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INDUSTRIAL GROWTH IN THE THIRD WORLD, C.1870-C.1990: DEPRESSIONS, INTRA-REGIONAL TRADE, AND ETHNIC NETWORKS

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INTRODUCTION

Gareth Austin (LSE)

This Working Paper reconsiders the proposition that depressions provide less-developed economies with opportunities for industrial development. The four chapters were presented during the Lent Term of 1998 as individual papers at the LSE seminar on the Comparative Economic History of Africa, Asia and Latin America. This introduction highlights some of the themes in the context of the discussions at the seminar.[1]

By definition, episodes of falling real income per head are setbacks, at least temporarily, for economic growth. Relatedly, it would be hard to dispute that, for example, the Great Depression of the early 1930s reduced the average `welfare' of the Indian population on any economist's definition of the term. Yet these pessimistic macro and short-term observations are not sufficient to exclude the possibility that, amidst the general decline, there may be gains at firm and sector level in resources, output and income; and/or institutional reforms, whether at local or national level: all of which could facilitate long-term growth and structural development in the economy as a whole.

The familiar dependency proposition, which was urged most vigorously in the 1960s-70s, is that depressions in international trade permit industrial development in `under-developed' economies by liberating domestic producers from the pre-empting competition of imports from more advanced economies.[2] Subsequent work has provided further evidence that manufacturing output rose during the 1930s Depression, to take

[1] My personal thanks to STICERD (the Suntory and Toyota International Centres for Economics and Related Disciplines) and the Department of Economic History, LSE, for their support for the seminar; to William Gervase Clarence-Smith for suggesting the theme; to all who participated in the discussions, which in a sense are partly reported in this introduction; and to Kaoru Sugihara for detailed comments on the draft. The mistakes are mine.

[2] A stark statement was Andre Gunder Frank, *Capitalism and Underdevelopment in Latin America* (Monthly Review Press: New York, 1967).

the most striking example, in parts of Africa and mainland Asia as well as in Japan and Latin America.[3] On the other hand, revisionists have challenged the significance of the observation, notably by emphasising that industrial growth had already well begun during earlier years of expanding international trade, especially c.1900-1914. This was true, for example, of Brazil and India. The development of a modern textile industry in Sao Paulo was complementary to the agricultural export economy: not only in the sense that coffee earnings provided much of the early market but also in that much of the initial capital was provided by coffee barons reinvesting profits from their agricultural exports. Further finance came from importers.[4] The equivalent industry in India managed to establish itself and grow without even the benefit of tariff protection, partly by the technique - also used in Brazil - of specialising in cloths coarser than those offered by the importers.[5]

The chapters provide four new case-studies, of: the Argentine depression of 1897 (Fernando Rocchi); intra-Asian trade and its links with East Asian industrialisation in the interwar period (Kaoru Sugihara); the success of - some of the - Arab entrepreneurs in expanding, diversifying and technologically modernising industry in what are now Indonesia and Malaysia in the 1930s (William Gervase Clarence-Smith); and the growth of indigenous small-scale industry in Ghana amidst the country's

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[3] Christopher Baker, 'Debt and the Depression in Madras, 1929-1936' in A.G. Hopkins and Clive Dewey (eds), *The Imperial Impact* (Athlone Press: London, 1978), 233-42 and 370-1; Ian Brown (ed.), *The Economies of Africa and Asia in the Inter-war Depression* (Routledge: London, 1989), introduction and chapters on Egypt (R. Owen), central and southern Africa (W.G. Clarence-Smith), China (R. Myers) and on Japanese industrial growth (K. Sugihara). On Latin America see Rosemary Thorp (ed.), *Latin America in the 1930s: the role of the periphery in world crisis* (Macmillan: London, 1984).

[4] Warren Dean, *The Industrialization of Sao Paulo, 1880-1945* (University of Texas Press:Austin, 1969). See, further, Colin M. Lewis, 'Industry in Latin America Before 1930', in Leslie Bethell (ed.), *Cambridge History of Latin America*, IV, *c.1870 to 1930* (Cambridge University Press: Cambridge, 1986).

[5] For a recent overview of the emergence of the mechanised cotton textile industry in India see B.R. Tomlinson, *The Economy of Modern India 1860-1970* (Cambridge University Press: Cambridge, 1993), 106-12. On quality compare Dean, *Industrialization of Sao Paulo*, 10-11.

otherwise general economic decline during the 1970s and early 1980s (Rajiv Ball). Individually and collectively they illustrate the directions in which current research is taking our understanding of the general issue. Among these I would emphasise four.

1. `Relatively autonomous' growth and endogenous depressions

A central theme in the (non-dependency) economic historiography of Africa, Asia and Latin America over the last four decades has been the accumulation of evidence against the traditional Eurocentric assumption that the economic history of these continents since c.1500 has been essentially the story of the European/Western impact. In the context of world depressions, it has been argued strongly that China largely escaped the 1930s depression, and that even in those Asian and African economies much more integrated in the world economy than was China, `and thus notably vulnerable to external contraction, the internal dynamics of economic change continued to exert their powerful influence'.[6] This insistence on relative autonomy from `global' forces of Western origin is taken further in the essays presented here.

Rocchi explicitly shifts the research focus from depressions which, for `Third World' economies, were exogenous to depressions which were endogenous. The same applies, most writers would agree, to the recent Ghanaian case studied by Ball: the declining GDP was the result more of domestic policies than of external shocks.[7] This in turn raises the question, which readers may wish to consider when approaching both these chapters, of whether endogeneity alters the kinds of opportunities which depressions may offer to local entrepreneurs.

Sugihara puts the 1930s depression in the context of the long-term growth of intra-Asian trade and of East Asian industrialisation: which he sees as decisively linked.

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[6] Ian Brown, `Introduction', to Brown (ed.), *Economies of Africa and Asia in the Inter-war Depression*, 4. The China paper referred to is Ramon H. Myers, `The World Depression and the Chinese Economy, 1930-6', in the same volume, 253-78.

[7] See, for example, Jonathan H. Frimpong-Ansah, *The Vampire State in Africa. The Political Economy of Decline in Ghana* (James Currey: London, 1991); Douglas Rimmer, *Staying Poor. Ghana's Political Economy, 1950-1990* (Pergamon Press: Oxford, 1992).

This chapter provides a statement in English of an extremely important thesis which Sugihara and colleagues have been developing, and which has previously been presented mainly in Japanese. His essay puts forward a key statistical finding, that intra-Asian trade grew much faster than world trade in the interwar period (as was also true of 1880-1913). He goes on to relate this to East Asia's industrialisation - depicting Korea, Taiwan and, more slowly, China following Japan's flightpath - and to explore the implications for industrial growth elsewhere in the continent.

Specifically on depressions, while Sugihara's paper implicitly accepts that reduced foreign competition may have helped industrial entrepreneurship within South and Southeast Asia, his analysis points to global depression as a constraint on East Asian industrial exports to the European colonies of Asia. He argues that Southeast and South Asia's primary product exports to the West provided the import-purchasing power that made it possible for these areas to buy large and generally increasing amounts of East Asian manufactures.

Thus intra-Asian trade helps explain the phenomenon noted above, that by 1914 mechanised textile production had emerged in India despite the absence of infant industry protection. In this context, the `final demand linkage' complicates the traditional bilateral (European/Asian, in this context) understanding of international trade and Third World (under-)development. The bilateral view, he shows, was losing relevance in this period because Asian consumers increasingly preferred to purchase their industrial goods from East Asia rather than from Europe: albeit, this trend was constrained for the moment by the continued influence of European colonialism in South and Southeast Asia.

2. Supply-side opportunities

From Clarence-Smith's and Rocchi's papers I think we can legitimately derive a suggestion that, in returning to the analysis of evidence of industrial expansion during depressions, we explore a different set of possible sources of such growth. These papers shift the emphasis from the demand-side opportunity of freedom from foreign competition (though that remains an essential part of the story for Clarence-Smith, as for Ball) to the supply-side opportunities provided by cheaper factors of production (Clarence-Smith) and the chance (or need) to rationalise the structure of ownership.

On the latter point, Rocchi argued that depression facilitated the concentration of Argentine suppliers of industrial goods, both importers and manufacturers (who were often the same firms), in Buenos Aires. The defeat of provincial competitors by metropolitan firms contributed to the formation of a national market, in the sense that consumers came to be served by the same (Argentine) firms throughout the national territory. A key question is whether this actually contributed to national economic growth and development. Rocchi gives us the example of the tanning industry as one in which the process of concentration allowed individual firms to achieve economies of scale, fostering mechanisation.

3. Determinants of the capacity to seize the opportunities of depression: including the role of ethnic diasporas

If depressions provide opportunities, what variables determine the nature of the response? One link with revisionist critiques of the structuralist-dependency argument would be the contention that the ability to exploit breaks from foreign competition is a function of the extent to which supply-side assets, of various kinds, have been built up during the preceding period of prosperity.

The growth of small-scale industry in Ghana has been interpreted precisely in terms of import replacement, but Ball's evidence suggests that while the temporary absence of foreign competition provided an opportunity, what made it possible for Ghanaian entrepreneurs to seize it was a relatively long prior process of accumulation of skills and capital. While such opportunities may not have been rare in tropical Africa in that period, he implies, the capacity to take advantage of it was.

Institutional assets may be crucial too. It is well established that ethnic diasporas have often provided an institutional frame facilitating commerce, especially long-distance trade. Indeed, this is, or should be, one of the building blocks of the emerging literature on `global history'.[8] Clarence-Smith's chapter provides an example of an ethnic trading network pioneering modern industrial growth in part of the `Third World', a case which (as he emphasised in the seminar discussions) was far from unique. In the context of his argument about depressions, this seems to imply that the extent to which opportunities arising from them are taken is to a large extent a function of the entrepreneurial efficiency of the ethnic networks operating in the economy concerned.

There was interesting but inconclusive discussion in the seminar about how to explain the very varied economic destinies of different ethnic networks, and of members of the same network, in the same conjuncture. In Clarence-Smith's example, the Hadhrami community/ies in Malaya and the Dutch East Indies, why did the non-Sayyids succeed much more than the Sayyids? The problem of what makes determines the economic efficiency of an ethnic network in the context of depression, and of how far membership accounts for members' fortunes, clearly requires further research. A further research question, suggested by Sugihara,[9] is how ethnic diasporas compared to the state, in the context of the 1930s depression, as institutions for solving problems of cooperation: providing information, insurance and security of property.

4. The politics of industry in the context of depression

All the chapters relate business trends to government behaviour and/or with social and political conflict: in diverse ways. Rocchi argues that a major cause of the process of concentration of ownership in turn-of-the-century Argentina was the contemporary political imperative to further the integration of the market as a means of consolidating national identity. A political element in the motivation of business behaviour was also mentioned (explicitly in the discussion, less directly in the paper) by Clarence-Smith

[8] The pioneer work is Philip D. Curtin, *Cross-Cultural Trade in World History* (Cambridge University Press: Cambrige, 1984).

[9] Personal communication.

on the Hadhramis in the Malay world: one reason for the rise of non-Sayyid Hadhrami entrepreneurs in the 1930s, he suggests, may have the desire to challenge what they saw as the social pretensions of the Sayyid group. Sugihara links his economic story to Japanese imperialism in the 1930s, in several ways. Ball notes that the success of small-scale industry during the Ghanaian economic decline owed something to government investment in human capital formation, so qualifying the widely accepted liberal view that government policies in post-colonial Ghana had been disastrous until the adoption of Structural Adjustment in 1983. An appropriate question for further reflection is how it might be possible to incorporate politics systematically into the economic history of depression at a comparative and general Third World level.

1. ARGENTINE INDUSTRY AND THE FORMATION OF THE NATIONAL MARKET, 1870-1910

Fernando Rocchi (Universities of Buenos Aires, Di Tella and LSE)

This paper delves into the formation of a national market for manufactured goods in Argentina during the period of export boom at the turn of the nineteenth century.[1] In those years, most Latin American countries integrated into the world market, fashioned export-oriented economies and experienced the recurrent depressions of capitalism. Not surprisingly, export-related activities have absorbed the attention of historians. Domestic markets grew in parallel to export growth (and to a large extent as its consequence), and at a similar pace. Nevertheless, their importance has been disregarded until recently, when new figures have showed that they had a remarkable impact upon the economy as a whole: in Argentina, for instance, economic activities oriented to the domestic market comprised well above half of GDP.[2] Roberto Cortés Conde's study of the formation of factor markets - for labour and land - in Argentina, then, is isolated research amidst an overwhelming deficiency: indeed, no study of the domestic goods market has yet been undertaken.[3] A similar situation exists in relation to depressions, which are assumed to have been the consequences of international disturbances. Depressions with domestic causes have not been noticed - still less researched - despite their possible importance for the economic performance. Among them, the one that was sparked in 1897 has been especially neglected.

[1] The definition of 'national market' is taken from Emilio Sereni's Gramscian perspective in his *Capitalismo e mercato nazionale* (Editori Riuniti: Roma, 1974).

[2] Roberto Cortés Conde, 'Estimaciones del Producto Bruto Interno de Argentina 1875-1935' Universidad de San Andrés (mimeograph, 1994), 17-18. For the importance of studies of national market construction in Latin American see Stephen Topik, 'The State's Contribution to the Development of Brazil's Internal Economy, 1850-1930', *Hispanic American Historical Review* 65, 2 (1985), 203-28; and Stephen Haber, 'Assessing the Obstacles to Industrialisation: The Mexican Economy, 1830-1940', *Journal of Latin American Studies* 24 (February 1992), 1-32.

[3] Roberto Cortés Conde, *El progreso argentino* (Sudamericana: Buenos Aires, 1979).

In parallel with the export boom, Argentina achieved the formation of its first centralised state since independence and experienced the creation of a national identity that became an obsession for a country with a past of bloody civil wars and for a society composed overwhelmingly of immigrants. The integration of different regions into a domestic, and national, market was part of the process. One of the features of this market was the high concentration of the rising industrial activity in Buenos Aires, Argentina's capital and main city, in all branches but sugar and wine. The primacy of Buenos Aires has prompted scholarly research and essays. Yet the role played by industry in this primacy has been neglected, with the exception of Michael Johns's research. Why did the country not develop more regional manufacturing centres in sectors beyond the above-mentioned agroindustries? Why did secondary cities not become Argentine versions of the Mexican Monterrey? By studying Rosario, a major grain port and the second largest city, Johns has stated that the advantage of controlling production and commercial circuits from the national capital hindered the industrial development of Argentina's second city.[4]

Many reasons are at issue in explaining this primacy. The building of a railway network has been assumed to be the main one since it established the basis for market forces to mobilise further with freedom and success. Nonetheless, railway construction, as Colin Lewis has shown, was just *one* (albeit crucial) driving force for the booming economy. In addition, he has challenged the long-standing idea that train tariffs discriminated in favour of Buenos Aires. So it is necessary to look elsewhere for causes of the concentration of activities in this city.[5] Cheaper train transportation was a necessary though not sufficient condition for the shape that the domestic market for products acquired. The formation of this market, indeed, was a long and complex

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[4] Michael Johns, 'The Urbanisation of a Secondary City: The Case of Rosario, Argentina, 1870-1920', *Journal of Latin American Studies* 23, 3 (1991), 489-513. For the traditional perspective on Buenos Aires primacy see James Scobie, *Buenos Aires: Plaza to Suburb, 1870-1910* (Oxford University Press: Oxford, 1974).

[5] Colin Lewis, *British Railways in Argentina 1857-1914: A Case Study of Foreign Investment* (Athlone: London, 1983), 207-20.

process, a collective effort in which the state and the private sector (including the railways) played a conscious and active role, rather than allowing market forces to operate on their own.

In this paper I focus on the production and commercialisation of manufactured goods to explore further reasons for the concentration of industry in Buenos Aires, considering not only how potential alternative sites were deterred but also how existing ones were crushed. I pay special attention to industrial firms' strategies to control a market embracing the entire country. These strategies, either within or outside the rules of the market, took their final shape after the above-mentioned depression of 1897, which hit industry hard and meant the geographical broadening of firms' sales. In so doing, they took a large part in the creation of a national market and in the peculiar shape that Argentine nationality achieved in those years.

1. From Buenos Aires to the conquest of the country

Following independence from Spain in 1816, the area that later turned out to be Argentina was divided into fourteen provinces. Though part of a loose confederation, each province had its own laws, armies and customs houses. After unification in 1862, the country's rulers aimed to end barriers to internal trade. This was a difficult undertaking since provinces used taxes on this commerce as one of their main sources of revenue. Between 1878 and 1881 the national government issued laws to unify the system of weights and measures and the national currency.[6] Obstacles to inter-provincial trade were, however, still rife. Provincial customs houses had been outlawed by the 1853 constitution, but enforcement was achieved against serious resistance. Various attempts to impose taxes on internal commerce prompted the intervention of the National Supreme Court, an institution that only won the dispute when the central state achieved enough capacity and power over the provinces. By the 1900s, most of

[6] Vicente Balbín, *Sistema de pesas y medidas de la República Argentina* (Buenos Aires, 1881); Juan Alvarez, *Temas de historia económica argentina* (Buenos Aires, 1929), 155-7.

these hindrances had disappeared.[7] In addition, by the 1890s railways linked the main cities. With cheap transportation and the end of legal barriers, the necessary conditions for the integration of the domestic market for manufactured goods were set up. Its final shape, with Buenos Aires firms controlling Argentine production, related to other reasons, mainly the comparative advantages of the capital city in attracting factory location and its companies' monopolistic strategies to seize the market.

Buenos Aires and its surrounding region had the largest demand in the country, which provided an incentive for opening factories (in 1895 the city and the province of Buenos Aires comprised 40 per cent of the country's population while in 1914 its participation had increased to 46 per cent). Industrial concentration, whether considering labour or capital, highly surpassed those percentages, especially in those branches of manufacturing where large factories rather than handicraft output prevailed (see Table 1).

The area's population was richer than the Argentine average, which would partially explain the difference between population figures and industrial capacity. In addition, the large numbers of people provided a labour supply. Other rich (and populated) parts of the country, however, did not have the same destiny. The most resounding case was the above-mentioned city of Rosario. In 1919, Juan Alvarez, a famous economic essayist and Rosario native, stated with pain the lack of substantial industry in his city despite its comparative advantages in labour supply and levels of consumption. He complained about a political conspiracy against his town.[8] Rather than a conspiracy, the nature of Argentine industry and industrialists was involved. A large portion of raw material was imported; moreover, industrialists imported and traded finished goods in the very same branch they operated so that sales of imports and manufactured goods became mutually reinforcing. Since Buenos Aires had the vast

[7] Yet, by the 1910s complaints were made about provincial trade barriers. See Liga de Defensa Comercial, *Informe leído por el Presidente Sr. Antonio León Lanusse en la Asamblea General Ordinaria del 29 de Diciembre de 1914* (Buenos Aires: Imprenta Enrique L. Frigerio, 1914), 23 and 70.

[8] Juan Alvarez, *Buenos Aires* (Imprenta de la Facultad: Buenos Aires, 1919).

majority of import activity, establishing their factories in the capital enabled these industrialists (and merchants) to develop their dual enterprises in the very same place. In addition, being both industrialists and importers, they could not promote a full free-trade nor protectionist policy but rather argued about tariffs case by case. As import tariffs were voted year by year, they had to lobby constantly; to be physically close to the Congress and the executive power made this lobby more effective.[9]

After settling down in nearby markets, Buenos Aires firms made efforts to expand their sales in more distant areas. In the early 1880s, it was not the general rule for them to trade beyond the city outskirts. In the 1910s, however, sales in the inner provinces became widespread for most of those companies.[10] Before the end of the nineteenth century, manufactured goods produced in Buenos Aires were already well established in the Pampas (the region surrounding the city and where most of export crops grew). This demand exploded when agriculture gained strength in a traditional cattle-ranching country. The settlement of farmers and sharecroppers, indeed, provided a potential market for consumer goods. That was the case of foreign colonists dedicated to cereal production in some Littoral provinces: mainly Santa Fé, Entre Ríos, and the Southeast of Córdoba. This market, called *las colonias* (the colonies), was an early target for the industrial firms of Buenos Aires since colonists demanded a wide variety of articles these companies sought to provide.[11] In addition, colonists demanded

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[9] Fernando Rocchi, `La armonía de los opuestos: Industria, importaciones y la construcción urbana de Buenos Aires en el período 1880-1920', *Entrepasados* 4, 7 (1994).

