

The Japanese State and Australia-Japanese Economic Relations 1854-1936:

—The Nineteenth Century Origins of Japan's Twentieth Century Dominance of Trade—

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The Japanese Government's role in encouraging the country's economic development in the period following the Meiji in 1868 has been closely examined, although the efficacy of its policies is still in dispute and the applicability of the Japanese 'model' to today's developing nations has been questioned.¹⁾ The change in government policy from the *ad hoc* responses necessary to establish the foundations for the self-sustained growth of an industrial sector in Japan to the different demands of the management of a maturing, industrialized country have received less attention. Research has begun into the effects of internal structural changes of the Japanese economy on trade and the use of government 'tools' like the tariff, currency management and export promotion to regulate this sphere of activity.²⁾ Few studies have been made, however, on the effects of these policies on other economies such as Australia's. It is the object of this paper to examine the changes in the Japanese government's economic policies and to highlight their impact and importance for understanding the economic relations that emerged in the Nineteenth Century and developed in the first four decades of the Twentieth Century between Australia and Japan.

Australia's contact with Japan commenced when disappointed miners and others, mainly from Victoria, entered the country to take advantage of the opportunities opened up for them by Britain's "Treaty of Peace, Friendship and Commerce" concluded in 1858.³⁾ The Treaty

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- 1) The questioning of the effectiveness of the Japanese government in its initiatives to industrialize Japan can be examined in the essay by Nakayama, I., "The Japanese Economy and the Government", in Ghundrasekhar, S. and Hultman, C. (Eds.), *Problems of Economic Development*, D.C. Heath & Co., Boston, 1967; pp. 170-186, and Tipton, F.B., "Government Policy and Economic Development in Germany and Japan: a Sceptical Re-evaluation", in *The Journal of Economic History*, Vol. XLI, No. 1, March 1981; pp. 139-150. For Japan's role as a development model, see Inkster, I., *Japan as a Development Model: Relative Backwardness and Economic Transfer*, Brockmeyer, Bochum, 1980.
- 2) Tariffs for example are examined in Yamazawa, I., "Industrial Growth and Trade Policy" in pre-war Japan, in *The Developing Economies*, Vol. XIII, No. 1, March 1975; pp. 38-65.
- 3) See Johnson, M.R., *Complementarity and Conflict: Australian-Japanese Relations in the Nineteenth Century*. B.A. (Hons) Thesis, University of New South Wales, Kensington, 1981 (Unpublished).

was similar to those concluded with the other western industrial powers and embodied extra-territorial rights for foreigners to reside and trade in a number of 'treaty' ports. The treaty also prescribed the level of tariff which Japan could impose upon its external trade. The level of duty was fixed at between five and ten per cent under the initial treaty that Japan signed with the United States in 1854, but was reduced to a flat five per cent, except for imports of food and coal, under the Edo Treaty of 1866.⁴⁾ The level of specific duty fell to an *ad valorem* equivalent, taking inflation into account, of 2 to 2.5 per cent in the first two decades of the Meiji era, therefore severely limiting the Meiji Government in its capacity to use the tariff as either an effective revenue raising measure or as an instrument to promote industrial development.⁵⁾ Tariff autonomy was not to be regained until 1899 when the treaty expired and the Tariff Law, enacted in 1897, could be put into effect and duties could be raised and used as an active economic policy measure.

The reaction to the 'unequal' treaties of 1854 onwards led to the overthrow of the Tokugawa Shogunate and the rise to power of the Meiji oligarchy which was committed to limiting the inroads of the foreign powers through administrative reform and economic development. Its policy of 'modernization' of the economy was undertaken through the creation of centralized bureaucracy and a concentration of the country's scarce capital resources into government industrial initiatives. The government also removed feudal privilege and encouraged the monetisation of traditional agriculture through a land tax which created the necessary mobility of the factors of production for the development of a capitalist economy. This path of development was restricted not only by limitations in the availability of a realisable capital stock, but also by the country's initial fund of negotiable specie, and the foreign currencies earned from an expanding export trade which were used to pay for the imports of skills and capital goods required to carry out the government's programme as it developed. The government implemented measures to encourage export of the two 'staples' produced by Japan, tea and raw silk, which were in increasing demand in the developed countries' markets.⁶⁾ Australia was not to be a recipient of this trade because on one hand the country as yet had no silk textile industries and on the other it obtained its tea through long-established trade links with China until the 1880's.

