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WESTERN ENTERPRISE IN  
FAR EASTERN ECONOMIC DEVELOPMENT

BY G. C. ALLEN

A Short Economic History of Modern Japan  
Modern Japan and Its Problems

The Industrial Development of Birmingham and the Black Country  
Japan, The Hungry Guest

British Industries and their Organisation

The Industrial Development of Japan and Manchukuo (in collaboration  
with E. B. Schumpeter, M. S. Gordon and E. F. Penrose)



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WESTERN ENTERPRISE  
IN FAR EASTERN  
ECONOMIC DEVELOPMENT  
CHINA AND JAPAN

BY

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This volume forms part of a larger inquiry into the role of Western enterprise in the economic development of Far Eastern countries. Some sections of the inquiry have been sponsored and aided by the Institute of Pacific Relations and the Royal Institute of International Affairs.

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## PREFACE

THE genesis of this book demands a brief explanation. The profound changes brought about, or revealed, by the Second World War in the economic position of Western countries and their nationals in the Far East suggested to us, some five years ago, that the time was appropriate for a review of the part that had been played by Western enterprise in the economic development of that region. On the inception of this study, it was obvious that the scope of our research must be restricted, and we therefore decided to confine our attention, in this phase of our work, to four countries, viz. China, Japan, Malaya and Indonesia. This choice was determined largely by a wish to examine the course of Western enterprise in a number of mutually contrasting environments, for in this way we hoped that the diversity of methods and policies pursued by Western firms in 'undeveloped' regions might be brought to light. The present volume, which is concerned with China and Japan, contains the first results of our study.

Our aim has been to describe the beginnings of Western enterprise in the two countries, the local circumstances which determined the character and forms of that enterprise at various times, the relations of Western undertakings with the native economies at different stages in their growth, and finally the effect of the Western impact upon the industrial and commercial life of the countries considered. The review covers the period from about the middle of the last century, when China and Japan were 'opened' to foreign trade, to the present time. We originally intended to end our study with a discussion of the place that Western enterprise might be expected to occupy in these countries during the post-war period; but political events in the Far East since 1949 have suggested the wisdom of deferring this task. *Inter arma*, speculation about long-term economic trends and relationships does well to be silent. The greater part of the book deals with China; but a dominant theme is the contrast presented by China and Japan in their response to the Western intrusion, and, especially in the rôle assigned to Western business enterprise in the two economies. In the final chapter these contrasts are brought into relief. Malaya and Indonesia will be the subject of a subsequent volume upon which we are now engaged.

We consider it important to emphasise the limitations of our purpose. We have not tried to write either an economic history of China and Japan or a comprehensive account of Western contacts with these two countries. Our concern has been with a particular aspect of economic development, and our interpretations and criticisms have validity only within a narrow chamber of reference. Thus we have not sought to pass moral judgments either on the activities of the Westerners or on the policies of the Chinese and Japanese Governments, although at times we

may have done so by implication. We have not written as apologists for Western enterprise, nor have we felt called upon to speculate upon whether, or to what extent, the economic developments that resulted from that enterprise contributed towards raising the quality of life of the Chinese and Japanese peoples. Even within the limits which we have set ourselves, we do not claim to have presented more than a preliminary view of this large subject. Much detailed research remains to be done before Western economic activities in the Far East and their consequences can be fully described and understood. In an attempt to break into fresh ground, we have had to content ourselves with a small-scale map and so have not drawn upon many sources of information which would be essential to a detailed study of a particular sector of this territory.<sup>1</sup> Further, the greater part of our data (at any rate in the case of China) has been obtained from Western sources. We recognise that, in spite of our efforts to write objectively, this limitation is likely to have affected both the selection and the interpretation of facts. If our shortcomings provoke Oriental economists to write their version of these events, we shall be well content.

