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JAPAN'S INDUSTRIALIZATION IN THE WORLD ECONOMY 1859-1899

Export trade and
overseas competition

Shinya Sugiyama

B L O O M S B U R Y

A stylized silhouette of a person in a dynamic, almost dancing or leaping pose, rendered in a darker shade of blue. The figure is positioned in the lower right quadrant of the cover. Surrounding the figure are several small, five-pointed stars and a large, thin crescent moon, all in the same dark blue color, creating a celestial or energetic theme.

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Contents

List of Tables	vii
List of Figures	ix
Notes on Usage	x
Acknowledgements	xi
Foreword <i>Professor W.G. Beasley</i>	xiii
Maps	xv
1 Introduction	1
2 East Asia in the World Economy	14
3 Japan's Incorporation into the World Economy	34
4 The Development of Silk Exports	77
5 The Development of Tea Exports	140
6 The Development of Coal Exports	170
7 Conclusion	213
Appendix Tables	224
Notes	229
Bibliography	271
Index	296

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List of Tables

- 1-1 Silk and Tea Exports from China and Japan, 1871-1900
- 2-1 Britain's Trade with China and Japan, 1850-1900
- 3-1 Western Firms in East Asia, 1869, 1880 and 1893
- 3-2 Number of Foreign Firms and Residents at Japanese Treaty Ports by Nationality, 1870-1895
- 3-3 Exports and Imports by Japanese and Foreign Merchants, 1877-1900
- 3-4 Japan's Foreign Trade in Commodities, 1860-1900
- 3-5 Imports of Raw Cotton, Cotton Yarn and Cotton Piece Goods into Japan, 1870-1910
- 4-1 World Raw Silk Production, 1871-5 and 1896-1900
- 4-2 Annual Average of Raw Silk Exports from Japan, 1861-1900
- 4-3 Types of Silk Reeling Machines in Japan
- 4-4 Quality Indices of Japanese Raw Silk Exports, 1875-1900
- 4-5 Annual Average of Raw Silk Exports from China, 1861-1900
- 4-6 Annual Average Export Price of Japanese and Chinese Raw Silk, 1866-1900
- 4-7 Annual Average Imports of Raw Silk into Britain, 1831-73
- 4-8 Annual Averages of Raw Silk and Thrown Silk Imports to France, 1866-95
- 4-9 Development of the Silk Industry in the United States, 1850-1910
- 4-10 Distribution of the Value of Products in the United States Silk Industry, 1875-1910
- 4-11 Annual Average of Raw Silk Imports into the United States, 1866-1900
- 4-12 Quality Indices of Imported Raw Silk to the United States, 1876-1900
- 4-13 Cocoon and Raw Silk Production in Japan, 1876-1900
- 4-14 Development of the Silk Reeling Industry in the Suwa District, Nagano, 1876-1900
- 4-15 Japan's Silk Reeling Industry in 1900
- 4-16 Comparison of Silk Reeling in Italy, China, and Japan

- 4-17 Raw Silk Exports by Western and Japanese Merchants, 1875–1920
- 4-18 Profit/Loss Balance in the Main Silk Accounts of Jardine, Matheson & Co., 1859/60–1885/6
- 4-19 Silk Export Accounts by Jardine, Matheson & Co. for the Year 1884/5
- 4-20 Silk Exports by Major Firms for the Season from July 1890 to June 1891
- 5-1 Production and Exports in the Main Tea-Producing Countries, 1896–1900
- 5-2 Annual Averages of Japan's Tea Exports and Production, 1868–1900
- 5-3 Green Tea Exports from Japan by Country, 1862–1900
- 5-4 Annual Averages of Tea Exports from China by Description, 1866–1900
- 5-5 Annual Averages of Main Distribution of Green Tea Exports from China by Country, 1868–1900
- 5-6 Imports of Tea, Coffee, and Cocoa and Chocolate into the United States, 1851–1900
- 5-7 Annual Averages of Tea Imports into the United States by Country, 1861–1900
- 5-8 Annual Averages of Tea Imports into Canada by Country, 1886–1905
- 5-9 Annual Average Prices of Japanese Tea, 1871–1900
- 5-10 Profit/Loss Balance of the Main Tea Accounts of Jardine, Matheson & Co., 1859/60–1885/6
- 5-11 Tea Exports by Jardine, Matheson & Co. for the Year 1884/5
- 5-12 Annual Averages of Tea Exports from Yokohama by Destination and Route, 1881–3 and 1890–1
- 6-1 The Asian Coal Market, 1870–1900
- 6-2 Annual Averages of Coal Imports into Shanghai, 1861–99
- 6-3 Distances between Main Coal-Producing Countries and the Eastern Coal Market
- 6-4 Annual Averages of Coal Imports into Hong Kong, 1871–99
- 6-5 Annual Averages of Coal Imports into Singapore, 1881–1900
- 6-6 Annual Output and Exports of Japanese Coal, 1861–1900
- 6-7 Shipments and Sales of Miike Coal, 1877–93
- 6-8 Shipments and Sales of Takashima Coal, 1875–93
- 6-9 Production Costs of Miike Coal, 1880–87
- 6-10 Coal Consumption in Japan, 1886–1900
- 6-11 Coal Exports by Destination and by Ship in 1896
- 6-12 Japan's Coal Exports and the Eastern Coal Market, 1871–99
- 6-13 Price Structure of Coal imported into Singapore from Britain, Australia and Japan, 1880–99

