

# The British Empire as the 'Imperial Structural Power' and Asian International Order

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## Introduction

In recent years, there appeared several new and provocative arguments in the fields of history of international relations and international economic history. Among these, two studies are worthy of note; that is, the *Gentlemanly Capitalism* by P.J. Cain and A.G. Hopkins in the field of British Imperial History<sup>1</sup>, and the argument of intra-Asian trade by Kaoru Sugihara in the field of Asian economic history<sup>2</sup>. This paper is to connect these new trends of research and to locate the British Imperial History as the 'bridge' for constructing the 'global history', which seemed to be a newly emerging historical concept for revealing the historical origins of globalization. By integrating these new researches, this paper is to reconsider the historical roles of the British Empire in the process of formation and maintenance of Asian international order in the late nineteenth and the first half of the twentieth centuries<sup>3</sup>.

I pay special attention to the following three viewpoints.

Firstly, I introduce the argument of the 'structural power' by Susan Strange of international political economy<sup>4</sup> into the British Imperial History, and critically re-interpret its concept to evaluate the roles of the British Empire in the progress of economic globalization. Susan Strange

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<sup>1</sup> P.J. Cain and A.G. Hopkins, *British Imperialism 1688-2000*, (Harlow and New York: Macmillan, 2<sup>nd</sup> edition, 2001).

<sup>2</sup> Kaoru Sugihara, *Ajiakan-Boeki no Keisei to Kozo* [*The Formation and Structure of Intra-Asian Trade*], (Kyoto: Mineruva-shobo, 1996).

<sup>3</sup> The arguments of this paper are based on my book, Shigeru Akita, *Igirisuteikoku to Ajia-Kokusaichitujo* [*The British Empire and International Order of Asia*], (Nagoya: Nagoya University Press, 2003).

<sup>4</sup> Susan Strange, *States and Markets: An Introduction to Political Economy*, (London, 1988, 2<sup>nd</sup> edition, 1994).

defined the structural power as the power, which could set the 'rules of the game' and enforced them to others in the international order of political economy. From historical perspectives, she identified two structural powers, that is, the United Kingdom in the latter half of the nineteenth century and the United States in the twentieth century<sup>5</sup>. In the fields of the history of international relations and the World-System analysis, these two states were recognized as the 'hegemonic states' in the Modern World-System<sup>6</sup>. The hegemonic state could exert its influence globally in the whole economic structure of agriculture, manufacturing, and financial and service sectors, as well as in the military and diplomacy. In this paper, I try to distinguish the roles of the 'hegemonic state' and the 'structural power' in that, in the declining phase of the hegemonic state, especially in the phase of its relative decline of military power, it exerted a different power from the formative and the climax periods of the hegemony. I use the term of the 'structural power' for grasping the peculiar character of the hegemonic power in decline from global perspective. In the case of Great Britain, the term of 'structural power' might be appropriate to use for the periods of the Inter-War years, especially for the 1930s.

According to an original definition, the 'structural power' meant the exercise of influences on a global scale, and its power projection was under no restrictions, irrespective of territories. However, the United Kingdom was the hegemonic state with the colonial territories of formal empire, such as British India and the Straits Settlements as well as Canada, Australia, New Zealand and South Africa (the Dominions). In this sense, the UK had been a different type of hegemonic state from the

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<sup>5</sup> Susan Strange, 'The persistent myth of lost hegemony', *International Organization*, 41-4 (1987), pp.551-574. See also, Arthur A. Stein, 'The hegemon's dilemma: Great Britain, the United States, and international economic order', *International Organization*, 38-2 (1984), pp.355-386, and Mitsuhiro Motoyama, *Kokusaitesuka Taisei to Kouzouteki-Kenryoku* [*International Currency System and the Structural Power*], (Kyoto: Sanrei-shobo, 1989).

<sup>6</sup> Patric K. O'Brien, *Two Hegemonies: Britain 1846-1914 and the United States 1941-1989*, (London and New York: Ashgate, 2002?)

US, which was critical of the colonialism of European powers in the twentieth century. Therefore, if we try to identify the UK in the Inter-War years as the 'structural power', it is important for us to understand both its global influence of non-territorial origins and its colonial influence of territorial rules (formal empire). In this sense, we could recognize Inter-War Britain as the 'Imperial Structural Power', which possessed both colonial territories of formal empire and the global economic influence of non-territorial nature. In those days, British influence extended not only to her formal colonies but also even to other European powers and Japan, an independent non-European colonial power. In this paper, I try to reconsider a unique feature of British international influence as the 'Imperial Structural Power'.

