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The Return of Protectionism to Japan and the United States

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**The Return of Protectionism to
Japan and the United States**
The Manchurian Example

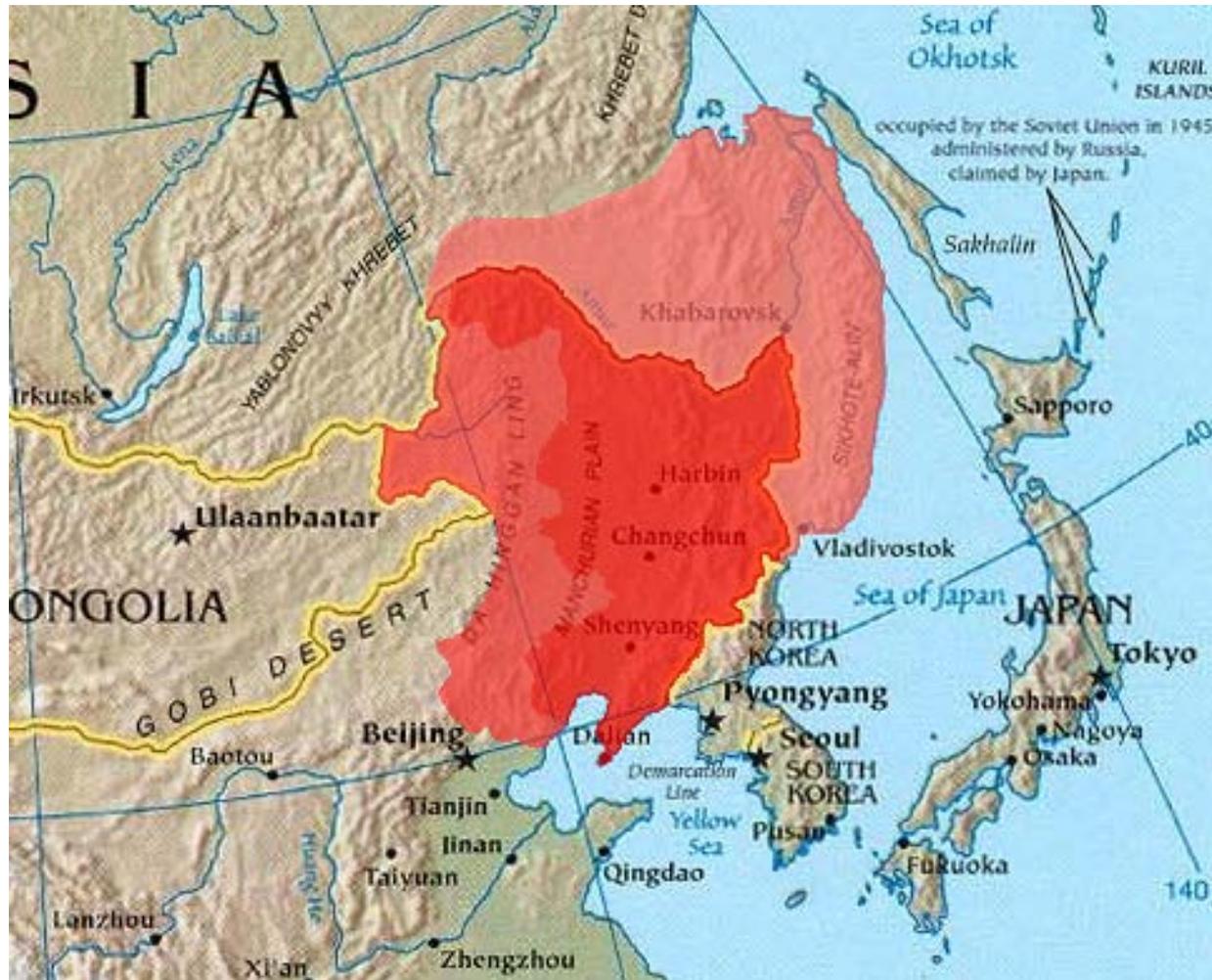
Hisashi HARATA

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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

Crystallized 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
short-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)