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‘Separating the Roots of the Chrysanthemum’: Nishihara Kamezō and the Abortive China Loans, 1917-18

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I.

The First World War turned out to be an unexpected windfall to Japan’s financial situation and its imperial ambitions. Formerly a debtor nation plagued with chronic capital and specie shortage, it found this situation radically reversed due to diminished competition of Europe's belligerent powers and the consequential (and unprecedented) demand for Japanese products.¹ Beet sugar, in one example, more or less disappeared from the world markets, thereby greatly increasing the cane sugar price and the profits of the Taiwan sugar producers —especially the Suzuki concern’s sugar interests and their banks, the semigovernmental *Bank of Taiwan*. In 1916, exactly when the Terauchi Cabinet went into office, the war gave way to a veritable boost to the Japanese economy. It is instructive to see the latter in the context of rise of the United States. When the latter experienced its boom, it was ready to absorb more Japanese exports than ever before. Within Japan itself, domestic producers were able to fill the market for many high-technology goods, formerly imported from European countries. From whatever perspective, this evolution was no less short of spectacular. Between 1914 and 1918,

¹ For a more intricate picture of the evolution of Japanese foreign trade during the war, see: Mark Metzler, *Lever of Empire: The International Gold Standard and the Crisis of Liberalism in Prewar Japan* (Berkeley – Los Angeles - London, 2006), pp. 91ff.

domestic manufacturing increased by 54 percent in inflation adjusted terms; exports increased by three times in money terms and by 47 percent in value.²

Through the ingenious financial technologies of its so-called special banks (*tokushu ginkō* 特殊銀行), notably the *Yokohama Specie Bank* and the *Japan Industrial Bank*, Japan had furthermore build up a very large gold reserve, in the form of foreign-held currencies.³ In 1916, ¥77 million of gold poured into the country; in 1917, the number rose to an astonishing ¥236 million.⁴ According to Inoue Junnosuke, the war economy had supplied Japan with enough financial resources to potentially all its outstanding debts (both foreign and domestic) —an outlook that was in sharp contrast with the prewar debt, which stood at an estimated ¥1,941 million, equivalent to roughly £200 million, and of which almost three quarters was foreign debt!⁵

At the same time, the war marked a remarkable change in European presence on the Asian mainland. Most prominently, it forced Great-Britain to concentrate on the European theater of combat, and abandon its aggressive economic and political activities in China. First, London chose for the position of temporary wartime expedient, but it soon saw its position endangered by the assertive policies of both the United States and Japan. What was at stake was the politics of 'exclusive rights' the European powers had wrought upon China, and which they regarded as immutable and inalienable. Ultimately,

² After: Metzler, *Lever of Empire*, p. 95; George Cyril Allen, *Japan's Economic Policy* (New York, 1980), p. 101; Nihon Ginkō Tōkeikyoku 日本銀行統計局, 明治以降本邦主要経済統計・*Hundred Year Statistics of the Japanese Economy meiji / ikō honpō shuyō keizai tōkei* (Tokyo, 1966), p. 106, p. 120.

³ See, for a discussion of 'specie held abroad', chapter ?????.

⁴ Nihon Ginkō Tōkeikyoku, *Hundred Year Statistics*, p.166; 194; 278; 298-299 (nakijken op precisie!!!!!!!!!!!!!!!!!!!!!!).

⁵ Allen, *Japan's Economic Policy*, p. 22; Inoue Junnosuke, *Problems of the Japanese Exchange, 1914-1926* (London, 1931), p. 229. It is clear that his debt burden was incurred by the choice for industrialization and military build-up on the one hand, and the costly strategy of overseas empire on the other. Especially the latter did not bring a return in terms of foreign exchange earnings, because of the abysmal state of the colonial economies, which demanded further investment and thus, ultimately, foreign borrowing. Profits within this embryonic Japanese empire (mainly) came in Japanese yen, and this due to colonial administration. As we have seen in the former chapter, colonial economies were designed as subsidiaries to the economy of the Japanese mainland.

the conclusion of the war heralded a permanent transformation of British power in the world: a transfer of both economic and political predominance in favor of the United States and the powerful and apparently universalist vocabulary of the 'Open Door'.

Beyond doubt, this shift in the balance of power in the Far East was the main reason for Japanese policy makers not to follow the American example and liquidate its debts, but instead to engage proactively in foreign lending itself. Although it is not very wellknown, Japan lent to Great-Britain, France, and Russia in the period between 1915 and 1918.⁶ For all their uniqueness, however, we will not go into their details. As has been sufficiently made clear by Itō Masanao, these loans were primarily⁷ economic in nature, and stemmed from problems associated with suspended, or limited, specie exchange. This was especially the case after 1917, when the United States too placed an embargo on the export of gold.⁸ It appears that Tokyo faced the prospect of not being able to remit its growing trade surpluses, and thus decided to engage in lending in an effort to 'fund its own trade'.⁹ Especially imports of raw cotton from India were an important point, for they defined the boundaries of repatriating trade surpluses with the United States in gold. Gold shipments were immediately transferred to Indian wholesalers, in

⁶ Nihon ginkō hyakunenshi iinkai 日本銀行百年史委員会, 日本銀行百年史 *Nihon ginkō hyakunenshi* Vol. 2 (Tokyo, 1983), pp. 357-363; Ōkurashō hensan 大蔵省編纂, 明治大正財政史 *meiji taishō zaiseishi* (Tokyo, 1940) Vol. 17, pp. ???????. For theoretical remarks on the ideological context of these loans, see: Kamakura Takao 鎌倉孝夫, 日本帝国主義と資本輸出 *nihon teikoku shugi to shihon yushutsu* (Tokyo, 1976), pp. 29ff..

⁷ Arguably, they also functioned as a way to (zie Simon Bytheway, met verwijzing naar Mark Metzler)....?????????????

⁸ This gave rise to some quite intricate financial technology. For one, the U.S. gold embargo caused the Japanese government to accumulate payments in the accounts of the Yokohama Specie Bank branch office in New York. When the latter experienced difficulties of maintaining advances to Japanese exporters, the Bank of Japan and the Japanese government purchased the balances to YSB's credit, and thus acquired funds for furthering the economic expansion. Obviously, these purchases resulted in a sharp increase of the BOJ's note issuing, and as such precipitated the postwar inflation and consequent conflict of the so-called 'positive' and 'negative' policies. See, in this respect, authoritatively: Metzler, *Lever of Empire*, pp. 115-158.

⁹ Itō Masanao 伊藤正直, 日本の対外金融と金融政策 *nihon no taigai kinyū to kinyū seisaku* (Japan's international finance and financial policies) (Nagoya, 1989).

order to enable further imports and thus sustain Japan's furious economic growth. In this scheme, extending credit to the European powers was one piece in the larger puzzle of facilitating trade under the difficult wartime conditions.¹⁰

There were, however, also other loan schemes, and these carried all the hallmarks of a pronounced political interest. In the period between 1917 and 1918, a series of mysterious loans negotiated between Japanese middleman Nishihara Kamezō 西原亀三 and the government of warlord Duan Qirui 段祺瑞 amounted to the fabulous amount of ¥145,000,000. Although reporting about these loans at the time was confused to say the least, we now know that there existed definite and close relationships between Nishihara Kamezō on the one hand, and the Terauchi Cabinet in Tokyo, in the person of then Minister of Finance Shōda Kazue 勝田主計 in particular.¹¹

Analyzing the Nishihara loans in their geopolitical and historical particularity and isolation is, however, to miss the point. In what context(s) were these infamous loans raised? What was, for instance the nature of their geopolitical climate and their international institutional character? Next, in what respect did the Nishihara loans differ from earlier, more 'official' instances of yen diplomacy? In what respect did they represent a break with former administrations, and, more importantly, did their exist a broad consensus about their objectives and appropriateness? And not in the least: how did China's turbulent politics contribute to their ill fate?

II.

Let us first turn to the broader international context, more specifically some remarkable events American politics went through at the end of the nineteenth and

¹⁰ For more information on the institutional characteristics of the foreign lending scheme, see: Ōkurashō hensan 大蔵省編纂, 明治大正財政史 *meiji taishō zaiseishi* Vol. 17, pp. 618ff.

¹¹ This relationship has been highlighted by Shōda's son Tatsuo: Shōda Tatsuo 勝田龍夫, 中国借款と勝田主計 *Chūgoku Shakkan to Shōda Kazue* (Tokyo, 1972).

beginning of the twentieth century. As pointed out in the introduction, the U.S. choice for the gold standard cannot be seen separate from an 'internationalist' strand in American politics, stressing the need for greater American involvement in international affairs, not by means of heavy-handed European style military might (sic.), but through the beneficial means of free trade and commerce. The U.S. government therefore sponsored the establishment of a *Commission on International Exchange* whose aim it was to investigate the possibility of erecting gold-exchange standards in, among others, Panama, Cuba, the Dominican Republic, and Mexico. Their respective currencies would this time not be based on the pound sterling (the system pioneered by the British in India),¹² but on the United States gold dollar, in other words centered around New York. The technicalities of their realization have been well documented in existing literature.¹³

China remained however the *nec plus ultra* in the great power scramble for concessions and favorable trade agreements. It was, unfortunately for U.S. policy makers,

¹² American policies were indeed so obviously modelled after the British example in India that the economist John Maynard Keynes regarded them with profound contempt: in dealing with her dependencies, the United States has 'imitated, almost slavishly, India'. In turn, this criticism did not go unnoted, as demonstrated in the following review by Kemmerer:

[Mr. Keynes' view] cannot be substantiated. The Philippines have a simpler and purer form of the gold-exchange standard than has India. The Indian system has various complicating elements: the sale of council bills for fiscal purposes; the paper money reserve, whose functions decidedly overlap those of the gold standard reserve; and the absence of anything like as rigid and automatic requirements as the Philippines possess for adjusting the monetary circulation to the norms demanded by a strict gold standard.'

John Maynard Keynes, *Indian Currency and Finance* (London, 1913), p. 27. E.W. Kemmerer, 'Review: Keynes' Indian Currency and Finance', *The Quarterly Journal of Economics* 28:2 (February 1914), p. 375.