[10] For the 1880s see Alejandro Galarce, *Bosquejos de Buenos Aires, capital de la nación argentina* (Buenos Aires, 1886), vol I, 734, 742. In the 1910s, ready-to-wear houses started promoting their articles in two columns, *A nuestra clientela de la capital/A nuestra clientela del interior* (To our customers of the capital/To our customers of the interior), while cigarette, beer, and other item producers in Buenos Aires expanded advertising and trade all over the country. *La Nación*, 19 October 1910, p. 5; *La Nación. Edición conmemorativa de la revolución del 25 de mayo de 1910*, p. 61; *La Nación. Edición aniversario de la independencia, 1916*, p. 153; *La República Argentina pintoresca, comercial e industrial*, 1906, p. 45.

[11] Ezequiel Gallo, *La pampa gringa* (Sudamericana: Buenos Aires, 1983).

qualities similar to those consumed in Buenos Aires so that firms did not need to make changes in production or packaging to supply them.[12]

The rest of Córdoba province and the Northwest, however, proved to be much more difficult a market. Being the area of oldest Spanish settlement, the lack of a staple to export turned it into the most economically backward area by the turn of the nineteenth century. This region's poverty limited its purchases to the worse qualities or to products already out of fashion in Buenos Aires.[13] Notwithstanding its limits, it had enough consumers to attract the attention of producers both in Buenos Aires and abroad.[14]

2. Depression and the reshaping of capitalism

The supply side explains part of the successful conquest of this market by Buenos Aires industrial firms. Argentine industry was facing major transformations in the 1900s and leaning towards heavy concentration of capital. To a large extent, these changes were the response to a depression that hit the country in the late 1890s. Industry had grown at high speed after the 1890 depression, which was followed by high tariffs and devaluation of local currency. Continuing growth came to an end in 1897, when industrial production dropped for the first time since 1881 (see Table 2). As I said before, both the existence and depth of the 1897 depression have been ignored by a historiography focussed on the export-oriented economy. Contemporaries, however, became keenly aware of its occurrence and ill effects and produced a variety of sources

[12] *Exposición Nacional de 1898*, XI, 9 December 1897, p. 83.

[13] *Censo Municipal de 1887*, vol. II, 335-6. For instance, while the highest quality *doble* beer, which was produced by large firms in the capital, displaced the coarse *sencilla* in the Pampas, the Northwest still consumed the latter. See *Diario de Sesiones de la Cámara de Diputados* (hereafter cited as *DSCD*), 23 October 1894, 306.

[14] In the case of foreign firms, trade in the interior was important enough to become some import houses' main target and to worry the British consul who made a trip to the provinces in 1907 to study his country's commercial activity. See *Finanzas, comercio e industria en la República Argentina*, 1 (1 January 1899), 80; U.K. Public Record Office, Foreign Office (hereafter cited as FO), 368/86, Commercial 59, Buenos Aires, July 18 1907, Baird, p. 1.

for its study. The causes of the 1897 recession mainly lay in the excessive growth of domestic output - especially in industry and commerce - during the 1890s. The crisis was sparked by a political event: the threat of war between Argentina and Chile over territorial disputes. When the war menace looked real, the public converted its deposits from local pesos to hard currency and withdrew many of them, provoking a banking contraction. Since banks were the initiators of the credit chain (which continued with merchants granting loans to their customers), the multiplying effects on the circuit were devastating.[15]

Excess capacity was a major structural reason to explain the depth of the depression in industry, well beyond what production figures show. Producers of candles, spirits, household wares, glass, hats, paper, shoes, pins, undershirts, chocolate, glass, textiles and bags were running at 50 or 60 per cent of capacity.[16] Savage battles between firms followed overproduction; prices plummeted, profits shrank and the very existence of many firms was in jeopardy.[17] Demand, indeed, was smaller than industrialists had predicted. T. Worthington, a commissioner sent by the British Crown to review the prospects for trade, noticed industrial turbulence and predicted, `weaker individual factories may have to go'. His prediction was accurate.[18]

Increasing exports joined a peace agreement with Chile to foster an atmosphere of rapid and continuing growth in the domestic economy in the 1900s. In order to cope

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[15] Fernando Rocchi, `Building a Nation, Building a Market: Industrial Growth and the Domestic Economy in Turn-of-the-Century Argentina', (Ph.D. thesis: University of California, Santa Barbara, 1997).

[16] *Finanzas*, 1 (1 January 1899), pp. 139, 143; 2 (January 1900), p. 126; Dr. Moorne, *Las industrias fabriles en Buenos Aires* (Buenos Aires: Librairie Française de Joseph Escary, 1893), vol. I, pp. 46, 50, 72-85; *El País* 21 June 1900, p. 2; *Boletín de la Unión Industrial Argentina* (hereafter cited as *BUIA*), 15 February 1894, p. 2; Bureau of the American Republics, *Handbook of the Argentine Republic* Bulletin no 67 (Washington, DC: GPO, 1892), 97-8 and 100.

[17] See Acta no 13, 23 August 1894 in *Tarifas de Aduana. Estudios y antecedentes para su discusión legislativa por la Comisión Revisora nombrada por el Poder Ejecutivo* (Cía Sudamericana de Billetes de Banco: Buenos Aires, 1894) CXI; *El País*, 22 January 1900, p. 5.

[18] T. Worthington, *The Special Commissioner Appointed by the Board of Trade to Inquire into and Report upon the Conditions and Prospects of British Trade in certain South American Countries. Third Report. The Argentine Republic* (Eyre and Spottiswoode: London, 1898) 4.

with the new situation of increasing demand (but under the ghost of overproduction), industrial firms used some new strategies and gave more strength to old ones: the outcome was a reshaped supply.

One response to new market challenges was a transformation in the size of firms, which was raised to unprecedented levels, fostering mechanisation and economies of scale in Buenos Aires firms and helping them to conquer the national market. The tanning industry offers an example. The northwestern provinces of Tucumán, Salta and Jujuy had had a flourishing industry of shoe soles that prompted a dynamic regional trade. By the 1890s, this activity languished since Buenos Aires factories undertook the entire process of tanning cattle products instead of just finishing soles bought in the North.[19] The concentration of capital deepened Buenos Aires's dominance: between 1895 and 1914, the three northern provinces' share in total energy consumption in Argentine tanneries fell from 15 to 9 per cent. While Buenos Aires tanneries mechanised and adopted the latest chemical advances made in the world at the time, the Northern workshops continued working `with primitive proceedings, the same inherited from the colonial times'.[20]

3. The victory of big business

Together with increasing mill size, a process of merging firms occurred in beer, cigarette, hat, biscuit, textile, metallurgical, and paper production. Thus the concentration of capital was deepened further, though the changes went beyond this and meant the victory of big business, a different phenomenon. Indeed, a small market can be occupied by a small number of producers as was, to some extent, the case of Argentina until the 1890s. Big business, however, is a further phenomenon implying monopolistic or oligopolistic control of the market regardless of its size. Between 1900

[19] *BUIA*, 20 October 1899, 30.

[20] Félix de Ugarteche, *Las industrias del cuero en la República Argentina* (Talleres Gráficos de Roberto Canals: Buenos Aires, 1927) 32; Segundo Censo Nacional 1895, 271-301; Tercer Censo Nacional 1914, 120-376.

and 1913, total GDP and GDP per head almost tripled and doubled, respectively (see Table 2). To cope with highly competitive markets, concentration was not enough: other tactics were employed. The creation of trusts, pools or gentleman's agreements for price agreements occurred in almost every branch of industry including matches, hats, spirits, bags, pins, paper, textiles, and even ice. It transformed market rules.[21] Concentration and trusts, indeed, had the dual function of increasing and reducing competition.[22]

Buenos Aires firms applied monopolistic strategies to gain control of the entire Argentine market. The case of the biscuit industry, which had some development in the inner provinces and offered many opportunities for entry because relatively little investment was required, is a good example. By the end of the nineteenth century the market for biscuits was divided into two regions supplied by different firms: the Pampas and zones of influence (including the East and the West) and the Córdoba-Northwestern area. The former was served by the powerful Buenos Aires companies Bagley and La Unión and by two middle-size establishments in secondary cities in the Pampas. The latter was only partially supplied by these firms while a group of local companies - mainly the Fábrica de Galletitas of Córdoba and La Tucumana of Tucumán - accounted for a significant part of the regional production.

The four firms in the Pampas market competed fiercely, forcing them to reduce prices to remain competitive. In order to end price wars, in 1902 they created a pool called *Fabricantes Unidos* (Unified Manufacturers) that negotiated prices and established output quotas.[23] After the agreement, the pool took as a task the conquest of the national market, which meant the seizure of Córdoba and the Northwest. Economies of scale and access to railway transportation were a major help, though not

[21] *DSCD*, 22 October 1894, 283; and T. Worthington, *The Argentine Republic*, 36.

[22] Naomi Lamoreaux, *The Great Merger Movement in American Business, 1895-1904* (Cambridge University Press: Cambridge, 1985), 30, 46, 86, 116, 154-5.

[23] Bagley S.A. Archives, Board of Directors (hereafter cited as BD), 7, 14, and 28 February 1902, 6 May 1904.

enough to accomplish that goal since local factories showed a remarkable ability to resist. The main Córdoba firm had opened in 1888 and soon faced competition from Buenos Aires. By 1896, the construction of a railway line to Salta and Jujuy allowed the arrival of goods from the capital city at cheap prices and reduced its sales in the northwestern market. The firm, however, continued in business through reduction of profit margins, plus receipt of subsidies and tax exemptions from the provincial government.[24] Since the Córdoba company showed a surprising resilience, the consortium of the Pampas tried a new strategy and agreed to create `a general fund to subsidise the small factories provided that they stop working' in the cities of Córdoba and Tucumán.[25] In 1903, the pool made an offer that the Córdoba firm accepted: to pay an annual subsidy in cash that surpassed its profits, in exchange for turning off the ovens.[26]

The end of production at the main regional firm did not mean that the market fell like a ripe fruit into the hands of the consortium. Middle-sized establishments proved to be extremely resistant. They used a variety of strategies such as lowering margins and over-exploiting the family workforce that most of them used. Moreover, the success of local firms lay partly in their adaptive commercial strategies, responding to the demand patterns of a market poorer than that of the Pampas. Indeed, they offered the type of products and packaging that their market required. According to an assessment by Bagley company, `the petty biscuit factories in Córdoba and Tucumán hurt our sales in those areas [because they] sell their products of inferior quality at very low prices'.[27] In addition, these firms sold biscuits in 17- to 18-kilo bundles instead of the 22 kilo ones that the Fabricantes Unidos traded in the richer Pampas and attempted

[24] BD, 14 March 1902; Hilda Iparaguirre, `Crecimiento industrial y formación de la burguesía en una subregión argentina: Córdoba a finales del siglo XIX y principios del XX' in Enrique Florescano (ed.), *Orígenes y desarrollo de la burguesía en América Latina* (Ed. Nueva Imagen: México, 1985) 585-607.

[25] BD, 28 February 1902, 14 March 1902, and 2 October 1902.

[26] *Ibid.*, 2 January 1903, 3 April 1903, 1 May 1903, and 5 February 1904.

[27] BD 23 August 1912 and 29 May 1909.

to impose everywhere. As the pool's main firm remarked, `[t]his weight difference is in great demand in the interior so that [Bagley's manager] thought we should defend ourselves using the same methods'. To cope with lower incomes and different purchasing habits from the consumers they were used to supplying, the consortium designed a new merchandise line and created a coarse brand, both specific for the area they attempted to penetrate.[28]

After eliminating Córdoba's main factory, the chief source of competition came from Tucumán's largest producer, which was selling its biscuits at lower prices than Fabricantes Unidos. The suspicion was that Mr. Cremades, the owner of La Tucumana and of a smaller factory in Córdoba, had launched a dumping strategy in the provinces of Tucumán, Salta, Jujuy and Santiago del Estero in order to undermine the influence of the pool firms.[29] Soon, negotiations started. First, Cremades `insinuated to one of our [Bagley's] salesmen that he was eager to sell the machinery of his factories in Tucumán and Córdoba for $40,000' but the pool considered this excessive and `having no interest in the acquisition of the installations decided not to consider this offer'.[30] Second, he offered to limit production to almost a fourth of the pool's sales, and to give the consortium control of his firm´s management. Finally, an agreement was reached in 1910 through the payment of a subsidy in exchange for the closing of La Tucumana and the restriction of his Córdoba branch to producing only the coarsest products. As a result of the pact, the pool increased the price of its biscuits in Tucumán.[31]

Despite the deal, coexistence between Cremades and Fabricantes Unidos was not easy. The former was accused by the latter of producing biscuits not contemplated in the agreement and new negotiations began in 1911. These resulted in the sale of most

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[28] Bagley even used new brand names — Libertad and Provincial — since they feared that using the old names would discredit them in the Pampas market. *Ibid.*, 29 May 1909 and 30 March 1911.

[29] *Ibid.*, 29 September 1909.

[30] *Ibid.*, 13 November 1909.

[31] *Ibid.*, 23 July 1910, 28 September 1910 and 23 November 1910.

of the equipment used in Cremades factories in Tucumán and Córdoba, limiting production to only very coarse goods destined to be sold in Córdoba and the very poor provinces of La Rioja and Catamarca.[32] Yet, Cremades and his extremely reduced installations continued to compete in Córdoba thanks to a provincial tax on `imported' goods. In 1912 Bagley's directors, `persuaded of the advantage that exists in eliminating this competition [decided] that it is necessary to bring such an unsatisfactory situation to a conclusion, and to liquidate this factory by buying it, because in this way all the Northern region would be free'.[33] The consolidation of a market controlled by the pool equalised profit rates all over the country, rates previously distorted by promotion policies. Thereafter, different geographical areas started to exhibit similar profits (see Table 3).[34]

Bagley, which employed 18 per cent of the national workforce in the biscuit industry in 1895, reached 39 per cent by 1914, a level probably higher in output due to its technological leadership. In the meantime, the participation of Córdoba province firms had fallen from 5.5 to less than one per cent.[35] The victory in this long-lasting battle was not a small one for the pool's main firm: by the 1920s between fifteen and twenty per cent of its sales were made in the Northwest and another five per cent in Córdoba.[36]

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[32] *Ibid.*, 28 April 1911, 28 June 1911, 13 February 1912.

[33] *Ibid.*, 23 August 1912, 29 November 1912, 1 and 11 August 1913.

[34] For a time, preferential prices still applied in the Costa Sud (Patagonian Coast), explained by the dependence of this region on the Chilean market. Yet by the late 1910s, the situation started to change even there. *Ibid.*, 5 and 20 September 1915, and Libro de Precios (Price Book) 1911-17.

[35] Segundo Censo Nacional, 1895, vol. III, p. 270 and Tercer Censo Nacional 1914, vol. VII, p. 395. The buy-out strategy was only employed to conquer a market that could not be gained otherwise. An offer to close down for money by a biscuit firm from Gualeguaychú, Entre Ríos, where the pool was well established, was rejected by the pool, which stressed salesmen's aggression. BD 10 May 1908, 18 December 1909, 31 August 1910.

[36] Bagley, Libro de Inventarios (Inventory Book). The extreme sensitivity of this market to consumers' income became apparent with the 1930 depression, when sales in the region dropped two-thirds while in the Pampas they only fell to half. Bagley, Libro de Cuentas Corrientes, Saldos Deudores (Current Accounts Book).

Meanwhile changes occurred in the pool itself which produced a qualitative change in biscuit supply. In 1905 the two main firms of Fabricantes Unidos, Bagley and La Unión, merged and continued under the name of the former. This altered the internal structure of the consortium, which now was dominated by one company.[37] Then, the middle-size firm La Julia, understanding that its power was going to become insubstantial in a pool so largely controlled by a sole company, offered to close its factory for a large sum of money. Bagley, however, saw the offer as unacceptable, not to mention useless.[38] By then, it felt strong enough to fight with open-market tools: when another middle-size firm, Maneffa, entered the market and began producing a cheap and good quality biscuit, Bagley chose to engage in a price war. Thanks to new investments, reduction in salaries and advertising resources, it succeeded in producing a similar item at a cheaper cost: it could sell at $11.50 a biscuit bundle of the same kind that Maneffa offered at $15.[39]

With control of the national market, the industrial firms of Buenos Aires could enlarge their circle of consumers. Though the interior was important for these companies' sales, its significance went beyond making profits. Every corner of the country was worth supplying with Argentine merchandise, regardless of its demand. Even markets left aside by importers were meaningful to Buenos Aires firms. The Province of Catamarca, to which the British merchants did not bother to send travellers as `it seems that it has not been worthwhile', was important enough to the industrial establishments of the capital city for them to launch a price war there.[40]

[37] BD 19 April 1906, 1 and 30 October and 30 November 1907, 24 October and 17 November 1908.

[38] BD 7 February 1905.

[39] BD 28 September 1910, 19 October 1910, and 23 October 1911.

[40] FO 6/469, Commercial 18, Buenos Aires, 6 September 1901, Barrington, pp. 128-9.

Conclusion

By the 1910s, most of Argentina was within a national market for manufactured goods controlled by Buenos Aires industrial firms, who were the main suppliers of articles produced domestically. Regional differences were still at stake and some peripheral areas continued to be linked into the economies of neighbouring countries, but integration had become the rule. In terms of industrial output, the interior lost and Buenos Aires was victorious. The state played a crucial role by establishing the basis for the end of legal barriers to trade. This settlement, however, could have promoted industry everywhere. Consumers, raw material, labour and a peculiar type of industrialist directed location towards Buenos Aires. Economies of scale and cheap transportation partly prompted the control of the national market by the capital city's firms. Monopolistic strategies enabled them to seize the most resilient markets. In the shaping of these strategies, the 1897 depression played a crucial role.

The effort to reach the borders with their products went beyond profit-seeking and transformed a merely domestic into a national market. War prices in remote places were also the result of an ideological driving force. An Argentine firm had to sell its products all over the country, no matter the cost. This is not surprising considering the attempt in the period to build an Argentine nation: an effort in which education, the military draft and merchandise joined forces.

The formation of a national market was only partly the result of free market forces. In parallel with the reshaping of capitalism and the victory of big business, the efforts to create an Argentine nation lent towards fanaticism. In 1908 the Ministry of Education adopted a *Catecismo Cívico* (Civic Catechism) which every teacher and student at elementary schools had to learn by heart: a list of questions followed by answers stressing Argentina as the most generous, heroic, and endowed nation on earth.

Circulation of goods means circulation of symbols and culture;[41] a sense of sharing arose between a consumers in Catamarca and those in Buenos Aires when drinking, eating and wearing clothes produced in the same firm, located in the capital city, which increasingly concentrated Argentines' attention.

[41] Mary Douglas and Baron Isherwood, *The World of Goods* (Basic Books: New York, 1979); Chandra Mujerki, *From Graven Images: Patterns of Modern Materialism* (Columbia University Press: New York, 1983).

TABLE 1. BUENOS AIRES' SHARE OF INDUSTRIAL CAPITAL AND LABOUR, 1914

`Buenos Aires': city and province. Share as percentage of national total.

	Capital	Labour
Cooking oil	63.1	70.9
Biscuits	93.2	75.4
Alpargatas	75.3	74.4
Beer	77.9	77.2
Tobacco	95.0	70.8
Shirts	93.9	95.3
Textiles	97.6	75.2
Shoes	86.6	86.2
Hats	98.1	96.3
Bags	92.7	71.3
Furniture	74.5	77.2
Foundries	91.5	48.8
Tin-plate	90.9	95.7
Soap-candles	81.2	70.9
Chemical	90.1	80.9
Glass	97.1	97.1
Matches	89.6	80.6
Paper	96.4	94.4
Total	57.0	60.5

Source: My own calculations based on Tercer Censo Nacional, vol. VII, pp. 115-26, 186-92, 313-26, 395-403.

TABLE 2. ECONOMIC INDICATORS. ARGENTINA 1890-1910 (1900=100)

	GDP	GDP per capita	Industrial Product
1890	64.70	88.25	49.98
1895	99.02	115.32	74.70
1896	109.51	123.93	87.35
1897	88.86	96.69	76.98
1898	96.35	101.86	78.63
1900	100	100	100
1905	182.85	159.26	221.59
1910	232.93	162.95	291.04
1913	281.61	173.41	364.65

Source: Cortés Conde, `Estimaciones del Producto Bruto Interno', 17-20.

TABLE 3. BISCUITS LIBERTAD AND PROVINCIAL (in $ m/n)

	Transport cost	Price 1	Profit 1	Price 2	Profit 2
Tucumán	0.66	5.20	3.94	5.20	3.94
Santiago	0.61	5.20	3.99	5.20	3.99
Córdoba	0.51	4.70	3.64	5.10	4.04
Río Cuarto	0.48	5.70	4.57	5.50	4.37
San Luis	0.99	5.70	4.86	5.50	4.66

1: before November 1912; 2: after November 1912.

Source: My own elaboration based on Bagley S.A., Libro de Precios, July 1912.

