejudice linked with the belief that

Japan had started the war unfairly in East Asia and this concept of unfairness seems to have translated into the concept of Japanese 'unfair competition', therefore, the textiles issue became representative of anti-Japanese feeling as a whole rather than just concerning the plight of Lancashire's textile workers.³⁶ Lancashire textile interests, therefore, had an enormous influence on the Board of Trade, which was responsible for representing the British industrialist cause in Whitehall.

The setting of the Anglo-Japanese trade relations in the post-war period was, therefore, the following. The post-war world was transformed into one divided between the east and west. The western bloc was led by the United States which became the undisputed economic power. Britain maintained many of its pre-war imperial preferences due to severe economic problems, but these were opposed by the United States which championed multilateral trade in the western world. Moreover, the United States reversed its policy towards Japan and supported its economic recovery through trade with Southeast Asia. Britain was in a dilemma as it was uncertain of the consequences of accepting Japan in the western economic bloc. To what extent would Japan's re-emergence affect Britain's trading position, and what could be done to guarantee security for British goods? Conversely, how important was Japan as a trading partner for Britain, and was there room for expansion of sterling area trade with Japan? These questions were considered as early as 1947, and at that time Britain placed importance on Anglo-Japanese trade for the following reasons. First, to enable British commercial interests to return to Japan. Second, to encourage the expansion of Commonwealth-Japan relations and finally, to prevent a US-Japan economic link which was considered to be potentially far more damaging than an independent Japanese economic recovery on its own.³⁷ The following chapters will examine whether the same issues concerned British officials in the period between 1950 and 1954.

Open Payments Agreement with Japan

Private trade between citizens of the Allied countries and Japan was permitted from the summer of 1947.³⁸ In the autumn of that year, a limited trade agreement was signed between the sterling area and Japan.³⁹ Official trade began on 31 May 1948 in the form of the OPA (Open Payments Agreement) which was a government-operated trade arrangement. The British and Japanese aims behind the opening of trade relations were different. For Japan, trade was a means by which it could get raw materials. For Britain, trade with Japan was an important non-dollar source of cotton textiles for two reasons.⁴⁰ First, it alleviated domestic demand for textiles, so that the British textile industry could concentrate on manufacturing for overseas markets to earn dollars. Second, grey cloth imports from Japan were re-exported as finished cotton textiles, accounting for nearly twenty percent of Britain's total exports of these types of goods

in the first year of the agreement alone.⁴¹ Table 1.2 shows the amount of cotton textiles Britain imported from Japan and the total purchase from Japan. It also indicates the percentage of Britain's cotton textile purchases from Japan. The table shows a heavy British dependence on cotton textiles in the period 1947-1950 but less so in the period after.

Although SCAP agreed to bilateral trade on a sterling basis, it was only after lengthy negotiations that it agreed to conduct all of its trade with the sterling area in sterling. In the first instance, SCAP had hoped to conduct part of the trade in dollars. It decided, however, to trade in sterling on the condition that SCAP be allowed to convert surplus sterling into dollars at six-monthly intervals (30 June and 31 December). This was agreed upon by the sterling area countries, with the knowledge that if there was any serious imbalance in their bilateral trade, it would lead to a dollar drain. In short, sterling trade with Japan took place on a bilateral basis, and was severely regulated because SCAP was given the right to convert its sterling surplus into dollars. Therefore, trade was restricted to goods which were deemed essential, and less essential goods were justified only on the ground that it provided the sterling bloc with goods that were 'useful' to Britain.⁴² The OPA between the sterling area and Japan was further complicated by the fact that the sterling-area signatories were divided into participants and non-participants. This division was established at the outset when some countries agreed to join a trade pool which was designed so that the 'participants' could enjoy more flexible trade relations vis-à-vis Japan.⁴³ By pooling all their quotas together, it was hoped that there would be less restrictions on trade. Participants included countries such as Australia, New Zealand, South Africa, India and the United Kingdom. The non-participants such as Burma, Pakistan and Iraq were sterling countries which declined to join the trade plan. They were expected to balance their trade with Japan on a bilateral basis.⁴⁴

In the first year, the sterling bloc had a trade deficit with SCAP because SCAP bought seasonally (purchases were divided into the October-March and April-September budgets respectively) and around sixty percent of the trade was conducted between December and March. In contrast the sterling area bought on a continual basis and import licences were given out much more freely within the sterling area, as they expected to see SCAP purchases eventually balance out those made from the sterling area. SCAP's purchases, however, did not reach the estimates given at the time of the agreement; therefore, SCAP accumulated excess sterling, which raised the convertibility issue from the first year of the trade agreement. The sterling bloc obviously did not want to see a dollar drain, and hoped that SCAP would retain sterling as part of their capital. SCAP, however, was divided between 'two schools of

thought', between those who believed that Japan must earn dollars from the sterling area, and those, including General MacArthur himself, who believed that the main objective was to increase Japan's trade with the sterling area to a maximum and therefore supported surplus sterling holdings.⁴⁵

Although there were assurances from MacArthur that he had no intention of earning dollars from the sterling area, these were not enough to calm British fears. In Whitehall, the OPA with Japan was discussed in July 1949 by an inter-departmental working party represented by various ministries and financial institutions such as the Board of Trade, the Foreign Office, the Treasury, the Ministry of Food, the Colonial Office, the Commonwealth Relations Office, the Bank of England and the Ministry of Supply. The working party reported to the Cabinet's ONC (Overseas Negotiations Committee) and sometimes to the EPC (Economic Policy Committee) when issues were not resolved in the former. The working party compiled a memorandum concerning the sterling surplus with SCAP, in which they proposed the establishment of a regulation whereby SCAP would be made to hold a minimum of ten million pounds sterling balance. In other words, the existence of a minimum balance meant there could be an imbalance in trade relations of up to ten million pounds before SCAP converted its surplus into dollars.⁴⁶ The proposal was approved by the ONC and the Chancellor of the Exchequer, and eventually accepted by SCAP. Despite assurances from SCAP, the Treasury was not going to take any chances in the next set of negotiations for the year 1949/50. Its aim was to prevent any form of dollar liability even if it meant cutting down on trade with Japan to negligible proportions. This very stringent approach was a reflection of the overall British policy adopted at the Commonwealth Economic Conference of July 1949, where Britain asked each individual sterling Commonwealth to set national import programmes and abide by their respective targets. The aim behind this approach was to keep down sterling-dollar expenditure and minimize the dollar drain.⁴⁷

Until the summer of 1949 Japan's economic recovery, although not spectacular, was progressing without any serious effect on British interests. Japan's trade with the sterling area was relatively balanced and controlled. Britain predicted that if there was to be any problem, it would be over the convertibility wrangle with SCAP. Therefore, Britain was unprepared for the change that arose as a result of American efforts, as part of the Dodge Plan, to force Japan to increase its purchases of raw material.

The result was that by the start of 1950 and for the rest of that year, the sterling area could hardly keep up with SCAP purchases. The main reason for these increased purchases was the gradual depletion of American aid which was to be cut off

permanently by 1952. American aid had amounted to \$483 million in 1950, but the Army Department had only asked for \$266 million for 1951.⁴⁸ American aid had up to this point been propping up Japan's unstable economy and SCAP was aware that when aid was cut off, it could no longer rely on imports from America.⁴⁹ SCAP thus made it clear that Japan would be obliged to obtain sixty percent of its requirements of imported food from countries with which it had trade arrangements.⁵⁰ Placed in this difficult situation, Japan needed cheap raw materials from a soft currency area. The obvious choice was for Japan to look towards Southeast Asia with a view to increasing trade.

The most serious problem faced by the sterling area was Japan's rice purchases from Burma at a time when the whole of Southeast Asia was facing a rice shortage as a direct result of the Japanese occupation policy in the inter-war period. During the war, Japan forced Indochina, Burma and Thailand to aim for economic self-sufficiency, therefore, rice production in the above countries was scaled down, while rice importing countries like Indonesia and Malaya faced starvation.⁵¹ The post-war period saw the continuation of the rice problem despite attempts by the rice producers in the region to increase their rice yield to the pre-war level. Japan's rice purchases became a problem as SCAP had bought 473,000 tons of rice in the trade year 1949-50, but in the trade year 1950-51, it wished to buy 933,000, approximately double the amount of the previous year.⁵² It planned to finance the extra purchase by using the £12 million surplus from the participant pool. In short SCAP wished to use money from the participant balance in trade with a non-participant country. SCAP's planned purchases brought several issues to the forefront of discussions. First, the consequences of SCAP's purchases of scarce commodities. The ONC and the Treasury feared that SCAP's over-buying would lead to an indirect dollar drain from the sterling bloc because the sterling area would have to seek its own raw material sources from the hard currency market. Second, SCAP's increased purchases meant that sterling area countries that agreed to join the participant pool in trade with Japan would have to buy a larger volume of less-essential items if it hoped to match SCAP's purchases under the agreement, and prevent SCAP from using its sterling with a non-participant sterling country. Third, there was a question as to whether it was morally right that Japan should seek and have access to rice imports from Burma over the demands of Asian countries (such as Hong Kong, Malaya, Indonesia, Ceylon, India and the Philippines) which had traditionally depended on rice from Burma and Indochina and thus had prior claims over those of Japan.⁵³ Fourth, was the fear that Japan's expanded trade relations with the sterling area would lead to increasing competition between Britain and Japan as they both exported manufactured goods to the same area.⁵⁴

In short, Britain was faced with unexpected changes in 1950. The US sponsorship of Japan's economic recovery meant that Japan would be expanding its exports to the western world. By gradually weaning Japan off American aid, the United States' aim was to encourage Japan to look towards Southeast Asia and the sterling area for its raw materials. Until 1950, the OPA between the sterling area and Japan was a useful agreement by which Britain could buy non-dollar cotton textiles. With the expansion of Japanese exports, however, the bilateral agreement became a much more complex issue. If Japan increased its purchases, the sterling area would have to reciprocate and purchase more goods in order to balance payments. The consequence of not doing so was the possibility of SCAP converting its sterling into dollars, or SCAP using participant sterling to purchase non-participant goods. Furthermore, with the increase in sterling area-Japan trade, there was the fear that Britain's own exports might be affected. Britain's problem was how to reach a trade balance with Japan without a loss of dollars and without a threat to British industries, but at the same time still be able to assure the sterling area that it had its interests at heart rather than the welfare of Britain's domestic industries.

Britain was, therefore, under pressure to balance the various interests effectively at the trade negotiations which began on 7 June. Some of the issues on the agenda were discussed and settled early in the negotiations. For instance, SCAP's proposal for a two-year trade plan was rejected outright by Britain because a longer trading period did not necessarily lead to smoother trade. Moreover, Britain was afraid that it might lead to increased accumulation of sterling by SCAP.⁵⁵ Another issue which was settled early in the negotiations was the question of the establishment of official Japanese overseas agencies throughout the sterling area. This proposal by SCAP was rejected as the British colonies were still not ready to give MFN (most-favoured-nation) treatment with respect to the free entry of Japanese nationals, as the people of Southeast Asia still held bitter memories of the occupation and of their maltreatment during the war.⁵⁶ They were ready to accept Japanese products but not Japanese nationals.⁵⁷ Furthermore, SCAP's requests for the extension of MFN treatment as regards shipping, and guarantees of non-discriminatory trade and tariff treatment were rejected, as these were matters to be considered by the individual sterling area countries.⁵⁸

What was more complicated was agreeing to an estimated amount of trade between the two sides during the period 1 July 1950 to 30 June 1951. The eventual agreed amount was £92.6 million in each direction,⁵⁹ approximately £38 million more than in the previous year.⁶⁰ The increase in trade was due to an overall expansion of sterling imports from Japan. For example, Australia's estimated trade plan was £14 million, a £10 million increase from the previous year. India's was £11 million, a £6 million

increase, and South Africa's purchases were estimated at £12 million, which was an increase from £750,000.⁶¹

The significance of these new trade levels was, of course, the large increase in the purchase of Japanese goods by the sterling area. For example a serious problem arose as a result of colonial estimates for the coming trade plan. The colonies expected to increase their trade with Japan from £21 million to £31 million. The breakdown of this estimate included direct textiles imports of £22.9 million from Japan, an increase of £4.4 million from the previous year's estimate.⁶² Opposition to the colonial estimates came from the Board of Trade. They argued against the estimates on two points. First, they indicated that it was not essential for the colonies to expand their textiles imports given that there were still some unused licences in the colonial buyers' hands. Furthermore, the figures supplied by six west African colonies, which accounted for half of the trade of these territories, indicated that there was 14 months supply of textiles either in production or in transit. Given this information, the Board of Trade argued that the colonial purchases were not essential.⁶³ Second, the Board of Trade opposed an increase in textiles imports because there were fears in Lancashire that if the Commonwealth and colonies continued to increase their cotton purchases from Japan, it might eventually affect the sales of British textiles. There was fear among employers and trade unions alike in Lancashire, that 'His Majesty's Government have no intention, or will be unable when the time comes to do anything to help them against Japanese competition'.⁶⁴ Increased purchase of Japanese textiles would, therefore, be interpreted by Lancashire as a sign that Japan had been allowed to begin an export drive into the British market. Moreover, it was interpreted as a sign of what was to come in the future for Lancashire: that colonies would buy their textiles from the cheapest producers in the future and price Lancashire out of the market.⁶⁵

The Colonial Office, however, could not accept the Board of Trade's position. They understood the importance of restricting imports in order to save gold and dollars but opposed restrictions which were predominantly based on the British government's wish to 'secure sheltered position for UK manufacturers'.⁶⁶ Furthermore, the Colonial Office argued that the colonies themselves were far better equipped to judge the amount of textiles they should be importing than the Board of Trade, and that, in fact, increased Japanese textiles imports were necessary as both India and Germany had priced themselves out of the colonial market by raising their textiles prices. Japanese textile exports were the only source that was in the right price-range.

The ONC was unable to help the Board of Trade's position as the colonial estimates were based on essentials and therefore there was no ground on which the ONC could

ask them to revise the figures. Furthermore, Britain could only ask the colonies to reduce their imports on balance of payments grounds and not on the basis of protecting British manufacturers.⁶⁷ The issue was finally settled two months later at an EPC meeting on 28 July 1950 chaired by the Prime Minister, Clement Attlee. It was agreed after much discussion that 'the estimate of colonial textile requirements by direct shipment from Japan should be increased to the figure proposed by the Secretary of State for the colonies'.⁶⁸ The deciding factor was the political consequence of the colonies finding out that their import estimates had been scaled down for the consideration of UK manufacturers.

The outcome of the talks was clearly not in the interest of Lancashire. Their anxieties were not lifted either by a report compiled by the Anglo-American Cotton Mission which visited Japan in May. The findings showed that Japan had a 'cheap and competent labour and an efficient management'.⁶⁹ Sir Raymond Streat, the Chairman of the Cotton Board who was a delegate on the mission, expressed his views at a Cotton Board meeting on 13 June:

...If the world were entirely free, he could not believe that anything could prevent Japan capturing almost the whole volume of international trade in most cotton goods within, say, the next ten years. Lancashire was in a most disadvantageous position to cope with the latent danger because she was not producing enough to satisfy the demands of markets which would otherwise look to Japan.⁷⁰

Therefore, Japan's trade expansion caused anxieties for the British textiles industry. In fact, after the Mission's report was compiled, a series of joint meetings were held by the Textile Exporters' Committee and the Cotton and Rayon Merchants' Association. Both associations were represented at the Manchester Chamber of Commerce. The meetings were convened to discuss ways of maintaining Britain's competitive edge against Japanese textiles competition, and the associations planned to submit a report to the Cotton Board in order to lobby their interests with the government.⁷¹

The other problem which became apparent during the negotiations was the rising suspicion and the dissatisfaction among the participants over trade allocations with Japan. Britain as the head of the sterling area, was the controller of the agreement, and therefore was responsible for balancing trade plans. Britain's role was becoming more difficult as the Dominions, such as Australia, India and Ceylon, were anxious to see trade liberalization with Japan because they felt constrained by the limits placed on their purchasing power.⁷² There were even grievances raised by the Dominions representatives when Britain decided that UK and colonial figures for the trade plan should be a single figure instead of separate figures during the meeting of the sterling

area delegation in Tokyo. The representatives of the Dominions believed that Britain's motives for the change was to reserve the right to raid colonial purchasing power for its own benefit.⁷³

These incidents indicate the difficulties Britain faced in allocating purchasing powers that were satisfactory to all the member countries. It also highlighted the fact that many of the members did not entirely trust the system led by Britain. Australia and Ceylon wished to see a liberalization of trade, but had it been carried out, there would have been two setbacks to the system. First, an increase in purchases by Australia and Ceylon without an equal amount of purchases by SCAP would have led to a drain in dollar reserves. Second, liberalization of trade might have led to the sterling countries trading direct, rather than trading through Britain which would have led to the gradual disintegration of the sterling bloc; therefore, it was in Britain's best interests not to encourage liberalization. But at the same time, Britain was not altogether in a favourable position vis-à-vis its sterling bloc, therefore, it had to undertake a sensitive balancing act of trading goods without using dollars or gold, and at the same time working to keep its sterling members satisfied.

The most serious problem in the talks arose as a result of differences between SCAP and the sterling area concerning SCAP's sterling holdings. The position taken by SCAP was that it should be free to 'spend its holdings as it pleased with either participant or non-participant sterling countries, subject only to the area's normal currency controls and the agreement that trade under the sterling area-Japan plan reach an approximate balance by the end of the trading year'.⁷⁴ Britain was of the view that rigid controls had to be placed as Japan's purchase of Burmese rice using participant balances in 1949 had 'reduced the availability of sterling' for the participants, and they wished to avoid a repetition of this.⁷⁵ The deadlock was lifted in October when it was decided that £3 million would be put aside in case difficulties arose in 'maintaining an exact trading balance at all times'.⁷⁶ Both sides also agreed that sterling balances could not be diverted from one account to the other 'except under the agreed trade plan or by mutual readjustment of such a plan'.⁷⁷ On reaching these decisions, the agreement was finally signed on 29 November. The irony of the agreement was that, on agreeing not to divert sterling balances from one account to the other, both SCAP and 'participant' representatives believed that they had secured their respective positions. SCAP officials believed they could still divert some sterling from the participant account if it was discussed with the participants in advance, while the negotiators for the participant countries were convinced they had 'won their point on restricting Japan's free usage of participant sterling'.⁷⁸

At the same time SCAP's request for increased rice purchases was vigorously opposed by the head of the UKLM (United Kingdom Liaison Mission) in Japan, Alvary Gascoigne.⁷⁹ His argument was that in the first instance, rice production in Southeast Asia was below normal because the region had been ravaged by Japan during the war and the economies were still disrupted. Second, he believed that the Southeast Asian countries which relied on Burma's rice productions in the past had prior claim over those of Japan. Moreover, Southeast Asian countries had a higher priority because Japan had a considerable indigenous production and the Japanese had a greater tolerance for other grains. Finally, heavy demand by Japan threatened to raise rice prices making it difficult for Southeast Asian countries to purchase foodstuffs; consequently, Southeast Asia would become more vulnerable to communist pressure and infiltration.⁸⁰ Gascoigne, therefore, suggested that SCAP should study the feasibility of increasing indigenous production of foodstuffs in Hokkaido, and to what extent wheat and other grains could substitute for rice imports.⁸¹ However, despite Gascoigne's opposition, Japan was allocated large supplies of Burmese rice. This was because Burma was a non-participant and therefore free to reach trade agreements independently of Britain. Table 1.3 indicates that the amount of rice Japan imported from Burma rose dramatically from 1949 to 1950, although percentage-wise, Japan relied more heavily on Burmese rice in 1949 than in 1950 or in subsequent years (see table 1.4).

Britain, therefore, faced numerous problems in regard to Japan in 1950. These included increased raw material purchases by Japan, and the possible revival of Japanese competition. Furthermore, there was rising frustration on the part of the participant countries who wished to see a greater expansion of trade between themselves and Japan. Although all the problems were dealt with during the negotiations, officials in Whitehall were aware that a long-term approach was necessary. Therefore in July, the ONC set up a working party to study the long-term relations between the sterling area and Japan.⁸² In the meantime, Britain and Japan faced more difficulties concerning raw materials; namely, the Japanese attempt to enter the International Wheat Agreement.

Japan's Application to Enter the International Wheat Agreement

Rice was not the only food in short supply in the post-war period. A parallel set of negotiations was taking place in 1950 in regard to Japan and Germany's applications to join the IWC (International Wheat Council). The IWC was an international organization which went back to 1931 when the first meeting was held in Rome. Although several meetings were held throughout the years, it was not until the seventh meeting of the IWC in 1949 that the IWA (international wheat agreement) was signed and ratified by all the participants.⁸³ The IWA was made up of both wheat exporters and importers, and the organization's aim was to stabilize wheat prices so that exporters were guaranteed a set price for its wheat while importers were guaranteed an agreed amount of wheat for the duration of the agreement. The signatories agreed to buy or sell wheat at a price which would not exceed \$1.98 Canadian as a maximum and \$1.65 Canadian as a minimum for the four-year duration of the agreement, starting 1 July 1949 to 31 July 1953.⁸⁴ In November 1949, Germany and Japan applied to join the Agreement under US sponsorship. In order to become members, Germany and Japan needed the approval of two-thirds of the wheat exporters and importers respectively. Their application was turned down in November due to the opposition of the wheat importers to Japan's membership. Therefore, the joint application of Germany and Japan was delayed until January 1950.⁸⁵

In the meantime, Britain was working out its policy in regard to Japan and Germany's application. On 5 January, the issue was raised at the EPC, and it was decided that Britain would be prepared to agree to the accession of Germany and Japan only if it did not adversely affect Britain's position.⁸⁶ Five days later, the British delegation met the representatives of the major wheat exporters, the United States, Canada and Australia, and came to the conclusion that none of the wheat exporters understood Britain's concerns. Therefore it had no other choice but to oppose Japan and Germany's entry to the IWA.⁸⁷ The issue was discussed on 12 January at a meeting of the IWC. The term of Japan's entry was that it would be guaranteed 900,000 metric tons of wheat and Germany would be guaranteed 1,800,000 metric tons annually for the four-year duration of the IWA.⁸⁸ An objection was raised at the meeting by the United Kingdom because it feared that if Japan bought wheat from Australia, the amount available for Britain would decrease. This in turn meant that Britain would have to look to the dollar area for wheat.⁸⁹ In order to overcome Britain's opposition, Australia proposed to sell wheat to Britain at the beginning of the year, and sell whatever was left to Japan. Although SCAP was not happy with this proposal, it was ready to accept any agreement which could be reached between Australia and Britain and enable Japan and Germany to become members of the IWA.⁹⁰ Britain, however, argued that the 'mere possibility' that Japan would buy Australian wheat would send sterling wheat prices

up, and asked that Japan agree to buy only a specified amount from Australia.⁹¹ Britain's position was for Japan and Germany to agree to restrict their purchases from Australia and France to the amount increased by the two producers for their benefit. On 20 January, the German representative wrote a note to the Wheat Council agreeing to Britain's demand.⁹² The deadlock continued, however, due to Australia's opposition to Britain's formula.

The question of Japan and Germany's membership was raised again on 13 March. A vote was taken in which all of the exporting countries (US, Canada, Australia, Uruguay, France) and twelve of the 19 importing countries agreed to their membership. Those who opposed the motion thereby preventing the membership of Germany and Japan were Ceylon, Greece, India, Israel, New Zealand, the Philippines and the UK.⁹³ At a subsequent meeting two days later, German and Japanese membership were considered separately. As Germany had written a letter to the Council expressing their intention to self-regulate their wheat purchases from Australia, they became a member of the IWA. Conversely, Japan, which did not furnish a similar letter to the Council had its membership turned down. The next meeting of the IWC was scheduled for 19 June.

Meanwhile, British officials were continuing their talks with the Australians in order to reach an agreement which would safeguard Britain's purchases, but satisfy the Australians. They were also continuing talks with officials in Washington and with SCAP hoping that they would agree to Japan's conditional entry to the IWA. At a meeting between British and American officials in Washington on 3 May, the Americans asked whether a Japanese undertaking addressed privately to the British government not to buy excess Australian wheat would suffice.⁹⁴ By the end of May, all the Commonwealth importers including Britain had indicated their agreement with the above proposal.⁹⁵ The only affirmative answer needed to break the deadlock was SCAP's.

On 25 May, the representatives of Japan's ESB (Economic Stabilization Board), the Ministry of Agriculture and Forestry, and the MOFA (Ministry of Foreign Affairs) met to discuss whether to accept the conditional entry to the IWA. The meeting was held as they had been told that SCAP would leave the decision to the Japanese. However, while they were deliberating, Japanese officials received the news that MacArthur had stated to Washington, without prior consultation with the Japanese or other SCAP officials, that Japan would not accept conditional entry.⁹⁶ MacArthur's motives behind his unilateral approach were based on two points. First, under conditional membership, Australia's wheat would be contracted to the United Kingdom and other sterling area

countries first, therefore, the amount of non-dollar wheat available to Japan would be too small to be of any advantage to Japan. For example, if Japan purchased 400,000 metric tons of Australian wheat, it would save \$2,800,000, but if Japan only had access to 100,000 metric tons of Australia wheat it would only save \$1,100,000, as it would have to purchase the rest of its quota from the US market (see table ~~1.5~~^{1.4}). Second, British documents indicate that MacArthur had linked the wheat issue with the difficulties SCAP was facing in regard to rice purchases from Burma. Although MacArthur stated in a conversation with Gascoigne that neither SCAP, Washington nor Japan would accept anything that would lead to Japan losing face or being treated as a second class member in the IWA, MacArthur was more concerned with his face than that of Japan's.⁹⁷ The IWA was a 'bargaining chip' against difficulties he was encountering in negotiating the new trade plan with the sterling participants. Furthermore, he politicized the issue by crusading for Japan's unconditional membership of the IWA. Although MacArthur's actions were well-meant his unilateral decision was an affront to Japanese officials because his actions implied that he was a better judge of the matter.

Therefore, when the IWC met again on 19 June, Japan's application for unconditional membership was turned down due to the opposition votes placed by the following importers: the UK, India, Ceylon, Egypt, New Zealand, Saudi Arabia and Greece.⁹⁸ The case of Japan's attempts at IWA membership highlights the shortage of food supplies in the post-war period, and the high demand for non-dollar foodstuffs. It indicated Britain's fears of a decrease in non-dollar wheat sources if Japan was accepted unconditionally to the IWA.

The incident indicates that Japan's entry to the IWA, which should have been relatively easy, was complicated first by Britain's opposition, and later made more complicated by MacArthur. British officials were unhappy with the fact that MacArthur linked the wheat and rice issues, but from SCAP's perspective, bargaining one against the other made a lot of sense. From SCAP's side, Britain seemed less than conciliatory towards Japan's plight. The raw materials issue became controversial in 1950 because it was the first time that Japan's purchases had an impact on the traditional clients of the supplies. The effects of Japan's economic recovery was not to end there. In order to buy raw materials, Japan needed to sell products. In order to ensure that Japan could sell its products in the western market, the United States campaigned for an extension of the MFN treatment for Japan's goods. This proposal was to cause even more dilemmas for Britain.

MFN Treatment for Japan

One part of Joseph Dodge's nine point stabilization programme was the establishment of a single exchange rate between the dollar and the yen, and the pound and the yen. This step was designed to facilitate trade relations between Japan and western countries. For an expansion of Japan's trade, however, Japan needed the assistance of its foreign trade partners. What this assistance entailed was equal tariff rights for Japan. Without better tariff rates, Japan's produce would continue to be in a disadvantageous position, and for this reason the United States wished to see Japan granted MFN rights and eventual accession to the GATT. Clearly, the United States' motives behind Japan's entry was to see the latter's products receive equal tariff rates abroad so that it could undertake economic recovery without American assistance. Another reason behind American eagerness for Japan to enter the GATT as soon as possible was the anxiety that stemmed from the fact that if an agreement was not concluded quickly US manufacturers would rise up in opposition to the increased level of Japanese goods in the US market. Therefore, in order to prevent complications, the State and Army Departments wished to rush the matter through and establish an international agreement to grant MFN treatment to Japan.⁹⁹ Conversely, there were various reasons why Japan itself wished to become a signatory of the GATT. First and foremost, was the political prestige linked with becoming a member, as it would signify the return of Japan into the international community. Second, Japan could gather information, and exchange information with other countries concerning international trade.¹⁰⁰ More important, however, was the realization in Japan that negotiating tariffs through the GATT was fairer and more practical than attempting to regulate trade with each individual trading nation through bilateral agreements.¹⁰¹

America's initial approach towards Japan's GATT application was very modest. The first step was to gain MFN treatment for the duration of the US occupation. Although West Germany was granted MFN treatment for goods in 1948, Japan was not extended the same right in that year. The major obstacle to Japan was Britain and its Dominions. Therefore, a four-day meeting was convened in London in November 1948 between the representatives of Britain, the Dominions, and the State and Army Departments as well as a SCAP representative to discuss the issue.¹⁰² Britain and the Dominions gave a series of reasons why they thought it was premature to give MFN treatment to Japan. First, MFN treatment should only be given to sovereign states; second, Japan would have to have a uniform exchange rate; third, that bitterness towards Japan created a major political obstacle to extending MFN treatment; and fourth, anxieties over Japan's trade practices and labour costs in the post-war period were a cause for concern in Britain.¹⁰³ Although the talks were informative, no real progress was made towards extending MFN treatment to Japan.

Even after the uniform exchange rate was established between the dollar and the yen, and the pound and the yen, Britain remained opposed to granting MFN treatment to Japan.¹⁰⁴ The State and Army Departments decided not to discuss the Japan issue at the GATT talks in Geneva in February 1950 because of opposition from various quarters. Instead, they decided to continue with the original approach of acquiring MFN treatment for Japanese merchandise through bilateral agreements. By 1950, eight countries had extended MFN treatment to Japan. Those were Austria, the French zone of Occupation in Germany, Greece, Ireland, Italy, Norway and Turkey. Those countries that had agreed in principle to extend MFN treatment were South Korea, Hong Kong and Burma.¹⁰⁵ Having acquired this degree of support, the United States decided to place the Japan issue at the GATT session in Torquay in November. Conversely, Britain was still against granting MFN treatment to Japan. The issue was, therefore, scheduled for discussion at the EPC in September in order to decide on Britain's position.¹⁰⁶ The Board of Trade prepared a memorandum for the committee in which it recommended that Britain should stop stalling and tell the United States outright that Britain was unable to extend MFN treatment to Japan.¹⁰⁷ The main reason behind the Board of Trade's opposition to Japan was the low cost of Japanese products as a result of 'low wages combined with modern and efficient plant and methods'.¹⁰⁸ Although the President of the Board of Trade, Harold Wilson, did not wish to support a policy which 'nursed inefficient UK industries', he did not wish to undertake a policy which might lead to 'widespread unemployment problems' in the United Kingdom.¹⁰⁹ Therefore, his policy was to protect the UK against Japanese competition. He also hoped the Commonwealth countries would follow Britain and retain their freedom of action. If the Commonwealth countries extended MFN treatment to Japan, there was the chance that they would have to take action to protect their own industries against Japanese competition. This meant they would be forced to take equal discriminatory action against British goods. Furthermore, Wilson indicated that it was inappropriate for the United States to propose the MFN issue independently of the issue of Japan's application to the GATT. Therefore, he thought the issue should be postponed until such a time when Japan's membership to the GATT could be discussed.

On receiving the Board of Trade's memorandum prior to the scheduled meeting of the EPC, the Foreign Office prepared its argument to counter the Board of Trade's proposal. The Foreign Office prepared two sets of objections. One was based on international political implications. The Foreign Office's argument was based on the fact that if Japan continued to rely on American charity, it would consequently strain western resources as a whole. In addition, if Japan did not become economically viable, there was a chance that the Japanese communists might take advantage of

general disgruntlement to cause civil unrest and disrupt industrial production through their association with the trade unions.¹¹⁰ There was, therefore, always the potential threat of a communist uprising from within, which could lead to the eventual loss of Japan from the 'western camp'.¹¹¹ Furthermore, the Foreign Office highlighted the importance of cheap Japanese exports for the colonies whose people depended on them. Moreover, the Foreign Office emphasized the importance of pursuing a policy of eliminating restrictions on world trade as a whole, and this included giving MFN rights to Japan.

The second objection concerned the protection of British industries. The Foreign Office viewed the British refusal to give MFN rights to Japan as unproductive as it would only encourage a few other countries such as Australia and New Zealand to follow its lead. It was also pointed out that the UK would only be able to protect its industries in the UK and the colonies; therefore, there was little point in refusing to give MFN treatment to Japan. Furthermore the Foreign Office indicated that they did not see any signs of the textiles industry being threatened from Japanese competition, especially as the order books of most industries were still full.¹¹²

In short, the Foreign Office was aware of the American position on the issue, and saw a need to align British policy with that of the United States. They were also aware from the UK Liaison Mission's reports that without greater trade relations with western countries, Japan's economy could collapse, leading to internal chaos and creating the perfect opportunity for communism to rise from within. The Foreign Office's concern was well justified, as the Japan Communist Party had been instructed by the Cominform to carry out a violent revolutionary struggle in Japan. Moreover, the SCAP clamp-down on communist activities had driven many members underground.¹¹³

Despite preparing a full set of arguments, the Foreign Office was unable to dissuade the EPC from endorsing the Board of Trade's position on 15 September.¹¹⁴ The decision in the EPC was not taken very well by Foreign Office officials, and one official noted that 'an open refusal at present will, in addition to the offence it gives to the Americans, appear as most uncalled for in the Japanese eyes and may cause us embarrassment in future relations after the conclusion of a Peace Treaty'.¹¹⁵

The result was that the US attempt to have the Japan issue discussed at the GATT conference in Torquay was derailed once again in November 1950. This time, the British position was a firm 'no' to the prospect of an international obligation to extend MFN treatment to Japan. In short, what was highlighted by this issue was the importance of reassuring British industrial concerns about their future and protecting

British exports to the Commonwealth, over and above its relations with the United States.

Although the United States was no nearer to getting MFN treatment for Japan, it nevertheless persisted with its endeavour. At the Torquay meeting, it began to campaign for Japan's observer status with each contracting member country with the hope of raising the issue successfully at the GATT conference in 1951.¹¹⁶

Conclusion

1950 saw the continuing US sponsorship of Japan's economic recovery which began with the 'reverse course' in 1948. It was the first year since the beginning of the OPA that Britain and the sterling area countries experienced the full impact of Japan's economic recovery, as Japan sought increased food purchases from Southeast Asia and the sterling area countries. The consequence of this was the possible imbalance in the OPA as SCAP sought to buy extra raw materials from Burma using participant sterling. In order to prevent SCAP using its sterling reserves from the participant pool, it became all the more important for participant countries to increase their trade levels with SCAP. Although this was the most sensible solution, it led to other problems such as increased purchases of cotton textiles direct from Japan. This led to the Board of Trade raising alarm bells over the possible demise of Lancashire due to competition from Japan's cheap and efficient labour force. Furthermore, by the third year of the trade plan, there was an accumulation of dissatisfaction by all the participants who felt constrained by the controls placed on their purchases. The anger was directed at Britain, as the various participants thought that Britain was reducing their trade allocations for its own benefit. Moreover, there was the constant sterling anxiety over SCAP's right to convert its sterling balances into dollars. All these issues led officials in Whitehall to take the initiative and in July, an inter-ministerial working party was set up by the ONC to study the sterling area's long-term relations with Japan.

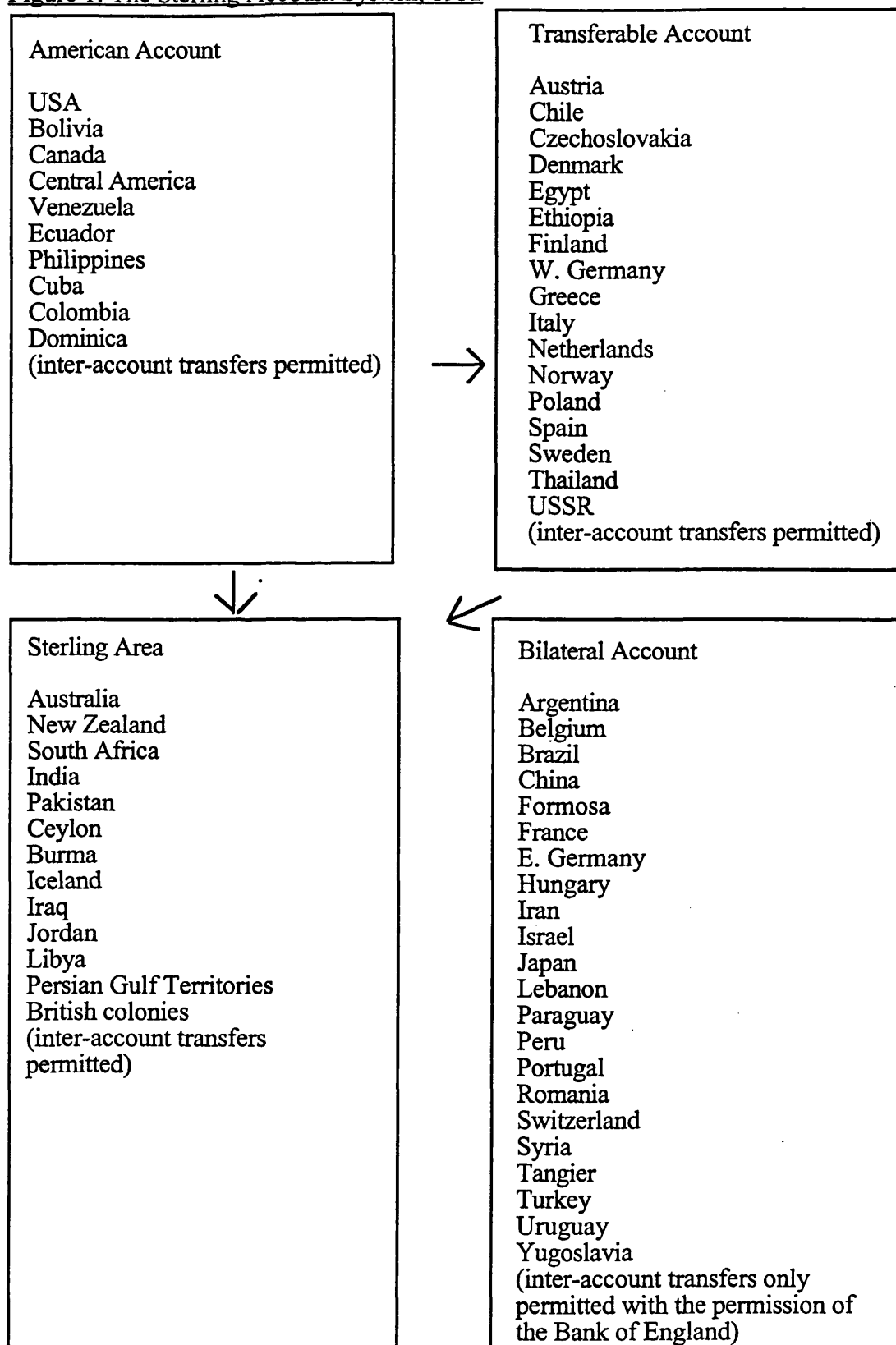
A feature of 1950 was the issue of the scarcity of raw materials in the post-war world. The rice issue and Japan's attempt to enter the IWA highlighted Britain's inability to accept Japan's presence in its trading sphere. Britain was afraid that Japan might buy up the limited, non-dollar raw materials and raise prices. In the end, however, it was not Japan, but the outbreak of the Korean war on 25 June that skyrocketed raw material prices.

Furthermore, Britain was against the extension of the MFN treatment to Japan because if equal tariff rights were granted to Japan the market would be flooded with cheap goods, thereby threatening domestic industries in the Commonwealth. Britain feared

that this would force the Commonwealth to raise tariffs against all imports regardless of their origin, therefore, nullifying any imperial preferential rights enjoyed by British goods and eventually driving Britain out of its traditional trading area.

What could be gathered from the three issues above, was the challenge presented to Britain by the gradual return of Japan into the western comity of nations through US assistance. On the surface, Britain seemed less than friendly to Japan's economic recovery. In reality, there was no unanimity between the ministries concerned. This was obviously because each ministry defended their own specific interests. The Board of Trade had the interests of British industries at heart in regard to the MFN treatment. The Treasury expressed its concern with the overall balance in Britain's financial affairs. Conversely, the Foreign Office was concerned with Britain's relations with foreign countries. If there was any major discrepancy, it was over the MFN issue between the Board of Trade and the Foreign Office. It was inevitable that the Board of Trade would gain the upper hand as it had been responsible for commercial treaties since the 1920s and the question of MFN rights fell under the Board of Trade's sphere of responsibility.¹¹⁷ Britain's relations with Japan and the United States, therefore, depended very much on whether a compromise could be reached between Britain's domestic and external interests.

Figure 1: The Sterling Account System, 1952



Note: Arrows indicate the direction of transfers

Source: An adaptation of table in Catherine Schenk, *Britain and the Sterling Area: From devaluation to convertibility in the 1950s* (London: Routledge, 1994), p. 9.

Table 1.1

Japan's Exports of Cotton Textiles to Great Britain, 1947-1955
(1,000 dollars)

	1947	1948	1949	1950	1951	1952	1953	1954	1955
total	20,314	16,642	32,985	25,979	54,003	73,132	33,141	51,125	60,765
cotton textiles	14,497	10,666	26,046	17,102	5,661	7,781	2,970	1,391	1,903
percentage of the total	71%	64%	79%	66%	10%	11%	9%	3%	3%

Source: MITI (ed.), *Nihon Bôeki no Tenkai: Sengo 10 nen no Ayumikara* [Development of Japan's Trade: A Review of the Postwar Decade] (Tokyo: Shôkôshuppan, 1956), pp. 404-405.

Table 1.2

Japan's Rice Imports by Country, 1949-1954

	1949	1950	1951	1952	1953	1954
						value: tons
Total	128,873	671,571	798,817	978,520	1,059,088	1,432,194
ROK	1	89,659	*	0	0	0
ROC	0	0	73,380	61,283	54,031	43,357
Thailand	87,626	328,686	253,987	317,219	423,893	379,559
Burma	40,113	145,098	161,508	126,005	199,739	326,914
PRC	0	18,584	6,838	*	0	75,213
Pakistan	0	0	*	6,694	54,361	23,535
Indo-China	0	0	0	0	37,918	46,231
USA	1,136	51,156	40,595	215,536	177,672	345,718
Spain	0	0	0	46,805	38,143	48,635
Italy	0	0	8,414	108,374	6,170	67,356
Egypt	0	24,344	176,422	0	0	0

Note: (*) connotes negligible units

Source: MITI(ed.), *Nihon Bôeki no Tenkai: Sengo 10 nen no Ayumikara* [Development of Japan's trade: A Review of the Postwar Decade] (Tokyo: Shôkôshuppan, 1956) pp. 344-345.

Table 1.3

Percentage of Japan's rice imports from Burma, 1949-1954

	1949	1950	1951	1952	1953	1954
Burma	31.1	21.6	20.2	12.8	18.5	22.8

Source: MITI(ed.), *Nihon Bôeki no Tenkai: Sengo 10 nen no Ayumikara* [Development of Japan's trade: A Review of the Postwar Decade] (Tokyo: Shôkôshuppan, 1956) pp. 344-345.

Table 1.4

Estimated Purchases by Source and Savings per year by Membership in IWA

	<u>Unconditional Membership</u> <u>Purchases</u> (1,000 M/T)	<u>Savings</u>	<u>Conditional Membership</u> <u>Purchases</u> (1,000 M/T)	<u>Savings</u>
Australian Wheat	400	\$2,800,000	100*	\$ 700,000
Canadian Wheat	100	\$ 400,000	100	\$ 400,000
US Wheat	400	-	700	-
Total	900	\$3,200,000	900	\$1,100,000

Note: (*) There was no assurance that even 100,000 metric tons of wheat could be purchased from Australia in view of her other sales commitments. Therefore, the actual savings would likely be less than \$700,000.

Source: *Memorandum to Chief of ESS from Whittington, 27 May 1950, SCAP Files, RG331 Box 5979, NA.*

Endnotes

- 1 See Robert Gilpin, *The Political Economy of International Relations* (Princeton: Princeton University Press, 1987), pp. 127-131; James Foreman-Peck, *A History of the World Economy: International Economic Relations Since 1850* (Hemel Hempstead: Harvester Wheatsheaf, 1995), pp. 203-234.
- 2 Gilpin, *The Political Economy of International Relations*, p. 131.
- 3 Foreman-Peck, *A History of the World Economy*, p. 234.
- 4 For further detail on Anglo-American negotiations see Richard Gardner, *Sterling-Dollar Diplomacy in Current Perspective: the Origins and the Prospects of our International Economic Order* (New York: Columbia University Press, 1980).
- 5 Foreman-Peck, *A History of the World Economy*, p. 240.
- 6 *ibid.*, p. 242.
- 7 Disagreements between Britain and the United States on the rules of the charter led to the widening of 'loop-holes' in the proposed rules until the charter no longer satisfied anyone. As a consequence, the Truman Administration decided not to submit the charter to Congress which led to the demise of the ITO. See Gardner, *Sterling-Dollar Diplomacy*, p. 378.
- 8 Foreman-Peck, *A History of the World Economy*, p. 240.
- 9 The Lend-Lease Programme (1941-1945) authorized the President to 'sell, transfer title to, exchange, lease, lend, or otherwise dispose of any defence articles to any country whose defence seemed vital to the defence of the United States. The terms of the settlement were to have some benefit to the United States. See Gardner, *Sterling-Dollar Diplomacy*, pp. 55-56.
- 10 *ibid.*, pp. 199-207.
- 11 It should be noted that Lend-Lease payments were also settled during these negotiations. Over \$20 billion repayment was written off, and Britain was instead asked to pay \$650 million at the same interest rate as the Financial Agreement, *ibid.*, p. 205.
- 12 *ibid.*, p. 313.
- 13 See Schenk, *Britain and the Sterling Area*, pp. 9-10.
- 14 Gardner, *Sterling-Dollar Diplomacy*, p. 360.
- 15 See Marc Gallicchio, *The Cold War Begins in Asia: American East Asian Policy and the Fall of Japanese Empire* (New York: Columbia University Press, 1988) for the beginning of the Cold War in East Asia.
- 16 For this period of China's history, see Odd Arne Westad, *Cold War and Revolution: Soviet-American Rivalry and the Origins of the Chinese Civil War, 1944-1946* (New York: Columbia University Press, 1993); and Lanxin Xiang, *Recasting the Imperial Far East: Britain and America in China, 1945-1950*. (London and New York: ME Sharpe, 1995).
- 17 Michael Schaller, *The American Occupation of Japan: the Origins of the Cold War in East Asia* (Oxford: Oxford University Press, 1985), p. 24.
- 18 See Stephen S. Large, *Emperor Hirohito and Shōwa Japan: A Political Biography* (London and New York, Routledge, 1992) concerning this topic.
- 19 Schaller, *The American Occupation of Japan*, p. 24.
- 20 *ibid.*, p. 35.
- 21 Toru Nakakita, 'Trade and Capital Liberalization Policies in Postwar Japan' in *The Japanese Experience of Economic Reforms* (Ed.) Jurō Teranishi and Yutaka Kosai (London: Macmillan, 1993), p. 333.
- 22 Schaller, *The American Occupation of Japan*, p. 79.
- 23 On Kennan's containment strategy, see John Lewis Gaddis, *Strategies of Containment: A Critical Appraisal of Postwar American National Security Policy* (Oxford: Oxford University Press, 1982), pp. 25-53.
- 24 Foreman-Peck, *A History of the World Economy*, pp. 242-243.
- 25 Borden, *The Pacific Alliance*, p. 70.
- 26 *ibid.*, p. 71.
- 27 Howard Schonberger, *Aftermath of War: Americans and the Remaking of Japan, 1945-1952* (Ohio: The Kent State University Press, 1989), pp. 209-210.
- 28 See Nakamura, *The Postwar Japanese Economy*, pp. 40-41.
- 29 See Andrew J. Rotter, *The Path to Vietnam: Origins of the American Commitment to Southeast Asia* (Ithaca: Cornell University Press, 1987), pp. 49-69.
- 30 Other factors also have to be taken into account when analyzing Japan's competitive advantage over Britain's textiles industry. For example, the overvaluation of the pound in the 1920s and the

- devaluation of the yen in the 1930s which made Japanese textiles far more attractive to buyers. Japan had the advantage of a surplus unskilled labour force due to the rural depression in the late twenties, whereas, by this time, Britain had developed other industries therefore labour was more scarce and more expensive. See Lars G. Sandberg, *Lancashire in Decline: a study in entrepreneurship, technology, and international trade* (Columbus: Ohio State University Press, 1974), pp. 213-126; see also Shimizu, *Anglo-Japanese Trade Rivalry in the Middle East*, p. 31.
- 31 *ibid.*, p. 38.
- 32 *ibid.*, p. 54. See also John Sharkey's thesis, *The Influence of British Business Interests on Anglo-Japanese Relations, 1933-1937*. (Ph.D. Thesis, London School of Economics and Political Science, 1994), in which he argues that the imperial preferences were ineffective, p. 91.
- 33 John Singleton, *Lancashire on the Scrapheap: the Cotton Industry 1945-1970*, (Oxford: Oxford University Press, 1991), pp. 43-44.
- 34 Manchester Chamber of Commerce represented the Lancashire cotton textiles interests, while the Cotton Board, was established in 1940 under the Board of Trade. The latter's main role was to coordinate export drive and engage in discussions and research which would assist in the long-term development of the cotton industry. See Singleton, *Lancashire on the Scrapheap*, p. 26.
- 35 *Hansard Parliamentary Debates*, fifth ser., vol. 473 (1950), cols. 1416.
- 36 In regard to the British perception in the 1930s, see Antony Best, *Britain, Japan and Pearl Harbor: Avoiding War in East Asia, 1936-41* (London and New York: Routledge, 1995), p. 39.
- 37 Roger Buckley, *Occupation Diplomacy: Britain, the United States and Japan 1945-1952* (Cambridge: Cambridge University Press, 1982) pp. 123-141.
- 38 Nakamura, *The Postwar Japanese Economy*, p. 38.
- 39 Roger Buckley, *Occupation Diplomacy*, p. 166.
- 40 MITI (ed.), *Nihon Bôeki no Tenkai: Sengo 10 nen no ayumikara (Development of Japan's Trade: A Review of the Postwar Decade)* (Tokyo: Shôkô Shuppan, 1956), p. 405.
- 41 Memorandum of the ONC, 21 June 1949, ON(49)220, CAB134/565, PRO.
- 42 Minutes of the 74th meeting of the ONC, 29 July 1948, CAB134/556, PRO .
- 43 Telegram from FO to Tokyo, 27 January 1948, FO371/69803 FI484/4/23, PRO. Final draft of the trade arrangement between certain countries in the sterling area and occupied Japan, 11 August 1948, pp. 65-68, subseries 1, Nichiei Bôeki Shiharai Ikken (Japan-UK Trade Payments Agreement), reel B-0020, Public Release Series 8, Diplomatic Records on Microfilm (hereafter DRM), Japan Ministry of Foreign Affairs Archives, Tokyo (hereafter JMFAA).
- 44 Memorandum of the ONC, 27 May 1949, ON(49)186, CAB134/565, PRO.
- 45 Minutes of the 55th meeting of the ONC, 7 July 1949, CAB134/563, PRO.
- 46 Memorandum of the ONC, 16 July 1949, ON(49)242, CAB134/566, PRO.
- 47 See Schenk, *Britain and the Sterling Area*, p. 63.
- 48 Correspondence from Gascoigne to Scott, 26 April 1950 in T236/2854, PRO.
- 49 MOF (ed.), *Shôwa Zaiseishi: Shûsen kara Kôwa made* vol. 15 (Shôwa Financial History: From the end of war to the San Francisco Peace Treaty) (Tokyo: Tôyô Keizai Shinpôsha, 1976) p. 554.
- 50 Note from Flett to Jackling on trade negotiations with SCAP, 24 May 1950, FO371/83863 FJ1121/120, PRO.
- 51 Tilman Remme, *Britain and Regional Cooperation in South-East Asia, 1945-49* (London and New York: Routledge, 1995), pp. 44-45.
- 52 Note from Flett to Jackling on trade negotiations with SCAP, 24 May 1950, FO371/83863 FJ1121/120, PRO.
- 53 Correspondence from Gascoigne to Scott, 29 April 1950, copy in T236/2854 OF63/119/07M, PRO.
- 54 Note by the Minister of State for Economic Affairs, 15 May 1950, ON(50)129, CAB134/571, PRO.
- 55 Report by the working party on Japan, 4 May 1950, ON(50)113, CAB134/571, PRO.
- 56 Memorandum attached to the minutes of the 10th Cabinet Far Eastern Committee, 10 October 1950, CAB134/289, PRO.
- 57 Minutes of the 40th meeting of the ONC, 5 May 1950, CAB134/568, PRO.
- 58 Note from Boehringer to the State Department, 30 November 1950, 441.9431/11-3050, RG59, National Archives II, College Park, Maryland (hereafter NA).
- 59 *ibid.*
- 60 Minutes of meeting of the Japanese panel of the overseas policy committee of the Federation of British Industries, 12 April 1950, MSS.200/F/3/D2/1/12, Papers of the Federation of British Industries (hereafter FBI) , Modern Records Centre, Warwick University (hereafter MRC).

-
- 61 See working party report on Japan, 4 May 1950, ON(50)113, CAB134/571, and working party report on Japan, 19 July 1950, ON(50)177, CAB134/572, PRO.
- 62 Memorandum by the Board of Trade, 15th May 1950, ON(50)129, CAB134/571, PRO.
- 63 *ibid.*
- 64 *ibid.*
- 65 *ibid.*
- 66 *ibid.*
- 67 *ibid.*
- 68 Minutes of the 20th meeting of the EPC, 28 July 1950, CAB134/224, PRO.
- 69 Minutes of the 50th Meeting of the Cotton Board, 13 June, 1950, BT175/6, PRO.
- 70 *ibid.*
- 71 See minutes of Textiles Exporters' Committee of 23 June 1950 and 14 July 1950, M8/5/62, Manchester Chamber of Commerce, Manchester (hereafter MCC).
- 72 Minutes of the fifth meeting of the EPC, 17 January 1950, CAB134/568, PRO.
- 73 Correspondence from Petch to Croome, 17 October 1949, T236/2849 OF63/119/07G, PRO.
- 74 *ibid.*
- 75 *ibid.*
- 76 *ibid.*
- 77 *ibid.*
- 78 *ibid.*
- 79 Correspondence from Gascoigne to Scott, 29 April 1950, copy in T236/2854 OF63/119/07M, PRO.
- 80 *ibid.*
- 81 *ibid.*
- 82 Minutes of the 57th meeting of the ONC, 4 July 1950, CAB134/568, PRO.
- 83 A report on the IWA compiled by the MOFA and the Ministry of Agriculture, Forestry and Fisheries, September 1951, pp. 163-181, subseries 6, Dai Hakkai Kokusai Komugi Kyôtei Kankei Ikken (the eighth session of the IWA), reel B-0029, Public Release Series 8, DRM, JMFAA.
- 84 Memorandum on Japan's accession to the International Wheat Agreement, 27 February 1950, SCAP Files Box 5979, RG331, NA.
- 85 After Japan's application was turned down in November, SCAP advised the Japanese government to seek IWA membership for 900,000 metric tons of wheat rather than the 12,000,000 metric tons it originally sought. This led to a debate within the Japanese government especially between the MITI and the Food Agency. The Food Agency sought the original supply of wheat from the IWA whereas the MITI thought Japan should accept the new amount recommended by SCAP. Eventually, it was agreed that Japan should settle for 900,000 metric tons. See Kaiire Hoshôsûryô Sakugen ni kansuru ken (Report on the Reduction of guaranteed amount of purchase), 3 December 1949, pp. 201-208, subseries 3, Dai Hakkai Kokusai Komugi Kyôtei Kankei Ikken (the eighth session of the IWA), reel B-0029, Public Release Series 8, DRM, JMFAA.
- 86 Minutes of the first meeting of the EPC, 5 January 1950, CAB134/224, PRO.
- 87 Minute by Jackling, 10 January 1950, FO371/82973 UES1303/13, PRO.
- 88 Letter from Whittington to Chief of ESS, 8 May 1950, SCAP Files Box 5979, RG331, NA.
- 89 Negotiations with Britain on the Wheat Agreement, 8 March 1950; Memoranda of Conversations; Acheson Papers, Truman Library.
- 90 Telegram from Tokyo to FO, 25 February 1950, FO371/82974 UES1303/42, PRO.
- 91 *ibid.*
- 92 Letter from Häfner to the Secretary, IWC, 20 January 1950, in SCAP Files, Box 5979, RG331, NA.
- 93 *ibid.*
- 94 Telegram from Washington to FO, 3 May 1950, FO371/82975 UES1303/64, PRO.
- 95 Minute by Marshall, 30 May 1950, FO371/82975 UES1303/71, PRO.
- 96 Kokusai Komugi Kyôtei e no Kanyû ni Kansuru Kaigi (A meeting on Japan's Entry to the IWA), 25 May 1950, pp. 284-287, subseries 5, Dai Hakkai Kokusai Komugi Kyôtei Kankei Ikken (the eighth session of the IWA), reel B-0029, Public Release Series 8, DRM, JMFAA.
- 97 Telegram from Tokyo to FO, 15 March 1950, FO371/82974 UES1303/54, PRO.
- 98 Telegram from Washington DC to SCAP, 24 June 1950, SCAP Files, Box 6805, RG331, NA.
- 99 Note by the Chancellor of the Exchequer, 8 April 1949, EPC(49)36 in PREM8/1169, PRO.

-
- 100 Akaneya, *Nihon no GATT Kanyū Mondai*, p. 92.
- 101 *ibid.*, p. 88.
- 102 Minutes of the conference between British Commonwealth and United States Representatives of MFN treatment for Japan, 1-4 November 1948, SCAP Files, Box 6725, RG331, NA.
- 103 Conference between British Commonwealth and US Representatives on MFN Treatment for Japan, 1-4 November 1948, SCAP Files, Box 6725, RG331, NA.
- 104 A single exchange rate between the dollar and the yen was established from 25 April 1949, when the yen was set at 360 yen to the dollar. The yen was set at 1450.8 yen to the pound from 24 June of the same year. See MOF (ed.), *Shōwa Zaiseishi*, p. 366.
- 105 Report on MFN treatment for Japan, to the Under Secretary of the Army, 22 March 1950, attached to 394.31/3-3050, RG59, NA.
- 106 Memorandum by the President of the Board of Trade, 5 September 1950, EPC(50)87, CAB134/226, PRO.
- 107 *ibid.*
- 108 *ibid.*
- 109 *ibid.*
- 110 In 1950, one of Japan Communist Party's leaders, Nosaka Sanzō was criticized by the Cominform for his belief in the establishment of communism in Japan through peaceful and constitutional means. Therefore, there was a higher probability that the Japanese Communist Party would resort to more revolutionary means. The outbreak of the Korean war meant that many of the occupation forces were despatched to Korea, therefore, it provided an opportunity for the communists to increase their activity. A series of anti-occupation demonstrations in Japan led General MacArthur to shut down several communist newspapers for thirty days and to dismiss communists and communist sympathizers from various industries. See correspondence from A Gascoigne to the Principal Secretary of State for Foreign Affairs, 18 March 1950, FO371/83807 FJ1017/27, PRO; correspondence from Chancery to the Far Eastern Department, 9 August 1950, FO371/8308 FJ1017/68, PRO.
- 111 Note by the FO, 14 September 1950, FO371/92065 UEE177/4, PRO.
- 112 *ibid.*
- 113 Office memorandum from Allison to McClurkin, 21 July 1952, in FO371/99393 FJ1016/32, PRO.
- 114 Minutes of the 21st meeting of the EPC, 15 September 1950, CAB134/224, PRO.
- 115 Note by Milward, 20 September 1950, FO371/82965 UEE177/5, PRO.
- 116 Telegram from Torquay to State Department, 4 December 1950, 394.31/12-450, RG59, NA.
- 117 Robin Gray, 'The Anglo-Japanese Commercial Treaty: A British Perspective', *Britain and Japan: Biographical Portraits. Volume II* (ed.) Ian Nish. (Sussex: Japan Library, 1995), p. 311.

Chapter Two: On the Eve of Independence: Britain's Sterling Policy towards Japan in 1951

Introduction

If the division between the East and West had taken shape at first in Europe, it was the Korean war of June 1950 that woke western policymakers up to the communist threat in East Asia. Although there is still little conclusive evidence to back the argument, it has been suggested that Moscow used the Calcutta Youth Conference of February 1948 and the Congress of the Indian Communist Party to instruct the attending communist representatives to instigate insurrections in their respective countries.¹ The period thereafter saw the start of the Malayan emergency, while the French were already involved in a war in Indochina. There was also a communist presence in Burma and the Dutch East Indies. If some of these conflicts were initially perceived to be wars of national liberation,² this perception changed with the Chinese victory over mainland China in 1949 and the outbreak of the Korean war followed by China's entry in the war in October 1950.³

The events of 1950 had several consequences on the US outlook on the region. First, the United States' perception of a communist threat shifted from a Soviet threat to that of a Chinese threat. Second, there was a growing conviction that if the United States did not intervene in the various wars in the region, all of Southeast and East Asia would be overrun by Chinese communists. Other consequences of the Korean war were the signing of a liberal peace treaty with Japan in September 1951 and the introduction of the Mutual Defense Assistance Control Act of October 1951. The Battle Act, as it was commonly known, stated that if any of America's allies were found to be exporting strategic materials to the Soviet bloc at any time, their economic and military aid from the United States would be terminated.⁴ The act made it increasingly difficult for Japan to resume its trade with mainland China, and it therefore became even more important for Japan to explore other markets. Thus, there were attempts made in 1951 to explore Japan's trade potential with Southeast Asia, through missions such as the joint SCAP-Japan mission of July, which incidentally was unsuccessful because the British officials in the colonies refused Japanese citizens' entry into their territories.⁵

It is incidents such as the above that have endorsed the view that Britain's policy was to protect its trading interests in Southeast Asia against Japanese competition. This argument has been accepted so widely that no-one has ventured to examine the different strands of Britain's policy towards Japan. This chapter, therefore, examines Britain's sterling policy towards Japan in order to elucidate Japan's importance to the sterling area in 1951. Conversely, the negotiations towards sterling area-Japan trade, and the

aftermath are examined to highlight Japan's perception of Britain as the banker to the sterling area. As the negotiations unfolded, it became obvious that Japan mistakenly feared British manipulation of Japanese supplies in the sterling area. The other issues examined in this chapter are the peace treaty and its aftermath; Japan's entry into the IWA and the ILO; as well as the lead-up to Japan's observer status to the GATT.

Japan's Entry into International Organizations

In 1951 Japan entered several international organizations, among them the ILO and the IWA, and gained observer status in the GATT. Britain was particularly anxious for Japan to re-join the ILO as soon as possible. It saw Japan's 'bad labour conditions' as the one single factor which caused menace to 'more progressive nations' in the pre-war period.⁶ Japan, which had been an observer at the ILO since 1948, became a member at the 34th session in June, with 177 members voting for and only 11 voting against its admission.⁷

Japan was also successful in its application to enter the IWA in 1951. On 28 May, Yoshida sent a letter to the Secretary of the IWC expressing Japan's wish to enter the IWA unconditionally. On 29 May, the Executive Committee of the IWC met to discuss Japan's application. At the meeting, the Canadian representative expressed his government's support for Japan's membership, while the Australian representative stated that his country would agree to Japan's application if the United States could supply Japan's quota of 50,000 tons of wheat. With America's affirmative reply, Australian support was confirmed. The year also saw a reversal of British position towards Japan's accession.⁸ There were several reasons why Britain decided to support Japan's application. First, the outbreak of the Korean war increased free market wheat prices thereby nullifying Britain's argument that Japan did not have to join the IWA because of its access to low wheat prices outside of the agreement. Second, Britain wished to avoid at all cost any public disagreement with the United States during the peace treaty discussions and the sterling payments negotiations. Moreover, by agreeing to Japan's unconditional accession to the IWA, Britain hoped that Japan would be more cooperative in regard to the distribution of rice supplies in Southeast Asia.⁹ Finally, Britain had to take into account the fact that the distribution of votes in the IWA had changed since the issue was raised the previous year. As a result, there was little likelihood of Britain successfully opposing Japan's accession.¹⁰ On 14 June, therefore, with the support of the United States, Canada, Australia, and Britain, Japan became a signatory to the IWA.¹¹

As for Japan's entry to the GATT, the United States did not seek MFN treatment for Japan at the sixth session of the GATT in Geneva in September because it did not



expect to collect enough votes and in addition there was the fact that SCAP's signature ensured that even if Japan was granted MFN treatment, it would only be for an interim period until the ratification of the San Francisco Peace Treaty. Finally, the United States believed that Japan was better advised to apply for GATT membership through the supplementary arrangement which the United States was proposing at the sixth session. The arrangement, if accepted, would enable countries to conduct bilateral tariff negotiations in the absence of a general tariff conference. This procedure was therefore thought to enable Japan to enter the GATT far quicker than if it waited for a general tariff conference.¹² Instead of seeking an MFN agreement, Japan requested to send an observer to the sixth session.¹³ Britain was against this, as it feared that once Japan became an observer, it would lead inevitably to Japan's membership of the GATT. British delegates were therefore, instructed to defer the issue, and if it failed, to take the issue to a vote. After receiving instructions, Britain tried to canvass the Europeans and Americans to vote against Japan, but found little support. Therefore, they received revised instructions not to vote if they were likely to be left in a small minority, as it was thought unwise to oppose Japan's entry openly and thus damage its relations with the latter.¹⁴ Japan's observer status was discussed at the 18th meeting of the contracting parties on 9 October. At the meeting, the contracting parties were divided between those who wished to defer the issue until the next session, such as the United Kingdom, and others like India believed that the observer status was purely a procedural matter and therefore supported Japan's request as it was clear to all that inviting a non-member country to observe did not lead to full membership. Britain was supported by Australia, South Rhodesia and Czechoslovakia; while India was supported by many more countries as most believed that the invitation was merely procedural. There were those such as France and Belgium who on record were not against inviting Japan, but sympathized with countries, such as Britain, who feared a repeat of Japan's pre-war practice of 'dumping'.¹⁵ After three hours of negotiations, however, J. Leckie, the British representative, indicated that he would accept the majority view that Japan be invited as an observer in order to prevent a serious division within the contracting parties. With the British compromise on the issue, Japan was invited as an observer from the sixth session. Although Japan was no nearer to joining the GATT, the invitation was still interpreted by Japan as a foot in the door.

The most important day for Japan in 1951 was the signing of the San Francisco Peace Treaty, because it paved the way for Japan's lenient passage to sovereignty in the post-war period. There was, however, another important event which has been overshadowed in the past, namely, the sterling payments agreement of August 1951. The next section examines the lead up to the agreement which set the scene for sterling area-Japan trade relations in the post-war period.

Long-Term Relations between the Sterling Area and Japan

In July 1950 a working party was set up under the ONC to undertake a study on the long-term relations between the sterling area and Japan. The study became necessary due to rising criticism among traders and participants alike at the restrictive nature of the open payments arrangement with Japan. The study was, therefore, undertaken with the hope of correcting the problematic aspects of the trade arrangement, and establishing a long-term approach to trade with Japan. The working party set up under the ONC was made up of a central group of officials which consisted of the representatives of the Central Economic Planning staff within the Economic Intelligence Department of the Foreign Office, the Overseas Finance Division of the Treasury and the Economic Section of the Cabinet Office. They were instructed to write a joint report demonstrating probable sterling area-Japan trade relations in 1953 basing their predictions on Japan's balance of payments and earnings. They used reports and digests sent by the Commercial Counsellor in Tokyo, various ministerial reports and the Commonwealth report on the proposed Peace Treaty with Japan.¹⁶

On 27 July, an interim report was discussed by the working party.¹⁷ The report was considered of doubtful validity because it was mainly based on the long-term plan of the Japanese ESB which had recently been rejected by the Japanese government.¹⁸ Therefore, it was agreed that further work should be carried out on the three following issues: the 'impact of Japanese competition on the United Kingdom; the question of granting MFN treatment to Japan; and the possible contribution of Japan to Southeast Asian development'.¹⁹ One noteworthy point arose from the fact that the Board of Trade was instructed to produce a paper on the unfair practices of the Japanese. The Board of Trade representative, AE Percival, replied that there was very little to be said on the subject as the 'majority of "unfair trade practices" were merely a biased description of ordinary competition',²⁰ which indicates that the nature of Japan's trade practices were not in themselves 'unfair' but were only perceived to be so on the part of the threatened industries.

One of the main issues discussed by the working party was how to conduct future trade relations with Japan, because the recommendations by the working party would have implications for future trade patterns between the sterling area and Japan. There were two solutions advanced by the working party and compiled by AK Ogilvy-Webb of the Treasury.²¹ The first was to end the trade arrangement and remove the distinction between participants and non-participants. Japan would be induced to hold sterling and while it would be given the right to liberal sterling transfers, it would not be able to convert sterling into dollars until general sterling convertibility was introduced. This solution did not provide for ways to protect the sterling area from Japanese products,

but advocates of this solution believed that British exports were not seriously threatened by Japan except for textiles, for which there was no ultimate protection. Furthermore, the flexibility of this approach would enable Japan to hold more sterling, and trade in sterling which would then lead to a general expansion of the use of sterling in East Asia as a whole.²² The second option was to continue the British-controlled managed trade and to continue granting convertibility rights to Japan. This option would enable the sterling area to limit trade relations between the sterling area and Japan through trade quotas.