¹³ J.H. Hollander, 'The Finances of Porto Rico', *Political Science Quarterly* 16:6 (December 1901), pp. 553-581; E. W. Kemmerer, 'The Establishment of the Gold Exchange Standard in the Philippines', *The Quarterly Journal of Economics*, Vol. 19, No. 4. (Aug., 1905), pp. 585-609; idem, 'A Gold Standard for the Straits Settlements', *Political Science Quarterly* 19:4 (December 1904), pp. 636-649; idem, 'A Gold Standard for the Straits Settlements II', *Political Science Quarterly* 21:4 (December 1906), pp. 663-698.

also a country where its bargaining position had been substantially weakened. Especially the Japanese victory over China in 1894-1895 had effectively eroded the diplomatic leverage of the Chinese government. Towards the end of the nineteenth century, several European countries started to exploit China's thwarted capability of resisting aggressive demands and circumvent the earlier relative equality of trade conditions based on so-called 'most-favored-nation' clauses (originally embedded in the treaties of 1842-1844).¹⁴ Arguably a strategy first pioneered by France,¹⁵ it consisted of demanding exclusive concessions, especially in mining and railway building. Once granted to one power, it was obviously virtually impossible to grant them to one or more other powers: such concessions thus physically destroyed opportunities for equal investment, and were, by consequence, capable of destroying equal trading opportunities as well.

The American reaction consisted of the wellknown policy of the Open Door.¹⁶ The 'First Open Door Note' (September 6, 1899), allegedly prepared by Secretary of State John Hay and addressed to Andrew White, was a specific reaction to German exclusivist claims with regard to the the bay of Jiaozhou 膠州灣 and the adjacent Shandong territory, but effectively conveys the Open Door's essence:

[...]

- 1) [Each power will] in no way interfere with any treaty port or any vested interest within any so-called 'sphere of interest' or leased territory it may have in China.

¹⁴ Earl H. Prichard, 'The Origins of the Most-Favored-Nation and the Open Door Policies in China', *The Far Eastern Quarterly* 1:2 (February 1942), pp. 161-172, esp. pp. 167ff.

¹⁵ Idem, p. 171; Payson Jackson Treat, *The Far East: A Political and Diplomatic History* (New York & London, 1935), p. 323.

¹⁶ For some early overviews, see: Shutaro Tomimas, *The Open-door Policy and the Territorial Integrity of China* (New York, 1919); Mingchien Joshua Bau, *The Open Door Doctrine in Relation to China* (New York, 1923). On the Open Door's origins and early history, see: Paul A. Varg, 'William Woodville Rockhill and the Open Door Notes', *The Journal of Modern History* 24:4 (December 1952), pp. 375-380; Tyler Dennett, 'The Open Door Policy as Intervention', *Annals of the American Academy of Political and Social Science* 168 (July 1933), pp.78-83; Raymond A Esthus, 'The Changing Concept of the Open Door, 1899-1910', *The Mississippi Valley Historical Review* 46:3 (December 1959), pp. 435-454.

- 2) [T]he Chinese treaty tariff of the time shall apply to all merchandise landed or shipped to all such ports as are within said 'sphere of interest' (unless they be 'free ports'), no matter to what nationality it may belong, and that duties so leviabable shall be collected by the Chinese Government.
- 3) [Each power will] levy no higher harbor dues on vessels of another nationality frequenting any port in such 'sphere' than shall be levied on vessels of its own nationality, and no higher railroad charges over lines built, controlled or operated within its 'sphere' on merchandise belonging to citizens or subjects of other nationalities transported through such 'sphere' than shall be levied on similar merchandise belonging to its own nationals transported over equal distances.
[...]¹⁷

The impact of the Open Door idea was enormous. Formulated in the terminology of freedom, equality of privilege and progress, it managed to mobilize not only public opinion,¹⁸ but also —importantly— key players in high finance.¹⁹ Its novelty was thereby not so much the values it claimed to incorporate, but its rhetorical force as enlightened self-interest. There was, some would say obviously, a strong political aspect to American aid to China.²⁰ The Open Door endorsed and justified a partnership of governance and

¹⁷ *Papers Relating to the Foreign Relations of the United States, 1899* (Washington, 1899), pp. 129-130.

¹⁸ One cannot possibly exhaustively list all laudations of the Open Door policy. For some examples, see: Frederick McCormick, 'The Open Door', *Annals of the American Academy of Political and Social Science* 39 (January 1912), pp. 56-61; Earl H. Prichard, 'The Origins of the Most-Favored Nation and the Open Door Policies in China', *The Far Eastern Quarterly* 1:2 (February 1942), pp. 161-172.

¹⁹ [...] Economic institutions and reform organizations interacted with each other and together penetrated China. The people involved in them shared cultural conceptions, political philosophies and bureaucratic backgrounds; they had common outlooks, goals and destinies. In the combination of its parts, not in any single statement, tactic, or motive, lies an understanding of the Open Door in action'. Jerry Israel, "For God, for China and for Yale" —The Open Door in Action', *The American Historical Review* 75:3 (February, 1970), p. 796.

²⁰ This is well documented by: L. L. T'ang (Thung Liang Lee) and M. S. Miller, 'The Political Aspect of International Finance in Russia and China', *Economica* 13 (March 1925), pp. 69-88. In a similar vein, Paul Reinsch, one of the Open Door's supporters but quintessentially a modern imperialist, once explained the Monroe Doctrine as 'an

finance bent upon conquering the 'mythical' China market.²¹ Frequently, a financier as influential as Thomas Lamont would strike a patriotic chord, stress his indifference to profits, and his dedication to America's superior cause. The American cause proved also hard to resist. Appealing to a sort of multinational cooperation, the Jenks mission to China in 1904 was an attempt to bring China on a gold-exchange standard by means of establishing an overseas specie reserve held by all international partners. The mission's eventual failure was largely due to external circumstances. The renewed rise in silver prices (culminating between 1905-1907)²² had lifted the pressure on gold payments, thus further shriveling the Qing government's already limited preoccupation with monetary reform.

In any case, it certainly did not destroy America's appetite for the Chinese market. In order to befriend the Chinese government and as an apparent symbol of its peaceful ambitions, it remitted a portion of the Boxer Indemnity to China in 1908.²³ In the same period, U.S. policy makers cleverly exploited disputes concerning railway concessions among the European financial powers present in China (Great-Britain, France, Germany, Belgium) and pushed —again— for international cooperation, this time with regard to railroad matters. In 1910, after several series of protracted negotiations, it signed an agreement with respect to the establishment of a banking consortium with Great-Britain,

unconscious stroke of genius in statesmanship in that it has preserved South America for us now that we are ready to enter into our possession'. Cited in: Noel Pugach, 'Making the Open Door Work: Paul S. Reinsch in China, 1913-1919', *The Pacific Historical Review* 38:2 (May 1969), pp. 157-175.

²¹ Compare: Thomas McCormick, *America's Quest for Informal Empire, 1893-1901* (Chicago, 1967); Charles S. Campbell Jr., *Special Business Interests and the Open Door Policy* (New Haven, 1951).

²² Thereafter, a new period of decline set in. This has been very well documented by: Edwin H. Kemmerer, 'The Recent Rise in the Price of Silver and Some of Its Monetary Consequences', *The Quarterly Journal of Economics* 26:2 (February 1912), pp. 215-274. Beyond doubt, this led him to his vision of a 'Pan-American Monetary Unity': idem, 'A Proposal for Pan-American Monetary Unity', *Political Science Quarterly* 31:1 (March 1916), pp. 66-80.

²³ For a very good treatment of this episode, see: Michael H. Hunt, 'The American Remission of the Boxer Indemnity: A Reappraisal', *The Journal of Asian Studies* 31:3, pp. 539-559.

France and Germany (Russia and Japan were left out of the agreement until June 18, 1912 in view of their lack of financial resources).²⁴ Years later, it was agreed that the Consortium would lend the Chinese government gold bonds to the aggregate amount of £25,000,000; the loan was to be secured upon the entire revenues of China's salt administration; and it was to be used mainly 1) for the payment of liabilities due by the Chinese government to the powers (including several pre-consortium loans by Belgium and Japan), and 2) various administrative reforms plus infrastructural improvement.

Around 1913, soon after the signing of the final agreement, however, the reinvented Open Door policy seemed on the verge of collapse. Two years after the Revolution of 1911, China's political situation was more troubled than ever. The Manchu empire disintegrated. It had fallen prey to warlords, who ruled their territories with the sole aim of exacting tribute to fulfill their obligations towards the imperial court and to enrich themselves and their allies. The central government led by Yuan Shikai 袁世凱 could hardly claim to possess much of a central administrative authority at all. Insofar it did not interfere with the custom administration—an institution originally associated with foreign financial interests and under foreign management—, it merely 'functioned as a guarantor to the foreign investor for the maintenance of regular interest and amortization payment on his bonds'.²⁵ Adding to the problem of Chinese instability, president Wilson's fateful decision to withdraw from the China Consortium exacerbated the American position (1913).²⁶ As a matter of fact, it only convinced the European

²⁴ For a history of events leading to the agreement, see: E.W. Edwards, *British Diplomacy and Finance in China* (Cambridge, 1987), esp. pp. 114-158; A. P. Winston, 'Chinese Finance under the Republic', *The Quarterly Journal of Economics* 30: 4 (August 1916), pp. 738-739; 'Frederick V. Field, *American Participation in the China Consortiums* (Chicago, 1931), pp. 1-24. The latter also includes a list of participating banking institutions: pp. 39-40. The sole Japanese bank in the consortium was (one would almost say obviously) the Yokohama Specie Bank.

²⁵ Kurt Bloch, 'Warlordism: A Transitory Stage in Chinese Government', *The American Journal of Sociology* 43:5 (March 1938), p. 692.

