THE EARLY U.S.-JAPAN ECONOMIC RELATIONSHIP AND THE RISE OF SHŌWA MILITARISM

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ABSTRACT

The notion that the bilateral economic relationship between the United States and Japan played a central role in prompting the Pacific War is not a novel concept. In particular, the number of scholarly and popular works that have identified the United States’ escalating use of trade and financial sanctions in the late 1930s and early 1940s as a response to Japan’s increasing military advances in Asia are numerous. Such discussions on the Pacific War emphasize that the U.S.-imposed export embargoes on strategic goods and resources and freezes on Japanese financial assets eventually prompted Japan to attack Pearl Harbor in late 1941. More importantly, these discussions are punctuated with the moral argument that the U.S.-imposed embargoes were necessary, and that war was essentially inevitable, given Japan’s brutal occupations of China and Southeast Asia. In short, so the standard argument goes, Japan’s unjustifiable rise towards militarism prompted an end to the bilateral economic relationship, which in turn prompted the onset of the Pacific War.

The analysis presented here will argue that such interpretations are misleading and shortsighted. Specifically, it will argue that Japan’s slide towards Shōwa era militarism and war was in itself sparked by the initiation of the long-standing, yet problematic, bilateral economic relationship with the United States – a relationship that
exacerbated social, political and economic turmoil in a country that was forced to quickly modernize. This relationship was subsequently characterized by Japan’s uncomfortable and growing dependence on U.S. trade and financial capital, a dependence that America cultivated, as it looked to Asian markets after the turn of the twentieth century to fuel its continued domestic economic growth. Contrary to common interpretations that Japan’s Shōwa era militarism provoked U.S. sanctions, which led to the attacks on Pearl Harbor, this analysis will argue that Japan’s early economic, political and social unrest, stimulated largely by America’s forced opening in 1853, and its subsequent lopsided dependence on the American economic relationship, fostered the establishment of the Shōwa militarist state. That militarism in turn led to the United States’ devastating termination of the economic link, which finally led to war. In summary, this thesis argues that it is the entire history of the pre-war U.S.-Japan bilateral economic relationship, not just the use of sanctions in – which should be identified as a key cause in determining Japan’s motivation to go to war with the United States.
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Japanese and Chinese names in the text are written in the Japanese and Chinese form, with the surname first, except when listed in the reference list, where authors whose works are published in English are listed in traditional Western order for ease of reference. Long vowel marks and special apostrophizing have been included in Latinized Japanese names and terms, where appropriate. Chinese names are transcribed according to the Pinyin system. Place names are listed with the naming convention associated with the time period referenced in the text – for example, early-Meiji period Tokyo is referenced as Edo, and Beijing under the Republic of China is referenced as Peking. The terms “America” and “Americans” are used synonymously with the United States and United States citizens, respectively.
INTRODUCTION

The notion that the bilateral economic relationship between the United States and Japan played a central role in prompting the Pacific War is not a novel concept. In particular, the number of scholarly and popular works that have identified the United States’ escalating use of trade and financial sanctions in the late 1930s and early 1940s as a response to Japan’s increasing military advances in Asia are numerous. For example, a more recent scholarly contribution to this subject – Edward S. Miller’s *Bankrupting the Enemy* (2007) – argues that Washington’s July 1941 freezing of Japan’s U.S. dollar holdings and the quarantine of its foreign gold reserves primarily are responsible for pushing Japan to launch its surprise attack against the U.S. Navy’s Pacific Fleet later that year (Miller 2007, 1-2). Alternately, perhaps one the most recent popular references to Japan’s rational for launching the Pacific War occurs in a key scene of the 2001 box office hit *Pearl Harbor*, in which the character depicting Japanese Fleet Admiral Yamamoto Isoroku (played by Mako Iwamatsu) states that America’s crippling oil embargo against Japan leaves it no choice but to launch a surprise attack that will annihilate America’s presence in the Pacific.

Such discussions on the Pacific War emphasize that the U.S.-imposed export embargoes on strategic goods and resources and freezes on Japanese financial assets eventually prompted Japan to attack Pearl Harbor in late 1941. More importantly, these discussions are punctuated with the moral argument that the U.S.-imposed embargoes were necessary, and that war was essentially inevitable, given Japan’s brutal
occupations of China and Southeast Asia. These analyses argue that the U.S. embargoes were a defensive measure to stop further Japanese aggressions, and were justified due to Japan’s inexcusable swing towards militarism in the late 1930s. In short, so the standard argument goes, Japan’s unjustifiable rise towards militarism prompted an end to the bilateral economic relationship, which in turn prompted the onset of the Pacific War.

The analysis presented here will argue that such interpretations are misleading and shortsighted. Specifically, it will argue that Japan’s slide towards militarism and war was in itself sparked by the initiation of the long-standing, yet problematic, bilateral economic relationship with the United States – a relationship that exacerbated social, political and economic turmoil in a country that was forced to quickly modernize. This relationship was subsequently characterized by Japan’s uncomfortable and growing dependence on U.S. trade and financial capital, a dependence that America cultivated, as it looked to Asian markets after the turn of the twentieth century to fuel its continued domestic economic growth. Contrary to common interpretations that Japan’s Shōwa era militarism provoked U.S. sanctions, which led to the attacks on Pearl Harbor, this analysis will argue that Japan’s early economic, political and social unrest, stimulated largely by America’s forced opening in 1853, and its subsequent lopsided dependence on the American economic relationship, fostered the establishment of the Shōwa militarist state. That militarism in turn led to the United States’ devastating termination of the economic link, which finally led to war. In summary, it is the entire history of the pre-war U.S.-Japan bilateral economic relationship, not just the use of sanctions in –
which should be identified as a key cause in determining Japan’s motivation to go to war with the United States.

For the purposes of this analysis, the bilateral economic relationship can be defined as the direct economic interactions between the United States and Japan from 1853 until 1941, which was predominantly comprised of two components: international trade and financial capital flows. After the end of the nineteenth century this trade and financial capital relationship was marked by a distinct unequal dynamic that saw a Japan that was continually more dependent on U.S. trade and capital than vice versa. In this thesis I propose that Japan’s overwhelming and unsettling dependence on American trade and investment, while it was in desperate need of money and resources to pursue its own imperialistic expansion abroad and defensive modernization at home, ultimately led to its transformation into a militaristic nation whose key goal became the breaking of that suffocating dependence.

When analyzing Japan’s trade dependency, it is important to note the following key factors that defined the U.S.-Japan trade relationship. First, the U.S.-Japan trade relationship began as each nation was at widely different points in their economic development. At the time the relationship officially began in 1858, the United States was well into its first industrial revolution and would soon enter its second. 1850s Tokugawa Japan, on the other hand, featured a highly isolated, self-sufficient agrarian economy that was incapable of realizing gains from mass production and international trade. As a revolutionized Japan quickly evolved into a semi-industrialized nation in the
late-nineteenth century Meiji era, it was still an economic laggard compared to the United States. Yet, playing catch-up, it rapidly transformed itself into an industrialized economy capable of competing with the developed West. The rapid and wide-ranging nature of this change caused economic instability and fueled political and social unrest (Ohno 2006, 42-44). Second, Japan is an island nation with limited natural resources, especially strategic resources such as fossil fuels and iron ore. As it finally entered its own industrial revolution spurred by the rapid Meiji-era reforms of the late-nineteenth and early-twentieth centuries, Japan became highly dependent on trade partners that could supply resources needed for such industrial expansion. For example, by 1932, as Japan was steadily on a path towards becoming a militarist state, it was annually importing 600,000 tons of crude oil, between 700,000 and 900,000 tons of fuel oil, and over 100 million gallons of gasoline. Almost all of that crude and fuel oil was imported through American suppliers, with refined gasoline being supplied by U.S. and British firms (Moore 1973, 551). America would also become Japan’s leading supplier of aluminum and a prominent supplier of iron ore and steel. On the export side, Japan was highly reliant on sales of its main commodity, silk, of which the United States would quickly become the preeminent buyer (Miller 2007, 20). Thus, the United States soon became Japan’s leading supplier of fossil fuels and iron ore and its largest single export market. As Japan became more industrialized and militarized, this dependency on resources and export markets grew further.
Similarly, Japan was highly dependent on the other key factor that comprised the bilateral economic relationship, namely financial capital. Since foreign direct investment (i.e. equity investment) played a relatively small role in its capital import portfolio, Japan’s government, as well as its private sector, became large borrowers of Wall Street loans (Ohno 2006, 94-95). Particularly after World War I, Japan became increasingly financially indebted to the United States, which began to replace Great Britain as the world’s preeminent lender in the 1920s. This analysis will argue that Wall Street loans proved to be a precarious and expensive, yet necessary, dependence, especially after the collapse of the U.S. financial markets in 1929.

As Japan sought to rapidly modernize through industrialization, it became ever more dependent on the United States for trade and loans. Thus, a vicious cycle emerged. The act that this rapid foray into industrialization and resulting spiraling dependence was brought about by the United States’ forced “opening” of Japan in the first place, contributed further to Japan’s great distrust and fear of the economic relationship with America. This escalating fear of dependence on trade and loans played a large role in creating highly destabilizing internal struggles, struggles that fertilized extremist movements in a country that was experiencing a too rapid and perilous political, economic and social evolution, as it strove to become a global power that would be considered equal with the United States, and autonomous from American attempts at economic hegemony grasp in Asia.
PART 1

TRADE TREATIES AND THE ORIGINS OF JAPANESE IMPERIALISM

Contrary to common interpretations, U.S.-Japanese tensions over trade that led to the Pacific War did not begin with the State Department’s 1939 “moral embargo” on American sales of warplanes and munitions in response to Japan’s civilian bombings of Canton, China (modern day Guangzhou) (Miller 2007, 77-78). This chapter will argue instead that these frictions actually had begun eighty-five years earlier when the two nations initiated their relationship. This initial contact would usher in what I suggest is the first phase of the U.S.-Japanese economic relationship, which lasted until the late nineteenth century, and was characterized by the rapid transformation of Japan’s economy from a closed, feudalistic agricultural system to a developing, industrial one. It is this first phase that set the tone of pre-war U.S.-Japan relations as a whole, and would sow the seeds of dissonance between the two nations.

The shock of the United States’ forced opening of Japan in 1854, followed by Washington’s subsequent imposition of unequal trade treaties in 1858 and 1866, pushed the nation to rapidly reform and modernize for fear of being exploited. This transition threw the developing country into repeated political and economic unrest for a large part of nineteenth century – i.e. from the onset of the American intervention in 1854 until the 1880s, when the new Meiji bureaucracy was largely able to institutionalize and stabilize Japan’s political and economic systems (Beasley 1972; Jansen 2000; Ohno 2006). I propose that this tumultuous domestic transformation – largely induced by
Washington’s imposition of commercial relations – played a key role in stimulating Japan’s early propensity for imperialism that drove it to dominate Korea and build a foothold in Manchuria by the early twentieth century. Specifically, I emphasize that this initial drive towards Asian imperialism was fueled less by a desire to emulate Western colonial powers and to join the “imperialists club,” but was rather driven by concrete geostrategic ambitions to gain access to natural resources needed to industrialize, and to build a security buffer between Japan and other threatening nations (e.g. Russia and China), after experiencing the shock of its own strategic vulnerability that was laid bare by America’s intervention in 1854. Subsequently, I argue that Japan’s early imperialist successes encouraged it to pursue militarist-driven pan-Asian dominance, which eventually led to conflict with the United States, as is discussed in Part 2 of this thesis. Therefore, the early years of the U.S.-Japanese economic relationship – initiated under the threat of Commodore Matthew Perry’s “black ships” – should be seen as the most critical in shaping the eventual conflict between the two nations.

Having been suddenly opened after two hundred and fifty years of limited contact with the West, and now forced to engage commercially with the United States – and because of the United States, with other Western nations – Japan was compelled to abandon its feudal-isolationist system and modernize politically and economically so to survive as an independent nation. Only through political and economic reform could Japan modernize so to become a wealthy nation capable of maintaining a strong military that could ward off future foreign threats. To remain isolationist and limit American
demands for trade could result in economic exploitation and worse, spur an unwinnable conflict with a militarily superior nation that was determined to bring down those who undermined American access to Japanese trade. To engage in trade without reform would simply spur the West to colonize a weaker Japan (Ohno 2006, 40-53). Thus, after the Meiji Restoration’s political reforms and the establishment of an entirely new government, Japan expanded its commercial relations with the West and quickly set a course towards rapid modernization primarily by adopting Western economic and political customs, technology and know-how (Jansen 2000, 294). By the turn of the century, it would succeed at installing economic programs that would raise its industrial, and thus military status, close to that of the world’s other major powers, setting the stage for the next phase of U.S.-Japan economic relations, which was marked by the establishment of major trade flows between the two nations (Ohno 2006, 56-57).

However, the decisions to engage the United States and install modernization programs came at a great price. Opening the door to American and European trade brought about transformative political reform in the form of the Meiji Restoration of 1868/69. Subsequent repeated social and political unrest, culminating in the 1877 Satsuma Rebellion, was borne out of the conflicts between the newly established elites who sought to maintain their power and adapt Western policies and those who were disenfranchised by the new Meiji bureaucracy’s reforms, or did not agree with its policies (Beasley 2000, 121-131). The reform programs also created significant economic volatility, driven mainly by festering inflation that lasted until major austerity
and economic institutionalization programs were introduced in the 1880s. Worse, inflation was exacerbated by rampant speculation on behalf of Western merchants seeking to make easy money in a nation that had little regulatory control over its monetary system (Bytheway and Schlitz 2009, 58-59). Specifically, I suggest that these two phenomena – political and economic volatility – played a major role in stimulating imperialist sentiment in the Japanese political discourse. That imperialist sentiment would soon manifest itself in the form of militarism and drive Japan to unfettered military conquest on the Asian mainland, provoking the United States – which saw its own economic interests being challenged by Japan’s takeover of Asia – to impose sanctions that would prompt the Pacific War. In short, the initiation of trade relations between Japan and the United States had also created the undercurrents for eventual confrontation between the two nations.

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In 1852, President Millard Fillmore ordered United States Navy Commodore Matthew Perry to command a small naval fleet fifteen thousand nautical miles to Edo, Japan (modern day Tokyo) to deliver a letter to Emperor Kōmei. The president’s motivation to order such a long and arduous naval mission was clear: a closed and isolated Japan needed to be opened to trade with the United States. Manifest Destiny, culminating in Mexican Cessation in 1848, had driven Americans to the coast of the Pacific Ocean and by the early 1850s, U.S. activities in the Pacific were in full swing, driven by a growing nation demanding whale oil that was illuminating the population’s oil lamps (Jansen
Asia had suddenly become a neighbor, and more importantly, a great potential partner in commerce. In fact, America’s newfound access to the Pacific quickly bolstered its trade with China. However, Asia’s other great commercial promise, Japan, remained a stubbornly closed island-nation that continually rebutted American (and other nations’) naval visits. The Fillmore administration was determined to change that (LaFeber 1996, 9-12).

As the president remarked in his letter to Emperor Kōmei, Japan was of great commercial interest to the United States for a number of reasons. He noted that its coastal waters were fertile whaling areas and American sailors needed safe havens to turn to, in the case they were shipwrecked. Second, the United States sought access to Japan’s purported coal reserves, needed for U.S. steam vessels traveling to and from Asia’s trading ports. Finally, he emphasized America’s great interests in opening direct trade relations with Japan. Such trans-Pacific trade relationships, he most likely surmised, would provide a needed boost to a newly industrialized American economy now limited by its newly finite continental borders (McCormick 1967, 18-19).

At the time that Perry made first contact with Japan in July 1853, it had endured two hundred and fifty years of closed, feudal rule at the hands of a shogun, a supreme military leader descending from the powerful Tokugawa clan. The shogun controlled foreign policy, the military, and feudal patronage through the bakufu, which was akin to a small central government made up of representatives administering and advising the leader’s policies. During Tokugawa rule, the role of the emperor was largely
ceremonial, while the shogun and his bakufu government ruled over territorial lords representing various hans, or domains. These regional daimyo, as they were called, were high-level samurai who had sworn their allegiance to the shogun in return for land and the tax revenue it generated for them through rice farming. Daimyo would be appointed to the Shogun’s leadership council, representing their hans and advising the leader and his bakufu on all matters, including foreign policy. While the shogun’s control of foreign policy and military matters was centralized, the daimyo nevertheless enjoyed a high level of autonomy in running their hans, particularly economically, including matters of taxation and issuance of local currency (Ohno 2006, 23-24). Thus, while Tokugawa Japan was largely peaceful and bureaucratized, it did not represent a unified nation-state in the modern sense. Its form of government could be best described with a term created by noted scholar of Japanese history and former U.S. ambassador to Japan, Edwin O. Reischauer, called “centralized feudalism.” With this term, Reischauer noted the paradox that Edo Japan was neither fully feudal, nor fully centralized (Jansen 2000, 32-33). The latter of these two features, the lack of centralization, particularly economic centralization, would play a large role in allowing burgeoning disagreements and power struggles between the Tokugawa bakufu and the regional hans to become a serious political problem for the shogunate by the mid-nineteenth century, just as foreign naval intrusions were becoming more frequent.

