

Foreign Direct Investment in the Inter-war Period and Japanese Investment in China

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Abstract

I examined the development history of Japanese companies focusing on corporate governance and foreign investment. In this paper, I survey the features of the global economic system in the inter-war period with a focus on foreign investment and the position and role of Japanese companies in this system.

I have already examined East Asia occupying an overwhelming position in Japanese overseas investment. In this paper, I target China which was one of the most important East Asian countries; the focus is on China except Manchuria because many advanced countries fiercely competed in China.

The inter-war period was a time when Foreign Direct Investment (FDI) was taking a more and more important role in substitution for portfolio investment in foreign investment. Such a change was not yet at all big in Asia. The change was just beginning. Even in China, which for a long time rejected foreign capital, FDI finally began to develop after the Chinese Revolution of 1911.

In China, the cotton spinning industry began to develop. The modern company and financial institutions which supported it with various forms were born and led the process.

In this paper, I examined the management of Japanese and Chinese cotton spinning companies in the inter-war period with greater detail on China, and highlighted the differences in the management between the two countries' companies. Whereas Japanese companies developed market-centered corporate governance, Chinese companies maintained the indirect finance model mainly through the use of short-term funds and corporate governance based on a state and a family. This difference became the important factor in creating the difference in competitiveness between the two countries' companies.

Keywords: FDI, market-centered corporate governance, zaikabo, indirect finance, family business

Contents

Introduction

1 World foreign direct investment in the inter-war period

2 World investment in China in the inter-war period

3 Japanese investment in China and Japanese companies

4 Chinese companies and financial institutions

Conclusion

Introduction

I examined the development history of Japanese companies focusing on corporate governance and foreign investment in Hirohiko Shimpo (2009). In this paper, I survey the features of the global economic system in the inter-war period with a focus on foreign investment and the position and role of Japanese companies in this system.

I have already examined East Asia occupying an overwhelming position in Japanese overseas investment. In this paper, I target China which was one of the most important East Asian countries; the focus is on China except Manchuria because many advanced countries fiercely competed in China.

In this paper, at the same time, I examine Chinese companies which were in direct competition with Japanese companies. Historical study on Chinese companies has just begun, and insufficient data still remains. However, this study is extremely important and I consider the historical reasons for the economic system and corporate governance which depend on strong national rule continues in Shimpo (2009) Chapter 6.

In **Chapter 1**, I survey the general trend of world foreign investment, and in **Chapter 2**, I examine world investment in China. In **Chapter 3**, I examine in detail Japanese investment in China and Japanese companies which operated in China. I analyze the characteristics of Chinese companies and financial institutions while evaluating differences with Japanese companies in **Chapter 4**.

1 World foreign direct investment in the inter-war period

1.1 British foreign investment as the largest investing country

The inter-war period was a time that generated significant change in the history of world foreign investment. During this period, the **foreign direct investment (FDI)** which is the overseas expansion of a company seriously increased in Britain and the U.S.

In **Table 1**, I consider British investment in 1936. This is the latest data which *the Economic Journal* published every year and is often used in other well-known documents. *1

Table 1 British Foreign Investment, 1936

(100 million pounds)

	Government and Municipal	FDI					Total
		Total	Railways	Public Utilities	Mines	Miscellaneous	
Australia	427	78	2	7	20	49	505
India and Ceylon	256	182	84	7	12	79	438
Canada and New foundland	118	325	216	26	4	79	443
South Africa and Rhodesia	103	145	21	6	72	46	248
New Zealand	131	15			1	14	146
British Malaya	6	78		4	7	67	84
Other British Territories	59	58	4	6	25	23	117
Total Dominions	1,100	881	327	56	141	357	1,981
							61.1%
Europe	120	116	23	21	9	63	236
South America	139	528	362	49	7	110	667
U.S.A., Mexico and Central America	1	132	78	20	6	28	133
China and Japan	70	24		9	1	14	94
Other Foreign Territories	11	118	36	4	5	73	129
Total: Foreign Countries	341	918	499	103	28	288	1,259
							38.9%
Total: The World	1,441	1,799	826	159	169	645	3,240
	44.5%		25.5%				100.0%

Source: Kindersley (1937, 658).

*1 Royal Institute of International Affairs (1937), however, the data of the former investigation years was used.

The British net long-term foreign investment in the inter-war period was 1,270 million pounds by the international balance of payments (Shimpo, 1998, 46-7). However, since Table 1 shows a total of 3,240 million pounds of investment, the total amount of this investment does not correspond to 3,190 million pounds of Paish (1911) or 3,760 million pounds of Feis (1930), which were two investigations just before the inter-war period. The amount of investment in the U.S. is conspicuously different in Table 1; the difference is due to the huge decrease in railroad investment in the inter-war period.

In the following, I compare Table 1 with Feis (1930) who investigated the 1913 data. In this comparison, the industrial classification in two investigations is approximately equal. By region, the investment in the British Empire countries was 61.1% of the total sum of 1,980 million pounds in 1936. Because Feis (1930) estimated this investment as 1,780 million pounds, it tended to increase during the inter-war period. The implication is that the dependence on the British Empire was strengthened in the inter-war period.

By industry, the largest investment was 1,440 million pounds of government and municipal investment and represented 44.5% of the total investment. It was a considerable increase from 1,130 million pounds of Feis (1930). The British investment in the inter-war period was concentrated in the countries in the empire, and investment concentrated on the government and municipal more than before.

According to Kindersley (1937, 648 and 651), British FDI in 1936 was 1,920 million pounds, with British companies operating abroad investing 1,220 million pounds and companies registered abroad investing 700 million pounds.*²

Considering this investment by industry the railways decreased to 830 million pounds, or 25.5% of total FDI. In Feis (1930), railways investment was estimated as 1,530 million pounds. A decrease of the investment in the U.S. accounted for this decrease. Other than the railways, industries such as mines, commercial and industrial, financial and land and investment, and oil followed; those investments amounted to 1.3-1.9 billion pounds. The investment in natural resources increased, with new demand for products such as oil and rubber. The investment in commerce and industry increased a modest 180 million pounds. British foreign investment had a characteristically low ratio of manufacturing industry. This was reflected in the investment in China.

1.2 U.S. foreign direct investment, as the core of world manufacturing investment.

United States long-term capital exports in the 1920s by the international balance

*2 This category of FDI has the problem of including *the loan capital* in it.

of payments amounted to approximately 650 million dollars a year in the first half, 930 million dollars in the second half, and changed to net capital imports in the 1930s (Shimpo, 1998, 45-6). Portfolio investment increased in the first half of the 1920s and FDI increased in the last half along with political stability.

U.S. portfolio investment shown in the lower part of **Table 2** was 940 million dollars in 1914 and had increased to 7,030 million dollars in 1935, which equates to an average annual growth rate of 10%. It was the American Continent, especially Canada and South America where the U.S. invested most heavily. However, in portfolio investment, the magnitude of investments in the European area, especially in Germany, attracts attention. U.S. portfolio investment in Germany played a big role in the reconstruction of Germany.

As for FDI, it was 2,650 million dollars in 1914 and 7,220 million dollars in 1935; its growth rate was lower than portfolio investment in the inter-war period, but it increased steadily.

A characteristic of the U.S. FDI was the remarkable regional concentration with 68.6% of the total sum invested in the American Continent. Three regions--Canada, Central America, and South America--received approximately equal amounts of investment. The investment in South America, in particular, increased rapidly in the inter-war period. Through FDI mutual relations between the U.S. and the American Continent deepened in the inter-war period.

By industry, public utilities and oil production increased the most rapidly and showed more growth than the manufacturing industry. The ratio of investment on the American Continent in these two industries was high.

Of investment on the American Continent, South America received a great deal of investment in industrial minerals (Chilean copper) and oil production (Venezuela), public utilities; Cuba received much investment in agriculture (sugar); and Mexico received investment in oil production. The industrial composition of FDI was very different by region and country. However, these investments were common at a point based on rule and extraction of natural resources.

In the manufacturing industry, which was the U.S.'s biggest investing industry, Canada received the greatest amount. Its investment amounted to 840 million dollars. Europe also received much investment in the manufacturing industry. In this period, U.S. manufacturing, including the auto industry expanded into these neighboring, politically stable countries. This investment helped lead to a new era for the U.S.

Table 2 US Direct Investment Abroad

(million dollars, %: average annual growth rate)

	Oil Distribution	Precious metals and others	Industrial Minerals	Oil Production	Agriculture	Manufacturing	Railroads	Public Utilities	Others	Total	
Europe	1914 130		5	8		200		11	220	573	
	1935 231		36	20		640		175	268	1,370	4.2%
Canada and Newfoundland	1914	57	103	25	101	221	69	8	36	618	
	1935	86	249	55	29	840	69	245	119	1,692	4.9%
Cuba and other West Indies	1914 3		15	3	144	20	24	58	14	281	
	1935 9		21	52	371	45	69	103	61	731	4.7%
Mexico	1914	140	162	85	37	10	110	33	10	587	
	1935	105	133	206	36	6	61	90	15	652	0.5%
South America	1914 20	23	198	22	25	7	4	4	21	323	
	1935 77	41	463	426	36	200	0	366	110	1,718	8.3%
The American Continent	1914 23	230	479	135	344	258	245	106	81	1,900	
	1935 86	239	867	743	519	1,098	256	838	309	4,954	4.7%
Asia	1914 40		3	0	12		11	16	29	120	
	1935 80		10	110	60	75	5	72	76	488	6.9%
Oceania	1914 2		0			10			5	17	
	1935 81		6			50			23	160	11.3%
Total	1914 200	233	487	143	356	478	255	133	368	2,652	
	1935 509	259	959	873	587	1,870	261	1,088	815	7,219	
	4.5%	0.5%	3.3%	9.0%	2.4%	6.7%	0.1%	10.5%	3.9%	4.9%	

Source: Lewis (1938, 575-616)

US Portfolio Investment

	Long and Short-Term Dollar Loans	Government Loans	Corporate Loans	Long and Short-Term Foreign Currency Loans	Shares in Foreign Corporations not under American Control	All Securities
Total	1914 418	n.a.	n.a.	399	128	945
	1935 6,338	2,100	2,717	242	445	7,026
	13.8%			-2.3%	6.1%	10.0%

Source: Lewis (1938, 652-63)

1.3 Foreign investment by the late starting country, Japan

Unlike Britain and the United States, we have no documents comprehensively showing Japanese foreign investment and we have to deduce investments from a number of sources. Japanese long-term capital export of 1920-38, judging from international balance of payments, was 4,850 million yen (Shimpo, 1998, 54-5).

