

# A Study on World Trade and Global Imbalance in the Inter-War Period: With a focus on trade and the balance of payments in Japan and China

Hirohiko Shimpo

shimpo@eco.osaka-sandai.ac.jp  
URL: <http://www.hshimpo.com/>

## Abstract

The inter-war period was a time of technological innovation; it was also a time of significant global imbalance. In the inter-war period, the new technological innovation created a new trade imbalance.

Active capital movement is necessary to keep the imbalance from hindering economic development. However, capital movement may often produce a new synergistic imbalance. This disproportion is termed global imbalance.

Chapter 1 surveys the world economy in the inter-war period, Chapter 2 examines trade and its imbalance in the world during the inter-war period. I specifically concentrate on Japan and China's trade by partner country and product based on the two countries' statistics detailed in Chapter 3. I clarify the role the international capital movement played in dissolving this imbalance in Chapter 4.

The following summarizes the most important conclusions in this paper:

1. The center of world trade moved from primary products to industrial products in the inter-war period, and the largest trade imbalances were between developed countries and recently developed countries.
2. Japan and China's economic interdependence was strengthened as the result of developed countries' economic bloc policies and rapid industrialization in Japan and China.
3. The international capital movement was more favorable in the first half of the inter-war period. Capital flight worsened the imbalance in the second half.
4. In Asia, the foreign investment and FDI of Japan played an important role in establishing infrastructure and developing a textile industry in China and others regions.

**Keywords:** Global imbalance, International capital movement, From vertical trade to horizontal trade, Bloc economy, Overseas Chinese remittance.

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## **Introduction**

The inter-war period was a time of technological innovation; it was also a time of significant global imbalance. In the inter-war period, the new technological innovation after the Industrial Revolution was going to gradually spread out. The previous period's trade centered on primary products, but industrial products were about to replace them in importance. The result was the creation of a new trade imbalance.

Trade imbalances coincide with economic development. Active capital movement is necessary to keep the imbalance from hindering economic development. However, capital does not move for the purpose of adjustment. For example, FDI appeared as a form of new investment at the time; its function was to expand business operations. Short-term capital is prone to escape during an economic crisis. In this way, capital movement may often produce a new synergistic imbalance, regardless of adjustment to the trade imbalance. This disproportion is termed **global imbalance**.

Chapter 1 surveys the world economy in the inter-war period, Chapter 2 examines world trade and its imbalance during the inter-war period. Chapter 3 specifically concentrates on Japan and China's trade by partner country and product based on the two countries' statistics detailed.

Chapter 4 clarifies the role the international capital movement played in dissolving this imbalance. The current active international capital movement often brings about a global financial crisis that cannot dissolve the imbalance. This paper compares the global imbalance of the inter-war period with the current global imbalance.

I pay special attention to trade and the balance of payments in Japan and China, two countries that developed rapidly while global trade stagnated. I will clarify the economic relationship between the two countries in the world economy. Shimpō (2010)

have already examined Japanese FDI in China, and considered comparatively Japanese companies in China and Chinese companies based on the two companies' financial data. In contrast, this paper will focus on the trade relations between the two countries. For Japan-China relations, many have concentrated on political and military issues, but it is also important to discuss their interdependent economic relations and investment.

## **1 Historical Development of the World Economy in the Inter-War Period**

First, based on Maddison's study, **Table 1** will survey world GDP and GDP Per capita from 1820 to 1992. This paper will focus on the positions of the major countries in the inter-war period.

This study summarizes a process of long-term world economic development. However, it is important to note some key premises. One is that GDP, as shown in Table 1, is calculated using Geary-Khamis's 1990 dollar values, which is different from generally used dollar values.

Table 1 illustrates that the world economy experienced slow growth until post World War II, at which point development accelerated. From 1820-1913 Asia accounted for at least half of world GDP, but in 1913 the GDP of industrial countries exceeded that of developing countries.

The U.S. GDP first exceeded that of Britain in 1870. By 1929 the U.S. accounted for 22.8% of world GDP, and became the world's largest economic power. The rapid economic ascension was largely due to innovations in motor vehicle and electrical appliance manufacturing.

In 1820, the ratio of China's GDP to world totals was 28.6% in Asia. China's GDP exceeded that of the U.K., the country that launched the Industrial Revolution. With a delay in modernization, China's economic position fell, and Japan's status started to rise in Asia. Still, in 1929, Japan's GDP was only one-third of China's.

GDP Per capita increased greatly in the postwar era. The economic gap between the North and the South, based upon GDP Per capita, grew for 172 years, reaching 6.24 times in 1992. After World War II, the expansion of this gap became known as the **North-South problem**. The United States reversed its status with Britain by the highest level at 6,907 dollars of GDP per capita.

GDP Per capita in the U.S. became 3.5 times that of Japan in the inter-war period.

**Table 1 World GDP and World GDP Per Capita, 1820-1992**

	GDP (billion 1990 Geary Khamis Dollars)							
	1820	1870	1913	1929	1938	1950	1973	1992
<b>Western Europe</b>	<b>133</b>	<b>305</b>	<b>735</b>	<b>925</b>	<b>n.a.</b>	<b>1,225</b>	<b>3,503</b>	<b>5,255</b>
<b>UK</b>	<b>35</b>	<b>96</b>	<b>214</b>	<b>240</b>	<b>284</b>	<b>345</b>	<b>674</b>	<b>910</b>
Rate of increase			2.0%			1.3%		2.3%
Component ratio			7.9%			6.4%		3.3%
<b>Western Offshoots</b>	<b>14</b>	<b>112</b>	<b>583</b>	<b>934</b>	<b>n.a.</b>	<b>1,630</b>	<b>4,027</b>	<b>6,359</b>
<b>USA</b>	<b>12</b>	<b>98</b>	<b>518</b>	<b>844</b>	<b>800</b>	<b>1,458</b>	<b>3,519</b>	<b>5,510</b>
Rate of increase			4.1%			2.8%		3.2%
Component ratio			19.0%			27.1%		19.7%
Southern Europe	27	44	85	117	n.a.	138	570	1,016
Eastern Europe	69	153	423	472	n.a.	753	2,171	2,011
USSR	38	84	232	238	405	510	1,513	1,366
Latin America	14	29	115	194	n.a.	404	1,324	2,225
<b>Asia &amp; Oceania</b>	<b>405</b>	<b>446</b>	<b>723</b>	<b>955</b>	<b>n.a.</b>	<b>1,038</b>	<b>3,968</b>	<b>10,287</b>
<b>Japan</b>	<b>22</b>	<b>26</b>	<b>69</b>	<b>123</b>	<b>169</b>	<b>157</b>	<b>1,197</b>	<b>2,415</b>
Rate of increase			1.2%			2.2%		6.7%
Component ratio			2.5%			2.9%		8.6%
<b>China</b>	<b>199</b>	<b>187</b>	<b>301</b>	<b>379</b>	<b>400</b>	<b>336</b>	<b>1,046</b>	<b>3,616</b>
<b>India</b>	<b>93</b>	<b>118</b>	<b>167</b>	<b>183</b>	<b>192</b>	<b>214</b>	<b>495</b>	<b>1,188</b>
Africa	33	40	63	98	n.a.	185	502	842
<b>Developed Countries</b>	<b>195</b>	<b>486</b>	<b>1,471</b>	<b>2,100</b>	<b>n.a.</b>	<b>3,150</b>	<b>9,297</b>	<b>15,046</b>
Rate of increase			2.2%			2.1%		3.8%
Component ratio			54.0%			58.6%		53.7%
<b>Developing Countries including Eastern Europe</b>	<b>499</b>	<b>641</b>	<b>1,255</b>	<b>1,596</b>	<b>n.a.</b>	<b>2,223</b>	<b>6,768</b>	<b>12,949</b>
Rate of increase			1.0%			1.6%		4.3%
<b>World</b>	<b>695</b>	<b>1,128</b>	<b>2,726</b>	<b>3,696</b>	<b>n.a.</b>	<b>5,372</b>	<b>16,064</b>	<b>27,995</b>
Rate of increase			1.5%			1.9%		4.0%
	GDP Per Capita (1990 Geary Khamis Dollars)							
<b>Western Europe</b>	<b>1,292</b>	<b>2,110</b>	<b>3,704</b>	<b>4,385</b>	<b>n.a.</b>	<b>5,126</b>	<b>12,289</b>	<b>17,387</b>
<b>UK</b>	<b>1,756</b>	<b>3,263</b>	<b>5,032</b>	<b>5,255</b>	<b>5,983</b>	<b>6,847</b>	<b>11,992</b>	<b>15,738</b>
<b>Western Offshoots</b>	<b>1,205</b>	<b>2,440</b>	<b>5,237</b>	<b>6,653</b>	<b>n.a.</b>	<b>9,255</b>	<b>16,075</b>	<b>20,850</b>
<b>USA</b>	<b>1,287</b>	<b>2,457</b>	<b>5,307</b>	<b>6,907</b>	<b>6,134</b>	<b>9,573</b>	<b>16,607</b>	<b>21,558</b>
Southern Europe	804	1,108	1,750	2,153	n.a.	2,021	6,015	8,287
Eastern Europe	772	1,085	1,690	1,732	n.a.	2,631	5,745	4,665
USSR	751	1,023	1,488	1,386	2,150	2,834	6,058	4,671
Latin America	679	760	1,439	1,832	n.a.	2,487	4,387	4,820
<b>Asia &amp; Oceania</b>	<b>550</b>	<b>580</b>	<b>742</b>	<b>858</b>	<b>n.a.</b>	<b>765</b>	<b>1,801</b>	<b>3,252</b>
<b>Japan</b>	<b>704</b>	<b>741</b>	<b>1,334</b>	<b>1,949</b>	<b>2,356</b>	<b>1,873</b>	<b>11,017</b>	<b>19,425</b>
<b>China</b>	<b>523</b>	<b>523</b>	<b>688</b>	<b>779</b>	<b>778</b>	<b>614</b>	<b>1,186</b>	<b>3,098</b>
<b>India</b>	<b>531</b>	<b>558</b>	<b>663</b>	<b>665</b>	<b>619</b>	<b>597</b>	<b>853</b>	<b>1,348</b>
Africa	450	480	575	660	n.a.	830	1,311	1,284
<b>Developed Countries</b>	<b>1,093</b>	<b>1,838</b>	<b>3,592</b>	<b>4,476</b>	<b>n.a.</b>	<b>5,554</b>	<b>12,581</b>	<b>17,614</b>
Rate of increase			1.3%			1.2%		2.8%
<b>Developing Countries including Eastern Europe</b>	<b>562</b>	<b>644</b>	<b>921</b>	<b>1,012</b>	<b>n.a.</b>	<b>1,143</b>	<b>2,143</b>	<b>2,823</b>
Rate of increase			0.5%			0.6%		2.2%
<b>World</b>	<b>651</b>	<b>895</b>	<b>1,539</b>	<b>1,806</b>	<b>n.a.</b>	<b>2,138</b>	<b>4,123</b>	<b>5,145</b>
Rate of increase			0.9%			0.9%		2.1%
<b>North-South gap</b>	<b>1.95</b>	<b>2.85</b>	<b>3.90</b>	<b>4.42</b>	<b>n.a.</b>	<b>4.86</b>	<b>5.87</b>	<b>6.24</b>

Note: Developed countries are composed of Western Europe, Western Offshoots, Southern Europe and Japan.  
Source : Maddison (1995), various tables.

In Asia, Chinese and Japanese GDP Per capita finally increased in the inter-war period, with Japan's GDP Per capita becoming 2.5 times that of China in 1929. The difference can be attributed to Japan's policy of adopting modernization techniques. The gap between the two continued until China shifted its policy toward reform and opened doors to trade.

## **2 Global Trade in the Inter-War Period**

The most important international factor that propelled world and individual country economic development in the inter-war period was trade. Nowadays, the capital movement, and especially FDI, unites the economy of each country and is the driving force of economic development among the world's countries.

The League of Nations was established in 1918, following the great loss of life in World War I. Although it had historical significance, many major countries chose not to join at the time.

The League of Nations did its best to create and maintain international economic statistics. This paper uses some League of Nations statistics. Shimpo (1998) used League of Nations data to examine trade in each country. However, these statistics have two key defects: that the commodity classification is not necessarily fully unified and there are no trade statistics by products and partner countries.

Although the problem of global unification of commodity classification remains unsolved, there is still value in using these statistics. I will examine the trade statistics of countries by both products and partner countries.

### **2.1 From Primary Products to Industrial Products**

When examining trade among the world and its countries, this Section focus on three fiscal years: 1913, at the beginning of World War I; 1929, when the economy developed most in the inter-war period, and the Great Depression broke out; and 1938, just before World War II.

