

Session 8: International Order of Asia in the 1930s and 1950s

International Order of Asia in the 1930s: Viewpoints of analysis¹

Shigeru Akita and Naoto Kagotani

At first, we will present broader frameworks and viewpoints of analysis on '**International Order of Asia in the 1930s**', based upon our collaborative work with Japanese and Taiwanese scholars².

1 International Order, Economic Responses and Interdependence

In the context of world economic history, the 1930s have been characterized by the long economic depression that followed the Great Depression of 1929, and by the steady erosion of the liberal free trade regime owing to the shift towards bloc economies. It has thus been described as a period, in which the relationship of economic interdependence receded to a great extent, thus it paving the way to the outbreak of the Second World War. From an Asian perspective, the 1930s have been interpreted as a period of the rise of nationalism against Western Powers. The independence from European colonial rule became a national slogan and economic 'interdependence' was recognized as a vulnerability of each region or state. In general, with the collapse of the international political-economic order in the 1920s, the next decade has been identified as an era of 'crisis' as the imperial powers pursued self-reliance.³ The cause and responsibility for the collapse of the international order in the 1930s has been placed at the side of the nation-states at 'the Core' of the Modern World System, and we may say that the interpretation of the 1930s is still dominated by the historiography of Western Powers. However, we try to shift away from Eurocentric analysis and to describe the formation of the 'Asian International Order' on the assumption that the inter-regional order of Asia in the 1930s developed unique characteristics.

In the 1930s, the Western countries had many colonies in Southeast and South Asia, whose economic histories have been written in the context of a passiveness of strong influences from Western Powers. Each area was incorporated into the European spheres of influence and divided

separately by the implementation of bloc economies. On the other hand, in the political context, the nationalistic interpretation of history has put much emphasis on the aspects of resistance and self-assertion against colonial rule, and have pictured the 1930s as a prelude to political independence or decolonization after the Second World War. This defensive aspect or passiveness in Asian economic history on the one hand, and the aggressive stance or activeness in Asian political history on the other hand, has led to a dichotomy on contemporary Asian history in the 1930s between the 'economic domination' of Western Powers and the 'political resistance' of the Asian regions. Moreover, it seems that the stronger economic control or exploitation by the metropolitan powers was, the more intensive the national claims for political independence tended to be. This is a strange correlation to find in contemporary Asian history. However, an important aspect of Asian history has disappeared from this historiography. In short, the spontaneous economic responses of Asia to metropolitan control have not been fully explained, despite the strong political reactions to Western colonial rule and the rise of nationalism. There still exists an assumption among Asian scholars that the options for an economic response from the Asian side were very limited by the lack of political autonomy under colonial rule. We intend to present the positive aspects in the field of Asian economic history, by referring to recent works by Japanese historians.

We would also like to mention other important viewpoint in regard to the history of international relation. That is the formation of mutual interdependence or interconnectedness between 'the Core' and 'the Periphery' of the Modern World System. This picture cannot be comprehended from an orthodox interpretation of 'domination and opposition' between the ruler and the ruled. For example, in the context of Asian history in the late 1930s, it used to be insisted that the Asian regions claimed sovereignty in political struggles for independence or resistance to the Japanese military invasion. This insistence has led to a high estimate of the importance of domestic factors for the formation of 'nation state', and the exclusion of external influences from the interpretation of contemporary Asian history. A Japanese economist, Nawa Toutsu, has argued that the capitalist development of Japan in the late 1930s was highly fragile

because of the heavy dependence on external factors; such as the Chinese market for cotton textiles, the import of capital goods and oil from the United States and the supply of raw materials from the British Empire (Commonwealth).⁴ The rise of nationalism in the 1930s thus tended to emphasize the strategy of import-substituting industrialization, and relationships of economic interdependence were regarded as leading to the vulnerability of the 'nation state'. Therefore, it was not imaginable to think seriously about the formation of international order of Asia through a metropolitan-peripheral relationship. We, however, would like to reconsider the historical meaning of interdependence and complementary relationship in Asia, not only by looking at metropolitan-peripheral relations but also at the formation of inter-regional relations within Asia.