- 6-14 South Wales Coal Industry, 1856-1900
- 6-15 Production and Exports of Australian (NSW) Coal, 1861-1900
- 7-1 Japanese Raw Silk in the Overseas Markets
- 7-2 Japanese Raw Silk in the United States Market
- 7-3 Japanese Coal in the Eastern Market

Appendix

- A-1 Annual Averages of Japan's Foreign Trade by Commodity Category, 1868-1935
- A-2 Annual Average Shares of Japan's Foreign Trade by Region, 1873-1935
- A-3 Annual Average Balance of Payments by Region, 1873-1935

List of Figures

- 1 Depreciation in Silver Value and Fluctuations of the Yen, 1860-1900
- 2 Indices of Export and Import Prices and Terms of Trade, 1874-1900
- 3 Price Fluctuations of Imported Raw Silk in the London Market, 1860-99
- 4 Price Fluctuations of Imported Raw Silk in the Lyons Market, 1860-99
- 5 Annual Average Price of Raw Silk Imports into the United States, 1864-1900
- 6 Price Fluctuations of Imported Coal in the Shanghai Coal Market, 1866-99
- 7 Price Fluctuations of Imported Coal in the Hong Kong Coal Market, 1874-99
- 8 Price Fluctuations of Imported Coal in the Singapore Coal Market, 1880-1900

Notes on Usage

1. Japanese personal names are given in the order customary in Japan: family name followed by given name.
2. Unless otherwise stated, dollar means Mexican dollar.

Abbreviations

ADM	Admiralty Records, Public Record Office, London
BPP	<i>British Parliamentary Papers</i>
CAB	Cabinet Papers, Public Record Office, London
CI	Commercial Intelligence in the <i>North China Herald</i>
CR	British Consular Reports (Commercial Reports)
CS	Commercial Summary in the <i>Overland China Mail</i>
DCRTF	Diplomatic and Consular Report on Trade and Finance
FO	Foreign Office Papers, Public Record Office, London
IMC	China, Imperial Maritime Customs
JMA	Jardine Matheson Archive
LTES	Ohkawa Kazushi <i>et al.</i> (eds), <i>Chōki keizai tōkei</i> [Estimates of Japanese Long-Term Economic Statistics since 1868], 14 vols, 1966– .
MCC	Manchester Chamber of Commerce
NCH	<i>The North China Herald and Supreme Court and Consular Gazette</i>
PCMR	Prices Current and Market Reports in the Jardine Matheson Archive
PRO	Public Record Office, London

Measurement

1 picul = 16 kan = 100 kin = 133.33 lb = 60.48 kg
1 kan = 1,000 monme = 8.27 lb = 3.75 kg
1 koku = 10 kan (but in cocoon 1 koku = 3.25 kan)
1 bale of Japanese silk = about 100 lb
1 chō = 10 tan = 2.45 acres

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Foreword

The industrialization of Japan has become an important subject of study because of its relevance to Japan's place in the modern world and its implications for the development of Third World countries. Historically, the debate about how to explain it has focused on two principal topics. The first concerns economic and social change within Japan both before and after the commercial treaties of 1858, which ended two hundred years of near-isolation. One can ask, for example, how far domestic circumstance – the existence of a pre-modern commercial capitalism; an agrarian economy capable of generating significant capital accumulation without recourse to foreign borrowing; government initiatives in institutional and financial reform – is enough to account for Japan's ability to do what other non-Western countries proved unable to do until several generations later. Secondly, one can raise the issue of the international context in which industrialization was achieved: the relevance of the 'impact' of the world economy on Japan and the Japanese 'response' to foreign threat, which led in the end to both economic and territorial expansion.

There has long been disagreement about the relative weight to be attached to such domestic and international factors in Japan's industrial growth. In recent years, however, there has emerged a new generation of Japanese economic historians who have tended to set aside 'modernization theory' – the assumption that Japan has in some degree followed a Western 'model' – on the grounds that it attributes too little importance to the strictly economic continuities between pre-modern and modern Japan – hence to the possibility of alternative theories of development – and attaches too much significance to the change of political leadership in 1868: that is, the Meiji Restoration. One merit of Dr Sugiyama's book is that it provides an

extended survey of this argument. Another is that it makes a start on filling what has hitherto been one of the lacunae in it: namely, how to relate developments in Japan to the world economy, if not through the concepts of 'impact' and 'response'. By examining Japan's export trade in silk, tea and coal during the closing decades of the nineteenth century, he is able to demonstrate how an ability to meet the requirements of the international market with respect to price and quality accounts for success and failure in particular fields at particular times; in other words, to treat trade within the framework of commercial competition. This in turn provides an economic logic for the relationship between exports and industrial development.