Based on the research of Yates, this Section will examine world trade by product. **One element** of trade in the inter-war period is that trade recovered rapidly from the desolation of World War I up until the Great Depression in 1929, at which point trade decreased sharply. As a result, rapidly expanding trade did not necessarily contribute to the development of the world economy as it did during the period prior to World War I.

As shown in **Table 2**, although world trade increased an average of 3.4% per year for 16 years from 1913 to 1929, it decreased by 3.1% per year for each of the eight years following the Great Depression. World trade increased at an overall annual average rate of 1.2% for the 24 year inter-war period.

From the second half of the nineteenth century to just before the outbreak of World War I, trade increased sharply, being stimulated by increases in capital flow from developed countries as well as immigration. This period brought about economic development of the world economy and the Regions of Recent Settlement \*<sup>1</sup>.

**Table 2 World Trade by Product**

(\$ million)

	1913	1929	Average Growth Rate	1937	Average Growth Rate	Average Growth Rate
Total cereals	1,784	2,052		1,526		
Livestock products	1,152	2,132		1,557		
Beverages	553	946		653		
All oilseeds and fats	751	1,109		882		
<b>Total food</b>	<b>5,535</b>	<b>8,456</b>	<b>2.7%</b>	<b>6,251</b>	<b>-3.7%</b>	<b>0.5%</b>
	<b>29.0%</b>	<b>26.1%</b>		<b>24.8%</b>		
Total fibres	2,018	3,213		2,060		
<b>Agricultural raw materials</b>	<b>4,040</b>	<b>6,490</b>	<b>3.0%</b>	<b>4,920</b>	<b>-3.4%</b>	<b>0.8%</b>
	<b>21.1%</b>	<b>20.0%</b>		<b>19.5%</b>		
<b>Total fuel</b>	<b>919</b>	<b>2,055</b>	<b>5.2%</b>	<b>1,888</b>	<b>-1.1%</b>	<b>3.0%</b>
Ores and concentrates	245	585		704		
All base metals	1,027	1,711		1,730		
<b>Total minerals</b>	<b>2,673</b>	<b>5,104</b>	<b>4.1%</b>	<b>4,923</b>	<b>-0.5%</b>	<b>2.6%</b>
	<b>14.0%</b>	<b>15.8%</b>		<b>19.5%</b>		
<b>Primary products</b>	<b>12,248</b>	<b>20,050</b>	<b>3.1%</b>	<b>16,094</b>	<b>-2.7%</b>	<b>1.1%</b>
	<b>64.1%</b>	<b>61.9%</b>		<b>63.8%</b>		
Metal manufactures	567	1,022		898		
Machinery	586	1,298		1,103		
Railway equipment	158	158		100		
Vehicles	301	1,102	8.4%	922	-2.2%	4.8%
Electrical goods	163	571	8.2%	508	-1.5%	4.9%
Chemicals	697	974		979		
Textiles and apparel	2,502	3,890	2.8%	2,220	-6.8%	-0.5%
	13.1%	12.0%		8.8%		
China, paper, leather, etc.	969	1,600		1,178		
<b>All manufactures</b>	<b>6,855</b>	<b>12,325</b>	<b>3.7%</b>	<b>9,128</b>	<b>-3.7%</b>	<b>1.2%</b>
	<b>35.9%</b>	<b>38.1%</b>		<b>36.2%</b>		
<b>Total exports</b>	<b>19,103</b>	<b>32,375</b>	<b>3.4%</b>	<b>25,222</b>	<b>-3.1%</b>	<b>1.2%</b>
	<b>100%</b>	<b>100%</b>		<b>100%</b>		

Source : Yates (1959, 222-223).

\* 1 The countries mainly built by European immigration are often called Regions of Recent Settlement. Kenwood and Loughheed (1971, 146). Maddison (1995) names these countries Western Offshoots.

**Another element** that contributed to world economic growth in the inter-war period was technological innovation, such as motor vehicles and electrical appliances. Table 2 shows the products that increased the most over the 24 year period. Vehicles and appliances top the list with annual average rates of growth surpassing 4%. Although the reduction in the second half of the period was not escaped, the increase only in the first half surpassed 8%.

Alternatively, textiles and apparel, which led industrialization before World War I, decreased substantially. We can conclude that textiles and apparel lost the role as a driving force of industrialization in this period because of the reduction of fibres in agricultural raw materials. This shows how the hegemony of the world economy shifted from Britain and France, leaders in textiles, to the United States.

Due to high prices of new products, such as vehicles and appliances, only high income consumers in developed countries could afford to purchase the new products. Therefore, world trade changed to the **horizontal trade** between specific developed countries that could produce and afford to purchase big-ticket items, such as the United States. This became an important factor regarding the trade imbalance between Britain and the U.S. The **vertical trade** between developed countries, which produced textile goods, and developing countries, which cultivated agricultural raw materials, declined gradually. Economic difficulties for primary product-exporting countries emerged as a result.

Incidentally, I have to give a supplementary explanation that the industrializations in developing countries have the following differences between in the inter-war period and in the postwar period.

1. In the inter-war period, the leading product is the textile goods, and the electronic products after the war.
2. The representative market is often domestic in the inter-war period, and in the post-war period the developing countries export the manufactured products to the developed countries. For example, the foreign subsidiaries of Japanese companies in the inter-war period supplied the textile goods to Chinese domestic market, and contributed to its industrialization.
3. The direct influence of overseas investment is comparatively small in the inter-war period, FDI remarkably influences the developing countries' industrialization in the post-war period. The developing countries can follow the developed countries for a short period through introduction of FDI and the most advanced technology (Shimpo, 1998).

This Section will examine primary products in more detail. As shown in Table 2, the ratio of primary products to all exports during this period did not change. This ratio was very high in 1937, 63.8%, compared with 24.2% in 1992 (Shimpo 1998, Table 3-6). However, we must keep in mind the change in composition. Primary products are usually classified into three groups: food, agriculture and minerals.

According to this classification, the ratio of food to all exports decreased from 29.0% to 24.8%, and agricultural raw materials decreased from 21.1% to 19.5%. Minerals, however, rose from 14.0% to 19.5%. Within the food group, cereal – which accounted for a large proportion of trade prior to World War I – saw a substantial reduction in the 24-year period. Fiber in the agricultural raw materials group barely increased. Meanwhile, fuel showed exceptionally large growth among primary products. The motor vehicle proved to be an important development in the expansion of energy resources.

In Europe, where the population has increased rapidly until the present, the stagnation of trade for agricultural products, such as cereal, occurred because population growth rates gradually slowed and diversification of the consumption structure resulted in changes in demand. For example, dairy products, accompanied by a rise in standards of living and self-sufficiency rates, expanded. Conversely, in the Regions of Recent Settlement, which was a food supply base to Europe, productivity increased and agricultural products began to surplus. Oversupply caused agricultural product prices to plunge just before 1929, leading up to the Great Depression.

Regarding trade of agricultural raw materials such as textile goods, in addition to diversification in consumption structure, rapid increases in substitutes, such as chemical fibers, also caused new stagnation. For example, rayon production increased rapidly in the inter-war period. Thus, a big change in demand took place for food and agricultural raw materials, resulting in a marked fall in status of traditional nineteenth century primary products.

## **2.2 Shift in Status between Britain and U.S. Trade Imbalances**

The major changes of trade by product discussed in Section 2.1 naturally brought about changes in trade between countries. **Table 3** shows trade statistics by country via the League of Nations. Britain's proportion of world imports fell from 13.9% in 1913 to 10.1% in 1938. Meanwhile, the U.S.'s grew sharply until 1929 and then fell to 13.5% in 1938. Britain was already losing its hegemony in the world economy at the close of the nineteenth century, and it was in the inter-war period that its position as world superpower was lost. With the technological advancement in industrial products, such as



**Table 3 World Trade by Country**

(million dollars)

	1913			1929			1938		
	Imports Special Trade	Exports	Balance	Imports Special Trade	Exports	Balance	Imports Special Trade	Exports	Balance
<b>World</b>	<b>19,465</b>	<b>18,332</b>		<b>35,595</b>	<b>33,024</b>		<b>24,245</b>	<b>22,718</b>	
	100%	100%		100%	100%		100%	100%	
North America	2,414	2,896	483	5,676	6,428	752	2,646	4,033	1,387
	12.4%	15.8%		15.9%	19.5%		10.9%	17.8%	
<b>U.S.A.</b>	<b>1,775</b>	<b>2,448</b>	<b>673</b>	<b>4,339</b>	<b>5,157</b>	<b>819</b>	<b>1,950</b>	<b>3,057</b>	<b>1,107</b>
	9.1%	13.4%		12.2%	15.6%		8.0%	13.5%	
Canada	619	432	-187	1,299	1,225	-74	675	951	276
Europe (excl. U.S.S.R.)	11,270	9,331	-1,939	19,410	15,649	-3,761	13,632	10,437	-3,195
	57.9%	50.9%		54.5%	47.4%		56.2%	45.9%	
<b>United King.</b>	<b>3,208</b>	<b>2,556</b>	<b>-652</b>	<b>5,407</b>	<b>3,549</b>	<b>-1,858</b>	<b>4,200</b>	<b>2,301</b>	<b>-1,899</b>
	16.5%	13.9%		15.2%	10.7%		17.3%	10.1%	
France	1,625	1,328	-297	2,282	1,966	-317	1,326	875	-451
Germany	2,563	2,403	-160	3,203	3,212	9	2,195	2,117	-78
Oceania	506	495	-11	971	884	-87	760	787	27
Australia	380	375	-5	706	590	-117	516	518	2
South America	1,110	1,228	119	1,891	2,257	366	1,200	1,443	242
Mexico and Caribbean	370	440	70	816	910	94	626	681	54
Asia (excl. U.S.S.R.)	2,297	2,292	-5	4,679	4,938	259	3,579	3,583	3
	11.8%	12.5%		13.1%	15.0%		14.8%	15.8%	
<b>Japan Proper</b>	<b>359</b>	<b>311</b>	<b>-48</b>	<b>995</b>	<b>970</b>	<b>-26</b>	<b>751</b>	<b>756</b>	<b>5</b>
<b>China, excl. Manch.</b>	<b>416</b>	<b>294</b>	<b>-122</b>	<b>663</b>	<b>440</b>	<b>-223</b>	<b>261</b>	<b>153</b>	<b>-108</b>
<b>India and Burma</b>	<b>597</b>	<b>786</b>	<b>189</b>	<b>914</b>	<b>1,177</b>	<b>264</b>	<b>626</b>	<b>766</b>	<b>140</b>
U.S.S.R. (Russia)	707	782	75	453	475	22	262	251	-11
Africa	798	862	64	1,699	1,483	-216	1,537	1,504	-34
<b>Developed Countries</b>	<b>14,549</b>	<b>13,033</b>	<b>-1,516</b>	<b>27,052</b>	<b>23,931</b>	<b>-3,122</b>	<b>17,790</b>	<b>16,014</b>	<b>-1,776</b>
	74.7%	71.1%		76.0%	72.5%		73.4%	70.5%	
<b>Developing Countries, excl. U.S.S.R. (Russia)</b>	<b>4,215</b>	<b>4,510</b>	<b>295</b>	<b>8,090</b>	<b>8,618</b>	<b>529</b>	<b>6,193</b>	<b>6,453</b>	<b>260</b>
	21.7%	24.6%		22.7%	26.1%		25.5%	28.4%	

Note 1 : The unit of U.S.A. (old) gold dollars in 1938 is converted to U.S. dollars based on source 2, Annex III.

Note 2 : The regional composition in 1913 is based on source 1, p.39.

Note 3 : The composition of developed countries and developing countries is the current composition.

Source 1 : League of Nations (1928b, 10-11, 39).

Source 2 : League of Nations (1939b, 84-85).

the vehicle, at the time, the British position continued to decline.

As shown in Table 3, Britain's proportion of total world imports was consistently high, accounting for no less than 17.3%. Although trade partners were limited to countries within the British Empire \*2 in 1938, Britain continued to be one of the world's largest primary products import partner countries. The scale of U.S. imports was small compared with exports, and since imports dropped rapidly, especially after the Great Depression, countries exporting to the U.S. market suffered greatly.

\* 2 The relationship between Britain and its dominion countries in the British Empire became equal with the creation of the Commonwealth in 1926 and 1931. With this relationship shift, the British Empire drastically changed.

Next, this Section will reconsider Table 3 from the perspective of trade imbalance. Britain had the greatest global trade deficit. The deficit increased every year and amounted to 1,900 million dollars in 1938. France's trade deficit also became very large, growing to 450 million dollars.