There remains the pleasant task of offering our thanks to all those who have given us advice and help. Some of our most valuable data has come from firms with interests in the Far East, and we gratefully acknowledge their kindness in providing us with information about the history of their operations. In this connection we should like to mention the following: the Arnhold Trading Company Ltd.; the British-American Tobacco Company Ltd.; Cable and Wireless Ltd.; the Chartered Bank of India, Australia and China; the Chinese Engineering and Mining Company Ltd.; Dorman Long and Company Ltd.; the Great Northern Telegraph Company Ltd.; Harrisons, King and Irwin Ltd.; Alfred Holt and Company; the Hongkong and Shanghai Banking Corporation; Imperial Chemical Industries Ltd; Jones, Burton and Company Ltd.; Lever Brothers and Unilever; Mackenzie and Company Ltd.; Matheson and Company Ltd.; Patons and Baldwins Ltd.; the Peking Syndicate; Pilkington Brothers Ltd.; Platt Brothers (Sales) Ltd.; Charles Schlee and Company; Shell Refining and Marketing Company Ltd.; Standard Vacuum Oil Company; John Swire and Sons Ltd.; Union Cold Storage Company Ltd.; and Wheelock, Marden and Company Ltd.

We are also much indebted to the following persons who have helped us at different stages of the work: Mr. George E. Mitchell, Secretary of the China Association, and his staff who on many occasions enabled us to fill gaps in our material; Mrs. V. S. Robb, formerly of Hankow, and Mr. P. E. Witham, formerly tea adviser to the Chinese Government, to whom we are indebted for information about the tea trade; Mr. J. Leighton-Boyce, who generously put at our disposal data obtained in

<sup>1</sup>e.g. the Jardine Matheson Papers which Mr. Michael Greenberg has used so successfully for his *British Trade and the Opening of China, 1800-1842* (1951).

the course of his researches into the history of the Chartered Bank and whose comments upon our chapters on banking have been most valuable, and Mr. W. C. Cassels of the Hongkong Bank, who gave us the benefit of his advice and experience in the same field. Mr. D. J. Sloss, formerly Vice-Chancellor of the University of Hongkong, Mr. E. Pudney, formerly Commissioner of Chinese Taxation in Hongkong, Mr. G. R. G. Worcester, formerly of the Chinese Maritime Customs, Professor F. E. Hyde of Liverpool University, Mr. J. Caldwell Jones of the Liverpool Chamber of Commerce and Mr. H. Pagel, all gave us the benefit of their knowledge and experience and we are grateful to them. We should like to offer our special thanks to Sir John Masson who from the outset took a keen interest in our work.

Much of the information about Japanese economic development was gathered during a visit to Japan just before the war and it is not possible here to acknowledge the assistance then received. But we should like to thank Mr. K. Asakai of the Japanese Embassy in London for furnishing us with documents concerned with recent economic changes in his country and for enlisting the help of the libraries of the Japanese Foreign Office and of the National Diet to which we are indebted for information about foreign experts in Japan in early times.

It is difficult to express adequately our obligations to the staff of the Royal Institute of International Affairs, especially to Miss M. Cleeve, Research Secretary, and to Mr. and Mrs. A. S. B. Olver of the Far East Department. They went to much trouble in introducing us to firms and persons who were likely to be of service to us and their generous help has been available throughout the period of our researches. We must also express appreciation of the help given by the Librarians at this College, the Foreign Office Research Department and Chatham House. Our colleagues at University College, London have helped us in many ways. The maps included in this volume were drawn for us by members of the Department of Geography. Dr. B. Cheng of the Faculty of Laws kindly commented on our historical introduction. We had the benefit of Mr. J. Lanner's expert criticism of our banking chapters. Mr. A. Kay, Research Assistant in the Department of Political Economy, spent much time in checking references, and in drawing up statistical tables, and we much appreciate the assistance he gave us in preparing the book for publication. We are indebted to Miss Joyce Wood for secretarial assistance and to Mrs. G. C. Allen for typing the manuscript and giving other help in preparing the book for publication. The responsibility for any errors of fact or judgment which the book may contain rests, of course, entirely with us.

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May 1953.

