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# Birth of the *Zaibatsu*: Meiji Industrial Modernization

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## Abstract

After one and a half century of the Japanese Modernization entitled *Meiji Ishin* (Meiji Restoration) we are still studying, learning, and analyzing every aspect of that extraordinary Asian success in our noble national quest for the hopeful Arab renaissance. The Japanese insightful leadership seized the opportunity to develop many of Tokugawa institutions and had the unique experience of shaping a modern nation-state through the cautious selection of the best characteristics of Western: government, society, and economy.

Economic growth depends on an advanced industry. This study entitled: **Birth of the *Zaibatsu*: Meiji Industrial Modernization**, will try to explore that Eastern pioneering initiative by focusing on one factor which is linked to the economy, hoping to shade the way to reveal the essential role of those large capitalist enterprises, which was managed and directed by the elite *Samurai* families, in the success of the first Asian - Japanese miracle.

The Meiji administration tried at first to create a national industry to produce goods or services. The lack of funds forced the Japanese authorities to turn these industries over to a loyal private business sector that in return for extraordinary privileges would accommodate the government's objectives. This was the origin of the *Zaibatsu*.

The four main *Zaibatsu* were *Mitsui*, *Mitsubishi*, *Sumitomo*, and *Yasuda*, but there were many smaller concerns as well. While those monopolies holding companies directed the enterprise complexes in a pyramid fashion, stockholding relations cemented together with the companies within *Zaibatsu* complexes. The stock of members was seldom sold by other members to third parties. Beneath this structure of Cross Holding of Stocks, *Zaibatsu* drove the finance, heavy industry and shipping sectors that manufactured the heart of Japan's economy.

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During the imperial expansion, the *Zaibatsu* economic power inundated the sectors of finance, trading and many major large-scale industries. From 1914 to 1929, three *Zaibatsu* (*Mitsui*, *Mitsubishi*, and *Sumitomo*) controlled 28% of the total resources of the top 100 Japanese institutions. Indeed, as of 1945, the same complexes possessed 22.9% of the total resources of all Japanese stock companies.

After the end of World War II, the Allied occupation authorities ordered the *Zaibatsu* dissolved. Stock possessed by the parent companies was put up for sale, and individual companies of the *Zaibatsu* realms were freed from the control of mother-companies.

After discussing the conditions that led to the rise and fall of those giant family enterprises, then analyzing the different circumstances that made the outcome, we hope to provide answers that highlight the reasons for the success of the Japanese Industrial Modernization to learn from, in our national hope for a better future.

**Keywords:** History - Japan – Modernization – Meiji Restoration – Industry Development.

## الملخص:

بعد قرن ونصف من التحديث الياباني تحت عنوان "الإصلاح المايجي"، ما نزال ندرس ونحلل ونتعلم من هذا النجاح الآسيوي المبهر في سعينا القومي النبيل لنهضة الأمة العربية من جديد. إن القيادة اليابانية الحكيمة اغتتمت تلك الفرصة التاريخية لتطوير مؤسساتها الموجودة من عصر التوكوغاوا مع الاختيار الدقيق لأفضل الأنظمة الغربية في تنظيم العمل الحكومي وتطوير المجتمع والنمو الإقتصادي.

إن الريادة الاقتصادية تستند على التقدم الصناعي، ومن هنا فإن عنوان هذه الورقة البحثية:

**ولادة الزيابتسو: التحديث الصناعي في عصر المايجي**، في محاولة لسبر أغوار تلك التجربة المشرقية الرائدة من باب الاقتصاد. حيث كان الدور الرئيس لها عبر الشركات الرأسمالية الضخمة، والتي كانت تدار من قبل كبار عائلات الساموراي، وساهمت في تحقيق المعجزة الآسيوية – اليابانية الأولى.

منذ البداية، حاولت الدائرة المحيطة بالإمبراطور مايجي إنشاء اقتصاد وطني قوي يتكفل بتأمين المستلزمات والخدمات المحلية، ولكن بسبب نقص الرأسمال الحكومي تم تجبير الصناعة بمجملها إلى قطاع أعمال وطني كفو، مقابل تقديم امتيازات خاصة، ومن هنا كانت فكرة "الزيابتسو".

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تكونت الزيابتسو من الأربعة الكبار، وهم: ميتسوي وميتسوبيشي وسوميتومو وياسودا، مع العديد من تفرعاتها الأصغر. لقد كانت عبارة عن احتكارات وطنية كبرى تدير الشركات المتعددة وفقاً لنظام هرمي صارم. كانت مجالات عملها الرئيسية تتمثل في الصناعات الثقيلة واستخراج الفحم الحجري وعمليات الشحن التي شكلت رئة الاقتصاد الإمبراطوري الياباني الناهض.

خلال ذروة التوسع الاستعماري الياباني (1914 - 1929) تحكمت الزيابتسو بجميع قطاعات التصنيع والتصدير والتمويل والتجارة، داخل الجزر الأم وفي المستعمرات. لدرجة أن ثلاثة من أركانها (ميتسوي وميتسوبيشي وسوميتومو) استحوذوا على 28% من أصول أكثر من 100 شركة يابانية. ومع بدء وضع الحرب أوزارها عام 1945، كانت نفس المجمعات تمتلك 22.9% من إجمالي الأصول لجميع شركات الأسهم اليابانية، وكان من المستحيل تجيير هذه الأسهم إلى طرف ثالث.

مع نهاية الحرب العالمية الثانية أمرت سلطات الاحتلال بحل منظومة الزيابتسو، حيث تم بيع أسهمها المملوكة في السوق، وتحررت الشركات الفردية والصغيرة من سيطرة الأربعة الكبار.