Domestic economic issues were largely to blame for fueling these tensions (Beasley 1963, 21-37). The largely agrarian Tokugawa economy had been cut off from
most foreign trade, but by the early nineteenth century had nonetheless become highly self-sufficient and diversified enough to meet domestic demand (Jansen 2000, 257). However, the economic shift from subsistence farming to commercial agriculture, handicraft industries and merchant trade meant that both the *daimyo’s* and the *bakufu’s* rice tax base was eroding, as both were incapable of levying commercial taxes in the territories they controlled (the *bakufu* had direct control of some regions, including major cities, that were never assigned to *daimyo*, and directly controlled taxation in these areas). Unable to effectively deal with this economic shift, the *bakufu* and some *hans* slid into in debt. Various policies at the regional and central government levels to alleviate fiscal deficits – monetary debasement and in particular forced lending imposed on the newly wealthy merchant class – caused inflation, impoverishing samurai who were paid in rice stipends that were exchanged for leveraged coinage or paper money, which had become less and less valuable as inflation ensued. Samurai borrowed heavily to make up for their reduced real income. Rice tax increases levied unbearable tax burdens on non-commercial family farms (Ohno 2006, 22-30). These peasant farmers resorted to rioting, while indebted samurai became increasingly disgruntled with how Tokugawa economic policies were eroding their wealth and standing, too. All the while, the central *bakufu* government struggled to boost revenues, lastly resorting to the imposition of special taxes directly on the *hans*, which caused considerable tension between the *daimyo* and the shogun. The Tokugawa regime’s economic policies were
becoming a major political liability for the leadership, spurring anger among daimyo and their vassals, and aimed directly at the shogun’s government (Beasley 1963, 21-37).

While Tokugawa society was largely educated and culturally active, its knowledge and culture, like its economy, were focused inwards. The bakufu believed that the large-scale propagation of Western culture, ideas and knowledge among the masses would spur massive upheaval in Japanese society and upset the nation’s internal order. That call for order had become paramount to a country that endured decades of internal warring prior to the first Tokugawa shogun’s ascendency to power in the early seventeenth century, and was reinvigorated as political tensions began to flare in the early nineteenth century. Foreign travel was banned, and the acquisition of Western knowledge was highly punishable (LaFeber 1997, 16). Change, brought on by impending Western influence, was to be avoided at all costs, as it could bolster dissident daimyo power at the Tokugawa court’s expense. By the early nineteenth century, maintaining isolation was key to keeping a nation experiencing a wide range of domestic problems together. However, as alien visits became more frequent, foreign influence and its threat to Japan’s internal order and national security was becoming stronger, and the issue of how to deal with that threat was further fracturing Japan’s already fragile political situation (Jansen 2000, 257-258).

As such, Commodore Perry’s delivery of his president’s message was met with apprehension and consternation among the bakufu leadership who greeted the U.S. naval officer aboard his ship anchored in Edo Bay (modern day Tokyo bay). Even though
Japan had been a highly isolated nation for over two centuries, by the time of Perry’s arrival, the Tokugawa leadership was surprisingly knowledgeable of Western affairs and, thus unsurprisingly, weary of Western colonial intentions. This knowledge sprung from Japan’s limited interaction with the Dutch. In the early seventeenth century, the Dutch had been able to establish a small, isolated trading outpost in Dejima, an artificial island near the Nagasaki port. After the early Tokugawa shogunate’s purge of foreigners in the seventeenth century, Dejima had become the island nation’s only gateway to the West. The Dutch outpost produced the highly influential “Dutch studies,” or *rangaku*, a depository of Western knowledge and news made available to a very limited number of designated scholars. While access to the Dutch studies had at first been highly controlled, the shogunate eventually relaxed laws governing admission to the depository by the early nineteenth century, as curiosity replaced suspicion and anti-Christian sentiments that fueled early Tokugawa-era isolation, subsided. The benefits from the more liberal propagation of Western texts on philosophy, culture and science were simply too great to justify the strict limits on distribution (Beasley 2000, 21-23). Thus, texts were translated and then given by Japanese scholars to the *daiymo* and a limited number of high-level samurai.

However, this relaxation of the seclusion laws would ultimately spell the undoing of the feudal Tokugawa regime. For within these texts was ample information about the West’s penchant for colonial conquest and military superiority. The Dutch station provided news of recent Western revolutions, wars and imperial conquests.
Specifically, the First Opium War between the British and China from 1839 until 1842 had served as an ominous example of how resistance by a militarily weak Asiatic nation to Western colonial exploits had led to unwinnable conflict and subsequent exploitation. This news, joined with detailed information about the West’s naval capabilities, had laid bare the island-nation’s strategic vulnerability. Centuries of isolation had stagnated Japan’s own military development. The spread of this shocking information to the daimyo council sparked profound debate about how to deal with the foreign threat. A major rift grew between the pro-Tokugawa council leaders and the daimyo from the coastal hans of Mito, Satsuma and Chōshū (Jansen 2000, 279-293).

These anti-Tokugawa daimyo, who were driven by xenophobia and a strong warrior ideology, advocated for war against any interlopers, while the pro-shogunate leadership believed that Japan needed to accept Western ideas in order to modernize militarily and then be able to defend itself. It is ironic, that by the time of Perry’s arrival it was the shogun and his lead council members, which had long advocated isolationism that became advocates for the opening of Japan to the West. Betting that a reversal of its own isolationist policy was inevitable, given the West’s outright military superiority, the bakufu and its council supporters moved to shore up support for a more moderate approach towards foreign visitors. For hard-line isolationists, however, a group that included Emperor Kōmei, such reform was unfathomable (Beasley 1963, 38-49). The dissidence between these two groups over how to deal with the foreign threat would
ultimately flare into civil war and spell the downfall of the Tokugawa regime, as will be discussed in more detail below.

It is into this cauldron of Japanese political unrest that Commodore Perry had sailed in 1853. While the Japanese had prepared elaborate ceremonies for Perry’s arrival (they had been given advance notice of his mission by the Dutch in Dejima), they were not prepared for how to deal with his demands. The Tokugawa leadership was simply too fractured to form a cohesive policy vis-à-vis relations with the United States. Nonetheless, their hand was forced at the sight of Perry’s astounding fleet. Unlike prior foreign visits that had been successfully turned away, Perry was not to be rebutted. The American steam vessels – called “Black Ships” or kurofune by the Japanese – were unlike any that had been seen before, equipped with large cannons, and commanded by an unflinching naval officer who pointedly demanded the establishment of trade relations. Perry would not immediately succeed at extracting trade commitments, but he did succeed in further exacerbating the debate regarding foreign intrusions. Abe Masahiro, a moderate daiymo and leader of the shogun’s council, accepted the inevitable and discussed Perry’s demands with his peers, on the condition that he be given time to do so. Perry obliged and left Japan for China to resupply his fleet, vowing to return a year later to demand resolution (Jansen 2000, 274-278).

The debate of what to do with the American threat further split the daimyo leadership, which through Perry’s arrival had further clustered into two opposing camps. The first, largely comprised of progressive daiymo supporting the Tokugawa regime
such as Abe, believed that Japan’s isolationist policy needed to be exchanged for a more open one that would allow the nation to learn and adopt Western military capabilities, so to better defend itself. The other was comprised of the conservative *daimyo* and their high-ranking samurai that had strong nationalistic-xenophobic beliefs. Influenced by the texts of the nationalist scholar Aizawa Seishisai, who served the Mito domain, the faction advocated for stalling Perry further so to prepare for outright war with the Americans. Abe and his supporters knew that they did not have time to prepare for a war, nor did Japan have a chance of defeating the American threat. Thus, the moderates, with the assistance of Perry’s looming canons, were able to convince the remaining bakufu leadership to accept certain American demands, much to the consternation of the ultra-conservative samurai. The moderate bakufu would not go so far so to grant trade access, however. Continuing domestic socioeconomic turmoil sparked by tensions between a descending samurai class and an ascending merchant class, made the topic of trade off-limits for the time being. These tensions were particularly hard felt by the samurai in the Mito domain, the hotbed of isolationist thinking (LaFeber 1997, 18). But the pressure from the U.S. for trade would remain, and would exacerbate an already fragile political debate surrounding Japan’s foreign policy, and further threaten the Tokugawa shogun’s leadership. Upon Perry’s return in 1854, Japan signed the Treaty of Kanagawa, which promised eternal peace between the two nations, opened the two ports of Shimoda and Hakodate to U.S. vessels, and allowed those ports to be used as safe havens for shipwrecked sailors. Additionally, the treaty called for the eventual
establishment of a permanent American consul in Shimoda (United States 1855). For the time being, the Japanese were able to avoid the inclusion of provisions regarding trade in the treaty, though it was clear that the United States would continue to aggressively push for the establishment of commerce relations soon, and that the shogunate would have to respond to such demands (Jensen 2000, 278-279). The United States, with its unrelenting demand for trade, was clearly setting a confrontational tone from the very beginning of the U.S.-Japan economic relationship, a tone that would eventually continue to characterize that relationship between two nations for decades.

American pressures for trade grew, particularly after the arrival of Townsend Harris in 1856, the newly appointed first consul to Japan, whose mission it was to finish what Perry had started. To many in the bakufu council leadership, the era of eventual commercial relations with the West was becoming a forgone conclusion. To these more pragmatic leaders, the demand for trade did not evoke defiance, but rather spurred an internal debate around how to best establish trade relations without becoming colonized by the Americans. Among the open-door pragmatists, there were two core groups. One, led by the powerful daimyo and newly appointed council leader Hotta Masayoshi (who replaced the now politically castigated Abe who did not survive the controversy over his dealings with Perry) could be defined as representing the most moderate views regarding the West. Hotta, who had extensive access to the Dutch studies believed, like his predecessor Abe, that a strong Japanese military was essential to ward off American economic exploitation, but that such a military could only be established through rapid
economic growth. That growth would come from emulating the West’s technology, capitalism and democratic principles. A reformist, Hotta and his disciples believed that major political changes needed to be undertaken in order to make emulation successful (Beasley 1987, 29).

The other open door proponents, led by the influential samurai and Dutch studies intellectual Sakuma Shōzan, were slightly less sanguine about uniformly adopting American principles. They were strong advocates of adopting Western technology and military capabilities, but were just as resolute about maintaining a strong Japanese national identity, and even spreading that identity beyond Japan’s borders. Sakuma, and his key disciple Yoshida Shōin, were essentially the pioneers of the later Meiji era pan-Asian rational. While supporting Western rapprochement for economic growth and military strengthening, the Sakuma school believed that Japan needed to be culturally and military protected by sphere of influence that reached into the Asian mainland. While the Sakuma/Yoshida faction could be described as moderate vis-à-vis American entente, its nationalistic philosophy was to be a leading element in the ideology of Japanese imperialism in the twentieth century (Beasley 1987, 32).

On the other hand, the third group was the most hard-line regarding interactions with the United States/West, and highly critical of the bakufu’s signing of the 1854 treaty, particularly because it did not involve the emperor’s consultation or consent. Led by the slogan “sonnō jōi” (“Revere the Emperor, Expel the Barbarians”), the neo-Confucianist, anti-foreigner faction was led by Tokugawa Nariaki, daiymo of the Mito
domain. This rebel faction believed that the shogun’s invitation of foreign trade without the emperor’s consent was the ultimate subjugation of the emperor’s will. This subjugation threatened the sanctity of the imperial court, a court that historically had played a vital role in defining Japan’s national identity, but whose standing had fallen into an obscured ceremonial role during the Tokugawa period. Thus, to the Mito patriots, who were strongly motivated by the kokugaku or “national revival” school of teachings that became popular in the early nineteenth century, the shogun’s circumvention of the emperor represented the most serious disregard for Japan’s national identity – an identity that had all but disappeared in the minds of the Mito rebels, and needed to be revived in the form kokutai, discussed below. The emperor’s reigning power needed to be restored and become the singular icon for a new regime, led by the nationalists who would serve their nation under the auspices of this revived imperial identity. Of course, this ultra-nationalist rallying cry was also an effective tool used by the Mito rebel opposition to usurp Tokugawa power in a time of political unrest and foreign threats. Political self-serving aside, the tenants of the sonnō jōi movement hit a chord with the many who were disillusioned with the Tokugawa regime’s economic and foreign policies, and would influence the Mito clans’ compatriots in the Satsuma and Chōshū domains in particular. Together they formed the nucleus of the anti-Tokugawa shogunate, imperial revival movement. While these rebels, too, sought reform, it was of an ultra-conservative kind that ran directly counter to the moderates’ views and threatened their power base (Beasley 1972, 140-147). Thus, late Edo era
foreign policy became defined by the debates between the three factions that emerged as a result of United States’ gunboat diplomacy: the open door liberal bakufu leadership, the open door imperialists, and the rebel hardline xenophobic emperor supporters who were inspired by the Mito teachings. Unfortunately, these debates exploded into civil war and eventually would result in the formation of a new regime that, on the surface seemed pro-West, but at its heart was driven by imperialist ideology (Beasely 1997, 27-34).

Fortunately for Harris however, the more moderate, pro-Tokugawa daiymo Hotta, who was also head of the bakufu council at the time, was in charge of trade negotiations. The draft agreement was highly criticized by his conservative peers (and his emperor) when it was finally presented to the Edo court for ratification. Nonetheless, Hotta, with the help of his successor Ii Naosuke, eventually succeeded in pushing the agreement through the bakufu council. Throughout the protracted treaty negotiations, Harris politely yet firmly reminded Hotta of the dire consequences Japan would endure should it not sign the agreement to finally initiate trade relations with the United States. Like in Perry’s mission in 1854, Harris’ use of threats defined the U.S.-Japanese trade negotiations. The shogun’s council needed to look no further than to what was continuing to happen to China at the hands of the British to be reminded of what those dire consequences looked like (LaFeber 1997, 20-21). The emperor and his sonnō jōi supporters on the bakufu council had again been circumvented, further raising their resentment and plotting against the “pro-American,” internationalist Tokugawa regime.
For the meantime all they could do was force the resignation of Hotta from the shogunate council (Jansen 2000, 62-69).

Thus, U.S.-Japan trade relations, and the further Japanese political crises they spurred, would be fully set in motion by 1857, with the signing of the pivotal Treaty of Amity and Commerce. The unequal treaty confirmed to the rebel daiymo their worst fears: namely that Washington was motivated to commercially exploit Japan, as Britain did with China through its unequal treaties. Harris’ new agreement granted American legal extraterritoriality and U.S. control of Japanese import-export tariffs, which of course were to be set to benefit the United States. And so, with the reluctant stroke of a pen, the shogun essentially ceded control of Japan’s trade (United States 1858). While Harris had succeeded in opening commercial relations with Japan, he also succeeded in burnishing in the minds of many samurai the notion that the United States was an imperious nation, forcing Japan under duress into a relationship that could spell economic disaster. This perception would set the tone of the U.S.-Japan overall trade relationship for decades to come, and that unpleasant tone would be the cause of decades of continued Japanese domestic political tension (LaFeber 1997, 23).

To make matters worse, the American agreement set a precedent that spurred the Dutch, Russians and British to impose similar unequal treaties. The newly installed bakufu council leader Ii Naosuke, fearing that the dissent coming from hard-line rebel samurai from Mito, Chōshū and Satsuma would destroy the shogun’s regime, began a political witchhunt known as the Ansei Purge, rounding up dissidents who threatened
the bakufu power base and installing a de facto dictatorship. Outraged by this purge, his dealings with the West and the undermining of the emperor’s sovereignty, eighteen samurai from Mito assassinated Ii in 1860. Ii’s assassination, and subsequent killings of foreigners, marked the beginning of disorder and civil unrest that would eventually turn into a revolution. The shogunate’s grip on power was slipping, as it became caught between the violent domestic fallout over its dealings with Washington and Western foreigners’ demands for security and stability (Jansen 2000, 295-298). A vicious cycle ensued as rebel samurai initiated rampage killings of foreigners, which prompted Western demands for indemnities. These foreign indemnities created significant financial burdens on an already ailing economy and strengthened the rebel’s calls for the shogun’s abdication of power to the emperor (LaFeber 1997, 26).