The recommendation put forward by the Treasury was to implement the more flexible approach. It was heavily influenced by the Bank of England, which was pushing for the extension of the use of sterling for international trade in East Asia.²³ The more flexible basis of trade was also supported by the Foreign Office because many countries within the sterling area were already disgruntled with the trade agreement. There were fears that the status quo would lead to a major sterling area crisis as both India and Pakistan wanted to see Japan treated as 'soft' by the sterling area, and countries such as Australia and New Zealand who were both frustrated by limits on trade with Japan.²⁴ Furthermore, the Bank of England, which sought a reduction of the different kinds of sterling around the world, wished to see 'maximum possible freedom of movement of sterling throughout the non-dollar world'.²⁵ There were also fears expressed by the UKLM in Japan that further restrictions on trade would be considered unfavourably by the United States and influence the Japanese into thinking that sterling was a weak, second-rate currency.²⁶ The two options were discussed at the seventh meeting of the working party on 4 December, where there was majority support for the flexible solution. The only visible dissension was from the Board of Trade which regarded neither solution to be viable, but did not present an alternative proposal.²⁷

In its final version, the report submitted by the working party to the Cabinet's Economic Steering Committee on 6 February 1951 considered future patterns of trade and payments arrangements between Japan and the sterling area under the following points:

- (i) The sterling area balance of payments with Japan: the United Kingdom's overall balance of payments; and the general position of sterling as an international currency in the Far East;
- (ii) Competition between the United Kingdom and Japanese exports;
- (iii) The impact on our political and economic interests of Japanese purchases of rice in Burma and Thailand and of cotton and possibly raw materials in the sterling area.

(iv) The interest of the underdeveloped countries in cheap imports of consumption and capital goods from Japan.²⁸

With regard to the first point, the report identified Britain's long-term financial policy as one in which the goal should be to restore and encourage the widest possible use of sterling in East Asia. In order to achieve this aim, the report recommended Japan's eventual inclusion in the transferable account area, which meant that Japan would eventually be able to receive sterling automatically from any third country and use the sterling to buy goods from a third country, whereas they were unable to do so while they belonged in the bilateral account group.

The report identified several points which precluded Japan from joining the transferable account area immediately. First, there was the possibility that Japan might accumulate an uncontrollable amount of sterling as a result of the demands for Japanese goods from the Commonwealth countries. Second, there was the uncertainty over whether automatic transferability would lead to a net inflow or outflow of sterling from Japan over a period of time. The report thus recommended that Japan's convertibility rights should be forfeited, and while Japan would be given freedom to use its sterling with third countries it would be restricted to administrative transferability which meant that transfers had first to have the permission of the Bank of England.²⁹ Therefore, despite plans for the eventual inclusion of Japan in the transferable account area, Japan was to be relegated to the bilateral account area for the foreseeable future.

Concerning competition between the United Kingdom and Japanese exports in point two, the report observed that British textiles manufacturers would not be able to compete with Japanese cotton and rayon manufacturers in the long run because of two reasons; first, Japan's labour costs were a fraction of those of Britain, and second, Japan was being allocated American raw cotton on a more favourable basis than Britain. The report was unsure of the future position of British industries such as pottery and steel, and therefore, concluded that more information on Japan's main industries was needed and that they should be monitored carefully. In the meantime, the report saw little reason for Britain to block Japan from the GATT or to refuse MFN rights to Japan in order to protect British trade, as it had been doing since 1948 and 1950 respectively, as neither measure would be of any use in the protection of British goods in third markets. Instead, the report recommended that British industries should improve their technical and commercial lead over Japan in the sectors where they were ahead, as the chances of British industries protecting their market share by persuading sterling area countries against importing Japanese goods were very slim,³⁰ although

Britain hoped that the Commonwealth countries would follow the British example and 'reserve their right to discriminate against Japan'.³¹

The report's recommendation concerning point three was that unless an agreed allocation system was implemented, it would be difficult for rice producers in Southeast Asia to provide for Japan's rice demands, as well as the demands of British colonies in the area. The report concluded, however, that it was unable to find a solution for the rice issue within a trade arrangement because Britain did not have the power to dissuade SCAP from heavy purchases of raw materials in the interests of Southeast Asian stability, or to persuade Thailand and Burma to revive the rice allocation system. It reached the conclusion that the colonies and Ceylon would have to simply outbid Japan in its rice purchases from Thailand and Burma.³²

The final point explored by the report concerned the issue of 'underdeveloped' countries. The report outlined the difficulty of dissuading 'underdeveloped' countries within the sterling area from purchasing cheap Japanese goods when the United Kingdom had already publicized their policy of assisting the development of those areas through the Colombo Plan.³³ Therefore, the report recommended that the colonies be allowed to purchase cheap Japanese goods.

On 15 February a note on the above prepared by the Chief Planning Officer was considered by both the Economic Planning Board and the Economic Steering Committee.³⁴ Both committees endorsed the recommendations prepared by the working party that Britain's long-term aim should be to put the sterling area-Japan payments relations on a non-dollar basis. This meant that Japan would no longer be given the right to convert its sterling on a bi-annual basis. It was also recommended that Britain should seek to negotiate a new sterling payments agreement with Japan while SCAP was still in control. Third, there should be full consultations between all interested members of the sterling area before the beginning of each trade year. Furthermore, they recommended that consultations between the sterling area countries should be followed by a balance of payments exercise with Japan in order to reach an agreement on the probable level of trade between Japan and the sterling area.³⁵ The Economic Planning Board's recommendations were, however, subject to several points, for example, consultations with various key British industrial representatives such as the Cotton Board.³⁶ Furthermore, the Economic Planning Board recommended that, despite Britain's weakened power to discriminate against Japanese goods both for its own domestic market and the Commonwealth, it should not totally relinquish its limited powers. Moreover, the Board recommended that Japan should not be informed of Britain's proposal not to rely on such powers of discrimination in the future.³⁷

Lastly, the Economic Planning Board recommended that further investigations should be made into Japanese industries other than textiles³⁸ which were likely to affect Britain's export interests.³⁹

The Economic Steering Committee invited EA Hitchman of the Treasury to arrange for the ONC to consider what necessary steps should be taken to carry out the recommendations of the working party. On 23 February, the ninth meeting of the ONC endorsed the note prepared by the Treasury.⁴⁰ It recommended that Britain should denounce the current OPA with SCAP by 30 June, subject to affirmative replies from the Commonwealth countries. Moreover, the note recommended that Britain should seek to negotiate a sterling payments agreement on normal lines (without convertibility rights) with Japan.⁴¹ It was agreed, however, that as a peace treaty was being drafted at this time, the agreement should be signed by Japan rather than SCAP. It was also agreed that sterling area countries would not be represented in the negotiations. Instead, they were to be informed of the progress through the CLC (Commonwealth Liaison Committee) in London. The ONC's endorsements were then sent to the Chancellor of the Exchequer for his approval.

The report prepared by the working party between July 1950 and February 1951 indicates the British decision to sign the sterling payments agreement in place of the OPA, and to end Japan's rights to convertibility. The main reason for this British decision was the desire to expand the use of sterling in East Asia. This was an extension of Britain's sterling policy in the early 1950s, when British policymakers still thought that sterling could still provide a viable alternative to the dollar bloc. If one looks at Britain's overall sterling policy, it is understandable that with mainland China lost to western trade after 1950, it was obvious for Britain to look for another anchor in East Asia to help the expansion of sterling in the post-war world. A country like Japan was also important as expanded trade relations between Japan and sterling countries in the region would facilitate a reduction in the sterling balances of countries such as India, Pakistan and Ceylon. Therefore, the main reason for the signing of the sterling payments agreement was to facilitate sterling area-Japan trade.

Furthermore, the conclusions of the report indicate that Treasury and Foreign Office officials outnumbered the Board of Trade officials in the committee. Minutes indicate that only one or two Board of Trade officials were present at the meetings, whereas the chair of the long-term study was a Treasury official, and the meetings were always attended by two or more Treasury and Foreign Office representatives.⁴² The conclusions which particularly emphasize the dominance of the two ministries were those that sought a relaxation in British trade controls towards Japan.

After the Cabinet had reached a conclusion over future economic relations between the sterling area and Japan, British representatives in the United States and Japan approached the State, Treasury and Defense Departments in Washington, the Economic and Scientific Section of SCAP in Japan, as well as members of the Japanese Cabinet, in order to give them an idea of what Britain was hoping to achieve in the payment talks. In the United States, Christopher Steel, the Minister in Washington, and the Treasury representative, Allan Christelow, met in March 1951 with members of the State, Treasury and Defense Departments.⁴³ A telegram from Washington to the FO indicated that none of the above departments had taken a firm decision with regard to the future of the SCAP-sterling area payments agreement. The State and Treasury Departments both held the view that there might be considerable advantage in Japan entering the transferable account group,⁴⁴ but members of the Defense Department strongly believed that SCAP should denounce the OPA and put all Japanese trade on a dollar basis. The underlying reason for this, as understood by Steel, was that on an emotional level they believed that closer links between the sterling area and Japan might lead to a corresponding loss of control by the United States.⁴⁵ On an economic level, they believed that it was feasible to put Japan on a dollar basis as it had enough reserves, as a result of the Korean War, to trade entirely in dollars. Therefore it was thought that if Japan traded on a dollar basis it would greatly improve Japan's ability to obtain food and raw materials, while at the same time, Britain's influence on Japan would recede.⁴⁶ For the Defense Department, Britain's negative attitude towards Japan's accession to the IWA in the previous year was enough evidence to suggest that if Japan joined the sterling bloc, Britain would manipulate Japan's use of sterling in order to deprive it of necessary food supplies and raw materials.⁴⁷

In his correspondence with David Serpell of the Treasury, Hugh Thomas, the Financial Advisor to UKLM in Tokyo, indicated that neither the representatives of SCAP⁴⁸ nor the Japanese Finance Minister, Ikeda Hayato,⁴⁹ were enthusiastic about the possible exclusion of convertibility in future payments agreement between Japan and the sterling area. Thomas identified Mr. McDermott, the Director of Trade and Services of the Economic and Scientific Section, as one of those who was working towards tying Japan to the dollar. With regard to John Allison, the Director of Finance, Thomas believed that he, unlike McDermott, would be more likely to work towards the best interests of Japan, but felt that Allison might also be motivated by 'an anti-sterling area complex'.⁵⁰

In fact the Economic Counselor to SCAP, Carl H Boehringer, sent a report to the State Department on 6 April after he received a formal letter from Thomas requesting the

opening of new payments negotiations between SCAP and the British Government.⁵¹ The note by Boehringer indicated that they were not certain of the exact arrangement Britain would be proposing but SCAP was aware that Britain wished to obtain a new agreement which could continue without alteration in the post-treaty period. The report suggested that 'instead of close integration with the sterling area, Japan might find it feasible and possibly more advantageous to assume American Account Status'.⁵²

The arguments for shifting Japanese trade to a dollar basis were:

- maximum transferability both within and without the sterling area and convertibility to dollars.

- Optimum competitive advantage in selecting and obtaining imports of critical raw materials from sterling area countries several of which have direct or indirect preferential arrangements to maximize the export of desirable goods to hard currency areas.

- If Japan's trade shifted to a dollar basis, the United Kingdom would find it most difficult to influence Japan's trade with other areas and would have only limited ability to influence her trade with the sterling area.

- Close mutual defence arrangements with the necessary concomitant economic arrangements would be strengthened by having Japan a member of the dollar area. Japan's over-all trade situation could be more effectively planned and directed in such manner as to best complement the US military aid program.

- With Japan a member of the dollar area, American ability to free Japanese trade from the numerous restrictions currently imposed by the UK would be directly enhanced. Furthermore, the US would be able to encourage progressive freeing of world trade and approximation of multilateral trade.⁵³

The arguments put forth by the Economic Counselor were indicative of SCAP's view that the existing payments agreement between SCAP and the sterling area was one which deliberately limited Japanese access to raw materials and food supplies. SCAP's view was not entirely incorrect, as its right to convert sterling to dollars placed Japan in a hard currency category. Conversely, as Japan was unable to provide dollar payments for raw material purchases from the sterling area, it was not given priority as a trade outlet for the sterling area. Therefore, trade with Japan was severely limited with the net effect of a double disadvantage for Japan.⁵⁴

Meanwhile, Britain's apparent decision to abolish the dollar convertibility in the next sterling area-Japan payments agreement spurred the Japanese government to undertake a number of studies on Japan's negotiating position. The view in Japan was that the abolition of the dollar clause would lead to a greater trade increase with the sterling area, thus placing Japan in a dilemma over which currency bloc to base its exchange rate on, the sterling area or the dollar area. For example, the report compiled by

Ichimada Hisato, the Governor of the Bank of Japan, entitled '(s)hould Japan in the future belong to the dollar area or the sterling area?' examined the pros and cons of the two blocs by posing the question of the stability of the dollar and sterling; the convertibility of the two currencies; the possible induction of foreign capital; the possibilities for Japanese trade with the two areas; and the prospects of acquiring foreign funds through invisible trade.⁵⁵ In an answer to the above questions, Ichimada acknowledged the improvement in the pound's position since the start of the Korean war. He realized, however, that this was due to a world-wide increase in the value of raw materials which subsequently helped to increase the sterling area's dollar reserves. Furthermore, Ichimada noted that Japan would attain greater stability by placing Japan's exchange base on the dollar than the pound due to the dollar's stability. Moreover, Japan was assured of raw materials from the United States, whereas there was uncertainty over whether the sterling area would relax its trade restrictions with Japan. In the case of sterling trade restrictions, Ichimada foresaw difficulties in running down Japan's sterling reserves because sterling was not convertible. Another consideration was foreign capital for Japan's economic reconstruction and development. Ichimada knew that Japan could not rely on Britain and the sterling area to inject foreign capital into Japan, therefore, he thought that it would be wiser for Japan to place its foreign exchange base on the dollar. In conclusion, Ichimada outlined that it was necessary for Japan to acquire dollars first by expanding exports to the United States; second, by increasing its exports to the open account countries in the area as settlements were made in dollars;⁵⁶ third, by expanding exports to countries within the dollar area; and lastly, by securing American credit from banks.⁵⁷

The report elucidates Japan's dilemma about which bloc it should enter. The advantages to Japan in joining the dollar area were that the dollar was more stable, and that the dollar area could provide the capital and foodstuffs necessary for Japan's economic development. Ichimada, however, expressed concern over the future of South and Southeast Asia. He was particularly anxious that if the Colombo Plan succeeded, the whole of Asia might base its exchange on sterling, whereby Japan would be restricted severely as the only dollar-based country surrounded by sterling-based countries. Therefore, he hoped that Truman's Point IV programme would succeed in encouraging Southeast Asia more towards the dollar bloc.⁵⁸

Another report prepared jointly by the FECB (Foreign Exchange Control Board), the ESB, the MITI, the MOF (Ministry of Finance) and the MOFA for submission to the Prime Minister, Yoshida Shigeru, indicated the extent to which the Japanese side was preparing for the negotiations.⁵⁹ The report went into some detail about the merits and demerits of each of the sterling area account groups and research was conducted into

the amount of trade Japan could be expected to carry out with the dollar and sterling areas in each respective account group. The purpose of the study was to establish Japan's negotiating position under every possible circumstance. The report clearly favoured Japan entering the American account (as encouraged by SCAP) or the transferable account group because they would either encourage a closer economic relationship between Japan and the United States or enable Japan to trade with other sterling countries. The least favourable option was to remain in the bilateral group without convertibility because of the uncertainty over whether Japan would be guaranteed the sterling area's raw materials, and the fear that Japan might be forced to take the sterling area's non-essential surplus instead of essentials. Moreover, the report indicated that if Japan were to remain in the bilateral group, they should press for a rise in the ceiling of the non-conversion limit instead of an end to convertibility.⁶⁰

By early April, the ONC had compiled a set of instructions for the British negotiators, Hugh Thomas and JB Loynes, a representative from the Bank of England.⁶¹ They were instructed to sign a sterling payments agreement without a convertibility provision. Although the new agreement would enable Japan to increase its trade with the sterling area, it was to remain in the bilateral accounts group, and third country transfers were to be processed through administrative transferability. The working party on Hong Kong, had by this time, decided to include Hong Kong in the agreement.⁶² Therefore, the British line was to end convertibility and include Hong Kong in the payments agreement. Initially, the negotiations were to start on 1 May and end by 30 June, so that a new agreement between Japan and the sterling area could be in place at the same time that the existing OPA, which ran from June of 1950 to June 1951 came to its natural end.

British negotiators were, however, faced with various difficulties first, in starting the talks and second, reaching an agreement with their Japanese counterparts. The talks were delayed partly because SCAP, who was to chair the conference, was faced with a change in the Supreme Commander from MacArthur to General Matthew Ridgway, and also because of the imminence of the peace treaty which made detailed consultations with Washington in various fields necessary. The talks finally began on 24 May and lasted until 31 August. There were several reasons why the negotiations dragged on for so long. First and foremost was the convertibility issue. Many dollar proponents in the Japanese Cabinet believed that the convertibility clause should be retained in order to prevent an uncontrollable amount of sterling reserves accruing in Japan. They were especially anxious that without a convertibility clause they would be unable to get rid of their excess sterling, especially after the termination of the agreement.⁶³ The other obstacle was opposition to the inclusion of Hong Kong in the sterling payments

agreement. The argument raised by Japan was that the inclusion of Hong Kong might increase Japan's sterling holdings and damage Japan's future trade with China via Hong Kong.⁶⁴ In short, Japan opposed the 'reining in' of Hong Kong within the payments agreement as it could potentially affect Hong Kong's role as an entrepôt trading centre.

An added complication arose due to Ikeda's public announcement on 21 April that the government would not abolish the 'dollar clause' in the Japan-sterling payments agreement.⁶⁵ This announcement was not taken seriously by Thomas or the FEC (Far Eastern Commission) as the Kyodo News Agency's press release was not substantiated by the Japanese government. It was nevertheless a personal view expressed by Ikeda, and the convertibility issue became more complicated as it took on political importance to save Ikeda's face.

Third, at the same time, the British and the Americans were drafting the Japanese peace treaty. By May 1951 considerable progress was made in the formation of a draft treaty and all the outstanding differences were ironed out during John Foster Dulles' visit to London in June.⁶⁶ Although Britain was unable to persuade the United States to adopt a stiff peace treaty, Britain was able to remain firm on some issues such as compensation for allied POWs, the renunciation by Japan of its rights under the Congo Basin Treaty of 1919 and its removal from the Board of Directors of the Bank for International Settlement.⁶⁷ Soon after the Anglo-American differences over the peace treaty were settled, there were statements made in Britain about the peace treaty being a form of protection against Japanese competition. These statements were counterproductive to the British mission in Japan because it was nullifying their efforts to persuade the Japanese that the British harboured no sinister intentions towards Japan in the post-war world.⁶⁸ Japan's main anxiety stemmed from the fact that Britain as the chief negotiator for the sterling area might restrict Japan's trade with the sterling bloc. Therefore the statements emanating from Britain fuelled Japanese fears.⁶⁹

The Sterling Financial Conference

The first sterling financial conference between Japan and Britain was convened on 24 May.⁷⁰ The negotiators on the Japanese side were Takeuchi Ryûji, International Trade Administrator, Ishida Tadachi, Director of the Financial Bureau of MOF, Yukawa Morio, Director of the Trade Bureau of the ESB, Kiuchi Nobutane, Chairman of the FECB and Shirasu Jirô, Adviser to ESB. Takeuchi of the MITI was chosen as a compromise candidate to head the talks in order to deflect any jealous rivalry between the MOF and the FECB.⁷¹ The importance of the sterling payments agreement to Japan could perhaps be understood by the presence of Shirasu, who was known to have

considerable influence over Yoshida on economic matters and was regarded as Yoshida's personal emissary to the conference.⁷² On the American side was the Chairman of the Conference, RW Hale, Chief of the Foreign and Commerce Division, SM Fine, the Director of Economic Planning and WW Diehl, the Director of Finance. All were from the Economic and Scientific Section. The United Kingdom was represented by Hugh Thomas and John Loynes.

The first six meetings held between 28 May and 8 June consisted of the Japanese side asking questions about the sterling area and the British side answering them. The issue that most concerned the Japanese side was the consequence of abolishing the dollar clause, and, in particular, whether it would lead to a significant accumulation of sterling, and if so, how the sterling reserves could be reduced. Furthermore, the Japanese delegates were concerned with whether trade relations between the sterling area and Japan would expand as a result of the abolition of the dollar clause, and if so, to what extent. Moreover, Japan was anxious over whether it would become a soft-currency country, and whether the Commonwealth's imperial preferences would prejudice Japan's attempts to export to the sterling area.⁷³ Difficulties arose because the British side was unable to give specific assurances to Japan that it would not accumulate an over-supply of sterling, nor could they give an approximation of trade flows as they were entering a payments agreement with Japan for the first time after the return of its exchange controls from SCAP. Therefore, they recommended a *laissez-faire* approach to trade. Conversely, the Japanese side wished to have a specific agreement with an agreed quota which would clearly identify the amount of trade Japan could expect from each of the sterling area countries, as they could not see how it could trade with the sterling area without an agreed estimate.

In order to break the stalemate, John Loynes, the Bank of England representative, began secret talks with Kiuchi and Takeuchi. One of the reasons for the initiative was to reach a quick conclusion to the negotiations. Another reason was that Japan and Britain wanted to present the Americans with a *fait accompli*. This procedure was necessary because, despite American assurances that Japan would be given the freedom to negotiate without SCAP influence,⁷⁴ the Japanese negotiators were under 'some pressure' from the American side.⁷⁵ Although George Clutton, the interim head of the UKLM, was briefed on the contents of the private talks, and reports were sent to the Foreign Office, they were held without Thomas' knowledge for the most part. There was no apparent reason why Thomas should have been kept in the dark, except that Loynes tended to think that Thomas was a poor negotiator and possibly a hindrance in the private meetings.⁷⁶

Loynes held his first private meeting with Kiuchi on 11 June and explained the mechanics of the sterling payments arrangements to him. It was also learnt at this private meeting that the Americans wished to keep Japan in the dollar sphere. Kiuchi thought that 'acceptance of a sterling payments agreement without strings would inevitably be regarded as a step away from the dollar and one which might have political repercussions'.⁷⁷ Kiuchi's view was substantiated by a telegram from Steel in Washington. According to the telegram, neither the US Treasury nor the State Department were happy with the British proposal, and it noted that if the Anglo-Japanese financial conference was placed on the NAC (National Advisory Council) agenda,⁷⁸ then Washington was confident that SCAP would be given instructions to place Japan's trade firmly on a dollar basis.⁷⁹ Officials in Whitehall were therefore worried that Washington's position would harden Japan's opposition to the UK proposal.

At the time of the two private meetings between Loynes and Kiuchi on 11 June and with Takeuchi on 13 June, the two Japanese officials told Loynes that the Japanese Cabinet was strongly in favour of convertibility because they were concerned about a sharp rise in sterling balances and there was a need for some sort of mechanism to keep their sterling reserves at a manageable level.⁸⁰ Another reason for keeping the dollar convertibility, however, was political rather than economic, as the Japanese delegation needed to explore ways of solving the convertibility issue without any loss of prestige for Ikeda, who had publicly committed himself to dollar convertibility, allegedly as a result of strong American influence.⁸¹ Takeuchi, therefore, proposed a secret exchange of letters concerning convertibility.⁸² Loynes dismissed such an idea as he did not think that would help 'save' Ikeda's face; moreover, he was concerned that it would inevitably become the subject of parliamentary questions which would not place either party in a favourable light.⁸³

The conclusion that can be derived from the political issue was that although the Japanese were seeking some form of mechanism to prevent the accumulation of sterling, and ^{were} ~~was~~ strongly in favour of maintaining the convertibility clause, there were strong indications that deadlock in the talks could be lifted if Ikeda's face was saved.

On 20 June, Clutton met with Yoshida to discuss the negotiations and explain the reasons why the British representatives could not give convertibility to Japan. He explained that not even the closest of Britain's friends were given the right to convertibility, and therefore, it was not considered politically feasible to grant the right to Japan.⁸⁴ Yoshida understood this and told Clutton that he would be approached by Shirasu with a possible solution to the talks.⁸⁵ Clutton's report of the conversation

indicates that Yoshida was willing to intervene in order to break the deadlock to the talks and that the meeting between Clutton and Shirasu, and meetings between Takeuchi and Loynes were endorsed by Yoshida. The next night Shirasu proposed to Clutton that both sides should shelve the dollar clause question in order to save Ikeda's face, and that instead the Japanese should estimate the size of sterling balances they wished to hold by a given date (i.e. 30 June, 1952) and that both parties should agree to bring down sterling holdings to that level by that date.⁸⁶ It was agreed at the meeting that Takeuchi would send Thomas a letter putting forward Shirasu's personal suggestion as a basis for further negotiations.⁸⁷

On 25 June, Loynes was approached by Takeuchi who wished to go through Shirasu's draft proposal before presenting it to the financial conference. They met privately at the house of Mr. Pollock of Jardine Mathesons where they discussed the draft for some two and a half hours.⁸⁸ The main contents of the draft proposal were that Japan should state a working balance for the trade year and that Britain should assist in preventing the working balance from exceeding the agreed amount. Japan would be given the freedom to raise the ceiling if it was necessary, and the United Kingdom could also propose to raise the ceiling, although the final decision would rest with Japan. Furthermore, the United Kingdom would not discriminate against Japanese exports to the sterling area, and that Japan's sterling balances would be able to be transferred freely within the sterling area. Japan would be extended financial facilities if it faced sterling shortage during seasonal purchases. Moreover, Japan would be given the right to abrogate the agreement, and it would be entitled to use its sterling balances after the abrogation of the agreement. Finally, the readoption of a dollar clause could be reconsidered when negotiating a new agreement.⁸⁹ Loynes spent the next day again at Pollock's house going over the draft this time with both Takeuchi and Kiuchi. Loynes suggested various alterations which he thought would make it easier for Japan and the United Kingdom to reach an agreement, albeit emphasizing that the draft was not entirely acceptable to the British. The main changes to the draft were the omission of the dollar clause from the draft, and that the section on Japan's right to abrogate the agreement was replaced by '(t)he Japanese government reserves its right to give notice of termination of the agreement'.⁹⁰ Loynes also changed the section on Japan's entitlement to use its sterling freely after the expiry of the agreement to 'holding early consultations with a view to negotiating a new agreement'.⁹¹ Takeuchi was not very happy with the proposed changes put forward by Loynes, because he did not think that ministers such as Ikeda would agree to them. Therefore, despite the two lengthy conversations he held with Loynes, he presented the original text with very minor changes at the ninth meeting of the sterling financial conference as a basis for the exchange of notes to the agreement.⁹² Takeuchi later explained to Loynes privately that

the original text had to be used in order to get the approval of his ministers. Therefore, although Loynes was disappointed with the text, it did have the effect of bringing the Japanese ministers to look upon the payment negotiations more favourably.

The British negotiators and their Japanese counterparts discussed the terms of the exchange of letters between 10 July and the last meeting of the sterling financial conference on 26 July. The agreed exchange of notes between the United Kingdom and Japan comprised of the following points. That both sides would be responsible for keeping 'Japan's sterling balances within reasonable limits', and that both sides would take reasonable measures to correct 'any chronic imbalance of payments in either direction'.⁹³ It was proposed that the responsibility should be a mutual one, and in addition it was agreed that Britain could not accept guarantees for Japan's use of sterling after the termination of the agreement.⁹⁴ Furthermore, the British remained firm that they would not be committed to credit facilities and refused to give any undertaking that the question of the dollar clause would be reconsidered.⁹⁵ Furthermore, it was agreed that both sides could meet at 'short notice' to discuss any aspects of the agreement, and a payments review was scheduled to take place in six months time. Finally, it was agreed that Japan would be allowed to transfer sterling to any country in the transferable account country with the approval of the Bank of England.⁹⁶ Therefore, although Japan was considered a bilateral account country, it was given approval to trade with transferable account countries.⁹⁷

It was understood that the Japanese and the British negotiators had been able to reach an agreement because Yoshida had given Takeuchi the authority to agree with the British on all basic points. It was also revealed that Yoshida was ready to overrule Ikeda if he 'showed fight',⁹⁸ and that he had endorsed the British position because he thought that Britain could obstruct Japanese trade with the sterling area if it did not accede to British proposals.⁹⁹ Furthermore, it indicated, contrary to popular belief, Yoshida's own interest in trade, and Japan's trade expansion in the post-war period.¹⁰⁰

The other issue that delayed the signing of the agreement was Hong Kong. Although British negotiators made it quite clear that Hong Kong would be included in the new payments agreement from the start, the issue was not discussed during the main negotiations. It was agreed at the last meeting of the sterling financial conference that Hong Kong would be discussed by the drafting committee, which consisted of Kiuchi, Ishida and Yukawa¹⁰¹ on the Japanese side, Thomas and Loynes on the British side and a SCAP observer.¹⁰² There was a delay in bringing the issue to the negotiating table on the British side because British officials in Hong Kong were themselves reluctant to include the colony in the sterling payments agreement with Japan. Under

the OPA, Hong Kong had been an entrepôt trading port, where goods originating in China, Taiwan and Thailand would pass through Hong Kong on their way to Japan. The argument put forward by the Governor of Hong Kong, Alexander Grantham, was that if Hong Kong was included in the sterling payments agreement, third countries would either barter directly with Japan or use another open account country to conduct trade, thereby reducing the goods which passed through Hong Kong.¹⁰³ It was only after the Colonial Secretary, James Griffiths, had assured Hong Kong that everything would be done to enable free trade transactions between Japan and Hong Kong that officials agreed to their inclusion in the sterling payments agreement.

Conversely, Japan opposed the inclusion of Hong Kong in the agreement because of fears that Japan would accumulate an even larger supply of sterling through its trade with Hong Kong. Furthermore, the Japanese side feared that Japan's trade within the region would be syphoned off if Hong Kong was included in the trade agreement.¹⁰⁴ The Japanese side felt that it had a strong negotiating position because of the uncertainty voiced by Hong Kong officials, and also because they had the backing of US officials in Tokyo and Washington.¹⁰⁵ US officials were especially concerned about Hong Kong's inclusion in the payments agreement because it would undoubtedly change the trade patterns to the detriment of Japan's overall trade.¹⁰⁶ Moreover, although it can only be speculative, there is reason to believe that Kiuchi might have viewed Hong Kong as a personal issue after losing over Japan's claim for convertibility.¹⁰⁷ Kiuchi's actions throughout the negotiations, from his lateness to meetings to his acrimonious views towards the negotiations in the press, and his sullen countenance during discussions suggest that he was personally in favour of excluding Hong Kong.

The Japanese side finally agreed to include Hong Kong in the sterling payments agreement after a two-week stalemate. The Japanese position was overturned at a Cabinet meeting because the ministers wished to settle the negotiations before the opening of the San Francisco Peace Conference. Furthermore, provisions in the payments agreement such as a ninety-day notice of abrogation meant that Japan could opt out in case Japan became dissatisfied with it.¹⁰⁸ Although Clutton's visit with Iguchi and Shirasu during the deadlock speeded up the process,¹⁰⁹ it was clear to the British side that Yoshida had intervened to 'knock Kiuchi off his perch', and to reach an agreement with Britain.¹¹⁰

The sterling payments agreement was signed on 31 August 1951.¹¹¹ On the same day, Britain and SCAP abrogated the OPA. The payments agreement was initially a one year agreement with the option of extension or renewal by mutual agreement. There was a provision of a three months' notice of termination by either side. The two sides also

agreed to a payments review in six months time. Although Japan was included in the bilateral account, it was permitted to transfer sterling to the transferable account group with the permission of the Bank of England. Its special features were the exchange of notes, which was the outcome of the prolonged wrangling between the Japanese and British delegates.¹¹²

Although Britain saw the payments agreement as a success, as almost all its negotiating positions were fulfilled, the optimism was not to last for long. In fact, by the end of the year, there was much gloom due to Japan's misinterpretation of the agreement.

Anglo-Japanese Differences over the Sterling Payments Agreement

When the sterling payments agreement was signed on 31 August 1951, the Japanese side believed it had gained one important concession for giving up its dollar clause; the recognition of Japan as a soft currency country with all the trade advantage that would go with that status. The main reason why Japan was considered hard until the signing of the agreement was that under the OPA with SCAP, surplus sterling was exchangeable into dollars. With the gradual withdrawal of SCAP from trade and economic affairs, and the return of trade and financial responsibilities to Japanese officials, however, Britain no longer deemed it appropriate that Japan be able to exchange its sterling into dollars. During the negotiations, it was agreed that neither Japan nor Britain would agree to a maximum or minimum limit to their trade, and that they would establish new trade relations according to the supply and demand of commodities traded during the first six months of trade under the new arrangement.¹¹³

The British side, however, did not view the sterling payments agreement in the same way as the Japanese. Although Britain agreed to the expansion of trade with Japan and agreed to Japan's transfer of sterling to third countries through an administrative process,¹¹⁴ the British representatives in Tokyo did not believe that they had given any 'hard and fast assurance'¹¹⁵ regarding the transformation of Japan from a hard to soft currency status.

The Japanese side, in particular the MITI, either misinterpreted or overlooked the UK representatives' point. The problem can clearly be seen in a note of 27 September from Ushiba Nobuhiko, the Chief of International Trade Bureau of MITI, to NS Roberts, Commercial Minister to the UKLM in Japan, in which he wrote:

With the recent conclusion of a new Payment Agreement between the UK and Japan, Japan has become a soft currency country . . . we are looking to the UK government to recognise Japan's new status as a soft-currency country and to relax licensing both for imports and exports.¹¹⁶

Despite Ushiba's specific reference to Japan as a soft-currency country, there is no documentation which indicates that Roberts or any other UKLM official corrected Ushiba or any other MITI representative on Japan's misinterpretation. This was probably due to the fact that the primary focus of discussion between Roberts and Ushiba was on whether to set a hypothetical upper limit on trade between the sterling area and Japan. Initially, Ushiba proposed a limit of £230 million each way for the coming trade year. This was to cause problems for the sterling area, as all the countries wishing to purchase goods from Japan had increased their estimates. The figure for the ex-participants alone came to £225.5 million. Therefore, the total sterling area estimates including the ex-non-participant figures would have exceeded Ushiba's proposed limit. The setting of an upper limit was, therefore, already leading to arguments among the sterling area countries about who would prune their essential licenses.¹¹⁷ Therefore, on 2 October, Roberts returned an unsigned note to Ushiba proposing that trade between Japan and the sterling area be 'allowed to flow freely in each direction without any fixed upper limit'.¹¹⁸ What he meant by this, and what was understood by MITI officials was that although both sides would import essentials freely, both sides must retain their freedom of action to decide what were essentials and to exercise great caution as regards less essential goods.¹¹⁹

At this juncture, both sides were satisfied with the recently signed sterling payments agreement and the expected trade flow between the two sides. Problems arose, however, during Kiuchi's visit to the Treasury in London in October. Kiuchi, who was the head of the FECB, embarked on an extended visit to Europe to familiarize himself with the workings of European central banks.¹²⁰ His trip was endorsed by SCAP, and it was mainly exploratory, therefore, he was not authorized to make decisions on behalf of the Japanese government. However, despite the exploratory nature of his visit, when Kiuchi and Kitahara Hideo of MITI visited the Treasury on 12 October, the former asked Treasury officials to clarify in writing the meaning of the 'free flow of trade' in Roberts' note to Ushiba. The Treasury officials were unaware of Ushiba's correspondence to Roberts of 27 September or of Roberts' note to Ushiba of 2 October. As the Treasury officials could not supply answers to Kiuchi's questions, the issue had to be referred to Tokyo. The other issue which was raised during the discussion was Kiuchi's proposal to the Bank of England that Japan limit its sterling holdings after the trading season to £30 million instead of the £50 million previously agreed during the negotiations. Eventually in an exchange of letters between Kiuchi and David Serpell of the Treasury on 25 October, both sides agreed that the 'free flow of trade' meant a free flow of essential items for the Japanese side, and it was also agreed that the sterling area countries would remain 'free to interpret the relaxation in similar

terms'.¹²¹ Furthermore, it was agreed that if Japan's sterling balances exceeded £30 million at the end of Japan's principal purchasing season, representatives of the two sides would enter into consultation as envisaged in points one and two of the exchange of notes.¹²²

The significance of the exchange of notes between Kiuchi and Serpell was first that Kiuchi had over-stepped his mark while he was in Britain, which was probably not well-received in Japan.¹²³ More important, was the Anglo-Japanese misunderstanding which became apparent during Serpell and Kiuchi's talks. The first and foremost was the difference over Japan's currency status, and whether Japan had become a soft-currency country or not. The other points of difference which came to light during the talks were the issue of third country sterling transfers, and of Hong Kong. The Japanese side believed that third country transfers had been introduced to the sterling area-Japan trade as a measure to keep down Japan's sterling balances from reaching an unmanageable level. They had not imagined that Japan would have to accept sterling from a third country. It was only on arrival in the UK that Kiuchi and Kitahara found out that Japan would have to accept two-way sterling transfers into and out of Japan. They remained adamant that third country transfers were strongly pressed on them as a means of keeping down Japan's sterling balances and that 'there had been no question of necessary reciprocity'.¹²⁴ This was another blow to Britain's efforts of the summer. Britain's idea behind introducing third country transfers in its trade with Japan was to introduce Japan gradually to the sterling area trade, with a view to changing Japan's status from the bilateral bloc to the transferable bloc in the future. The end motive was to expand the use of sterling in East Asia, and as China was largely cut off from trade with the west, Japan was considered the 'main point of attack'.¹²⁵ Over Hong Kong, Kiuchi asked for all trade to be settled in Hong Kong dollars, in order to keep trade with Hong Kong separate within the payments agreement.¹²⁶ Britain refused Kiuchi's request as it was contrary to what was agreed in Tokyo.

Back in Japan, the government convened an inter-ministerial meeting on 30 October in order to clarify whether Japan had been guaranteed soft currency status during the recent payments negotiations.¹²⁷ The Japanese remained convinced that Britain had gone back on its word after they had got the 'financial agreement safely in the bag',¹²⁸ as India announced that it would be treating Japan as a soft currency country from October.¹²⁹ Despite agreement on the above point, no specific policy was hammered out because the issue soon developed into an inter-ministerial confrontation between the MITI and the MOF, in which the MITI refused to accept the interpretation given to the agreement between Ushiba and Roberts that the relaxation of trade would be based on essentials only, and advocated an expansion of trade with the sterling area; while the

MOF on the other hand argued for a campaign of reducing Japan's trade with the sterling area.¹³⁰

The MITI's support for the sterling payments agreement was probably based on their realization that Japan could not count on dollar earnings in the long run, and that as a consequence, it was essential for Japan to expand its trade with the non-dollar world.¹³¹ Conversely, one cannot totally preclude the idea that officials were supporting the idea of liberalized trade because they had persuaded the anti-sterling officials into supporting the agreement on the condition that Japan would be able to export non-essentials to the sterling area, and felt a sense of responsibility for the position they had taken earlier. This would explain why the MITI could not be persuaded to accept the exchange of letters between Serpell and Kiuchi.¹³²

The MOF on the other hand, was against an expansion of trade with the sterling area because imports from the dollar area were cheaper than sterling imports. They were also reluctant to trade in sterling because they wished to continue to earn dollars from Indonesia and Thailand. Moreover, the MOF was hoping to see the reversion of Hong Kong to the open account basis and to re-write the dollar clause back into the sterling payments agreement.¹³³

In early November, the Japanese government decided not to ratify the exchange of letters signed between Kiuchi and Serpell.¹³⁴ Therefore, sterling area-Japan relations began hesitantly. Matters did not seem bright on the trade front either, as Japan was not purchasing the same amount of goods from the sterling area as sterling area countries did from Japan. At the end of August, Japan held £38 million sterling balance, but by the beginning of November that had risen to £50 million.¹³⁵ Japan's rising sterling balance only confirmed Japan's fears that without a dollar convertibility clause, Japan would accumulate an unnecessary amount of sterling. Furthermore, Britain's problems at Suez and Abadan, the drain on Britain's dollar and sterling reserves and the growth of Britain's debtor position within the EPU (European Payments Union)¹³⁶ all led to Japan's fears that Britain's multiple problems would result in another pound devaluation.¹³⁷ Fearful of holding on to too much sterling, Yoshida instructed the implementation of the following six points on 1 December in order to increase Japan's trade with the sterling area.

1. Priority foreign exchange allocations to importers wanting to buy goods from the sterling area.
2. Dollar imports to be limited to goods that cannot be obtained elsewhere.
3. Bank preference on loans to importers wanting to buy from the sterling area.

4. Imports of raw cotton, wheat, phosphorus and iron ore from the sterling area to be encouraged. Big raw cotton imports from the dollar area to be discouraged.
5. No attempt should be made to limit sterling balances by withholding exports to the sterling area but all round trade should be expanded.
6. Complicated domestic banking procedures should be revised to simplify buying from the sterling area.¹³⁸

The telegram from Tokyo which referred to the above indicated the unlikely possibility of all six points being implemented,¹³⁹ but the significance of Yoshida's instruction was that it was a step toward a solution of the domestic dispute. While the MOF and MITI argued over whether to expand or contract trade with the sterling area, it did not change the fact that Japan was accumulating sterling. Although Yoshida's action might on the surface indicate his support for the sterling area and MITI's position in the domestic wrangle, his action was probably a result of practical politics; namely, to keep sterling reserves to a manageable level.

For the British, the controversy which arose as a result of the exchange of letters between Serpell and Kiuchi revealed a huge misunderstanding between Japan and Britain over the payments agreement. The British side was adamant that there had been 'no bad faith'¹⁴⁰ on their part, and refused to allow the Japanese side to withdraw the exchange of letters of 25 October or accept Japan as a soft currency country. One can see from the minutes of the sterling payments negotiations in Japan in the summer of 1951 that British negotiators repeatedly stressed 'orderly' and 'steady' development after the new arrangements took effect.¹⁴¹ Therefore, the British were justified in their claim that there was no bad faith on their part, and that they were not attempting to mislead their Japanese counterparts deliberately. The British side, however, should accept some responsibility for the misunderstanding on two accounts. First, the ambiguity of the wording of the minutes of the negotiations, and second, the lack of communication between the UKLM in Tokyo and the Treasury, which led to the exchange of letters between Kiuchi and Serpell. One cannot blame Serpell of the Treasury for the fact that he was not aware of the letter from Ushiba to Roberts of 27 September or the unofficial memorandum written by Roberts in reply to Ushiba's letter. The misunderstanding, however, points to the fact that there was a lack of communication between the UKLM in Tokyo, the Foreign Office and the Treasury. It is puzzling that the UKLM did not send back all the information concerning their interaction with Japanese officials, especially in the light of the fact that Kiuchi was going to London to talk to Treasury officials in charge of the sterling area-Japan trade.

The effect of the misunderstanding, however, was not just limited to the financial sphere. The Yoshida Letter of December 1951 would soon indicate that differences in one aspect of the relations could lead to misunderstandings in another.

The Peace Treaty and the China Issue

Japan's road to independence entailed the signing of a treaty with its war-time belligerents. The treaty signed on 8 September 1951 was very different from the one that was envisaged at the end of the war due to the changed circumstances in East Asia. Before the outbreak of the Korean war, a rivalry existed between the State Department and the Joint Chiefs of Staff about a peace treaty with Japan, but with the intensification of the war in Japan's neighbouring peninsula, the State Department's treaty was adopted. In its final form, Japan was asked to rearm, while the separate US-Japan Security Treaty enabled the United States to secure base rights in Japan. In return for Japan's industrial rearmament and the establishment of armed forces, however, the United States had to give guarantees to Australia and New Zealand against a possible attack from Japan. This led to the signing of the ANZUS pact between the United States, Australia and New Zealand on 1 September 1951. The other defence treaty signed in the same period was the US-Philippines mutual defence treaty. The former was a cause of great humiliation for Britain which was excluded from the pact.¹⁴²

In the lead up to the Peace Treaty, the United States and Britain worked together very closely to reach an agreement over the text. Of particular interest to Britain was the inclusion of provisions which prohibited a repeat of Japan's pre-war trade practices, but the United States rejected these as inappropriate in a treaty.¹⁴³ Therefore, various indirect safeguards were placed; such as a declaration attached to the treaty which specified Japan's intention to accede to the agreement for the prevention of false indications of origins of goods. This was to prevent Japan from copying British textile patterns.¹⁴⁴ More importantly, there was Japan's renunciation of the 1919 Congo Basin Treaties (article 8b).

The Congo Basin Treaties were a series of treaties supporting the open door policy in the Congo basin area. They consisted of the Berlin General Act of 1885, the Brussels General Act of 1895, and the main Convention of St. Germain-en-Laye of 10 September 1919. Although Japan was not a signatory to the first two acts, it had become a signatory of the Convention of St. Germain-en-Laye due to its involvement on the allied side in the first world war.¹⁴⁵ The reason why the Board of Trade insisted on Japan's renunciation of the treaty was to prevent Japan from equal commercial rights in the Congo Basin region, thereby, enabling Britain to protect its exports against Japanese competition.¹⁴⁶ Textiles exporters were particularly concerned about Japanese

competition in Uganda, Kenya, Zanzibar, Tanganyika and Nyasaland, part of the Sudan and Northern Rhodesia, due to Japan's pre-war exports to the area.¹⁴⁷ Tables 2.1 to 2.6 clearly show that Japan out-exported Britain in all the above countries from 1937 to 1939, except in Northern Rhodesia. The statistics, therefore, indicate the underlying reason for British fears.

In reality, however, Japan's renunciation of the Congo Basin Treaties did not safeguard British textiles industries. This was due to the complexity of the treaties, which made it possible for Japan to press for their rights under the Berlin Act, which stipulated freedom of trade and equality of treatment for the goods, ships, persons and companies of all nations.¹⁴⁸ The exclusion of Japan, therefore, merely gave Britain the freedom to revise the St. Germain Convention without Japan's intervention. Even revising the treaties was to prove difficult, as any introduction of tariffs which were aimed at protection of British goods would have been opposed by other signatories, as the purpose of the treaties was to 'further the welfare of the inhabitants of the Congo territories, not of the parties to the Treaties'.¹⁴⁹ Moreover, there was only a small chance that Britain could bring together the signatories of all three treaties to revise them in order to safeguard British interests against Japanese competition. Therefore, Japan's renunciation of the Congo Basin Treaties only served as a psychological rather than a real safeguard. British industries were aware of this as was evident in the meeting of the Japanese panel of the Overseas Trade policy Committee of the Federation of British Industries. The minutes of the meeting of 23 July, indicate that the consensus was that the only hope for individual United Kingdom industries was to 'endeavour to come to an understanding with their Japanese counterparts so that they might discover where Japanese exports were likely to conflict with those of United Kingdom manufacturers, and make their plans accordingly'.¹⁵⁰

The issue which had the most far-reaching consequences for Japan, however, was the China issue. The problem arose as a result of the dilemma faced by Britain and the United States over which China to invite to the peace conference. The question was a difficult one for one very good reason: Britain and the United States had recognized different Chinas. Britain had decided soon after the establishment of the PRC that it would recognize the mainland, as it did not want to jeopardize its financial foothold there, while the United States had decided to continue to recognize the nationalist government, now located on Taiwan as the legitimate 'China' as a result of various factors such as the Angus Ward case, the PRC's decision to confiscate foreign properties and the outbreak of the Korean war.¹⁵¹ Inviting one China to the conference and not the other had serious implications. If the PRC was invited, the issue of Taiwan and its return to mainland China would have been raised; while an invitation to Taiwan

would have caused protests from the Soviet Union and raised concerns about such an act strengthening the Sino-Soviet alliance.

Therefore, at a meeting on 19 June, Herbert Morrison, the British Foreign Secretary, and John Foster Dulles, the Consultant to the Secretary of State in charge of the Japanese Peace Treaty, agreed to invite neither China to the peace conference and in a joint statement, they agreed that:

Japan's future attitude towards China must necessarily be for determination by Japan itself in the exercise of the sovereign and independent status contemplated by the treaty. The treaty has been framed so as not to prejudice that important principle.¹⁵²

Despite the Dulles-Morrison agreement, and a verbal assurance from Yoshida that Japan would not sign a peace treaty with the PRC, Dulles felt the need for a more concrete assurance from Yoshida. This was due to two contradicting statements made by Yoshida in ~~his~~^{her} interpellations in October after the signing of the treaty and prior to its ratification. In one statement, he rejected a treaty with China, and in another, he expressed his desire to sign a treaty with both the Soviet Union and the PRC.¹⁵³ Dulles was particularly concerned with the difficulties he might have in seeing the Peace Treaty ratified in the Senate if Japan seemed equivocal about its relations with the two Chinas. The underlying reason was his fear that he would suffer the same fate that befell Woodrow Wilson at the 1919 Paris Peace Conference.

Before getting a written assurance from Yoshida, however, Dulles decided to consult the British government about his plans. Dulles hoped that the Conservative government which came into office on 26 October, would release the United States from its obligation under the Dulles-Morrison agreement, and enable Japan to make at least a limited peace treaty with the Nationalist government.¹⁵⁴ Livingston Merchant, the Assistant Under Secretary of Far Eastern Affairs, who was then on holiday but familiar with the China issue, was instructed to go to London and discuss the problem with the Foreign Office. During the discussions on 13 and 14 November, Robert H Scott, the Under-Secretary of the Far Eastern Department gave three reasons why Britain could not endorse the American request. First, it would 'expose His Majesty's Government to the charge of conniving to a breach of a fundamental agreement in regard to China'¹⁵⁵ on which the Peace Treaty had been based. Second, he thought that in the long term it was unwise to influence Japan's future policy towards China, and wanted to avoid a situation where it 'would enable Japan to claim at a future date that her attitude to China had been determined for her by irresistible foreign pressure, while she remained an occupied country.'¹⁵⁶ Scott thought it was crucial that the allies should not

be placed in a situation where they could be blamed for Japan's failed China policy. Finally, he believed the United States should not be influencing Japan's policy for a short-term objective such as ratification of the treaty in the Senate because it might be 'laying up considerable trouble for the future'.¹⁵⁷

On 14 November two meetings were held in order to write a draft agreement of the joint Anglo-American approach to Sino-Japanese relations. The agreement was then passed on to Anthony Eden, the new Conservative Foreign Secretary, and Sir Esler Dening, the new head of UKLM in Tokyo. The reaction of Dening was adverse, but for Eden the memorandum came as a 'bomb-shell'¹⁵⁸ as he was unaware that Scott and Merchant had 'gone so far and so fast'.¹⁵⁹ What Eden objected to was point four of the agreement below:

If in view of the importance to Japan of regularising her relations with the authorities in Formosa, the Japanese Government wish, before the Peace Treaty comes into force, to engage in preliminary discussions with the Chinese Nationalist Government for this purpose, the US Government and His Majesty's Government in the UK would have no objection to such action on the part of the Government of Japan providing that any Treaty or Agreement arising from such preliminary discussions were not concluded until after the Multilateral Peace Treaty had come into force.¹⁶⁰

Eden, therefore, supported Morrison's position and refused to unbind America from its commitment. Due to the failure of the talks in London, Eden raised the issue with Acheson in Paris, where they were both attending the sixth regular session of the UN General Assembly.¹⁶¹ Neither Acheson nor Eden was able to settle the issue in Paris, therefore the final decision on the Japan-Taiwan issue was to be settled by Dulles and Dening during Dulles' forthcoming visit to Tokyo¹⁶² with Senators John Sparkman (Democrat-Alabama) and H. Alexander Smith (Republican-New Jersey) of the Far Eastern Subcommittee of the Senate Foreign Relations Committee.¹⁶³

By the end of November, it was clear that the United States needed more than a verbal reassurance from Japan that it would open relations with the Nationalists in Taiwan. In fact, what the Americans wanted was the start of peace negotiations between Japan and the Nationalists so that Sparkman and Smith, the two Senators who had been appointed to defend the treaty, would be able to pass it through the Senate. The British, were, however, opposed to any de jure recognition of the Nationalists by Japan because of the various implications it would have on future relations between mainland China and Japan, and in the long run, possible strains between the western allies and Japan. Nothing conclusive was decided in London and Paris; therefore, it was up to Dulles and Dening to come to a decision in Tokyo. By this time, however, there was a

growing belief amongst American officials that Dening was working behind the scenes to prevent Japan from recognizing the Nationalists. In a memorandum to Dulles on the Anglo-American discussions held in London and Paris, Merchant wrote his observations of the British position. With regard to Dening in Tokyo, he wrote:

I believe Dening is the real fly in the ointment and that he has been actively attempting to influence the Japanese, not to a postponement of a choice on their part of which China, but actually to an ultimate choice of the Peiping (Beijing) government.¹⁶⁴

This view was supported by the Assistant Secretary of State for Far Eastern Affairs, Dean Rusk, who together with Sebald, met Yoshida on 27 November.¹⁶⁵ The US officials quickly tied Dening's alleged actions with the difficulties they encountered in drafting an Anglo-American peace treaty with Japan.¹⁶⁶ They perceived that the Foreign Office was against Japan's recognition of Nationalist China lest it led to a renewal of Japanese competition in Southeast Asia and other areas of British interest.¹⁶⁷ Therefore, Britain was perceived to be encouraging Japan towards the recognition of mainland China in order to protect British interests in Southeast Asia. In his memorandum to Acheson, Sebald wrote:

. . . It is my impression, however, that he (Dening) strongly shares (the) belief (that) increased Japanese trade with South East Asia must necessarily be at British expense, from which he may deduce that any diversion of Japanese economic pressure toward continental China would be to UK's advantage, even though to detriment US political objectives.¹⁶⁸

The increased suspicion towards Dening made the probability of a successful meeting between Dulles and Dening difficult. It can be deduced from the memoranda and telegrams being exchanged between the key US officials on this matter that they thought Dening was not being entirely straightforward with them. Conversely, British officials became concerned that the United States was intent on forcing a policy upon Japan based on short-term domestic problems.

On their first meeting in Tokyo on 13 December, Dulles handed Dening a memorandum which reiterated the American position.¹⁶⁹ Dening objected to the memorandum and explained the view which Eden had expressed on previous occasions. After the meeting Dening observed in a telegram that:

It looks as if the Americans are going to go ahead with this whether we like it or not. The Japanese certainly will not like it but they may well give in under pressure.¹⁷⁰

In the same telegram he thought of three possible courses of action for the British. First was to 'refuse even to discuss Dulles' proposal which would inevitably lead to a strain in Anglo-American relations.¹⁷¹ The second course was to examine the US proposal and 'to devise a formula which would enable Japan to make peace with Chiang Kai-shek (Jiang Jieshi) without irrevocably prejudicing her future relations with China'.¹⁷² The third was to persuade America to drop the whole idea. At the end of the telegram, Dening asked the Foreign Office for instructions concerning the issue.

The Foreign Office, perceiving that the matter would be more successfully handled in Washington, sent a telegram to Sir Oliver Franks asking him to try to 'persuade Mr. Acheson not to press the Japanese to take any action ... before the Peace Treaty comes into force'.¹⁷³ In the meanwhile, the Foreign Office instructed Dening not to continue the talks until Franks had had an opportunity to meet Acheson to convey British concerns over Dulles' action in Japan.¹⁷⁴ Acheson and Franks met on 18 December, and on concluding the meeting, Acheson sent Dulles a telegram informing him of the details of the meeting. As Franks had stressed that Britain was opposed to business arrangements between Taiwan and Japan transforming into a peace treaty under pressure from the United States, Acheson asked Dulles to begin negotiations on an agreement but which 'did not in preamble appear as 'Treaty of Peace'.¹⁷⁵ Moreover, to keep Tokyo-Taiwan negotiations in progress until the Treaty was ratified.¹⁷⁶

Unfortunately, by the time the telegram was written¹⁷⁷ and sent to Tokyo, Dulles had departed for Honolulu,¹⁷⁸ secure in the knowledge that Yoshida would write a letter confirming his desire to sign a peace treaty with Nationalist China.¹⁷⁹ What had led Dulles to ask Yoshida to write the letter was probably as follows.

Dulles, who flew to Korea on 13 December, returned hoping to continue discussing the Japan-Taiwan problem with Dening in order to reach a compromise solution between the two countries before his departure on 20 December. However, at an Anglo-American party on the evening of 17 December, Dening told Dulles that he was under instruction not to discuss the problem with him, and that the issue was being raised instead in Washington.¹⁸⁰ Dulles must have felt frustrated by Dening's message. He was at the time already convinced that Dening had been 'advising the Japanese government against any form of recognition of the Chinese Nationalists, and doing so without any notification to us'.¹⁸¹ Furthermore, Dening's message contradicted the agreement between Eden and Acheson of November that the issue would be discussed between Dulles and Dening in Tokyo. Dulles probably concluded that Dening and the British in London were being unreasonable as the instructions given to Dening made it

'impossible to take advantage of my (Dulles) presence in Tokyo to arrive at a joint position with the Japanese government'.¹⁸²

These 'assumptions', together with Smith and Sparkman's view that a letter from Yoshida was necessary to get the treaty ratified, led Dulles to decide that a letter needed to be drafted by him, and signed by Yoshida.¹⁸³ At a meeting between Dulles, Sebald, Yoshida and Iguchi on 18 December, Yoshida agreed to write a letter, and it was decided that the letter would be given to Sebald at a later date.¹⁸⁴ It was also agreed that the letter would not be published until after it was made known to Churchill and Eden during their visit to Washington in early January.¹⁸⁵

Dulles left Dening with the impression that nothing had been decided during his stay in Tokyo.¹⁸⁶ Unbeknown to Dening, however, Yoshida handed a copy of the letter to Sebald on 26 December, which was later despatched by diplomatic pouch, to arrive in Dulles' hand on 7 January.¹⁸⁷ The question that one must ask is why were Churchill and Eden not informed about the letter when it was in Dulles' hands by 7 January?

The issue of Japan and Taiwan was discussed between the heads of state and the Foreign Secretaries on 5 January during a dinner meeting aboard the *S.S. Williamsburg*. It was agreed at the meeting that the differences should be ironed out between Acheson and Eden.¹⁸⁸ The letter was shown to Franks on 9 January at the preparatory meeting between Franks, Dulles and Allison, prior to the meeting between Acheson and Eden on 10 January.¹⁸⁹ A copy of the letter, however, was not given to Franks to show to Eden, and the letter was only referred to indirectly on 10 January, when Dulles informed the British side that 'he had now received a direct communication from Mr. Yoshida, stating the intentions of the Japanese government, and that it would probably be necessary to make this known during the course of the Senate's consideration of the peace treaty with Japan'.¹⁹⁰

It was apparent from the meeting that although Eden understood and sympathized with the American situation, he could not compromise his position by reversing his stance. In the course of the meeting, Eden reiterated the view that nothing should be done to give Japan the opportunity in the future to say that it had been forced to recognize Nationalist China against their own free will, and after further discussion, it was agreed that the British side would instruct Dening, if approached by Yoshida, to say that:

the exchange between Mr. Acheson and Mr. Eden was full and cordial and there was complete mutual understanding. Though in this respect the result was an agreement to disagree this in no way affected the existing broad area of agreement between the two governments on all other matters relating to Japan.¹⁹¹

It now appears that two assumptions were made by the American side during the course of the two meetings. First, the US officials assumed that Franks had informed Eden about the existence of the note; and second, that Eden had acquiesced to the note and was stating the British case on 10 January with the note in mind. Therefore, Acheson sent a telegram to Sebald on the following day, instructing him to tell Yoshida to release the letter.¹⁹² Yoshida agreed to publish the letter after he had received a telegram from Dulles stating that the letter had been shown to Eden in Washington and that 'there had been a general Anglo-American understanding on the China problem'.¹⁹³

When the Yoshida Letter was released simultaneously by the Americans and the Japanese on 16 January, it came as a great surprise to the British. It was especially embarrassing for Eden, as the letter was published on the day he returned to England. The publication led to speculations that there was a strain in Anglo-American relations over the China issue, but as emphasized by Eden and Acheson in their memoirs, the incident did not affect the relations between the two ministers.¹⁹⁴

When Dulles heard of Britain's adverse reaction to the Yoshida Letter, he asked Acheson to say at the next press conference that, '...whatever was done in this matter was done not by me (Dulles) personally but by the United States government and that, in your (Acheson) opinion, there is no basis whatever for any imputation of bad faith or breach of agreement by the United States government or any of its officials'.¹⁹⁵

Later, Dulles justified his action in a memorandum. He wrote that, 'the Dulles-Morrison Agreement of June 1951 never undertook that Japan would have a vacuum within which to decide its China policy. That would have been an unfulfillable undertaking. It did promise that Japan would have the right to reach its own decision as to what was in its best national interest, taking into account all the surrounding circumstances'.¹⁹⁶

The issue that has seldom been researched in regard to the Yoshida Letter is Dening's role in the whole incident. Were the allegations against him true that he was working behind the Americans to persuade Japan from recognizing the Nationalists? Furthermore, was he being instructed by the British government to act in such a manner

because their interests in Southeast Asia were being threatened by Japanese competition?

There are two sources for American suspicions of Dening's actions in Japan. First, Sebald became suspicious with Dening's activities in October.¹⁹⁷ Sebald went as far as to ask Yoshida, whether there had been any pressure from the British. Although Yoshida negated this idea, Sebald seemed to persist with it, based on the assumption that Britain was against Japan recognizing the Nationalists for their own ends. Second, Dulles, who was already of the view that Britain was acting out of fear of Japanese competition,¹⁹⁸ came to the conclusion that Dening was working behind America's back after reading a message written by Eden to Acheson on the British stance towards the Japan-Taiwan issue. He seems to have taken the following sentence as evidence against Dening:

It would be quite another thing for Jap(an) to embark on any form of recognition of the Chi(nese) Nationalists, and if need arose I sh(ou)ld feel bound to endorse the advice already given the Jap(anese) Gov(ernmen)t by Sir E. Dening against this action.¹⁹⁹

Dening tried to clear his name a year after the incident on hearing of Dulles' appointment as the Secretary of State in the Eisenhower administration. In order to prevent an Anglo-American strain over Japan, he asked Scott to look over the documents to clarify his innocence. In a note to Christopher Steel, Scott stressed that Dening did not advise Yoshida against recognizing the Nationalist government, and explained the misunderstanding in the following words:

The wording of the secretary of state's message was, however, taken by Mr. Dulles and the US government to mean that Sir. E. Dening, against Mr. Morrison's understanding with the Americans and without informing them, had advised Mr. Yoshida not to recognise Chiang Kai-shek (Jiang Jieshi).²⁰⁰

Therefore, Dening maintained his position that he had not worked behind the American official's backs, and that he was following the Dulles-Morrison agreement reached in June 1951.

The question then is what were the motivations behind Britain's decision to remain committed to the Dulles-Morrison agreement. It has often been argued by historians such as Schonberger, Hosoya and Dower that Britain took a literal stance on the Dulles-Morrison agreement because Japan's recognition of Taiwan would have closed off Japan's future trade relations with mainland China thereby increasing the probability of Anglo-Japanese trade competition in Southeast Asia.²⁰¹ It should, however, be

emphasized that this was only one of the reasons why British officials remained committed to the Dulles-Morrison agreement. The other two reasons were Britain's opposition to a Japan-Taiwan agreement motivated solely by American concerns for the passage of the peace treaty through the Senate. Furthermore, Britain was perturbed by any American action which Japan could later denounce as having being enforced upon them before their independence. The British concern was well-justified, for the day after the publication of the Yoshida Letter a critical editorial was published in the *Asahi Shimbun*, claiming the issue of the two Chinas was forced upon the Japanese without any consideration for public sentiment.²⁰² Later at a House of Councillors plenary session, there were attacks on Yoshida about why it had been necessary for him to keep the letter a secret.²⁰³ By May 1952, there were already claims that the Yoshida Letter was not binding because it was only a representation of Yoshida's personal opinion.²⁰⁴

Moreover, Dening, whose actions came under great American scrutiny was ironically encouraging greater economic relations between Japan and Southeast Asia. Dening, who was appointed to become the head of the UKLM in August and subsequently became the first Ambassador to Japan, was formerly the Assistant Under-Secretary at the Foreign Office and before that he had been the political adviser to the Supreme Allied Commander for Southeast Asia. As such he had been the leading architect of British regional policies in Southeast Asia and the main author of the British Cabinet paper that led to the Colombo Conference.²⁰⁵ Dening believed that British prestige in the region could be re-established through strong regional cooperation in Southeast Asia, and by the end of the year, he had arrived at the view that Japan could play an important role in this region, by providing goods that were in demand by Southeast Asian residents. He also realized that Japan's economic viability would lead to the strengthening of the strategic defensive parameter in Asia and therefore be of benefit to Southeast Asian defence as well.²⁰⁶ He was influenced towards this view by the Commissioner-General of the United Kingdom in Southeast Asia, Malcolm MacDonald, who had his residence in Singapore.²⁰⁷ MacDonald presided over the annual Bukit Serene Conference in Singapore, where British High Commissioners and Governors of British colonies in Southeast Asia gathered to discuss regional issues. At the meeting in November 1951, MacDonald encouraged Japan's return to Southeast Asia as he thought it could prove to be the most important factor in the stability of Southeast Asia.²⁰⁸ MacDonald and Dening's positions were still considered marginal at this time,²⁰⁹ but they eventually became mainstream views within the Colonial Office and the Foreign Office. Therefore, if Britain originally decided to stand by the Dulles-Morrison agreement of June 1951 to protect its interests in Southeast Asia, this reason became void by the end of the year, as Britain became more concerned with Japan's

right to make its decision without interference from the United States or the United Kingdom.

This then leads to the question of why so many researchers have concluded in the past that Britain's underlying motives were based largely on economic fears. The main reason for the misinterpretation has been the acceptance of the American perception over the issue. Moreover, there has been an element of misunderstanding concerning Yoshida's anxiety over the whole debacle. Yoshida's concern over the British position has often been interpreted as due to his personal attachment to Britain, but in fact Yoshida's anxiety was directly related to Japan's relations with the sterling area. As discussed earlier in the chapter, at the end of 1951, Japan and Britain were at odds over their respective interpretation of the recently signed payments agreement. There was a strong feeling among Japanese officials that Britain had not kept its promise to recognize Japan as a soft currency country. Moreover, Japan was starting to accumulate an excessive amount of sterling which it was unable to convert into dollars. Japan therefore thought that, Britain, as the banker for the sterling area, was capable of restricting and channelling Japan's trade with sterling and transferable account areas.²¹⁰ In reality, however, Britain only had the power to restrict Japan's trade on balance of payments grounds, but this was not entirely clear to the Japanese side, as evident in the confusion during and after the sterling payments negotiations. Yoshida was therefore worried that if Japan tied its policy with the United States against Britain, the latter might try to manipulate sterling trade to Japan's disadvantage.²¹¹ Conversely, Yoshida realized that tying Japan's policy to that of Britain would have caused friction with the United States. Therefore, Yoshida hoped for a united Anglo-American policy towards China. In short, the Anglo-American debacle over the China issue vis-à-vis Japan boiled down to perceptions. The British perceived American policy as short-sighted and based entirely on passing the treaty through the Senate. The Americans perceived Britain as being motivated by protectionism. Conversely, the Japanese saw pitfalls in leaning towards either Britain or the United States, thus, it sought to accommodate both which led to suspicions that Yoshida was playing one off the other.

Until now the American perception of events has taken precedence over that of British and Japanese perspectives, but an understanding of all sides elucidates a far more complex picture. The two points that stand out are Dening's growing belief in the importance of greater trade links between Japan and Southeast Asia, and Yoshida's concern over Japan's relations with the sterling area. Contrary to current understanding, they highlight the fact that Anglo-Japanese economic relations were not entirely governed by mutual fears of competition, and that they saw benefit in establishing stronger trade links.

Conclusion

1951 saw Japan become an observer to the GATT, and a signatory of the IWA and ILO. Although on the surface, Japan's entry to the IWA seemed to indicate Britain's acceptance of Japan, the entry was made possible by America's commitment to provide Japan's wheat quota. Moreover, Japan's observer status to the GATT, although seen as slight progress, was only procedural. The two cases indicate an overall British reluctance towards Japan's re-entry to the western comity of nations on an equal footing. The underlying fear was economic. This was evident in Britain's attempts to include a provision in the peace treaty which would prevent Japan from repeating its pre-war trade practices. Britain was unsuccessful in its attempt, therefore, it had to rely on Japan's adherence to the rules of the ILO, and other international agreements. On the surface, Britain seemed to have gained from Japan's exclusion from the Congo Basin treaties, but the complexity of the treaties prevented Britain from taking discriminatory action against Japan. Therefore, Britain's embattled industries were left to march forward on their own.

Although Britain's policy towards Japan seemed on the defensive, this was not entirely true. A clear example was the sterling payments agreement with Japan. Britain's policy objectives behind the sterling payments agreement indicate that Japan could play an important role for Britain. Although most literature on Japan's economic recovery has argued that Japan's trade expansion into Southeast Asia was at Britain's expense, the study compiled by the inter-ministerial group elucidates the government's attempt to use Japan's industrial potential to expand sterling usage in East Asia. Furthermore, there was growing British acceptance of Japan's presence in Asia as indicated by Denning and MacDonald's conviction that Japan could play a useful role in Southeast Asia. Moreover, by 1951, the government was resigned to the fact that Southeast Asian rice supplies would have to be shared with Japan.²¹²

Unfortunately for the sterling policymakers, Japan misunderstood Britain's intentions and feared possible British discrimination against Japan in the sterling bloc. Japan's view derived from the assumption that as the banker to the sterling area, Britain had unlimited control over sterling trade. The debacle in the aftermath of the negotiations probably heightened this view, as Britain refused to recognize Japan as a soft currency country. Britain's link with the sterling area, was therefore an indicator of its importance to Japan in the post-war period. For this reason, Yoshida was wary of upsetting Britain over other issues in case it led to further repercussions on sterling area-Japan trade.²¹³

Cotton Imports into the Congo Basin

Table 2.1

Cotton Piece imports into Sudan, 1937-1939

Quarterly Averages -Thousand Quintals

	1937	1938	1939
Total	21.89	23.24	20.50
UK	.48	.48	.48
Japan	20.37	21.97	19.47

*Note: on the conversion rate between one quintal to one yard see the footnote 9 of Kaoru Sugihara, 'Sengo Nihon Mengyô wo meguru Kokusai Kankyô: Asia kan Kyôsô Fukkatsu no Kôzô' in *Nenpô Kindai Nihon Kenkyû* 19 (1997), p. 107.

