The Economic Studies Quarterly
Vol. 38, No. 4, December 1987

THE IMPACT OF THE OPENING OF THE PORTS ON DOMESTIC JAPANESE INDUSTRY: THE CASE OF SILK AND COTTON*

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1. The Commercial Treaties and the Opening of Foreign Trade

In 1858 Japan reluctantly signed commercial treaties with the United States, the Netherlands, Russia, Britain and France, so committing the country to open to foreign trade. The three treaty ports of Kanagawa (Yokohama), Nagasaki, and Hakodate were duly opened the following year.1) This marked Japan's incorporation into the world economy. In this article I intend to analyze the impact which the opening of Japan to foreign trade had on the domestic economy through examining changes in the silk and cotton industry.

The commercial treaties were based on the principle of free trade and were fundamentally 'unequal' in their main provisions of extra-territoriality, conventional tariff rates, and the most-favoured nation clause. The Japan trade therefore developed within an institutional framework, known as the treaty port system, which had initially been developed to provide security and commercial advantage to Western merchants on the China coast. Its extension to Japan ensured close links between the foreign merchants and firms engaged in trade with the two countries, as well as many similarities in trading methods. The epithet 'unequal' tends to obscure the fact that the system was not without its attractiveness to the Bakufu. It helped to isolate Japanese from both Western people and Western influence, and also gave the Bakufu the opportunity to control and restrict trade with the West and so offset to some extent the lack of tariff autonomy.

For Western firms, the existence of low tariff rates was important. All export duties were set at 5 per cent ad valorem, while basic import duties were set at 20 per cent ad valorem. In 1866, in response to renewed foreign pressure, chiefly concerning imperial ratification of the 1858 treaties and the promised opening of Hyōgo (Kōbe), Japan consented to tariff revision.2) Both export and import duties were then subject to a fixed ad valorem duty of 5 per cent. These tariff rates were equivalent to those stipulated by the 1858 Tientsin Treaty with China and meant that import duties were independent of price fluctuations in Japan. The new tariff rates for imported goods were already less than 5 per cent at the time of the revision and were in effect deflated to

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1) The United States took the initiative in opening Japan because of their immediate and practical need for coaling stations on the long-distance Pacific steamer line to China, and for ports of refuge for whaling vessels in the Northern Pacific.
2) BPP (1867).
2–2.5 per cent by increasing inflation in the early Meiji period.\(^3\)

The opening of foreign trade caused structural changes in the traditional economy, most rapidly and drastically in those sectors concerned with products such as silk and cotton which became the main export and import industries. In the silk industry, local merchants in producing districts took advantage of the increase in raw silk exports to bypass the traditional delivery system controlled by privileged guild merchants in Kyoto and Edo, and began to purchase raw silk for direct sale at Yokohama, gaining great profits. This direct delivery of silk facilitated the dissolution of the traditional silk delivery and distribution system. Silk guild merchants in Kyoto and Edo lost their control of distribution, and silk manufacturers in Kyoto, Kiryu, and other districts, were severely damaged by the shortage of silk for domestic use and the subsequent rapid rise in prices. In this way, the opening of foreign trade caused a general imbalance between supply and demand in the domestic market. Prices had entered an upward trend in the early 1820s and they rose sharply from the late 1850s. Domestic prices in general were influenced by prices of export and import articles until they equalized with the international level.\(^4\)

In 1860, the continuing rapid price rises and a shortage of general requirements compelled the Bakufu to issue a decree to the effect that five selected necessary goods (grain, rapeseed oil, wax, cloth and raw silk) should be sent to the wholesale dealers at Edo, thus preventing the direct transfer of these goods from the producing areas to Yokohama. On the surface this was an attempt to reinforce the weakening traditional domestic distribution system controlled by the guild merchants at Edo. In fact, the Bakufu's real intention was to stabilize its political and financial position by monopolizing the benefits from foreign trade. This policy failed, however, owing to strong protests, both from the Western countries and from the newly rising rural merchants. Moreover, in the case of raw silk, at which this decree was primarily aimed, the interests of the guild merchants in Edo were opposed to those of the export merchants in Yokohama. In practice, what happened was that export merchants in Yokohama ordered from local consignors in producing areas, the raw silk being sent directly to Yokohama with an invoice from the guild merchants in Edo. The attempt of the Bakufu to control raw silk transactions was therefore circumvented.