The government's policy of export trade promotion, mediated through the hands of foreign merchants who controlled all of Japan's foreign trade in the first years after the

See Chapter I, "The End of Isolation: New Frontiers and the Movement of Men in Australia and Japan", pp. 5-26, and O'Meara, J.J., et al (Eds.), *British Parliamentary Papers: Japan: Vol. I: Reports, Returns and Correspondence 1856-1864*, Irish University Press, Dublin, 1971; p. 41. The Treaty became effective on 1st July, 1859.

4) Hayashi, T., 'Introduction' to a seminar on "Technology Transfer, Transformation and Development in Early Modern Japan", in *The Developing Economies*, Vol. XVII, No. 4, December 1979; p. 379.

5) Yamazawa, I., *op cit*; p. 41.

6) Moulder, F.V., *Japan, China and the Modern World Economy*, Cambridge University Press, Cambridge, 1977; p. 149. In the period up to 1900, half of Japan's tea production and two thirds of its raw silk was exported. The latter was helped by the failure of the European silk industry through disease.

restoration, was combined with a domestic policy of establishing a complete set of *modern* industries to stimulate structural change and economic growth.⁷⁾ Capital was provided by the government's revenue rationalisation of the early 1870's, together with credit and loans from domestic sources and foreign exchange provided by staple exports and a specie out-flow.⁸⁾ The funds were used to modernize existing industries like silk (1870), cotton textiles (1878) and woollen textiles (1879). The Senju Woollen Mill was planned in 1873 to provide uniform material for the Japanese military and police forces. To limit the pressure on scarce foreign exchange resources, development of a pastoral industry was planned to provide the government woollen mill with raw materials.⁹⁾ The Japanese government turned to Germany for the capital equipment and skills to operate the woollen mill and to Australia for the expertise and stock to create a pastoral industry.¹⁰⁾ An official mission was sent to Australia in 1878 to examine the Australian pastoral industry, to obtain live sheep for the government's pilot pastoral stations at Shimoda and Kyoto, and to assess the Australian wool market for a supply of wool to supplement domestic production when the mill opened in 1879. Wool was purchased for the mill in 1878 and 1879 from Australia but subsequent supplies were bought elsewhere; probably in China, and, indirectly from Australia, in Britain.¹¹⁾ The initiative to establish a Japanese pastoral industry ceased in 1883 due to environmental difficulties including a lack of suitable pastures and diseases engendered by Japan's high rainfall.¹²⁾ Further efforts were made to create a pastoral industry in Japan and Korea in 1935 through the import of live Corriedale sheep from Australia, thereby to reduce the country's dependence on Australia for supplies of wool.¹³⁾

The 'failure' of the attempts to establish a domestic pastoral industry have been used

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- 7) There were Australians and individuals with Australian connections among the foreign traders, including Alexander Marks, Samuel Cocking, E.H. Hunter and others, but they did not become successful due to their lack of capital and connections in China and the industrialized countries to which most trade was directed. See Johnson, M.R., *op cit*; p. 26.
 - 8) See Smith, T.C., *Political Change and Industrial Development in Japan*, Stanford University Press, Stanford, 1965, for details of the domestic ¥10 million loan of 1878, for example. The Maebashi modern silk filature, using Italian technology, was established in 1870, and the Tomioka Mill, using French technology, in 1872. The first cotton mill, the Aichi Mill, was set up in 1878.
 - 9) Black, J.R., *Young Japan*, Volume II, Yokohama and London, 1888. (Oxford Reprint, London, 1967); pp. 409-410.
 - 10) See Sissons, D.C.S., *Japan and the Australian Wool Industry*, Unpublished Paper, School of Pacific Studies, Australian National University, 1978, for an outline of the industry, and Jones, H.L., *Live Machines, Hired Foreigners and Meiji Japan*, University of British Columbia Press, Vancouver, 1980; pp. 176-177, for the activities of Inoue Shōzo, a Japanese sent to Germany in 1871 to study the industry and A.W.B. Jones, an Australian employed by 1873 and kept on the government payroll until 1888 to assist in establishing the pastoral industry.
 - 11) *The Statistical Register of Victoria* revealed that exports of scoured wool to Japan were 145,990 lbs. in 1878 and 99,500 lbs. in 1879, and *The Japan Weekly Mail* of 4th October, 1879, reported ¥129,349 worth of Australian wool and about ¥4,000 of Japanese wool on hand at the opening of the Senju Mill.
 - 12) *The Board of Trade Journal*, Vol. XX, June 1896, reported that the native grasses of Japan were unsuitable for raising sheep, while F.C. Christy, in his 'Extracts from a Diary', in *Royal Society of Victoria Transactions and Proceedings 1877*, Mason, Firth and McCutcheon, Melbourne, July 1878, p. 76, reported sheep footrot from Japan's high rainfall as a problem.
 - 13) Clunies-Ross, I., *Australia and the Far East*, Angus and Robertson, Sydney, 1935; p. 183.