²⁶ 'The conditions of the loan seem to us to touch very nearly the administrative independence of China itself, and this administration does not feel that it ought, even by implication, to be a party of those conditions. The responsibility on its part which would be implied in requesting the bankers to undertake the loan might conceivably go to the length in some unhappy contingency of forceful interference in the financial, and even

powers and Japan that America was trying to create the impression that she was China's only true confederate.²⁷ Consequently, they only hastened to tighten their grip on their respective spheres of influence. Last but not least, there was the changed geopolitical situation. Although, with the outbreak of the First World War, The U.S. effectively outmanoeuvred Great-Britain in East-Asia,²⁸ it now faced a competitor who regarded his advance into China's socio-economic fabric as vital to its own destiny.

III.

Japanese expressions of interest in an financial presence in China date from the immediate aftermath of the Sino-Japanese war of 1894-195, but were then without much institutional substance. It appears that several high officials (among whom Tomita Tetsunosuke 富田鉄之助, then governor of the Bank of Japan) pondered the idea of establishing a *Sino-Japanese Bank* (*nisshin ginkō* 日清銀行), with the aim of 'facilitating the commerce between the two nations, further their industrial development, among

the political affairs of that great Oriental State [...]'. Woodrow Wilson's reply to the American group of the consortium's demand whether the administration's policy with respect to the Consortium was to be the same as that of its predecessor. Cited in: Field, *American Participation in the China Consortiums*, p. 111.

²⁷ For Japanese opinions on the Open Door, see: Miwa Kimitada, 'Japanese Opinions on Woodrow Wilson in War and Peace', *Monumenta Nipponica* 22:3/4 (1967), pp. 368-389.

²⁸ Compare: K.C. Chan, 'British Policy in the Reorganization Loan to China 1912-1913', *Modern Asian Studies* 5:4 (November 1964), pp. 355-372; Clarence B. Davis, 'Limits of Effacement: Britain and the Problem of American Cooperation and Competition in China, 1915-1917', *The Pacific Historical Review* 48:1 (February 1979), pp. 47-63; Harry N. Scheiber, 'World War I as Entrepreneurial Opportunity: Willard Straight and the American International Corporation', *Political Science Quarterly* 84:3 (September 1969), pp. 486-511; William R. Braisted, 'China, the United States Navy, and the Bethlehem Steel Company, 1909-1929', *The Business History Review* 42:1 (Spring 1968), pp. 50-66; Michael H. Hunt, 'Americans in the China Market: Economic Opportunities and Economic Nationalism, 1890s-1931', *The Business History Review* 51:3 (Autumn 1977), pp. 277-307; George T. Mazuzan, '“Our New Gold Goes Adventuring”: The American International Corporation in China', *The Pacific Historical Review* 43:2 (May 1974), pp. 212-232.

others by documentary bills (*nigawase tegata* 荷為替手形, cf. supra), and join forces in order to develop the commercial situation of all Far Eastern countries.²⁹ At the time of its formulation, however, the plan was unrealistic. Japanese industry was still in its infancy, and exports to China were still very small —let alone that capital exports were a policy issue. Visionary though it may be considered in hindsight, it was most probably an ideological frenzy of its authors.

The plan is however taken up again only a few years later, and this time in a very different political and economic setting. As we have seen in earlier chapters, the adoption of the gold standard was a benchmark as it symbolizes Japan's entry into the world system as both an empire and a trading nation. This is an important step in the history of Japanese capitalism, and even more so because it also highlights its peculiar position in Asia. At least for Japanese exporters —Namikata refers to them as Japanese 'bourgeoisie'—³⁰ the gold standard was a Janus-faced achievement. Especially the Kansai-based spinning companies, from the outset oriented versus the markets of Southeast Asia, now faced formidable export disadvantages. At a time when silver prices were steadily declining, their products were at risk of being priced out of the market due to exorbitant transaction costs for Chinese importers. Around 1900, one thus finds numerous opinion pieces and solicitations for 'financial institutions concerned with trade towards silver countries, not only to [further the interests of] the spinning industry, but to the advantage of all commercial and industrial interests towards China'.³¹ The arguments were substantial. In 1898, Japanese commerce with China represented more than ¥100,000,000 (three fifths hereof were exports), or approximately a quarter of the Japan's total trade volume (estimated at ¥420,000,000). Japanese exporters thus understandably stressed that China 'represents an enormous market for our export products, among which

²⁹ Namikata Shōichi 波形昭一, *日本植民地金融政策史の研究 nihon shokuminchi kinyū seisakushi no kenkyū* (study into the history of financial policies versus Japan's colonies) (Tokyo, 1985), p. 56.

³⁰ Namikata, *nihon shokuminchi kinyū seisakushi no kenkyū*, pp. 120ff.

³¹ Namikata, *nihon shokuminchi kinyū seisakushi no kenkyū*, p. 123.; p. 122 contains a useful overview of proposals related to a Sino-Japanese bank.

textiles are the most important'.³² Although the *Yokohama Specie Bank* was formally in charge of foreign trade, it de facto concentrated on trade with Western countries (i.e. countries on the gold standard). In 1894, it had done 94.9 percent of its business with Europe and the United States, and only 5.0 percent with China.³³

Interestingly, it was initiative on the side of the *zaibatsu* that prompted the government to act. Their fates partially bound up with Japanese exporters though their activities in shipping and international trade, *zaibatsu* capitalists had submitted their 'Proposal for the Expansion of Far Eastern Sealand and the Establishment of a Sino-Japanese Financial Institution' (東洋航路拡張及び日清間金融機関に関する意見書) as early as 1899. Its contents show several marked differences with proposals from the spinning industry, which must be explained by the different nature of their activities and interests. Put simply, *zaibatsu* demands were much more *strategic* in nature. Typically, the aforementioned proposal notes how expanded Japanese presence in China after 1895 had not resulted in a commensurate flowback in economic gain and an extraction of special interests. Concretely, it argues that Japanese financial presence in China would not only accelerate the penetration of the Chinese *Hinterland* by Japanese producers, and thus give them an advantage over the producers of the Western powers. It would also translate in lucrative projects in the fields of railway construction and mining. One understands that this considerably affects the nature of the institution proposed. The *zaibatsu* industrialists envisaged an institution that was as much an investment bank as a commercial institution, and a device for wrenching concessions from the weaker Chinese. It was a veritable blueprint for a colonial bank.

Even more importantly, this idea resonated with policy circles in Tokyo. Confident because of the Sino-Japanese war indemnity, several politicians took the Sino-Japanese Bank proposal towards a fullfledged real estate bank, with the sole aim of investing in railroad building and mining. Later, in a grand scheme for the establishment

³² Cited in: Namikata, *nihon shokuminchi kinyū seisakushi no kenkyū*, p. 123; cited after an original request by the presidents of several of Japan's foremost spinning companies.

³³ Hijikata Susumu 土方晋, 横浜正金銀行 *yokohama shōkin ginkō* (Tokyo, 1980), esp. pp. ?????????

of so-called *Far Eastern Trading Bank* (亜東通商銀行), the Japanese government was urged to expand its *political* leverage by deepening its commercial interests.³⁴ This was in many ways a crucial, if possibly troubling, realization. Not only does it highlight a profound awareness of the modern imperialism that dominated Western dealings with China (and as such foreshadows Japan's own experiment with 'yen diplomacy'). It also brings to the fore an important trait of Japanese policy making constituency at the time: its close attention to the long-term strategic interests of big business, often even to the disadvantage of the smaller but nevertheless important exporting industries. Early advocates of pan-Asianism found the objectives of the former remarkably fitting to their dream of a Japan-led Asian order (東亞盟主論), and effectively neglected the demands of the latter. As Namikata does not fail to indicate, the spinning organizations reacted 'coolly' to the political hijacking of their original request for easier access to the China market.³⁵ Later we will study similar policies and their consequences in greater detail.

IV.

Even amidst intensifying power competition in China in the early twentieth century, however, the Katsura Cabinet (1901-1905) was unable to act upon the aforementioned requests, and have a Sino-Japanese Bank materialize.³⁶ This does certainly not mean that China disappeared from Japan's financial radar. As a matter of fact, the years after the Russo-Japanese war witnessed a dramatic increase of Japanese investments into China. Whereas, in 1902, the latter occupied an insignificant 0.1% (approx. \$1,000,000) of total foreign investment in China, its share rose to 13,6 % or \$220,000,000 in 1914.³⁷ These numbers need, admittedly, a great deal of nuance and

³⁴ Namikata, *nihon shokuminchi kinyū seisakushi no kenkyū*, p. 131.

³⁵ Namikata, *nihon shokuminchi kinyū seisakushi no kenkyū*, p.132-133.

³⁶ For an overview of proposals, see: Namikata, *nihon shokuminchi kinyū seisakushi no kenkyū*, p. 139.

³⁷ These percentages and numbers are taken from: Charles Frederick Remer, *Foreign Investments in China* (New York, 1933), p. 76. Apparently, Remer remains an important

clarification. First and foremost, Japanese investments in China represented the bulk of Japanese investment abroad —this is in sharp contrast with the much diversified foreign investment portfolios of the Western powers. Strictly speaking, a plain comparison of Japanese investment with that of the other colonial powers is therefore quite impossible.

But even then, the growth is remarkable, even more so if one considers the vast share of state capital (国家資本) involved, especially through the branches of the *Yokohama Specie Bank* (YSB). Since the Sino-Japanese Bank plan had been aborted, the former was given extra facilities for trade with China, among which a China exchange fund (中国為替資金) to finance cotton exports.³⁸ Later, this policy was modified. As Taira Tomoyuki has correctly indicated, the crux of YSB's post-1900 activities in China resides in the decision of the *Bank of Japan* to upholding Japan's newly adopted gold standard.³⁹ In order to do so, the BOJ had decided in 1903 to strictly limit its supply of cheap capital to the YSB. This sudden cut in its liquidity obviously posed problems to YSB's smooth functioning: it had to find ways to replete its operating funds. It came up with an astonishing, yet risky series of solutions. First of all, it reserved a part of its 'China exchange fund' (which constituted a part of the BOJ's cheaply supplied money)⁴⁰ to fulfil its obligations vis-à-vis Western banks. Second, it resorted to a strategy of reference, also to Japanese researchers. Compare, for instance: Kokka shihon yushutsu kenkyūkai 国家資本輸出研究会, 日本の資本輸出・対中国借款の研究 *nihon no shihon yushutsu -tai chūgoku shakkan no kenkyū* (Tokyo, 1986), esp. p. 4. Remer also provides a detailed analysis of Japanese investments from 1897-1930: Remer, *Foreign Investments in China*, pp. 408-553. For an early history of foreign financial encroachment in China, see: Theodore William Overlach, *Foreign Financial Control in China* (New York, 1919).

