

VOLUME XX

NUMBER 1

Kyoto University
Economic Review

MEMOIRS OF THE FACULTY OF ECONOMICS

IN

THE UNIVERSITY OF KYOTO

APRIL 1950

Malthus's Theories in Classical Economics

Prof. S. Kishimoto 1

Foreign Capital and the Japanese Capitalism

after the World War I

Prof. Y. Horie 38

PUBLISHED BY
THE FACULTY OF ECONOMICS
KYOTO UNIVERSITY
KYOTO JAPAN

FOREIGN CAPITAL AND THE JAPANESE CAPITALISM AFTER THE WORLD WAR I

By YASUZO HORIE

PREFACE

Japan, after the World War II, has been forced to feed an enormous population of over 80,000,000 in a small country with very scanty resources and impoverished production, due largely to her loss of natural resources in overseas territories and the great number of factories burnt down. The only way in which Japan can support herself economically is to make progress as a trade nation of manufactured goods, and for that purpose it is necessary, first of all, to supply productive materials, and to improve the standards of technique which have fallen far behind the progress of the world during the War. It is a capital fund that comes first and foremost to fulfil those necessary conditions. Therefore the introduction of foreign capital was considered very urgent as soon as the War ended, and both the government and enterprisers have eagerly desired it. There are, however, certain political groups and others who have strongly opposed the introduction of foreign capital, saying that it will colonialize Japan or put Japanese labourers under its control.

This essay is to state one part of the history of the introduction of foreign capital into Japan, and hopes to be of some service in solving present problems concerning foreign capital.

Japan had to introduce capital as well as technique from advanced countries, like many less advanced nations, so that Japan might quickly accomplish capitalistic development. While indeed in the first half of the Meiji Era (which ended in 1912) a policy to exclude foreign capital was adopted, after the Sino-Japanese War (1894-5), a plan was considered to hasten the introduction of it. It can be seen from the enforcement of gold standard (1897) and the establishment of the Industrial Bank of Japan (1900). And the government itself floated a foreign loan, and some foreign capital flowed also into private enterprises in a form of joint-enterprise.

It was, however, very evident after the Russo-Japanese War (1904-5) that the introduction of foreign capital became very notable. The government not only found war expenditure and most of the expenses of postwar undertakings in foreign loans, but exchanged national loans of high rate of interest for foreign loans of low rate of interest, in order to fill up private capital which had been spent as war expenditure. At the same time, foreign capital flowed directly into private enterprises to a great degree. That the Tokyo Electric Company and the Shibaura Seisakusho (Electric Works) got the General Electric Co. (U. S. A.) as their principal stock-holders, and that Armstrong and Vickers Cos. (Britain) together with the Hokkaido Tanko Kisen Co. (Colliery & Shipping Co.), of Mitsui capital, established Nippon Seikoshō (Steel Mill) with their joint account, were all most conspicuous instances of foreign capital which flowed into Japan. In these instances, together with capital, technique of a high standard was introduced, and that of Japanese industry was greatly raised. Truly, the development of Japanese capitalism after the Russo-Japanese War owed not a little to foreign capital.

The detail of the problem in question will be dealt with on other occasions, but here in this paper the relation between foreign capital and Japanese capitalism in the next period, that is, after the World War I, is to be examined.

I. BALANCE OF INTERNATIONAL PAYMENTS BEFORE AND AFTER THE WORLD WAR I

While balance of trade, when summed up through nine years between 1905, when the Russo-Japanese War ended, and 1914, when the World War I began, went up to 524 million yen, an excess of imports over exports, balance of trade in gold and silver, during the same period, showed an excess of an inflow of over 44 million yen. The reason why there was an excess of an inflow of gold and silver, even when such an enormous amount of an excess of imports over exports was paid, was due chiefly to the import of foreign capital. The import of foreign capital as national and municipal loans and debentures rapidly increased from 421 million yen in 1904 to 1,414 million yen in 1905, and then gradually increased to 1,979 million yen or almost to 2,000 million yen at the end of 1914.

Considering the period between the Sino-Japanese War and the Russo-Japanese War as the first stage of the development of Japanese capitalism, the one between the Russo-Japanese War and the World

War I was the second stage. In this period, not only light industries but also heavy industries were mechanized and carried on a large scale. Accordingly, in foreign trade, the relative position of finished manufactures stayed fixed, occupying about 30 % of exports, while it was rapidly falling from 28% to 14% of imports. What made the relative position of finished manufactures fall in imports was the increase in the import of crude materials. Considered from this fact, Japan after the Russo-Japanese War can be said to have been establishing a foundation as a nation of manufactured goods. Such a development, moreover, was kept up by foreign capital above stated, and it was due not a little to foreign capital that gold standard which played a part in the development could be sustained.

The tendency of an excess of imports over exports in foreign trade of merchandise became excessive year after year, and the balance of an outflow and inflow of gold and silver after 1910 showed successive excess of outflow. This turned out to be a business depression in economic activities. The depression which followed a postwar reactionary panic of 1907 became chronic, and in 1913 runs on banks, suspensions of payment and failures of commercial and industrial firms were so frequent that it was felt doubtful to sustain gold standard. Thus, when the World War I broke out in 1914, a panic started as a result of blows on foreign trade which followed the outbreak, and financial circles exposed their great distress.