Of this amount, according to Yuzo Yamamoto (1992, 165), the total of stock and business investment was 480 million yen in Taiwan, and 1,250 million yen in Korea, totaling 1,730 million yen from 1900 to 1939. The investment of 1,100 million yen in Manchuria in 1931 by C.F. Remer (1933, 506), and 850 million yen in 1932-41 by Yamamoto (Yamamoto, 1992, 145) were added, and amounted to a total of 1,950 million yen. Regarding the other China, we have the data of 1,710 million yen in Table 4. All these regions totaled 5,390 million yen. Because this amount exceeds the long-term capital export in the international balance of payments, the estimate includes the investment of a slightly wide range and we can infer the above estimation is overestimated.

Dunning and Lundan (2008, 174) estimate Japanese FDI of only 750 million dollars (by yen conversion 2,640 million yen), but it does not seem that Dunning and Lundan's evaluations on Asian countries are great enough as considered in the next section.

Therefore Shimpo (2009, Chapter 4) examined various characteristics of Japanese foreign investment primarily by analyzing companies operating abroad. In this examination, the paid-up capital of companies operating mainly abroad in 1940 was 2,750 million yen. If an investigation cover rate is 70%, I can estimate the volume of FDI is approximately 4 billion yen. It seems that this methodology is an important calculation as a test for reasonableness of other estimations. Furthermore, through this method, I summarized special features of Japanese foreign investment and I will examine it in more detail in Section 3.1.

On the basis of this examination, I try to summarize the world FDI. According to Dunning and Lundan (2008, 174-5), which is widely used, the world FDI in 1938 was 26,400 million dollars, with 10,500 million dollars in Britain and 7,300 million dollars in the U.S. These two countries had a proportion of world FDI that was overwhelmingly high. Because total world FDI was 18 billion dollars before World War I, FDI gradually increased among foreign investment during the inter-war period.

Regarding the host countries, of the world's 24,300 million dollars, 7,500 million dollars was invested in Latin America, 6,100 million dollars was invested in Asia--of which 1,400

million dollars was invested in China, India and Ceylon respectively, so the developing countries occupied a large part of the investment.

By industry, primary product sector occupied about 55% in 1914 (Dunning, 1992, 117), and this becomes the background for the large degree of investment in developing countries. In the inter-war period, FDI in the manufacturing industry was gradually carried out among developed countries, led by U.S. companies, and this promoted the technology transfer from the most advanced countries.

The evaluation of the above-mentioned FDI becomes the basis of the examination for the present. However, we have a number of unsolved questions including the most basic problem of what we should consider to be FDI—whether or not it is controlled capital, whether or not it is total capital, and whether or not it includes other assets. Therefore, the above-mentioned evaluation should be a current test calculation.

2 World investment in China in the inter-war period ^{*3}

In the examination of foreign investment and FDI by each advanced country, there was little chance to examine investment in China because actual Chinese data in the inter-war period are incomplete and the volume of investment in China was still quite minimal. However, the examination of foreign investment in China is indispensable since it is an important component of the foreign investment led by Japan and others that we review in this paper.

Additionally, in the 21st century, China occupies a prominent position in the world economy. To consider what kind of role China will play in the world economy in the future, looking back at the history of its economic development may yield some noteworthy insights. Traditional studies of modern China were dominated by analysis of the political field, but research on the economy and management lagged behind considerably. Sections 3 and 4 in this paper become a study of China's economy and

*3 This paper examined the foreign direct investment which developed at this period and its influence on China, with using periodization of the inter-war period. When we examine each individual country, there will be the criticism that we should use the appropriate periodization for the history of each country. However, I dared to use periodization of the inter-war period because I assumed the foreign direct investment the major subject in this paper and examined the mutual relationship between investing countries and host countries.

Chinese companies based on comparison with the Japanese economy and Japanese companies.

The most comprehensive study on world investment in China is “*Foreign Investments in China*” by C.F. Remer. It was translated in Japan and has been widely used. There are several other important studies in Japan, but none that approach the comprehensiveness of C.F. Remer.

Table 3 summarizes the main contents of C.F. Remer. According to Table 3, the total investment in China in 1931 was 3,240 million dollars, of which 710 million dollars was government obligations and 2,530 million dollars was direct business investments.

Table 3 Investment in China, 1931

	(million dollars)					
	Total	Major four countries	Great Britain	Japan	Russia	U.S.A.
Total Investment	3,242.5		1,189.2	1,136.9	273.2	198.8
Government obligations	710.6		211.6	224.1	0.0	41.7
General purposes	427.6					
Railway obligations	248.5		70.4	83.6	n.a.	15.0
Direct business investments	2,531.9	2,260.9	963.4	874.1	273.2	150.2
			197.9	1,748.3		
			<i>(million pounds)</i>	<i>(million yen)</i>		
Transportation	846.3	560.5	134.9	204.3	210.5	10.8
Public utilities	128.7	99.0	48.2	15.6		35.2
Mining	128.9	109.0	19.3	87.5	2.1	0.1
Manufacturing	376.3	372.3	173.4	165.6	12.8	20.5
Banking and finance	214.7	214.7	115.6	73.8		25.3
Real estate	339.2	316.3	202.3	73.0	32.5	8.5
Import and export	483.7	483.7	240.8	183.0	12.2	47.7
Geographical distribution	Total		Direct business investments			
Shanghai	1,112.2	1,049.9	737.4	215.0		97.5
Manchuria	880.0	812.0		550.2	261.8	
Rest of China	1,250.3	399.0	226.0	108.9	11.4	52.7
(Hong Kong)			89.8			
Other items, 1930						
Direct trade (millions Hk. Tls.)		1,153.3	170.9	543.7	74.4	364.3
Population in China		415,576	13,015	255,686	140,000	6,875
Firms		6,226	1,027	4,633	n.a.	566
Ship tonnage in millions		109.3	57.2	45.6	n.a.	6.5

Source: Remer (1933, 73, 76, 85, 86, 97, 135, 138, 143, 338, 397, 407, 506, 553, 618).

Because the total investment in 1902 was 790 million dollars and 1,610 million dollars in 1914, it can be seen that investment in China increased rapidly within a short period of time. Particular emphasis should be focused on the large size of direct business investment. Dunning and Lundan (2008, 175) estimate the investment in China as 1,400 million dollars in 1938, which is much less than the estimate in C.F. Remer, and the ratio to the world is considerably small. Further examination will be necessary in the future to more accurately refine the FDI data during the inter-war period.

C.F. Remer defines direct business investment as an investment in which “the property remains under foreign control and management” (Remer, 1933, 65). In addition, he indicates that “direct business investments ... are the chief form of foreign investment in China” (69). He showed that direct business investment was a new form of investment in this era, and because of this finding, his study is significant. However, it is not clear if the definition of direct business investment is only the capital under the control, or, alternatively, if it refers to total capital or total assets.

The most apparent observation from the data in Table 3 is that Britain and Japan were the two major investing countries based on both total investment and FDI. The British expand into China dates back a considerable period of time while Japan’s thrust came after the Meiji Restoration and Sino-Japanese War. Russia was the third-largest investing country and concentrated investment in the transportation industry, including a railroad. The fourth-largest investing country was the U.S., which had investments that were dispersed across multiple industries.

Regarding FDI, we find differences in areas of industry emphasis between Britain and Japan. In Britain, the import and export business was the largest, with 240 million dollars, followed by the real estate and manufacturing. This reflects characteristics of British foreign investment already considered in this paper.

Alternatively, Japan invested primarily in transportation, including South Manchuria Railway, with investment of 200 million dollars; the import and export business and the manufacturing trailed the railroads. In Table 3, the scale of investment by British and Japanese manufacturing industries was not different which I will examine in more detail later.

The biggest difference between British and Japanese FDI is the regional composition. Britain concentrated a large part of its investment in Shanghai while Japan concentrated in Manchuria, with 550 million dollars in Manchuria compared to 220 million dollars in Shanghai. Because I examined investment in Manchuria in detail in Shimpo (2009) Chapter 4, I would like to focus chiefly on investment in Shanghai in Chapter 3 of this

paper. As examined in detail later, Japanese investment in Manchuria and Shanghai had important differences in composition.

I supplement foreign investment data with trade data, *4 population in China, the number of business firms, and ship tonnage. In these areas, the Japanese position was remarkably strong, in terms of only ship tonnage Britain exceeded. Judging from the little British trade with China, we can surmise that British ships do the trade of other countries.

C.F. Remer argued that the Chinese economic organization had no business unit capable of borrowing abroad until the modern corporate form of organization was made available in 1903. As a result, the success of corporate form has not been great up to the present time (Remer, 1933, 104). This was the basic reason to preach the necessity of FDI mentioned earlier, and this expansion of FDI is an important indication for China in that period.

3 Japanese investment in China and Japanese companies

In Chapter 3, I examine the key role of Japanese investment in China during the inter-war period in Section 3.1. In Section 3.2, I examine Japanese overseas companies, in Section 3.3, the textile companies which expanded their business into China, and in Section 3.4, I compare Japanese companies with British and Chinese companies. The final Section 3.5 analyzes the characteristics of Japanese banks. I have already examined the entire Japanese foreign investment in Shimpo (2009), but in this paper I want to consider activities in China except Manchuria in detail.

The 1930s were a period in which Chinese companies embarked on significant economic and social modernization. The powerful companies and entrepreneurs in Shanghai were becoming new leaders of China's economy. At the same time, rapidly-developing Japanese companies expanded their business into China, leading to fierce competition between companies from the two nations.

The 1930s were also marked by increasing political and military strain between Japan and China which ultimately led to the full-scale war. The industrial metropolis of

*4 I will examine the foreign economic relationship, for example, the trade, the international balance of payments and others in the inter-war period's China again.

Shanghai in China experienced the first Shanghai incident (from January to May, 1932) and the second Shanghai incident (from August to November, 1937); these began to gradually influence the economic activity.

