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DISCUSSION PAPER NO. 63

Japanese Entrepreneurship in the Early
Stage of Economic Development

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June, 1973

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1. Introduction

Several Asian nations were exposed to Western colonialism or to Western influence at the same time towards the end of the last century. But Japan was not only able to remain independent but also succeeded in achieving uniquely domestic political reform and modern industrialization during this period. The domestic reform called the Meiji Restoration is sometimes identified with the breakdown of feudal society. Using the term "breakdown," however, is inappropriate, because fundamental changes occurred but the national traits characteristic of Japanese society continued throughout this period of radical change. The fundamental reforms are the following three:

1. the downfall of the Shogunate and clanship,
2. abolishment of social classes (warriors, farmers, artisans and tradesmen),
3. discontinuation of the national seclusion policy.

On the other hand, the following institutions and attitudes remained:

1. the bureaucratic government continued from the feudalistic to the modern oligarchy, governed by a minority of the samurai class,
2. the idea of loyalty continued from the time of the feudal clans to the modern state or to the emperor; the importance attached to "home" (iye) did not change either,
3. the substance of the merchant society remained the same.

The emergence of Japanese entrepreneurship in the early stage of economic development must be understood in light of this period of change. Without the liberal atmosphere created by the last two changes mentioned above, Japanese entrepreneurship could not have been born. The type of Japanese entrepreneurship, however, seems to reflect a continuation of the leadership style characteristic of Japanese leaders both before and after the Meiji Restoration.

Professor G. Ranis is referring to this type of continuation when he compares Japanese entrepreneurs as "community-centered" entrepreneurs against Schumpeterian "auto-centered" entrepreneurs.

2. Inheritance from the Edo Period

Japanese entrepreneurs did not appear out of a vacuum. They benefited from many favorable conditions from the preceding society. Since these conditions seem to differ considerably from those prevalent in most developing countries now, they will be straight forwardly listed before proceeding to more specific arguments on Japanese entrepreneurship itself.

- (i) Well-Established Political System: The political system in the Edo period is usually described as a centralized feudalism, which was more skillfully organized than most European feudal societies. A combination of hundreds of local clans and scattered lands under direct control of the Shogun, the alternate-year residence of daimyos in Edo, and the extremely well established check-and-balance system of the central government, almost comparable with the modern separation of the three powers, succeeded in establishing almost three hundred years of internal stability in Japan.

This heritage made it very easy to transform Japan into a unified modern state. The capitals of the clans became the local centers of not only administrative but also economic, cultural, education and communication activities. They contributed to the balanced formation of a modern stable state in critical times. Too much concentration of Capital in many developing countries in one place is a source of instability.

- (ii) The Warrior Class with a Strong Sense of Responsibility: Japanese warriors seem to have been very earnestly educated in their responsibility to their followers (farmers, artisans and merchants), and they were required

to be administrators and educators, not merely fighters. They were not supposed to pursue money-making but to remain noble and prestigious. They were relatively poor but proud. They were liberal in their thinking in finding a better way of administering to the common people, the other three classes. This may have been the reason why the largest number of entrepreneurs emerged from among the samurai class.

(iii) The Well Prepared Economic System and Management:

Before the Meiji Reform there were hundreds of prosperous castle towns; money and measures were standardized; nation-wide roads and navigation passages were opened; and a national economy was almost established. As Sorai Ogyu, a famous Confucian scholar said, one price for one commodity all over the country makes it difficult for daimyo to control prices. The power of merchants was clearly recognized. Bills were used very widely as checks. Commodity forward markets existed in Osaka. The double entry bookkeeping system was discovered independently in Japan just about the same time as in Europe. Anonymous associations were established for limited partnerships in businesses. These seem to point to the readiness of the Japanese economy in the Edo period for modern industrialization. Entrepreneurs appeared out of such an atmosphere.

(iv) The Influence of the Japanese Type of Confucianism:

The Edo period was time when the highest value of the Society was "Goodness", a result of Confucianism which was the most influential teaching of this period. The Japanese type of Confucianist teachings was characterized by pragmatic, loyal, and chivalrous qualities. These characteristics contributed to the promotion of the studies of Western sciences among young and talented

warriors and the formation of very high national ethical codes of industry, thrift, pride, filial piety and nationalism.

3. Who Became Entrepreneurs

Japanese entrepreneurs emerged from all social classes or from all kinds of occupations. As we shall see, some common features characterized people who became entrepreneurs in the early stage of development. In order to observe them by induction, we will list representative entrepreneurs in major industrial fields and briefly describe their lives.