2. INTRA-ASIAN TRADE AND EAST ASIA'S INDUSTRIALISATION, 1919-1939[1]

Kaoru Sugihara (Osaka University)

This paper discusses the effects of East Asia's industrialisation on the patterns of intra-Asian trade during the interwar period. Recent studies have shown a strong growth of the Japanese economy in the 1930s based on the expansion of the domestic market, as well as the growth of modern industries in Korea, particularly in the second half of the decade.[2] The high growth rates of Japan, Korea and Taiwan for the period from 1919 to 1939 were quite out of line with the general trend of the international economy. China's growth record is more modest, but the relatively successful import-substitution industrialisation in littoral China during the 1920s is now well documented, and it is becoming clear that it continued into the 1930s.[3]

Yet there is no standard explanation why these East Asian economies grew faster than the rest of the world, and what made it possible for them to do so. In Japanese historiography, country studies have confirmed that these economies were integrated into the Western-dominated world economy through trade and capital flows to a considerable extent and were hit by the fall in their exports to the West during the great depression, while the studies in trade, investment and migration within East Asia have shown that its economies, in and outside the yen bloc, were closely connected to one

[1] This paper is an abridged translation of Chapter 4 of my Japanese-language book (Patterns and Development of Intra-Asian Trade, Mineruva Shobo: Kyoto, 1996). In this paper Japanese names are cited in Western order, i.e. first name followed by surname.

[2] Kaoru Sugihara, `Japan's Industrial Recovery, 1931-1936', in Ian Brown (ed.), *The Economies of Africa and Asia in Inter-war Depression* (Routledge: London, 1989). Kazuo Hori, `Ryotaisenkan no Higashi Ajia Chiiki Shakai (Regional Societies of East Asia in the Interwar Period)', in Yuzo Mizoguchi et al. (eds), *Ajia kara Kangaeru 6: Choki Shakai Hendo* (Tokyo Daigaku Shuppankai: Tokyo, 1994).

[3] Kaoru Sugihara (ed.), *The Growth of the Asian International Economy: The Chinese Dimension* (Oxford University Press: Oxford, forthcoming).

another.[4] But these studies generally lack a wider comparative perspective, and fail to show how important the dynamics of intra-regional trade and other contacts were in accounting for the region's overall divergence from the general trend. Also, historiography in East Asia has been coloured by an interest in the political assessment of Japanese imperialism, and has been inclined to take economic and political events outside the region as given. Contributions from students of international economic history have been equally unsatisfactory. In the League of Nations studies of the network of world trade, for example, East Asia was usually classified as temperate zone, while South and Southeast Asia were put under the tropical zone. Since the discussion of the temperate zone was usually focussed on Europe and the countries of recent settlement, the place of East Asia in the perceived restoration of the pre-First World War patterns of smooth multilateral settlement was never explicitly argued.[5] No integrated picture of Asia as a whole, including both East Asia and South and Southeast Asia, emerges from any of these studies either.

Elsewhere I have argued that between 1880 and 1913 intra-Asian trade grew much faster than Asia's trade with the West or world trade, and that Japan's industrialisation and the growth of the export economies of Southeast Asia were the two sides of the same coin.[6] The framework which I developed there had a two-tier structure, that is, intra-Asian trade as a discernible regional unit and the Western-

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[4] Yuzo Yamamoto and Kazuyoshi Oku, 'Boeki (Foreign Trade)', in Shunsaku Nishikawa and Yuzo Yamamoto (eds), *Nihon Keizaishi*, Vol.5 (Iwanami Shoten: Tokyo, 1990). Naosuke Takamura, *Kindai Nihon Mengyo to Chugoku (The Modern Japanese Cotton Industry and China)* (Tokyo Daigaku Shuppankai: Tokyo, 1982). Hiroshi Nishikawa, *Nihon Teikokushugi to Mengyo (Japanese Imperialism and the Cotton Industry)* (Mineruva Shobo: Kyoto, 1987). Yuzo Yamamoto (ed.), *'Manshukoku' no Kenkyu (Studies in 'Manchukuo')* (Kyoto Daigaku Jinbunkagaku Kenkyusho: Kyoto, 1993).

[5] See, for example, League of Nations, *Memorandum on Balance of Payments and Foreign Trade Balances* (various years); *International Trade Statistics* (various years); *Review of World Trade* (various years); *Network of World Trade* (1942); *Industrialization and Foreign Trade* (1945), all published in Geneva.

[6] Kaoru Sugihara, 'Patterns of Asia's Integration into the World Economy, 1880-1913', in W. Fischer, R.M. McInnis and J. Schneider (eds), *The Emergence of a World Economy, 1500-1914*, Vol.2 (Franz Steiner: Wiesbaden, 1986). Reprinted in C. Knick Harley (ed.), *The Integration of the World Economy, 1850-1914*, Vol.2 (Edward Elgar: Cheltenham, U.K., 1996).

dominated world trade (and investment) as the dominant force of global integration. The former was defined as trade between Japan, China (including Hong Kong), Southeast Asia (the Dutch East Indies, French Indochina, Siam, the Straits Settlements and Burma), and India (British India excluding Burma), and between these four countries (or regions) and the rest of the smaller Asian economies. Figure 1 shows a slightly modified version of this definition, taking territorial changes into account, and is the basis for Figure 2.

The justification of this framework rests partly on the fact that this was the only intra-regional trade of a sizable scale outside the West that greatly outpaced the general trend of world trade. Its importance lies in the fact that by 1913 the amount of intra-Asian trade, relative to Asia's trade with the West, became significant for each region. Once trade began under the regime of `forced free trade' with the benefit of steamships and railways, a relatively homogenous outlook of factor endowments, particularly the low cost of labour relative to capital, made intra-Asian competition fierce, and an international division of labour emerged where Japan became a factory of Asia and the rest specialised in the exports of primary products. It is this intra-Asian market competition that the conventional approach, based on the dichotomy between the Western impact and each region's response, has largely ignored. Although there is clearly room for arguing for some cultural, technological and institutional similarities across Asia, that is not an implied premise here. The diversity, as well as the similarity, played a role in the growth of intra-Asian trade.

What happened to intra-Asian trade during the interwar period? Table 1 and Figure 3 summarise my calculations based on official country trade statistics and some estimates, expressed in FOB terms and converted to sterling (for the method of calculation of all the figures below, see Statistical Notes at the end of this paper). Intra-Asian trade, which in 1913 was £167.30m, increased sharply during the First World War, reaching a massive £545.58m in 1920. With the temporary recovery of trade with the West in the first half of the 1920s it suffered a considerable decline, but recovered in the second half of the decade, maintaining a high level in the £400 millions. In the early 1930s it fell sharply under the impact of the great depression, to £239.27m in 1933. However, it showed strong recovery again in the second half of the 1930s, rising to £494.00m in 1939.

A comparison of these figures with those of Asia's trade with the West (Britain, six industrial European countries in the Continent and the United States) is given in Table 1 and Figures 4 and 5. In 1913 Asia's exports to the West at £215.06m were considerably greater than the intra-Asian trade figure, but in 1928 the latter slightly exceeded the former, and by 1938 it was 80 per cent greater than the figure for Asia's exports to the West. A comparison with the figures for imports from the West leads one to the same conclusion, that is, intra-Asian trade displayed far faster growth than Asia's trade with the West. If we calculate intra-Asian trade as a proportion of total world trade, we find that from 4.2 per cent in 1913 this increased to 6.5 per cent in 1928 and 8.2 per cent in 1938. It was easily the second largest intra-regional trade in the world, next to intra-European trade.[7]

What were the factors behind the growth of the relative weight of intra-Asian trade in world trade, and in what ways did it contribute to the economic integration of Asia during the interwar period? And why did this dynamism become difficult to maintain by the end of the 1930s? These are the questions which will be addressed in this paper. In the next section, the main trade links are identified, and the growth of the industrialisation-led trade of East Asia and its effects are outlined. In the third section the role of the (colonial) state in the changes in the patterns of intra-Asian trade will be discussed. The last section attempts to relate the argument to the understanding of the nature of Japanese imperialism.

[7] Figures for world trade are from League of Nations, *Review of World Trade, 1938* (1939), 60. These percentages are approximate, as my definition, as well as figures, of intra-Asian trade differs from that of the League of Nations.

1. The Impact of East Asia's Industrialisation

The `Flying Geese' Pattern of Economic Development The most important change that affected intra-Asian trade after the First World War was East Asia's industrialisation. Figure 2 presents intra-Asian trade in 1913, in 1928 and in 1938 in matrix form. Japan's share rose spectacularly from 22 per cent in 1913 to 28 per cent in 1928 and 45 per cent in 1938, Korea's from 8 per cent in 1928 to 13 per cent in 1938, and Taiwan's from 5 per cent in 1928 to 7 per cent in 1938. This is the first nucleus of development created by Japanese (and later to some extent Korean) industrialisation. The general commodity composition did not change much there. In 1928 Japan's main export items were light industrial products, especially cotton cloth, and her main import items from India were raw cotton, from Java sugar, from China (Manchuria) beans and bean products, from Korea rice and from Taiwan sugar and rice. They represented an expansion of the prewar pattern of the Asian international division of labour driven by the development of the cotton trade. In terms of broad categories of goods and quantities traded, this characterisation holds for the 1930s as well, despite the formation of trading blocs and the boycott of Japanese goods.

Looking more closely at Japan's exports of cotton goods to Asia however, there were notable changes in both commodity and geographical compositions. While cotton yarn was the main export before the First World War, the interwar period saw a growth of exports of cotton cloth and other textile products. They initially consisted of traditional items like plain cloth, but new products were developed successfully one after another by private companies, often with government support, and the share of relatively highly processed cotton cloth such as bleached shirting, twills and sateens increased, while the trade also expanded to every region of Asia including South and Southeast Asia.[8] To put this in terms of an international commodity chain, a traditional sequence of `Indian raw cotton production - Japanese spinning industry - Chinese hand-

[8] Takeshi Abe, `The Development of the Producing-center Cotton Textile Industry in Japan between the Two World Wars', *Japanese Yearbook on Business History*, 9 (1989), 3-27.

weaving' via intra-Asian trade changed to a more modern sequence of `Indian (and American) raw cotton production - Japanese spinning industry - Japanese weaving industry'.

An important background to this change was the development of the Chinese cotton industry. Its driving force was the development of the modern spinning industry centred on Shanghai. The raw cotton hitherto exported via Shanghai from various regions of China began to be used instead in Shanghai, and by the 1920s imports of raw cotton from India, the United States and elsewhere had come to exceed exports. Machine yarn produced in Shanghai was gradually driving out the yarn imports from India and Japan. Some of this Shanghai yarn was used for locally produced native cloth and contributed to maintaining its competitiveness. However, a more important change was the step forward to the integrated mill. In the plain cotton cloth market in the second half of the 1920s sales of domestically produced cloth eclipsed imported cloth, and the shipment of cloth from Shanghai to other regions of China increased. By the 1930s, although Shanghai maintained its central position, the growth of Chinese-owned spinning mills in the interior and of Japanese-owned mills in the urban areas of North China became conspicuous. The contribution of foreign capital, particularly in the Japanese-owned mills, cannot of course be ignored, but the shift to domestic production was a typical case of import substitution industrialisation.[9]

In the field of processed dyed cotton cloth, however, imported cloth remained dominant, and indeed this dominance tended to grow during the 1920s. The increase in Japan's share, replacing Western countries', meant an intensification of more direct competition for the Chinese cotton industry. However, here too, as in many other fields domestic products began to expand, helped by protective tariffs. By the 1930s, China was attempting an active policy of promotion of exports of industrial products, mainly

[9] Nishikawa, *Nihon Teikokushugi*. Toru Kubo, `Kindai Chugoku Mengyo no Chitai Kozo to Keiei Ruikei—Sono Hatten no Ronri o megutte—(Regional Variations and Firm Sizes of the Modern Chinese Cotton Industry: Its Logic of Development)', *Tochi Seido Shigaku*, 113 (1986), 24-25.

to Southeast Asia.[10] In terms of the structure of trade, China showed a shift towards an industrial country pattern. With this export effort added to the new sequence of `Chinese raw cotton production - Chinese spinning industry - Chinese weaving industry', there emerged a second nucleus of East Asian industrialisation to set alongside Japan.[11]

As a country goes through the process of import substitution, imports of a commodity first increase, then reach saturation point, and finally decline. This pattern or curve tends to be repeated with a time lag for a slightly more sophisticated commodity, say cotton cloth rather than cotton yarn or processed cloth rather than plain, so that one can observe several curves of a similar shape in a graph chronologically charting the trend of the import structure of a country. This is the original formulation of the `flying geese' pattern of economic development by Kaname Akamatsu. However, he also formulated a variation in which countries, rather than commodities, at differing stages of development develop in a `flying geese' fashion, and cited as an example the relationship between Japan and China in the interwar period.[12]

Crucial to this pattern were strong elements of competition between the two countries. Judged simply from the extent of industrialisation reflected in the structure of trade, China at this period drew more or less level with India, and the Chinese cotton industry's competitiveness in the field of low-count cotton yarn and plain cotton cloth urged the shift in the composition of Japan's cotton goods for export on towards the more processed range. Also, with the advance of Japanese spinning mills in China

[10] Toru Kubo, `Kokumin Seifu no Yushutsu Sokushin Seisaku to Chuka Kogyo Kokugai Boeki Kyokai—1930-nendai ni okeru Yushutsu Shiko Kogyoka no Mosaku (The Export Promotion Policy of the Chinese Nationalist Government and the Imperial Association of Indusrty and Foreign Trade: A Search for Export-oriented Industrialisation in the 1930s)', *Toyo Bunka Kenkyusho Kiyo*, 103 (1987), 81-113.

[11] Yukihiko Kiyokawa, `Chugoku Seni Kikai Kogyo no Hatten to Zaikabo no Igi (The Development of the Chinese Textile Machinery Industry and the Significance for it of the Japanese-owned Mills in China)', *Keizai Kenkyu*, 34, 1 (1983), 22-39.

[12] K. Akamatsu, `A Historical Pattern of Economic Growth in Developing Countries', *Developing Economies*, Preliminary Issue 1 (1962), 17-18, 20.

Japanese exports of spinning machinery to China saw an increase. The transfer of Japanese management know-how via these spinning operations in China was also indispensable for increasing the competitiveness of the Chinese cotton industry. Thus East Asia, with a sequence of `Indian/Chinese (and American) raw cotton production - Japanese/Chinese spinning industry - Japanese/Chinese weaving industry - Asian consumption' as its axis, began to produce a regional dynamics of production and consumption of its own. The changes in the structure of trade outlined above were a reflection of the `flying geese' pattern of development of the two countries.

The Final Demand Linkage Effect However, the growth of intra-Asian trade was not associated with a `flying geese' pattern of development across all the regions of Asia. As is shown in Table 1, the weight of East Asia's trade shifted greatly from trade with the West to intra-Asian trade. The share of East Asia (including Korea and Taiwan) in intra-Asian trade, which in 1913 was no more than 45 per cent, rose to 59 per cent in 1928 and as high as 74 per cent in 1938. In weight of trade with the West, however, the position of India and Southeast Asia was maintained. Industrialisation made relatively little progress there and the dependence on exports of primary products to outside the area remained vital. Looking at the geographical composition of India and Southeast Asia's exports to the West, we can see a shift from Britain and industrial Europe to the USA, and the prominence of the Dutch East Indies and Malaya in the increase in exports is notable. Exports of rubber from both countries expanded rapidly after the First World War with the growth of the automobile industry in the West, and as a result rubber plantations became the driving force for economic development in Malaya and the Dutch East Indies (and parts of Siam).

In this respect the yen bloc looked increasingly isolated from the Western-dominated world economy. It was the rapid rise in Japan's exports of cotton textiles and sundries to South and Southeast Asia that countered this isolation. When the great depression brought a shrinkage of trade on all fronts, Japan's (and to some extent China's) exports of manufactured goods continued to increase. This export boom also encouraged Japan's imports of raw cotton both from the United States and India. Where did the purchasing power in South and Southeast Asia come from?

As with the prewar pattern, the final demand linkage played a key role in sustaining this segment of intra-Asian trade. The more primary products were exported to the West, the greater the income of those workers engaged in primary production and related service activities in South and Southeast Asia became. Given the nature of their demand being largely confined to essentials such as rice, dried fish, spices and some cotton textiles and sundries, the bulk of their purchasing power benefited Asian producers, and a significant proportion of the imported manufactured goods they purchased came from East Asia. This is an argument which applies most fully to the 1920s, but in order to emphasise its general applicability we cite here the case of the Dutch East Indies at the end of the 1930s.

In 1938 the Dutch East Indies' exports consisted of oil, rubber, tea and sugar, and if one takes into account trade to the West via Singapore and Egypt, demand from Europe and the United States was of overwhelming importance.[13] At the end of the 1930s the increase of the military demand in the West contributed to sustaining the exports. Japan too was importing oil, rubber and tin, but her share in the total amounted to only 3 per cent, and even for oil no more than 5 per cent. On the other hand, the structure of the Dutch East Indies' imports in the same year consisted of (1) imports from the West such as machinery, steel, ships and aircraft and automobiles, (2) imports of cotton manufactures and other textiles from Japan and Europe, and (3) imports of rice, fish and other foods from other Asian countries. It is obvious that the demand for (2) and (3) was dependent on the purchasing power of ordinary people involved in the export economy of primary products. In contrast to its position in the export structure, Japan's share in the Dutch East Indies' total import trade was 15 per cent, and its share in total cotton cloth imports was as much as 41 per cent, constituting

[13] Out of the Dutch East Indies' exports to Singapore, most of the rubber, copra, tea, coffee, palm oil and tin were re-exported to the West. *Ranryo Indo no Boeki oyobi Boeki Seisaku (Foreign Trade and Trade Policy of the Dutch East Indies)*, (Toa Kenkyusho: Tokyo, 1943), 101.

the core of (2). Unlike the cloth of European origin, the Japanese cloth tended to be used for the clothing for the native population.[14]

In other words, Japan's exports went far beyond simple bilateral trade and grew based on the final demand linkage effect of exports from South and Southeast Asia to the West, and their structure remained basically unaltered in the 1930s. Demand of type (3) which was also heavily dependent on the final demand linkage supported the commercial agriculture and fisheries of Southeast Asian countries. Although the overseas Chinese trading network dominated these segments of trade, intra-Asian trade was in fact structurally dependent on exports to the West. In the early 1940s Japan occupied most parts of Southeast Asia, but was unable to either make full use of the potential resources of the export economy or make the local economies function, once Western demand had been cut off.

Thus, apart from the fact that China replaced India as the second industrial nation of Asia, the prewar system of the Asian international division of labour survived and developed further. The general contraction of trade owing to the great depression did temporarily expose the dependence of intra-Asian trade upon the trade with the West, and the blow felt in South and Southeast Asia extended to the overseas Chinese and Indian networks, but its effects on countries and regions varied. In South India, the Straits Settlements, Malaya, Siam, the Dutch East Indies, and Hong Kong the existing trading and financial networks became more independent, and entrepreneurs began to enter the fields of industry and shipping. Also, the second half of the 1930s saw a fair degree of recovery in trade with the West. Thus the purchasing power of South and Southeast Asian economies was to some extent maintained, and Japanese manufactured goods flowed in, and the prewar sequence of `export of primary products from South and Southeast Asia to the West - stagnation of industrial development of colonies of the West - export of industrial products from Japan to South and Southeast Asia -

[14] Taiwan Sotokufu Kanbo Gaijika, `Orimono Shijo to shiteno Ranryo Indo (The Dutch East Indies as a Cloth Market)', Vol.2, (Manuscript, 1935?), 4, 33, 45, 90, 159.

industrialisation of Japan (or East Asia)' was repeated. In other words, the division of labour between East Asia and South and Southeast Asia did not develop in a `flying geese' fashion but moved towards the direction of a widening gap in industrial capability between the two.