The Bakufu did not take any further substantial measures to restrain trade until the second half of 1863, when it once again started strong moves to restrict raw silk exports. In early 1864 the Bakufu adopted a new policy on silk deliveries to Yokohama by which the silk guild in Edo intervened in the transfer of silk for export by purchasing it from producing areas at appropriate prices. The restrictions aimed not only at distribution but also at raw silk production itself. In the same year, new plantations of mulberry trees and the production of raw silk and tea for export were strictly prohibited. However, the operations of the allied squadrons of the West against the domain of Chōshū at Shimonoseki, and the generally strong Western opposition to these

3) Yamazawa and Yamamoto (1979), p. 77.

restrictions on trade, forced the Bakufu to abolish this Edo guild purchase monopoly before
the year was out. This signified the complete failure of the Bakufu's attempt to use the tradi-
tional commercial system as the basis of its trade policy, and led to a new plan to reorganize the
domestic economy and reinforce direct control in producing districts.5)

2. Raw Silk Exports

The appearance of foreign markets and a continuous increase in demand for Japanese silk
overseas stimulated the development of the silk industry in Japan, both in terms of improved
production methods and in the adoption of technologies of sericulture and silk reeling. After the
opening of the ports, there was a rapid spread in the use of improved reeling machines in the main
silk-producing districts such as Fukushima, Gunma and Nagano. Traditional hand reeling
machines were gradually replaced by improved sedentary reeling machines, which doubled pro-
ductivity in reeling. Overseas demand for Japanese raw silk was high because of the continuing
poor cocoon harvests in the main European silk-producing countries, where pebrine was raging.
The consequent rise in raw silk prices naturally encouraged Japanese silk manufacturers to
concentrate on the quantitative expansion of production rather than on the maintenance of
quality. In the late 1860s, silkworm eggs of the best quality were exported to France and Italy in
large quantities. However, this meant that only silkworm eggs of inferior quality were left for
domestic use and, as an inevitable consequence, Japanese raw silk for export declined in quality.6)

By the mid-nineteenth century sericulture was already well developed in the mountainous
areas of Japan, as a subsidiary industry for farmers. Predictably, cocoon production increased
rapidly in line with the increase in raw silk exports. According to the estimates of the silk guild
in Edo, after the opening of the ports, the annual production of raw silk in Japan doubled to
1,360,000 kg, three quarters of which were for export purposes with the remaining quarter for
domestic use. Since the total raw silk production in 1874 was recorded at 1,414,000 kg, however,
it would seem that production was stagnant throughout the 1860s and early 1870s.7)

On the European market, Japanese silk had to face keen competition from European, Chinese
and Bengal silk. In fact, the deterioration in quality of Japanese silk and the consequent decrease
in its competitiveness on the European market were a main cause of the stagnation in raw silk
exports referred to above. Apart from the problem of egg quality in the late 1860s, the funda-
mental reason for this situation was that, given the existing technological levels, it was impossible
to increase production of raw silk without harming quality.8)

Both the private and public sectors saw the improvement of raw silk quality as an urgent task,
and therefore embarked on attempts to establish modern Western-style filatures. In 1870, for
example, the Maebashi domain, aided by C. Müller, a Swiss engineer, established an Italian-style
filature in the hope of solving its financial difficulties through exports of the famous Maebashi

5) For Bakufu policy in the 1860s, see Yamaguchi (1943), pp. 281 ff.; Ishii (1944), pp. 323 ff.; Yokohama-
6) BPP (1870a), p. 2; BPP (1871), pp. 2-3.
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hank silk. Later, Ono-gumi, a wealthy city merchant house, employed Müller to set up the Tsukiji Filature in Tokyo in 1871. However, both these trials had to be abandoned due to business difficulties after a couple of years’ operation.

The Meiji government was seriously concerned about the declining reputation of Japanese silk on the European market. In 1872, the Tomioka Filature was founded in Gunma by the Ministries of Home Affairs and Finance as a pilot firm, in order to improve the quality of Japanese silk. Total expenditure for its establishment reached 200,000 yen. The Tomioka Filature was equipped with French reeling machines and had 300 basins with steam power for killing chrysalises and boiling cocoons. It was operated under the supervision of Paul Brunat and other French instructors. In 1873 an Italian-style filature (Kankōryō) with 24 basins was founded by the Ministry of Industry for the purpose of diffusing silk reeling technologies. However, this had to be transferred to private ownership in the following year due to managerial difficulties. The establishment of both the filatures was clearly a government-level response to the deterioration in quality of Japanese raw silk.