In contrast, the U.S. trade surplus increased every year, and the surplus reached 1,100 million dollars in 1938. In fact, the deficit and surplus of both countries equaled the deficit and surplus between the U.S. and Britain. Next look at Tables 4 and 5. As shown in Table 4, the greatest partner country of Britain's trade deficit was the United States, and Table 5 shows that the greatest partner country of the U.S. trade surplus was Britain.

The biggest trade imbalance in the inter-war period was the imbalance between the United States, which was gaining hegemony over the world economy, and Britain, which, in contrast, was declining. We can conclude that this trade imbalance is similar to the current imbalance between Japan and the U.S. This fact characterized the inter-war period.

Asia's trade, especially that of Japan, experienced small drops compared with global trade. India's cotton exports created a trade surplus in India. In contrast, although China's trade increased in the first half of the inter-war period, the second half saw a retreat in exports due to the lack of a leading export commodity. The Chinese trade balance continually recorded a deficit during this period.

The emergence of new products in trade and changes in the trade structure corresponded to changes in capital flow.

The most typical form of world capital movement before World War I was British **portfolio investment** in the infrastructure industries, especially in railroads and national or local governments. The large amount of investment, along with the increase in immigration from these countries, raised agricultural productivity in the Regions of Recent Settlement. This made possible both the export of food to developed countries, such as Britain, and the economic development of Regions of Recent Settlement.

New companies emerged as a result of technological innovation in the United States. These companies initiated local production in Europe to expand their market share. Portfolio investments in railroads, national and local governments were dominant; the **FDI**, the full-scale overseas expansion of a company, developed over this time. This investment is the germination of current mutual FDI between developed countries. Portfolio investment also brought together this FDI and often came directly to developed countries.

Thus, trade and capital movement in the inter-war period showed a movement that was linked mutually. This movement characterized development and the problems in the world economy during this period. These rapid changes caused much difficulty for primary product-exporting countries, which had depended upon portfolio investment.

### **2.3 British and American Trade: Bloc Economy and Unilateralism**

This Section will examine trade by each country, first focusing on the two leading economic powers of the time: Britain and the United States. Since the commodity classification was not unified, it is difficult to compare the trade of each country in the inter-war period. Although there are statistics from the League of Nations, these data have problems which I have already addressed. I will try to make comparisons based upon each country's data for the purposes of this paper.

At the end of the eighteenth century, Britain started the Industrial Revolution in cotton goods, and by exporting these goods in the nineteenth century, Britain became the overwhelming leader in world trade and economy. The British created a period referred to as Pax Britannica. With this economic power, Britain gained colonies all over the world.

**Table 4** lists principal exports, imports and leading British trade partners. Although Britain exported a large amount of industrial products, since it imported a great many more primary products, the trade balance consistently posted a deficit. This trade deficit, as shown in Chapter 3, was compensated by the receipts of interest and dividends by capital exports. Thus the current balance consistently posted a surplus, and the trade deficit did not produce economic difficulty at the time.

However, as presented in Table 4, the growth of exports gradually stagnated, and the increase in imports progressed, resulting in an expanded trade deficit. Although Britain's exports could not reascend to their 1913 level in 1938, their imports increased and the deficit sharply expanded. The trade deficit was 390 million pounds, which accounted for 72.7% in export and re-export totals. The expansion of Britain's deficit made the economic base in both Britain and the world unstable.

The trade balance with the United States was especially bad; in 1938 the deficit amounted to 90 million pounds and the ratio of trade deficit to exports and re-exports accounted for 309.7%. This data show the shift in international status between Britain and the U.S.

Next, this Section will consider trade by product. The greatest export commodity

**Table 4 British Trade**

(£ million)

	1913			1929			1938		
	Imports	Exports	Re-exports	Imports	Exports	Re-exports	Imports	Exports	Re-exports
<b>World</b>	<b>768.7</b>	<b>525.2</b>	<b>109.2</b>	<b>1,220.8</b>	<b>729.3</b>	<b>109.7</b>	<b>919.5</b>	<b>470.8</b>	<b>61.5</b>
U.S.A.	141.7	29.3	30.2	196.0	45.6	16.5	118.0	20.5	8.3
British North America	31.5	24.7	3.6	48.4	35.9	2.7	81.3	23.5	1.1
Germany	80.4	40.7	19.8	68.8	37.0	23.3	31.9	21.8	6.6
France	46.4	28.9	11.9	56.5	31.7	17.5	23.6	15.1	8.2
India	48.4	70.3	1.4	62.8	78.2	1.1	55.9	33.8	0.5
Australia	38.1	34.5	3.4	55.6	54.2	2.1	71.8	38.2	0.8
New Zealand	20.3	10.8	1.0	47.7	21.4	0.8	46.9	19.2	0.3
Argentina	42.5	22.6	0.8	82.4	29.1	0.6	38.5	19.3	0.4
	<b>Imports</b>	<b>Exports</b>		<b>Imports</b>	<b>Exports</b>		<b>Imports</b>	<b>Exports</b>	
<b>Total Commodities</b>	<b>768.7</b>	<b>525.2</b>		<b>1,220.8</b>	<b>729.3</b>		<b>919.5</b>	<b>470.8</b>	
Grain and flour	80.9			93.3			72.6		
Meat and Animals	56.7			113.6			90.7		
Butter and Margarine	28.0			57.4			51.0		
Raw Cotton	70.6			77.4			29.6		
Raw Wool	35.6			61.1			41.6		
Oils, Oil-seed, Gums, Resins, Tallow etc.	30.7			39.2			25.4		
Petroleum	10.9			43.4			46.0		
Coal		53.7			52.9			40.7	
Iron and Steel		55.4			68.0			42.9	
Machinery		37.0			59.6			60.7	
Cotton Goods		127.2			135.4			49.7	
Wool Goods		31.8			50.5			23.6	
Vehicles and Aircraft		5.4			20.7			24.7	

Source : Mitchell and others (1962).

in 1913 and 1929 was Cotton Goods, excluding it and Coal, primary products and many labor-intensive industrial products such as Wool Goods. By 1938, Machinery became the greatest export product, and industrial products, such as Vehicles and Aircraft, also increased rapidly. For imports, agricultural raw materials, such as Raw Cotton, Raw Wool, and food such as Grain and flour, Meat and Animals, Butter and Margarine supported Britain's increase in quality of life in 1938.

Regarding Britain's trade partners, the proportion of British Empire countries to total trade increased notably in 1938. Table 4 shows India's and Australia's roles in exports and shows British North America (Canada) and Australia's roles in imports. Britain imported a large amount of primary products from these countries, and the British trade balance fell into deficit.

Britain formed the **Sterling Bloc** in the inter-war period to combat its falling economic status and to try to expand trade within the Bloc. Among European countries, Britain, especially, had many dominions and colonies, and the British economic relationship with these colonies and dominions was very close. According to the League of Nations, the proportion of trade with British Commonwealth, colonies and protectorates to the entire trade of Britain increased from 30.2% to 41.9% in imports and from 44.4% to 49.9% in exports from 1929 to 1938. \*<sup>3</sup>

The **economic bloc policy** may have temporarily aided the development of the empire. However, it made the British economy even more dependent upon the British Empire. After taking these steps, there was no turning back. What was more important was to end the possibility of development through trade for countries that did not belong to the British Empire. This caused serious damage to the world economy.

Instead of Britain, the United States promoted new technological innovation in the inter-war period, and led the world in trade. In Britain, the huge profits gained from the production and export of cotton goods were invested not in equipment, long-term research or development, but into the import of primary products and overseas colonies. The United States, whose steel and other industries experienced rapid development through the Civil War, promoted new industries and new companies.

The United States received large amounts of capital from Britain and European immigrants, which contributed to its economic development. The United States held advantages in terms and conditions, the proximity of the distance from developed-countries Europe, and an abundance of natural resources from agricultural and mineral products. These factors sparked the U.S.'s rapid industrialization.

The U.S. trade balance reached surplus in the second half of the 1870s. Also, in 1938 when exports decreased compared to 1929, the trade surplus increased rapidly from 840 million dollars to 1,130 million dollars. The dominant partner country that contributed to this trade surplus was Britain, and the U.S. surplus reached 400 million dollars in 1938. Therefore, we can conclude that the greatest trade imbalance in the inter-war period was the imbalance between the U.S. and the U.K. This huge trade surplus became the primary source of capital export to the world.

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From the time of the U.S. independence, the major export commodities were primary

\* 3 Refer to League of Nations (1939b, 34), for the trade ratio in Western countries including Britain, with their colonies.

products, such as cotton, unmanufactured leaf tobacco, unmanufactured, wheat and wheat flour. As shown in **Table 5**, leaf tobacco unmanufactured, wheat and wheat flour exports decreased remarkably, but cotton unmanufactured remained the greatest export commodity, even in 1929.

However, technological innovation in the United States was rapid, and the export of Machinery, Automobiles advanced products rapidly increased. It was in 1908 in the United States that the Ford Model T, the first full-scale passenger car, appeared. This advancement made automobiles popular throughout the United States. Auto industry companies ventured overseas for production early on, and subsidiaries of U.S. companies started manufacturing locally in Canada and Europe. A sudden rise in the proportion of Automobiles to all exports was one of the manifestations of local production.

However, it was not clear whether intra-firm trade was or was not the most important feature of current trade and how it was performed during this period.

Many imports were primary products. In 1913, coffee and Hides and skins were

**Table 5 U.S. Trade**

(million dollars)

	1913			1929			1938		
	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance
<b>World</b>	<b>2,466</b>	<b>1,813</b>	<b>653</b>	<b>5,241</b>	<b>4,399</b>	<b>842</b>	<b>3,094</b>	<b>1,960</b>	<b>1,134</b>
Canada	415	121	294	948	503	445	468	260	208
United Kingdom	597	296	301	848	330	518	521	118	403
Germany	332	189	143	410	255	155	107	65	42
Mainland China	21	39	-18	124	166	-42	35	47	-12
Japan	58	92	-34	259	432	-173	240	127	113
	<b>Exports</b>	<b>Imports</b>	<b>Balance</b>	<b>Exports</b>	<b>Imports</b>	<b>Balance</b>	<b>Exports</b>	<b>Imports</b>	<b>Balance</b>
<b>Total Commodities</b>	<b>1,831</b>	<b>913</b>		<b>3,963</b>	<b>2,477</b>		<b>2,226</b>	<b>1,034</b>	
Cotton, unmanufactured	547			771			229		
Leaf tobacco, unmanufactured	49			146			155		
Wheat and wheat flour	142			192			101		
Automobiles	33			541			270		
Petroleum and products	150			562			390		
Iron and steel mill products	124			200			184		
Machinery	195			604			486		
Coffee		119			302			138	
Sugar		99			209			130	
Rubber, crude		90			241			130	
Raw silk		82			427			89	
Copper and manufactures		60			154			38	
Hides and skins		117			137			30	
Forest products		48			296			200	
Petroleum and products		11			145			39	

Source : U.S. Department of Commerce (1975).

the most imported goods; in 1929 they were raw silk and coffee; and in 1938 they were Forest products. Most of the primary products, such as coffee from Brazil, sugar from Cuba, rubber from British Malaya and raw silk from Japan, went to the United States. The increase in demand for these products brought about the possibility of new development for the exporting countries. However, since the prices of these primary products slumped after the Great Depression, and the United States attempted to close off its economy to promote local growth, economies in these countries experienced difficulty.

The United States suffered greatly in the Great Depression. Although the United States was the first industrialized country in the world, agricultural industries were hit hard during the Great Depression. As a result, the United States raised customs duties, thus preventing the inflow of cheap foreign products. The U.S. adopted a policy of the **unilateralism against depression**, which prioritized increasing employment within its own borders.

Another enacted policy was the **Smoot-Hawley Tariff Act**. The United States did not put as much weight upon economic bloc policy as Britain did, and the Great Depression also had a negative effect on developing countries. Latin American countries, like Argentina and Uruguay, connected more with Britain than with the United States. \*<sup>4</sup>

Both of the world's economic leaders in the inter-war period, the U.S. with its inward-looking policy and Britain with its bloc economic policy, negatively affected countries that had close economic ties to the U.S., such as China and Japan. This closed policy was the root cause for the global war between the developed countries, which set up the basis of the same market economy, and generated the world market economic crisis. Both British and American policies contributed to the expansion of socialism following World War II and further deepened the market economic crisis.

### **3 Trade in Japan and China**

#### **3.1 Japan's Trade by Partner Country and Product**

In the following sections, this Section will examine Japan's and China's trade by partner country and product. A trade relationship which one country establishes

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\* 4 League of Nations (1939a). When I discuss the 1938 data in the following section, the data are based on these materials.

changes by partner countries. Trade relationships differ considerably depending upon whether the partner country is developed or developing.