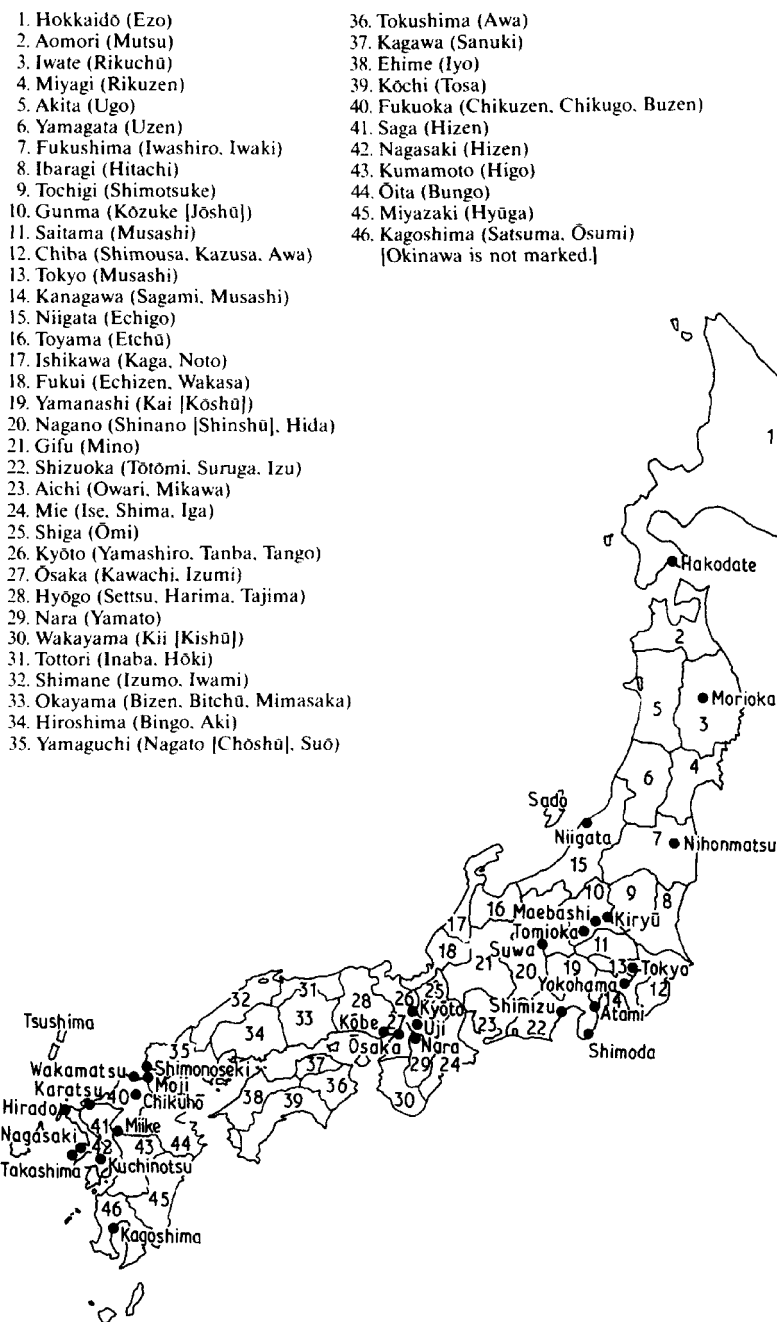
He would be the first to admit that the argument is as yet incomplete. The present study needs to be complemented by others which consider in similar detail the growth of an export trade in industrial products, especially textiles, after 1880 as well as the import-substituting function of some Japanese industries. Nevertheless, by pointing the way towards a reassessment of the character and importance of foreign trade in the Meiji period, Dr Sugiyama has made a welcome start.

W.G. Beasley

East and Southeast Asia



Japan: Prefectures (Provinces) and Major Place Names



1

Introduction

Approaches to Japan's Industrialization

This book is an attempt to analyse the industrialization of Japan in the second half of the nineteenth century from an international historical and economic perspective.¹ It is by now common knowledge that Japan was the only non-Western country to industrialize in the nineteenth century and that, moreover, she did so in an extremely short time. Attracted by this, and by the possible connection both with Japan's rapid post-1945 economic growth and with the problems of Third World industrialization, foreign scholars have for some time been paying special attention to her case. In addition to Japan specialists themselves, one can point to economic historians whose main interests lie in other areas² and also to many economists, from those concerned with economic development to dependency theorists.³

The starting point for all these scholars has been the search for the key to Japan's aptitude for rapid economic development. As a result, they have tended to adopt an inductive approach and focus on the reasons for Japan's 'success'. This approach is influenced by an assumption that the Western powers were the major force in nineteenth-century East Asian history, with China and Japan playing a role of passive response. The 'success' of Japan and 'failure' of China are therefore ascribed entirely to the different ways in which they responded to this foreign impact.⁴ Certainly, in the Japanese case the power of the West gave intellectuals a sense of crisis which doubtless had a direct link with the speed at which Japan went about industrializing. However, the powerful impact which the threat from the West exerted on the Japanese must not be accepted unthinkingly, without a critical reassessment of the reality of that threat.⁵