These Western-style filatures were initially introduced without regard to the conditions of the Japanese silk industry. It was therefore natural that they should fail in the face of managerial problems and difficulties in supplying suitable cocoons and in finding skilful reelers. With the exception of the Tomioka Filature, they were all either closed or transferred to other owners before completing three years of operation. Even the Tomioka Filature was not profitable, and its operation losses for the period up to mid-1876 amounted to 187,000 yen. However, it cannot be denied that these trials stimulated silk producers through the diffusion of improved methods and technologies of machine reeling. Local silk manufacturers either visited the filatures themselves or sent their reelers, and were anxious to employ female reelers who had been trained in the filatures.

In the following years the silk industry developed, aided by institutional and financial support from the government. In particular, regulations to form a Silk Inspection House (kiito aratame kaisha kisoku) were issued in 1873, partly in order to establish a new system for delivering raw silk from the producing districts to Yokohama under the control of Yokohama export merchants. The preface to these regulations emphasized the declining reputation of Japanese silk in the overseas market brought about by the deterioration in quality, and the urgent need to cope with this matter as soon as possible. The government had to attempt to control the silk trade; it stated that “silk culture is an industrial pursuit of the highest importance to this Empire [Japan], and it is not only profitable to the persons engaged in it, but also contributes largely to the increase of national wealth.” This suggests that the government was in fact unable to gain effective control of the development of the silk industry at a private level. Indeed, its failure to improve quality eventually led to the decline in competitiveness of Japanese silk on the European market.

The silk-reeling industry developed rapidly, but there were regional differences. Two major
patterns can be discerned in the response to expanding overseas demand: in the old silk-producing districts, such as Gunma and Fukushima, raw silk production was increased without any fundamental changes in either sedentary or hand reeling methods, just through unifying the re-reeling and/or finishing processes; in relatively new silk-producing districts such as Nagano, however, production methods were altered from traditional reeling to filature.

In the Nagano district, the silk reeling industry had developed as a household industry under a putting-out system. The opening of the ports had a great impact, and in the early 1860s the improved sedentary reeling method was introduced from Gunma, spreading rapidly and widely into the small-scale factories. In the Suwa area, several middle-sized independent farmers expanded their silk production, employing seasonal labourers at their own small factories. From the late 1860s better-quality silkworm eggs began to be exported to France and Italy, and this facilitated cocoon production by introducing double cropping.

The first filature in Nagano was the Italian-style Miyamada Filature established in Suwa in 1872 by Ono-gumi, the merchant house which had set up the Tsukiji Filature the year before. Under the influence of the Miyamada Filature, local silk manufacturers in the area started to found filatures on a small scale. Unfortunately almost all the filatures established in Nagano in the first half of the 1870s failed, mainly due to difficulties in raising sufficient capital, the inexperience of the reellers, and difficulties in obtaining and preserving cocoons. The establishment of Nakayama-sha in 1875 marked a turning point, however. Nakayama-sha operated under a factory system, adapting Western techniques to indigenous economic conditions. The reeling machine was a mixture of the Italian and French styles, called “Suwa-type,” which utilized cheaper, domestically-made, wooden or wood-and-metal machines and ceramic basins instead of iron ones, and operated on water power rather than steam. These modifications made it possible for manufacturers to start up businesses with only a small capital outlay.

From the late 1870s the increase in demand from the United States, which required quantity rather than quality, encouraged the growth of the Japanese silk industry. A large number of small-scale filatures equipped with under 30 basins were established, many operating only in season from mid-June to late October or early November. From 1877 small silk manufacturers began to form associations for joint delivery to Yokohama in order to mitigate the effects of price fluctuations. The number of filatures employing over ten reellers increased from 60 in 1876 to 361 in 1879, 340 of which were factories equipped with less than 50 basins. The number of producers’ associations increased from 45 in 1885 to 116 in 1890. These associations also functioned as units for obtaining loans from export merchants in Yokohama.

The rapid development of filatures from the late 1870s onwards was helped by several favourable domestic factors: the advance in commercialization; the availability of the Tenryū River for water power; the existence of an abundant female labour force from neighbouring agricultural areas during the deflation of the early 1880s; the appearance of many innovative silk manufacturers; and the increase in cocoon production caused by the introduction of double cropping.

11) For the development of the silk industry in Nagano, see Hiranomura Yakuba (1932); Eguchi and Hidaka (1937).
Double cropping developed extensively, but, since summer-autumn cocoons were inferior in quality to spring cocoons, the increase in total raw silk production was not necessarily accompanied by any improvement in quality. The major factor, however, was probably the availability of finance from export merchants in Yokohama. Silk manufacturers were able to devote their own capital to the expansion of production, as they could use loans from export merchants to purchase cocoons.

