
INDO – JAPANESE TRADE AGREEMENT (1933 – 1940)

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Abstract

The trade between India and Japan was for a long time regulated by the Indo – Japanese Trade Convention of 1904. But the continuous depreciation of the year since 1932 placed the Japanese in a favourable position and enabled them to compete successfully with the Indian market. The Indian cotton mills indeed agitated for increased protection from Japanese imports of Textiles, but no action could be taken against the Japanese imports under the Safeguarding of Industries Act so long as the Trade Convention of 1904 was in force. So the Indian Government gave six months notice to the Japanese Government of their intention to renounce the trade convention. In June 1933, Indian Government announced an increase in the duty on foreign cotton piece-goods to 75 percentage ad valorem with a minimum specific duty of 6 $\frac{3}{4}$ annas per pound on plain greys. The Japanese Cotton Association passed a measure to boycott Indian cotton and also sent a delegation to India to seek a new agreement. The delegation arrived in India in October 1933, met the official and non-official representatives of the Indian Government and after negotiations lasting for three months, a new agreement was reached. The cotton spinning industry has been of great important to India, but when the agreement was arrived at between Japan and India with respect to piece-goods, the cotton spinning industry was wholly neglected. Japan saw the loop hole and made a clever use of the shortcoming in the agreement to increase the import of her cotton yarn into India.

Keywords : Trade Convention, Cotton Piece – goods, Cotton spinning industry, Japanese Cotton Association, Import duties.

Introduction

Historically, India-Japan relations have existed for more than a thousand years. It is said that Japan first came into contact with India during the region of Emperor Kimmer. Despite Japan's aloofness with the rest of the world, the connectivity between India and Japan remained with the fast-growing Japanese spinning industry, which found India as a source of raw cotton. India also became a destination for finished Japanese goods. Perhaps the most significant bilateral contact was that Indian industrialist J.N.Tata who visited Japan in

1893 and set up an office there. The initiation of trade ties to the establishment of a Japanese consulate office in Bombay and consulate general office in Calcutta. An Indo - Japanese Trade convention was also signed in 1894 which marked the beginning of opening of regular ocean transport between two sides.ⁱ

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There were following causes that led to the phenomenal success of Japan in the Indian market.

- Japan was not unaffected by the depression of 1929 – 1930, but she was the earliest to recover and she invaded the Indian market with her cheap products. In India itself, the agriculturists purchasing power had been greatly reduced by the depression and they found it worthwhile to prefer the cheaper Japanese goods to others in the market.ⁱⁱ
- The boycott of British piece-goods in 1930-1931 by the Civil Disobedience Movement gave a fillip to the import of Japanese goods into India.
- The boycott of Japanese goods in China in 1930 and 1931 drove the Japanese to the necessity of strengthening their hold on the Indian market and the depreciation of the yen at the end of 1931 till further helped the Japanese to expand their trade with India.ⁱⁱⁱ
- The cheap money policy of the Japanese banks and the Japanese Government's active help to exporters made it possible for the Japanese to compete successfully with Indian, British and other goods in the Indian market.
- The gold exports from India at this time placed enormous additional purchasing power in the hands of the people and this indirectly resulted in the greater consumption of Japanese products.
- The rising tariff of India in the depression years reduced the strength of European and American competitors and Japan by her capacity to produce cheaply ousted the European and American competitors from the Indian market. The Indian cotton mills indeed agitated for increased protection from Japanese imports of Textiles, but no action could be taken against the Japanese imports under the Safeguarding of Industries Act so long as the Trade Convention of 1904 was in force. So the Indian Government gave six months notice to the Japanese Government of their intention to renounce the trade convention. In June 1933, Indian Government announced an increase in the duty on foreign cotton piece-goods to 75 percentage ad valorem with a minimum specific duty of 6 $\frac{3}{4}$ annas per pound on plain greys.

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In the case of the Indo-Japanese trade negotiations in 1933 – 1934, Japan boycotted the import of Indian raw cotton from August to December 1933.^v But this aggressive act was led by the Japan Cotton Spinners Association and was not actually orchestrated by the Japanese Government. The representatives of the Japanese Government were prepared to purchase raw cotton regularly, but they used the boycott movement as a lever to improve the conditions of the Indo – Japanese cotton treaty for Japan's benefit. As Keizo Kurata, who was a leader of this boycott and an executive of Dai Nihon Boseki Kaisha pointed out the boycott was not actually in effect in December 1933, because European and Indian merchants bought Indian raw cotton in the inner district even while the Japanese trading companies maintained a policy of not purchasing raw cotton. When the representatives of the Japanese Government realized that the boycott led by a private body was no longer in effect, they immediately concluded a trade agreement, conceding to the British Indian Government. The Indo – Japanese negotiations were completed in early January 1934.^{vi}

The Terms of the Agreement:

The Agreement consisted of two parts which is a convention and a protocol.