by Tipton as evidence of the waste of scarce resources by the Meiji Government in its initiatives to establish new industries.¹⁴⁾ Tipton's claim neglects to consider the potential income, employment and continuing foreign exchange savings that wool production would have engendered for Japan at a relatively small initial capital cost. It was these benefits which motivated the continued attempts to establish a pastoral industry into the Twentieth Century, using Australian livestock. The pastoral industry 'failed', but a woollen mill at Senju was successfully established and, even if it may have been a 'high cost' producer, its benefits cannot be restricted to this consideration alone. The demonstration effects of the successful woollen mill, and the transmission of the required technology in the first instance by government, were necessary pre-requisites for successful development by private entrepreneurs in Japan. The first privately owned mill, emulating the Senju initiative, commenced production in 1886. By 1894 there were ten mills operating to produce a widening range of increasingly sophisticated materials. These served to meet the emerging demand for piece goods such as woollen kimonos which occurred as incomes in Japan rose and tastes changed.¹⁵⁾ The expansion of the industry, requiring increased supplies of better quality wool, meant an increase of interest in supplies from Australia's merino flocks.

The Australian wool trade was stimulated by the visit of Nozaki Teichi, the Deputy Head of the Senju Mill, to Australia in 1888, who arranged for purchases of wool in Australia. These commenced from Victoria in 1888 and continued until 1891.¹⁶⁾ This wool trade was to be taken over by Kanematsu Fusajiro, a Japanese merchant entrepreneur who established himself in Sydney in 1890. In that year he shipped his first 187 bales of wool for the Osaka Keito Boseki Company (Osaka Wool Spinning Company) which was a private mill established in 1888.¹⁷⁾ By 1901, Australian wool sales to Japan had risen to nearly one million pounds (lbs.) and only two decades later, to 56 million pounds (lbs.) in a trade that was to be monopolised by the Japanese *shosha* (trading companies) established in Australia.¹⁸⁾

The expanding trade in wool, as well as the growing trade in other commodities, had drawn traders like Takashima-Iida to establish a branch in Australia in 1905, followed by Mitsui and Okura in 1909. They were followed during the boom in trade with Japan in the war years by Mitsubishi Shoji, Nihon Menkwa (Japan Cotton Trading) and Iwai Shoten. These traders, together with those who arrived earlier, dominated Australian-Japanese trade. By 1935, Purcell's research reveals, the largest ten Japanese companies operating in Australia controlled 95 per cent of Australia's export trade with Japan and 89 per cent of the import

14) Tipton, F.B., op cit, p. 143. For the benefits of another failure, see Masuda, H., "Japan's Industrial Development Policy and the Construction of Nobiru Port: The Case Study of Failure", in *The Developing Economies*, Vol. XVIII, No. 3, September 1980; p. 333 ff.

15) See Nakagawa, K. and Rosovsky, H., "The Case of the Dying Kimono: the Influence of changing Fashions in the Development of the Japanese Wool Industry", in *Business History Review*, Vol. 37, Nos. 1-2, 1977, and Sissons, D.C.S., op cit.

16) *Statistical Registers of Victoria 1888-1891*.

17) Kogo, K., *A Supplementary Company History of Kanematsu*, Kanematsu Goshō, Kobe, August 1973; p. 3.

18) *Official Yearbook of the Commonwealth of Australia*, 1901-1907; p. 292.

trade.¹⁹⁾

In part, the control of Australian-Japanese trade by the Japanese *shosha* might be explained by the lack of initiative by Australian traders in opening trade links between the two countries. Another reason for the lack of Australian participation in trade with Japan was the dominance of those British and other foreign traders in Japan whose interests were directed towards their countries of origin rather than towards Australia. There were, however, more tangible advantages for the Japanese traders. The Japanese trading companies had close links with industry in Japan and the advantage of a better knowledge of the Japanese market. Links between domestic traders and Japanese industry were strengthened by the government sponsored organisations which promoted the public ethic of the time of . . . "break(ing) bonds with the foreign merchants . . . to enrich and strengthen the country".²⁰⁾ This ethic was reinforced by regulations that directed Japanese Government Departments to purchase Japanese traded or manufactured goods and recommended that other consumers do likewise in order to continue regaining control of the country's foreign trade lost to foreign traders after 1854. The regulations also provided a means of encouraging and protecting Japanese industry when tariff measures were denied to the country before 1899, and of stimulating domestic employment and saving scarce foreign exchange when tariff autonomy was restored.