The export prices of silk were decided in accordance with prices in the international market, and export prices determined the price of both cocoons and raw silk for domestic use. The cost of purchasing cocoons accounted for 70–80 per cent of the total production costs. This is demonstrated by the fact that, as exports of raw silk increased, producers became more and more interested in trying to purchase cocoons at lower prices in order to make production profitable. In this respect it can be said that it was low cocoon prices, as well as technological developments in sericulture and silk reeling, which made it possible for Japanese silk to rise in competitiveness on the international market. Wages for female workers constituted only 5 per cent of total expenditure. The importance of low wage labour should not, therefore, be allowed to overshadow the role of low cocoon prices, but I do not want deny the significance of the former entirely. The reeling processes for finding the beginning of filaments and joining them were performed by female reellers until the mid-1920s; the quality of raw silk therefore depended entirely upon their skill. Female workers were drawn from poor neighbouring agricultural districts and were aged mainly from 16 to 22. They usually remained for 1–3 years, enduring unhealthy working and living conditions under strict supervision, with accommodation in company dormitories. They had to work over 13 hours in high season, with a break of only 30 minutes, and were paid according to a reward and penalty system, their wages being decided by the amount and fineness of the raw silk which they reeled.\(^{13}\)

3. Imports of Cotton Manufactures

Cotton growing and weaving was the most developed industry in the Tokugawa period. Like many other late-comer countries, after the opening of the ports, Japan faced rapid increases in imports of manufactured goods from the already industrialized West. Cotton and woollen manufactured goods, mainly from Britain, took 82 per cent of the total imports in 1865 and 67 per cent in 1872.\(^{14}\) Domestic raw cotton growing and the cotton weaving industry were severely hit by the steadily increasing competition from cheap British cotton piece goods. The weaving industry was also greatly influenced by the shortage in the domestic raw cotton supply and the related rapid increase in price which followed the cotton famine caused by the American Civil War. In 1874 imported shirtings and yarns occupied 40 per cent and 45 per cent respectively of the Japanese domestic market for these goods.\(^{15}\) Some weaving districts were able to respond quickly to the new situation by changing from domestically produced hand-spun cotton yarn to

\(^{13}\) See Nōshōmushō Shōkōkyoku (1903); Eguchi and Hidaka (1937), Vol. 3, pp. 1132–1232; Ishii (1972), Chap. 3.


\(^{15}\) Nakamura (1968), p. 219.
imported machine-spun cotton yarn or using improved weaving machines. Since the substitutability between domestically produced cotton yarn and imported yarn was very high, the demand for imported yarn from the domestic industry remained high.

Imports of cotton yarn increased much more rapidly than those of manufactures, as a result of the increasing demand from the domestic weaving industry. This cotton yarn market had not even existed before the opening to foreign trade, since during the Tokugawa period weaving manufacturers had always purchased raw cotton and spun it into cotton yarn for weaving by themselves. On the other hand, piece goods imports such as grey, bleached and dyed shirtings fluctuated, and also exhibited a high degree of product differentiation, since they were affected by consumer preference with regard to factors such as the quality of texture or design. For yarns, however, product differentiation was lower and substitutability correspondingly higher.

In 1886, the British Vice-Consul, J. H. Longford, examined the causes behind the decline in imports of British cotton goods. In the 1860s, he wrote, British shirtings had been superior in appearance to domestically produced Japanese hand-woven goods, and almost equal in their wearing capacity. However, British shirtings were too wide for Japanese use and had to be cut into three strips, each about 13 inches wide, before being sold, since Japanese cotton piece goods were from 12 to 15 inches in width. Since the British goods were entirely free from sizing and withstood all rough usage, they were able to find a limited Japanese market despite their high prices. Throughout the 1860s and 1870s, however, quality had deteriorated. After the late 1870s, British goods were much cheaper than similar Japanese products even though there was no great decline in their appearance, but they were inferior in texture quality and durability. Heavily sized, British cloth tore easily and was said to have only a third or a quarter of the wearing power of Japanese fabrics. The gradual decline in sales after 1881 was "attributable to the disgust produced in the minds of all consumers by the unvarying bad quality of nine-tenths of the cotton piece goods imported in recent years."16)