³⁸ These extra facilities were grants of ¥3 million and ¥10 million, in resp. 1897 and 1899. Helpful remarks in this respect can be found in: William D. Wray, 'Japan's Big-Three Service Enterprises in China, 1896-1936', pp. 31-64 in Peter Duus / Ramon H. Myers / Mark R. Peattie, *The Japanese Informal Empire in China, 1895-1937* (New Jersey, 1989), esp. p. 34-38. Interestingly, this otherwise excellent collection does not include a paper on the Nishihara loans, or the pan-Asianist aspirations of the Terauchi-Cabinet.

³⁹ Taira Tomoyuki 平智之, 第1次大戦以前の対中国借款と投資主体 *dai Iji taisen izen no tai-chūgoku shakkan to tōshi shutai*, p. 13-49 in Kokka shihon yushutsu kenkyūkai 国家資本輸出研究会, 日本の資本輸出・対中国借款の研究 *nihon no shihon yushutsu -tai chūgoku shakkan no kenkyū* (Tokyo, 1986).

collecting deposits through its international branches. In China, especially its recently opened Tian-jin 天津 and Beijing branches were exceptionally instrumental in collecting deposits. Apart from the money they used for their day-to-day lending, these banks channeled deposits to the Shanghai branch. There, it was partly used for so-called chop-loans extended to the local micro-banks (錢莊), in an effort to control the Shanghai capital market.⁴¹ The remaining share was used to buy exchange bills that were payable to YSB's London branch —the heart of its operations as an international exchange bank.

This was only the start of the monetary alchemy. At the same time, YSB engaged in large scale (and at first sight rather paradoxical) lending in China. This strategy was fuelled by a newly developed political interest in what was referred to as 'weapons independence' (軍器の獨立), or, in 21st century parlance, 'indigenization' (国産化) of military technology and, more broadly, technologies associated with heavy industrialization.⁴² Most prominently, this translated in attempts at a stronger economic grip on countries that were relatively close to the Japanese mainland. Its effect on YSB's China-portfolio was direct and enormous. In the period between 1906 and 1914, YSB invested aggressively and almost exclusively in China's mining sector. In efforts to sustain lending in the face of German competition, in particular for the strategic objective of developing the Han zhi ping (Hanyehping) Coal and Iron Company (漢冶萍), YSB would go at great lengths; in several cases, the Japanese government guaranteed the loans; in other instances, it even provided direct funding.⁴³ In total, 26 loans materialized

⁴⁰ The fund was ultimately liquidated in 1913. Source: Taira Tomoyuki, *dai Iji taisen izen no tai-chūgoku shakkan to tōshi shutai*, p. 20.

⁴¹ Compare: Nishimura Shizuya 西村閑也, 在上海外国銀行と現地銀行(錢莊), 1890-1913: チョップ・ローンのメカニズム *zai-shanghai gaikoku ginkō to genchi ginkō, 1890-1913: choppu ro-n no mekanizumu*, in 経営志林 35: 3 (1998), pp. 1-19 .

⁴² For a very good account in English, see, Richard J. Samuels, *"Rich Nation, Strong Army": National Security and the Technological Transformation of Japan* (Ithaca & London, 1994), esp. pp. ??????????????????.

⁴³ See: Marius B. Jansen, 'Yawata, Hanyehping, and the Twenty-one Demands', *The Pacific Historical Review* 23:1 (February 1954), pp. 31-48; Remer, *Foreign Investments in China*, pp. 439ff. For a wider argument on the importance of subsidies in Japanese economic growth, see: Herbert M. Bratter, 'The Role of Subsidies in Japan's Economic

(10 for the Hanyehping Coal and Iron Company; Remer estimates their total amount around \$15 million), some of which of an unprecedented size.

[fig. 1: YSB loans in China; see Taira Tomoyuki, *dai Iji taisen izen no tai-chūgoku shakkan to tōshi shutai*, p. 18-19]

Together with the bank's eventual entry into the international China Consortium (1913), these loans heralded a new era: by 1914, China had become 'the propelling power of YSB's exchange cycle [為替資金循環の起動力]'.⁴⁴ Important for the coming discussion, it had also become the stronghold of Japan's 'political' loans to China,⁴⁵ even though the Japanese share of e.g. the Reorganization loan was not issued in Japan.⁴⁶

Development', *Pacific Affairs* 4:5 (May, 1931), pp. 377-393. On Japanese multinational undertakings at the time, see: Mira Wilkins, 'Japanese Multinational Enterprise before 1914', *The Business History Review* 60:2 (Summer, 1986), pp. 199-231.

⁴⁴ Taira Tomoyuki, *dai Iji taisen izen no tai-chūgoku shakkan to tōshi shutai*, p. 20; square brackets mine.

⁴⁵ This is obviously especially so because of YSB's entanglement in the China Consortium, and its handling of Japan's share of the Boxer indemnity. The principal of the Boxer indemnity obligation to Japan was \$24.5 million on January 1, 1902, before payments began. Another clearly instance of YSB's political lending was its obligation in the context of the Reorganization loan to China (1913, cf. supra). The loans's total amount was £25 million, the Japanese share of which was £5 million (roughly equivalent to ¥50 million). Other overtly political loans were a ¥2.5 million and ¥10 million, both to the Chinese Ministry of Communications (清国政府郵便部).

⁴⁶ Remer makes the following insightful comment:

'While it is true that the legal obligation to make payment to the Yokohama Specie bank exists, it is also true that the whole of the Japanese share of the Reorganization loan was issued outside of Japan. It is unusual [...] for an legal obligation to exist to pay a bank in one country when the whole of the funds have come from investors in other countries [...]. The explanation for such transactions lies in the political field. Concerning the Japanese share of the Reorganization loan, the fact is that the funds came from England, France and Germany, and that the payments of the service of the loan were made through the Yokohama Specie Bank and through the banks in these European centers to investors in England and on the continent of Europe. Upon the principle of place of issue *the Japanese had no share in the loan*. [...] As a matter of fact, the financial transactions connected with the Reorganization loan *probably meant a transfer of funds from Europe to Japan rather than from Japan to China*.'

V.

The above formulation might give the impression that 'political' loans can be distinguished from other types of loans, as, for instance, 'economic' ones. As one will understand from the introduction, any such distinction is problematic at best. It was, however, the rhetorical strategy explored by a host of Japanese policy makers, bureaucrats and businessmen, especially after 1914 —which, as said, marks the beginning of a boon for Japan's industries. It is, as well, the context in which we encounter the protagonist of later financial negotiations with China.

Although Nishihara Kamezō is mainly known as the middleman for the series of Japanese loans to China this chapter deals with, he has a pre-history that is not unrelated to the ominous 'Nishihara loans'. His early life, documented in his —largely self-serving— autobiography is not of immediate concern here.⁴⁷ Much more important, however, are his activities in Korea. Nishihara, in his own words a 'restless wanderer', arrived in Korea for the third time in 1904, this time with the intention of settling there. As so many Japanese, his travel was motivated by both a dream of easy profits as a paternalistic desire to work with the Koreans. What distinguished him from so many others, however, was his extraordinary penchant for social networking. A natural 'political fixer',⁴⁸ he soon found himself acquainted with many members of Korea's pro-Japanese political establishment. His appointment as adviser (相談役 *sōdanyaku*) for the Korean chamber of commerce in 1905 is illustrative of his career. At the chamber, he lobbied for an active Korean voice in Japanese policy versus the peninsula. Typically, he was in the forefront

Remer, *Foreign Investments in China*, p. 433 (italics mine).

⁴⁷ Nishihara Kamezō 西原亀三, 夢の七十余年・西原亀三自伝 *yume no shichijū yonen -Nishihara Kamezō jiden* (Tokyo, 1965), esp. pp. 3-30. Duus provides an English summary of Nishihara's youth in his study of Japanese expansionism on the Korean peninsula: Peter Duus, *The Abacus and the Sword: The Japanese Penetration of Korea, 1895-1910* (Berkeley / Los Angeles / London), pp. 347-350.

⁴⁸ After: Duus, *The Abacus and the Sword*, p. 347.

of resistance against the Megata reforms (cf. Chapter ?????), which he believed to be at the root of Korea's economic malaise.⁴⁹ As so many other times in his life, it earned him both friends and enemies —most prominently Megata himself, who allegedly tried to have Nishihara expelled from Korea.⁵⁰

This is not to say that Nishihara was anti-imperialist. After all, he later befriended himself with the higher echelons of the Japanese colonial administration. He appears to have been particularly close with Governor-General Terauchi Masatake 寺内正毅, for whom he acted as a policy adviser.⁵¹ Finally, still in Korea, he also met Shōda Kazue, then governor of the Bank of Korea. Yet, he was not the mere opportunist several commentators have made of him. Instead, Nishihara was an ideologue, and the quintessential pan-Asianist: a staunch believer in the possibility and success of Asian unity, and the need for the Asian people to work together as much as possible. Asian government would have to follow the principle of *Wang dao* (王道): the rule of *right*, rather than the (Western) rule of *might*. This explains as well his (and Terauchi's) bitter resentment of the policy of the 'Twenty-One Demands' (二十一条要求) forced upon China by the Ōkuma-cabinet.⁵² In a dramatic depiction of an encounter with Count Terauchi, Nishihara quotes the latter as saying: 'What the Ōkuma-cabinet is doing, is the

⁴⁹ Nishihara, *yume no shichijū yonen*, p. 33ff.

⁵⁰ Nishihara, *yume no shichijū yonen*, p.35.

⁵¹ It appears that Nishihara earned the name of 'Terauchi's pearls of wisdom' (寺内さんの知恵袋). Nishihara, *yume no shichijū yonen*, p. 46.