Further exacerbating the precarious economic predicament was America’s direct exploitation of Japan’s gold currency under the terms of the 1858 Harris treaty, which stipulated that “all foreign coin shall be current in Japan and pass for its corresponding weight of Japanese coin of the same description…. Coins of all description may be exported from Japan” (United States 1858). During the pre-Perry isolation, the bakufu had created its own sophisticated gold-based monetary system, which complimented the traditional rice based economic system, known as kokudaka. The Tokugawa currency utilized leveraged token silver coins for common domestic transactions. Once Japan, and its leveraged monetary system, was opened to the West via Harris’ treaty, foreign speculators were able to exchange their silver coins weight-for-weight for bakufu gold-
denominated silver coins, which in turn could be converted at face value to gold bullion. Traders then shipped Japanese gold to Shanghai, where they quickly turned a tremendous cash profit. Foreign siphoning of Japan’s gold, enabled by an American treaty, soon contributed to financial, and then political, ruin for the Tokugawa shogunate. Valuable gold reserves were lost, and Japan’s financial autonomy vanished, as it was forced to install a paper-based fiat money regime that became tied to international rates of exchange. The fiat money regime brought with it rampant inflation and further economic crisis, exacerbating social and political unrest (Metzler 2006, 15-18).

By the mid 1860s, America’s intervention into Japanese commercial affairs was proving to be a disaster for Japan. In addition to foreign tariff control and currency manipulation, newly enabled foreign demand for tea and silk pushed up domestic prices so that many Japanese could no longer afford such items. Worse yet, the bakufu’s simultaneous buying of Western-peddled arms, while paying out large indemnities, was creating a mass outflow of funds that was bankrupting Japan (Beasley 1989, 286-287). Rebel daimyo had had enough. Particularly samurai belonging to the Chōshū domain, which had harbored a long-standing animosity towards the Tokugawa shogunate and had been urged by Emperor Kōmei and his hard-line supporters in Mito to revolt, felt compelled to rise up against the bakufu’s ruinous policies and expel the foreigners themselves. Realizing that rebellion was brewing, the embattled shogun leadership made a last-ditch effort to save itself from political suicide by attempting to renege all foreign
agreements, close all ports and move against the Americans. Upon hearing of these plans the newly appointed U.S. minister to Japan, Robert H. Pruyn, responded to the Japanese threat by warning that to “even to propose such a measure is [...] equivalent to a declaration of war” (LaFeber 1997, 26). U.S. gunboat diplomacy, it seems, was in full effect. The bakufu backed down from its threat to renege.

However, the Chōshū rebels would not back down from their quest to expel the foreigners. In July 1863, the rebels fired upon the U.S. steamer *Pembroke* as it sailed through the Straits of Shimonoseki. The Chōshū attack marked the first instance of military engagement between the United States and Japan. United States Secretary of State William Seward, appalled by the rebel’s attack, instructed his minister in Japan, Robert Pruyn, to ally with the British, French and Dutch and launch major assault to retaliate. The United States, mired in its own civil war at the time, had little naval firepower to dedicate towards foreign campaigns, and thus was compelled to ally with the Europeans, who sought to extinguish any threat to their own commercial treaties. Thus, the Battle for Shimonoseki ensued, and with it a future hallmark of U.S. foreign policy emerged. For the first time, American leaders sought to ally with Western powers and coordinate a military offensive that would protect U.S. commercial interests in Asia (LaFeber 1997, 28).

America’s alliance strategy worked. The Chōshū uprising was quashed. Blind to the fact that foreign trade was aggravating Japanese political and social unrest, and ignorant of any future blowback their demands might induce, the allies ordered a
massive $3 million indemnity from the bakufu to remedy Chōshū aggressions (United States 1866). The bakufu government was hard pressed to pay such a large indemnity, and its failure to do so enabled foreign representatives to extract further Japanese trade concessions (Satow 2006, 145-158). By 1866, these trade concessions had been official ratified, opening the harbors of Hyōgo (modern-day Kobe) and Osaka to foreign trade, and uniformly setting the customs tariffs to a lowered five percent rate (United States 1866). This 1866 convention also stipulated that Americans would now interact directly with Japanese traders, and not through the shogunate government, essentially wiping out any government control over merchants’ trading practices (LaFeber 1997, 29).

The West’s overwhelming defeat of the Chōshū rebels had essentially spelled the end of the sonnō jōi movement. Realizing that foreign power was simply too overwhelming, all but the most hardened zealots of the traditional Mito school began to accept the fact that expanded trade with the West was becoming a reality that needed to be faced. Nonetheless, the rebel anti-shogunate sentiment would not end with the Chōshū defeat. In fact, it would largely be bolstered by the fact that it was clear that the external threat, the foreigners, could not be defeated (Jansen 2000, 333-334). Thus, the rebel movement turned further inwards, focusing even more on those who betrayed Japan, namely the shogunate government. In essence, the jōi, or “Expel the Barbarians” element of the movement was dropped and a sole focus was given on replacing the impotent and unpatriotic shogunate government with a new one led by the emperor, who embodied the essence of Japanese national identity. Sonnō became the battle cry for the
anti-bakufu rebels. The unfeasibility of the jōi crusade meant that a philosophical merging between anti-shogun moderates and hardliners would take place that produced a new foreign policy vision based on the concept of fukoku kyohei, which when translated means “rich country, strong army.” Many conservative samurai now agreed that Western-style reform needed to take place so to build a modern centralized economy capable of reaping the benefits of international trade to produce a “rich country, strong army.” However, the core of the conservative movement, sonnō, and all that it embodied vis-à-vis Japanese identity and independence would remain the driving force of this new policy. Under no circumstances was Japan to become fully Westernized or subjugated to the West. A powerful imperial court and a strong army were the key to that. A philosophical link between national wealth and military strength was created that would form future generations' support of the military's political autonomy under the emperor and its powerful influence on Japanese foreign affairs (Beasley 1972, 197-98). Nevertheless, for the time being, working with the Americans and other Westerners to achieve fukoku kyohei was going to be difficult, for the West’s forced intervention into Japan’s commercial affairs was having a disastrous consequence for many of the samurai, by continuing to spur inflation that further devalued rice stipends given to the warrior class (Ohno 2006, 41).

With the signing of the final 1866 convention, trade with the West was beginning to have noticeable impacts on Japan’s economy. Silk and tea began to find large overseas markets. The resulting rising output and soaring prices of these
commodities enriched farmers who produced them, yet made them unaffordable to many samurai. Worse, the inflexible bakufu fiat monetary system was not designed to cope with the inflationary pressures inherent in a booming free-trade economy. Rice tax revenues collected by the samurai landowners continued to be worth less and less over time. A new class of merchants emerged that specialized in linking domestic producers and markets with foreign suppliers. Farmers, merchants and producers were breaking out of their feudal restraints, enriched and emancipated by Western trade, breaking the traditional Confucian societal hierarchy that had historically ranked the samurai-scholar at the highest level of Japanese society. Daimyo and their samurai were becoming marginalized and impoverished. The U.S. treaties were further aggravating existing economic chaos and dismantling the feudal Tokugawa hierarchy (Ohno 2006, 41-42). And thus, with the signing of the treaties, the bakufu had unleashed their own demise. A great irony emerged: foreign commercial intervention was helping the hard-line rebel samurai break the bakufu’s grip on power. Unfortunately, it was taking them down, too.

The humiliating Tariff Convention of 1866 negotiated by the bakufu, became the perfect catalyst for the rebels to initiate a final coup against the Tokugawa shogunate. American and other foreigners’ designs to profit from exploiting Japanese trade had contributed to fostering a Japanese civil war. Under the revised motto “Revere the Emperor,” the daiyōs from Satsuma and Chōshū, inspired by the teachings of the Mito scholars, united together in 1867 to launch attacks on the shogun’s supporters, in the so-called Boshin War. Their initial strategy was straightforward: bring down the corrupted
Tokugawa shogunate, restore the sacrosanct imperial institution, and build a new government that could profit from Western commercial ties to produce a strong economy and a strong military (LaFeber 1997, 29). By 1868, the Satsuma and Chōshū alliance quickly succeeded in achieving the first two of these strategic goals. However, once in power, the new leaders were confronted with the herculean task of quickly building a nation in a new Western-style mold that two decades earlier was almost completely alien to them. Rapidly absorbing Western technology and emulating modern political and economic systems was seen as the only way for Japan to capitalize on its international trading relationships and become an industrialized nation on par with Western colonial powers. And so, a new generation of young, talented and ambitious former samurai embarked on building a new nation that they hoped would soon prosper and enjoy a militarily strength that would guarantee autonomy from Western nations. The shattered pride that sparked the foreign intervention was now the psychological driving force behind Japan’s industrialization during the Meiji period (Ohno 2006, 43).

The 1868 defeat of the Tokugawa regime occurred one year after the death of Emperor Kōmei, whose passing provided a convenient turning point for the triumphant anti-Tokugawa imperial loyalists to proclaim the newly installed Emperor Meiji (who was only 15 years old at the time) as the symbolic centerpiece of their fledgling government. Japan’s monarchy would be fully restored with the fall of the last shogun and the accession of Meiji. The Satsuma and Chōshū rebels moved quickly to install their own new oligarchy that derived its legitimacy from its mission to restore the
preeminent sovereignty of the Japanese emperor and dismantling the fragmented, shogun-led bakuhan feudal system. In the minds of the new leaders, the failure of that fragmented vassal system, particularly its failure in dealing with the foreign interventions, was due to a lack of Japanese national unity, character and strength, or as nationalist Mitogaku scholar Aizawa termed it, kokutai, which, when translated, roughly means “national body,” “nation body,” or “national essence,” as is described in his 1825 manifest Shinron (or New Thesis, a work which also introduced the term sonnō jōi). To the Meiji reformists who relied heavily on Aizawa’s teachings, the concept of kokutai was the key ingredient to begin bridging Japan’s new polity with immutable aspects of its national history, tradition, and spiritual (Shinto) custom, all focused on the emperor. The restored emperor – now defined as the essence of Japanese identity – was the key to establishing a revived national character that would unify the once fractured land into a singular and powerful “nation body,” with the emperor as its preeminent spiritual leader (Brownlee 2000, 1-3).

As noted scholar of Japanese history W.G. Beasley notes, the concept of kukotai, which by its own definition emphasizes Japan’s special identity and uniqueness, would quickly form the underpinnings of post-Edo period Japanese nationalism (Beasley 1984, 564). Beasley defines nationalism as it could be applied to Meiji ideology in his 1984 article titled The Edo Experience and Japanese Nationalism:

It is generally accepted that nationalism has two frames of reference. One is external: the pursuit of national independence, asserting the nation's freedom from domination by other states or groups. The second is internal: a commitment
to national unity, requiring political and social cohesion. Both are associated with awareness of cultural identity, which is the nation's image of itself in terms of those characteristics that are held to be common to its members. (Beasley 1984, 555)

After the 1868 restoration, Japan’s commitment to its nation’s freedom from domination by other states or groups (i.e. the West), and its commitment to national unity and self-image became paramount under the auspices of *kokotai*. The full linking of this concept with a defined form of government was completed in 1889 with the issuance of the Meiji constitution, whose precepts were heavily influenced by the liberal scholar Katō Hiroyuki’s 1874 *Kokutai Shinron (New Theory of the National Body)*, an expansion of Aizawa’s original theories, designed to meld the ideological concept of *kokutai* with *seittai*, or form of government. By the 1870s, scholars such as Katō were increasingly espousing the virtues of Western constitutional government, and sought to meld modern Western political theory with ancient Japanese history and customs based on the theory of *kokutai*, to create a uniquely Japanese form of modern constitutional government. However, Japan’s nationalism, and its interpretation of *kokutai*, evolved from the benign to the extreme, as its leaders’ increasingly believed that the pursuit of freedom from domination by other states or groups relied on imperialistic expansion through military force, and that a commitment to national unity would only occur under the guidance of a militaristic state (Brownlee 2000, 3-15). By 1937 Aizawa’s original concepts of Japanese identity, and Katō’s liberal-political expansions on those theories, would be wholly appropriated by Japan’s Shōwa militarists who would appoint a committee of Japan's leading professors to produce *Kokutai no Hongi (Cardinal Principles of the*
**National Body**, an ultranationalist manifest that professed to be the official teachings of the Japanese state on every aspect of domestic policy, international affairs, culture, and civilization. It was largely supported by an ultranationalist worldview that was rooted in the concepts of pan-Asianism, militarism, “agrarianism” and “familism” (Joos 2011, 29). With the *Kokutai no Hongi*, the Shōwa regime had successfully institutionalized its extremist views as being the “national essence” of Japan (Brownlee 2000, 3-15).

And so, it could be said that the arrival of Perry’s “Black Ships” in 1853 spurred a revolution that sought to establish a new Japanese nation that, through the newfound awareness of its own unique identity and through political and social cohesion, could effectively defend itself against any future intrusions and protect its own “national essence,” or *kokutai*. A nation that had been so shocked by its own vulnerability to such intrusions eventually became obsessed with its own national identity and its ability to defend it, and as further foreign pressures from outside nations appeared at the turn of the century (discussed below), Japan’s nationalism would be accentuated with the proliferation of imperialism. In short, the United States arrival had awakened modern Japan’s nationalism, which in turn would encourage its penchant for imperialism. As America became an increasingly overbearing threat, in the form of an aggressive competitor for markets in Asia and as a governor of Japan’s capital and trade, Japan’s vulnerability was further stoked and its nationalism hardened into militarism, as will be further discussed in Part 2 of this thesis.
The 1868 Meiji restoration was a reaction to foreign threats, and any future threats could only be thwarted with a strong military. Once Japan’s national identity was restored, a strong, centralized government would be established so to install and guide the new programs and policies necessary to spur economic growth, and thus military buildup. The new emperor was advised by an informal council of advisors comprised of the young samurai from the victorious Satsuma and Chōshū domains who would form a de facto oligarchy, running the government until the ratification of the Meiji constitution in 1890. The council quickly began to build a new government and dismantle the feudal framework that had limited Japan’s development and made it so embarrassingly inferior to the West. The *daiyō* were turned into governors appointed by the imperial court in the newly named Tokyo (formerly Edo). Their land was appropriated, but their loyalty to the new system was bought off with the distribution of large government-backed bonds (made possible through British loans). Lower-ranking samurai received positions of influence and power, either in newly established enterprises or in the officer corps of the newly formed Imperial Japanese Army, a conscription army that needed to be trained quickly by Western advisors fluent in the aspects of modern warfare. Japan looked to the Royal Prussian Army for advisors, which by the nineteenth century had become renowned for its discipline, efficiency and modernity, and would become the model for the Imperial Japanese Army. Its main Prussian adviser, Major Klemens Meckel, introduced the study of military strategic planning, intelligence, mobilization, communications, and supply, thereby educating the Japanese army's commanders to a
new level of sophistication. His views on geo-political strategy also gave a generation of them an acute awareness of the military importance of Korea to Japan (Beasley 1964, 33). The new, efficient bureaucracy was supervising Japan’s evolution into a modern state, while striving for a smooth unwinding of the old power structure (Jansen 2000, 371-376). Nonetheless, a great deal of societal disruption remained, as foreign trade continued to stoke inflationary pressures that further impoverished peasants and those samurai that did not find positions in the new government became disenfranchised (Ohno 2006, 57). In particular, the formation of a conscription army saw the samurai being deprived of their monopoly of arms and military skill, causing a brewing rift between them and their new government. Yet, to the Meiji oligarchs, who themselves belonged to the elite warrior class, this marginalization of their colleagues was necessary to form a new, loyal imperial army indoctrinated in the new government’s ideas around modern military strength and national unity (Beasley 1964, 112).

As the new Meiji government quickly pursued modern domestic reforms such as the construction of roads, railroads and development of state-owned enterprises, it also expanded its new fukoku kyohei foreign policy, thus linking domestic and foreign affairs inextricably to ensure the nation’s ascendency to an autonomous power capable of defending itself from foreign threats. The fifth clause of the newly promulgated Imperial Charter Oath stated, “Knowledge shall be sought throughout the world so as to strengthen the foundation of imperial rule” (de Bary 2006, 7-8). However, the new Meiji leaders knew that the foundation of imperial rule could only be strengthened with
a strong military that would ensure Japan’s independence from the West. The development of such a military required a strong economy. The new leaders believed that political and economic modernization, combined with absorption of Western technology and know-how, would promote stable relations with the West, which in turn would attract profitable commerce with the West and ensure domestic tranquility and economic development. Economic strength equaled military strength, which in turn would give Japan the ability to avoid Westernization and colonialism (LaFeber 1997, 30).