The Japanese Government's initiatives in the development and control of foreign trade were not restricted to measures designed to channel these flows through Japanese merchants, but extended to export promotion as well. The Japanese government mounted an extensive programme of representation, supported by a wide range of domestic industries, at most of the major exhibitions of the Nineteenth Century. As an early form of 'mass media', the exhibitions provided a venue for the development of markets by exposing the population of many of the world's nations to the wide range of goods produced in Japan. The exhibitions outside Japan were also the source of a wide range of social, technical and market knowledge which could be utilized in the country's internal development. Japan was represented at its first foreign exhibition at Paris in 1867, and when foreign exhibitors were invited to Australia for the 1875 Intercolonial Exhibition in Melbourne, the Japanese government sent a Commission and exhibits.²¹⁾ Subsequently the country was represented at the International Exhibitions held in Sydney in 1879, Melbourne in 1880, and at the Centennial International Exhibition at Melbourne in 1888.²²⁾ The Japanese exhibits at the exhibitions included sam-

19) Purcell, W.R., "The Development of Japan's Trading Company Network in Australia 1890-1941", *Australian Economic History Review*, Vol. XXI, No. 2, 1981; pp. 114-118.

20) See Inouye, T., "Pioneering in Australian Direct Trade: the Life of Fusajiro Kanematsu, 1945-1913", in *Kobe Economic and Business Review*, 22nd Annual Report, 1976; p. 14. Also, Yamazawa, I., op cit, p. 56, who notes the formation of movements like the Kokusanshōreikai (Society to Encourage Domestic Manufacturing), a semi-official body, in the 1920's to encourage, among other things, the use of Japanese made wool fabrics.

21) Johnson, M.R., op cit, Chapter IV; p. 105.

22) Johnson, M.R., ibid; p. 102. Attendance at these exhibitions was considerable. 240,000 people visited the exhibition in Melbourne in 1875, over 1 million at Sydney in 1879 and 1.3 million at Melbourne in 1880, while 2 million visitors were recorded at Melbourne in 1888. These attendances,

ples of Japan's agricultural 'staples', rice, tea and silk, as well as a wide range of handicrafts. The products of its 'modern' industries were shown, and there were displays of the Japanese government's domestic activities in ordnance survey mapping, education and prison reform.

The success of the Japanese exhibits in encouraging trade was reflected by the flow of rice and handicrafts which initiated Japan's exports to Victoria in 1875. Rice was to become the major commodity in Japan's exports to Australia until the 1890's when shipments declined with the end of the surplus in the country's output, and its exports were slowly replaced by an increasing dependency on food imports.²³⁾ The role of the exhibitions was not limited to export promotion, however, for in 1875 the Japanese Commission to Melbourne was accompanied by two officials from the Japanese Department of Agriculture whose purpose was to examine Australia's agricultural and pastoral industry to assess whether its experience could be utilized in Japan.²⁴⁾

With the help of Alexander Marks, the Honorary Japanese Consul in the colony who had been appointed in 1879, arrangements were made in Melbourne in 1880 to hold a stock of Japanese tea to meet the demand expected as a result of the commodity's exposure at the 1880 exhibition in Melbourne. A Japanese merchant, Mr. Akiyama, was sent with the Japanese Commission to assess trade prospects in Australia.²⁵⁾ In the event, the shipment of green tea was a failure: Australian tastes were switching from green China tea to black teas, and the Japanese product met competition from Ceylon's black teas which began to arrive in Australia in significant quantities in 1882.²⁶⁾ The individual merchants drawn to the Australian Exhibitions with Japanese government co-operation in 1880 and 1888 were to have limited success, probably due to their lack of capital. Nevertheless, the knowledge and experience they built up was to be invaluable for the successful establishment of later traders like Kanematsu Fusajiro in 1890. The exhibitions stimulated a flow of trade from Japan to the Australian colonies that started from virtually nothing in 1875 but had reached £72,674 in 1890.²⁷⁾ The marketing information provided by the exhibitions was not limited to traders but was also transmitted to agricultural producers, industrialists and merchants in Japan through the medium of Japan's domestic exhibitions, which began in 1877.²⁸⁾ Foreign representation was not permitted at the exhibitions until the International Exhibition held in Osaka in 1903 where Australia was represented. The exclusion of foreign exhibitors limited the capacity of Australian merchants to use Japan's method of entry into Australian markets, but fulfilled the Japanese government's objective of limiting the penetration of foreign goods into the

with the exception of 1875, were in excess of the population of the time in the colonies in which they were held.