Regarding Japan, this paper uses “*Annual Return of the Foreign Trade of the Empire of Japan*” and “*Annual Return of the Foreign Trade of Japan*” as the fundamental data. Although Japan’s data only relate to mainland Japan in Table 3, data in the following two tables relate to the Japanese Empire.

This paper focuses on three fiscal years for Japan: 1913, 1929, and 1938. These are the same three years used to examine world trade. The same commodity classification\*<sup>5</sup> can be used for the three fiscal years. However, since the total for each product was often omitted, this paper calculated and added where needed.

As partner countries, the United States, China and the Kwantung Leased Territory are included and Manchukuo is added into the 1938 fiscal year data. As examined in detail below, although Japan clashed with the United States and China both politically and militarily, Japan, the United States and China had very close economic relationships with each other.

As shown in **Table 6.1**, the proportion of Japanese exports to the U.S. in 1913 was 29.2%; the proportion to China was 24.5%. The trade surplus with the United States amounted to 93.4 million yen; and with China was 62.1 million yen.

The greatest Japanese export commodities were Yarns, threads, twines, and cordages & materials thereof, and they accounted for 43.7% of total exports. Raw silk was a major export to the United States, accounting for 68.3% of exports. Cotton Yarns was the largest exported product to China. The next biggest export commodity was Tissues & manufactures thereof. Japan’s exports were concentrated in labor-intensive textile goods, and it did not have many technology- and capital-intensive products, such as Clock and others, Metal manufactures, and Drugs and others.

The largest import was Cotton ginned, classified into Yarns and others. Japan imported the most products from British India, totaling 143.0 million yen. This was more than 64.2 million yen more than what was spent on imports from the U.S. Of imports, Grains, flours starches & seeds, and Ores & metals were leaders. The imports by product from the United States and China were a little dispersed.

In 1929, **Table 6.2** shows that the period of highest development in the inter-war period, exports to the United States increased rapidly. The ratio of exports to the United

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\* 5 Toyo Keizai Shimpo-sha (1935).



Table 6.1 Japanese Trade, 1913

(1,000 yen)

	World	China	Kwantung Province	United States	
<b>Total Exports</b>	<b>632,460</b>	<b>154,660</b>	<b>29,836</b>	<b>184,473</b>	
2 Grains, flours starches & seeds	6,892				
3 Beverage, comestibles & tobacco	<b>54,577</b>	21,323	4,167	12,453	
<i>Refined Sugar</i>	15,832	14,270	1,199	<i>n.a.</i>	
8 Yarns, threads, twines, cordages & materials thereof	<b>276,520</b>	<b>61,360</b>	3,976	<b>132,446</b>	
<i>Raw silk</i>	<b>188,917</b>	<i>n.a.</i>	<i>n.a.</i>	<b>125,909</b>	
<i>Cotton Yarns</i>	70,998	<b>60,096</b>	3,458	<i>n.a.</i>	
9 Tissues & manufactures thereof	<b>88,011</b>	21,004	10,285	3,745	
14 Ores & metals	<b>31,455</b>				
16 Clocks, scientific instruments, vessels, vehicles & machinery	6,448				
17 Miscellaneous	<b>57,347</b>	10,732	3,803	16,008	
<b>Grand total</b>	<b>629,526</b>	<b>152,976</b>	<b>29,434</b>	<b>184,389</b>	
<b>Re-exports</b>	<b>2,934</b>	<b>1,684</b>	<b>402</b>	<b>84</b>	
<b>Total Imports</b>	<b>729,432</b>	<b>61,223</b>	<b>30,878</b>	<b>122,408</b>	
2 Grains, flours starches & seeds	<b>79,226</b>	8,829	6,468	11,251	22,276 ( <i>French Indo-China</i> )
<i>Rice &amp; paddy</i>	48,473	845	<i>n.a.</i>	<i>n.a.</i>	22,268 ( <i>French Indo-China</i> )
3 Beverage, comestibles & tobacco	44,459				
8 Yarns, threads, twines, cordages & materials thereof	<b>271,416</b>	21,198	194	<b>64,266</b>	144,263 ( <i>British India</i> )
<i>Cotton, ginned</i>	<b>231,481</b>	16,206	<i>n.a.</i>	<b>64,220</b>	143,012 ( <i>British India</i> )
9 Tissues & manufactures thereof	26,164				
14 Ores & metals	<b>72,663</b>	4,953	188	7,135	
16 Clocks, scientific instruments, vessels, vehicles & machinery	<b>51,042</b>	0	74	11,703	
17 Miscellaneous	<b>54,923</b>	17,592	20,540	3,030	
<i>Oil cake, bean</i>	33,564	10,064	19,928		
<b>Grand total</b>	<b>728,626</b>	<b>60,942</b>	<b>30,798</b>	<b>122,359</b>	
<b>Re-imports</b>	<b>806</b>	<b>281</b>	<b>80</b>	<b>49</b>	

Note: The italicized figure is the total amount of each individual product.

Source : The Department of Finance, Japan (1913).

States to total exports was 43.4%, and the trade surplus amounted to 258.9 million yen. Raw silk continued to be a popular export to the U.S., and the ratio of Raw silk to total exports rose to 82.6%.

Exports continued to be concentrated within two product groups, Yarns and others and Tissues and others. The biggest export destination of Tissues and others was China. In contrast, more products were imported with the industrialization of Japan. In addition to importing industrial products, the import of products such as Yarns and others, Grains and others, Clocks, watches, scientific instruments, fire-arms, vessels, vehicles & machinery, Drugs, chemicals, and medicines compounds or preparations thereof & explosives increased. For Clocks and others and other industrial products, Japan depended upon the United States.

Table 6.2 Japanese Trade, 1929

(1,000 yen)

	World	China	Kwantung Province	United States	
<b>Total Exports</b>	<b>2,148,619</b>	<b>346,652</b>	<b>124,476</b>	<b>914,084</b>	
2 Grains, flours starches & seeds	43,757				
3 Beverage, comestibles & tobacco	116,844	35,719	16,328	25,364	
<i>Refined Sugar</i>	29,974	22,084	5,065	<i>n.a.</i>	
5 Oils, fats, waxes & manufactures thereof	26,887				
6 Drugs, chemicals, medicines compounds or preparations thereof & explosives	34,791				
8 Yarns, threads, twines, cordages & materials thereof	835,830	8,110	2,489	762,754	
<i>Raw silk</i>	780,822	<i>n.a.</i>	<i>n.a.</i>	755,311	
9 Tissues & manufactures thereof	609,651	160,181	23,625	28,552	
<i>Gray cotton tissues</i>	93,322	12,990	1,999	<i>n.a.</i>	67,965 ( <i>British India</i> )
<i>Other cotton tissues (satins)</i>	56,142	42,618	3,023	0	
10 Clothing & accessories thereof	103,282	13,227	5,550	14,344	
14 Ores & metals	19,571				
16 Clocks, watches, scientific instruments, fire-arms, vessels, vehicles & machinery	38,611				
17 Miscellaneous articles	118,011				
<b>Grand total</b>	<b>2,103,719</b>	<b>318,307</b>	<b>114,498</b>	<b>912,735</b>	
<b>Re-exports</b>	<b>44,900</b>	<b>28,345</b>	<b>9,978</b>	<b>1,349</b>	
<b>Total Imports</b>	<b>2,216,240</b>	<b>209,975</b>	<b>166,322</b>	<b>654,058</b>	
2 Grains, flours starches & seeds	219,043	35,071	79,350	21,477	
<i>Wheat</i>	70,896	1,597	3,082	15,044	35,273 ( <i>Canada</i> )
<i>Soja bean</i>	60,091	5,792	54,299	<i>n.a.</i>	
3 Beverages, comestibles & tobacco	83,306				
5 Oils, fats, waxes & manufactures thereof	111,823	1,330	411	53,423	
<i>Crude oil &amp; heavy oil</i>	46,603	0	10,274	26,091	10,274 ( <i>Dutch India</i> )
<i>Other mineral oil</i>	34,682	<i>n.a.</i>	<i>n.a.</i>	16,622	14,727 ( <i>Dutch India</i> )
6 Drugs, chemicals, medicines compounds or preparations thereof & explosives	161,770	2,725	1,123	22,979	
<i>Sulphate of ammonium, crude</i>	48,086	3	413	6,434	23,274 ( <i>Germany</i> )
8 Yarns, threads, twines, cordages & materials thereof	734,987	49,772	1,015	276,462	
<i>Raw silk</i>					
<i>Cotton, ginned</i>	572,639	33,546	12	276,357	231,108 ( <i>British India</i> )
<i>Sheep's wool (other)</i>	100,673	160	88	<i>n.a.</i>	98,346 ( <i>Australia</i> )
9 Tissues & manufactures thereof	35,147				
10 Clothing & accessories thereof	3,098				
14 Ores & metals	246,791	21,717	7,614	58,317	
16 Clocks, watches, scientific instruments, fire-arms, vessels, vehicles & machinery	186,833	19	73	82,083	
17 Miscellaneous articles	242,885	57,271	40,471	84,947	
<i>Other cedar, pine fir</i>	32,971	0	2	23,509	
<i>Oil cakes, bean</i>	64,800	31,860	32,857	<i>n.a.</i>	
<b>Grand total</b>	<b>2,213,421</b>	<b>209,259</b>	<b>165,520</b>	<b>653,833</b>	
<b>Re-imports</b>	<b>2,819</b>	<b>716</b>	<b>802</b>	<b>225</b>	

Note: The italicized figure is the total amount of each individual product.

Source : The Department of Finance, Japan (1929).

In 1938, as shown in **Table 6.3**, the Kwantung Leased Territory became Japan's biggest export partner with 540 million yen in exports. China and Manchukuo followed with approximately 300 million yen in exports. Since the Kwantung Leased Territory was not a big area, we can surmise that exports to China expanded rapidly via the

**Table 6.3 Japanese Trade, 1938**

(1,000 yen)

	World	Manchukuo	Kwantung Province	China	USA
<b>Total Exports</b>	<b>2,689,677</b>	<b>316,323</b>	<b>536,317</b>	<b>312,900</b>	<b>425,123</b>
2 Grains, flours starches & seeds	74,735	16,976	24,865	24,187	528
3 Beverage, comestibles & tobacco	<b>226,842</b>	14,411	50,509	52,091	23,335
<i>refined sugar</i>			<i>13,081</i>	<i>7,309</i>	
5 Oils, fats, waxes & manufactures thereof	52,330	6,713	9,818	9,861	9,440
6 Drugs, chemicals, medicines compounds or preparations thereof & explosives	73,652	12,167	13,654	19,146	11,858
8 Yarns, threads, twines, cordages & materials thereof	<b>474,630</b>	20,708	5,882	12,723	<b>298,695</b>
<i>Raw silk</i>					<b>297,882</b>
9 Tissues & manufactures thereof	<b>731,240</b>	<b>90,347</b>	<b>76,798</b>	49,251	24,244
10 Clothing & accessories thereof	<b>145,012</b>	15,165	14,086	4,513	7,762
12 Minerals & manufactures thereof	24,564	2,546	3,822	4,714	88
14 Ores & metals	<b>121,004</b>	9,334	<b>84,834</b>	8,680	104
15 Metal manufactures	<b>100,113</b>	19,221	45,521	12,922	3,265
16 Clocks, watches, scientific instruments, fire-arms, vessels, vehicles & machinery	<b>267,237</b>	47,859	<b>123,051</b>	<b>52,060</b>	550
<i>Locomotives</i>			<i>15,329</i>		
<i>spinning machinery</i>				<i>13,938</i>	
17 Miscellaneous articles	<b>201,009</b>	26,128	37,671	29,195	26,625
<b>Grand total</b>	<b>2,678,520</b>	<b>315,286</b>	<b>532,808</b>	<b>310,728</b>	<b>424,833</b>
<b>Re-exports</b>	<b>11,157</b>	<b>1,037</b>	<b>3,510</b>	<b>2,172</b>	<b>291</b>
<b>Total Imports</b>	<b>2,663,440</b>	<b>339,271</b>	<b>60,323</b>	<b>164,611</b>	<b>915,302</b>
2 Grains, flours starches & seeds	<b>177,191</b>	<b>143,293</b>	1,010	9,769	47
<i>Soja bean</i>		<b>79,538</b>			
3 Beverage, comestibles & tobacco	50,768	1,170	7,703	11,207	2,924
5 Oils, fats, waxes & manufactures thereof	<b>326,934</b>	4,850	872	601	<b>240,144</b>
6 Drugs, chemicals, medicines compounds or preparations thereof & explosives	<b>181,768</b>	5,782	14,897	814	19,794
8 Yarns, threads, twines, cordages & materials thereof	<b>571,657</b>	9,632	766	<b>84,743</b>	<b>167,912</b>
<i>Cotton, ginned</i>				<b>71,790</b>	<b>166,414</b>
9 Tissues & manufactures thereof	5,632	115	606	227	1,033
10 Clothing & accessories thereof	319	3	0	2	142
12 Minerals & manufactures thereof	<b>121,137</b>	36,684	3,676	29,205	7,538
14 Ores & metals	<b>661,895</b>	<b>61,594</b>	11,870	10,469	<b>262,813</b>
15 Metal manufactures	8,430	12	66	15	5,187
16 Clocks, watches, scientific instruments, fire-arms, vessels, vehicles & machinery	<b>313,362</b>	18	<b>103</b>	1,194	<b>158,110</b>
17 Miscellaneous articles	<b>129,974</b>	<b>64,882</b>	15,191	6,996	16,238
<i>Oil cakes, bean</i>		<i>48,194</i>			
<b>Grand total</b>	<b>2,652,394</b>	<b>338,622</b>	<b>58,234</b>	<b>162,821</b>	<b>912,782</b>
<b>Re-imports</b>	<b>11,047</b>	<b>649</b>	<b>2,089</b>	<b>1,789</b>	<b>2,519</b>

Note: The italicized figure is the total amount of each individual product.