2 Economic nationalism, 'Imperial division of labor' and the 'complementarity'

First, we try to reconsider the historical significance of Asian industrialization in the 1930s in the context of global perspective. It has often been said that the trade frictions in the 1930s represented a scramble for Asian markets between the Lancashire and Japanese cotton industries and that they were regarded as a clash of manufacturing interests. However, the recent works in the field of British Imperial History, especially the arguments of 'Gentlemanly Capitalism' by Cain and Hopkins, suggest that the financial and service sectors had always dominated British economic interests and that manufacturing was secondary. The external economic policies of Great Britain reflected this structure of British economy. They put much emphasis on the payment of interest and dividends from the colonies, and the defrayal of administrative costs by dependencies. They stress that the maintenance of credibility of the Sterling was imperative for the British 'official mind'.⁵ The same logic can be applied in the case of the Netherlands and her colonial rule over the Dutch East Indies⁶. Following these new interpretations, it is noticeable that a kind of 'coexistence' of economic interests tended to appear in Asia between the British and Dutch financial interests and the Asian manufacturing interest, supported by the rise of nationalism. The industrialized countries of Great Britain and the Netherlands transferred their labor-intensive (cotton) industries to Asian countries and tended to concentrate on the economic activities of the

financial and service sectors. It was therefore reasonable for them to ratify the industrialization of Asia through this shift of economic interests. It is one of the prominent features of the International Order of Asia in the 1930s.

The rise of economic nationalism in each Asian region was an essential factor for the development of Asian industrialization. To promote the industrialization in Asia, it was important to get two institutional frameworks; first, tariff autonomy and, second, an independent currency policy, which are the essential requirements of 'national economies'⁷. Japan recovered the former in 1899 by the revision of the so-called 'unequal treaties' and got the latter in 1897 through the adoption of the gold standard. China recovered the first requirement in 1929 and got the second in 1935 in the process of its own currency reform. In the case of British India, the process of attaining tariff autonomy was a gradual step by step process. But she could not control her currency policy, especially the exchange rates of Indian rupee to the sterling⁸. Its lack of currency autonomy led to an upsurge of nationalistic feelings and accelerated the acquisition of tariff autonomy in the 1920s.

However, as an important element in Asian industrialization, we found out the 'complementarity' between the Western Powers and the Asian regions. The industrialization of Asia in the 1930s is not solely explainable by a confrontational schema or rivalry between 'the Core' and 'the Periphery'. In the case of British India, the loss of competitiveness of the Lancashire cotton industry in the Indian market used to be interpreted as an 'economic triumph' for Indian nationalism⁹. However, the industrialization in British India was achieved by utilizing the imperialist order of the British Empire even under the colonial administration¹⁰. In the 1920s the Government of India gradually raised the level of import duties in order to attain more revenues and to balance Indian finances. This increase in the Indian tariffs had the effect of smoothing the payment of administrative costs to Great Britain (the remittance of 'Home Charges'). In this sense, the British Government implicitly allowed the raising of Indian import duties and confirmed the protective effect of duties for Indian industries, even when they enforced terms of 'Imperial Preference' after the Ottawa Agreement of 1932. British India in the 1930s started its

import-substituting industrialization through a complementary economic relationship between British financial interests and herself. From the British financial point of view, Indian industrialization was useful for the collection of Indian debts, if British India could produce a trade surplus from Britain by reducing her imports and establishing a favorable balance of payments. The Indian nationalists recognized this logic through the political negotiations for acquiring tariff autonomy.

