Introduction

While Japan is generally known today as the world’s largest creditor nation (and has been since the 1980s), very few people realize that this came about only after a long and troubled history of heavy government borrowing from foreign markets. Since the forced opening of the country through the imposition of treaty ports in 1858, and from the earliest days of international commerce, most studies of Japan have emphasized the closed, inward-looking nature of its society and culture. Similarly, in the spheres of trade and economy, historical analyses have highlighted Japan’s closure to foreign investment and participation in the economy, and in doing so have implicitly downplayed the importance of foreign investment. Japan, apparently unique among nations, has managed to adopt foreign knowledge and fuse it with a native soul, as the slogan *wakon yōsai* (literally, “Japanese spirit, Western technology”) audaciously proclaims.

It follows, then, that the Japanese experience of modernization has been characterized as one of “autonomous” development. Indeed, the dominant narrative is of a large number of Japanese official and unofficial missions scouring the world to discover new (foreign) science and knowledge and, on returning to Japan’s fertile shores, almost immediately putting their practices and ideas to the test and establishing the latest (Western) institutional models in Japan. While the resultant historiography is essentially factual, and has incorporated a token tip of the hat to honored instructors and temporary advisers (*oyatoi gaijin*), it is at heart deeply misleading, problematic, and disingenuous: misleading in that it says little about the individual and collective influence that non-Japanese agents have had on Japan’s modernization; problematic in that the processes of
technology transfer (with its questions of agency) and industrialization are left largely unaccounted for; and disingenuous in that it ignores long periods of sustained foreign investment in the Japanese economy, an enormous import of capital memorably described as a “golden tide” by British diplomats. Moreover, the flow of foreign capital into Japan did more than support the financial position of the government of the day; ultimately it represented, in its widest sense, the empowerment of a Japanese “vision” for the future. A new, more layered and imbricated conception of Japan’s remarkable experience of rapid socioeconomic development is thus needed: one that moves beyond the rhetoric of “Westernization without the Westerner” and explores a long history of international cooperation and shared endeavor.

*Investing Japan* demonstrates that foreign investment has been a vital and misunderstood aspect of Japan’s modern economic development and remains important today. Foreign borrowing was nothing less than the crux of Japan’s prewar capital formation: it simultaneously financed domestic industrial development, the conduct of war, and territorial expansion on the Asian continent. Foreign borrowing also financed the provision of infrastructure in Japan’s largest cities, the nationalization of railways, the interrelated capital-raising programs of “special banks” and parastatal companies, and the rapid electrification of the Japanese economy. *Investing Japan* investigates the role played by foreign companies in the Japanese experience of modernization, examining them as key agents or necessary components in the processes of industrialization and technology transfer, supplying the economy with a stream of direct foreign investments and joint ventures.

While 1945 is overwhelmingly used as a point of contrast in Japanese historiography, there are important, if underresearched, continuities that *Investing Japan* attempts to clarify. For example, the prewar and postwar roles of the zaibatsu conglomerates and American multinationals receive attention in this regard. Indeed, there is much more to the topic of “foreign capital” than immediately meets the eye. It is a complex, multifaceted subject, intersecting as it does with the histories of formal and informal economic imperialism, diplomacy and war financing, domestic and international financial markets, parastatal and multinational enterprise, and “internationalization” vis-à-vis the emerging global market (globalization).

Research for *Investing Japan* was conducted inside the archives of the Bank of Japan, the Bank of England, N. M. Rothschild and Sons, the
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Federal Reserve Bank of New York, the National Archives (of the United Kingdom), and in the libraries of many universities in Japan and around the world. Written over a lengthy twenty-year period, *Investing Japan*’s critical sources of reference are the government publications of Meiji Japan’s longtime minister of finance Matsukata Masayoshi (his associates and minions), and the Ministry of Finance–sponsored *Meiji zaiseishi* (Meiji financial history) and *Meiji Taishō zaiseishi* (Meiji Taisho financial history) series. Much of the research incorporates material in microfilm catalogues and newspaper collections, although references have largely been restricted to freely available, English-language materials. Moreover, my research methodology changed as the Internet increasingly provided access to primary-source archives and online secondary sources. Owing to limitations of space and to romanization (or transliteration), the footnotes and bibliography have been largely stripped of Japanese sources (to the point that some might question the author’s commitment to Japanese scholarship). Nevertheless, there is a sufficient wealth of research material cited here, indeed in the depth of the English-language sources alone, to encourage new research and further reflection.

*Investing Japan* is divided into three separate parts and nine chapters. Each chapter stands alone thematically, which entails some chronological cycling, but *Investing Japan* is best read in context and order from acknowledgments to postscript, and historians, especially, will want to incorporate the footnotes and bibliography. Part I, “Anticipating Foreign Capital: The Adoption of the Gold Standard,” seeks to contextualize the role of Meiji Japan’s financial, monetary, and economic development within the wider framework of nineteenth-century economic history. It elucidates the process, motives, and significance of the gold standard’s adoption in Japanese history, a key aim being to show the way in which the adoption of the gold standard facilitated the import of foreign capital. Part II, “Foreign Capital and the Prewar Japanese Economy,” starts with a consideration of the close financial ties between Japan and Great Britain during the period of the Anglo-Japanese alliance (1902–1923) to uncover underappreciated aspects of Anglo-Japanese financial cooperation. The wider import and employment of foreign capital in the

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1. Readers who want more information on the Japanese sources used in the research and writing of *Investing Japan* are encouraged to read my Japanese-language works.
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Japanese economy is then investigated in the period from the opening of the treaty ports in 1859 to the last instance of “peaceable” foreign investment in 1939. Taken together, the chapters in Part II argue that the issuance of Japanese government, municipal, and corporate loans on the premier financial markets of London, New York, Paris, and Berlin was a central component in Japan’s modern capital formation. In addition, a survey of direct foreign investment in the Japanese economy seeks to uncover those sectors or areas of economic activity that were most affected by the import of foreign capital. Given that the process of technology transfer is integral to the development of Japanese capitalism, and a vital component of postwar revival and economic prosperity, Part II concludes by shedding some light on what is a largely unknown episode in Japan’s economic and financial history.

Part III, “Foreign Capital and the Postwar Japanese Economy,” moves beyond the prewar frameworks of colonialism and imperialism to examine how the postwar state attempted to reconfigure the role of foreign capital in Japanese capitalism. It starts by noting that the foreign presence in the immediate postwar economy was all but eliminated. The use of foreign currency was restricted, and commercial sovereignty was reasserted across all areas of the economy through the pursuit of protectionist policies. Throughout the 1950s and 1960s, however, the Japanese position was gradually exposed as being untenable; loans were sought from the World Bank, and some sectors of the Japanese economy were liberalized. After considering the subsequent internationalization of the 1980s and 1990s, we turn to an analysis of the scale and significance of the recent upsurge in foreign activity on the Japanese market. Is the growing international multinational presence, as evidenced by the growth of franchises, subsidiaries, joint ventures, strategic alliances, and mergers and acquisitions, really indicative of a profound change in the operations and workings of the Japanese market? Finally, Part III incorporates the findings on all of these questions in considering the effect of the neoliberal “big bang” legal reforms on Japan’s finance, markets, and economy—keeping the emergence of new (and combined) threats to the Japanese economy, such as those posed by the present global financial crises, and the earthquake/tsunami/nuclear crises, firmly in mind. Thus, the notion of Japan’s autonomous economic development is shown to be one of the last great fallacies of Japanese historiography.