3.1 Japanese investment in China

As summarized below, Japanese foreign investment in the inter-war period was concentrated on infrastructure, including the railroad in Manchuria. In contrast, in China except Manchuria, investment was concentrated geographically in Shanghai and in the manufacturing industry. The background was the difference in the economic development between Manchuria and Shanghai.

Table 4 lists Japanese investment at the end of 1938 in China except Manchuria. This

Table 4 Japanese Investment in China excluding Manchuria, the end of 1938

		(1,000 yen)	
Total investment	2,733,599		
Economic investment	1,709,366	Direct business investment	1,610,311
		Joint venture investment	90,374
Loan investment	1,024,233	Central government loan investment	867,094
		Municipal government loan investment	24,779
		Private loan investment	129,103
Economic investment total	1,835,573		
Mining and manufacturing	700,509	Spinning industry	408,067
		Industries except spinning industry	161,790
		Mining	120,959
Finance business	498,378	Banking	330,324
		Investment business	160,323
Commerce	344,131	Import-export business	260,921
Transportation and communication	120,899	Air transportation	120,959
Warehouse and real estate and construction	77,625		
Public Utilities	37,971		
Agriculture & Fishery	24,116		
		Spinning industry, by company, May, 1939	
		Shanghai Silk Manufacturing	101,304
		Naigai Cotton	82,394
		Dai-Nippon Spinning	59,517
		Yuho Spinning	30,163
		Nicca Spinning and Weaving	22,961
		Total	398,495

Source: Toa Institute (1942a), second volume, 1043-51, first volume, 226.

data is based on a comprehensive analysis by the Toa Institute that complements the study of C.F. Remer. The total investment was 2,730 million yen, which was equivalent to 780 million dollars using the exchange rate at that time. However, in the second half of the 1930s, the yen exchange rate fell, and we must note that the dollar conversion investment value also fell.

The economic investment that is similar to the concept of FDI is classified in the direct business investment of “the business that almost only Japanese contribute” and the joint venture investment of “the Japanese part of contribution in Japanese and Chinese investment” (*Japanese investment in China*, explanatory notes). The total economic investment was 1,710 million yen, the direct business investment was 1,610 million yen, and the joint venture investment was 90 million yen. It is not clear whether these business investments are the controlled part of capital, total capital, or total assets.

The largest components of Japanese economic investment in China except Manchuria, were the mining and manufacturing industries (700 million yen), specifically the investment in the spinning industry. The investment in the spinning industry exceeded 400 million yen and occupied the majority of the mining and manufacturing industries. The finance business, led by banking, and commerce, led by the import-export business, followed.

Five big companies, including Shanghai Silk Manufacturing, Naigai Cotton, and Dai-Nippon Spinning occupied almost all of the investment in the spinning industry. Regarding the activities of **zaikabo**, we have excellent studies in Japan that will be examined later. The above is the most important special feature of the investment in China, and after the next section, I will examine its financial characteristics.

I characterized Japanese foreign investment in the inter-war period as *Japanese style foreign investment* (Shimpo, 2009, 136-8). Japanese style foreign investments had the following characteristics: 1) chiefly invested in infrastructure, 2) led by emerging zaibatsu and independent companies, 3) based on the domestic financial market, 4) a group of companies with significant independence, and 5) active competition with local companies.

Compared with these characteristics, investment in China examined in this paper was different in industrial composition. In that the form of a modern subsidiary played a big role; however the other characteristics were almost all common. This investment was not mainstream at that time, but it was a representative example of the manufacturing industry’s expansion overseas. It also is a typical example of the technology transfer in the manufacturing industry, as often found in the postwar period.

3.2 A list of Japanese overseas companies

Before examining Japanese companies operating in China, I want to survey general characteristics of Japanese companies operating mainly abroad in 1930.

In Shimpo (2009, Chapter 4), I made the list of companies operating mainly abroad regarding two years of 1930 and 1940. When we check the basic data such as capital, paid-up capital, corporate bonds, assets, sales of Japanese overseas companies, we can confirm the development of companies themselves and their contribution to host countries.

Not only in companies of all industries, but in companies of the textile industry that I took up in this paper, we can confirm the development of Japanese companies operating mainly abroad, based on above mentioned data between ten years. It means these companies' contribution to Chinese economic development as well as these companies.*⁵ I already examined this theme in Shimpo (2009, Chapter 4), but I have added some items and summarized the characteristics again.

The first new item was the all reserve funds, and I totaled it with the paid-up capital and consider it the strict definition of **equity capital**. Second, I list the loan category and make it compare to the corporate bonds. The final item is the current income. Using these changes, **Table 5** is created.

Analyzing the composition of industry, railway (including South Manchuria Railway) was the largest industry initially. The sugar manufacturing industry invested in Taiwan early and this was followed by the textile industry investing in mainland China. In 1940, the heavy chemical industrialization of Japan progressed, and overseas operating companies began to show similar characteristics.

Among financial metrics, the high **equity capital ratio** attracts particular attention. I calculated the equity capital ratio as the ratio of the above-defined equity capital to assets excluding un-paid capital. At this time, the ratio was 48.7% for companies, 5.5% for banks, and 33.1% for all companies. When we add corporate bonds to the equity capital, the ratio of market financing becomes extremely high. In contrast, the loan ratio was lower. I have discussed that Japanese corporate governance in the inter-war period was market-centered, and Japanese overseas operating companies had a similar special feature. I would like to reiterate this discussion because of its relevance to the financial metrics above. Because Japanese corporate governance was market-centered, the large-

*5 I will examine the contribution to Chinese economy by Japanese companies' export in the next paper.

Table 5 Japanese Companies Operating Abroad, 1930

Company Name	Capital	Paid-up Capital (1)	Reserve Funds (2)	(3) = (1)+(2)	Corporate Loan Bonds	Assets	Assets Excluding Unpaid Capital (4)	(3)/(4)	Sales	Current Income	Issued Shares (1000 shares)	Stock holders	Shares per Share holder	Largest Stock holder	Owned Shares (1000 shares)	Owner ship Ratio
				(million yen)			(%)	(%)	(million yen)	(million yen)			(shares)			
Exchange Dalian Exchange Trust	15.0	6.0	0.6	6.6	n.a.	16.4	7.4	89.2%	0.3	0.2	300	1,438	209	Showa Securities	9.3	31.1%
Textile Shanghai Silk Manufacturing	10.0	10.0	1.0	11.0	n.a.	27.6	27.6	39.9%	n.a.	1.3	500	61	8,197	Kanegafuchi Spinning	341.0	68.2%
Doko Spinning	15.0	10.5	1.9	12.4	n.a.	18.2	13.7	90.5%	1.5	1.1	300	3,197	94	Toyosaburo Tanida	17.7	5.9%
Nicca Spinning and Weaving	11.0	8.8	1.8	10.6	n.a.	30.4	28.2	37.6%	2.5	0.4	220	1,909	115	Nippon Cotton	10.7	4.9%
Naigai Cotton	16.0	16.0	16.8	32.8	n.a.	46.5	46.5	70.5%	20.1	1.4	320	1,312	244	Rhei Kawamura	20.1	6.3%
Chosen Spinning	5.0	5.0	0.1	5.1	n.a.	8.6	8.6	59.3%	0.3	0.2	100	808	124	Jotaro Yamamoto	3.5	3.5%
Yuhoo Spinning	5.0	5.0	0.3	5.3	n.a.	7.8	7.8	67.9%	0.9	0.4	100	11	9,091	Toyobo	98.0	98.0%
Seoul Electricity	15.0	12.6	2.6	15.2	n.a.	20.3	17.9	84.9%	3.3	0.9	300	1,315	228	Dai-ichi Mutual Life Insurance	14.9	5.0%
Taiwan Electric Power	34.5	32.7	7.6	40.3	19.5	64.1	62.3	64.7%	4.3	2.0	690	6,991	99	Governor-General of Taiwan	240.0	34.8%
Railway Kungang Mountain Electric Railway	12.0	7.8	1.1	8.9	6.8	22.7	18.5	48.1%	0.8	0.2	240	1,403	171	Kintaro Hattori	24.3	10.1%
Chosen Kyonan Railway	10.0	10.0	0.1	10.1	7.0	21.5	21.5	47.0%	0.3	0.0	200	1,923	104	Toyoshin Akimoto	24.3	12.2%
South Chosen Railway	20.0	8.0	0.0	8.0	n.a.	23.3	11.3	70.8%	0.0	0.0	400	675	593	Fukoku Consumption Insurance	58.0	14.5%
South Manchuria Railway	440.0	387.2	188.6	575.8	296.6	1,115.6	1,062.8	54.2%	188.1	21.7	8,800	21,505	409	Minister of Finance	4,400.0	50.0%
Chosen Railway	54.5	17.7	0.5	18.2	17.5	83.5	46.7	39.0%	1.6	0.2	1,090	5,534	197	Toyo Takushoku	112.2	10.3%
Karafuto Railway	20.0	7.5	0.0	7.5	n.a.	30.0	17.5	42.9%	1.0	0.0	400	169	2,367	Fuji Paper	217.2	54.3%
North Karafuto mining	10.0	5.0	n.a.	5.0	n.a.	11.8	6.8	73.5%	1.6	0.1	200	1,188	168	Mitsubishi Mining	33.6	16.8%