23) *The Statistical Registers of Victoria*, 1860-1905. From 1876, regular shipments of rice commenced, its value in 1876 at £8,892.

24) *The London Times*, 23rd August, 1875; p. 4.

25) Tsunoyama, S., *Consular Reports of Japan*, Wakayama University, Wakayama, Undated; p. 3.

26) *Board of Trade Journal*, Vol. VII, No. 41, December 1889, pp. 690-691. In 1882, a total of 2.75 million lbs. of Ceylon tea was dispatched to Australia.

27) *Statistical Registers of the Australian Colonies*, 1890.

28) *The Japan Year Book*, The Japan Press, Tokyo, 1906; p. 290.

domestic market.

The use of the international exhibitions in Australia and elsewhere as a means to test foreign markets and to promote exports was made effective through the active participation in these activities of Japan's diplomatic representatives abroad. By 1880, Japan had twenty-eight Consulates in foreign countries, and in the 1890's another twelve were added. These Consulates included the appointment of Honorary Japanese Consuls in Melbourne in 1879, in Tasmania in 1886 (although this post was not long-lasting), and finally in South Australia in 1896. They were joined by posts for career diplomats in Townsville in 1896, and Sydney in 1897, and as the Honorary Consuls retired they were replaced by Japanese career appointments. Their task was to represent the interests of the Japanese citizens employed in the pearling and plantation industries of northern Australia and elsewhere and to promote Japan's political and economic interests. The prospect for the extension of Japan's exports was the subject of a regular series of reports begun by Alexander Marks from Melbourne in 1890, and contained a wide range of commercial information including the level of Australian rents, incomes, the pattern of consumer demand and the type and quality of the goods demanded.²⁹⁾ In contrast to this service, Australia relied for permanent representation on British Consular representatives in Japan until just before the Second World War.

Before 1901, the Australian colonies, and afterwards the states, did attempt to correct the lack of trade representation by dispatching trade officials to Japan. In 1894, the Victorian government sent two officials to Japan to investigate trade prospects and they were followed by the South Australian, Jerome Dyer, in 1895.³⁰⁾ Dyer reported that Japan's trade was dominated by European traders who suggested,

"... they could make little use of our (Australian) goods for there was little demand. "Create a demand", said some of them to me, and "we'll order soon enough". In fact, every other European in Japan is an agent for some European or American House, and therefore antagonistic to us in great measure."³¹⁾

The absence of Australian traders in Japan, the lack of diplomatic representation with Australian interests as a primary objective, and the disinterest of the European and American traders who still controlled 80 per cent of Japan's foreign trade in 1892, meant that Australian traders played a minor role in trade with Japan in the period up to 1941. The trade between the two countries was controlled by Japanese traders building on the initiatives of the Japanese government.

29) *Japanese Foreign Ministry Records 1868-1945*, Library of Congress Microfilm (held at the National Library, Canberra). Hereafter referred to as J.F.M. Correspondence Department of Foreign Affairs to Marks, A., Melbourne, May 1890, and undated reports.

30) *Dalgety's Monthly Review of Wool and Produce Markets*, Vol. II, No. 106. 1st September, 1894, and *The Japan Daily Mail*, 16th July, 1895.

31) *The Japan Weekly Mail*, 16th July, 1895. *The London Times*, 26th April, 1902, noted the appointment of a permanent commercial agent in 1902 and he covered Australia and China. A professional diplomat did not visit Japan until Sir John Latham's visit of 1934, and no permanent Australian diplomatic presence existed until after World War II.

The Japanese government's activities were not confined to export promotion within Australia but were extended to expanding direct transport links between the two countries. The Australian Steamship Company had chartered its ships to carry United States mails to Japan in the 1870's, but there were no direct, regular services from Australia to Japan until 1896.³²⁾ Cargoes for Japanese ports were carried via Hong Kong aboard the ships of the Eastern and Australian Steamship Company's vessels which began a regular service to that port in 1873. This service held a monopoly on the route until the China Navigation Company began a service in 1883.³³⁾ In a report to the Japanese government in 1888, Alexander Marks, Japan's Honorary Consul in Melbourne, recommended that a bi-monthly service should be started by a Japanese line to service the growing trade with Australia.³⁴⁾ The report was not acted upon, because the volume of trade was still small, and the development of the Japanese merchant marine was not then at a level where a service could have been mounted.