However, while the council unanimously agreed on the need for a strong economy and thus military, dissension emerged between moderates and hard-line traditionalists in the leadership council about how enthusiastically Japan should embrace interaction with the West to achieve this goal (Beasley 1963, 113-116). Moderates, such as Ito Hirobumi, Iwakura Tomomi and Okuba Toshimichi guided by even-tempered attitudes towards the West advocated what scholars Simon Bytheway and Michael Schiltz term “financial autonomy through dependence.” In order to catch up to American power, Japan needed to reform, learn, and then willingly and enthusiastically engage with the United States and Europeans, even if that meant first dealing with terms that were clearly to the advantage of the Americans and the West as a whole. It was believed that Japan would eventually gain enough economically from this dependent relationship so as to emerge a great power, on par with the United States. It would then
be able to break free of the dependent trade relationship by avenue of its own economic autonomy (Bytheway and Schiltz 2009).

The traditionalist samurai faction on the other hand, while accepting the inevitable presence of expanded trade with the West, wanted to avoid any form of dependence at all costs. The West’s intervention and the progressive domestic policies that it spurred were still highly resented among this group. No longer an elite warrior class, and largely impoverished due to the fact that reform induced inflation had made their indemnity bonds worth less and less, these conservative samurai believed military conquest on the Asian mainland, not Western diplomacy, was the answer to achieving fukoku kyohei. To this group of fledgling imperialists, settlements in Asia, specifically Korea, provided all the resources and commerce that were needed to grow Japan’s economy without relying on the acquisitive West, while at the same time creating a protective strategic buffer crucial to its national security, as a weak Korea provided an easy avenue for Russian or Chinese encroachment towards the island-nation. Western intervention was driving Japan’s conservative leadership to embrace imperialism (Beasley 1963, 113-116).

Japan’s early imperialism was also inspired by the pan-Asian ideas professed by scholars of the Mito kokugaku movement (discussed briefly above) such as Hirata Atsutane, who believed that Japan, not China, was the “Middle Kingdom” of Asia and was superior, and therefore needed to lead Asia (Saaler and Koschmann 2006, 2-5). This concept rang especially true to conservative samurai at a time when foreigners posed a
great threat to Japan’s identity, and too rapid Meiji reform posed a great threat to their samurai class. Their beliefs ran counter to those that insisted that Japan would achieve *fukoku kyohei* by quickly adopting Western standards and working with the West (as Iwakura and Okuba did). In this time of crisis Asians needed to band together and build a unified front against Western (and Russian encroachment and slow the westernization of Asia (Saaler and Koschmann 2006, 23-24). Banding together meant for Japan to bring other Asiatic nations under its control, through force if necessary, to achieve the goal of pitting a unified Asia against the West. To these new imperialists, Korea was the answer to building that front and helping Japan acquire resources and capital (through trade) to finance its modernization on its terms. Bringing Korea into the sphere of Japanese influence was too great a prospect to not pursue: strategically, economically and ideologically. Thus, shortly after the completion of the Meiji restoration in 1869, Saigo Takamori and like-minded disenfranchised samurai eager to reestablish their societal relevance began to strongly advocate a Japanese military invasion of the “Hermit Kingdom” (Beasley 1984, 41-43). Long-standing enemies before both countries went into isolation in the seventeenth century, Korea had remained a tributary state of Qing China at the time the new Meiji regime attempted to reinvigorate trade relations in 1871 and pull Korea out of China’s orbit of influence and into its own. When Korea rebuffed Japan’s diplomatic advances initially driven by a desire for trade, imperialists led by Saigo offered to invade the neighbor so to spark a war and provide an excuse for the wholesale conquest of the neighboring nation (LaFeber 1997, 43).
To moderate council leaders such as Iwakura and Okuba, Japanese imperialism in Asia, in the form of an invasion of Korea, was certainly not the correct path for Japan to pursue. Prophetically warning their conservative counterparts that the war’s expenses would lead to further economic dependence on the West, while wasting money needed for domestic modernization, Iwakura and Okuba were able to temporarily stave off Japanese aggression against Korea, while also furthering their entente with the West by partaking in a nearly two-year diplomatic mission that visited the United States, Europe and the Middle East. The so-called Iwakura Mission was undertaken to renegotiate the unequal treaties with the United States, Great Britain and other European countries that Japan had been forced into during the previous decades, and to gather further information on education, technology, culture, and military, social and economic structures from the countries visited that would inform Japan’s modernization efforts. While Iwakura and his compatriots were unable to achieve the first goal, the mission succeeded in burnishing into the minds of the moderate oligarchs that Western-style modernization was crucial for Japan’s long-term development. Their failure to renegotiate the unequal treaties was a serious blow to their political careers and certainly weakened their argument against intervention in Korea, as it proved to many that the West could not be trusted and that Japan’s future lie in Asia. While their temperance over the issue of Korea prevailed as they left for their journey in 1871, the great divide between moderate and imperialist thought continued in Tokyo. Upon Iwakura’s return
in 1873, the debate over Korea had flared again and created another political crisis between moderates and conservatives (Beasley 1987, 41-44).

As the debate over Korea was widening, money was flowing out of Japan at alarming rates, as the early Meiji government found itself in the precarious position of rapidly spending funds to accumulate foreign goods and implement reform, but collecting little revenue to support such outflows. The limited domestic tax revenues inherent in the nascent economy could not support this expansionary fiscal policy. Trade deficits were mounting, as Japan’s import heavy policy was not counterbalanced by export sales. The introduction of the Western-style gold based paper currency – the yen – made matters worse as limited gold reserves could not support the yen’s value. A gold-standard currency, it was argued, was needed to trade with the gold-based economies of the West, and to obtain the status of a nation of equal standing. But major trade deficits caused limited gold supplies to flow out of the country to pay for foreign goods. Japan was forced to back the yen with silver (Metzler 2006, 22-23). Modernization was taking its toll on the economy and prompting political dissension yet again.

By 1877, the government’s inability to regain its trade sovereignty from the West and temper inflation and monetary confusion, while following a dovish foreign policy vis-à-vis Korea, would inspire Saigo Takamori to call upon his disenfranchised samurai compatriots to launch a rebellious strike against the Meiji government (LaFeber 1997, 35). The 1877 Satsuma Rebellion would become a precursor to future nationalist
uprisings that were sparked by the samurai view that reform and commercial interactions with the West deprived them of wealth and status, and harming the country as a whole. Saigo and his followers believed the answer to Japan’s economic and security problems was conquest on the Asian mainland, which offered limitless trade and resources that could be acquired by force, and thus required the services of warriors such as he.

Saigo’s failed rebellion would become an inspiration to future ultranationalists and militarists. Shortly after his defeat and death, other disenfranchised samurai who believed in the virtues of a unified Asia under the auspices of Japanese leadership organized secret societies that in turn would inspire the Japanese imperialist and militarist movements of the 1920s and 1930s (Beasley 1963, 236). The most prominent and enduring of these societies was the formative Gen’yōsha. Also known as the Black Ocean Society, Gen’yōsha was founded shortly after the Satsuma Rebellion in 1881 on the following common principles:

• the safeguard of the imperial institution as the preeminent ruling force;
• the development of a strong military as a basis for a strong country;
• the expansion into Asia to ensure domestic security and economic gain; and
• the creation of a totalitarian state to ensure societal order and national strength (Wall 2009).

While the Meiji imperial army would succeed in quashing the Satsuma rebellion, Saigo and his legacy had succeeded in institutionalizing the goals and values of anti-
Westernism and militarist expansion into Japanese society and politics by inspiring a following of disciples who, like Saigo, were unhappy with the Meiji government’s domestic policies of unfettered modernization and foreign policies that pursued entente with the West. Saigo’s message that the West and Tokyo’s emulation of it was not the solution to Japan’s problems, but rather the enemy from which Japan needed to be defended, rang true to many Japanese motivated by fear of Western intentions, not just ardent nationalists. So did his notion that Asian imperialism provided the path to a wealthy and strong Japan capable of defending itself. With the birth of Gen’yōsha, and its offspring, Saigo’s anti-Western, pro-imperialist and pro-imperial message could now be packaged into effective propaganda and proselytized so to reach many spheres of Japanese polity and society. After the foundation of Japan’s constitutional democracy in 1890, Gen’yōsha and the societies it inspired (such as Kokuryūkai) would resort to extreme methods of intimidation and political murder to attempt to disrupt the advancement of organized party politics in Japan (Joos 2011, 61-62).

Saigo’s imperialist influence on Japanese political discourse had manifested itself much earlier, however. By the early 1870s, the topic of Asiatic imperialism was by no means taboo, even among the more liberal thinkers. In fact, at the time that Saigo was preparing for his rebellion against the Meiji establishment, Japan’s moderate governmental leadership had already dipped its proverbial toes in the water of imperialism. Starting in 1874, with the sending of an expeditionary military force to Formosa (modern day Taiwan) to discipline indigenous tribes that had killed Japanese
inhabitants on the Ryukyus, the 1875 Sakhalin-Chishima Exchange Treaty with Russia (see Figure 1), and continuing with the 1876 extraction, at gunpoint, of the Treaty of Ganghwa with Korea – forcing Korea to open itself to Japanese trade and to proclaim and end to its tributary relationship with China – Japan was adopting its own strategy of expansion.

By the late nineteenth century, no one believed more firmly in the expansion onto the Asian mainland than Yamagata Aritomo, founder of the Meiji military. As a military leader, Yamagata was driven by a profound worry of Japan’s strategic insecurity. He believed that creating a territorial buffer between Japan and a weakened Qing China was paramount to modulating Russian advances towards Japan, which had been looming for centuries. Korea presented the perfect buffer and stepping stone for Tokyo’s continued expansion abroad. Even powerful moderates like Ito Hirobumi, who had by 1885 ascended to be the first prime minister of Japan, could not quell calls for military intervention in Korea. Yamagata and his disciples’ arguments for intervention were too convincing to a large portion of the political establishment. War offered too many benefits: distraction from domestic political quarrels, a buffer against any Russian movements south towards Japan, and secure markets that would reduce dependency on Western trade. The latter would become more important as Japan succeeded in stabilizing its economy by the late 1880s. This occurred largely due to the anti-inflation and austerity measures, coupled with the sell-off of state-owned enterprises, all of it orchestrated by Matsukata Masayoshi, the newly appointed finance minister. A now
stable, growing economy needed resources. Besides the West, Korea would be a convenient source of the raw materials that Japan needed to industrialize – iron ore and coal. Korea had both (LaFeber 1997, 45-49).

In 1894, Japan attacked Qing forces in Korea and thus initiated the first Sino-Japanese war. The Imperial Japanese Military had now officially become a tool of Japanese expansion. The liberal versus conservative political debate over Asian imperialism shifted from whether or not to expand, to how best to expand and where. With the overwhelming defeat over China in April 1895, expansion through force had become an acceptable element of the Japanese foreign policy toolbox, even to moderates. While in the end the Tokyo lost nearly all the spoils it had gained in the conflict because of Russian, German and French intervention (it kept Taiwan), its first foray into imperialism had essentially been a success. For with its stunning victory over China, Japan had proven that it had essentially reached similar status as the Western industrialized nations and had officially joined the “imperialists club” (LaFeber 1997, 45-53). It was impressed on the West that Japan had come a long way in a very short time and had, by the turn of the century, quickly constructed all the basic ingredients needed to grow into a major world power of equal stature with the great Western nations: a constitutional parliamentary political system, a nearly industrialized economy that featured a central banking system and modern infrastructure, and an established, well trained Army and Navy that had proven their mettle on the battlefield. Besides a major increase in stature, Japan enjoyed some real gains. It acquired the strategic island
of Formosa (modern-day Taiwan), and essentially broke China’s control over Korea, leaving the door open for future inroads there. Most importantly, Japan received a major war indemnity from the Chinese, which was subsequently increased to make up for the territorial gains that were stripped as part of the Triple Intervention. It is this indemnity that would rapidly boost Japan’s trade and industrialization progression. In terms of industrialization, the large indemnity covered the entire war cost, thus leaving domestic modernization expenditures fully intact. The war’s indemnity had even produced a profit, allowing Japan to construct its first state run steelworks, finally giving the country the capability to manufacture steel goods on a large-scale basis and mitigating the need for the wholesale import of finished steel products. Most critically, the indemnity finally gave Japan’s monetary system a gold standard currency – the only type of currency that could easily pay for Western trade transactions and attract Western credit. In a brilliant move, Matsukata Masayoshi negotiated that China pay the reparation in British gold. Since China had taken out massive loans in the London capital markets to raise the reparation money, it was a simple request for Japan to make. Fixing the yen in 1897 to the same standard as the British pound and the U.S. dollar indicated Japan’s new orientation towards trade and capital transactions centered around Britain and the United States (Metzler 2006, 30-31).

While the Triple Intervention caused outrage amongst Japan’s political base and the public (so much so that Ito resigned as prime minister) as it proved that the West did not consider Japan as equal, the war had actually been a huge success. Japan’s economic
gains, both in terms of real income and its newfound ability to be directly linked to Western trade and financial capital, were a momentous blessing for a nation whose national mission, or rather obsession, had become the accomplishment of *fukoku kyohei*. However, the one thing it still lacked was easy access to strategic resources that would serve as the foundation to further grow its economy and military. Thus, Japan’s quest for empire to satisfy economic development would enthusiastically continue after the Sino-Japanese confrontation (see Figure 1).

Its quest would also drive it into the arms of the United States. For by the turn of the century, the United States had emerged to be one of the world’s most powerful and rich nations looking to Asia for trade. After its first encounters with Japan in the mid-nineteenth century, a brutal civil war and repeated subsequent recessions had turned the U.S. largely inward. By 1893, when the bankruptcy of the Reading Company triggered another major banking and stock market collapse, the United States had essentially endured nearly twenty years of economic malaise, interspersed with short periods of growth. Industrialization was a painful process, but as America emerged triumphant from the worst shocks in late 1890s, it looked increasingly towards Asia, and particularly towards China, to ease further growing pains by finding much-needed foreign buyers of mass-produced U.S. goods (McCormick 1967, 17-19).
By 1899, President William McKinley brandished the first set of the famous Open Door notes, authored by his Secretary of State John Hay, these notes signaled America’s intent to be a major presence in Asian economic affairs by warning European powers and an ascendant Japan that the U.S. would not be shut out of Chinese markets.
because of their colonial partitioning. However, the United States had more than notes to show how serious its intent was. A year earlier it had formed a real presence in the Pacific through its acquisition of the Philippines. Prior to that, it had annexed the Hawaiian Islands. With a substantial Pacific presence and a multilateral diplomatic offensive in hand, the United States began its serious foray into Asian markets. The promise of Asian trade was beckoning and thus America was venturing directly into Japan’s orbit. The promise of America’s large market for silk and cotton and its ample supply of oil and steel were luring Japan back to the United States (LaFeber 1997, 48-64).