Table 2.2

Cotton Piece imports into Kenya and Uganda, 1937-1939

Quarterly Averages-Million Square Yards

	1937	1938	1939
Total	18.23	15.28	15.54
UK	.82	.87	.78
Japan	16.69	13.72	14.21

Table 2.3

Cotton Piece Imports into Tanganyika, 1937-1939

Quarterly Averages- Million Square Yards

	1937	1938	1939
Total	13.59	10.45	12.68
UK	.72	.60	.40
Japan	11.21	8.35	11.14

Table 2.4

Cotton Piece Imports into Zanzibar, 1937-1939

Quarterly Averages-Million Square Yards

	1937	1938	1939
Total	1.75	1.68	1.28
UK	.21	.14	.08
Japan	.99	.92	.90

Table 2.5

Cotton Piece Imports into Nyasaland, 1937-1939

Quarterly Averages- Million Square Yards

	1937	1938	1939
Total	3.05	3.52	3.41
UK	.20	.16	.11
Japan	2.78	3.29	3.27

Table 2.6

Cotton Piece Imports into Northern Rhodesia, 1937-1939

Quarterly Averages-Million Yards

	1937	1938	1939
Total	2.11	2.42	2.47
UK	1.46	1.64	1.78
Japan	.33	.38	.35

Source: Cotton Board Quarterly Statistical Review no. 28 (March 1952), pp. 24,26&27 respectively.

Endnotes

- 1 Remme, *Britain and Regional Cooperation*, p. 134. Tanigawa Yoshihiko in his article 'The Cominform and Southeast Asia' in *The Origins of the Cold War in Asia* (eds.), Akira Iriye and Yonosuke Nagai (New York: Columbia University Press, 1977), pp. 362-377 argues that Moscow could not have influenced the delegates at the Calcutta Youth Conference. On Malaya see Anthony Stockwell, 'Insurgency and Decolonisation during the Malayan Emergency.' *Journal of Commonwealth and Comparative Politics* 25 no. 1 (1987): 71-81. Also by the same author, "'A Widespread and Long-concocted plot to overthrow government in Malaya'?: The Origins of the Malayan Emergency.' *The Journal of Imperial and Commonwealth History* 21 no. 3 (1993):66-88.
- 2 See Anthony Short, *The Origins of the Vietnam War* (London and New York: Longman, 1989), pp. 62-101.
- 3 On the origins of the Korean War, see Bruce Cumings, *The Origins of the Korean War vols. I and II* (Princeton: Princeton University Press, 1981 and 1990 respectively); Rosemary Foot, *The Wrong War: American Policy and the Dimensions of the Korean Conflict, 1950-53*, (Ithaca: Cornell University Press, 1985); Peter Lowe, *The Origins of the Korean War* (London and New York: Longman, 1986); Chen Jian, *China's Road to the Korean War: the Making of the Sino-American Confrontation*, (New York: Columbia University Press, 1994); Sergei N. Goncharov, John W. Lewis and Xue Litai, *Uncertain Partners: Stalin, Mao and the Korean War*, (Stanford: Stanford University Press, 1993); William Stueck, *The Korean War: An International History*, (Princeton: Princeton University Press, 1995); V.M. Zubok, *Inside the Kremlin's Cold War: from Stalin to Khrushchev* (Cambridge: Harvard University Press, 1996).
- 4 Michael Mastanduno, *Economic Containment: CoCom and the Politics of East-West Trade* (London and Ithaca: Cornell University Press, 1992), pp. 83-84.
- 5 Telegram from Tokyo to FO, 6 July 1951, FO371/92642 FJ1121/1, PRO and Report from Singapore to the State Department, 1 August 1951, 494.9731/8-151, NA; See Junko Tomaru, *The Postwar Rapprochement of Malaya and Japan, 1945-1961* (D.Phil Thesis, University of Oxford, 1997), pp. 163-175.
- 6 Note by CH Johnston, 1 June 1951, FO371/92603 FJ1027/1, PRO.
- 7 Morinosuke Kajima (ed.), *Nihon Gaikōshi* [The Diplomatic History of Japan] vol. 30, Kōwago no Gaikō II) Keizai (jyō [Diplomacy after the Peace Treaty (II) Economics (part I)], (Tokyo: Kajima Kenkyūjo Shuppankai, 1972), pp. 261-262.
- 8 42nd Cabinet conclusions, 11 June 1951, CAB128/19, PRO.
- 9 Memorandum by the Secretary of State for Foreign Affairs and the Minister of Food, 8 June 1951, CP(51)156, CAB129/46, PRO.
- 10 *ibid.*
- 11 Letter from the Secretary of the IWC to Yoshida, 15 June 1951, p. 75, Dai Hakkai Kokusai Komugi Kyōtei Kankei Ikken (the eighth session of the IWA), reel B-0029, Public Release Series 8, DRM, JMFAA.
- 12 Telegram from Army Department to SCAP, 12 August 1951, SCAP Files, RG331 Box 6420, NA.
- 13 Telegram from Yoshida to Paris, 12 September 1951, p. 142, Kanzei oyobi Bōeki ni kansuru Ippan Kyōtei Kankei Ikken (The Problem of Japanese Entry into the GATT), reel E-0010, Public Release Series 10, DRM, JMFAA.
- 14 Telegram from FO to Geneva, 1 October 1951, in BT11/4856 CRE9060/1951, PRO.
- 15 Summary record of the 18th meeting of the sixth session of the GATT, 9 October 1951, p. 164, Kanzei oyobi Bōeki ni kansuru Ippan Kyōtei Kankei Ikken (The Problem of Japanese Entry into the GATT), reel E-0010, Public Release Series 10, DRM, JMFAA.
- 16 Minutes of the Cabinet working party on long term economic relations with Japan, 26 June 1950, GEN326/1 in Japan, OV16/63, Bank of England Archives (hereafter BoE).
- 17 Minutes of the Cabinet working party on long term economic relations with Japan, 27 July 1950, GEN326/2nd meeting, CAB130/61, PRO.
- 18 *ibid.*
- 19 *ibid.*
- 20 *ibid.*
- 21 Proposed solutions for the Cabinet working party on long term economic relations with Japan, 24 November 1950, GEN326/10, CAB130/61, PRO.
- 22 *ibid.*

-
- 23 *ibid.*
- 24 Telegram from Tokyo to FO, 19 November 1950, FO371/838372 FJ1121/343, PRO.
- 25 Note by Heasman, 30 November 1950, OV16/68, BoE.
- 26 Telegram from Tokyo to FO, 19 November 1950, FO371/838372 FJ1121/343, PRO.
- 27 Seventh minutes of the Cabinet working party on long term economic relations with Japan, 4 December 1950, OV16/68, BoE.
- 28 Memorandum of the ESC on the long term economic relations with Japan, 6 February 1951, ES(51)7, CAB134/264, PRO.
- 29 Memorandum of the ESC on the long term economic relations with Japan, 6 February 1951, ES(51)7, CAB134/264, PRO.
- 30 *ibid.*
- 31 Summary attached to the memorandum of the ESC on the long term economic relations with Japan, 6 February 1951, ES(51)7, CAB134/264, PRO.
- 32 Memorandum of the ESC on the long term economic relations with Japan, 6 February 1951, ES(51)7, CAB134/264, PRO.
- 33 *ibid.*
- 34 Note by the Chairman for the Cabinet working party on long term economic relations with Japan, 22 February 1951, GEN326/13, CAB130/61, PRO.
- 35 Summary attached to the memorandum of the ESC on the long term economic relations with Japan, 6 February 1951, ES(51)7, CAB134/264, PRO.
- 36 There is no mention with regard to the report on the long term economic relations with Japan in the minutes of the Cotton Board for 1951. See BT175/6, PRO.
- 37 Minutes of the second meeting of the EPB, 15 February 1951, CAB134/214, PRO.
- 38 Britain's fears of Japan's shipping services were also discussed at the Economic Planning Board meeting. See minutes of the second meeting of the EPB, 15 February 1951, CAB 134/214, PRO.
- 39 *ibid.*
- 40 Minutes of the ONC, 23 February 1951, ON(51)9, CAB134/573, PRO.
- 41 Note by the Secretary for the ONC, 21 February 1951, ON(51)28, CAB134/574, PRO.
- 42 See minutes of the working party on long term economic relations with Japan, CAB130/61, PRO.
- 43 Correspondence from Christelow to Serpell, 9 March 1951, T236/4129 OF 63/2008/05A and telegram from Washington to FO, 8 March 1951, FO371/92629 FJ1121/48, PRO.
- 44 Telegram from Washington to FO, 8 March 1951, FO371/92626 FJ1121/48, PRO.
- 45 *ibid.*
- 46 *ibid.*
- 47 Correspondence from Christelow to Serpell, 9 March 1951, T236/4129 OF63/2008/05A, PRO.
- 48 Correspondence from Thomas to Serpell, 19 March 1951, T236/4130 OF63/208/05B, PRO.
- 49 Correspondence from Thomas and Serpell, 21 March 1951, T236/4130 OF63/208/05B, PRO.
- 50 Correspondence from Thomas to Serpell, 19 March 1951, T236/4130 OF63/208/05B, PRO.
- 51 Note from Boehringer to the State Department, 6 April 1951, 441.9431/4-651, RG59, NA.
- 52 *ibid.*
- 53 *ibid.*
- 54 Draft cable to SCAP from the State Department, 9 March 1951, SCAP Files, Box 5981, RG331, NA.
- 55 Report by the Bank of Japan enclosed in a note from Boehringer to the State Department, 6 April 1951, 441.9431/4-651, RG59, NA.
- 56 In open account trade, countries kept trade accounts, but settlement was only made at six month intervals in dollars, so that monetary transaction was kept to a minimum. MITI (ed.), *Tsūshō Sangyō Seisakushi* [The History of Trade and Industrial Policy], vol. 6, *Dai Niki Jiritsu Kiban Kakuritsuki (2)* [The Second Stage-Establishing the foundation for self-efficiency] (Tokyo: Tsūshō Sangyō Chōsakai, 1990), p. 15.
- 57 Report by the Bank of Japan enclosed in a note from Boehringer to the State Department, 6 April 1951, 441.9431/4-651, RG59, NA.
- 58 *ibid.*
- 59 Note from Boehringer to the State Department, 26 April 1951, 441.9431/4-2651, RG59 NA.

-
- 60 *ibid.*
- 61 The Bank of England believed that Thomas needed a Bank of England official with know-how about sterling mechanics to be on the British team to negotiate the first sterling payments agreement in East Asia. Note by GM Watson, 8 March 1951, OV16/70, BoE.
- 62 Note by the Treasury, ONC, 6 April 1951, ON (51) 52, CAB134/574, PRO.
- 63 Correspondence from Thomas to Serpell, 23 July 1951, T236/4134 OF63/208/05F, PRO.
- 64 Telegram from Clutton to the FO, 9 August 1951, FO371/92634 FJ1121/180, PRO.
- 65 Correspondence from Thomas to Serpell, 30 April 1951, T236/4131 OF63/208/05C, PRO.
- 66 Peter Lowe, 'Herbert Morrison, the Labour Government, and the Japanese Peace Treaty, 1951,' in *Britain, the United States and Japan's Return to Normal, 1951-1972*, no. IS/93/258 (1993): p. 9.
- 67 Buckley, *Occupation Diplomacy*, p. 174.
- 68 Correspondence from Thomas to Serpell, 23 July 1951, T236/4134 OF63/208/05F, PRO.
- 69 Note from Boehringer to the State Department, 26 April 1951, 441.9431/4-2651, RG59 NA.
- 70 Minutes of the first meeting of the Anglo-Japanese payments negotiations, 24 May 1951, T236/4132 OF63/208/05D, PRO.
- 71 Correspondence from Thomas to Serpell, 26 May 1951, T236/4132 OF63/208/05D, PRO.
- 72 Correspondence from Turner to Heasman, 27 May 1951, OV16/72, BoE.
- 73 Minutes of the Anglo-Japanese payments negotiations in OV16/72 and OV16/73, BoE.
- 74 Correspondence from Thomas to Serpell, 21 March 1951, T236/4130 OF63/208/05B, PRO.
- 75 Correspondence from Loynes to Grafftey Smith, 9 July 1951, OV16/74, BoE.
- 76 Correspondence from Loynes to Watson, 18 June 1951, OV16/73, BoE.
- 77 Correspondence from Loynes to Siepmann, 12 June, 1951, OV16/73, BoE.
- 78 The National Advisory Council on International Financial and Monetary Affairs was the financial counterpart to the National Security Council, chaired by the Secretary of the Treasury. See Borden, *The Pacific Alliance*, p. 89.
- 79 Telegram from Washington to FO, 11 June 1951, FO371/92632 FJ1121/105, PRO.
- 80 Correspondence from Loynes to Siepmann, 12 June 1951, OV16/73 and correspondence from Loynes to Siepmann, 19 June, 1951, OV16/73, BoE.
- 81 Correspondence from Loynes to Grafftey Smith, 10 July 1951, OV16/74, BoE.
- 82 Correspondence from Loynes to Siepmann, 19 June 1951, OV16/73, BoE.
- 83 *ibid.*
- 84 Telegram from Tokyo to FO, 20 June 1951, FO371/92632 FJ1121/107, PRO.
- 85 *ibid.*
- 86 Telegram from Tokyo to FO, 22 June 1951, FO371/92632 FJ1121/110, PRO.
- 87 *ibid.*
- 88 Correspondence from Loynes to Grafftey Smith, 25 June 1951, OV16/73, BoE.
- 89 Telegram from Tokyo to FO, 5 July 1951, FO371/92633 FJ1121/121, PRO.
- 90 Correspondence from Loynes to Grafftey Smith, 26 June 1951, OV16/73, BoE.
- 91 *ibid.*
- 92 See appendix one for the text of Japanese Proposal.
- 93 Sterling Payments Agreement between the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of Japan (with Exchanges of Notes), 31 August 1951, *Parliamentary Papers 1951-1952*, vol. 31, pp. 599-604.
- 94 *ibid.*
- 95 A copy of the correspondence from UKLM to FO, 1 October 1951, in T236/4137 OF63/208/05I, PRO.
- 96 *ibid.*
- 97 See appendix two to see the text of the Exchange of Notes.
- 98 Correspondence from Loynes to Grafftey Smith, 31 July 1951, OV16/74, BoE.
- 99 Note from Boehringer to the State Department, 26 April 1951, 441.94/4-2651, RG59, NA.
- 100 Ushiba Nobuhiko, *Keizaigaikô e no Shôgen* [A Testimony to Economic Diplomacy] (Tokyo: Diamondsha, 1985), p. 4.
- 101 Takeuchi was not a negotiator at the drafting committee because he left to head the Japanese Delegation to Washington.
- 102 Telegram from Tokyo to FO, 26 July 1951, FO371/92633 FJ1121/151, PRO.

-
- 103 Telegram from Grantham to the Secretary of State for the Colonies, 15 August 1951, in T236/4135 OF63/208/05G, PRO.
- 104 Telegram from Tokyo to FO, 9 August 1951, FO371/92634 FJ1121/180, PRO.
- 105 Telegram from SCAP to Washington, 17 August 1951, SCAP Files, Box 6727, RG331, NA.
- 106 Telegram from SCAP to Washington, 30 July 1951, SCAP Files, Box 6727, RG331, NA.
- 107 Unfortunately, nothing about the sterling payments negotiations is mentioned in Kiuchi Nobutane's book, *Kuni no Kōsei* [The Character of a Nation] (Tokyo: President-sha, 1986).
- 108 Telegram from SCAP to Army Department, 27 August 1951, SCAP Files, Box 6718, RG331, NA.
- 109 Correspondence from Loynes to Grafftey Smith, 27 August 1951, OV16/75, BoE.
- 110 A copy of the correspondence from the UKLM to FO, 1 October 1951, in T236/4137 OF63/208/05I, PRO.
- 111 See appendix two for the terms of the agreement.
- 112 *ibid.*
- 113 Correspondence from Ushiba to Roberts, 27 September 1951, in T236/3184 OF63/119/011B, PRO.
- 114 Administrative transfers were to be overseen by the Bank of England.
- 115 Telegram from Dening to FO, 31 October 1951, FO371/92637 FJ1121/272, PRO.
- 116 Correspondence from Ushiba to Roberts, 27 September 1951, T236/3184 OF63/119/011B, PRO.
- 117 Correspondence from Thomas to Serpell, 28 September 1951, T236/3183 OF63/119/011A, PRO.
- 118 Telegram from Tokyo to FO, 2 October 1951, FO371/92643 FJ1128/15, PRO.
- 119 Telegram from Tokyo to BT, 20 October 1951, in T236/3184 OF63/119/011B, PRO.
- 120 Kiuchi, *Kuni no Kōsei* [The Character of a Nation] (Tokyo: President-sha, 1986), pp. 22-23.
- 121 Telegram from FO to Tokyo, 25 October 1951, in T236/2184 OF63/119/011B, PRO.
- 122 *ibid.*
- 123 Note from Loynes to Grafftey Smith, 7 November 1951, OV16/78, BoE.
- 124 Correspondence from Serpell to Thomas, 26 October 1951, T236/3184 OF63/119/011B, PRO.
- 125 Correspondence from Bolton to Brittain, 27 November 1951, T236/3185 OF63/119/011C, PRO.
- 126 Note by the Treasury, ONC, ON(51)149, 17 October 1951, CAB134/575, PRO.
- 127 Telegram from Tokyo to FO, 31 October 1951, FO371/92637 FJ1121/271, PRO.
- 128 Telegram from Tokyo to BT, 30 November 1951, in T236/4137 OF63/208/05K, PRO.
- 129 Telegram from Tokyo to FO, 24 October 1951, T236/3184 OF63/119/011B, PRO.
- 130 Telegram from FO to Tokyo, 17 November 1951, FO371/92637 FJ1121/271, PRO.
- 131 Memorandum of the United Kingdom delegation for the meeting of Commonwealth Finance Ministers, 8 January 1952, FM(52)4, T236/4137 OF63/208/05K, PRO.
- 132 Telegram from FO to Tokyo, 17 November 1951, FO371/92637 FJ1121/271, PRO.
- 133 Telegram from Tokyo to FO, 5 December 1951, FO371/92638 FJ1121/292, PRO.
- 134 Translation of an article in Asahi Shimbun, 7 November 1951, in T236/3185 OF63/119/011C, PRO.
- 135 Extract from Nippon Times, 24 November 1951, in T236/3185 OF63/119/011C, PRO.
- 136 On the EPU, see Jacob J. Kaplan and Günther Schleiminger, *The European Payments Union: Financial Diplomacy in the 1950s* (Oxford: Clarendon Press, 1989).
- 137 Note from Loynes to Grafftey Smith, 7 November 1951, OV16/78, BoE.
- 138 Telegram from Tokyo to FO, 5 December 1951, FO371/92638 FJ1121/292, PRO.
- 139 *ibid.*
- 140 Correspondence from Serpell to Flett, 3 December 1951, T236/4137 OF63/208/05K, PRO.
- 141 Minutes of the fourth meeting of the Anglo-Japanese payments negotiations, 1 June 1951, OV 16/73, BoE.
- 142 For background on the ANZUS pact see W David McIntyre, *Background to the Anzus Pact* (London: Macmillan Press Ltd., 1995).
- 143 Buckley, *Occupation Diplomacy*, p. 174.
- 144 Treaty of Peace with Japan, Treaty Series No. 33 (1952) *Parliamentary Papers* 1951-1952 vol. 31, Cmd. 8601 (London: Her Majesty's Stationery Office, 1952), pp. 455-474.
- 145 Note by Dennehy to Percival, 7 June 1951, BT11/4744 CRE5814/1951, PRO.
- 146 *ibid.*
- 147 Note by Leckie, 19 September 1950, BT11/4496 CRE6480/1950, PRO.
- 148 *ibid.*

-
- 149 *ibid.*
- 150 Minutes of meeting of the Japanese Panel of the Overseas Policy Committee of the Federation of British Industries, 23 July 1951, MSS.200/F/3/D2/1/12, FBI, MRC.
- 151 On the Anglo-American difference over the recognition of China, see David McLean, 'American Nationalism, the China Myth, and the Truman Doctrine: The Question of Accommodation with Peking, 1949-50' in *Diplomatic History* 10 no. 1 (1986), pp., 25-42; Richard Owendale, 'Britain, the United States, and the Recognition of Communist China', in *The Historical Journal* 26, no. 1 (1983), pp., 139-158; on the fate of British firms in Communist China see Aaron Shai, 'Imperialism Imprisoned: the closure of British firms in the People's Republic of China' in *English Historical Review* 105 (1989), pp. 88-109.
- 152 Draft statement of the UK and US governments, 19 June 1951, Foreign Relations of the United States (hereafter FRUS) 1951, vol. 6 Part 1 (Washington DC: US Government Printing Office, 1977), p. 1134.
- 153 Memorandum by Perkins to Rusk, 30 October 1951, FRUS 1951, vol. 6 Part I, p. 1389.
- 154 Oral History Interview, Livingston T. Merchant, 13 March-17 April 1965, p. 11, the JFD Oral History Project, Seeley G. Mudd Library, Princeton, New Jersey (hereafter Princeton); and telegram from Dulles to Acheson, 7 November 1951, FRUS 1951, vol. 6 Part I, p. 1393.
- 155 *ibid.*
- 156 *ibid.*
- 157 *ibid.*
- 158 Telegram from Ringwalt to Merchant, 17 November 1951, FRUS 1951, vol. 6 Part 1, pp. 1406-1407.
- 159 *ibid.*
- 160 Telegram from FO to Tokyo, 14 November 1951, FO371/92604 FJ10310/13, PRO.
- 161 Dean Acheson, *Present at the Creation: My Years in the State Department* (London: WW Norton & Company, 1969) p. 576.
- 162 Correspondence from Acheson to Eden, 22 November 1951, FO371/92605 FJ10310/29, PRO.
- 163 Memorandum by Dulles, 26 December 1951, FRUS 1951, vol. 6 Part 1, p. 1467.
- 164 Memorandum by Merchant to Dulles, 26 November 1951, FRUS 1951, vol. 6 Part 1, p. 1415.
- 165 *ibid.*
- 166 See Dower, *Empire and Aftermath: Yoshida Shigeru and the Japanese Experience, 1878-1954* (Cambridge and London: Harvard University Press, 1988), p. 403.
- 167 Correspondence from Eden to MacDonald, 16 November 1951, FO371/92642 FJ1127/17, PRO.
- 168 Telegram from Sebald to Acheson, 30 November 1951, FRUS 1951, vol. 6 Part 1, p. 1421.
- 169 Telegram from Tokyo to FO, 13 December 1951, FO371/92605 FJ10310/29, PRO.
- 170 Telegram from Tokyo to FO, 13 December 1951, FO371/92605 FJ10310/38, PRO.
- 171 *ibid.*
- 172 *ibid.*
- 173 Telegram from FO to Washington, 16 December 1951, FO371/92605 FJ10310/38, PRO.
- 174 Telegram from FO to Tokyo, 14 December 1951, FO371/92605 FJ10310/38, PRO.
- 175 Telegram from Washington to FO, 18 December 1951, FO371/92605 FJ10310/43 PRO, and Telegram from Acheson to Sebald, 18 December 1951, FRUS 1951, vol. 6 Part 1, p. 1450.
- 176 Telegram from Acheson to Sebald, 18 December 1951, FRUS 1951, vol. 6 Part 1, p. 1450.
- 177 It was written at 8.46 p.m. on 18 December, which was already 19 December in Japan, because of the fourteen hour difference between the United States and Japan.
- 178 Telegram from Acheson to Sebald, 18 December 1951, FRUS 1951, vol. 6 Part 1, p. 1448. (See footnote no. 2)
- 179 Memorandum of conversation by Sebald, 18 December 1951, FRUS 1951, vol. 6 Part 1, p. 1444.
- 180 Telegram from Tokyo to FO, 18 December 1951, FO371/92605 FJ10310/42, PRO.
- 181 Memorandum by Dulles to Acheson, FRUS 1951, vol. 6 Part 1, 26 December 1951, p. 1468.
- 182 *ibid.*, p. 1469.
- 183 Memorandum of conversation by Sebald, 18 December 1951, FRUS 1951, vol. 6 Part 1, p. 1444. Yoshida wrote in his memoirs that he wanted more time to consider the China issue, but the atmosphere prevailing in the US Senate meant that without a signed letter, the peace treaty might not have been ratified. See Shigeru Yoshida, *Kaisô Jûnen* [Memoirs of the former Prime Minister of Japan] vol. 3 (Tokyo: Shinchô-sha, 1957), pp. 71-73.

-
- 184 See appendix three for the text of the Yoshida Letter.
- 185 *ibid.*
- 186 Telegram from Tokyo to FO, 21 December 1951, FO371/92605 FJ10310/45, PRO.
- 187 Memorandum by Dulles, 9 January 1952, FRUS 1952-1954, vol. 14 (Washington DC: US Government Printing Office, 1985), p. 1071.
- 188 Editorial note, FRUS 1952-1954, vol. 14, p. 1069.
- 189 Memorandum of conversation by Allison, 9 January 1952, FRUS 1952-1954, vol. 14, p. 1076. There is nothing concerning the Anglo-American debacle over China in Alex Danchev's *Oliver Franks: Founding Father* (Oxford: Clarendon Press, 1993).
- 190 Memorandum of conversation, by Allison, 10 January 1952, FRUS 1952-1954, vol. 14, p. 1077.
- 191 Telegram from Washington to FO, 10 January 1952, FO371/99403 FJ10310/4, PRO.
- 192 Telegram from Acheson to Sebald, 11 January 1952, FRUS 1952-1954, vol. 14, p. 1083.
- 193 Correspondence from Denning to Scott, 18 February 1952, FO371/99404 FJ10310/54, PRO.
- 194 See Anthony Eden, *Full Circle: the Memoirs of Sir Anthony Eden* (London: Cassell and Company, 1960), pp. 19-20; and Acheson, *Present at the Creation*, pp. 603-605.
- 195 Note from Dulles to Acheson, 28 February 1952, February 1952(1) Box 3, JFD-JMA Chronological Series, John Foster Dulles Papers, Eisenhower Library.
- 196 Memorandum by Dulles, 6 March 1952, March 1952(3) Box 3, JFD-JMA Chronological Series, John Foster Dulles Papers, Eisenhower Library.
- 197 Sebald did not go far as Merchant to suggest that Denning was attempting to steer Japan towards mainland China. He believed that '...the British were working behind our backs and that they are the ones who had worked on Yoshida to put off making a decision until a later time. See Oral History Interview, Ambassador William J. Sebald, 22 and 27 July 1965, p. 72, the JFD Oral History Project, Princeton.
- 198 See footnote 76 in Dower, *Empire and Aftermath*, p. 571.
- 199 Telegram from Bruce to Acheson, 23 November 1951, FRUS 1951, vol. 6 Part I, p. 1409.
- 200 Correspondence from Scott to Steel, 22 December 1952, FO371/99402 FJ1026/3, PRO.
- 201 See Dower, *Empire and Aftermath*, p. 200; Chihiro Hosoya, 'Japan, China, the United States and the United Kingdom, 1951-2: the Case of the 'Yoshida Letter.'" *International Affairs* 60, no. 2 (1984), pp. 247-259; Howard Schonberger, 'Peacemaking in Asia: The United States, Great Britain, and the Japanese Decision to Recognize Nationalist China, 1951-52.' *Diplomatic History* 10, no. 1 (1986) pp. 59-73.
- 202 Editorial: "Naze Yoron ni Towanuka", 17 January 1952, Asahi Shimbun.
- 203 Report on the proceedings of the Sangiin Honkaigi, 26 January, 1952, Asahi Shimbun.
- 204 Wolf Mendl, *Issues in Japan's China Policy* (London: Macmillan Press, 1978), p. 12.
- 205 On Sir Esler Denning, see Remme, *Britain and Regional Cooperation*, pp. 23-25.
- 206 Correspondence from Denning to Eden, 20 December 1951, FO371/92642 FJ1127/19, PRO.
- 207 Malcolm MacDonald, the son of Ramsey MacDonald, was the Governor General for Singapore, Malaya and the British territories in Borneo from 22 May 1946 until 1 May 1948 when he became the Commissioner-General of the United Kingdom in Southeast Asia. See Clyde Sanger, *Malcolm MacDonald: Bringing an End to Empire* (Montreal: McGill-Queen's University Press, 1995).
- 208 Correspondence from MacDonald to Younger, 3 October 1951, FO371/92642 FJ1127/14, PRO.
- 209 See Eden's opposition to MacDonald's despatch in the correspondence from Eden to MacDonald, 16 November 1951, FO371/92642 FJ1127/17, PRO.
- 210 Telegram from Dulles to Allison, 14 December 1951, FRUS 1951, vol. 6 Part I, p. 1438.
- 211 *ibid.*
- 212 On Britain's policy towards rice, see Cabinet Far East (Official) Committee, rice sub-committee documents in CAB 134. The rice sub-committee was established in 1951 to gather information concerning overseas rice supplies and to ensure that the Southeast Asian territories kept a stockpile of rice in case of war.
- 213 William J. Sebald wrote in his memoir that Yoshida considered Britain as one of Japan's two principal post-war friends. The other being the United States. See William J. Sebald with Russell Brines, *With MacArthur in Japan: A Personal History of the Occupation* (London: The Cresset Press, 1965), p. 285.

Chapter Three: Britain's Policy Adrift, 1952

Introduction

On 28 April, with the US Senate's ratification of the San Francisco Peace Treaty, Japan once again became a sovereign country. In the first year of its independence, Japan was able to make some advances towards a return to the international comity of nations, but it also experienced setbacks. On 14 August 1952 for example, Japan became a member of the IBRD (International Bank for Reconstruction and Development). On the same day, it was accepted into the IMF, and it was allocated a \$250 million quota;¹ therefore, Japan became a signatory of two out of the three pillars of the Bretton Woods system. It was to have more difficulties, however, entering the GATT.

The year also established the limits to Japan's trade relations with China, through the American and Japanese release of the Yoshida Letter on 16 January 1952. Three months later, a bilateral pact was signed between the ROC and Japan.² The signing of the pact precluded Japan from recognizing the People's Republic of China, but a purely symbolic private trade agreement was signed by China and Japan in June. Trade was to amount to 30 million pounds each way, and it was to be a barter arrangement with settlements to be made in pound sterling.³ This saw the beginning of Japan's 'seikei bunri' policy towards China, or the separation of politics and economics in its relations with China. However, despite Japan's attempts to increase gradually its trade with the Chinese mainland the United States made certain that such trade would be severely restricted.

The United States was not concerned about exports of strategic goods flowing from Japan to mainland China while the SCAP was in control of Japan's trade.⁴ However, with the closure of SCAP's ESS and the transfer of all trade matters, including trade controls, to the Japanese Government in March, the United States and the rest of the COCOM (Coordinating Committee) members became concerned with Japan's post-occupation export control policy.⁵ The issue was resolved with the establishment of CHINCOM (China Committee) and Japan's membership in this new committee, but this resulted in the continuation of strict controls on Japan's mainland China trade through a secret US-Japan bilateral agreement on 5 September. Through this agreement, Japan was forced to embargo 280 more goods against China than other CHINCOM members.⁶ Therefore, by the end of 1952, Japan's future trade relationship with the PRC was predetermined by the United States. First with the pressure to recognize the ROC, and second, with the US-Japan bilateral agreement to maintain strict export controls against China.

With Japan's trade parameters set by the United States, it became all the more important for Japan to find an alternative trade outlet. Japan could rely on the dollar area as long as the Korean war procurements sustained Japan's purchases from that area. With the impending end to the Korean war, Japan began to realize, however, the importance of non-dollar trade, in particular, its trade relations with the sterling area. Japan was less than satisfied with its sterling area trade, however, as it began to accumulate large sterling reserves almost immediately after the signing of the sterling payments agreement in August 1951. Therefore, 1952 saw attempts by both the United Kingdom and Japan to correct the imbalance.

Although there were problems in sterling area-Japan relations, there was progress in terms of Japan's relations with Southeast Asia. In January 1952, Hong Kong agreed to the opening of a Japanese Overseas Agency, and two months later, Singapore also acquiesced to Japan's application.⁷ By April, Singapore had agreed to extend visas to Japanese business and professional personnel for entry of up to one year. There was, however, wariness towards the return of Japanese business people into Malaya, as during the inter-war period Japanese mine employees had acted as 'fifth columnists' to prepare for Japan's invasion.⁸ Therefore, there was support for a gradual return of Japanese business people 'conditional upon convincing evidence that the leopard has in fact changed its spots and that Malaya's hospitality is not in danger of being abused again'.⁹ Despite a mixed reaction in Britain's Southeast Asian colonies, relations improved with Malcolm MacDonald's visit to Japan in July.

This chapter focuses on two aspects of Britain's trade policy: its attitude towards the sterling payments agreement and Japan's entry into the GATT.

Sterling Area-Japan Payments Relations in 1952

At the end of August 1951, Japan's sterling holdings amounted to £38 million, but by the end of January they had increased to £82 million and were accumulating at a rate of £9 million a month (see table 3.1).¹⁰ There were four reasons for the increase in Japan's sterling holdings. First, Japan was not making its annual seasonal purchases from the sterling area because it had enough dollar reserves from the Korean war to purchase its essentials from the dollar area, and therefore, Japan's sterling reserves, which usually decreased between October and March, remained high. The unprecedented imbalance in the trade relations was exacerbated by the fact that many of Japan's usual purchases were unobtainable, in particular because of a crop failure in Australia, which prevented Japan from purchasing Australian wheat.¹¹ Moreover, a shortage of yen due to Japan's internal monetary policy prevented Japanese merchants

from selling stocks of material they had bought the year before, which meant a slump in purchases as a whole.¹²

Second, since the inclusion of Hong Kong in the sterling payments agreement with Japan there had been an adverse trade balance between Hong Kong and Japan. Hong Kong's trade imbalance which only amounted to £1.2 million between July and August of 1951 rose to £10.7 million between September and December of 1951.¹³ The primary cause for the imbalance was the simple reason that Hong Kong failed to sell goods to Japan, while it continued to buy from Japan (see table 3.2). There was speculation that this was due to the ban on Chinese exports to Hong Kong, which led to a decline in Japanese purchases.

Third, and related to the above, was the fact that despite Japan's poor purchasing performance, the sterling area had been increasing its overall purchases from Japan. Finally, part of the reason why Japan was unable to decrease its sterling reserves lay in Japan's opposition to the implementation of administrative transferability, because it was reluctant to set up a two-way sterling transfer into and out of Japan. Japanese officials would have been much happier implementing a one-way system that facilitated a decrease in Japan's sterling reserves.

Japan's rising sterling balance was so serious that it was discussed at the Commonwealth Finance Ministers' meeting which began on 15 January in London. Japan was part of a wider problem facing the sterling area in early 1952. The problem being that the sterling area was facing an overall deficit with the rest of the world at an annual rate of £1,600 million. As a result, the sterling area's gold and dollar reserves were quickly receding to the 1949 level when sterling had devalued against the dollar. Table 3.3 illustrates the sharp drop in sterling area's gold and dollar reserves between June and December 1951. The reserves amounted to £1,381 million in June, but decreased to £834 million by 31 December 1951, which was a decline of close to 40 percent. Therefore, in order to solve this serious situation, Britain's aim at the conference was to convince the members that it was to their advantage to remain in the sterling area and that the member-states should work together to 'restore the strength of sterling and ultimately to achieve convertibility'.¹⁴ The short-term remedy was for all the sterling area countries to implement overall import restrictions from the non-sterling area, and work towards combatting internal inflation.¹⁵

In line with the overall British policy, the British delegation distributed a memorandum at the Commonwealth Finance Ministers' meeting, advancing the reasons why the sterling area should curb purchases from Japan. The memorandum outlined four

possible developments that could arise if Japan's sterling balances continued to rise. The first possibility was that Japan might make vigorous efforts to find sterling supplies which would assist the sterling area's objective of expanding sterling usage in East Asia. The second was that Japan might ask the sterling area to restrict its purchases from Japan voluntarily. The third was the possibility of Japan imposing export restrictions on the sterling area. The fourth and the worst possible scenario was the termination of the sterling payments agreement while Japan still held huge sterling reserves.¹⁶ Britain's fear stemmed from not knowing how Japan would use its unwieldy supply of sterling reserves. The political and economic consequence could be that it might lead to a reduction in global confidence in sterling, and a possibility that Japan might use informal channels to convert sterling into dollars. In order to prevent this worst-case scenario from becoming a reality, the UK delegation urged the Commonwealth governments to prevent Japan from moving from the non-dollar to the dollar world, and to prepare to implement import restrictions, if necessary, following the conclusion of a payments review between Britain and Japan in March. Moreover, the member countries were encouraged to discuss their sterling area availabilities with Japan in order to increase their exports¹⁷ as part of the overall effort of the Commonwealth countries to remedy the immediate balance of payments crisis.¹⁸

In short, the sterling area faced a balance of payments crisis. Therefore, it was imperative that the sterling area as a whole curb imports in order to prevent another devaluation of the pound against the dollar. Japan was a difficult case, as Japan began accumulating sterling reserves almost immediately after the signing of the payments agreement. With the dangerous decline in dollar reserves, and rumours of an imminent devaluation of the pound against the dollar, it was not known what action Japan would take. Therefore, Britain hoped to see an immediate decrease in Japan's sterling reserves, either through sterling's expanded exports to Japan or through sterling area's import restrictions. On 3 March, however, Japan announced its decision to take unilateral action to restrict its exports of steel and textiles products to the sterling area.¹⁹ These products made up sixty to seventy percent of all Japanese exports to the sterling area, but the MOF-initiated plan was presented and approved unanimously by the Cabinet as a measure to decrease Japan's sterling reserves.²⁰ Therefore, Japan took the first step towards contracting its sterling reserves.

In the meantime, the British side was preparing for the March payments review in Tokyo. This was the first meeting of its kind and it was set up to assess the agreement after six months of operation as agreed. Hugh Thomas, the Treasury representative in Tokyo, was instructed to prevent the payments review from becoming a meeting to revise the payments agreement. If the Japanese side remained firm on this point, the

UKLM was instructed to adopt the line that the negotiations in the previous year and the Exchange of Letters had clearly envisaged consultation to make the arrangement work. Furthermore, they were to press the fact that six months was not enough time to give the sterling payments agreement a fair chance to prove itself.²¹ Moreover, the UKLM was instructed to keep the review factual with regard to the initial expectations and the actual results, and discuss the broad reasons for the divergences from forecasts.²²

The sterling payments review consisted of three meetings over the period spanning 18 - 25 March 1952. Britain was represented by Thomas, and SCAP was represented by WW Diehl of the Economic and Scientific Section. The Japanese Government representatives consisted of officials from the MITI, the FECB, the MOF and the MOFA.²³ The aim of the meeting was to find out the causes of Japanese dissatisfaction with the arrangement so that Thomas could report them back to Whitehall.

The Japanese representatives maintained that there were four factors behind their poor performance. First, the lack of availability of required goods in the sterling area. Second, the higher prices for goods from the sterling area in comparison to the dollar area. This meant that Japan's merchants naturally bought from the dollar area if the goods were available there; a situation which was further exacerbated by the fact that Japan could only buy sterling area goods at the official rate. Third, the Japanese side complained that Japanese merchants were having difficulties buying goods from the sterling area because Japanese merchants did not enjoy an equal footing in their business activities as the principal sterling commodities were bought up under the Commonwealth preferential system, thus impeding Japan from increasing its imports from the sterling area. Finally, the Japanese side believed that part of the problem was the slow recovery of Japan's economic activities in the sterling area, and the fact that Japan was not guaranteed MFN rights.²⁴

Conversely, the UK side maintained that the outcome of the adverse trade imbalance was mainly a result of the 'failure by the Japanese authorities to plan their importing policy properly with a view to effecting the maximum switch from dollar to sterling purchase'.²⁵ Moreover, Thomas pointed out that it was not only Japan which was facing discrepancies in dollar and sterling price differences, but it was a problem faced by the rest of the world due to the general scarcity in dollars. As for the point that Japan was not being given an equal footing in trade, Thomas declined to discuss Commonwealth preferential treatment, but did explain that it would take time to open up relations with the rest of the sterling area because many of the areas with which Japan wished to trade did not have Japanese diplomatic and consular establishments. Moreover, Thomas believed that it would take time for some regions to overcome

prejudices, especially in countries which had been overrun by the Japanese military. Thomas also argued that as long as Japan was being given MFN treatment for goods, the MFN issue was not a major hurdle.²⁶

Other issues discussed included Japan's disappointment at not being able to reduce its sterling holdings through the administrative transferability, and Japan's apprehension that the inclusion of Hong Kong into the sterling payments agreement had had a negative effect on its trade with Indonesia and Thailand; namely, that Indonesia and Thailand were purchasing Japanese goods from Hong Kong and Singapore instead of buying them direct from Japan. Thomas maintained the view that Japan could not hope to conduct a 'one-way traffic outwards'²⁷ on its administrative transferability and insisted that if Japan wanted a successful implementation, it would have to accept sterling from third countries as well as use its sterling with third countries.²⁸ Thomas did not consider Japan's complaints concerning the Hong Kong issue fair, as on the one hand, Japan complained that Hong Kong's inclusion in the payments agreement led to a decline in Japan's trade with its open account trading partners in the region, while on the other, it refused to use Hong Kong's entrepôt status to its advantage by buying open account goods via Hong Kong.

As a measure to remedy the situation, Japan agreed to increase its purchases, but in return it asked Britain to help make goods available to Japan.²⁹ Despite Britain's assurance that it would continue to cooperate through the UK mission, it was made clear to Japan that Britain could not discriminate in their favour.³⁰ Furthermore, both sides put on record their dissatisfaction at the decision by the other to implement controls on their trade. The British side complained that Japan had imposed export controls before it had availed itself of the machinery of consultation provided under the payments agreement, while the Japanese side believed that the export restrictions by Japan were considered to be preferable to import restrictions by the sterling area.³¹

Britain was able to carry out the sterling payments review exercise according to its original aims. It excluded trade issues and amendments, and concentrated on discussing the progress of the agreement to date. To a certain extent it was correct that Britain did not get embroiled in trade questions or matters of policy because it would have opened up a Pandora's box of issues that would have led to another long-winded discussion on the payments agreement. However, one can conclude from the documents that the payments review was far from satisfactory for the Japanese, as it resulted in an exercise in recording one's complaints without any definite assurance of whether such views were going to be addressed.

In the meantime, Britain notified the Commonwealth countries of the results of the sterling payments review. Furthermore, the Commonwealth High Commissioners were instructed to ask the Commonwealth to stimulate their exports to Japan.³² It was also reported that with the exception of Hong Kong, there was little scope for increases in colonial exports to Japan, and that therefore, the colonies were asked to 'observe the strictest practicable standards of essentiality' with regard to their imports from Japan from 30 September.³³ Moreover, Hong Kong was instructed to restrict its imports from Japan to the lowest possible figure, while Singapore and the Federation of Malaya were asked to take necessary steps to balance their trade with Japan.³⁴ Other sterling area countries were also asked to restrict their imports from Japan, and the effects of the import restrictions is illustrated in table 3.2. Clearly imports from Japan between 1951-1953 went into a substantial decline. Therefore, by April, both Japan and the sterling area had implemented policies in an attempt to reduce Japan's sterling balances.

Despite the above initiative, Japan's sterling holdings continued to rise steadily, and by 3 June, they had exceeded £121 million and amounted to £126 million by the end of June.³⁵ This increasing problem did not trigger much reaction from the Japanese officials in the aftermath of the sterling payments review, however, as the Japanese government was busy renewing diplomatic contacts and agreements with the United States as a result of the US ratification of the peace treaty.³⁶ The Japanese departments concerned with the payments agreement, therefore, did not begin meeting to discuss the matter until early June.³⁷

When the relevant ministries did meet to discuss the matter, the ministries reverted back to the anti-sterling and pro-sterling factions. Kiuchi of the FECB continued to expound his anti-sterling views in public. His position was first, to see a revival of the dollar clause in the sterling payments agreement; second, for trade to be conducted at the 'actual' rate of exchange rather than the official rate; third to negotiate a separate trade agreement with Hong Kong.³⁸

The MITI on the other hand supported an extension of the 1951 payments agreement for another year on the basis of £200 million trade each way. MITI's views on the cause of the trade imbalance differed from the FECB in that they believed the fundamental problem lay in the low quantity of goods available for export to Japan rather than the problem of the over-valuation of the sterling.

The MOF was not airing its views to the same extent as the FECB, but it was common knowledge that it was anti-sterling, and that it supported the FECB proposal. On 25 July, Japan's Supreme Economic Advisory Council met and discussed the various

ministerial proposals, and endorsed the MOF and FECB plan to press for a revision of the pound-yen cross-rate from the official to the real rate.³⁹ Furthermore, the Council approved an import certificate system and an export-import price adjustment fund. The import certificate system was to operate so that exports to the sterling area were possible only after traders produced a certificate proving that they had imported a certain amount of goods from the sterling area. The export-import price adjustment fund was a system whereby a tax or a levy was placed on sterling exports on the one side and grants or subsidies for sterling imports. Both were approved by the government to encourage the expansion of Japan's purchases from the sterling area.⁴⁰ The plan became the FECB's last piece of sterling-related legislation before it was abolished on 1 August.⁴¹

Although 30 August was approaching, neither the British nor the Japanese sides had made a move in regard to the future of the payments agreement. Therefore, both EL Hampson and NS Roberts of the British Embassy in Tokyo proposed the extension of the agreement for a few months to Kitahara of MITI and Ihara Takashi, a financial counsellor at the Japanese Embassy in Britain.⁴² The proposal was passed on to the intra-ministerial meeting, and although it met with little enthusiasm, with the most reluctant again being Kiuchi, the British idea was accepted.⁴³

Japan's inactivity was not due to lack of preparation on the Japanese side so much as it was the political turmoil within the Liberal Party between Yoshida and the former party leader, Hatoyama Ichirô. The situation arose from the fact that Yoshida refused to relinquish the leadership of the Jiyûtô as he had promised in 1946 prior to Hatoyama's purge.⁴⁴ Due to the factional contest, and the possibility of elections in September, it was thought that no minister would be available in August to take up the payments issue as they would be busy consolidating their positions in their constituencies; and second, there was little likelihood of ministers taking up a controversial issue before the elections.⁴⁵ The intra-ministerial differences and the political turmoil within the Liberal Party strongly indicated that negotiations were impossible at that time.

On 5 August, a *note verbale* dated 1 August was handed to Roberts by a MOFA official, expressing Japan's readiness to extend the payments agreement until 31 December 1952. Roberts tried to lengthen the agreement for a full twelve month period, but to no avail. Four days later the Foreign Office instructed the British Embassy in Tokyo to accept the *note verbale* and on 15 August the extension of the payments agreement was signed by Esler Denning and Okazaki Katsuo, the Foreign Minister for Japan.

The agreement to extend the payments agreement for four months meant that there were no new developments between January and August 1952. The payments review was inconclusive, as both sides expressed dissatisfaction with the agreement, but neither side would accept that they were to blame for the imbalance in the sterling area-Japan trade relations. Furthermore, the resumption of talks concerning the payments agreement only led to a renewal of intra-ministerial fighting in Japan. This was further exacerbated by the political turmoil within the Liberal Party. Therefore, it was up to Britain and Japan to find an acceptable remedy by the end of the year.

When Britain received the *note verbale* from the Japanese side, it also received a note titled 'Japanese observations on the Anglo-Japanese sterling payments agreement'. The content of the note was similar to that voiced by Japan during the payments review in March. It stated that Japan's reasons for its imbalance with the sterling area were the higher commodity prices in the sterling area in comparison to the dollar area, the limited supply of raw materials and foodstuffs available, the discrimination against Japanese traders in the sterling market, and the rising practice of indirect purchases of goods by Thailand and Indonesia through Hong Kong. In order to alleviate these problems, the Japanese side made the following proposals: the return of a dollar point in the agreement so that Japan would be able to use its sterling balances freely, and an end to the sterling area's unilateral implementation of import restrictions to balance trade.⁴⁶

Britain, therefore, faced two tasks. First, to write a reply to the Japanese observation which would satisfy Japan, and also to devise a policy before the four-month renewal expired. In September and October the Japan working party in Whitehall held several meetings but these were inconclusive. The one decision reached was to exclude Japan from the agenda of the Commonwealth Economic Conference in November. Japan was dropped from the conference agenda as it was considered unwise to present Japan separately, thus giving it undue significance; second, it seemed unlikely that the Commonwealth countries would be 'indulging in a spending spree' in Japan as a result of their decision to restrict their purchases from the so-called 'three-nons', the non-sterling, non-dollar and non-EPU countries, therefore they did not feel that there was any urgency in discussing Japan at an intra-Commonwealth conference. Lastly, Japan was excluded because Britain was unsure of the line to take in its negotiations with Japan at the end of the year.⁴⁷

Britain's policy towards its payments agreement with Japan was adrift. Although the working party had decided not to discuss the matter at the Commonwealth Economic Conference, they had not come any nearer to deciding what action Britain should take concerning imports from Japan, nor on the line they should take in a payments

negotiations at the end of the year.⁴⁸ Furthermore, it was becoming embarrassing for the representatives of the British Embassy in Tokyo because of the delay in Whitehall's reply to the Japanese *note verbale* of 1 August.⁴⁹

On 30 October, close to three months after Japan had presented its *note verbale* to Britain, Thomas handed the British reply to Oda Takeo, the Director of the Economic Affairs Bureau of the MOFA.⁵⁰ The reply was basically a recapitulation of the British position at the March review, and nothing new was initiated by the British side. In the note, Britain recognized that sterling area commodities were higher in price than dollar commodities, but indicated that it had not inhibited other countries from buying sterling area goods; therefore, the implication was that Japan should not be deterred from purchasing sterling goods either. Britain recognized Japan's disappointment with the lack of available commodities in the sterling area, but it was optimistic that Japan would find the sterling area an increasingly important source of supplies. On the matter of discriminatory practices by traders, Britain was unable to identify any such practices. Britain considered the on-sale of Japanese goods by Hong Kong to Thailand and Indonesia as part of the normal *entrepôt* function of Hong Kong, therefore, the remedy lay in ensuring that the shipments reached the destinations declared. Furthermore, Britain justified the import restrictions placed by sterling area countries as the only way to correct the trade imbalance, and hoped that the Japanese government would understand Britain's remedial action. Finally, Britain found the sterling payments agreement to be the soundest basis on which to continue the trade and hoped for a renewal of the agreement.⁵¹ It should be noted, however, that there was no mention of the dollar point in the British reply as there were still uncertainties about whether to reintroduce it into the payments agreement.

On receiving the British reply, Oda remarked that it was as much as the Japanese had expected as there was nothing new in it. He particularly expressed disappointment over Britain's inability to provide concrete suggestions over the Hong Kong problem, but noted Japan's desire to continue the talks once Japan had studied the British reply carefully. There was one disagreement between Oda and Thomas during the talks, and that was over whether to conduct formal or informal discussions over the extension of the payments agreement. As far as Oda was concerned, there was little difference between a formal or an informal discussion as the officials representing the United Kingdom would be the same regardless of the discussion;⁵² whereas for Britain there was a huge difference between the two, because formal discussions would entail broadening the talks to include the question of the commercial treaty as well as Japan's membership to the GATT.

While the Japanese were left to think over the British reply, two different proposals were being formulated on the British side; one by Thomas and the other by George Bolton of the Bank of England. Thomas' proposal was formulated after he had spoken to Kitahara Hideo of the MITI in early November. During the conversation, Kitahara explained to Thomas that Japan's decision to extend the payments agreement in August was on the condition that consultations would take place before the expiration of the agreement in December. Kitahara himself voiced the view that the sterling payments agreement would have a chance of an extension if they could establish a machinery which would enable a smoother trade flow. Kitahara's views seemed to have left Thomas with the impression that it was up to Britain to initiate smoother trade relations, as he drafted a note to the MOFA which he telegraphed to the Foreign Office for approval.⁵³ In it he envisaged a trade agreement in which Britain and the sterling area would limit their import licenses to a certain fixed amount, and if the trade levels were either conspicuously higher or lower than the amount agreed, a consultative machinery would be activated to correct the imbalance.⁵⁴

Conversely, the Bank of England was already resigned to the fact that Britain would have to reintroduce convertibility in the sterling payments agreement with Japan. Therefore, Sir George Bolton of the Bank of England wrote to Sir Leslie Rowan of the Treasury on 26 November, with a proposal that any sum in excess of £10 million held on a central Japanese account at the Bank of England would be converted into dollars, provided that most of the existing balance would be tied down over a ten-year period so that Japan would be unable to convert all its reserves into dollars immediately.⁵⁵

What neither proposal took into full account was the growing anxiety in Japan over the import restrictions placed by the sterling area countries against Japanese products. Furthermore, the Japanese were anxious over the easily foreseeable end to the Korean war boom, which indicated an end to their dollar surplus. Moreover, Japan's import and export figures from the sterling area for 1951 and 1952 on the basis of l/c's (letter of credit) attested to their worries. For example, import l/c's which dropped to as low as £4.2 million in August of 1951 climbed back up to the £16 million mark by the end of the year, shot up to £19.9 million in July 1952 and by October had reached £22.2 million.⁵⁶ On the other hand, its exports which were over £20 million from October 1951 to March 1952 dropped to £14 million in April 1952 and continued to decrease until in October the l/c's amounted to only £8.1 million.⁵⁷ A comparison of the import and export l/c's by month clearly illustrates a gradual Japanese sterling deficit.⁵⁸

AK Ogilvy-Webb of the Treasury had his finger on the pulse as he realized that Japan's position with the sterling area was weakening. Therefore, he suggested a renewal of the

payments agreement without concessions. Ogilvy-Webb's view was confirmed when on 27 November a MOFA *note verbale* was delivered to British officials in Tokyo. The note drew attention to the marked alteration in the trend of sterling payments from a surplus of £29.359 million during the first five months of the year to a deficit of £35.428 million during the five months from June to October on the basis of l/c's.⁵⁹ Although the note did not mention the dollar point, it was clear that the reinstatement of the dollar point was the thing furthest from the Japanese officials' minds as they now needed sterling reserves to pay for sterling commodities as well as to pay for their pre-war bonded indebtedness which had recently been settled in New York.⁶⁰ It was also declared in the note that Japan would no longer adhere to the standard limit referred to in Kiuchi's letter of 4 October 1951, and hoped that the sterling area would also lift their restrictions against Japan. Furthermore, they expressed a desire to hold an Anglo-Japanese conference in order to discuss various trade and payments issues.⁶¹ On the same day that the *note verbale* was handed to the British officials in Tokyo, Ihara rang Serpell at the Treasury to warn him unofficially that the Japanese government would be approaching the British Embassy with a proposal to open Anglo-Japanese payments talks in Tokyo. Therefore, Britain had to act quickly if it wished to present the Treasury's own proposal.

On 29 November, the Foreign Office instructed Thomas to propose formally to the Japanese Government a prolongation of the payments agreement for another year without any changes, and that if the Japanese side refused, he was instructed to invite the Japanese to discuss the relevant issues after the payments agreement was signed.⁶² On 2 December, Thomas met with Oda and conveyed the formal proposal to prolong the payments agreement for another year. Oda was shocked that he could be presented with the extension of the agreement without a preliminary discussion, and told Thomas that the Japanese negotiating line was to refuse a renewal if the sterling area refused to lift trade restrictions.⁶³ The issue was discussed by Japan's Cabinet, and an agreement to support a one-year extension was reached with the backing of the MOFA, the MITI and the MOF, as they thought an extension of the agreement would enable the sterling area-Japan trade to reach stability.⁶⁴

On 12 December, Oda told Thomas that the Japanese government had decided to extend the payments agreement for another year,⁶⁵ and two *note verbales* followed seven days later. One confirmed Japan's extension of the agreement, while the other was a note proposing an early discussion between Britain and Japan over various outstanding issues such as setting an equilibrium in trade levels, trade relations between Japan and Hong Kong, and other matters 'deemed necessary for the smooth operation' of the payments agreement.⁶⁶ An exchange of notes was carried out on 27 December, and

Japanese officials attempted to persuade Thomas to agree to the inclusion of a phrase in an accompanying press release which implied that both parties had agreed to an opening of talks in the immediate future. Despite the British refusal, the Japanese government went ahead, and released their own version of the agreement announcing that Britain and Japan had decided on trade talks. Without it, the government would have been severely criticized.⁶⁷

The four months between August and December 1952 saw a clear reversal of the sterling area and Japan's positions. Japan's sterling reserves had risen to over £100 million between July 1951 to June 1952 because of an expansion of Japan's exports to the sterling area. More importantly, Japan's accumulation of sterling had been due to the fact that Japan had established a pattern where it imported from the dollar area, and exported to the sterling area, which meant that Japan was not reliant on sterling area goods. It was possible for Japan to trade in this way as long as it was earning dollars through the Korean war boom.⁶⁸ Japan's sterling reserves began to decrease because Japan's steel and textiles export restrictions and the sterling area's import restrictions were beginning to take effect from the middle of the year. The gradual decline in Japan's sterling reserves should have been a relief to the Japanese side, but the sterling area's decision to restrict purchases of Japanese goods came at a time when the Japan was beginning to realize the short-sightedness of their policy to import from the dollar area and export to the sterling area as the impending end to the Korean war meant a decline in Japan's dollar surplus. Japan therefore had to rely more on importing from the sterling area, but in order to do so, it had to maintain a healthy balance of payments with the sterling area. It was for this reason that the *note verbale* of 26 November was handed to Thomas. The *note verbale* indicated Japan's interest in extending the payments agreement, but more importantly, it indicated Japan's hopes for the lifting of sterling area's import restrictions. Japan itself had lifted its own steel and textiles export restrictions from October,⁶⁹ and to ensure that the sterling area's import restrictions would be lifted at the Commonwealth Economic Conference, the *note verbale* was drawn up hastily by the Japanese government with the inclusion of a paragraph stating that Japan would no longer subject trade to the standard limit established in October 1951.⁷⁰ It was obvious to British officials that the paragraph concerning the lifting of the standard limit was included to appease the sterling area, because the letter written by Kiuchi in the previous year, and the subsequent exchange of letters between Kiuchi and Serpell had never been ratified by the Japanese government. Furthermore, they had never referred to the letter when Japan's sterling reserves exceeded £70 million, the maximum standard limit stipulated by Kiuchi.

The Japanese *note verbale* of 26 November was delivered at a time when Britain was in a dilemma as to how to conduct future talks with the Japanese. There were fears that if negotiations were carried out before the end of the year, Japan would expect a major revision of the agreement. The proposals approved by the Japanese government were not attractive to the sterling area, as they involved not only amending sterling's official rate to the real rate, but a proposal to transfer Hong Kong out of the sterling account. Proposals had been forwarded by Thomas on 14 November, and by Bolton on 26 November in regard to a compromise approach towards Japan. However, the *note verbale* of 26 November indicated Japan's interest in extending the payments agreement, and therefore, Ogilvy-Webb and other Treasury officials at Whitehall, who had already perceived the reversal in Japan's position vis-à-vis the sterling area, became convinced that Britain could offer a one-year extension of the payments agreement without concessions and without a preliminary conference.

At the end of the year, Britain was able to carry off a one-year renewal of the payments agreement with Japan. It was not a satisfactory agreement for Japan, as the renewal was not conditional on preliminary talks. Matters were becoming grave for the Japanese side because of the worsening deficit with the sterling area. Therefore it was important for Japan that talks should be held early in 1953.

The MFN Issue

On top of the fact that the sterling payments agreement was developing unsatisfactorily, the UK was also having to address the issue of whether to renew its commercial treaty with Japan. It was inevitable that Japan would approach the UK about this issue, as article seven of the San Francisco Peace Treaty stipulated that within one year of the ratification allied powers would have to notify Japan which of its 'pre-war bilateral treaties or conventions' it wished to continue or revive.⁷¹ On 26 April, the MOFA handed a *note verbale* to the UKLM in Tokyo in which they inquired whether Britain intended to renew its Commerce and Navigation Treaty of 1911; if this was not the case, they inquired whether the British government was intending to carry out trade according to article 12 of the San Francisco Peace Treaty, which stipulated that Japan was ready to enter negotiations for trading, maritime and other commercial relations with each of the Allied Powers.⁷² If neither of the above were to be implemented, the MOFA wished to know to what extent Britain would accord MFN treatment to Japan's goods and nationals.⁷³

In a letter to the Foreign Office dated 6 May 1952, Esler Denning, who had become the British Ambassador to Japan, wrote, 'this note puts us fairly and squarely on the spot'.⁷⁴ The note was discomfiting to Britain as no specific policy had been

formulated vis-à-vis Japan except that they had decided against giving MFN treatment to Japanese goods at the 21st meeting of the Cabinet's EPC in September 1950. Foreign officials were also aware that a revival of the 1911 commercial treaty would evoke great consternation among British manufacturers and the Board of Trade.⁷⁵ Moreover, Britain was less than willing to sign a commercial treaty when it was uncertain about whether Japan would revert to the 'unfair' competition of the pre-war period, and while they were unsure of the future of sterling area-Japan trade relations. Two months after the receipt of the note, the British government was still unable to reach a decision. This was partially because the Foreign Office needed responses from interested ministries, such as the Board of Trade, the Treasury and the Ministry of Transport, but difficulties also arose from the fact that the question of granting MFN treatment to Japanese goods was closely connected to the GATT. Therefore, the British government delayed replying to the Japanese note. By 22 September 1952, however, the government had decided that they would dispatch a note to the Japanese government indicating their desire to 'continue to accord to the nationals, products and vessels of Japan most-favoured-nation treatment or national treatment as provided under article 12 of the Treaty of Peace'.⁷⁶

Japan's *note verbale* placed Britain in a difficult position as it arrived when there was a strong likelihood of Japan applying for GATT membership. Britain had been able to stall US attempts to bring Japan into the GATT since 1948, but after Japan had signed the Peace Treaty in September, and was granted observer status in the GATT in October 1951, Britain knew that it was only a matter of time before Japan, with the encouragement of the United States, was accepted into the GATT.⁷⁷ Britain's problem stemmed from two related issues. First, was the fear that if Japan became a GATT member, Britain would have to give MFN rights to Japan including equal tariff treatment for Japanese goods, which would lead to strong opposition from the Lancashire textiles industry. Furthermore, Britain opposed Japan's entry because under the GATT rules, no contracting party was able to increase preferential tariffs. Therefore, if Japan became a GATT member, Britain and the Commonwealth would be unable to protect intra-Commonwealth trade by raising imperial preferential tariffs against non-Commonwealth countries. Britain saw this as a serious problem as most of the preferences were in the form of specific duties rather than on an ad valorem basis.⁷⁸ By the 1950s inflation had eroded the value of much of the preferential tariffs that were still in place, and the average percentage margin of preference on all UK trade with the Commonwealth had been reduced to around six percent.⁷⁹ Furthermore, the rules against preferential tariffs stipulated that if tariffs were raised against one country, they would have to be raised against all other contracting members. Therefore, Britain was in a 'catch-22' situation where they were unable to increase preferential tariffs and

unable to discriminate against Japanese goods without having to increase tariffs across the board.⁸⁰ The GATT's restrictive nature even led to the question of whether Britain should remain in the GATT or whether it should set up an alternative organization to regulate trade.

If Britain decided to remain in the GATT, the immediate issue at hand was to find some way to protect British interests in case of Japanese membership. The proposals put forward at this time were to invoke one of the GATT treaty articles against Japan, such as articles 6, 12 or 35.⁸¹ Article six stipulated that contracting parties had the right to apply 'counter-vailing duties against dumping'.⁸² The only problem with this article was the difficulty of substantiating dumping charges.⁸³ Furthermore, article 12 which stipulated the balance of payments escape clause was not considered entirely effective as the clause was limited to use against the world in general or in favour of a country or an area, while discrimination directed against specific countries was seen as 'highly suspect', and it was generally believed that this would lead to opposition from other GATT signatories.⁸⁴ Article 35 enabled a GATT signatory to withhold from another contracting party 'either all the provisions of the agreement or MFN rates in respect of goods appearing in negotiated tariff schedules'.⁸⁵ The drawback behind this article was that it was tantamount to signifying the contracting party's unwillingness to see the other contracting party become a member.⁸⁶

In the meantime, the Japanese side was preparing for GATT membership through the intersessional tariff negotiations procedure, which was established at the sixth session of the GATT. The procedure was designed to enable minor countries to accede to the general agreement without having to wait for a large-scale tariff conference.⁸⁷ Once a country asked to negotiate tariffs through the intersessional procedure, the contracting parties were to make their views known within thirty days, and at the latest sixty days, by postal vote. If three or more contracting parties objected to the procedure, the agenda was postponed until the following general session. This was a far shorter time period than if Japan opted for the regular article 33 entry into the GATT. According to this procedure, Japan would have had to communicate its wish to enter into negotiations with a view to acceding to the agreement. Once the letter reached the GATT, a working party was established to examine the application. The working party then submitted to the GATT Council its recommendation including a draft protocol of the applicant's accession. This was followed by tariff negotiations, and when this was completed, the report of the working party, together with the draft tariff decision and the protocol of accession was submitted to the Council for approval. This was followed by a decision on accession by two-thirds majority of the contracting parties. Once an affirmative

decision was reached, the protocol came into effect thirty days after it was signed by the applicant government.⁸⁸

The prospect of Japan's application through the intersessional tariff negotiations procedure ironically did not have the full support of the United States because they wished to avoid a controversy over Japan's admittance to the GATT during an election year. Furthermore, the United States wished to avoid any entanglements over the GATT when the Reciprocal Trade Agreement was coming up for renewal in June 1953.⁸⁹ The United States inability to support Japan's accession actively was communicated to the Japanese side on 4 July. Japan was also cautioned, that Canada, France and Britain would most probably oppose Japan's application through the above procedure. Japan accepted that there would be three or more votes against it, but stuck to its decision to apply due to the strong public and parliamentary support for Japan's membership to the GATT. On 13 July, Peyton Kerr, the first secretary of the US Embassy, sent a note to the MOFA in which it conveyed that 'the inclusion of the United States (as one of the countries which Japan wished to conduct tariff negotiations) would not be objectionable provided Japan does not state or imply that it has obtained the agreement of the United States'.⁹⁰ Japan was also reassured that the US delegates at the October GATT session would be instructed to 'oppose the outright rejection of Japan's application'.⁹¹ Therefore, on 18 July, the Japanese government notified the Executive Secretary of the GATT, Eric Wyndham White, of its wish to enter into negotiations with 28 countries including the United States, Australia, New Zealand and the UK.⁹²

The GATT contracting parties were immediately notified of Japan's application and asked to make their views known to the GATT Executive Secretary by 19 August. In order to decide on the British position, the issue was discussed at the 23rd meeting of the Cabinet's EPC on 30 July. A Board of Trade memorandum strongly pressed for British opposition to Japan's application on the grounds that Japan was too significant a country to discuss at an intersessional gathering of the contracting parties. Therefore, it was agreed at the EPC that Britain would oppose Japan's application, and the committee also decided that Britain should canvass enough votes to ensure the rejection of the application.⁹³ Britain subsequently approached various Commonwealth and European countries in order to canvass votes against Japan, and as a result, Australia, New Zealand, France, the Benelux countries, and Norway voted against the intersessional procedure.⁹⁴

Britain's next hurdle was to persuade the other contracting parties to postpone tariff negotiations with Japan during the seventh session in Geneva. This proved to be more

difficult because, despite the opposition to Japan's accession through the intersessional procedure, many countries were not opposed to Japan's accession in principle. On 22 August, Truman approved a report by Carl D. Corse, the Chairman of the Interdepartmental Committee on Trade Agreements, that the United States should enter into tariff negotiations with Japan. Furthermore, Truman agreed to the 'full discussion of the question at the seventh session of the contracting parties'.⁹⁵

On 2 September, the British government was informed by its Washington embassy that the United States did not object to the Japanese question being raised at the seventh session.⁹⁶ The US reversal of its position from reluctance to support meant that Britain had to arrive at a persuasive argument to delay Japan's application. A week later, the British stance towards the seventh session was discussed at the Cabinet's Far East (Official) Committee on 9 September and at the Cabinet's CPEC (Committee on Preparations for the Commonwealth Economic Conference) on 11 September. At the Far East Committee meeting, David Serpell of the Treasury stated very clearly that Britain would have to come to a clear decision on whether to accept Japan into the GATT or oppose its entry, and warned against a compromise between the two. Britain was placed in a difficult position as it wished to discourage Japan from playing a 'lone hand in international trade' as Japan's economic isolation in the 1930s had led to the Pacific war. Britain was also aware that its rejection of Japan's membership in the GATT would be met with strong American disapproval with a potential strain in Anglo-American relations over other economic matters. The Board of Trade explained that it would recommend a delay in Japan's entry to the GATT at present, as the current GATT rules did not provide an effective mechanism for the protection of British goods in its traditional trading areas against Japanese competition.⁹⁷

At the Cabinet's CPEC, the Board of Trade presented a memorandum recommending that Britain put forward a resolution deferring Japan's application until a later session 'on the grounds that the UK was currently reviewing its whole commercial policy and that the question of Japan's accession presented special difficulties'.⁹⁸ During the meeting, Eden opposed any action which would offend the United States and Japan. Conversely, Viscount Swinton, the Chancellor of the Duchy of Lancaster, warned that Japan's entry would lead to a great pressure on the government to 'disown the GATT'.⁹⁹ RA Butler, the Chancellor of the Exchequer, expressed the need for extreme caution as a wrong step either way would lead to international repercussions. Due to the sensitive nature of the issue, and the inability of the CPEC to decide whether to support Britain's domestic and Commonwealth interests over its international ones, the Committee decided to raise the discussion to the Cabinet level.¹⁰⁰

Two memoranda were submitted for discussion at the Cabinet meeting on 18 September. One by the Board of Trade, which recommended Britain's deferment of the issue, and an approach to the US government for its support. The other by the Foreign Office which supported Japan's accession to the GATT for political and economic reasons. Politically, the Foreign Office was against any possible deterioration of relations with Japan and the United States, and moreover, felt that Japan's entry into the GATT would guarantee Japan's economic allegiance with the western sphere. Economically, the Foreign Office argued that Japan's accession to the GATT was desirable as it contained a number of 'useful safeguards against the sort of trade malpractices which caused such bitterness between Japan and the United Kingdom before the war'.¹⁰¹ The Foreign Office thought that there would be less damage to its position vis-à-vis Japan if it invited the latter to participate.¹⁰² In discussion, however, the Board of Trade's views were accepted as the 'logical sequel to an expression of Her Majesty's Government's views',¹⁰³ and it was agreed that Britain should approach the US government with the Board of Trade's proposal.¹⁰⁴

Therefore, Christopher Steel, the British ~~Ambassador~~^{Minister} to Washington, was instructed to meet with relevant members of the State Department in order to get the British view across to the United States. On 22 September, he met Willard Thorp, Assistant Secretary of State for Economic Affairs, who sympathized with the British position and explained that although the United States supported Japan's accession, it was by no means anxious or intending to 'make rapid progress in getting down to tariff negotiations with Japan'.¹⁰⁵ Moreover Thorp explained that the United States did not envisage tariff negotiations with Japan for another twelve to fifteen months, and that they were thinking of putting forward the idea that the timing of Japan's tariff negotiations should be discussed at an intersessional committee of GATT after the seventh session.¹⁰⁶ Britain and the United States, therefore, agreed to collaborate on a text which recognized Japan's desire to enter tariff negotiations with the contracting parties, but remained reserved in its invitation to Japan. This was distributed to the contracting parties, and as a result, Britain and the United States were able to delay Japan's tariff negotiations at the seventh session.