من هنا، وبعد عرض وتحليل الظروف المحيطة بصعود واندثار تلك الشركات العائلية العملاقة لأحفاد الساموراي، أمل في تقديم إجابات لتسليط الضوء على أسباب نجاح التحديث الصناعي الياباني في مطلع القرن العشرين للاستفادة والاقْتباس منه، لعلنا بغد عربي أفضل يلعب التصنيع بعد التعليم الدور الرئيسي لبنائه.

**الكلمات المفاتيح:** التاريخ - اليابان - الإصلاح الميجي - التحديث - التطور الصناعي.

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## The Meiji Economic Renaissance

By the end of the *Tokugawa* period<sup>1</sup> the Japanese economy was rudimentary and relied on agriculture, textile manufactures, fishing, and pearl hunting, while foreign trade was tied by unfair agreements with Western countries. The lack of funds forced the new Japanese authorities to turn these industries over to a loyal private business sector that in return for extraordinary benefits would oblige the government's objectives. As a result, the *Meiji* government sold those small industries (which the *Shogunate* had spent years developing)<sup>2</sup> to the highest bidder, permitting numerous motivated tradesmen descended from the Samurai class to engage in the privatization of the economy.

The Japanese master plan was based on:

1. Sustain of Japanese specialists through study and training abroad, at engineering schools and universities, and on-site at state-owned factories.
2. Investment in munitions plants, railways, mining, shipbuilding, and agriculture.
3. Transfer of state-owned enterprises to the private sector.
4. Foundation of indigenous *Zaibatsu* by assisting *Seisho*<sup>3</sup> and the easing out of foreign interests.
5. Encouraging invention and domestic production through industrial expositions.

Since the beginning of the *Meiji-tennō*<sup>4</sup> rule in 1868, under the slogan *fukoku kyohei*<sup>5</sup>, there was a shift towards the development and modernization of the economy by creating the *Zaibatsu*<sup>6</sup>, which was a natural result of both the decline of the old money changing businesses and the end of the classic warrior's domination.

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<sup>1</sup> *Tokugawa Shogunate* 徳川幕府, (1603–1867), the final period of traditional Japan, a time of internal peace, political stability, and economic growth under the *shogunate*, which is a kind of military dictatorship. The shogun role achieved hegemony over the entire country by balancing the power of potentially hostile domains *tozama* with strategically placed allies *fudai* and collateral houses *shimpan*. The resulting system of semi-autonomous domains directed by the central authority of the Tokugawa *Shogunate* lasted for more than 250 years.

Howell, D. (1998). Territoriality and Collective Identity in Tokugawa Japan. *Daedalus*, 127(3), 105-132. Retrieved November 1, 2020, from <http://www.jstor.org/stable/20027509>

<sup>2</sup> Smith, T. (1948). The Introduction of Western Industry to Japan During the Last Years of the Tokugawa Period. *Harvard Journal of Asiatic Studies*, 11(1/2), 130-152. doi:10.2307/2718077

<sup>3</sup> Influential businessmen

<sup>4</sup> Reigning from February 3, 1867 until Emperor *Meiji* death on July 30, 1912.

Huffman, James (2019). *The Rise and Evolution of Meiji Japan*, NY: Renaissance Books.

<sup>5</sup> Enriching the country, strengthening the army.

Kublin, H. (1949). The "Modern" Army of Early Meiji Japan. *The Far Eastern Quarterly*, 9(1), 20-41. doi:10.2307/2049123

<sup>6</sup> Literally translation from Britannica: "Wealthy Clique."

*Zaibatsu*. (n.d.). Encyclopedia Britannica. <https://www.britannica.com/topic/zaibatsu>. Accessed 4 Nov. 2020.

Timeline of the Meiji Restoration		
year	month	Major events
1867	November	Shogun tenders resignation to the Emperor
1868	January	Declaration of Imperial Rule
	January	Battle of Toba-Fushimi
	May	Agreement of the peaceful opening of Edo Castle
	October	Imperial decree changing the name of the era to Meiji
1869	June	Goryokaku castle surrendered
1871	August	Abolition of domains ( <i>han</i> ) and establishment of prefectures ( <i>ken</i> )
	December	Iwakura Mission ( - September, 1873)
1873	October	Political upheaval caused by debate on the subjugation of Korea
1876	March	Sword Abolishment Edict
	August	Abolition of hereditary stipends
1877	February	Satsuma Rebellion (Seinan War)
1881	October	Failed Meiji-14 (1881) coup d'etat
1885	December	Inauguration of Cabinet system
1889	February	Establishment of the Constitution
1890	July	First general election of members of the House of Representatives
	November	First session of the Imperial Diet

- Timeline of the Meiji Restoration 1 Figure

*Meiji seifu*<sup>1</sup> steadily developed various components of infrastructure for national development. A nation-wide postal/telegram network was established, and a series of civil engineering works were started to expand land transport and water supply networks. Within the late 1890s, national railway construction was started, and in 1870 the Ministry of Engineering was created to manage these infrastructure development programs.

Starting from the first year of the *Meiji* reign in 1868, the public schemes published to revive the rural native economy became known as the General Plans for Commerce and Industry, with the following economic developments taking place:

<sup>1</sup> The Government of *Meiji* Japan 明治政府.