1. The earliest entrepreneurs: By the Meiji Period, investment in modern industries had already been started by the central Shogun government or by powerful local clans. The most well known are the production of cannons by the Mito clan, textile factories by the Satsuma clan, and ship-building by the Shogun government. These local clans had pioneering leaders like Nariaki Shimazu. He was a daimyo himself, very active, well educated, strongly politically minded, patriotic and surrounded by many enthusiastic followers. One samurai who initiated the establishment of textile factories in Japan for the first time was Shimazu's secretary, Seiryu Ishikawa, who was born in Nara as a son of a Confucious scholar and educated in western sciences in his youth. He was discovered and employed by S. Shimazu, who assigned him to translating western books, during the process of which he discovered a book on the machinery of textiles. The shortage of and the rising prices for cotton cloth struck Ishikawa, and he realized then that textiles was the most urgent field of industrialization not only for the sake of enriching the Satsuma clan but also for the sake of Japan, who was facing the threat of the western countries. He initiated

the textile factories and ran them for many years. The steel mill and the production of cannons by the Mito clan was initiated by Konin Oshima. Born as a son of a Western medical doctor of the Nambu clan, educated in western science in his youth, he was invited to Mito by Nariaki Mito, to experiment with the western methods of steel milling as described in books. After going home to Nambu where good sand iron ores are found, he carried out the excellent ideas of developing mining industries. All these entrepreneurial initiatives were started a long time before the Meiji Reform. Afterwards these men were given responsible positions in the new government and contributed a great deal to the industrialization of new Japan.

Needless to say, there are many other people like these two. They should be enough, however, to show that in this early stage a combination of very pioneering and politically minded, leading daimyos and young intellectuals with good scholarly backgrounds with eyes open to western sciences seem to be the foundation of Japanese entrepreneurs.

2. Development of the Textile Industry: The development of the textile industry, one of the earliest industrial developments in Japan, shows most vividly the characteristics of early Japanese development. A somewhat detailed exposition is, therefore, in order. Five types of initial textile factories existed in the early Meiji period.

Factories established by local clans. Typical ones are those established by Satsuma which were moved from Kagoshima to Sakai, Osaka in search of a supply of cotton. The southern part of Osaka Prefecture and the area around Nishinomiya were the well known places for cotton production then. Even later when imported cotton from China and other countries replaced domestic production of cotton,

the same area around Osaka remained as the center of the textile industry because the area had a good port nearby, Kobe. A number of entrepreneurial persons directly contributed to the success of these factories. Ishikawa's initiative has already been mentioned. H. Shinno went to Nagasaki to purchase machines from England. Since they wanted to have the best machines, Tomoatsu Godai was sent to England. They were all samurai's of the Satsuma clan. The reason why a Southernmost clan such as Satsuma was the first to develop a modern industry may be explained by its smuggling with the Okinawans. The Satsuma clan gained much from this unrecorded trade and at the same time obtained new knowledge of the outside world, giving them the stimulus to undertake something new and warning them of the need to develop Japan as soon as possible. Later, these factories in Sakai were sold to Taheiji Hamazaki who was the boss of the smuggling trade between Ryukyu and Satsuma. His managing director, M. Higo whose posterity is still prosperous in Osaka, was well known as a capable manager. At Hamazaki's factory was S. Kawasaki who later became the famous founder of the Kawasaki Shipbuilding Company. All of this seems to indicate an important fact: once good businesses are founded and entrepreneurial activities are started, the chances are very good that many successful entrepreneurs will begin to appear.

The next three types of factories are those established at the initiative of the Meiji government.

- a. The government established model factories in the cotton-growing areas like Hiroshima and Aichi;
- b. The government imported machines sold at reasonable prices to private entrepreneurs, such as the Toyoi Weaving and the Mie Weaving Factories;

c. The government financed the import of textile machines to companies like Kuwahara, Miyagi and Nagoya Weaving Factories. Most of these factories initiated by the government were owned by private persons who were landlords, wholesale dealers, brewers, or, in other words, men of local reputation.

Out of these three types, two entrepreneurs may be mentioned here. Denhichi Ito, the founder of the Mie Weaving Factory, was from one of the seven most reputable families in the Shinobu Magistrate, now in Mie Prefecture. His family had been in the brewery business for generations, but his father had already intended to start a textile industry in Japan as early as the third year of Meiji to prevent the import of foreign made cotton clothes. Denhichi became an apprentice in the Sakai Weaving Factory established by Shimazu and learned the techniques firsthand. He then established a weaving factory in Mie by himself.

Ryoichiro Okada was the founder of the Futamata Textile Co. in Shizuoka. He was a landlord with 130 acres and the leader of a moral movement which emphasized industry, thrift and giving. He lead the commercialization of farming by intruducing new crops and had opened silk culture factories to give job opportunities to the samurai class who lost their jobs after the Meiji Reform. He persuaded the other villagers to raise the funds for this new company.

These men are only two examples of many entrepreneurs who more or less embarked on the same kind of economic undertaking, starting relatively small scale local industries but not necessarily succeeding. They were a part of the civilized and well educated leaders of local communities, who initiated not only the textile industry

but also banks and the modernization of sericulture or agricultural reform. Japan was very fortunate in keeping the reserved army of potential entrepreneurs among the intellectual common people.

The last type is purely private. This is the most important type of Japanese entrepreneurship in the textile industry or may even well be the most important in all the industries. It is the establishment of the Osaka Textile Company by Eiichi Shibusawa. When it was established, it had 10,500 spindles. The initiative came from Shibusawa, but the managerial running was done by Takeo Yamabe. By the middle part of the Meiji era this company became so predominant in the textile industry that other small and medium size factories like those of Ito, Satsuma and others around Osaka and Kobe were all absorbed into this company and became the present Toyobo Company.