Japan's accession was discussed at the sixth meeting of the seventh session on 10 October where Thorp proposed the establishment of an intersessional committee to discuss Japan's application. The United States' proposal was supported by John Leckie of the United Kingdom who emphasized that Britain's intention was not to be unfriendly to Japan, and explained that the United Kingdom's reservations in regard to Japan's immediate membership were due to uncertainties over Japan's future trade practices, and concern over whether Britain could extend GATT concessions to new

accessers (i.e. Japan). The other contracting parties which supported the US proposal were Canada, France, Greece, Italy, Brazil and Haiti. Pakistan, India and Turkey supported Japan's early accession but also understood the need of some countries to discuss the issue at an intersessional committee. Conversely, Germany, Sweden and Indonesia supported early tariff negotiations with Japan. The only country to abstain on the formation of an intersessional committee and the start of tariff negotiations was Czechoslovakia. In the light of the fact that the majority of the countries favoured the establishment of an intersessional committee meeting, it was decided that an intersessional committee would meet from 2 February 1953.¹⁰⁷

Japan was aware that its attempts to enter tariff negotiations with the GATT members through the intersessional procedure would be difficult, but it felt that some action had to be initiated given the strong, domestic public opinion in favour of Japan's membership into the GATT. As expected, more than three countries had opposed conducting tariff negotiations through the intersessional procedure. Japan had, however, been more optimistic about its chance of discussing tariff negotiations at the seventh session, but here the two most influential countries in the GATT, Britain and the United States, were against conducting tariff negotiations with Japan at that time. Britain could not accept Japan's membership unless certain revisions had been made to the GATT rules to safeguard Britain's trading interests. Conversely, the United States wished to avoid complications during an election year, and before the renewal of the reciprocal trade agreement in 1953. What was most interesting was that Britain did not wish to oppose Japan's application outright because of the possible repercussion on its relations with the United States and Japan respectively. The United States was also most concerned not to press for Japan's tariff negotiations at the seventh session in case of any repercussion on its relations with Britain and the Commonwealth.¹⁰⁸ Therefore, 1952 saw Anglo-American collaboration to postpone Japan's tariff negotiations at the seventh session. The United States had, however, guaranteed Japan that it would oppose any outright rejection of Japan's application, therefore, the United States formulated a compromise whereby Japan's application would be discussed at an intersessional committee. The Anglo-American cooperation to defer Japan's application was successful. The next challenge for Britain was to formulate a government policy towards Japan in the extra months it was granted.

Conclusion

1952 saw the independence of Japan, and its gradual return to the western comity of nations. Although Japan gained sovereignty, it was nominal in that its trade parameters were set by the United States through a US-Japan bilateral agreement signed in September. The United States forced the agreement upon Japan due to its inability to establish a separate export control group in East Asia.

The creation of CHINCOM and Japan's affiliation with western export controls against the communist bloc meant that Japan's chances of expanded trade relations with China diminished drastically. This increased the pressure for Japan to expand its exports outlet in the west, and increase trade with the sterling area. Although Britain's Treasury and the Bank of England were not opposed to increased trade relations between the sterling area and Japan, they were anxious about Japan's rising sterling reserves. Attempts were made through the Anglo-Japanese payments review to reach the heart of the problem but Britain and Japan refused to take responsibility for the trade imbalance. Instead, both sides applied trade controls in order to reduce Japan's reserves which led to increased ill-feeling. In the latter half of the year, the Foreign Office, the Bank of England and the Treasury began examining ways to improve the situation, but the reversal in Japan's exports to the sterling area meant that no drastic revision was necessary, and the sterling payments agreement was extended for twelve months. Although the Japanese side was also anxious about developments in sterling area-Japan trade, domestic political turmoil prevented decisive action. The October elections were held to end the political stalemate, but Yoshida's slim victory meant continuing domestic instability.

The trade imbalance between the sterling area and Japan frustrated the goals of both signatories of the payments agreement. Britain's aim was to expand sterling usage in East Asia with Japan as the regional axis, but it faced obstacles due to numerous problems which beset Anglo-Japanese trade relations. Conversely, Japan's aim in signing the sterling payments agreement was to increase its imports from the sterling area, but it was impeded by its inability to gain equal access to sterling area goods. Therefore, Japan interpreted this as a British discriminatory policy towards Japan. The view that Britain had control over Japan's sterling area trade was further exacerbated by Britain's instructions to the Commonwealth to restrict imports from Japan. Ironically, unbeknown to Japan, Britain was attempting to reach sterling convertibility. The year saw two proposals towards sterling convertibility; the Robot Plan¹⁰⁹ and the collective approach¹¹⁰ to sterling convertibility. Although neither came to fruition, by the end of the year, the issue of coordinated import controls was 'pushed firmly into the

background of sterling area trade policy' which enabled sterling area countries to relax gradually their trade controls with non-sterling-area countries.¹¹¹

Lastly, Japan's attempts to enter the GATT was obstructed by Britain. In 1952, however, the impediment came not only from Britain, but from Japan's mentor, the United States. This was because an issue like Japan's GATT entry was considered untimely during an election year and also before the renewal of the Reciprocal Trade Agreement. The solution to the problem was, therefore, a postponement of the issue. For Britain, Japan's GATT application was ill-timed because it was still uncertain about the potential effect of Japan's trade practices in the post-war period. In order to prevent Japan from threatening its traditional export markets, Britain wished to put up effective tariff barriers before accepting Japan into the western trading system. It was, however, unable to discriminate against Japan outright as GATT rules prevented a contracting party from raising discriminatory tariffs against Japan without raising tariffs against other countries.

Although the British government was aware of the Japanese threat, there was a difference of opinion between the Board of Trade and the Foreign Office in regard to Britain's policy towards Japan's GATT entry. The Board of Trade preferred a postponement of the question of Japan's entry until Britain's commercial policy had been formulated. Conversely, the Foreign Office preferred to maintain good relations with the United States and Japan, and therefore, recommended Japan's entry.

In conclusion, 1952 elucidates the lack of uniformity and continuity between different aspects of Britain's trade policy towards Japan. The Bank of England and the Treasury wished to see an expansion of sterling-Japan trade as a way of increasing sterling usage in East Asia. The Board of Trade wished to limit Japan's trade with the sterling area in order to protect Britain's traditional markets, while the Foreign Office wished to maintain amicable relations with the United States and Japan, but this was not possible as long as Britain was without a combined sterling and GATT policy towards Japan. Consequently, there was growing pressure for Britain to formulate a uniform policy towards Japan in 1953.

Table 3.1

Japan's Sterling Reserves, January 1950 - December 1953

(thousand pounds)

1950		1951		1952		1953	
January	15,417	January	16,332	January	82,152	January	78,228
February	14,653	February	15,542	February	91,738	February	66,856
March	15,024	March	15,650	March	99,668	March	50,500
April	17,687	April	30,366	April	109,784	April	40,821
May	17,181	May	41,797	May	120,644	May	35,856
June	16,991	June	43,643	June	126,889	June	33,025
July	17,612	July	38,173	July	126,124	July	32,690
August	20,969	August	38,054	August	120,987	August	28,030
September	20,930	September	40,573	September	120,302	September	32,829
October	21,796	October	49,148	October	113,979	October	31,375
November	20,714	November	61,892	November	103,970	November	30,554
December	19,442	December	75,455	December	88,992	December	42,523

Source: Ministry of Finance (ed.), *Shōwa Zaiseishi: Shūsen kara Kōwa made vol. 19* (Tokyo: Tōyō Keizai Shinpōsha, 1978), p. 127.

Table 3.2

Annual Trade with Japan (Select Sterling Area Countries), 1950-1958

		million dollars								
		1950	1951	1952	1953	1954	1955	1956	1957	1958
Australia	M	23.3	90	27.7	9	28.2	55.1	30.9	42.1	62.6
	X	76.4	126	132.6	172.3	117.1	177.7	248.4	362.8	225.6
Burma	M	16.2	18.2	21.2	33	45.6	38.3	36.3	75.9	46.4
	X	17.7	28.6	29.8	50.2	63.1	45.8	42.4	24.8	12.3
Ceylon	M	7.1	17.3	17.3	13.8	17.3	20.4	24.3	24.7	34.6
	X	0.2	1.3	2.3	2.2	2.6	2.8	3.3	6.3	7.3
Hong Kong	M		61.5	80.7	62.2	77.3	88.1	134.5	130.6	100.1
	X		5.7	6.8	7.9	4	6.2	18.7	26.7	11.6
India	M	20.3	51.7	36.7	27.4	43.9	84.7	105.3	113.3	84.8
	X	17.8	52.8	73	75.1	51.6	77.3	103.4	105	74.4
Malaya & Singapore	M	18.1	68.2	63	39.4	47.6	72.8	77.9	82.3	90.4(a)
	X	39.4	61.3	60.9	63.4	63.8	109.2	138.7	193.3	127.1(b)
New Zealand	M	1.2	8.6	8.1	1.3	2.6	7.9	5.9	7.6	7.4
	X	2.2	11.7	9.3	9.7	4.5	6.7	9.4	27.3	18.9
Pakistan	M	55.6	117	117.7	14.9	56	44	17.7	16.6	22
	X	38.9	95.5	82.4	108	36.2	47.1	50.6	47.2	34.2
South Africa	M	29.6	29.5	18	28.1	30.7	28.9	34.7	50.1	39.1
	X	3.3	5.9	13.1	19.5	10.6	17.5	26.5	34.1	16
UK	M	26	54	73.1	33.1	51.1	60.8	63.2	73.7	105.2
	X	6.4	31.8	36.7	49	37.1	37.9	66.6	98.5	59.4
Sterling Area	M	297	612.5	539.1	316.1	491.3	640.9	684.6	806.9	799.6
	X	221.5	446.6	500.4	602.5	433.7	588.6	817.7	1121.5	791.4

Note: M=Imports; X= Exports.

Hong Kong's statistics for 1950 are excluded as it was an Open Account Country

Malaya and Singapore became Malaya Federation and Singapore respectively from 1958.

(a) Malaya Federation: 13.1; Singapore: 77.3.

(b) Malaya Federation: 114.4; Singapore: 12.7.

Source: *Direction of International Trade, United Nations.*

Table 3.3
Sterling Area's Gold and Dollar Reserves, 1948-1954

In terms of	£ million	US \$ million
31-Mar-48	552	2,241
30-Jun-48	473	1,920
30-Sep-48	437	1,777
31-Dec-48	457	1,856
31-Mar-49	471	1,912
30-Jun-49	406	1,651
18-Sep-49	330/479(a)	1,340
30-Sep-49	509	1,425
31-Dec-49	603	1,688
31-Mar-50	709	1,984
30-Jun-50	865	2,422
30-Sep-50	984	2,756
31-Dec-50	1,178	3,300
31-Mar-51	1,342	3,758
30-Jun-51	1,381	3,867
30-Sep-51	1,167	3,269
31-Dec-51	834	2,335
31-Mar-52	607	1,700
30-Jun-52	602	1,685
30-Sep-52	602	1,685
31-Dec-52	659	1,846
31-Mar-53	774	2,166
30-Jun-53	845	2,367
30-Sep-53	888	2,486
31-Dec-53	899	2,518
31-Mar-54	959	2,685
30-Jun-54	1,078	3,017
30-Sep-54	1,036	2,901
31-Dec-54	986	2,762

(a) Due to the devaluation of the pound, two different amounts have been logged.

All reserves thereafter are at US \$2.80=£1.

Source: *United Kingdom Balance of Payments 1949 to 1952, Parliamentary Papers vol. 18, Cmd 8808 (London: Her Majesty's Stationery Office, 1953), p. 55 and United Kingdom Balance of Payments 1946 to 1955, Parliamentary Papers, vol. 29, Cmd 9731 (London: Her Majesty's Stationery Office, 1956), p. 36.*

Table 3.4

Japanese Imports based on Letters of Credit: 1951-1952

	<u>1952</u>	<u>1951 (£1,000)</u>
Jan.	15,513	19,205
Feb.	14,838	22,734
Mar.	11,267	18,761
April	14,562	12,071
May	11,704	16,321
June	15,851	7,791
July	19,940	5,420
Aug.	14,725	4,237
Sept.	16,433	5,338
Oct.	22,242	11,825
Nov.	19,246	16,463
Dec.	21,292	16,346

Japanese Exports based on Letters of Credit: 1951-1952

	<u>1952</u>	<u>1951 (£1,000)</u>
Jan.	23,149	13,276
Feb.	21,166	19,447
Mar.	24,023	23,647
April	14,826	20,777
May	14,079	18,594
June	10,731	18,906
July	12,976	16,723
Aug.	10,920	12,393
Sept.	10,948	16,134
Oct.	8,188	23,742
Nov.	11,371	22,528
Dec.	9,131	27,414

Sources: Correspondence from Thomas to DR Serpell, 10 December 1952, T236/4140 OF63/208/05N, PRO, and the import and export figures for the last two months of 1952 are from the Analysis of Balance of Payments Situation, 28 January 1953, OV16/85, BoE.

Endnotes

- 1 Kajima (ed.), *Nihon Gaikôshi* vol. 30, p. 264.
- 2 Schonberger, 'Peacemaking in Asia', p. 72.
- 3 Kajima (ed.), *Nihon Gaikôshi* vol. 30, p. 413.
- 4 Yoko Yasuhara, 'Japan, Communist China, and Export Controls in Asia, 1948-52' *Diplomatic History* 10 no. 1 (1986), p. 83.
- 5 Minute by Arculus, 26 February 1952, FO371/99435 FJ1123/14, PRO.
- 6 Ishii Osamu, *Reisen to Nichibei Kankei: Pâtonashippu no Keisei* [The Cold War and US-Japan Relations: Formation of a Partnership] (Tokyo: Japan Times, 1989), pp. 82-83.
- 7 Tomaru, *The Post-war Rapprochement of Malaya and Japan, 1945-1961*, pp. 153 and 216.
- 8 *ibid.*, p. 56
- 9 Correspondence from Kitson to Clutton, 4 March 1952, FO262/2081 1636/52, PRO.
- 10 Report by the ONC, 17 April, 1952, ON(52)72, CAB134/108, PRO.
- 11 Note from Turner to Heasman 29 January 1952, OV16/79, BoE.
- 12 Memorandum of the UK Delegation, Meeting of Commonwealth Finance Ministers, 8 January 1952, FM (52)4, T236/4137 OF63/208/05K, PRO.
- 13 Note from Heasman to Loynes, 25 January 1952, OV16/79, BoE.
- 14 Second conclusions of the Cabinet, 10 January 1952, CAB128/24, PRO.
- 15 *ibid.*
- 16 Memorandum of the UK Delegation, Meeting of Commonwealth Finance Ministers, 8 January 1952, FM (52)4, T236/4137 OF63/208/05K, PRO.
- 17 Minutes of meeting, 14 January 1952, T236/4137 OF63/208/05K, PRO.
- 18 Note from Brook to the Prime Minister, 26 January 1952, PREM11/21, PRO.
- 19 See postwar trade chronology in MITI (ed.), *Nihon Bôeki no Tenkai*, p. 672.
- 20 Briefing for the Supreme Commander, 25 February 1952, SCAP Files, Box 7692, RG331, NA.
- 21 *ibid.*
- 22 *ibid.*
- 23 Minutes of meeting, 18 March 1952, p. 105, subseries 2, Nichiei Bôeki Shiharai Kankei Ikken (Japan-UK Trade Agreements), reel B-0021, Public Release Series 8, DRM, JMFAA.
- 24 Summary of the sterling payments review of 18 - 25 March 1952, T236/4138 OF63/208/05L, PRO.
- 25 *ibid.*
- 26 Telegram from Tokyo to FO, 25 March 1952, FO371/99431 FJ1121/15, PRO.
- 27 Summary of the sterling payments review of 18 - 25 March 1952, T236/4138 OF63/208/05L, PRO.
- 28 *ibid.*
- 29 *ibid.*
- 30 *ibid.*
- 31 *ibid.*
- 32 Report by the ONC, 17 April 1952, ON(52)72, CAB134/108, PRO.
- 33 *ibid.*
- 34 *ibid.*
- 35 See telegram from Tokyo to FO, 10 June, 1952, T236/4139 OF63/208/05M, PRO.
- 36 Correspondence from Hampson to Serpell, 9 June 1952, T236/4139 OF63/208/05M, PRO.
- 37 *ibid.*
- 38 Correspondence from Dening to FO, 10 June 1952 in T236/4139 OF63/208/05M, PRO.
- 39 Note by Kerr to the State Department, 30 July 1952, Box 7 RG84, NA.
- 40 See revision of the current Anglo-Japanese payments agreement, 17 July 1952, pp. 168-172, subseries 5, Nichiei Bôeki Shiharai Kankei Ikken (Japan-UK Trade Agreements), reel B-0021, Public Release Series 8, DRM, JMFAA.
- 41 The FECB was established to function as a non-partisan, anti-bureaucratic committee in charge of foreign exchange, but in fact, various problems ensued as responsibilities were divided and overlapped between, the MITI, the MOF and the FECB. With the end of the occupation, the government decided that a committee-like body based on an American system was incompatible with the Japanese political system, therefore, the FECB was abolished and the responsibilities were transferred to the Cabinet Deliberative Council, the MITI, and the MOF. See MITI (ed.),

-
- Tsūshō Sangyō Seisakushi*, vol. 6, pp. 77-84 and MOF (ed.), *Shōwa Zaiseishi*, vol. 15, pp. 82-90.
- 42 Ihara was back in Japan for ten days in early July.
- 43 Correspondence from Hampson, to Serpell, 10 July 1952, T236/4139 OF63/208/05M, PRO.
- 44 Tetsuya Kataoka, *The Price of a Constitution: the Origins of Japan's Postwar Politics* (New York: Taylor and Francis, 1991), p. 104.
- 45 Correspondence from Hampson to Serpell, 10 July 1952, T236/4139 OF63/208/05M, PRO.
- 46 Japanese observations on the Anglo-Japanese sterling payments agreement attached to the note verbale from the MOFA, 1 August 1952, T236/4139 OF63/208/05M, PRO.
- 47 Note from Flett to Serpell, 14 October, 1952, T236/4140 OF63/208/05N, PRO.
- 48 Note from Serpell to Radice, 22 October 1952, FO371/99432, FJ1121/69, PRO.
- 49 Telegram from Tokyo to FO, 24 October 1952, FO371/99432, FJ1121/71, PRO.
- 50 Oda replaced Yukawa Morio who was appointed Councillor at the Japanese Embassy in Paris. A copy of the correspondence from Hampson to Ogilvy-Webb, 9 September 1952 in OV16/83, BoE.
- 51 Reply by HMG to Japanese observations of 1 August 1952 in a note from Serpell to Radice, 22 October 1952, FO371/99432 FJ1121/70, PRO.
- 52 Correspondence from Thomas to Serpell, 4 November 1952, FO371/99433 FJ1121/77, PRO.
- 53 Telegram from Tokyo to FO, 14 November 1952, FO371/99433 FJ1121/84, PRO.
- 54 Thomas had £200 million in mind. Telegram from Tokyo to FO, 14 November 1952, FO371/99433 FJ1121/80, PRO.
- 55 Note from Bolton to Rowan, 26 November 1952, OV16/84, BoE.
- 56 Correspondence from Thomas to Serpell, 10 December 1951, T236/4140 OF63/208/05N, PRO.
- 57 *ibid.*
- 58 See table 3.4.
- 59 Telegram from Tokyo to FO, 27 November 1952, FO371/99433 FJ1121/87, PRO.
- 60 *ibid.*
- 61 A copy of the note verbale from the MOFA, 26 November 1952, in OV16/84, BoE.
- 62 Telegram from FO to Tokyo, 29 November 1952, FO371/99433 FJ1121/89, PRO.
- 63 A copy of the telegram from Tokyo to FO, 2 December 1952, in OV16/84, BoE.
- 64 Nichiei Shiharai Kyōtei no Kōshin ni kansuru Ken [On the Renewal of the UK-Japan Payments Agreement], 15 December 1952, pp. 62-63, subseries 8, Nichiei Bōeki Shiharai Kankei Ikken (Japan-UK Trade Agreements), reel B-0021, Public Release Series 8, DRM, JMFAA.
- 65 Telegram from Tokyo to FO, 12 December 1952, FO371/99433 FJ1121/102, PRO.
- 66 Translation of a note verbale from the MOFA, 19 December 1952, FO371/99433 FJ1121/117, PRO.
- 67 Telegram from Tokyo to FO, 28 December 1952, FO371/99433 FJ1121/114, PRO.
- 68 Note from Ogilvy-Webb to Serpell, 19 November 1952, T236/4140 OF63/208/05N, PRO.
- 69 See postwar trade chronology in MITI (ed.), *Nihon Bōeki no Tenkai*, p. 675.
- 70 Telegram from FO to Tokyo, 5 December 1952, FO371/99433 FJ1121/97, PRO.
- 71 Note verbale from the MOFA to the UKLM, Japan, 26 April 1952, FO371/99441 FJ1152/2, PRO.
- 72 Article 12 stipulated that Japan would grant MFN treatment on a reciprocal basis with allied powers for four years after the ratification of the treaty, pending the conclusion of the relevant treaty or agreement. See note verbale from the MOFA to the UKLM, Japan, 26 April 1952, FO371/99441 FJ1152/2, PRO.
- 73 *ibid.*
- 74 Correspondence from Dening to FO, 6 May 1952, FO371/99441 FJ1152/2, PRO.
- 75 *ibid.*
- 76 Circular letter from the CO, 22 September 1952, in FO371/99441 FJ1152/19, PRO.
- 77 FO Minute by Snellgrove, 24 July 1952, FO371/998985 UEE67/12, PRO.
- 78 Schenk, *Britain and the Sterling Area*, p. 61.
- 79 Donald McDougall and Rosemary Hutt, 'Imperial Preference: A Quantitative Analysis', *The Economic Journal* No. 254 vol. LXIV (June 1954), p. 256.

-
- 80 Note on Japan and the GATT, 7 October 1952, BT11/4979 CRE33435/1952, PRO.
- 81 Correspondence from Dening to Scott, 21 January 1952, FO371/99441 FJ1152/1, PRO.
- 82 *ibid.*
- 83 *ibid.*
- 84 Note from Percival to Scott, 19 June 1952, FO371/99441 FJ1152/6, PRO.
- 85 Japan and the GATT, 12 January 1953, in Japanese Competition: General Policy, BT11/4918 CRE10959/1951, PRO.
- 86 *ibid.*
- 87 Memorandum by the President of the Board of Trade for the EPC, 28 July 1952, EA(52)110, CAB134/845, PRO.
- 88 GATT(ed.), *Analytical Index: Guide to GATT Law and Practice* (Geneva: GATT, 1994), p. 945.
- 89 *ibid.*
- 90 Note from Kerr, 13 July 1952, p. 105, subseries 2, Kanzei oyobi Bôeki ni kansuru Ippan Kyôtei Kankei Ikken (The Problem of Japanese Entry into the GATT), reel E-0010, Public Release Series 10, DRM, JMFAA.
- 91 *ibid.*
- 92 The 28 countries were, Australia, Belgium, the Netherlands, Luxembourg, Brazil, Burma, Canada, Ceylon, Chile, Cuba, Finland, France, West Germany, India, Indonesia, Italy, Liberia, Norway, New Zealand, Pakistan, Peru, South Africa, Southern Rhodesia, Sweden, UK, the United States, South Korea and the Philippines. See letter from Hagiwara to Wyndham White, 18 July 1952, pp. 67-69, subseries 2, Kanzei oyobi Bôeki ni Kansuru Ippan Kyôtei Kankei Ikken (The Problem of Japanese Entry into the GATT), reel E-0010, Public Release Series 10, DRM, JMFAA.
- 93 Minutes of the 23rd meeting of the EPC, 30 July 1952, CAB134/842, PRO.
- 94 *ibid.*
- 95 Memorandum for the President, 20 August 1952, WHCF: CF; State Dept., trade agreements negotiations, 1952; Truman Papers, Truman Library.
- 96 Telegram from Washington to FO, 2 September 1952, FO371/98987, UEE67/153, PRO.
- 97 *ibid.*
- 98 Minutes of the seventh meeting of the CPCE Conference, 11 September 1952, CAB133/131, PRO.
- 99 *ibid.*
- 100 Minutes of the seventh meeting of the CPCE, 11 September 1952, CAB133/131, PRO.
- 101 Memorandum by the Minister of State, 17 September 1952, C(52)302, CAB129/55, PRO.
- 102 *ibid.*
- 103 80th Conclusions of the Cabinet, 18 September 1952, CAB128/25, PRO.
- 104 *ibid.*
- 105 Telegram from Washington to FO, 22 September 1952, FO371/98987 UEE67/60, PRO.
- 106 *ibid.*
- 107 Minutes of TN(G)(52) 34th meeting, 10 November 1952, BT11/4979 CRE33435/1952, PRO.
- 108 Telegram from the Secretary of State to the American Embassy in Tokyo, 3 October 1952, RG84 Box 6, NA.
- 109 The Robot Plan was devised by George Bolton, Leslie Rowan and Otto Clarke (the Bank of England and Treasury officials). It called for an establishment of external convertibility between a rate of \$2.40 to \$3.20 to the pound supported by the Exchange Equalization Account. On further detail of the Robot Plan see Schenk, *Britain and the Sterling Area*, pp. 114-115; John Fforde, *The Bank of England and Public Policy, 1941-1958* (Cambridge: Cambridge University Press, 1992), pp. 431-451; Alec Cairncross, *Years of Recovery, British Economic Policy 1945-51* (London and New York: Methuen, 1985), pp. 234-271; Edwin Plowden, *An Industrialist in the Treasury: The Post-War Years* (London: Andre Deutsch Ltd., 1989), pp. 143-161; and see chapter four in Alec Cairncross ed., *The Robert Hall Diaries, 1947-1953* (London: Unwin Hyman, 1989), pp. 221-282.
- 110 The Collective Approach was the last attempt by Britain to establish sterling convertibility through a flexible exchange rate. The idea was that European and sterling currencies would become convertible and that the United States would provide a support fund for use by the countries involved in the plan. See Schenk, *Britain and the Sterling Policy*, p. 120. See also Fford, *The Bank of England*, pp. 467-473.
- 111 Schenk, *Britain and the Sterling Area*, p. 76.

Chapter Four: Britain at the Helm?

Introduction

If 1952 saw Japan's trade parameters set by the United States, 1953 saw western attempts to incorporate Japan in the western trading community. The United States set the example by signing a Treaty of Friendship, Commerce and Navigation with Japan on 2 April 1953. The purpose of the agreement was to restore US-Japan bilateral relations, and to set a precedent for other nations to sign similar treaties with Japan.¹ Moreover, there was a change of administration in 1953 and a Republican President, Dwight D Eisenhower, entered the White House on 12 January. During the first few years of his presidency, he pushed forward the idea of a liberal foreign economic policy, based on 'trade not aid'.² As part of this programme, he attempted to extend the Reciprocal Trade Agreements Act, which subsequently led to problems for the administration with Congress.

Britain did not fair any better in its economic policy in 1953. Britain approached the United States and Western Europe with the so-called collective approach to convertibility in March, but the plan remained still-born. The collective approach was based on the principle of sterling convertibility at a flexible exchange rate between the dollar and sterling. Under the plan convertibility would originally be limited to non-resident holders of sterling, and it would only apply to newly acquired sterling in current and capital transactions. Furthermore, according to the collective approach, the IMF was required to provide an extra support fund to enable a smooth system of operation. What was most objectionable to the United States was the fact that it would have to pursue good creditor policies 'to maintain reasonable equilibrium in the balance of payments between the United States and the rest of the world'.³ In short this meant that the United States would have to manage its economic policy so as to reduce its surplus with the rest of the world.⁴ Conversely, European governments were expected to become convertible according to the UK timetable in order to strengthen the success of the programme, which did not go down well with them either.⁵ Although Britain had begun to embrace pound convertibility in 1953, its attempts to promote the collective approach failed.

In the meantime, Japan was attempting to expand its trade with the non-dollar area as the armistice on 27 July 1953 signified the final end to Japan's extraordinary dollar earnings through Korean war procurements. Japan therefore needed to expand its trade relations with the non-dollar area as it could no longer rely on an indefinite dollar supply. Given that procurements had not eased Japan's balance of payments deficit, it needed to place even greater emphasis on trade expansion.

It should be noted that 1953 also saw a continuation of Yoshida's premiership in Japan, but that Yoshida was seen increasingly as a caretaker Prime Minister, as his popularity waned. Just as Churchill lost his popularity in his post-war administration,⁶ Yoshida's star lost its lustre after Japan's independence. In fact, his fourth cabinet only lasted for six months, due to an incident between him and a socialist legislator.⁷ The last Yoshida cabinet began on 21 May and lasted a little more than a year and a half, until he was forced to step down.⁸ Despite increasing unpopularity at home, Yoshida did initiate important steps towards Japan's closer relations with Southeast Asia. In early 1953, the government established the Round-table on Asian Economy, as an advisory organ to the MOFA. In May, Yoshida set up a committee on trade promotion and Southeast Asian development. Furthermore, Yoshida announced that as Japan could not rely on China trade, it would have to turn its efforts to Southeast Asian development. Therefore, 1953 saw Japan increase its focus on Southeast Asia as a viable trade outlet.⁹

Amidst the backdrop described above, 1953 was also a significant year for Anglo-Japanese trade relations. It was the first time that Britain attempted to formulate a comprehensive policy towards Japan. This chapter deals with Britain's overall financial and trade policy towards Japan. It will trace the attempts by Britain and Japan to iron out their differences in regard to the sterling payments agreement. Furthermore, it examines Britain's policy towards Japan's GATT accession. The GATT issue has been examined at length in this chapter as 1953 proved to be a decisive year for Japan's GATT entry.

Talks in Tokyo

When the sterling payments agreement was renewed at the end of 1952, Japan requested that talks be convened at the beginning of the following year. Britain's initial plan was to hold talks in London, but officials at an ONC meeting on 10 January decided that the consultative review should be held in Tokyo.¹⁰ Britain's reversal was due to the potential political embarrassment it would face in having a Japanese delegation in London while Japan's GATT accession was being discussed in Geneva. There were also fears that if they were invited to London, the Japanese themselves might take advantage of the situation and put pressure on the British government in regard to the GATT issue.¹¹ British officials in Tokyo were, therefore, instructed to hold a consultative review in Tokyo on Japan's trade relations with the UK and colonies.¹² Moreover, the UK representatives were instructed to find out Japan's plans for sterling usage in 1953, and to what extent Japan was willing to implement its rights to third country transfers.

Consultative talks began on 29 January, and lasted until 3 February between the two British officials, Hugh Thomas, the Treasury representative, Norman Roberts, the Commercial Minister, and Oda Takeo from the MOFA, Kitahara Hideo from the MITI and Tôjô Takei from the MOF. The Japanese officials asked for trade to be set at £230 million each way, and they estimated the working capital to be between £55 to £85 million, although the figure of £85 million was not to be regarded as the ceiling.¹³ Although the Japanese side was no longer worried about Japanese goods sold-on from Hong Kong to Indonesia and Thailand, they were concerned with Hong Kong's newly placed import restrictions against Japan. Furthermore, they asked that Japanese goods be given equal treatment with goods from OEEC countries. Discussions on administrative transferability were conducted between the Japanese officials and PL Hogg, the Bank of England official who was in Tokyo on a different matter, but little progress was made. Although Roberts continued discussions with the Japanese side after Hogg's departure, it was to no avail. The problem lay in Japan's rationale that it had to earn dollars from as many countries as possible, even if it meant sacrificing greater trade flows using sterling as a trade medium.¹⁴

Neither Thomas nor Roberts were empowered to make decisions on behalf of the British government. It was apparent to both that if relations with Japan were to improve, the sterling area as a whole needed to relax its import restrictions towards Japan, because statistics in their possession indicated that Japan's exports were decreasing even further, while imports were increasing.¹⁵ An analysis of Japanese imports showed that the rise in imports from the sterling area was due to increased purchases of cotton, jute and coal from India (total purchases for the period January to June 1952 were £9.97 million and purchases in the period July to December 1952 were £20.91 million¹⁶); wool from Australia (total purchases for the period January to June 1952 were £17.62 million and in the period July to December, they were £27.79 million¹⁷), and rice from Burma (£4.80 million in the first half of the year and £7.17 million in the second half¹⁸). It became evident to Thomas and Roberts that the rise in Japan's imports was not a result of seasonal purchases as originally thought, but rather due to Japan's decision to relax its import restrictions; therefore, they emphasized that Britain should reciprocate Japan's initiative of previous October and also ease its import restrictions. If Britain refused to relax its imports, Japan would clamp down on sterling area imports in their next six-monthly foreign exchange budget for the months of April to October which would have had a detrimental effect on sterling trade with Japan.¹⁹

Japan had laid down its offer; it was up to Whitehall officials to come up with a counter-proposal. The agenda was first brought up at the EPC meeting on 25 February, when memoranda prepared by Butler and Peter Thorneycroft, the President of the

Board of Trade, were discussed.²⁰ The Treasury's memorandum highlighted the danger of a further decrease in Japan's sterling reserves. If Japan's sterling reserves fell below £55 million, there was a greater probability that Japan would impose import restrictions on sterling area goods. Therefore, the Treasury stressed the importance of all sterling area countries increasing their imports from Japan by twenty percent.²¹ The Board of Trade agreed that nothing should be done to drive Japan away from the sterling area, and it recommended in its memorandum that the colonies should increase their imports from Japan by two-thirds of its 1951 imports. Furthermore, it was agreed that the two entrepôt trading centres, Hong Kong and Singapore, should buy more Japanese goods for re-export to their neighbours such as Indonesia and Thailand. The Board of Trade, however, stressed that these relaxations should not be implemented without Tokyo's confirmation that it would not impose further trade restrictions.²² Although both the Treasury and the Board of Trade agreed in principle that the sterling area should relax its import restrictions, they differed over which sterling area countries should ease them. The Treasury recommended relaxations by all sterling area countries. The Board of Trade, on the other hand, was against an easing of restrictions by ISA countries such as Australia and New Zealand, as they were already imposing import controls on Japanese and UK goods due to a sterling shortage. The Board of Trade, therefore, believed that if import relaxations were to be implemented, they should be made towards UK rather than Japanese imports.²³

In the ensuing discussion at the EPC meeting on 25 February, Swinton, who had now become the Secretary of State for Commonwealth Relations, supported the Board of Trade's view that nothing should be said to encourage the ISA from relaxing their import restrictions. Others argued over whether Japan should be singled out for special import restrictions and debated why Japan required £55 million minimum level of sterling reserves. In the end, it was agreed that the UK and colonies (including Hong Kong and Singapore) should ease their import restrictions, while Australia and New Zealand were to be discouraged from pursuing relaxations. These provisions were, however, conditional on Japan's assurance that they would not introduce trade restrictions against sterling area imports in their coming foreign exchange budget. The Committee, therefore, instructed the Board of Trade in consultation with the Foreign Office, the Colonial Office and the Treasury to draft a telegram.²⁴ Two days later, the EPC met to approve the telegram. It would have been sent to Tokyo immediately, but was delayed because a member of the Board of Trade was not present to approve it.²⁵ The Board of Trade had in the meantime decided against supporting the EPC decision of 25 February. This caused great inconvenience for the Treasury and the Foreign Office, as Serpell had been informed via telegram that Japan would need some response

from Britain immediately if it was to avoid imposing restrictions on sterling area imports.²⁶

To make matters worse, Eden and Butler were both in Washington attempting to gain US approval for a collective approach to convertibility,²⁷ and were therefore unable to exert pressure on behalf of Selwyn Lloyd and Reginald Maudling, the Economic Secretary of the Treasury, who were surrounded in the EPC by ministers who supported the Board of Trade and the Commonwealth Relations Office's position.²⁸

At an EPC meeting on 4 March, both Maudling and Lloyd presented memoranda stressing the importance of relaxing Japanese imports into the sterling area.²⁹ The memorandum by Lloyd in particular, emphasized the international repercussions of a reversal in British policy ranging from the effects on Anglo-American relations, on Southeast Asia's economic activity, and the damage it would have on Anglo-Japanese relations. Moreover, Lloyd played up the two possible consequences of Japan playing a lone hand in international trade. He stressed that Japan would either turn towards communism, or take rash action similar to that taken in the 1930s.³⁰ Despite the strong arguments presented by the Treasury and the Foreign Office, Thorneycroft explained that 'in view of the politically explosive nature of the subject' no concessions should be made without Cabinet approval.³¹ Thorneycroft argued that the case for Japan might have been overstated, and he went on to criticize the earlier decision for the following three reasons; first, the figure of £55 million should not be accepted as the minimum level of Japan's sterling reserves; second that, he was sceptical of the Treasury's projections on the rate at which Japan's sterling balances would fall because they were based on the current rate of run-down; and third, he did not comprehend why the UK should ease its import restrictions when the amount of trade at stake with Japan was small. The Board of Trade was particularly opposed to the relaxations because the decision would lead to an extra £6 million worth of Japanese grey cloth imports to the United Kingdom. Thorneycroft argued that the Board of Trade had only recently persuaded cotton interests in Lancashire to reduce their cheap cloth prices to compete with Japanese cloths, and therefore, he could hardly announce a sudden increase in Japanese imports.³² He explained that the Board of Trade could only support an increase in colonial imports on the condition that it was supported by the Colonial Secretary. Furthermore, he agreed to an increase in Japanese imports to Hong Kong and Singapore as long as they were re-exported to non-sterling neighbours. Thorneycroft was sceptical, however, of any political decisions based on present projections of Japan's sterling balances, and he was also opposed to increasing Japanese imports into the UK and the Southern Dominions because it would directly affect Lancashire. At the end of the meeting, it was decided that a memorandum would

be written by Viscount Swinton and discussed at the eighth meeting of the EPC and, if approved, the memorandum would then be discussed by the Cabinet on 10 March.³³

Straight after the EPC meeting, MT Flett of the Treasury despatched a note to Sir Leslie Rowan, one of the Treasury delegates in Washington. Flett communicated the Treasury and the Foreign Office's anxiety at the domination of the EPC by the Board of Trade and the Commonwealth Relations Office and asked that RA Butler and Anthony Eden intervene to prevent Britain's policy towards Japan being dictated by the Board of Trade and its concerns over Lancashire.³⁴ On 6 March, another EPC meeting was held to discuss what to recommend to the Cabinet. The differences between the Board of Trade, and the Foreign Office and the Treasury continued.³⁵ Furthermore, to the Treasury and the Foreign Office's dismay, the majority of the EPC supported the Board of Trade's view. After the meeting the Foreign Office sent a telegram to Washington reiterating the hope that both Eden and Butler would endorse the respective ministerial lines and hoped that they would send a telegram to the Prime Minister, Winston Churchill, before the Cabinet meeting was convened.³⁶

The ministers cabled their views from Washington before the Cabinet meeting on 10 March, and as a result, the Foreign Office and the Treasury were able to regain some flexibility in Britain's policy. It was decided at the Cabinet meeting that the colonies should be permitted to increase their imports to 120 percent of the amount they imported in the second half of 1952. Second, that imports into Hong Kong and Singapore for re-export outside the sterling area were to be licensed freely. Third, that all ISA countries, except Australia and New Zealand, would be encouraged to relax their imports from Japan.³⁷ Although the above policy was not drastically different from the Board of Trade's proposal, Butler and Eden's intervention enabled Britain to remain flexible if Japan refused the British offer.³⁸ In case of Japan's refusal, UK representatives in Tokyo were instructed to make every effort to dissuade Japan from imposing restrictions, and to report back to Whitehall with Japan's minimum terms.³⁹

Instructions were sent out on 11 March and Tôjô Takei and Oda Takeo were informed five days later.⁴⁰ On the same day, Roberts, who was still trying to increase the number of countries from which Japan would accept sterling, handed a note to Oda encouraging further Japanese relaxation.⁴¹ In a reply three days later, Japan expressed its wish to increase its annual rate of trade based on the months of May to October instead of July to December. Moreover, they considered third country transfers of little importance in relation to the balance of payments question.⁴² Roberts conveyed the British reply on 24 March. He proposed trade be set at £168 million.⁴³ He also told Oda that Britain was ready to tell the colonies to relax Japanese imports, and if Japan

felt dissatisfied with the arrangement, a consultation would be held in four months time. Furthermore, the question of third country transfers would be discussed with Tôjô, the Finance Ministry official who was arriving in London to discuss what forms of financial assistance would be available to Japan in the months ahead when Japan was certain to face a sterling shortage. The British counter-proposal was accepted by the Japanese government on the following day.⁴⁴ This was not the end of the issue, however, as the *note verbale* sent by the MOFA to the British Embassy on 28 March did not specify whether Japan would be imposing import restrictions on the sterling area or not, therefore, the Colonial Office was unable to send telegrams to the colonies asking them to relax their import restrictions. Finally on 1 April, it was confirmed that Japan would not be imposing new restrictions on sterling area imports until the joint review in four months' time.

Tôjô's Visit to London

As the discussion over trade arrangement was coming to its final stage, Tôjô, the Chief of the Foreign Exchange Bureau of the Japanese Ministry of Finance, was preparing to go to London to discuss ways of counteracting Japan's serious sterling position with Treasury and Bank of England officials.⁴⁵ His visit was originally planned to last for just four days starting 30 March to 2 April, but he remained in London for a month until 28 April. The two main issues discussed between the Treasury, the Bank of England and Japanese officials in a series of twelve meetings were an agreement concerning some form of credit facilities for Japan, and an agreement on third country transfers. Both issues needed urgent discussion as Japan's sterling reserves were dwindling very fast and by the end of March had fallen to £50 million (see table 3.1). Prior to Tôjô's visit, a meeting of the Bank of England and Treasury officials was held in Flett's room on 25 March to decide what sort of credit facilities should be offered to Japan.⁴⁶ Present were Flett, Serpell and Ogilvy-Webb from the Treasury, and Watson, Hogg and Bugler from the Bank of England.⁴⁷ Of the several facilities considered, they rejected the possibility of loans from the American account sterling, or asking Japan to sell its US dollars for sterling. The first option was rejected because it could eventually leave the UK with an unknown future liability to the dollar area. The second option was also considered inadvisable, as the pendulum in trade relations could swing back in the future, in which case there was a possibility that Japan might ask for dollar convertibility if their sterling reserves amounted to an unwieldy sum again.⁴⁸ Furthermore, Japan was expected to refuse these offers because it was unwilling to use dollars in the sterling area. The introduction of usance bills⁴⁹ and increasing credit lines were also considered, but the effect of the usance bills were thought to take far too long to help the Japanese in the months ahead, while the idea of increasing credit lines was rejected because Japan had only used £27 million of the £83 million credits offered to

it. The most feasible options were therefore, sterling/dollar swaps⁵⁰ and the reduction of the credit cover. A sterling/dollar swap was initially opposed by the Bank of England but it was considered the most practical credit facility to offer to Japan because it would alleviate Japan's sterling shortage immediately. Furthermore, a sterling/dollar swap facility had recently been offered to Brazil; therefore, it would not be considered an anomalous British policy. Moreover, Treasury officials indicated that swaps might be more preferable to ministers than the idea of a further relaxation of import restrictions on Japanese goods, especially in the light of the difficulties the Treasury and Foreign Office officials faced when they had recently tried to increase Japanese imports into the sterling area.⁵¹ On credit cover, it was not known whether commercial banks would reduce Japan's credit cover from fifty percent to twenty-five percent, which was the percentage American banks required for dollar credits from Japan. The Bank of England stated that credit cover was something that was decided by each individual institution and that they were reluctant to interfere in the decisions of commercial banks.⁵²

The series of meetings with Tôjô opened on 30 March. Two meetings were held on the first day of the talks. There was not much progress in any of the agendas except for one: third country transfers. Serpell had taken the opportunity to tell the Japanese delegates⁵³ that the British government could not sympathize with the Japanese position as long as they refused to expand the countries from which they accepted third country sterling. This seemed to have had some effect as the Japanese delegates offered to accept sterling from all countries outside the US dollar and the open account areas.⁵⁴ At the fifth meeting on 7 April Tôjô confirmed that the proposals put to Tokyo had been accepted, and that the Bank of England could therefore, 'resume the practice of approving inward transfers from transferable account countries'.⁵⁵ There were further talks two days later between Hogg and Crawshaw of the Bank of England with Tôjô, Murai and Ihara on third country transfers. It was decided that Japan would allow trade with all but the dollar area and open account countries to be financed alternatively in dollars and sterling.⁵⁶ This meant that Japan would pay dollars for imports and receive sterling for exports. Furthermore, Japan asked that it be allowed to accept sterling on an ad hoc basis for individual transactions from the open account countries. Although this arrangement was not favoured by the Bank of England (especially because of administrative difficulties for the Bank) it was thought that the Bank might accept the arrangement during the difficult period.⁵⁷ Furthermore, Tôjô told the Bank officials that he was taking steps to see if Japan might be able to use sterling 'to pay for goods and services passing between Japan and all other countries outside the dollar area and open account countries whether financed intermediately by merchants or not'.⁵⁸ However, the progress made over third country transfers in London came to nothing when on 13

April Murai called Crawshaw to say that there was a misunderstanding over the agreement reached earlier, and asked for the exclusion of further countries from the third country transfer arrangement.⁵⁹ The Japanese were embarrassed over having to go back on decisions already reached, and The Bank and Treasury officials made a great show of the Japanese reversal. As a result, on 20 April, the Japanese agreed to accept sterling from the Portuguese monetary area, Saudi Arabia and the French Somali Coast, but expressed their unwillingness to accept sterling from the Belgian monetary area,⁶⁰ Switzerland and Liechtenstein.⁶¹

Discussions over the issue of credit facilities began in earnest at the fifth meeting on 7 April when Tōjō circulated a paper setting out Japanese views on the possible credit facilities open to Japan. As had been predicted by the Treasury and Bank of England officials, Japan was reluctant to use usance bills for imports because of the time it would take before the bills took effect. Furthermore, it was opposed to the outright sale of dollars to the sterling area, and as an extension of this principle, the Japanese government was not happy with the idea of sterling/dollar swaps as Japan would have to sell dollars at the outset.⁶² Conversely, the Japanese proposed a reduction in the margin of Japan's credit cover from fifty percent to twenty-five percent as in dollar transactions, and also expressed the hope that the Bank of England would extend loans without collateral to the MOF.⁶³ Serpell in reply thought it was doubtful whether commercial banks would reduce their credit cover to Japan, but did not discourage the Japanese officials from meeting with commercial bank representatives. In respect to a loan without collateral, neither the Treasury or the Bank of England officials could extend such loans because there was a possibility that it would weaken the pound, and it was also contrary to their general credit policy.⁶⁴ At the following meeting, the results of discussions between Murai and British commercial banks were reported. Unsurprisingly, the Japanese had been unable to persuade the banks to change the credit margin towards Japan.⁶⁵ As both options favoured by Japan--the reduction of credit margin and a Bank of England loan without collateral--were blocked to the Japanese, Tōjō asked for UK assistance in the light of Japan's agreement to renew the sterling payments agreement in December and the trade relaxations towards the sterling area in October. Furthermore, Tōjō pointed out that Japan had come a long way to meet the UK on third country transfers, and they stressed that they would be disappointed if the talks did not lead to a satisfactory conclusion.⁶⁶ Serpell acknowledged the points presented by the Japanese side, and fully accepted the need for an early decision on credit facilities. At the seventh meeting two days later, Serpell offered sterling/dollar swaps to Japan for a period of up to six months. If the market was unable to provide sufficient swap facilities or were unable to continue the swaps for the full six months, he stressed that the Bank of England was prepared to offer the necessary facilities on

the same basis.⁶⁷ The meetings thereafter were spent working on various drafts of the agreed minute. In the meantime, the government in Japan approved Britain's sterling/dollar swaps; and Tôjô remained in London until the agreed minute was signed on 29 April.⁶⁸ The two main decisions reached in London between the Japanese representatives and Treasury and the Bank of England officials were the introduction of limited third country transfers to and from Japan, and the offer of a six month sterling/dollar swap facilities of £25 million to Japan.

American Observations

During this period, the American Embassy in Tokyo was constantly keeping the State Department informed of the progress in the Anglo-Japanese payments talks. The most interesting of the reports despatched to the State Department was written by Frank A. Waring, Counselor for Economic Affairs in the Embassy. In his report, dated 6 May, he highlighted the enthusiasm expressed by the Minister of Foreign Affairs, Okazaki Katsuo, about sterling trade. Waring reported that Okazaki had informed a Diet committee which was monitoring the Anglo-Japanese discussions that Japan was considering the possibility of converting all of its dollar expressed open-account agreements with Southeast Asian countries to sterling bilateral agreements.⁶⁹ Furthermore, he identified the MITI and the MOFA as most attracted by the possibility of shifting Japan's trade with the dollar area to sterling-expressed payments arrangements.⁷⁰ Waring reported that there were various government officials who supported such a move because of their pessimism over Japan's future dollar position. He also noted that several business and financial groups, who were advocating the establishment of an Asian payments union with settlements in sterling and an expansion in the use of sterling to trade with the PRC, were also supporting such a move.⁷¹ The second point of interest was Waring's scepticism about Britain's drive to wean Japan from the dollar area to the sterling area. Although he saw the inevitability of Japan moving towards regional trade (as advocated by the United States as well as Britain), he questioned Britain's motive in drawing Japan--it's most serious competitor in Southeast Asia--into the sterling fold. His scepticism arose from the fact that Britain was making promises of freer sterling area-Japan trade, but restricting imports of Japanese goods, and showing a reluctance to maximize sterling area exports of raw materials to Japan.⁷²

Britain's Policy towards the Intersessional Committee

In the meantime, having succeeded in postponing Japan's GATT accession until the beginning of 1953, Britain had to establish its position towards the February intersessional committee meeting. In late December 1952, the Foreign Secretary suggested in a letter to the Board of Trade that the two departments prepare a Cabinet paper on the question of Japan's GATT accession. This was agreed and a preliminary paper was prepared by the Board of Trade officials on 2 January.⁷³ The paper recommended that Japan should be associated with the world community of trading nations, which was a constructive step forward for the Board of Trade as previously it had argued that Britain should either opt out of the GATT or defer its position towards Japan's membership.⁷⁴ Therefore, the Board of Trade was finally agreeing in principle to Japan's GATT accession. The Board of Trade, however, sought to include a protective clause in Japan's provision of access to enable the other contracting parties to take '..."emergency" action to deal with an intensification of Japanese competition in particular goods or in particular localities when they were deemed to be causing or threatening serious injury'.⁷⁵ In short, the protective clause was to be inserted into Japan's protocol for accession to enable Britain, the Commonwealth and the colonies to take emergency action against Japan. The Board of Trade justified its decision on the ground that Japan was a low-cost producer. Britain also feared the repetition of Japan's commercial malpractices of the inter-war period such as copying of designs.⁷⁶ This emergency action was to be based on article 19 of the GATT which stipulated that:

...(if) any product is being imported into the territory of that contracting party in such increased quantities and under such conditions as to cause or threaten serious injury to domestic producers in that territory of like or directly competitive products, the contracting party shall be free, in respect of such product, and to the extent and for such time as may be necessary to prevent or remedy such injury, to suspend the obligation in whole or in part or to withdraw or modify the concession.⁷⁷

The most conspicuous aspect of the Board of Trade's proposal was the fact that article 19 emergency action was to be aimed at Japan alone. Not knowing how the other departments were going to react to the proposal, the Board of Trade decided to circulate its proposal to Foreign Office and Treasury officials and wait for their feedback.

On 9 January, the first inter-ministerial meeting on article 19 was held at the Board of Trade. The Foreign Office, the Commonwealth Relations Office, the Colonial Office, the Ministry of Supply and the Treasury officials all agreed to the Board of Trade's proposal.⁷⁸ The Foreign Office agreed to the new proposal because the Board of Trade had finally lifted its objection to Japan's GATT accession in principle.⁷⁹ If the Foreign Office had any reservations, it was their concern over the American reaction to the

proposal. The Foreign Office, however, believed there was a chance that it could be accepted by other countries, including the United States, if it was skillfully presented.⁸⁰

On 13 January Winthrop Brown of the US embassy met with CW Sanders of the Board of Trade at the latter's request. The objective of the meeting was to inform the Americans of the latest British position towards Japan and the GATT.⁸¹ Winthrop Brown's reaction to the new proposal was less favourable than expected. In a telegram to Dulles, Brown expressed his reasons for his opposition to the British proposal.⁸² He believed that the implementation of article 19(b) would be acceptable if it was to 'restore previously reduced duties' in the preferential markets, but he was against 'greater or new increases' as the British were intending.⁸³ Second, he thought that it would be better to extend preferential treatment to Britain's Commonwealth countries on a case-by-case basis, rather than to see the emergency action implemented directly against Japan. Third, he thought that discriminatory action against products of a named country was contrary to the principles of the GATT; it could establish an 'undesirable precedent' among contracting parties. Moreover, Brown thought that other contracting parties would be shocked by such a discriminatory proposal from Britain, one of the chief architects of the GATT.⁸⁴

While waiting for the State Department's formal views on Britain's proposal, Brown and his colleagues took it upon themselves to visit the Board of Trade and the Foreign Office to express their concern over Britain's proposed position at the intersessional committee meeting. On 14 January Brown visited JE Coulson, Assistant Under-Secretary of State in the Foreign Office, to express his objection to the Board of Trade's proposal.⁸⁵ The day after that Arthur Ringwalt and Joseph Todd went to see Tim Marten of the Japan and Pacific Department and DAH Wright, of the Economics Department.⁸⁶ On 17 January Brown visited Sanders of the Board of Trade to find out how the Board of Trade's Cabinet proposal was developing,⁸⁷ perhaps, with the hope that the barrage of visits by US Embassy officials might change the views of the Board of Trade and the Foreign Office on Japan's GATT entry. If the US officials had such hopes they were to be disappointed, as on 22 January Eden and Thorneycroft submitted a joint memorandum to the Cabinet along the lines agreed at the meeting of 9 January.

At the Cabinet meeting Thorneycroft proposed that Britain seek the support of other countries sympathetic to British views for a proposal that a 'special protocol of accession' should be inserted for Japan, which would enable countries to discriminate against Japanese goods along the lines of article 19, not only when Japanese products 'caused or threatened to cause serious injury to the domestic industries of the contracting party, but also if they caused or threatened to cause serious injury to the

exports of a contracting party to territories in an area within which preferential arrangements were permitted under GATT'.⁸⁸ In discussion, there was some concern over the unpopularity of this proposal, especially in the United States. Butler thought that the ultimate solution lay in the relaxation of the 'no-new-preference' rule. Despite some hesitancy by other Cabinet members, it was agreed that in the first instance, the UK should seek the response of the other intersessional members, and it was agreed that Britain's line could be altered according to the preliminary consultation results.⁸⁹

On the following day telegrams were despatched to UK embassies and consulates in the intersessional member countries, and also to Japan, to seek their views on the UK proposal. The meeting of the Cabinet was followed by further visits by Brown and Todd to the Board of Trade and the Foreign Office, while British Embassy officials in Washington were also asked to meet State Department officials.⁹⁰ American opposition to the British proposal was based on two points: the political difficulty of singling out Japan for special discriminatory treatment, and whether article 19 was the legitimate article under which Britain should try and protect its trade in third countries. Their inclination was to break the problem into specific cases in order to determine whether the problem could be solved without discriminating against Japan.⁹¹ A further meeting was held between the officials of the UK embassy and the State Department on 28 January, in which the Americans hinted that they might be willing to consider the British position as long as 'unfair competition' was defined by an objective criterion in the protocol of the Japanese accession to the GATT.⁹² They nevertheless remained opposed to the proposal in principle, and State Department officials proposed other possibilities such as a recourse to article 25 which would enable the contracting parties to waive an obligation imposed upon a contracting party provided that it was approved by a two-thirds majority of the votes cast.⁹³ American officials decided that an Anglo-American agreement should be reached before the discussion transferred to the public arena and therefore US delegates to the intersessional meeting decided to stop in London to meet Whitehall officials before the start of the intersessional committee meeting in Geneva on 2 February.⁹⁴

The Anglo-American meeting in London ended without any meeting of minds due to American dissatisfaction with the British proposal.⁹⁵ JA Snellgrove of the Economics Department, who attended the meeting came to the conclusion that Britain had five courses open to them; to go ahead with the original proposal despite American opposition; to revert to article 25 or 35, in which case, Britain would be assured of American support at the intersessional committee meeting; to announce the British decision to invoke article 35, and simultaneously conclude an exchange of notes with Japan which would enable Japan to have MFN rights subject to an escape clause; to

reserve Britain's position; to accept Japan's accession on the condition that Britain's preferential markets in the Commonwealth and the colonies were protected.⁹⁶ The first three solutions were considered retrograde, because they would lead to a deterioration in relations with Japan and therefore were ruled out. The fourth was considered as a stalling tactic. The last proposal was considered by Snellgrove as the most realistic step for Britain. Snellgrove, therefore, proposed with the Japan and the Pacific Department's approval that Britain should attempt to persuade the GATT officials that the article 19 proposal was the best solution, and if this failed, the Foreign Office should support the fifth proposal, and if that failed, Britain should resort to the fourth.⁹⁷

Meanwhile telegrams were arriving back from various UK embassies and consulates with regard to other contracting parties' views on the British proposal. Many, such as Norway, expressed sympathy with the British position;⁹⁸ some gave unconditional support to Japan in its bid to accede such as Chile;⁹⁹ while others such as Cuba and Italy remained unsure about what course they would take with regard to Japan's accession to the GATT.¹⁰⁰ Those who were opposed to Japan's GATT accession outright were Australia and South Africa.¹⁰¹ The response from the UK embassy in Tokyo, was as expected very critical of the British proposal. The telegram indicated the strong government and business desire for Japan to accede to the GATT and warned Britain of the consequences of their action. If the article 19 protocol was introduced, Dening thought that Japan might consider themselves 'fully justified in taking any and every action open to them to get their own back, whether legitimate or not'.¹⁰² Dening also thought that many of the nations were going to follow the US lead, therefore, he suggested that if the United States opposed the protocol, Britain should back down.¹⁰³

By the start of the intersessional committee meeting, the view in Britain was that most of the contracting parties were sympathetic to the British position, but many were unwilling to make any decision until the American position became clearer. Therefore, the British position was to attempt to get the delegates' approval on an informal basis. If its suggestions were rejected, Britain was to ascertain the best alternative proposal from the delegates. The British delegation in Geneva was instructed against accepting an alternative solution itself, and instead asked to report back to London. The Cabinet could then 'consider whether the solution was acceptable', and if so, take steps to canvass industry and the parliamentary committees concerned.¹⁰⁴ Although the United States view was to play a dominant role at the intersessional committee meeting, the American position was not well defined, partly because the new administration had only recently taken office and policy towards the intersessional committee meeting was slow in forming. More importantly, although the United States was in favour of

Japan's eventual GATT accession, they were unable to grant a quick accession while the Reciprocal Trade Agreements Act was still being discussed in Congress.¹⁰⁵

The Reciprocal Trade Agreements Act and its significance on the first year of the Eisenhower administration can only be understood by the fact that Eisenhower's platform for the presidency had included an emphasis on the need for a liberal foreign economic policy, and this was opposed by a protectionist minority of the Republican party who held key positions in Congress. The Reciprocal Trade Agreements Act was first passed by Congress in 1934. It did not repeal the Smoot-Hawley Tariff Act of 1930, but it had authorized the President to negotiate agreements with other countries for mutual reductions in tariff rates of up to 50 percent of the Smoot-Hawley Tariff.¹⁰⁶ Therefore, the power over tariffs passed from Congress to the President in the 1930s. Eisenhower faced opposition to the renewal of the Reciprocal Trade Agreements Act as a small Republican minority believed that freer trade through lower tariffs was a 'Democratic-inspired program that challenged the nation's economic interests by fostering increased foreign competition'.¹⁰⁷ The protectionist elements within the Republican Party held key positions in the congressional committees which the Reciprocal Trade Bill had to pass through, such as the Senate Finance Committee and the Committee on Ways and Means. Moreover, a conservative Republican, Richard Simpson of Pennsylvania, introduced a bill (HR 4294), which aimed at a rise in existing tariff levels and import quotas. The Chairman of the Committee on Ways and Means, Daniel A. Reed of New York, who was an old guard Republican, chose to hold hearings on the Simpson Bill while ignoring the administration's trade bill.¹⁰⁸ By June, it became apparent that neither sides of the Republican Party were going to win. The Simpson Bill was defeated, and Eisenhower realized that it was impossible to reverse the historic Republican protectionist position within the short time before the expiration of the Reciprocal Trade Agreements Act. Therefore Eisenhower asked Congress for a one-year extension of the Reciprocal Trade Agreements Act and dropped his request for additional rate cutting powers. Moreover, he promised not to negotiate new trade deals during that year, thereby preventing America from conducting tariff negotiations with Japan in 1953. Meanwhile the administration concentrated on the study of a comprehensive economic programme, in order to rally support for freer trade policies. This study became known as the Randall Report.¹⁰⁹

In the meantime, Japan was not sitting idly by. Its representatives were busy seeking information concerning the respective positions of the GATT intersessional committee members. Most interesting were the records of meetings between Hagiwara Tôru, the head of Japan's GATT observer delegation, and the Executive Secretary of the GATT, Eric Wyndham White, due to the latter's optimism in regard to Japan's GATT

accession. Hagiwara was reassured on 23 January that every effort would be made by Wyndham White to enable Japan to complete tariff negotiations by September.¹¹⁰ He also received Wyndham White's assurance that none of the intersessional committee members were intending to postpone Japan's application or take a negative attitude towards Japan's accession. Furthermore, Hagiwara was told that Britain's proposed safeguard clause should be acceptable to Japan.¹¹¹ Hagiwara thought Wyndham White's timetable for Japan's GATT entry was too optimistic, and his view was supported by Matsumoto Shunichi, the Japanese Ambassador to Britain¹¹²

The Intersessional Committee Meeting

The intersessional committee meeting to discuss Japan's accession to the GATT began on 2 February in Geneva. The members of the intersessional committee were Australia, Cuba, Italy, Belgium, Denmark, Pakistan, Brazil, France, South Africa, Canada, Germany, Chile, India, the United States and Britain. The meeting was chaired by Johan Melander, the Director of Commercial Policy in the Norwegian Ministry of Foreign Affairs.¹¹³ There was very little progress on the first day. The British delegation tried to canvass the American and Canadian delegations but they made little headway, and Snellgrove reported back to the Foreign Office in London that North America's final position on the British proposal was likely to be unfavourable.¹¹⁴ Meanwhile, an alternative proposal was put forward by Wyndham White during an informal discussion between the delegates of the United States, Canada, Australia and Britain on 3 February. The proposal was to include article 23 in the protocol of accession rather than article 19.¹¹⁵ Article 23 stipulated that if a contracting party experienced problems in regard to another member, the matter could be brought to the attention of the GATT, and the contracting parties would promptly investigate the matter and make appropriate recommendations. According to Snellgrove, the article 23 formula prevented Japan from being singled out as the 'only possible sinner', thus avoiding any appearance of discrimination and would therefore be more acceptable to Japan and the GATT members.¹¹⁶ Conversely, there were disadvantages, such as the inclusion of a paragraph in the actual text of the GATT laws which restricted the injured party from taking action until after consultations with the contracting parties; furthermore, as the new proposal was not targeted at any one particular country there was a danger of a wider application of article 23, especially in the event of currency depreciation; moreover, Britain would still have to resort to article 19 until a situation developed where it clearly justified a resort to article 23.¹¹⁷ The Foreign Office was far from satisfied with this new proposal. It was against the possible inclusion of a paragraph in the GATT regulations enabling contracting parties to undertake discriminatory action against another member; furthermore, it was afraid that it might lead to the use of article 23 against Britain, which might expose British exports to 'all

manner of discriminatory action'.¹¹⁸ Therefore, the Foreign Office instructed British delegates to participate in the amendment of the text, so that any discriminatory action would be confined to certain situations, and instructed the delegates to communicate to the rest of the delegates that the new proposal was far from acceptable to Britain.¹¹⁹

Meanwhile, in Geneva, a working party--made up of the representatives of Australia, Canada, Cuba, France, Germany, India, Italy, Pakistan, the United Kingdom and the United States--was established under the Chairman in order to discuss the possible escape clauses available to the contracting parties. The British delegation argued for the British approach, but none of the delegates, especially the United States, supported a clause that singled out Japan. Therefore, it became clear that the British line would have to be dropped. The next best safeguard available to Britain was to support the proposal based on article 23.¹²⁰ On 6 February, a drafting committee consisting of Britain, the United States, Canada, France, Pakistan and the Executive Secretary was created in order to draft a proposal based on article 23.¹²¹

In Britain, the Cabinet met on 10 February to decide what line the British delegates should take in Geneva.¹²² It was decided that Britain should support the new proposal but that every attempt should be made to amend it to enable a contracting party to undertake discriminatory action without having to seek the other members' prior approval. If this approach failed, the British delegates were to accept the original proposal on the condition that the contracting parties' approval could be sought after emergency action had been undertaken by the member. If this also proved to be unsatisfactory, they were to reserve their position.¹²³

Back in Geneva, the question of 'prior approval' was discussed by working party members on 11 February. The British delegates argued for a contracting party to be able to take unilateral emergency action before seeking GATT approval, but both the Americans and the Canadians opposed the British position, as they thought it unlikely that a serious situation would arise overnight. Moreover, they thought that it was against the spirit of the GATT for a member to take unilateral action.¹²⁴ The Americans had a further problem with the wording of any protocol which specified 'serious injury' as the new Eisenhower administration was attempting to tighten emergency provisions in the Reciprocal Trade Agreement in order to reduce the number of applications for tariff increases by inefficient domestic producers.¹²⁵ For this reason, the Americans were against the use of the words 'serious injury' in the declaration which could be cited by domestic producers to protect their business against foreign competition. This was acknowledged and the words 'violent disruption of trading conditions' were inserted instead of 'serious injury'. Therefore, the only problem to be ironed out by the

drafting committee was the issue of 'prior approval'. This issue was finally resolved when the drafting committee decided that the contracting party would be able to take provisional, emergency action if the other members were unable to reach a decision within thirty days after the situation was reported.¹²⁶

The report of the intersessional committee was finalized and adopted on 13 February. The main points of the report were first that, Japan should be admitted into the GATT. Second, it was agreed that emergency action based on article 23 could be taken against any member if it produced or threatened violent disruption of trading conditions through its export practices so as to affect a significant sector or sectors of production of one or more contracting parties.¹²⁷ Under this emergency action, the injured party was to report the situation to the GATT, and if after thirty days no decision was reached among the contracting parties, the injured party was eligible to take interim emergency action. It was agreed that this emergency action would be a declaration which could be authorized by any member under paragraph two of Article 23; therefore, it was unnecessary to revise the GATT laws.¹²⁸ Third, it was agreed that Japan's tariff negotiations should be handled at a single general tariff conference, and last of all, the report recommended that a special session should be convened to enable the contracting parties to reach a decision concerning the nature and the timing of tariff negotiations with Japan.¹²⁹ A number of delegates including those from Brazil, Denmark, Belgium, France and Italy emphasized that they were adopting the report ad referendum.¹³⁰ The United States made it known that it was unable to make a commitment to enter tariff negotiations with Japan while the Reciprocal Trade Agreements Act was being discussed in Congress. The next step, therefore, was for the contracting parties to endorse the report. This would be done by postal vote to the Secretariat, indicating whether they were ready to open tariff negotiations with Japan on the terms outlined in the report.¹³¹

Japan had a group of ten Japanese representatives in Geneva.¹³² After the completion of the intersessional committee meeting, a telegram was sent to the MOFA, in which the delegates reported that they had no objections to the intersessional report, as Japan did not have to fulfill any criteria to join the GATT, nor did Japan's condition for entry include any drawbacks.¹³³ What was interesting was Hagiwara's report on the intersessional meeting, and his report on Britain's attitude towards Japan. Hagiwara was on the whole favourable towards Britain, as it had for the first time lifted its objection against Japan's GATT entry. Moreover, he wrote that British officials had stressed the fact that Britain was not against Japan's long-term trade recovery, and that the safeguards were proposed in order to ensure Britain against unforeseen trade

practices.¹³⁴ Therefore, Japan was made aware of Britain's attempts to maintain amicable relations with Japan.