Silberman, B. (1976). Bureaucratization of the Meiji State: The Problem of Succession in the Meiji Restoration, 1868-1900. *The Journal of Asian Studies*, 35(3), 421-430. doi:10.2307/2053273

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## A/ Creating a Modern Financial Sector

The monetary reform was of the most important pillars of the economic boom during this era. At the beginning of the *Meiji* era, the rice was the unit of measurement and was used for exchanges in rural areas, while in the main cities various coins were used. These differences in money and standards of wealth measurement guaranteed that rice became the standard by which wealth was measured and power maintained, and it was the key to the Japanese economy.<sup>1</sup>

*Tokugawa* coinage fell apart following the reopening of Japan to the West in 1854, under the threat of Commodore Perry *Kurofune*<sup>2</sup> as the silver-gold rates gave huge opportunities for arbitrage to foreigners, leading to the loss of large quantities of gold to exportation. Foreign arbitrage led to a massive outflow of gold, as gold exchanged for silver in Japan with a 1:5 ratio, while that ratio was 1:15 abroad. Amid the *Bakumatsu*<sup>3</sup> period in 1859, Mexican dollars were even given official currency in Japan, by coining them with marks in Japanese and officializing their exchange rate of three *Bu*. They were called *Aratame Sanbu Sadame*.<sup>4</sup>



Figure 2 - Silver coin 1859

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<sup>1</sup> Randall Morck and Masao Nakamura. (2007). *Business Groups and the Big Push: Meiji Japan's Mass Privatization and Subsequent Growth*, Massachusetts: National Bureau of Economic Research, p. 10.

<sup>2</sup> Black Ships 黒船.

Kitahara, M. (1986). Commodore Perry and the Japanese: A Study in the Dramaturgy of Power. *Symbolic Interaction*, 9(1), 53-65. doi:10.1525/si.1986.9.1.53

<sup>3</sup> 幕末 *bakumatsu*, a compound word, translatable as "the end" or *matsu* of the military government or *baku*, which abbreviates *bakufu*, in turn literally meaning "tent-government".

<sup>4</sup> 改三分定, "Fixed to the value of three *bu*".



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In 1871, the Japanese authorities decided to apply the decimal system<sup>1</sup>. They also named the main national currency the Yen<sup>2</sup>. Invisible infrastructures were also arranged. A patent regulation was issued in 1885, and a unified metric system was introduced in 1891<sup>3</sup>. Nevertheless, the financial breakthrough occurred in 1897<sup>4</sup> when the Gold Standard<sup>5</sup> was approved and started resembling other developed nations at that time.

Japanese banks had been established in 1872, according to the American system under the code of “National Bank Act”<sup>6</sup>. Finally, the Central Bank of Japan<sup>7</sup> was founded in the year 1882<sup>8</sup>, inspired by the Belgian model<sup>9</sup> after a period of unanticipated consequences was ended in *Meiji* 15 (October 10, 1882), under the Bank of Japan Act 1882 (June 27, 1882).

## **B/ Development of the Traditional Economy**

The traditional economy of the nineteenth century Japan consisted of agriculture, fishing, and textile manufacturing. Modernization of the economy resulted from importing the best and most fruitful seeds, as well as using electric power and fuel engines installed on fishing vessels<sup>10</sup>, in addition to operating small laboratories in the inherited manner and using imported machines, which increased the productivity of cotton and silk textiles.

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<sup>1</sup> Decimalization is the conversion of a measurement system to units related by powers of 10, replacing traditional units that are related in other ways, such as those formed by successive doubling or halving, or by more arbitrary conversion factors.

<sup>2</sup> Droppers, G. (1898). Monetary changes in Japan. *The Quarterly Journal of Economics*, 12(2), 153.  
<https://doi.org/10.2307/1882117>

Yen (Japanese: 円 Hepburn: en, symbol: ¥; code: JPY; also abbreviated as JP¥)

<sup>3</sup> The Central Institute for Weights and Measures was established as early as 1870.

<sup>4</sup> Laughlin, J. (1897). The Gold Standard in Japan. *Journal of Political Economy*, 5(3), 378-383. Retrieved November 4, 2020, from <http://www.jstor.org/stable/1817753>

<sup>5</sup> A gold standard is a monetary system in which the standard economic unit of account is based on a fixed quantity of gold. Three types can be distinguished: specie, bullion, and exchange.

*What is the gold standard?* (n.d.). Investopedia. <https://www.investopedia.com/ask/answers/09/gold-standard.asp>. Accessed 7 Nov. 2020.

<sup>6</sup> Brought the central government into dynamic supervision of commercial banks. It established the Office of the Comptroller of the Currency with the responsibility of chartering, examining, and supervising all local banks.

<sup>7</sup> The Bank of Japan 日本銀行 Nippon Ginkō, BOJ, JASDAQ: 8301

<sup>8</sup> **The Bank of Japan Act of 1882** is promulgated; the Bank is to have a capital of 10 million yen and is given a license to operate for 30 years from the start of business.

*History: 日本銀行 bank of Japan.* (n.d.). ホ一ム: 日本銀行 Bank of Japan.  
<https://www.boj.or.jp/en/about/outline/history/index.htm>. Accessed 8 Nov. 2020.

<sup>9</sup> Willy Walle (2007) *Institutions and ideologies: the modernization of monetary, legal and law enforcement 'regimes' in Japan in the early Meiji-period (1868-1889)*, Universiteit Leuven: FRIS Katholieke.

<sup>10</sup> William W. Lockwood. (1964). *The Economic Development of Japan: Growth and Structural Change 1868-1938*. Princeton University Press, p. 584.

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**Table (1) - Raw Silk Production and Export from Japan 1868 to 1913**

Period	Production annual average (tons)	Exports annual average (tons)
1868-1872	1026	646
1883	1687	1347
1889-1893	4098	2444
1899-1903	7103	4098
1909-1913	12460	9462

Agriculture confronted new changes during the latter modernization effort. The enlightened thinking encouraged during this period permitted farmers to own the land they worked on. Peasants were allowed to move freely and sell their products anywhere within their prefectures. With this change came a 3% land tax imposed on the farmers.

In the *Bakumatsu* era, taxes were paid in crops such as rice, but now were paid in Yen. Taxes were calculated as a proportion of the cash value of the land instead of the actual crop yield<sup>1</sup>. The landowner, affirmed by the issuance of land bonds, was obligated for the taxes instead of the farmer. The land tax caused numerous riots. To resolve this, the tax was lowered to 2.5% instead of 3%. Many farmers had their land confiscated due to their inability to pay taxes.