We can also identify the same kind of complementary relationship between China and the United Kingdom in the 1930s, especially in the case of Chinese currency reform in 1935. The Nationalist Government of China suffered financially from a heavy outflow of silver in 1933-35, caused by fluctuations in silver prices in the American market. They received some advice from American financial advisers such as Kemmeller Commission and A.N. Young about possible remedial action. However, in the end Chinese ministers of finance, T. V. Soong (1928-33) and H.H. Kung (1933-47) almost completed the planning of monetary reform by themselves and carried it out resolutely in November 1935 in opposition to Japanese obstruction. The British Leith-Ross Mission visited Japan and China on the eve of the currency reform to persuade Japanese government to agree to a joint-loan to China. The Chinese Nationalist Government tacitly took advantage of this opportunity, and successfully obtained cordial support from the representative of British financial interests in China, the Hongkong and Shanghai Bank. On the other hand, just after the announcement of reform, they smoothly sold huge amounts of nationalized silver bullion to the United States in accordance with the Chinese-American Silver Agreement which was signed with the U.S. Department of the Treasury on 2 November 1935¹¹. Through these actions the market value of new Chinese dollar stabilized without linking it either with Sterling or with the U.S. Dollar. The success of monetary reform led to the acceleration of import-substituting industrialization and the increase of Chinese exports. This masterly implementation of Chinese currency reform was depended on a shrewd political calculation of the balance of power and the utilization of Anglo-American rivalry in order to enlarge economic influence of the Chinese Government. As a natural course of event, the Nationalist Government of China took the

initiative in currency reform and achieved a great success in the late 1930s¹².

These two examples of British India and China reflect the unique features of the industrialization of Asia in the 1930s, and the similar economic relationships have been discerned between Japan and the United Kingdom at the turn of the 19th-20th centuries.¹³ They demonstrate the need to reconsider Asian economic links from the new angle of the complementary relationship with, rather than antagonism against, the Western powers. Asian industrialization made steady progress by taking full advantage of the Imperialistic International Order of the world in the 1930s.

3 'Openness' of Imperialistic International Order and Asia

It has been argued that the European Powers and Japan in the 1930s divided Asia into their spheres of influence through exclusive 'bloc' economies and that their rivalry became a remote cause of the Asia-Pacific War (the Second World War). However, we would like to insist that European policies toward Asia in the 1930s were not so exclusive as it is often argued and that the Ottawa Trade Agreement and the sterling area of Great Britain possessed a degree of 'openness' as a bloc economy. We agree with the new interpretation of Cain and Hopkins on the following point; the Ottawa Agreement was intended primarily to promote the financial and service interests of the City of London rather than British manufacturing interests, by smoothing the payment of interest and dividends from the colonies to the metropolis¹⁴.

In order to achieve this smooth payment of interest, it was imperative to increase and maintain the trade surpluses of the colonies. Therefore, the metropolis, especially Great Britain, had to be the largest purchaser of primary products from the colonies. As a result, the Ottawa Trade Agreement gave priority to the expansion of colonial exports of primary products rather than the export of manufactures from the United Kingdom. A contemporary publication by the Royal Institute of International Affairs clearly points out the logic behind and the results of the sterling area in the late 1930s¹⁵. However, it was difficult to maintain a large trade surplus for the colonies by relying only on the sterling area. It had to be complemented by the growth of exports to other

advanced industrial nations, such as the United States and Japan, from the British Empire and Commonwealth. It is worth noting here that B. R. Tomlinson has pointed out the following points; the Ottawa Agreement and Imperial Preference rarely functioned to strengthen the economic links within the British Empire and the application of Imperial Preference to British India was completely irrelevant.¹⁶ As we have already mentioned, British India in the 1930s industrialized by taking full advantage of the protection of Imperial Preference. The main concern of the United Kingdom was not to implement tariff policies for the protection of British domestic industries, but to maintain the international value of sterling along with the ‘financial and service interests’ of the City. The British Empire and Commonwealth in the 1930s was not a ‘closed’ bloc protected by Preferential Tariff. It was open and responsive to the external world in order to promote British ‘financial and service interests’. Britain heavily depended on a relatively ‘free trade’ made regime, balanced budgets and low military expenditure in the 1930s. A ‘closed’ empire usually increases the cost of maintaining an empire¹⁷, and the British Empire was the case in point of how to reduce costs through the ‘openness’ of an empire.

¹ This short essay is mostly overlapped with our Discussion Paper : Shigeru Akita and Naoto Kagotani, ‘International Order of Asia in the 1930s’, *Discussion Paper of Global History Project*, Osaka University of Foreign Studies, March 2000.