British officials had cause to be satisfied with the outcome of the intersessional committee meeting. Although they were unable to persuade other members to agree to the British proposal of an escape clause based on article 19 of the GATT, they were able to safeguard their position by retaining the right to take action in case of 'violent disruption of trading conditions'.¹³⁵ Although the delegates had not solved the question of the 'timing' of Japan's accession, they were able to reach a decision on the 'conditions' which was considered a significant step forward by all the participants of the February meeting. The minutes in the Foreign Office indicate that there was overall relief at the outcome of the meeting, and it was recognized that the bulk of the work would not have been completed without the joint efforts of the American, Canadian and British delegates in Geneva.¹³⁶

The initial euphoria in Britain was short-lived, however, as the general feeling in the Foreign Office grew that Britain might have made too many compromises in order to reach an agreed settlement with the Americans and the Canadians. In a matter of a few months, the British position had changed from their declared intent not to confer MFN rights to Japan to accepting Japan's GATT membership without strong safeguards to protect British industries.¹³⁷ The Foreign Office initially became concerned when the US suggested extending the discussion period from thirty to sixty days. If the United States' proposal was accepted it would have meant a further weakening of safeguards in case of a threat to British industry. The Foreign Office also realized that the Board of Trade was sceptical of the agreement reached in Geneva, because of the need for 'prior approval' from the contracting parties. Therefore, the dilemma faced by the Foreign Office was whether to approach the United States first, to inform them that they would go no further than the thirty-day discussion period, or to approach the Board of Trade and persuade them that the thirty-day period should be accepted in order to reach an agreement with the rest of the contracting parties. It was decided that the Board of Trade should be approached first, although the Foreign Office was resigned to the fact that it would have to 'bolster up the Board of Trade with very strong arguments' to force them to accept the agreed period.¹³⁸ A month later, Snellgrove was informed that the Board of Trade had rejected the report reached by the intersessional committee in Geneva and was proposing that Britain should invoke article 35 against Japan should it be admitted to the GATT.¹³⁹ The Foreign Office, therefore, were placed in the undesirable position of having to 'revive all the arguments' they had used on previous occasions.¹⁴⁰

The issue was discussed by the Cabinet on 14 May. Three memoranda were submitted for discussion.¹⁴¹ One by the Board of Trade, one by the Foreign Office and one by the Treasury. The Board of Trade's position on the issue of Japan's GATT accession was to reject the intersessional committee report based on article 23 as Britain's freedom to act against unfavourable competition would be dependent on the majority vote of the GATT. What the Board of Trade wished to protect was the freedom for British industries to discriminate against 'violent and disruptive competition' unilaterally. Therefore, they proposed that Britain should abstain from voting on the principle of Japan's accession and inform the contracting parties that Britain might resort to invoking article 35 at the next session of the GATT. Furthermore, the Board of Trade proposed that Britain should not extend MFN rights to Japan until there was time to see how Britain would fare in competition with Japan in more 'normal' circumstances, and until they were more certain of America's overall commercial policy. The Board of Trade also placed great importance on the fact that South Africa, Australia, New Zealand and possibly France appeared determined to invoke article 35. In order to prevent political difficulties with the Southern Dominions, they argued that it was better for Britain to stand together with them and invoke article 35.¹⁴²

The Foreign Office put forward the argument, as in the past, that Japan should have access to markets if it was to make a living in the 'free' world. Furthermore, they argued that Britain should vote for Japanese accession in order to enable the latter to take the road of international cooperation. The Board of Trade's proposal of abstention would have various consequences, such as the fact that it would be contradictory to the basic principles of a collective approach to freer world trade; it would be going against the policy of increasing trade between the sterling area and Japan and against increasing Japan's confidence in the use of sterling; it would jeopardize good relations between Britain and Japan; it would add one additional difference between the United States and the United Kingdom in East Asia; it would give Japan an excuse to go back to its malpractices; it would be helping communist propaganda in Asia; and the British position would cause surprise and disappointment among the intersessional committee members of the GATT, especially as the recent report had been drafted largely to meet Britain's difficulties.¹⁴³

The Treasury submitted a memorandum which was sympathetic to the Foreign Office's views. Highlighted in the memorandum was the view that Britain had no firm policy towards Japan concerning economic matters. It was concerned that Britain was on the one hand encouraging expanded trade relations between the sterling area and Japan, while on the other hand it was finding arguments to restrict purchases from Japan. Furthermore, the memorandum referred to Britain's attempts to restrict Japan's GATT

entry. The Treasury indicated that Britain could not go on much longer along these lines and proposed a similar study to that undertaken by an inter-ministerial working party in 1951 to examine Britain's economic policy towards Japan.¹⁴⁴

At the Cabinet meeting, Thorneycroft agreed with Butler that the issues should be fully examined before any decision was taken. He emphasized, however, that he would rather this issue be examined by ministers than officials. Therefore, the Cabinet decided to establish a Cabinet committee on tariff policy towards Japan chaired by the Chancellor of the Exchequer, consisting of the Commonwealth Secretary, the Colonial Secretary, the President of the Board of Trade, the Paymaster-General and the Minister of State at the Foreign Office.¹⁴⁵

The decision to undertake an inter-ministerial study on British economic policy towards Japan was supported by most ministries. In fact, there had been a call for such a study as early as 1952, after Malcolm MacDonald's visit to Japan between 29 June and 8 July 1952.¹⁴⁶ In his correspondence to Anthony Eden on his return to Singapore, MacDonald had indicated his desire to see the establishment of such a committee. There were some, such as TH Sinclair of the Board of Trade, however, who saw the establishment of an inter-ministerial committee as an attempt by 'other ministers to make sure that full weight is given to the external consequences of policy as opposed to the President's emphasis on the internal political difficulties of accepting Japan into the GATT'.¹⁴⁷

The Report

The first meeting of the tariff policy on Japan committee was held on 5 June 1953. At the meeting, it was decided that a more 'consistent economic policy' towards Japan was needed, and it was decided that preliminary studies on the following questions should be undertaken:

(i) Japanese Competition with the United Kingdom

How far is Japan competitive with the United Kingdom both now, and potentially, in the main fields of industry (e.g. textiles, engineering, etc.)? This should include a study of the colonial markets.

How far, and for what reasons, is Japan to be feared more than other competing countries in these fields?

In what countries is Japanese competition most to be feared?

(ii) Japan's Economic Relationship with the Sterling Area

How far is Japan dependent on the sterling area as a source of supplies and for markets for her exports? In this connection, the prospects for United States aid

and of a cessation of procurement for the war in Korea, together with the prospects for a re-opening of trade with China should be taken into account.

How far does the sterling area need to look to Japan as a source of supplies, and as a market for exports, including invisibles? In particular, what is the position as between Japan and the United Kingdom itself?

(iii) Balance of Payments

What are the sterling area/Japan balance of payments prospects, and their implications in the short term (i.e. 1953/1954), and in the long term?

(iv) GATT

What forms could Japanese disruptive competition, unfair practices, etc., take? What safeguards against them exist, and what safeguards would exist if Japan were in the GATT?

What are the likely reactions of the colonies, Japan, Commonwealth countries, the United States and other contracting parties, to a decision by the United Kingdom to invoke Article 35 against Japan?

What action by these countries is likely if Japan is admitted to the GATT?

What are the advantages and disadvantages of a United Kingdom-Japan Commercial Treaty?¹⁴⁸

Although Thorneycroft had asked for the establishment of an inter-ministerial committee, the committee on the tariff policy on Japan did very little work, and met only three times. The actual work was carried out by an inter-ministerial working party, and the report was discussed by the ONC. After the framework of the study was decided on 5 June, the working party set out to amass facts from various sources including the Washington and Tokyo embassies, and the High Commissioners in Commonwealth countries. A month later, on 7 July, a meeting of the ONC was held to discuss the report. The meeting concluded that the report was too lengthy and that it should be divided into four reports.¹⁴⁹ Another meeting was held on 14 July to make further amendments to the report which was finalized on 16 July.¹⁵⁰

The report attempted to answer the eleven questions above. Concerning Japanese competition with the United Kingdom, the report specified that the industries vulnerable to 'disruptive' competition from Japan were cotton textiles, rayon textiles, pottery, toys, finished steel, textile and other machinery, bicycles, cables, clocks, cameras and glassware.¹⁵¹ The amount of trade at risk was considered to be £70 million a year, or three percent of British total exports or 18 percent of British exports to East Asia (excluding Australia and New Zealand). Although these figures seemed low on the whole, in terms of the various industries the threat was larger. For example, the threat to cotton textiles and rayon textiles industries amounted to around thirty percent

respectively. Other potentially threatening countries were also examined in the report, such as Germany, India and the United States. Germany was considered a greater threat in European markets, and a more dangerous competitor than Japan in specialized products such as in engineering. The report, however, identified the seriousness of Japanese competition in comparison to that of Germany and the United States, as it concentrated on 'particular industries and particular regions of the world'.¹⁵² India was identified as a potential threat, because of its low-cost textiles production, but the low wages paid in India were offset by a low rate of productivity. Furthermore, India concentrated on low-grade cottons which Lancashire no longer exported in large quantities. The United States was also considered a potential threat, but the general restrictions on dollar expenditure prevented America from becoming a greater threat to British industries. The markets which were considered most vulnerable to Japanese goods were those areas where cheapness was a decisive factor. Furthermore, there were worries that if East Asia was unable to absorb Japanese exports, then its goods might expand into South America, the Near East, the Middle East and Canada. British fears also arose from the fact that, even if the China market were reopened, it would not alleviate British problems as China was expected to concentrate on capital goods rather than consumer goods.

On Japan's economic relationship with the sterling area, the report indicated that neither Japan nor the sterling area were dependent on the other for materials except for Japan's purchases of wool. Japan's need for sterling area products was less a direct supply problem and more a function of its foreign exchange position. Japan's import programme was based on the reserves and expected earnings of the different currencies, and the bargaining strength of other countries with whom it had bilateral agreements. The peculiarity of Japan's foreign exchange budget rested on the strict division between dollar, sterling and open account expenditures (see table 4.1). Therefore, as long as Japan had ample dollar reserves, it was not expected to be over-reliant on the sterling area (Japan was not expected to be short of dollars for another two years). However, the 'underdeveloped' territories of the sterling area looked to Japanese goods as a valuable source of cheap manufactures (especially textiles and light metal products). Japanese goods were deemed important as a means of preventing inflation in those countries. In view of the poverty of the inhabitants of the new Dominions and colonies, it was politically impracticable for them to do without Japanese goods. Furthermore, Japan was dependent on its ability to sell to the sterling area. Japan was considered likely to become more reliant on the sterling area in the future, as its ability to expand to the dollar area was not bright, while the prospects of expansion into the open account countries were not good either (Japan conducted bilateral trade agreements with the open account countries which meant that Japan had

to balance trade on a bilateral basis. The disadvantage of this system was that Japan had to buy products regardless of the price or quality in order to balance trade). The report indicated that the loss of Japan as an outlet would be a serious matter for a number of sterling area countries (see tables 4.2 and 4.3 for the breakdown of Japan's trade with the sterling area). This was most evident on examining the percentage of some of the commodities (see table 4.4). Visible trade between the United Kingdom and Japan remained low and there was very little United Kingdom interest in expanding its visible exports to Japan. Visible exports amounted to £9 million a year, whereas sterling area invisible exports to Japan, such as oil sales, shipping, banking, merchanting, insurance, interest and royalties were much larger at £30 million in 1952. UK imports from Japan fluctuated in the £10 to £20 million range per year. Goods imported from Japan included hardwood, raw silk, white-beans, silver and limited quantities of grey cloth for re-processing. Japan's access to UK markets was limited by quantitative restrictions imposed on balance of payments grounds.¹⁵³

With respect to the balance of payments prospects of the sterling area and Japan, the report was unable to offer a decisive recommendation because of fluctuations in Japan's sterling reserves. Although Britain had offered a £25 million sterling/dollar swap facility to Japan in order to restore Japan's sterling balances to £50-55 million by the end of 1953, the facility was not considered enough to enable Japan to overcome its deficit with the sterling area. The report identified three options open to Britain. To relax import restrictions to give Japan better access to sterling area markets; to force Japan to reduce its purchases from the sterling area generally; or to ask Japan to buy sterling using dollars or other currencies. There were snags to all three options. The first option would mean that Britain would lose the substantial trade it had built up in the colonies. If Britain forced Japan to reduce its purchases from the sterling area, as in the second option, there was a possibility that Japan would turn to other sources for trade. The third option was considered the best for Britain, but it was aware that Japan was against spending its dollars to purchase sterling. The report predicted that Japan might try to bring in dollar convertibility into the sterling payments agreement, if Britain tried to force Japan to use its dollars in the sterling area.¹⁵⁴

On the GATT issue, the report attempted to identify the ways in which Japanese competition might prove to be 'disruptive'. It was, however, unable to come up with specific examples except the possible repetition of pre-war malpractices such as infringement of copyright laws and the practice of 'dumping'. The report identified several safeguards available to Britain if Japan entered the GATT. If Britain decided not to invoke article 35, it could safeguard its home market by increasing tariffs on a non-discriminatory basis, raise unbound MFN rates and negotiate increases in bound duties

on MFN basis or implement article 19. The problem with the above options was that they would not help colonial, Commonwealth or foreign industries to safeguard their industries in British markets nor could they help Britain in their respective countries. Other options open to Britain were citing balance of payments as a means to restrict Japanese imports; the use of article 23; or the implementation of article 35. The report indicated that Britain would not be able to cite balance of payments as a reason for discriminating against Japanese goods in the long run, because Britain was expecting to move towards convertibility, in which case balance of payments arguments would no longer be applicable. Article 23 would enable Britain to safeguard its home market but Britain would not be able to discriminate against Japan without prior approval from a majority of the contracting parties. Conversely, article 35 would be limited to action in respect of Britain's domestic industries and its export interests in its colonies.

With regard to article 35, the report stressed that if Britain invoked it, there would be a division within the Commonwealth, as Canada, India and Pakistan were expected to support Japanese accession, while South Africa, Australia, New Zealand and South Rhodesia were expected to support Britain. Japan's reaction would be disappointment and anger, and there were fears that it might lead to a deterioration in Anglo-Japanese relations, and that the United States would consider the British government's action unreasonable.

On what action would be taken by these countries if Japan joined the GATT without any additional safeguards, the report concluded that it would result in an overall tariff increase. The report speculated that if article 23 was accepted by the GATT it could be used against Japan, but the report indicated that it would be unlikely that the article 23 safeguard would be adopted at the GATT without British support. Britain was expected to benefit if the colonies, and the Southern Dominions decided to invoke article 23 or 35. Neither India nor Pakistan was expected to take any action against Japan, while Canada was expected to make special arrangements for an arbitrary valuation to enable her to deal with the Japanese problem. The United States was expected to accept Japan with limited safeguards.

On the advantages and disadvantages of signing a commercial treaty, Britain had until mid-1956 to decide on what form of commercial treaty it should sign with Japan because the peace treaty of September 1951 had stipulated that Japan should give MFN treatment to all goods for four years after the ratification of the treaty. Various formulas for a commercial treaty with Japan were proposed such as a normal commercial treaty without a MFN-goods clause, or a treaty with a MFN clause which would enable Britain and the colonies to take unilateral defensive action in an emergency. The British

embassy in Tokyo had already telegraphed to express the view that the first formula would be unacceptable to the Japanese. The report indicated that they did not expect Japan to accept the second option either, but it recommended that Britain should 'sound out' the United States and the Commonwealth countries on the proposal.

The report was mainly factual, and it highlighted the complexities behind British economic policy towards Japan. The main problem lay in the fact that Britain felt threatened by potential Japanese competition which might be violent and disruptive to British industries. Therefore, Britain wished to prevent Japan from being accorded the same MFN rights for goods as other countries. Although on the one hand, Britain wished to prevent Japan from becoming a threat, however, it was also aware of the importance of cheap Japanese goods for the 'underdeveloped' sterling area countries. Furthermore, various industries in the sterling area relied on sales of commodities to Japan, and therefore, despite the secondary importance of trade between the United Kingdom and Japan, Britain had to consider the future of the sterling area multilateral system. The situation was complicated further by the fact that there were fluctuations in the balance of trade between the United Kingdom and Japan. The problem facing Britain here was how to assist Japan in overcoming its deficit. Britain could either relax the overall sterling area import restrictions or ask Japan to restrict purchases from the sterling area. Both options had disadvantages for the United Kingdom and the sterling area. Moreover, in relation to the GATT, Britain had to find a policy which would not divide the Commonwealth countries or lead to a strain in relations with the United States. Therefore, Britain was faced with a complex dilemma consisting of domestic considerations, the position of the 'underdeveloped' sterling area countries, the future of the sterling area, and its relations with the United States.

The working party attempted to define a single British economic policy towards Japan, but as the content of the report indicates this was not possible. It is almost tempting to compare the first working party report of 1951 with the report of 1953, but this should be avoided as the issues presented to the working party in 1951 were less complex than those of 1953. Furthermore, the working party in 1951 had more than half a year to study Britain's relations with Japan, whereas the working party of 1953 only had two months.

A month and a half after the first Cabinet committee on tariff policy on Japan was convened, the second meeting was held on 22 July to discuss the report. Minutes indicate that there was no attempt by the committee members to integrate the two strands of the issue into one consistent policy towards Japan. This was partly because Britain was under pressure to establish a policy towards Japan before the next GATT

session in September. Therefore, discussions were focused on the GATT issue, while it was decided that officials should continue examining UK commercial policy towards Japan.¹⁵⁵ Thorneycroft, as was expected, argued that the United Kingdom should attempt to gain time to enable British industries to become resistant to Japanese competition. Moreover, the United States had indicated that they would be unable to undertake tariff negotiations with Japan in 1953. Therefore, he proposed that Britain's objective should be to defer the decision 'on the ground that the question remained hypothetical until it was possible to carry out the necessary tariff negotiations'.¹⁵⁶ The Commonwealth Secretary, Viscount Swinton, said that it was impossible to generalize on the Commonwealth attitude towards Japan's GATT entry. Furthermore, he viewed the article 23 solution as ineffective in the protection of British industries. Both views were endorsed by the Colonial Secretary, Oliver Lyttelton. The Joint Parliamentary Under-Secretary of State for Foreign Affairs, the Marquess of Reading, however, was against any action which would 'greatly upset the Japanese'.¹⁵⁷ He was not against the idea of postponing the question of Japan's accession in September, but he told committee members that there was a movement towards accepting Japan on a provisional basis. The committee meeting concluded that Britain would attempt to get a deferment of the question during the next session of the GATT in September, but they also agreed to take the question to the Cabinet in order to decide what action Britain should take if deferment was not possible.¹⁵⁸

The issue was brought to the Cabinet on 30 July 1953. The memoranda submitted by the Commonwealth Secretary and the Board of Trade both stressed that Britain should not accept the article 23 safeguard, because Britain would have to rely on a prior approval of the contracting parties. The Commonwealth Secretary went as far as to suggest that Britain should resort to invoking article 35.¹⁵⁹ Neither the Chancellor of the Exchequer nor the President of the Board of Trade supported this view. Butler recommended that Britain not show its hand at the September session, due to the domestic, colonial, Commonwealth and foreign pressures.¹⁶⁰ Thorneycroft also endorsed this view, and recommended that Britain should 'play for time, and refrain at the forthcoming conference from supporting Japan's entry into GATT or from defining in advance our attitude towards it'.¹⁶¹ Therefore, Thorneycroft, who was scheduled to attend the GATT session in September was authorized to 'refrain from supporting Japan's accession or defining in advance our attitude towards it, but to seek to have the issue deferred for a further period'.¹⁶²

Towards the Temporary Accession of Japan in the GATT

While these developments were taking place in Britain, the Executive Secretary of the GATT, Wyndham White was beginning to consider the temporary accession of Japan into the GATT.¹⁶³ Wyndham White approached Hagiwara in early May and discussions followed on how to approach the other governments concerning this issue. Usually proposals of this kind were addressed to the other contracting parties through diplomatic channels in order to canvass their votes prior to the GATT session (as in the case of Britain and the article 19 proposal before the intersessional Committee meeting in February) but Hagiwara and White decided against an early approach to the other members. Instead the proposal would not be telegraphed to the other contracting parties until just prior to the GATT session.¹⁶⁴

The two options now open to Japan were either to accede to the GATT through a minor tariff negotiation, also known as the Annecy formula¹⁶⁵ or for Japan to accede to the GATT without prior negotiations, on the understanding that they would begin as soon as the freeze on tariff talks was lifted.¹⁶⁶ It became apparent by July that the United States would be unable to endorse Japan into the GATT through the Annecy formula, as it was 'inconsistent with their commitment to Congress not to use renewed authority under the Trade Agreements Act for major tariff negotiations'.¹⁶⁷ Therefore, Hagiwara and Wyndham White consolidated Japan's position towards its provisional GATT accession. Much time and energy went into writing the Japanese proposal, and the MOFA records indicate close collaboration between Wyndham White and Hagiwara in preparing a proposal that was most 'attractive' to the GATT contracting parties, in particular, to the United States.¹⁶⁸

In mid-July, Wyndham White went to Washington and discussed his temporary accession proposal with officials.¹⁶⁹ Although Dulles had agreed to this proposal by the end of July, the United States government was unable to endorse it until they had the approval of the interdepartmental trade agreements committee and congressional leaders. They were reluctant, nevertheless, to approach the committee or congressional leaders until the Reciprocal Trade Agreements act had been extended.¹⁷⁰

Therefore by the end of July, it was not only Britain which was consolidating its position towards the question of Japan's accession to the GATT. While Britain had decided not to endorse Japan's accession to the GATT at the Cabinet meeting of 30 July, the United States was leaning towards a temporary accession of Japan. Furthermore, Japan's provisional accession was discussed by the Japanese Cabinet and endorsed on 31 July.¹⁷¹

Back in Britain, Whitehall officials had decided to notify Washington of Britain's decision, and a draft telegram drawn up by the Board of Trade was being circulated to the Foreign Secretary and the Chancellor of Exchequer for their approval when the Board of Trade received an airgram from Wyndham White conveying Japan's proposal for provisional membership.¹⁷² The Japanese letter conveyed its desire to enter into the GATT as a temporary member, as it did not foresee a general round of tariff negotiations in the immediate future. To compensate for this irregular procedure, Japan offered to bind a substantial number of its tariffs as *quid pro quo*. Moreover, the letter stressed that if no positive action was taken in regard to Japan's GATT accession at the eighth session, the Japanese government would be 'criticised and discouraged' from continuing its MFN treatment to the allied powers.¹⁷³ To make their proposition attractive to the contracting parties, however, Japan suggested that if it was given provisional membership, commercial relations between Japan and the contracting parties would be based on the GATT, but that this 'interim arrangement' would not prejudice the freedom of each individual contracting party over the question of Japan's permanent membership.¹⁷⁴ The letter also indicated Japan's readiness to accept the 'interpretation of article 23 set forth in the draft declaration recommended by the intersessional committee'.¹⁷⁵ Furthermore, Japan expressed its readiness to negotiate 'reciprocal tariff concessions with any GATT members which wishes to do so, with the idea that the resulting concessions would eventually be incorporated in the GATT schedule'.¹⁷⁶ The untimely airgram from Geneva also conveyed the message that the US government supported Japan's provisional membership to the GATT.¹⁷⁷

The telegram sent to Washington on 7 August, therefore, instructed the British embassy in Washington to ascertain whether it was true that the US administration was supporting Japan's provisional GATT membership, and to inform the US government that Britain wished to see the issue deferred for a further period, and that it hoped for American support for Britain's line.¹⁷⁸ On 11 August, G. Parker and Mr. Scott of the British Embassy in Washington met with State Department officials. The American side represented by Samuel C Waugh, Assistant Secretary for Economic Affairs and John M. Leddy, Director of the Office of Economic Defense and Trade Policy, was sympathetic to the British position, but were more concerned with the repercussions on US-Japan relations if they did not support Japan's proposal.¹⁷⁹ When the result of the Washington meeting was relayed to the Foreign Office, the Marquess of Salisbury, who was the acting Foreign Secretary, sent a letter to Thorneycroft suggesting that Britain should accept Japan's provisional accession to the GATT, provided there were safeguards for Britain. He went on to suggest two possible safeguards. The first was the original British proposal of a safeguard according to article 19 of the GATT. The other, which he preferred, was the inclusion of an 'article 23' safeguard, with a

provision which enabled the contracting parties to invoke article 35 at any time during Japan's provisional association.¹⁸⁰ Thorneycroft rejected the Marquess of Salisbury's suggestion in his reply, because 'any form of Japanese association, however provisional in its technical status, must almost inevitably set the pattern in practice for Japan's later association on a permanent basis'.¹⁸¹ Furthermore, the Board of Trade decided that it should send telegrams to all Commonwealth countries in order to gain their support for the British position. When the Foreign Office was informed of this, they decided to take the issue to the Cabinet level in order to prevent the Board of Trade from pushing Britain towards an isolationist position within GATT. On 17 August, the Marquess of Salisbury sent a letter to Thorneycroft proposing to raise the matter at the Cabinet. In the letter he highlighted the dangers of resorting to what would be considered as invoking article 35 against Japan. He argued that it was better for Britain to accept Japan's provisional association and argue for implementation of certain safeguards rather than stand aside and let other members include Japan in the association with less effective protection. He also argued that Britain would be in a better position to assess whether Japan would really be a potential menace by its temporary inclusion in the GATT.¹⁸²

At the Cabinet meeting of 25 August the Marquess of Salisbury and Butler both hoped that little would be done to antagonize Japan, but Thorneycroft argued that Britain should abstain from voting, and this was supported by Swinton who believed in the importance of acting in 'concert with Australia and New Zealand'.¹⁸³ The majority of the Cabinet members expressed support for the President of the Board of Trade and the Commonwealth Secretary's views and therefore it was decided that Britain should seek the cooperation of other Commonwealth countries, in particular Australia and New Zealand, in abstaining from voting on the question of Japan at the forthcoming session. It was also decided that if Thorneycroft, who was to attend the GATT session, was unable to obtain this support, the issue should be re-submitted to the Cabinet for further consideration.¹⁸⁴

While the British government was deciding on its policy towards Japan's provisional accession, an intersessional committee of the GATT was being held between 17 to 20 August in Geneva. The session was held in order to decide on an appropriate draft for the provisional participation of Japan in the GATT.¹⁸⁵ The main points of the draft decision were that 'pending the conclusion of tariff negotiations, Japan will enjoy all the rights and obligations of the GATT including those of attending meetings, exercising a veto and paying a subscription. In return for this the Japanese government will agree to accord treatment of the Commerce of other contracting parties according to a schedule which they will present at the eighth session'.¹⁸⁶ What worried the Foreign

Office when they received this document was the fact that the draft decision drawn up by the intersessional committee did not include in the text any safeguards against Japanese competition, not even article 23 which had been discussed during the previous intersessional committee meeting in February. Therefore, although the British line was to abstain from voting for Japan, the Foreign Office representatives to the eighth GATT session were instructed to ensure through the 'medium of other delegations' that conditions for Japan's provisional membership would be drawn up so the wording would be acceptable to the British government in the future, when Japan applied for permanent membership.¹⁸⁷

The British delegation had a difficult task ahead. It was instructed to abstain from voting for Japan's accession, but they were given instructions to influence the draft of Japan's temporary accession through the medium of other delegations, while attempting to rally the Commonwealth to join Britain in abstaining. A week before the start of the GATT session, Commonwealth representatives gathered in London where they held five preliminary Commonwealth discussions during a three-day period from 9 to 11 September.¹⁸⁸ Japan's accession was discussed during the fourth meeting on 10 September.¹⁸⁹ It became apparent during the meeting that both Ceylon and India were in support of Japan's provisional accession to the GATT. South Rhodesia, New Zealand and Australia together with the United Kingdom were in opposition to it, while the representatives from Canada, Pakistan and South Africa were unsure of their government's line. The preliminary Commonwealth discussions highlighted the fact that the Commonwealth countries were divided over Japan's accession and it was obvious that a united Commonwealth stand could not be expected.¹⁹⁰

The Eighth Session of the GATT

The eighth session of the GATT began on 17 September. On the first day Matsumoto Shunichi, the leader of the Japanese delegation, met Thorneycroft. Matsumoto expressed his hope that Britain would support Japan's application for temporary accession and he emphasized more than once that Japan was feeling lonely as it was not a member of the United Nations and did not play a part in international organizations.¹⁹¹ Thorneycroft decided to tell Matsumoto of Britain's decision to abstain from voting in favour of Japan. He explained that the decision should not be taken as evidence of anti-Japanese sentiment and explained that while the United States was unsure of its commercial policy Japan should not be hasty about joining the GATT.¹⁹²

The first plenary session on Japan began on 23 September. At the meeting, the Japanese delegate spoke first and asked that Japan be accepted into the GATT on a temporary basis.¹⁹³ The United States spoke in favour, while Thorneycroft who spoke next, said that Japan's bid for accession was premature and that Britain would abstain from voting.¹⁹⁴ At the session, Denmark, Germany, India, Indonesia, Sweden, Austria, Chile, Turkey, Brazil, Italy, Pakistan, Greece and Ceylon gave their support in principle, whereas, France, Australia and New Zealand spoke in opposition.¹⁹⁵ It was decided that a working party would be established to discuss the issue to be chaired by the head of the Chilean delegation, Garcia Oldini. The British delegation which had at first been set against Japan's temporary accession were by this time beginning to reconsider their stance. They were toying with the idea of admitting Japan to the organization without having to extend obligations towards them. The formula which Britain proposed to the working party was to change Japan's admission from that of temporary accession to Japan's fellowship in the organization.¹⁹⁶ The reason for this compromise was the anxiety shared by all the contracting parties over the serious split in the GATT over the Japan issue.¹⁹⁷

By the end of September, the British delegates on the Japan working party¹⁹⁸ had managed to convince Wyndham White and the working party to revise the draft decision regarding Japan's temporary accession. The major difference between the original (old look) and the new draft (new look) was that in the old look, all those who voted for Japan's temporary accession were also voting automatically to base their commercial relations with Japan on the GATT basis. Whereas in the new look, Japan's temporary accession to the GATT would require a unanimous approval of the contracting parties, but the vote would not automatically indicate the contracting parties' desire to base their commercial relations on the GATT. Instead, those who wished to normalize relations with Japan were invited to sign a separate protocol.¹⁹⁹ The two-stage approach meant that all contracting parties would have to accept Japan's participation in GATT meetings, but only those countries who wished to normalize their commercial relations with Japan were invited to do so. This formula, if adopted, would have enabled Britain to support Japanese temporary accession to the GATT without signing the separate protocol on the normalization of commercial relations based on the GATT. The Foreign Office expressed satisfaction with this compromise formula and hoped that the Board of Trade would also support it, as the initial French, Australian and New Zealand reactions were also favourable.²⁰⁰

Unfortunately for the Foreign Office, Thorneycroft could not support the compromise formula and in order to influence the GATT session towards Britain's opinion he ordered Edgar Cohen of the Board of Trade to Geneva without prior consultation with

the other ministries.²⁰¹ This decision was reached after a meeting between Thorneycroft and several officials of the Board of Trade on 30 September.²⁰² The officials agreed that Britain should abstain from voting, and that they should try to hold together the group of countries who opposed Japan's accession. They decided that they would only compromise if it appeared that the 'front' was breaking and Britain was going to be left alone in opposition. In that case, it was agreed that Britain should agree to Japan's continued observer status instead of temporary accession, with full opportunity to participate in the discussion of the contracting parties. Moreover, Britain would persuade other contracting parties to acknowledge rather than sign its intention to place their commercial relations with Japan on the GATT basis.²⁰³ The significance of the two points decided by the Board of Trade was that Japan would continue to remain an observer, and that contracting parties may, if they wished, place their commercial relations with Japan according to the GATT, and that it would not involve votes or signatures by the contracting parties.

Cohen arrived in Geneva on 1 October. On arrival he immediately set up an appointment to see VA Clark and KL Press, the respective Australian and New Zealand delegates to the GATT. Both delegates thought the compromise formula was acceptable to them. After the meeting, Cohen realized the united opposition would have to be with France, although he thought the chances of Anglo-French unity remote, as Britain and France were having difficulties over the no-new-preference rule.²⁰⁴ The following day, however, Clark called on Cohen to inform him that Canberra was not entirely happy with the new compromise proposal. In particular, the Australian government was concerned by Japan's right to vote during its temporary membership, as Japan might vote against amendments such as article I (Imperial Preference) or other regulations which might seem discriminatory towards Japan.²⁰⁵ Later that day, Cohen discussed British and Australian concerns with Wyndham White and Winthrop Brown, and emphasized that Japan should not be given voting rights, which Wyndham White thought would be difficult to ask of Japan.²⁰⁶ Wyndham White was later able to persuade Japan to forego the right to vote on organic questions and on questions involving contracting parties who had no contractual relations with Japan under the GATT.²⁰⁷ Therefore it was evident that Wyndham White was attempting to do everything in his power to make it possible for Japan to enter the GATT without upsetting Britain and Australia.

Cohen returned to London after this series of meetings in order to report to the Board of Trade and to prepare a memorandum for submission to the Cabinet. At a Cabinet meeting on 6 October, Thorneycroft asked for the government's authorization to enable Japan to participate in GATT discussions without becoming a provisional member. The

Cabinet granted Thorneycroft's request, and the British line was relayed to the British delegation in Geneva and to the UK High Commissioners in Australia and New Zealand on the same day.²⁰⁸ New Zealand supported the British line but Clark informed the UK Delegation on 9 October that although a decision had not been finalized, Australia would probably not be supporting the new proposal.

On 16 October, Lord Swinton, who was in Canberra, relayed Australia's final decision to the Commonwealth Relations Office. Australia's position was that it could not support any proposal which admitted Japan either as a provisional member or as an observer.²⁰⁹ As a result, Thorneycroft felt that there was no alternative but to revert to Britain's original standpoint and abstain from voting on Japan's accession.²¹⁰ On hearing this news, the Japan and Pacific Department made it clear that they would not let the Board of Trade abandon the compromise formula without referring the matter to the Cabinet first.²¹¹ At the Cabinet meeting on 19 October, Thorneycroft asked for permission to abstain from voting, but Eden warned the Cabinet that several compromises had been devised to meet British needs, and by abstaining Britain would impair its relations with Japan and cause annoyance to the US government. The Lord Privy Seal, HFC Crookshank, proposed that a further message be sent to the Australian government to try and get them to reconsider their decision.²¹² A despatch was sent to Australia, but the Australian Prime Minister Robert Menzies refused to budge from his position. He thought Australia was already giving favourable treatment to Japan on the release of prisoners of war, and on import relaxations and could not compromise any further.²¹³ Therefore the issue was brought back to the Cabinet three days later, where the British government formally agreed to abstain from voting on the question of Japan's provisional association with the GATT.²¹⁴

On 23 October, the plenary session was convened and votes were taken on Japan's temporary accession to the GATT based on the new look. Twenty-six contracting parties supported Japan's accession which was enough for the requisite number of two-thirds majority. None voted against, and seven abstained from voting.²¹⁵ They were the UK, Australia, New Zealand, France, Southern Rhodesia, Czechoslovakia and Burma,²¹⁶ but on the following day, Burma asked that it be regarded as having voted in favour.²¹⁷ The eighth session of the GATT thus saw Japan one step closer to membership.

Sterling Payments Agreement

The other major issue that preoccupied British policymakers during this period was the sterling payments agreement with Japan. As noted above, in early 1953, it had been decided that Britain would ask its colonies to relax their import controls on Japanese goods. Furthermore, Britain extended sterling/dollar swaps as an interim measure while Japan faced a sterling shortage. Moreover, Japan had been asked to buy and sell goods from third countries using sterling in order to increase its sterling reserves. Of the three decisions taken in early 1953, Japan placed great hopes on two of them, the sterling/dollar swaps and an increase in colonial purchases from Japan. Sterling/dollar swaps began with the first tranche totaling £4,980,000 in early May. The various tranches were to total £25 million as agreed during Tōjō's visit to London earlier in the year, and the swaps were to last for three months with an extra three-month renewal. The swaps were non-renewable after six months or when the sterling payments agreement expired on 31 December. The banks which dealt with the swaps were the Hong Kong Bank, the Chartered Bank, Chase National Bank, National City Bank, Mercantile Bank and the Bank of America.²¹⁸ The second tranche of £5 million was called for in late May²¹⁹ and the third of £5 million in June.²²⁰

At the same time that these swaps were coming into operation, however, there was very little sign of the effects of relaxation in the colonies.²²¹ On 19 June, Ihara of the Japanese Embassy in London saw Serpell at the Treasury and expressed Japanese anxiety over the following issues. First, that Japan had received no information about relaxation from any of the British colonies except from Hong Kong and Singapore; and second, there were fears that the colonies in general were discriminating against Japanese textiles. As a result, Ihara explained that Japan was planning to send a mixed mission of officials and businessmen to London and then to the colonies to make contacts and enquiries into the 'marketability' of Japanese goods.²²² In order to reassure Japanese Embassy officials that Britain had done all it could to relax colonial imports from Japan, SH Levine of the Board of Trade told another Japanese embassy official, Suzuki Yoshio, on 22 June that there was an inevitable time lag between the announcement of a relaxation of imports to the opening of letters of credit.²²³ The attempts at reassuring the Japanese side were not entirely successful because there was no sign of an increase in Japanese exports to the sterling area. The figures given to the British embassy in Japan for receipts and payments in June for visible and invisible trade was £11.384 million for exports and £26.355 million for imports.²²⁴ This meant a trade deficit of £14.971 million for the month of June. If Japan was unable to reverse its trade deficit with the sterling area and accumulate more sterling, it would have severe repercussions on sterling area-Japan trade in the 1954 budget. It was these considerations that were causing so much concern in Japan. The extent of the Japanese

anxiety was elucidated by Ihara, Suzuki and Asakai in visits to the Board of Trade and the Treasury over three consecutive days.²²⁵

On 30 July Ihara met with Serpell and Hogg of the Bank of England to inform them that Japan would have no means of meeting its sterling commitments in the next two months if Japan did not receive an additional £10 million swaps. He was especially anxious as Japan had already taken up £23 of the £25 million swaps authorized in April, and they expected the remaining £2 million swaps to be used up within the following week.²²⁶

The Bank of England was opposed to the principle of extending further swaps to Japan because Japan's sterling shortage was no longer a short-term problem and the swaps had originally been extended to Japan for temporary relief.²²⁷ Serpell was, however, in favour of extending further swaps as he thought there was a chance that Japan might be able to cover or repay them by the end of the year. He wrote a note to the Bank of England on 30 July explaining why further swaps should be extended. He felt that Britain had some obligation to extend them to Japan because part of the reason for Japan's sterling shortage lay with Britain's delay in 'agreeing to and effecting the relaxation of restrictions on imports of Japanese goods'.²²⁸ Serpell thought that if Britain refused to provide additional swaps, and instead asked Japan to pay dollars, it would lead to a return to bilateral trade relations between the sterling area and Japan which was contrary to British policy.

Straight after the note was written by Serpell and dispatched to the Bank of England, however, Serpell received a telegram from Washington informing the British government that Japan was exploring the possibility of borrowing \$25 million worth of sterling from the IMF. The basis on which they wished to borrow sterling was repayment in yen in three years which was contrary to IMF regulations,²²⁹ but Serpell was not entirely against Japan approaching the IMF as Japan's loan would reduce Britain's own dollar liability with the fund.²³⁰ Furthermore, Japan's approach to the IMF would reduce the pressure on Britain to relax trade restrictions, as the swaps were extended to Japan on the expectation of trade, which meant that as long as they were offered to Japan, Britain would have to help Japan expand its exports to the colonies. This would have caused various problems with British industries and the Board of Trade.²³¹ Serpell, therefore, proposed that Britain should still authorize further £10 million swaps to Japan, but extend £5 million in the first instance and supply the additional £5 million if nothing came of the IMF proposal.²³² Serpell's proposal was accepted by ministers, and Serpell sent a letter to Ihara on 31 July extending further £5 million swaps during the month of August.²³³

A month later, Japan's sterling position was no better and therefore, on 24 August, Sunobe Ryôzô of the MOFA called on Norman Roberts of the British embassy in Tokyo to inform him that Japan had dispatched a telegram to the Japanese embassy in London on 22 August instructing them to appeal for further £5 million swap facilities as they would be short of sterling commitments by the end of September. The telegram indicated Japan's dissatisfaction with Britain's insistence that the MOF should sell dollars outright for sterling as it was contrary to the spirit of the sterling payments agreement.²³⁴

A day later, Ihara met with Serpell to talk over the matter. Ihara told Serpell that the Japanese government had finally agreed to draw sterling from the IMF on the normal basis, but until the IMF drawing came through, Ihara hoped that Britain would help Japan out by letting Japan have a further £5 million swaps on a three-month basis or enabling Japan to have £5 million worth of swaps for three months or less with an option to reverse the transaction as soon as the IMF drawing came through.²³⁵ In the end it was agreed that further swaps would be extended to Japan which would be withdrawn as soon as Japan received £5 million from the IMF. Furthermore, it was agreed that the unutilized portion of the £5 million swaps extended to Japan at the end of July would be extended to Japan for use in September.²³⁶ The two-and-a-half hour discussion between Serpell and Ihara made it clear that there would have to be full talks on sterling area-Japan trade before the end of the year as an increasing number of problems were plaguing the two signatories.²³⁷ In the meantime, the British side had not tackled the payments issue since the last meeting of the Cabinet tariff policy on Japan in July, and there was still no clear British policy on the matter.

By the end of September there was a mutual desire by both British and Japanese officials to hold a payments review. The British side was very keen on this as the Japanese side was about to publish their sterling import budget for the six month period from October 1953 to March 1954. The British government wished to 'discover' the Japanese import budget proposals and to find out how various British interests would be affected, furthermore, they were interested in finding out how the Japanese proposed to finance their import programme in the next budget when they obviously had no sterling.²³⁸ The payments review was arranged as a result of a conversation between Roberts and Oda, and it was opened on 1 October.²³⁹ The talks were informal and there was no publicity about the talks in Japan. Two meetings were held. The Japanese side was represented by Kitahara and two assistants, while the UK side was represented by AJ Phelps, who had replaced Thomas, and EL Hampson.²⁴⁰ The meetings consisted of discussions about the estimates and actuals of Japan's trade with

the sterling area up to September 1953, but the British side was unable to draw out information concerning the Japanese forecast for the period between 1953 to March 1954. The British side was unable to provide information to the Japanese side either.²⁴¹ Therefore, the meetings were unproductive, and if any agreement was reached between the two parties, it was only a mutual agreement to hold formal trade and payment talks in the near future.²⁴²

By mid-October, Ogilvy-Webb of the Treasury was busy working on an ONC paper concerning Japan. The draft was ready by 17 October. At the same time, Serpell was approaching the Bank of England in the hope that the Bank would approve his proposal for extending the life of sterling/dollar swaps to Japan until 31 December in order to prevent ill-feeling between Britain and Japan prior to the payment talks.²⁴³ The first swaps were due in early November, but the Bank was reluctant to renew them based on the principle of the agreement. Moreover Hogg of the Bank thought that if the Treasury retreated from the original agreement of six months for the swap arrangement, it might give the Japanese the impression that Britain was worried by Japan's balance of payments position which might place Britain in a weaker position vis-à-vis Japan during the negotiations. Hogg expressed in his note that if Japan was forced to part with its dollars as a result of the expiration of the swap agreement, it might break down 'some of the opposition in Japanese political circles to the acquisition of sterling against US dollars'.²⁴⁴ Watson of the Bank of England was also opposed to the renewal of swaps because he thought that once an extension was granted, Britain would eventually 'cave in and concede further renewal of the whole £30 million'.²⁴⁵ Moreover, he pointed out that the original British aim of fostering the use of sterling in East Asia through Japan was no longer necessary as sterling was standing up on its 'own firmer feet' in East Asia due to extensive intra-Asian sterling trade relations. Furthermore, Japan was starting to see the importance of their trade with the non-dollar world, and therefore it was no longer necessary to over-regulate sterling-Japan trade.²⁴⁶

In the meantime, the Japanese objectives at the payments talks were being finalized. On 20 October, Oda visited Roberts at the British Embassy in Tokyo to inform him of the agenda which the Japanese side wished to discuss with Britain during the trade talks.²⁴⁷ They were relaxation of sterling area restrictions on imports from Japan especially colonial restrictions on textiles, and in particular the lifting of the East African ban on textiles which had been enforced since 1952. Second, discussion concerning tariffs, especially as South Africa had recently decided to raise tariffs on cotton textiles from 45 to 75 percent with countries with which it did not have a trade agreement. The Japanese were also perturbed by Australia's decision to increase its tariffs on tinsplate to 12.5 percent and on plywood to 57 percent. All these were seen by Japan as counter to

the policy of trade relaxation between the sterling area and Japan. Third, to discuss the reasons why Britain had decided not to extend further swaps to Japan.²⁴⁸ The Japanese side was especially indignant because when the sterling area was short of sterling, Japan had extended credit to those countries and they expected similar treatment in return.²⁴⁹ Fourth, a discussion on Britain's opposition to Japan's application for provisional membership to the GATT. Finally, Japan wished to know how it would be treated once sterling became convertible, and whether Japan would be one of the first countries to have convertibility and if not when.

On 29 October the Foreign Office sent a telegram to Tokyo instructing the British Embassy officials there to tell Oda that the British government was prepared to receive a Japanese delegation in late November or early December. The telegram indicated that Britain was not willing to discuss Commonwealth tariff matters nor Japan's accession to the GATT at the forthcoming talks. Moreover, due to the sensitivity of the convertibility issue, the Foreign Office instructed the British embassy that the issue would not be discussed in the manner in which the Japanese were hoping. With regard to the lifting of the textiles ban, the instruction to Japan was that it would be impossible before 1 May 1954.²⁵⁰ The substance of the FO telegram was reproofed orally to Oda on 4 November. At the meeting it was revealed that Japan was neither seeking to renew or redeem the swaps which were due to mature on that day, and Oda told Roberts that they were ready to surrender the dollar equivalent of £8 million.²⁵¹ On the question of sterling convertibility, Japan had sought more information on the subject as they suspected that transferable account area countries might be given convertibility status before bilateral account countries. Therefore, they were considering whether to bid for transferable account status.²⁵² Moreover, Oda explained that the Japanese economy was at a 'crossroads', and in view of the continuing sterling shortage, he expected strong pressure from business circles for Japan to 'ally herself firmly with the dollar area'.²⁵³

The Japanese approach drove home to Britain that payments and trade talks were imminent. There were various issues that needed to be tackled. One of the first was whether to ask for dollars from Japan when the swap arrangement expired in November. Serpell, therefore, called for a meeting of the Japan working party.²⁵⁴ The first of the four meetings of the working party was held on 27 October.²⁵⁵ The meeting was devoted to the question of whether to extend the existing sterling/dollar swaps to Japan. It was divided between the Treasury, the Foreign Office and the Colonial Office who all supported the extension, and the Bank of England, the Board of Trade and the Commonwealth Relations Office who opposed it. It was finally decided that a further meeting would have to be called at short notice if the Japanese side made a request for

the maturing of swaps to be prolonged. If, on the other hand, they did not ask for the swaps, Britain was to reserve its position.²⁵⁶

On 6 November, Japan was placed as one of the items on the agenda at an ONC meeting. They discussed what line Britain should take when the sterling payments agreement with Japan expired on 31 December.²⁵⁷ Japan was identified as a problem as it was not in any monetary bloc, but it was an important trading partner, not so much for Britain but for the rest of the sterling area.²⁵⁸ In order to maintain a high level of trade between Japan and the sterling area, Japan needed to be solvent in sterling in 1954. This meant that Japan would have to increase its holding of sterling reserves in 1954 and the question that faced Britain was how this should be done; whether to limit sterling area-Japan trade to a minimum, extend credits to Japan so that it could continue trading with the sterling area, or to open the sterling area to Japanese goods.²⁵⁹ The note by the Treasury recommended that the sterling payments agreement should be renewed for another year, subject to amendments in the exchange of letters (signed August 1951). Although the committee decided against extending credit to Japan, it recognized that 'every effort' should be made to prevent Japan from restricting its trade with the sterling area. Furthermore, it was decided that 'urgent' consideration should be given to the volume of imports permitted into the UK and the colonies in 1954 'in the light of other sterling area purchases from Japan and Japan's potential requirements from the sterling area'.²⁶⁰ Finally, it was recommended that Britain should try and seek a change in Japan's foreign exchange apparatus which strictly segregated their sterling, dollar and open accounts.²⁶¹ The note by the Treasury, therefore, favoured increased trade between the sterling area and Japan, and in particular greater colonial and British market openings to Japanese goods. The only dissension was from the Board of Trade representative, AE Percival, who voiced his reservation as he thought it would be at the expense of British industries.²⁶² Despite the Board of Trade's opposition, the committee supported the Treasury's note, and the committee invited Colonial Office and the Commonwealth Relations Office to find out how much they were expecting to import from Japan in 1954. Furthermore, the working party on Japan was invited to continue its studies, while the Foreign Office was invited to consult the UK Ambassador in Tokyo about the prospects of signing a commercial treaty with Japan.²⁶³ At the subsequent working party meetings the opening of Britain's African colonies to Japanese exports was discussed, but remained inconclusive.

On 1 December, the third and the last meeting of the Cabinet committee on tariff policy on Japan was held.²⁶⁴ At the meeting the importance of encouraging Japan to maintain a high level of trade with the sterling area was reiterated. The reasons were set out in the report submitted to the Cabinet Committee: that it would restrict UK exports and

earnings from oil, shipping and insurance interests (invisibles); it would damage Commonwealth primary producers and result in lower Commonwealth earnings; that the colonies would be deprived of the low-cost Japanese goods on which they relied; and that it might lead some Commonwealth countries to conclude balancing bilateral deals with Japan thus damaging the multilateral character of sterling.²⁶⁵ As to how Japan should finance its trade with the sterling area, the Committee agreed that Japan should either look to the IMF for assistance or it should be encouraged to use its dollar reserves to finance sterling trade. Furthermore, they agreed that Japan should be encouraged to cease its distinction between the sterling and dollar sources of supply when setting out foreign exchange budgets. The aim behind this was to get Japan accustomed to the idea of selling dollars for sterling when it experienced sterling shortages. Although the ONC had relied on the committee on tariff policy on Japan to solve the problem of colonial import relaxations, the members were unable to reach a solution. The sticking point was the effect it might have on Lancashire, and the Board of Trade indicated that it would rather see increased quotas given to goods which were not particularly in the public eye.²⁶⁶ Just two days before the start of trade and payments talks with Japan, the British side had still not arrived at a negotiating position for the talks. Although there were agreements over general policy, there were still some outstanding points which needed to be worked out such as credit extension and colonial import relaxations of Japanese goods. Until the end, the problem was political and it was based on the plight of British industries.

Conclusion

Britain's trade policy towards Japan started off positively in 1953 as the Board of Trade decided against forestalling Japan's GATT accession. Although this was conditional on an appropriate safeguard to protect British industries, it was still a step forward for Britain. The rest of the year saw Britain retreat from this position due to the inadequacy of the article 23 proposal as a safeguard to protect domestic industries against Japan's GATT entry.

As for Britain's handling of the sterling payments agreement, British officials in Japan were acutely aware of the urgency of relaxing sterling area import restrictions against Japan, but politics within Whitehall prevented Britain from formulating a policy to increase Japan's sterling reserves immediately. The main culprits impeding a swift policy formulation were the Commonwealth Relations Office and the Board of Trade. The Board of Trade, in particular, did not take into account the amount of harm which would befall British and other Commonwealth interests if they were unable to sell goods to Japan. Japan's sterling shortage meant that there would be less foreign exchange allocation for sterling goods purchases, therefore, traders would be unable to

sell their goods due to Japan's rigid separation of its foreign exchange budget. Fortunately, it was agreed that Britain would extend credit to enable Japan to tide over its period of sterling shortage.

1953 was supposed to have been the year when Britain took greater control of its financial and trade policy towards Japan, but Britain's handling of the above issues indicate that it was not entirely successful. In order to understand Britain's problem one has to look at Japan in a wider context. Britain was aware of the importance of Japan becoming part of the western trading community and knew that Japanese goods were crucial to certain sterling area countries. Britain, however, realized that once sterling became convertible, it would no longer be able to use balance of payments as a reason to restrict imports of Japanese goods in its traditional areas. Therefore, it was not long before Britain would have no effective safeguard against a possible influx of Japanese goods such as textiles and pottery into Britain's traditional trading areas. In short, the post-war sterling and GATT policies hinged on Britain finding a suitable safeguard which would enable it to implement protective measures if Japan violated friendly trading rules. With convertibility looming on the horizon, it was only natural that both the sterling payments agreement and GATT issues rose to the Cabinet level, as the Board of Trade made certain that Lancashire's interests were represented when the government formulated its financial and trade policy towards Japan. Therefore, Britain's procrastination and foot-dragging in 1953, was a result of the fact that it was unable to find a suitable safeguard acceptable to all parties.

Throughout this period, a great effort was made by both the United States and the United Kingdom to reach an agreement over Japan's GATT issue. Britain realized that without the US backing, none of Britain's proposals would have a chance of success with the contracting parties. The United States' motivation behind close cooperation with Britain was its realization that as the head of the Commonwealth, the latter could influence several Dominion votes against Japan and sabotage Japan's efforts to enter the GATT.

The overall effect of Britain's policy decisions on Japan was the impression that Britain was not willing to assist Japan re-enter the western trading community. The result was a growing Japanese belief that in order to 'kick-start' Japan's economy, it should look elsewhere. Therefore, Britain's policy in 1953 not only elucidates Britain's failure to stand at the helm and take a firmer control over its relations with Japan, but it also highlights the difficulties Japan faced in expanding its external trade relations.

Table 4.1

Japan's Balance of Payments, 1945-1956

Exports	Dollar	Sterling	Open Account	Total exports
9.1945-12.1946	82 (79.6)	2 (2.3)	18 (18.1)	103 (100.0)
1947	48 (28.1)	56 (32.4)	68 (39.5)	173 (100.0)
1948	86 (33.7)	61 (23.9)	109 (42.4)	258 (100.0)
1949	168 (33.0)	227 (44.7)	113 (22.3)	509 (100.0)
1950	294 (35.9)	244 (29.8)	281 (34.3)	820 (100.0)
1951	316 (23.4)	585 (43.2)	452 (33.4)	1354 (100.0)
1952	396 (31.2)	539 (42.4)	336 (26.4)	1272 (100.0)
1953	490 (38.5)	317 (24.9)	467 (36.6)	1274 (100.0)
1954	560 (34.4)	492 (30.3)	575 (35.3)	1629 (100.0)
1955	816 (40.6)	649 (32.3)	545 (27.1)	2010 (100.0)
1956	1095 (43.8)	906 (36.2)	498 (20.0)	2500 (100.0)

Imports	Dollar	Sterling	Open Account	Total imports
9.1945-12.1946	302 (99.1)	0 (0.1)	2 (0.8)	305 (100.0)
1947	490 (93.3)	24 (4.7)	10 (2.0)	526 (100.0)
1948	562 (82.3)	73 (10.7)	47 (7.0)	684 (100.0)
1949	680 (75.2)	139 (15.4)	84 (9.4)	904 (100.0)
1950	558 (57.4)	222 (22.8)	193 (19.8)	974 (100.0)
1951	1180 (59.2)	453 (21.8)	361 (19.0)	1995 (100.0)
1952	1221 (60.2)	501 (24.7)	304 (15.1)	*2028 (100.0)
1953	1304 (54.1)	602 (25.0)	502 (20.9)	2409 (100.0)
1954	1411 (58.8)	433 (18.1)	554 (23.1)	*2399 (100.0)
1955	1332 (53.9)	599 (24.3)	539 (21.8)	*2471 (100.0)
1956	1725 (53.4)	1057 (32.7)	447 (13.8)	*3229 (100.0)

Total Balance	Dollar	Sterling	Open Account	Total Balance
9.1945-12.1946	-220	1	16	-202
1947	-441	31	57	-352
1948	-475	-11	61	-425
1949	-512	88	29	-395
1950	-264	21	88	-154
1951	-863	131	91	-640
1952	-824	38	31	-755
1953	-814	-285	-34	-1134
1954	-850	59	20	-770
1955	-515	49	5	-460
1956	-629	-151	51	-729

Note: (*) total imports do not add up due to the inclusion of particular regions.

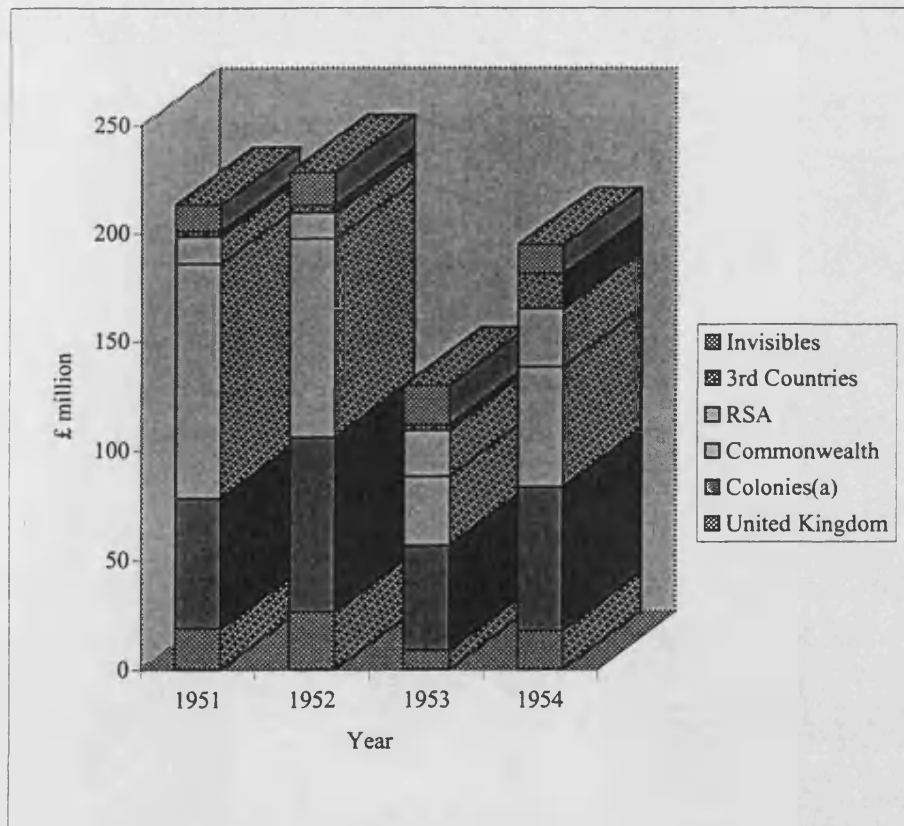
Source: MOF (ed.), *Shōwa Zaiseishi: Shūsen kara Kowa made vol. 19 (Tokyo: Tōyō Keizai Shinpōsha, 1978), p. 114.*

Table 4.2

Japan's Exports to the Sterling Area, 1951-1954

million pounds

	1951	1952	1953	1954
United Kingdom	18.7	26.5	8.9	17.9
Colonies(a)	59.4	79.9	47.8	65.6
Commonwealth	107.9	91.1	31.6	55
RSA	12.4	12.1	21.2	26.8
3rd Countries	2.5	3.4	2.6	16
Invisibles	12.3	15.4	17.8	13.5



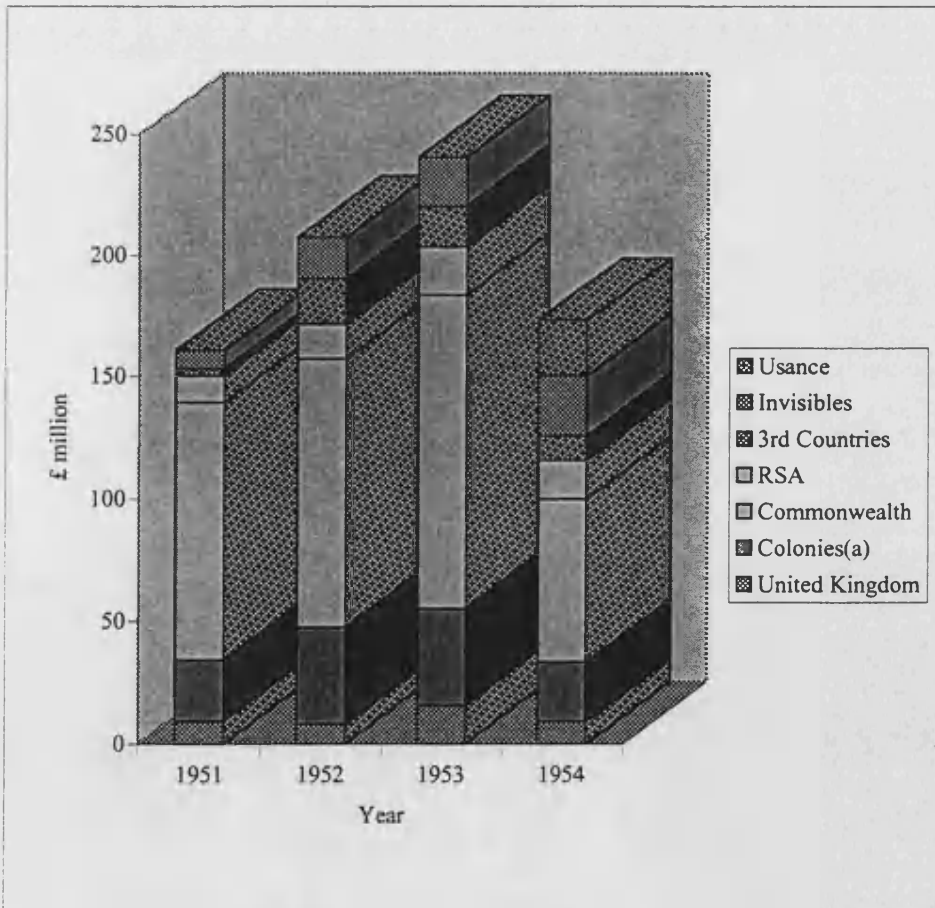
Note: (a) excludes Hong Kong between January/August 1951.

Source: Note by the Treasury in Cabinet ONC, 17 June 1955, ON(55)69, CAB134/1104, PRO.

Table 4.3

Japan's Imports from the Sterling Area, 1951-1954

	million pounds			
	1951	1952	1953	1954
United Kingdom	9.3	8	15.8	9.1
Colonies(a)	24.7	39.4	39.3	24.2
Commonwealth	105.4	109.7	128.5	66.7
RSA	10.9	14.4	20	15.8
3rd Countries	2.9	18.7	16.8	9.9
Invisibles	7.5	17.2	20.3	24.6
Usance				22.9



Note: (a) excludes Hong Kong between January/August 1951.

Source: Note by the Treasury in Cabinet ONC, 17 June 1955, ON(55)69, CAB134/1104, PRO.

Table 4.4

Commonwealth Exports to Japan

(in £ million)

showing (1) Total exports
(2) Amounts and Percentage exported to Japan

	1950	1951	1952
Australia	(1) 485.7 (2) 26.9 (5.5%)	778.8 51.8 (6.7%)	539.4 38.9 (7%)
New Zealand	(1) 181.2 (2) 1.0 (0.6%)	245.1 3.8 (1.6%)	240.8 3.5 (1.4%)
India	(1) 434.3 (2) 5.6 (1.3%)	526.2 12.9 (2.4%)	(a)350.6 3.5 (1.4%)
South Africa	(1) 226.2 (2) 0.7 (0.4%)	311.0 2.3 (0.9%)	N.A.
S. Rhodesia	(1) 34.3 (2) 0.1 (0.2%)	35.9 0.6 (0.4%)	44.9 -
Ceylon	(1) 111.7 (2) 0.1(0.1%)	136.4 0.6 (0.4%)	105.6 0.8 (0.7%)
Pakistan	(1) 139.5 (2) 15.8 (11.3%)	216.2 27.5 (12.7%)	167.6 18.1 (4%)
Malaya	(1) 4689.5 (2) 13.5 (3%)	708.9 18.3 (2.6%)	457.2 18.1 (4%)
Hong Kong	(1) 237.9 (2) 7.4 (2.7%)	275.3 11.9 (4%)	179.8 7.6 (4.2%)

Note: (a) 10 months only

Of the above, major exports consisted of the following:

- (1) gives total value of each commodity;
(2) gives value exported to Japan and its percentage to total

	1950	1951	1952
Australia			
Barley	(1) 5.1 (2) 0.1 (16.1%)	7.2 2.6 (36.3%)	
Wheat	(1) 39.6 (2) 5.7 (11.4%)	59.2 2.2 (3.7%)	
Hides	(1) 1.2 (2) 0.1 (12.2%)	1.3 0.8(59.3%)	
Wool	(1) 250.0 (2) 11.2 (4.5%)	505.6 41.1(8.1%)	258.5 32.5 (12.5%)
New Zealand			
Wool	(1) 55.3 (2) 0.7 (1.3%)	94.2 3.2 (3.4%)	N.A.
Hides	(1) 1.5 (2) 0.2 (12.9%)	1.9 0.2 (8.6%)	

India			
Coal	(1) 2.5 0.3 (11.2%)	5.9 2.0 (33.7%)	(a) 5.1 1.3 (25%)
Castor Oil	(1) 4.4 (2) 0.9 (20.2%)	0.1 ? (43.8%)	
Manganese Ore	(1) 6.0 (2) 0.6 (10.6%)	11.9 1.3 (11.2%)	13.2 0.4 (3%)
Linseed Oil	(1) 4.3 (2) 2.3 (54.7%)	0.5 0.2 (47.6%)	
Cotton and Cotton Waste	(1) 13.0 (2) 1.0 (7.6%)	15.8 4.4 (27.7%)	18.9 8.5 (45%)
Shellac	(1) 6.4 (2) 0.1 (1.6%)	8.5 -	2.5 0.2 (8%)
Mica	(1) 7.5 (2) 0.1 (1.0%)	9.9 0.2 (2.4%)	
South Africa Southern Rhodesia	values are negligible		
Ceylon			
Coir Fibre	(1) 1.6 (2) ? (2.2%)	2.6 0.2 (7%)	1.4 0.2 (14%)
Black Tea	(1) 56.4 (2) -	60.0 0.2 (0.3%)	54.2 0.3 (0.5%)
Rubber	(1) 30.1 (2) -	42.9 - (0.1%)	
Pakistan			
Cotton	(1) 56.0 (2) 12.4 (22.2%)	103.8 23.8 (22.9%)	93.3 29.1 (31%)
Hides	(1) 3.8 (2) 0.1 (3.8%)	5.8 0.4 (7.6%)	2.8 0.2 (7%)
Jute	(1) 59.9 (2) 1.1 (1.8%)	77.2 2.9 (3.8%)	57.8 2.1 (3.6%)

Malaya			
Rubber	(1) 286.4 (2) 11.4 (4%)	462.2 13.1 (3%)	220.7 10.7 (5%)
Iron Ore	(1) 1.1 (2) 1.1 (100%)	2.0 2.0 (100%)	2.7 2.3 (85%)
Iron Scrap	(1) (2)		1.6 1.2 (75%)
Tin	(1) 55.3 (2) -	67.4 1.8	60.2 1.6 (2.6%)
Hong Kong			
Textiles (fabrics etc)	(1) 20.8 (2) 1.4 (6.7%)	26.7 1.1 (4%)	33.8 0.9 (2.6%)
Textiles (raw materials)	(1) 12.6 (2) 1.1 (9%)	4.9 1.5 (30%)	3.8 0.9 (24%)
Sugar and Confectionary	(1) 4.2 (2) 0.4 (9.5%)	5.7 1.6 (28%)	2.6 0.7 (27%)
Oil Seeds etc.	(1) 3.5 (2) 0.5 (14%)	4.6 1.9 (41%)	3.8 0.3 (21%)

Source: Table attached to Report, 16 July 1953, ON(53)136, CAB134/1095, PRO.