Source : The Department of Finance, Japan (1938).

Kwantung Leased Territory. Exports to China, which included exports to the Kwantung Leased Territory and Manchukuo, amounted to 43.3% of total exports. In contrast, exports to the U.S. decreased sharply, falling to 15.8%.

Japan's trade balance recorded a slight surplus. However, trade to the Kwantung Leased Territory and to China yielded a surplus of 480 million yen and 150 million yen. To the United States, the trade deficit amounted to 490 million yen. This situation differed greatly from trade in 1929.

Although the two major export commodities did not change, Tissues and others overtook Yarns and others as Japan's leading export product, at 730 million yen. For export partner countries, Tissues and others went to Manchukuo, the Kwantung Leased Territory and China, and Yarns and others went to the United States. Industrial products, such as Clocks and others, ranked third in export commodities, and they primarily went to the Kwantung Leased Territory, China and Manchukuo. Representative export commodities included locomotives for the Kwantung Leased Territory and spinning machinery for China.

Regarding imports, Ores & metals topped the list, totaling 660 million yen, and imports from the United States amounted to 260 million yen. Other import commodities, such as Oils, fats, and waxes & manufactures thereof, came from the United States, totaling 240 million yen. Due to their trade relationship, Japan was dependent upon the United States for natural resources. Importing these and industrial products, such as Clocks and others, was a heavy burden for Japan.

Japan imported little from the Kwantung Leased Territory, but imports from Manchukuo ranked second, behind the United States. From Manchukuo Japan received Grains and others including Soja bean and Miscellaneous articles including Oil cakes, bean. Imports from China were concentrated among Yarns and others and Cotton, ginned.

As mentioned above, Japan's trade with the U.S. expanded rapidly in the first half of the inter-war period, and it supported the rapid economic development of Japan. However, Japanese export commodities were limited considerably in the second half due to the U.S.'s closed economic policy. As a result, trade stagnated, and Japan strengthened its dependence on China, including the Kwantung Leased Territory and others. This trade expansion of Japan played a role in stopping the rapid reduction in world trade.

Major trade commodities gradually shifted to industrial products in the second half of the inter-war period. Manufactured exports contributed to Chinese industrialization.

Active overseas investments by Japanese companies also contributed to industrialization. However, since the investment field focused on infrastructure, we cannot necessarily conclude that investment's effect on trade was as great as it is today.

### **3.2 Chinese Trade by Partner Country and Product**

As discussed in the previous paper, there exists little research on the correlation between the Chinese economy and the world economy prior to World War II when examining trade and balance of payments. I will examine this topic, focusing on China's relationship with Japan.

The Republican Revolution in 1911 established the Republic of China, and Chinese modernization advanced quickly. In 1913, immediately after the revolution, a pre-modern element in trade was left behind. According to League of Nations<sup>\*6</sup> statistics, the second greatest import commodity was opium, which troubled the Qing dynasty.

This paper examines China's trade by partner country and product in 1929 and 1938 after rapid modernization was underway. I made use of two basic and voluminous works in this paper, "*Foreign Trade of China, 1929*" and "*The Trade of China, 1938*". Although these titles are different, both are edited and continuously published by The Maritime Customs in China.

Although these documents are extensive, they have limitations. First, since the commodity classification is not consistent by fiscal year, we cannot make comparisons. In the following two fiscal years, imports and exports adopt another classification. Since the Chinese currency and exchange system were unstable, the estimations change both by fiscal years and by exports and imports like in the 1938 edition.<sup>\*7</sup>

Regarding partner countries for trade, this paper will focus on the most important country in a given fiscal year. However, actual conditions of the most important partner country (colony), Hong Kong, cannot be properly accounted for. That is, we cannot understand to which foreign countries Hong Kong's products went. Since Hong Kong was a British colony, we can guess that many exports went to Britain and Europe, but

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\* 6 League of Nations (1928a).

\* 7 Hsiao (1974) is one of the most important documents which collected the Chinese long term trade data comprehensively. However, this document does not examine the Chinese trade data by partner country and by product in a certain year as I have examined in this paper. Therefore, after all, this paper must examine the basic documents published by the Chinese Maritime Customs.

In addition, Hsiao (1974) shows valuable data on Chinese balance of payments and the silver trade.

we cannot reach definite conclusions. \*<sup>8</sup>

First, this Section will examine fiscal year 1929. As shown in **Table 7.1**, China's greatest export and import partner country was Japan. The greatest trade deficit partner was the United States, and China had the longest historical relationship with Britain. Table 7.1 shows the countries that exported or imported more than 50 million Haikwan Taels \*<sup>9</sup>; these are the Dutch Indies, British India, France and the Russian Pacific Ports. Since Germany, which also fulfills the above condition, had little trade with China, it is not shown in Table 7.1. The Kwantung Leased Territory is not reported in this list of countries.

The top five export product groups and the top six import product groups were reported. When there was no breakdown by country in the product group, the smaller product group with 10 million or more Haikwan Taels was shown.

China's exports in 1929 totaled 1,016 million Haikwan Taels; imports totaled 1,281 million Haikwan Taels, and the trade deficit reached 266 million Haikwan Taels. Although China's trade posted a deficit with many leading countries, the greatest deficit was with the United States, at 93 million Haikwan Taels, and Japan, at 67 million Haikwan Taels.

The greatest export commodities were Vegetables, Dried (Beans, Peas etc.), including Beans, Yellow; and Textiles: Silk followed. The greatest export partner country in the trade of Vegetables and others was Japan. The greatest export partner country of Textiles: Silk was France, excluding Hong Kong. Although Textiles: Silk was an important export commodity, as it was in Japan, the partner countries differed. Other export commodities included primary products, and China was a typical primary product-exporting country. The other noticeable export commodity was Oil-cake, which went to Japan. Opium disappeared from the list of leading export commodities.

The greatest import commodities were Piece Goods, Cotton, totaling 167 million Haikwan Taels, followed by Textiles, Cotton, at 92 million Haikwan Taels. The largest import partner country for Piece Goods, Cotton was Japan, with 42 million Haikwan Taels; Britain, with 17 million Haikwan Taels, followed. Textiles, Cotton was also

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\* 8 The Maritime Customs. China (1938, 73).

\* 9 In China, silver tael and silver bullion were forbidden in 1933. A silver yuan unit and silver coins were used (the abolition of Liang and the change to Yuan, 廢兩改元), and monetary system reform, which stopped the silver standard in 1935, was carried out. Refer to T'ang (1936, 120-), Miyashita (1952, 516).

Table 7.1 Chinese Trade, 1929

Exports	(1,000 Haikwan Taels)									
	World	Hongkong	Dutch Indies	British India	Great Britain	France	Russia, Pacific Ports	Japan	U.S. of America	Total
Eggs of Poultry and Game	51,720				16,327				1,099	17,426
<i>Egg, Whole egg, Moist and Frozen</i>	19,472									
Vegetables, Dried (Beans, Peas etc.)	166,291				15,140		25,064	33,640		82,434
<i>Beans, Yellow</i>	149,091	2,205	6,385							
Oils, Vegetable	42,691				3,349				2,272	5,621
<i>Oil, Bean</i>	12,243				1,911				16,637	20,680
<i>Oil, Wood</i>	23,520	2,132								
Oil-cake	56,688				1,398		10,777	31,692		43,867
<i>Seed-cake, Bean</i>	51,209									
Textiles: Silk	165,100				1,362			4,462	25,310	106,319
<i>Silk, Raw; White, Steam Filature</i>	106,516	48,547			7,269	26,638			3,203	10,472
<i>Silk, Raw; Yellow, Steam Filature</i>	11,765				3,023				1,167	7,291
<i>Silk, Waste</i>	12,343	3,101								
<b>Total of italicize products</b>	<b>386,159</b>	<b>55,985</b>	<b>6,385</b>	<b>0</b>	<b>39,487</b>	<b>36,930</b>	<b>35,841</b>	<b>69,794</b>	<b>49,688</b>	<b>294,110</b>
<b>Country total</b>	<b>1,015,687</b>	<b>173,581</b>	<b>12,459</b>	<b>17,815</b>	<b>74,334</b>	<b>56,319</b>	<b>55,162</b>	<b>256,428</b>	<b>137,836</b>	<b>783,934</b>
<b>Imports</b>	<b>World</b>	<b>Hongkong</b>	<b>Dutch Indies</b>	<b>British India</b>	<b>Great Britain</b>	<b>France</b>	<b>Russia, Pacific Ports</b>	<b>Japan</b>	<b>U.S. of America</b>	<b>Total</b>
Rice	58,986	43,934		3,643						47,577
Flour of Cereals	63,726								22,006	45,091
<i>Flour, Wheat</i>	62,905	6,308						16,777		
Sugar, Crude and Refined	98,993									16,020
<i>Sugar, Brown</i>	17,988	6,654	9,366					5,424		47,983
<i>Sugar, White</i>	54,413	13,866	28,693					13,316		18,702
<i>Sugar, Refined</i>	21,534	5,386								
Oils, Mineral, and their derivatives	77,089									53,964
<i>Oil, Kerosene</i>	56,708	8,164	7,830					14,275	37,970	90,562
Textiles, Cotton	92,078									12,295
Piece Goods, Cotton	167,460			41,492						22,929
<i>Shirtings and Sheetings, Grey</i>	13,847				2,879			9,416		19,528
<i>Shirtings and Sheetings, White, Plain</i>	23,611	1,022			11,111			10,796		
<i>Satin Drills</i>	19,651	1,565			1,818			16,145		
<i>Printed Cambrics, Muslins, Shirtings, Sheetings, and T-cloths</i>	10,203				1,124		2,079	5,204		8,407
<b>Total of italicize products</b>	<b>431,924</b>	<b>86,899</b>	<b>45,889</b>	<b>45,135</b>	<b>16,932</b>	<b>0</b>	<b>2,079</b>	<b>91,353</b>	<b>94,771</b>	<b>383,058</b>
<b>Country total</b>	<b>1,281,321</b>	<b>214,481</b>	<b>55,998</b>	<b>54,479</b>	<b>119,149</b>	<b>18,185</b>	<b>16,331</b>	<b>323,142</b>	<b>230,844</b>	<b>1,032,609</b>

Note: The italicized figure is the total amount of each individual product.

Source : The Maritime Customs, China (1930).

important, with most imports coming from British India, amounting to 41.5 million Haikwan Taels. The United States and Japan also provided China with Textiles, Cotton. In 1929, China imported both Piece Goods, Cotton and Textiles, Cotton.

In 1938, as shown in Table 3, China's trade, excluding Manchukuo, decreased greatly. Unlike India and other developing countries, China had no leading export commodity. Both Britain and the United States had closed economic policies, and the political and military confrontations between the National Party and the Communist Party in China, along with the political and military confrontations with Japan, weakened economic activity.

**Table 7.2** adds Germany as a trading partner to Japan, the U.S. and Britain. Also added are the ten major product groups and a breakdown by partner country.