⁵² This defining incident in the history of Sino-Japanese relations is wellknown and well commented. See, in this respect: Paul S. Dull, 'Count Kato Komei and the Twenty-one Demands', *The Pacific Historical Review*, Vol. 19, No. 2. (May, 1950), pp. 151-161; S. N. D. North, 'The Negotiations Between Japan and China in 1915', *The American Journal of International Law*, Vol. 10, No. 2. (Apr., 1916), pp. 222-237; Charles Burke Elliott, 'The Shantung Question', *The American Journal of International Law*, Vol. 13, No. 4. (Oct., 1919), pp. 687-737; Marius B. Jansen, 'Yawata, Hanyehping, and the Twenty-one Demands', *The Pacific Historical Review* 23:1 (February 1954), pp. 31-48; Zhitian Luo, 'National Humiliation and National Assertion: The Chinese Response to the Twenty-One Demands', *Modern Asian Studies*, Vol. 27, No. 2. (May, 1993), pp. 297-319.

annihilation of eternal peace in the Far East. [This is] unforgiveable. It may be easy to invade territory, but it is not going to win you the hearts of the people'.⁵³

Nishihara was particularly concerned with schemes for economic cooperation, and the need to develop a unified currency zone —the 'yen-bloc' (円ブロック). This idea may well have been originated out of one of his very practical concerns: as a frequent traveller along the borders of China, Manchuria and Korea,⁵⁴ he must have been painfully aware how the congeries of different currency systems and petty kinds of money hampered his dream of a self-sufficient Asian socio-economic fortress.⁵⁵ As early as 1912, Nishihara writes a pamphlet entitled 'Currency Unification in Manchuria and Measures for the Development of Trade between Japan, Korea and Manchuria' (満州に於ける通貨統一と日鮮満貿易発展策), most probably commissioned by Korea's government-general or the *Bank of Korea*.⁵⁶ Admittedly, the document did not contain a radically new proposal. It echoes and appropriates the gist of earlier ideas with regard to currency unification circulating amidst certain policy circles in the *Bank of Taiwan* and the *Bank of Chōsen*. Yet it also conveyed a clear sense of the so-called 'yellow man's burden', i.e. the Japanese responsibility for uplifting Asia and defying the West. 'As we cannot expect from the newly established Chinese government to unify the currency in Manchuria overnight,' so he explains, it is up to us [Japanese] to unify Manchuria's currency, further trade between Japan, Korean and Manchuria, and gradually expand our economic zone to the south.' The means therefore is Japanese paper money: 'It cannot be difficult to circulate gold coins and paper money in the whole of Manchuria. There is no doubt that this will trigger a process that is antithetical to Gresham's law [sic.]: good coinage will drive out bad coinage. [As a result] our economic zone will not only

⁵³ Nishihara, *yume no shichijū yonen*, p. 72.

⁵⁴ Namikata draws particular attention to this: Namikata, *nihon shokuminchi kinyū seisakushi no kenkyū*, p. 326.

⁵⁵ He shared this experience with Shōda Kazue, who did a prospectus of China and Korea in 1909 and published his findings in 1910: Shōda Kazue, 清韓漫遊余歴 *shinkan manyū yoreki* (report on wanderings through China and Korea) (Tokyo, 1910).

⁵⁶ See: Namikata, *nihon shokuminchi kinyū seisakushi no kenkyū*, pp. 326-333.

encompass Manchuria, but will also stretch much further, beyond Zhili (Jehol) and Shandong (直隸山東), and beyond the Yellow and Blue river'.

Many a bureaucrat or politician at the time would have immediately realized the plan's explosiveness. Was YSB not legally prohibited to issue gold bills? And was the BOJ not bound by the provision to keep its supply of convertible money in check with its specie reserve? These need not be obstacles, Nishihara insists: as in Korea, *Bank of Chōsen* bills will naturally proliferate.⁵⁷ The document thus marks the birth of the 'Korean connection' (朝鮮組)⁵⁸ of Terauchi, Shōda and Nishihara. More importantly, it also precipitates Nishihara's interest in the grand scheme of 'Sino-Japanese economic cooperation' (日支經濟提携 *nisshi keizai teikei*): an objective that he envisaged through the establishment of a Sino-Japanese mining trust and the creation of a Chinese central bank with Chinese and Japanese (!) capital.⁵⁹ In his own words, and probably blind to the irony, he proposed a 'Monroe-doctrine for East-Asia, or pan-Asianism' (東洋のモンロー即ち全東洋主義).

VI.

⁵⁷ Translated after the original text; also mentioned in: Namikata, *nihon shokuminchi kinyū seisakushi no kenkyū*, p. 326.

⁵⁸ Apparently, Hayashi Gonsuke referred to them as such in a telegram of 1918 to then Minister of Foreign Affairs Gotō Shinpei. See: Nihon Gaikō Bunsho, 大正七年第二冊下卷 *Taishō nana nen dai ni satsu gekan*, pp. 811-812. Hatano Yoshihiro 波多野善大, 中国近代軍閥の研究 *Chūgoku kindai gunbatsu no kenkyū* (Tokyo, 1973), p. 313; also mentioned in: Namikata, *nihon shokuminchi kinyū seisakushi no kenkyū*, p. 332-333.

⁵⁹ Ōmori Tokuko has correctly argued that access to iron and steel ore and monetary influence was the ultimate rationale of the Nishihara loans. See, especially: Ōmori Tokuko 大森とく子, 「西原借款について・鉄と金円を中心に」 *nishihara shakkan ni tsuite – tetsu to kin'en wo chūshin ni*, 歴史学研究 *rekishigaku kenkyū* 419 (April 1975), pp. 36-51. She thus corrects the rather naïve view that the Nishihara loans were inspired by a desire to establish friendly relations with its much bigger neighbor after the predicament of the Twenty-One Demands. See, for this argument: Frank C. Langdon, 'Japan's Failure to Establish Friendly Relations with China in 1917-1918', *The Pacific Historical Review* 26:3, (August 1957), pp. 245-258.

Although the Twenty-One Demands dealt a severe blow to the vision of Sino-Japanese cooperation, Nishihara's idea were back on the table in 1916. Again, it were international events that buttressed the choice for a proactive China-policy. Although the United States had effectively stepped out of the China Consortium in 1913, it did not constrain its efforts to gain more influence in China. On the contrary, 1916 was 'the year of American loans' (米国借款の年), as Higuchi Hiroshi argued in 1939.⁶⁰ In something like a lending frenzy, the U.S. provided money for canal projects in the provinces of Shandong and Jiangsu 江蘇 (\$ 6,000,000), for several railroad works (\$ 10,000,000); and it concluded a loan contract (\$ 5,000,000) through the *Bank of Chicago*. Japan would have to act swiftly if it did not want to lose the momentum of its position in China. This was even more so in view of China's domestic politics. The sudden death of Yuan Shikai had plunged China in the dark era of the warlords; their rivalries most certainly colored their dealings with the foreign countries.

The time proved right for Nishihara Kamezō. Typically, he perceived Yuan Shikai 's death not as a crisis, but as 'divine providence' (天佑),⁶¹ a situation that could be made to Japan's advantage. It would have to play rivalling parties out against each other. In his famous 'Outline for Opportune Economic Facilities vis-à-vis China' (時局に應ずる対支経済的施設の要綱), he calls for the following steps to be taken:

1. to establish a concern for business investment [実業投資] in China, in order to acquire an imperial economic base in China.
2. To establish provincial banks in the provinces of Dongshan 東山 and Zhili to issue gold paper currency.

⁶⁰ Higuchi Hiroshi 樋口弘, 日本の対支投資研究 *nihon no taishi tōshi kenkyū* (Tokyo, 1939).

⁶¹ Nishihara erroneously uses the kanji 「天佑」. See: Nishihara Kamezō, 西原亀三日記 *Nishihara Kamezō nikki* (edited by Yamamoto Shirō 山本四郎) (Kyoto, 1983), p. 129.

3. To have the Japanese business investment concern provide the capital of the above provincial banks, not in the form of BOJ paper currency, but paper currency issued by a 'special bank' [特殊銀行; Nishihara obviously hints to the *Bank of Chōsen*].
4. To make sure that the provincial banks invite 'financial advisers' [財政顧問] recommended by the Japanese business investment concern, or that such advisers are placed in the finance departments of the Chinese government, or in the financial administration of the provinces.
5. To prepare for regulations that add gold coinage, *similar in form/weight/denomination to Japanese coinage*, to the existing system of silver standard money; to promulgate regulations determining the legal ratio of gold specie vis-à-vis the amount of paper money to be issued. And...
6. ...to make sure that paper money can be exchanged for gold coins in the bank's reserve, or for gold bills of a value identical to the latter; to put paper money on par with Japanese currency.⁶²

Nishihara's strategy, although never carried out in the above described form, must have been immediately clear to any involved official at the time. By mentioning 'business investments' and the role of 'special banks', he obviously exposed a schism in Japan's policy-making constituency. Indeed, the *Yokohama Specie Bank* (and, as such, the Ministry of Finance) had from the very outset been very critical of the Korea connection; they judged an independent Japanese financial posture in China as reckless. Now Nishihara even sought to bypass the established framework of the multinational China Consortium and YSB's 'political' loans by setting the latter apart from the (imaginary) category of business loans.⁶³ From several existant communications at the time, one easily understands the frustration this must have caused to YSB bankers and officials

⁶² After Nishihara Kamezō 西原亀三, *夢の七十余年・西原亀三自伝 yume no shichijū yonen -Nishihara Kamezō jiden* (Tokyo, 1965), pp. 83-86.

⁶³ Again Hayashi Gonsuke's description is apt: '[They want to] float political loans masked as business loans'. Hayashi Gonsuke in a telegram in 1917 to Minister of Foreign Affairs Motono Ichirō 本野一郎, in: *Nihon Gaikō Bunsho*, 大正六年第二冊 *Taishō roku nen dai ni satsu*, p. 270.

from several ministries.⁶⁴ However, when the Terauchi Cabinet entered office (after a showdown about a Russo-Japanese Convention which the military-bureaucratic faction in Tokyo perceived as an opportunity for consolidating its advances into Asia),⁶⁵ those who stuck to the multinational China Consortium saw their position compromised. The situation in China only exacerbated matters for them. When mounting costs of internal war expenses force China's biggest banks —the *Bank of China* and the *Bank of Transportations* 交通銀行— to suspend convertibility and to block the withdrawal of deposits (May 1916), the road to new China loans was wide open. During a series of six (partially kept secret) missions to China, Nishihara would negotiate several loans on behalf of the Japanese government —each of them would resonate in Sino-Japanese relations for two decades to come.