Endnotes

- 1 Aaron Forsberg, 'Eisenhower and Japanese Economic Recovery: The Politics of Integration with the Western Trading Bloc, 1952-1955' *The Journal of American-East Asian Relations* 5, No. 1 (1996), p. 62
- 2 Note from Hague to Abbott, 6 May 1953, Confidential Subject Series 1953-61, Box 17, Central Files, Eisenhower Library.
- 3 A Collective approach to freer trade and currencies: Summary of the United Kingdom proposals, 31 October 1953, US President's Commission on Foreign Economic Policy: Records 1953-1954, (Randall Commission), Box 61, Eisenhower Library.
- 4 Schenk, *Britain and the Sterling Area*, pp. 121-122.
- 5 *ibid.*
- 6 For Churchill's ill-health and declining political interest, see John Colville, *The Fringes of Power: Downing Street Diaries. Vol. II 1941-April 1955*, (Kent: Sceptre, 1987), pp. 323-343.
- 7 Michael Schaller, *Altered States: The United States and Japan since the Occupation*, (New York and Oxford: Oxford University Press, 1997), p. 63.
- 8 Watanabe Akio (ed.), *Sengo Nihon no Saishō tachi* [The Postwar Japanese Prime Ministers], (Tokyo: Chūō Kōronsha, 1995), pp. 57-58.
- 9 Tomaru, *The Post-war Rapprochement of Malaya and Japan, 1945-1961*, pp. 128-129.
- 10 Memorandum by the working party, ONC, 10 January 1953, ON(53)4, CAB134/1092, PRO.
- 11 *ibid.*
- 12 Telegram from FO to Tokyo, 17 January 1953, in T236/4141 OF63/208/050, PRO.
- 13 Telegram from Tokyo to FO, 2 February 1953, in OV16/85, BoE.
- 14 Note from Roberts to Oda, 11 February 1953, pp. 191-194, subseries 12, Nichiei Bōeki Shiharai Kankei Ikken (Japan-UK Trade Agreements), reel B-0021, Public Release Series 8, DRM, JMFAA.
- 15 See tables 4.2 and 4.3.
- 16 An analysis of balance of payments situation, 28 January 1953, OV16/85, BoE.
- 17 *ibid.*
- 18 *ibid.*
- 19 Telegram from Tokyo to FO, 3 February 1953, in OV16/85, BoE.
- 20 Minutes of the fifth meeting of the EPC, 25 February 1953, CAB134/846, PRO.
- 21 Memorandum by the Chancellor of the Exchequer to the EPC, 24 February 1953, EA(53)32, CAB134/847, PRO.
- 22 Memorandum by the President of the Board of Trade to the EPC, 24 February 1953, EA(53)33, CAB134/847, PRO.
- 23 *ibid.*
- 24 Minutes of the fifth meeting of the EPC, 25 February 1953, CAB134/846, PRO.
- 25 *ibid.*
- 26 Correspondence from Hampson to Serpell, 4 March 1953, T236/4142 OF63/208/05P, PRO.
- 27 Fforde, *The Bank of England and Public Policy*, p. 489.
- 28 Minutes of the seventh meeting of the EPC, 4 March 1953, CAB134/846, PRO.
- 29 Note by the Economic Secretary to the Treasury, 2 March 1953, EA(53)37, CAB134/847 and memorandum by the Minister of State, 3 March 1953, EA(53)38 CAB134/847, PRO.
- 30 Memorandum by the Minister of State, 3 March 1953, EA(53)38, CAB134/847, PRO.
- 31 Minutes of the seventh meeting of the EPC, 4 March 1953, CAB134/846, PRO.
- 32 *ibid.*
- 33 *ibid.*
- 34 Note from Flett to Rowan, 4 March 1953, T236/4142 OF 63/208/05P, PRO.
- 35 Minutes of the eighth meeting of the EPC, 6 March 1953, CAB134/846, PRO.
- 36 Telegram from FO to Washington, 6 March 1953, and a note from Rowan to the Chancellor of the Exchequer, 8 March 1953 in T236/4142 OF63/208/05P, PRO.
- 37 Memorandum by the Secretary of State for Commonwealth Relations, 8 March 1953, C(53)88, CAB129/59, PRO.
- 38 Note from Waring to the State Department, 26 March 1953, 441.9431/3-2653, RG59 Box 1956, NA.
- 39 Memorandum by the Economic Secretary of the Treasury, 6 March 1953, C(53)91, CAB129/59, PRO.

-
- 40 Telegram from Tokyo to FO, 16 March 1953 in T236/4143 OF63/208/05Q, PRO.
- 41 Note from Oda to Roberts, 16 March 1953 in T236/4143 OF63/208/05Q, PRO.
- 42 Telegram from Tokyo to FO, 19 March 1953, OV16/86, BoE.
- 43 Telegram from FO to Tokyo, 21 March 1953 in T236/4143 OF63/208/05Q, PRO.
- 44 Telegram from Tokyo to FO, 25 March 1953 in T236/4143 OF63/208/05Q, PRO.
- 45 Note from Ogilvy-Webb to Flett, 17 March 1953, T236/4143 OF63/208/05Q, PRO.
- 46 Note from Serpell to Watson, 26 March 1953, T236/4143 OF63/208/05Q, PRO and a note from Hogg to Watson, 26 March 1953, OV 16/86, BoE.
- 47 Note from Hogg to Watson, 26 March 1953, OV16/86, BoE.
- 48 Note from Serpell to Watson, 26 March 1953, T236/4143 OF63/208/05Q, PRO.
- 49 A usance bill was a bill of exchange drawn in one country and payable in another. The payment of these bills was not fixed by a statute. See Glenn G. Munn et. al (eds). *The St. James Encyclopedia of Banking and Finance* (Chicago: St. James Press, 1991), p. 1021.
- 50 A system where for example, Japan would sell its dollars as collateral for sterling to be bought back by the Japanese from their sterling earnings in the future. If this credit facility was to be offered to Japan, it was expected to be for six months. Three months with renewal for another three months. See note from Cunnell on the seventh meeting with Tōjō, 17 April 1953, OV16/87, BoE.
- 51 Note from Serpell to Watson, 26 March 1953, T236/4143 OF63/208/05Q, PRO.
- 52 *ibid.*
- 53 At the second meeting the Japanese side was represented by Tōjō, Murai, and Ihara. While the British side was represented by Serpell, Ogilvy-Webb and Hall of the Treasury, and Hogg and Crawshaw of the Bank of England. See confidential Treasury record: Minutes of second meeting with Tōjō, 30 March 1953, T236/3442 OF63/208/09A, PRO.
- 54 Note from Hogg to Watson and Parsons, 30 March 1953, OV16/86, BoE.
- 55 Confidential Treasury record: Minutes of fifth meeting with Tōjō, 7 April 1953, T236/3442 OF63/208/09A, PRO.
- 56 The open account countries consisted of Argentina, Brazil, Finland, Formosa, French Union (includes Indochina but excludes Djibouti), West Germany, Indonesia, Italy, South Korea, the Netherlands, Sweden and Thailand. See note from Crawshaw to Bloomfield, 31 March 1953, OV16/86, BoE.
- 57 Note from Crawshaw to Cunnell, 9 April 1953, OV16/86, BoE.
- 58 *ibid.*
- 59 Those countries were, Belgian monetary area, Ryūkyū Islands, Switzerland, Liechtenstein, Saudi Arabia, Iran, Hungary, French Somaliland, Israel and Portuguese monetary area. See note from Crawshaw to Cunnell, 13 April 1953, OV16/86, BoE.
- 60 Japan had an agreement providing for dollar settlement for all current transactions, and the balancing of trade in both directions. See confidential Treasury record: Minutes of eighth meeting with Tōjō, 20 April 1953, T236/3442 OF63/208/09A, PRO.
- 61 Swiss currency was extremely hard and freely convertible into US dollars; therefore, trade was conducted on a dollar basis. See confidential Treasury record: Minutes of eighth meeting with Tōjō, 20 April 1953, T236/3442 OF63/208/09A, PRO.
- 62 Annex C in the confidential Treasury record: Minutes of fifth meeting with Tōjō, 7 April 1953, T236/3442 OF63/208/09A, PRO.
- 63 *ibid.*
- 64 Confidential Treasury record: Minutes of fifth meeting with Tōjō, 7 April 1953, T236/3442 OF63/208/09A, PRO.
- 65 Confidential Treasury record: Minutes of sixth meeting with Tōjō, 14 April 1953, T236/3442 OF63/208/09A, PRO.
- 66 *ibid.*
- 67 Confidential Treasury record: Minutes of seventh meeting with Tōjō, 16 April 1953, T236/3442 OF63/208/09A, PRO.
- 68 Note from Hogg to Watson, Cunnell, Crawshaw and Miller, 29 April 1953, OV16/87, BoE.
- 69 From Warning to State Department, 26 February 1953, 4441.9431/2-2653, RG59 Box 1956, NA.
- 70 *ibid.*
- 71 *ibid.*
- 72 *ibid.*

-
- 73 The paper was written by Nowell, Percival, Onslow and Sanders of the Board of Trade. See note from Sanders to Lackey, 2 January, 1953, BT 11/ 5003 CRE42749/1952, PRO.
- 74 See appendix four for the text of article 35.
- 75 Memorandum by the Secretary of State for Foreign Affairs and the President of the Board of Trade with regard to Japan and the GATT, 16 January 1953, C(53)20, CAB129/58, PRO.
- 76 *ibid.*
- 77 See Analytical Index: Guide to GATT Law and Practice, p.477. See also appendix four for the text of the article.
- 78 *ibid.*
- 79 Britain would have to grant MFN rights to Japan when it became a contracting party to the GATT. Britain was at the time, granting MFN treatment to Japan, which was MFN in practice but it was not MFN by right.
- 80 Minute by Wright, 14 January 1953, FO371/105031 UEE38/11, PRO.
- 81 Correspondence from Wright to Sanders, 15 January 1953, FO371/105031 UEE38/5, PRO.
- 82 Telegram from London to the Secretary of State, 13 January 1953, 394.31/1-1353, RG59, NA.
- 83 *ibid.*
- 84 *ibid.*
- 85 Note by Coulson, 14 January 1953 FO371/105031 UEE38/6, PRO.
- 86 Correspondence from Wright to Sanders, 15 January 1953, FO371/105031 UEE38/5, PRO.
- 87 Correspondence from Sinclair to Wright, 17 January 1953, FO371/105031 UEE38/6A, PRO.
- 88 Minutes of the fourth Cabinet Conclusions, 22 January 1953, CAB128/26 Part I, PRO.
- 89 *ibid.*
- 90 See correspondence from Sinclair to Wright, 24 January 1953, FO371/105031 UEE38/20; and telegram from FO to Washington, 28 January 1953, FO371/05031 UEE38/21, PRO.
- 91 *ibid.*
- 92 Telegram from Washington to FO, 28 January 1953, FO371/105032 UEE28/31, PRO.
- 93 See appendix four.
- 94 Telegram from Washington to FO, 28 January 1953, FO371/105032 UEE38/31, PRO.
- 95 Minute by Snellgrove, 31 January 1953, FO371/105032 UEE38/53, PRO.
- 96 *ibid.*
- 97 *ibid.*
- 98 See for example, Telegram from Oslo to FO, 26 January 1953, FO371/105031 UEE38/15, PRO.
- 99 See telegram from Santiago to FO, 28 January 1953, FO371/105031 UEE38/27, PRO.
- 100 See telegram from Havana to FO, 27 January 1953, FO371/105031 UEE 38/ 22 and telegram from Rome to FO, 28 January 1953, FO371/105031 UEE38/26, PRO.
- 101 Note from Eden to Thorneycroft, 3 February 1953, FO371/105032 UEE38/49, PRO.
- 102 Telegram from Tokyo to FO, 27 January 1953, FO371/105031 UEE38/17, PRO.
- 103 *ibid.*
- 104 Note from Eden to Thorneycroft, 3 February 1953, FO371/105032 UEE38/49, PRO.
- 105 Memorandum of Conversation, 28 January 1953, 394.31/1-2853, RG59, NA. The Reciprocal Trade Program places the tariff rate-making power in the hands of the President, but his authority only extended for three years. The extension of these program depended on the approval of Congress. See 'the Question of Renewing the Administration's Reciprocal Trade Program' in *Congressional Digest* vol. 30, No. 4 April 1951, pp. 99-128.
- 106 Raymond A. Bauer, Ithiel De Sola Pool and Lewis Anthony Dexter, *American Business and Public Policy: The Politics of Foreign Trade* (Chicago: Aldine Atherton Inc., 1972), p. 26.
- 107 Burton I Kaufman, *Trade and Aid: Eisenhower's Foreign Economic Policy 1953-1961* (Baltimore and London: The Johns Hopkins University Press, 1982), p. 17.
- 108 Forsberg, 'Eisenhower and Japanese Economic Recovery', p. 61.
- 109 Kaufman, *Trade and Aid*, p. 17.
- 110 Correspondence from Hagiwara to Okazaki, 23 January 1953, p. 70, subseries 14, Kanzei oyobi Bōeki ni kansuru Ippan Kyōtei Kankei Ikken (The Problem of Japanese Entry into the GATT), reel E-0010, Public Release Series 10, DRM, JMFAA.

-
- 111 Telegram from Hagiwara to Okazaki, 25 January 1953, p. 82, subseries 14, Kanzei oyobi Bôeki ni kansuru Ippan Kyôtei Kankei Ikken (The Problem of Japanese Entry into the GATT), reel E-0010, Public Release Series 10, DRM, JMFAA.
- 112 Telegram from Matsumoto to Okazaki, 28 January 1953, pp. 100-101, subseries 14, Kanzei oyobi Bôeki ni kansuru Ippan Kyôtei Kankei Ikken (The Problem of Japanese Entry into the GATT), reel E-0010, Public Release Series 10, DRM, JMFAA.
- 113 GATT Press Release, GATT/108, 27 January 1953, in FO371/105032 UEE38/43, PRO.
- 114 Correspondence from Snellgrove to Turpin, 4 February 1953, FO371/105033, PRO.
- 115 *ibid.*
- 116 Telegram from Geneva to FO, 4 February 1953, FO371/105032 UEE38/42, PRO.
- 117 *ibid.*
- 118 Telegram from FO to Geneva, 5 February 1953, FO371/105032, UEE38/42, PRO.
- 119 *ibid.*
- 120 Telegram from Geneva to FO, 6 February 1953, FO371/105032 UEE38/52, PRO.
- 121 Correspondence from Sanders to Cohen, 7 February 1953, BT11/5020 CRE4475/1953, PRO.
- 122 Minutes of the eighth conclusions of the Cabinet, 10 February 1953, CAB128/26 Part I, PRO.
- 123 Telegram from FO to Geneva, 10 February 1953, FO371/105032 UEE38/52, PRO.
- 124 Telegram from Geneva to FO, 12 February 1953, FO371/105033 UEE38/58, PRO.
- 125 Correspondence from Snellgrove to Wright, 12 February 1953, FO371/105033 UEE38/63, PRO.
- 126 Correspondence from Sanders to Sinclair, 13 February 1953, in FO371/105033 UEE38/65, PRO.
- 127 Draft report on the accession of Japan, 13 February 1953, IC/W/11, pp. 97-104, subseries 1, Kanzei oyobi Bôeki ni kansuru Ippan Kyôtei Kankei Ikken (The Problem of Japanese Entry into the GATT), reel E-0011, Public Release Series 10, DRM, JMFAA.
- 128 *ibid.*
- 129 *ibid.*
- 130 Telegram from Geneva to FO, 14 February 1953, FO371/105033 UEE38/64, PRO.
- 131 Correspondence from Snellgrove to Turpin, 9 February 1953, FO371/105033 UEE38/59, PRO.
- 132 The members consisted of officials from the MOFA, MOF and MITI. See GATT dai nana, hakkai teiyakukokudankaigikan kikaniinkai kaigi hôkokusho [Report of the Intersessional Committee Meeting of the seventh and eighth GATT sessions of the Contracting Parties] compiled by Hagiwara, 20 February 1953, pp. 138-172, subseries 1, Kanzei oyobi Bôeki ni kansuru Ippan Kyôtei Kankei Ikken (The Problem of Japanese Entry into the GATT), reel E-0011, Public Release Series 10, DRM, JMFAA.
- 133 Telegram from Geneva to Okazaki, 18 February 1953, pp. 87-95, subseries 1, Kanzei oyobi Bôeki ni kansuru Ippan Kyôtei Kankei Ikken (The Problem of Japanese Entry into the GATT), reel E-0011, Public Release Series 10, DRM, JMFAA.
- 134 GATT dai nana, hakkai teiyakukokudankaigikan kikaniinkai kaigi hôkokusho [Report of the Intersessional Committee Meeting of the seventh and eighth GATT sessions of the contracting parties] compiled by Hagiwara, 20 February 1953, pp. 138-172, subseries 1, Kanzei oyobi Bôeki ni kansuru Ippan Kyôtei Kankei Ikken (The Problem of Japanese Entry into the GATT), reel E-0011, Public Release Series 10, DRM, JMFAA.
- 135 Report of the accession of Japan, L/76, 13 February 1953, in FO371/105033 UEE38/69(A), PRO.
- 136 Correspondence Snellgrove to Wright, 12 February 1953, FO371/105033 UEE38/63, PRO.
- 137 Minute by Marten, 18 February 1953, FO371/105033 UEE38/63, PRO.
- 138 Minute by Snellgrove, 26 February 1953, FO371/105033 UEE38/63, PRO.
- 139 Minute by Snellgrove, 27 March 1953, FO371/105033 UEE38/82, PRO.
- 140 *ibid.*
- 141 See the 31st conclusions of the Cabinet, 14 May 1953, CAB128/26 Part I, PRO.
- 142 Memorandum by the President of the Board of Trade, 23 April 1953, C(53)137, CAB129/60, PRO.
- 143 Memorandum by the Minister of State, 11 May 1953, C(53)151, CAB129/61, PRO.
- 144 Memorandum by the Chancellor of the Exchequer, 11 May 1953, C(53)152, CAB129/61, PRO.
- 145 Minutes of the 31st conclusions of the Cabinet, 14 May 1953, CAB128/26 Part I, PRO.
- 146 Correspondence from Denning to Eden, 10 July 1952, FO371/99506 FJ1633/22, PRO.

-
- 147 Correspondence from Sinclair to Parker, 9 June 1953, BT11/5042 CRE18451/1953, PRO.
- 148 Minutes of the first meeting of the Cabinet Tariff Policy on Japan, 5 June 1953, CAB130/87, PRO.
- 149 Minutes of the 36th meeting of the ONC, 7 July, 1953, CAB134/1091, PRO. The committee members consisted of officials from the Treasury, the Foreign Office, the Commonwealth Relations Office, the Colonial Office, the Board of Trade, Ministry of Fuel and Power, the Ministry of Transport, Ministry of Materials, the Bank of England, and an official from the Economic Section of the Cabinet Office.
- 150 Minutes of the 41st meeting of the ONC, 14 July 1953, CAB134/1091, PRO.
- 151 *ibid.*
- 152 *ibid.*
- 153 Memoranda by the ONC, 16 July 1953, ON(53)136, CAB134/1095, PRO.
- 154 *ibid.*
- 155 Minutes of second meeting of the Cabinet tariff policy on Japan, 22 July 1953, CAB130/87, PRO.
- 156 *ibid.*
- 157 *ibid.*
- 158 *ibid.*
- 159 Memorandum by the Commonwealth Secretary, 28 July 1953, C(53)213, CAB129/62, PRO.
- 160 Note by the Chancellor of the Exchequer, 28 July 1953, C(53)215, CAB129/62, PRO.
- 161 Memorandum by the President of the Board of Trade, 29 July 1953, C(53)221, CAB129/62, PRO.
- 162 Minutes of the 47th conclusions of the Cabinet, 30 July 1953, CAB128/26, Part II, PRO.
- 163 See Akaneya, *Nihon no GATT Kanyū Mondai*, p. 181.
- 164 *ibid.*, pp. 181-182.
- 165 According to this formula, the contracting parties of the GATT would negotiate only with Japan and any other countries which might wish to accede. In essence, the Japanese were asking for a minor tariff negotiations with the contracting parties. See memorandum from Robertson to Linder, 30 April 1953, 394.31/4-3053, RG59, NA.
- 166 Memorandum from Robertson to Linder, 30 April 1953, 394.31/4-3053, RG59, NA.
- 167 Note from Johnson to Dulles, 13 July 1953, RG84, 510.1 GATT, NA.
- 168 Record of a meeting between Hagiwara and Wyndham White, 13 July 1953, pp. 178-188, subseries 2, Kanzei oyobi Bōeki ni kansuru Ippan Kyōtei Kankei Ikken (The Problem of Japanese Entry into the GATT), reel E-0011, Public Release Series 10, DRM, JMFAA. Records of meetings between Hagiwara and Wyndham White are microfilmed in reel E-0011 and E-0012.
- 169 Akaneya, *Nihon no GATT Kanyū Mondai*, p. 182.
- 170 Correspondence from Young to Allison, 28 July 1953, 510.1 GATT, RG84, NA.
- 171 Cabinet endorsement of Japan's provisional accession to the GATT, p. 202, subseries 3, Kanzei oyobi Bōeki ni kansuru Ippan Kyōtei Kankei Ikken (The problem of Japanese Entry into the GATT), reel E-0011, Public Release Series 10, DRM, JMFAA.
- 172 See note from Lee to Coulson, 5 August 1953, FO371/105035, UEE38/140; telegram from FO to Washington, 7 August 1953, FO371/105035, UEE38/140; note from Brittain to Lee, 7 August 1953, FO371/105035 UEE38/140; and airgram from Geneva to BT, 5 August 1953, FO371/105035 UEE38/141, PRO.
- 173 Letter from Hagiwara to Melander, 4 August 1953, pp. 228-231, subseries 3, Kanzei oyobi Bōeki ni kansuru Ippan Kyōtei Kankei Ikken (The Problem of Japanese Entry into the GATT), reel E-0011, Public Release Series 10, DRM, JMFAA.
- 174 *ibid.*
- 175 *ibid.*
- 176 *ibid.*
- 177 Telegram from FO to Washington, 7 August 1953, FO371/105035 UEE38/140, PRO.
- 178 *ibid.*
- 179 See telegram from Washington to FO, 11 August 1953, FO371/105035 UEE38/142 and correspondence from Parker to Sanders, 11 August 1953, BT11/5056, PRO.
- 180 Letter from Lord Salisbury to Thorneycroft, 14 August 1953, FO371/105035 UEE38/149, PRO.
- 181 Letter from Thorneycroft to Marquess of Salisbury, 17 August 1953, FO371/105035 UEE38/150, PRO.

-
- 182 Letter from Lord Salisbury to Thorneycroft, 20 August 1953, FO371/105035 UEE38/149, PRO.
- 183 Minutes of the 50th conclusions of the Cabinet, 25 August 1953, CAB128/26 Part II, PRO.
- 184 *ibid.*
- 185 See Akaneya, *Nihon no GATT Kanyū Mondai*, pp. 191-192.
- 186 Minute by Wakefield, 4 September 1953, FO371/105036 UEE38/158, PRO.
- 187 Brief by Wakefield for Foreign Office representatives on the UK Delegation to the eighth session of the GATT, 11 September 1953, FO371/105086 UEE80/97, PRO.
- 188 See copies of the preliminary Commonwealth discussions in FO371/105086 and 105087, PRO.
- 189 Minutes of the fourth meeting of the preliminary Commonwealth discussions, 10 September 1953, FO371/105086 UEE80/99, PRO.
- 190 *ibid.*
- 191 Note by Gray on President's meeting with Matsumoto, 18 September 1953, FO371/105036 UEE38/174, PRO.
- 192 Telegram from Geneva to FO, 17 September 1953, FO371/105036 UEE38/169, PRO.
- 193 Telegram from Geneva to FO, 23 September 1953, FO371/105036 UEE38/174, PRO.
- 194 *ibid.*
- 195 *ibid.*
- 196 See minutes of the second meeting of the UK delegation to the GATT, 24 September 1953, FO371/105088 UEE80/145, PRO.
- 197 Correspondence from Wakefield to Wright, 24 September 1953, FO371/105087 UEE80/124, PRO.
- 198 They were Sanders and Sinclair of the Board of Trade and Wakefield of the Foreign Office. See minutes of the third meeting of the UK delegation to the GATT, FO371/105088 UEE80/149, PRO.
- 199 Minutes of the fifth meeting of the UK delegation to the GATT, 30 September 1953, FO371/105088 UEE80/158, PRO.
- 200 Minute by Wright, 30 September 1953, FO371/105037 UEE38/180, PRO.
- 201 Minute by Wade-Gery, 1 October 1953, FO371/105037 UEE38/183, PRO.
- 202 Present at the meeting were Thorneycroft, Lee, Cohen, Percival and Jardine of the Board of Trade. See note by Glaves-Smith to Cohen, 30 September 1953, BT11/5078 CRE 27089/1953, PRO.
- 203 Note by Glaves-Smith to Cohen, 30 September 1953, BT11/5078 CRE27089/1953, PRO.
- 204 Telegram from Geneva to BT, 2 October 1953, FO371/105037 UEE38/185, PRO.
- 205 Telegram from Geneva to BT, 2 October 1953, FO371/105037 UEE38/186, PRO.
- 206 Telegram from Geneva to BT, 2 October 1953, FO371/105037 UEE38/186(B), PRO.
- 207 Correspondence from Wakefield to Wright, 6 October 1953, FO371/105037 UEE38/187, PRO.
- 208 See telegram from BT to Geneva, 6 October 1953, in FO371/105037 UEE38/188(A) and outward telegram from CRO to UK High Commissioners in Australia and New Zealand, 6 October 1953, in FO371/105037 UEE38/189(B), PRO.
- 209 Telegram from the UK High Commissioner in Australia to the CRO, 16 October 1953, in FO371/105039 UEE38/228, PRO.
- 210 Note from Jardine to Wakefield, 16 October 1953, FO371/105038 UEE38/226, PRO.
- 211 Minute by Wright, 17 October 1953, FO371/105038 UEE38/226(A), PRO.
- 212 Minutes of the 59th conclusions of the Cabinet, 19 October 1953, CAB128/26 Part II, PRO.
- 213 See Akaneya, *Nihon no GATT Kanyū Mondai*, pp. 206-207.
- 214 Minutes of the 60th conclusions of the Cabinet, 22 October 1953, CAB128/26 Part II, PRO.
- 215 GATT Kari Kanyū no Seiritsu ni tsuite, 24 October 1953, p. 149, subseries 3, Kanzei oyobi Bōeki ni kansuru Kyōtei Kankei Ikken (The Problem of Japanese Entry into the GATT), reel E-0012, Public Release Series 10, DRM, JMFAA.
- 216 Note by Coulson, 23 October 1953, FO371/105038 UEE38/223(A), PRO.
- 217 Telegram from Geneva to FO, 24 October 1953, FO371/105038 UEE38/225, PRO.
- 218 Correspondence from Phelps to Serpell, 27 May 1953, T236/4144 OF63/208/05R, PRO.
- 219 *ibid.*
- 220 Correspondence from Phelps to Serpell, 3 June 1953, T236/4144 OF63/208/05R, PRO.
- 221 Correspondence from Phelps to Serpell, 10 June 1953, T236/4144 OF63/208/05R, PRO.
- 222 Correspondence from Serpell to Levine, 19 June 1953, T236/4144 OF63/208/05R, PRO.
- 223 Correspondence from Serpell to Phelps, 30 June 1953, T236/4144 OF63/208/05R, PRO.

-
- 224 Correspondence from Phelps to Serpell, 15 July 1953, T236/4144 OF63/208/05R, PRO.
- 225 Note from Levine to Serpell, 22 July 1953, T236/4144 OF63/208/05R, PRO.
- 226 Note by Serpell, 30 July 1953, T236/4144 OF63/208/05R, PRO and a note by Hogg, 30 July 1953, OV16/89, BoE
- 227 Note by Cunnell, 31 July 1953, OV16/89, BoE.
- 228 Note from Serpell to Hogg and Cunnell, 30 July 1953, OV16/89, BoE.
- 229 The IMF stipulated that all currency borrowings be paid back in convertible currency ie dollars. See Note by Serpell, 30 July 1953, T236/4144 OF63/208/05R, PRO.
- 230 *ibid.*
- 231 Correspondence from Serpell to Phelps, 4 August 1953, in OV16/89, BoE.
- 232 Note by Serpell, 30 July 1953, T236/4144 OF63/208/05R, PRO.
- 233 Correspondence from Serpell to Phelps, 31 July 1953, T236/4144 OF63/208/05R, PRO.
- 234 Telegram from Tokyo to FO, 25 August 1953, in T236/4145 OF63/208/05S, PRO.
- 235 Note from Wies to Watson, 26 August 1953, OV 16/89, BoE.
- 236 See letter from Serpell to Ihara, 27 August 1953, T236/4145 OF63/208/05S, PRO.
- 237 *ibid.*
- 238 Note from Armstrong to Rowan, 25 September 1953, T236/4145 OF63/208/05S, PRO.
- 239 Telegram from Tokyo to FO, 2 October 1953 in OV16/90, BoE.
- 240 Correspondence from Phelps to Serpell, 7 October 1953, T236/4145 OF63/208/05S, PRO.
- 241 *ibid.*
- 242 Kitahara provided Phelps with details of sterling import budget for October 1953 to April 1954 on a confidential basis. See telegram from Tokyo to FO, 16 October 1953, T236/4145 OF63/208/05S, PRO. Due to the sterling shortage, the sterling share of the total Japanese imports had fallen to 22.5 percent (Oct 1953 - March 1954) from 31.8 percent (October 1952 - March 1953). See correspondence from Phelps to Serpell, 20 October 1953, T236/4146 OF63/208/05T, PRO.
- 243 The first swaps began expiring on 4 November, which meant that Japan would have had to part with some of its dollars to meet its obligations. See note by Hogg, 16 October 1953, OV16/90, BoE.
- 244 Note by Hogg, 16 October 1953, OV16/90, BoE.
- 245 *ibid.*
- 246 *ibid.*
- 247 Telegram from Tokyo to FO, 20 October 1953, T236/4146 OF63/208/05T, PRO.
- 248 The Exchange of Notes stipulated that, "In order that at all times Japan may hold sufficient sterling to meet her requirements, without, however, accumulating an excessive amount, having regard to all the circumstances, both parties will take all reasonable measures to prevent, or correct should it occur, any chronic imbalance of payments in either direction" (emphasis added). See *Parliamentary Papers, 1951-1952*, vol. 31 Cmd 8602 Sterling Payments Agreement between the Government of the United Kingdom of Great Britain and Northern Island and the Government of Japan (with exchange of notes) Tokyo, 31 August 1951, pp. 591-604.
- 249 Telegram from Tokyo to FO, 20 October 1953, T236/4146 OF63/208/05T, PRO.
- 250 Telegram from FO to Tokyo, 29 October 1953, in T236/4146 OF63/208/05T, PRO.
- 251 This statement was taken back the next day when Oda phoned to say that the Japanese were intending to redeem all their dollars. Moreover, Hong Kong Bank in Tokyo informed the British embassy that Japan had put up the sterling to redeem the £1 million swaps. Simultaneous to this decision, Japan also asked for a further sterling drawing of £13 million from the IMF in order to meet their dollar swap liabilities. See correspondence from Phelps to Serpell, 4 November 1953, T236/4146 OF63/208/05T, PRO.
- 252 Correspondence from Phelps to Serpell, 4 November 1953, T236/4146 OF63/208/05T, PRO.
- 253 *ibid.*
- 254 Note from Serpell to France, 22 October 1953, in OV16/90, BoE.
- 255 See copy of the minutes of the meeting of the working party held in Stephens' room, 27 October 1953 in OV16/91, BoE.
- 256 Note from Hogg to Tansley, Watson and Parsons, 27 October 1953, OV16/90, BoE.
- 257 Minutes of 71st meeting of the ONC, 6 November 1953, CAB134/1091, PRO.

-
- 258 The RSA (Rest of Sterling Area) balance of payments turnover with Japan was greater than with any other single country except North America. See note by the Treasury for the ONC, 4 November 1953, ON(53)196, CAB134/1096, PRO.
- 259 Note by the Treasury for the ONC, 4 November 1953, ON(53)196, CAB134/1096, PRO.
- 260 Minutes of 71st meeting of the ONC, 6 November 1953, CAB134/1091, PRO.
- 261 *ibid.*
- 262 *ibid.*
- 263 The ONC meeting on 27 November decided not to include an Anglo-Japanese commercial policy treaty in the agenda as the British side did not have the time to examine the matter. See minutes of the 77th meeting of the ONC, 27 November 1953, CAB134/1091, PRO.
- 264 The first two were held in June and July in order to work out Britain's policy towards Japan's accession to the GATT.
- 265 Report on trade and payments policy with Japan, 27 November 1953, GEN436/7, CAB130/87, PRO.
- 266 Minutes of third meeting of the Cabinet tariff policy on Japan, 1 December 1953, CAB130/87, PRO.

Chapter Five: Limits to Britain's Policy towards Japan

Introduction

1954 saw another attempt by Eisenhower to push through his liberal economic policy. This time his policy was based on the Commission on Foreign Economic Policy or the Randall Commission. Although not all of the commission's work was approved by Congress, Eisenhower was able to gain the power to enter into tariff negotiations, therefore, opening the way for Japan's GATT entry. Furthermore, the year saw the United States release Japan gradually from its obligation under the US-Japan bilateral agreement to maintain higher controls on exports to the PRC. As a result of this decision, Japan was given permission to remove 383 items from the embargoed list at a rate of 30 items per week from April. Eisenhower embarked on this policy in order to ensure Japan's continued alignment with the United States' trade control policy.¹

For Britain, the year was turning into a test of its relations with Japan with the negotiations for the sterling payments agreement and the problem of Japan's entry to the GATT. The previous year had highlighted Britain's inability to formulate a congruent policy with respect to the above issues, therefore, it was crucial that every effort be made to emphasize that it was not pursuing an obstructionist policy vis-à-vis Japan. This was to become extremely difficult because of the strong domestic opposition to Japanese competition. Despite the limitations placed on Britain's trade policy, an examination of its regional policy highlighted Japan's importance for Britain in Southeast Asia. By 1954, Britain came to appreciate Japan's role as a bulwark in a region which seemed to be in the process of being overtaken by communism. Consequently, contrary to its policy towards the GATT, Britain supported Japan's entry into regional organizations such as the ECAFE and the Colombo Plan.

Japan continued in its quest to enter the GATT in 1954. Furthermore, Yoshida embarked on an overseas tour to improve his embattled image at home. If Yoshida had hopes of increasing his domestic support, the attempt backfired as he was out of office by the end of the year.

This chapter will continue to examine Britain's sterling and GATT policies towards Japan. The above policies have been juxtaposed with Britain's policy towards Japan's integration in regional organizations in order to elucidate the overall policy towards Japan. In terms of Britain's economic policy, 1954 saw the reopening of the London Gold Market on 22 March. In order to reduce the amount of administrative work, a single rate was established for transferable sterling and all bilateral account countries

became transferable accounts. Therefore, Japan became a transferable account country by default.²

Sterling Payments Agreement

In 1953 the British attempt to formulate a comprehensive policy towards Japan had met with little success. They were still trying to formulate one before the start of the sterling payments talks with Japan on 3 December. The last meeting of the Cabinet committee on tariff policy on Japan was convened on 1 December, and a loose framework towards the negotiations was settled. It was decided that Japan should be encouraged to maintain a high level of trade with the sterling area. Furthermore, Britain was to advise Japan to look to the IMF for assistance or to encourage it to use its dollar reserves in case of future sterling shortage, as Britain did not wish to continue with sterling/dollar swaps. Finally, Japan would be encouraged to cease dividing its foreign exchange budget between the sterling, dollar and open account areas.³ The finer details of the British position were still to be worked out; such as whether to extend short-term credits to Japan, and to what degree Britain's African colonies should relax their import restrictions on Japanese goods. These issues were not scheduled for discussion at the Cabinet level until 8 December, therefore, Britain was in the embarrassing position of having to stall discussions until a ministerial endorsement of the overall British negotiating position had been given.

On 3 December, the two sides came together for the first plenary meeting. The Japanese side was represented by officials from the MOF, the MITI, the MOFA, as well as various specialists from the Japanese embassy in London. The British side was represented by officials from the Treasury, the Foreign Office, the Board of Trade, the Colonial Office, the Bank of England, the Commonwealth Relations Office and the Ministry of Transport.⁴ At the meeting, Asakai Kôichirô, the chief Japanese delegate, presented the British side with the Japanese statement on the issues which they wished to discuss during the talks.⁵ It included the need to redress the severe restrictions on Japanese imports into the sterling area, particularly to Australia, New Zealand, the United Kingdom and its colonies.⁶ These restrictions were considered the main reason why trade between the sterling area and Japan had not reached the target figure for 1953.⁷ The Japanese side also wanted to discuss Japan's GATT membership. Furthermore, they proposed that trade levels for 1954 should be £215.8 million in both directions. Concerning Japan's sterling holdings, the Japanese side hoped that Britain would extend financial facilities to Japan in order to enable it to tide over periods of shortage. Finally, the Japanese side proposed the introduction of special settlement devices between Japan and independent members of the sterling area.⁸

The statement was only discussed briefly at the plenary meeting, as the agenda of the subsequent meetings had to be agreed. The Japanese side hoped to focus on the outlook for trade and payments in 1954, while the British sought a review of payments in 1953.⁹ The reason for this was obvious; namely, that the British side had not formulated their policy for 1954.

At the next plenary meeting on the following day, the British side presented the Japanese with their reply to the latter's opening statement. The British position towards the Japanese statement was that import restrictions could not be the sole cause of Japan's inability to sell to the UK and colonies, especially in the light of the fact that the entrepôt centres of Hong Kong, Singapore and Aden were opened to Japanese imports. Furthermore, the British side asked for further clarification concerning Japanese complaints about the restrictions, delays and administrative measures which impeded Japan's imports to sterling area countries.¹⁰ Concerning other issues, Britain proposed further examination of the problems. The British side placed great emphasis on the continuation of the sterling payments agreement and expressed their desire to find out whether the Japanese side also wished to continue with the arrangement. The only point which they refused to discuss with the Japanese delegates was Japan's GATT membership as they did not regard the payments talks as the appropriate place for such a discussion.¹¹ The second plenary session was adjourned and the delegates split up into smaller specialized groups in order to discuss specific matters.

At the first of the two smaller meetings, the two sides recapped on the workings of the sterling payments agreement since it had come into force in 1951. After some discussion, the meeting turned to other matters. The British delegation asked the Japanese side to elaborate on the Japanese proposal for a special settlement device between the ISA (Independent Sterling Area) countries and Japan. What the Japanese had in mind with regard to this device was the establishment of bilateral clearing arrangements with Australia and Pakistan whereby special clearing accounts at the Bank of England would keep track of Japan's purchases of raw materials from the above countries. The device would ensure that Australia and Pakistan would buy an equivalent amount of manufactured goods from Japan thereby preventing a trade imbalance in Japan's relations with the respective countries. What the Japanese had in mind, therefore, was a return to bilateralism within the sterling area.¹²

While the Anglo-Japanese meetings were being convened in the Treasury, Japan was put on the agenda for a Cabinet meeting on 8 December. Butler, submitted a memorandum concerning the state of affairs as it stood; Japan's desired position; and Britain's hopes for trade. The most pressing issue was Japan's sterling shortage, and

the fact that short-term facilities, such as the sterling/dollar swaps, had not helped to correct Japan's imbalance with the sterling area. This in turn had led Japan to propose a return to strict bilateralism in sterling area-Japan relations.¹³ To prevent Japan from taking the restrictive option, Butler saw the need for Japan to increase its sterling reserves and expand its sterling area trade relations. He proposed several measures including Japan purchasing sterling using its dollar reserves, and an end to Japan's division of its foreign exchange budget in line with the various trade blocs. Butler, however, realized the inadequacy of these measures in themselves and also recommended the relaxation of British and colonial import restrictions against Japan. He noted that he was aware of the fear of Japanese competition among select British industries, but underlined the colonial demand for cheap Japanese goods.¹⁴ Furthermore, he questioned the validity of the use of quotas to keep Japanese goods out of the markets. Moreover, he stressed that without these inducements, Japan would not switch its trade from the dollar to the sterling area.¹⁵ In regard to the entrepôt centres, he proposed that they be permitted to import freely from Japan. The President of the Board of Trade, Peter Thorneycroft, agreed to Butler's proposal and was willing for all the colonies to export up to their maxima, except for Nigeria, because he thought Japanese goods would drive UK manufacturers out of the Nigerian market. The Nigerian market was important for Lancashire as it was one of the three major overseas customers it had left.¹⁶ Thorneycroft hoped that Nigeria would limit its imports to £10 million. The Secretary of State for the Colonies, Oliver Lyttelton, did not think it was feasible that Britain could instruct Nigeria to restrict purchases, and proposed an informal agreement between Britain and Nigeria.¹⁷ As for restrictions in the UK, Thorneycroft agreed to an increase in the grey cloth quota by £2 million for re-export.¹⁸ In regard to an extension of credit facilities to Japan, Butler recommended that they should only be extended to Japan on political grounds, for example, if Britain or the colonies were unable to relax their import restrictions.¹⁹

The Cabinet relegated the issue to the EPC on the following day, as the ministers concerned were all members of the committee.²⁰ At the EPC, the Economic Secretary to the Treasury, Reginald Maudling, informed the committee of the IMF's reluctance to allow Japan to make further drawings from the fund unless an enquiry on Japan's economy and trade was conducted.²¹ The committee realized that the IMF's reluctance to provide further sterling loans to Japan would result in increased pressure on the UK and its colonies to relax their import restrictions on Japan, therefore, their voluntary import relaxation was considered a better alternative. The discussion then turned to the extent to which colonial restrictions should be relaxed. It was agreed that the minimum colonial import would be £21 million whereas the maximum would be £33 million.²² Thorneycroft agreed with the content of Butler's memorandum to the Cabinet, and

reiterated his willingness to see all the colonies import up to the maximum level from Japan. This effectively meant an increase of Japanese goods into the colonies by fifty percent from the 1953 level. As mentioned above, Thorneycroft had reservations in regard to Nigeria and therefore he reiterated his proposal to increase Japanese grey cloth imports into the UK by £2 million. Although he foresaw criticism from the manufacturing sector and parliament, he felt that this would not be a problem as Japan was still not a GATT signatory and thus if necessary, Britain could exclude Japanese goods at any time in the future.²³

The EPC concluded that Britain was not in a position to restrict colonial purchases from Japan as there was no longer a balance of payments reason to restrict such imports, and the only possibility open to Britain was to persuade the colonies to curb their purchases from Japan. It was not possible, however, to decide what concessions the UK could offer to Japan until there was a clear indication from the Nigerian government concerning the powers of self-limitation they were willing to impose on Japanese goods. Therefore, the Colonial Office was instructed to despatch a telegram immediately to Nigeria and find out whether they were willing to limit Japanese imports.²⁴

On 10 December, the third plenary session was held in the Treasury. Half of the meeting was spent on recapping what had been discussed by specialists since the last plenary meeting. The Japanese side presented Britain with annexes concerning the special settlement device, explaining how the arrangement would function. This whole arrangement was not well received by Britain. Furthermore, the Japanese side provided a counter-reply to Britain's response to its original statement. Japan could not accept that Japan's trade deficit with the sterling area was due to factors other than the area's import restrictions.²⁵ They were also dissatisfied with the fact that Japanese exports to the entrepôt centres were prohibited from being on-sold to sterling area countries except for those so-called traditional destinations such as Burma, Brunei and Sarawak.²⁶ Moreover, the Japanese were perturbed by import restrictions placed on Japanese goods in the African colonies, as they saw the African market as equal in importance to entrepôt trading centres. Especially disturbing were import restrictions on all Japanese cotton and textiles to British East Africa which represented 77 percent of the East African colonies' imports from Japan in 1951 and 74 percent during the first six months of 1952.²⁷ What the Japanese did not understand was why there had to be an administrative import restriction on Japanese goods if, according to the official line, there was no local demand for Japanese goods. Furthermore, they were concerned about the sharp decline in Japanese exports to Nigeria and they wished to find out more about Nigeria's import licensing system (see table 5.1 for cotton good imports into

Nigeria).²⁸ The basic Japanese line taken was that they were interested in renewing the sterling payment agreement for a further year, but wished to be able to trade with the sterling area on a more equal footing, and could not agree with the British line that import restrictions were not the reason for the decline in Japanese exports to the sterling area.

After the plenary meeting, the delegates divided into smaller groups again to discuss specific issues. On the same afternoon, a meeting was held to discuss Japan's estimated sterling imports in 1954 and the breakdown of the commodities that Japan wished to import. Furthermore, there were discussions over Japan's oil imports, and over British and colonial licensing systems.²⁹ A day later, an informal meeting was held between, Serpell, Furley-Smith, Hogg and three Japanese delegates, Ihara, Tōjō and Ushiba. The meeting was held primarily to discuss how Japan would finance its sterling shortage in the near future. The Japanese side came closer to the idea of using their dollars to pay for sterling area goods than before. This was on the condition, however, that the negotiations were successful, that Japan's exports to the UK increased and its proposal for a special settlement device was accepted by Britain.³⁰ On the next day, two meetings were held simultaneously. One at the Bank of England to carry out statistical analysis on trade between the sterling area and Japan for 1953, and another in the Treasury to discuss Japan's foreign exchange budget system.³¹ At the latter meeting, the British side was most curious to find out how Japan divided its foreign exchange budget, horizontally, i.e. how they divided their foreign exchange budget between the sterling, dollar and open account budgets, and vertically, i.e. the division of sterling imports into the summer and winter budgets, as well as visibles and invisibles. Most interesting for Britain was the horizontal division in Japan's foreign exchange budget which was decided in the light of Japan's commitment with the open account countries. The sterling and dollar budgets were considered thereafter.³² Vertical allocations on the other hand were divided between those on the automatic approval list such as rubber and sterling area machinery, where there was no specific allocation for each commodity; those on the specific allocation list which consisted of specific sums for sterling, dollar and open account purchases (switching was not normally permitted between the various accounts);³³ and the miscellaneous list.

On 16 December, the EPC met again, as the Colonial Office had received an interim reply from Nigeria concerning estimated imports from Japan in 1954. Unfortunately for the British Delegation, the Nigerian government was unable to respond completely to British enquiries as Ministers were 'up country' and a meeting of the Council of Ministers was not possible until 22 December at the earliest. All that they could say was that they would expect import licences for at least £10 million worth of Japanese goods,

but the telegram did not indicate any assurance by Nigeria that imports from Lancashire would remain at the same level.³⁴ Thorneycroft spoke of the difficulties created by this situation. On the one hand, Britain had to show its willingness to extend trade concessions to Japan, conversely, he needed Cabinet approval before they could be implemented. He foresaw a political storm either way, as Lancashire would be directly affected if Nigeria decided to increase Japanese imports or if Britain decided to increase imports from Japan. In the meantime, there were discussions at the EPC meeting about how to deal with the situation. Maudling felt the negotiations could not go on without letting the Japanese know the full extent of the increased sterling earnings which Britain thought Japan could achieve.³⁵ Geoffrey Lloyd, Minister of Fuel and Power, was concerned that a failure to reach an agreement with Japan at the negotiations might lead to a substantial decline in British oil exports to Japan in 1954 as Japan's purchases from the sterling area would decline relative to the reserves available. The meeting adjourned with the committee's decision to inform the Japanese delegates that Britain's position on import relaxations would not be finalized until after Christmas, which inevitably meant a prolongation of talks. Furthermore, with regard to trade flows, the committee reiterated Britain's aim of earning a surplus with Japan. As for colonial estimates, Japan was to be informed that Britain was only able to give recommendations and they were unable to either force colonial governments to 'restrict or increase their purchases'.³⁶ As for the case of Nigeria, the latter were yet to decide how much they wished to import from Japan in 1954.³⁷

Meanwhile, the Anglo-Japanese talks finally turned to the 1954 estimates at the fourth plenary meeting, although neither side could agree on the level of trade flows between Japan and the sterling area. The Japanese side had, since the beginning of the negotiations, amended their estimates for trade with the sterling area, and had arrived at a figure of £205 million for sales to the sterling area. Although the British side was unable to offer figures concerning its imports from Japan, talks went ahead nevertheless concerning British estimates for sterling area exports to Japan. The British estimate of sterling exports to Japan was £230 million, which was £25 million more than the Japanese estimates for its exports to the sterling area.³⁸ The discussion soon turned to the issue of British visible and invisible exports to Japan. With regard to visible goods, most UK exports to Japan were on the automatic approval list, and their concern was whether there was sufficient allocation of sterling to ensure the purchase of these goods by Japan. Moreover, the British side indicated specific goods such as wool textiles, motor cycles, confectionery, whisky and remittances of film profits which they thought should be given a certain amount of licensing allocation.³⁹ With regard to invisibles, the UK delegation was especially concerned over two issues. The first concerned Japan's oil purchases from the UK. Britain's dissatisfaction stemmed

from Japan's desire to allocate only £8.5 million towards sterling oil, which was £3.5 million short of the amount the UK wished to sell. Furthermore, Britain was dissatisfied because Japan planned to increase its overall oil imports, but little substantial increase was to be expected from the sterling area. Oil was an important issue for Britain because it was one of the commodities that Japan needed and the sterling area could supply (the other being wool). Britain was concerned as the decline in Japan's sterling reserves would in turn reduce Japanese requests for oil from the sterling area thereby potentially threatening Britain's market share. Therefore, Britain's aim was to maintain a certain percentage of oil sales with Japan. Britain was also anxious about the Japanese government's policy towards its shipping industry on two accounts; first, that Japanese importers were given inducements to use its own shipping in preference to that of other flags; and second that the Japanese shipping industry was being provided with government financial assistance. Both were considered unfair commercial practices, and the British shipping industry felt threatened by this unfair Japanese advantage.⁴⁰ The Japanese denied the allegations of unfair competition, and assured Britain that Japanese vessels had only carried 48 percent of Japan's total foreign trade in 1952, which was a far lower figure than in the pre-war years.⁴¹ Therefore, he tried to re-assure British concerns about the shipping sector.

On 23 December, the Colonial Office finally received a definitive telegram from Nigeria. It had decided to lower Japanese imports for 1954 from £15 million to £10 million, thus safeguarding UK exports.⁴² The issue was raised with the Cabinet on 29 December where Butler gave an oral report on the progress of the negotiations with Japan, and asked for Cabinet authorization for an increase in Japanese imports to the UK by £3.35 million bringing the total UK imports to £13.35 million, as a 'trade-off' for Nigeria's decision to limit its exports from Japan. The additional £3.35 million would consist of £2 million worth of Japanese grey cloth for processing and re-export and £1.35 million for other goods.⁴³ Although Thorneycroft expressed his reserve about this increase, he grudgingly agreed to the Cabinet decision 'in the general interests of sterling area trade'.⁴⁴

In the two weeks that followed, various meetings were held to reach an agreement over the terms of the sterling payments agreement. On 1 January a meeting was held concerning Japanese exports to the colonies. The Japanese side wished to know how the British side would guarantee colonial purchases of Japanese goods. The Japanese side was particularly worried as colonial purchases in the previous year had not met the estimates. Furthermore, they were eager to understand the process by which goods were imported into the colonies as, in the previous year, it had taken so long between the issuance of import licences to the actual sales of products.⁴⁵ The British side

reassured the Japanese that entrepôt trading centres would have no limitations on their imports from Japan as long as the goods were for domestic consumption or they were to be on-sold to a non-sterling area country. As for the rest of the colonies, Britain guaranteed that they would buy to the amount they estimated. Concerning import licences, Sydney Levine of the Board of Trade explained that the process usually took six weeks for goods to the UK (two weeks for applications to be submitted, following the issue of a notice to importers and a month for the examination of these applications) but he assured the Japanese that the process would take less for the colonies. The Japanese side asked Britain to liberalize colonial purchases of Japanese goods, but Kennedy of the Colonial Office explained that Britain was limited to recommending, instead of instructing, the colonies on their purchasing programmes.⁴⁶

Between 4 and 20 January, the two sides met to iron out Japan's oil imports from the sterling area. The meetings remained inconclusive as neither could decide on whether Japan would purchase 25 percent of the total allocation for oil in the sterling and dollar foreign exchange budgets⁴⁷ or buy 22.5 percent of Japan's total oil imports from the sterling area.⁴⁸

As the end of January approached, most of the contentious issues between the two sides had been settled, and the two negotiating teams were preparing to sign the new payments agreement. The laborious negotiation process continued, however, due to an unexpected complication. On 25 January, Percival of the Board of Trade, Kennedy of the Colonial Office and Serpell of the Treasury had to arrange a meeting with Asakai, Ihara and Ushiba. The problem arose as the British side had received a telegram from East Africa explaining their wish to reduce their Japanese estimates from £5 million to £2.5 million as they had decided to increase their textiles purchases from the UK. The news was received very badly by the Japanese representatives who walked out of the negotiation room.⁴⁹ From the Japanese angle, they could not conceive of a change in the estimate so late in the negotiations. The Japanese side was aware of the constitutional position of the UK vis-à-vis the colonies (i.e. that Britain was not in a position to make decisions on their behalf), but they thought the British government was in a position to tell the East African territories to stick to the £5 million figure.⁵⁰ What was most disturbing to the Japanese was that the East African territories were a symbol of 'British restrictions on imports from Japan', and the latest news only confirmed their suspicion.⁵¹ Therefore, what the Japanese delegates were implying was that they could not totally embrace the idea that Britain had no leverage over their African colonies, and that if there were restrictions on Japanese products they were designed to protect or safeguard British goods. Furthermore, Japanese delegates were placed in a difficult position as they had secured Tokyo's approval of the UK desiderata

on the condition that there would be increased import relaxations towards Japanese goods in the colonies.⁵²

On the following day, a meeting was convened to discuss the above issue. Asakai made a personal proposal in order to prevent the issue from damaging the negotiations. He asked that Britain increase grey cotton cloth imports by £1 million. Furthermore, in order to balance colonial figures, £1.5 million would be deducted from colonial exports. This meant decreasing the total colonial estimate from £34 million to £32.5 million. Asakai, pointed out, however, that the £1.5 million deduction would not be taken entirely from the cotton quota. Moreover, the UK government would take steps with the colonies concerned so the original figure of £5 million would be restored at the time of the next trade review, and when that happened, the Japanese side indicated they would return the colonial quota to the original figure. Finally, the United Kingdom would accept Japan's proposal concerning sterling imports for 1954.⁵³ The Japanese proposal was considered very lenient by British delegates, and in a note, Serpell deduced the reasons for this Japanese approach. First and foremost was their desire to conclude the negotiations and go home. There was also the anxiety that a delay might lead to further loss of trade in other colonies. Also included in the calculation was the belief that if an early agreement was reached, Britain might extend the £10 million swaps and possibly another £2.5 million if the agreement was mutually satisfactory. The only political problem faced by Britain was of course the likely adverse reaction by the textiles industry toward an increase in grey cotton cloth imports.⁵⁴ The Board of Trade was, however, in support of increased grey cloth imports into Britain if that was the price that had to be paid to settle the negotiations with Japan. On 28 January, the Cabinet met to discuss the issue, and authority was given to the British delegates to agree to the extra £1 million grey cloth imports.⁵⁵ On the same day the two delegates met and it was agreed that Asakai's proposals would be accepted by Britain. The British side wanted to confirm, however, what would be entailed by 25 percent of all oil supplied by UK-and US-controlled companies. Ushiba replied that oil supplied against cash or on ordinary usance terms would be included for computation, but oil supplied in order to finance investment and oil paid for in switch dollars would be excluded. At the meeting, Serpell announced that Britain would extend 'swaps' of up to £12.5 million to the MOF. These swaps would be available from 1 February 1954 until 30 April 1954. Each 'swap' arranged was available for three months, renewable for a further three months.⁵⁶ The sterling payments agreement between the United Kingdom and Japan was signed on the following day by the Japanese Ambassador, Matsumoto Shunichi, and the Minister of State for Foreign Affairs, Selwyn Lloyd, while the agreed minute was initialled by the leaders of the two delegations, David Serpell of the

Treasury and Asakai Kôichirô of the Japanese embassy.⁵⁷ The press release was released at 1 am on 30 January.

The negotiations for the new sterling payments agreement between the sterling area and Japan began on 3 December 1953 and the agreement was signed on 29 January 1954. These negotiations were significant as it was the first comprehensive negotiations between the sterling area and Japan since the first sterling agreement was signed in August 1951. The main points of the agreement were that it would last until 31 December 1954, unless it was extended prior to that date. Furthermore, both sides were eligible to terminate the agreement with three months' notice. As for trade, the target for 1954 was £209.5 million both ways. In regard to third country transfers, the previous agreed minute was to be replaced with an outline of each other's practices.⁵⁸ As in previous agreements, both sides agreed to maintain trade at the highest possible level. Moreover, Japan was granted £12.5 million swaps for a maximum of six months.⁵⁹ Britain's compromise during these negotiations was its decision to relax its discriminatory trade restrictions against Japan and an agreement to increase Japan's trade with the sterling area.⁶⁰

Although the two sides were able to reach an agreement without too much acrimony, the British side had to prepare for a harsh wave of criticism as the government realized they would not be let off lightly for their last-minute decision to increase Japanese grey cloth imports by £1 million. In a House of Commons debate on 1 February, Maudling came under heavy attack from various speakers who opposed the government's decision to go ahead with imports of £3 million worth of Japanese grey cloth. Criticism centred around the fact that the government had informed rather than consulted the relevant industries on this decision.⁶¹ Opposition also stemmed from the Cotton Spinners and Manufacturers' Association, the Rochdale Weavers and Winders' Association, the British Pottery Manufacturers' Federation and the North Staffordshire Chamber of Commerce to name but a few.⁶² Maudling defended these accusations by explaining that he had informed Sir Raymond Streat, the Chairman of the Cotton Board.⁶³ The criticism did not abate, however, and Harold Wilson, the former President of Board of Trade in the previous government, asked for the adjournment of the House under standing order number nine 'for the purpose of discussing a definite matter of urgent public importance, namely, "(t)he conclusion of a trade and finance agreement with the government of Japan which, for the first time since the war, permits the entry of a wide range of Japanese consumer goods into the United Kingdom"...'⁶⁴ Standing order number nine was rejected, because the sterling payments agreement had already been signed. Instead, a Commons debate was scheduled for 10 February on the basis of a motion by the opposition that,

...this House, while accepting the principle that Colonial Territories should not be forced to buy British goods when it is contrary to their interest, regrets the action of Her Majesty's Government in entering into a trade agreement with the Japanese Government without prior consultation with the industries concerned, and without securing assurances that Japanese exporters will not revert to previous unfair trade practices.⁶⁵

The Commons debate on the Japanese trade agreement was a heated one, which lasted from 7:15 to 10:00 in the evening. At the end of the debate, the opposition motion was rejected by 296 votes to 265. The Conservative amendment of the motion which supported the signing of the payments agreement, but which reassured Lancashire that it would not be at the mercy of Japanese competition if Japan broke its treaty obligation, was approved by 297 votes to 258.⁶⁶

The Japanese press, which was covering the British domestic reaction to the Agreement, was initially unfavourable to the agreement but according to John Chadwick of the British embassy in Tokyo, 'the storm in London and Manchester made people think that there must be some advantage to the agreement'.⁶⁷

In the aftermath of the Commons debate, the shaken government decided to reach a Cabinet decision on Britain's overall policy towards Japan. The initiative was taken by the Foreign Office which submitted a memorandum to the Cabinet proposing Britain's support for attempts to keep Japan within the western sphere. The Foreign Office realized the extent of the fear about Japanese competition in Britain and the Commonwealth, but it argued that keeping Japan in the western orbit was far more important. Central to its argument was the fact that none of the stabilizing factors in Japan were firmly established and that therefore there was a slim chance that Japan might align itself with the PRC. Eden thus proposed that Britain should attempt to prevent any Chinese-Japanese association in East Asia and avoid a 'decisive shift in the world balance of power'.⁶⁸ In order to reach this end, Eden proposed as high a level of trade between Japan and the sterling area as was consistent with British national interests. Moreover, he recommended a concerted effort in Britain to change 'the climate of British opinion towards Japan so as to bring it into closer accord with the overriding requirement of our national policy and interest'.⁶⁹ The Foreign Office proposal was approved by the Cabinet on 24 March.⁷⁰ Therefore, the government used the threat of a Sino-Japanese collaboration in order to support greater sterling area-Japan trade, and to reverse the emotional opposition towards Japan in Britain. Although Anglo-Japanese relations began to an unimpressive start in 1954, Britain was given a chance to overturn the tide with Yoshida's decision to visit the United Kingdom.

The Postponement of Yoshida's visit to the UK

An invitation for Yoshida to visit the United Kingdom was authorized by Lord Salisbury and approved by Prime Minister Winston Churchill as early as September 1953. Although the British Ambassador to Japan, Sir Esler Dening, was authorized to invite Yoshida, he did not approach the latter on the matter until 26 January.⁷¹ Yoshida expressed delight at the invitation, but he warned Dening that his visit would be subject to political stability at home. The timing of the invitation was not exactly diplomatic in Britain either, as it was extended at a time when the House of Commons was in an uproar over the recently signed payments agreement with Japan. Since rumours about the invitation had already spread to the press, it became important for the government to substantiate it, and the press was informed of the government's invitation to Yoshida in early February.⁷²

The main issue Yoshida was expected to raise during his visit to the United Kingdom was the question of a Treaty of Commerce and Navigation, because the Japanese side had been asking on and off about British intentions for the past two years. It was not surprising that this issue would be broached by Yoshida as it had been raised during the recent negotiations for the sterling payments agreement. It was a growing concern for the British side as well because article 12 of the peace treaty only obliged Japan to extend MFN treatment to the signatories for four years. This meant Japan's MFN treatment towards Britain would terminate in April 1956. It was therefore of utmost importance that Britain sign a treaty of some form with Japan if the former wished to prevent the latter from discriminating against British nationals, shipping and goods. Moreover, the whole issue of the commercial treaty brought to the fore the question of whether Britain should grant MFN rights instead of de facto MFN treatment to Japan. If Britain granted MFN rights to Japan, it effectively meant Britain's extension of GATT rights.

On 14 April Dennis Allen of the Foreign Office wrote to AE Percival of the Board of Trade and proposed that the relevant ministries should consider what to do when the peace treaty lapsed.⁷³ He suggested the Board of Trade produce a draft submission to the Cabinet by around 26 April.⁷⁴ The Board of Trade agreed to write a draft brief, but this was not completed for another month. In the meantime, Yoshida's itinerary was taking shape, and the Foreign Office was informed by the Japanese that the Prime Minister would be visiting Britain from 21 to 30 June.⁷⁵

In the interim period, a meeting was held at the Manchester Chamber of Commerce on 17 May to discuss the problem of Japanese copying of British textiles. The meeting was attended by the Cotton Board, the Manchester Chamber of Commerce, the British

Rayon and Synthetic Fibres Federation and the Board of Trade.⁷⁶ It was held primarily to show the relevant officials the extent to which Japanese copying of British textiles designs was being carried out, and the reasons why measures against this were not working. The officials were shown a collection of Japanese designs which were exact copies of British fabrics in their design and their colour, except that Japanese manufacturers used inferior dyes which disappeared after one-wash. This caused problems for British fabric makers, as consumers were unable to tell one fabric from another, causing direct injury to British industries, as buyers were 'holding off placing orders' in Lancashire.⁷⁷ Sir Maurice Dean and AE Percival of the Board of Trade indicated to the trade spokesmen that the problem could be solved if they registered their designs with the Japanese equivalent of the Patents and Designs Act. This was opposed by the spokesmen because of the inadequacy of the act, and more importantly because the short life of many of the designs made it extremely expensive to register their designs with Japanese authorities. The trade representatives, therefore, asked that Yoshida be informed of this problem, and Sir Maurice Dean undertook to consider the matter.⁷⁸

On 23 May, Percival sent a copy of a draft brief to CT Crowe of the Foreign Office on the British position regarding a commercial treaty with Japan.⁷⁹ The proposal set out by Percival indicated Britain's support for a commercial treaty with Japan in theory, subject to certain provisions and safeguards. These were that Britain would continue to discriminate against Japanese goods on balance of payments grounds; that Britain would have the right to discriminate against Japan in the event of disruptive competition causing injury to producers in the UK; moreover, producers in the colonies and the Commonwealth countries would also be allowed to discriminate against Japan in the event of disruption. Furthermore, the Board of Trade saw the importance of clarifying to the Japanese that Hong Kong, Singapore and Malaya did not want to extend MFN and national rights to Japanese business people because the respective governments were unsure about whether they could protect Japanese nationals against physical attack.⁸⁰ On the following day, at a Board of Trade meeting, Thorneycroft opposed Percival's draft memorandum on the grounds that a commercial treaty with Japan was premature. The reasons behind his opposition was the evidence of excessive Japanese copying of British textiles designs, and the general public opinion against Japan in Britain. Thorneycroft was not against the signing of an establishment treaty,⁸¹ but he thought a commercial treaty at this juncture would do more harm than good to Anglo-Japanese relations.⁸²

Thorneycroft's position on the commercial treaty indicates the impact that the meeting at the Manchester Chamber of Commerce had on the Board of Trade. Before such evidence was shown to the Board of Trade, the textiles industry could only cite former Japanese 'unfair' practices as a reason for protection against Japan. The meeting, however, provided clear proof that Lancashire needed protection from Japanese competition. Fresh also in Thorneycroft's mind was the unexpected response in the House of Commons after the renewal of the sterling payments agreement. Therefore, on the same day, Percival wrote to Crowe retracting the draft memorandum. An amended version of the memorandum was approved by Thorneycroft on 27 May.⁸³ Before further work could be carried out, however, the Foreign Office received a telegram from Japan on 5 June, informing them of Yoshida's decision to postpone his visit to Britain indefinitely due to domestic political problems.⁸⁴ Yoshida, however, authorized Mukai Tadaharu, the former Finance Minister in the Yoshida Cabinet, to represent Japan in trade talks with the United States and Britain. This shifted the emphasis from the question of a commercial treaty to existing trade issues.⁸⁵

At the Cabinet's EPC meeting on 24 June, Thorneycroft explained the reasons why the Board of Trade could not enter into a commercial treaty with Japan. The reasons were fears of fierce Japanese competition due to low wages in Japan. Furthermore, if Britain acceded MFN rights to Japan, the southern Dominions who were discriminating against Japanese goods in favour of British goods would probably end their discriminatory policy, and follow Britain's lead and extend MFN rights to Japan. Moreover, Japanese competition had taken unfair forms in the past and there was no guarantee that Japan would not revert to those malpractices in the future. This promoted the view that Britain and the colonies should not tie their hands in any way as long as the uncertainty existed. This point was particularly important in the light of existing evidence concerning Japanese copying of British designs.⁸⁶ Moreover, there were other forms of unfair Japanese competition known to the UK, such as the existence of Japanese apparatus to stimulate exports by means of 'incentives and tax allowances'.⁸⁷ These points indicated the possible criticism the government would receive if it entered a commercial treaty with Japan. Several points were raised during the ensuing discussion, such as the importance of keeping Japan within the western bloc and the importance of negotiating a treaty to safeguard particular British interests such as banking, insurance, oil and shipping before the expiry of the peace treaty in 1956. In general, there was support for the Board of Trade's view that Britain should make a strong protest to Mukai about Japanese malpractices, but the committee as a whole indicated their interest in seeing an official study to look at the question of a commercial treaty with Japan in the context of Britain's policy towards the GATT.⁸⁸

Mukai arrived in the last week of June, and met with Butler, Thorneycroft and the Minister of Transport and Civil Aviation, Alan Lennox-Boyd. The meeting between Mukai and Butler on 28 June remained general and short.⁸⁹ The respective meetings on 30 June with Thorneycroft and Lennox-Boyd, on the other hand, were over specific trade issues. Thorneycroft, at his meeting with Mukai, indicated which trade practices were considered 'unfair' by Britain. These were export subsidies such as currency retention schemes, taxation relief and link systems;⁹⁰ furthermore, he expressed British concern over Japan's barter arrangements with various countries, as it was against the spirit of multilateral trade, and lastly, the British anxiety over Japan's copying of their textiles designs. In response to the above points, Mukai hoped that something could be done to curb export subsidies. On barter arrangements, he explained that they were used when Japan was unable to pay for goods through normal exchange. He emphasized the importance of this arrangement for the expansion of Japanese trade, but at the same time, reassured Thorneycroft that recourse to barter arrangements was only made when normal trade was not possible. With regard to copying of designs, Mukai said he had heard about complaints but had seen little evidence of this fact. He was later shown samples of Japanese copying. On seeing them, Mukai expressed his desire to suppress the malpractice.⁹¹ Mukai, as expected, hoped that Britain would support Japan's GATT entry, and moreover, that Japan and Britain could sign a commercial treaty in the near future. As agreed at the EPC meeting, Thorneycroft explained that a commercial treaty was not possible while Japanese commercial malpractices existed.⁹²

At a meeting with the officials of the Ministry of Transport and Civil Aviation later that day, Mukai was asked whether the Japanese government was financing or assisting the Japanese shipping industry. The issue was raised because it had come to the attention of the Ministry that Japanese shipping lines were making losses, but that it did not seem to affect the expansion of their operations nor the expansion of their fleets. This led the Ministers to believe that Japan's shipping industry was either receiving financial assistance from banks or financial institutions at government instigation, or having their operation losses underwritten by the government.⁹³ Mukai in reply emphatically denied government assistance towards the Japanese shipping industry directly or indirectly, and explained that these shipping companies would go bankrupt in the long-run if they continued to record losses.⁹⁴ The meetings with Mukai were important for British officials as they wished to settle Japan's trade malpractices before the latter succeeded in becoming a GATT member.

Japan's Application to the GATT

British policy towards Japan's application to the GATT lay dormant in the first-half of 1954. The reason for this was partly because the Americans were examining their own foreign economic policy and until their position became clearer it was difficult for Britain to formulate a policy towards Japan.