As stated above, Japanese capitalism entered the second stage of its development after the Russo-Japanese War, but the foundation was very fragile. It was chiefly because the development was made by the inflow of foreign capital, especially in the form of loans. Japan was a debtor nation then, and in 1914, as credits, Japan had specie reserve of 130 million yen in the Bank of Japan, specie abroad of 220 million yen, and investment of 460 million yen overseas, in all 810 million yen, while she had debts of over 1,900 million yen of national and local loans and debentures, that is, debts excess of 1,100 million yen. With these debts, an excess of imports over exports continued. There lay the root of financial anxiety, and if things had gone on as they were, Japan would not have escaped business failures. And it was the World War I that swept the anxiety away.

At the time of the War, export trade made rapid development. As Japan was a trade nation of manufactured goods, import trade became large too, but it did not come up to export trade in amount the previous eighteen months. Thus in four years, 1915-1919, there

was a huge excess of exports, which amounted to 1,408 million yen in all. Besides, credit account in invisible trade increased so much that the amount of excess amounted to 1,340 million yen in the four years, and even after 1919 when visible trade changed to an excess of imports, excess of receipts in invisible trade had continued for some years. Thus, the excess of receipts in five years, 1915-1919, amounted to 3,107 million yen in all (1,214 million yen in visible trade, 1,893 million yen in invisible trade). On account of such an enormous excess of credit account in so short a period, foreign exchange banks lost their purchasing power of foreign exchange bills, on the one hand, and there could not be found proper means to deal with the excess, on the other. Indeed, there appeared such a strange effect on Japanese economy which fell into difficulties because of the enormous excess of credit account.

The difficulties, however, were settled by the coming of peace. As the straitened circumstances of Japanese international finance were settled by the outbreak of the World War, so were settled the straitened circumstances of international finance in another sense by the suspension of hostilities. Thus, one might say that Japan was lucky twice. The excess of receipts above mentioned was cleared as shown in the following table :

Increase of gold held abroad	¥1,130 million
Government loans of Allied Powers purchased by Japanese citizen	144
Yen loans of Allied Powers subscribed	438
British Treasury-Notes accepted by the Japanese Government	100
Loans to Chinese Government	220
Redemption of Japanese Government foreign currency bonds	213
Redemption of municipal loans and debentures of foreign currency	38
Repurchase of National Loans floated in the country and abroad	62
Excess of import of gold and silver	518
Others	244
Total	3,107

Idle capital made at home was exported to subscribe to Russian, Chinese, British and French loans and debentures, and overseas capital was invested in foreign securities. Accordingly, Japan turned out to be a creditor nation after all through the World War I. In short, the credit account in 1920 consisted of the gold reserve of 1,110 million yen of the Bank of Japan, gold held abroad of 1,060 million yen, and overseas investment of 2,200 million yen — in all, 4,370 million yen compared with debit account amounting to 1,650 million yen for loans and debentures, the balance being an excess credit account of 2,720 million yen. Furthermore, loans and debentures issued at home during and after the war, which amounted to a vast amount of 3,700 million yen in all, were almost consumed there. Under such conditions the import of foreign capital was doubtless out of the question, and from the outbreak of the War to 1922, the amount of foreign capital invested in Japan was decreasing year by year. Here is a table to show outstanding foreign investments in Japan. (unit: 1 thousand yen)

year	National Loans (issued abroad)	National Loans (home issued) sold to Foreigners (estimated)	Local Loans (issued abroad)	Deben- tures (issued abroad)	Direct Investments by Foreigners in Japanese Banks & Companies (estimated)	Total
1915	1,493,156	71,832	176,894	166,540	28,102	1,936,524
1916	1,384,853	56,174	175,106	166,189	23,697	1,809,019
1917	1,348,587	40,999	172,534	166,049	26,275	1,754,444
1918	1,311,138	31,627	168,525	165,526	27,352	1,704,168
1919	1,311,138	63,185	147,318	165,285	25,046	1,721,971
1920	1,428,293	34,308	140,290	47,541	30,507	1,680,000
1921	1,362,370	18,483	136,970	33,358	25,416	1,576,597
1922	1,358,973	5,676	134,219	26,400	24,831	1,550,093

The vast amount accumulated during the War, however, was lost soon. By the armistice, difficulties of Japanese international finance were settled for a time, but with the loss of the accumulation, Japanese economy was driven to return to its poor condition in which Japan was before the War. The chief cause of it was a huge excess of imports.

It was not that exports suddenly decreased when hostilities were suspended, but that imports increased so greatly that there arose again an excess of the latter over the former. The excess of imports was so large in the autumn of 1919, that it was twice or three times as much each month as in normal times, and that consequently in the three months from January to March, in 1920, an excess of imports amounted at last to 300 million yen in all.

The panic in March of the year resulted chiefly from the extraordinary excess of imports, the immediate cause of the panic being a sudden contraction of currency, which was led by a rapid decrease of specie abroad. With the panic as a turning point, prosperity turned into a business depression, and resulted also in trade depression. And yet the excess of imports still continued, its cause being that the depression after the War spread all over the world and the purchasing power for Japanese goods decreased, that price level was still higher at home compared with other countries, and consequently the Japanese people rather demanded foreign goods. Thus Japanese finance after the armistice was very insecure.

Though the panic of 1920 demanded a thorough readjustment in financial circles, it was neglected relying upon scanty capital abroad. Disturbances were sure to come at any moment. The great earthquake-fire occurred in the Kanto District in September, 1923. It caused vast loss of wealth amounting to over 10,000 million yen, and made it indispensable to import materials urgently required for restoration. Thus an excess of imports in trade amounted to 534 million yen in 1923, and to 646 million yen in 1924, and it not only consumed all the scanty capital abroad then, but it made it necessary to remit gold reserves abroad.

