

ANNEX B

TRADE WITH JAPAN

A.—TRADE NEGOTIATIONS WITH S.C.A.P.

I.—*Introductory*

In the immediate post-war period the financial arrangements with Japan were most unsatisfactory from the point of view of the sterling area. The Supreme Commander for the Allied Powers could only accept payment in dollars for Japanese exports, and could not get dollars from his Government for expenditure on imports from countries other than the United States; we were therefore getting the worst of both worlds. In an effort to rectify this state of affairs, protracted negotiations took place; these culminated early in 1948 in the conclusion of the Overall Payments Agreement, under which trade between the sterling area and Japan was to be conducted in convertible sterling. Japan still remained a hard source of supplies, since under the Agreement S.C.A.P. had the right to convert his sterling accumulations at six monthly intervals; but the understanding was that he would only do so if those accumulations exceeded his prospective requirements of sterling over a considerable period.

2. As well as the United Kingdom and the Colonies (excluding Hong Kong), all the sterling area Dominions are parties to the Overall Payments Agreement. The exclusion of Hong Kong is due to her special position; her large entrepôt trade with Japan would lead to a serious dollar drain if she were included in the arrangements covering the rest of the sterling area, and for the time being she is meeting this deficit with United States dollars purchased on her free market in exchange. (The position of Hong Kong is in fact complicated and difficult; it is now under re-examination by His Majesty's Government.)

3. Once satisfactory payments arrangements had been made, the stage was set for the expansion of trade between the sterling area and Japan. It was therefore proposed that there should be negotiations in Tokyo between S.C.A.P. and as many of the sterling area countries of the Commonwealth as wished to participate in the discussions. The negotiations took place in July and August of this year, and, in addition to representatives of the United Kingdom and the Colonies, delegations from Australia, New Zealand and South Africa participated in full, and Indian observers attended and took part in the discussions. The general aim of the negotiations was to secure balanced trade between Japan and the sterling area participants as a whole at the highest level; since, under the Overall Payments Agreement, a sterling area deficit involved the possibility of dollar settlements, the sterling area could not afford a deficit, and equally S.C.A.P. was not prepared to import more from the sterling area than his sterling earnings would allow. A particular aim was to secure the inclusion of Japanese textiles manufactured from cotton of United States origin in the sterling payments arrangements; these had been excluded from the terms of the Overall Payments Agreement.

4. So far as the sterling area was concerned, the advantage of a joint negotiation on the lines proposed, as distinct from a series of bilateral negotiations, was that the sterling area participants who were likely to be in deficit with Japan would benefit from the fact that others were likely to be in surplus. A particular benefit was that it would secure for the sterling area large quantities of cotton textiles, of which there was a very serious shortage in the Colonies; textiles from Japan for sterling are to be regarded as dollar savers, since the Colonies are marginal buyers of dollar textiles.

II.—*Summary of Agreement with S.C.A.P.*

5. The main negotiations in Tokyo have now been concluded, and as soon as all the Commonwealth participants have notified their acceptance of the proposals, letters are to be exchanged between S.C.A.P. and the sterling area negotiators confirming that the following arrangements will govern trade between Japan and the sterling area during the year ending July 1949 :—

- (a) Trade will be conducted on a sterling basis, payment and credits being dealt with in accordance with the Overall Payments Agreement amended to include cotton textiles exported from Japan whatever the origin of the raw cotton from which they are made.