Annual Research Bulletin of Osaka Sangyo University

Oil	North Karafuto Oil	10.0	10.0	0.2	10.2	n.a.	2.1	17.6	17.6	58.0%	5.6	1.0	200	2,216	90	Nippon Oil	20.1	10.1%
Paper manufacturing	Karafuto Industry	70.0	53.6	2.7	56.3	47.3	5.6	136.0	119.6	47.1%	15.9	0.0	1,400	6,364	220	Okawa Gomei	165.1	11.8%
Rubber	Nettai Sangyo	6.5	5.5	0.4	5.9	n.a.	n.a.	7.0	6.0	98.3%	0.1	0.0	130	725	179	Hachiro-Emon Mitsui	50.7	39.0%
Sugar manufacturing	Dai-Nippon Sugar Manufacturing	51.4	34.7	17.8	52.5	20.0	n.a.	128.2	111.5	47.1%	42.4	1.7	1,028	15,579	66	Shusei-sha	45.1	4.4%
	Meiji Sugar Manufacturing	48.0	34.8	9.8	44.6	n.a.	n.a.	83.6	70.4	63.4%	36.8	2.0	960	9,197	104	Fukuda Kogyo	29.8	3.1%
	Taiwan Sugar Manufacturing	63.0	43.1	19.9	63.0	15.0	0.1	126.1	106.2	59.3%	26.5	2.4	1,260	13,482	93	Mitsui & Co.	59.6	4.7%
	Ensuiko Sugar Manufacturing	29.3	17.4	0.2	17.6	10.0	39.7	107.0	95.1	18.5%	14.5	-0.8	585	9,402	62	Ento Products Sales Company	57.5	9.8%
	Nitaka Sugar Manufacturing	28.0	10.8	2.0	12.8	n.a.	n.a.	38.1	20.9	61.2%	3.6	0.3	560	2,514	223	Naichiro Takashima	130.8	23.4%
	Teikoku Sugar Manufacturing	18.0	13.5	5.9	19.4	5.0	n.a.	39.1	34.6	56.1%	3.9	0.7	360	5,008	72	Seitaro Yamaguchi	15.2	4.2%
	Tainan Sugar Manufacturing	10.0	10.0	n.a.	10.0	n.a.	4.3	21.8	21.8	45.9%	6.6	-0.2	200	5,970	34	Masanosuke Fukuda	15.0	7.5%
	South Manchuria Sugar Manufacturing	10.0	8.5	0.0	8.5	n.a.	n.a.	14.4	12.9	65.9%	0.1	0.0	200	2,964	67	South Manchuria Railway	5.0	2.5%
Fishery	Nichiro Gyogyo	40.0	22.8	3.6	26.4	n.a.	0.0	75.1	57.9	45.6%	23.6	-1.0	800	8,044	99	Showa Securities	54.1	6.8%
Others	Toa Tobacco	11.5	7.3	0.5	7.8	n.a.	0.6	15.1	10.9	71.6%	0.6	0.0	230	1,832	126	Taisho Life Insurance	14.9	6.5%
Various	Toyo Takushoku	50.0	35.0	1.7	36.7	180.2	8.1	255.1	240.1	15.3%	8.5	0.3	1,000	8,070	124	Minister of Finance	60.0	6.0%
	Toa Kogyo	20.0	13.0	1.9	14.9	3.4	31.2	72.8	65.8	22.6%	1.7	0.0	400	1,183	335	Industrial Bank of Japan	54.0	13.5%
	Chuka Kigyo	15.0	14.6	0.1	14.7	n.a.	0.3	15.5	15.1	97.4%	0.1	0.0	300	4,999	60	Chuka Kogyo Finance Company	8.6	2.9%
	Total excluding banks	1,173.7	884.4	289.7	1,174.1	628.3	131.2	2,700.8	2,411.5	48.7%	417.1	36.5	23,773	146,988	162		6,410.3	27.0%

Foreign Direct Investment in the Inter-war Period and Japanese Investment in China

Bank	The Bank of Taiwan	15.0	13.1	0.4	13.5	n.a.	40.0	439.9	438.0	3.1%	19.2	0.4	150	4,381	34	Department of the Imperial Household	7.6	5.1%
	The Bank of Chosen	40.0	25.0	2.9	27.9	n.a.	132.1	512.6	497.6	5.6%	11.1	0.9	400	8,325	48	Governors-General of Korea	15.0	3.8%
	Chosen Shokusan Bank	30.0	20.0	8.1	28.1	242.2	n.a.	345.4	335.4	8.4%	13.3	1.5	800	6,408	125	Chosen Savings Bank	47.1	5.9%
	Shoryu Bank	12.0	5.6	0.1	5.7	n.a.	n.a.	95.4	89.0	6.4%	2.6	0.1	240	1,861	129	Yasuda Hozen-sha	53.3	22.2%
	Banks total	97.0	63.7	11.5	75.2	242.2	172.1	1,383.3	1,360.0	5.5%	46.2	2.9	1,590	20,975	76		123.0	7.7%
	Total	1,270.7	948.1	301.2	1,249.3	870.5	303.3	4,094.1	3,771.5	33.1%	463.3	39.4	25,363	167,973	151		6,533.3	25.8%

Note: This is a list of the company whose paid-up capital was 5 million yen or more in 1930.

Source: This table is fundamentally based on Toyo Keizai Shimpo-sha (n.d.). When there is no data of the relevant fiscal year, Osakaya Shoten (1931) and Osakaya Shoten (1932) are referred

scale financing for foreign investment was possible. The **market-centered corporate governance** was closely tied to the development of foreign investment.

At the same time, I want to emphasize that the stock dispersion of the overseas operating companies was remarkable. There were only four companies—Shanghai Silk Manufacturing and Yuho Spinning in the textile industry and South Manchuria Railway and Karafuto Railway in the railway industry—in which the largest shareholder held more than 50% of the outstanding shares. The average shareholding ratio of the largest shareholder in all companies was 25.8%. In 20 of 36 companies, the shareholding ratio of the largest shareholder was in the single digits.

The **shares per shareholder**, the number of the issued shares divided by the number of the stockholders, was 151 shares, and there were 13 companies for which this metric was only in the double digits. From these data, it can be seen that not only is Japanese corporate governance market-centered, but the dispersion of stocks is also substantially advanced.

3.3 Japanese textile companies in China

Among Japanese overseas companies, I consider six textile companies which expanded into China except Manchuria. These are the five companies in Table 4 and Doko Spinning. In Table 5, Dai-Nippon Spinning was not included because this company's core business was in the domestic market. Of the six companies, four had their main office in Shanghai, and the top two companies, Dai-Nippon Spinning and Naigai Cotton, had their main office in Kansai.

Table 6 clarifies the data for six companies in both 1930 and 1940. We have to pay attention because there were initially two types of Japanese textile companies in China.

The first type was the companies under the strong control of Japanese companies and with their main office in Shanghai. As of 1930, companies of this type were Shanghai Silk Manufacturing, which was a subsidiary of Kanegafuchi Spinning, and Yuho Spinning, which was a subsidiary of Toyobo. In 1940, Nicca Spinning and Weaving was affiliated with Kurabo Industries, increasing the number of companies of this type to three.

The overseas expansion in such a subsidiary form is not at all unusual in current Japan. However, it was not mainstream during the inter-war period. Especially in Shanghai Silk Manufacturing, Chinese held the roles of president and an auditor, and there were also a few large Chinese shareholders. These are similar to characteristics of current foreign investment.

The second type was companies that established factories in China, including Shanghai.

Foreign Direct Investment in the Inter-war Period and Japanese Investment in China

Table 6 Japanese Spinning Company in China

1940		Dai-Nippon Spinning	Naigai Cotton	Shanghai Silk Manufactu ring	Yuho Spinning	Nicca Spinning and Weaving	Doko Spinning	Total
Establishment		1889	1887	1906	1929	1918	1920	
Main office		Hyogo	Osaka	Shanghai	Shanghai	Shanghai	Shanghai	
Capital		113.0	33.0	15.0	30.0	11.0	15.0	217.0
Paid-up Capital (1)	(million yen)	69.5	24.5	15.0	15.0	11.0	15.0	150.0
Reserve Funds (2)		42.2	29.3	9.2	11.0	2.1	11.0	104.8
(3)=(1)+(2)		111.7	53.8	24.2	26.0	13.1	26.0	254.8
Corporate Bonds		n.a.	n.a.	12.0	n.a.	n.a.	n.a.	12.0
Loan	(million yen)	n.a.	n.a.	n.a.	1.5	n.a.	n.a.	1.5
Assets		279.3	109.8	100.0	74.7	32.1	43.4	639.3
Assets Excluding Unpaid Capital (4)		235.8	101.3	100.0	59.7	32.1	43.4	572.3
(3)/(4)	(%)	47.4%	53.1%	24.2%	43.6%	40.8%	59.9%	44.5%
Sales	(million yen)	37.8	59.7	145.7	13.2	8.7	8.8	273.9
Current Income	(yen)	9.3	5.4	8.1	5.3	3.4	2.8	34.3
Issued Shares	(1000 shares)	2,440	660	300	600	340	300	4,640
Stockholders		15,447	2,434	40	8	916	2,585	21,430
Shares per Shareholder	(shares)	158	271	7,500	75,000	371	116	217
Largest Stockholder		Teikoku Life	Nakano Goshi	Kanegafuchi Spinning	Toyobo	Kurabo Industries	Toyosaburo Taniguchi	
Owned Shares	(1000 shares)	32.3	50.0	196.2	596.6	181.1	17.7	1,073.9
Ownership Ratio		1.3%	7.6%	65.4%	99.4%	53.3%	5.9%	23.1%

Note: This is a list of the company founded until 1935, and its paid-up capital was 10 million yen or more. Source: This table is fundamentally based on Toyo Keizai Shimpo-sha (1941). When there is no data of the relevant fiscal year, Osakaya Shoten (1941) is referred.

1930		Dai-Nippon Spinning	Naigai Cotton	Shanghai Silk Manufactu ring	Yuho Spinning	Nicca Spinning and Weaving	Doko Spinning	Total
Capital		52.0	16.0	10.0	5.0	11.0	15.0	109.0
Paid-up Capital (1)	(million yen)	52.0	16.0	10.0	5.0	8.8	10.5	102.3
Reserve Funds (2)		40.7	16.8	1.0	0.3	1.8	1.9	62.5
(3)=(1)+(2)		92.7	32.8	11.0	5.3	10.6	12.4	164.8
Corporate Bonds		n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Loan	(million yen)	n.a.	n.a.	11.4	1.8	n.a.	n.a.	13.2
Assets		113.1	46.5	27.6	7.8	30.4	18.2	243.6
Assets Excluding Unpaid Capital (4)		113.1	46.5	27.6	7.8	28.2	13.7	236.9
(3)/(4)	(%)	82.0%	70.5%	39.9%	67.9%	37.6%	90.5%	69.6%
Sales	(million yen)	12.0	20.1	n.a.	0.9	2.5	1.5	37.0
Current Income	(yen)	1.8	1.4	1.3	0.4	0.4	1.1	6.4
Issued Shares	(1000 shares)	1,040	320	500	100	220	300	2,480
Stockholders		10,900	1,312	61	11	1,909	3,197	17,390
Shares per Shareholder	(shares)	95.4	244	8,197	9,091	115	94	143
Largest Stockholder		Dai-Nippon Spinning Shusaikai	Rihei Kawamura	Kanegafuchi Spinning	Toyobo	Nippon Cotton	Toyosaburo Tanida	
Owned Shares	(1000 shares)	30.0	20.1	341.0	98.0	10.7	17.7	517.5
Ownership Ratio		2.9%	6.3%	68.2%	98.0%	4.9%	5.9%	20.9%

Note: This is a list of the company whose paid-up capital was 5 million yen or more in 1930.