Like two old acquaintances with a troubled past, Japan and the United States cautiously embraced and kindled a new kind of relationship at the turn of the century. But as they embraced to begin the next phase of their economic relationship, they surely grimaced at the thought of what dangers reinvigorated ties would bring to each of them. For the United States, the danger involved Japanese imperial interests on the Asian mainland that threatened to keep the Open Door shut. For Japan, the danger meant a major dependence on strategic resources, export markets and financial capital coming from a nation that had competing interests in Asia. It also meant trusting a nation that, through its humiliating forced opening and imposition of precedent setting unequal treaties, had thrown Japan into civil war and repeated economic chaos. As the first, tumultuous phase of U.S.-Japanese relations came to end, a great irony emerged: America’s forced opening in 1854 had essentially invigorated Japanese extremist
doctrine and driven the nation to pursue imperial conquest in Asia – imperial conquest that would compete directly with the United States’ economic pursuits in the region. Unbeknownst at the time, the United States had created its own worst enemy, thus setting the stage for conflict in the not so distant future.
PART 2

EVOLVING ECONOMIC DEPENDENCE AND THE SHIFT FROM IMPERIALISM TO MILITARISM

Whereas the first stage of the U.S.-Japanese economic relationship was marked by the contribution the establishment of relations had on developing Japan’s penchant for imperialism, the second phase of the relationship was characterized by the impact that rapid growth of bilateral trade and financial capital transactions had on the furtherance Japan’s of imperialistic ambitions and its transition towards militarism. Spanning roughly from the beginning of the twentieth century until Japan’s assault on Nanjing in 1937, this second stage was marked by an ever-increasing Japanese dependence on American exports of strategic resources such as oil and iron, large U.S. import markets for silk and cotton, and American financial capital in the form of Wall Street bond syndications. The United States was eager to grow this promising economic relationship through the interplay of private and public sector efforts, while at the same time moving aggressively to find economic inroads in China. However, as an uneasy Japan tried to diversify its trade relationships and financial capital sources away from the United States towards Asian markets via imperialism, America would push back with gradual bilateral and multilateral diplomatic efforts to uphold its Open Door in China, while attempting to maintain its promising Japanese commercial ties. Occasionally, this dichotomy would spark conflict between American private sector interests in Japan, and Washington’s foreign policy goals of moderating Japanese actions in China. The more
Japan tried to close the Open Door for its own benefit, the more the United States would push back. Given that markets gained through its Asian conquests could not make up for U.S. trade and capital flows that were necessary to grow its imperial ambitions, Japan was largely forced to acquiesce to American demands. This dynamic fostered what historian Walter LaFeber aptly described as a “slipknot” that was choking off Japan’s ability to build a self-sufficient Japanese empire, free of American influence while at the same time maintaining peaceful relations with the United States (LaFeber 1997).

Before Japan broke free of the slipknot in 1941 via the Pearl Harbor attack, it tried desperately to maintain stable economic relations with the United States while still building an empire through ever-bolder inroads onto the Asian mainland, even if those inroads would provoke confrontation with America. The more prominent American trade and financial capital became, the further Japanese nationalistic and imperialistic attitudes were stoked by political or military hawks who believed that such dependence was a dangerous threat to Japan’s autonomy (LaFeber 1997, 160-161). I propose that the 1905 settlements in South Manchuria and Korea, the 1910 annexation of Korea, the 1931 conquest of Manchuria, and the 1937 invasion of China were all largely driven by the desire to diversify away from U.S. trade and capital. More importantly, as the dependence grew, the imperialist directive shifted from the political realm to the military. A powerful and autonomous military had become impatient with the political establishment’s administration of Japan’s imperialist strategy, believing that diplomacy was hindering its nation’s expansionist goals. Thus, I suggest that Japan’s increasing
anxiety over American dependence, and its inability to break free from it, fueled the large-scale acceptance of the military’s increasing influence on guiding the country’s foreign affairs.

Yet, this shift in power did not come without domestic turmoil. The 1921 assassination of Prime Minister Hara, the 1930 assassination of Prime Minister Hamaguchi, the 1931 coup d’état attempts, and the 1932 assassination of Prime Minister Inukai, all marked ever-bolder attempts by the military, or its ultranationalist supporters, to take control of Japan’s drive towards an Asian empire and away from a dependence on U.S. markets. The Imperial Japanese Army’s wholesale takeover of Manchuria and the associated disbandment of Japan’s political parties in 1932 marked the end of the civilian government’s effective control over the military, and in essence, the end of Japan’s fledgling democracy. The major 1936 Army coup d’état attempt, in which nearly 1,500 ultranationalist Army officers murdered or wounded numerous moderate political and military leaders, would further bolster that trend. Just as it had during the first phase of U.S.-Japanese economic relations, American commercial influence was yet again stoking Japan’s movement rightward, but this time towards all out militarism. Already by the 1920s this rightward shift was obvious to Thomas Lamont, head-partner of J.P. Morgan & Co. and influential U.S. economic envoy to Japan, who remarked upon the emergence of “Two Japans” – one led by those “men of affairs [who are] liberal in their ideas” and the other being “the militarists [who] still think the world is ruled by force rather than by ideas” (Lamont 1921, 172-173). What was not obvious to
Lamont and others at the time was that Japan’s economic relationship with the United States – a relationship that he would tenaciously promote – had already long laid the groundwork for this divergence in Japanese political thought, which ultimately culminated in the defeat of Japan’s liberal ideas at the hands of its militarists’ force.

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Table 1. Japan's foreign trade 1890-1929: imports and exports in yen (annual averages in millions)

<table>
<thead>
<tr>
<th>Years</th>
<th>Exports*</th>
<th>Imports*</th>
<th>Trade Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1890-4</td>
<td>85.4</td>
<td>85.7</td>
<td>Deficit</td>
</tr>
<tr>
<td>1895-9</td>
<td>161.5</td>
<td>212</td>
<td>Deficit</td>
</tr>
<tr>
<td>1900-4</td>
<td>271.3</td>
<td>321.8</td>
<td>Deficit</td>
</tr>
<tr>
<td>1905-9</td>
<td>407.5</td>
<td>475.4</td>
<td>Deficit</td>
</tr>
<tr>
<td>1910-14</td>
<td>593.1</td>
<td>662.3</td>
<td>Deficit</td>
</tr>
<tr>
<td>1915-19</td>
<td>1,599.90</td>
<td>1,413.70</td>
<td>Surplus</td>
</tr>
<tr>
<td>1920-4</td>
<td>1,810.40</td>
<td>2,425.70</td>
<td>Deficit</td>
</tr>
<tr>
<td>1925-9</td>
<td>2,391.20</td>
<td>2,841.30</td>
<td>Deficit</td>
</tr>
</tbody>
</table>

*Includes Manchuria

Source: Data adapted from Beasley 1987.

Table 2. Japan's foreign trade 1890-1929: percentage shares by countries (annual averages)

<table>
<thead>
<tr>
<th>Years</th>
<th>Exports</th>
<th>Imports</th>
<th>Combined Exports/Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>USA</td>
<td>China*</td>
<td>USA</td>
</tr>
<tr>
<td>1890-4</td>
<td>37.3</td>
<td>8</td>
<td>8.6</td>
</tr>
<tr>
<td>1895-9</td>
<td>30.9</td>
<td>14.1</td>
<td>12.4</td>
</tr>
<tr>
<td>1900-4</td>
<td>28.7</td>
<td>18.8</td>
<td>16.1</td>
</tr>
<tr>
<td>1905-9</td>
<td>29.7</td>
<td>24</td>
<td>16.3</td>
</tr>
<tr>
<td>1910-14</td>
<td>28.2</td>
<td>24.7</td>
<td>14.6</td>
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<td>1915-19</td>
<td>29.8</td>
<td>23.1</td>
<td>29.1</td>
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<td>1920-4</td>
<td>34.7</td>
<td>22.8</td>
<td>26.6</td>
</tr>
<tr>
<td>1925-9</td>
<td>37.1</td>
<td>20.7</td>
<td>23.2</td>
</tr>
</tbody>
</table>

Source: Data adapted from Beasley 1987.

*Includes Manchuria
Table 3. Japan's foreign trade 1890-1929: percentage shares by commodity groups (annual averages)

<table>
<thead>
<tr>
<th>Years</th>
<th>Exports*</th>
<th>Imports*</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Finished Textiles</td>
<td>Foodstuffs</td>
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<tr>
<td>1890-4</td>
<td>49.3</td>
<td>25.7</td>
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<td>1895-9</td>
<td>53.1</td>
<td>21.2</td>
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<tr>
<td>1900-4</td>
<td>54.2</td>
<td>17.2</td>
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<td>1905-9</td>
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<td>1910-14</td>
<td>56.3</td>
<td>12.7</td>
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<tr>
<td>1915-19</td>
<td>54.3</td>
<td>8.9</td>
</tr>
<tr>
<td>1920-4</td>
<td>66</td>
<td>6.9</td>
</tr>
<tr>
<td>1925-9</td>
<td>66.9</td>
<td>6.6</td>
</tr>
</tbody>
</table>

Source: Data adapted from Beasley 1987.
*Includes Japan's trade with Japanese colonies

By 1900, Japan’s sweeping modernization programs had transformed the once feudal-agrarian economy into a rapidly growing, industrialized one. Furthermore, these programs changed the character of the nation’s trade, and prompted its massive growth. For example, by 1904 Japan’s annual average trade volume was over 250% greater than the average annual trade a decade earlier (see Table 1). In terms of the character of its trade portfolio, by the early 1900s Japan had progressed from being mainly a producer of raw textile goods to having a robust manufacturing sector. The nation’s limited role in world trade before the turn of the century had been that of primary producer – cultivation of raw silk and cottons made up the bulk of Japan’s economic production. While silk and cotton exports to the West remained the backbone of Japan’s economy and would continue to grow throughout the pre-Pacific War period, by the turn of the century Japan was beginning to become a major exporter of finished goods to China (see Tables 2 and 3 and Figure 2). A pattern emerged that would characterize much of the late Meiji era economy in that Japan became a supplier of primary commodities to
Western advanced countries, while furnishing manufactured goods to developing nations, including those East Asian nations that would soon become its colonies (Beasley 1987, 123-126). Japan’s trade ties were growing in both the West and Asia, and both markets would continue to play a significant role in its economic development over the next half-century. A debate would soon ensue among politicians and military leaders about which of these two markets – Eastern or Western – should play the most significant economic and strategic role in the nation’s trade portfolio. Thus, the heated ideological discussions that began in the early Meiji years over where Japan’s alliances should lie – in Asia or with the West – were now fully encompassing the country’s deliberation over where it should focus its development of trade partnerships.
Nevertheless, at the turn of the century, U.S.-Japan trade momentum was growing so rapidly that it was clear that Japan would need to focus on Western markets for the time being to achieve the rapid economic growth it so desperately wanted to achieve to develop its military. By 1900, the largest buyer of Japan’s leading export, silk, was the United States, while at the same time America would soon supplant Great Britain as Japan’s largest source for raw materials, and thus become its greatest exporter (see Table 2). America’s large demand for silk already had been established by the early 1890s, when the United States had surpassed France as the leading importer of Japanese the textile (Miller 2007, 20). In fact, America’s market for raw silk was so voluminous that the United States had already become Japan’s single leading importer by the
beginning of the twentieth century (see Table 2). In turn, silk dollars were funding Japan’s industrial growth. The trade relationship would only develop further during the first decade of the twentieth century, as Japan’s buying of U.S. commodities grew (see Table 2). The United States soon became the major source of crucial raw materials – oil, pig-iron, and scrap-metal – that fueled Japan’s economic development of heavy industries, the expansion of its railways and other major infrastructure, and ironically, the continued development of its military. By 1904, Japan was importing nearly as many American as British goods (see Table 2), an amazing fact given Britain’s absolute trade dominance during the early Meiji modernization period. The United States would eventually surpass Britain as the leading exporter to Japan, as Japan’s rapid industrialization and import substitution negated the need for finished machinery (having been mainly supplied by the British), and inflated the need for raw industrials (now supplied by the U.S.) (Beasley 1987, 126-127). Thus, on the eve of the Russo-Japanese war in 1904, the United States had already become Japan’s single largest (and most important) trade partner (see Table 2).

The singular prominence of that trade relationship had already fostered unease among Japan’s leadership at the turn of the century, and it was cultivating a political debate about how further imperial expansion that could help diversify Japan’s sources of trade revenue and raw materials (LaFeber 1997, 76). Among those leaders was Yamagata Aritomo, ex- Chōshū samurai, progenitor of the Imperial Japanese Army, former war minister, brainchild of the 1894 military expansion into Korea, and now
mentor to Katsura Tarō, who had become prime minister in 1901. Like his mentor, Katsura was a major advocate of Japanese expansionism, for both strategic and economic reasons. Keenly aware of U.S. Secretary of State John Hay’s push for the retention of open markets in China, while also conscious of America’s growing commercial power over Japan, Katsura and his foreign minister Komura Jutarō, strongly advocated for Japan’s push into resource abundant Manchuria and the closing of the Open Door in that area. They and others argued that Japan’s trade needed to be diversified via Asian colonies, and that the United States needed to be kept out of those colonies. Katsura and Komura knew that an Open Door would never work for the competitively disadvantaged Japan that was almost entirely dependent on foreign markets for resources and had at not yet reached the level of industrialization achieved by the United States. The Katsura-Komura ideology vis-à-vis the Open Door and American trade dependency would shape the foreign policy views of many future conservative pre-Pacific War cabinets, and put Japan on a crash course with the United States, by emphasizing Japan’s commercial and territorial expansion in Manchuria, and then China. As LaFeber notes, “Komura’s thinking marked a historic transition in Japanese diplomacy, from a willingness to work with the United States along Hay’s principles, to a realization that being able to exploit those principles was beyond Japan’s power” (LaFeber 1997, 75).

Thus, the Katsura-Komura philosophy would fuel Japan’s foray into Southern Manchuria in February 1904, when it launched the Russo-Japanese war. Undoubtedly,
Japan’s motivation to invade Manchuria was just as much militarily strategic rationale, as it was economic. For since the 1900 Boxer Uprising, China had become increasingly destabilized, and thus prone to foreign military exploitation. When Russian troops, who were sent to quell the rebellion as part of an eight-nation alliance, still had not vacated Manchuria by late 1903, an increasingly anxious Japan decided a surprise attack against Russia was in order. It did not want to leave Manchuria, with its abundance of natural resources and its geostrategic position vis-à-vis China and Korea, open to Russian encroachment. A preemptive strike against Russia would be Japan’s only chance at deterring any intentions it had on taking Manchuria for itself. China’s political instability was making Manchuria fertile ground for Russian economic exploitation, or worse Russian occupation, which would bring it dangerously close to Japan’s interests in the Korean peninsula. The United States, like Japan, was well aware that a disintegrating China was fertile ground for foreign economic exploitation. While the United States desired to keep that exploitation to a minimum by brandishing its Open Door notes, Japan decided a more direct route – namely occupation – was in order. Russian encroachment in Manchuria, and its insincerity in working out solutions over the territory via protracted diplomatic negotiations in 1902 and 1903, simply made the stakes too high for Japan’s military strategists – imperialists like Yamagata – to stand by and wait for diplomatic resolutions to the issue. Impatient with Russian foot dragging to offer guarantees over Manchuria, even moderate politicians such as Ito agreed that Japan needed to act militarily against Russia, and so it did (Jansen 2000, 438-439).
Japan’s decisive victory over Russia in 1905 was a major boon to its imperial ambitions – it finally acquired a foothold in Manchuria, via a Russian granted lease of the strategic Liáodōng Peninsula (also known as Guandong), and the vacation of Russian troops. More importantly, Japan acquired ownership rights over the South Manchuria Railway, which ran from Port Arthur at the southern tip of the Liáodōng Peninsula to Hā'ěrbīn (Harbin), where it connected to the Chinese Eastern Railway, giving it de facto control over the area’s resources and markets. Furthermore, Russia agreed to refrain from any advances towards Korea, further defining Japan’s economic sphere and security buffer on the Asian mainland, and setting the stage for its full-scale annexation of the Korean peninsula, which would soon occur. Japan was now in a position to begin carving out its own Pan-Asian economic bloc to reduce dependency on American markets. Paradoxically, it was the United States that would act as lead intermediary between Russia and Japan during the post-war peace negotiations (Jansen 2000, 440). As it turned out, President Theodore Roosevelt’s services as arbitrator over Japan’s future in Korea and Manchuria produced one the great ironies in the history of U.S. foreign policy. For it was Roosevelt’s Treaty of Portsmouth that essentially established Japan’s control over the two areas – control that would evidently block any American inroads into Korean and Manchurian (and Chinese) markets. Yet, similar to Komura and Katsura, Roosevelt was fearful of China’s political chaos and he, like his trusted new secretary of state Elihu Root, believed that Japan’s promises to maintain the Open Door and uphold the territorial integrity of China were genuine and that its orderly
control over certain areas of the Asian mainland would be beneficial to United States’ economic interests there – in other words Roosevelt and Root assumed the U.S. could still pursue economic interests in Manchuria and Korea under the auspices of Japanese territorial administration (LaFeber 1997, 80).

However, that assumption proved to be false. Katsura further solidified Japan’s suzerainty over Korea, with America’s implied approval, via his secret 1905 agreement with Secretary of War William Howard Taft. This agreement implied that the United States would not challenge Japan’s interest in Korea in exchange for Japan’s assurances to not move against America’s control in the Philippines. Katsura had checked America’s hold on the Open Door in Korea with Taft’s anxiety over possible Japanese designs on the Philippines (Jansen 2000, 442).