For the Korea connection, however, this was, at least for now, the realization of a dream that had seemed shattered only a while ago. After legal arrangements for the government securitization of the *Japan Industrial Bank* bonds were in order, Shōda was therefore nothing short of ecstatic. Later, in 1928, he magnanimously claimed and explained in an *Ōsaka shinbun* column:

'“The day to separate the roots of the chrysanthemum will come soon” —.

As it was immediately after the proposal for the China loans had passed the Diet —which had been quite some work—, I chose the phrase 'separating the roots of the chrysanthemum' to convey my joy that the days in which Japan's economic power would take root on the Asian mainland were approaching.⁶⁶

⁶⁴ Namikata, *nihon shokuminchi kinyū seisakushi no kenkyū*, pp. 374ff.; Dickinson provides a useful analysis of the role of domestic politics in Japanese foreign policy under the Terauchi Cabinet. See: Frederick R. Dickinson: *War and National Reinvention —Japan in the Great War, 1914-1919* (Cambridge, Mass., and London, 1999), pp. 164ff.

⁶⁵ See, for a history hereof: Dickinson: *War and National Reinvention*, pp. 138-152.

⁶⁶ Shōda Kazue, 「その頃を語る・西原借款の弁—非難の理由はない」 *sono koro wo kataru: nishihara shakkan no ben – hinan no riyu ha nai*, 大阪朝日新聞 1928.9.21; online accessible via: <http://www.lib.kobe-u.ac.jp/sinbun/index.html> (Kobe University Digital Archive) (ID number: 00800368); the citation can also be found in: Suzuki Takeo 鈴木武雄 (ed.), *西原借款資料研究 nishihara shakkan shiryō kenkyū* (Tokyo, 1972), p. 16. The reader may know that Shōda had used the metaphor for a booklet he published

VII.

How did Terauchi, Shōda and Nishihara proceed? After 1916, Nishihara's activities both accelerate and intensify. When both Ōkura and Co. and YSB turned out to be unwilling to lend to the *Bank of Transportations* (the latter had approached them in 1915),⁶⁷ Nishihara —now on a second trip to China— chose the side of Transportation Minister Cao Rulin 曹汝霖 in the new regime led by Duan Qirui. He signed a preliminary loan for ¥ 5 million; the final contract with the three-bank group that would become the Korea connection's favorable vehicle was signed on January 20 1917.⁶⁸ The *Japan Industrial Bank* put up ¥ 3 million, whereas the *Bank of Chōsen* and the *Bank of Taiwan* put up ¥ 1 million respectively. This 'First Bank of Transportations Loan' (第一次交通銀行借款) was the only of the ensuing loan series for which the banks took the entire risk; it was also repaid when it matured. In design, it was one of the most obviously colonial ones. Gold currency notes of the same type as Japanese currency (and convertible into it) would be issued and backed by Japanese gold notes. This would not only favor Japanese commerce at the expense of the Western powers; it would also a first step towards swallowing China into a yen-bloc. Nishihara had long believed that this was the only method of overcoming Japan's financial inferiority versus the Western powers.⁶⁹ Not unimportantly, the loan contract also stipulated the appointment of a Japanese financial adviser: as a matter of fact, after the conclusion of the second *Bank of Transportations*

10 years earlier: Shōda Kazue, 菊の根分け *kiku no newake* (Tokyo, 1918)

⁶⁷ Apparently, YSB management circles feared the upheaval that would be caused once it was named in lending schemes apart from the multinational China Consortium. See: Namikata, *nihon shokuminchi kinyū seisakushi no kenkyū*, p. 376.

⁶⁸ For an English version, see: John V.A. MacMurray (ed.), *Treaties and Agreements with and Concerning China 1894-1919* (New York, 1921) vol. II, pp. 1345-1346.

⁶⁹ Nishihara Kamezō in the appendix to the 'Outline for Opportune Economic Facilities vis-à-vis China'. See: Nishihara, *yume no shichijū yonen*, pp. 85-86.

loan (October 1917), Fujiwara Masafumi 藤原正文 was dispatched to China, and was to oversee the bank's operations.

1917 was, however, not simply the year of the first Nishihara loan. To the alarm of Japanese expansionists, and the Terauchi Cabinet in particular, it was also the year in which the United States entered the war. And how it did. America's new voice in international affairs did not merely add to another shift of the balance of power in Asia. It certainly did, but it also marked the introduction of a vocabulary that broke with the conventional power political rhetoric of the old European powers: the concepts of peace, cooperation and unilateralism —if not in substance, then at least in form.⁷⁰ Thus, when president Woodrow Wilson invited all neutral countries to sever relations with Germany, this also affected Japanese relations with China. The Chinese, after all, were promised considerable financial assistance if they chose to ally themselves closely with the United States. For the Terauchi Cabinet's foreign policy, the timing of this announcement could not have possibly been worse.

Realizing that Japan was steadily losing its foothold in China, Nishihara traveled for the third time to China, in an effort to secure that China's entry into the war would be regarded as to Japan's credit.⁷¹ China consequently severed relations with Germany on March 14.⁷² Negotiations for the 'Second Bank of Transportations Loan' (第二次交通銀行借款) were infinitely more difficult. More importantly, they highlight Nishihara's character as a true visionary, if a militarist one. This time, he had to come up with a scheme that had to turn out more lucrative to the Chinese than the one-time ¥ 5 million loan. Unbounded by ambition, he proposed a loan that was four times bigger: ¥ 20 million for securing Chinese participation in the Great War. This was not all. In his talks

⁷⁰ For a sound explanation of the impact of the U.S.' entry into the war on Japanese foreign policy at the time, see: Dickinson: *War and National Reinvention*, pp. 176-179. I am however skeptical towards Dickison's tendency to take Wilson's vocabulary at face value.

⁷¹ Nishihara vividly describes his meeting(s) with Duan Qirui in his autobiography: Nishihara, *yume no shichijū yonen*, pp. 140-145; Namikata provides a good analysis of the evolution in Nishihara's line of thought. See: Namikata, *nihon shokuminchi kinyū seisakushi no kenkyū*, p. 383.

⁷² Dickinson: *War and National Reinvention*, p. 169.

with members of the Duan-clique, he also created the contours of a debate (and consequent policy) that would only come to maturity in the 1930s.

The notion of an 'East-Asian self-sufficient zone' (東洋自給圏) was a radical departure from all former foreign policy ideology. Nishihara insisted on promising Japanese assistance in helping to increase Chinese custom duties with the aim of stimulating its domestic development and trade, in exchange for 'the abolition of export tariffs on cotton, wool, iron and copper, and possibly two or three commodities'.⁷³ It was difficult not to see the political implications of such arrangement. Yet, Nishihara avoided any reference to the political nature of this loans, insisting on the borrower's 'sound judgment' about the opportune application of the money (in the end, any 'reform effort' was postponed; at least ¥ 10 million was used for battling the rebellious southern revolutionaries).⁷⁴ Domestically too, Nishihara obviously made enemies. Spinning companies reacted viciously against the prospect of higher Chinese custom duties, as they had since early Chinese requests for custom reform.⁷⁵ In attempting to explain their necessity, Nishihara's arguments precipitate the grim realities of the 1930s, and echo the German and Japanese militarist belief that war was inevitable.⁷⁶ After this war, so he envisioned, the world will fall apart in several blocs, 'be it in the form of economic wars

⁷³ Nishihara in a telegram to Foreign Minister Motono; in: Nihon Gaikō Bunsho, 大正六年第二冊 *Taishō roku nen dai ni satsu*, pp. 635-640.

⁷⁴ This is an estimate by Okabe Saburō 岡部 三郎, 西原借款を論ず *nishihara shakkan wo ronsu*. See: Suzuki Takeo (ed.), *nishihara shakkan shiryō kenkyū* (Tokyo, 1972). esp. p. 493. The original version of this 'top secret' (極秘) booklet was circulated in 1931 in the *Japan Industrial Bank*.

⁷⁵ Compare: 「我紡績業と支那関税 (一～五・完): 当業者の所見 : [支那関税改正問題と我紡績業 其五]」, in 中外商業新報 1917.2.27-1917.3.4 ; online accessible via: <http://www.lib.kobe-u.ac.jp/sinbun/index.html> (ID number: 00858789); 「我産業発展と支那関税問題 (上・下): 紡績業の打撃」, in 中外商業新報 1917.3.8-1917.3.9 , online accessible via: <http://www.lib.kobe-u.ac.jp/sinbun/index.html> (ID number: 00858791); 「支那関税問題 : 紡績連合会決議 : (社説)」 in 中外商業新報 1917.4.13 , online accessible via: <http://www.lib.kobe-u.ac.jp/sinbun/index.html> (ID number: 00858815)

⁷⁶ The notions of both *Lebensraum* and the 'East-Asian self-sufficient zone' are at the same time the semantical anticipation thereof, and its acceleration ('self-fulfilling prophecy').

between the powers, or [in the form of] the unification of one British empire, or *realized through extremely protectionist measures* [極端なる保護政策].⁷⁷ It would thus be in Japan's interest to form one such bloc with China, in which both Japan and China would equally profit.⁷⁸ It will not be until September 20, 1917, that the Japanese government endorses its support for Duan Qirui.⁷⁹ The familiar three-bank group signs a ¥ 20 million loan contract on September 29; the total amount would be taken out of the Deposit Fund (預金部) of the Ministry of Finance.⁸⁰

VIII.