The apparent rapidity of Japanese economic development has encouraged a tendency to stress the degree of discontinuity between modern and pre-modern Japan, with the Meiji Restoration uncritically accepted as the dividing line between the two. This, in turn, has led to an underestimation of the political and economic significance of the opening of Japan to foreign trade in 1859 and an overestimation of the significance of the Meiji government and its policies. We are left with the impression that it was possible for Meiji Japan to achieve smooth industrialization simply as a result of intelligent government leadership. In addition, the speed at which this industrialization is thought to have been brought about gives us the picture of a Meiji government which had considerable power. However, these assumptions deserve careful examination. For a start, it should be clear from the difficulties at present being experienced by the countries of the Third World that industrialization cannot be achieved merely through government leadership and planning. Close scrutiny of Japan's modern history also makes it clear that industrialization did not proceed smoothly along the path first envisaged and that, particularly at first, it was very much a process of trial and error. Moreover, the fact that the process of industrialization also involved military expansion into Asia in order to secure existing economic and political interests suggests that we should not treat it as a 'success story' pure and simple.

It would be completely wrong to attribute the tendencies which I have been criticizing to non-Japanese scholars alone. We should first examine the approach to Japan's modernization of Japanese scholars themselves. Traditionally, Japanese economic historians have followed political historians in taking the Meiji Restoration as the dividing line between the pre-modern – that is, the Tokugawa period – and the modern – that is, the Meiji period onwards – and studied the two as completely distinct entities. Thus for specialists in the pre-modern era the Meiji Restoration was the ending point, while for specialists in the modern era it was the point of departure.

Since around the 1930s, specialists in modern Japanese history have been engaged in a debate about the meaning of the Meiji Restoration. On one side are ranged those who have concentrated on the agrarian structure. Pointing to the surviv-

al of feudal elements into the Meiji period, they deny that the Restoration was revolutionary and see it as representing either the establishment of absolutism or merely a rearrangement of feudalism. On the other side are those who have emphasized the post-Restoration development of capitalism. They interpret the Restoration more or less as a bourgeois revolution and see any remaining feudal elements as disappearing along with the development of capitalism.⁶ Both sides in this debate have based their arguments on Marx's theory of the transition from feudalism to capitalism. Taking the European experience of history as a standard, they have tended to evaluate Japan's development according to its perceived distance from this. The debate continues to exert a great influence on some Japanese scholars, but recent changes in the understanding of modern Japanese history have led to a rapid loss of interest in such simplistic approaches to the problem.

The application of modernization theory represented a reaction on the part of foreign scholars against this tendency of Japanese historians to stress the warped and backward nature of Japanese development and its abnormality when compared with the West. In a reversal of this tendency, the modernization theorists drew attention to similarities rather than dissimilarities between Japan and the West, comparing Tokugawa Japan to feudal Europe and proclaiming that the key to her rapid industrialization was to be found in the advanced nature of pre-modern – that is, Tokugawa – Japan.⁷ A paradoxical effect of this high evaluation of Japan's development has been the drawing of an even sharper barrier between the advanced countries of the West and the 'backward' countries elsewhere, encouraging a pessimistic attitude to the possibilities of modernization in the Third World. This is because, by interpreting 'modernization' in a narrowly Western sense and calculating the possibilities of success purely in terms of the number of 'Western' characteristics exhibited by a country, modernization theory effectively brings Japan over to the Western side of the divide and denies that it represents even a unique case of the successful industrialization of a non-Western country.

Other scholars, both Western and Japanese, have analysed Japan's industrialization from the viewpoint of theories of economic growth but on the basis of a variety of

methodologies. For example, W.W. Rostow, clearly stimulated by modernization theory, described Japan's economic development as a process leading towards the goal of a mass-consumption society.⁸ In general such approaches rely not so much on historical analysis as on the interpretation of the available quantitative material according to the national accounting framework. They neglect the role of international economic relations and tend to view development as a linear process within each country.⁹

However different, the approaches discussed above have two methodological characteristics in common. The first is the use of the historical development of the West as the sole criterion by which to analyse Japan. The danger of such a method is that factors which were important in the case of Japan, but not present in the West, may go unappreciated. The second is the narrow concentration on internal factors as the key to Japan's success. This has led to a virtual neglect of the role of the international economic situation.

Two important methodological developments are, however, causing great changes in these 'traditional' approaches to modern Japan. The first involves the invoking of a broader historical perspective, according to which the Meiji Restoration is seen as a turning point of political rather than economic significance; it therefore stresses the continuity between the socio-economic changes of the Tokugawa period and the subsequent Meiji process of industrialization. This approach is being pioneered in the field of quantitatively orientated economic history, challenging traditional interpretations that Tokugawa Japan was a stable and static feudal society.¹⁰

The second methodological development involves a broader regional perspective which rejects a Eurocentric standard of reference and encourages comparison between Japan and other non-Western, particularly Asian, societies. As particularly stimulating examples of this approach one can point to certain recent studies of early Tokugawa diplomacy and trade. Ronald Toby has analysed the 'seclusion' or 'isolation' policy of the Bakufu with regard to its internal and external political role, and interpreted it as part of an effort to establish Tokugawa legitimacy both in East Asia and within Japan itself. Tashiro Kazui has drawn attention to the scale and importance of foreign trade during the period of 'seclusion'.