Roosevelt and Root also soon realized that their beliefs about Japan’s acceptance of American economic development in Manchuria were misguided. When American railroad tycoon Edward Harriman (under the auspices of Roosevelt’s early dollar diplomacy efforts) offered to finance the refurbishment and re-gauging of Japan’s newly acquired railway in return for part ownership, Komura flatly refused for fear of U.S. encroachment on Japan’s sphere of influence in Kwantung, even though Tokyo was in great need of foreign investment as it struggled to recover from the large burden the Russo-Japanese war had put on the country’s finances. Instead, Japan organized the capitalization through a domestic stock offering, and through major loans in London (Metzler 2006, 55-56). Komura’s blatant checkmate on American interests in Manchuria
worried the United States, and Japanese liberals such as Ito Hirobumi and Saionji Kimmochi, alike. The latter feared that hard-line control over Manchuria would alienate American commerce, on which Japan so readily depended. Furthermore, Japan's own long-term economic interests in China gave priority to cooperation with the West. Cooperation ensured continuing prospects in north and central China, which presented the greatest economic opportunities in Asia. Ito argued that a necessary condition of Japan’s success in China was that it should not press its claims in Manchuria further than the United States would tolerate (Beasley 1987, 96-97).

Another left versus right, pro-West versus anti-West foreign policy contest was beginning to divide Japan politically. On the one side sat the military hawks represented by Yamagata and his protégé Katsura, on the other sat moderate statesmen such as Ito and Saionji, who advocated diplomacy over force. Both sides would produce further generations of protégés that would struggle for control of how to conduct Japan’s foreign policy. While both shared roughly the same goals – to produce a “rich country, strong army” and become a nation of equal standing with the great powers of the West – they differed widely on the means of how to achieve those goals (Beasley 1987, 93-99).

In Washington, Katsura’s hawkish stance towards Manchuria and against the Open Door spurred Roosevelt to order plans for potential war with Japan, known as War Plan Orange (Miller 2007, ix-x). Yet, Roosevelt was careful not to further stoke Japan’s hawks and kept these war plans secret. His main concern was the promotion of direct U.S.-Japanese economic ties – which continued to prove very fruitful – and American
national security, and not necessarily the maintenance of American economic interests in Manchuria. Washington simply was not willing to have a confrontation with Japan. In December 1910, the then former President Theodore Roosevelt aptly summarized this U.S. foreign (economic) policy dilemma in a letter to Taft in December 1910:

Our vital interest is to keep the Japanese out of our country [. . .] . The vital interest of the Japanese, on the other hand, is in Manchuria and Korea. It is therefore peculiarly our interest not to take any steps as regards Manchuria which will give the Japanese cause to feel [. . .] that we are hostile to them [. . .]. Our interests in Manchuria are really unimportant, and not such that the American people would be content to run the slightest risk of collision about them. (Beasley 1987, 100)

South Manchuria had finally come under Japan’s de facto jurisdiction through its ownership of the South Manchurian Railway. By governing the territory’s sole transport network, Japan essentially controlled all access to industry and commerce in the area, including the development of mineral mines that contained vital raw materials. It also meant that Japan had all control over the movement and placement of troops in the area. These factors sparked Katsura to remark that the South Manchurian Railway had become the “institutional fountainhead of the whole colonial development of Manchuria” (Metzler 2006, 56). That railway, and the colonial development it could foster, was so important that Japan developed a special Army to protect it. That force, the Kwantung Army, was commissioned in 1906 to protect Japan’s crown jewel in South Manchuria. Not only would the establishment of the Kwantung Army signal Japan’s first placement of a permanent force on foreign soil, it would also mark the de facto birth of a military unit who’s main mission was to secure Japanese colonial
expansion in China (Beasley 1987, 94). Furthermore, it marked the birth of a unit whose officers were true believers in Japan’s use of military force to ensure imperial conquest – many junior officers that joined the Kwantung Army were ultranationalist-imperialist sympathizers, who were also active in Japan’s ultranationalist secret societies. For example, the unit would produce future militarist zealots such as Kōmoto Daisaku who plotted the 1929 assassination of Manchurian warlord Zhāng Zuòlín (Jansen 2000, 525) and who, as colonel in the Kwantung Army, sparked the Mukden Incident in 1931 and the subsequent invasion of Manchuria in 1932, all without the consent, or against the express orders of the political and military leadership based in Tokyo (Jansen 2000, 581-582). Thus, Japan’s first foray into Manchuria, generated by its aspiration to diversify away from American trade while at the same time blocking U.S. economic encroachment in China, produced crucial elements of Japan’s twentieth century militarist movement in the form of the Kwantung Army.

While Japan had succeeded in beginning its diversification away from American trade with the establishment of its de facto colonies, and thus commercial interests in Korea and Southern Manchuria, those interests would by no means make good substitutes for U.S. markets. Exports and imports to its colonies would remain miniscule relative to the large trade volume Japan was generating with the United States (see Table 4). By the end of the Russo-Japanese war, Japan’s dependence on the U.S. was only growing, and Komura was faced with the same dilemma that nearly all of his successors would face: maintaining critical commercial relations with the United States.
so to build Japan’s empire, while keeping American influence in Asia at a minimum
(LaFeber 1997, 94).

Table 4. Japan's colonial trade 1895-1929: percentage shares of total foreign trade by
territories (annual averages)

<table>
<thead>
<tr>
<th></th>
<th>Exports</th>
<th></th>
<th>Imports</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Taiwan</td>
<td>Korea</td>
<td>Kwantung*</td>
<td>Taiwan</td>
<td>Korea</td>
</tr>
<tr>
<td>1895-9</td>
<td>--</td>
<td>3.1</td>
<td>--</td>
<td>--</td>
<td>2.5</td>
</tr>
<tr>
<td>1900-4</td>
<td>3.5</td>
<td>4.2</td>
<td>--</td>
<td>2.4</td>
<td>2.2</td>
</tr>
<tr>
<td>1905-9</td>
<td>4.6</td>
<td>6</td>
<td>--</td>
<td>4.6</td>
<td>2.1</td>
</tr>
<tr>
<td>1910-14</td>
<td>6.4</td>
<td>6.1</td>
<td>4.1</td>
<td>7</td>
<td>3</td>
</tr>
<tr>
<td>1915-19</td>
<td>4</td>
<td>5.9</td>
<td>4.9</td>
<td>7</td>
<td>6.9</td>
</tr>
<tr>
<td>1920-4</td>
<td>4.9</td>
<td>9.3</td>
<td>4.5</td>
<td>6.7</td>
<td>9.2</td>
</tr>
<tr>
<td>1925-9</td>
<td>5.4</td>
<td>11.4</td>
<td>4.4</td>
<td>7.6</td>
<td>11.5</td>
</tr>
</tbody>
</table>

Source: Data adapted from Beasley 1987.
Note: Percentages are of the totals in Table 1.
*Trade figures given for Kwantung, starting in 1907, include trade from the territory's hinterland, which
comprised chiefly Manchuria. They are included as part of Japan's trade with China in Table 3.

That growth in American commercial dependence was largely due to Japan’s
continued fiscal activism, which was driven by persistent modernization and military
spending that was draining its economy. The costs associated with two wars (first with
China and then with Russia), continued military spending even during peacetime, and
the never ending drive to build a fully industrialized economy, was taking its toll on
Japan’s ability to finance itself (Beasley 1987, 91-92). The economic management of its
newly acquired territories (the Kuriles, Formosa, Kwantung, Sakhalin and soon Korea)
also required institution-building and public investment. As government spending
widened, so did Japan’s balance of payments deficit, which had already been under
pressure due to continued and growing trade deficits (see Table 1). Trade deficits meant
that gold reserves were gradually diminished, and the nation’s debt-to-GDP ratio rose to nearly forty percent after the Russo-Japanese war (see Figure 3). Japan’s policy of maintaining aggressive fiscal activism (i.e. continued spending) to industrialize, militarize and build an empire, could not be supported by domestic tax or foreign trade revenues, thus forcing it to look abroad for loans. Its continued insistence on denying foreign direct investment for fear of external control of its industries bolstered its dependency on outside loans from London. As such, from 1905 until after World War I, roughly half of Japan’s public debt would be denominated in foreign currencies (Ohno 2006, 86-95). In the end, Japan’s insistence on spending beyond its means while trying to modulate foreign influence on its affairs would prove to be unsustainable, and disastrous, especially as its continued territorial expansion heightened Western concerns.
Figure 3. Japan’s debt-to-GDP ratio, 1870-1945

Source: Ohno 2006.

The post Russo-Japanese War dependence on foreign loans would further Japan’s reliance on American commercial ties by driving it into the arms of Wall Street. While the early Meiji era government had borrowed repeatedly from the London capital markets, Japan’s post war financial needs marked an opportunity for American investment bankers to finally break into the Japan’s market for loans. In 1905, Japan’s loan requests arose from the fact that peace negotiations in Portsmouth did not produce a Russian war indemnity, much to the chagrin of the Japanese public, who blamed American intervention in the peace arbitration as the reason for Japan being denied the much needed reparations. Public anti-American sentiment aside, Wall Street’s Jacob Schiff of Kuhn, Loeb & Co. (with some help from London and Paris) was more than willing to help Japan’s post-war financial crisis by filling its cash gap with four bond issues that totaled nearly $350 million, or almost half of the cost of the entire war.
(LaFeber 1997, 81-84). While its dependence on U.S. capital would subside for some time after the Schiff loan, Japan’s borrowing from the United States would be reinvigorated as Wall Street replaced London as the global center of finance after World War I. Japan’s need to finance its war with Russia had produced a milestone in the U.S.- Japanese economic relationship: it had initiated Japan’s reliance on Wall Street capital (Metzler 2006, 20).

By the end of the decade, American trade and Schiff’s post-war loans had become a critical source of income for a Japan that was experiencing an ever-worsening post war balance-of-payments crisis. That crisis moved a hawkish Komura, who had championed Japan’s unfettered military spending (and thus the military’s increasing influence on foreign policy) to look beyond Yamagata’s hard-line foreign policy views and concede that friendship with the United States – for the sake of economic gain – was critical. That friendship was bolstered, from Japan’s point of view, when in 1908 Secretary of State Elihu Root offered to sign an agreement with Japanese Ambassador Takahira Kogorō that essentially acknowledged Japan’s unfettered foothold in South Manchuria and it right to annex Korea, in exchange for its acceptance of the Open Door in the rest of China. Root, like Roosevelt, was a strong believer in Japan’s role as a guardian of order in a China that was slowly disintegrating into revolutionary chaos (LaFeber 1997, 91-94). By 1910, that concession, in the form of the Root-Takahira agreement, had essentially spelled the demise of American economic influence in Northeastern China and Korea, much to the consternation of the United States, which
since the turn of the century, had desperately sought to gain an economic foothold in Asia (McCormick 1967, 18-19). The hopes of an American presence in Asia were fading as China continued to break apart, giving the U.S. (and every other power interested in China) little opportunity to gain a foothold there. The only territories not prone to China’s revolutionary problems were under Japanese control (which is why they remained stable, but also off-limits to the United States). In 1910, Japan would formally annex Korea and extract further rail and mineral concessions in Manchuria from a weak Chinese government. In addition to Japan’s progress in expanding territorially in Asia, it also would break free from the last of its unequal trade treaties, finally convincing the United States to ratify a new Treaty of Commerce and Navigation treaty in 1911, which stipulated that Japan finally had complete control over its tariffs (Jansen 2000, 429). By the end of the first decade of the twentieth century, Japan had shown itself capable of winning two wars, achieving successful territorial and economic expansion on the Asian mainland, and negotiating full tariff autonomy from the West – major accomplishments that undoubtedly did not go unnoticed by, and in fact worried many in the United States, some of whom began to refer to Japan as the “Yellow Peril” (Jansen 2000, 448).

Tensions between the two nations would continue to brew as the United States tried a new course to gain access to China’s markets – markets that were also being vaunted by a Japan seeking to break loose from its overwhelming commercial ties to the United States. That course, largely championed by newly elected president William Taft
and his Secretary of State Philander Knox, would see the use of New York bankers, and not Washington’s official foreign policy institutions, to secure a commercial foothold in China. This Dollar Diplomacy, as it became known, used government power to encourage U.S. private business interests to counter Japanese and European inroads in Asia was to be an improved iteration of McKinley’s old-fashioned Open Door diplomacy. Instead of McKinley’s notes, Taft now had the so-called American Group, a group of bankers from leading bulge-bracket investment firms, including J. P. Morgan & Co., Kuhn, Loeb & Co., and National City Bank of New York. Given the failures of McKinley’s docile Open Door diplomacy, and Roosevelt’s dangerous path towards locking the U.S. out of China by conceding Japanese claims in Manchuria, Taft signaled a more direct approach by pushing aggressively for the Open Door in China, via a multilateral banking consortium that included the American Group, which would assist China by providing loans to develop its railways. Manchuria and the construction of competing railways there, he argued, should not be off limits to the consortium (Beasley 1997, 99-100). Taft’s refusal to acquiesce to Japan’s railway monopoly in Manchuria would mark the most noticeable difference between his policies and those of his predecessor. Also, by focusing on Chinese loan opportunities in lieu of traditional export markets or equity venture investments, Taft believed the United States would be able to gain influence over Chinese railway systems – strategic investments that would provide great returns, parlay into influence over Chinese trade administration, and help the United States advance its Open Door policy in Asia, all without seeming blatantly
imperialistic. Thus, by pushing the American Group to join a consortium with European, and eventually Japanese bankers to syndicate loans to the Chinese government, Taft had hoped he finally had found the key to successfully propping the door open in China and checking Japan’s expansion in Asia (LaFeber 1997, 95).

Taft’s aggressive Dollar Diplomacy – highlighted by his views regarding Manchuria – introduced new tensions in the U.S.-Japanese relationship. For the first time, the United States was pursuing an assertive, coordinated approach to gaining access to Chinese markets – including Manchurian markets that Japan believed belonged to its sphere of influence. Thus, on the eve of World War I, the U.S.-Japanese economic relationship was plagued by two long standing dynamics that would bolster Japan’s hawkish stance towards the Asian mainland and the United States: Japan’s over-dependence on U.S. trade (and to some extent, loans from the Russo-Japanese war), and full-fledged competition over control of Manchuria’s railroads. As China had become embroiled in revolution in 1911, the stakes for U.S.-Japanese investment competition were rising higher – the political chaos in China provided ample opportunity for each country to take advantage of the situation (with certain risks, of course). Much to the consternation of the outgoing Taft, and incoming Wilson administrations, Japan was able to take economic advantage of China’s political instability, while the consortium featuring the American Group was able to make but a single significant investment in the region. Upon entering office, Wilson pulled the American Group out of the consortium. Japan for its part ignored the remaining consortium members and
unilaterally and secretly extended loans to enterprises in China and Manchuria, using its colonial financial outposts such as the Bank of Taiwan and the Korean Bank of Chosen to administer yen-denominated money flows between Japan and the mainland (Metzler 2006, 64-66). As such, by 1914, Japan’s capital investments in China had far exceeded those of the United States (see Table 5).

Table 5. Foreign investment in China* 1902-31: distribution by countries

<table>
<thead>
<tr>
<th></th>
<th>1902 US $m</th>
<th>%</th>
<th>1914 US $m</th>
<th>%</th>
<th>1931 US $m</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Britain</td>
<td>260</td>
<td>33</td>
<td>607</td>
<td>37.7</td>
<td>1,189</td>
<td>36.7</td>
</tr>
<tr>
<td>Russia</td>
<td>246</td>
<td>31.3</td>
<td>269</td>
<td>16.7</td>
<td>273</td>
<td>8.4</td>
</tr>
<tr>
<td>France</td>
<td>91</td>
<td>11.6</td>
<td>171</td>
<td>10.7</td>
<td>192</td>
<td>5.9</td>
</tr>
<tr>
<td>Germany</td>
<td>164</td>
<td>20.9</td>
<td>264</td>
<td>16.4</td>
<td>87</td>
<td>2.7</td>
</tr>
<tr>
<td>USA</td>
<td>20</td>
<td>2.5</td>
<td>49</td>
<td>3.1</td>
<td>197</td>
<td>6.1</td>
</tr>
<tr>
<td>Japan</td>
<td>1</td>
<td>0.1</td>
<td>220</td>
<td>13.6</td>
<td>1,136</td>
<td>35.1</td>
</tr>
<tr>
<td>Total</td>
<td>788</td>
<td>100</td>
<td>1,610</td>
<td>100</td>
<td>3,242</td>
<td>100</td>
</tr>
</tbody>
</table>

*Includes Manchuria and Hong Kong.

Source: Data adapted from Beasley 1987.