II. IMPORT OF FOREIGN CAPITAL (LOANS AND DEBENTURES)

(A) National and Local Loans

Under these circumstances the import of foreign capital which had ceased after the outbreak of the War was resumed. Let us begin with national loans.

As expenses required for repair work after the great earthquake-fire were enormous, and required immediate payment, the government planned to raise a loan of about 1,500 million yen. As it was a time when damages done in a reactionary period after the World War were not yet cleared, it was quite impossible to think that the Japanese financial circles were capable of absorbing such an immense loan. And when relations with other countries were considered, the term of redemption of the Government 4½% Sterling Loan, First and Second Series—Russo-Japanese War Loans—that is, 1925 was drawing near. Moreover, repair materials had to be partly obtained abroad, for the payment of which it was necessary for the government to have a considerable amount of specie prepared abroad. Accordingly, the government, besides a domestic loan, raised

foreign loans in London and New York in February of 1924. They were the 6% Sterling Loan amounting to £ 25 million (244.075 million yen) and the 6½ % Dollar Loan amounting to \$ 150,000,000 (300.9 million yen). As both of them were put together with the 4½ % Sterling Loan above mentioned, and issued in the form of composite loans, consequently most of the proceeds of the Loans were, with a view to being used to retire the outstanding balance of the 4½ % Sterling Loan, transferred to the special account for the consolidation of national debt funds. After all, the amount issued according to Sinsai-Zengo-Kosai-Ho (the Loan Act to Cope with the Earthquake) was 116,501,069 yen in all (dollar loan, 11,430,785 yen, sterling loan, 105,070,284 yen).

There were a number of things worth attention about these loans.

(1) The conditions of the issuance of the loans were so unfavourable to Japan that they were called "loans of humiliation," owing to the sudden changes of European and American financial worlds after the Great War, general rise of interest, decline of Japanese credit overseas on account of the earthquake-fire and political anxiety both here and abroad.

(2) When Japan planned to raise loans, she began to negotiate with English financiers, but England had noticed the lack of her own capital, and London had already ceased to be a free market to issue loans. Consequently Japan had to begin to negotiate with London and New York financiers about the issuance side by side, and she came to obtain a supply of foreign capital more in America than in England ever after.

(3) When the loans were raised, most powerful syndicates were organized in England and America. In America, besides Kuhn-Loeb & Co., which had been exclusively underwriting Japanese foreign loans from the time of the Russo-Japanese War, J. P. Morgan & Co., National City & Co., and the First National Bank of the City of New York—those three were newly joined as managing banks, under which there was organized a body of sub-contract banks, including many influential financiers. In England, in addition to Westminster Bank (formerly Parrs Bank), Honkong and Shanghai Banking Corporation, Panmure Gordon & Co., the former body of loan contract banks, newly joined N. M. Rothschild & Sons, Baring Brothers & Co., and J. H. Schroder & Co., and for the purpose of connecting both bodies of English and American banks, Morgan Grenfell & Co. (London), relative of the Morgans of America, was added as a member. This serves to show that the financial relations

between Europe, America and Japan became much closer than before;

Three municipal foreign loans were issued by the Industrial Bank of Japan to raise expenses for the earthquake-fire restoration: Tokyo City Restoration Loan and Yokohama City Restoration Loan. They were as follows:

Issuer	Rate	Date of Issue	Maturity	Amount issued	Remarks
City of Tokyō	5½	1926	1961	6,000,000	Sterling Loan, offered to London financier group.
City of Yokohama	6	1926	1960	19,740,000	Dollar Loan, offered to New York financier group.
City of Tokyō	5½	1927	1961	20,640,000	Dollar Loan, offered to New York financier group.

The national government hitherto maintained strict control over the issuance of local foreign loans by a note sent to local governors in 1909. The government warned that a local public body had to get the permission of Home and Finance Ministers before it could begin negotiations, when it wanted to raise a foreign loan, and that the government might not give approval when it asked for it after it had begun negotiations, under whatever circumstances. Since the outbreak of the World War, financial circles became active, and there was no longer any issuance of local foreign loans. In the reactionary period after the War, moreover, the government encouraged readjustment and retrenchment of local financial affairs as much as possible, and it strictly adhered to its policy not to permit the raising of local foreign loans. Thus the two cities for the first time in fifteen years since 1912 were permitted to raise foreign loans. How hard was the blow given by the earthquake-fire can be seen from this fact.

Later in 1930 the government raised the following two loans: 5½% Sterling Loan amounting to £12.5 million (122.037 million yen) in London, and 5½% Dollar Loan amounting to \$71 million (142.426 million yen) in New York. These loans were used for converting the 4% Sterling Loan (Second Series) of 1905, whose term of redemption was to come in January of 1931.

(B) Debentures

According to the *Financial and Economic Annual of Japan* (compiled by the Ministry of Finance), at the end of 1913, debentures issued abroad amounting to 166,880 million yen which were gradually decreasing a little, suddenly decreased to 47.5 million yen

in 1920, and to 26.4 million yen in 1922. But it increased to 133 million yen in the following year, and then rapidly increased to 506 million yen by the end of 1931, which was 9.7 per cent of the total sum of debentures of banks and companies. The reasons for the increase of the overseas subscription of debentures were (1) when all the wartime accumulation had been consumed as stated above, and capital had relatively run short, the outbreak of the great earthquake-fire made it difficult to supply long term capital at home, (2) the government tried to fill shortage of gold held abroad by private debentures, (3) considered from abroad, the government controlled subscriptions of national and local foreign loans as much as possible, so that there was left some room for the subscription of debentures, (4) credit for Japanese private enterprises increased, (5) every nation had recovered the gold standard, with the result that international movement of capital was made comparatively easy.