The Effects of Heavy and Chemical Industrialisation This divergence, however, did not immediately impede the growth of East Asia's trade. On the contrary, the rate of growth of trade within East Asia, particularly that of Japan's trade with her colonies, went far beyond that of other segments of intra-Asian trade. Looking at Japan's trade structure in 1935, trade with her colonies took up 61 per cent of trade with Asia in both exports and imports, and had become the main source of trade surplus (Note, however, that most of the exports to Kwantung Province were re-exported to North China). Foods (rice and sugar) were imported from Korea, Taiwan and Kwantung Province, and other raw materials and foods (beans and bean products) from Manchuria, while manufactured goods were exported to all these areas. In the case of Korea, Taiwan and Kwantung Province heavy and chemical industrial products predominated, while light industrial goods formed the major part of manufactured goods exported to Manchuria.[15]

A cursory look at the development of Korean trade suggests that she, along with China, appears to have joined the course of the `flying geese' pattern of economic development. By the 1930s the colonial government of Korea was pursuing a policy of electric power development, combining the development of electricity generation with the expansion of a transmission grid, and carried out an industrialisation policy based on a combination of cheap electricity, land prices and labour. In addition, the expectation of an opening of the Manchurian market to Korea, and a relatively relaxed industrial regulatory policy encouraged direct investment of Japanese private capital. Thus there was an expansion of electrochemical industry and mining-and-refining, both

[15] Yuzo Yamamoto, *Nihon Shokuminchi Keizaishi Kenkyu (Studies in the Economic History of the Japanese Colonies)*, (Nagoya Daigaku Shuppankai: Nagoya, 1992), 126-32.

utilising the availability of electricity, while spinning, weaving and other light industries grew, taking advantage of low wages.[16] The increase in exports of heavy and chemical industrial products from Japan and the relative stagnation of exports of cotton textiles reflect this development. In the 1930s indigenous industry (without Japanese involvement) too grew at a very rapid pace.[17]

However, the great majority of Japan's exports of heavy and chemical industrial products went to her own colonies, and in this respect they differed greatly from exports of cotton textiles. Does this suggest that Japan remained internationally uncompetitive in the heavy and chemical industrial products market outside the yen bloc? One test is the trend of Japanese exports to China (excluding Manchuria), where during the interwar period there was an increase in imports of heavy and chemical industrial products. If we consider China's imports of machinery, in 1933 Japan already had an 11 per cent share of the total, focussing heavily on spinning and weaving machinery, and this share expanded further. By 1936-38 Japan had made great inroads into the Western countries' share not merely in spinning and weaving machinery but in a wide range of fields, such as electrical machinery, machine tools, electrical goods and metal products. The report of the Maritime Customs for 1936 sees an increase in the numbers of Chinese engineers as one reason for the growth of trade.[18] A very rapid shift of this kind is not found in the heavy and chemical industrial products market as a whole, but it can be said that the trade in machinery represented a new trend.

On the other hand, in India's imports of machinery which were much greater than those of China, the Western countries, especially Britain, maintained their dominance and Japan's share, even at its 1937 height, never went beyond 3 per cent. The main reason for the pre-eminence of the Western countries was that a high proportion of Indian demand was from the jute, sugar and tea industries where

[16] *Ibid.*, 139.

[17] Kazuo Hori, `Ryotaisenkan no Higashi Ajia', 286-88.

[18] China Maritime Customs, *The Trade of China, Annual Report for 1938*, 67.

traditional Western suppliers dominated, but even in the cotton industry, owing to the clout of Lancashire, almost all the spinning and weaving machinery was of British origin. Imports of machinery to Southeast Asia were also considerable, particularly in the Dutch East Indies and British Malaya. Here too, the share of Western countries, especially the country of suzerainty, was large, while Japan's share was negligible.[19] The situation in the machinery field applies more or less to trade in heavy and chemical industrial products as a whole.

Lastly, let us touch on the question of securing natural resources. A variety of factors - investment, markets, emigration, and securing raw materials and other resources - motivated Japan's advance into Manchuria, but, in the 1930s at least, Manchuria, while absorbing vast amounts of capital and manpower, failed to become an adequate supply base for the raw materials and resources needed by Japan. In fact, the latter's need to import these from outside the yen bloc increased. As Toichi Nawa made clear, Japan's main economic motive for the advance into North China was to secure the American-type long-staple raw cotton produced there, and this was also one of the most important reasons why the Chinese spinners of Shanghai and the Nationalist government resisted it. Intra-East Asian competition in the cotton trade was the most important economic factor behind the outbreak of the Sino-Japanese War in 1937. Furthermore, the stronger China's resistance, the heavier Japan's burden became. Even if such conflict had been resolved, Japan would still have been largely dependent on the West for raw fibres and for the raw materials for her heavy and chemical industries. With regard to the latter, she relied on British Malaya and Australia for iron ore, India for pig iron, Canada for aluminum and lead, Canada and Australia for zinc, British Malaya for rubber, and the United States and the Dutch East Indies for oil, and it was practically impossible to envisage autarky while at the same time pursuing rapid heavy

[19] Nanpo Sangyo Gijutsu Yoran Hensankai, *Nanpo Sangyo Gijutsu Yoran (Handbook of Industrial Technology in Southeast Asia)*, (Sankaido: Tokyo, 1944), 358.

and chemical industrialisation.[20] It is well-known that the American oil embargo was an immediate cause behind the outbreak of the Pacific War.

To sum up, the existing international division of labour in Asia was not to provide a basis for the development of Japan's heavy and chemical industries, in terms either of finding markets or securing natural resources. The diversification of Japan's demand for natural resources revealed the limits of dependence on regional trade. On the other hand, if Japan had engaged in real competition with the Western countries throughout the whole Asian market for heavy industrial products, including South and Southeast Asia, this would have meant a fundamental change in the relationship between intra-Asian trade as a regional unit and the trade between the West and Asia which underpinned it as a global force, towards a more equal footing. That would have been politically threatening to the Western countries. Thus the `flying geese' pattern of development was confined to East Asia, and remained part of the Asian international division of labour whose reverse side was the development of primary producer economies in South and Southeast Asia. This represented a fundamental limit to the autonomy of intra-Asian trade.

2. Exchange Rates, Tariffs and Colonialism

After the First World War the power and influence of the West in Asia visibly declined. The acquisition of new territories decreased sharply, and within the colonies the recruitment of native government officials and a degree of transfer of power took place. The forces supporting the Asian free trade sphere shifted at least partially to Japan, to China which had been given tariff autonomy, and to the Straits Settlements which resisted the preferential tariffs plan of Britain at Ottawa. The rise of Asian nationalism gradually changed the system of purely Western-led `forced free trade'. An important consequence of this was that, while the Western countries to some extent succeeded in

[20] Kaoru Sugihara, `The Economic Motivations behind Japanese Aggression in the late 1930s: Perspectives of Freda Utley and Nawa Toichi', *Journal of Contemporary History*, 32, 2 (1997), 259-80.

maintaining their interests in South and Southeast Asia, in East Asia, whose independence was relatively stronger, they effectively ratified its industrialisation. We compare below the changes in the two economic sub-regions, East Asia and South and Southeast Asia, in terms of currency movements and tariffs, and examine the effects of this shift in international power structure on intra-Asian trade. We also discuss the relationship between the formation of trading blocs and intra-Asian trade.

Exchange Rates From the end of the nineteenth century the currencies of most Asian countries became linked to gold in order to facilitate investment in Asia by the Western powers, and Asia appeared split into a silver-using area, centring on China, and the gold standard or gold exchange standard countries. However, from the point of view of the movement of exchange rates which affected intra-Asian competition during the interwar period, it is more important to focus on the contrast between East Asia and South and Southeast Asia. As Figure 6 shows, while the currencies of India, Burma, Thailand, British Malaya and the Dutch East Indies tended to remain steady or to rise against sterling, those of Japan (and the yen bloc), China, Hong Kong and French Indochina displayed a very different movement. In the 1930s there was a great decline relative to sterling (hence also to the dollar).

It is true that the temporary rise in the value of China's currency due to America's silver purchases in the first half of the 1930s worked to the disadvantage of China's exporting interests and import substitution industrialisation. Then in 1935, after the visit of Leith-Ross, China's currency came to be linked, though indirectly, to sterling, and to that extent it seemed as if the interests of Britain and her allies had been secured. But, looking at the movements of the interwar period as a whole, these efforts were more than offset by China's devaluation drive.[21] The movements of China's and

[21] Toru Kubo, 'Heisei Kaikaku Iko no Chugoku Keizai (The Chinese Economy since the Currency Reform)', in Yutaka Nozawa (ed.), *Chugoku no Heisei Kaikaku to Kokusai Kankei* (Tokyo Daigaku Shuppankai: Tokyo, 1981), 107-8.

Japan's currencies were quite similar, and, in spite of the political conflicts between the two countries, there emerged an East Asian `devaluation sphere'.

The divergence in the movements of exchange rates greatly affected the pattern of Asia's international division of labour. It ensured the conditions for import substitution in East Asia, and facilitated exports of East Asian manufactured goods to South and Southeast Asia. The latter in turn received inexpensive manufactured goods from East Asia using the earnings from the exports to the West, thus enjoying the full gains from their trade. For China too, the decision to follow the yen bloc's devaluation was clearly an important factor which enabled her to maintain her international competitiveness in the Asian market. On the other hand, the value of South and Southeast Asian currencies was fixed under the influence of the Western powers. There was no prospect of any government helping the `flying geese' pattern of development spreading to that part of Asia in the 1930s.

Tariff Policy The competition during the second half of the 1920s and the first half of the 1930s between Japan, India and Britain in the Indian market of cotton textiles triggered the formation of trading blocs in Asia. The increase in the 1920s in the exports of cotton textiles from Japan to India attracted the attention of the Indian cotton industry and the colonial government, and as a result of the 1926 Tariff Board report the cotton import duties were raised in 1927. While this reduced the imports of Japanese cotton yarn, low-priced cotton yarn spun in Japanese mills in China and coloured cotton cloths from Japan, both outside the purview of the raised tariff rates, flowed in large quantities. In response the Cotton Industry Protection Law was passed in 1930, which was followed by a series of tariff rises mainly relating to cotton cloth. Although the colonial government had been granted tariff autonomy in 1921, the interests of Britain were inevitably strongly reflected in India's tariff policy, and in the law of 1930 `preferential' tariffs charging lower rates on British goods were introduced. As is well known, this opened the way for the system of preferential tariffs within the British Empire, in other words the formation of trading blocs, at the Ottawa

Conference. However, this law, which was supposed to protect the Indian cotton industry from Japanese competition was not, in the event, able to do so. The composition of Japanese exports shifted from coarse to fine cloth and from plain to bleached, partially usurping the position of British-made cloth, and exports expanded from 1931, taking advantage of yen devaluation. In 1933 the colonial government, in breach of the Indo-Japan Trade Treaty, imposed a prohibitively high duty of 75 per cent on Japanese-made cotton cloth. Japan retaliated with a boycott of Indian raw cotton, precipitating the Indo-Japanese trade negotiations which began in that year. After a series of Japan-India-Britain meetings, a new line was drawn in 1934 based on tariffs and quotas. Further twists and turns followed, but efforts to continue the trade prevailed.[22] In response to the increasingly protectionist stance of China and India, Japan expanded her export horizons to other Asian countries and also as far afield as Africa and Latin America, and this further propagated protectionist reactions in many countries.

In assessing the significance of the above negotiations, it is important to note that Japan's share of India's imports showed a tendency to rise through the 1930s. Even after the Indo-Japanese trade negotiations Japan made inroads in many types of goods in which there was no obvious direct competition with Indian industry or where the tariffs were relatively low. These were mainly light industrial goods, notably rayon textiles and sundries, and included a large number of items too small and too diverse to classify and apply tariff rates effectively to. Meanwhile, the share of Western countries was falling. Also, India's exports to Japan did not expand as much as her imports from there, while India's exports to the West continued to account for the

[22] Haruka Yanagisawa, `Daiichiji Nichi-In Kaisho o meguru Ei-In Kankei (Anglo-Indian Relations in the First Indo-Japanese Trade Negotiations)', *Keizai to Boeki*, 129 (1980), 30-47. Hiroshi Nishikawa, *Nihon Teikoku Shugi to Mengyo*, Chapter 5. Naoto Kagotani, `Nichi-In Kaisho (1933-34) no Rekishiteki Igi— 1930-nendai Zenhan no Nihon Mengyo to Seifu— (The Historical Significance of the Indo-Japanese Trade Negotiations of 1933-34: [The Relationship between] the Japanese Cotton Industry and the Japanese Government in the First Half of the 1930s", *Tochi Seido Shigaku*, 117 (1987), 22-39. B. Chatterji, *Trade, Tariffs, and Empire: Lancashire and British Policy in India, 1919-1939*, (Oxford University Press: Dehli, 1992), Chapters 8 and 9.

overwhelming majority of her exports. Similarly, after the Dutch-Japanese trade negotiations of 1934, which were held in parallel with the Indo-Japanese negotiations, Japan's share of the Dutch East Indies' imports, though declining slightly, did not return to the pre-1930 level. More generally, the framework of free trade was maintained in other Southeast Asian countries.[23] In other words, the formation of trading blocs in South and Southeast Asia served the purpose of drawing the lines in a struggle for the share between the imperialist powers to some extent, but did not destroy intra-Asian trade. Rather, it was the latter, represented in the will to secure and develop the export economies of primary products, rather than the interests of Western industry or of colonies' domestic industry, that prevailed.[24]

Why did the logic of free trade prevail under colonialism? One reason was the importance and visibility of the gains from trade. Japan was the largest customer for India's raw cotton and also an important export destination for her pig iron. Imports of Japanese cotton goods and sundries were desirable for Indian consumers, and imports of Japanese textile machinery were desirable for the development of the Indian cotton industry, so long as the Japanese products did not directly compete with Indian goods. In the Dutch East Indies too, the Javanese batik industry was using imported Japanese-made cambric, and Japan received some support from the local industry in her attempt to halt the move to import restrictions.[25] However, perhaps a more important

[23] Denis Soo Jin Koh and Kyoko Tanaka, 'Japanese Competition in the Trade of Malaya in the 1930s', *Southeast Asian Studies*, 21, 4 (1984), 374-99. Nihon Biruma Kyokai, *Nihon Biruma Shin Tsusho Joyaku oyobi Menpu Giteisho to Saikin no Biruma Jijyo (The New Commercial Treaty and the Cotton Textiles Agreement between Burma and Japan and the Recent Situation of Burma)*, (Tokyo 1937), 1-34. Yoshiro Umino, 'Nihon to Indoshina no Boeki Masatsu (The Trade Conflict between Japan and French Indochina)', in Chihiro Hosoya (ed.), *Taiheiyo·Ajia ken no Kokusai Keizai Hunsoshi* (Tokyo Daigaku Shuppankai: Tokyo, 1983), 41-64.

[24] It has been sugggested that Britain was rather slow in pursuing the export market for India, as is seen in her attitude towards the exploration of the Manchurian market. See Yanagisawa, 'Daiichiji Nichi-In Kaisho', 44-45. While it is true that Britain suggested giving up the Manchurian market in exchange for imperial protection during the negotiations, it must also be noted that these proposals were eventually withdrawn.

[25] Yoshitada Murayama, 'Daiichiji Nichi-Ran Kaisho—Nihon no Yuwateki Keizai Shinshutsu no Tenkanten (The First Dutch-Japanese Trade Negotiations: A Turning Point of the Japanese Appeasement

underlying cause lay in the fact that the economic purpose of the British rule in India was basically to ensure smooth payment (of interest, home charges, etc.) from India to Britain, and the adoption of a sound monetary policy was essential.[26] While devaluation of the yen helped the maintenance of Japanese exports in the South and Southeast Asian markets, it must not be forgotten that the rupee was revalued against sterling in 1924 and, despite the repeated demands for devaluation made by Indian capitalists, it remained fixed at a high level throughout the 1930s (see Figure 7).[27] Lancashire was entirely left out of the picture in monetary policy decisions.[28] In other words, the formation of trading blocs was only a part of an overall British strategy for protecting the empire as a whole. Taking an integrated view of Britain's interests in India, it is not surprising that financial and service interests were given priority. A similar argument on the dominance of financial considerations in the Dutch East Indies' economic policy has been recently put forward by Naoto Kagotani.[29]

By contrast, China was starting to adopt a genuine policy of industrialisation. Her industrial policy programme included promotion of invention, promotion of trade, establishment of financial institutions for commerce and industry, organisation and improvement of trade associations, and arbitration between capital and labour.[30] Also, responding to the demands from industrial capitalists, the Nationalist government,

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Policy of Economic Expansion)', in Hajime Shimizu (ed.), *Nihon-Tonan Ajia Kankeishi* 1: *Ryotaisekanki Nihon-Tonan Ajia Kankei no Shoso* (Ajia Keizai Kenkyusho: Tokyo, 1986), 87-117.

[26] A.G. Hopkins, *British Imperialism: Crisis and Deconstruction, 1914-1990* (Longman: London, 1993), 177.

[27] B.R. Tomlinson, *The Political Economy of the Raj, 1914-1947: The Economics of Decolonization in India* (Macmillan: London, 1979), 73-78.

[28] J.D. Tomlinson, 'The Rupee Pound Exchange in the 1920s', *Indian Economic and Social History Review*, 15-2 (1978), 145.

[29] Naoto Kagotani, 'Japanese Cotton-textile Diplomacy in the 1930s', paper presented to the workshop 'Britain and East Asian International Relations in the 1930s', 11th November 1996 at the Osaka University of Foreign Studies.

[30] Mantetsu Chosaka, *Kokumin Seifu no Sangyo Seisaku (The Industrial Policy of the Nationalist Government)*, (publisher and place of publication unknown: 1930), 81-84.

taking advantage of the conflict of interests of the great powers, from 1927 gradually gained tariff autonomy, and pursued a policy of protective tariffs for industrialisation.[31] In sum, the tariff policy, instead of remedying the distortion caused by the split movement of exchange rates, actually worked to aggravate it.

Colonialism Among the imperialist powers there were two different approaches to their colonies, the Japanese/American, which asserted strong ties with the suzerain country, and the British/Dutch, which should be called free trade imperialism.[32] The latter represented the mainstream in Asia, which is why we have argued that the formation of trading blocs was an attempt to reorganise, rather than deny, intra-Asian trade to protect the interests of the suzerain country. For Korea, Taiwan and the Philippines, trade more or less meant trade with the suzerain country. But for India, Burma, British Malaya or the Dutch East Indies, trade with the suzerain country was a very small proportion of the colony's total trade (see Table 2). The policy aim of the powers adopting a British/Dutch type arrangement was retention of their economic interests under changing trade relations, rather than isolation. The contrasting imperialist policies affected the ways in which colonies were integrated into intra-Asian trade. We examine below the cases of India and Japanese colonies.

Although India has a long history of industrial policy dating back to the nineteenth century, she never had a comprehensive industrialisation strategy equivalent to that of Japan or China. Quite apart from the predominance of financial considerations in British policy, there were other hindrances to the implementation of industrial policy for Indian industry. For example, in spite of the fact that the spread of new textile

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[31] Toru Kubo, 'Nankin Seifu no Kanzei Seisaku to sono Rekishiteki Igi (Tariff Policy of the Nationalist Government and its Historical Significance)', *Tochi Seido Shigaku*, 86 (1980), 38-55. Ditto., '1930-nendai Chugoku no Kanzei Seisaku to Shihonka Kaikyu (China's Tariff Policy in the 1930s and the Capitalist Class)', *Shakai Keizai Shigaku*, 47, 1 (1981), 42-64. Ditto., 'Kokumin Seifu ni yoru Kanzei Jishuken no Kaihuku Katei (The Nationalist Government's Road to Tariff Autonomy)', *Toyo Bunka Kenkyusho Kiyo*, 98 (1985), 347-93.

[32] This classification is based on the degree of colonial (trade) ties with the suzerain country. In terms of the suzerain country's commitment to free trade, however, Japan rather resembles Britain. See below.

machinery in India was generally slow,[33] the 1932 India Tariff Board took a negative attitude towards the adoption of powerlooms, arguing that diffusion of powerlooms was not appropriate for India where standardisation was not in progress, and that according to the comparative experiments conducted in Lancashire powerlooms had been found more costly than existing machines. This was in spite of the comment by Arno Pearce, general secretary of the International Master Cotton Spinners' and Manufacturers' Association in Manchester and a most informed observer, that Toyoda automatic powerlooms had been tried in Madras with success.[34] In the experiments cited as evidence, only British-made machines of poor efficiency were used, and ones of Japanese or European manufacture were never considered. It is clear from this and other episodes that in India where people were accustomed to copy what was done in Lancashire, there was an atmosphere of acceptance of such pronouncements.[35] In 1934 a temporary increase in imports of Japanese spinning machines was reported but there was in the end no great diffusion of Japanese textile machinery of any kind.

By contrast, it would seem at first sight that Japan's colonies, with the advantage of currency devaluation and the strong links with the colonial power's growing economy, developed at a rapid pace and experienced progress in industrialisation. However, a strong tie with Japan cannot be viewed as a result of the working of natural market forces. While in the process of her own modernisation Japan operated as a `rational shopper', selectively importing technology and organisations from the West, she hardly permitted her colonies any direct trade with the West. Figures for Korea's and Taiwan's trades with other Asian countries were also very small. In the 1930s Korea and Taiwan had the potential to expand exports by taking advantage of the

[33] Yukihiko Kiyokawa, `Technical Adaptations and Managerial Resources in India: A Study of the Experience of the Cotton Textile Industry from a Comparative Viewpoint', *Developing Economies*, 21, 2 (1983), 97-133.