Secondly, I reveal the transformation of British presence in Asia, by making a comparison between the heyday of the 'Pax Britannica' at the turn of the nineteenth-twentieth centuries and its declining phase in the 1930s. The transformation of British presence was reflected on both the structure of national security and economic structure. With the connection of national security or the British military presence in Asia, I analyze the overseas dispatch of Indian armies, which had been actively deployed as 'an advance detachment for imperial expansion' or 'the barracks in the Oriental Seas'<sup>7</sup> since the early nineteenth century. As for the structure of economy, I highly evaluate the arguments of *Gentlemanly Capitalism* by Cain and Hopkins, and pay a special attention to the roles of British financial and service sectors, centred on the City of London. Their arguments provoked intensive discussions and controversies on their validity of historical interpretations<sup>8</sup>, and this paper focuses on one of the

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<sup>7</sup> Ronald Robinson and John Gallagher with Alice Denny, *Africa and the Victorians: The Official Mind of Imperialism*, (London: Macmillan, 1961, 2<sup>nd</sup> edition, 1981).

<sup>8</sup> Raymond E. Dumett, *Gentlemanly Capitalism and British Imperialism: The New Debate on Empire*, (London and New York: Longman, 1999); Shigeru Akita (ed.), *Gentlemanly Capitalism, Imperialism and Global History*, (London and New York: Palgrave-Macmillan, 2002).

subjects in dispute, that is, the argument of 'informal or invisible empire'. Accelerated by the financial and service interests of the City of London, the UK extended her financial influence into Latin America, the Ottoman Empire and China through overseas investment and credit. At the 2<sup>nd</sup> GEHN Workshop in Irvine on "Imperialism and Colonialism", I have examined the case of Anglo-Chinese relationship in the latter half of the 1920s and the 1930s, and intended to reveal the limits of previous arguments and new perspectives of informal empire in China<sup>9</sup>. In this way, I assume that the core elements of British presence in Asia consisted of her military power and economic influences. Based on this assumption, I reveal the relationship between the structure of national security and that of economy, and its changing nature or transformation.

Thirdly, my paper explains the important role of Great Britain as the hegemonic power and the 'Imperial Structural Power' for the formation and maintenance of the industrialization-based international order of Asia. In other words, British economic interests accelerated the pace and development of industrialization in East Asia in the twentieth century. However, in the fields of Japanese and Chinese economic histories, the external relations with Western powers were regarded as the negative factors for their local economic development. Many native scholars implicitly assumed the importance of analytical frameworks of nation-state and national economy, and relatively neglected the aspects of external economic relations for their industrialization. In this paper, I recognize the relationship between the British economic interests and the industrialization or the economic development in East Asia, not as rivalry but as complementary or cordial relation, despite a partial competition. This kind of complementarity of economic interests might be understood

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<sup>9</sup> Shigeru Akita, 'The British Empire and the International Order of Asia: From the Hegemonic State to the 'Imperial Structural Power'', <http://www.lse.ac.uk/collections/economicHistory/GEHN/GEHN> PDF/International Order of Asia-Shigeru Akita.pdf (2004).

on the assumptions of 'Gentlemanly Capitalism': the weight of British economic interests shifted from the manufacturing of cotton goods to the financial and service sectors of the City of London. The progress of industrialization in East Asia tended to affect even the economic and financial policies of British India through the development of intra-Asian trade in the 1930s. Therefore, this paper reveals the positive roles of Great Britain to the process of Asian industrialization, by focusing on various sources of information, such as the British consular and commercial reports.

## **1. The Structural Power and the Informal Empire**

### **(a) The Hegemonic State and the Structural Power**

First, I would like to summarize my original arguments on the structural power.

Susan Strange, a British scholar who had majored in the international political economy, had proposed the concept of the structural power in earnest. She had explained the structural power as the basic framework for understanding contemporary international political economy as follows ; 'This structural power means rather more than the power to set the agenda of discussion or to design the international regimes of rules and customs that are supposed to govern international economic relations.' 'Structural power, in short, confers the power to decide how things shall be done, the power to shape frameworks within which states relate to each other, relate to people, or relate to corporate enterprises'<sup>10</sup>. In other words, according to a re-interpretation of Cain and Hopkins, 'structural power refers to the way in which a dominant state shapes the framework of international relations and specifies the "rules of the game"

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<sup>10</sup> Susan Strange, *States and Markets*, p.25.

needed to uphold it'<sup>11</sup>. In addition, Strange had assumed four aspects of the structural power, that is, (1) security, (2) production, (3) finance and (4) knowledge<sup>12</sup>. However, she had not made it clear the interrelationships among four aspects of the structural power, and she had requested her readers to make their own observations on these matters.

These definitions of structural power don't make much difference from the ideas of the hegemonic state in the fields of international politics and the study of Modern World-System. Therefore, in this paper, I would like to take a modifying view for the ideas of Strange and use the concept of the 'structural power' for describing a different exercise of power by a declining hegemonic state. By contrast, as a counterpart of the structural power, the 'relational power' will be used to mean the interactions as the negotiations and the compromise among formally equal nation-states.