G. C. A.  
A. G. D.





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PART ONE  
CHINA





THE COURSE OF WESTERN  
ENTERPRISE

THE industrial revolution of the West and the expansionist phase that accompanied it coincided with an era of decadence in China. The authority of the Ching dynasty, a Manchurian line which had ruled since the seventeenth century, was waning. The later emperors had fallen far behind their vigorous predecessors in administrative capacity, and by the early nineteenth century the dynasty seemed, in the traditional language of China, to have lost the Mandate of Heaven. Yet the Chinese were still confident of the superiority of their civilisation to all others and they saw no reason to doubt its distinctive excellence even in the industrial arts. For several millenniums their emperor had been the suzerain of a very large part of the human race and the Empire's prestige was still immense. The foundations of its power, however, had been sapped by weakness at the centre during a period when the strength of the West was rapidly increasing. As the Chinese Government became conscious of these trends, its hostility to foreign intruders was sharpened. A deep-seated belief in the superiority of Chinese to aliens was contradicted in every encounter by demonstrations of China's weakness, and the resentment which resulted did not conduce to harmonious relations with foreigners. The West, in accordance with its traditions, claimed that peaceful intercourse and trade between nations were rights which no country should refuse to acknowledge, while China regarded them as favours to be conferred, as far as concerned Chinese territory, under conditions laid down by herself. In Europe—or at least in Great Britain which was in the forefront of economic development—the expansion of trade was considered a praiseworthy purpose to be pursued with vigour. China was proud of her economic self-sufficiency, and her Government never regarded 'the fostering of foreign commerce as an important affair of state'.<sup>1</sup>

In consequence, the first impact of the new types of economic activity came entirely from Western initiative. European commerce was the active agent, while China lay passive. It was not that the Chinese people lacked economic initiative and acumen; these qualities they had long possessed in abundance. But political unrest, arbitrary taxation and the general lack of security of persons and property had inhibited the exercise of Chinese business abilities or had directed them

<sup>1</sup> G. B. Sansom, *The Western World and Japan*, p. 107.

into channels which contributed little to the nation's prosperity. Adam Smith observed with justice: 'China seems to have been long stationary and had probably long ago acquired that full complement of riches which is consistent with the nature of its laws and institutions. But this complement may be much inferior to what, with other laws and institutions, the nature of its soil, climate and situation might admit of.'<sup>1</sup> Modern economic life only began in China with the enforced introduction of 'other laws and institutions' through treaties extorted from China by foreign nations.

The experience of China, in respect of westernisation, stands out in contrast with that of other Asian countries. In Japan a strong national government provided the political and institutional foundation needed for economic development. In Malaya and Indonesia this foundation was supplied by the colonial Powers. In China neither the Manchus nor their successors, the Republic, were capable of performing this function (at least until the nineteen-thirties); while the 'open door' policy initiated by the United States and accepted by the other Great Powers prevented the overt colonisation of the country. Instead, the 'unequal treaties' furnished the political and legal basis for the introduction of Western forms of economic life. This basis was variously composed. It included extraterritoriality, by which the nationals of Treaty Powers and their property were placed under the jurisdiction of their own consuls and were exempt from Chinese taxation; Treaty Ports, where foreigners were permitted to reside and trade; foreign settlements and concessions in certain Treaty Ports, that is to say, districts administered by foreign residents and their consuls; a low maximum import duty and freedom from internal levies on imports and on goods bought by foreigners for export; and permission, at first tacit and then explicit, for ships under foreign flags to ply between Chinese ports and along certain major internal waterways. These rights were conceded by China in treaties with eighteen Powers, and the insertion of most-favoured-nation clauses meant that a privilege accorded to one was shared by all. Further, several important public services came to be administered by a foreign staff; they included the customs service, the post office and the salt gabelle. Finally, a leading part in the westernising process was played by Hongkong. This British colony was one of the largest foreign enclaves in China, and its influence on the economic development of the country was profound. The whole elaborate system of foreign rights was built up gradually and modified from time to time. For instance, the number of Treaty Ports grew from five to eighty (including some which China opened voluntarily); the number of foreign concessions increased to over twenty in 1913, but later on declined; and the rate of customs duty was twice revised before China regained tariff autonomy in 1928.

<sup>1</sup> *The Wealth of Nations* (ed. Cannan), vol. I, p. 96.

