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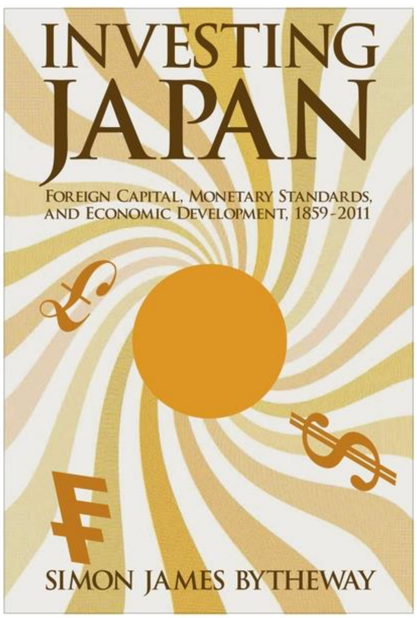
Simon James Bytheway, *Investing Japan; Foreign Capital, Monetary Standards, and Economic Development, 1859-2011*, Harvard University Asia Center, 2014, 286. ISBN: 978-0-674-41713-7



In *Investing Japan: Foreign Capital, Monetary Standards, and Economic Development, 1859- 2011*, Simon Bytheway makes a major contribution to our understanding of the economic history of modern Japan. Demonstrating an exhaustive command of his sources, particularly those in Japanese, Bytheway subverts an entrenched historical narrative wherein the Japanese, beginning in the early Meiji period, essentially pulled themselves up by their bootstraps economically and achieved a thriving, modern economy with minimal help if any from outside. Bytheway successfully challenges this fallacious version of 'autonomous economic development' by detailing the great extent to which little noticed foreign investment furthered national goals and propelled the Japanese economy, particularly at important historical junctures such as during the Russo-Japanese War of 1904-1905 or following the Great Kanto Earthquake of 1923. "Foreign borrowing," the author concludes, "was nothing less than the crux of Japan's prewar capital formation: it simultaneously financed domestic industrial development, the conduct of war, and territorial expansion on the Asian continent" (p. 2).

Bytheway organizes his discussion into three distinct but interrelated sections. The first details Japan's lengthy transition from a de facto bimetallic standard to the adoption of the gold standard in October 1897, and the consequential effects on Japan's economy of that decision. The second section explores the extent of foreign investment in Japan from the years 1897 up through the 1930s, while the third and final part looks at foreign investment after World War Two. A postscript seamlessly incorporates the momentous events of March 11, 2011, when the twin disasters of earthquake and tsunami rocked Japan.

For Bytheway, arguably the key event in the history of foreign investment in modern Japan was the adoption of the gold standard, following which "Japan enjoyed an unprecedented period of openness toward foreign capital distinguished by rapid economic development" (p. 47). Coupled with Japan's stunning victory in the Sino-Japanese War of 1894-1895, Bytheway asserts, "there was a new incentive, an international prestige to investing in Japan that attracted unprecedented amounts of foreign and domestic capital to productive investments" (p. 58). The Japanese state's judicious use of that imported capital in its widely-publicized modernization program, in turn, inspired ever

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greater confidence in Japan's credit-worthiness and helped forge a close financial-military alliance with Great Britain, the world's most powerful military and financial power at the time. The author laments that this important story was later superseded in the historiography by the more dramatic tale of Japan's economic difficulties from the mid-1920s through the early 1930s. Nevertheless, in Part II of his book, Bytheway builds a solid case in defense of the importance of foreign investment and joint ventures prior to the outbreak of WWII.