In British case of the mid-nineteenth century, it was imperative for it to extend its formal and informal 'empire' by using dominant military powers, and especially to consolidate the colonial rule in British India, as the essential conditions for hegemonic state. However, at the turn of the nineteenth-twentieth centuries, a global economic influence (ex: the free trade regime and the sterling as the key currency) was added to a prerequisite for the hegemonic state. And in the Inter-War years, an economic influence on a global scale substituted for military and political power, as a requirement of the hegemonic state. The economic foundation of the hegemonic state changed itself: British agriculture and manufacturing lost their competitiveness in the world market, but the financial and service sectors tended to preserve and strengthen their influences. By reflecting these changes of power of the hegemonic state, I would like to define the 'structural power' as follows: a prior hegemonic state with latent power in international relations, especially with its

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<sup>11</sup> Dumett, *Gentlemanly Capitalism and British Imperialism*, p.204.

<sup>12</sup> Susan Strange, *States and Markets*, pp.26-27.

remaining economic influence, despite the decline of its all-round aspects of influences.

By the way, Patrick K. O'Brien, a leading economic historian and a proponent of global history, emphasized the role of the hegemonic state as the provider of 'international public goods' at the International Workshop on 'the Transformation of World-System and the role of Hegemonic State'<sup>13</sup>. According to his interpretations, the United Kingdom provided the infrastructure and the rules of international transactions, as the hegemonic state, such as free trade regime, railway networks and steamships, the International Gold Standard, the International Postal Service and submarine cable networks in the nineteenth century. These international public goods were cheaply available to everyone, and the collective security system, international law and English as a lingua franca might be added to these lists. This idea of international public goods by O'Brien is the most appropriate concept for explaining the roles of the hegemonic state, in the process of formation, development and stabilization of the Modern World-System. However, it might also be applicable to the case of the 'structural power', as a declining phase of the hegemonic state.

On the other hand, in the field of British Imperial History, as I already referred, Cain and Hopkins developed their own re-interpretation of the structural power, by revising the ideas of Susan Strange. For example, Tony Hopkins emphasized the usefulness of the arguments of the structural power, by comparison with the relational power, for explaining the Anglo-Argentine relations at the time of the Bearing Crisis in

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<sup>13</sup> P.K. O'Brien, 'The Pax Britannica and the International Order 1688-1914', in Shigeru Akita and Takeshi Matsuda (eds.), *The Proceedings of the Global History Workshop, 1999: Looking Back at the Twentieth Century: The Role of Hegemonic State and the Transformation of the Modern World-System*, (Osaka: Osaka University of Foreign Studies, 2000), pp.44-71. See also, C.P. Kindleberger, *World Economic Primacy 1500-1990*, (Oxford, 1996).

1890<sup>14</sup>. Peter Cain used the arguments of structural power positively for elucidating the British policies to China in the latter half of the nineteenth century<sup>15</sup>. Cain and Hopkins pointed out the historical realities of the structural power at 'Afterthought' of an edited volume as follows ; 'structural power, establishing the "rules of the game", was fundamentally a manifestation of the core values and policy priorities of the British liberal state (backed directly or indirectly by military and naval force), with its preference for free trade, low taxation and sound money. Translated into global policy, these principles found expression in measures that were designed to produce congenial allies with a stake in the international economy dominated by Britain'<sup>16</sup>. In their cases, Cain and Hopkins used the concept of the structural power to avoid barren discussions on 'informal empire' and to re-emphasize the global scale of British influence by the beginning of the twentieth century. In this paper, however, I extend the arguments of the structural power in order to make out the survival and resurgence of British international influence in the Inter-War years, especially in the 1930s.

In the following sections, my observations on the hegemonic state and the structural power will be divided into two parts; the section II is concerned with the structure of national security or the military, and the section III deals with the economic structure, which includes both the manufacturing sector and the financial and service sectors. The reason for dividing in two parts is twofold.

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<sup>14</sup> A.G. Hopkins, 'Informal empire in Argentina: an alternative view', *Journal of Latin American Studies*, vol.26 (1994).

<sup>15</sup> P.J. Cain, 'Gentlemanly Capitalism, the City and British Imperialism 1880-1939', *Seiyoushi-Kenkyu [Study of Western History]*(Sendai, Tohoku University, Japan), vol.26 (1997); P.J. Cain, 'Gentlemanly Capitalism and British Imperialism—a critical observation', *Iwate-Daigaku Kyouiku-Gakubu Gakkai Houkokusho [Annual Proceedings of the Faculty of Education, Iwate University]* (Morioka, Japan), vol.12 (1997); P.J. Cain, 'Informal Empire and Gentlemanly Capitalism---Britain and China before 1914', *Kumamoto-Daigaku Bungakubu Ronso [Proceedings of the Faculty of Letters, Kumamoto University]* (Kumamoto, Japan), vol.61 (1998).