Now, let us explain the nature of foreign loans issued by private companies.

Issuer	Date of issue	Amount issued	Offering House or Houses
Oriental Development Co.	1923	\$19,900,000	National City & Co.
South Manchurian Railway Co.	1923	£4,000,000	Industrial Bank of Japan.
Industrial Bank of Japan	1924	\$22,000,000	National City & Co.
Oriental Development Co.	1923	\$19,900,000	National City & Co.
Formosan Electric Co.	1931	\$22,800,000	National City, First National, and Yokohama Specie Bank.

Among five kinds of loan put up above, Industrial Bank Bill was issued for the purpose of obtaining funds to be lent to the Chinese government; other four loans were issued with a view to obtain development funds of the so-called Japanese Overseas Empire. In short, a part of Japanese overseas development funds was supplied with foreign capital, and this was a tendency which had already appeared before the World War. The things worthy of special note during the postwar period were the issuance of electricity development loans by the Japanese big five electric companies, which were already controlling the electric business circles. The loans were as follows:

Issuer	Date of issue	Maturity	Description	Amount issued (unit = 1 thousand)	Offering House or Houses
* Tōkyō Electric Light Co.	1923	1948	Old 1st £ Debenture	3,000 (29,289)	Whitehall Trust
Daidō Electric Power Co.	1924	1930	1st \$	15,000 (30,090)	Dillon Read
* Tōkyō Electric Light Co.	1925	1948	Old 2nd £	600 (5,857)	Whitehall Trust
Tōhō Electric Power Co.	1925	1955	1st \$	15,000 (30,090)	Guarantee Trust
Ujigawa Electric Co.	1925	1945	\$	14,000 (28,084)	Lee Higginson
Daidō Electric Power Co.	1925	1950	2nd \$	13,500 (27,081)	Dillon Read
Tōhō Electric Power Co.	1925	1945	£	300 (2,929)	Prudential Assurance Co.
△ Tōkyō Electric Light Co.	1925	1928	Old \$	24,000 (48,144)	Guarantee Trust
Tōkyō Electric Light Co.	1927	1952	Shinetsu Electric Co.'s \$ Debenture	7,650 (15,346)	Dillon Read
Nippon Electric Power Co.	1928	1953	\$	9,000 (18,054)	Harris Forbes
× Tōkyō Electric Light Co.	1928	1953	\$	70,000 (140,420)	Guarantee Trust
× Tōkyō Electric Light Co.	1928	1953	£	4,500 (42,933)	Whitehall Trust, Lazard Brothers
△ Tōhō Electric Power Co.	1929	1932	2nd \$	11,450 (22,968)	Guarantee Trust
Nippon Electric Power Co.	1931	1953	£	1,500 (14,645)	Harris Forbes

Remarks: * show the loans refunded in the year 1929, and △ in their maturities. × are their conversion loans. Parenthesized numbers indicate the sums, which were converted into yen on the basis of the mint par of those days.

Various circumstances can be mentioned to explain why electric company debentures came to occupy an overwhelming position among foreign ones.

(I) As the result of the earthquake-fire, electric enterprises were given many chances of making very rapid development. As a matter of fact, even during the World War, demand for industrial electric power was increasing, and this was getting still greater after the War. Steam power, on the other hand, still occupied a strong position, and it was difficult then to convert them into electric power at once, when the matter of refunding equipment was considered.

However, as they were destroyed by the earthquake-fire, the use of electric power machines rapidly spread. Consequently, electric power enterprises not only recovered rapidly from the blows added by the earthquake-fire, but got a chance to expand their business. Under such circumstances, electric companies expanded so greatly that their projected capital of 2,175 million yen in 1922, increased to over 3,000 million yen in 1925, and came to rank first, surpassing projected capital of banking, railway and truck business. This rapid expansion made it partly necessary to depend on foreign capital. Let us quote a passage from the *Tokyo Dento Kaigyo 50-nenshi* (50 years History of the Tokyo Electric Light Co.): "The five electric companies, with our company at the top, showed unusual expansion as stated above, and so they were naturally compelled to expend a vast amount for construction works. The appropriation of funds was due not only to stock capital in general or home debentures, but served to raise lower interest loans on English and American markets, as suggested by the government, and came to develop new fields of import of foreign capital."

(2) An electric enterprise needs vast fixed equipment whose term of redemption is long, and at the stage of its rapid development, as above mentioned, its owned capital was not enough. Here is a table to show how it was organized: (unit: 1 million yen)

year	Capital	Paid-up Capital	Fixed Capital	Debentures & Floating Debts	Reserve
1924	2,616	2,012	2,467	760	98
1931	4,143	3,223	4,755	2,472	196

The ratio of paid-up capital plus reserve to fixed capital was 116.9 % in 1924, and 138.6 % in 1931; the ratio of debentures and floating debts to paid-up capital was 22.8 % and 76.4 % respectively. It was during 1924 and 1931 that a severe struggle among 'the five electric companies' for supremacy was developed, with financial capital and political parties in the background. In the course of the struggle, such a vast amount of outside capital as mentioned above was used to supply heavy expenses for both generating and transmitting equipment of electricity and foreign loans of long term and of low rate of interest were warmly welcomed. Let us examine here why Ujigawa Electric Co. raised a foreign loan in 1925. The company had had debentures amounting to 55 million yen then, and the term of redemption of 35 million yen out of the amount was drawing near,

but home debentures whose rate of interest was high and whose term was usually ten or twelve years, made its management quite impossible, and it had to resort to a foreign loan.