To counter the dominance of foreign shipping in Japanese waters, the government itself began operating a domestic service in 1870. In 1879, Iwasaki Yataro of the Kochi Clan, the founder of the Mitsubishi Company, began a private shipping line which operated services to China and Russia, with occasional voyages to Australia. The Meiji Government set up a shipping line to compete with Iwasaki's in 1882, and after a fierce rates war between the two, the government forced their merger to establish the semi-government owned Nippon Yusen Kaisha (N.Y.K.). Under the leadership of Baron Morioka, one of the original Meiji leaders, the new line, with 58 ships, was sufficiently equipped and closely enough controlled by the government to play a role in reversing the treaty powers' dominance over Japan's trade and transport.³⁵⁾ The creation of the semi-government owned N.Y.K. provided a means not only of competing with foreign shipping on existing trade routes but also of initiating services to new destinations like Australia which had been neglected by previous services, and in the process saving the foreign exchange cost of using foreign shippers.

The government encouraged the growth of the Japanese merchant fleet by implementing a variety of regulative measures. In 1876, regulations preventing Japanese from travelling between domestic ports in foreign ships were introduced, together with the granting of a subsidy to Iwasaki's Yubin Jōkisen Kaisha, formed to operate on domestic and foreign routes.³⁶⁾ In 1882, an annual subsidy of ¥880,000 was given to N.Y.K. to continue or expand

32) Halliburton, W.H., et al, *Pacific Crossing from Japan 1858-1879*, International Society for Japanese Philately, Silver Spring, 1979; p. 3 ff.

33) See Marriner, S. and Hyde, F.S., *The Senior John Samuel Swire*, Liverpool University Press, Liverpool, 1972.

34) J.F.M., op cit: Correspondence Marks, A. to Japanese Vice Minister of Foreign Affairs, Tokyo, October 1888.

35) Nippon Yusen Kaisha, *Golden Jubilee History of Nippon Yusen Kaisha*, N.Y.K., Tokyo, 1935.

36) Norman, E.H., "Early Industrialisation" in Livingston, J., et al, *The Japan Reader: Imperial Japan: 1800-1945*, Pelican, Victoria, 1976; p. 120 ff. See also Hirschmeier, J., "Shibusawa Eiichi: Industrial Pioneer", in Lockwood, W.W. (Ed.), *The State and Economic Enterprise in Japan*, Princeton University Press, Princeton, 1970; p. 233. He notes that Iwasaki received ¥27 million in subsidies through his link with Count Okuma for the help he gave the Meiji leadership in the Satsuma Rebellion of 1877.

services which the government considered to be in the national interest.

By the 1890's, the co-operation between the Japanese government, its bureaucracy and companies like N.Y.K. was interlocked and mutually beneficial. In 1891, for example, N.Y.K. expanded its routes to include Manila, and in 1893 to include Bombay where Japan based a Consul to support merchants who were introduced to purchase raw cotton and to sell finished textiles to a market that was rapidly to become one of its largest.³⁷⁾ In 1893, a visit to Australia by a government employee was organised to plan the extension of N.Y.K.'s services to Australia and trial voyages were carried out between 1891 and 1893.³⁸⁾ The planned service was delayed by the war with China in 1894-95, but was commenced in October 1896, with three ships built from war profits and encouraged by the subsidies extended to this service under the Navigation Encouragement Law passed in March 1896.³⁹⁾ The service was encouraged not only by the growth in Australian-Japanese commodity trade but also by the growing labour trade in Japanese workers for the sugar industry of Queensland, organised by an N.Y.K. subsidiary, the Nippon Yoshisa Imin Kaisha. The profitability of the service was further assisted by the pooling agreement organised between the Eastern and Australian Company, and the China Navigation Company, which kept up freight rates.⁴⁰⁾ The service was to survive after Australia's Federation in 1901, despite the end of the labour trade brought about by the Immigration Restriction Act, designed to prevent the introduction of Asian labour into Australia.⁴¹⁾ The increase in cargoes in the 1920's encouraged other Japanese shipping lines to enter the trade. By the 1930's, there were five Japanese shipping lines providing direct services between Australia and Japan with a combined fleet of 162,000 tons of shipping that carried 85 per cent of the trade between the two countries. The earnings of this fleet, together with those of the Japanese Insurance Companies and the financial services of the Yokohama Specie Bank, which established a branch in Australia in 1915, ensured that Japan received the maximum benefit in 'invisibles' to set against its deficit in commodity trade with Australia, which averaged £7.8 million annually for the decade ending in 1931.⁴²⁾ In the 1930's these earnings were still to be insufficient to balance the surplus enjoyed by Australia in a bilateral commodity trade that consisted primarily of wool exports from Australia, and silk, cotton and, in the 1930's, rayon textiles from Japan — textiles that were the products of modern industries expanded and matured by private entrepreneurs