Source: This table is fundamentally based on Toyo Keizai Shimpo-sha (n.d.). When there is no data of the relevant fiscal year, Osakaya Shoten (1931) and Osakaya Shoten (1932) are referred

Two large companies, Dai-Nippon Spinning and Naigai Cotton, established their main offices in Kansai. Naigai Cotton also had a main office in Osaka, but Shanghai factories were the biggest in terms of the number of the setting machine, this company's core business was in China. The financial data listed in Table 6 for these companies is for the entire companies and not just the data of the Chinese subsidiary.

The characteristics of these six companies are equal to the results examined in Table 5. First, we notice the high equity capital ratio. The average ratio of the six companies was 69.6% in 1930 and 44.5% in 1940. Shanghai Silk Manufacturing, which had a slightly lower ratio, issued a large amount of corporate bonds in 1940. The shares per shareholder of these companies was 143 in 1930 and 217 in 1940, which was a fairly low number even though they included subsidiary type companies.

3.4 A comparison among Japanese, British and Chinese companies

Based on the above examination, I summarize a study that compared a spinning company in Japan, Britain and China. The examination reviews various aspects of the company and this section shows the machine setting number, capital and workers, and amount of production, based on three different studies. The Toa Institute (in column a) compared the data of two years. "*Chinese Year Book*" (in column b) was a full-scale study by Chinese in English. The 1937 Issue of the study was written with the guidance of Y.F. Liu. D.K. Lieu examined later, wrote the corresponding part in "*Chinese Year Book, 1936-37 Second Issue,*" was a representative Chinese researcher. The Column c was based on Yang (1940).

As mentioned above, the excellent studies on China's economy and Chinese companies by Chinese themselves were published one after another. In this part and the next section of this paper, I rely heavily on these studies.

The upper section of **Table 7** is based primarily on the Toa Institute and the lower section is based on the "*Chinese Year Book, 1937 Issue.*" The financial data that I have already examined for Japanese companies is important, I cannot clarify the entire set of British and Chinese companies. Consequently Table 7 does not include these data.

Table 7 shows that by 1936 British companies were overwhelmed and lost their influence to Japanese and Chinese companies. Regarding Japanese and Chinese companies, the Chinese companies were more heavily represented in spindles while Japanese companies were more heavily represented in thread-twisting machines, and both had same number of looms. In 1939, Japanese companies completely overwhelmed Chinese companies; however, other investigations (b and c) do not reach the same

Table 7 Three Countries' Companies in Chinese Spinning Industry

			Japan	China	Britain	Total	
Spindles	1936	a	2,135,068	2,694,816	221,336	5,051,220	
		b	2,284,860	3,008,479	233,508		
		c	2,159,568	2,690,228	221,336		
	1939	a	3,481,804	1,036,669	279,596	4,798,069	
Thread-twisting machine	1936	a	350,284	172,428	8,670	531,382	
	1939	a	465,420	68,946	10,070	544,436	
Looms	1936	a	28,915	24,629	4,021	57,565	
		b	23,127	24,861	4,021		
		c	19,214	21,021	2,921		
	1939	a	46,858	6,311	4,661	57,830	
Capital (Unit: 1,000)	1936	b	10,000	8,820	15,900		
		tael					
		(yen)	(14,400)	(12,701)	(22,896)		
		yuan		148,151			
		(yen)		(152,596)			
		yen	356,900				
Workers	1936	b	68,683	129,216	10,000	207,899	
Yarn (in Bales)	1936	b	546,797	1,437,692	41,000	2,025,489	
Cotton fabrics (in 1,000 sq. yds.)	1936	b	1,000 sq. yds	633,861	358,714	43,000	1,035,575

Note: 1 yuan = 1.03 yen, 1 tael = 1.44 yen (the end of 1936).

Source: a: Toa Institute (1937, Vol.1, 241), b: "Chinese Year Book 1937 Issue," 693-8. c: Yang (1940, 192-3).

conclusion.

"Chinese Year Book, 1937 Issue" in the lower section shows that Chinese companies were labor-intensive and produced mainly yarn, and Japanese companies were capital-intensive and produced mainly cotton fabrics. In the spinning industry in China, both Japanese and Chinese companies led and competed intensely while each specialized its products.

The above-mentioned Japanese companies in the inter-war period are often called zaikabo, and we have already had many excellent studies of their roles in Chinese economic development, such as Takamura (1982) and Kuwahara (1990). Prof. Kuwahara examined the formation of management organization, the development of engineering works, the development of labor management, procurement and sales, and other areas in detail. He concluded that the competitive advantage of Japanese companies was based on a "high level of productivity and quality" and their source of "management capability" (Kuwahara, 1980, 292 and 306).

This Japanese advantage in manufacturing technique and business management was learned directly by Chinese who participated in the activities of Japanese companies and

indirectly through competition, and it contributed to the modernization of China's economy and Chinese companies. The transfer of management resources such as manufacturing technique or business management by the Japanese companies served the same role as current foreign direct investment despite the political and military strain between Japan and China.

3.5 Japanese banks

Whereas we determined in previous sections of this paper that Japanese companies adopted market-centered corporate governance, this section will examine the ideas Japanese banks adopted. Using the same framework as for Japanese companies, I outline banks' condition in 1930.

Table 8 considers six representative Japanese banks in order to be able to examine the major zaibatsu banks. Differences between the Japanese banking industry and other Japanese companies lead to a much higher representation of zaibatsu-related banks. In addition to Japanese banks, I identified the total of four representative banks that expanded into China--Yokohama Specie Bank, Mitsui Bank, Sumitomo Bank, and Mitsubishi Bank. It should be noted that the six Japanese banks were private banks unlike the Chinese banks to be examined later.

When I calculate the equity capital ratio in the same manner as for non-bank companies, the average of the six Japanese banks was 17.6% while the average of the banks which expanded into China was 17.1%, which was very high. The ratio exceeded 20% for both Yasuda Bank and Mitsui Bank, which was higher than current banks, and their management also was very stable.

Next, it is important that the securities-to-assets ratio was extremely high. The ratio for the six Japanese banks was 24.8% while the four banks expanding into China was 31.7%. Corresponding with this, the loan ratio was low. This shows that the Japanese banks were involved not only in loan business but also in securities business. As a result, the income of the banks was not just interest on loans, but was also comprised to a significant degree by interest income from securities dealing. As was expected, this, too, is different from the postwar bank.

Finally, regarding corporate governance, zaibatsu-related holding companies such as Mitsui Gomei, Yasuda Hozen-sha, Sumitomo Goshi, and Mitsubishi Goshi appeared as the biggest shareholders for zaibatsu-related banks. The shareholding ratio of these holding companies was remarkably high.

The average shares per shareholder for the six Japanese banks was 136, which

Foreign Direct Investment in the Inter-war Period and Japanese Investment in China

Table 8 Japanese Representative Banks' Financial Information at the end of 1930

(million yen, %)

Liabilities and Capital	Capital (1)	Reserve Funds (2)	(3)=(1)+(2)	Ratio To Assets (3) /{(5)-(4)}	Other Representative Account	Amount of Money	Ratio To Assets	
1 Nippon Kangyo Bank	108.8	66.1	174.9	13.6%	<i>Bond Issued</i>	934.8	72.6%	
2 Yokohama Specie Bank	100.0	117.3	217.3	17.3%	<i>Deposit</i>	563.8	45.0%	
3 Mitsui Bank	100.0	68.3	168.3	20.4%	Deposit	666.2	80.6%	
4 Yasuda bank	150.0	61.2	211.2	26.2%	Deposit	589.6	73.1%	
5 Sumitomo Bank	70.0	29.0	99.0	12.3%	Deposit	680.7	84.7%	
6 Mitsubishi Bank	100.0	40.5	140.5	18.4%	Deposit	622.6	81.7%	
Total	628.8	382.4	1,011.2	17.6%				
Four banks operating in China	370.0	255.1	625.1	17.1%	Deposit	2,533.3	69.5%	
Assets	Paid-up Capital (4)	Securities	Ratio To Assets	Other Representative Account	Amount of Money	Ratio To Assets	Total Assets (5)	
1 Nippon Kangyo Bank	24.1	57.4	4.5%	<i>Annual Installment Loan</i>	987.4	76.7%	1,311.5	
2 Yokohama Specie Bank	0.0	354.0	28.2%	<i>Buying Bill</i>	271.0	21.6%	1,253.6	
3 Mitsui Bank	40.0	217.7	26.3%	Loan	383.8	46.4%	866.5	
4 Yasuda bank	57.3	213.5	26.5%	Loan	398.0	49.4%	863.4	
5 Sumitomo Bank	20.0	242.0	30.1%	Loan	330.6	41.1%	823.5	
6 Mitsubishi Bank	37.5	340.4	44.7%	Loan	276.3	36.3%	799.1	
Total	178.9	1,425.0	24.8%				5,917.6	
Four banks operating in China	97.5	1,154.1	31.7%	Loan	1,261.7	34.6%	3,742.7	
	Number of Issued Shares (1,000 shares)	Number of Stockholders	Shares per Shareholder (share)	Largest Stockholder	Owned Shares (1000 shares)	Ownership Ratio	Top 5 Stockholders (1000 shares)	Ownership Ratio
1 Nippon Kangyo Bank	2,175	37,916	57	Nabeshima Naomitsu	17	0.8%	73	3.4%
2 Yokohama Specie Bank	1,000	5,078	197	Department of the Imperial Household	226	22.6%	297	29.7%
3 Mitsui Bank	1,000	2,353	425	Mitsui Gomei	678	67.8%	707	70.7%
4 Yasuda bank	3,000	13,026	230	Yasuda Hozen-sha	765	25.5%	1,374	45.8%
5 Sumitomo Bank	700	3,059	229	Sumitomo Goshi	350	50.0%	404	57.7%
6 Mitsubishi Bank	1,000	3,945	253	Mitsubishi Goshi	459	45.9%	598	59.8%
Total	8,875	65,377	136		2,495	28.1%	3,453	38.9%
Zaibatsu-related four banks	5,700	22,383	255		2,252	39.5%	3,083	54.1%
Four banks operating in China	3,700	14,435	256		1,713	46.3%	2,006	54.2%

Note: Four Banks Operating in China are Yokohama Specie Bank, Mitsui Bank, Sumitomo Bank and Mitsubishi Bank.
Source: Osakaya Shoten (1931).

is equal to this metric for non-bank companies we analyzed earlier. The shares per shareholder for the four zaibatsu-related banks was a much higher level of 255 when compared with the six Japanese banks. In addition, regarding the shareholding ratio of the biggest shareholder and the top five shareholders, the four zaibatsu-related banks had much higher levels than the six Japanese banks, while the ratio of the four banks expanding into China was almost equal to the four zaibatsu-related banks.