Thus foreign loans occupied a large part in outside capital of electric companies, especially of the five leading companies. When all the foreign debentures of electric power companies standing at the end of 1931 were put together, there were \$ 149,545, 000 and £ 6,300,000, that is, 362.5 million yen in all at par of exchange, about 15 % of the total of all the debentures and floating debts above mentioned. Viewed from another point of view, the amount was 70 % of the total of all the foreign currency debentures of Japan at that time, or 16.5 % of all the foreign currency bonds including national and municipal loans.

The amount of interest payment and of stipulated redemption of the debentures became larger year after year, and especially when the exchange rate got low, as a result of the embargo on the exportation of gold in 1931, the burden was twice or thrice heavier and was regarded as a curse upon business management. It was widely known that the alleviation of the burden by the re-purchase of a part of the debentures was attempted in 1933 and 1934 with the permission of the government. Be that as it may, it was a matter of great significance that an enormous amount of foreign loans contributed to the expansion of our electric enterprise.

III. IMPORT OF FOREIGN CAPITAL (DIRECT INVESTMENT)

Let us quote first some descriptions upon direct investment by Americans in Japan from the "American Foreign Investment" (pp. 106-5), by R. W. Dunn.

"The General Electric Co. has combined its Japanese business with that of the Shibaura Electric Works, and the Westinghouse Electric Co. of Japan distributes directly the products of the Westinghouse Electric and Manufacturing Co. The Western Electric Co. has combined with the Nippon Dento Electric Works; and the Tokyo Electric Co., after absorbing 9 competing firms in 1923, concluded a combination with the Western Electric Co. Most of these electric companies are actively engaged in electrical goods manufacture, construction of power plants and lines, as well as imports and sales.The American International Corporation together with the Allied Machinery Co. of America controls Horne Co., Ltd., of Japan (machines and tools), which includes among other plants the Yawata

Iron Works of Japan. The Ford Motor Co. is operating a new plant at Yokohama.

Americans are interested also in flour mills and in general banking and trading. Some of the best known firms with property investments are Asia Banking Corporation, the Radio Corporation of America, American Trading Co., International Banking Corporation (four branches), Libby-Owens Sheet Glass Co. (subsidiary and plant), International Oil (Standard Oil subsidiary), Robert Dollar Co., the Aluminum Co. of America, owning 60 per cent of the shares of the Asiatic Aluminum Co., and various steamship, express, film, life insurance and commercial companies."

Among the various enterprises described here, there were not a few in which capital was invested before the World War, and some in which investment was begun after the War, too. With the War, it was very noteworthy that foreign commercial concerns fell back, while such Japanese trading concerns as Mitsui Bussan Kaisha and Mitsubishi Shoji Kaisha became influential. Nevertheless direct investments by foreigners in Japanese manufacturing industries became rather popular. Indeed, even during the War and after, in which foreign loans were never raised, the direct investments were continued. According to an investigation by the Ministry of Commerce and Industry, the following were foreign industrial companies and foreign investing companies in January, 1931.

(1) Foreign companies

American 15 companies (oil 1; electric instruments 1; machinery 9; movies 2; confectionery 1; raw silk 1)
 English 5 companies (electric instruments 1; machinery 2; paints 1; drinks 1)
 German 5 companies (electric instruments 1; machinery 4)
 Swiss 2 companies (machinery 1; confectionery 1)
 Czechoslovak and Luxembourg 1 company each (machinery 1 each)

(2) Semi-foreign companies

(A) All the capital invested, and management carried out, by foreigners.

American 6 companies (electric instruments 2; automobile 2; machinery 1; record 1) authorized capital about yen 18,000,000

English 5 companies (rubber 1; oil 1; machinery 1; drinks 1; medicine 1) authorized capital about yen 36,450,000

German 2 companies (drinks 1; dry plate 1) authorized capital about yen 520,000

(B) Joint investment, but more than half of it and management by foreigners

American 6 companies (record 5; rubber 1) paid-up capital yen 22,050,000; investment by foreigners yen 15,995,000

English 2 companies (automobile 1; machinery 1) paid-up capital 2,550,000; investment by foreigners about yen 2,000,000

German 2 companies (machinery 2) investment by foreigners yen 338,000

(C) Joint investment, but management by the Japanese

American 9 companies (electric instruments 6; gas 1; glass 1; artificial silk 1) paid-up capital yen 100,700,000; investment by foreigners yen 21,595,000

English 9 companies (steel 2; iron goods 1; cotton yarn 3; knit goods 1; ice manufacture 1; celluloid 1): paid-up capital yen 88,600,000; investment by foreigners yen 9,377,000

German 8 companies (electric instruments 2; machinery 1; artificial silk 2; cotton yarn 2; woollen yarn 1): paid-up capital yen 29,285,000; investment by foreigners yen 9,377,000

Chinese 2 companies (woollen yarn 1; cotton yarn 1) paid-up capital yen 41,000,000; investment by foreigners yen 158,000

Swedish 1 company (match 1)

French 1 company (chemicals 1)

Unknown 6 companies; paid-up capital yen 30,760,000; investment by foreigners yen 364,000

By foreign companies mentioned in the table are meant those which have their branches in Japan. These branches were perhaps merely dealing in goods made by head companies. (a) of semi-foreign companies are those established in accordance with Japanese commercial law as a matter of form, but all the capital is invested by foreigners. The purely English Dunlop Rubber Co., which was changed into a Japanese company in 1917, Rising Sun Co., Japan Ford Co.,

Japan General Motors Co., Japan Victor Co., and Japan Columbia Co. were those best known. (b) and (c) of semi-foreign companies undoubtedly are those in which foreign capital is invested in company with Japanese capital, that is, a joint enterprise.