In the 1870s, while the quality of Manchester goods deteriorated, the Japanese cotton industry recovered through using imported cotton yarn until it reached a level where it was competing with imported cotton piece goods. Imported grey shirtings were used principally by the middle and lower classes, and the decline in imports of grey shirting was due to a decline in their popularity among those classes.17) Coarser and medium types of cotton yarn were used for manufacture into cloth which was "more adapted to their requirements than the ordinary shirtings imported here [at Kanagawa]."18) Another factor in the declining popularity of British cotton piece goods was a failure to make changes in cotton patterns. Thus, in criticising British manufacturers, Longford observed that "No effort ever seems to have been made to send out articles made up ready for immediate use by the ultimate consumers, in the innumerable shapes in which cotton piece goods are used by the Japanese, and not the slightest attempt to meet their tastes for changing and fanciful patterns."19)

17) BPP (1887b), p. 28.
Attempts to establish a Western-style cotton spinning industry started in the late 1860s, cotton mills being set up in Kagoshima and Sakai by the domain of Satsuma, and in Tokyo by Manpei Kashima, a cotton merchant. Satsuma used mule spinning spindles from Platt Brothers in Oldham. These early attempts to start a modern cotton industry were not successful, but the fresh direction taken by the Meiji government after the return of the Iwakura Mission led to new efforts in the late 1870s. In 1878 the government founded pilot cotton spinning factories in Hiroshima and Aichi. In 1879 it purchased ten spinning machines from abroad and transferred them to private ownership on ten-year payment plans without charging interest. As a result ten cotton mills were founded by landlords and merchants in Okayama, Shizuoka and other places. Funds were mainly raised through the limited circles formed by relatives, but the government also provided long-term advances to enable private entrepreneurs to purchase imported spinning machinery, and three more mills were founded in Osaka, Nagoya and Miyagi. All these mills were erected in major cotton producing districts; they were equipped with only 2,000 spindles run by water and used domestically produced short-fibred cotton. Japanese cotton was not, however, suited to imported spinning machinery, since this was designed for the long-fibred cotton produced in America and Egypt. Seasonable variations in the water supply, moreover, meant that continuous operation of the mills was not possible. Thus, almost all these government-sponsored attempts resulted in failure due to financial losses and technological difficulties.

Nevertheless, the recovery of the Japanese cotton weaving industry, and its expanding share of the domestic market gave rise to favourable conditions for domestic cotton yarn production. The first successful cotton mill in Japan, the Osaka Cotton Spinning Co., was not government instigated, although it doubtless profited from the experience and mistakes of the government enterprises. The company was founded in 1882 with 10,500 spindles and started operation in the following year. The scale of the enterprise is clear if one considers that the government mills had generally been equipped with only 2,000 spindles. The initial capital of 250,000 yen was raised mainly from merchants and ex-daimyo in the Kansai area. The company adopted a two-shift system, with electric lights for night-time operation. It used cheap raw cotton imported from China which was also more suited to imported spinning machines than Japanese cotton. Cheap labour was widely available from the surrounding impoverished agricultural areas. The average annual profit rate from the second half of 1883 to the end of 1889 amounted to 57.1 per cent. In the late 1880s, the successful operation of the Osaka Cotton Spinning Co. stimulated the establishment of several other firms of a similar scale, such as the Mie Cotton Spinning Co. in 1886, the Kanegafuchi Cotton Spinning Co., in 1887, and the Owari Cotton Spinning Co., the Settsu Cotton Spinning Co., and the Amagasaki Cotton Spinning Co., in 1889. They were located in large cities and used steam power and imported raw cotton. They were mostly private joint-stock companies based on their own capital, raised mainly from large city merchants, but relying on borrowed money for working capital. They produced coarse type yarn of 16 counts and competed not with imported British and Indian cotton yarn but with other domestically produced yarn. The number of such firms increased from 16, with 49,000 spindles producing 12,000 bales

in 1883, to 30 with 278,000 spindles producing 105,000 bales in 1890.\textsuperscript{21}

4. Treaty Port Trade: The Paradox of the ‘Unequal’ Treaties

Both contemporary participants (including the Bakufu) and most later scholars have tended to assume that the treaty port system could only work in favour of the West. They, quite naturally, assume that it was easy for individual Western merchants to function profitably under the privileged institutional and legal protection afforded by the ‘unequal’ treaties. A brief look at the average mortality rate of the independent Western firms which operated in East Asia in the mid-nineteenth century, however, seriously undermines this cosy picture.\textsuperscript{22}