Not only was Japan largely successful at keeping U.S. loans out of China, but by the time the Meiji era came to an end in 1912, with the death of Emperor Meiji and the ascendency of Emperor Taishō to the imperial throne, it had succeeded in establishing major trade flows with China, largely through Japan’s large zaibatsu. By that time China’s market for Japanese exports was nearly as large as the behemoth U.S. market (see Table 3). Chinese imports, in the form of raw industrial materials and textiles also were playing a larger role in Japan’s import portfolio (Beasley 1987, 127-130). With the solidification of significant trade and loan relations with China by the early twentieth
century, the Taishō government inherited an economy that had become somewhat less dependent on U.S. commercial ties than its predecessor. Furthermore, by building substantial commercial relations with China that were based on yen-denominated transactions, Japan was creating an East Asian economic yen-bloc, that now spanned Manchuria, Korea, and Formosa and provided an essential boost to its quest for economic autonomy from the West (Metzler 2006, 98-101). That autonomy was critical to a nation building an empire in a region were the West, and now most prominently the United States, was seeking markets.

Japan’s economic successes abroad, while suffering major financial problems at home – largely due to continued government over-spending – led its military hawks to call for the all-out occupation of Southern Manchuria as Emperor Taishō began his reign. To hardliners such as those in the Army, Japan needed more territory and better economic control of its colonies to make it less dependent on the United States and resolve Japan’s major financial problems at home. China’s revolutionary woes provided the perfect opportunity to secure a stronger presence on the Asian mainland through military conquest (Beasley 1987, 105). Unfortunately, military hardliners did not realize, or did not want to realize, that armed conquest was making Japan more dependent on U.S. funds. Perhaps liberal intellectuals, who at the turn of the decade were becoming an evermore-prominent voice in Japanese politics, were aware of the contradictions of the militarist’s strategy, for they began to form a prescient voice countering the country’s continued slide towards militarism. In fact, the Taishō era,
which lasted from 1912 until 1926, would eventually spur a more moderate foreign policy discourse that was based on the use of diplomacy and the antithesis to the military-centric ideas that had shaped Japan’s foreign policy prior to then (LaFeber 1997, 101). Among hard-line military officers and civilian ultranationalist conservatives, the liberal discussions of the period fostered further great disdain for democratic and capitalist principles. They saw the policies of the Taishō liberals as a careless response to what they perceived as increasing military and economic threats at a time when China’s weakness should have been militarily exploited for Japan’s gain. For example, in 1913 ultranationalists assassinated Foreign Ministry official Abe Moritarō for his promulgation of a memo that recommended a more diplomatic economic policy towards China (Beasley 1987, 108). This disdain for liberalism and democracy would fester until the military would use force to regain political control in the years to come.

The right-wing versus moderate political tensions that pockmarked the early Meiji era would not subside. And like those prior experiences that culminated in the Satsuma Rebellion of 1877, the incoming coups and assassinations of the 1920s and 1930s were spurred by the debates over how to deal with foreign threats to Japan’s autonomy, this time mainly seen as American economic threats that were choking Japan’s own perceived manifest destiny to control all of Asia. Militarists and their ultranationalist supporters advocated the use of brute force, while the moderates of the late-Taishō era believed that diplomacy and close financial ties to the United States were the answer to
Japan’s imperial ambitions. While the goals of the militarists and the moderates were largely alike, the means differed vastly (Beasley 1987, 109).

As the First World War was moving into its second year in 1915, Japanese Foreign Minster Katō Kōmei, a fiercely independent moderate who advocated expanding Japan’s sphere of influence, while also tempering military ambitions in Asia, issued Japan’s famous Twenty-One Demands to China in an effort to guarantee the extension of leases on the Kwantung territories and the South Manchuria Railway, and more importantly, to hedge against any threats that China’s political collapse might bring to Japanese assets there. Katō wanted to control Manchuria, but through political and business channels, and not through the uncontainable Kwantung Army. He demanded further mineral railway concessions in Manchuria and Inner Mongolia. Furthermore, Japan wanted to retain control of the German colonial territories it had seized in Shantung, now that it had sided with the allies in declaring war against Germany (Beasely 1987, 108-110). Yet, Katō’s aggressive demands not only alienated both the liberal-diplomatic foreign policy establishment in Tokyo and militarist elements in Japan and Kwantung, but it also sent major shock waves to the Wilson administration, which had been busy focusing on the events unfolding in Europe instead of those in East Asia. China – and a United States nearly powerless against Japan’s overtures in Manchuria – acquiesced to almost all of the demands, essentially further conceding to Japan’s increasing control over Manchuria. The American concessions towards Japan’s demands on Manchuria would be fortified by President Wilson’s
reincarnation of Taft’s banking consortium strategy in 1917, which was launched via the issuance of the Lansing-Ishii agreement, between Secretary of State Robert Lansing and Japanese special envoy Ishii Kikujirō. The agreement recognized Japan’s “special interests” in China, especially in those areas “to which her possessions are contiguous” – which was interpreted to mean Southern Manchuria (which was adjacent to Korea). In return, Japan would be asked to join the newly established Four-Power consortium to guarantee the continuation of the Open Door (anywhere outside of Manchuria), through the joint syndication of loans to China. While Japan eventually agreed to join the consortium, it was used purely as a U.S. containment strategy against Japanese loans to China – the joint group never actually issued any loans to a warring China. That was fine with Wilson, who was more concerned about blocking Japan’s economic influences in China than promoting Wall Street’s profits, and ultimately most concerned about the United States role in post-war Europe, and less focused on Washington’s foreign policy towards Asia (Metzler 2006, 127).

While the American bankers in the consortium, most notably Thomas Lamont of J.P. Morgan & Co., agreed to interpret Japan’s carve out as applying to all of Manchuria, Wilson and the State Department pushed back on a nation that was becoming increasingly dependent on U.S. trade and financial capital after World War I. By the early 1920s the United States enjoyed revived economic (and thus diplomatic) leverage over Japan, as the war led Britain to lose its position as a major economic power and center of finance, and led the United States to gain its position as the world’s
financial center, as its massive wartime trade surpluses fueled its economic growth. As the Great War ended, the United States emerged as the world’s preeminent creditor (Metzler 2006, 98). While Japan also enjoyed much-needed trade surpluses during the war as it filled a void in global trade left by the warring European nations, it quickly fell victim to post-war hyperinflation in 1918. Rice riots, a wave of bankruptcies and bank runs followed. By the early 1920s, Japan was mired in full-fledged financial and political crises (Metzler 2006, 129-137). The United States, while also experiencing its own post-war financial troubles, had become an economic hegemon, flush with financial capital and, by the 1920s, flourishing oil and steel industries that delivered strategic resources that Japan did not have, but desperately needed (LaFeber 1997, 134).

More importantly, the U.S. dollar, backed by America’s humungous post-war gold reserves, joined the British pound as the de facto global reserve currency after the war, especially for those nations, such as Japan, that were unable to restore a gold standard. The United States massive concentration of the world’s gold holdings (by 1922, forty percent was held by the U.S.) transformed the post-World War I gold gap into a dollar gap, forcing other nations not on the gold standard, including Japan, to maintain export surpluses with the United States to maintain stable domestic currency valuations. This dynamic also prompted the U.S. dollar to become the de facto currency for international trade transaction settlements. Thus, Japan needed access to U.S. dollars to settle the import transactions on the large amounts of raw materials it continued purchasing from the United States, as Tokyo’s economic interests in Asia were simply
too small to ease dependence on American raw goods. More so, as a major silk exporter to the United States, Japan was beholden to maintaining high levels of export trade to stabilize the yen and to have access to the American dollars it needed to purchase imports needed for military and industrial expansion. It simply was unable to supplant the U.S. export market with those that it built up within its yen-bloc in Korea and Manchuria. The repeal of the gold specie standard in favor of the gold bullion standard by 1925 at the behest of the British, would in effect leverage the word’s finite gold supply by formally establishing de facto gold-linked currencies – namely the British pound and the U.S. dollar – as substitute gold. Gold now stayed in the vaults of the central banks, and the pound and the dollar remained the dominant currencies used to settle trade transactions and maintain domestic currency valuation (Metzler 2006, 162-165). Japan’s only way to avoid such dangerous dependence on U.S. export markets was to bolster its commercial transactions with its yen-bloc colonies. Ironically, it needed American resources and capital to maintain its commercial and military presence in those colonies.

Thus, Thomas Lamont of J.P. Morgan & Co., who by 1920 had been appointed as Washington’s de facto envoy for economic affairs in Asia, was in a position to essentially persuade a weakened Japan into joining the multi-lateral banking consortium, while guaranteeing that Tokyo’s “special interests” in China be contained to the Japanese-owned assets only – most importantly its railroads in Manchuria. These concessions were solidified in 1920 by Lamont and Kajiwara Nakaji, president of the
Yokohama Specie Bank. The seminal Lamont-Kajiwara agreement and revived consortium also produced the Washington Conferences of 1921-1922, in which naval armament limits in the Pacific were combined with the acceptance of the Open Door policies in China (LaFeber 1997, 128-131). The conferences produced two remarkable results in the annals of pre-Pacific War U.S.-Japanese economic relations. First, they marked the pinnacle of Japan’s willingness to work with the United States in a compromising fashion around the contentious issues of Chinese markets and naval power in the Pacific, thereby highlighting how far American economic leverage over Japan had evolved (LaFeber 1997, 132). Second, the conferences produced negotiations between American bankers and Japan’s government. Those negotiations would spark the full-fledged arrival of the bilateral financial capital relationship between the two nations, and as the leader of the world’s most powerful investment bank, Thomas Lamont, was largely responsible for directing that relationship. Next to trade with America, U.S. loans would soon become the second most prominent ingredient in financing Japan’s future (Metzler 2006, 124-127).

Japan’s 1920s liberal politicians, most notably Shidehara Kijūrō, who had become Foreign Minister under Katō in 1924, were supportive of Japan’s reinvigorated entente towards China and the United States, ushering in the era of Shiderhara Diplomacy. They believed that cooperation with the West in China and strong bilateral economic ties with Washington were key to Japan’s long-term growth and stability. These diplomatic overtures were of course extremely disappointing to a group of
militarists who feared further economic dependence on Western powers, and felt that China, in its entirety, should be brought under Japanese military and, of course, economic control. The agreement to join the consortium was criticized by Japan’s civilian and military ultranationalists as a national derogation – Japan’s unilateral financial initiatives in China were stalemated by the United States, and worse American unilateral financial initiatives towards Japan would replace them (Metzler 2006, 127). Compounding the reactionary bitterness over Japan’s liberal foreign policy overtures was Japan’s post-war domestic economic turmoil. The combination of the two dynamics – Western “appeasement” by liberal politicians and domestic economic disaster – led leading ultranationalist disciples such as Kita Ikki to call for revolution. Kita, like his forbearers of the Gen’yōsha and Kokuryūkai societies briefly discussed in the first part of this paper, believed that many of Japan’s domestic woes were a result of to its ties to foreign nations, most notably Britain and the United States. Kita argued that Japan must rid itself of dangerous foreign ties and lead the construction of a great Asian empire, to be administered under Japanese leadership and ruled by the divine emperor. The construction of this pan-Asian empire would necessitate a domestic military coup d'état in order to establish a totalitarian regime that, through the strict alignment of economic and military interests, would be in a position to build a pan-Asian empire and liberate Asia from the West (Beasley 1987, 178-179). With Emperor Shōwa’s ascendency to the throne in late 1926, this militarist movement became known as the Shōwa Restoration. Taking a strong influence from the Mitogaku scholar Aizawa Seishisai and his theories
of kokutai and sonnō jōi that had inspired the Meiji restoration, Kita and his followers believed that with the help of the military, the emperor’s singular rule would be restored and rid Japan of corrupted, pro-West politicians and unite Asia under Japanese rule – similar to how the pro-imperial samurai of Mito, Satsuma and Chōsu rid the nation of the corrupted, pro-West Tokugawa bakufu regime and restored the singular power of the emperor (Jansen 2000, 602-603). The dissemination of Kita’s seminal work An Outline Plan for the Reorganization of Japan in 1923, at a time of great domestic crises, had a profound impact on the progression of militarism in pre-Pacific War Japan (Beasley 1987, 177-178). Foreshadowing the terror campaigns that would end party government in 1932, Kita’s work inspired the assassination of moderate Prime Minister Hara Takashi in late 1921 (Metzler 2006, 129). Japan’s domestic turmoil was once again threatening the very existence of its democracy, and the economic events of the 1920s would mark a pivotal phase in the nation’s slide towards militarism.

That deepening domestic crisis – a deflationary hangover after the collapse of the inflationary World War I economic bubble – was worsened in 1923 by a massive earthquake in the Kantō region that destroyed entire cities, including major commercial and industrial centers such as Tokyo and Yokohama. With that disaster, Japan had essentially been brought to its knees, but Wall Street was more than willing to help a nation in distress by providing much needed reconstruction funding in the form of loans. The most important liaison between Wall Street and Tokyo again was Thomas Lamont of J.P. Morgan & Co. Lamont had built close ties to Inoue Junnosuke, with whom he
had worked during the reestablishment of the banking consortia under President Wilson in the early 1920s. At that time Inoue was governor of the Bank of Japan, and by 1924 he briefly had become minister of finance. Their close ties, Japan’s need for capital and Lamont’s desire to finally stake a claim in Asia led to the issuance of the so-called earthquake loan in 1924. The massive $150 million loan, the largest to emanate from New York up until that time, essentially was a refinancing of the 1905 Jacob Schiff war bonds that were coming due in 1925. Japan was using borrowed American money to pay off borrowed American money, and this time – to the consternation of many Japanese – at a higher interest rate than in 1905. Inoue was harshly criticized for approving higher interest loans – Japanese newspapers called them “national humiliation bonds.” By the mid-twenties, as Wall Street grew more comfortable and eager lending to Japan, and Japan became further dependent on outside funding to cover balance-of-payment deficits and the financing of capital intensive projects, a symbiosis between New York’s banks and Tokyo developed that would spur the issuance of sixteen further major bond placements totaling over $365 million, between 1924 and 1931 (Metzler 2006, 147-153). By the late twenties, Japan’s debt-to-GDP ratio was reaching the same record highs that marked the post-Russo-Japanese war financial crisis (see Figure 3).

Ironically, by 1927 however, even Lamont would become concerned about Japan’s borrowing. The pro-West Prime Minister Wakatsuki Reijirō also wanted to diminish Japan’s dependency on debt and restore balanced budgets by reining in spending. One of his party’s primary motivations to do so was to follow the lead of the
United States and Britain and other major economies that had established the gold bouillon standard after 1925, thus re-linking their currencies to the real value of gold. To bring the yen to gold parity however, Japan needed to clean up its portfolio of bad debts, both public and private. Private debts had been growing due to the actions of the poorly regulated Japanese banks, which had carelessly overlent to failing businesses that fell victim to the post-World War I economic collapse and to which the banks were closely connected. In 1920, 1922, and 1923 the Bank of Japan, under Inoue’s leadership, was forced to bail out these insolvent banks to avert larger crises, thus moving the debts from the private to the public sector. This practice continued without public knowledge. The brewing crisis around Tokyo’s absorption of post-bubble era private debts had also been largely masked by domestic earthquake loans, which allowed the central government to carry over the private bad debt under a new guise. By 1927, Japan’s two mainstream political parties – the conservative Rikken Seiyukai and moderate Rikken Minseitō – launched into severe partisan debates over the Minseitō government’s disguising of the commercial banking turmoil. On March 14 those debates reached the public and unleashed a banking panic that nearly brought down the entire Japanese economy. The yen began to fall, and Japan’s access to overseas credit was in danger of collapse. Wakatsuki’s plans to restore the yen to gold parity, and his career as Prime Minister, would be brought to an end in April by a new conservative cabinet led by former Imperial Japanese Army General Tanaka Giichi. Tanaka, like his conservative predecessors, ended the liberal deflationary measures and adopted renewed spending
policies to support industrial and military expansion, further endangering Japan’s precarious debt position (Metzler 2006, 175-183).