Among those companies the following were those about which it was comparatively clear how investment was made.

To begin with, in the electric instrument manufacturing section in which foreign capital had already been invested before the World War in a form of joint enterprise, for example, Japan Electric Co., Tokyo Electric Co. and Shibaura Seisakusho (Electric Works), foreign capital was introduced continuously after the World War. First among them was Mitsubishi Electric Instrument Co. The Company, which became independent from the Kobe Dockyard of Mitsubishi Ship-building Co. in 1921, joined hands with Westinghouse International Electric Co., U. S. A., technically and financially, and then became a sole agency in Japan of the goods made by the company in November, 1929, and newly established Hishimi Electric Instrument Concern as a sole agent in January, 1931. The second was the Fuji Electric Instrument Co. It was founded in August, 1923 with a capital of 10 million yen as a joint enterprise of Furukawa capital and of two German companies, Siemens Schuckert and Siemens Halske. First it devoted itself to importation, but in 1925 Kawasaki Factory being completed, it began to make electric instruments using German technique. In 1939 it established Fuji Telegraphic Instrument Manufacturing Co. with a capital of 6 million yen, its telephone works being separated; and in 1923 the two companies jointly established Fuji Telegraphic Instrument Works in Mukden with a capital of one million yen. The 3rd was Shibaura Joint Industry Co., established in 1939 jointly by Shibaura Electric Works and United Engineering and Foundry Co., U. S. A., and began to make pressing and compressing instruments. And it was in the same year that Shibaura Electric Works and Tokyo Electric Co., sister companies through General Electric Co., were merged into the Tokyo-Shibaura Electric Instruments Manufacturing Co.

Sumitomo Electric Cable Factory which got American capital can be mentioned, when industry concerning electric instruments manufacturing is considered. It became independent of Sumitomo Copper Works in 1911, and was separated from Sumitomo head office in 1920, when it joined hands with Western Electric Co., U. S. A., and became a joint-stock company with a capital of 10 million yen. It went hand in hand technically with Western Electric Co., and

Standard Telephone Cable Co., England, and made its own researches, thus, occupying the highest position in Japan in the manufacture of cables and hawsers. In 1932 it established a submarine cable manufacturing factory in Osaka, and succeeded in making G. P. submarine cables domestic products. The factory and the submarine cable branch of Furukawa Electric Works were separated from each head office, and joined into a company - Japan Submarine Cable Manufacturing Co.

Next to be mentioned is the entry of the American automobile capital some years around 1926, when motor transportation rapidly increased in Japan. It was the Kanto Earthquake-fire that spurred on this development. Before this time, there was little use for automobiles except for personal use, auto-buses and taxicabs. With the earthquake-fire as its turning point, the use of auto-buses rapidly expanded, and truck transport business appeared as part of the automobile industry, and there was a demand for cars for various uses. Consequently Japan became very promising as a market for automobiles. It was Ford Motor Co. which turned its attention to this condition. The company which had made Sale Frazer & Co. a sole agency in Japan, founded Japan Ford Motor Co. with a capital of 4 million yen in December, 1924, established a factory in Yokohama and began operation by conveyer assembling system from March, 1925.

In 1925 General Motors Co., rival to Ford, established Japan General Motors Co. in Osaka with a capital of 8 million yen and in April, 1927 began operation of an assembling factory. When it was going to be established, Osaka City offered the company very favourable conditions such as exemption from city tax for four years, and facilities for the establishment of the plant.

Together with rapid development of motor transportation, and with the spread of internal combustion engines for agricultural and fishing purposes, demand for petroleum increased year after year. That is, while the quantity of demand was about 104 million gallons before the War, it increased rapidly after the War, and reached 741 million gallons in 1934. But, because of our poor resources, the ratio of home petroleum production to the amount demanded was getting very small, that is, 34.2 % in 1923, 8.4 % in 1934, so that for the petroleum industry in Japan it was rather important to engage in refining imported crude oil.

In 1921, Asahi Oil Co. started this industry first, and so did Japan Oil and Kokura Oil from 1924, and they all established oil

refineries on a large scale. On their heels appeared Mitsubishi Oil (1931), Maruzen Oil (1933), Hayayama Oil (1935), and many other foreign oil refining companies. Among them, it was Mitsubishi Oil Co. that joined hands with foreign capital. It established an oil refinery in Kawasaki with a joint capital of 7 million yen with United Oil Co. of Canada.

Although developed thus the oil refining industry, the output in Japan was only 40 % of the amount demanded; and remaining 60 % had to be imported as finished goods. It was two Japanese companies of two great English and American oil trusts — Rising Sun Oil Co. and Japan Vacuum Oil Co. — that chiefly supplied the demand.

In addition to the three sections mentioned above, there were many enterprises in which foreign capital was invested.

(1) Japan Plate-Glass Co. (first called Japan-American Plate-Glass Co.) was established in 1918 as a joint American and Japanese enterprise. It was due to the cooperation of Libby-Owens Sheet Glass Co. and Sumitomo & Co., Ltd., and undoubtedly a big sheet glass maker in Japan next to Asahi Glass Co. of Mitsubishi capital.