**Table 7.2 Chinese Trade, 1938**

Exports, 1,000 standard dollars	World	Japan	Great Britain	U.S. of America	Germany	4 Countries
Animal and Animal Products	118,185	2,428	31,522	16,572	28,580	79,102
Hides, Leather, and Skins	19,479	1,559		8,497		10,056
Oils, Tallow, and Wax	53,053			6,207		6,207
Seeds	19,500	5,158		128	2,241	7,527
Tea	33,069		809	1,905		2,714
Fuel	16,648	11,753				11,753
Textile Fibres	165,147	79,617		15,464	15,752	110,833
Yarn, Thread, Plaited and Knitted Goods	63,569			22,677		22,677
Piece Goods	24,478					
Ores, Metals, and Metallic Products	106,584	3,313	7,697		2,685	13,695
<b>10 products total</b>	<b>619,712</b>	<b>103,828</b>	<b>40,028</b>	<b>71,450</b>	<b>49,258</b>	<b>264,564</b>
<b>Country total, standard dollars</b>	<b>763,731</b>	<b>116,547</b>	<b>56,769</b>	<b>86,853</b>	<b>56,440</b>	<b>316,609</b>
Imports, 1,000 standard dollars	World	Japan	Great Britain	U.S. of America	Germany	4 Countries
Metals and Ores	65,846	6,826	11,361	15,893	14,732	48,813
Machinery and Tools	57,609	29,011	11,496	4,702	8,523	53,733
Vehicles and Vessels	34,672	3,488	2,500	18,712	6,138	30,839
Miscellaneous Metal Manufactures	30,820	9,364	2,416	4,590	8,350	24,718
Cereals and Flour	130,867	28,306				28,306
Tabacco	22,683			20,016		20,016
Chemicals and Pharmaceuticals	57,337	10,178	12,291	6,808	19,029	48,306
Dyes, Pigments, Paints, and Varnishes	31,181	3,628		3,515	15,965	23,108
Candles, Soap, Oils, Fats, Waxes, Gums, and Resins	91,327			38,982		38,982
Books, Maps, Paper, and Wood Pulp	45,362	14,594	1,264	4,154	11,236	31,248
<b>10 products total</b>	<b>567,705</b>	<b>105,395</b>	<b>41,328</b>	<b>117,373</b>	<b>83,973</b>	<b>348,069</b>
<b>Country total, standard dollars (1)</b>	<b>893,500</b>	<b>209,864</b>	<b>70,606</b>	<b>151,254</b>	<b>112,939</b>	<b>544,663</b>
<b>Country total, Customs Gold Unit (2)</b>	<b>388,739</b>	<b>90,481</b>	<b>30,837</b>	<b>66,008</b>	<b>49,385</b>	<b>236,711</b>
<b>(2)/(1)</b>	<b>0.44</b>	<b>0.43</b>	<b>0.44</b>	<b>0.44</b>	<b>0.44</b>	<b>0.43</b>

Source : The Maritime Customs, China (1939).



Trade with the Kwantung Leased Territory amounted to 42 million standard dollars in imports and 37 million standard dollars in exports. Since its volume was small compared to other countries, it was examined.<sup>\*10</sup> For Manchukuo, we can guess that it was either classified into other areas with small amounts of volume, or it was regarded as domestic and not reported for trade.

For 1938 data, since exports were estimated in standard dollars and imports in Customs Gold Unit, this Section converted import data into standard dollars based on data in *The Trade of China*. The trade balance reached a deficit of 130 million standard dollars, with the greatest deficit of 93 million standard dollars going to Japan. All four countries recorded a deficit.

Increasing exports included fiber materials and textile goods, such as Yarn, Thread, Plaited and Knitted Goods, and Piece Goods including Textile Fibres amounting to 165 million standard dollars. Compared to 1929, this was the biggest difference and the result of development of the textile industry in China. Approximately 50% of Textile Fibres were exported to Japan. The leading exports to Britain and Germany were Animal and Animal Products; this was characteristic of China-Europe relations. Exports to the United States included many product groups, such as Yarn, Thread, and Plaited and Knitted Goods. Additionally, since so few agricultural products were exported to Japan, we can surmise that regional exports belonged to Manchukuo and were not included in China's statistics.

Imports were different from those of 1929. Cereals and Flour were the largest imports, at 131 million standard dollars. The import of industrial products, such as Machinery and Tools, Vehicles and Vessels and Chemicals and Pharmaceuticals, increased rapidly. This was another result of Chinese industrialization. Many industrial products were imported from developed countries, such as Machinery and Tools from Japan, Vehicles and Vessels from the United States and Chemicals and Pharmaceuticals from Germany.

Chinese trade made notable progress in industrialization in both exports and imports in the second half of the inter-war period. Japan was always China's leading trade partner, and the economic correlation between the two countries grew as they industrialized. Western countries were also consistently important trade partners.

However, the reduction of Chinese trade and the further aggravation of balance of payments in the second half of the inter-war period lessened the chances of economic

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\* 10 The Maritime Customs. China (1938, 78).

development in China. Closed economic policies in both trade and capital in major industrialized countries, the political and military confrontations between the National Party and the Communist Party in China and the political and military confrontations with Japan, all stagnated trade with and investment in China. In such an environment, China and Japan could not stop their political and military confrontations. They could not establish a relationship of cooperation and alliance or Collaboration, where Japan supported the establishment of a Chinese market economy and the two countries further developed their market economies.\*<sup>11</sup>

## 4 Balance of Payments and Global Imbalance

### 4.1 Global Imbalance in the Inter-War Period

This Chapter will classify each country's balance of payments in the inter-war period into four periods representing each five years. First the entire image is clarified in **Table 8**, using the all-inclusive data converted into dollars. The data used to measure capital flow are imperfect; they were indirectly estimated from balances of goods and services and gold accounts, and they do not distinguish long-term capital from short-term capital in the total. Although Table 8 includes a number of weaknesses, it allows us to survey the entire image of balance of payments in the inter-war period. In addition, since FDI, which played the most important role in the current capital movement, was already considered in Shimpo (2009), this paper will not address the topic in detail.

The first group is Creditor countries, the developed countries such as Britain, the United States, France, Netherlands, Sweden and Switzerland. The second group is Developed or semi-developed debtor countries, in other words, **recently developed countries** such as Japan, Germany, Argentina, Australia, Canada, Czechoslovakia, Denmark, Norway and the Union of South Africa. This group was characterized by

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\* 11 Excellent studies on **Collaboration** in China in 1930's are published one after another recently in U.S.A. This study focuses mainly on the political Collaboration between Japan and China at first. It seems that the study on Collaboration gradually moves to the detailed examination on the formation and development of a market economy and the capitalism in those days' China. If this examination advances to the studies such as various Chinese companies and a financial and securities market, and Chinese foreign economic relations, it will become more significant both historically and in the present. The representative studies are Zanasi (2006), Brook (2005), Coble (2003), Barrett & Shyu (2001).

**Table 8 International Balance of Payments in the Inter-war Period**

(Millions of U.S. dollars)

			1920-24	1925-29	1930-34	1935-38
Creditor countries	France	Goods and services	529	445	-55	-127
		Gold	6	-114	-380	648
		<b>Capital</b>	<b>-535</b>	<b>-331</b>	<b>435</b>	<b>-521</b>
United Kingdom	Goods and services	318	329	-110	-120	
	Gold	62	3	27		
	<b>Capital</b>	<b>-380</b>	<b>-333</b>	<b>83</b>	<b>120</b>	
United States	Goods and services	947	701	277	141	
	Gold	-216	67	-224	-1,449	
	Long-term capital	-672	-654	106	458	
	Short-term capital	119	109	-352	551	
	Errors and omissions	-178	-224	192	300	
	<b>Capital</b>	<b>-731</b>	<b>-769</b>	<b>-54</b>	<b>1,308</b>	
<b>Total</b>	<b>Goods and services</b>	<b>1,816</b>	<b>1,680</b>	<b>109</b>	<b>-15</b>	
	<b>Gold</b>	<b>-79</b>	<b>-56</b>	<b>-667</b>	<b>-908</b>	
	<b>Capital</b>	<b>-1,737</b>	<b>-1,624</b>	<b>558</b>	<b>923</b>	
Developed or semi-developed debtor countries	Germany	Goods and services	-405	-614	59	
		Gold	-60	-86	112	
		Known Long-term capital	238	328	74	
		Other capital	227	372	-245	
	<b>Capital</b>	<b>465</b>	<b>700</b>	<b>-171</b>		
	Japan	Goods and services	-226	-73	-1	64
Gold			8	74		
Long-term capital		98	-3	-57	-99	
Short-term capital		128	54	-42	6	
Errors and omissions		0	14	25	29	
<b>Capital</b>		<b>226</b>	<b>65</b>	<b>-74</b>	<b>-64</b>	
<b>Total</b>	<b>Goods and services</b>	<b>-861</b>	<b>-1,265</b>	<b>-490</b>	<b>-278</b>	
	<b>Gold</b>	<b>98</b>	<b>215</b>	<b>565</b>	<b>458</b>	
	<b>Capital</b>	<b>763</b>	<b>1,050</b>	<b>-75</b>	<b>-180</b>	
Under-developed debtor countries	China	Goods and services		-93	-86	59
		Gold		-2	34	20
		<b>Capital</b>		<b>94</b>	<b>52</b>	<b>-79</b>
	India	Goods and services	174	12	-97	-103
		Gold	-245	-78	140	88
		Long-term capital	-41	37	14	
		Short-term capital		-1	-28	
		Errors and omissions	112	31	-29	
	<b>Capital</b>	<b>71</b>	<b>66</b>	<b>-43</b>	<b>15</b>	
	Manchuria and Kwantung	Goods and services			-55	-60
		Gold				
		<b>Capital</b>			<b>55</b>	<b>60</b>
<b>Total</b>	<b>Goods and services</b>	<b>108</b>	<b>-87</b>	<b>-191</b>	<b>-71</b>	
	<b>Gold</b>	<b>-248</b>	<b>-98</b>	<b>174</b>	<b>104</b>	
	<b>Capital</b>	<b>140</b>	<b>186</b>	<b>17</b>	<b>-32</b>	
<b>World</b>	<b>Goods and services</b>	<b>1,063</b>	<b>328</b>	<b>-572</b>	<b>-365</b>	
	<b>Gold</b>	<b>-229</b>	<b>61</b>	<b>73</b>	<b>-346</b>	
	<b>Capital</b>	<b>-834</b>	<b>-389</b>	<b>499</b>	<b>711</b>	

Note : Net inward or outward capital movement, measured by estimated deficits or surpluses on account of goods, services and gold.

Source : United Nations (1949), Table 3 and Table 8

Japan, Germany and the Regions of Recent Settlement countries. The third group is Under-developed debtor countries, which include China, India, Hungary, Manchuria, Kwantung, Netherlands Indies and Poland.

Britain, France and Germany all posted trade balance deficits before World War I. However, their current balance continued to record a surplus due to the large excess in invisible trade balance, such as returns to capital. \*<sup>12</sup> Since this surplus sparked the continuous capital export from these countries to the world, the global economy stabilized and developed.

A big change within this structure occurred in the inter-war period. First, as Table 10 shows, the United States passed Britain and France to become the country with the largest current balance surplus. In contrast, defeated Germany assumed the role of greatest current balance debtor country. In this way, the balance of payments' imbalance in the first half of the inter-war period shifted to the imbalance between the developed countries, such as the U.S., Britain and France, and more recently developed countries, such as Japan, Germany and the Regions of Recent Settlement countries.

An even more important change arose in the second half of the inter-war period. Both Britain and France became current balance debtors. The fall of Britain's and France's international position had been cloaked by a large balance in invisible trade, but actual conditions became apparent with the stagnation of the world economy. Furthermore, the U.S. current balance surplus decreased sharply. This was the result of having a bloc economy and experiencing global stagnation. The bloc economy brought serious difficulty to debtor countries without membership in a specific bloc.

Regarding the **capital movement**, the United States became the greatest capital supplier in the first half of the inter-war period, followed by Britain and France. Capital exports totaled 1.6-1.7 billion dollars, the largest amount, in the inter-war period. Although capital export volume increased when compared to the prewar period, the countries that needed capital most were not fully satisfied.

In this way, the leading capital flow shifted from flow between the United States and Germany, to flow from Britain to the Regions of Recent Settlement countries in the prewar period. This change further contributed to economic difficulties, such as in the Regions of Recent Settlement countries, which still needed capital, and the dip in price of

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\* 12 Refer to Mitchell (1980) and others. I used these materials to analyze the balance of payments of European countries.

primary products.

However, this situation changed in the second half of the inter-war period. Besides Britain and France, the United States became a large capital importer as a result of capital flight. The constant capital supplier country was lost. This is a phenomenon not found in the time of Pax Britannica, and it drove the world economy into a critical situation.

Japan increased long-term capital exports, although volume was not large when compared to other countries, and became a capital supplier. Although China and India are reported in Table 8, their global influence was small. Since a constant capital supplier was lost, it was impossible for China, India and other developing countries to grow their economies by depending upon the international capital movement.