When we compare Japanese banks with Japanese companies, the influence of zaibatsu was relatively strong in banks, and the level of stock dispersion was low. However, we may still conclude that corporate governance of Japanese banks was market-centered as it was for non-bank companies.

4 Chinese companies and financial institutions

In the 1930s, many excellent studies on China's economy and companies were published. Some studies were published in English. They were often translated into Japanese and carefully studied in Japan. Some copies were published through international support. I want to examine Chinese companies and financial institutions while utilizing the document edited after World War II with a prewar document.

In Chapter 4, I clarify the characteristics of Chinese manufacturing center Shanghai in 4.1, two representative cotton spinning companies, Shenxin and Yong'an, in 4.2 and 4.3, the entire financial industry and major financial institutions in 4.4 and 4.5, and finally, in 4.6, the characteristics of the securities market.

4.1 Shanghai industry investigation

Shanghai was the undisputed center of Chinese industrial development. As a result, the investigation of the industrialization of Shanghai provides insight into the stage of Chinese economic development in the inter-war period and the special features associated with it. This investigation was carried out by the China Economic Association in 1931 and the Joint Institute of the China Economic Association and the China Statistical Association in 1933. D.K. Lieu was one of the leaders of the investigation, and he edited "*The Growth and Industrialization of Shanghai*" based on his findings.

The investigation examined industrial statistics, including management organization, capital and reserve funds, and operating hours in a day, in extensive detail by industry, **Table 9** summarizes only the important items and the important industries.

Table 9 Development of Shanghai's Industry

		Overall industry (1)	Cotton spinning (2)	(2) / (1)	Wheat flour
Number of the factory	1931	1,672	29		15
	1933	1,186	29		15
Average amount of capital per factory (dollar)	1931	85,125	1,405,638	16.5	461,706
	1933	137,172	1,693,706	12.3	416,643
Average horsepower per factory	1931	94.7	1,550.2	16.4	779.4
	1933	151.0	2,133.2	14.1	815.7
Management form					
State ownership	1931	3	0		0
	1933	4	0		0
Personal ownership	1931	580	2		1
	1933	271	1		0
Unlimited partnership	1931	700	3		1
	1933	443	1		0
Limited liability company	1931	295	17		4
	1933	332	19		8

Source: Lieu (1938, 155-157, Appendix Statistical Table).

Note: When each table's data does not correspond, I choose more suitable data.

In the surveys, the definition of factory changed from 1931 to 1933. In 1931, factory was defined as “factories, employing more than ten workers or using motive power” and in 1933, it had changed to “the factories must use motive power and employ 30 or more workers” (Lieu, 61-64). This is the reason the number of factories decreased over the two years.

The cotton spinning industry and the wheat flour (flour milling) industry pull other industries apart in terms of the average amount of capital per factory and the average horsepower per factory by industry. In particular, the cotton spinning industry exceeded the overall industry average by more than 10 times in two indexes. It is clear that the cotton spinning industry led Shanghai industry. Analyzing the management form, there were many personal ownership and unlimited partnerships in the overall economy, but limited liability companies occupied a large part of the cotton spinning industry.

Lieu summarizes the remarkable characteristics of the Shanghai industrialization as follows. First, there is a shortage of capital. “Almost all the cotton mills borrow money from the modern and native banks..... There is no market yet for industrial securities nor any institutions for underwriting them” (Lieu, 94, 95). As examined later, he appropriately highlighted a weak point of Chinese companies. Other factors he identifies are small size factories, obsolete mechanization, and the tendency to import raw

material.

Although these shortcomings were not necessarily easy for Chinese people and their government to accept, Lieu conducted his analysis in an objective and frank manner. Many studies by Chinese in the inter-war period, including these documents, are superior at in that they depict the actual conditions and they provide a solution that the Chinese could implement.

4.2 Shenxin Cotton Mills as a family business

Next, I examine financial data of Chinese companies representing Shanghai and the cotton spinning industry. Unfortunately, I was not able to locate an investigation or statistics that examined the largest Chinese manufacturing industry in a comprehensive manner; therefore I analyze Shenxin in this section and Yong'an in the next section. For both companies, published documents that contain considerably detailed financial data. According to Yang (1940, 198-9), Shenxin and Yong'an were two of the top three Chinese cotton spinning companies (along with Dasheng). For Dasheng, we were not able to get sufficient financial data from major documents such as "*Business History of the Dasheng System*," and "*Selected Archival Materials on the Dasheng Business Complex*."

At this point, I think it is important to present my basic viewpoint clear about information disclosure of the individual Chinese companies and financial institutions. Regarding Chinese companies and financial institutions, important historical materials were gradually disclosed after World War II. I never deny the importance of these documents, and I utilize them to the maximum in this paper. However, they are documents edited after World War II, and not original documents. The political and economic policy of the current Chinese government and the Communist Party is reflected in the editing of these documents. I want to emphasize that the original documents in the inter-war period must be published without any modification.

Based on our review of the published individual historical materials, we could guess that the published historical materials for a general investor were very limited.*⁶ This is because **indirect finance** was dominant in China (as examined later), and the securities market was undeveloped.

In contrast, in Japan, the detailed account of business of each company was published in the inter-war period and microfilms are still available. In addition, also available

*6 In "*Selected Archival Materials on Former Chinese Stock Exchange and Financial Markets*" published recently, the data for investors is found, however, the information is limited.

are documents published for a wide range of investors, such as “*Stock Annual*” and “*Stock Company Annual*” based on accounts of businesses that were very detailed and thorough with regard to contents and quantity.

In the field of the historical study on Chinese companies, regarding the financial data in both China and Japan, many researchers were often interested in the interest on the profit rate or the surplus-value rate. We do not need to point out the nonsense of the study on the surplus-value rate anymore. The examination of the profit rate is only a part of the examination of financial data. In this paper, I want the major subject to be the examination of balance sheet data to clearly highlight the relationship between each company and the financial market to identify characteristics of a company comprehensively.

Shenxin Cotton Mills is a **family business**^{*7}, a company structure found frequently in the inter-war period in China. The total capital of Mao Xin, Fu Xin, Shen Xinxitong, affiliated with the Shenxin was 19.3 million yuan in 1932. Of its total capital, the investment by the Rong family amounted to 72.2%. In addition, a large number of Rong family members participated in management (“*Historical Materials on the Rong Family's Businesses*,” Vol. 1, 284, 287-8).

Table 10 summarizes the balance sheet of Shenxin from 1920 to 1936. Judging from the trend in total assets, Shenxin was developing steadily. However, the instability of the capital to assets ratio was remarkable. Especially in 1935 and 1936, the ratio fell to

Table 10 Balance Sheet of Shenxin Cotton Mills

	1920	1925	1929	1932	1935	1936
	(1,000 yuan)					
Total Assets	5,891	23,270	37,318	64,232	65,754	73,653
Fixed Assets	4,862	15,230	19,776	41,858	50,319	49,940
Current Assets	1,015	7,557	16,114	22,361	15,242	23,664
Capital and Others	1,892	5,990	6,641	18,022	1,801	2,371
(Ratio to Assets)	32.1%	25.7%	17.8%	28.1%	2.7%	3.2%
Liabilities	3,999	17,280	30,677	46,210	63,953	71,282
Long term Debt			231	19,174	22,509	19,938
Short-term Debts	2,618	17,275	27,461	24,567	42,716	48,258
(Ratio to Assets)	44.4%	74.2%	73.6%	38.2%	65.0%	65.5%
Profit and Loss	1,379	-3	2,985	2,469	-1,272	3,085

Source: “*Historical Materials on the Rong Family's Businesses*,” 640-1.

*7 In China, this is often called hegu.

approximately 3%. In place of this, the long term debt increased, and we should note that the short-term debt ratio was consistently high, and was 65% in both 1935 and 1936.

When company management does not depend on market-based long-term funding, such as capital or corporate bonds and internal reserve funds, but depends on non-market-based indirect funds through banks and Chinese traditional financial institution (qianzhuang), business risk increases substantially, particularly when relying on short-term funds. In this case, interest costs typically become burdensome (*Historical Materials on the Rong Family's Businesses*, Vol. 1, 406), the credit-worthiness of a company deteriorates, and a company will continue to depend on the short-term funds continuously.

4.3 Yong'an Cotton Spinning and Dyeing Company as the overseas Chinese company

While Shenxin Cotton Mills was a typical family business, **Yong'an Cotton Spinning and Dyeing Company**—another representative cotton spinning company—was structured with only overseas Chinese capital (*Yong'an Cotton Spinning and Dyeing Company*, 1). The 5,302 stockholders were spread out regionally around Guangdong Province and Hong Kong. Of those, the ratio of owners with less than 1,000 yuan was 86.7%, and the rate of dispersion was high. In addition, the ratio of the Guo's stem family was low (Ibid., 22-24). Yong'an Cotton Spinning and Dyeing Company was a representative company listing in the Shanghai Chinese Merchants' Securities Market in the capital scale as shown in Table 13.