Exports of silver from Japan continued in large quantities up until the mid-eighteenth century through trade with both Korea and the Ryūkyū Islands, and Japan formed part of an East Asian trade region centring on China.¹¹ Even though there is no direct connection between this trade and the trade which developed after the opening of Japan in the mid-nineteenth century, our understanding of the nature of the 'seclusion' policy has necessarily undergone considerable modification.

This broader regional perspective can be seen as a reaction against the previous neglect of international economic relationships. It also, however, reflects both the realization that the Western pattern of industrialization can have only limited relevance for Asian and African countries, with their very different non-economic and cultural characteristics, and the degree of industrialization which has in fact been successfully achieved in Asian countries such as South Korea, Hong Kong and Singapore. It should be noted that these two methodological developments are taking place side by side rather than in isolation.

Research on these lines is not entirely unprecedented. Over twenty years ago, Alexander Gerschenkron was pointing out the existence of fundamental differences in the industrialization patterns of backward and advanced countries, and stressing both the significance of native elements in the industrialization of backward countries and the effect of specific pre-industrial cultural developments upon their industrialization potential.¹² In *Asian Drama*, his famous work on South India, Gunnar Myrdal criticized the Eurocentric approach and emphasized the need for an '“institutional” approach' which gave weight to non-economic factors.¹³ As far as East Asia is concerned, William Lockwood stands alone in having discussed Japan's economic development in connection with the general issue of Asian industrialization, although he focused on Japan's development after World War I, and did not give much attention to the nineteenth century.¹⁴

Are we right to allow consideration of either external or internal conditions to lead us to abandon hopes of Third World industrialization? Has the Third World nothing to learn from Japan's experience? Surely there remain many points to be investigated before we reach such pessimistic conclusions. Failure to industrialize according to the Western model should be

ascribed to the inappropriateness of the model rather than to the impossibility of industrialization itself. So long as it is interpreted as merely a modification of the Western pattern, therefore, Japan's historical experience can be of little significance to the rest of the world. On the other hand, in so far as no retrospective alterations can be made to the actual process of industrialization in Japan, its relevance now will in any case depend entirely on the extent to which conditions sufficient for a repetition exist in present-day underdeveloped countries. Macroeconomic analysis alone is clearly insufficient to ascertain this; detailed, concrete analysis is required of the similarities and dissimilarities in the external and internal factors affecting industrialization in Japan and underdeveloped countries. Unfortunately, few such studies have yet been carried out.

Japan's position as the only non-Western country to achieve industrialization in the nineteenth century means, on the one hand, that it is possible to compare her experience with that of the West. On the other hand, by virtue of being a late developer, Japan must also have many elements in common with other non-Western countries. Case studies of Japan therefore have a potentially very important role to play in providing a bridge between the two. For this reason Japan's industrialization should not be seen only in relation to Japan itself; it can properly be understood only through comparison with the contrasting historical experience of those Asian countries which were not able to industrialize in the nineteenth century. Moreover, through comparing the past and present situation of these Asian countries it should be possible to discover cultural elements foreign to the West in their past economic experience which they nevertheless have in common with Japan, and thus draw up an Asian model of industrialization. This should have more relevance than the Western model relied on until now, and it should even be possible to produce from it a further model which can be successfully applied to all non-Western countries. In this book I hope to adopt an approach to Japan's industrialization which will facilitate comparisons with non-Western as well as Western countries and thus help to show the unique bridging role which Japan can play between the two. It might even prepare the way for the formation of a new, less Eurocentric model of

industrialization which will be of practical use to present-day developing or underdeveloped countries.

Internal and External Factors in Japan's Industrialization

The 'unequal' treaties of 1858 made Japan a reluctant member of the world economy and presented her with an utterly transformed external situation, which had inevitable internal repercussions. From being a virtually closed country with a closed economy, Japan became sharply exposed to the economic and political forces of the outside world. The economic and political development which followed the opening of the ports can therefore be understood only in relation to the changing international environment of the second half of the nineteenth century. It is impossible to understand Japan's industrialization without reference to this new dimension. Internally, the signing of the US-Japan friendship treaty of 1854 increased both distrust of Tokugawa rule and the general level of interest in politics, while the opening of foreign trade greatly disturbed the economy. Some sort of internal adjustment was inevitable and, in political terms, resulted in the Meiji Restoration in 1868. The assumption that these 'unequal' commercial treaties put Japan in a subordinate position is, however, misleading. While Japan's industrialization was in one sense a passive process during which the structure of domestic industry was reassembled under the impact of the world economy, it can also be seen as a dynamic process of interaction. For Japan herself had an undeniable effect on the international economic structure through coming to occupy a particular position in the overall international division of labour.