² Shigeru Akita and Naoto Kagotani (eds.), *1930-nendai Ajia Kokusai Chitujō* [*International Order of Asia in the 1930s*] (Hiroshima, 2000) [Thereafter, *1930-nendai Ajia*].

³ Yoichi kibata, ‘Kiki to Senso no Nijyu-nen [The twenty years during the crises and wars],’ in *Iwanami Koza Sekai-Rekishi* [*Iwanami Series of World History*] 24: *Kaiho no Hikari to Kage* [*The light and shadow of the Liberalization*], (Tokyo, 1998).

⁴ Nawa Touitsu, *Nihon Bouseki-gyo to Genmen-mondai Kenkyū* [*A study of Japanese Cotton Spinning Industry and the problem of raw cotton*], (Osaka, 1937).

⁵ Cain and Hopkins, *British Imperialism, 1688- 2000*, Chapters 17, 23 and 25.

⁶ Naoto Kagotani, ‘Japanese Cotton-textile diplomacy in the first half of the 1930s: The case of the Dutch-Japanese trade negotiation in 1934,’ *Bulletin of Asia-Pacific Studies*, vol. VII (1997).

⁷ Yuzo Yamamoto, *Nihon Shokuminchi Keizaishi Kenkyū* [*A study of the history of Japanese colonial economies*], (Nagoya, 1992), chapter 2.

⁸ B. R. Tomlinson, *The Political Economy of the Raj 1914-1947: The Economics of Decolonization in India*, (London, 1979); do., *The New Cambridge History of India*, □-3, *The Economy of Modern India 1860-1970*, (Cambridge, 1993).

⁹ Basudev Chatterj, *Trade, Tariffs and Empire: Lancashire and British Policy in India 1919-1939*,

(Delhi, 1992).

¹⁰ Nobuko Nagasaki, 'Hi-bouryoku to Jiritsu no Indo [India under the Non-violence and Independence],' in Naoki Hazama and Nobuko Nagasaki (eds.), *Sekai no Rekishi* [*Series of World History*] 27: *Jiritsu ni mukau Ajia* [*Asian movements towards Independence*], (Tokyo, 1999).

¹¹ On the Chinese currency reform in 1935, see Arther N. Young, *China's Nation-Building Effort, 1927-1937: The Financial and Political Record*, (Stanford, 1971), Chapters 7 and 8 ; Yutaka Nozawa (ed.), *Chugoku no Heisei-Kaikaku to Kokusai-Kankei* [*Currency Reform in China (1935) and China's Relations with Japan, Britain and America*], (Tokyo, 1981) ; P. J. Cain, 'British Economic Imperialism in China in the 1930s: The Leith-Ross Mission', *Bulletin of Asia-Pacific Studies*, Vol. VII (1997).

¹² Toru Kubo, *Senkan-ki Chugoku Jiritsu eno Mosaku: Kanzei-Tsuka Seisaku to Keizai-hatten* [*China's Quest for Sovereignty in the Inter-war Period: Tariff Policy and Economic Development*], (Tokyo, 1999), Chapter 8.

¹³ Shigeru Akita, *Igrisu Teikoku to Ajia Kokusai-Chitsujo* [*The British Empire and International Order of Asia*] (forthcoming), Chapters 5 and 6.

¹⁴ Cain and Hopkins, *British Imperialism, 1688- 2000*, Chapter 20.

¹⁵ The Royal Institute of International Affairs, *The Problem of International Investment*, (London, 1937).

¹⁶ B. R. Tomlinson, 'Imperial Power and Foreign Trade: Britain and India (1900-1970)', in P. Mathias and J. A. Davis (eds.), *The Nature of Industrialization*, vol.5, *International Trade and British Economic Growth from the Eighteenth century to the Present day*, (Oxford, 1996).

¹⁷ Patrick K. O'Brien with Leandro Prados de la Escosura, 'The Costs and Benefits of European Imperialism from the Conquest of Ceuta, 1415 to the Treaty of Lusaka 1974', *Revista de Historia Economica*, Ano XVI, Invierno 1998, No.1 ; Avner Offer, 'The British empire, 1870-1914: a waste of money?', *The Economic History Review*, 2nd ser., 46 (1993).