Table 11 shows the balance sheet of Yong'an from 1930 to 1937. Judging from the total assets, development was fluctuating, but compared with Shenxin, the equity capital ratio of Yong'an is high and stable. In contrast, a total of the short-term debts that includes the accounts payable, the Accounts from Individuals and the short term debt was around the height of 50% except in 1936 and 1937. This high level of short-term debt was common with Shenxin.

In the two fiscal years when this short-term debt ratio decreased, the proxy public offered bonds by the Yong'an Company was 5 million yuan. I try to show the ratio of the Yong'an-related company fund including the above bonds to total loans as a reference. The total loans almost matched the total short term debt in all years but not in 1936. The ratio of the Yong'an-related company fund to total loans was very high. In 1936, Yong'an depended on the Yong'an-related company's long-term fund. Except for capital, the largest part of the loans depended on the Yong'an-related company in all periods. This is the most important characteristic of Yong'an, which is different from the

Table 11 Balance Sheet of Yong'an Cotton Spinning and Dyeing Company

	(1,000 yuan)							
	1930	1931	1932	1933	1934	1935	1936	1937
Total Assets	32,561	35,235	40,918	41,114	33,376	28,860	31,978	35,931
Account Receivable	8,075	7,685	9,230	1,527	2,331	2,145	1,629	401
Short-term Loan	1,584	2,377	1,805	1,101	153	578	587	151
Total Short-term Credit	9,659	10,062	11,035	2,628	2,484	2,723	2,216	552
(Ratio to Assets)	29.7%	28.6%	27.0%	6.4%	7.4%	9.4%	6.9%	1.5%
Liabilities	19,042	20,631	26,113	26,832	19,386	15,109	18,337	12,437
Accounts Payable	18,638	19,525	22,424	23,376	9,990	7,778	4,048	3,188
Accounts from Individuals					5,562	3,469	5,107	2,916
Short-term Debt	383	1,046	1,816	872	622	345	605	556
Total Short-term Debt	19,021	20,571	24,240	24,248	16,174	11,592	9,760	6,660
(Ratio to Assets)	58.4%	58.4%	59.2%	59.0%	48.5%	40.2%	30.5%	18.5%
Proxy Public Offered Bonds by Yong'an Company							5,000	5,000
Total amount of Loans	19,042			24,339	16,261	11,677	14,846	
Funds by Yong'an among the above Loans	17,384			18,314	13,083	9,751	5,204	
Unpaid Dividends			1,200	2,400	3,032	3,338	3,398	600
Equity Capital	12,064	12,373	13,283	13,580	13,650	13,684	12,696	19,486
Capital	12,000	12,000	12,000	12,000	12,000	12,000	12,000	18,000
Reserve Funds	64	373	1,283	1,580	1,650	1,684	696	1,486
Equity Capital Ratio	37.1%	35.1%	32.5%	33.0%	40.9%	47.4%	39.7%	54.2%
Net Income	1,455	2,230	1,523	702	340	67	945	4,008
Sales	32,400	36,000	21,380	25,537	30,839	21,589	27,760	

Source: "Yong'an Cotton Spinning and Dyeing Company," 339-42, 136, 176.

shareholding structure.

Shenxin and Yong'an had different financial characteristics. However, both companies shared one characteristic in that their financing from Chinese financial and securities markets did not develop. Instead, they depended on an indirect fund such as a bank or related company, especially for their short-term funds. At this point, the significant difference was that Japanese companies developed the market-centered corporate governance as was discussed in Chapter 3.

This was a principal difference that impacted the competitiveness between Japanese and Chinese companies in the inter-war period.

Japanese companies in the inter-war period raised most of funds directly through financial and securities market by issuing stocks and corporate bonds. The dependence

on indirect finance was lower in major companies. Major companies' stock was dispersed widely, and their financial information was disclosed positively. It may be said that the level of information disclosure was higher than that of US companies. In the above-mentioned meaning, Japanese corporate governance in the inter-war period was market-centered.

The emerging zaibatsu which actively advanced abroad and independent companies in the domestic electric industry, have this characteristic remarkably. The major zaibatsu-related companies controlled by a family and its relatives were not dominant in the inter-war period (Shimpo, 2009, Chapter 1).

When companies can raise funds directly through financial and securities market, to be more precise, they have market-centered corporate governance, companies can raise a large amount of funds easily, with the low cost and continuously. Companies can invest a large amount of funds, and can attain a rapid development, without depending on financial institutions or an individual and a family.

Most of Japanese overseas companies and zaikabo shared a characteristic of market-centered corporate governance, shown in Table 6. When we regard the parent company of the subsidiary as an examination object, this characteristic becomes more remarkable.

Chinese companies had the following features: In Shenxin, equity capital ratio was very low, in Yong'an, equity capital ratio was comparatively high exceptionally, but it had many loans at the same time. These companies had to pay the high interest in those days' Chinese financial market shown in Section 4.2, and this became a burden on their management. In addition, the dependence on short-term loans made companies' fund basis remarkably unstable. Furthermore, both the conditions of small and unstable Chinese securities market, and the existence of huge financial institutions made these companies' dependence on the financial institutions even stronger.

In this paper, I would like to emphasize and reiterate the significance of this market-based as compared with indirect funding difference.

4.4 Chinese banks

We must examine financial institutions as the fund supply side to consider the finance of a non-bank company. In China, just before World War II, there were statistics on financial institutions, including banks, with detailed data to survey the entire finance industry. This detailed data was unlike the data for the manufacturing industry. However this comprehensive data was only available for a short-term period. The availability of this finance industry data shows how the development and the

modernization of financial institutions were important for China in the inter-war period.

Utilizing the “*China Finance Yearbook*” and “*China Banks Yearbook*,” I want to clarify the entire image of this industry. **Table 12** displays balance sheet data of the top ten Chinese banks. When the necessary data was not available in “*China Finance Yearbook*,” I supplemented it through “*China Banks Yearbook*.” I do not include the data of banks’ savings section in Table 12. Even if I include this section data, there are some cases that the ratio of the long term debt to total liabilities falls, like the Shanghai Commercial & Savings Bank.

The assets of all Chinese banks were 6,940 million yuan; the assets of the top three banks--Bank of China, the Central Bank of China, and Bank of Communications--were 3,800 million yuan, representing 54.8% of all Chinese banks. These three banks and the fifth-ranked Farmers Bank of China were all government owned and chartered banks. When I add the Kwangtung Provincial Bank and Kwangsi Bank, as municipal banks, to the four banks listed above, the ratio of government and local government owned banks became overwhelming. However, as examined later in this paper, since Bank of China and Bank of Communications were listed in the Shanghai Chinese Merchants’ Securities Market, they were not completely state-owned.

The average equity capital ratio of all Chinese banks was 7.8%, in contrast, it is surprising that the same ratio of the top ten banks was not high (5.2%). Central and local government controlled banks often have low equity capital ratio. The Central Bank of China was an exception with a ratio of 8.9%.

The Shanghai Commercial & Savings Bank, the Kincheng Banking Corporation, and the China & South Sea Bank were all commercial and savings banks. Because these were private banks, the equity capital ratio was comparatively high. However, the short-term debt of these three banks exceeded the long term debt. Alternatively, regarding the assets, investments and securities were relatively low amounts and regarding the loans, the Kincheng Banking Corporation had a high level of short-term loan and long-term loan slightly exceeded short-term loan in the China & South Sea Bank.

Even in government controlled banks, other than the commercial and savings bank, short-term funds exceeding long-term funds in both liabilities and assets were common. The development of the securities market, including stocks, was insufficient in China in the inter-war period so a short-term fund still played a very important role in bank funds. Regarding the fact that I confirmed in two non-bank companies in the above section, I can confirm it in a bank, too.

Table 12 Chinese Banks in 1936

Establishment	(1,000 yuan)										All Banks Total	Top 10 Banks Total	(Ratio to All Banks Total)
	1	2	3	4	5	6	7	8	9	10			
Bank of China	Government Owned and Chartered Bank	The Central Bank of China	Bank of Communications	The Kwangtung Provincial Bank	The Farmers Bank of China	The Shanghai Commercial & Savings Bank	Kwangsi Bank	The Kinchong Banking Corporation	The China & South Sea Bank	Yieh Commercial Bank			
Government Owned and Chartered Bank	Government Owned and Chartered Bank	Government Owned and Chartered Bank	Government Municipal Bank	Government Municipal Bank	Government Owned and Chartered Bank	Commercial & Municipal Savings Bank	Commercial & Municipal Savings Bank	Commercial & Municipal Savings Bank	Commercial & Municipal Savings Bank	Commercial & Municipal Savings Bank			
1912	1928	1928	1932	1932	1933	1915	1932	1917	1921	1915			
Assets	1,719,073	1,231,236	849,494	380,364	346,623	211,463	146,158	144,367	136,701	115,413	6,937,931	5,280,892	76.1%
Cash	291,136	275,195	138,533	37,470	79,752	34,591	26,259	28,935	18,684	31,715	1,246,914	962,270	77.2%
Issued Convertible Note and Reserve	465,691	340,375	302,141	261,780	162,014		62,366				1,699,639	1,594,367	93.8%
Total Loans (Ratio to Assets)	710,308	477,470	333,184	14,876	78,208	96,018	47,394	77,705	75,314	68,437	2,594,556	1,978,914	76.3%
Long-term	41.3%	38.8%	39.2%	3.9%	22.6%	45.4%	32.4%	53.8%	55.1%	59.3%	37.4%	37.5%	
Short-term	256,659		82,958				2,556	33,804	39,012	28,111			
Investments and securities	434,747		234,101				44,500	43,901	36,302	40,102			
(Ratio to Assets)	31.17%	37.57%	45.04%	2.88%	3.46%	8.62%	5.56%	18.21%	9.74%	6.14%	382,131	163,437	42.8%
	1.8%	3.1%	5.3%	0.8%	1.0%	4.1%	0.4%	12.6%	7.1%	5.3%	5.5%	3.1%	
Equity Capital Total	44,816	109,243	26,667	31,665	8,648	13,261	6,819	10,020	9,500	12,998	540,164	273,637	50.7%
Capital	40,000	100,000	20,000	15,000	7,500	5,000	6,164	7,000	7,500	7,500	413,277	215,664	
Reserve Funds	4,816	9,243	6,667	16,665	1,148	8,261	655	3,020	2,000	5,498	126,887	57,973	
Equity Capital Ratio	2.6%	8.9%	3.1%	8.3%	2.5%	6.3%	4.7%	6.9%	6.9%	11.3%	7.8%	5.2%	
Total Debts (Ratio to Assets)	978,670	713,795	458,236	33,446	155,444	114,648	20,601	116,021	100,582	99,228	3,563,003	2,790,671	78.3%
Long-term	56.9%	58.0%	53.9%	8.8%	44.8%	54.2%	14.1%	80.4%	73.6%	86.0%	51.4%	52.8%	
Short-term	450,377		131,741			43,927	187	47,103	40,823	41,804			
Issued Convertible Note and Reserve	366,311		326,494			70,720	18,880	68,918	54,474	57,424			
	465,691	340,375	302,141	261,780	162,014		62,366				1,698,976	1,594,367	93.8%

Note: The data of bank's savings section is not included in this table.