Again, since comparative advantage theory would lead one to expect a steady increase in all imports from industrialized Britain, what is the significance of the fact that British cotton piece goods were only able to penetrate the Japanese market to a limited extent? It seems a good idea to investigate the possibility that there were institutional and structural elements linked to the treaty port system itself which worked to obstruct the natural increase in imports on the basis of free market competition through the price mechanism. As we have seen, the decline in quality and the failure to vary patterns were two of the elements which prevented British cotton piece goods from penetrating into the Japanese market. But contemporary descriptions of the import trade and the way in which British merchants conducted their business indicate that there were other, more deep-seated, factors at work as well. They suggest the existence of two related and vitally important factors: the differences between the commercial system adopted by British and other Western trading firms as opposed to that of Chinese firms, and the network by which imported goods were distributed inland from the open ports.\textsuperscript{23}

Jardine, Matheson & Co., one of the largest British trading firms in East Asia, supplied British cotton and woollen manufactured goods to Japan. Since Japanese importers tended to purchase at only “the quotations ruling for the small requirements of immediate wants,” demand fluctuated and Jardines had to keep stocks of a variety of fabrics to meet this fluctuating demand.\textsuperscript{24} Although nothing is known of the nature of the demand from Japanese dealers, both deliveries of goods and fluctuations in the size of stocks seem to have occurred irregularly and without any apparent mutual relationship. Stocks of cotton piece goods at Jardines’ Yokohama branch sometimes underwent a sudden increase due to the simultaneous arrival of goods supplied directly from Britain and goods sent by Jardines’ branches in Hong Kong and Shanghai, both without reference to the Japanese market situation. When imported goods were unsaleable, they were reshipped back to China. However, Western merchants hesitated to do this because of the lack of a drawback system in Japan.\textsuperscript{25}

\textsuperscript{21} See Takamura (1971).
\textsuperscript{22} See Sugiyama (1984).
\textsuperscript{24} JMA, H. Smith to F. B. Johnson, Yokohama, 10 July 1869 (B10/9/968); CR, Kanagawa for 1872, p. 34.
\textsuperscript{25} JMA, H. Smith to J. M. & Co. (Hong Kong), Yokohama, 7 April 1869 (B10/9/873); ibid., 15 January 1870 (B10/9/1242); ibid., H. Smith to F. B. Johnson, Yokohama, 8 June 1869 (B10/9/935); CR, Nagasaki for 1874, p. 15, and Kanagawa for 1874, p. 30.
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The above market situation probably discouraged Western firms from importing in large quantities. They were unwilling to risk increasing their stock of unsaleable goods, since holding of such goods caused heavy losses. Conversely, Japanese merchants would purchase domestically produced goods when imported goods which they wished to buy were not available. Japanese goods were therefore able to maintain high substitutability for imported cotton piece goods. Imported cotton piece goods were bought by the Japanese because of the combined factors of cheapness and fine quality. When these advantages disappeared, domestic products using imported yarn easily provided strong competition. Given the combined factors of price and durability, it was economically reasonable for Japanese consumers to turn from imported cotton piece goods of low price but inferior quality to domestically produced goods of high durability and a reasonable price.

In their import activities Western firms were separated not only from the Japanese consumer, but also from the wholesale dealers who were to be found in the large cities. They were able to develop only indirect links with them, through Japanese merchants living or working in the treaty ports who specialized in the import business on a commission basis. Western merchants, at this time mainly British, usually waited at their offices in the treaty ports for enquiries from Japanese import merchants. They scarcely made any effort to do research in order to develop the market for imported goods, nor did they embark on positive sales activities. This was partly because the treaties did not allow them to travel outside the treaty ports for commercial purposes, and partly because they knew little either about the Japanese language or about the economic and political situation in Japan. Even if they had attempted to do market research, however, they would have been dependent on Japanese merchants for information.

Japanese import merchants visited Western firms in the treaty ports in order to purchase goods. Although sometimes purchasing goods on their own account, they usually provided their customers with accommodation in the treaty port while finding the goods required, and then took their customers to purchase them. Business was usually transacted in cash because of a wholly mutual lack of trust. The favourable legal position enjoyed by Western merchants under the protection of extra-territoriality led them to avoid where possible forward transactions without goods available on the spot. Any Japanese merchant who wished to purchase import goods therefore required a certain amount of capital and the market was inevitably closed to those with small capital, who were unable to raise sufficient money for purchasing. The number of buyers was therefore limited and the business in imports had to be done inflexibly and on a limited scale. Money exchange dealers lent funds, presumably gained from foreign trade, to import merchants who required cash.