Finally, I will briefly mention the **short-term capital movement**. Before World War I, trade among countries increased rapidly, and we can surmise that the short-term capital required to conduct these dealings also increased. However, no comprehensive statistics about the short-term capital movement exist. Therefore, as shown in Table 8, the opposite of plus and minus of current balance and the sum total of a gold movement were presumed as the total amount of a capital flow. We often considered this total amount excluded the confirmed long-term capital flow as a short-term capital flow.

Although the Great Depression was characterized by an overproduction of primary products and a sharp drop in prices, these phenomena were gradually actualizing during the first half of the inter-war period. The contraction of the world economy and the resulting bloc economic policy made the long-term capital movement difficult. Because of this, many capital movements involved short-term capital in the second half of the inter-war period.

Table 8 shows that 1,760 million dollars in short term capital flowed out of the United States in the first half of the 1930s, and 2,200 million dollars in short term capital flowed out in the second half. However, much of the capital went to countries that were already receiving funds, instead of to the countries that needed the capital.

According to Bloomfield, “hot money” or “abnormal movements of short-term capital” flows under the pre-1914 gold standard were more common than seems to be generally believed. \*<sup>13</sup> The flow of capital to the United States in 1934-39 as a whole predominantly “disequilibrating” in terms of invested countries and volume. \*<sup>14</sup>

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\* 13 Bloomfield (1963, 83).

\* 14 Bloomfield (1950, 33); however, R. Nurkse first developed this idea (League of Nations, 1944, 72).

The gold movement corresponds with this. In the 1920s, gold movement was not so great. However, by the late 1930s, gold flowed out of recently developed countries or Britain and into the United States. The short-term capital flow took the form of gold outflow. By gold's overconcentration in the United States, the gold standard ceased functioning.

The features of global imbalance in the international capital movement in the inter-war period and the field of capital were the following:

1. The trade imbalance in the first half of the inter-war period was mainly between developed countries like Britain and the U.S., and recently developed countries like Japan and Germany. International capital moved between both groups of countries. However, the amount of long-term capital movement was not enough to stave off global recession.

2. In the second half of the inter-war period, international capital movement sharply decreased. The capital flight that went to overcapitalized countries increased. The international capital movement could not expand opportunities for economic development for the underdeveloped countries that were newly appearing in the global market.

3. Developing countries that held large trade deficits and did not receive international capital fell into the economic crisis and had to raise capital domestically. As discussed in Section 4.4, China was such an example.

## **4.2 Stagnation of British and American Capital Export**

Based on each country's statistics, this Section will examine British and American balance of payments. Regarding the United States, detailed data on capital flow are reported in **Table 9**.

The trade balance of the United States, which began late in the industrialization period, became a consistent surplus in the second half of the 1870s. Since the invisible trade balance amounted to a deficit as a capital importer, the current balance returned to a surplus in the second half of the 1890s. However, the United States quickly improved its balance of payments through World War I and became a creditor country.

In the inter-war period, the large Balance on goods surplus and its equal investment income balance enlarged Balance on goods and services surplus, as compared to other countries. In this way, the United States became the world's largest capital supplier in the inter-war period. Net long-term capital balance in the first half of the inter-war period reached an annual average of 600-700 million dollars, and the flow of this

**Table 9 U.S. Balance of Payments**

(Annual average, million dollars)

	1920-24	1925-29	1930-34	1935-38
Exports, Merchandise Adjusted	5,201	5,102	2,413	2,922
Imports, Merchandise Adjusted	3,738	4,331	1,968	2,591
<b>Balance on goods</b>	<b>1,463</b>	<b>772</b>	<b>445</b>	<b>332</b>
Income	543	770	461	333
Other Services	-238	-439	-323	-207
<b>Balance on services</b>	<b>304</b>	<b>331</b>	<b>138</b>	<b>126</b>
<b>Balance on goods and services</b>	<b>1,767</b>	<b>1,102</b>	<b>583</b>	<b>458</b>
<b>Unilateral transfer, net</b>	<b>-454</b>	<b>-377</b>	<b>-256</b>	<b>-202</b>
Direct long-term	-150	-426	-103	18
Other long-term	-497	-499	134	134
Private long-term, outflow	-646	-925	30	152
Long-term, inflow	50	233	49	306
<b>Long-term, net</b>	<b>-597</b>	<b>-692</b>	<b>80</b>	<b>458</b>
Private short-term, outflow	-38	-172	162	140
Short-term, inflow	55	282	-511	413
<b>Short-term, net</b>	<b>17</b>	<b>109</b>	<b>-349</b>	<b>553</b>
<b>Government, long- and short-term, outflow</b>	<b>1</b>	<b>38</b>	<b>21</b>	<b>-1</b>
<b>Balance on capital</b>	<b>-579</b>	<b>-544</b>	<b>-248</b>	<b>1,010</b>
cf. Total capital outflow	-684	-1,059	213	291
cf. Total capital inflow	105	515	-462	719
<b>Transactions in U.S. official reserve, assets, net</b>	<b>-301</b>	<b>43</b>	<b>-273</b>	<b>-1,564</b>
<b>Errors and omissions net</b>	<b>-433</b>	<b>-224</b>	<b>194</b>	<b>299</b>

Source : U.S. Department of Commerce (1975).

investment characterized the development of the global economy in the inter-war period. However, in the second half of the inter-war period, the long-term capital balance became a net inflow. In the second half of the 1930s, the net inflow of long-term and short-term capital rapidly increased. Capital inflow surpassed an annual average of a billion dollars in the United States. The accretion of the instability of the world economy advanced **capital flight** to the relatively stabilized country United States.

Although Britain exported the most industrial products in the nineteenth century, its trade balance during this period experienced a deficit. However, this deficit was financed by a large amount of surplus of Overseas Investment Earnings and Other Invisible Trade, so the current balance seldom had a deficit. It was in the inter-war period that this structure changed greatly.

As shown in **Table 10**, the British trade balance (Visible balance) in the inter-war period experienced consistent deficit, but due to the huge surplus of Interest, profits and dividends, and Private sector, Visible balance had a surplus in the first half of the inter-war period. In the second half, due to the expansion of a trade deficit and the reduction of an invisible trade balance (Invisible balance) surplus, the current balance fell into a

**Table 10 British Balance of Payments**

	(£ Million)			
	1920-24	1925-29	1930-34	1935-38
Imports	1,193.6	1,135.0	736.4	827.3
Exports	1,059.6	858.8	489.8	560.5
<b>Visible balance</b>	<b>-134.0</b>	<b>-276.2</b>	<b>-246.6</b>	<b>-266.8</b>
Government services and transfers (net)	0.8	12.4	0.6	-13.8
Private services and transfers	114.6	72.2	34.0	44.0
Interest, profits and dividends, Private sector	211.8	252.0	173.4	196.5
Interest, profits and dividends, Public sector	-15.2	-10.4	-3.6	2.8
<b>Invisible balance</b>	<b>312.0</b>	<b>326.2</b>	<b>204.4</b>	<b>229.5</b>
<b>Current balance</b>	<b>178.0</b>	<b>50.0</b>	<b>-42.2</b>	<b>-37.3</b>
Official long-term capital (net)	-39.2	-4.6	-1.2	2.0
U.K. new investment overseas	-114.8	-121.0	-64.4	-50.3
Sinking funds and repayments on existing issues	15.0	32.0	44.6	72.0
Other long-term investment abroad			0.0	-24.5
Net short-term liabilities and British Government stocks		10.4	-30.0	4.5
Acceptances		-7.2	19.0	1.5
<b>Total identified capital</b>	<b>-139.0</b>	<b>-90.4</b>	<b>-32.0</b>	<b>5.3</b>
<b>Balancing item</b>	<b>-26.4</b>	<b>43.0</b>	<b>101.0</b>	<b>69.8</b>
<b>Currency flow</b>	<b>12.6</b>	<b>2.6</b>	<b>26.8</b>	<b>37.8</b>
Reserves	-12.6	-2.6	-20.4	-37.8
Assistance			-6.4	
<b>Total official financing</b>	<b>-12.6</b>	<b>-2.6</b>	<b>-26.8</b>	<b>-37.8</b>

Source : Sayers (1976, Appendixes, Table C)

deficit totaling 40 million pounds. Britain lost its position as a capital supplier.

Before World War I, Britain was the world's largest investing country, accounting for more than one-half of total investment of all developed countries.\*<sup>15</sup> Britain mainly invested in the infrastructure of Regions of Recent Settlement countries, and British investment made it possible for those countries to produce primary products, increase exports to developed countries and grow their economies.

However, as a matter of course, the aggravation of the balance of payments in the inter-war period brought about a reduction in capital exports. Although U.K. new investment overseas surpassed 100 million pounds in the first half of the inter-war period, it was reduced by half in the second half. Due to the capital inflow by Sinking funds and repayments on existing issues, Total identified capital also fell into a net inflow late in the 1930s. Britain's role as a capital supplier was coming to the end.

\* 15 Bloomfield (1968, Appendix II).



### 4.3 Japan Became a Capital Supplier

Table 11 shows Japanese balance of payments for both the mainland base and the empire base. Both bases adopt the same form of the current statement of balance of payments. Since the mainland base is comparable to current Japan, this Section will mainly examine the mainland base. However, to make it correspond with previous trade data, we also must consider the empire base. Regarding the mainland base, since ex-colonies such as Taiwan and Korea are treated as foreign countries, we can confirm that its amount of each account is more than the empire base. The difference between these two tables is considered to be the approximate sum of Japan's ex-colony totals, such as Taiwan and Korea.

When examining the mainland base's historic balance of payments, the trade balance often had a deficit, and the current balance experienced a small surplus since the 1890s.

Although, the deficit continued for Japanese trade balance in the inter-war period, the current balance had a surplus for the first half of the 1930s. This is because both net investment income and net transfer balance had surpluses at this time. However, since the surplus of net investment income or net transfer balance was not large and did not

Table 11 Japanese Balance of Payments

(millions of yen)

	Japan Proper				Japanese Empire			
	1920-24	1925-29	1930-34	1935-38	1920-24	1925-29	1930-34	1935-38
Exports	1,894.9	2,513.0	2,075.5	3,760.2	1,692.6	2,182.1	1,686.1	2,917.2
Imports	2,441.0	2,851.7	2,212.3	3,868.2	2,195.5	2,486.7	1,788.4	3,084.4
<b>Merchandise</b>	<b>-546.1</b>	<b>-338.7</b>	<b>-136.8</b>	<b>-108.1</b>	<b>-502.9</b>	<b>-304.6</b>	<b>-102.3</b>	<b>-167.2</b>
Investment Income, Credit	141.2	166.1	176.7	284.8	89.3	95.3	90.7	171.8
Investment Income, Debit	87.4	118.6	141.4	179.0	79.1	110.3	123.9	153.0
<b>Total Investment Income</b>	<b>53.8</b>	<b>47.5</b>	<b>35.3</b>	<b>105.8</b>	<b>10.1</b>	<b>-15.0</b>	<b>-33.1</b>	<b>18.9</b>
Transfers, Credit	74.3	60.3	85.3	111.6	75.4	85.3	72.5	92.1
Transfers, Debit	39.8	46.0	45.6	57.5	3.5	3.6	3.3	4.4
<b>Total Transfers</b>	<b>34.6</b>	<b>14.3</b>	<b>39.8</b>	<b>54.1</b>	<b>71.9</b>	<b>81.8</b>	<b>69.2</b>	<b>87.7</b>
Others, Credit	420.4	422.4	469.3	807.2	391.1	348.2	416.9	714.5
Others, Debit	283.2	297.0	395.0	1,014.7	267.8	272.6	355.5	935.2
<b>Total Others</b>	<b>137.1</b>	<b>125.4</b>	<b>74.3</b>	<b>-207.4</b>	<b>123.3</b>	<b>75.6</b>	<b>61.4</b>	<b>-220.7</b>
Current Transactions, Credit	2,530.8	3,161.7	2,806.9	4,963.8	2,248.4	2,711.0	2,266.3	3,895.5
Current Transactions, Debit	2,851.3	3,313.3	2,794.3	5,119.4	2,546.0	2,873.2	2,271.1	4,176.9
<b>Current Transactions</b>	<b>-320.6</b>	<b>-151.6</b>	<b>12.6</b>	<b>-155.6</b>	<b>-297.6</b>	<b>-162.2</b>	<b>-4.8</b>	<b>-281.3</b>
Long-Term Capital, outflow	-86.8	-116.1	-225.1	-677.8	-25.4	6.0	-66.6	122.4
Long-Term Capital, inflow	-27.8	13.9	-60.6	157.6	30.5	-16.7	-70.5	-434.1
Short-term Capital and Errors and Omissions	348.1	224.2	81.2	291.1	200.2	138.7	-71.0	162.1
<b>Capital Balance</b>	<b>233.5</b>	<b>122.0</b>	<b>-204.5</b>	<b>-229.1</b>	<b>205.3</b>	<b>128.0</b>	<b>-208.1</b>	<b>-149.6</b>
<b>Balance of Monetary movements</b>	<b>-87.1</b>	<b>-29.6</b>	<b>-191.9</b>	<b>-384.7</b>	<b>-92.3</b>	<b>-34.1</b>	<b>-212.9</b>	<b>-430.9</b>

Source : Yamazawa and Yamamoto (1979).

compensate for the trade deficit, the period of the current account surplus posted only during the first half of the 1930s.