Although Nishihara had been relatively successful in buying friendship from Duan, Cao, and other members of the Duan clique, he had not yet been able to build upon this success and achieve his ultimate objectives: 1) the securing of (exclusive) access to Chinese iron and steel ore; and, as a corollary hereof, 2) the propagation of the yen within Chinese borders —two pillars for the establishment of an autarkic empire. This would be on the table after the Chinese government officially applied to the multinational China consortium for a second reform loan of £ 1 million in 1916 (the consortium had earlier lent £ 2.5 million).⁸¹ The European countries, at the time caught up in the disaster of the dragging war effort, realized that their once preeminent position had been seriously

⁷⁷ Nishihara in his pamphlet 「支那関税問題と日本」 (May 1915). This pamphlet is part of the Shōda Family Papers 勝田家文書, Vol. 97; 18 (kept at the National Diet Library of Japan). Italics mine.

⁷⁸ In the aforementioned *shina kanzei mondai to nihon*, Nishihara uses the words 「彼我共益の実を挙ぐる」.

⁷⁹ For a history of Japanese domestic political affairs and the confused events in China at the time, see: Dickinson: *War and National Reinvention*, pp. 173ff.

⁸⁰ For a history of the latter in English, see: Katalin Ferber, "'Run the State Like a Business': The Origin of the Deposit Fund in Meiji Japan," *Japanese Studies*, Vol. 22, No. 2 (September 2002), pp. 131-51.

⁸¹ In Japanese, the loan is referred to as 第二次善後借款.

weakened. Japan was the only country to furnish the required funds; consequently, it would acquire a dominant position in Chinese financial matters.

With the U.S. yet unwilling to return to the multinational consortium,⁸² the Chinese government too understood that Japan was the source to turn to. However, Japanese negotiators, then of the Ōkuma Cabinet, insisted on securing any loan against the revenue of Chinese land taxes; they also pushed for Chinese acceptance of a Japanese advisor for supervising its administration.⁸³ Understandably, the Chinese side regarded the former as too heavy a condition, because those taxes formed the pillar of the Chinese national finance (and as such collateralizing them constituted a much more serious threat to Chinese integrity and sovereignty). Yet, convinced that Japan was eager to provide a loan, and realizing that its government was needing money nevertheless, the Chinese side (in the person of Liang Qichao 梁啓超, China's new finance minister) came up with a revised loan scheme and conditions. Carefully avoiding reference to collateralizing the revenues of land taxes, it suggested to the multinational consortium to issue of a loan of £ 20 million aimed at administrative and, more specifically, monetary reform (August 1917); and it chose to 'invite' Sakatani Yoshio 阪谷芳郎, Japan's former finance minister, as an adviser. It envisaged monetary reform as follows:

1. Regulate monetary reform centrally and independently, put it under the supervision of the prime minister or minister of finance, and invite one adviser from a member country of the multinational consortium [...].
2. Give the country's mint bureaus the sole authority [管轄 *kankatsu*] with regard to matters of monetary reform [...].
3. Pursue a gold-exchange standard; use $\frac{3}{4}$ of the loan [...] to establish an exchange fund [對外為替資金].

⁸² Japanese negotiators and ambassadors understood that any American return to the multinational consortium would severely damage Japan's position in China. Compare, for multiple references: Namikata, *nihon shokuminchi kinyū seisakushi no kenkyū*, pp. 401-408.

⁸³ The revenue of the salt administration had been used as collateral for the first reform loan (cf. *supra*).

4. Send ¼ of the loan to China [...].
5. first issue gold notes [金票] in the main trading ports and have them circulate on the market, through tariffs, and in railway offices.
6. [...].
7. as collateral for the loan, use 1) the assets [財産] of the mint bureaus, 2) seigniorage and [other] profits, 3) the profits of recoinning *sen* [...]⁸⁴

As convincingly explained by Namikata, it must be understood as an almost desperate attempt to avoid collateralizing the revenues of land taxes and using, yet apply for a large foreign loans nevertheless.⁸⁵ The idea of a loan also appealed to Japanese negotiators.⁸⁶ Shōda almost immediately responded that Japan could pay up half of the amount, i.e. £ 10 million, or the astronomical amount of almost ¥ 100 million! He was, however, far less enthusiastic about the gradual reform plan that the Chinese side applied for. After all, it would mean the establishment of a *gold exchange standard*. He and Nishihara envisaged a more radical connection between the Chinese and Japanese monetary systems than a *yen-based* monetary bloc (円為替圏): a full-fledged *yen bloc*, covering all countries in Japan's sphere of influence, and in which only the Japanese yen would be legal tender (円系通貨圏).⁸⁷ Therefore, they would insist on the issuing of gold bills (金券 *kinen*), which were to be similar to the ones issued in Korea by the *Bank of Chōsen*, and which were to circulate in China together with the latter (混一併用).

⁸⁴ See: Nihon Gaikō Bunsho, 「幣制の改革及借款に関する梁財政総長の構想」, in: 大正六年第二冊 *Taishō roku nen dai ni satsu*, pp. 201-202. Square brackets mine.

⁸⁵ Namikata, *nihon shokuminchi kinyū seisakushi no kenkyū*, pp. 403-405.

⁸⁶ According to Ōmori Tokuko, *nishihara shakkan ni tsuite – tetsu to kin'en wo chūshin ni*, p. 47.

⁸⁷ Tsurumi Masayoshi 鶴見, 誠良, 「円ブロックの形成--円為替圏から円系通貨圏へ」, *アジア研究* 20:4 (January 1974) pp. 29-55.

IX.

That plan was discussed after an other dramatic shift in world events: the Russian revolution, and the consequent fear that the Bolshevik revolutionary spirit would 'contaminate' other regions of the world as well. For Japan, this led, among others, to the promulgation of the Munitions Industry Mobilization Act (軍需工業動員法, April 1918) and the conclusion of the Sino-Japan Joint Defensive Military Agreements (日華共同防的軍事協定, May 1918). It were tumultuous times. In August 1918, Japan participated in what had been established as an Allied Expeditionary Force to destroy the Bolsheviks. Its military establishment even envisaged occupying a large area of Siberia—a dream only stopped short because of rice riots on the Japanese mainland, eventually causing the fall of the Terauchi Cabinet.⁸⁸

For the Korea connection, the strategic anxiety surrounding the threat of revolution proved an opportunity. It is in exactly this period that Nishihara turned into the prolific writer of pamphlets for which he is still known. After the aforementioned 「支那関税問題と日本」 (May 1917), he writes, in immediate succession, 「東洋永遠の平和策」 (November 1917), 「戦時経済動員計画私儀」 (November 1917), 「時言」 (December 1917), and ultimately the rather chimerical 「対支政策の要諦」 (January 1918)—elaborating on the desirability and concrete meaning of an East-Asian self-sufficient zone.⁸⁹ Especially from 「対支政策の要諦」, it is clear that Nishihara

⁸⁸ The rice price increase came at the peak of a post-World War I inflationary spiral that affected most consumer goods and rents; undertaking the Siberian intervention further inflamed the situation, as the government massively bought up existing rice stocks to support its troops overseas. For a Western study of this fascinating period, see: Michael Lewis, *Rioters and Citizens: Mass Protest in Imperial Japan* (Berkeley, 1990). See, for more information on the rice riots: Ichibangase Yasuko 一番ヶ瀬康子, 「米騒動と日本社会事業」 日本女子大学紀要, Vol.20 (1970), pp. 35-47.

⁸⁹Namikata, *nihon shokuminchi kinyū seisakushi no kenkyū*, p. 410; these papers are held as part of the 勝田家文書 in the 財務省財務総合政策研究所

believed that only drastic (徹底的) financial support for China would be able to solidify Sino-Japanese relations and bring consequent peace.

But how to deliver such drastic support and cover it up? The latter was the easy part. The Korea connection urged the establishment of *The Exchange Bank of China* (中華匯業銀行 *chūka kaigyō ginkō*),⁹⁰ which was to act as middleman between the Chinese government and the three bank-group. But as the traditional three bank-group would obviously not do, Nishihara proposed a country-wide 'capital trust' (公債資本団) to enable the raising of massive railway loans. In February 1918, the Terauchi Cabinet paved its way: it planned the issuing of government secured 'industrialization bonds' for an amount up to ¥ 100 million, specifically to be used for foreign investment (this was the instant Shōda referred to as the moment that the roots of the chrysanthemum would be separated, cf. supra).⁹¹ In April of the same year the foreign investment trust is established—it was comprised of 18 banks, among which even the Nishihara-averse *Yokohama Specie Bank*.

Even then, tensions within the Japanese government remained. Above, we have already indicated that the Korea connection had powerful adversaries. With regard to its China policy, Japan's Ministry of Foreign Affairs was especially antagonistic to the idea of parting from the framework of the multinational banking consortium and push forward reforms in a matter that was 'insensitive' to international pressure. The Ministry of Foreign Affairs did furthermore have a foothold in China. After China's official application to the multinational consortium for a second reform loan (cf. supra), it had pressured for inviting Sakatani Yoshio in order to conduct preparatory surveys for monetary reform. Sakatani arrived in March (and returned to Japan three months later, in June).⁹² He investigated China's monetary situation, the state of its mint bureaus and so

⁹⁰ Namikata refers to the bank's English name as *The Chartered Exchange Bank of China*. Namikata, *nihon shokuminchi kinyū seisakushi no kenkyū*, p. 411.

⁹¹ Suzuki (ed.), *nishihara shakkan shiryō kenkyū*, pp. 14-16.

⁹² I follow the discussion as presented by Namikata: Namikata, *nihon shokuminchi kinyū seisakushi no kenkyū*, pp. 414 ff. For official documents relating to Sakatani's dispatch, see: JACAR(アジア歴史資料センター) (Ref. A04018134600): 「支那政府ヲシテ幣

on; on returning to Japan, he submitted several reports for monetary reform which departed from Nishihara's line of thought in at least two radical ways: any reform was to proceed gradually, and the end of the reform road was a gold exchange standard.