There seem to have been two different routes for the distribution of imported goods. In some cases export merchants purchased imported goods with the money which they had received in exchange for exports. Imported goods obtained in this way were probably distributed directly to the places where these export merchants were located. In most cases, however, imported goods

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26) Swire Papers, J. S. Swire to [Butterfield & Swire] (China), London, 18 June 1888 (JSSI 1/8); JMA, E. Whittall to W. Keswick, Yokohama, 26 February 1872 (B4/5/P123).
were, quite naturally, distributed by Japanese import merchants. As the goods were transacted in cash, Japanese import merchants generally maintained links with wholesale dealers in the large cities. Imported goods were then distributed to the local market through traditional Tokugawa networks of recognized merchants in the cities, and through local merchants in the agricultural areas. Thus, imported grey shirtings and yarns seem to have found their way to agricultural areas through the markets in large cities such as Edo, Osaka and Kyoto.\(^{28}\)

In 1868 the Meiji government formally abolished the traditional guild system of privileged city merchants by issuing the ‘Guidelines for Commerce’ (shōhō taii), which permitted freedom of activity in commerce, industry and trade. However, members of the same trade did not therefore cease to associate together and organize themselves, and the traditional market system and commercial customs continued. The old distribution network remained substantially unchanged, though the difference between wholesale dealers and brokers disappeared. From 1877 various associations of dealers in each trade were formed. Although these were not exclusive and privileged organizations like the old guilds, as the example of the Tokyo association of wholesale dealers in cotton piece goods shows, almost all the executives belonged to families which had been traditional cotton cloth dealers in the Tokugawa period. These trade associations were formed voluntarily and their success contrasts with the failure of the commercial corporations which had been formed under government control in the early Meiji years.\(^{29}\)

5. Conclusion

The above, rather abbreviated, analysis of the actual working of the treaty port system clearly implies that, far from promoting and protecting the activities of the Western merchants in Japan and China, it in fact worked to obstruct them. In the case of Japan in particular, by several ironic twists of fate, the system worked in favour of the Japanese merchant, whether he was exporting or importing. On the export side, the opening of the ports was followed by a rapid increase in the outflow of primary products such as raw silk and tea as a result of the very strong Western demand for these goods. Both Western firms and Japanese merchants were actively involved in this business and, true to the supply-demand relationship, prices for silk rapidly increased. Competition among Western merchants for business with the small number of Japanese merchants in a position to obtain silk for export put the former in a disadvantageous position. It was a sellers’ market which ultimately worked in favour of the Japanese merchants.

If in exports the ‘demand-pull’ factor from the West was strong, in imports comparative advantage theory would lead one to expect the ‘supply-push’ to be equally strong, with the industrial supremacy of the West working in its favour. Both external and internal factors, however, meant that this was not in fact so. India was Britain’s most important export market of cotton goods and production was therefore regulated to suit India rather than Japan. In marketing, British firms were hampered first by the inflexibility of the agency house system and by the excessive competition with other foreign merchants, both Western and Chinese, and second by the well-organized Japanese commercial and distribution system which dated back to the Tokugawa


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regime. Under the control of Japanese export and import merchants, this system acted as a non-
tariff barrier which restricted the economic penetration of the industrialized West and helped to
shield the domestic market from Western manipulation. Unable to participate in distribution or
develop their own separate distribution networks, Western merchants suffered increasingly heavy
losses in the import trade.30) It was a buyers' market which once again ultimately worked in
favour of Japanese merchants.

Imports of Western goods were further hit by the decline in the value of silver to gold from the
mid-1870s. This discouraged Western firms from importing goods into Japan, while at the same
time encouraging exports. It was more obviously in the interest of Western firms to concentrate
on exports, favoured as these were by the international situation, than to try to improve the
unprofitable and unpromising import business. This situation facilitated the development of
stable business relationships with Japanese merchants within the treaty port system rather than
encouraging Western merchants to form independent networks.

In practical terms, however paradoxical it must seem, the 'unequal' treaties, and the treaty port
system they created, had ceased to function as they were expected long before they formally came
to an end in 1899. This state of affairs, completely unforeseen by either the Western or the Japa-
nese signatories of the treaties, set the general framework for Japan's industrialization in the
second half of the nineteenth century.