37) N.Y.K., op cit; p. 36.

38) *Dalgery's Monthly Review of Wool and Produce Markets*, No. 3, June 1893.

39) N.Y.K., op cit; and *The Japan Year Book*, 1906; p. 489, notes the subsidy in 1901 was ¥121,000.

40) *The Japan Weekly Mail*, 5th June, 1897.

41) A trade that is the subject of research presently being carried out by Yano Yoichi at the University of New South Wales.

42) See Melbourne A.C.V., op cit; p. 61, and Purcell, W.R., op cit; pp. 114-119. An advantage for Japan's bilateral balance of payments with Australia that was further enhanced by the effects on Australia's wool prices of the joint buying of wool by the Japanese trading companies to reduce competition after 1831. This practice was reinforced by the 'Japan Domestic Wool Trade Agreement' organised by the 'Japan Wool Importers Association' which allocated the 7 largest traders quotas in the Japanese market and standardized commission and other matters which had led to competition in the 1920's.

from state initiatives in the same period as the woollens industry which had created the Japanese demand for Australian wool.

The development of the cotton industry in Japan was begun in the 1870's by the government with the establishment of two large model mills, while plant for ten more of 2,000 spindles each was imported for sale at discount rates to private entrepreneurs to spread the industry in Japan.⁴³⁾ The majority of the private mills failed as they were too small to be economic, and being water powered, were starved of energy when the rice crop demand for water increased.⁴⁴⁾ Despite these setbacks, the larger model mills demonstrated what could be achieved and by 1900 there were 79 companies with 80 plants operating 1.1 million spindles and 3,000 power looms in the industry.⁴⁵⁾ From the middle of the 1880's, the industry began to achieve the objectives of the Japanese government in establishing it by displacing imported cotton yarns and textiles in the domestic market. By 1909, the value of Japan's cotton textile exports exceeded its imports as the industry exploited its price advantage engendered by low labour costs, increasing productivity from the introduction of electric power in 1906, and the development of increasingly sophisticated capital equipment like the Toyoda automatic loom in 1926.⁴⁶⁾

As a result of the increasing sophistication in the cotton textile industry, it was unable to use the cotton grown in Japan, and the industry turned to India for supplies while domestic production declined. The trade with India was handled by Mitsui, who in 1892 already handled 30 per cent of Japan's raw cotton imports and an equal amount of its yarn exports as well as holding extensive interests in textile mills.⁴⁷⁾ The presence of large firms in the industry, such as Mitusi, meant that competition was intense and export prices rapidly fell:⁴⁸⁾ by 80 per cent from 1906 to 1938 as Ohkawa and Rosovsky have estimated.⁴⁹⁾ The fall was assisted by expanding markets in Asia which provided producers with increasing economies of scale. Penetration of foreign markets was assisted by Japanese government fiscal policies which granted tax rebates to textile exporters up to 1932. The onset of the depression in 1929 led to these measures being supplemented by improved access to low interest loans and subsidies for smaller textile and clothing manufacturers through government sponsored industry guilds, which also administered foreign quotas when they were imposed. These aids to the industry all promoted sales abroad, and by 1929, Japanese total cotton piece good exports of 1,791 million yards earned more than any other export commodity

43) Hirschmeier, J., *The Origins of Entrepreneurship in Meiji Japan*, Harvard University Press, Cambridge, 1964; pp. 96-97.

44) Hayashi, T., *op cit*; p. 392.

45) Izumi, T., "The Cotton Industry", in *The Developing Economies*, Vol. XVII, No. 4, December 1979; p. 398.

46) *Ibid*, p. 418. Patrick, H.T., in Morley, J.W. (Ed.), *op cit*; p. 225, illustrates the industry's rising productivity by pointing out that the operative spindles per worker rose from 23 in 1922 to 53 in 1935.