[34] *Report of the Indian Tariff Board Regarding the Grant of Protection to the Cotton Textile Industry* (Calcutta, 1932), 65-67. Arno S. Pearse, *The Cotton Industry of India* (International Federation of Master Cotton Spinners' and Manufacturers' Associations: Manchester, 1930), 9.

[35] A.K. Bagchi, *Private Investment in India* (Cambridge University Press: Cambridge, 1972), 255-56.

currency devaluation and of investment and imports of machines from Japan, in the same way as China did. Indeed Korea's and Taiwan's exports to Manchuria increased during that decade, but exports to regions of Asia outside the yen bloc did not expand much, and neither colony entered directly into the world of intra-Asian competition. While Japan herself penetrated into China and the Western countries' colonies in South and Southeast Asia, trading blocs meant real blocs for Korea and Taiwan, in the very period when the possibility of export-led industrialisation existed. This clearly restricted the natural development of intra-Asian trade and impeded the dynamism arising from intra-Asian competition. Bearing in mind the development since the Second World War it is appropriate to emphasise how costly this aspect of formation of trading blocs was for the colonised, as well as for intra-Asian dynamism as a whole.

In the sense that the stagnation of Indian industry and the industrialisation of Korea and Taiwan were both results of policies designed to further the interests of the suzerain country, they had the same effect of distorting the natural development of Asia's international division of labour. By the 1930s the international order under imperialism was beginning to show its inability to embrace the full potential of intra-regional trade driven by East Asia's industrialisation.

3. The Nature of Japanese Imperialism

From the above discussion three points could be made with regard to the historiography of Japanese imperialism. First, since the days of the Marxist debate on the nature of Japanese capitalism in the 1930s, there has been a hesitation to refer to the positive aspects of the integration of Asian economies for fear of seeming to be trying to justify Japanese expansionism. Attention has been focussed on conflicts rather than cooperation, and particularly on the role of the state and the formation of trading blocs. Thus the role the powerful network of overseas Chinese communities in Southeast Asia played was overlooked, and the world system came to be perceived merely as a collection of nation states or imperial blocs. As a result Asia's relative economic independence from the West and the region's interconnectedness went unnoticed, and

Asian international economic history has been written as if all the major forces and changes could be summarised in terms of the contrast between the economic fragility of Japan which needed economic interdependence and the legitimacy of the Chinese Communist Party's determination to cut off such a linkage. It must be pointed out that behind this bias was the political and intellectual influence of the Comintern and the international communist movement in general.

However, the increase of economic interdependence within Asia had the positive side of moderating the effects of the great depression, realising gains from trade, and promoting industrialisation. Unless this aspect is recognised, it is impossible to establish the importance of the question of how Asia's international economic cooperation could have been achieved. The lack of a methodological framework within which to discuss this issue seems to me to have constituted a critical weakness shared by both Japanese academia and the idea behind Mao Zedong's revolution.

Secondly, although Japanese imperialism did not have the power by itself to create an international order underpinning intra-Asian trade, it did play an important role in maintaining it through both its cooperation with and its resistance to the Western powers. In the first half of the 1930s two competing programmes were actively pursued, partly in opposition to each other but also in practice complementing each other. One was the idea of developing the yen exchange bloc originating from Junnosuke Inoue,[36] and the other of the expansion of the yen bloc backed by military force. The former was designed to build an international order which would secure a relationship between Japan and the overseas Chinese trading network as the core of the Asian international division of labour. In more general terms it was to create an order under which economic interdependence between East Asia and South and Southeast Asia could be ensured. The latter pursued, more directly, a fuller integration of East Asian economies.

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[36] Masayoshi Tsurumi, `En-kawaseken Koso to sono Genjitsu—Daiichiji Taisenki ni okeru Teikoku Nihon no Taigai Seisaku (The Programme for the Yen-exchange Bloc and its Implementation: Imperial Japan's External Policy during the First World War)', *Keizaigaku Zasshi*, 67, 3 (1972), 43-65.

As is clear from the account given in this paper, each programme had its economic basis, and in considering the nature of Japanese imperialism both aspects must be understood in a coherent way. Put simply, it was an `imperialism of free trade',[37] aiming at free trade if possible, but ready for territorial expansion if necessary. It should of course be noted that, unlike Britain, Japan was a minor imperial power, and its inclination to free trade was dependent on the international order led by the Western powers. Thus it was crucially important for Japan to maintain the international division of labour in Asia by means of cooperation with the West. The strategy was to expand the yen bloc while also maintaining and expanding the yen exchange bloc. One cannot understand this position of Japan if one restricts the study of Japanese imperialism to the formal empire consisting of Korea, Taiwan and others and the informal empire represented by Manchuria.[38]

Furthermore, the relative increase in Japan's economic influence inside the Western countries' colonies to some extent justified this Japanese stance, and gave Japan sufficient pull to put pressure for a practical compromise on the formation of trading blocs by the Western powers. In the existing literature, Japan's dependence on the market inside the British empire has been understood as a reflection of Japan's vulnerability. In fact the colonial dominance of the West at this period was weakening and maintenance of economic relations with Japan, provided their colonial rule was not threatened, was considered desirable. For example, the colonial government of British Malaya, while outwardly condemning Japan's invasion of China, from the viewpoint of guarding the colony's economic interests took an attitude of indifference to overseas Chinese sending money to help resistance in China and to the boycott of Japanese

[37] J. Gallagher and R. Robinson, `The Imperialism of Free Trade', *Economic History Review*, 2nd series, 6, 1 (1953), 1-15.

[38] Against the background of a rapid increase of Japanese exports to Southeast Asia, the trade settlement mechanism through the yen-exchange bloc did become more important in the first half of the 1930s. See Tatsuyuki Yoshihara, "Senkanki Nihon no tai 'Nanpo' Boeki Kinyu no Kozo—Yokohama Shokin Ginko, `Taiwan Ginko o chushinni (The Structure of Japanese Trade Finance in Southeast Asia in the Interwar Period: With reference to the Yokohama Specie Bank and the Taiwan Bank)', in Hajime Shimizu (ed.), *Nihon·Tonan Ajia Kankeishi 1*, 202.

goods.[39] In other words, in the Asia of the 1930s, Japan practised a system of `one-sided penetration' into the Asian markets. The strength of intra-Asian trade was both a cause and a result of this shifting balance of power in the international order.

However, third, formation of a political order which would support a long-term development of intra-Asian trade would have had to permit a natural `flying geese' pattern of development of all countries of Asia, and in the end that was not possible without their independence. It was in this point that the ultimate basis of the inability of Japanese imperialism to link itself with Asia's economic nationalism lay. During the 1930s, neither the West nor Japan showed any will to promote a `flying geese' pattern of development of the countries in South and Southeast Asia. At the Great East Asia Conference of 1943 Japan proposed independence for the peoples of Asia, which had not been included on the Atlantic Charter, but it was at a moment when the war was going badly for Japan, and this was little more than propaganda.

In the 1930s Japan tried to promote industrialisation in Korea and Manchuria, but the rapid industrialisation within the yen bloc and the restraint put on industrialisation in South and Southeast Asia were both the result of the suzerain countries, in pursuit of their own gain, imposing an imperialist international order on their colonies. To enable a further development of intra-Asian trade, the formation of a system fully compatible with industrialisation-led trade was necessary, and under such a system each Asian country would have been pursuing import substitution policies by currency devaluation and by setting up tariff protection for infant industries, as well as by implementing industrial policy. The Chinese case can be said to have realised that potential to some extent, but even there China's ability to execute such policies as an independent nation was severely restricted.

[39] Mantetsu Toa Keizai Chosakyoku, `Eiryo Mare, Biruma oyobi Goshu ni okeru Kakyo (The Overseas Chinese in British Malaya, Burma and Australia)', *Nanyo Kakyo Sosho* 5 (Mantetsu Toa Keizai Chosakyoku: 1941), 582-90.

Most Asian countries achieved independence after passing through the Second World War and various vicissitudes under the Cold War regime, and eventually gained the right to decide their own economic policy. Postwar independence was a necessary, though by no means sufficient, condition for the smooth development of industrialisation-led trade. The growth of intra-Asian trade during the interwar years exposed the significance of the role of the nation state for economic development, thereby paving the way for political change.

STATISTICAL NOTES

General

• Definition of trade: Private merchandise trade, excluding re-exports, has been preferred. Treasure and government trade are omitted.

• Territorial definitions: Priority was given to chronological consistency, and accurate naming was sometimes sacrificed for reasons of simplicity (e.g. Manchuria throughout rather than Manchukuo). Burma, though she becomes independent in 1937, is treated here as if she had been independent throughout. Hence the coastal trade between British India and British Burma is included in intra-Asian trade. All the trade between the five Southeast Asian countries (see Figure 1) is excluded from intra-Asian trade, partly to bypass the complications arising from territorial changes in what later became British Malaya, and partly to avoid the double-counting of Southeast Asia's trade with other regions via the Straits Settlements. My estimate of a `genuine' intra-Southeast Asian trade, including both direct trade and trade via the Straits Settlements [say between Burma and the Dutch East Indies] but excluding trade between the Straits Settlements and other parts of Malaya, for the year 1913 for example, is £9 million. This may be legitimately added to the total figure of intra-Asian trade. Similarly, China and Hong Kong are treated as one unit, and the trade between them is not counted. After 1933 Manchuria's trade disappears from the Chinese Maritime Customs' figures, so I have added to them the statistics collected by the new government of Manchukuo. However, the trade between China and Manchuria is not counted. The total trade figures for

China in Table 1 derive mostly from Chinese official figures, while the figures for China's trade with Asian countries are estimated from other countries' data, including Japan's. Since the latter includes smuggling while the former does not, the sum of China's trade with the West and China's trade with Asian countries sometimes exceeds the total trade figure.

• FOB-CIF conversion: All the calculations that do not specifically state whether they refer to exports or imports, such as `value of intra-Asian trade' are based on export figures in FOB prices. Wherever export figures are unavailable and import figures were used instead, I converted them to export figures, assuming that the latter would be 93 per cent of the former, that is, assuming that the cost of freight and insurance would be approximately 7 per cent of the FOB value of the merchandise. This is an important assumption behind my estimate of geographical composition of China's trade.

• Exchange rates: An annual average figure for direct exchange rates between local currency and sterling from official trade statistics has been preferred. Some of them differ significantly from the rates converted via the dollar, which is sometimes used in the League of Nations studies.

• Share in world trade: The League of Nations studies were inconsistent in their views on intra-yen-bloc trade. They often ignored this segment of intra-Asian trade altogether, as a result of which the volume of intra-Asian trade was grossly underestimated. For example, if we use figures in *The Network of World Trade* (1942), the share of intra-Asian trade in world trade changed only from 6.3 per cent in 1928 to 6.4 per cent in 1938.

India and Burma

• Trade statistics: *Annual Statement of the Sea-borne Trade of British India* (Department of Commercial Intelligence and Statistics, India). *Annual Statement of the Sea-borne Trade and Navigation of Burma* (The Superintendent Government Printing, Rangoon). For Burma's trade for 1937-9, see *ibid.* for the year 1945-46. Before 1932 the total coastal trade figures included intra-Burmese trade, so they were deducted from the calculation.

• Exchange rates: *Statistical Abstract for the Several British Oversea Dominions and Protectorates*. *Statistical Abstract for the British Empire*. *Statistical Abstract for the British Commonwealth*.

Siam

• Trade statistics: *Foreign Trade and Navigation of the Port of Bangkok* (Statistical Office, H.S.M. Customs, Bangkok). *Foreign Trade and Navigation of the Kingdom of Siam*. *Annual Statement of the Foreign Trade and Navigation of the Kingdom of Siam*. *Annual Statement of the Foreign Trade and Navigation of the Kingdom of Thailand*. Includes re-exports. Figures to 1928 are for Bangkok only. However, 80 to 90 per cent of the trade went through the port of Bangkok. Total figures are available from 1920, but were not used here for the geographical composition was not found.

• Exchange rates: The same sources were used except for 1931 and 1932 when official rates diverged significantly from the market rates. For these years I made an estimate on the basis of the gold parity ratio contained in League of Nations, Economic Intelligence Service, *Statistical Year-book*, 1937/38, 226-35.

British Malaya

• Trade statistics: For 1913 to 1920, I have used *Statistical Abstract for the Several British Oversea Dominions and Protectorates*, 1924, and supplemented it wherever necessary by *Colony of the Straits Settlements Blue Book* (Government Printing Office, Singapore). For 1921 to 1937, *British Malaya, Return of Imports and Exports* (Government Printing Office, Singapore), and for 1938 to 1939, *Malaya, The Foreign Trade of Malaya* (Government Printing Office, Singapore). For 1913 to 1917, figures refer to the Straits Settlements only. For 1918 to 1920 they refer to the total trade of the Straits Settlements and the Federated Malay States (FMS). For 1921 to 1939 they refer to the total trade of the Straits Settlements, FMS and the Unfederated Malay States. All the trade between these three territorial units were omitted. Separate figures exist for FMS for 1907 to 1917, but they were not used here, for FMS's direct trade with countries outside Southeast Asia was negligible.

• Exchange rates: As per India and Burma.

French Indochina

• Trade statistics: For 1913-32, *Bulletin Économique De L'Indochine* (Direction Des Affaires Économiques, Gouvernement Général De L'Indochine, Hanoi). For 1933-4, *Commerce Extérieur De L'Indochine* (Administration Des Douanes et Régies Republique Francaise Gouvernement Général De L'Indochine, Hanoi). For 1935-9, *Annuaire Statistique De L'Indochine* (Direction Des Affaires Économiques et Administratives Bureau De La Statistique Général, Gouvernement Général De L'Indochine, Hanoi).

• Exchange rates: For 1913-22, *Rapport An Ministre Des Finances* (Administration Des Monnaies et Médailles, Paris). For 1923-39, *Annual Statistique De L'Indochine*. In the latter source, the rate at Saigon was used.

The Dutch East Indies

• Trade statistics: For 1913-25, *Statistiek van den handel de Scheepvaart en de in-en vitvoerrechten in Nederlandsch-Indie* (Departement van Landbouw, Nijverheid en Handel, Batavia). For 1926-39, *Jaaroverzicht van den in-en uitvoer van Nederlandsch-Indie* (Departement van Economische Zaken, Batavia).

• Exchange rates: P. Creutzberg and J. I. M. van Laanen (eds), *Changing Economy in Indonesia: A Selection of Statistical Source Material from the early 19th Century up to 1940, Vol. 6, Money and Banking, 1816-1940* (The Hague, 1980) 126-9.

China

• Trade statistics: China Imperial Maritime Customs, *Returns of Trade and Trade Reports* (title changes). The currency unit was Haikwan tael until 1932 when it was changed to yuan or standard dollar. *Manshukoku Gaikoku Boeki Tokei Nenpo*.

• Exchange rates: Liang-lin Hsiao, *China's Foreign Trade Statistics, 1864-1949* (Cambridge University Press: Cambridge, 1974). Hsiao chooses the market rate, rather than the official rate for 1938-9, which is followed here. For Manchuria, the currency was first converted to Japanese yen, using the rates in Manshu Chuo Ginkoshi

Kenkyukai (ed.), *Manshu Chuo Ginkoshi - Tsuka, Kinyu Seisaku no Kiseki* (Toyo Keizai Shinposha, 1988), and then was further converted to sterling, using Japanese exchange rates.

Hong Kong

• Trade statistics: The figure for the total trade of China comes from the Chinese Maritime Customs data (plus Manchuria's), which includes China's trade with Hong Kong. That is, we treat China's trade as if it were the trade of China and Hong Kong. China's trade with Hong Kong was very large, and most of it was re-exported from Hong Kong to other countries or was originally imported from countries other than Hong Kong. Thus I have attempted to estimate the 'real' geographical composition of China's trade with Hong Kong, i.e., the final destination of China's exports to Hong Kong and the countries of origin of China's imports from Hong Kong. Separate trade statistics for Hong Kong exist for 1918 to 1924 and for 1931 to 1938 in Hong Kong's *Blue Books*, and have been used for this purpose. For other years, figures have been created, taking into account the general trend obtained from the Hong Kong statistics mentioned above, information from other countries' trade statistics regarding their trade with Hong Kong, and information on Hong Kong's own production and consumption.

• Exchange rates: As per China.

Japan

• Trade statistics: *Dainihon Gaikoku Boeki Nenpyo*. *Teikoku Tokei Nenkan*. I have used the total figures in Ippei Yamazawa and Yuzo Yamamoto, *Choki Keizai Tokei 14: Boeki to Kokusai Shushi* (Toyo Keizai Shinposha, 1979), which exclude the trade with unknown destination or countries of origin, and therefore are slightly smaller than the usually cited figures. I have not made FOB-CIF adjustments regarding Japan's trade with Korea and Taiwan, following the usual practice.

• Exchange rates: Yamazawa and Yamamoto, *Choki Keizai Tokei 14*.

Korea and Taiwan

- Trade statistics: *Teikoku Tokei Nenkan*. Toshiyuki Mizoguchi and Mataji Umemura eds, *Kyu Shokuminchi Keizai Tokei: Suikei to Bunseki* (Toyo Keizai Shinposha, 1988).
- Exchange rates: Their currencies moved with the Japanese yen.

FIGURE 3
Trends in Intra-Asian Trade, 1913-1939 (£million)

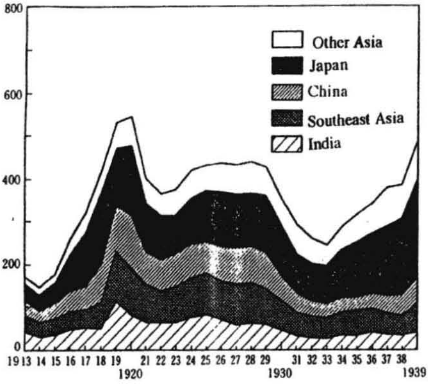


FIGURE 6
Exchange Rates of Asian Countries against Sterling, 1913-1939

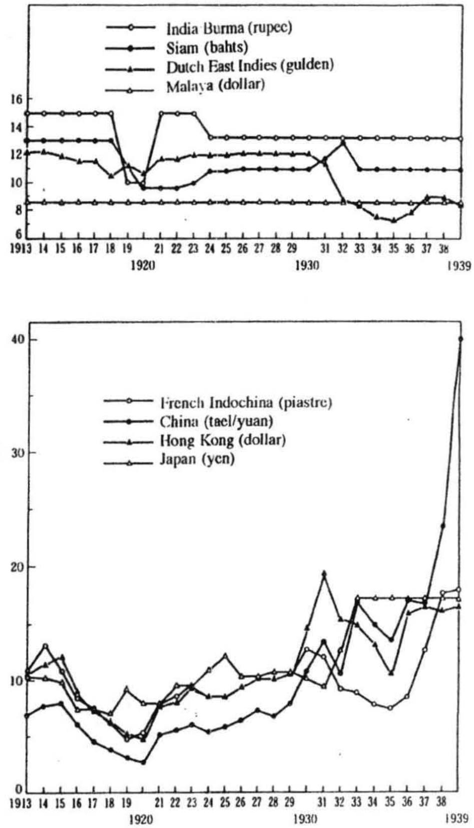


FIGURE 4
Trends in Asia's Exports to the West, 1913-1939 (£million)

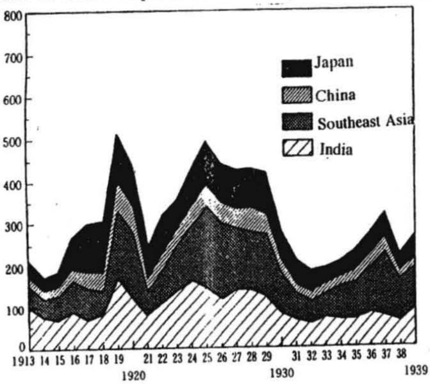


FIGURE 5
Trends in Asia's Imports from the West, 1913-1939 (£million)