By the end of the *Meiji* Period, 67% of peasant families were forced to tenancy<sup>2</sup>. Agriculture was dominated by a tenant farming system. Families were regularly driven to pay over half their crops as a lease. In an attempt to pay taxes, relatives were strongly influenced to send their wives and daughters to textile mills<sup>3</sup>. Many families had a difficult time making ends meet; to make additional cash, daughters were forced into prostitution.

Circumstances went downhill when the deflationary government introduced a new fiscal policy in 1881-1885<sup>4</sup>. This policy economically lacked rice prices which

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<sup>1</sup> WATERS, N. (1983). *Japan's Local Pragmatists: The Transition from Bakumatsu to Meiji in the Kawasaki Region*. Cambridge (Massachusetts); London: Harvard University Asia Center. Retrieved November 6, 2020, from <http://www.jstor.org/stable/j.ctt1tfjb9d>

<sup>2</sup> Smith, T. (1956). Landlords and Rural Capitalists in the Modernization of Japan. *The Journal of Economic History*, 16(2), 165-181. Retrieved November 6, 2020, from <http://www.jstor.org/stable/2114114>

<sup>3</sup> Tsurumi, E. Patricia. (1990). *Factory Girls: Women in the Thread Mills of Meiji Japan*. Princeton University Press.

<sup>4</sup> **Matsukata Deflation:** Tax Reform of 1873–1881. Under the new system:

1. a taxpayer paid taxes with money instead of rice.
2. taxes were calculated based on the price of estates, not the amount of the agricultural product produced.
3. tax rates were fixed at 3% of the value of estates and an estate holder was obliged to pay those taxes.



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led to bankruptcies and rural uprisings against the government. The first agriculture cooperatives were established in the 1900s. These served in rural areas as credit unions and purchasing cooperatives. The government was involved in these changes as they created the taxes. Farmers were included since they were directly affected by the changes. Many riots broke out which led to the reduction of taxes. The adjustments started in 1873 and continued until 1900. These changes mostly affected the Hokkaido, Honshu, Shikoku, and Kyushu areas where most of the farming took place. The land tax was presented to pay for urban development. The changes affected numerous farmers as they had to give up their land giving Japan more value for the farmland. Those enhancements in agriculture were both positive and negative.

In textiles, which had been the pillar industry in Japan<sup>1</sup>, although the government's activities were limited mainly to technological support for quality improvement and control, the operations of government turning factories had a substantial demonstration effect on private activity in the sector. The sector invigorated the adoption of modern technology with some adjustments to fit the Japanese environment<sup>2</sup>.

With the divestiture of government-run factories, the Ministry of Engineering was nullified in 1890. The Ministry of Interior performed general supportive functions for the industry until 1890, and the then-formed Ministry of Agriculture and Commerce took over the role afterward.

The latter steps of development accelerated the traditional economy, but this vast development later receded because the state interest shifted to the heavy industries in favor of the military. The state also took a series of inhumane economic measures to force numerous farmers to leave their land and villages to join the productive sectors, administrative or military. This agrarian reform was too arbitrary, and the imposing of large taxes on land and agricultural production together caused an exodus from the countryside to the cities.

## **C/ Promoting International Trade Regime**

After more than two hundred years of isolation from international trade, Japan reappeared in the international trade arena through the almost peaceful conclusion of a

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The new tax system was profoundly diverse from the traditional tax gathering system, which required taxes to be paid with rice varied according to location and the amount of rice produced. The new system took some years to be accepted by the Japanese citizens.

ERICSON, S. (2014). The "Matsukata Deflation" Reconsidered: Financial Stabilization and Japanese Exports in a Global Depression, 1881–85. *The Journal of Japanese Studies*, 40(1), 1-28. Retrieved November 7, 2020, from <http://www.jstor.org/stable/24242624>

<sup>1</sup> Textiles accounted for 30% of industrial production and 60% of industrial exports.

<sup>2</sup> Technologies employed by the Government operated factories tended to be too capital intensive for private entrepreneurs who embraced less capital-intensive technologies.

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trade treaty with the United States in 1858<sup>1</sup>. Similar treaties with other trading powers followed in successive years. As a result of these treaties, Yokohama, Kobe and a few more ports were opened<sup>2</sup>.

Up until around 1900, industrial development took place under an almost neutral trade regime. This was not fundamentally desired by the Japanese government. It was not permitted to have independent authority over the formulation of tariffs until 1899. Until that year, tariff rates, which had been bound by an international treaty, were 5% or less. Export was also burdened to a similar extent. Quantitative restrictions played no role until 1931.

The growth of ocean fleets played an important role within the expansion of trade. The total tonnage of Japanese ocean fleets was 23,000 in 1872. It jumped to 3.05 million by the end of the *Meiji* era in 1912.

Year	Number of Steamships
1872	23
1873	26
1894	169
1904	797
1913	1514

Japan's industry was drastically transformed, creating an effective militarized economy. Some reforms included new railroads to join all four major islands, shipping lines, telegraph and telephone systems, and deep-water harbors to allow bigger ships. Besides, 53 consumer products were created. Examples include

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<sup>1</sup> It was just sixteen years after the Treaty of Nanking, which was imposed on China by the colonial powers because of the Opium War (1840-1842).

Wakabayashi, B. (1992). Opium, Expulsion, Sovereignty. China's Lessons for Bakumatsu Japan. *Monumenta Nipponica*, 47(1), 1-25. doi:10.2307/2385356

<sup>2</sup> Horie, Y. (1952). FOREIGN TRADE POLICY IN THE EARLY MEIJI ERA. *Kyoto University Economic Review*, 22(2 (53)), 1-21. Retrieved November 8, 2020, from <http://www.jstor.org/stable/43216999>

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munitions, gunpowder, silk and textile, glass, chemical plants, iron smelters, and spinning mills.