47) Kuzuo, S., The Early History of the Zaibatsu, in *The Developing Economies*, Vol. IV, No. 4, December 1966.

48) Lockwood, W.W., *op cit*; pp. 561-570, and pp. 45-46.

apart from silk. In the same year, cotton cloth exports totalled 1.8 million yards and reached one half of those of the world's biggest exporter - Lancashire. A devaluation of the yen in 1932 against the U.S. dollar and sterling was to promote further Japanese textile exports and help the country to balance its external account by the mid 1930's.

The devaluation in 1932 helped to secure an increase in the Japanese share of the rising textile imports into Australia. The imports of artificial silks from Japan rose from 8 million yards in 1932 to 66 million yards in 1935, while cotton manufactures imports rose from 36 million yards to 86 million yards in the same period.⁵⁰⁾ In 1932, the increase in Japanese imports was generated at the expense of Britain which lost 49 million square yards of its textile market in that year after a failure to profit from the overall increase of the Australian market in the preceding three years. The increase in volume of Japan's artificial silk and cotton textiles did not increase the value of total textile exports, as its silk textiles had failed to remain competitive with cotton products in Australia, and between 1932 and 1935, imports had almost ceased. The overall result was that Japan's total textile exports to Australia, worth £stg. 3.27 million in 1934-5, were valued at less than the £stg. 3.62 million which the country sold to Australia in 1928.⁵¹⁾ The imports of all textiles in 1934-35 into Australia from Japan still totalled less than half the value of the wool which Australia sold to Japan in the same year. By the 1930's, the trade in wool had made Japan a customer second in importance only to Britain.

The trade between Australia and Japan was built on the Japanese government's initiatives in the Nineteenth Century to create a modern textile industry, and was developed in the Twentieth Century through the close co-operation between the Japanese shosha and the state. This co-operation extended from the promotion of domestic industry, through the provision of marketing information and sales promotion in the Australian market, to the provision of transport and the other services necessary to support the trade between the two countries. The close co-ordination between the state, the semi-government organisations like N.Y.K. and the trading companies operating in Australia meant that trade between them was monopolized by Japan, even though the benefits of it accrued to Australian producers and consumers. The trade with Japan attracted little interest in Australia besides the concern of wool producers and, belatedly, the Australian government which, in 1935, appointed an Australian Trade Commissioner to be attached to the British Embassy in Tokyo.⁵²⁾

Australian government attention was not focussed on Asia, but on the means to effect a domestic economic recovery after 1939, and an external balance of payments and trade with its major trading partner - Britain. A commitment to the primacy of British trade

49) Ohkawa, K. and Rosovsky, H., *Japanese Economic Growth*, op cit; p. 186.

50) Binns, K.J. and Pearson, A.G., "Australian Japanese Trade Relations" in *The Economic Record*, Vol. 12, December 1936; p. 276.

51) Ibid; p. 281, Table I, "Australia-Japan Trade 1927/28 - 1935/36".

52) Watt, A., *The Evolution of Australian Foreign Policy 1935-1965*, Cambridge University Press, Cambridge, 1967; p. 293.

interests in Australia had been historically important and was reinforced by the 1932 Ottawa Agreement which extended British preferences to trade with its Empire. In 1936, Australia extended the principle of preference for Britain with its 'Trade Diversion Policy', designed to favour British imports and at the same time promote domestic industrialization. The trade in textiles with Japan became, in May 1936, part of this policy through the enactment of legislation designed on one hand to encourage the Australian vehicle building industry by limiting the import of vehicle chassis from the United States and diverting other American exports to United Kingdom suppliers, while on the other hand attempting to limit imports of Japanese textiles and favour United Kingdom suppliers.⁵³⁾

There was little effective interest in opposing the policy except among Australian wool producers who were being assured by J.B. Brigden and other economists that with a fixed world supply of the commodity the movement of buyers between markets with a fixed demand would not create price instability.⁵⁴⁾ This situation was not to eventuate, for Australian wool exports to Japan fell in the period from 1936 to 1941 as new suppliers and substitutes were found. The Japanese success in building a growing commodity trade with Australia was lost largely because of Australia's preponderant interest in its trade with Britain, but also as a result of the total character of Japan's dominance of the trade, which led to a situation where no significant Australian interest remained to sustain and defend it.

53) See Esthus, R.A., *From Enmity to Alliance*, Melbourne University Press, Melbourne, 1964; pp. 19-22.

54) Brigden, J.B., "The New Tariff Policy", in *Australian Quarterly*, No. 31, September 1936; p. 16.