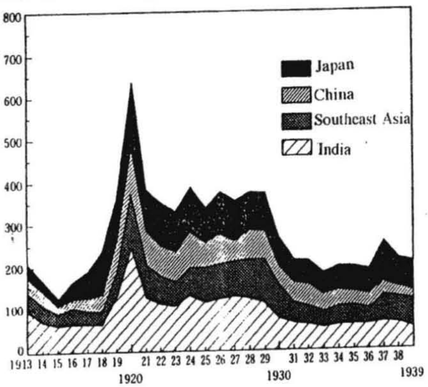


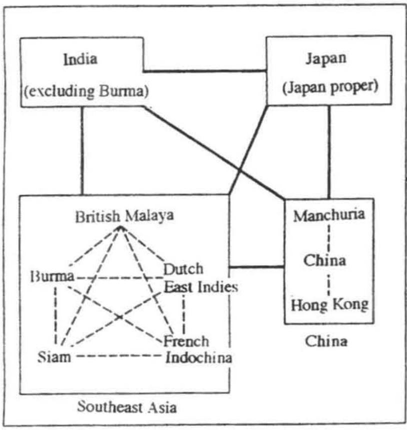
TABLE 2
Proportion of Trade with the Suzerain Country in Asian Colonies, 1928, 1938 (per cent)

	suzerain country	1928 exports	1928 imports	1938 exports	1938 imports
India	Britain	24	39	34	31
Burma	Britain	8	26	13	19
British Malaya	Britain	12	16	15	19
French Indochina	France	21	41	47	52
Dutch East Indies	Netherlands	17	18	20	22
Philippines	USA	75	62	78	70
Korea	Japan	91	71	78	85
Taiwan	Japan	87	69	89	83

TABLE 1
Geographical Composition of Intra-Asian Trade, 1913, 1928, 1938 (£million)

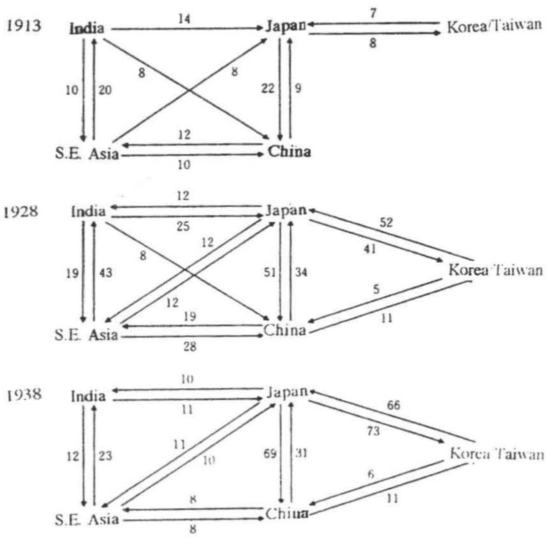
		1913 West	1913 Asia	1913 Total	1928 West	1928 Asia	1928 Total	1938 West	1938 Asia	1938 Total
India	ex	96.01 (63)	41.85 (27)	152.69 (100)	135.93 (58)	65.52 (28)	232.92 (100)	63.93 (52)	33.07 (27)	122.12 (100)
	im	91.55 (75)	26.61 (22)	122.25 (100)	118.36 (59)	64.46 (32)	200.43 (100)	54.14 (47)	40.91 (36)	114.27 (100)
Southeast	ex	56.83 (55)	42.17 (41)	104.05 (100)	142.42 (53)	90.92 (34)	269.44 (100)	94.22 (51)	46.40 (25)	183.37 (100)
Asia	im	48.04 (58)	31.66 (38)	82.50 (100)	96.84 (56)	59.13 (34)	173.10 (100)	63.90 (55)	35.73 (31)	115.99 (100)
China	ex	29.17 (48)	31.41 (52)	60.92 (100)	56.80 (39)	84.23 (58)	144.93 (100)	19.11 (29)	47.35 (72)	66.18 (100)
	im	38.51 (45)	53.38 (62)	86.13 (100)	72.45 (41)	104.70 (60)	174.85 (100)	26.31 (25)	92.66 (87)	106.97 (100)
Japan	ex	33.05 (45)	36.49 (50)	72.64 (100)	93.03 (41)	120.71 (53)	228.74 (100)	38.18 (17)	170.12 (74)	230.75 (100)
	im	33.98 (43)	42.03 (53)	78.82 (100)	93.23 (36)	138.37 (53)	260.18 (100)	69.92 (32)	125.86 (57)	221.32 (100)
Total	ex	215.06 (55)	151.92 (39)	390.30 (100)	428.18 (49)	361.38 (41)	876.03 (100)	215.44 (36)	296.94 (49)	602.42 (100)
	im	212.08 (57)	153.68 (42)	369.70 (100)	380.88 (47)	366.66 (45)	808.56 (100)	214.27 (38)	295.16 (53)	558.55 (100)
Total Intra-Asian Trade (1)			167.30			434.96			381.63	
Total World Trade (2)			4,020.06			6,725.02			4,646.29	
(1)/(2)			4.16%			6.47%			8.21%	

FIGURE 1
The Definition of Intra-Asian Trade



Note: The trades between boxed areas, indicated in bold lines, are defined as intra-Asian trade in this paper.

FIGURE 2
Matrix of Intra-Asian Trade, 1913, 1928, 1938 (£million)



Note: Trade links with more than £5 million are listed in FOB terms.

3. ARAB ENTREPRENEURS IN THE MALAY WORLD IN THE 1930S RECESSION

William Gervase Clarence-Smith

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Arab entrepreneurs faced a new challenge in the deep depression of the early 1930s. Almost all from Hadhramaut in south-central Arabia, they had been on the defensive since the 1880 against a rising tide of Chinese competition in the Malay World (modern Indonesia and Malaysia). Broadly speaking, three types of reaction to the 1930s recession can be distinguished. Some individuals and firms went bankrupt, others weathered the storm with reduced incomes, while yet others took advantage of the recession to expand and diversify their enterprises.

The economic disadvantages of recession are all too clear, but the corresponding opportunities are often forgotten. On the one hand, the purely economic impact is that most factors of production become extremely cheap, notably land, labour and machinery. Money is the great exception to this rule, recessions favouring those with reserves, or at least few debts. On the other hand, economic rents are created for political and social reasons. In the case of Arab entrepreneurs in 1930s Southeast Asia, one such rent was created by official policies of import substitution under the protection of tariffs and quotas, in response to falling export revenues and swelling unemployment. Another rent derived from deepening Chinese boycotts of Japanese business, as Japanese aggression against China escalated, working to the particular benefit of Arabs and Indians.

1. The `Japanese connection' and the commercial and shipping sectors

As Chinese boycotts intensified, Japanese firms adopted a two-pronged response. They sought to extend their own distribution networks, through agencies or Japanese settlers. This was a frustratingly slow process, however, so Japanese firms also attempted to sell through non-Chinese distributors.[1] In 1928, a Japanese newspaper published in Batavia called for the elimination of Chinese intermediaries and their replacement by European, indigenous and Arab merchant houses. In that year, the allegedly Arab owner of the Rasjid Kanaeka Trading Company of Sibolga in Sumatra, went to Japan to enquire about importing Japanese products directly.[2] Japanese reliance on non-Chinese intermediaries increased greatly after the Mukden incident in 1931. Boycotts were especially marked in Singapore, Sumatra and West Java. The cost of Japanese goods and freight rates also fell steeply after the devaluation of the Yen. By 1934, some 500 Indian firms had established agencies or branches in Japan itself, although it is not clear whether Arabs followed suit.[3]

What little remained of Hadhrami shipping was temporarily propped up by the Japanese. Some Arabs and Chinese operating small oil-fired coastal vessels in eastern Indonesia's copra trade were persuaded in 1935 to give up their activities. In return, they received shares in the monopolistic Dutch KPM's newly founded subsidiary for Sulawesi, the Celebes Kustvaart Mij. Other Arabs, however, teamed up with Japanese interests to form the rival Molukken Kustvaart Mij., which allowed the Japanese to evade new regulations banning foreign flags in the coastwise trade. However, Dutch refusal to grant seaworthiness certificates to several ships forced the Molukken Kustvaart Mij. to sell out to its Dutch rival in 1939.[4]

Textiles were at the heart of the Hadhrami-Japanese alliance, for Arab traders were even more specialised in selling imported cloth than their Chinese competitors,

[1] W.J. Cator, *The Economic Position of the Chinese in the Netherlands Indies* (Basil Blackwell: Oxford, 1936), 76.

[2] Peter Post, 'The Formation of the Pribumi Business Elite in Indonesia, 1930s to 1940s', *Bijdragen tot de Taal-, Land- en Volkenkunde*, 152 (1996), 4, pp. 87, 93. This individual may have been an Indian Muslim.

[3] Peter Post, 'Japan and the Integration of the Netherlands East Indies into the World Economy, 1868-1942', *Review of Indonesian and Malaysian Affairs*, 27 (1993), 1-2, 149-50, 159 (n. 19).

[4] Howard Dick, *The Indonesian Interisland Shipping Industry* (ISEAS: Singapore, 1987), 10-11.

at least in eastern Indonesia.[5] `Indians along with some Arab dealers' became the chief distributors of Japanese piece goods in Singapore, a position consolidated by British quotas in 1933.[6] Arab and `native' merchants were the great beneficiaries of Chinese boycotts in Java and Sumatra, where Indians were not well represented.[7] Official attempts to protect Dutch traders from 1934 appear to have had little impact beyond the cartel of five direct importers in the main ports.[8]

Arabs mainly sold *sarong*, haberdashery, and *batik*, especially the latter.[9] Their *batik* trading was concentrated in the three Javanese towns of Surakarta, Pekalongan and Surabaya by the end of the 1930s.[10] Business must have been good for some, for Sayyid H. bin Husayn b. Shihâb, a major Pekalongan trader in *batik* and checked cloth, endowed a *waqf* (charitable trust) for the Madrasah Arabiyah Islam school in the Arab quarter of the town in 1935.[11]

While some Arabs did well, others were hard hit by the recession. Bankruptcies were commonly caused by advancing textiles and other goods to hawkers, usually poorer Arabs, who peddled them in villages as the first step on the commercial ladder.

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[5] Gerrit Kuperus, *Het cultuurlandschap van West-Soembawa* (J.B. Wolters: Groningen & Batavia, 1936), 120-2; R.R.F. Habiboe, `De economische ontwikkeling van de Molukken 1900-1938', in Clemens, A.H.P., and Lindblad, J.T., eds., *Het belang van de Buitengewesten, economische expansie en koloniale staatsvorming in de Buitengewesten van Nederlands-Indië, 1870-1942* (NEHA: Amsterdam, 1989), 270.

[6] W.G. Huff, *The Economic Growth of Singapore: Trade and Development in the Twentieth Century* (Cambridge University Press: Cambridge, 1994), 266-9.

[7] Post, `Japan and the Integration of the Netherlands East Indies into the World Economy', 149-50; Chantal Vuldy, *Pekalongan: batik et islam dans une ville du nord de Java* (EHESS: Paris, 1987), 137; Clifford Geertz, *Peddlers and Princes: social development and economic change in two Indonesian towns* (University of Chicago Press: Chicago, 1963), 12-13.

[8] Vuldy, *Pekalongan*, 138.

[9] W.H. Ingrams, *A Report on the Social, Economic and Political Conditions of the Hadhramaut* (HMSO: London, 1937), 147, 150; Ingrams, *Arabia and the Isles* (John Murray: London, 1942), 172; D. van der Meulen and H. von Wissman, *Hadramaut; some of its mysteries unveiled* (E.J. Brill: Leiden, 1932), 44-5.

[10] *Handboek voor Cultuur- en Handelsondernemingen in Nederlandsch-Indië* (De Bussy: Amsterdam), (yearly: hereafter *HCHONI*), 1940, pp. 1378, 1447, 1455.

[11] Vuldy, *Pekalongan*, 216-7.

Many of these hawkers became insolvent in the 1930s crisis, pulling down their merchant creditors with them.[12]

Financial difficulties may have prompted the adoption of the joint-stock principle for trading companies in Java, which appears to have been a new departure for Arabs. The N.V. Handel Mij. Al-Basjarahil was registered in October 1933, with a nominal capital of 50,000 guilders, its headquarters in Surabaya, and various members of the Bâ Sharâhil family on the board.[13] The N.V. Handel Mij. Bawazir was created in 1939, with a capital of 100,000 guilders, its headquarters in Buitenzorg (Bogor) and various members of the Bâ Wazîr family as directors.[14] Several other Arab joint-stock companies set up in this decade put down trade as a secondary economic purpose.

The bin Marta' family built up the most successful Hadhrami wholesaling business in Indonesia, based in Surabaya.[15] However, it was not listed as a joint-stock company in the 1940 *Handboek*. It may have been the mysterious Jibul Fitr company that Van der Kroef refers to as the largest of the Arab `trading associations', which had branches throughout the archipelago and in India, and `rivalled the larger Chinese corporations in size and volume of operations before the war.'[16] The N.V. Handelmaatschappij Antara-Asia was the joint-stock trading vehicle of the Bin Marta' family after the war, but it is not clear when it was founded.[17]

Many substantial trading houses continued to eschew joint-stock, often being run as family partnerships. The *Singapore and Malaya Directory* showed that Singapore was the unrivalled Arab centre on the Malay peninsula. Although the listing of Arab

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[12] Ingrams, *Report on the ... Hadhramaut*, 147. See Ismail b. A. Alatas, `De Arabieren' in Gent, L.F. van (ed.), *Gedenkboek voor Nederlandsch-Indië* (G. Kolff: Batavia, 1923), 49, for 1920s background.

[13] *HCHONI*, 1940, 767.

[14] *HCHONI*, 1940, p. 1013.

[15] van der Meulen and von Wissman, *Hadramaut*, 101, 105; D. van der Meulen, *Aden to Hadhramaut: a journey in South Arabia* (John Murray: London, 1947), 155, 163, 215-6.

[16] Justus van der Kroef, `The Arabs in Indonesia', *The Middle East Journal*, 7 (1953), 3, 316.

[17] Post, `The Formation of the Pribumi Business Elite', 105 (n. 28).

trading houses in the 1940 *Handboek* at times confused Arabs with other Muslims, it emerges clearly that Surabaya in East Java played the same role in the Dutch East Indies, with other centres in Surakarta and Pekalongan. West Java, Sumatra and Borneo were less well covered. That said, Arab traders certainly did not disappear from the streets of Batavia.[18] The `Great East' was patchily covered and of little economic weight, but it was the last part of Indonesia where Arabs were still occasionally more influential traders than their Chinese rivals, as in Sumba, East Seram, and the Aru and Kei islands.[19]

The consolidation of the Hadhrami hold over the horse trade from the Lesser Sunda Islands to Java was not the result of alliance with the Japanese. Although the dynamism of this trade was impaired by the rise of the internal combustion engine, it was still a valuable business. The Great Depression led to a fall in numbers sent to Java, but this was only temporary. Horse sales picked up in the late 1930s, stimulated by Dutch military purchases for the looming war with Japan. Whereas Arab firms in East Java had earlier placed agents in the eastern islands, Mohamat Aldjuffrie & Co. had its headquarters on the island of Sumba, with agents in East Java. Sayyid Muhammad bin ᶜAbd al-Qadir al-Jufrî ran this firm in the late 1930s, together with his brother ᶜUmar.[20]

Most produce buying was hard hit by low prices in the 1930s, but Arabs continued to purchase rubber, coffee, tea, tobacco, sugar, precious woods, and sago.[21] The Bâ Wazîr trading company set up in 1939 noted the purchase of commodities as

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[18] Susan Abeyasekere, *Jakarta, a history* (Oxford University Press, 2nd ed.: Singapore, 1989), 140.

[19] *HCHONI*, 1940, pp. 1311, 1419, 1474; H. Kistermann, `De paardenhandel van Nusa Tenggara, 1815-1941', Vrije Universiteit, Amsterdam, unpublished student paper (1991), 53-4; R. Broersma, `Koopvaardij in de Molukken', *Koloniaal Tijdschrift*, 23 (1934), 338-40; R. Broersma, `Land en volk in Molukken-Zuid', *Koloniaal Tijdschrift*, 24 (1935-36), 60-1.

[20] William G. Clarence-Smith, `Horse Trading: the economic role of Arabs in Nusa Tenggara, c1800 to c1940' (forthcoming).

[21] van der Kroef, `The Arabs in Indonesia', 311-2; Broersma, `Koopvaardij in de Molukken', 339-41; Broersma, `Land en volk in Molukken-Zuid', 71.

its prime objective.[22] Exporting abroad was normally done through other communities. The al-Saqqâf firm in Singapore was unusual in the 1930s in itself exporting, with a particular emphasis on timber.[23]

2. The expansion of manufacturing

The traditional Ḥadhrami involvement in manufacturing for the local market was concentrated in workshops making *batik* cloth on Java.[24] Imported plain cotton cloth was printed with the use of wax and imported dyes The 130 Arab *batik* workshops in Java in 1930 were heavily concentrated in Central Java, 88 in the old inland capital of Surakarta (Solo), and 25 in the port city of Pekalongan. In contrast, there were none at all in Yogyakarta and West Java. Arabs accounted for only 3% of 4,384 *batik* workshops in Java, most units being in Javanese hands. Arab workshops were usually larger than those of the Javanese, however, and Hadhramis indirectly controlled many Javanese enterprises through supplies of inputs and credit.[25]

The size of Arab *batik* workshops tended to grow in the 1930s, even if most did not make the transition to factory production. Cheap but high quality Japanese cotton cloth saved the business, despite Dutch attempts to restrict such imports, and output began to grow strongly again from 1936. However, other government measures to 'save' Javanese producers from the clutches of 'Foreign Oriental' wholesalers may have hampered Arab entrepreneurs.[26]

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[22] *HCHONI*, 1940, p. 1013.

[23] *Singapore and Malayan Directory* (yearly: hereafter *SMD*), 1940, 396.

[24] William G. Clarence-Smith, 'Hadhrami Entrepreneurs in the Malay World, c.1750 to c1940' in Freitag, Ulrike, and Clarence-Smith, William G. (eds), *Hadhrami traders, scholars and statesmen in the Indian Ocean, 1750s-1960s* (Brill: Leiden, 1997), 312-14; W.H. Ingrams, 'Report on a Tour to Malaya, Java and Hyderabad' (al-Mukalla: unpublished typescript, 1940), 123.

[25] Vuldy, *Pekalongan*, 129-30; Cator, *Economic Position of the Chinese*, 117-8.

[26] Chantal Vuldy, 'La communauté arabe de Pekalongan', *Archipel*, 30 (1985), 95-119, 108-9; Vuldy, *Pekalongan*, 130-2.

Other textile workshops were stimulated by Dutch ordinances of 1933 and 1935, which protected local manufacturers.[27] Hadhramis set up workshops in Pekalongan to weave a checked cloth (*palekat*), which had formerly been imported from India, a business in which they were more prominent than the Chinese.[28] Arabs also built up a stake in weaving and *sarong* production in Bandung, West Java, partly by buying up local businesses and partly by founding new ones. However, Dutch regulations limited the size of units, dominated by locally produced handlooms, and Chinese competition was strong.[29]

Arab workshops turned out many other goods in the 1920s, chiefly in Java but also in southern Sumatra. These included foodstuffs, ice, garments, perfume, jewellery, furniture, candles, cigarettes, religious texts, and construction materials.[30] It is difficult to discover what happened to these enterprises in the recession. Arabs held only three of the 799 small workshops manufacturing *kretek* (clove-flavoured) cigarettes in Central Java in 1933.[31] This seems to reflect a decline compared to the mid-1920s.[32] By the early 1950s, however, sandals, umbrellas, torch batteries, and matches had been added to the list, and Van der Kroef made no mention of a pre-war crisis. Workshops typically employed up to twenty women and children in rudimentary conditions in rural areas close to Surabaya.[33]

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[27] Post, 'The Formation of the Pribumi Business Elite', 99.

[28] Vuldy, *Pekalongan*, 135.

[29] Christine Dobbin, *Asian entrepreneurial minorities: conjoint communities in the making of the world economy, 1570-1940* (Curzon Press: London, 1996), 182-4.

[30] Huub de Jonge, 'Discord and solidarity among the Arabs in the Netherlands East Indies, 1900-1940', *Indonesia*, 55 (1993), 78; Bambang Purwanto, 'From Dusun to Market: native rubber cultivation in southern Sumatra, 1890-1940' (PhD Thesis, University of London, 1992), 87.

[31] Cator, *Economic Position of the Chinese*, 120. Central Java included Surakarta and Yogyakarta.

[32] M.R. Fernando and David Bulbeck (eds), *Chinese Economic Activity in Netherlands India: selected translations from the Dutch* (ISEAS: Singapore, 1992), 182.

[33] van der Kroef, 'The Arabs in Indonesia', 316-7.