The government was involved in these changes as it funded and owned many industries. But after several years, most government-owned factories were handed over to private businesses. This happened to help jump-start capitalism.

Before the Restoration, a few foreign trading companies had some stakes in the mining sectors<sup>1</sup>. These foreign stakes were obtained back by the new government. Foreign firms resumed direct investment in Japan only after 1899. Most foreign investments were joint ventures, and mostly in technology-intensive sectors such as electrical machinery and automobiles, established through the initiatives of Japanese enterprises that encountered a high demand from foreign enterprises for equity participation in exchanges of technology, hardware, and equipment<sup>2</sup>.

#### **D/ Birth of the *Zaibatsu*<sup>3</sup> Monopolies**

The *Zaibatsu* were formed from the *Meiji* government's policies of state entrepreneurialism<sup>4</sup>, which characterized the modernization of the economy amid that era. To understand the significance of *Zaibatsu*, one must consider that at the onset of the *Meiji* era agriculture comprised 70%<sup>5</sup> of Japan's national production, and approximately three-quarters of Japanese worked in farming-related employments.

The *Meiji* government's main plan was to carry out a major industrial renaissance that contributed to military modernization. Economic planning for this started by supporting infrastructure and the amplification of the railway networks. The first railway line was opened between the cities of Yokohama and Tokyo in the year 1872, and government control on all construction continued until the year 1877. Private institutions then built the Tokaido line between the cities of Tokyo and Kobe. Economic encouragement was based on the same principle--an initiative of the state at the beginning followed by private sector investment.

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<sup>1</sup> Takashima, one of the biggest coal mines then in Japan, was owned by British merchant Thomas Blake Glover, and the first steam railways extended from Tokyo to Yokohama was an investment by Americans.

McKay, Alexander. (1993). *Scottish Samurai: The Life of Thomas Blake Glover*. Canongate Books.

<sup>2</sup> Toshiba-General Electric for electric valves, Furukawa-Siemens for copper cables, were two examples of these joint ventures.

<sup>3</sup> Financial Clique 財閥 (literally)

John G. Roberts. (1973). *Mitsui: Three Centuries of Japanese Business*. Weather Hill.

<sup>4</sup> Definition: The ability to start new businesses, especially when this involves seeing new opportunities to make money.

*Entrepreneurialism* | meaning in the Cambridge English dictionary. (n.d.). Cambridge Dictionary | English Dictionary, Translations & Thesaurus. <https://dictionary.cambridge.org/dictionary/english/entrepreneurialism>. Accessed 11 Nov. 2020.

<sup>5</sup> Hideichi Horie. (1962). *The Agricultural Structure of Japan in the Period of Meiji Restoration*. Kyoto University Economic Review, p. 1-23.

Table (3) - Railroad Mileage in Japan in Various Years from 1873 to 1913	
Year	Track (miles)
1872	18
1883	240
1887	640
1894	2100
1904	4700
1914	7100

Japanese industry also adopted a system of sending Japanese missions to take advantage of Western science, and at the same time appointed Western experts in Japanese factories to benefit from their expertise<sup>1</sup>. This was followed by the Japanese state implementing several large economic projects in heavy industry, in other words, the industries that the private sector aimed to build-up through self-funds and which required buying Western equipment administered by Western technology.

It must be noted that most factories were sold to the private sector during the 1880s, with several exceptions in military production facilities<sup>2</sup>, because of the fiscal crisis that resulted from civil wars in Japan. As this divestiture was associated with the transfer of technological resources from the public sector to the private sector, it offered private business opportunities to transform commercial capital into industrial capital and helped to form the *Zaibatsu* bunches as a result.

Japan has been at the forefront of countries that have adopted privatization and did this through the sale of public enterprises to private sector companies, which in turn led to the occurrence of a group of large companies, consisting of private conglomerates called *Zaibatsu*. This term is an abbreviation of the Japanese words referring to the great economic blocs and includes companies and large organizations in all areas such as railways, mines, the shipbuilding industry, the textile industry, banks, insurance companies, etc. Unlike modern shares, stocks served to divide ownership of the issuing companies rather than to raise capital, and so bank loans and bonds became the essential impetus for financing the growth of Japan's private sector.<sup>3</sup>

Companies and organizations consist of two types:

<sup>1</sup> Hazel J. Jone. (1980). *Live Machines: Hired Foreigners and Meiji Japan*. University of British Columbia Press.

<sup>2</sup> Yamamura, K. (1977). Success Illgotten? The Role of Meiji Militarism in Japan's Technological Progress. *The Journal of Economic History*, 37(1), 113-135. Retrieved November 9, 2020, from <http://www.jstor.org/stable/2119450>

<sup>3</sup> Randall Morck and Masao Nakamura. (2005). *A Frog in the Well Knows Nothing of the Ocean – A History of Corporate Ownership in Japan*. University of Chicago Press, p. 414.

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A/ The Big Four<sup>1</sup>, the most successful of these businesses<sup>2</sup>, which were the first proper *Zaibatsu*:<sup>3</sup>

- Mitsubishi (三菱財閥)
- Mitsui (三井財閥)
- Sumitomo Group (住友財閥)
- Yasuda (安田財閥)

B/ *Zaibatsu* “second-tier”, consisting of:

- Taiheiyo Cement/Asano (浅野財閥)
- Fujita (company)/Fujita (藤田財閥)
- Fuji Electric/Furukawa (古河財閥)
- Showa Denko/Mori (森コンツェルン)
- Kawasaki Heavy Industries, Ltd. (川崎財閥)
- Nakajima Aircraft Company (中島飛行機)
- Chisso/Nitchitsu (日窒コンツェルン)
- Nissan Group (日産コンツェルン)
- Nippon Soda Co./Nisso (日曹コンツェルン)
- Nomura Group (野村財閥)
- Taisei Corp.Okura (大倉財閥)
- Riken (理研コンツェルン)
- Shibusawa Eiichi (渋沢財閥)<sup>4</sup>

These private parties and enterprises crystallized over time into large, integrated complexes controlled by the government bureaucrats into areas of development

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<sup>1</sup> *Yondai Zaibatsu* 四大財閥

<sup>2</sup> Yamamura, K. (1964). *Zaibatsu, prewar and Zaibatsu, postwar*. *The Journal of Asian Studies*, 23(4), 539-554.  
<https://doi.org/10.2307/2050237>

<sup>3</sup> Takeo Hoshi and Anil Kashyap. (2001). *Corporate Financing and Governance in Japan*. MIT Press, p. 9.