The Russo-Japanese War exemplifies the essential role played by foreign investment in Japan. As is well known, the early Meiji regime, worried that outside investment might equate to greater imperial control over Japan, initially rejected foreign capital in favor of domestic funds supplied by wealthy merchant houses. However, when the burdensome costs associated with prosecuting the Russo-Japanese War made such a policy of autonomous development "untenable" (90), the Japanese government quickly turned to the financial markets of London and New York (and later Berlin) for necessary funds. Japan used the monies raised in three important ways, all of which proved typical of the primary uses of foreign investment throughout the pre-war period: first, to help defray war costs (and, relatedly, to further Japan's own imperialistic ambitions); second, to help "finance the redemption of its own short-term, high-interest domestic bond issuances with long-term, low-interest foreign loans" (p. 101); third, to invest in essential modernization of domestic infrastructure. The author highlights the expansion of the Yawata Steel Works during wartime as but one example.

The Japanese state also insured that any additional inputs of foreign investment in the prewar period, whether in the form of municipal loans or direct foreign investments in joint ventures, were similarly harnessed to the larger goal of promoting the nation's overall economic development. Kobe, the first city to raise money on the London financial market in 1899, for example, used the funds for "potable water and sewerage works" (p.113). Yokohama followed suit shortly thereafter, raising capital to pay for "harbor repairs and reconstruction" (p.113). In total, six of Japan's largest cities floated loans on foreign markets between 1899 and 1927, all of which were earmarked for significant infrastructural projects. Parastatal entities like the South Manchurian Railway and the Oriental Development Company similarly funded their projects in part with foreign loans (thereby aiding the cause of Japanese empire). Bytheway, moreover, details a long list of direct foreign investments to private companies in this period, which encompasses seemingly every vital sector of industry from armaments to public transport to automobiles. After a brief hiatus following the outbreak of WWII, foreign investment soon resumed its vital role in fostering economic modernization and growth after 1945.

Even when the Japanese government was aggressively promoting protectionist policies during the first couple of decades after war's end, economic realities demanded that it let in a select few foreign companies, such as Citibank and International Business Machines (IBM), which possessed expertise and technological strengths unmatched in Japan. Yet as it strove to keep out foreign competition, Japan turned to the World Bank for "infrastructural 'development loans' [that] extended generous guidance and funding to agricultural projects, waterworks, road construction, and … the construction of the iconic bullet train (*shinkansen*) railway" (p. 200). To critics who might counter that such loans represented a minuscule fraction of total domestic investment in the period, Bytheway responds with an argument similar to the one he deploys regarding the prewar period: that the true significance of the thirty-one such projects funded by World Bank loans is "essentially qualitative rather than quantitative" (p. 204). Furthermore, when the Japanese government finally began giving in to U.S. pressures to liberalize its domestic markets in the early 1970s, the aforementioned equation arguably reversed itself, with the quantitative overtaking the qualitative: witness the plethora of foreign franchises that have sprouted up throughout the country, especially in the fast food industry.

In his postscript, Bytheway predicts that foreign investment will continue to play an essential role in the Japanese economy. The events of early March 2011 left Japan devastated. Even a deep-pocketed nation like Japan would need help recovering. As Bytheway notes, "Relief requires money, but *reconstruction requires investment*" (241). Where can Japan turn other than to its long-established foreign creditors? Bytheway also detects a possible

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opportunity here for the Japanese more generally to engage in a reconsideration of their ambivalent attitude towards foreign investment and instead embrace the latter as an essential component of long-term financial successes in the twenty-first century.

Clearly, Bytheway's thesis is novel and his overall argument is strong. The work is not without its (relatively minor) flaws, however. Bytheway's prose is needlessly verbose (which judicious editing might have amended), frustrating this reviewer. His interjection of lengthy yet underutilized tables interferes unnecessarily with the narrative flow; rather than imposing them on the main text, perhaps they should have been consigned to appendices. Finally, in marshalling all his evidence the author occasionally seems more interested in detailing the trees than illuminating the forest. That said, Bytheway's conclusion provides a masterful summation of the entire monograph; in fact, if pressed for time one might profitably read just that last section.

In sum, Bytheway has written an important monograph that not only challenges successfully a dominant historical paradigm concerning the economic history of modern Japan, but points the way forward for others to follow up on his groundbreaking efforts.

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