In general, when foreign trade with the West starts in a backward country, imports of manufactured goods, mainly consumer items, grow, destroying traditional domestic industry. At the same time, resource-intensive primary products come to form the main export items and exports often play a crucial role as a leading sector of economic development.¹⁵ In Third World countries, however, the foreign currency obtained through exports of primary products does not lead to the development of modern industries which will allow import substitution. Furthermore, the introduction of foreign

capital to aid industrialization does not link up with the domestic formation of capital, so that a dual industrial pattern develops of primary industries specializing in exporting and modern transplanted industries specializing in import substitution. According to the model based on the historical experience of the West, however, the export of primary products tends to be merely a means to industrialization, rather than an important part of the actual process. In other words, the basic criterion of industrialization is the establishment of modern industry, be it light or heavy manufacturing, and the traditional indigenous sector is something doomed to extinction and therefore without significance.

At the start of her industrialization, Japan faced an international environment similar to that encountered by developing countries today; she therefore had to begin trade on monoculture lines, exporting the products of her traditional industries and importing manufactured goods from economically advanced Western countries. In this sense, Japan was by no means exceptional. The 1880 report of the Competitive Exhibition for the Promotion of Cotton and Sugar describes the Japanese situation as follows:

Ever since the commencement of trade with foreign countries, there has been an excess of imports over exports for which we have compensated through the use of specie. . . . The outflow of specie grows more precipitate year by year. This is a source of lamentation for both government and people and some solution must be found. Our attempts to find a solution have not yet been successful, however, since any increase in exports in the morning has been followed by a similar increase in imports in the evening. Devastating loss of specie continues to this day. Could there be any worse crisis than this for Japan? If we investigate, products related to raw silk and tea manufacture take up just under 53 per cent of exports by value, and cotton and . . . sugar account for just under 49 per cent of imports by value. Foreign cotton manufactures and sugar are the greatest source of our trade problems and raw silk and tea make the biggest contribution to maintaining a balance. Therefore there is only one way in which to remove our disadvantage and improve our level of trade. We must expand our indigenous sources of national wealth and develop

them where they are not yet developed; we must increase our production of key products and begin producing them where they are not yet produced. Raw silk and tea are the sources of wealth which should be most urgently expanded, cotton manufactures and sugar are the products which should be most urgently increased.¹⁶

Import substitution and the export of products of traditional industries were interdependent but separate aspects of Japan's industrialization. The experience of Japan as a late-comer country was that import substitution could not wait until exports of products of traditional industries had built up reserves of foreign currency, but had to take place at the same time. As I hope to demonstrate in some detail later, Japan's experience shows that it was traditional rural industry which provided the vital support for the early stages of industrialization; without this industrialization could never have been attained.¹⁷ The expansion of exports of products of traditional industries had only an indirect link with the development of modern industry and was completely separate from industrialization through import substitution and the introduction of modern industry.

Japan's economic development in the Meiji period owed a great deal to exports of indigenous products such as raw silk and tea. The foreign currency obtained through these exports brought about conditions suitable to stable domestic economic development, through restraining the outflow of specie while at the same time limiting the potential entry of foreign capital, by keeping the imbalance of international payments to a minimum level. In addition, it produced the conditions essential to industrialization by increasing import capacity and in particular expanding the possible range of imports of production goods, which form the basis of import substitution. Since Japan had little indigenous raw cotton, any increase in exports of cotton cloth and cotton manufactures, production of which grew towards the end of the nineteenth century, meant a comparative increase in imports of raw cotton and therefore led to only limited gains in foreign currency. In contrast, raw silk and tea were indigenously produced and could therefore respond with great flexibility to changes in the structure of domestic production.

If one looks at the situation in China at the time, the con-

trast is striking. Table 1-1 shows movements in the exports of raw silk and tea from the two countries between 1871 and 1900. Up to 1899, when Japan recovered a degree of tariff autonomy, the two were placed in virtually the same international economic and political environment. In other words, both were subject to economic pressure from the Western powers and had no tariff autonomy; both were exporting raw silk and tea and importing manufactured goods. The production of raw silk and tea was dependent on natural conditions and both, as luxury goods, had to adapt to the requirements of the consumer. Increases in Japan's exports of these products were attained at the expense of Chinese exports, which had previously had an overwhelmingly dominant position in overseas markets. China had a negative balance of payments from 1865 onwards, with the sole exception of the years 1872 to 1876. This suggests that Japan's industrialization, made possible as it was through the export of the products of traditional rural industry, had a negative effect on China's balance of payments and increased China's financial dependence on the West, although imports of opium also contributed to the latter.

My intention in this study is therefore to examine the role of product exports of traditional industries in Japan's industrialization, in the international economic environment of the second half of the nineteenth century. This, however, is only the first half of the story. The industrialization made possible by exports of products of traditional industries was simply the stepping stone to fully fledged industrialization. The latter could not have taken place without the parallel process of import substitution. I hope later to write what amounts to the sequel to this book: a study of the later development of import substitution industries, centred on cotton spinning and sugar refining, and of the growth of heavy industry.