Interestingly, during Sakatani's stay in China, Nishihara travelled again to Beijing, with the aim of amplifying his plan for the monetary and economic takeover of China by means of the Japanese yen. As soon as April 10, he had the Chinese government and *The Exchange Bank of China* reach an informal agreement contract for a telegraph loan (the so-called 有線電信借款) —the actual contract was signed on April 30.⁹³ Soon hereafter, however, the odds turn against Nishihara. On his arrival in Beijing, he must have been stupefied to find that the Chinese government had prepared the bill with regard to the issuing of gold bills, but stipulated that its denomination was 0.5% lower than the official Japanese rate of ¥1=0.75 gram of gold —Chinese gold bills were to be set at 0.746 gram). Apparently, Chinese officials were less mused by the idea of a more or less mingled currency than had Nishihara!

In Japan too, considerable doubts were rising with regard to the loans viability. Of course the Ministry of Foreign Affairs had opposed Nishihara's plans from the very outset. But there were problems with the commercial participants of the eighteen-bank-trust as well. For the likes of Ōkura, Kurihara, Mitsui ... notions of 'mutual benefit' to Japan and China, or an 'East-Asian autarkic zone' were the proverbial painted rice cake (畫餅 *gabyō*), a mask for expanding their managerial grip on China's iron and steel companies. This proved hard to enforce: one only has to think of Ōkura's problems with the *Fènghuáng steel company* (鳳凰山鉄鋼) to realize the gravity of Chinese

制顧問ニ任用セシムル趣旨ヲ以テ阪谷男爵ヲ北京ニ出張セシムルノ件」 ; and the following documents:(Ref. B04010809800) (B04010839300) (B04010839400) (B04010839600) (B04010839700)

⁹³ Langdon, 'Japan's Failure to Establish Friendly Relations with China', p. 251.

opposition.⁹⁴ With the aim of their investments compromised, they naturally allied with the Ministry of Foreign Affairs

These problems effectively spilled over into the negotiations about currency reform, and led to a painful turning point in the relations between Nishihara and Shōda.⁹⁵ Nishihara, for the sixth and last time in China, insisted that Japan be forthcoming with shipments of bullion in order to back Chinese gold bills to be issued. Being back in Tokyo, however, Shōda realized how inopportune this had become. He must have felt as being between a rock and a hard place. Now it was not only the Ministry of Foreign Affairs, but also the Ministry of Finance, the *Bank of Japan* and the *Yokohama Specie Bank*⁹⁶ that vehemently opposed shipping bullion to China. For the future of Japan's own financial situation, they reckoned that Japan could and should not possibly assist China in currency reform in that way.⁹⁷ When Shōda replies to Nishihara that bullion shipments are impossible, Nishihara writes in his diary: 'I have serious doubts as to whether finance minister Shōda is committed to the friendship and good of China, whether he favors economic rapprochement, and whether he desires the eternal benefits of both countries'.⁹⁸

From there, the decision making process gets blurry. Shōda eventually reversed his former decision and advised Nishihara to carry on with negotiations. The progress of these negotiations was slow, but they were rapidly, indeed: frantically, concluded. These loans were:

1. The Kirin-Hueining Railway Primary Loan 吉会鉄道借款前貸金 kikkai tetsud shakkan maekashikin (18 June 1918) — ¥ 10 million

⁹⁴ Namikata, *nihon shokuminchi kinyū seisakushi no kenkyū*, p. 418. The discussion must be seen in the wider framework of U.S.-Japan relations. The former had tried to contain the latter through a steel embargo. See, in this respect: Jeffrey J. Safford, 'Experiment in Containment: The United States Steel Embargo and Japan, 1917-1918', *The Pacific Historical Review* 39: 4. (November 1970), pp. 439-451.

⁹⁵ This is well documented in: Suzuki (ed.), *nishihara shakkan shiryō kenkyū*, pp. 20-22.

⁹⁶ Suzuki (ed.), *nishihara shakkan shiryō kenkyū*, pp.21-22.

⁹⁷ Namikata assumes that especially Sakatani was a catalyst in this decision. Namikata, *nihon shokuminchi kinyū seisakushi no kenkyū*, p. 420.

⁹⁸ Nishihara, *Nishihara Kamezō nikki*, pp. 262-263;

2. the Mine and Forestry Loan 黒吉金鉱森林借款 (2 August 1918) — ¥ 30 million
3. the Manmō Four-Railway Loan 滿蒙四鉄道借款貸金 (28 September 1918) — ¥ 20 million
4. the Shandong Two-Railway Preliminary Loan 山道二鉄道借款前貸金 (28 September 1918) — ¥ 20 million
5. the War Participation Loan 参戦借款 (28 September 1918) — ¥ 20 million,

which, together with the earlier loans, amounted to the astronomical amount of ¥ 145 million!⁹⁹ Interestingly, 3 of the loans had been hastily concluded on the last day of the Terauchi Cabinet. When confronted with the question why these loans were pushed through, Terauchi will decline to provide an answer...¹⁰⁰ Once the foreign powers had been alerted of the magnitude of the Nishihara loans, they conspired for the loans's immediate termination. Embarrassingly, the Japanese government is pressured to write them off completely, with the exception of a token repayment of ¥ 5 million. Thus, ¥ 140 million went unaccounted for, and was probably only to the benefit of corrupt Chinese officials; moreover it had protracted China's civil war. *Yen diplomacy* generated an immense antipathy for things Japanese. What was worse for Japanese financiers, its international status as a creditor nation had been tarnished. Of the built-up total foreign loan portfolio of ¥ 980 million, 57% or ¥ 559 million was unrecoverable.¹⁰¹

X.

In the international press, the loans were consequently rebuked as vile examples of 'German'-inspired methods. 'Japan Ousts Pro-Hun', *The Washington Post* announced in

⁹⁹ For documentation on the exact use of the loans, see: 経済調査会, [極秘]西原借款利用問題について (December 1932); 満鉄総務部調査課, 西原借款使途一覧表; both found at the Library of Congress.

¹⁰⁰ This episode is related in: Suzuki (ed.), *nishihara shakkan shiryō kenkyū*, pp.6-7 as 'the mystery of September 28' (謎の九月二十八日)

¹⁰¹ Referenties?????????????

the typical rhetoric of the day. Nishihara's actions had been a 'menace to American, allied and Japanese comradship'. This comradship was, however, not to be considered broken. Japanese and American cooperation had never been stronger (sic!), assumedly because both sides understood its importance:

[T]he voice was Nishihara's, but the hand was the horrid hand of the Hun. [...] The part played by Nishihara was a true copy of the "script" given by Bismarck, through Bleichroder to Herr Justizrath Primker. Count Terauchi repudiated Nishihara when the loan scandal was aired in the diet, and the count is a soldier and a gentleman —a Japanese, not a German.¹⁰²

Months before that, Japan's Ministry of Foreign Affairs too had attempted to mitigate any bad publicity associated with the China policies of the Terauchi Cabinet. On September 12, 1917, Imperial Ordinance No. 144 called for the establishment of a *Special Finance and Economic Commission* 海外特派財政經濟委員會, apparently in an attempt to give MOFA its own finance-forum without directly clashing with Nishihara.¹⁰³ A first mission led by Megata Tanetarō (then member of the House of Lords) was sent to the United States,¹⁰⁴ acknowledging that America's financial position in the world will

¹⁰² Patrick Gallagher, 'Japan Ousts Pro-Hun —Disowns Tricky Financier Who Aids Germans in Plots'. *The Washington Post* October 27, 1918.

¹⁰³ Namikata, *nihon shokuminchi kinyū seisakushi no kenkyū*, pp. 388-384.

¹⁰⁴ See, in this respect, Megata's biography: Yoshimura Michio 吉村道男 (ed.), 男爵目賀田種太郎・上 *danshaku megata tanetarō – jō* (The Biography of Baron Megata Tanetarō) Vol. 1 (Tokyo, 1938) [I have used the 2002 facsimile version], pp. 603ff. There also exists a very rare English report of this mission: Japan. Special finance and economic commission to the United States, 1917-1918, *The Imperial Japanese government's Special finance and economic commission to the United States, headed by Baron Tanetaro Megata (September 1917-April 1918)* (Tokyo, 1918). Other members of the commission were: Matsumoto Osamu 松本修, Sakaguchi Takenosuke 坂口竹之助, Baron Itō Bunkichi 伊藤文吉, Dr. Hishida Seiji 菱田静治, Yoneyama Umekichi 米山梅吉, Yamashita Yoshitarō 山下芳太郎, Koike Chōzō 小池張造, Matsumoto Kenjirō 松本健次郎.

remain dominant after the war, and arguing that to strengthen the basis of cooperation with her is tantamount to advancing the economic position of this Empire'.¹⁰⁵

XI.

What is the legacy of the Nishihara loans? Without exaggeration, the loans became known as one symbol of for the perversions of prewar Japanese imperialism. Okabe Saburō's 1931 description leaves no room for ambiguity:

'The bad reputation of the Nishihara loans. A subsidy for civil war; high treason [売国]. The questionable credentials of the people involved. The waste of means. [The fact these loans were] unsecured [担保不確實]. The shameless search for profit.. Rogue loans [野心借款]. The Nishihara loans have a very bad reputation, of course in China and Japan, but even in the public opinion of the Western countries which have no direct relationship with them.'¹⁰⁶

Yet, throughout the twenties and thirties, successive Japanese governments sought to recover [...]

Indeed, consequent Japanese cabinets condemned the loans for their recklessness. Already in 1926, Inoue Junnosuke famously said that

'[t]hese investments with the central and provincial governments of China —investments running to several hundred million yen— resulted in a dead loss, and today Japan can recover neither the capital which she thus locked up nor one penny of interest on it. To put the matter in a nutshell, I would say that foreign investment was not practised by this

¹⁰⁵ *The Imperial Japanese government's Special finance and economic commission to the United States, headed by Baron Tanetaro Megata (September 1917-April 1918. p. 4.*

¹⁰⁶ Introductory paragraphs to Okabe, *nishihara shakkan wo ronsu*. Square brackets mine.

country, and that such trifle investments as were effected might just as well have been thrown into the sea.¹⁰⁷

¹⁰⁷ Inoue Junnosuke, *Problems of the Japanese Exchange, 1914-1926* (Glasgow, 1931), p. 37; also cited in: Harold G. Moulton, *Japan: An Economic and Financial Appraisal* (Washington, 1931), p. 284; C.F. Remer, *Foreign Investments in China* (New York, 1933), p. 544.



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