There was also a move towards factory production of consumer goods for the internal market. Zayn Bâ Jâbir ran a particularly large operation in Surabaya in the late 1930s, producing tin trunks and fibre suitcases.[34] Of the ten small factories making cement tiles in Batavia in 1940, one belonged to the al-ᶜAydarûs (Alaydroes) family and another to the Bâ Hashwan (Bahasoean) family.[35] Arabs also held two of the 63 large and medium concerns manufacturing *kretek* in Central Java in 1933.[36]

The greatest change in the 1930s was the creation of modern textile mills. The Bin Sunkar (Soengkar) were Hadhrami pioneers in combining weaving with *batik* production, with a factory in Surakarta by the end of the decade.[37] This initiative was probably due to Shaykh ᶜAli bin ᶜAwad bin Sunkar, a wealthy cloth merchant, who helped to finance the Ma'had Islam school of Pekalongan, founded in 1942.[38] The N.V. Textielfabriek en Handel Maatschappij Baswedan was set up in Surabaya in 1938, with a partly paid up capital of 300,000 guilders and headed by Ibrahim Bâ Suwaydân (Brahim Baswedan).[39]

Even more significant was the textile empire created by the Bin Marta' (Martak) family.[40] The first Bin Marta' weaving plant was set up in Surabaya in 1934, on the advice of a Javanese engineer working as government industrial adviser. A year later, the brothers Faraj and Ahmad bin Saᶜid bin ᶜAwad bin Marta' set up a second and larger weaving mill at Kesono, near Mojokerto in eastern Java. This factory was managed by a Dutchman and had a thousand looms, of which 600 were Suzuki mechanical looms made in Japan. At the end of the 1930s, the family firm of Alsaid bin

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[34] Ingrams, `Report on a tour', 113.

[35] *HCHONI*, 1940, p. 1280.

[36] Cator, *Economic Position of the Chinese*, p. 120.

[37] Ingrams, `Report on a Tour', 123.

[38] Vuldy, *Pekalongan*, 217.

[39] *HCHONI*, 1940, p. 1011.

[40] Ingrams, `Report on a Tour', 123; van der Meulen, *Aden to Hadhramaut*, 215.

Awad Martak had become the largest non-European textile concern on Java.[41] It employed nearly 2,000 workers in its Surabaya plant alone.[42]

The Bin Marta' position in eastern Java was consolidated under the Japanese occupation. The Textile Control Board, created in 1942 to monopolise the purchase, storage and sale of yarn, was dominated by the firm of Alsaid bin Awad Martak.[43] In the post-war years, Chinese and Arabs in eastern Java were accused of maintaining imports of Japanese cotton yarn exclusively for their weaving factories.[44]

Processing raw materials for export, typical of industry in the sparsely populated Outer Islands and Malaya, was more vulnerable to world recession. The Handel-Industrie- en Cultuur Maatschappij S. Alwi Assegaf in Palembang, South Sumatra, was set up as a joint-stock company in 1928, with the main purpose of running the Prinses Juliana steam-driven sawmill and rice mill. The company was still active at the end of the 1930s, under the management of Sayyid cAlawî bin Shaykh al-Saqqâf, probably because it was largely oriented towards the internal market.[45]

3. Real estate, banking, and the press

Real estate and construction were an established Arab speciality, and the vicious downward spiral in prices in the 1930s reduced rental incomes. While no bankruptcies were recorded, the al-Kâf family had to manage with considerably lower returns from its extensive property portfolio in Singapore and Java. The wealthy Salim bin Jacfar bin Tâlib was reported in 1939 to be `in trouble with regard to his houses in Surabaya, the

[41] Post, `The Formation of the Pribumi Business Elite', 104-5 (n. 28).

[42] Ingrams, `Report on a Tour', 113.

[43] Post, `The Formation of the Pribumi Business Elite', 104-5 (n. 28).

[44] Clifford Geertz, *Peddlers and Princes: social development and economic change in two Indonesian towns* (University of Chicago Press: Chicago, 1963), 114.

[45] *HCHONI*, 1940, 769-70.

rents of which had diminished because of the world economic crisis.'[46] In al-Hurayda, family town of the al-ᶜAttâs family, a school had to close because revenues from its property endowment in Java had fallen.[47]

Nonetheless, the Hadhrami stake in urban property remained impressive in the 1930s, and firms may have benefited from bargain prices. Sayyid ᶜUmar bin Shaykh al-Kâf owned `the great Europe Hotel in Singapore, which makes an impression magnificently American.'[48] The family firm in Singapore in 1940 styled itself rather curiously as `Alkaff and Co., House and Landowners and Estate Agents (Real).' Apart from the two partners, the firm employed fifteen senior staff in its Singapore office, all seemingly Arabs. It had a branch in Batavia and an agency in Aden.[49] The al-Kâf family trust had investments estimated at £25 million in Singapore by the 1950s, `though today the family is grown so large that the income is terribly subdivided.'[50] The Geylang Serai district in Singapore, where the al-Saqqâf family owned the Perseverance estate, was redeveloped for housing in the 1930s, one of its streets receiving the name of Jalan Alsagoff in 1932.[51]

The 1930s may have seen an expansion of Arab real estate holding in the Straits Settlements. Arabs, together with Jews, were in 1931 `the largest owners of house property' in Singapore.[52] Property ensured that Arabs remained the wealthiest community per head in the town in the latter part of the decade, with thirteen principal families holding assets valued at £2.5 million. Whole streets were reputedly owned by

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[46] van der Meulen, *Aden to Hadhramaut*, 159, 219-20.

[47] Freya Stark, *A Winter in Arabia* (London: John Murray, 3d ed.. 1945), p. 60.

[48] van der Meulen and von Wissman, *Hadramaut*, 137.

[49] *SMD*, 1940, 395.

[50] R.B. Serjeant, *The Saiyyids of Hadramaut* (School of Oriental and African Studies: London, 1957), 27.

[51] Lisa Lim (ed.), *Geylang Serai; down memory lane* (National Archives: Singapore, 1986), 19, 24.

[52] C.A. Vlieland, *British Malaya: a report on the 1931 census and on certain problems of vital statistics* (Crown Agents for the Colonies: London, 1931), 87.

Hadhramis, in both Singapore and Penang.[53] In the late 1940s, over a third of Kampong Glam was owned by Arabs.[54] Indeed, there was growing resentment directed at Arabs for allegedly pushing up land prices and crowding Malays out of Singapore.[55]

The Hadhrami stake in urban property in Java was also impressive. In 1940, there were eight Arab dominated joint-stock companies, whose main purpose was urban construction and the management of real estate portfolios, set up between 1932 and 1938. Unlike trading firms, they were evenly divided between Batavia and Surabaya, with three in each city, plus one in Bandung and one in Surakarta. They belonged to some of the most famous Arab families in the island, the al-Kâf, al-ᶜAydarûs, al-Hibshi, Bin Marta', Bâ Suwaydân, Bin Sunkar, and Bin Mutlaq.[56]

Agriculture was of far less significance to Arabs, partly because the Dutch restricted `Foreign Oriental' access to land.[57] A group of Arabs in Jambi, South Sumatra, even petitioned officials for `native' status in the early 1930s, to cease paying rent to local people.[58] The handful of Arabs who owned *particuliere landerijen* around Batavia, with quasi-feudal rights over local inhabitants, were gradually selling their lands well before the crisis struck.[59] However, there were Hadhrami tea estates in West Java in the 1930s, possibly because tea had become the `national beverage' of Hadhramaut.[60] The al-Saqqâf were the only Arabs to attempt to take advantage of more favourable British land policies in Malaya. Their 19,000 acre Pulau Bulang estate was

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[53] Ingrams, *Report on the ... Hadhramaut*, 150.

[54] J.A.E. Morley, `The Arabs and the Eastern Trade', *Journal of the Malayan Branch of the Royal Asiatic Society*, 22 (1949), 1, 170.

[55] William R. Roff, *The Origins of Malay Nationalism* (Yale University Press: New Haven, 1967), 192.

[56] *HCHONI*, 1940, pp. 769, 1000, 1002-3, 1007, 1073-4.

[57] Ingrams, *Report on the ... Hadhramaut*, 147.

[58] J. Tideman, *Djambi* (De Bussy: Amsterdam, 1938), 79, 161-3.

[59] Adolf Heuken, `Arab landowners in Batavia/Jakarta', *Indonesia Circle*, 68 (1996), 71-2.

[60] Ingrams, *Report on the ... Hadhramaut*, 147.

planted with 2,500 acres of rubber in the late 1930s.[61] The 1934 International Rubber Agreement created a potential economic rent for estates at the expense of Malay smallholders, but it is far from clear whether the al-Saqqâf made any profits from this venture.

Great losses were incurred by some of the numerous and active Arab moneylenders, who side-stepped Koranic prohibitions on usury by fictitious sales and the renting of money. Collateral for loans was poor, as `Foreign Orientals' could not obtain land from `Natives' under Dutch law. Nonetheless, the famous Arab community of moneylenders in Tegal, Central Java, appear to have retained much of their wealth in the 1930s.[62] Ingrams said of Arab moneylenders on Java that `their wings have recently been clipped', suggesting that losses were moderate.[63] Much worse was to come after 1940, when rocketing inflation, general insecurity and harsh nationalist pressures hit Arab moneylenders very hard.[64]

A major new development for Hadhramis was the growth of newspapers in the British Straits Settlements. The fact that the Malay language there was still mainly printed in Arabic script provided Arabs with an economic niche. In the 1930s, `hard-headed Arab press barons' emerged in Singapore and Penang, employing mainly Malay journalists. The foundation of the Warta Malaya press group in 1930 by the al-Saqqâf family of Singapore was a milestone. Sayyid ᶜAlawî bin ᶜUmar al-Bar was another Singapore `press baron', while Sayyid Shaykh bin Ahmad al-Hadi owned the Jelutong Press in Penang, which published two influential papers. Indeed, there was Malay resentment by the end of the decade at the degree of Hadhrami financial control over the press, despite the pro-Malay political stance of these newspapers.[65]

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[61] *SMD*, 1940, 930.

[62] van der Kroef, `The Arabs in Indonesia', 312-6.

[63] Ingrams, *Report on the ... Hadhramaut*, 123.

[64] Alice G. Dewey, *Peasant Marketing in Java* (Glencoe, 1962), 103-4.

[65] William R. Roff, *Bibliography of Malay and Arabic periodicals published in the Straits Settlements and*

The Arab position in the press of the Dutch East Indies was much weaker. Restrictions on publishing were greater, and Latin script was the norm for printing local languages. The vernacular papers in Latin script with the highest circulation were in Chinese hands.[66] Nonetheless, there were many titles put out by Hadhramis, in a mixture of Arabic, Malay in Arabic characters, and Malay in Latin letters. These papers had a small circulation, however, and no `press barons' emerged.[67] Indeed, the Surabaya printing and publishing firm of Alwedah, set up by Shaykh Muhammad bin ᶜAbdallâh al-ᶜAmûdi of Ambon and Surabaya, was bankrupt by 1933.[68]

4. The social origins of Hadhrami entrepreneurs

The upheavals of the 1930s appear to have intensified a process which was already well under way, the challenge to the position of a Sayyid group, which claimed direct descent from the Prophet Muhammad. While not necessarily recognised as socially superior in Hadhramaut itself, they had undoubtedly become dominant in the Malay World by virtue of their role in the early waves of immigration from the middle of the eighteenth century. Increasing resentment of Sayyid pretensions went hand in hand with the growing wealth of other social strata.[69]

The 1930s recession certainly did not eliminate the economic basis of Sayyid prominence. Some of the great families emerged apparently unscathed. The al-Kâf and

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peninsular Malay States, 1876-1941 (Oxford University Press: London, 1972), 8-12, 51, and passim; Roff, *The Origins of Malay Nationalism*, 64-5, 168-9; *SMD*, 1940, 566.

[66] Personal communication, Natalie Mobini-Kesheh, December 1997.

[67] Natalie Mobini-Kesheh, Natalie, `The Arab Periodicals of the Netherlands East Indies, 1914-1942', *Bijdragen tot de Taal-, Land- en Volkenkunde*, 152 (1996), 2, 236-56.

[68] Algemeen Rijksarchief, The Hague, The Netherlands, Mailrapport 233, de Vries 17.2.1939. My thanks are due to Huub de Jonge for sending me a photocopy of this document.

[69] Clarence-Smith, `Hadhrami Entrepreneurs in the Malay World'; Natalie Mobini-Kesheh, `Islamic Modernism in Colonial Java: the al-Irshâd movement', in Freitag, Ulrike, and Clarence-Smith, William G. (eds), *Hadhrami traders, scholars and statesmen in the Indian Ocean, 1750s-1960s* (Brill: Leiden, 1997), 231-48.

the al-Saqqâf were perhaps the most notable Sayyid dynasties of Singapore to survive the recession in style. These two families were also well represented in the Dutch possessions, where the al-Hibshi, al-ᶜAydarûs, Bâ Aqil and Bin Shihâb were well ensconced. Some Sayyid families clearly did more than survive, notably those involved in Malaya's newspapers, and the al-Jufrî in Indonesia's horse trade.

Sayyid families nonetheless appear to have been the worst affected by difficulties in moneylending and real estate, although this hypothesis requires much more detailed research. Two formerly influential families, the al-Junayd of Singapore and the al-ᶜAttâs of Batavia, did not appear in companies listed in the *Handboek* and the *Directory* for 1940, although some al-Junayd worked for the al-Kâf in Singapore and some al-ᶜAttâs were bureaucrats in the Malay states. More striking was the lack of evidence of Sayyid entrepreneurs in new businesses.

In contrast, there was an unmistakable surge of activity by the non-Sayyid, notably in manufacturing on Java. The rising entrepreneurs of the 1930s came from a variety of non-Sayyid origins. The Bin Tâlib of Singapore and Surabaya, and the Bin Mutlaq of Surabaya were members of the great Kathîrî tribe, from which one of the Sultans of Hadhramaut was drawn.[70] They were thus Qabîlî, bearing arms and considering themselves superior to the Sayyid group in Hadhramaut.[71] The Bâ Wazîr, prominent in East Africa, were of the Shaykh social stratum, that is `indigenous' religious specialists who contested Sayyid claims to supremacy. The Bin Sunkar, from Haynin, and the Bâ Sharahil were of the `bourgeois' fraction of the Maskîn, and the latter family was also well represented in East Africa.[72] The exact social background

[70] L.W.C. van den Berg, *Le Hadramout et les colonies arabes dans l'archipel indien* (Imprimerie du Gouvernement: Batavia [Jakarta], 1886), 58 (b. Talib); *HCHONI*, 1940, p. 1003 (b. Mutlaq).

[71] Sylvaine Camelin, `Reflections on the System of Social Stratification in Hadhramaut' in Freitag, Ulrike, and Clarence-Smith, William G. (eds), *Hadhrami Traders, Scholars and Statesmen in the Indian Ocean, 1750s-1960s* (Brill: Leiden, 1997), 147-56.

[72] van den Berg, *Le Hadramout et les colonies arabes*, 41, 49-52; Le Guennec-Coppens, Françoise (1997), `Changing Patterns of Hadhrami Migration and Social Integration in East Africa', in Freitag, Ulrike, and Clarence-Smith, William G. (eds), *Hadhrami Traders, Scholars and Statesmen in the Indian Ocean, 1750s-1960s* (Brill: Leiden, 1997), 164.

of the Bâ Suwaydân, from Shibâm, and the Bin Marta', from Haynin, is unclear, but they were not Sayyid.[73] Indeed, ᶜAbd al-Rahmân Bâ Suwaydân was probably the most prominent anti-Sayyid Arab journalist and political activist in Java in the 1930s.[74] These families were not recent arrivals in the Malay World, but they achieved a new economic prominence in the 1930s.

Conclusion

While there were reports of distress among the Hadhrami community of the Malay World during the Great Depression of the 1930s, it is surprising how little hard evidence of bankruptcy emerges. This may reflect the pride of an immigrant community, unwilling to admit to failure. It is more likely, however, that it reflects an ability, common to all great entrepreneurial diasporas, to adapt quickly and effectively to recession. Indeed, some Hadhramis seized the opportunities that the 1930s brought to break new ground in the economic development of Southeast Asia.

[73] van der Meulen and von Wissman, *Hadramaut*, 101, 105, 116; van der Meulen, *Aden to Hadhramaut*, 155, 160-4, 215-6.

[74] Hamid Algadri, *Dutch Policy Against Islam and Indonesians of Arab Descent in Indonesia* (Pustaka LP3ES: Jakarta, 1994), 112-6, 129.

4. THE `LONG DEPRESSION' AND THE GROWTH OF SMALL-SCALE INDUSTRIES IN GHANA, C.1870 - MID 1980S

Rajiv Ball (Arthur Andersen: 1997 LSE PhD)

Since the early 1970s there has been `an explosion in small-scale industrial activity in Ghana'.[1] If a small-scale industry is defined as employing fewer than 30 workers, then it can be estimated that the number engaged full-time in Ghana's small industry sector increased from about 337,000 in 1970 to 533,000 in 1984.[2] Today, Ghana has one of Africa's largest and most sophisticated small industry sectors. Ghanaian small industrial firms are involved in food-processing, wood-working, weaving, tailoring, cement block production, cosmetics manufacture, machine-building and vehicle repair.[3] Most operate in simple buildings which have wooden walls and corrugated iron roofs. Almost all are in the private sector and many are in the `informal' economy: 65 per cent of the 1,365 small firms surveyed by Nii Sowa *et al.* in 1991 were unregistered.[4]

This paper explores conventional explanations for Ghana's small industry `explosion' and demonstrates how an alternative approach helps to understand this phenomenon. The first section of the paper reviews the established literature on Ghanaian small industry growth and suggests how this is deficient. The second section contends that Ghana's small industry `explosion' has been facilitated by a prior process

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[1] Jonathan Dawson, 'Development of Small-scale Industry in Ghana - A Case Study of Kumasi', in Henk Thomas, Francisco Uribe-Echevarria and Henry Romijn (eds.), *Small-Scale Production. Strategies for Industrial Restructuring* (Intermediate Technology Publications: London, 1991), 173.

[2] Appendix 1.

[3] W.H. Thomi and P.W.K. Yankson, *Small Scale Industries and Decentralization in Ghana. A Preliminary Report on Small Scale Industries in Small and Medium Sized Towns in Ghana* (Department of Geography, University of Ghana: Legon, 1985), table 8, 33.

[4] Nii K. Sowa, A. Baah-Nuakoh, K.A. Tutu and B. Osei, *Small Enterprises and Adjustment. The Impact of Ghana's Economic Recovery Programme on Small Industrial Enterprises* (Overseas Development Institute: London, 1992), 25.

of skill acquisition through apprenticeships, formal education, work in large-scale industries and learning-by-observation. The concluding section examines some of the wider implications of this finding.

1. Conventional Explanations for Small Industry Growth

The literature on small industries in the Third World generally locates the dynamics of small firm formation in two areas: the supply of factors of production necessary for small firm creation (such as capital and labour) and the demand for small firm products.[5] The Ghanaian small firm literature has followed these lines.

`Supply Side' Ninsin contends that the growth of small industry in Ghana can be explained by the increase in the supply of labour to the small industry sector.[6] According to Ninsin, this increase has been a result of the failure of the government and large-scale private businesses - what Ninsin terms the `formal sector' - to provide jobs for the expanding workforce. Thus, Ninsin asserts that small-scale industries consist of `that array of precarious economic activities which have become the haven of people seeking desperately to eke out a living because they are unable to secure wage or salaried employment in the formal capitalist sector'.[7]

Ninsin's reasoning is appealing. Between c.1970 and the mid 1980s, the Ghanaian economy experienced a `long depression'. Recorded per capita income fell 30 per cent between 1970 and 1982.[8] By the 1980s, formal sector wages had become

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[5] Walter Elkan, 'Policy for Small-Scale Industry: a Critique', *Journal of International Development*, 1, 2 (1989), 231-60. Carl Liedholm, 'Small Scale Industries in Africa: Dynamic Issues and the Role of Policy', in Frances Stewart, Sanjaya Lall, Samuel Wangwe (eds.), *Alternative Development Strategies in Sub Saharan Africa* (Macmillan: London, 1992), 185-212.

[6] Kwame A. Ninsin, *The Informal Sector in Ghana's Political Economy* (Freedom Publications: Accra, 1991), 58.

[7] Ninsin, *Informal Sector*, 2.

[8] World Bank, *Ghana: Policies and Program for Adjustment* (Washington D.C., 1984), xvi, cited in Douglas Rimmer, *Staying Poor. Ghana's Political Economy, 1950-1990* (Pergamon Press: Oxford, 1992), 133.

inadequate to support a family. According to one estimate, the academic salaries of senior members of the University of Ghana covered only one-third of their total monthly expenditures in 1985.[9] Thus, it is tempting to conclude that increasing numbers have sought to work in small-scale industries just to survive. However, although increasing poverty may have forced workers to `eke out a living' through small-scale industrial activities, this does not constitute a full explanation. If small industry growth is a function of poverty alone, then poor African countries in general would have comparatively big small industry sectors. This has not been the case. In 1983, for instance, Black Africa's per capita income was well below Ghana's,[10] yet, with the exception of Nigeria, small industry sectors comparable in size to Ghana's have not been known to exist anywhere else in Africa.

