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The Return of Protectionism to Japan and the United States

The Manchurian Example

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On 20th Feb. 2017 @ Michigan Law School
“Manchuria”
Three Eastern Provinces of China
Introduction

• Manchuria
• What was the turning-point for Japan & U.S.?
• Mismatch of the title?
  Protectionism:
  Closing door for domestic industries
  Basis of idea: Exclusivism for national interests
• Problem: Combination between
  exclusivism and expansionism
  in a third unstable country= risk of war
Historical Outlook

• Sino-Japanese War of 1894 to 1895
• Russo-Japanese War of 1904 to 1905
  Portsmouth Treaty
• Twenty-one Demands and Sino-Japanese Agreement of 1914

• **New China Consortium** in 1920
• Washington Conference
  Possibility and Failure of Int’l cooperation
• Manchurian Incident in 1931
• Proclamation of Manchukuo in 1932
Keyword: “Open Door”

• Two declarations of Secretary of State, Hay in 1899 and 1900

Two principles:
1) Respect of integrity of China’s territorial sovereignty
2) Equal opportunity of economic activities in China for all foreigners

Crystalized in Washington Conference & Consortium
New Four-Power Int’l Banking Consortium Agreement in 1920

• **Main purpose**
  to eliminate undesirable competition, and
  “to assist China in the establishment of her great public utilities ...”.

• **Essential mechanism**: Pooling vested rights and priorities of banking groups
  Esp. prior options of financial loans
Failure of Consortium

• **No positive achievement**: No loan realized

• Negative achievement:
  
  Japan’s active imperialism prevented

• **Unsettled critical issue** [Point of today’s talk!]

  How and what socio-economic structure to implement in Manchuria?

  Main obstacle: Instability in China
Unstable China

- In 1911 Chinese revolution
  Chinese Republic (X Ch’ing dynasty)
- In 1916 Yuan Shi Kai’s death
  Central government---disorganized and disrupted
  Local disorder---warlords ruling
- In 1920’s Chinese Nationalism
  Anti-Japanese Imperialism especially in Manchuria
- Communism
Difficulties in China

• Fiscal difficulty of central government
  Unwillingness of loan to China

• Manchuria: Chinese Economic Nationalism
  Social Instability: boycott, labor disputes etc.
  Chinese initiative of railway construction
  encircling railway net against S.M.R.

• Railway business not appropriate for market
  Need but absence of arrangement
Japan’s advance into Manchuria in 1920’s

Takashi Hara (1856-1921)
First commoner prime minister
Disarmament
Fiscal Austerity
Gold Standard

Adhesion to int’l new order
New China Consortium
Eastern Conference in 1921

• Diplomatic Policy on Far East Asia
  1) Adhesion to the new world order
  2) Extension of Japan’s railways in North Manchuria (former Russian ruled area) (Active Imperialism?)
  3) Southern Manchuria
     Support for Chang Tso-lin (Open Door?) for stable business by S.M.R. Company etc.
S.M.R. Company with Matsuoka

Southern M. Railway Company
incorporated in 1906
Government 50% shareholding
Apparently pure private corp.

Yosuke Matsuoka (1880-1946)
Chinese railway construction
Cooperation with Chang Tso-lin
Call for U.S. & British finance
but Refusal of direct investment
Manchuria as Japan’s “lifeline”
U.S. position on Manchuria in 1920

• Unsuccessful attempts of railway encroachment
  Mr. Harriman, U.S. banks’ railway agreement
• U.S. government: refrain from exclusive expansionism
• U.S. banks, e.g. J.P. Morgan
  unwilling to grant loan to China but
  willing to cooperate with Japan, SMR & OCC.

Contrast of U.S. position to SMR and OCC
Oriental Colonization Company

- Incorporated in 1907
- Shift to land credit in Manchuria
- Financing Sino-Japanese joint ventures
  - Colony city construction (Mukden, Dairen etc.)
  - Railway construction
  - Iron/Coal mining
  - Power Plant

--- **Collaboration with SMR**

1923 Bond Issue in U.S.  National City Bank of N.Y.
SMR’s attempt of bond issue

• In 1920 Refused by Department of State
  General Principle:
  not supporting foreign competitors

• In 1927 Renegotiation:
  Kellogg’s implicit acknowledgement
  But public opinion & Standard Oil’s demand
U.S. Government’s attitude changed:
  Q: General Principle changed?
  Unpredictable discretion
OCC’s success again in 1928

- Successful bond issue in U.S.
  - Strong opposition of U.S. public opinion
    - but
      - with the limitation of usage of funds
        - only for redemption of
          - issued domestic bonds and
            - sort-term loans
  - U.S. Department of State’s approval
  - No apparent contradiction
    - with Consortium Agreement
      - (but room for manipulation)

Congruent with Open Door Policy?
• U.S. banks intention of financial support
• U.S. government’s attitude
to OCC, with limitation (reasonable?)
to SMR (general principle changed?)
Any clear difference between OCC and SMR?

**All congruent with Open Door Policy?**

Different actors: portfolio investment /direct investment

1) financial profit oriented banks (& Dep. of State)
2) protection of domestic industry
   Dep. of Commerce (H. Hoover)
   other banks
Different justification for Japan’s “special position” in Manchuria

• Geographic particularity for national defense and economic existence.

• “Right to Live”

• Revision of Imperial Defense Plan in 1923
  U.S. as hypothetical adversary country
  Urgent need to prepare for war

• Right of investment-return

• Keep of peace and order
  not only for Japanese but for foreigners
Conclusive Remark

• Prime Minister Hara’s concept of “open door”

• Difference from U.S. Open Door Policy

• Unsettled issue on Manchuria (or China)
  Local stability (political and military)
  Direct investment & Portfolio investment
Consortium Agreement

• General Assurance for Japan’s interest
  “the consortium does not intend to encroach on any industrial enterprises which are already established nor expects that existing Japanese options for the continuation of such enterprises be pooled.”
  Lansing (The Secretary of State) on October 29, 1919

• Dual Characteristic of Agreement
  Agreement between private banking groups
  But negotiation involving national governments
  Not purely private deal but diplomatic implication

• Double difficulties for China loans
  Inter-national relations: diplomatic concerns
  Profitability for banks
  and also Components and conflicts in a banking group ex. U.S.
Cotton Wheat Loan 1933

- **U.S. RFC** (Reconstruction Finance Corporation)
  50,000,000 USD loan to Chinese government for the purchase of Cotton Wheat from U.S.
  = for U.S. domestic economic reconstruction
  = for supporting Chinese central government

- No notice & **approval of Department of State**
  Department of Commerce’s initiative
  (another ex. promotion of pilot contract for export of U.S. airplanes)