Tanaka also reversed Shidehara’s anti-interventionist policies in China. A Yamagata disciple and strong believer in *kokutai* nationalism, Tanaka became the essential link between the imperialist generation of the Meiji era and the new Shōwa militarists (LaFeber 1997, 151-152). Tanaka’s 1928 wholesale roundup of socialist and communist supporters would mark a determining moment in Shōwa Japan’s purge of left-wing politics. Nonetheless, even the pro-militarist Tanaka was unable to harness the Kwantung Army’s dangerous independence in Manchuria. By 1928 that independence had altered into de facto political autonomy as Kwantung Army soldiers took Japan’s foreign policy into their own hands by assassinating northern Chinese Warlord Zhāng Zuòlín in 1928, who was threatening Japan’s hold on Manchuria. As the Kwantung Army was slowly preparing to take full control of Manchuria, the multilateral renunciation of war through the Kellogg-Briand pact, to which Japan became a signatory, did little to prompt Tokyo to control its militant forces in Kwantung. That lack of control over the Kwantung Army, as was evident through its murder of Zhāng, would spell Tanaka’s political demise as an appalled Emperor Hirohito forced the prime minister to step down in 1929 (Jansen 2000, 524-527).

Tanaka’s abdication of power paved the way for one last brief appearance of Japan’s pre-war liberal political leadership in the form of Prime Minister Hamaguchi Osachi and the reappointment of Inoue as minister of finance. Inoue, a believer in the
importance of restoring Japan’s economic fundamentals and the yen’s gold backing, immediately began to pursue aggressive austerity measures and enlist his old friend Thomas Lamont to guide Japan’s path back to the gold standard. Inoue’s pro-West economic policies proved to produce yet another disaster for Japan, mainly due to terrible timing, rather than bad policy. His decision to link the yen back to the gold standard, and thus fully to American markets on the eve of the Great Depression would be a catastrophe for a Japan already mired in financial crisis. Four months after the Black Thursday crash in October, the gold-embargo would be lifted. Inoue finally succeeded in inextricably linking Japan’s economy to the American financial system, which through pure greed and sheer irresponsibility had now imploded, pulling down Japan with it (Metzler 2006, 199-214).

Greed and irresponsibility could also characterize Thomas Lamont’s role in restoring the yen to the gold bullion standard. For in the end, Japan’s lifting of the gold embargo depended on J.P. Morgan & Co.’s willingness to extend a massive restoration credit that would protect the yen from speculative attacks after having been restored to gold-par (Metzler 2006, 194). While Lamont’s motives to help stabilize Japan’s economy via his gold bullion restoration loan may have been genuine, they were certainly self-serving, too. Economies restoring to gold standards enjoyed improved creditworthiness, which in turn meant less speculative risk for the bonds Lamont was syndicating on behalf of foreign governments. More importantly, restoring economies to gold meant big profits – the Japan’s restoration credit generated large commissions for
J.P. Morgan & Co. (Metzler 2006, 191-195). For Lamont to issue such a loan three months after the Wall Street crash was arguably unethical, as he was an astute financier must have been keenly aware of the crisis that was unfolding around him.

The 1930 restoration of the gold standard at the time of the global crash would break the two major pillars of the U.S.-Japanese economic relationship: trade and financial capital flows. By 1930, the United States was absorbing over 40% of Japan’s exports (LaFeber 1997, 154). As the American economy imploded, so vanished American buyers of Japanese silk, still the leading export to the United States. With the introduction of the protectionist Smoot-Hawley Tariff in the summer of 1930, Japanese exports declined further. Since about 40% of Japan’s families depended on income generated through sericulture and textile spinning, entire segments of Japanese society became impoverished through the collapse of the U.S. silk market, as raw silk prices fell 40% between April and July of 1930 (Metzler 2006, 226). Without silk exports, Japan could no longer acquire U.S. dollars to finance its imports of critical raw materials from the United States. Having now tied the yen to gold, Japan quickly lost 60% of its gold specie reserves to settle trade deficits with the United States. As gold flowed out of its reserve accounts, further deflation ensued (LaFeber 1997, 155-156). In terms of financial capital flows, Wall Street’s crash signaled the end of American loans to Japan. The preeminent well of credit funding had suddenly dried up, and Japan had nowhere else to borrow money to finance trade deficits, capital-intensive industrialization projects, or military expenditures (LaFeber 1997, 154). The crash, which coincided with
Tokyo’s last disastrous push towards working within the framework of American capitalism, would mark the beginning of the end of the U.S.-Japanese economic relationship and Japan’s adoption of liberal, Western-style economic policies. It also would convince many Japanese that the militarists’ warnings of the dangers of foreign economic dependence were correct. To many, Kita Ikki, his disciples and like-minded compatriots in the military were correct – Japan needed to free itself once and for all from Anglo-American financial ties by finally developing a major economic presence on the Asian mainland. That presence needed to be developed through the pioneering work of the military, and not the corrupted politicians in Tokyo (Beasley 1987, 179-181).

In the eyes of ultranationalists, Hamaguchi’s fate was sealed. Not only had he brought the nation into financial ruin through his promotion of ties to American capitalism, but he also had weakened Japan’s military power by agreeing to further naval tonnage limitations at the London Naval Conference in early 1930. On November 14th of that same year, Hamaguchi fell victim to an assassination attempt when Sagōya Tomeo, a member of the Aikokusha (Society of Patriots) ultranationalist secret society, shot him in Tokyo Station. Nine years earlier, Prime Minister Hara Takashi had been assassinated near the same place. Sagōya, who had served as a mercenary soldier in Manchuria, admitted to police that the issues of the London Naval Conference and the economic depression motivated his attempt on Hamaguchi’s life. Hamaguchi would succumb to his injuries nine months later. The attack on the liberal Prime Minister
became a rallying cry for ultranationalists of all backgrounds – it was the spark that would ignite the military and civilian reform movement’s attack on the democratic political establishment (Metzler 2006, 231).

That rallying cry must have been heard one thousand miles away in Mukden, where by 1930 the Kwantung Army was preparing to move beyond the confines of the Liáodōng Peninsula. By 1931, this force had become a highly self-conscious and autonomous military unit under its leading staff officer Lieutenant Colonel Ishiwara Kanji. Kanji was a contemporary pupil of the teachings of Kita Ikki, and like Kita believed that Japan would be saved by its military. Ishiwara was highly influential on his middle ranking officers, who banded together to create the Isseki-kai society, an ultranationalist group of Army officers determined to create economic autonomy from the United States through the wholesale takeover of China. In 1931, the complete occupation of Manchuria would be the first goal that needed to be met to achieve this long-term “China for Japan” strategy (LaFeber 1997, 163-164). On September 18, 1931 that strategy was set in motion when members of the Kwantung Army’s staged a bombing of the South Manchurian Railway at Mukden. Blaming Chinese dissidents for the act, Ishiwara ordered Japanese troops to seize the nearby Chinese military barracks. He then ordered Kwantung Army units to seize control of other Manchurian cities without informing his new commander, General Shigeru Honjō, or the Imperial Japanese Army General Staff in Tokyo. However, by late September the General Staff, sensing opportunity, ordered nearby units stationed in Korea to fan out over much of
Manchuria. By early 1932, the Japanese military had succeeded in taking all of Manchuria and had already installed its own puppet state there, called Manchukuo (or Manshū-koku in Japanese) (LaFeber 1997, 165-166).

The Japanese Diet, moderate military and civilian leaders and even Emperor Hirohito stood by, powerless if not supportive, and through their impotence during the September events, essentially ceded control of Japan’s foreign policy to the military. At home the military consolidated its power further by taking control of Japan’s economic policies as well, putting the now heavily industrialized economy under the auspices of centralized Army and Navy guidance. Japan’s centralized economic planning had been pioneered under civilian terms by Takahashi Korekiyo after the financial disasters of World War I with the establishment of the Ministry of Commerce and Industry (MCI) in 1925. By 1932, this centralization would fall under the purview of the military and would see the armed forces’ increasing influence over the powerful zaibatsu to create a military run economy that would dedicate nearly all its output to the support the armed forces’ ambitions on the Asian mainland (LaFeber 1997, 160-163). In late 1931, the last moderate cabinet had fallen as liberal Wakatsuki Reijirō, now in his second stint as prime minster, was voted out of office in favor of the more conservative Inukai Tsuyoshi, who supported the Kwantung Army’s victory in Manchuria and promoted the military’s ideals (Metzler 2006, 247). Just as that army was setting up its Manchukuo puppet state in early 1932, a member of the ultranationalist Ketsumeidan (“Blood Pledge Corps”) society murdered the architect of Japan’s post-World War I liberal-
capitalist economic policies, Inoue Junnosuke. Three months later, another Ketsumeidan member murdered the head of the powerful Mitsui zaibatsu, Dan Takuma. Both were close friends of Thomas Lamont. Lamont reacted by informing Finance Minister (and soon to be acting Prime Minister) Takahashi Korekiyo that the United Stated would no longer lend even a dollar to Japan (and it never did until after Japan’s capitulation in 1945) (Metzler 2006, 246-248). On May 15 1932, conservative Prime Minister Inukai, who had voiced his unequivocal support for the military’s action in Manchuria a few months earlier – even advocating the shelling of Shanghai and army advances beyond the Great Wall into Jehol and Chinchow – became a victim of a coup d’état launched by extremist elements of the Imperial Japanese Navy, opposed to the government’s dealings at the London Naval Conference and its limits on military expenditures (LaFeber 1997, 170-173). As LaFeber notes, “Inukai’s killing removed the last important semblance of civilian government in Japan until after World War II” (LaFeber 1997, 170-172). Henceforth, not a single Prime Minister would be produced from the two major remaining democratic political parties - the Rikken Minseitō or Rikken Seiyūkai. Political leaders after May 15th would either be military officers, or their cronies.

By 1939, the Shōwa militarists’ takeover of Japan’s future had been completed. On the economic front, the 1938 passing of the Total Mobilization Law essentially put Japan’s entire economy, from the industrial sector to labor unions and even the news media, under the military’s control. Prime Minister Konoe Fumimaro completed the
militarist’s purging of Japan’s last semblances of constitutional politics with the establishment of the "Imperial Rule Assistance Association," the military’s de facto political governing organization that was installed to promote the goals of his "New Order" movement in East Asia. Those goals included the reconstruction of China on Japanese terms so to form a tripartite of Japan, Manchukuo and China that would create a new Asian culture and realize a close economic cohesion throughout East Asia that could best serve Japan’s interests (LaFeber 1997, 189).

At the time of the famous “New Order” announcement, Japan had already been mired in war with China for two years. Its revived fiscal-military activism – in place since the decisive right-wing political events of 1932 that reversed the Inoue austerity measures of the late 20s and early 30s – was again putting the economy into a tailspin by the late thirties. But now, without access to American credit, and the looming specter of ever-increasing trade and financial sanctions – which essentially began with the United States’ declaration that it would terminate the 1911 commercial treaty by 1940 – Japan was largely dependent on the economies it controlled through its colonial conquests, the collection of which it dubbed the “Co-Prosperity Sphere” (Beasley 1987, 227-228). But Japan’s attempts at establishing pan-Asian economic autonomy would prove to be a failure. Its economic relationship with the United States had simply become too important – American export markets, imports of oil and steel, and Wall Street’s debt financing were critical to a nation who’s populous, industry and territory kept expanding. Without American commerce, Japan’s future looked increasingly bleak.
After spending years waging war on the Asian mainland to create a more self-sufficient Japan, the military leadership found the economy more vulnerable than ever to looming United States trade and financial sanctions. The more it geared its economic resources to support its military, the less it produced and sold to the West. The less it sold, the fewer revenues it had to purchase the strategic resources it needed to wage war and maintain an industrialized economy. Military empire building was making Japan more dependent on the United States (LaFeber 1997, 188-189). When sanctions did finally come, many of Japan’s military leaders saw no other option but to plan a surprise attack that would disable American military capabilities in the Pacific, so that Japan could enjoy a free hand at expanding its Asian Co-Prosperity Sphere to a size that would be able to support the continued growth of the Japanese empire through the development of a purely yen-based economy replete with lucrative trading opportunities and ample natural resources. As the last few rational voices opposing such an attack were drowned out by the military dictatorship, Japan made the fateful decision to cut the proverbial slipknot by initiating war. In the end it was commerce that initiated the U.S.-Japan relationship, and it was commerce that subsequently terminated it.
EPILOGUE

Distinguished scholar of Japanese history, John Whitney Hall, summed up the United States’ implication in generating Imperial Japanese extremism, and perhaps future extremist backlash from other nations, most succinctly by stating:

For if we accept, as we must, the fact that Japan did not attack the United States out of sheer madness, then it becomes possible to imagine situations in which other nations rationally driven to extremities might find peaceful coexistence with the United States impossible or at least unbearable. (Hall 1977, 185)

Japan’s road to militarism was not the result of an intrinsic propensity for military fanaticism and violence, but was rather triggered by a perceived threat to its imperial ambitions. That threat was an economic relationship with the United States that was marked by competition and Japanese dependence that was, as Hall concisely observes, increasingly viewed as unbearable. As Hall pointedly implies, external forces – in this case the emergent United States global economic hegemony – should be considered as a major factor in spurring Japan’s shift towards a totalitarian state ruled by military authority.

Certainly, a string of domestic preconditions can be blamed on that shift, too. Explosive population growth on a relatively small island archipelago with limited natural resources comes to mind. A nation whose decades of internal warring created a ruling samurai warrior class that would be largely marginalized and left idle due to rapid Meiji political reform, should be considered, too. While these, and numerous other domestic issues certainly provided certain required, but not sufficient preconditions for
Japan’s shift towards militarism, they alone are not responsible for Japan’s path to war. It would be very difficult to fathom Japan’s early 1930s totalitarian shift without considering the long-term United States economic relationship with the island nation. That relationship, characterized by the two main phases discussed in this paper, would be a leading factor in stoking Japan’s reactionary tsunami. Forcefully opening the secluded nation to the shocking changes of the modern world, while at the same time extracting commercial relationships with a fragile feudal economy, certainly started the first ripples of that tsunami. The subsequent aggressive promotion of a hegemonic trade and financial capital relationship, while at the same time limiting the nation’s economic autonomy in Asia, would turn the ripple into a swell. When the United States financial markets crashed in 1929 and unleashed a globally cascading economic collapse, American financial hegemony had a decisive role in sucking down Japan’s economy, too. That near-economic death brought on by close ties to American capitalism would cause the reactionary swell to change into a giant wave, to which Japanese democracy would succumb. Disastrous American economic ties would align Japan’s dormant internal preconditions for militarism into a perfect constellation that would burst onto the scene in the 1930s.

Since those early twentieth century events in the Pacific, the role of American economic hegemony in causing extremist blowback has been a common theme in the historiography of U.S. foreign affairs. Unfortunately, that role has seldom been discussed within the context of the causes of the Pacific War. That is unfortunate, as the
analysis of the U.S.-Japanese economic relationship from 1853 until 1940 provides a powerful, yet not often fully appreciated example of how America’s pursuit of foreign economic interests cause conflict. It is, in essence, the classic example of a U.S. foreign policy focused on capturing markets abroad to boost economic conditions at home, no matter what the outcome. It is also the classic example of such a foreign policy being blinded by the ideals of perceived fairness and open competition, without considering that the sheer overwhelming force with which the United States pursues its open market strategy can, in it self, create dependence that leads to blowback. While creating economic prosperity through the establishment of open and stable international markets that benefit the U.S, might sound like a benign, win-win strategy for all those involved, it is, as we can see with the example presented in this paper, not always so. Whether the Open Door of yesteryear or modern day globalization, the use of American economic power to create and maintain open and stable global markets through which the United States can achieve economic gain, is a precarious business as it – often inadvertently – disrupts the economies of its commercial partners or worse, threatens their financial autonomy.

What could have the United States done differently then, and what lessons could contemporary architects of American foreign policy learn from the pre-Pacific war U.S.-Japanese economic relationship? The answer to both of those questions is found in a term often used in the practice of Japan’s most prominent religion, namely Buddhism. One of the core tenants of that religion is the practice of mindfulness – to always be
observant of what your actions are and how those actions might impact your environment and those around you. For example, could the Fillmore administration have been more mindful of Japan’s precarious position as a deliberately closed, feudal state that emphasized and closely guarded its own sacred traditions and way of life when ordering Commodore Perry’s mission? Could subsequent administrations have been more mindful of how encouraging Japan’s tumultuous and rapid transformation from agrarian backwater to industrial power might create political and economic turmoil? Could McKinley, Roosevelt, Taft and Wilson have been more aware of how their aggressive policies to block Japan’s gains in China might swing Sino-Japanese diplomacy towards Sino-Japanese conflict? When looking to what lessons might be learned, Americans should be aware of how our economic relationships based on open, stable global markets – while benefitting us – might cause, or exacerbate instability in other nations, whether through foreign nations’ perceived threats to their own autonomy, or through the inadvertent disruption of foreign nations’ domestic political or economic stability that might be brought about by their economic relations with the United States.
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