(2) Asahi Bemberg Silk-thread Co. (established as Nobeoka Ammonia Silk-thread Co. in 1922) was a joint enterprise with German capital, principal German shareholders being Allgemeine Kunstseide, I. G. Farbenindustrie, P. Bemberg, and so on.

(3) In 1927 Japan Victor Gramophone Co. was established with American capital and in 1929 it became a joint enterprise of Americans and Japanese with capital of the two plutocracies, Mitsubishi and Sumitomo. Together with this, in 1927 Japan Gramophone Co. (established in 1910 with American capital) joined hands with Columbia Co. (England) technically and financially, and established Japan Columbia Gramophone Co., a collateral company, in the following year. Japan Victor Co. and Japan Gramophone Co. became independent from foreign capital and entered Japan Industrial Co. in 1937 and 1935 respectively. But when the company moved to Manchuria in 1937, the management of both gramophone companies was entrusted to Tokyo Electric Co.

(4) In 1931 the aluminium plate industry of Sumitomo Copper Works was separated, and Sumitomo Aluminium Co. was established with a capital of 3.5 million yen. It was a joint enterprise of Sumitomo Metal Co. and Aluminium Co. of Canada, and one which led the aluminium industry in Japan. (5) In 1932 Otis Elevator Co., U. S. A., established Oriental Otis Elevator Co. in cooperation with Mitsui-bussan Co.

In addition to these, there were Oriental Babcock Co. (Babcock & Wilcox), and Imperial Filature Co. (J. & P. Coats), of English capital, and National Cash Register Co. of American capital; and there were also Fuji Cotton Spinning Co., Oji Paper Manufacturing Co., Japan Nitrogen Co., Japan Musical Instrument Co. (of Sumitomo capital), Oriental Linoleum Co. and others with partially foreign capital. These names only are mentioned here, as full details are not known.

It must be clear how brisk direct investment by foreigners in industry was after the World War I from the above descriptions. It is noteworthy that joint enterprises with both Japanese and foreign capital were as brisk as ever, and powerful plutocratic companies joined hands with foreign big concerns. Japanese monopolistic enterprises were thus joined with those of foreign nations, and became more and more monopolistic by adopting techniques of high standard with worldwide patent. Another thing worth noticing was that Japan Ford Co., Japan General Motors Co., and some others were of 100 % foreign capital, and that Oriental Otis Elevator Co., National Cash Register Co. and others had over 50 % foreign capital, and that the number of such companies was increasing. This was nothing but that Japan's position became more and more important as a market and as a trade nation of manufactured goods. On the other hand, it should be remembered that Japanese cheap labour served under those monopolistic enterprises. It must also be observed that American capital has occupied the foremost position in direct investments and in the meantime German capital has been conspicuously advancing.

What ratio, then, did direct investment by foreigners hold in the total sum of capital invested in Japanese enterprises? According to the *Statistics of Factories* by the Ministry of Commerce and Industry, and from data supplied by the Ministry of Finance, the ratio was as follows at the end of 1941: (unit: 1 thousand yen)

	Total sum of Japanese firms		Foreign capital invested firms		(B) by (A)
	number of firms	authorized capital (A)	number of firms	foreign capital paid-up (B)	
Industries & Minings	39,419	23,511,995	39	103,672	0.61
Trade & Commerce	41,479	11,458,117	9	2,258	0.02

According to this table, the ratio was rather small, but if minutely considered, while the total capital was authorized one, foreign

capital was all paid-up and the investigation referred only to the three nations — U. S. A., England and Holland — , and there were, besides, branches of foreign companies, it is easy to find that the ratio of foreign capital actually invested was far greater than that in the table.

IV. CONCLUSION

Outstanding foreign investments in Japan after 1923, continued from the table on the p. 42, are as follows: (unit: 1 thousand yen)

year	National Loans (issued abroad)	National Loans (home issued) sold to Foreigners (estimated)	Local Loans (issued abroad)	Debentures (issued abroad)	Direct Investments by Foreigners in Japanese Banks & Companies (estimated)	Total
1923	1,320,614	7,017	130,215	132,941	21,993	1,612,780
1924	1,514,266	25,955	127,404	193,461	21,993	1,883,078
1925	1,500,215	8,713	124,627	331,558	21,993	1,987,106
1926	1,477,869	9,688	220,223	347,643	92,133	2,147,547
1927	1,460,232	14,768	257,640	315,500	97,992	2,146,133
1928	1,453,093	31,357	254,163	470,407	113,823	2,322,858
1929	1,446,895	31,779	245,667	465,623	113,823	2,303,792
1930	1,567,325	84,179	245,174	455,867	113,823	2,466,372
1931	1,477,335	59,181	240,697	505,964	113,823	2,397,005
1932	1,398,297	51,428	235,502	467,821	?	2,153,048
1933	1,421,211	50,019	230,985	383,117	?	2,085,331

When import of foreign capital are compared with those before the War, it is found first that national and municipal loans were not raised overseas as much as before. There were no foreign loans for public enterprises found, except the loans to meet the emergency of the Kanto earthquake-fire. This was partly due to the development of the domestic capital market, and partly to the government's policy against the floatation of public loans abroad, the policy had begun about 1909. However, an enormous capital fund accumulated under favourable conditions of the World War was all consumed soon after the War. So that after such an unprecedented disaster as the Kanto earthquake-fire, expenses for the restoration had to be raised partly abroad, even upon unfavourable terms. As capital remained continuously short both at home and abroad, the Russo-Japanese War Loan, whose term of redemption was to come in 1931, had to be converted by another foreign currency loans in 1930. Generally speaking, terms to issue these foreign loans were considered more unfavourable to Japan than previous ones. Though

this was due partly to the rigid postwar American and English markets, in which it was not easy to raise foreign loans, the main reason was the insecurity of Japanese financial conditions, which was expressed in the failure of currency stabilization.