Shibusawa is one of the most famous businessmen in Japan since the Meiji era. He was a son of parents who undertook both farming and commerce at the same time but received a samurai education. His devotion to Confucius teachings is well known. Later he became a retainer of Keiki Tokugawa. When Keiki became the last shogun, he was sent to Paris as one of the members to the World Fair in 1867. After his return he worked as a government official until 1873, when he moved to the private business world. Since then almost all the important private enterprises have somehow been connected with his ideas or his initiatives in one way or another. He really was the boss of the Japanese business world for many years. He lived until 1931. He once said: "My economics is the Analects Economics." He is typically a man of "the Japanese spirit and of Western learning."

Yamabe was the son of a highly ranked samurai family

of the small clan of Tsuwano. He was sent by the clan to study western sciences and studied English from ministers. He was one of the many young samurais who worked and studied in Yokohama and Tokyo. He accompanied the prince of Tsuwano to England and remained there to further pursue his study in London. At that time there were already hundreds of Japanese students in London. After two years, Shibusawa asked him to come home to direct the new textile company. He immediately shifted his studies to textile technology and not only tried to learn engineering by attending the university but also worked as a laborer in a factory in Lankaster. The success of the Osaka Textile Co. is certainly due to Yamabe's exceptionally talented entrepreneurship aided by Shibusawa's desire to beat the English textile industries.

3. Development of Heavy Industry: While the textile industry developed by private initiative in which the role of merchants or trading men in the Osaka area was very significant, heavy industry like shipbuilding, electric machinery, shipping, or even trading companies developed through the cooperation between government initiatives and capable private entrepreneurs. In this sense, there were a number of entrepreneurial bureaucrats. The function of these officials is also very important in understanding the development of the Japanese Economy. The case for entrepreneurial government is well taken in Japanese economic circles. But it is important to emphasize that it did not go as far as socialistic ideas but always went along with private enterprises. In a sense it was a forerunner of the mixed economy which is widely recognized as the prevalent economic system in most advanced countries.

Shozo Kawasaki was born as a samurai, but his father

became a merchant. He alone went to Nagasaki to learn Dutch and then English. He worked in Osaka for a while where he observed the fast western boats. This stimulus determined his future course in life in the shipbuilding industry. In his case, this youthful experiences gave him the spirit of entrepreneurship. The case of Hisashige Tanaka was different. He was the founder of the Tanaka Manufacturing Factory which was the predecessor of the present Toshiba. His profession was that of an artisan. He was known as "tricky Giemon," because he was very good in devising tricky toys and model boats utilizing many new ideas. Even when he was 74 years old, he was asked by the government to fill an order producing ten cable machines, utilizing his own idea. He then immediately established his own company. His adopted son succeeded him in the company and moved into the amunition industry. Later this company failed and was sold to Mitsui which made it into the present Shibaura Factory.

4. General Characteristics of Japanese Entrepreneurship

We could continue to list many more entrepreneurs of the Meiji era. Indeed there are many varieties in many different fields. But it seems very clear that there are a few distinctive features about almost all of them.

A: They were either from the Samurai class or very highly educated in the same way as samurais were. Although the Osaka area has had a long tradition of trading in Japan, it did not produce too many entrepreneurs since merchants were trained not to change the profession. A typical greeting of merchants in Osaka on New Year's Day was "Please just as before." Those who became entrepreneurs had the chance of being exposed to western sciences and received the impact of new techniques. The sense of

responsibility as leaders of society or the nation was extremely strong among the elite samurais. This spirit permeated even to the local leaders from the rest of the social classes. The common people were trained in Confucianism and their level of education was very high.

B: They were all devoted to the interests of the Japanese nation. Their patriotic sentiment and worries are so conspicuous in their writings and proposals that one can doubt whether they were ever interested in making money. Yukichi Fukuzawa, intellectual who regarded feudalism as the enemy of his parents, was very much under the influence of Confucianism when he argued about the modern state of Japan. Japanese entrepreneurs were very nationalistic in a good sense of the word.

C: They were very technology-oriented. They sought after new technologies but not necessarily the western way of thinking. They were very confident in their spiritual tradition, although they did not hesitate to adopt the western political system. Whenever they had the chance of learning from westerners, they utilized the opportunity to the full. They exploited western engineers by paying extremely high salaries and asking them to stay in Japan.

Before finishing the paper, one should not underestimated the favorable circumstances in international relations for Japan in the early part of Meiji. No ideological wars between Communism and Capitalism existed then. They could concentrate on economic achievements by trying extremely hard to catch up with the West. This seems somewhat similar to the circumstances facing Japan in the postwar years. When the country is involved in more complicated political games, entrepreneurial spirits in Japan have not shown the same degree of success as in the past. It remains to be seen whether this is going to be repeated or not. But for that matter which country in the world could claim to be very successful in political spheres?

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