<sup>4</sup> Rapp, W. V. (1994). *Zaibatsu: The rise and fall of family enterprise groups in Japan*. By Hidemasa Morikawa. Tokyo: University of Tokyo Press, 1992. 283, *The Journal of Asian Studies*, 53(3), pp. 946-947.  
<https://doi.org/10.2307/2059773>

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craved for the reformation of Japan. To secure compliance, the government provided inducements such as exclusive licenses, capital funding, and other privileges. Although Japan severely needed foreign technology know-how and capital, the government adopted a policy of shutting out foreign entrepreneurs with few exceptions in favor of domestic development.

### **E/ *Zaibatsu* Effect: Increasing Exports and Boosting Trade with the new Colonies**

The *Zaibatsu* goals focused on a central point; to convert Japan into a rich country, with a very modern army that has cohesion and discipline, and to deal with advanced Western countries as equals. From this point onward the Japanese imperialism trend began in line with its counterpart, Western colonialism.

By the end of the Sino-Japan war<sup>1</sup>, and with the Taiwan Island colonized in 1895, Japan encouraged the cultivation of sugar canes for domestic consumption from 1901 to 1910, during which most of Taiwan's<sup>2</sup> land was devoted to sugar cane production.

As for Korea<sup>3</sup>, where there was a small amount of iron ore, the major natural wealth was agricultural land and its products, especially rice, and the Japanese colonizers encouraged this type of agriculture.

Despite the economic domination of these colonies, the volume of trade exchange remained insignificant. For example, the volume of imports from the colonies for total commerce with other countries increased from 1.7 percent in the period 1894-1903 to 6.9 percent in the period from 1904-1914, and then export to the colonies increased from 2.7 percent in 1894-1903 to 7.8 percent during 1904-1914<sup>4</sup>.

After the Russo-Japanese War<sup>5</sup>, several "second-tier" *Zaibatsu* also emerged, mostly because of business conglomerations. A few more popular second-tier *Zaibatsu* included the Okura, Furukawa, Nakajima Aircraft Company, and Nissan

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<sup>1</sup> BIAN, M. (2002). The Sino-Japanese War and the Formation of the State Enterprise System in China: A Case Study of the Dadukou Iron and Steel Works, 1938—1945. *Enterprise & Society*, 3(1), 80-123. Retrieved November 10, 2020, from <http://www.jstor.org/stable/23699998>

<sup>2</sup> PING-HUI, LIAO, and DAVID DER-WEI WANG, editors. (2006) *Taiwan Under Japanese Colonial Rule, 1895-1945: History, Culture, Memory*, NY: Columbia University Press.

<sup>3</sup> Iyenaga, T. (1912). Japan's Annexation of Korea. *The Journal of Race Development*, 3(2), 201-223. doi:10.2307/29737953

<sup>4</sup> Benjamin J. Cohen. (1973) *The Question of Imperialism, The Political Economy of Dominance and Dependence*, New York: Basic Books, p. 62.

<sup>5</sup> The Russo-Japanese War. (1904). *The Advocate of Peace (1894-1920)*, 66(3), 42-44. Retrieved November 16, 2020, from <http://www.jstor.org/stable/25752278>



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groups, among a few others. The *Zaibatsu* grew most rapidly during World War I<sup>1</sup> with Japan's limited involvement in the war giving it industrial and commercial advantages.

The Japanese government was also committed to settling over five million Japanese citizens in the puppet state of Manchukuo<sup>2</sup>, set up to administer what was once Manchuria<sup>3</sup>, and had already decided to establish modern farms and factories there to further fuel their massive war machine for a thrust into China. The demand for war material was so great that the Japanese government awarded dozens of profitable contracts to the Big Four as well as the new, "second-tier" *Zaibatsu*<sup>4</sup>.

This rapid expansion would in the long run help to unseat the families in control of the *Zaibatsu* from direct oversight and ownership of the companies which bore their names. The private owners of these companies realized that they could raise twice as much capital and still maintain direct control over their business ventures by allowing 49 percent of the shares of their principal holding company to be sold publicly, which would prop up the cost of their shares as well as supply income from which they could fund still more business enterprises.

For each of these new enterprises, up to 49 percent of shares could be sold, significantly expanding the capital beneath the command of the *Zaibatsu* whereas still permitting direct control of each of their auxiliaries. At the same time, the families themselves and their tremendous fortunes were protected from any legal action or financial loss in any of their subsidiaries; each one was independently consolidated and had its own distinct group of shareholders.<sup>5</sup>

We conclude that Japan's economic policy left negative effects on Japanese society; particularly because of the *Meiji* government's focus on the heavy industries, which aimed to militarize modernization to counter the Western powers. The industrial concentration had been focused near cities and disregarded the countryside, which led to labor migration from the countryside to the city. As the new industries only rarely reached capital surplus that allowed them to absorb the constant surplus

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<sup>1</sup> Melzer, Jürgen. (2017) *Warfare 1914-1918 (Japan)*, in: 1914-1918. International Encyclopedia of the First World War, ed. by Ute Daniel, Peter Gatrell, Oliver Janz, Heather Jones, Jennifer Keene, Alan Kramer, and Bill Nasson, issued by Freie Universität Berlin, Berlin. DOI: [10.15463/ie1418.11172](https://doi.org/10.15463/ie1418.11172).