Throughout the present book I stress the complex inter-relationship between Japan's industrialization, the international economic environment, and the East Asian policy of the Western powers. I cover the period from the opening of Japan to foreign trade in 1859 until the end of the treaty port system in 1899, when Japan attained partial tariff autonomy and obtained the abolition of extraterritoriality based on the 1894 Anglo-Japanese commercial treaty. This will allow me to con-

**Table 1-1 Silk and Tea Exports from China and Japan,
1871-1900 (quinquennial annual average)**

<i>China</i>			(in thousand Haikwan taels)		
	Total exports	Silk exports	(b)	Tea exports	(c)
	(a)	(b)	(a) %	(c)	(a) %
1871/75	69,444	24,920	(35.9)	39,589	(57.0)
1876/80	73,127	23,642	(32.3)	34,199	(46.8)
1881/85	68,228	18,747	(27.5)	31,544	(46.2)
1886/90	87,912	24,671	(28.1)	29,752	(33.8)
1891/95	118,312	32,376	(27.4)	30,375	(25.7)
1896/1900	161,680	49,572	(28.8)	29,033	(18.0)

<i>Japan</i>			(in thousand yen)		
	Total exports	Silk exports	(b)	Tea exports	(c)
	(a)	(b)	(a) %	(c)	(a) %
1871/75	18,912	8,418	(44.5)	5,534	(29.3)
1876/80	26,724	11,914	(44.6)	5,811	(21.7)
1881/85	35,213	15,802	(44.9)	6,566	(18.6)
1886/90	58,731	23,326	(39.7)	6,787	(11.6)
1891/95	101,940	39,501	(38.7)	7,814	(7.7)
1896/1900	173,218	50,131	(28.9)	7,997	(4.6)

Sources: Hsiao Liang-lin, *China's Foreign Trade Statistics, 1864-1949* (1974), pp. 22-23, 109, 117-18; Tōyō Keizai Shinpōsha, *Nihon bōeki seiran* (1935), pp. 3, 13-15, 52-55.

Notes: (1) Silk piece goods and products are excluded.

(2) The average exchange rate during the period 1874-96 was 1.53 yen per tael.

sider Japan's industrialization in the nineteenth century in comparison with China, which also attempted modernization in a similar international environment.

My analysis of Japan's industrialization process is founded on the following considerations. First, I stress both the domestic situation, with its roots in the Tokugawa period, and the international situation, with its roots in the changing world economy of the nineteenth century. Second, I regard not the Meiji Restoration but the opening of the treaty ports in 1859 as

the turning point in Japan's industrialization. Third, I do not agree with the normal view that Japan's industrialization was created and engineered by the government working 'from above'. I consider the government to have been the organizer of the whole domestic economy, integrating the industrialization process, but stress that it relied very much on previous and continuing development 'from below'.

Chapters 2 and 3 of the book deal with the international institutional situation in the latter half of the nineteenth century and with the institutional framework for Japan's internal economic development. In Chapter 2, I discuss the structure of the world economy, focussing on Britain, the prime Western mover in East Asian affairs, briefly review the theory of the 'imperialism of free trade', and investigate the international political environment in East Asia through an examination of the operations of the British Royal Navy. In Chapter 3, I first review the commercial treaties which provided the external framework of Japan's industrialization and the way in which Western firms advanced into Japan. Then, through investigation of the actual nature of the treaty port trade brought into being by the 'unequal' treaties, both as regards the domestic Japanese distribution network and the activities of Western trading firms, I discuss the way in which this trade actually worked in Japan's favour as a non-tariff barrier.

Through Chapters 4 to 6, I focus on Japan's main export items, which were raw silk, tea and coal. I examine the domestic development of each industry in the context of movements in demand and international competition, and analyse the external and internal factors which made their development possible. The size of the overseas demand for any particular export article depended on the stage of economic development in the consuming country, and the only accurate way of judging the relative competitiveness of the same export article as produced in different countries is by comparing performance on the overseas market. I therefore pay great attention to the relative position of Japanese export articles overseas, in terms of price, quality, and quantities of supply.¹⁸ Exports of raw silk and tea, both products of traditional industries, developed in connection with the European and American markets, where they competed with Chinese raw silk and tea; coal was developed as a modern industry by

zaibatsu such as Mitsui and Mitsubishi for the Asian market, and sold in competition with exports from Britain and Australia. Chapter 4 examines the internal and external factors which enabled Japan to increase her silk exports in the changing world silk market, by considering the competition of Japanese silk with Chinese and European silk on the overseas market. Chapter 5 examines the competition between Japanese and Chinese, Indian and Ceylon tea on the overseas market, and shows why Japan failed to increase her tea exports. Chapter 6 examines the internal and external factors influencing Japan's coal exports and shows how Japan overcame competition from British and Australian coal in Asian markets such as Shanghai, Hong Kong and Singapore.