*`Demand Side'* While Ninsin's approach centres on the `supply side' of small firm creation, Dawson focuses on the `demand side' of the equation.[11] During the `long depression', Ghana experienced an acute shortage of foreign exchange. This foreign exchange crisis resulted in the contraction of imported manufactures, while large-scale industries collapsed because they depended on imported inputs.[12] Small-scale industries, by contrast, have been more reliant on locally-available inputs. Hence, according to Dawson, small industries expanded into the `economic vacuum'[13] created by the decline in imported manufactures and the disintegration of the large-scale industrial sector. Dawson substantiates this reasoning with reference to the small-scale vehicle repair

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[9] Kodwo Ewusi, *Structural Adjustment and Stabilization Policies in Developing Countries. A Case Study of Ghana's Experience in 1983-86* (Ghana Publishing Corporation: Tema, 1987), table 29, 61.

[10] World Bank, *World Development Report, 1985* (Oxford University Press: Oxford, 1985), table 1, 174-75.

[11] Jonathan Dawson, `The Wider Context: the Importance of the Macroeconomic Environment for Small Enterprise Development', *Small Enterprise Development*, 1, 3 (1990), 39-46.

[12] Rimmer, *Staying Poor*, chs 5-7.

[13] Dawson, `Wider Context', 44.

industry which boomed in the 1970s as imported vehicle spares became scarce.[14] At the same time, Guinness stopped transporting its beer bottles in imported cardboard packaging and switched to wooden crates produced by local small-scale carpenters.[15]

It is difficult to argue that small-scale industries gained no benefit at all from the foreign exchange crisis of the `long depression'. However, this cannot constitute a complete explanation for the growth of small industry either. A major problem with Dawson's explanation is its presumption that the collapse of large-scale industrial production increased the demand for small industry products automatically. This is an untested, and possibly false, assumption because during these years of large industry collapse, per capita income was also decreasing. This would suggest that the aggregate market for industrial products was shrinking. Therefore, if small-scale industries managed to carve out an increasing share of a contracting market for industrial products, then there may well have been other factors at work besides the fall in competition from large-scale industrial producers.

Hypothesis One underlying problem with both the Ninsin and Dawson analyses is their failure to consider adequately the rôle of the entrepreneur in small firm creation. Firms are established only after entrepreneurs have accumulated the necessary skills, capital and technology for their creation. Neither Ninsin nor Dawson addresses this issue. It is myopic to assume that small firms appear on the industrial landscape simply when poverty increases or competition from manufactured imports diminishes. Instead, it is probable that there is a broader story of skills, capital and technology accumulation to be told.

Thus, it is hypothesised that the growth of Ghana's small industry sector has been facilitated by a long-term accumulation of skills, capital and technology. It is hypothesised that this accumulation process was facilitated by the particular nature of

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[14] Dawson, `Development of Small-scale Industry', 185.

[15] Jonathan Dawson, `Small-Scale Adjustment', *West Africa*, 28 December 1988, 2439.

Ghana's economic development up to the 1970s and the subsequent `long depression'. In the next section of the paper, this hypothesis is tested with particular reference to skills acquisition in the small-scale metal-working sector in Kumasi. Small-scale metal-working has been chosen for study because it epitomises some of the real successes of small industry in Ghana: small-scale metal-workers now produce a wide range of consumer goods and, unlike other industries in Ghana, they also manufacture capital goods for food-processing, cement block-making and electric welding. Since the late 1980s, almost all African countries have tried to promote small-scale industries and, in this respect, Ghana's small-scale metal industries are an example to the continent.

3. Skills Accumulation and the Growth of Small-scale Metal-Working in Kumasi

From Correlation to Causation There is circumstantial evidence to support the hypothesis that the growth of small-scale metal-working has been facilitated by a long-term accumulation of skills. The existing literature suggests at least three `agents of skill transfer'[16] - apprenticeships, formal education and work in large-scale enterprises - which have contributed to the process of industrial skills accumulation. For instance, the majority of the 209 Accra and Kumasi small-scale metal- and wood-workers surveyed by Anheier and Seibel in 1986 had been trained as apprentices.[17] From a survey of 500 small-scale metal-workers in Kumasi in 1988, Dawson found that 77 per cent of entrepreneurs had received some formal school education,[18] a figure higher than that for the Ghanaian population as a whole. Dawson also found that 22 per cent of entrepreneurs previously had worked in a large-scale company,[19] again, a figure higher

[16] Tidiane Boye, Allen Fenichel and Maimire Mennasemay, `Skill Transfer and African Development: a Conceptual Research Note', *Journal of Modern African Studies*, 26, 4 (1988), 686.

[17] Helmut Anheier and Hans Dieter Seibel, *Small-Scale Industries and Economic Development in Ghana: Business Behaviour and Strategies in Informal Sector Economics* (Verlag Breitenbach: Saarbrücken, 1987), table 5.9, 52.

[18] Dawson, `Development of Small-scale Industry', 180.

[19] Dawson, `Development of Small-scale Industry', 180.

than that for the Ghanaian population overall. Other surveys of Ghana's small-scale industrial sector have painted a similar picture.[20]

The problem with these data is that they make only a circumstantial case for the importance of long-term skills accumulation in the process of small industry growth. The surveys show a *correlation* between formal school education and small-scale industrial entrepreneurship, but do not prove *causation*: on the one hand, formal school education may have had no importance in developing small-scale industrial entrepreneurship; on the other hand, it may have been crucial. One reason why the issue of causation has been examined inadequately is the methodology used in the surveys so far. Anheier and Seibel, Dawson, as well as others, have relied on questionnaires with either closed or multiple-choice answers. This methodology has the advantage of enabling many interviews to be conducted, and much factual information to be collected, in a comparatively short space of time. However the methodology is not well-suited to the study of causal relationships, because such relationships cannot be boxed into closed or multiple choice answers. For this purpose, a more open-ended, interactive type of interview is suitable.

Survey Methodology With this in mind, I conducted twenty open-ended interviews with small-scale metal-working industrialists in March 1996 (henceforth referred to as the Kumasi Survey). The interviews were tape-recorded and lasted about forty minutes on average. The twenty respondents were selected from the Suame Magazine, a vast industrial `shanty town' housing about 40,000 small-scale industrial workers[21] and located to the north of Kumasi, Ghana's second largest city. The respondents were not selected at random, but were chosen so that the overall sample included a wide variety

[20] Addie van Ommering and Kees van der Ree, `Small-Scale Industries in Ghana. Past, Present and Possible Role in Economic Growth and Spread of Development', University of Amsterdam, Department of Human Geography, MA Thesis, 1983, table 5.24, 104. William F. Steel and Leila M. Webster, *Small Enterprises Under Adjustment in Ghana* (World Bank: Washington D.C., 1991), 11-2.

[21] Dawson, `Development of Small-scale Industry', 173.

of firms. Thus, the smallest firm had two workers, while the largest had twenty-six. The oldest firm had been established in 1962, the youngest in 1994. There were manufacturers of metal consumer goods (such as watering cans and gates) as well as exhaust builders, engine reborers, brake pad reliners, nut and bolt producers, donkey cart manufacturers and machine-builders. All the respondents worked full-time, and depended on small industry work for a living.

General and Technical Education While other surveys have demonstrated that small-scale metal-workers typically have received more formal education than average Ghanaians, the data from the Kumasi survey suggest that this formal education has assisted entrepreneurs in small firm creation.

In the Kumasi Survey, 19 metal-workers had attended primary school and one had remained at school until he was 15 years old. When asked if school had helped them to establish a firm, most felt that it had. One metal-worker suggested that attending secondary school had enhanced his ability to perform calculations.[22] Another argued that school had taught him how to take measurements, a skill which he required to manufacture exhausts and compressed gas cylinders.[23] An exhaust manufacturer reasoned that the art and craft courses which he had attended at school had taught him how to mould objects, which increased his ability to design car exhausts. Speaking through a translator, this respondent explained:

> ... when he was in school, he was very interested in things, moulding things, art and craft. So he thinks that that helped him to learn the exhaust — the making of exhaust — very quickly at the first attempt. Because he has some apprentices who have spent nearly 10 years and they aren't as good as he was when he spent the 5 years.[24]

Likewise, a master electrical engineer felt that those with a school education had more

[22] Metal 2.

[23] Metal 9.

[24] Metal 17.

`sense' and an ability to learn the trade faster.[25] Hence, he himself tried to avoid taking on apprentices who were not `educated'.[26]

To be sure, not all those interviewed found that a formal education had been useful. One respondent remembered with affection that history had been his `special subject' at school, but admitted that it had not helped him much in his work as a producer of nuts and bolts.[27] In all, five metal-workers felt that attending school had been of no benefit to them whatsoever.[28]

With regard to technical school, the five metal-workers who had attended such institutions were quick to list a clutch of relevant skills which they had acquired there. These included bench fitting, electric welding, technical drawing and metal fabrication.[29] Thus, the Kumasi Survey suggests that, for the metal-workers, there is a strong causal relationship between attending technical school and subsequent small-scale industrial activity. The causal relationship between general education and small industry activity is weaker, but existent nonetheless.

Work Experience in Large-scale Industry A second factor which has increased the stock of industrial entrepreneurs has been the transfer of skilled labour from large-scale to small-scale industries.

Among the metal-workers, five had worked in large Ghanaian industrial firms prior to establishing their own enterprise.[30] All of them had found this experience useful. For instance, one manufacturer of agricultural machinery felt that his first job

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[25] Metal 20.

[26] Metal 20.

[27] Metal 7.

[28] Metal 7, 11, 13, 15 and 18.

[29] Metal 2, 5, 6, 10 and 14.

[30] Metal 1, 3, 6, 10 and 14.

in a large engineering company had provided him with a comprehensive introduction to machine-building. As he narrated:

> ... they taught me the mechanism of a machine. So when I came to fabricating, it let me know how to assemble machines, or dismantle it and assemble it again ... at that time, I was a pump mechanist. Then someone bought the pump for servicing, we assembled it and disassembled it and fixed it back. So, it let me know how to disassemble a thing and fix it back.[31]

Another respondent, who had never been to school, first acquired machine skills (and, in particular, lathe-turning) over a period of seven years while working for Pan African Engineering, a large Lebanese engineering firm.[32]

An interesting phenomenon, which previous surveys have failed to highlight, but which the Kumasi Survey reveals clearly, is the importance of work in large-scale industries *abroad*. Emigration was a typical response to the `long depression': at one time, there were more Ghanaian-trained doctors in West Germany than in Ghana, while Nigerian universities had more Ghanaian lecturers than Ghanaian higher education institutions themselves.[33] Among the metal-workers, two respondents had acquired industrial skills while working for a large-scale industry abroad. One had worked for Addis Engineering, a large manufacturing firm in Nigeria. He explained that, during his time there, he had practised using a centre lathe to produce pulleys for electric motors. This was a skill which he was using today to produce nuts and bolts for motor vehicles and agricultural machinery.[34] Another small industrialist had worked as a

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[31] Metal 1.

[32] Metal 3.

[33] Victor Azarya and Naomi Chazan, 'Disengagement from the State in Africa: Reflections on the Experience of Ghana and Guinea', *Comparative Studies in Society and History*, 29, 1 (1987), 118.

[34] Metal 6.

welder for Brystyle Industries, a large Nigerian battery and light bulb manufacturer, and still worked as a welder, producing water coolers, water tanks and iron gates.[35]

Apprenticeship The apprenticeship system has been a common means by which industrial skills have been acquired. In a typical apprenticeship, the apprentice works for a `master' while learning the trade. In return for his labour, the apprentice receives a small `chop wage', as well as occasional tips from customers. The duration of the apprenticeship varies according to the time required to master the trade. Apprenticeships in soap-making may last up to six months, while those in metal-working can be more than three years long.[36]

In the Kumasi Survey, only three metal-workers had not undertaken an apprenticeship before starting their firm. For the other 17 metal-workers, apprenticeships were crucial in developing small industry skills. A small-scale exhaust manufacturer is a case in point: with no formal school education at all, and only the experience of work on his family's cocoa farm, this exhaust builder completed a two year apprenticeship and then established his own firm immediately thereafter.[37] Given that this respondent had no previous formal education or business experience, it is difficult to conceive that he would have been able to start his own exhaust-building workshop had he not completed an apprenticeship.

In certain instances, an apprenticeship added to industrial experience already accumulated elsewhere. The agricultural machinery manufacturer, who first had learnt to assemble and disassemble machines in a large firm, completed an apprenticeship with a `master' machine builder afterwards. During this time, customers who had problems with their machines would often ask for advice and `I correct [*sic*] the problem and let

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[35] Metal 14.

[36] Thomi and Yankson, *Small Scale Industries*, 34.

[37] Metal 8.

me get some experience'.[38] In other cases, skills acquired during an apprenticeship were modified and then deployed to other fields. Thus, one metal-worker who had learnt burglar bar production during his apprenticeship, later realised that the burglar bar business was not particularly lucrative and used his skills to manufacture rice mills and nut crackers instead.[39] Similarly, a metal-worker who had undertaken a three year apprenticeship in hoe manufacturing, later adapted his skills to manufacture nuts and bolts.[40] An industrialist who had completed a three year apprenticeship in auto-electrics, went on to manufacture battery-chargers, transformers and welding machines.[41]

Learning-by-Observation A phenomenon which the Kumasi Survey reveals quite clearly, but which previous surveys have not stressed, is learning-by-observation. Many respondents in the Kumasi Survey claimed to have acquired their industrial skills by observing other small industrialists at work, typically, competitors, friends or relatives.

Many metal-workers acknowledged that they had learnt skills from their competitors. For example, one manufacturer of agricultural machinery remarked:

> ... not everyone know[s] everything. We teach one another. So if I'm making a machine, and I make mistake and someone come and tell me, please, this you have made a mistake then I agree. I let him teach me what to do.[42]

Another respondent, when asked if he learnt anything from others in the Suame Magazine, replied, `As for that actually, we learn from each other. We learn from each other ... As for competition, there is no competition. If you use some technology, you go to your friend and you learn from him'.[43]

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[38] Metal 1.

[39] Metal 4.

[40] Metal 7.

[41] Metal 20.

[42] Metal 1.

[43] Metal 7.

Even if the metal-workers were sometimes slow to concede that they had acquired skills from others, most were quick to claim to have imparted skills to their peers. Typical of this was one respondent who recounted:

> Some people ... do not learn the trade very well, so sometimes they have problems and they come over to me for advice, and I teach them, I advise them on what they should do. How to make their goods quality ... last year, I had a friend up here, and he didn't know how to do it very well, so ... he often came to me for advice and I gave him. I taught him almost everything I know. And now he's doing very well.[44]

While some learnt from other small industrialists, two of the respondents acquired their industrial skills by observing their fathers at work. One welder was introduced to his trade by watching his father, who was also an electric welder, at work after school.[45] Likewise, a cement-block machine-builder learnt to weld by observing his father who used to be a welder in a large construction company.[46]

3. Concluding Remarks

Conventional explanations cannot account fully for the `explosion' of small-scale industry in Ghana since the 1970s. Behind the growth of the small-scale industries in the Kumasi Survey, there is at least a broader story of skills acquisition. As one respondent who had attended an University technical school, completed an apprenticeship in the Suame Magazine, and worked in a large brewery in Nigeria before starting his small machine-building firm attested:

> ...I can say that all these fabrications and other[s] I'm doing are as the result of the accumulated working experience: from the University, when I lived here in the

[44] Metal 9.

[45] Metal 5.

[46] Metal 13.

Magazine, and in Nigeria. That is...all these places there were fabrication working places.[47]

Given the small size of the sample in the Kumasi Survey, it is difficult to know how far this finding may be generalised. The survey evidence does not permit any robust conclusions on the importance of skills acquisition in the growth of small-scale industries *in general*. Further research may clarify this issue. Admittedly, it is probable that metal-working requires a greater accumulation of industrial skills than, for instance, food-processing. Also, it is likely that learning-by-observation has been comparatively easy in the vast industrial `shanty town' of Suame than, for example, in a remote village with few small-scale industries. Nevertheless, it is still highly probable that *all* entrepreneurs do require *some* industrial skills, and any explanation of the growth of small-scale industries must take this into account.

If the findings of this survey are confirmed by other studies, then there would be two main implications. First, it would lend support to new `endogenous' growth theories which stress the importance of human capital formation in the process of economic growth.[48] As Crafts argues, `endogenous' models of growth accounting `stress the role of human capital and would imply that traditional growth accounting will give incorrect estimates of human capital's contribution to growth'.[49] The results of this study appear to confirm the importance of human capital formation in small industrial firm creation and hence economic growth.

Second, the battered reputation of the Ghanaian state's management of the economy[50] would have to be reassessed. This is because, wittingly or unwittingly, the

[47] Metal 10.

[48] Paul M. Romer, 'The Origins of Endogenous Growth', *Journal of Economic Perspectives*, 8, 1 (1994), 20-1. Norman Gemmell, `Evaluating the Impacts of Human Capital Stocks and Accumulation on Economic Growth: Some New Evidence', *Oxford Bulletin of Economics and Statistics*, 58, 1 (1996), 24-5.

[49] N.F.R. Crafts, 'Human Capital and Productivity in Advanced Economies', in John A. James and Mark Thomas (eds.), *Capitalism in Context. Essays on Economic Development and Cultural Change in Honour of R.M. Hartwell* (University of Chicago Press: Chicago, 1994), 190.

[50] Tony Killick, *Development Economics in Action. A Study of Economic Policies in Ghana* (Heinemann:

Ghanaian state has engineered a skills `explosion' since the 1960s. For instance, while only 13 per cent of the eligible age group was in secondary school in 1965, by 1986 this figure had risen to 35 per cent.[51] In 1986, Ghana's secondary school enrolment rate was higher than that of Zambia, Kenya, Côte d'Ivoire and Botswana.[52] By the 1990s, the Ghanaian state had played a major part in establishing an extensive network of technical education institutions, some of which were being `exported' to other African countries.[53] Finally, it was the state which created the conditions for the creation of large-scale industries from the 1960s. The Nkrumah government's Second Development Plan of 1959 had sought to `develop to the maximum' Ghana's `potential for industrialisation' and the state took a direct role in establishing large-scale industries.[54] In its broad form, successive governments followed this paradigm of state-led industrialisation until the Structural Adjustment Programme of the mid 1980s.[55]

London, 1978). Jonathan H. Frimpong-Ansah, *The Vampire State in Africa. The Political Economy of Decline in Ghana* (James Currey: London, 1991). Rimmer, *Staying Poor.*

[51] World Bank, *World Development Report, 1989* (World Bank: Washington, D.C., 1989), 218-21, cited in Stewart *et al.*, *Alternative Development Strategies*, table 2.1, 50.

[52] World Bank, *World Development Report, 1989*, 218-21, cited in Stewart *et al.*, *Alternative Development Strategies*, table 2.1, 50.

[53] Caroline Gockah, `ITTU idea glitters in the Mombasa "sun"', in GRATIS, *GRATIS News*, 13 (1991), 2. Sabina Anokye Mensah and Patrick Nimo, 'Rate of Exchange Rises for African Ideas', in GRATIS, *GRATIS News*, 10 (1990), 7.

[54] Ghana, *Second Development Plan, 1959-64* (Government Printer: Accra, 1959), 3, 17-9.

[55] Killick, *Development Economics*, ch. 11. Rimmer, *Staying Poor*, chs 6-7. Frimpong-Ansah, *Vampire State*, 99 ff.

APPENDIX 1. THE GROWTH OF SMALL-SCALE INDUSTRY, 1970-84.

Figures for the growth of small-scale industry have been derived by subtracting the number engaged in industrial firms engaging 30 or more workers from Population Census figures which show the total number of workers by economic sector.

For 1970:

• Number of workers in industrial firms engaging 30 or more workers: 43,632. Source: Ghana, *Industrial Statistics, 1970-72* (Accra: Central Bureau of Statistics, 1980), table 5, 11.

• Number of workers engaged in the industrial sector: 380,415. Source: *1970 Population Census*, cited in K. Ewusi, *The Size of the Labour Force and Structure of Employment in Ghana* (Legon: Institute of Statistical, Social and Economic Research, 1978), table 2.15, 84.

=> Number of workers in small-scale industries: 336,783.

For 1984:

• Number of workers in industrial firms engaging 30 or more workers: 55,604. Source: Ghana, *Industrial Statistics, 1982-84* (Accra: Central Bureau of Statistics, 1986), table 3.26, 62.

• Number of workers aged 15 or above engaged in the industrial sector: 588,418. Source: Ghana, *1984 Population Census of Ghana. Demographic and Economic Characteristics* (Accra: Statistical Service, 1987), table 11, 57-65.

=> Number of workers in small-scale industries: 532,814.

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