Until World War I, Japan was a capital importer, but it tried to change to an exporting country in the inter-war period. Long-term capital was a net outflow in the inter-war period. In the second half of the 1930s, long-term capital amounted to an annual average of approximately 700 million yen in outflow, and an annual average of approximately 200 million yen in net outflow. The capital account balance in the 1930s was always a net outflow of 200 million yen, including a net outflow of short-term capital and errors and omissions.

The total amount of overseas long-term investment outflow of Japan was 4,850 million yen. When the difference between the mainland base and the empire base of overseas long-term investment outflow is calculated, the amount is 4,910 million yen. Most of this investment went to ex-colonies, such as Taiwan and Korea.

Shimpo (2010) estimated the amount of direct investment as 30-40 billion yen, with most Japanese foreign investment becoming FDI. The feature is also applied to investment in China, which is Japan's representative investment (Shimpo, 2010, Table 3). Compared with the United States in the first half in the inter-war period in Table 11, the proportion of Japan's FDI to all foreign investment was high. Through this investment, the excellent manufacturing technique and management of Japanese companies was transferred to China directly or through the competition indirectly (Shimpo, 2010, Conclusion). We can conclude that this characterized Japanese foreign investment.

As shown in Table 11, the ratio of Japanese capital exports to world totals was small, and the influence of Japanese capital exports on the development of world capital exports was not great. \*<sup>16</sup> However, capital exports played an important role in Asian economic development. Both the above features and the **Japanese type of foreign investment** in Japan's FDI, are important features of Japanese foreign investment.

Japanese type of foreign investment in the prewar period is the following (Shimpo, 2009, 6-7):

1. The industrial composition of investment was centered on the infrastructure.

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\* 16 Hou (1965) considers the influence which the foreign investment to China had on its economic development. The scale of the foreign investment was comparatively small, however, its ratio to the manufacturing industry was high. Hou showed clearly that the foreign investment's effect to Chinese economic development was great, as the classical economic theory explained.

2. The leaders of overseas operations were mainly the emerging zaibatsu and the independent company.
3. The overseas company had market-centered corporate governance by going public and issuing corporate bonds in the financial and securities market.
4. As a result, the Japanese local company was highly independent.
5. These companies actively competed with companies in each local region.

#### **4.4 China Supported by Overseas-Chinese Remittance**

Based on the latest data from the League of Nations <sup>\*17</sup> for the time which is supposed to be edited based on the data of Bank of China, this Section will examine the Chinese balance of payments. I will also consider the more-detailed data from the Toa Institute of Japan. Both data sets compile statistics for the 1930s.

In addition, when using League of Nations data, we need to be cautious of the errors and omissions which becomes the opposite amount of All items beforehand, as shown in the figures in the last column of **Table 12.1**. This amounted to 426 million standard dollars in 1936. Although this could be considered capital outflow, it is possible that errors and omissions impact the reliability of the data.

Still, this Section will investigate the trade balance based on League of Nations statistics. Although the trade balance deficit dropped quickly in 1936, the deficit prior to that time was great. The deficit by Contraband and merchandise proper was also large, and the substantial trade deficit expanded greatly.

At first, the large amount of the official and contraband silver outflow contributed to reducing the deficit. China was a world-representing country that used the silver standard. Silver continued its inflow from the 1920s until 1931. <sup>\*18</sup> The silver outflow was 300 million standard dollars from 1934 to 1936. The silver outflow from China endangered the Chinese silver standard, and it led the Chinese economy into disarray. However, the silver outflow also played a role in paving the way for the Chinese future modern monetary system. <sup>\*19</sup>

In China, as a host country of foreign investment, the interest and dividends on the national debt amounted to over 100 million standard dollars every year. Although there must be interest and dividends as a result of capital flow, when compared with

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\* 17 League of Nations (1937, 80).

\* 18 Regarding the trend of silver in the world and China, refer to Kinyu Kenkyukai (1936, appended chart).

\* 19 Refer to Note 9.

Table 12.1 Chinese Balance of Payments

		(million standard dollars)			
		1933	1934	1935	1936
Merchandise proper	Inward or credit movements (Exports)	611.8	535.2	575.8	705.7
	Outward or debit movements (Imports)	1,345.6	1,029.7	919.2	941.5
		<b>-733.8</b>	<b>-494.5</b>	<b>-343.4</b>	<b>-235.8</b>
Silver	(Credit)	94.9	267.6	70.4	254.3
	(Debit)	80.4	10.8	11.0	4.7
		<b>14.5</b>	<b>256.8</b>	<b>59.4</b>	<b>249.6</b>
Adjustment	(Credit)	61.2	80.3	86.4	105.9
Contraband, merchandise proper	(Debit)	-134.6	-154.5	-210.0	-200.0
Contraband, silver	(Credit)		20.0	230.0	40.0
<b>Merchandise total</b>		<b>-792.7</b>	<b>-291.9</b>	<b>-177.6</b>	<b>-40.3</b>
Services of Government foreign loans	(Debit)	-93.0	-112.6	-107.4	-127.8
Foreign business profits	(Debit)	-20.0	-20.0	-55.0	-70.0
Receipts from Chinese holdings of foreign securities and others	(Credit)	5.0			90.0
<b>Interest and dividends total</b>		<b>-108.0</b>	<b>-132.6</b>	<b>-162.4</b>	<b>-107.8</b>
Emigrants' remittances	(Credit)	200.0	250.0	260.0	320.0
	(Debit)	-1.0			
Others	(Credit)	215.0	180.0	150.0	160.0
	(Debit)	-18.0	-9.0	-6.0	-12.0
<b>Other Services total</b>		<b>396.0</b>	<b>421.0</b>	<b>404.0</b>	<b>468.0</b>
<b>Services total</b>		<b>288.0</b>	<b>288.4</b>	<b>241.6</b>	<b>360.2</b>
<b>Current account</b>		<b>-504.7</b>	<b>-3.5</b>	<b>64.0</b>	<b>319.9</b>
Foreign investments and credit extended to China	(Credit)	30.0	80.0	140.0	60.0
<b>Capital items</b>		<b>30.0</b>	<b>80.0</b>	<b>140.0</b>	<b>60.0</b>
Gold, according to trade returns	(Credit)	69.6	51.6	39.2	43.1
	(Debit)	-0.3		-0.5	-2.5
Contraband	(Credit)	120.0	60.0	30.0	5.0
<b>Gold total</b>		<b>189.3</b>	<b>111.6</b>	<b>68.7</b>	<b>45.6</b>
<b>All items</b>		<b>-285.4</b>	<b>188.1</b>	<b>272.7</b>	<b>425.5</b>

Source : League of Nations (1937).

the amount of capital flow, the interest and dividends increased too much. Capital redemption of foreign bonds was included here. As long as we consider this amount, the capital account did not finance the trade deficit.

In place of a capital account, the **overseas Chinese remittance** particular to China played a role.<sup>\*20</sup> The remittance amount increased every year and totaled 320 million standard dollars in 1936. In periods when international capital flow was unable to finance the deficits of debtor countries, overseas Chinese remittance contributed greatly to the development of the Chinese economy. Another important feature of **global imbalance in the inter-war period** can be seen here.

\* 20 Imura (1940, Book 2, 153-4). This book indicates various estimations of overseas Chinese remittance.

Next, this Section will discuss an analysis by Japan's Toa Institute, which focused on the same period in **Table 12.2**. Toa Institute data differ from the League of Nations data in the following ways: the unit is yuan, the years 1937 and 1938 are examined, gold and silver bullion are considered original items, and political receipts, among other data differences.

According to the Toa Institute, in 1937 and after, although Chinese exports increased, imports also increased, worsening their trade balance in 1938. This deficit was not financed by a capital account balance but rather by overseas Chinese remittance and the dowry included in labor and other receipts. Capital inflow increased rapidly in 1938, to 333 million yuan, but it still came up short. Overseas Chinese remittance increased to 500 million yuan. The trend illustrated by League of Nations statistics continued until just before World War II. For gold and silver bullion, the majority was made up of silver and receipts outnumbered payments (outflow).

Since neither the League of Nations nor the Toa Institute detailed the basis of their

**Table 12.2 Chinese Balance of Payments**

	(million yuan)				
	1934	1935	1936	1937	1938
Exports	612	648	812	963	908
Imports	1,276	1,165	1,302	1,351	1,653
<b>Trade Balance</b>	<b>-664</b>	<b>-517</b>	<b>-490</b>	<b>-388</b>	<b>-745</b>
Interest, Dividends and Net Profits, Receipts	22	18	25	23	27
Payments	-136	-127	-138	-168	-191
Political Receipts	90	79	102	171	269
Payments	-42	-38	-46	-43	-50
Labor and others, Receipts	384	396	465	523	683
<i>Overseas Chinese Remittances and Dowries</i>	262	270	325	379	498
Payments	-87	-90	-103	-122	-129
<i>Foreign Workers' Profits Remittances</i>	-7	-7	-9	-10	-10
<b>Invisible Trade Balance</b>	<b>493</b>	<b>508</b>	<b>630</b>	<b>763</b>	<b>1,107</b>
<b>Current Balance</b>	<b>-171</b>	<b>-9</b>	<b>140</b>	<b>375</b>	<b>362</b>
Capital Inflow	86	32	106	168	333
Capital Outflow	-67	-77	-66	-79	-80
<b>Capital Balance</b>	<b>19</b>	<b>-45</b>	<b>40</b>	<b>89</b>	<b>253</b>
Errors and Unidentified Account, Receipts	42	56			
Payments			-184	-511	-136
<b>Errors and Unidentified Account</b>	<b>42</b>	<b>56</b>	<b>-184</b>	<b>-511</b>	<b>-136</b>
Gold and Silver Bullion and Coins, Receipts	384	280	337	486	118
<i>Exports of Silver Bullion and Coins</i>	268	70	254	399	80
<i>Contraband of Silver Bullion and Coins</i>	25	150	30	10	20
Payments	-12	-12	-8	-61	-99
<b>Gold and Silver Bullion and Coins</b>	<b>372</b>	<b>268</b>	<b>329</b>	<b>425</b>	<b>19</b>

Note : The identified totaled errors is revised

Source : Toa Institute (1944, 214-9, 233-8).

data, it is very difficult to account for the differences between them. However, we may conclude that the fundamental feature of Chinese balance of payments and global imbalance in the inter-war period was the same in the two data sets. That feature continued into most of the 1930s.

## **Conclusion**

Discussions centering on Asian capitalism in the inter-war period are common in Japan. I will provide a brief synopsis of the criticisms of those discussions.

First of all, we take notice Prof. Sugihara's Intra-Asian Trade Theory (Sugihara, 1996) and Prof. Hori's Asian Capitalism Theory (Hori, 2009). The biggest problem of these theories is that their examination is limited to trade. These theories did not fully discuss trade and its relations to the capital movement and FDI. Furthermore, besides trade and the capital movement, the entire balance of payments including various dealings.

As this paper shows, also in Asia, after we take up not only trade but the above mentioned problems, we can find the characteristics of Asian economy in those days.

The following summarizes the most important conclusions in this paper:

1. The center of world trade moved from primary products to industrial products in the inter-war period, and the largest trade imbalances were between developed countries and recently developed countries. This change had a serious influence on primary product-exporting countries.
2. Japan and China's economic interdependence was strengthened as the result of developed countries' economic bloc policies and rapid industrialization in Japan and China. However, Japan could not fully support the Chinese market economy, and the two countries were unable to establish a cooperative relationship and alliance to further develop the Chinese market economy.
3. The international capital movement was more favorable in the first half of the inter-war period. Capital flight worsened the imbalance in the second half. Moreover, securing capital exports became difficult for countries looking to develop.
4. In Asia, the foreign investment and FDI of Japan, which had become a capital supplier, played an important role in establishing infrastructure and developing a textile industry in China and others regions. In Manchuria, Korea and Taiwan, Japanese investment established mainly infrastructures, in Shanghai where the economic development was

already advanced, it contributed to the development in manufacturing industry. As I have mentioned in this paper, Shimpo (2009) characterize this investment Japanese type of foreign investment. While FDI stagnated globally, the increase in Japanese investment was conspicuous.

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