2

East Asia in the World Economy

The World Economy in the Nineteenth Century

The British Economy

For most of the nineteenth century Britain was the keystone of the international economy, both in industrial production and as a banking and monetary centre. In 1816 it had gone onto the gold standard, and tariff rates had been cut to promote free trading. The free trade movement reached its peak in the mid-nineteenth century, with the abolition of the Corn Laws in 1846 and the repeal of the Navigation Acts in 1849. Through exporting industrial goods to non-industrialized countries in return for imports of raw materials and foodstuffs, Britain in effect transformed the world into a single interrelated international trading and financial mechanism. One result of such international specialization between an industrialized Britain and the non-industrialized – primarily agricultural – countries of the world was that Britain was bound to have a decisive influence on the infant industries in latecomer countries. A free trade system would inevitably work against these countries as rising British industrial production worked to bring down the prices of industrial goods.¹

In the mid-nineteenth century Britain was producing over 40 per cent of the total world trade in industrial goods, and about a quarter of total international trade was passing through British ports.² British production of textiles, coal, ships and engineering products increased rapidly as the pattern of British international trade described above took shape. Between 1845 and 1875 imports of foodstuffs and finished goods grew while there was a decline in the proportion of imports of raw materials. Between 1854 and 1860, for example, foodstuffs accounted for 32 per cent of total imports, raw materials for 61 per cent and finished goods for 7 per cent.³ Textile goods, metals and coal were the major exports. Even as

late as 1914, over 65 per cent of Britain's total exports consisted of manufactured goods, two-thirds of which were textile goods such as cotton cloth and cotton yarn.⁴

Britain's position in the world economy was buttressed by her status as an international trade and financial centre. London became the centre of international trade, finance, insurance and shipping. The greater part of international trade was conducted in sterling, and bills drawn upon London were universally accepted for financial settlement. It was credit transactions of this type that made the expansion of world trade possible. British dominance in international trade was sustained by her remarkable development of a worldwide shipping network and long-distance telegraphic communications.⁵

In the mid-nineteenth century world trade was developing not only in the areas of transportation and technology but also in resources and markets. Its total estimated value increased rapidly, from £800 million in 1850 to £1,450 million in 1860, £2,890 million in 1872-73, and £3,900 million in 1895-99.⁶ The annual average growth rate of world trade was 4.8 per cent between 1840 and 1860, and 5.5 per cent between 1860 and 1870. The corresponding growth rates for British trade were 5.5 per cent for 1840-60 and 4.3 per cent for 1860-70.⁷

As the above figures suggest, however, the industrialization of Europe and the United States increasingly came to threaten Britain's dominance over the international economic structure. Her share of world manufacturing production decreased from 31.8 per cent in 1870 to 26.6 per cent in 1881-85 and to 19.5 per cent in 1896-1900. In contrast, the share held by the United States increased from 23.3 per cent in 1870 to 28.6 per cent in 1881-85 and 30.1 per cent in 1896-1900, with a similar increase for Germany over the same periods: from 13.2 per cent to 13.9 per cent and then to 16.6 per cent.⁸ The spread of industrialization led to a correspondingly rapid increase in demand for primary products. The newly industrialized countries themselves gradually became involved in developing close ties with non-European areas, both as export markets for their manufactured goods and as essential sources of primary products.⁹ As a result, the international supply and demand relationship between the primary producing countries and the industrialized and industrializing countries became increasingly complicated.¹⁰ The international trade in primary

products rapidly increased in both volume and value. From the mid-1880s to World War I its quinquennial growth rate was 17 per cent. In quinquennial terms, the annual average world import of primary products increased in current value from 4.6 million US dollars in 1876–80 to 6.4 million US dollars in 1896–1900, while world exports of primary products increased from 3.7 to 5.5 million US dollars.¹¹ During this time, primary products maintained an average 61–65 per cent share of world trade. The proportion of primary products in the exports of underdeveloped countries was as high as 98 per cent for 1876–80 and 92 per cent for 1896–1900.¹²

As primary producing countries developed direct links with industrializing countries, there was a corresponding decrease in Britain's entrepôt trade. In quinquennial terms the annual average of re-exports decreased from 19.5 per cent of total imports for 1861–65 to 12.9 per cent for 1896–1900.¹³ Between 1876 and 1880 Britain, the United States and France accounted for 53 per cent of the total world import of primary products, and for 1896–1900 the same three countries – together with Germany, Italy, the Netherlands and Switzerland – accounted for 75 per cent.¹⁴ Since in this period prices moved in favour of primary products as opposed to manufactured goods, countries producing the former were able to increase their capacity to purchase the latter. In the 1880s and 1890s, however, increasing investment meant that new regions of primary production were becoming drawn into international trade, and the consequent rise in the availability of food and raw materials led to less favourable terms of trade for primary producers.¹⁵

The main cause of the decline in Britain's share of world trade was her failure to adjust domestically to the changes in the international economy.¹⁶ As a consequence, British industrial goods lost competitiveness in their established export markets in terms of both production cost and selling price. Britain responded to intensified competition from the newly industrialized countries by adjusting her trade patterns and markets and reinforcing her position as the financial centre of the world. She shifted her major export markets from Europe and North America to still non-industrialized markets, particularly to India and East Asia, while increasing exports of capital to North and South America and her colonies.¹⁷ In fact, British external trade of the traditional type – that is, the exchange of