The second thing to be mentioned was that the issuance of debentures in the foreign market, which had started before the War, became very frequent after the War. This was because (1) the accumulated capital was made very scanty in the post-bellum period, especially after the great earthquake-fire, (2) notwithstanding, capital of long term and low rate of interest was demanded for electric resources to be developed, (3) it was necessary to fill specie abroad, and (4) international credit for Japanese big companies became strong. Thus, especially, the great development of electric resources about 1926 was made by the aid of foreign capital. There were, however, some points to which attention was to be paid. One of them was that the supremacy of the big five electric companies was established by foreign capital, and another was that foreign loans, as those of the Oriental Development Co., the South Manchurian Railway Co., and the Formosan Electric Co., were raised for the economic development overseas. This second point meant that Japan's overseas economic expansion was guaranteed by foreign capital. Referring to the South Manchurian Railway Co. debentures, the government succeeded to the old ones in 1920, and in 1933 to those issued in 1923, and appropriated them to the capital to be paid-up. This showed that the company and the national capital were banded together.

In short, national and municipal loans abroad decreased and external debentures increased rapidly in place of the former. By this fact we mean nothing but the alternation of issuers as a result of the strong development of capitalistic economy; and no change could be seen so far as Japan's constant need for foreign capital was concerned, for the development of her domestic economy, for the overseas economic development, and for the maintenance of national confidence by the supplement of funds abroad. Thus till 1931, foreign loans were raised. But the world panic in 1929, the serious depression which followed the removal of the embargo on the exportation of gold in 1930, the aggravation of international relations following the outbreak of the Manchurian Incident in 1931, the replacing of the embargo on the exportation of gold in the same year, and the subsequent heavy fall of exchange rate; they all made it difficult to raise new loans, and means to refund such

foreign loans as electric company debentures were to be adopted.

Thirdly: direct investments in Japanese industries by foreigners became more and more brisk, and even after 1932, when no foreign loans were issued, new investments were continuously made. It was during the World War I that Japan could restore her commercial right at one stroke, which had been held long in the hands of foreign merchants since the opening of the country at the end of the Tokugawa Shogunate. In other words, the exceedingly rapid development of Japanese manufacturing industries, the wonderful growth of her shipping companies and commercial concerns made foreign trade companies go out of Japan. Foreign investments in Japanese manufacturing industries, however, became more and more active. This was due to the following reasons: that world-wide monopolistic capitalism developed more and more strongly, that international capitalistic competition became active, that cooperation of international capital was desired both at home and overseas, as a result of the progress of monopolization of big enterprises in Japan, too, that Japan's position as a trade nation of manufactured goods became more and more important, and that much was to be desired in Japanese technical standards compared with that of the world at large.

The spheres of industry in which foreign capital was invested, comprised electric instruments manufacturing industry, as chief and important as ever since the prewar period, oil refining industry, plate-glass manufacturing industry, and various others. It was also noteworthy that, as after the Russo-Japanese War, techniques of the world standard were introduced together with capital. What was more important was that direct investments took generally the form of joint enterprise, so that through Japanese enterprises, foreigners had much voice in their management and shared responsibility of risks, and that companies of 100% foreign capital, such as Japan Ford, Japan General Motors, Rising Sun Oil, Japan Vacuum Oil, were established. Consequently international relations between capital and labour — such as joint domestic and foreign capital versus Japanese labour, foreign capital versus Japanese capital and labour—were made up.

Fourth: Among indirect investments (foreign loans and debentures) as well as among direct ones, English and American capital occupied overwhelming position as in the prewar period. However, as electric company debentures were generally of American money, and companies of American capital surpassed those of other nations', the dominant position of America as an investor nation toward Japan became unshakable. This was due to the fact that

America became the sole export nation of capital after the World War, the centre of international finance moved from London to New York, and that there was much to be learned technically in America. It was to be remembered, too, that German capital was also becoming very influential in direct investments.

Fifth: Without distinction of indirect or direct investments, almost all enterprises which received foreign capital were those of the plutocrats. The Industrial Bank of Japan dealt chiefly in foreign loans generally, but after the World War the Mitsui Bank appeared as a powerful trustee. In agreement with this, foreign underwriters of loans were powerful, and those companies which directly invested in industries were first-rate makers or monopolistic enterprisers. This showed that Japan had already advanced to a stage of monopolistic capitalism, and that Japanese monopolistic enterprises had become a member of international business combinations. Accordingly, though the ratio of foreign capital in the total sum of industrial capital in Japan was very small, its importance could never be underestimated.

Thus the monopolistic stage of capitalism in Japan was one in which foreign capital flowed abundantly to Japan in the form of debentures and direct investments in enterprises. The importation of capital, national and municipal loans being put together, exceeded the exportation of it. Japan which became a creditor nation with an excess of over 1,370 million yen at one time by the World War I, turned out again to be a debtor nation, with debts excess amounting to about 800 million yen, during the ten years up to the world crisis in 1929. During the time, however, production technique, especially in the fields of both chemical and heavy industries, made remarkable progress, industrial productive power increased as a whole, and capital was accumulated, with the result that the foundation of Japanese capitalism became very strong. And the capital thus accumulated became the chief motive power of her imperialistic expansion to Manchuria and China Proper.