In late June, Winthrop Brown of the American embassy in London told the Board of Trade representatives at a meeting that the United States had decided to support Japan's GATT accession, and furthermore that the United States was willing to provide compensation for any third country willing to extend concessions to Japan in the tariff negotiations prior to Japan's GATT entry.⁹⁵ Brown notified the Board of Trade officials that if they wished to enter tariff negotiations with Japan and wished to get compensation from the United States, they should provide a list by 1 September. A strict deadline needed to be set, as the President's authority to negotiate tariff reductions under the Reciprocal Trade Act only extended until 12 June 1955.⁹⁶ In reply, Frank Lee of the Board of Trade said he was not against conducting tariff negotiations early in the following year, but he saw difficulties if Japan's accession was raised at the same time, because of the limited time available for Britain to initiate a policy, especially with the holidays intervening between July and September. Furthermore, anti-Japanese feeling in commercial circles had become acute due to the widespread Japanese copying of British textile designs and patterns. Moreover, GATT was a sensitive issue on the British government benches and he did not want to see any unification of anti-GATT and anti-Japanese forces.⁹⁷ The United Kingdom therefore sought a solution whereby the UK could conduct tariff negotiations without linking it to Japan's formal accession to the GATT. The meeting ended inconclusively, but both sides agreed to maintain close contact. At a higher level, Eden, who was in Washington, met with Dulles on 29 June to discuss Japan and the GATT. Both sides acknowledged the difficulties of Japan entering the GATT, but Dulles told Eden that 'he felt it necessary to push on with Japan's admission'.⁹⁸

On 5 July, the Japanese Minister in Berne sent a letter to the GATT asking for the inclusion of Japan's accession in the agenda of the ad hoc committee meeting on Agenda and Intersessional Business.⁹⁹ Five days later, Oda at the Japanese embassy in London called on CT Crowe of the Foreign Office asking for British support for Japan's accession as a full contracting member of the GATT.¹⁰⁰

Meanwhile, British and American officials continued their efforts to reach an agreement over Japan.¹⁰¹ At a meeting of the Board of Trade officials on 16 July, Frank Lee and Edgar Cohen of the Board of Trade broke the stalemate. They proposed an amendment

to article 35 so that a GATT member and a new acceder could base their trade relations on a bilateral agreement. In other words, instead of a contracting party invoking the existing article 35 against an acceding country, the amendment would enable the contracting party to welcome the new country into the GATT in principle, but base their trade relations on a bilateral treaty. This would enable the UK to take emergency action such as raising duties or imposing quotas if excessive imports by the acceder threatened to disrupt normal trade patterns.¹⁰² The initial reaction of Samuel C Waugh, Assistant Secretary for Economic Affairs, was not favourable as he thought it would set a precedent for other contracting parties when they were faced with potential competition. The Board of Trade representatives, however, were not seeking a quick reply from the Americans, as the proposal was still tentative, and it had yet to get Cabinet approval. Therefore Lee and Cohen asked the American representatives to keep the proposal confidential, as the British were not intending to present it at the upcoming ad hoc committee meeting.¹⁰³

The ad hoc committee meeting of the GATT was convened from 26 July to 3 August, and the Japan issue was discussed on 29 July.¹⁰⁴ The Committee agreed to commence Japanese negotiations from 1 February 1955 in Geneva.¹⁰⁵ Those countries wishing to enter tariff negotiations were asked to inform the Executive Secretary of their position by 15 September. CW Sanders who attended as the British representative reserved Britain's position. Sanders' statement was interpreted by the press as British opposition to the recommendation. Ironically, the government had not yet reached a policy decision on Japan's membership in GATT.¹⁰⁶

The Report on a Commercial Treaty with Japan

On 14 July the ONC met to discuss what form the study on a commercial treaty with Japan should take.¹⁰⁷ It was agreed that a working party would be set up under the chairmanship of the Treasury, with the Colonial Office, the Commonwealth Relations Office, the Foreign Office, the Ministry of Supply, the Board of Trade and the Ministry of Transport as members.¹⁰⁸ The main objective of the study was to examine the pros and cons of a commercial treaty with Japan, and the various ministries were asked to submit papers. The Board of Trade was given the responsibility for studying the advantages and disadvantages of a treaty, and an assessment of what the Japanese might want and how far their requirements could be met.¹⁰⁹ The Treasury was given the task of examining Japan's general economic position, its competitive power, and the extent to which Japanese exports might be regarded as a danger to UK interests.¹¹⁰ Finally, the Foreign Office, in consultation with the Commonwealth Relations Office, was asked to prepare and circulate a paper dealing with the foreign policy aspects of the

question, and highlight complications which might arise as a result of differences with other countries.¹¹¹

On 23 July, an informal meeting of the ONC was held to discuss the five notes prepared by the various ministries for the study, and to discuss what points should be included in the report.¹¹² After a lengthy discussion, FF Turnbull of the Treasury, who was in the chair, concluded that there appeared to be three possible approaches to a commercial agreement with Japan. One was to make a full MFN commercial treaty with Japan and invite Japan fully into the GATT, this, however, was problematic due to opposition from various ministers. The second approach was the Board of Trade's proposal for implementing a safeguard 'which would enable countries to discriminate against imports of particular products if these were causing or threatening serious injury either to producers in the importing country or to the exporting interests of other members of the same preferential areas'.¹¹³ The third option was to attempt a commercial treaty excluding MFN treatment for goods, or in other words a simple establishment treaty, but it was unlikely that Japan would agree to such an offer.¹¹⁴ Other alternatives included safeguarding Britain's position by reaching an agreement with Japan along article 19 of the GATT, or including a phrase indicating a gradual approach to Japan's full or qualified MFN treatment.¹¹⁵ In conclusion, the Board of Trade, the Treasury and the Foreign Office were asked to explore the three alternative approaches.¹¹⁶

At the same time as the ONC was considering Britain's position on a commercial treaty with Japan, the Cabinet's External Economic Policy Committee was meeting to discuss Britain's GATT policy.¹¹⁷ The committee was made up of Cabinet ministers and it was chaired by the Chancellor of the Exchequer. At the second meeting on 19 July, Thorneycroft was asked to circulate a memorandum indicating how he would propose to deal with the problem raised by Japan's GATT accession including the problem of the 'no new preference' rule in relation to Japan.¹¹⁸ The day before the third External Economic Policy Committee meeting, a Board of Trade memorandum dated 23 July was distributed to the various committee members proposing the continuation of Australia, New Zealand and South Africa's right to maintain their high tariffs on Japanese goods on a discriminatory basis. Furthermore, it called for Britain to be given the right to take emergency action if Japanese practices or Japanese competition became intolerable.¹¹⁹ The Board of Trade believed Britain and Commonwealth rights could be secured if article 35 of the GATT was amended to enable Britain to base its trade relations with Japan along a bilateral treaty.¹²⁰ Thorneycroft envisioned a carefully drafted 'escape clause' in the bilateral treaty which gave Britain and the colonies absolute discretion to put discriminatory tariff or quantitative restrictions on Japanese

goods if one of the following occurred: heavy imports of Japanese goods which caused injury or threatened a UK or Commonwealth industry; if Japanese goods were sold in the UK or in any part of the world under unfair conditions; and if Japanese goods were dumped abroad with the help of government subsidies.¹²¹ Thorneycroft was aware of the difficulties of getting the Americans to approve his proposal but he thought there was a slight chance that 'we may win them over'.¹²²

The Foreign Office, who had received the draft memorandum a few days prior to the meeting was dissatisfied with the interim Board of Trade proposal because it did not reflect the position of any of the other ministries, nor did it take into account the combined effort being undertaken in the ONC in regard to Britain's commercial policy towards Japan. It excluded various points such as the foreign policy implications of not giving full MFN rights to Japan; the immediate as well as long-term gains which might be derived from a generous commercial policy towards Japan; and the other alternatives under which Japan might be admitted as a full member of the GATT. Moreover, AD Wilson, who was the head of the Economic Relations Department, thought the views of the Tokyo embassy should be incorporated into any recommendations on Japan. Therefore, he emphasized the importance of the foreign policy aspect and recommended that the Foreign Office reserve its position if a discussion took place.¹²³

The Board of Trade's proposal was discussed by the Committee on External Economic Policy on 27 July. At the meeting, the Colonial Secretary doubted whether any colonies other than Uganda or Kenya would 'take advantage of the opportunity to discriminate against Japan' in the way that was proposed by the Board of Trade.¹²⁴ Conversely, the Commonwealth Secretary thought the Board of Trade's proposal would enable Australia, New Zealand and South Africa to continue to discriminate against Japan using tariff controls. Viscount Swinton, therefore, thought the Commonwealth countries should be instructed against taking any action which might prejudice the adoption of a common policy before they met at the meeting of Commonwealth countries in London prior to the GATT session in Geneva. The Minister of State, the Marquess of Reading, who was representing the Foreign Secretary, thought the ONC report should be considered by ministers before any final decision was reached. Therefore, the Board of Trade's proposal was accepted provisionally, but the final decision was subject to further consideration in the light of the ONC report.¹²⁵

On the following day, at an informal meeting of the ONC, the committee members were informed of the conclusions reached at the External Economic Policy committee. Furthermore, it was agreed during the meeting that no 'radical re-casting of the draft report on commercial treaty with Japan was necessary', and the meeting took note of

the various suggestions raised.¹²⁶ In regard to the Board of Trade's proposal for a bilateral treaty overriding the GATT, Wilson of the Foreign Office thought there was very little likelihood of it being accepted in full by Japan and the United States, and that therefore it might be 'wise to indicate to ministers other approaches to the problem' such as an amendment of article 19.¹²⁷ The Board of Trade, however, was against the article 19 alternative as the safeguard would only apply to the exporting country, thus preventing Commonwealth countries from invoking the article if British exports to Australia were suffering from Japanese competition.¹²⁸ Wilson therefore proposed to delay the decision and asked that ministers wait for the views of Tokyo and Washington. In reply, the Board of Trade representatives maintained that the United States would only accept the proposal if Britain threatened to invoke article 35 as the only other alternative. Therefore, it was agreed that the alternatives were either the Board of Trade's proposal or the invocation of article 35.¹²⁹

After the meeting, Wilson wrote of the disaster that had taken place at the ONC. He was particularly angry as the Board of Trade had sought an ultimatum between two choices: the Board of Trade's proposal or the invocation of article 35, which placed little room for Foreign Office manoeuvre. Wilson strongly recommended a meeting between the Board of Trade, Treasury and the Foreign Office officials to discuss the various options open to Britain, prior to the completion of the report.¹³⁰

On 3 August, the ONC met again to discuss the report on Britain's commercial policy towards Japan, and the revised copy was circulated to the External Economic Policy Committee, the EPC and the ONC.¹³¹ The report was divided into five sections; a section on the content of a commercial policy; a section on the case for a more liberalized trade with Japan; one on the disadvantages of liberalized trade; the Board of Trade's proposal and the alternatives; and finally the conclusion.¹³²

The first section of the report identified the usual components of a commercial treaty. The two main categories covered in a commercial treaty were 'reciprocal rights and treatment of individuals and firms, including the treatment of shipping and the liability of nationals and companies of one country to taxation in the other'.¹³³ These were matters that were not dealt with in the GATT. The other category covered provisions about the reciprocal treatment of goods. Usually this meant giving MFN treatment on goods similar to the provisions laid down in the GATT. The first section focused on the provisions relating to matters other than goods. The report identified the importance of signing a commercial treaty in order to safeguard the following British interests: establishment provisions (MFN treatment for British nationals and companies, as well as, national and MFN treatment with regard to taxation), shipping (Britain's main

desiderata, especially as shipping was one of Britain's main sources of invisible trade with Japan), good behaviour (to eradicate the copying of British designs and to eliminate export subsidies), consular convention, and finally, a double taxation agreement and an extradition treaty.¹³⁴

This led to the second section of the report which concentrated on the advantages of a more liberal trade policy towards Japan. They were, that Japan's alignment with the west was a complete break with that followed by Japan in the previous twenty-five years; therefore the Foreign Office who compiled this section questioned whether the change would be lasting if Japan was not accepted as a full member of the free world. The danger of Japan leaning towards communism was also acknowledged, not only because it would create an industrial imbalance between the east and west, but also because of the danger it would pose to Britain's colonial territories such as Hong Kong and Malaya which were Britain's main economic assets in East Asia. Furthermore, the Foreign Office argued that Japan would see its GATT entry and the British response as a test of whether Japan was to be received as an equal in the western world. Moreover, an expansion of sterling-Japan trade relations was important because of the economic and political difficulties Japan was facing. The section also highlighted the hypocrisy of Britain advocating multilateral trade and the elimination of quantitative restrictions upon imports on the one hand, while excluding Japan from the western multilateral trading system on the other. Moreover, if Britain continued to discriminate against Japan, the latter would be less inclined to cooperate with the United Kingdom over sterling area trade.¹³⁵ Conversely, the disadvantages of granting MFN rights for Japanese goods was a reiteration of the Board of Trade's position. Although other proposals were examined in the report, the Board of Trade's suggestion was considered most appropriate because it enabled Japan to enter the GATT, but also ensured preferential treatment for British products in the southern Dominions.

Initially, the report was to be shown to ministers on the External Economic Policy Committee, but instead, the Cabinet approved on 10 August a memorandum by the Chancellor of the Exchequer suggesting that the President's proposal should be 'tried' out.¹³⁶ The Americans had already been approached by Britain and therefore it was a matter of waiting for their reply. If there was no reply by the end of September, the matter was to be discussed at the US-UK talks on the GATT review in Washington. The Commonwealth countries were to be approached at the October meeting of Commonwealth officials in London.¹³⁷

The Board of Trade and Treasury representatives had a chance to discuss the British proposal with the Americans over three sessions at the end of September and the

beginning of October when they went to Washington to hold US-UK talks on the GATT Review.¹³⁸ Despite an attempt to reach a compromise, neither could see eye-to-eye, as Britain was against invoking article 35, while the American side was unable to embrace the British proposal which they felt was against the whole GATT concept. The sessions ended with the State Department agreeing to consider the issue further.¹³⁹ The Board of Trade decided that the best plan was to allow time for British arguments to sink in further, and for Sir Roger Makins, the British Ambassador to Washington, to see Dulles on the issue in the following week.¹⁴⁰

The British proposal was discussed with the representatives of the Commonwealth countries at the beginning of October.¹⁴¹ Representatives included those from Canada, Australia, New Zealand, South Africa, India, Pakistan, Ceylon, the Federation of Rhodesia and Nyasaland and the colonies.¹⁴² At the meeting, Canada remained aloof from Britain's proposal, as it had signed a commerce agreement with Japan on 1 April and supported Japan's GATT accession.¹⁴³ Australia, New Zealand, South Africa and the Federation of Rhodesia supported the British proposal. The South Asian representatives saw the advantages of including safeguards, but they were unable to support a discriminatory policy against a fellow Asian country.¹⁴⁴ Although Britain was unable to attain full support during the Commonwealth meeting, what was relayed to the State Department was different. They were told that 'all Commonwealth will support UK proposals regarding Japan'.¹⁴⁵ This must have been part of the pressure to get American approval for the proposal, but if that was the case, the Americans were not taken in as C. Thayer White, Acting Officer in Charge of Economic Affairs of the Office of Northeast Asian Affairs, wrote in his correspondence to Peyton Kerr, the Acting Economic Counselor in Tokyo, that 'I should judge that the Commonwealth will initially present a united front but I wonder how long all of the members will hold this position under hammering from other countries'.¹⁴⁶ Meanwhile, the Board of Trade decided to seek authority from the Cabinet to approach Japan with the proposal. It was hoped that an *aide-mémoire* could be handed to the Japanese government before or during Prime Minister Yoshida's rescheduled visit in October so that the matter could be discussed while he was in Britain.¹⁴⁷

However, even before the Board of Trade could get Cabinet authority for its plan, Oda of the Japanese embassy met with Percival at his own request on 9 October to find out whether the rumours about a bilateral treaty were in fact true. When Percival told him about the proposal on an informal basis, Oda 'stressed the undesirability of any action which formally singled out Japan'.¹⁴⁸ Two days later, Oda saw Allen of the Foreign Office to inform him that he saw no prospects of the British proposal being acceptable to the Japanese. The reason being that if Japan granted special safeguards to Britain,

other countries would probably clamour to get the same rights, whereby the Japanese would soon find that they had given away everything they had hoped to gain by becoming a member of the GATT.¹⁴⁹

By early October, the Americans and the representatives of the Commonwealth countries were informed of the British proposal. The Americans were not completely in favour and there was no unanimous endorsement by the Commonwealth representatives. Furthermore, the Japanese reaction was negative. However, despite this less than favourable reaction from various quarters, Britain decided to pursue the Board of Trade's proposal because it was considered to be the best alternative given the recrudescence of anti-Japanese feeling in Parliament and among industry.¹⁵⁰

On 15 October, the Foreign Office sent a draft *aide-mémoire* to their Tokyo embassy for comments.¹⁵¹ Two days later, Denning replied informing the Foreign Office that the *aide-mémoire* as it was drafted would 'only serve to infuriate the Japanese' because it began with 'a slap in the face', therefore, he strongly recommended against handing the *aide-mémoire* in its 'present' form.¹⁵² Denning's alternative draft was accepted by the Board of Trade.¹⁵³ On 19 October Sir Roger Makins sent a telegram to the Foreign Office, indicating his doubts about the line that Britain was taking. He thought Britain was trying to entrench itself in a position which was not 'either sensible or ultimately tenable'.¹⁵⁴

On 20 October, the Board of Trade's proposal was discussed in the Cabinet, and Thorneycroft was given authority to hand the *aide-mémoire* to the Japanese, but he was to be guided by the views expressed by the Foreign Office and the Treasury about how these proposals should be put to the Japanese government. The ministries' views were that the proposal should not seem tantamount to an ultimatum and that Britain should avoid threats to use article 35 of the GATT in the opening stages of the discussion with Yoshida.¹⁵⁵ On 23 October--despite the misgivings on all sides--the *aide-mémoire* was handed simultaneously to the acting Director of the Economic Affairs Bureau of the MOFA in Tokyo, and the Japanese Ambassador to the UK with the hope that it could be discussed with Yoshida during his UK visit.¹⁵⁶

Yoshida's UK Visit¹⁵⁷

Two months after Yoshida had postponed his overseas tour, greater domestic stability enabled him to resume his plans. The details were finalized in August and his itinerary included visits to Canada, France, Germany, Italy, the United Kingdom and the United States.¹⁵⁸ His stay in the United Kingdom was due to last seven days from 21 to 28 October. Among the itinerary for his UK visit was a meeting with Sir Robert Craigie, the former British Ambassador to Japan, a meeting with the representatives of the Federation of British Industries, an audience with the Queen, a meeting with various government ministers, a speech at the Inter-Parliamentary Union, and talks with the representatives of the National Federation of Far Eastern Prisoners of War.¹⁵⁹

As Yoshida had no particular objectives that he wished to accomplish during his trip, it could be said that it was successful. That at least was the conclusion reached by WD Allen of the Far Eastern Department of the Foreign Office in his letter to Dening dated 16 November.¹⁶⁰ The low-point during his trip was the press conference on the first day of his visit when he told the press that 'he had not been anxious to come to London, first because the reception of the Crown Prince last year had not been very cordial and second because as Japanese Ambassador between 1936 and 1938 he had failed to prevent war developing between our two countries'.¹⁶¹ The press who wished to be unkind to him, picked up on his first statement. Another 'unhappy occasion' was when he gave a speech in front of the Inter-Parliamentary Union. His bad English, his mannerisms, and his references to war criminals (and the hope that the incarcerated Japanese war criminals would get clemency), and Japan's entry in the GATT provoked members to ask a series of aggressive questions.¹⁶² He had better luck with the representatives of the Federation of British Industries and with the Far Eastern Prisoners of War Association, as these meetings helped to 'clear the air'.¹⁶³

The more substantial talks were scheduled during his morning meeting with Eden, and his luncheon meeting with Butler on 27 October respectively. At his morning meeting, Yoshida said that he had only two points to raise: China and the Japanese war criminals. With regard to China, he had visions of weaning China away from the communist bloc, and re-integrating China into the free world. He said he planned to discuss the issue when he met Dulles in Washington, and hoped the British Ambassador to Washington, Sir Roger Makins, would assist Yoshida in broaching the subject with Dulles. In reply, Eden agreed that it was important to detach China from the communist alliance, and that western policy towards China was 'not altogether wise'.¹⁶⁴ He, however, told Yoshida, that due to public opinion and opinion in the Senate, the US government would not be able to do anything about it until after the congressional elections on 2 November. Nevertheless, Eden said he would talk to

Malcolm MacDonald about Yoshida's plans, and he also gave his word that Makins would be there to assist Yoshida in Washington.¹⁶⁵ On the subject of the Japanese war criminals, Yoshida stated that he hoped that the 95 war criminals sentenced by the British and still incarcerated in Sugamo Prison would either be released, have their sentences reduced or get parole.¹⁶⁶ Eden said that he was unable to make a 'political bargain on what was a purely judicial issue'.¹⁶⁷

The conversation then turned to other subjects such as article 16 of the peace treaty¹⁶⁸ and the results of the Geneva Conference on Korea and Indochina, before the Chancellor of the Exchequer, the President of the Board of Trade and the Minister of Transport and Civil Aviation joined the meeting. The three ministers had pre-arranged to join the meeting half-way through the talks as they wished to discuss economic and trade issues with Yoshida. Unfortunately, for the three ministers, Yoshida was unwilling to discuss Anglo-Japanese payments issues or his views on the British *aide-mémoire* which had recently been handed to the Japanese government. Yoshida indicated he would do whatever was possible to put a stop to Japan's copying of British designs, but over shipping he explained that the Japanese government was no longer subsidizing the shipbuilding industry, although the Japanese government did encourage Japanese banks to lend money to the shipping companies at a low rate of interest.¹⁶⁹

At the luncheon meeting at 11 Downing Street, Butler was accompanied by the Minister of Defence, Earl Alexander of Tunis, Thorneycroft, and the Economic Secretary to the Treasury, Reginald Maudling. Yoshida was given the opportunity to raise any matters he wished, but he declined to take the opportunity to discuss specific issues, and talked again about China and his hope for increased Sino-Japanese trade.¹⁷⁰

Yoshida's trip to the United States from 2 to 10 November, was more constructive in that the United States agreed to supply Japan with \$100 million worth of surplus agricultural commodities to Japan.¹⁷¹ Yoshida did not mention the idea of increased western trade with China, but Makins, who reported on Yoshida's visit to Washington, suspected that Yoshida was persuaded by his advisers not to raise the issue in the United States.¹⁷² Yoshida spoke of the possibility of setting up a high command in Singapore under Malcolm MacDonald to combat communism, but Dulles refused to commit himself in ^{any way} anyway. He also spoke of a greatly increased flow of investment capital to East Asia, or what the press dubbed the 'Asian Marshall Plan', but the \$4 billion a year program which Yoshida envisaged was quickly deemed impractical. Yoshida's call for the Asian Marshall Plan was a follow-up to the speech made by the head of the FOA (Foreign Operations Administration), Harold Stassen at the Colombo

Conference in Ottawa in which he called for an Asian version of the Marshall plan.¹⁷³ It is understood that Yoshida thought that Stassen's Ottawa speech heralded a new orientation in US policy towards Asia, and that there would be increased finances for Asian economic development. Although the outline of Stassen's plan had been approved by the NSC, the US administration was far too divided over the United State's role in Asian economic organization to 'undertake any large-scale programme for Asian economic development modelled after the Marshall Plan for Europe'.¹⁷⁴

Although, it would be difficult to assess the importance of Yoshida's visit to Britain and the United States, it must be concluded that as a goodwill tour it was largely a success, but that no political objectives were settled during his visit to the two countries. Conversely, if he had embarked on the tour to improve his domestic public image, the trip was a failure, as Yoshida was forced out of office on his return to Japan, and Hatoyama Ichirô became the new Prime Minister of Japan. For Britain, the trip did not alleviate Anglo-Japanese commercial difficulties because Yoshida refused to discuss the pertinent issues, therefore, they had to be dealt through alternate means.

Ninth Session of the GATT and the Japanese response to the British Aide-Mémoire

Although Yoshida seemed impassive about the British *aide-mémoire*, Japanese delegates to the GATT were not hesitant about discussing the matter with their US counterparts. At a meeting on 26 October, Hagiwara Tôru and Tôgô Fumihiko of the Japanese delegation met with Leonard Weiss, Assistant Chief of the Commercial Policy Staff, in confidence. Hagiwara gave a copy of the *aide-mémoire* to Weiss and explained that Japan preferred Britain to invoke article 35 of the GATT to the British formula. He proposed that contracting parties should be able to adopt the interpretation of article 23 as developed by the intersessional committee in order to facilitate Indian anxieties about Japanese competition. Furthermore, he advocated the conclusion of bilateral agreements with Australia and New Zealand similar to that reached with Canada. Moreover, he thought that the United Kingdom, South Africa, and other countries such as Cuba should invoke article 35 and base their trade relations with Japan on bilateral agreements. The agreements would be similar to the GATT, with the exception that the signatories would be able to take action against Japan under article 23 without having to obtain the approval of the contracting parties for such action.¹⁷⁵ Weiss had some doubts about Hagiwara's proposals, but he did not discount them.

While awaiting the Japanese response to the *aide-mémoire*, Britain was beginning to consider alternative action in case the Board of Trade's proposal was rejected by Japan. There was a meeting in the Foreign Office on 28 October, attended by representatives

of the Treasury and the Board of Trade concerning this issue.¹⁷⁶ The four alternatives discussed at the meeting were action under article 19 of the GATT; action under article 23 of the GATT in the form evolved by the intersessional committee in the previous year; the possibility of retaining Thorneycroft's proposal while modifying the content (i.e. excluding the clause that third countries be able to discriminate in Britain's favour); and lastly, the latest American proposal (i.e. for Britain to invoke article 35, at any time after Japan joined the GATT, and for Britain to negotiate a bilateral treaty with Japan which would come into effect in such an event).¹⁷⁷ Neither the article 19 or 23 alternatives were considered appropriate. It was a known fact that article 19 would not be approved by the other contracting parties, whereas article 23 was considered unsatisfactory by the Board of Trade as the final decision was in the hands of the contracting parties. Conversely, the American proposal was considered far too drastic. The second objection to this proposal was the fact that a third country such as Australia would have to invoke article 35 or cease to discriminate in favour of Britain. In conclusion, AD Wilson who chaired the informal meeting thought all the alternatives were 'second best' but it was clear that the American proposal was the least objectionable.¹⁷⁸

On 29 October in Geneva, the contracting parties voted on the recommendation by the intersessional committee that tariff negotiations should take place with Japan starting 21 February 1955. Although the vote did not commit any member to enter into tariff negotiations, all the contracting parties voted in favour except for Britain, Australia, South Africa, the Federation of Rhodesia and Nyasaland and France who abstained, and Uruguay, Peru and Nicaragua who were absent.¹⁷⁹

Meanwhile, informal discussions between British and Japanese officials indicated Japan's opposition to the *aide-mémoire*. At a meeting between Percival and Asakai on 1 November, Asakai even said that he would rather that Britain invoked article 35 if it could not accept Japan as a full member of the GATT. Furthermore, British fears that the invocation of article 35 would lead to a deterioration in Anglo-Japanese and Anglo-American relations became doubtful, especially as it was the Japanese side who wished to see Britain invoke article 35.

By mid-November, it was obvious that Japan was against the proposal and that therefore it was only a matter of receiving the official Japanese reply. On 1 December Japan handed an *aide-mémoire* to Britain in which it indicated its inability to accept the British proposal. No alternative proposal was provided, but it expressed the Japanese wish to see the two countries conclude a Treaty of Friendship, Commerce and Navigation in the near future.¹⁸⁰ The Japanese *aide-mémoire* confirmed the death of the

Board of Trade's proposal. On 14 December, the Cabinet met to confirm that fact and further discussions were scheduled. Therefore, Britain was left without a policy just two months before Japan was scheduled to start tariff negotiations.

Although the outcome of the sterling payments negotiations and the GATT seemed to indicate Britain's overall opposition to Japan's economic recovery, this was not entirely the case. This was evident in Britain's support for Japan's membership of the ECAFE and the Colombo Plan in 1954.

Japan's Membership of the ECAFE and the Colombo Plan

The EFAFE (Economic Commission for Asia and the Far East) was an organization established under the umbrella of the United Nation's ECOSOC (Economic and Social Council) in March 1947. The original UN aim behind the ECAFE was to 'give effective aid to the countries devastated by war. ECOSOC further detailed the functions of ECAFE and directed the organization to assist in the reconstruction of Asia, and to maintain and strengthen the economic relations of the area 'both among themselves and with other countries of the world'.¹⁸¹ Initially, ECAFE membership was limited to Asian and non-Asian UN members with interests in the region. They were China, India, Thailand, the Philippines, Australia, France, the Netherlands, the Soviet Union, the United States and the United Kingdom. At the second general assembly, ECAFE members decided to invite non-self-governing Asian countries to the organization through an associated membership without voting rights. These associate memberships were granted to British Borneo, Burma, Ceylon and Hong Kong. Pakistan became a full member at the same general assembly. In 1948 New Zealand and Burma also became full members, and Nepal became an associate member.¹⁸² Japan's first observer to ECAFE was a Japanese technical adviser who went as a SCAP observer to the sub-committee on the Steel Industry in August 1949.¹⁸³ Japan began sending observers from the eighth session of ECAFE in January 1952, and it was then that Pakistan proposed to extend ECAFE's scope to include Japan. The proposal was adopted by the general assembly, with the Philippines as the only dissenting voice. In April 1953, the United States and France jointly proposed the full admission of Cambodia, Ceylon, Japan, Laos, Nepal, South Korea and South Vietnam at an ECOSOC meeting. This was opposed by half of the ECOSOC members as they were not UN members. A year later, the above countries were given full memberships, due to their eligibility for UN membership.¹⁸⁴

Initially, the Asian ECAFE members hoped that the non-Asian members would help the region industrialize, and they especially set hopes on the ECAFE becoming an organization capable of arranging an Asian economic recovery plan similar to the

Marshall Plan, but they were to be disappointed. Moreover, the United States dampened any hopes of ECAFE becoming an aid-channeling organization.¹⁸⁵ Although ECAFE did not live up to the Asian members' expectations, the Colombo Plan fared better.

The Colombo Plan for Cooperative Economic Development in South and Southeast Asia was formally launched on 1 July 1951.¹⁸⁶ The idea behind the plan was proposed by the then Australian Foreign Minister, Percy Spender, at the first postwar meeting of the Commonwealth foreign ministers in Colombo.¹⁸⁷ The aim of the plan was to promote economic assistance to the non-communist countries in South and Southeast Asia. Although it was named the Colombo Plan, there was no single integrated plan for the region, and in fact it was made up of a series of bilateral arrangements between donor and recipient countries. The bilateral framework of the plan was established partly due to American insistence that it continue to maintain control over the assistance rendered and to retain freedom of action over US-funded projects.¹⁸⁸ The plan was originally established for a six-year period, and it was made up of Ceylon, India, Pakistan, Malaya, British Borneo, Britain, Canada, Australia and New Zealand.¹⁸⁹ Representatives of the IBRD and the ECAFE also attended the meetings. From the beginning, the members' intention was not to restrict it to a 'Commonwealth Club', and by 1954, the United States, Cambodia, Laos, Vietnam, Burma, Nepal and Indonesia had become members.¹⁹⁰

Aid supplied through the Colombo Plan was made up of capital assistance. This was divided into assistance not described as Colombo aid because it was channeled through other international organizations such as the World Bank and the Export-Import Bank, and capital assistance provided by the donor countries.¹⁹¹ Furthermore, capital was also supplied through the release of India, Pakistan and Ceylon's sterling balances, and later, through Japan's reparation payments to Burma, Indonesia, the Philippines and Vietnam. The other function of the Colombo Plan was the Technical Cooperation Scheme, which consisted of 'the supply of experts to assist in training, research or development in the requesting country; the provision of training places in institutions; and the provision of equipment for training and research purposes'.¹⁹²

Japan originally asked to join the Colombo Plan in late 1951, but Britain was against Japan's affiliation at that point, although it was not opposed to the strong ^{Asian} Asiatic support for Japan's entry in the future.¹⁹³ In 1953, Japan asked to send an observer to the fifth consultative committee of the Colombo Plan. Japan's request was supported by India, but it was rejected formally due to Australia and New Zealand's opposition. It

was not until the sixth session of the consultative committee meeting in Ottawa in October 1954 that Japan became a member of the Colombo Plan as a donor country.¹⁹⁴

Japan's aim behind its entry into the Colombo Plan was both economic and political. On the economic front, it was a better way of establishing economic relations with the countries of South and Southeast Asia than its earlier policy of exploitation of Southeast Asian raw materials for its own ends. In 1951, for example, Japan tried to wean itself from its over-reliance on American iron ore imports by shifting its emphasis on iron ore deposits in Southeast Asia. The MITI initiative envisaged investing in iron ore mining in Southeast Asia with Japanese private and public finances, and if Japan became short of capital, it planned to rely on US money. Japan expected to develop iron ore mining in India, Goa, Malaya, and the Philippines, and many missions were despatched to South and Southeast Asia, but with very little result.¹⁹⁵ Japan's mistake lay in the fact that it sought raw materials out of pure self-interest without emphasizing the possible gains for the countries of South and Southeast Asia. Second, it relied on US economic assistance which was not forthcoming. Therefore, from 1953 Japan decided to place more emphasis on the countries in question by actively cooperating in plans sponsored by the United Nations and other institutions, including the ECAFE and the Colombo Plan. Furthermore, future projects would be limited to those that were financed almost entirely by private firms, with some government assistance. Third, Japan was to settle its reparation payments to Southeast Asian countries as soon as possible.¹⁹⁶ Therefore, Japan's motives behind its Colombo Plan membership were primarily economic. There was also, however, a political motivation behind its membership of the Colombo Plan, namely to dilute Britain, Australia and New Zealand's suspicion towards the repetition of Japan's 'unfair trade practices' of the pre-war period.¹⁹⁷

Japan's entry in the Colombo Plan was made possible because of three factors. The reversal of Britain's opposition to Japan's membership, the American support for Japan, and the Asian members' desire to see Japan cooperate in Asian economic development. Britain's position was discussed at the working party on Economic Development in South and Southeast Asia on 25 August and 8 September respectively. On both occasions, there was close to no debate on Japan's membership, as it had become an accepted fact that Japan could serve a useful role in the 'underdeveloped' British colonies.¹⁹⁸ British support for Japan's membership of the Colombo Plan coincided with America's search for a viable economic organization which would facilitate economic development in South and Southeast Asia. The organization was to parallel the functions of the newly established Manila Treaty or SEATO (Southeast Asia Treaty Organization) in the aftermath of the disastrous French defeat in Dienbienphu in May.¹⁹⁹ The United States had the option of creating a new economic organization or

expanding one of the existing regional organizations. The issue was discussed at an Asian Economic Working Group set up by the State Department and the Foreign Operations Administrations in spring 1954.²⁰⁰ The ECAFE and SEATO were ruled out as the bases for a Southeast Asian economic organization; the ECAFE for the obvious reason that its membership included the Soviet Union and the PRC, and SEATO because the regional members were restricted to the Philippines, Thailand and Pakistan. The Colombo Plan was considered the most appropriate because of its bilateral nature which meant that Congress would approve any foreign aid to the region, and it would enable the United States to maintain strict control over its expenditure. More important, was the fact that it represented almost all the non-communist Asian nations in the region, except Japan, the Philippines and Thailand. Therefore, by the second half of 1954, the United States had begun to focus on the Colombo Plan as the most viable regional organization and campaigned for Japan's inclusion.

Conclusion

1954 saw an expansion of sterling area-Japan relations but it came with a price. It opened up fears of Japanese competition and it also reflected badly on the British government, as they were portrayed as insensitive to Lancashire's plight. The industrial outcry and the extensive press coverage highlighted the political strength of Lancashire. Moreover, evidence of Japan's copyright infringements was further proof that Japan could not be trusted. The two events restricted Britain's policy towards Japan's GATT membership, therefore, the government had to support a policy with definite safeguards for Britain. The best option was the amendment of article 35 of the GATT and the conclusion of a bilateral agreement which overrode the GATT. The government's policy, however, received little international support and by the end of the year, Britain was without a policy. The series of events highlighted not only the strength of political influence held by Lancashire's representatives but also the underlying anti-Japanese sentiment in Britain, which was felt by Yoshida on certain occasions during his UK visit.

Although Britain was willing to see Japan incorporated in regional organizations to help the 'underdeveloped' countries in Asia, it became a different matter when Japan's trade expansion infringed on the lives of Lancashire workers. To understand why Britain opted for a policy in defense of Lancashire, one has to understand the fact that Lancashire symbolized British exports and British survival while Japan was seen as the sinister and unfair rival. Therefore despite the Foreign Office's attempts to highlight Japan's geopolitical importance, the British public could only comprehend the issue in terms of British prestige and livelihood.

Table 5.1

Cotton Piece Imports into Nigeria, 1937-1954

million square yards

	1937	1938	1939	1950	1951	1952	1953	1954
Total	40.71	17.23	15.16	37.22	30.33	51.24	42.99	43.03
UK	29.54	11.29	9.71	17.06	15	26.46	21.15	13.13
India	3.81	3.36	2.08	6.71	6.03	4.45	10.05	15.67
Germany	1.22	0.34	0.36	1.65	1.35	4.03	3.65	2.18
Holland	0.97	0.33	0.68	0.87	0.78	2.32	2.23	2.39
Italy	0.87	0.3	0.49	0.28	0.57	1.33	0.74	1.04
Japan	0.81	0.73	0.74	10.27	5.82	10.3	4.16	7.29

Source: Cotton Board Quarterly Statistical Review no. 28 (March 1952), p. 25 and no. 42 (June 1956), p. 31.

Endnotes

- ¹ Shimizu, *Creating People of Plenty*, p. 70. Japan's release from its secret bilateral agreement remained nominal, however, as CHINCOM controls were still far more stringent than those of COCOM controls. The disparity between the two trade controls became wider as a result of a British proposal in March 1954 to cut items under COCOM's International List I by fifty percent and the 'virtual abolition of International Lists II and III'. The British proposal culminated in talks in Paris and as a result, of the 475 items reviewed, only 70 remained embargoed. Scholars are divided over whether the trade relaxation was initiated by the British and the Europeans or whether the Eisenhower administration initiated a fundamental revision of the American policy to enable a relaxation to take place. Those who argue that it was a British initiative include Forland, 'Selling Firearms to the Indians'; another scholar who supports this argument is Takamotsu Motoyuki, 'China Differential Kanwa Mondai wo megutte no Eisenhower Seiken no Taiô' [The Eisenhower Administration's Response to the China Differential, 1955-57] *Kokusai Seiji*, 105 (1994), pp. 60-79; those who argue that it was an American initiative include Spaulding, 'A Gradual and Moderate Relaxation' and Shimizu, *Creating People of Plenty*. On the British position towards COCOM, see John W. Young, 'Winston Churchill's Peacetime Administration and the Relaxation of East-West Trade Controls, 1953-54' *Diplomacy and Statecraft* 7 no. 1 (1996), pp. 125-140. See also minutes of the Ministry of Defence, joint war production committee, security export controls working party, 15 October 1954, SX/M (54) 13, DEFE10/316, PRO.
- ² Minutes of the 20th conclusions of the Cabinet, 17 March 1954, CAB128/27 Part I, PRO.
- ³ Minutes of the third meeting of the Cabinet tariff policy on Japan, 1 December 1953, CAB130/87, PRO.
- ⁴ Minutes of the first plenary meeting of the Japan payments talks, 3 December 1953, T236/4148 OF63/208/05V, PRO.
- ⁵ *ibid.*
- ⁶ The other sterling area countries, namely, Burma, Ceylon, Iraq, South Africa, India and Pakistan all treated Japan as a soft currency country in its licensing policy. See annex B attached to minutes of the first plenary meeting of the Japan payments talks, 3 December 1953, T236/4148 OF63/208/05V, PRO.
- ⁷ Japan's sterling receipts for 1953 were to have been £197 million in total. Broken down into £168 million of visible trade, £18 million of invisible trade and £11 million of incoming transfers from third countries. Japan's payments on the other hand were to have been £223 million in total, this was broken down to £190 million of visible trade, £22 million of invisible trade and £21 million of out-going transfer to third countries. The actual payments and receipts for the period between January and September 1953 were much less than the target figure. The visible exports amounted to £78.9 million, representing 46.9 percent of the target while Japan's visible imports reached £146.7 million or 86.6 percent of the target. See annex B attached to minutes of the first plenary meeting of the Japan payments talks, 3 December 1953, T236/4148 OF63/208/05V, PRO.
- ⁸ *ibid.*
- ⁹ See annex E and F attached to minutes of the first plenary meeting of the Japan payments talks, 3 December 1953, T236/4148 OF63/208/05V, PRO.
- ¹⁰ See annex A attached to minutes of the second plenary meeting of the Japan payments talks, 4 December 1953, T236/4148 OF63/208/05V, PRO.
- ¹¹ *ibid.*
- ¹² Note from Hogg to Tansley, 7 December 1953, OV16/92, BoE.
- ¹³ Memorandum by the Chancellor of the Exchequer, 7 December 1953, C(53)314, CAB 129/64, PRO.
- ¹⁴ Although the British perspective on Japanese competition was based on the view that Japan exported goods through 'unfair' trade practices, Japan had to export cotton goods to the west, as it was unable to continue relying on its Asian exports due to increased competition from India, mainland China and Hong Kong. See Sugihara 'Sengo Nihonmengyô wo meguru Kokusai Kankyô'.
- ¹⁵ Memorandum by the Chancellor of the Exchequer, 7 December 1953, C(53)314, CAB 129/64, PRO.
- ¹⁶ Lancashire lost substantial export markets in Argentina, Canada, Egypt, India and Indonesia between 1938 and 1950. Lancashire therefore only had three major overseas customers by 1950. They were the West African colonies of Nigeria and Ghana, South Africa and Australia. This was

-
- the reason why the Board of Trade was so concerned about protecting British textiles markets in Nigeria. See Singleton, *Lancashire on the Scrapheap*, p. 118.
- 17 *ibid.*
- 18 *ibid.*
- 19 *ibid.*
- 20 Minutes of the 77th conclusions of the Cabinet, 8 December 1953, CAB128/26 Part II, PRO.
- 21 Minutes of the 31st meeting of the EPC, 9 December 1953, CAB134/846, PRO.
- 22 Memorandum by the Chancellor of the Exchequer, 7 December 1953, C(53) 341, CAB129/64, PRO.
- 23 Minutes of the 31st meeting of the EPC, 9 December 1953, CAB134/846, PRO.
- 24 A telegram was despatched from the Colonial Office to Nigeria on 11 December. See outward telegram from the Secretary of State for Colonies to Nigeria, 11 December 1953, in T236/4148 OF63/208/05V, PRO.
- 25 See annex C attached to the minutes of the plenary meeting held in the Treasury, 10 December 1953, T236/4148 OF63/208/05V, PRO.
- 26 *ibid.*
- 27 *ibid.*
- 28 *ibid.*
- 29 The British had three methods of licensing. They were open general licensing, quota licensing and specific licensing. The same method was used by the colonies, but in addition, there was also a method of licensing called block licensing whereby the colonies were permitted to import any goods up to the value of the licence. See record of a meeting held in the Treasury, 10 December 1953, T236/4148 OF63/208/05V, PRO.
- 30 Note for record by Furley-Smith, 14 December 1953, T236/4148 OF63/208/05V, PRO.
- 31 Record of a meeting held in the Treasury, 10 December 1953, T236/4148 OF63/208/05V, PRO.
- 32 Record of a meeting held in the Treasury, 12 December 1953, T236/4148 OF63/208/05V, PRO.
- 33 *ibid.*
- 34 Minutes of the 32nd meeting of the EPC, 16 December 1953, CAB134/846, PRO.
- 35 *ibid.*
- 36 *ibid.*
- 37 *ibid.*
- 38 The revised minutes of the fourth plenary meeting held in the Treasury, 17 December 1953, T236/4148 OF63/208/05V, PRO.
- 39 *ibid.*
- 40 See annex A and B attached to the revised minutes of the fourth plenary meeting held in the Treasury, 17 December 1953, T236/4148 OF63/208/05V, PRO.
- 41 Revised minutes of fourth plenary meeting held in the Treasury, 17 December 1953, T236/4148 OF63/208/05V, PRO.
- 42 Inward telegram from Nigeria to the Secretary of State for the Colonies, 23 December 1953, in T236/4148 OF63/208/05V, PRO.
- 43 Minutes of the 81st conclusions of the Cabinet, 29 December 1953, CAB 128/26 Part II, PRO.
- 44 *ibid.*
- 45 Record of a meeting held in the Treasury, 1 January 1954, T236/4148 OF63/208/05V, PRO.
- 46 *ibid.*
- 47 Record of a meeting of the UK delegation at the Treasury, 8 January 1954, T236/4148 OF63/208/05V, PRO.
- 48 See record of a meeting held in the Treasury, 12 January 1954, T236/4149 OF63/208/05W, PRO.
- 49 Ushiba, *Gaikô no Shunkan: Watakushi no Rirekisho* [A moment in Diplomacy: My memoir] (Tokyo: Nihon Keizai Shimbun-sha, 1984) p. 82.
- 50 Note from Serpell to Percival, 25 January 1954, T236/4149 OF63/208/05W, PRO.
- 51 *ibid.*
- 52 *ibid.*
- 53 Record of a meeting in the Treasury, 26 January 1954, T236/4149 OF63/208/05W, PRO.
- 54 Note from Serpell to Playfair, 6 January 1954, T236/4149 OF63/208/05W, PRO.
- 55 See memorandum by the Board of Trade, 24 January 1954, C(54)30, CAB129/65 and minutes of the sixth conclusion of the Cabinet, 28 January 1954, CAB128/27, PRO.

-
- 56 See annex C attached to minutes of the sixth plenary meeting held in the Treasury, 29 January 1954, T236/4150 OF63/208/05X, PRO.
- 57 Record of a meeting held in the Treasury, 28 January 1954, T236/4150 OF63/208/05X, PRO.
- 58 The memorandum stipulated that payments from Japan to any country in the world be authorized by the Bank of England except for: American account countries, Canada, Argentina (restrictions to certain types of goods only), Belgian monetary area, Iran (restrictions on certain types of goods only), Italian monetary area, Portugese monetary area, Switzerland and Liechtenstein, Tangier and Hungary. Japan was willing to accept sterling from any country in the world except for Iran (restrictions on certain types of goods only), Israel and Hungary. See annex B attached to minutes of the sixth plenary meeting held in the Treasury, 29 January 1954, T236/4150 OF63/208/05X, PRO.
- 59 For the actual details of the agreement, see appendix five for the agreed minute.
- 60 Memorandum from McClurkin to Robertson, 4 February 1954, 441.9441/2-454, RG59, NA.
- 61 See *Hansard Parliamentary Debates*, fifth ser., vol. 523 (1953-1954), cols. 31-38.
- 62 See 'Views on Japanese Trade Agreement' in *The Times*, 1 February 1954, p. 2
- 63 This led to accusations being hurled at Streat as well. The misunderstanding that Streat knew all about the negotiations but had not informed the interested parties led to a crisis of confidence in Streat and the Cotton Board. This culminated in the Federation of Master Cotton Spinners, the Yarn Spinners' Association and the Cotton Spinners' and Manufacturers' Association bypassing the Cotton Board in their attempt to see the President of the Board of Trade, which was most unusual. See Marguerite Dupree (ed.), *Lancashire and Whitehall: The Diary of Sir Raymond Streat, vol. two, 1939-57*. (Manchester: Manchester University Press, 1987), pp. 708-712.
- 64 Wilson, Statement at the House of Commons, 1 February 1954, *Hansard Parliamentary Debates* (Commons). fifth ser., vol. 523 (1953-54), col. 36.
- 65 *ibid.*
- 66 See *Hansard Parliamentary Debates*, fifth ser., vol. 523 (1953-1954), cols. 1315-1324.
- 67 Correspondence from Chadwick to Crowe, 17 February 1954, in OV16/94, BoE.
- 68 Memorandum by the Secretary of State for Foreign Affairs, 8 March 1954, C(54)92, CAB129/65, PRO.
- 69 *ibid.*
- 70 Minutes of the 22nd conclusions of the Cabinet, 24 March 1954, CAB128/27, PRO.
- 71 Correspondence from Dening to Allen, 27 January 1954, FO371/110496 FJ1631/2, PRO.
- 72 Telegram from FO to Tokyo, 5 February 1954, FO371/110496 FJ1631/2, PRO.
- 73 Letter from Allen to Percival, 14 April 1954, FO371/110434 FJ1152/11, PRO.
- 74 *ibid.*
- 75 Letter from Stark to Colville, 23 April 1954, FO371/110496 FJ1631/11, PRO.
- 76 Minutes of meeting at the Manchester Chamber of Commerce, 20 May 1954 in BT11/5286 CRE5985/1954, PRO.
- 77 Minutes of meeting of the Board of Directors, 12 April 1954, M8/5/70, MCC.
- 78 Minutes of meeting at the Manchester Chamber of Commerce, 20 May 1954 in BT11/5286 CRE5985/1954, PRO.
- 79 Letter from Percival to Crowe, 23 May 1954, FO371/110434 FJ1152/4, PRO.
- 80 *ibid.*
- 81 An establishment treaty would protect the interests of nationals and companies in each others territories, but would not extend the provision of MFN treatment in regard to goods. See memorandum by the President of the Board of Trade to the EPC, 21 June 1954, EA(54)72, CAB 134/852, PRO.
- 82 Letter from Percival to Crowe, 24 May 1954, FO371/110434 FJ1152/15, PRO.
- 83 Note by Colegate, 27 May 1954, BT11/5286 CRE5985/1954, PRO.
- 84 Telegram from Tokyo to FO, 5 June 1954, FO371/110496 FJ1631/33, PRO.
- 85 Letter from Levine to Crowe, 15 June 1954, BT11/5286 CRE5895/1954, PRO.
- 86 Memorandum by the President of the Board of Trade to the EPC, 21 June 1954, EA(54)72, CAB134/852, PRO.
- 87 *ibid.*
- 88 Minutes of the 15th meeting of the EPC, 24 June 1954, CAB134/850, PRO.
- 89 Record of meeting by Serpell, 28 June 1954, FO371/110435 FJ1152/26, PRO.
- 90 Currency retention: Retention was permitted for ten percent of the foreign exchange earned on exports of manufactured goods. The ten percent could be used to import various industrial materials.

-
- Taxation Reliefs: (a) an income tax exemption allowed on fifty percent of export profits or three percent of export turnover, whichever was less. (b) Firms recognized as exporters or as manufacturers for export were allowed to set aside reserves as a charge on income before taxation. (c) Depreciation at specially favourable rates were allowed on assets abroad.
- Link System: the system whereby the right to import a commodity was linked with the export of a Japanese product. For example sugar imports were linked with exports of ships, locomotives and raw silk. As import right commanded a premium of 25 to 35 percent, exporters of linked goods were able to sell their goods at a discount. See annex B attached to memorandum by the President of the Board of Trade, 21 June 1954, EA(54)72, CAB134/852, PRO.
- 91 Letter from Levine to Crowe, 30 June 1954, FO371/110435 FJ1152/29, PRO.
92 Note of meeting by Colegate, 30 June 1954, FO371/110435 FJ1152/28, PRO.
93 Note of meeting by Le Goy, 7 July 1954, FO371/110435 FJ1152/30, PRO.
94 *ibid.*
95 Note from Sinclair to Wilson, 6 July 1954, FO371/110160 UEE1021/9, PRO.
96 *ibid.*
97 *ibid.*
98 Record of a meeting at the State Department, 29 June 1954, in a letter from Lloyd to Butler of 20 July 1954 FO371/110435 FJ1152/35, PRO.
99 See GATT L/205, 6 July 1954, in FO371/110160 UEE1021/15, PRO.
100 Minute by Crowe, 10 July 1954, FO371/110160 UEE1021/12, PRO.
101 Letter from Parker to Cohen, 13 July 1954, FO371/110160 UEE1021/16, PRO.
102 *ibid.*
103 *ibid.*
104 See GATT IC/SR.15 Summary Record, 2 August 1954 in BT11/5288 CRE6826/1954, PRO.
105 See GATT L/225 Accession of Japan, Recommendation by the Intersessional Committee, 13 September 1954 in BT11/5298 CRE10408/1954, PRO.
106 Telegram from FO to Tokyo, 4 August 1954, FO371/110160 UEE1021/20, PRO.
107 Minutes of the 26th meeting of ONC, 14 July 1954, CAB134/1097, PRO.
108 Memorandum by the Treasury, 12 July 1954, ON(54)95, CAB134/1100, PRO.
109 *ibid.*
110 *ibid.*
111 Minutes of the 26th meeting of the ONC, 14 July 1954, CAB134/1097, PRO.
112 References for the five notes are as follows: Note on matters normally included in the model draft commercial treaty by the Board of Trade, 17 July 1954, ON(54)97; note on advantages and disadvantages of a commercial treaty by the Board of Trade, 19 July 1954, ON(54)98; note on inter-relation of commercial treaty with Japan and the forthcoming review of the GATT by the Board of Trade, 19 July 1954, ON(54)99; note on considerations of Foreign and Commonwealth policy affecting our commercial relations with Japan by the Foreign Office, 20 July 1954, ON(54)100; note on Japan's economic position her economic policy and the implications by the Treasury, 20 July 1954, ON(54)101. All in CAB134/1100, PRO.
113 Minutes of an informal meeting of the ONC, 23 July 1954, ON(54)103, CAB134/1100, PRO.
114 *ibid.*
115 *ibid.*
116 *ibid.*
117 The committee had been established in accordance with the Cabinet's decision of 15 April 1954 under the Chairmanship of the Home Secretary. As the External Economic Policy Committee was responsible for considering UK policy for various international meetings including the GATT review, it was decided that the latter committee would take over the responsibility of the GATT issue. See minutes of the 29th conclusions of the Cabinet, 15 April 1954, CAB128/27, PRO and minutes of the first meeting of the Committee on External Economic Policy, 9 July 1954, CAB134/869, PRO.
118 Minutes of the second meeting of the Committee on EEP, 19 July 1954, CAB134/869, PRO.
119 Memorandum by the Board of Trade, 23 July 1954, EEP(54)5, CAB134/869, PRO.
120 *ibid.*
121 *ibid.*
122 *ibid.*
123 Minute by Wilson, 26 July 1954, FO371/110435 FJ1152/44, PRO.
124 Minute of the third meeting of the Committee on EEP, 27 July 1954, CAB134/869, PRO.
125 *ibid.*

-
- 126 Minutes of an informal meeting of the ONC, 28 July 1954, ON(54)105, CAB134/1100, PRO.
127 *ibid.*
128 *ibid.*
129 Minute by Wilson, 28 July 1954, FO371/110435 FJ1152/45(B), PRO.
130 *ibid.*
131 See minutes of 27th meeting of the ONC, 3 August 1954, CAB134/1097, PRO and report by officials on a commercial treaty with Japan, 6 August 1954, EA(54)75, CAB134/852, PRO.
132 Report by officials on a commercial treaty with Japan, 6 August 1954, EA(54)75, CAB134/852, PRO.
133 *ibid.*
134 *ibid.*
135 *ibid.*
136 See memorandum by the Chancellor of the Exchequer, 10 August 1954, C(54)268, CAB129/70, PRO.
137 Letter from Crowe to Brain, 10 September 1954, FO371/110436 FJ1152/61, PRO.
138 Memorandum of conversation, 27 September 1954, 510.1 GATT, RG84, NA.
139 Memorandum of conversation, 1 October 1954, 510.1 GATT, RG84, NA.
140 Telegram from Washington to FO, 30 September 1954, FO371/110161 UEE1021/50 and note of meeting in the Board of Trade, 4 October 1954, BT11/5298 CRE10408/1954, PRO.
141 See minutes of the meeting in CAB133/118, PRO.
142 Minutes of the first meeting of the Commonwealth meeting on the review of the GATT, 5 October 1954, CAB133/118, PRO.
143 The Japan-Canada Commerce Agreement consisted of seven articles. The particulars of the treaty included an agreement that the two countries would accord each other MFN treatment with respect to customs duties and non-discriminatory treatment with respect to the application of trade and exchange restrictions. Both countries were able to take discriminatory measures necessary to safeguard its international balance of payments. By an exchange of notes attached to the agreement, Japan agreed to accord non-discriminatory treatment with respect to the importation of the following commodities from Canada: wheat, barley, wood pulp, flaxseed, primary copper, lead in pigs, zinc spelter, synthetic resins and milk powder. See press release from the MOFA, 1 April 1954, in BT11/5286 CRE5985/1954, PRO.
144 See minutes of the second and third meetings of the Commonwealth meeting of the review of the GATT, 5 & 6 October 1954, CAB134/118, PRO.
145 Correspondence from White to Kerr, 21 October 1954, 510.1 GATT, RG84, NA.
146 *ibid.*
147 Note of meeting by Graves-Smith, 13 October 1954, BT11/5304 CRE12407/1954, PRO.
148 Telegram from FO to Tokyo, 13 October 1954, FO371/110161 UEE1021/74, PRO.
149 *ibid.*
150 Telegram from London to Secretary of State, 30 August 1954, 394.31/8-3054, RG59, NA.
151 Telegram from FO to Tokyo, 15 October 1954, FO371/110161 UEE1021/74, PRO.
152 Telegram from Tokyo to FO, 17 October 1954, FO371/110161 UEE1021/76, PRO.
153 Note from Graves-Smith to Percival, 18 October 1954, BT11/5298 CRE10408/1954, PRO.
154 Telegram from Washington to FO, 19 October 1954, FO371/110161 UEE1021/80, PRO.
155 Minutes of the 68th conclusions of the Cabinet, 20 October 1954, CAB128/27 Part II, PRO.
156 See minute by Lord Reading, 23 October 1954, FO371/110436 FJ1152/82 and telegram from Tokyo to FO, 23 October 1954, FO371/110161 UEE 1021/60, PRO.
157 A similar account of Yoshida's visit is available in pp. 503-568, subseries 2, Yoshida Sôri Ôbei Hômon Kankei Ikken (Prime Minister Yoshida's European and American trip), reel A-0136, Public Release Series 11, DRM, JMFAA; see also his account of the trip in Yoshida, *Kaisô Jûnen*, vol. 1, pp. 218-227.
158 Letter from Chancery to FO, 17 September 1954, FO371/110497 FJ1631/53, PRO.
159 Letter from Katô to Mayall, 18 October 1954, FO371/110497 FJ1631/69, PRO.
160 Correspondence from Allen to Denning, 16 November 1954, FO371/110498 FJ1631/106, PRO.
161 *ibid.*
162 *ibid.*
163 *ibid.*
164 Letter from Mayall to Denning, 27 October 1954, FO371/110498 FJ1631/87, PRO.

-
- 165 *ibid.*
- 166 See document titled Japan and the United Kingdom, 15 September 1954, FO371/110497 FJ1631/67, PRO.
- 167 *ibid.*
- 168 Under article 16 of the Peace Treaty, Japan undertook to transfer its assets in neutral and ex-enemy countries, or a lump sum equivalent in value to the International Committee of the Red Cross for distribution to appropriate national agencies for the benefit of former prisoners of war and their families who suffered undue hardship in Japanese hands. This became an issue as the Japanese government had not acted upon its obligations. In fact, Sir Norman Roberts had been dispatched as a special representative of the executive committee of the interested powers to discuss the issue with the Japanese government. See Brief for Mr. Yoshida's visit to the Foreign Office, 23 October 1954, FO371/110498 FJ1631/83, PRO.
- 169 Letter from Mayall to Denning, 27 October 1954, FO371/110498 FJ1631/87, PRO.
- 170 *ibid.*
- 171 Correspondence from Makins to Eden, 27 November 1954, FO371/110498 FJ1631/107, PRO.
- 172 *ibid.*
- 173 Although Eisenhower followed up on Stassen's idea and recommended the establishment of a special economic fund for Asia, and asked Congress for \$200 million towards the fund, he only received \$100 million for fiscal 1956. See Kaufman, *Trade and Aid*, p. 53.
- 174 Shimizu, *Creating People of Plenty*, p. 288.
- 175 Memorandum of conversation, 26 October 1954, 510.1 GATT, RG84, NA.
- 176 Record of a meeting held in the Foreign Office, 28 October 1954, FO371/110161 UEE1021/63, PRO.
- 177 *ibid.*
- 178 *ibid.*
- 179 Telegram from Geneva to FO, 29 October 1954, FO371/110161 UEE1021/64, PRO.
- 180 Aide-Mémoire from the MOFA, 1 December 1954, FO371/110162 UEE1021/112, PRO.
- 181 Lalita Prasad Singh, *The Politics of Economic Cooperation in Asia: A Study of Asian International Organizations* (Missouri: University of Missouri Press, 1966), p. 53.
- 182 Kajima (ed.), *Nihon Gaikōshi*, vol. 30, p. 266.
- 183 See Tomaru, *The Post-war Rapprochement of Malaya and Japan 1945-1961*, p. 232. Also see Kajima (ed.), *Nihon Gaikōshi*, vol. 30, p. 266.
- 184 *ibid.*, p. 268.
- 185 Singh, *The Politics of Economic Cooperation in Asia*, p. 56.
- 186 On the origins of the Colombo Plan see Remme, *Britain and Regional Cooperation in South-East Asia*; David Lowe, 'Percy Spender and the Colombo Plan 1950' *The Australian Journal of Politics and History* 40 no. 2 (1994), pp. 162-176; and Nicholas Tarling, 'The United Kingdom and the Origins of the Colombo Plan' *Journal of Commonwealth and Comparative Politics* 24 no. 1 (1986), pp. 3-34.
- 187 Singh, *The Politics of Economic Cooperation in Asia*, pp. 174-175.
- 188 Memorandum from Hemmendinger to McClurkin, 20 April 1953, FRUS 1952-1954 vol. 12 Part I (Washington: US Printing Office, 1984), p. 308.
- 189 Kajima (ed.), *Nihon Gaikōshi*, vol. 30, p. 258.
- 190 *ibid.*, p. 259.
- 191 Singh, *The Politics of Economic Cooperation in Asia*, p. 172.
- 192 *ibid.*
- 193 FO minutes, 20 December 1951, FO371/92642 FJ1127/19, PRO.
- 194 Kajima (ed.), *Nihon Gaikōshi*, vol. 30, p. 260.
- 195 See Hatano Sumio, 'Tōnan Ajia Kaihatsu wo meguru Nichieibei Kankei: Nihon no Korombo Plan Kannyū (1954) wo chūshinni' (Japan-US-UK Relations Centering on the Development of Southeast Asia in the 1950s) *Kindai Nihon Kenkyū* 16 (1994), p. 218.
- 196 Hatano, 'Tōnan Ajia Kaihatsu wo meguru Nichieibei Kankei', pp. 220-221.
- 197 *ibid.*, p. 228.
- 198 See minutes of fifth and seventh meetings of the working party on economic development in South and Southeast Asia, 25 August and 8 September, 1954, CAB134/868, PRO.
- 199 Ronald C. Keith, *The Diplomacy of Zhou Enlai* (Basingstoke and London: the Macmillan Press, 1989), pp. 59-87. For further readings, see Chen Jian, 'China and the First Indo-China War, 1950-1954' *The China Quarterly* no. 113 (1993), pp. 85-110; George C. Herring, "'A Good Stout Effort': John Foster Dulles and the Indochina Crisis, 1954-1955' in *John Foster Dulles and the*

Diplomacy of the Cold War (ed.) Richard H. Immerman (Princeton: Princeton University Press, 1990), pp. 213-233; Melanie Billings-Yun, *Decision Against War. Eisenhower and Dien Bien Phu, 1954* (New York: Columbia University Press, 1988); Laurence Kaplan, Denise Artaud and Mark Rubin (eds.), *Dien Bien Phu and the Crisis of Franco-American Relations, 1954-1955* (Wilmington: Scholarly Sources, 1990); and Kevin Ruane, "'Containing America': Aspects of British Foreign Policy and the Cold War in South-East Asia, 1951-54." *Diplomacy and Statecraft*, 7 no. 1 (1996), pp. 141-174.

²⁰⁰ See Report of Asian Economic Working Group, August 1954, Box 67, White House Central Files, Eisenhower Library; see also Hatano, 'Tōnan Ajia Kaihatsu wo meguru Nichieibei Kankei', p. 223.

Conclusion

Japan's rejection of Britain's *aide-mémoire* at the end of 1954, left the latter without a policy towards Japan's GATT entry. With only two months before the opening of tariff negotiations in Geneva, it had very little time and few alternatives left. Therefore, Britain decided to invoke article 35 of the GATT against Japan as it could not give up its safeguards until the period of 'alteration and adjustment' in international trade had stabilized.¹ This decision was relayed to the Japanese government on 20 April.² Consequently, when Japan formally acceded to the GATT on 10 September 1955, Britain became one of the fourteen countries to invoke article 35 against an acceding country, which was unprecedented in GATT history.³ In order to cushion the force of the decision, however, the British government furnished a statement in which it clearly stated Britain's wish to maintain a high level of trade between the sterling area and Japan through the continuation of the trade and payments agreements. Furthermore, the statement expressed Britain's desire to negotiate a commercial treaty with Japan 'whereby, in return for satisfactory shipping and establishment provisions, and or assurances in regard to copying and other unfair trade practices, we should undertake to continue to give Japan the MFN treatment on tariffs'.⁴

True to its statement, Britain handed a draft commercial treaty to Japan in October 1955. Britain hoped to sign a commercial treaty with Japan in the following year, as Japan's obligations towards the signatories of the San Francisco Peace Treaty expired in April 1956. Japan, however, showed little inclination to start the negotiations. The British were placed in an awkward position of having invoked article 35 of the GATT against Japan, but without a commercial treaty. Therefore, the only agreement governing Anglo-Japanese bilateral trade relations after 1956 was the sterling payments agreement.

On 31 March 1957, Japan and Britain decided to terminate the sterling payments agreement as the agreement and the accompanying exchange of letters were considered anachronistic and unnecessary. By this time, Japan was conducting more sterling trade with third countries, such as Germany and Sweden, which were formerly open account countries⁵. Furthermore, the forthcoming sterling convertibility would have made the agreement void. As a result, the exchange of letters of 1951 which stipulated that Britain and Japan should work in tandem to prevent the latter from accumulating an unreasonable amount of sterling no longer served its purpose.⁶ The sterling payments agreement was thus nullified and replaced by an Anglo-Japanese trade agreement.⁷ In the meantime, negotiations for a commercial treaty continued to drag through the years, while Anglo-Japanese trade difficulties arose over shipping and textiles.

In the end, it was not until 14 November 1962 that Britain and Japan signed a Treaty of Commerce, Establishment and Navigation.⁸ It is interesting to note that Britain was one of the last sterling countries to sign a commercial treaty with Japan. Moreover, in a protocol to the treaty both parties agreed to safeguard their industries against a sudden surge of damaging imports. Although the safeguards were reciprocal, it was obvious that it was designed to serve British industrial interests. The wording of the protocol was based on article 19 of the GATT, therefore, the Board of Trade finally succeeded in including the article 19 safeguard in a treaty with Japan.⁹

It can be argued that the postponement of a commercial treaty until the early 1960s was an indication of the secondary importance of Anglo-Japanese trade in the post-war period. It is true that Anglo-Japanese relations was overshadowed by US-Japan relations for the obvious reason that the United States had overall control over the allied occupation of Japan. Furthermore, the United States initiated the 'reverse course' in 1948, and saved Japan from economic collapse through the injection of dollars in the shape of the Korean war procurements. This enabled Japan to amass much needed dollars and ensured Japan's supply of raw materials from the dollar area. Moreover, the United States has traditionally been seen as Japan's benefactor who facilitated the latter's post-war trade relations with Southeast Asia and its return to western comity of nations. Conversely, current scholarship has maintained that Britain opposed the expansion of Japan's trade with Southeast Asia because an increase in exports of Japanese manufactured goods to the region was thought to threaten Britain's market-share in its traditional trading area, thus obstructing the triangular trading system which existed between Britain, its Southeast Asian colonies and the United States, and thereby, reducing Britain's ability to earn dollars via its colonies.

The aim of this thesis has been to challenge the view that British policy was entirely motivated by Japanese competition in Southeast Asia. Through documentary evidence, it has highlighted that Japan became important to Britain and the sterling area because of the potentially important role it could play in East Asia vis-à-vis the sterling area. Britain came to realize by 1951 that Japan produced cheap manufactured goods that were affordable and in demand by its Southeast Asian colonies. Moreover, by encouraging trade between Japan and sterling countries in Asia it was possible to reduce the huge sterling balances held by countries like India. Britain also saw that it could take advantage of Japan's potential as the workshop of Asia by making Japan the currency engine that pumped sterling in Asia. Finally, Japan came to be viewed by Britain as a bulwark against communism in the region, and its loss to the communist bloc was seen as a psychological and economic threat to Britain's Southeast Asian

interests. Therefore, contrary to the accepted view, Britain had its own policy towards Japan. It had designs to wean Japan away from its dollar-mindedness and integrate Japan into the sterling area system. By doing so, it hoped to prevent greater collaboration between the United States and Japan. Moreover, it was hoped that greater Japanese involvement in sterling trade would revive sterling as the dominant currency in East Asia.

Although Britain saw that Japan could play a significant role in Southeast Asia, problems arose due to Japan's application for entry in the GATT. Britain questioned the wisdom of extending equal tariff rights to Japan when Anglo-Japanese relations in the inter-war period had been soured by intense Japanese trade competition. Britain was particularly worried that Japan might repeat its 'unfair' competition, and marginalize British goods in its traditional trading areas. As a result, Britain sought to include safeguards within the GATT which would provide protection for British manufacturers against Japanese competition with little success. What should be illuminated is the fact that despite the inter-relation between sterling and GATT policies, the two were represented by different ministries. The Treasury was responsible for sterling policy, therefore, there was general support for greater sterling area-Japan trade. Conversely, the Board of Trade was responsible for commercial treaties. Moreover, it represented British industries, thus, it made sure that industrial interests played a large role on whether Britain should extend MFN rights to Japan. Therefore, it was this contradiction in British policy that hamstrung British intentions towards Japan in the 1950s, leading American and Japanese officials to perceive Britain as hostile to Japan's economic recovery. Consequently, it is understandable why scholars such as Borden, and Schaller, who relied almost solely on American documents misinterpreted British intentions toward Japan. Furthermore, the contradiction in Britain's commercial and financial policy indicates that one cannot examine one without the other, as it would lead to a distorted view of British external interests.