<sup>2</sup> Manchukuo 滿州国 "State of Manchuria" was a puppet state of the Empire of Japan in Northeast China and Inner Mongolia from 1932 until 1945.

Akagi, R. (1933). Japan and the Open Door in Manchukuo. *The Annals of the American Academy of Political and Social Science*, 168, 54-63. Retrieved November 17, 2020, from <http://www.jstor.org/stable/1019036>

<sup>3</sup> Manchuria 滿洲; is a name first used in the 17th century by Chinese people to refer to a large geographic region in Northeast Asia.

*Manchuria*. (n.d.). Encyclopedia Britannica. <https://www.britannica.com/place/Manchuria>. Accessed 16 Nov. 2020.

<sup>4</sup> *A History of Corporate Ownership in Japan*, 2005, p. 23.

<sup>5</sup> *A History of Corporate Ownership in Japan*, p. 25.

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of labor, the wages in the city tended to be low-level to low wages, and so workers' conditions did not comply with the labor law.

Major mistakes in the application of the agrarian reform pushed the farmworkers to emigrate towards the cities without any hope to find jobs there, putting the Japanese countryside in a situation of permanent tension<sup>1</sup>. By increasing the tax burdens through the introduction of the land tax and indirect taxes, which was also accompanied by a recession of agricultural production, the poverty situation in villages worsened, ultimately leading to the commencement of the Social Questions.

During the industrial boom that accompanied the Sino-Japanese war, factory workers had gone on strike demanding better working conditions and higher wages in several parts of the country, and only in the year 1897 were more than 40 industrial actions taken<sup>2</sup>. The conditions continued to worsen in the factories and then an outbreak of war with Russia took place in 1904. The unrest during the years 1906 and 1907 was the most violent since the beginning of the industrial era in Japan, and it clearly pointed to the proclivities of workers to the revolution because of the pressures that they were confronted with. Soon after, the workers' movement transformed into a political movement, and the Japan Socialist Party was created in 1906<sup>3</sup>, which was banned in next year.

The *Zaibatsu* most rapid growth occurred particularly during World War I, when Japan's limited engagement in the war gave it incredible industrial and commercial advantages, then boosted on during World War II when the Japanese Wartime Empire<sup>4</sup> *Dai Nippon Teikoku* adopted her colonial slogan Promote Industry *Shokusan Kōgyō*<sup>5</sup> in the declared Greater East Asia Co-Prosperity Sphere<sup>6</sup> *Dai Tōa Kyōeiken*.

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<sup>1</sup> Mulgan, A. (2005). Where Tradition Meets Change: Japan's Agricultural Politics in Transition. *Journal of Japanese Studies*, 31(2), 261-298. Retrieved November 24, 2020, from <http://www.jstor.org/stable/25064569>

<sup>2</sup> *History of Showa 1926-1989*, 1998), p. 6.

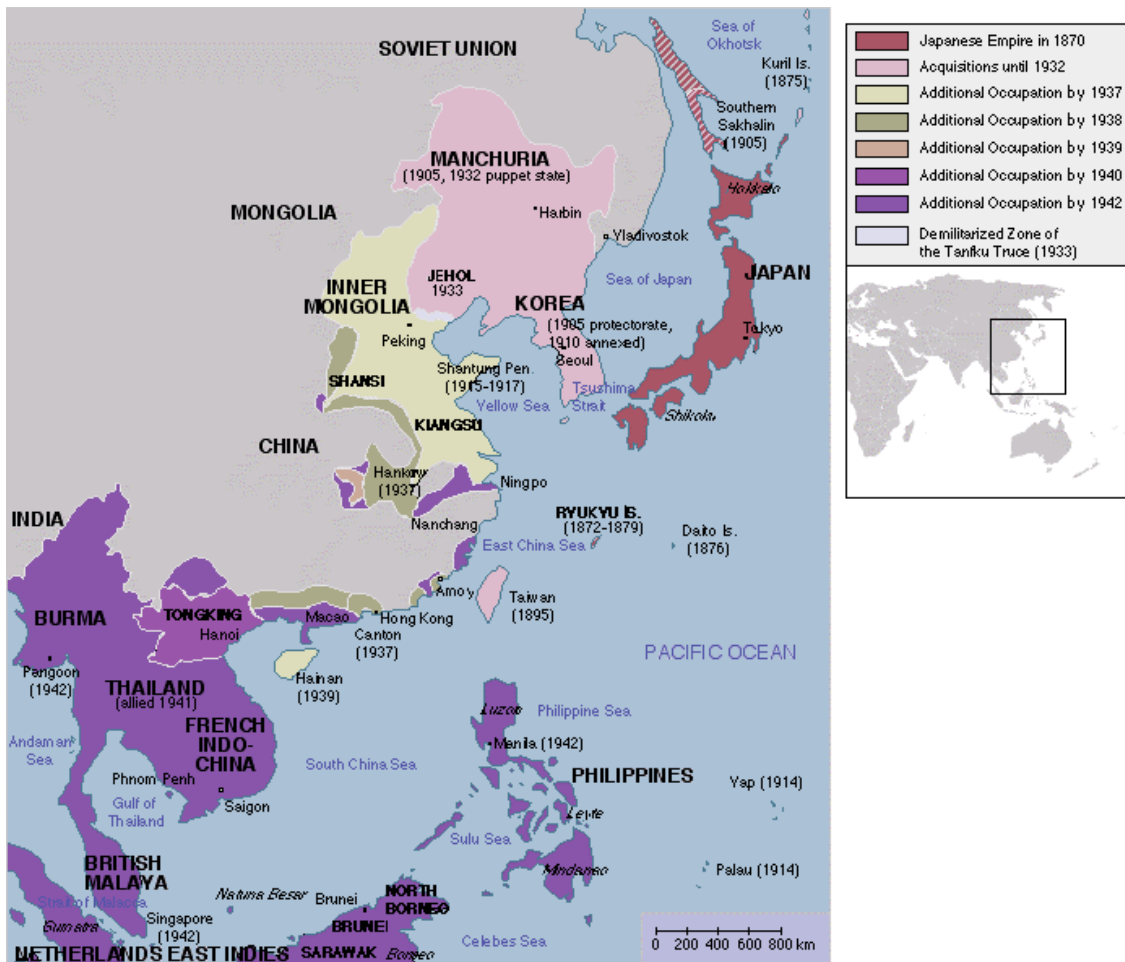
<sup>3</sup> Kublin, H. (1952). The Origins of Japanese Socialist Tradition. *The Journal of Politics*, 14(2), 257-280. Retrieved November 25, 2020, from <http://www.jstor.org/stable/2126522>