(Keio University)

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#### Appendix

**Table 1** Japan's Foreign Trade, 1860–1878

*(in thousand Mexican dollars)*

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<th>Year</th>
<th>Commodities</th>
<th></th>
<th></th>
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<td>Total</td>
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<td>Exports</td>
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<td>n.a.</td>
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<td>n.a.</td>
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<tr>
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<tr>
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<td>28,832</td>
<td>n.a.</td>
<td>n.a.</td>
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<tr>
<td>1870</td>
<td>31,121</td>
<td>15,143</td>
<td>46,264</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
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<tr>
<td>1871</td>
<td>17,746</td>
<td>19,185</td>
<td>36,930</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
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<tr>
<td>1872</td>
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<td>50,483</td>
<td>12,205</td>
<td>9,577</td>
<td>21,782</td>
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<tr>
<td>1873</td>
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<td>48,104</td>
<td>10,100</td>
<td>13,081</td>
<td>23,181</td>
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<tr>
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<td>17,918</td>
<td>46,092</td>
<td>303</td>
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<td>27,579</td>
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<td>25,901</td>
<td>22,867</td>
<td>48,767</td>
<td>2,073</td>
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<td>12,152</td>
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<tr>
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<td>26,259</td>
<td>59,594</td>
<td>2,659</td>
<td>10,583</td>
<td>13,242</td>
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Note: 1) Figures for the year 1866 are not available, owing to the destruction of Kanagawa records.
2) Official Japanese trade statistics became available after 1868. For details see Sugiyama, *op. cit.*, Chap. 2.
S. Sugiyama: The Impact of the Opening of the Ports on Domestic Japanese Industry

Table 2 Principal Articles of Export and Import

<table>
<thead>
<tr>
<th>Year</th>
<th>Raw Silk</th>
<th>Silkworm Eggs</th>
<th>Tea</th>
<th>Marine Products</th>
<th>Coal</th>
<th>Copper</th>
<th>Total</th>
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<td>1860*</td>
<td>2,595</td>
<td>—</td>
<td>308</td>
<td>139</td>
<td>—</td>
<td>209</td>
<td>3,954</td>
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<tr>
<td></td>
<td>(65.6)</td>
<td></td>
<td>(7.8)</td>
<td>(3.5)</td>
<td>(5.3)</td>
<td>(100)</td>
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<td>1865</td>
<td>14,674</td>
<td>728</td>
<td>1,935</td>
<td>532</td>
<td>14</td>
<td>—</td>
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<tr>
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<td>(79.4)</td>
<td>(3.9)</td>
<td>(10.5)</td>
<td>(2.9)</td>
<td>(0.1)</td>
<td>(100)</td>
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<tr>
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<td>3,473</td>
<td>3,848</td>
<td>607</td>
<td>159</td>
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<tr>
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<td>(34.3)</td>
<td>(22.9)</td>
<td>(25.4)</td>
<td>(4.0)</td>
<td>(1.0)</td>
<td>(1.2)</td>
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<td>5,739</td>
<td>475</td>
<td>6,916</td>
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<tr>
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<td>(32.0)</td>
<td>(2.7)</td>
<td>(38.6)</td>
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<td>991</td>
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<td>(1.7)</td>
<td>(100)</td>
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<table>
<thead>
<tr>
<th>Year</th>
<th>Cotton Yarns</th>
<th>Cotton Manufactures</th>
<th>Woollen Manufactures</th>
<th>Sugar</th>
<th>Iron</th>
<th>Machinery</th>
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<td>—</td>
<td>499</td>
<td>374</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>946</td>
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<tr>
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<td>(52.8)</td>
<td>(39.5)</td>
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<td></td>
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<td>369</td>
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<td>(40.3)</td>
<td>(1.4)</td>
<td>(2.4)</td>
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<td>1,498</td>
<td>2,496</td>
<td>210</td>
<td>169</td>
<td>31,121</td>
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<td>(9.2)</td>
<td>(4.8)</td>
<td>(8.0)</td>
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<td>(0.5)</td>
<td>(100)</td>
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<td>3,650</td>
<td>3,500</td>
<td>895</td>
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<td>(13.8)</td>
<td>(16.7)</td>
<td>(12.4)</td>
<td>(11.9)</td>
<td>(3.0)</td>
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<td>(100)</td>
</tr>
<tr>
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<td>5,619</td>
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<td>(11.5)</td>
<td>(9.9)</td>
<td>(4.8)</td>
<td>(2.0)</td>
<td>(100)</td>
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Sources: Commercial Reports, in British Parliamentary Papers, corresponding years.

Notes: 1) * Kanagawa only.
2) Figures in parentheses are percentages.
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