It should be emphasized, however, that despite the incongruence in the sterling and GATT policies, a combined effort was made by the State Department and the Foreign Office to find a solution to enable Japan to join the GATT without seriously affecting the future of British industries. Each attempt failed as none was considered adequate by the Board of Trade. The British decision to reject the compromise solution was considered by the Foreign Office to be damaging to its relations with the United States. First because Britain relied economically on the United States, and second, because it did not wish to be perceived as an uncooperative ally when it was attempting to cultivate a 'special' relationship with the latter. The Board of Trade's refusal to extend MFN rights to Japan naturally affected Anglo-Japanese relations. Japan viewed

Britain's unwillingness to admit Japan in the western comity of nations as evidence of the former's ingrained hostility towards Japan. In the end, the Board of Trade's policy proved to be short-sighted because while Lancashire was protesting the threat from Japanese competition, India and Hong Kong were taking advantage of their imperial preferential status to make in-roads into Britain's traditional trading areas.¹⁰

Although it is difficult to ascertain whether Britain would have been able to wean Japan away from the dollar bloc, there was a time in the early 1950s when a number of Japanese officials were willing to see an increase in sterling trade. Unfortunately, Britain was unable to make the most of this opportunity due to its inability to find a congruent financial and trade policy towards Japan. Therefore, despite an attempt to establish closer sterling relations with Japan, Britain instead created the foundation for the deepening of relations between Japan and various sterling area countries in the Asia-Pacific.¹¹

From a wider perspective, the thesis covers a period when western nations were coming to grips with changes in their political and economic influence in the post-war world. The United States found itself standing above the rest of the western world. It used its power to protect the free world from falling victim to communism, but it also attempted to use its power as leverage to force the western countries to abide by its blue-print for the world. This included the adoption of the American containment policy and its vision of a multilateral trading system. Furthermore, it attempted to force the western bloc to apply a stringent economic embargo on strategic and non-strategic exports to the communist bloc. Western countries agreed to adopt the American-sponsored economic embargo for the duration of the Korean war and while they were in receipt of the Marshall aid. With the end of both in 1953, European powers, in particular, Britain, became restive and applied pressure on the United States to relax the communist embargo as Japanese and German economic recovery meant increasing competition in the same, limited market. In 1954, COCOM controls were relaxed. CHINCOM controls remained unchanged in that year, but Britain unilaterally abolished the China differential on 27 May 1957.¹² On 16 July of the same year, Japan announced that as of 30 July, it would follow the British initiative and adopt COCOM levels to all trade with Communist China.¹³ In June 1958, the Consultative Group declared that there would be a further relaxation on export controls to the communist bloc, and the two lists would merge into one.¹⁴ Therefore, 1958 saw the end of the American-sponsored 'wedge' policy against China, and its attempts to enforce export controls on its allies, as it was leading to problems within the western alliance.

In the post-war period, Japan faced an enormous task of restoring its economy, and returning to the international community. Japan realized early in the occupation that its immediate post-war future was explicitly linked with the United States. Therefore, it attempted to play the 'subordinate' role in its relationship with the United States, which meant relying on US economic charity. The United States, however, wished to see Japan become independent of its aid. When the latter realized this, it began to place greater emphasis on its relations with the non-dollar countries. This included relations with the sterling area, but sterling area-Japan relations remained unpredictable due to the extreme swings in Japan's sterling reserves. Japan also set great store on its relations with Southeast Asia. Despite its ambition to form a peaceful 'Greater Co-Prosperity Sphere' under the aegis of the United States, Japan realized that it would have to act in an 'acceptable and orderly' manner if it wished to normalize its relations with Southeast Asia. Therefore, it embarked on reparation payments to countries in the region starting with Burma, Indonesia and the Philippines.¹⁵ Furthermore, the Japanese government understood that its investment and aid would be accepted more readily if it was supplied via international organizations, therefore, it strove to become a member of regional organizations. Despite Japan's attempts to return to the comity of nations, the process proved to be gradual. It also found difficulties in finding trade outlets as highlighted in its relations with the sterling area. Consequently, the 1950s saw the Japanese government concentrate its efforts on increasing domestic demand for its manufactured goods. Moreover, Japan strengthened its economic ties with the United States. Japan's decision to rely on the American market was due to the combined disappointment with the sterling area's ~~readiness~~^{unreadiness} to open its markets to Japan, and Southeast Asia's inability to consume Japanese goods in great quantities.

Britain, too, had an enormous economic task ahead, as it sought to find a solution to its balance of payments problems. Politically, it was in search of a role. Not able to attain superpower status, it sought to carve out an economic and political power base which would enable it to continue to influence world affairs. The solution was the sterling area and the Commonwealth. Despite Britain's attempts to solidify its economic foundation in the 1950s, convertibility failed to restore sterling as a major currency, and the Suez debacle served to highlight sterling's weakness. Therefore, convertibility led to a gradual withdrawal of members from the sterling 'club'. In its search for a balance between its own economic problems, its relations with the sterling/Commonwealth and its role in world affairs, Britain failed to find an equilibrium. Britain's unsuccessful attempt to reinstate sterling as a major East Asian currency was a reflection of this, and by the end of the 1950s, Britain increasingly found itself sidelined in Asia.

Endnotes

- 1 Minutes of a meeting, 27 January 1955, CAB130/109, GEN 488, PRO.
- 2 See copy of the memorandum handed to the MOFA, 20 April 1955, FO371/114930 UEE1022/121, PRO.
- 3 The fourteen were Australia, Austria, Belgium, Brazil, Cuba, France, Haiti, India, Luxembourg, the Netherlands, New Zealand, Rhodesia and Nyasaland, Union of South Africa and the United Kingdom. See General Agreement on Tariffs and Trade, 13 September 1955, L/405 in FO371/114932 UEE1022/203, PRO.
- 4 Minutes of a meeting, 27 January 1955, CAB130/109, GEN 488, PRO.
- 5 Note from Cunnell to Menzies, 29 July 1955, OV16/100, BoE.
- 6 See Sterling Payments Agreement between the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of Japan (with Exchanges of Notes), 31 August 1951, *Parliamentary Papers* 1951-1952, vol. 31, pp. 599-604.
- 7 Japan: Annual Review, 11 March 1958, FO371/133577 FJ1011/1, PRO.
- 8 See Sir Hugh Cortazzi, 'Britain and Japan: A Personal View of Postwar Economic Relations' in *Conflict and Amity in East Asia: Essays in Honour of Ian Nish* (eds.) TG Fraser and Peter Lowe (London: Macmillan, 1992); Roger Buckley, 'From San Francisco to Suez and Beyond: Anglo-Japanese Relations, 1952-1960' in *The Great Powers in East Asia 1953-1960* (eds.) Warren I Cohen and Akira Iriye (New York: Columbia University Press, 1990); Robin Gray, 'The Anglo-Japanese Commercial Treaty of 1962: A British Perspective' and Hanaoka Sôsuke, 'Memories of the Anglo-Japanese Commercial Treaty: A Japanese Perspective' in *Britain and Japan: Biographical Portraits Volume II* (ed.) Ian Nish (Surrey: Japan Library, 1997).
- 9 Robin Gray, 'The Anglo-Japanese Commercial Treaty of 1962: A British Perspective', p. 314.
- 10 See Sugihara, '*Sengo Nihon Mengyô wo Meguru Kokusai Kankyô*', pp. 84-110.
- 11 Japan signed commercial treaties with the following countries in the late 1950s. With Australia on 6 July 1957, with India on 4 February 1958 and with New Zealand on 9 September 1958. A commercial treaty with the Malaysian Federation was signed on 10 May 1960 and a friendship and commerce treaty was signed with Pakistan on 18 December 1960. See MITI (ed.), *Tsûshô Sangyô Seisakushi*, p. 9.
- 12 Shimizu, *Creating People of Plenty*, p. 180.
- 13 *ibid.*, p. 188.
- 14 Qing Simei, 'The Eisenhower Administration and Changes in Western Embargo Policy Against China, 1954-1958' in *The Great Powers in East Asia, 1953-1960* (ed.) Warren I Cohen and Akira Iriye. (New York: Columbia University Press, 1990), p. 134.
- 15 Reparation payments were settled with Burma in November 1954; the Philippines in May 1956; and Indonesia in January 1958. See Tomaru, *The Post-war Rapprochement of Malaya and Japan, 1945-1961*, p. 378.

Appendices

One: Japanese Proposal

In our discussions, we have stressed the necessity both in principle and in practice of retaining the dollar clause in the Payment Agreement and we have explained at some length the reasons for such necessity. The UK representatives, on the other hand, have expressed disagreement to this proposal as a matter of principle. With such a fundamental discrepancy of the mutual positions, it is now apparent that even after further negotiations of considerable length, it will be difficult to arrive at an agreement. In order, therefore, to avert the various difficulties and disruptions which would ensue failing the conclusion of an appropriate Payments Agreement, and thus to enable an uninterrupted flow of trade between Japan and the sterling area, we would like to propose at this point, after having carefully considered the various proposals and explanations made by the UK side, the conclusion of an agreement along the following lines as an immediate solution of the situation.

1. Japan assesses the maximum amount of her working balances (excluding these accrued from temporary credit facilities, etc.) for the coming one year period at £_____million.

2. The UK undertakes, during this period, to adopt effective measures to prevent the above sterling balances from remaining in excess of the afore-mentioned ceiling continuously ever a period of three months and also to prevent any excess of such ceiling at the end of June, 1952.

3. Japan may raise the above ceiling of £_____million, if she deems it necessary for the orderly promotion of her trade. The UK may propose the raising of such ceiling for Japanese consideration. However, the final decision to raise the ceiling rests with Japan.

4. For the purpose of preventing the excess accumulation contemplated in paragraph 2:

(a) not only will the UK give no discriminatory treatment to Japanese imports from the sterling area countries and territories, but will spare no efforts to facilitate exports to Japan, especially as to such commodities as goods and raw materials.

(b) Transfer from Japanese sterling balances to third countries will be freely permitted, except only in those cases where they are normally prohibited under UK's exchange control practices.

(c) The UK would grant on a Government-to-Government basis, financial facilities to Japan, in order to cover the latter's sterling shortage arising from seasonal import requirements.

5. Both parties will consult each other from time to time in order to attain the common objective of expanding trade between Japan and the sterling area on a mutually satisfactory basis and preventing the excess accumulation of sterling contemplated in paragraph 2.

6. Should the Japanese Govt see a sign of excessive accumulation of sterling balances notwithstanding the provisions of paragraph 2, the Japanese Government may advise the UK Government to take appropriate measures toward an immediate correction of such situation. The Japanese Government reserves its right to abrogate this agreement if, in spite of the afore-mentioned advice, such situation is not rectified promptly. In the event of such abrogation, both parties will immediately commence to negotiate a new agreement.

7. This agreement will be effective for one year ending as of 30th June, 1952. Both Governments will commence to negotiate a new agreement not later than 31st May, 1952.

8. After the abrogation of the expiry of the effective term of this agreement, Japan will be entitled to continue to utilise without restriction her sterling balances for imports from the sterling area as well as from third countries. For this utilisation of sterling balances, the UK will continue to abide by the provisions of paragraphs 4(a) and (b).

9. The re-adoption of a dollar clause will be considered in negotiating a new agreement.

Source: Telegram from Tokyo to FO, 5 July 1951, FO371/92633 FJ1121/121, PRO.

**Two: Sterling Payments Agreement between the Government of the
United Kingdom of Great Britain and Northern Ireland and the
Government of Japan**

Tokyo, 31st August, 1951

The Government of the United Kingdom of Great Britain and Northern Ireland (hereafter referred to as "the Government of the United Kingdom") and the Government of Japan

Have agreed as follows:-

ARTICLE 1

All payments between residents of Japan and residents of the Scheduled Territories, other than such as must necessarily be made in yen, shall be settled in sterling.

ARTICLE 2

The Government of Japan will ensure that their appropriate authorities shall buy and sell sterling and that the rates of those authorities for sterling and for the United States dollar shall be related to one another at the middle rate quoted by the Bank of England for the United States dollar.

ARTICLE 3

All sterling payments to residents of Japan which residents of the Scheduled Territories or of countries outside the Scheduled Territories are permitted to make under the Exchange Control Regulations in force in the United Kingdom shall be made to Japanese Accounts.

ARTICLE 4

(1) The Government of the United Kingdom shall not restrict the transfer of sterling which is at the disposal of residents of Japan to other residents of Japan or to residents of the Scheduled Territories.

(2) The Government of the United Kingdom shall not restrict the availability of sterling under the control of the Japanese Foreign Exchange Control Board for making payments in respect of direct current transactions to residents of such countries (other than Japan and the Scheduled Territories) as may be agreed between the Bank of England and the Japanese Foreign Exchange Control Board.

ARTICLE 5

The Government of Japan shall not restrict the acceptance by residents of Japan of sterling from residents of the Scheduled Territories and, as regards payment in respect of direct current transactions from residents of such countries (other than Japan and the Scheduled Territories) as may be agreed between the Bank of England and the Japanese Foreign Exchange Control Board.

ARTICLE 6

In so far as the Japanese Exchange Control Regulations from time to time permit, the Government of Japan will facilitate the transfer of yen accruing to residents of the Scheduled Territories from permitted current transactions to other residents of the Scheduled Territories or to residents of Japan, and the transfer of such yen into sterling.

ARTICLE 7

For the purposes of the present Agreement -

(a) the expression "the Scheduled Territories" shall have the meaning from time to time assigned to it under the United Kingdom Exchange Control Act, 1947;

(b) the expression "Japanese Account" shall mean an account of a resident of Japan which is for the time being recognised by the Bank of England as a Japanese Account for the purposes of the present Agreement;

(c) the expression "payments in respect of direct current transactions: means payments in respect of transactions of the type defined in Article XIX (i) of the Articles of Agreement of the International Monetary Fund which are made by a principal resident in the country from which payment is made and which relate exclusively (1) to goods (other than gold bullion, gold coin or gold either in semi-manufactured or fully manufactured form) imported into, and for use or consumption in, that country and originating in the country to which payment is made or (2) to services rendered to residents in the former country by residents of the latter country.

ARTICLE 8

For the purposes of the present Agreement the Bank of England shall act as agent of the Government of the United Kingdom and the Japanese Foreign Exchange Control Board as agent of the Government of Japan.

ARTICLE 9

The present Agreement shall come into force upon the entry into force of a Peace Treaty between the Government of the United Kingdom and the Government of Japan, provided that the Agreement between the Government of the United Kingdom and the Supreme Commander for the Allied Powers acting in respect of Occupied Japan which came into force on 31st August, 1952, shall not previously have terminated. In the event, however, that notice of termination of the latter Agreement shall already have been given but not have expired, the present Agreement shall come into force only for the remainder of the period of such notice and shall then terminate, unless both Contracting Parties agree to the contrary. At any time after the entry into force of the present Agreement either Contracting Party may give notice to the other of its intention to terminate it and the present Agreement shall cease to have effect three months after the date of such notice. It shall terminate, unless both Contracting Parties agree to the contrary, on 31st August, 1952.

In witness whereof the undersigned, being duly authorised by their respective Government, have signed the present Agreement and have affixed thereto their seals.

Done at Tokyo this Thirty-first day of August, 1951, in duplicate.

For the Government of the United
Kingdom of Great Britain and
Northern Ireland:

For the Government of Japan:

GEORGE CLUTTON

SHIGERU YOSHIDA

Source: Sterling Payments Agreement between the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of Japan (with exchange of notes) in Parliamentary Papers vol. 31, Cmd 8602, pp. 599-604.

Exchange of Notes

No. 1

The Acting United Kingdom Political Representative in Japan to the Japanese Minister for Foreign Affairs

M. le Ministre,

United Kingdom Liaison Mission in Japan,
Tokyo, 31st August, 1951.

With reference to the Payments Agreement signed today between the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of Japan, I have the honour to set out the understanding which has been reached on the subject of consultation between the parties to the Agreement during its currency in order to assist in its satisfactory operation.

To ensure the smooth working of the Agreement, the Government of the United Kingdom and the Government of Japan mutually recognise the desirability of keeping Japan's sterling balances within reasonable limits. In order that at all times Japan may hold sufficient sterling to meet her requirements, without, however, accumulating an excessive amount, having regard to all the circumstances, both parties will take all reasonable measures to prevent, or correct should it occur, any chronic imbalance of payments in either direction.

With this intention in mind the two parties have agreed, in addition to the informal consultation which will take place between the Government of the United Kingdom and the Government of Japan or their Agents under the Agreement in the normal course of its current operation, to meet at short notice, which maybe given by either party, in order to discuss any aspect of the development of the payments relationship between the two countries which may appear to call for special consideration.

I shall be grateful for your Excellency's confirmation of this understanding.

I avail, & c.

GEORGE CLUTTON

No. 2

The Japanese Minister for Foreign Affairs to the Acting United Kingdom Political Representative

Sir,

The Gaimusho,
Tokyo, 31st August, 1951.

I have the honour to acknowledge the receipt of your Note of today's date reading as follows:-

(as in No. 1)

I have pleasure in confirming that the understanding of your Government as set out in that Note corresponds to that of the Government of Japan.

I beg, & c.

SHIGERU YOSHIDA

No. 3

The Acting United Kingdom Political Representative in Japan to the Japanese Minister for Foreign Affairs

United Kingdom Liaison Mission in Japan

Tokyo 31st August, 1951.

M. le Ministre,

In connexion with the facilities which will be available to Japan on an administrative basis for transfers of sterling between Japan and countries outside the Scheduled Territories in settlement of direct current transactions during the currency of the Payments Agreement signed today between the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of Japan, I have the honour to inform your Excellency that, as an extension of these facilities, the United Kingdom Exchange Control will, so long as that Agreement is in force, be prepared for its part to approve any transfer of sterling in settlement of direct current transactions from Japan to any country in the "transferable account" system (comprising the countries listed in the Third Schedule to the United Kingdom Exchange Control (Payments) Order, 1950, as amended from time to time) or in the group of "Other Countries" (comprising territories outside the Scheduled Territories and outside any of the territories specified in the schedules to the United Kingdom Exchange Control (Payments) Order, 1950, as amended from time to time), provided there is no objection on the part of the authorities in the receiving country to settlement in sterling.

I avail & c.

GEORGE CLUTTON

No. 4

The Japanese Minister for Foreign Affairs to the Acting United Kingdom Political Representative

The Gaimusho,

Tokyo, 31st August, 1951.

Sir,

I have the honour to acknowledge the receipt of your Note of today's date reading as follows:-

(As in No. 3)

I am glad to take note of its contents on behalf of the Government of Japan.

I beg, &c.

SHIGERU YOSHIDA.

Source: Sterling Payments Agreement between the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of Japan (with exchange of notes) in Parliamentary Papers vol. 31, Cmd 8602, pp. 599-604.

Three: The Yoshida Letter

Dear Ambassador Dulles,

While the Japanese Peace Treaty and the US-Japan Security Treaty were being debated in the House of Representatives and the House of Councillors of the Diet, a number of questions were put and statements made relative to Japan's future policy toward China. Some of the statements, separated from their context and background, gave rise to misapprehensions which I should like to clear up.

The Japanese Government desires ultimately to have a full measure of political peace and commercial intercourse with China which is Japan's close neighbour. At the present time it is, we hope, possible to develop that kind of relationship with the National Government of the Republic of China, which has the seat, voice and vote of China in the United Nations, which exercises actual governmental authority over certain territory, and which maintains diplomatic relations with most of the members of the United Nations. To that end my Government on November 17, 1951, established a Japanese Government Overseas Agency in Formosa, with the consent of the National Government of China. This is the highest form of relationship with other countries which is now permitted to Japan, pending the coming into force of the multilateral Treaty of Peace. The Japanese Government Overseas Agency in Formosa is important in its personnel, reflecting the importance which my government attaches to relations with the National Government of China, if that government so desires, a Treaty which will reestablish normal relations between the two Governments in conformity with the principles set out in the multilateral Treaty of Peace. The terms of such bilateral treaty shall, in respect of the Republic of China, be applicable to all territories which are now, or which may hereafter be, under the control of the National Government of the Republic of China. We will promptly explore this subject with the National Government of China.

As regards the Chinese Communist regime, that regime stands actually condemned by the United Nations of being an aggressor and in consequence, the United Nations has recommended certain measures against that regime, in which Japan is now concurring and expects to continue to concur when the multilateral Treaty of Peace comes into force pursuant to the provisions of Article 5 (a) (iii), whereby Japan has undertaken "to give the United Nations every assistance in any action it takes in accordance with the Charter and to refrain from giving assistance to any State against which the United Nations may take preventive or enforcement action". Furthermore, the Sino-Soviet Treaty of Friendship, Alliance and Mutual Assistance concluded in Moscow in 1950 is virtually a military alliance aimed against Japan. In fact there are many reasons to believe that the Communist Party in its program of seeking violently to overthrow the constitutional system and the present Government of Japan. In view of these considerations, I can assure you that the Japanese Government has no intention to conclude a bilateral Treaty with the Communist regime of China.

Yours sincerely,

SHIGERU YOSHIDA

Source: Letter from the Prime Minister of Japan to Dulles, 24 December 1951, FRUS 1951, vol. 6 Part I, p 1438.

Four: The Text of GATT Articles 19, 23, 25 and 35

Article 19 Emergency Action on Imports of Particular Products

1(a) If, as a result of unforeseen developments and of the effect of the obligations incurred by a contracting party under this Agreement, including tariff concessions, any product is being imported into the territory of that contracting party in such increased quantities and under such conditions as to cause or threaten serious injury to domestic producers in that territory of like or directly competitive products, the contracting party shall be free, in respect of such product, and to the extent and for such time as may be necessary to prevent or remedy such injury, to suspend the obligation in whole or in part or to withdraw or modify the concession.

(b) If any product, which is the subject of a concession with respect to a preference, is being imported into the territory of a contracting party in the circumstances set forth in sub-paragraph (a) of this paragraph, so as to cause or threaten serious injury to domestic producers of like or directly competitive products in the territory of a contracting party which receives or received such preference, the importing contracting party shall be free, if that other contracting party so requests, to suspend the relevant obligation in whole or part or to withdraw or modify the concession in respect of the product, to the extent and for such time as may be necessary to prevent or remedy such injury.

Before any contracting party shall take action pursuant to the provisions of paragraph 1 of this Article, it shall give notice in writing to the CONTRACTING PARTIES as far in advance as may be practicable and shall afford the CONTRACTING PARTIES and those contracting parties having a substantial interest as exporters of the product concerned an opportunity to consult with it in respect of the proposed action. When such notice is given in relation to a concession with respect to a preference, the notice shall name the contracting party which has requested the action. In critical circumstances, where delay would cause damage which it would be difficult to repair, action under paragraph 1 of this Article may be taken provisionally without prior consultation, on the condition that consultation shall be effected immediately after taking such action.

3 (a) If agreement among the interested contracting parties with respect to the action is not reached, the contracting party which proposes to take or continue the action shall, nevertheless, be free to do so, and if such action is taken or continued, the affected contracting parties shall then be free, not later than ninety days after such action is taken, to suspend, upon the expiration of thirty days from the day on which written notice of such suspension is received by the CONTRACTING PARTIES, the application to the trade of the contracting party taking such action, or, in the case envisaged in paragraph 1(b) of this Article, to the trade of the contracting party requesting such action, of such substantially equivalent concessions or other obligations under this Agreement the suspension of which the CONTRACTING PARTIES do not disapprove.

Notwithstanding the provisions of sub-paragraph (a) of this paragraph, where action is taken under paragraph 2 of this Article without prior consultation and causes or threatens serious injury in the territory of a contracting party to the domestic producers of products affected by such action, that contracting party shall, were delay would cause damage difficult to repair, be free to suspend, upon the taking of the action and throughout the period of consultation, such concessions or other obligations as may be necessary to prevent or remedy the injury.

Article 23 **Nullification or Impairment**

1. If any contracting party should consider that any benefit accruing to it directly or indirectly under this Agreement is being nullified or impaired or that the attainment of any objective of the Agreement is being impeded as the result of

- (a) the failure of another contracting party to carry out its obligations under this Agreement, or
- (b) the application by another contracting party of any measure, whether or not it conflicts with the provisions of this Agreement, or
- (c) the existence of any other situation,

the contracting party, may with a view to the satisfactory adjustment of the matter make written representations or proposals to the other contracting party or parties which it considers to be concerned. Any contracting party thus approached shall give sympathetic consideration to the representations or proposals made to it.

If no satisfactory adjustment is effected between the contracting parties concerned within a reasonable time, or if the difficulty is of the type described in paragraph 1(c) of this Article, the matter may be referred to the CONTRACTING PARTIES. The CONTRACTING PARTIES shall promptly investigate any matter so referred to them and shall make appropriate recommendations to the contracting parties which they consider to be concerned, or give a ruling on the matter, as appropriate. The CONTRACTING PARTIES may consult with contracting parties, with the Economic and Social Council of the United Nations and with any appropriate inter-governmental organization in cases where they consider such consultation necessary. If the CONTRACTING PARTIES consider that the circumstances are serious enough to justify such action, they may authorize a contracting party or parties to suspend the application to any other contracting party or parties of such concessions or other obligations under this Agreement as they determine to be appropriate in the circumstances. If the application to any contracting party of any concession or other obligation is in fact suspended, that contracting party shall then be free, not later than sixty days after such action is taken, to give written notice to the Executive Secretary to the CONTRACTING PARTIES of the intention to withdraw from this Agreement and such withdrawal shall take effect upon the sixtieth day following the day on which such notices is received by him.

Article 25 **Joint Action by the Contracting Parties**

Representatives of the contracting parties shall meet from time to time for the purpose of giving effect to those provisions of this Agreement which involve joint action and, generally, with a view to facilitating the operation and furthering the objectives of this Agreement. Wherever reference is made in this Agreement to the contracting parties acting jointly they are designated as the CONTRACTING PARTIES.

The Secretary-General of the United Nations is requested to convene the first meeting of the CONTRACTING PARTIES, which shall take place not later than March 1, 1948.

Each contracting party shall be entitled to have one vote at all meetings of the CONTRACTING PARTIES.

Except as otherwise provided for in this Agreement, decisions of the CONTRACTING PARTIES shall be taken by a majority of the votes cast.

In exceptional circumstances not elsewhere provided for in this Agreement, the CONTRACTING PARTIES may waive an obligation imposed upon a contracting party by this Agreement; provided that any such decision shall be approved by a two-thirds majority of the votes cast and that such majority shall comprise more than half of the contracting parties. The CONTRACTING PARTIES may also by such a vote

- (i) define certain categories of exceptional circumstances to which other voting requirements shall apply for the waiver of obligations, and
- (ii) prescribe such criteria as may be necessary for the application of this paragraph.

Article 35

Non-Application of the Agreement between particular Contracting Parties

This Agreement, or alternatively Article II of this Agreement, shall not apply as between any contracting party and any other contracting party if:

the two contracting parties have not entered into tariff negotiations with each other, and either of the contracting parties, at the time either becomes a contracting party, does not consent to such application.

The CONTRACTING PARTIES may review the operation of this Article in particular cases at the request of any contracting party and make appropriate recommendations.

Source: General Agreement on Tariffs and Trade, Analytical Index: Guide to GATT Law and Practice (Geneva: GATT, 1994).

Five: Agreed Minute (Various Annexes Excluded)

1. Delegations representing the United Kingdom and Japanese Governments met in London between 3 December 1953, and 29 December 1954, to consider financial and trade questions arising connecting with the Sterling Payments Agreement of 31 August 1951, as renewed on various occasions, and now due to expire on 31 January, 1954.
2. Both delegations stated the intention of their Governments to sign a Sterling Payments Agreement in the revised form shown at annex A.
3. The United Kingdom delegation stated their Government's intention of continuing to make available the maximum practicable facilities for the use of sterling in Japan's trade with third countries. The Japanese delegation stated that their Government's intention was to make the fullest possible use of the facilities provided, which at the present time are as described in the memorandum at annex B. Both delegations also stated that the intention of their Governments was to follow the procedures set out in this paragraph in place of that set out in the exchange of notes attached as numbers 3 and 4 to the Sterling Payments Agreement of 1951.
4. The Japanese delegation asked whether, having regard to Japan's prospective shortage of sterling during the early part of 1954, the United Kingdom would be prepared to authorise the provision of Sterling/US dollar "swap" facilities. The United Kingdom delegation said that it was the intention of their Government to instruct the Bank of England to authorise applications from the London foreign exchange market to make further Sterling/ US dollar "swaps" with the Japanese Ministry of Finance up to an amount not exceeding £12.5 million, under the arrangements and subject to the conditions set out in annex C. The Japanese delegation said that it was the intention of their Government to take advantage of these facilities on the conditions stated. Both delegations said that it was the intention of their Governments to regard these arrangements for special sterling assistance as exceptional and final.
5. The Japanese delegation asked for the views of the United Kingdom delegation on certain special payments arrangements (annex D) which their Government wish to propose to certain Independent Sterling Area countries. The United Kingdom delegation said that in view of their Government such arrangements would not be consistent with the intention of the Sterling Payments Agreement. The Japanese delegation stated the intention of their Government to pay full consideration to the UK views on this subject.
6. Both delegations stated that it was the intention of their Government to maintain trade between Japan and the Sterling Area at the highest possible level in 1954.
7. The two delegations considered Japan's probable sterling receipts from the Sterling Area in 1954 and estimated that these might amount to £209.5 million in respect of Japan's receipts from Independent Sterling Area countries, and the following estimates on a cif basis for Japan's receipts from the United Kingdom, the Colonies and "invisible" items:

		£ million
UK	14.5	
Colonies	91.5	
Hong Kong		37
Singapore and Malaya		23
Aden		6
West Africa		18
East Africa		2.5
Others		5
Invisibles	11	

8. The Japanese delegation stated the strong desire of their Government that there should be an increase to £5 million from £2.5 million in the established volume for 1954 of imports from Japan into the East African territories. The United Kingdom delegation stated that it was the intention of their Government to inform the East African territories of the Japanese Government's views. The Japanese delegation stated that if the lower figure were increased, their Government would then be prepared to accept a reduction of up to £0.5 million in the value of grey cloth imported by the United Kingdom from Japan during the remainder of 1954, and would consider an appropriate increase in the figure of £32.5 million for Japanese imports from the Colonies (See annex F and paragraph 11 below).

9. The United Kingdom delegation said that they estimated the value of imports in 1954 from Japan into the United Kingdom of goods which Japan was supplying, whether under open general or individual licence or under other arrangements, at £7.7 million. They said further that it was the intention of their Government to authorise the import into the United Kingdom of goods not at present permitted to be imported up to a value of about £6.8 million. Particulars of these additional imports at annex E.

10. The United Kingdom delegation also stated that it was the intention of their Government to notify the Governments of Hong Kong, Singapore and the Federation of Malaya, and Aden forthwith that they may permit the importation of goods from Japan without limit and the re-export of such goods without restriction except that re-exports to Sterling Area destinations may be authorised only where import licences have been granted by the territory of ultimate destination. The United Kingdom delegation also stated that it was the intention of their Government to notify each other of the Colonial Governments that it may permit the importation from Japan of any type of goods which may be imported from other non-Sterling Area territories up to the total amount which it has told the United Kingdom Government it would be prepared to authorise in 1954 (see table in paragraph 7 above). The United Kingdom delegation further stated that the Colonial Office would furnish the Japanese Embassy in London with copies of notices issued from time to time by Colonial Governments in relation to their imports from Japan.

11. The United Kingdom delegation established that the value of goods and services which the Sterling Area countries would wish to sell to Japan in 1954 would total £224 million. The Japanese delegation took note of this statement but said that Japan's aim was to strike a balance between her receipts from and her payments to the Sterling Area in 1954. The Japanese delegation also stated the intention of their Government to provide during 1954 for visible imports (other than oil), from the United Kingdom and Colonies amounting to £16 million and £32.5 million, fob respectively, subject to review, should either Government so desire, after 1st August 1954. The Japanese delegation further stated that, to assist in securing this end, their Government intended to authorise the import for sterling during 1954 of £47 million worth of goods on the Japanese "automatic approval" list and £5.5 million worth of goods in the "miscellaneous" category. Of these amounts one half would be provided for in the 1954 summer foreign exchange budget and the remainder, subject to the review referred to

above, in the winter foreign exchange budgets. The lists of goods in the "automatic approval" and "miscellaneous" categories under the current winter foreign exchange budget of 1953, i.e. as at 1st October 1953, and 30th October 1953 respectively, would be retained in the 1954 summer budget. The Japanese delegation also stated that it was the intention of their Government to authorise the import for sterling in 1954 of certain specific commodities from the United Kingdom and Colonies as set out in annex F.

12. The Japanese delegation stated that it was the intention of their Government to provide sterling for the import during 1954 of oil from UK-controlled companies up to a total value equal to at least:

(a) 25% of the total value of the oil imported into Japan on cash or credit terms, supplied by or originating with the UK and US controlled companies, and invoiced in sterling or US dollars;

or

(b) 22.5% of the value of all oil imported from any source, whichever may be greater.

Note: "UK controlled companies" for the purpose of this Agreed Minute includes Shell.

13. As regard petroleum chemicals, minor petroleum products, lubricants and tetra-ethyl lead, the Japanese delegation said that it was the intention of their Government that, where these commodities were available for sterling, the same opportunities would be given for supplying them (in this case, against sterling) to UK controlled companies as to any other companies. Where these commodities were not available for sterling and had in the past been supplied by UK-controlled companies against payment in US dollars, UK-controlled companies would be permitted as well to participate on an equal basis in this trade, so long as US dollars were provided for importation of these products.

14. The United Kingdom delegation stated the intention of their Governments of adding Japan to the list of countries for which allowances for tourism are authorised by the exchange control authorities of the United Kingdom and the Colonies. The Japanese delegation said that their Government had not yet felt able to introduce a system of standard allowances for tourism, all application for foreign currency for travel abroad being treated individually on their merits; if however at any time in the future allowances for tourism were introduced in respect of travel by residents of Japan to any foreign country or countries it was the intention of their Government that the United Kingdom and Colonies would be given as favourable treatment as that accorded to any other country.

15. The Japanese delegation said that it was the intention of their Government (a) that import quotas for UK films should be announced simultaneously with import quotas for all other films of foreign origin and (b) that the proportion of film earnings to be remitted to UK producer should be no smaller than the proportion to be remitted to the United States of America or any other major supplier of film. For this purpose a major supplier includes a country whose quota is one-third or more of the UK quotas. They also took note of the United Kingdom request that during 1954 the proportion should not be less than 30 percent gross rentals.

16. The United Kingdom delegation submitted two memoranda on (a) Japan's exchange control regulations concerning shipping and (b) the Japanese Government's financial assistance to the Japanese shipping industry (annexes G and H). The Japanese delegation took note of these memoranda. They confirmed that it was not the policy of their Government to allow the operation of their import or exchange controls to place British shipping at a disadvantage compared with shipping or other flag, including the Japanese.

17. The Japanese delegation stated that in view of the importance of the trade relations existing between the United Kingdom and the Colonies on the one hand and Japan on the other, the Japanese Government wished to conclude a Treaty of Commerce and Navigation with the United Kingdom as early as possible, particularly in order to settle questions of entry, residence and establishment. The United Kingdom delegation took note of this desire.

Source: Agreed minute attached to the minutes of the plenary meeting held in the Treasury, 29 January 1954, T236/4150 OF63/208/05X, PRO.

Bibliography

Primary Sources

Bank of England, London

OV 16: Japan: Financial (including trade) Relations with the UK

Eisenhower Library, Abilene Kansas

Central Files

US President's Commission on Foreign Economic Policy

Whitman Files

Manchester Central Library, Manchester

Manchester Chamber of Commerce

Ministry of Foreign Affairs Archives, Tokyo

- A-0136: Yoshida Sôri Ôbei Hômon Kankei Ikken (Prime Minister Yoshida's European and American trip)
- B-0020: Nichiei Bôeki Shiharai Kankei Ikken (Japan-UK Trade Agreements)
- B-0021: Nichiei Bôeki Shiharai Kankei Ikken (Japan-UK Trade Agreements)
- B-0029: Dai Hakkai Kokusai Komugi Kyôtei Kankei Ikken (the Eighth Session of the International Wheat Agreement)
- E-0010: Kanzei oyobi Bôeki ni kansuru Ippan Kyôtei Kankei Ikken (The Problem of Japanese Entry into the GATT)
- E-0011: Kanzei oyobi Bôeki ni kansuru Ippan Kyôtei Kankei Ikken (The Problem of Japanese Entry into the GATT)
- E-0012: Kanzei oyobi Bôeki ni kansuru Ippan Kyôtei Kankei Ikken (The Problem of Japanese Entry into the GATT)
- E-0013: Colombo Plan Kankei Ikken (The Colombo Plan)
- E-0015: Tai-Kyôsanken Yushutsu Tôsei Iinkai Kankei Ikken (Coordinating Committee Related)

Modern Records Centre, Warwick University

MSS.200/F: Federation of British Industries

National Archives II, College Park, Maryland

- Record Group 59: State Department Decimal Files
Record Group 84: Record of the Foreign Service Post of the Department of State
Record Group 331: Records of Allied Operational and Occupation Headquarters,
World War II.

^{Record}
Public Records Office, Kew

- BT 11 Board of Trade Commercial Department
BT 175: Cotton Board and Textile Council
CAB 128: Cabinet Minutes
CAB 129: Cabinet Memoranda
CAB 130: Cabinet Miscellaneous Committees
CAB 133: Cabinet Office: Commonwealth and International Conferences and
Ministerial visits to and from the United Kingdom
CAB 134: Cabinet Miscellaneous Committees
CO 537: Colonial Office: Confidential General and Original Correspondence
CO 852: Colonial Office: Economic: Original Correspondence
CO 1022: Colonial Office: South East Asia Department: Original Correspondence
CO 1023: Colonial Office: Hong Kong and Pacific Department: Original
Correspondence
CO 1030: Colonial Office: Far East Department: Original Correspondence
DEFE 10: Ministry of Defence: Major Committees, Minutes, Papers: 1942-1976
DO 35: Dominions Office and Commonwealth Relations Office: Original
Correspondence
FO 262: Foreign Office: Embassy and Consulates, Japan: General
Correspondence
FO 371: Foreign Office: Political Department
PREM 8: Prime Minister's Office: Correspondence and Papers, 1945-1951
PREM 11: Prime Minister's Office: Correspondence and Papers, 1951-1964
T 236: Treasury: Overseas Finance Division
T 238: Treasury: Overseas Negotiations Committee Division: Registered Files

Truman Library, Independence, Missouri

- President's Secretary's Files
Official File

Private Papers

Dean Acheson Papers, Truman Library, Independence, Missouri.
Clement Attlee Papers, Bodleian Library, Oxford.
Ernest Bevin Papers, Public Records Office, Kew.
Richard Austen Butler Papers, Trinity College, Cambridge.
Winston Churchill Papers, Churchill College, Cambridge.
John Foster Dulles Papers, Eisenhower Library, Abilene, Kansas and at Mudd Library, Princeton.
Anthony Eden Papers, Birmingham University Library and the PRO.
Alan Lennox-Boyd Papers, Bodleian Library, Oxford.
Oliver Lyttelton Papers, Public Records Office, Kew.
Malcolm MacDonald Papers, Durham University, Durham.
Herbert Morrison Papers, Public Records Office, Kew.
H Alexander Smith Papers, Mudd Library, Princeton
Harry S. Truman Papers, Truman Library, Independence, Missouri.

Oral Histories

Rhodes House Library, Oxford
Sir Alexander Grantham

Seeley G. Mudd Library, Princeton
The JFD Oral History Project
Oliver Franks
U. Alexis Johnson
George F. Kennan
Livingstone T. Merchant
Okazaki Katsuo
William J. Sebald

Truman Library, Independence, Missouri
Lucius Battle
Niles W. Bond
John F. Melby
John W. Snyder
R. Allen Thorp
Willard L. Thorp

Published Documents

General Agreement on Tariffs and Trade. Analytical Index: Guide to GATT Law and Practice. Geneva: GATT, 1994.

State Department. Foreign Relations of the United States. 1951, volume 6 Part 1. Washington D.C.: US Government Printing Office, 1977.

_____. Foreign Relations of the United States. 1952-1954, volume 1 Part 1. Washington D.C.: US Government Printing Office, 1983.

_____. Foreign Relations of the United States. 1952-1954, volume 12 Part 1. Washington D.C.: US Government Printing Office, 1984.

_____. Foreign Relations of the United States. 1952-1954, volume 14 Part 2. Washington D.C.: US Government Printing Office, 1985.

Kajima, Morinosuke ed. Nihon Gaikôshi [The Diplomatic History of Japan] volume 30, Kôwago no Gaikô (II) Keizai (jyô) [Diplomacy after the Peace Treaty (II) Economics (part I)]. Tokyo: Kajima Kenkyûjo Shuppankai, 1972.

Ministry of Finance, ed. Shôwa Zaiseishi [Shôwa Financial History] volume 15, Shûsen kara Kôwa made [From the end of the war to the Peace Treaty]. Tokyo: Tôyô Keizai Shinpôsha, 1976.

_____, ed. Shôwa Zaiseishi [Shôwa Financial History] volume 19, Shûsen kara Kôwa made [From the end of the war to the Peace Treaty]. Tokyo: Tôyô Keizai Shinpôsha, 1978.

Ministry of International Trade and Industry, ed. Nihon Bôeki no Tenkai: Sengo 10 nen no Ayumikara [Development of Japan's Trade: A Review of the Postwar Decade]. Tokyo: Shôkô Shuppan, 1956.

Ministry of International Trade and Industry, ed. Tsûshô Sangyô Seisakushi [The History of Trade and Industrial Policy], volume 6, Dai Niki Jiritsu Kiban Kakuritsuki (2) [The Second Stage-Establishing the foundation for self-efficiency (2)]. Tokyo: Tsûshô Sangyô Chôsakai, 1990.

Sterling Payments Agreement between the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of Japan (with exchange of notes) in Parliamentary Papers volume 31, Cmd 8602. London: His Majesty's Stationary Office, 1951.

U.K. Hansard Parliamentary Debates (Commons) fifth Series, volume 473 (1950).

_____. Hansard Parliamentary Debates (Commons) fifth Series, volume 523 (1953-54).

Treaty of Peace with Japan, Treaty Series No. 33 Parliamentary Papers volume 31, Cmd. 8601. London: Her Majesty's Stationary Office, 1952.

United Kingdom Balance of Payments 1949 to 1952, Parliamentary Papers volume 18, Cmd. 8808. London: Her Majesty's Stationary Office, 1953.

United Kingdom Balance of Payments 1946 to 1955, Parliamentary Papers volume 29, Cmd. 9731. London: Her Majesty's Stationary Office, 1956.

United Nations, International Monetary Fund and International Bank for Reconstruction and Development (Eds.) Direction of International Trade. New York: United Nations, 1953.

_____. Direction of International Trade. New York: United Nations, 1956.

_____. Direction of International Trade. New York: United Nations, 1959.

Newspapers

Asahi Shimbun

The Economist

The Manchester Guardian

The Times

Journals

Cotton Board Quarterly Statistical Review

Congressional Digest volume 30, No. 4 April 1951.

Published Memoirs and Diaries

Acheson, Dean. Present at the Creation: My Years in the State Department. New York: W.W. Norton and Company, 1967.

Butler, Richard Austin. The Art of the Possible: The Memoirs of Lord Butler. London: Hamish Hamilton, 1971.

Cairncross, Alec ed. The Robert Hall Diaries, 1954-1961. London: Unwin Hyman, 1991.

Colville, John. The Fringes of Power: Downing Street Diaries. Volume II 1941-April 1955. Kent: Sceptre, 1987.

Dupree, Marguerite ed. Lancashire and Whitehall: The Diary of Sir Raymond Street Volume Two 1939-57. Manchester: Manchester University Press, 1987.

Eden, Anthony. Full Circle. London: Cassell and Company, 1960.

Eisenhower, Dwight D. The White House Years: Mandate for Change 1953-1956. London: William Heinemann, 1963.

Grantham, Alexander. Via Ports: From Hong Kong to Hong Kong. Hong Kong: Hong Kong University Press, 1965.

Ihara, Takashi. Ihara Takashi Ikôshu [The unpublished writings of Ihara Takashi]. Tokyo: Yokohama Ginkô, 1977.

Kiuchi, Nobutane. Kuni no Kosei [The Character of a Nation]. Tokyo: President-sha, 1986.

Morrison, Herbert. An Autobiography. London: Lodhams Press, 1960.

Plowden, Edwin. An Industrialist in the Treasury: The Post-War Years. London: Andre Deutsch: 1989.

Sebald, William J., with Russell Brines. With MacArthur in Japan: A Personal History of the Occupation. London: Cresset Press, 1967.

Truman, Harry S. The Memoirs of Harry S. Truman Volume Two: Years of Trial and Hope 1946-1953. Suffolk: Hoddler and Stoughton, 1956.

Ushiba, Nobuhiko. Gaikô no Shunkan: Watakushi no Rirekisho [A moment in Diplomacy: My Memoirs]. Tokyo: Nihon Keizai Shimbin-sha, 1984.

_____. Keizaigaikô e no Shôgen [A Testimony to Economic Diplomacy]. Tokyo: Diamond-sha, 1985.

Williams, Philip M., ed. The Diary of Hugh Gaitskell 1945-1956. London: Jonathan Cape, 1983.

Yoshida, Shigeru. Kaisô Jûnen [Memoirs of the former Prime Minister of Japan]. Volumes 1 and 3 Tokyo: Shinchô-sha, 1957.

Secondary Sources

Adler-Karlsson, Gunnar. Western Economic Warfare 1947-1967: A Case Study in Foreign Economic Policy. Stockholm: Almqvist & Wiksells, 1968.

Akaneya Tatsuo. Nihon no GATT Kanyû Mondai: Rejimu Riron no Bunseki shikaku ni yoru Jirei Kenkyû [The Problem of Japanese Accession to the GATT: A Case Study in Regime Theory]. Tokyo: University of Tokyo Press, 1992.

Allen, GC. A Short Economic History of Modern Japan. London: Mamillan, 1981.

Bartlett, CJ. 'The Special Relationship': A Political History of Anglo-American Relations since 1945. London and New York: Longman, 1992.

Bauer Raymond A., Ithiel De Sola Pool and Lewis Anthony Dexter. American Business and Public Policy: The Politics of Foreign Trade. Chicago: Aldine Atherton Inc., 1972.

Bell, Philip W. The Sterling in the Postwar World: Internal Mechanism and Cohesion 1946-1952. Oxford: Clarendon, 1956.

Best, Antony. Britain, Japan and Pearl Harbor: Avoiding war in East Asia, 1936-41. London and New York: Routledge, 1995.

- Billings-Yun, Melanie. Decision Against War. Eisenhower and Dien Bien Phu, 1954. New York: Columbia University Press, 1988.
- Blank, Stephen. Industry and Government in Britain: The Federation of British Industries in Politics, 1945-1965. Massachusetts: Lexington Books, 1973.
- Borden, William S. The Pacific Alliance: United States Foreign Economic Policy and Japanese Trade Recovery, 1947-1955. Wisconsin: University of Wisconsin Press, 1984.
- Buckley, Roger. Occupation Diplomacy: Britain, the United States and Japan 1945-1952. Cambridge: Cambridge University Press, 1982.
- Bullock, Allan. Ernest Bevin: Foreign Secretary 1945-1951. London: William Heinemann, 1983.
- Cain PJ, and AG Hopkins. British Imperialism: Innovation and Expansion, 1688-1914. London and New York: Longman, 1993.
- _____. British Imperialism: Crisis and Deconstruction 1914-1990. London and New York: Longman, 1993.
- Cairncross, Alec. Years of Recovery, British Economic Policy 1945-51. London and New York: Methuen, 1985.
- Calder, Kent E. Crisis and Compensation: Public Policy and Political Stability in Japan, 1949-1986. Princeton: Princeton University Press, 1986.
- Chen, Jian. China's Road to the Korean War: the Making of the Sino-American Confrontation. New York: Columbia University Press, 1994.
- Childs, David. Britain since 1945: A Political History. London: Methuen, 1986.
- Clayton, David. Imperialism Revisited: Political and Economic Relations between Britain and China, 1950-54. London and New York: Macmillan Press, 1997.
- Cohen, Jerome B. Japan's Postwar Economy. Bloomington: Indiana University Press, 1960.

- Cohen, Theodore. Remaking Japan: the American Occupation as New Deal. New York: Free Press, 1987.
- Craig, FWS., ed. British Parliamentary Election Results 1950-1970. Chichester: Political Reference Publications, 1971.
- Cumings, Bruce. The Origins of the Korean War: Liberation and the Emergence of Separate Regimes 1945-1947. Princeton: Princeton University Press, 1981.
- _____. The Origins of the Korean War: The Roaring of the Cataract 1947-1950. Princeton: Princeton University Press, 1990.
- Danchev, Alex. Oliver Franks: Founding Father. Oxford: Clarendon Press, 1993.
- Darwin, John. The End of the British Empire: the Historical Debate. Oxford: Blackwell, 1991.
- Dobson, Alan P. The Politics of the Anglo-American Economic Special Relationship, 1940-1987. Sussex: Wheatsheaf Books Ltd, 1988.
- Dower, JW. Empire and Aftermath: Yoshida Shigeru and the Japanese Experience, 1878-1954. Cambridge and London: Harvard University Press, 1988.
- Drifte, Reinhard. Japan's Foreign Policy. London: Routledge, 1990.
- Finn, Richard B. Winners in Peace: MacArthur, Yoshida and Postwar Japan. Berkeley: University of California Press, 1991.
- Fforde, John. The Bank of England and Public Policy, 1941-1958. Cambridge: Cambridge University Press, 1992.
- Foot, Rosemary. The Wrong War: American Policy and the Dimensions of the Korean Conflict, 1950-1953. Ithaca: Cornell University Press, 1985.
- Foreman-Peck, James. A History of the World Economy: International Economic Relations since 1850. Hemel Hempstead: Harvest Wheatsheaf, 1995.
- Frankel, Joseph. British Foreign Policy 1945-1975. London: Oxford University Press, 1975.

- Gaddis, John Lewis. The United States and the Origins of the Cold War, 1941-1947. New York: Columbia University Press, 1972.
- _____. Strategies of Containment: A Critical Appraisal of Postwar American National Security Policy. Oxford: Oxford University Press, 1982.
- Gallicchio, Marc. The Cold War begins in Asia: American East Asian Policy and the Fall of Japanese Empire. New York: Columbia University Press, 1988.
- Gardner, Richard. Sterling-Dollar Diplomacy in Current Perspective: the Origins and the Prospects of our International Economic Order. New York: Columbia University Press, 1980.
- Gilpin, Robert. The Political Economy of International Relations. Princeton: Princeton University Press, 1987.
- Goncharov, Sergei N., John W. Lewis and Xue Litai. Uncertain Partners: Stalin, Mao and the Korean War. Stanford: Stanford University Press, 1993.
- Haitani, Kanji. The Japanese Economic System: An Institutional Overview. Massachusetts: Lexington Books, 1976.
- Hayes, Samuel P., ed. The Beginning of American Aid to Southeast Asia: The Griffin Mission of 1950. Lexington: DC Heath Co., 1971.
- Harris, Kenneth. Attlee. London: Weidenfeld & Nicolson, 1995.
- Hashimoto, Jurô. Sengo no Nihon Keizai [Japan's Postwar Economy]. Tokyo: Iwanami Shinsho, 1995.
- Hennessy, Peter. Whitehall. London: Fontana Press, 1990.
- Hiwatari, Yumi. Sengo Seiji to Nichibei Kankei [Postwar Politics and Japan-US Relations]. Tokyo: Tokyo Daigaku Shuppankai, 1990.
- Hosoya, Chihiro and Ariga Tadashi eds. Kokusai Kankyô no Henyô to Nichibei Kankei [Changes in the International Environment and US-Japan Relations]. Tokyo: Tokyo Daigaku Shuppankai, 1987.

- Hosoya, Chihiro. San Francisco Kôwa e no Michi [The Road to the San Francisco Peace Treaty]. Tokyo: Chûô Kôronsha, 1984.
- Hunter, Janet E. The Emergence of Modern Japan: An Introductory History since 1853. London and New York: Longman, 1989.
- Immerman, Richard H., ed. John Foster Dulles and the Diplomacy of the Cold War. Princeton: Princeton University Press, 1990.
- Iriye, Akira and Yônosuke Nagai ed. The Origins of the Cold War in Asia. New York: Columbia University Press, 1977.
- Ishii, Osamu. Reisen to Nichibei Kankei: Pâtonashippu no Keisei [The Cold War and US-Japan Relations: Formation of a Partnership]. Tokyo: Japan Times, 1989.
- Kaplan, Jacob J., and Günther Schleiminger. The European Payments Union: Financial Diplomacy in the 1950s. Oxford: Clarendon Press, 1989.
- Kaplan, Lawrence, Denise Artaud and Mark Rubin eds. Dien Bien Phu and the Crisis of Franco-American Relations, 1954-1955. Wilmington: Scholarly Sources, 1990.
- Kataoka, Tetsuya. The Price of a Constitution: the Origins of Japan's Postwar Politics. New York: Taylor and Francis, 1991.
- Kaufman, Burton I. Trade and Aid: Eisenhower's Foreign Economic Policy 1953-1961. Baltimore and London: The Johns Hopkins University Press, 1982.
- Kent, John. British Imperial Strategy and the Origins of the Cold War, 1944-49. Leicester: Leicester University Press, 1993.
- Kibata, Yôichi. Teikoku no Tasogare: Reisenka no Igrisu to Ajia [The Twilight of the Empire: British Policy towards Japan and Malaya, 1947-1955]. Tokyo: University of Tokyo Press, 1996.
- Kunz, Diane B. The Economic Diplomacy of the Suez Crisis. Chapel Hill and London: The University of North Carolina Press, 1991.

- Kusano, Atsushi and Umemoto Tetsuya, eds. Gendai Nihon Gaikô no Bunseki [An Analysis of Modern Japanese Diplomacy]. Tokyo: Tokyo Daigaku Shuppankai, 1995.
- Large, Stephen S. Emperor Hirohito and Shôwa Japan: A Political Biography. London and New York, Routledge, 1992.
- Livingstone, JM. Britain and the World Economy. Middlesex: Penguin Books, 1966.
- Lowe, Peter. Containing the Cold War in East Asia: British policies towards Japan, China and Korea, 1948-53. Manchester and New York: Manchester University Press, 1997.
- _____. The Origins of the Korean War. New York and London: Longman, 1986.
- Mastanduno, Michael. Economic Containment: CoCom and the Politics of East-West Trade. Ithaca and London: Cornell University Press, 1992.
- McDermott, Geoffrey. The Eden Legacy. London: Leslie Frewin, 1969.
- McGlothlen, Ronald L. Controlling the Waves: Dean Acheson and US Foreign Policy in Asia. New York: WW Norton, 1993.
- McIntyre, W. David. Background to the ANZUS Pact. London: Macmillan Press, 1995.
- Mendl, Wolf. Issues in Japan's China Policy. London, Macmillan, 1978.
- _____. Japan's Asia Policy: Regional Security and Global Interests. London and New York: Routledge, 1995.
- Mouer, Ross and Sugimoto Yoshio. Images of Japanese Society: A Study in the Structure of Social Reality. London: KPI Ltd., 1986.
- Munn Glenn G., et. al eds. The St. James Encyclopedia of Banking and Finance. Chicago: St. James Press, 1991.

- Nagaoka, Shinkichi and Nishikawa Hiroshi, eds. Nihon Keizai to Higashi Ajia: Senji to Sengo no Keizaishi [The Japanese Economy and East Asia: the Economic History of the Interwar and postwar period]. Tokyo: Minerva Shobô, 1995.
- Nakamura, Takafusa. Shôwashi II 1945-1989 [Shôwa History II 1945-1989]. Tokyo: Tôyô Keizai Shinpôsha, 1993.
- _____. The Postwar Japanese Economy: Its Development and Structure, 1937-1994. Tokyo: University of Tokyo Press, 1995.
- Nish, Ian ed. Britain and Japan: Biographical Portraits. Volume Two. Richmond: Japan Library, 1997.
- Ostry, Sylvia. The Post-Cold War Trading System: Who's on First? London and Chicago: Chicago University Press, 1997.
- Pimlott, Ben. Harold Wilson. London: Harper Collins, 1992.
- Remme, Tilman. Britain and Regional Cooperation in South-East Asia, 1945-49. London and New York: Routledge, 1995.
- Reynolds, David. Britannia Overruled: British Policy and World Power in the 20th Century. London and New York: Longman, 1991.
- Rix, Alan. Coming to Terms: The Politics of Australia's Trade with Japan 1945-57. Sydney: Allen & Unwin, 1986.
- Rotter, Andrew J. The Path to Vietnam. Origins of the American Commitment to Southeast Asia. Ithaca: Cornell University Press, 1987.
- Saitô, Shirô. Japan at the Summit: Japan's Role in the Western Alliance and Asian Pacific Co-operation. London and New York: Routledge, 1990.
- Sandberg, Lars G. Lancashire in Decline: a study in entrepreneurship, technology, and international trade. Columbus: Ohio State University Press, 1974.
- Sanger, Clyde. Malcolm MacDonald: Bringing an End to Empire. Montreal: McGill-Queen's University, 1995.

Schaller, Michael. The American Occupation of Japan: the Origins of the Cold War in East Asia. Oxford: Oxford University Press, 1985.

_____. Altered States: The United States and Japan since the Occupation. New York and Oxford: Oxford University Press, 1997.

Schenk, Catherine R. Britain and the Sterling Area: From devaluation to convertibility in the 1950s. London: Routledge, 1994.

Schonberger, Howard B. Aftermath of War: Americans and the Remaking of Japan, 1945-1952. Ohio: Kent State University Press, 1989.

Shimizu, Hiroshi. Anglo-Japanese Rivalry in the Middle East in the Inter-war Period. London: Ithaca Press, 1986.

Shiraishi, Takashi. Japan's Trade Policies 1945 to the Present Day. London: the Athlone Press, 1989.

Shonfield, Andrew. British Economic Policy since the War. London: Penguin, 1958.

Singh, Lalita Prasad. The Politics of Economic Cooperation in Asia: A Study of Asian International Organizations. Missouri: University of Missouri Press, 1966.

Singleton, John. Lancashire on the Scrapheap: the Cotton Industry 1945-1970. Oxford: Oxford University Press, 1991.

Smith, Michael, Steve Smith and Brian White. British Foreign Policy: Tradition, Change and Transformation. London: Unwin Hyman, 1988.

Stueck, William. The Korean War: An International History. Princeton: Princeton University Press, 1995.

Tanaka, Takahiko. Nisso Kokkô Kaifuku no Shitekikenkyu: Sengo Nisso Kankei no Kiten 1945-1956 [A Historical Study of the Normalization of Relations between the Soviet Union and Japan: the Origins of the Postwar Soviet-Japanese relations, 1945-1956]. Tokyo: Yûhikaku, 1993.

Teranishi, Juno and Yutaka Kosa eds. The Japanese Experience of Economic Reforms. London and Basingstoke: The Macmillan Press, 1993.

- Tsutsui, William M. Banking Policy in Japan: American efforts at reform during the Occupation. London and New York: Routledge, 1988.
- Ward Robert E., and Sakamoto Yoshikazu. Democratizing Japan: The Allied Occupation. Honolulu: The University of Hawaii Press, 1987.
- Warner, Fred. Anglo-Japanese Financial Relations: A Golden Tide. Oxford: Basil Blackwell, 1991.
- Watanabe, Akio and Seigen Miyasato eds. San Francisco Kôwa [San Francisco Peace Treaty]. Tokyo: Tokyo Daigaku Shuppankai, 1986.
- _____. Ajia/Taiheiyô no Kokusai Kankei to Nihon [Japan's Diplomacy and International Relations in the Asia-Pacific Region]. Tokyo: Tokyo University Press, 1992.
- _____ ed. Sengo Nihon no Saishô tachi [The Postwar Japanese Prime Ministers]. Tokyo: Chûô Kôrônsha, 1995.
- Welfield, John. An Empire in Eclipse: Japan in the Postwar American Alliance System: A Study in the Interaction of Domestic Politics and Foreign Policy. London: the Athlone Press, 1988.
- Westad, Odd Arne, Cold War and Revolution: Soviet-American Rivalry and the Origins of the Chinese Civil War, 1944-1946. New York: Columbia University Press, 1993.
- Wheeler-Bennett, John. Action this Day: Working with Churchill. London: Macmillan, 1968.
- Xiang, Lanxin. Recasting the Imperial Far East: Britain and America in China, 1945-1950. London and New York: ME Sharpe, 1995.
- Yanaga, Chitoshi. Big Business in Japanese Politics. New Haven and London: Yale University Press, 1968.
- Zhai, Qiang. The Dragon, the Lion and the Eagle: Chinese-British-American Relations, 1949-1958. Kent and London: the Kent State University Press, 1994.

Zubok, VM. Inside the Kremlin's Cold War: from Stalin to Khrushchev. Cambridge: Harvard University Press, 1996.

Articles

Buckley, Roger. 'Joining the Club: The Japanese Question and Anglo-American Peace Diplomacy, 1950-1951.' Modern Asian Studies 19 no. 2 (1985): 299-319.

_____. 'From San Francisco to Suez and Beyond: Anglo-Japanese Relations, 1952-1960.' In The Great Powers in East Asia, 1953-1960, edited by Warren I Cohen and Akira Iriye. New York: Columbia University Press, 1990.

Cain, Frank. 'Exporting the Cold War: British Responses to the USA's Establishment of COCOM, 1947-51.' Journal of Contemporary History 29 (1994): 501-522.

_____. 'The US-Led Trade Embargo on China: the Origins of CHINCOM, 1947-52.' The Journal of Strategic Studies 18 no. 4 (1995): 33-54.

Chen, Jian. 'China and the First Indo-China War, 1950-54.' The China Quarterly no. 133 (1993): 85-110.

Cortazzi, Hugh. 'Britain and Japan: A Personal View of Postwar Economic Relations.' In Conflict and Amity in East Asia: Essays in Honour of Ian Nish. Edited by TG Fraser and Peter Lowe. London: Macmillan, 1992.

Dingman, Roger. 'Truman, Attlee, and the Korean War Crisis'. In The East Asian Crisis, 1945-1951: The Problem of China, Korea and Japan no. IS 82/49 (1982): 1-42.

Forland, Tor Egil. "'Selling Firearms to the Indians": Eisenhower's Export Control Policy, 1953-54.' Diplomatic History 15 no. 2 (1991): 221-244.

Forsberg, Aaron. 'Eisenhower and Japanese Economic Recovery: The Politics of Integration with the Western Trading Bloc, 1952-1955.' The Journal of American-East Asian Relations 5 no. 1 (1996), pp. 57-75.

- Fukushima, Teruhiko. 'Sengo Nihon no Bôeki Senryaku ni okeru Australia 1947-54' [Japan's post-war trade strategy towards Australia, 1947-1954]. In Gendai Nihon Gaikô no Bunseki. [An Analysis of Japan's Foreign Diplomacy], (eds.) Kusano Atsushi and Umemoto Tetsuya. Tokyo: Tokyo Daigaku Shuppankai, 1995.
- Gray, Robin. 'The Anglo-Japanese Commercial Treaty of 1962: A British Perspective.' In Britain and Japan: Biographical Portraits. Volume II. Edited by Ian Nish. Sussex: Japan Library, 1997.
- Hanaoka, Sosuke. 'Memories of the Anglo-Japanese Commercial Treaty: A Japanese Perspective.' In Britain and Japan: Biographical Portraits. Volume II. Edited by Ian Nish. Sussex: Japan Library, 1997.
- Hatano, Sumio. 'Tônan Ajia Kaihatsu wo meguru Nichibeiei Kankei' [Japan-US-UK Relations Centering on the Development of southeast Asia in the 1950s]. Kindai Nihon Kenkyû 16 (1994): 215-242.
- Hinds, Allister E. 'Sterling and Imperial Policy, 1945-1951.' The Journal of Imperial and Commonwealth History 15 no. 2 (1987): 148-169.
- _____. 'Imperial Policy and Colonial Sterling Balances 1943-56.' The Journal of Imperial and Commonwealth History 19 no. 1 (1991): 24-44.
- Hosoya, Chihiro. 'Japan, China, the United States and the United Kingdom, 1951-2: the Case of the 'Yoshida Letter.'" International Affairs 60, no. 2 (1984): 247-259.
- Kitaoka, Shinichi. 'Yoshida Shigeru ni okeru Senzen to Sengo' [Pre-War and Post-War Period in the Diplomacy of Yoshida Shigeru]. Kindai Nihon Kenkyû 16 (1994): 105-131.
- Lowe, David. 'Percy Spender and the Colombo Plan 1950.' The Australian Journal of Politics and History 40 no. 2 (1994): 162-176.
- Lowe, Peter. 'Herbert Morrison, the Labour Government, and the Japanese Peace Treaty, 1951.' Britain, the United States and Japan's Return to Normal, 1951-1972 no. IS/93/58 (1983): 1-27.

- _____. 'The Settlement of the Korean War.' In The Foreign Policy of Churchill's Peacetime Administration 1951-1955, edited by John W. Young. Leicester: Leicester University Press, 1988.
- McDougall, Donald and Rosemary Hutt, 'Imperial Preference: A Quantitative Analysis.' The Economic Journal vol. LXIV, No. 254 (1954): 233-257.
- McLean, David. 'American Nationalism, the China Myth, and the Truman Doctrine: The Question of Accommodation with Peking, 1949-50.' Diplomatic History 10, no. 1 (1986): 25-42.
- Nakakita, Toru. 'Trade and Capital Liberalization Policies in Postwar Japan.' In The Japanese Experience of Economic Reforms, edited by Juro Teranishi and Yutaka Kosai. London: Macmillan, 1993.
- Nakanishi, Hiroshi. 'Sengo Ajia/Taiheiyô no Anzen Hoshô Wakugumi no Mosaku to Nihon' [Searches for an Asia-Pacific Security Framework and Japan: 1949-1951]. Kindai Nihon Kenkyû 16 (1994): 69-104.
- Ovendale, Richard. 'Britain, the United States, and the Cold War in South-East Asia, 1949-1950.' International Affairs 58, no. 3 (1982): 447-464.
- _____. 'Britain, the United States, and the Recognition of Communist China.' The Historical Journal 26, no. 1 (1983): 139-158.
- Qing, Simei. 'The Eisenhower Administration and Changes in Western Embargo Policy Against China, 1954-1958.' In The Great Powers in East Asia, 1953-1960, edited by Warren I Cohen and Akira Iriye. New York: Columbia University Press, 1990.
- Ruane, Kevin. "'Containing America": Aspects of British Foreign Policy and the Cold War in South-East Asia, 1951-54.' Diplomacy and Statecraft 7 no. 1 (1996): 141-174.
- Schonberger, Howard. 'Peacemaking in Asia: The United States, Great Britain, and the Japanese Decision to Recognize Nationalist China, 1951-52.' Diplomatic History 10, no. 1 (1986): 59-73.

- Shai, Aaron. 'Imperialism Imprisoned: the closure of British firms in the People's Republic of China.' English Historical Review 109 (1989): 88-109.
- Shimizu, Sayuri. 'Posto-Senryôki no Nichibei Kankei: Tônan Ajia Keizai Kaihatsu Kôso wo chushin ni' [The Post-Occupation US-Japan Relations: the Asian Marshall Plan]. Amerika to Nihon. Tokyo: Sairyûsha, 1993.
- Spaulding, Robert Mark Jr. "'A Gradual and Moderate Relaxation": Eisenhower and the Revision of American Export Control Policy, 1953-1955.' Diplomatic History 17 no. 2 (1993): 223-249.
- Stockwell, AJ. 'British Imperial Policy and Decolonization in Malaya, 1942-52.' The Journal of Imperial and Commonwealth History 13 no. 1 (1984): 68-87.
- _____. 'Insurgency and Decolonisation during the Malayan Emergency.' Journal of Commonwealth and Comparative Politics 25 no. 1 (1987): 71-81.
- _____. "'A Widespread and Long-concocted plot to overthrow government in Malaya"? The Origins of the Malayan Emergency.' The Journal of Imperial and Commonwealth History 21 no. 3 (1993):66-88.
- Sugihara, Kaoru. 'Sengo Nihon Mengyô wo Meguru Kokusai Kankyô: Ajia kan Kyôsô Fukkatsu no Kôzô.' Kindai Nihon Kenkyû 19 (1997): 84-110.
- Takamatsu, Motoyuki. 'China Differential Kanwa Mondai wo Megutte no Eisenhower Seiken no Taiô' [The Eisenhower Administration's Response to the China Differential, 1955-57]. Kokusai Seiji 105, (1994): 60-79.
- Tarling, Nicholas. 'The United Kingdom and the Origins of the Colombo Plan.' Journal of Commonwealth and Comparative Politics 24 no. 1 (1986): 3-34.
- Tucker, Nancy Bernkopf. 'American Policy Toward Sino-Japanese Trade in the Postwar Years: Politics and Prosperity.' Diplomatic History 8 no. 3 (1984): 183-208.
- Warner, Geoffrey. 'The Settlement of the Indochina War.' In The Foreign Policy of Churchill's Peacetime Administration 1951-1955, edited by John W. Young. Leicester: Leicester University Press, 1988.

Yasuhara, Yôko. 'Japan, Communist China, and Export Controls in Asia, 1948-52.' Diplomatic History 10, no. 1 (1986): 75-89.

Yoshida, Shigeru. 'Japan and the Crisis in Asia.' Foreign Affairs 29, no. 2 (January 1951): 171-181.

Young, John W. 'Winston Churchill's Peacetime Administration and the Relaxation of East-West Trade Controls, 1953-54.' Diplomacy and Statecraft 7 no. 1 (1996): 125-140.

Unpublished Theses

Forsberg, Aaron Patrick. 'America and the Resurgence of Postwar Japan: After the Occupation.' Ph.D. Dissertation. The University of Texas at Austin, 1992.

Sharkey, John. 'The Influence of British Business Interests in Anglo-Japanese Relations, 1933-1937.' Ph.D. Thesis. London School of Economics and Political Science, 1994.

Shimizu, Sayuri. 'Creating People of Plenty: The United States and Japan's Economic Alternatives, 1953-1958.' Ph.D. Dissertation. Cornell University, 1991.

Tomaru, Junko. 'The Post-war Rapprochement of Malaya and Japan, 1945-1961.' D. Phil. Thesis. University of Oxford, 1997.