The history of Western intercourse with China can conveniently be divided into five periods: (1) the early history up to the Treaty of Nanking, 1842; (2) the period from 1842 to the Treaty of Shimonoseki in 1895, years in which privileges were secured by foreigners and enclaves were established; (3) the period from 1895 to the Revolution, 1911, when Western economic penetration began to take the form of investment in industry and transport in China; (4) the period from 1911 to the outbreak of the Sino-Japanese War of 1937, the era of civil war and the retreat from extraterritoriality; (5) the period from 1937 to the present time, during which trade with the West was largely destroyed by war and revolution. The general political and economic character of each of these periods, so far as it has relevance to this study, will be presented in outline.

### *1. Sino-European Relations before 1842*

The nature and genesis of the economic relations which developed between the West and China in the nineteenth century can scarcely be understood without some reference to earlier history. From the time of the Roman Empire until the end of the eighteenth century the outstanding characteristic of trade between China and the West was that, whereas the West provided a ready market for Chinese goods, in China there was little demand for any of the manufactured goods and raw materials that the West could supply. Consequently there was a drain of precious metals to China, and this throughout the centuries gave rise to criticism in Europe of the Eastern trade. Even in the sixteenth century, when the Portuguese secured a foothold at Macao and when other Western countries began to extend their rivalries with one another to the Far Eastern trade, the economic relations between these countries and China did not take the form of the exchange of European for Chinese goods. Part of the exports from China were paid for by the shipping and commercial services which Europeans rendered in carrying to China the natural products of South-east Asia, India and Japan; while the balance continued to be settled by exports of specie to China. Trade with China during the seventeenth century was of the same pattern, which even its great expansion in the eighteenth century left undisturbed. This was the era of the Old China Trade which must now be described.<sup>1</sup>

The early economic relations between China and England were frigid. Trade was confined to a single port, Canton, and was conducted on the English side by a monopolist, the East India Company, and on the Chinese side by an exclusive association of merchants, the Cohong.

<sup>1</sup> cf. M. Greenberg, *British Trade and the Opening of China, 1800-1842*, Chap. I and *passim*. While the nationals of several Western countries participated in this trade, the British were by far the most numerous and important group.



Even if the Chinese Government had been less restrictive in its commercial policy, it is doubtful if, before the beginning of the nineteenth century, the impact of the West would have greatly disturbed the course of commercial and industrial development in China, for at that time Western industries had no technical superiority over the Chinese and the mutual advantages to be obtained from trade between the two regions were limited. The Chinese commodity which was in greatest demand in England and at the end of the eighteenth century accounted for nearly all the purchases of the East India Company in China was tea. In addition, the exports from Canton comprised small quantities of silk, lacquer wares and *chinoiserie*, a trade that was mainly in the hands of the officers of the East Indiamen who were allowed a specified amount of cargo space ('privilege tonnage', so-called) for carrying such goods. Yet while in Great Britain there was an urgent demand for China's tea, China constituted a meagre market for British products. Woollens and hardware were exported to China, but there was, as in the past, a large unfavourable balance which had to be settled by the shipment of silver.

The export of specie provided the chief grounds for the criticism that had long been directed against the East India Company, and it came to an end not through the expansion of the Chinese market for British manufactures, but through the rise in India's trade with China. Early in the nineteenth century a large export of Indian opium and raw cotton to China developed, and although China sent in return some quantity of raw silk, sugar and nutmeg, the balance of trade was strongly in India's favour. Thus it came about in the early decades of the nineteenth century that British purchases of China's tea were paid for by exports of Indian cotton and opium to China and, to complete the triangle, by exports of British goods and services to India, by dues payable by Indians to the East India Company and by the freight earned by British ships engaged in the Eastern trade. The trade between India and China was known as the 'country trade', and was in the hands of private merchants, both Indian and English. This, together with the 'privilege tonnage' of the officers of the East Indiamen, represented a serious breach in the East India Company's China monopoly. By the early thirties more than half the British trade with China was in private hands, and there had also been a development of private trade by the Americans and continental Europeans. The East India Company's monopoly of the tea trade and its command over the machinery for remitting home the proceeds of sales in China were nevertheless bitterly attacked by British merchants and manufacturers who thought that golden opportunities awaited British trade once the monopoly had been destroyed. In 1834 this occurred; but it was not followed by the favourable results that had been expected. Criticism was, therefore, turned