Source: Regarding banks' ranking and major data is based on "China Finance Yearbook", "China Banks Yearbook" supplements some missing data.

After World War II, China shifted to a socialist economy. A very interesting theme is what kind of development these companies and financial institutions were pursued. It is likely that a full-scale study will develop in the future. It is natural that the central and local government owned financial institutions that grew rapidly in the inter-war period played a leading role in the nationalization of the finance industry itself and aided in the nationalization of many other industries through finance. The developing private enterprises and private financial institutions lost an opportunity to develop foundations for the market economy.

4.5 The Shanghai Commercial & Savings Bank and the Kincheng Banking Corporation

Because detailed documents were published on the Shanghai Commercial & Savings Bank and the Kincheng Banking Corporation accomplishing rapid development as private banks, I want to examine this development in detail. The Shanghai Commercial & Savings Bank was the sixth-largest bank by assets scale and the largest private bank. The Kincheng Banking Corporation was the eighth-largest bank by assets.

“Historical Materials on the Shanghai Commercial and Savings Bank” provides the most comprehensive historical material with about 900 pages, but it does not provide sufficient interesting and relevant data regarding investment. It did explain in exceptional detail about financing for the cotton spinning industry in 1933, and outlined the fact that the Shanghai Commercial and Savings Bank invested intensively in Shenxin Cotton Mills (*“Historical Materials on the Shanghai Commercial and Savings Bank,”* 514). In contrast, *“Historical Materials on the Kincheng Banking Corporation”* was an excellent resource with more than 1,000 pages, and it also disclosed detailed information about loans and investments of the Kincheng Banking Corporation.

A militarist party and a bureaucrat owned more than 50% of the Kincheng Banking Corporation's stock in 1927, but its stock became considerably dispersed afterwards (*“Historical Materials on the Kincheng Banking Corporation,”* 243). In June 1937, it invested 24 million yuan of its 96 million yuan in total loans into the mining and manufacturing industries. It invested 12.8 million yuan, more than 50% of the above investment, in the spinning industry. A breakdown of loan data by company is also included and shows that the investment in Dasheng Cotton Mills was the largest (*“Historical Materials on the Kincheng Banking Corporation,”* 368-70).

In addition to its loans, Kincheng was also involved in securities investment, although the securities was on a smaller scale. We can get a breakdown by industry

and by company in June 1937 as well. Of a total investment of 10 million yuan, the investments in the spinning industry and the finance business were 2 million yuan each and considerably dispersed. The reference materials investigated the kind of company controls resulted from the investment (*"Historical Materials on the Kincheng Banking Corporation,"* 376-81) and also provided a detailed breakdown of the domestic bonds.

We can guess that these historical materials were not widely disseminated in the inter-war period although they are very significant. These historical materials show that the Kincheng Banking Corporation had a strong intention to contribute for the development of entire industries, including mining and manufacturing industries and finance, and to develop a company. It is an important factor which stagnated the development of China's economy and companies that this movement did not become the mainstream.

4.6 Chinese securities market

Finally, I would like to survey the Chinese securities market. Regarding the securities market becoming a basis of the market economy, unlike the banks, there are few source documents and it is difficult to clarify the entire image at this time.

The subject of how this market was established and developed, what kind of fate it followed under socialism, and how it revived after the reform and door-opening policies is extremely important to consider in the context of the characteristics of the current Chinese market economy.

Although "*China Finance Yearbook*" was a finance yearbook, it had extremely few data of the financial and securities market. It showed the actual condition of the Chinese financial system in those days well. As limited data, it published the same data of the Shanghai Chinese Merchants' Securities Market in **Table 13**. It showed that the activities of this stock exchange were accepted widely.

The Shanghai Chinese Merchants' Securities Market was established in 1920. In 1933, this stock exchange merged with the securities section of the Shanghai Securities and Commodity Exchange and developed its activities. It operated as shown in Table 13, but its activities were stopped with the Shanghai incident. As a result, the period of its full-scale activities was short.

According to Shanghai Municipal Archives (1992) published comparatively recently, the history of the Chinese securities market began with the establishment of the Shanghai Stabilization Stock Company in 1882. This book also documents that the Shanghai Securities and Commodity Exchange was established in 1920. However, for

Table 13 Shanghai Chinese Merchants' Securities Market

	Domestic Bonds 1,000 yuan	Company Stock 1,000 stocks	Company Bonds 1,000 yuan
1932	901,710	4,338	20,299
1933	3,182,685	8,534	51,422
1934	4,773,410	18,453	44,059
1935	4,909,980	898	12,437
1936	2,335,375	9,685	16,413
Average	3,220,632	8,382	28,926
Representative Companies (with more than 10,000 yuan's nominal capital)			
Bank trust services	Bank of China		40,000
	Bank of Communications		
	Yien Yieh Commercial Bank		
Public utility	Chinese Merchant Electric Company		10,000
	Waterworks of Zhabei Water and Electricity Company		10,000
Spinning industry	Yong'an Spinning Company		12,000
Mining	Zhong Xing Coal Company		10,000
	Han Ye Ping Coal and Iron Company		18,666
Department store	Sincere Company		10,000 (Hong Kong's yuan)
	Yong'an Company		15,000
Others	Nan Yang Brothers Tobacco		11,250

Note: Regarding upper section of this table, we have data in Source 2, however some parts of it is revised by Source 1.

Source 1: "The Chinese Economic & Statistical Review", Vol. IV, No.10, October 1937.

2: The data of the listed companies based on Naka-Shina Shinko Kabushiki Gaisha (1941), Appendix. The appeared companies are based on the results after 1939.

some reason, this document does not show either detailed data for the two exchanges or a document of the Shanghai Chinese Merchants' Securities Market in the first half of the book when it discussed the period before World War II.

Through these records, we can confirm that the change in the Shanghai Chinese Merchants' Securities Market was very intense during a few periods. Only the public bond market that had a relatively large scale was moderately stable. Because the issued stock of Bank of China was 400,000 shares and the issued stock of Bank of Communications was 200,000 shares, if the annual average traded volume of a company stock was 8 million, the traded volume in this market was not significant. The corporate bond market was much smaller than the public bond market so we can conclude that this securities market was a market primarily for public bonds.

The average public bond's yearly dealing of 3,200 million yuan in this table was approximately equal to the bank deposit of 3,600 million yuan shown in Table 12. If the

public bond's dealing frequency was not so large, we may have been able to conclude that the public bond market developed comparatively with bank deposits. Because financial institutions did not hold many public bonds, for whom and for what reasons the public bond was invested will be an interesting examination subject in the future.

The Central China Development, Office of Research (1941, 58-62), which introduced the Shanghai Chinese Merchants' Securities Market in detail, pointed out the reason why the dealing of company stocks became dull. The primary reasons were political instability, high general interest rate in comparison with the dividend of stocks, little profit, the low level of liquidity, and the non-publication of accounts.

In contrast, the same book explained why a public bond market developed markedly: a unification of the public bond system, the surge of confidence, possible free trade, and high yields. From these explanations, we could speculate that in spite of a small market size, various investors eagerly demanded more advantageous financial products and the further development possibility of the financial markets was hidden in China in the inter-war period

Conclusion

The inter-war period was a time when FDI was taking a more and more important role in substitution for portfolio investment in foreign investment. FDI strongly promotes the economic development of the host country as well as the investing country and investing company because such investments can transfer management resources of a company. Prior to the inter-war period, FDI was concentrated in companies focused on the extraction of natural resources and the processing industry, but the manufacturing industry gradually increased. The U.S. auto industry's expansion into Canada and Europe began in earnest.

Such a change was not yet at all big in Asia. The change was just beginning. Even in China, which for a long time rejected foreign capital, FDI finally began to develop after the Chinese Revolution of 1911. It was Britain that pushed forward an expansion to China earliest, but Japan rapidly caught up with Britain. In China except Manchuria, Japanese companies were particularly active in expanding the manufacturing industry, particularly the cotton spinning industry.

In China, the cotton spinning industry began to develop while importing Japanese and English technique, capital, and raw materials. The modern company and financial

institutions which supported it with various forms were born and led the process. In this way, Japanese and Chinese companies competed intensely in Shanghai—China's greatest industrial city.

In this paper, I examined the management of Japanese and Chinese cotton spinning companies in the inter-war period with greater detail on China, and highlighted the differences in the management between the two countries' companies. Whereas Japanese companies developed market-centered corporate governance, Chinese companies maintained the indirect finance model mainly through the use of short-term funds and corporate governance based on a state and a family. This difference became the important factor in creating the difference in competitiveness between the two countries' companies. In addition, the excellent technique and management of Japanese companies was transferred to China directly or through this competition indirectly.

It should be noted that Chinese central and local government controlled financial institutions, which grew rapidly in the inter-war period, played a leading role in the nationalization of the finance industry itself and many other industries by providing financing after World War II. In the transition to socialism, each company was nationalized and became a group of huge **state-owned enterprises** which were overwhelmingly dominant in China. These companies challenge a competitive world economy with companies, including Japanese companies, through reform, door-opening policies and privatization of the state-owned enterprises. The Chinese companies now have a new characteristic, the huge **state monopoly enterprises**.

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Postscript

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