<sup>4</sup> Peter Duus and Others. (1996). *The Japanese Wartime Empire, 1931-1945*. Princeton University Press.

<sup>5</sup> Brian Victoria. (1997). *Zen War Stories*. Routledge.

<sup>6</sup> Swan, W. (1996). Japan's Intentions for Its Greater East Asia Co-Prosperity Sphere as Indicated in Its Policy Plans for Thailand. *Journal of Southeast Asian Studies*, 27(1), 139-149. Retrieved November 26, 2020, from <http://www.jstor.org/stable/20071764>

## Stages of Formation of the Japanese Empire<sup>1</sup>



- Imperial Expansion 3 Figure

The Japanese ambitious encounter was ended by Hiroshima and Nagasaki crimes against humanity<sup>2</sup>, followed by the American occupation of Japan itself.

In 1946, the Allied occupation authorities represented by Supreme Commander for the Allied Powers (SCAP)<sup>3</sup> ordered the *Zaibatsu* dissolved, abolished, and banned. Stock possessed by the parent companies was put up for sale, and individual companies of the *Zaibatsu* empires were freed from the control of parent companies. The administration of the individual companies, however, was not drastically changed, and to some extent, the coordination and control of the previous organization remained<sup>4</sup>.

<sup>1</sup> A 1942 declaration for greater east Asian Co-operation. (n.d.). The Asia-Pacific Journal: Japan Focus. <https://apjif.org/-James-Orr/2692/article.html>

<sup>2</sup> Kramer, Ronald C. "Resisting the Bombing of Civilians: Challenges from a Public Criminology of State Crime." *Social Justice* 36, no. 3 (117) (2009): 78-97. Accessed November 26, 2020. <http://www.jstor.org/stable/29768550>.

<sup>3</sup> Taylor, P. (1950). The Administration of Occupied Japan. *The Annals of the American Academy of Political and Social Science*, 267, 140-153. Retrieved November 27, 2020, from <http://www.jstor.org/stable/1026736>

<sup>4</sup> *Zaibatsu*. (n.d.). Encyclopedia Britannica. <https://www.britannica.com/topic/zaibatsu>

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After the signing of the Treaty of San Francisco<sup>1</sup> *San-Furanshisuko kōwa-Jōyaku*<sup>2</sup>, many companies began associating into what became known as enterprise groups *Kigyō Shūdan*<sup>3</sup>. Those created with companies that were formerly part of the big *Zaibatsu* Mitsubishi group, Mitsui group, and Sumitomo group were organized around leading companies or major banks. The cooperative nature of these groups became a major factor in Japan's tremendous postwar economic miracle<sup>4</sup> which was planned and organized by the Ministry of International Trade and Industry *Tsūshō-sangyō-shō*<sup>5</sup>.

Finally, inspired by the Japanese model in *Meiji Ishin*<sup>6</sup>, the most important characteristic of the modern spirit is rationalism, and it has been said that the nation is people who want to be a nation, and who submit to the authority and participation in government institutions was not the founding of the Nation *Kokumin*<sup>7</sup>, This situation was just citizens *Shinmin*<sup>8</sup> of the State *Kokka*<sup>9</sup>. So even people become a nation, they must want to belong to a common community and participate in building institutions<sup>10</sup> established by a cohesive society that shares mutual national hopes and dreams.

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<sup>1</sup> (n.d.). United Nations Treaty Collection. <https://treaties.un.org/doc/publication/unts/volume%20136/volume-136-i-1832-english.pdf>

<sup>2</sup> Treaty of Peace with Japan 日本国との平和条約

<sup>3</sup> Abe, E. (1997). The Development of Modern Business in Japan. *The Business History Review*, 71(2), 299-308. Retrieved November 28, 2020, from <http://www.jstor.org/stable/3116163>

<sup>4</sup> Nishimizu, M., & Hulten, C. (1978). The Sources of Japanese Economic Growth: 1955-71. *The Review of Economics and Statistics*, 60(3), 351-361. doi:10.2307/1924160

<sup>5</sup> Johnson, C. (1982). *MITI and the Japanese miracle: The growth of industrial policy, 1925-1975*. Stanford University Press.

<sup>6</sup> The Meiji Restoration 明治維新

<sup>7</sup> National Alliance 国民同盟.

<sup>8</sup> People 市民.

<sup>9</sup> Hirai, A. (1987). The State and Ideology in Meiji Japan--A Review Article. *The Journal of Asian Studies*, 46(1), 89-103. doi:10.2307/2056668

<sup>10</sup> Masao Maruyama. (1974). *Studies in the Intellectual History of Tokugawa Japan*. Translated: Mikiso Hane, University of Tokyo Press, p. 179.