Under Article (2) of the Convention it was stated that “ Articles produced or manufactured in the territories of the High Contracting Parties, on importation into the territories of the other from whatever place arriving, shall not be subjected to duties or charges other or higher than those imposed on like articles produced or manufactured in any other foreign country”. This guaranteed the most -favoured nation clause treatment to the Japanese.

In the Article (30) of the Convention, it was agreed that if the yen depreciated after the 31st December, 1933, the Government of India might impose increased tariff rates. This conceded to the Indian Government, at least in principle, their right to impose duties on Japanese imports according to the fluctuations of the Japanese Currency.

Article (4) said that, if a modification of customs duties by one country adversely affected the other country, the modifying country should be ready to negotiate with the other country if it desired it.

The Protocol (Article 2) provided that the Indian import duties on Japanese cotton goods should not exceed 50 percentages ad valorem on plain greys and 50 percentage ad-valorem on others.

Though the agreement with Japan contained many draw-backs, it had some very wholesome lessons to give to Indian industrialists. The agreement made it clear to them that the competitive strength of Japan depended upon the rationalization of her methods. It also proved that the trade pacts with Japan based on certain policies and principles could not help to regulate the trade relations between India and Japan by themselves. The agreement emphasized

the need to stiffen our administrative control of the Government in order to check effectively the Japanese inroads on the Indian Market.

The New Indo – Japanese Trade Agreement of 1937

When the old agreement of 1934 was to expire on the 31st March, 1937, negotiations for a new agreement began in July, 1936. Finally the new Agreement came into force on 1st April, 1937 and it was to have effect till the 31st March, 1940.

The trade Convention of the former agreement was also adopted in this agreement and Japan was assured of the most – favoured nation treatment for a further period of three years.

The Protocol in the New Agreement did not differ much from the original one except for some reduction in the quota of cotton imports necessitated by the separation of Burma. The annual basic quota of Japanese piece – goods imported was reduced from 325 million yards to 283 million yards due to the shrinkage of Indian markets on the eve of the separation of Burma from India. Besides the maximum limit for the import of cotton piece – goods into India was fixed at 358 million yards provided Japan's off-take of Indian cotton was 1 ½ million bales.

The 1937 Agreement was not very different from the previous one. The old Trade Convention was operative in the present agreement also and Japan's competition with Indian minor industries spelt ruins to them. No special arrangement was made to protect the indigenous industries of India. The reduction of the quota for cotton cloth affected owing to the separation of Burma was only 42 million yards, whereas the total in Burma during the previous two years was about 70 million yards a year. So the Indian quota for Japanese goods should be reduced by the same amount. Instead, only 42 million yards were reduced from the original quota.

Cotton fends were not included in the quota for the piece – goods but an attempt to fix the total imports of fends was in itself a blessing. The exclusion of the silk fends and artificial silk piece – goods from the operation of this agreement was severely criticized and later, the Government had to prohibit the import of artificial silk fends and also to raise the duty on the import of artificial silk piece – goods by one anna for every square yard.

Another drawback of this agreement was that it permitted the import of made –up goods, twilling and cotton blankets without any restrictions. By sending made-up goods Japan managed to make up what she lost by the cotton piece- goods.

But the agreement gave some security to the cotton growers of India. Only 50 percentage of the Indian cotton was absorbed by the Indian cotton mills and for the rest markets had to be found elsewhere. Japan's willingness to buy a

million bales from India was to be welcomed since, otherwise the Indian cotton growers would have been greatly handicapped in their effort to find markets for their produce.

Conclusion

The trade agreement of 1937 was that India made a free gift to Japan of 125 million yards of Japanese imports of textiles. In trade agreements where the principle of reciprocity alone had to play a part, such free gifts to Japan without any obligation to buy any cotton from India should not have been allowed. Though the reduction of duties on Japanese imports from 75% to 50% was a handicap to Indian mills, their competitive strength had been lessened by the tariff reduction. But Japan could not increase her imports since her imports were fixed. It was an opportunity for the United Kingdom and other European countries that possessed a higher capacity for production to increase their imports into India, in case there was any increased demand for those goods. The agreement of 1937 was not worse than the previous one, but the Government might have used their bargaining power to the full and fixed a higher quota. Instead of a barter agreement of raw cotton and manufactured piece – goods, a comprehensive agreement in which some protection for the small scale industries was afforded, would have been of greater value.

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