<sup>16</sup> Dumett (ed.), *Gentlemanly Capitalism and British Imperialism*, pp.204-205.



The first reason is concerned with the new research trends in the history of British imperial economy. As I already mentioned, since the appearance of the arguments of 'Gentlemanly Capitalism', the expanding influence of the British financial and service sectors, centred on the City of London, attracted much more attention than cotton goods export of Lancashire and the export of capital goods from Birmingham. The free trade regime in the latter half of the nineteenth century was interpreted, not as the worldwide expansion of British manufacturing interests (industrial capital), but as the manifestation of the strength of the British financial and service sectors on a global scale. Although this paper assumes these new interpretations of British capitalism, if we combine the manufacturing structure with financial one in a common framework of the 'economic structure,' it enables us to observe more clearly the mutual relationship between two different sectors. Especially in order to reveal the mutual economic interactions between the UK and non-European countries, it is better to observe the connection between British economic interests and those of non-European countries in Asia within a common framework of the 'economic structure'.

The second reason is the necessity for a comprehensive study of British overseas expansion. On the one hand, the issues of national security or the military, and the 'structure of security' have been dealt in the fields of diplomatic history and military history. On the other hand, the 'economic structure' was the subject for imperial economic history and financial history. However, recent arguments of 'fiscal military state' by John Brewer<sup>17</sup> in the eighteenth century enable us to integrate the politico-diplomatic history with economic history within the framework for the study of fiscal policies. This paper tries to reveal the dynamic and changing mechanism for supporting the hegemonic state and the

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<sup>17</sup> John Brewer, *The Sinews of Power: War, Money and the English State, 1688-1783*, (London, 1989). See also, Lawrence Stone (ed.), *An Imperial State at War: Britain from 1689 to 1815* (London, 1993).

structural power, by rethinking the relationship between the 'economic structure' and the 'structure of national security'.

(b) The Debates on Informal Empire---its limits and potentialities

The arguments of informal empire are crucial in the case of connecting the British Imperial history with global history. We had a long historiographical controversy about the usefulness of the concept of informal empire since the publication of the famous article, 'The Imperialism of Free Trade' by John Gallagher and Ronald Robinson<sup>18</sup> in the 1950s. In a recently published five volume series of *The Oxford History of the British Empire*, the concept of informal empire was adopted positively in the volumes of the Twentieth Century (vol. IV) and Historiography (Vol. V)<sup>19</sup>. In these volumes, China and Latin America were regarded as the typical cases of British informal empire, and its concept is also applied, to a limited extent, to the Middle East (West Asia) in the first half of the twentieth century. At this section, I consider the limits and potentialities of the arguments of informal empire, by referring to the following three subjects; (1) the changing nature of economic interests of British informal empire, (2) the validity and usefulness of 'peripheral theory' to the ambivalent relationships between British informal empire and the indigenous elites, and (3) the relevance between the 'controversy on costs and benefits of empires' and the arguments of informal empire.

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<sup>18</sup> John Gallagher and Ronald Robinson, 'The Imperialism of Free Trade', *The Economic History Review*, Second series, Vol. VI (1953). As for the controversy, see, W.R. Louis (ed.), *Imperialism: The Robinson and Gallagher Controversy*, (London and New York, 1976). On Japanese version of academic discussions on informal empire, see also, Kenzo Mouri, *Jiyuu Boeki Teikokushugi---Igirisu Sangyo-shihon no Sekaitenkai* [*The Imperialism of Free Trade---Worldwide development of British industrial capital*], (Tokyo: University of Tokyo Press, 1978); Masahiro Hirata, *Igirisu Teikoku to Sekai Shisutemu* [*The British Empire and the World-System*], (Kyoto: Kouyo-shobou, 1999).

<sup>19</sup> W.R. Louis (Editor-in-Chief), *The Oxford History of the British Empire*, Vol. IV: *The Twentieth Century*; Vol. V: *Historiography*, (Oxford: Oxford University Press, 1999).

The first subject is the British economic interests, which are essential factors of informal empire. In the 1950s, Gallagher and Robinson emphasized the central role of British industrial capital, symbolized by cotton industries in Manchester, for the expansion of British informal empire. Their proposition, 'trade with informal control if possible, but trade with formal rule if necessary', clearly reflected the importance of British manufacturing interests and its influence towards free trade policies. By contrast, in the mid-1980s, Cain and Hopkins elucidated the financial and service sectors of the City of London, as the driving force for the formation of British 'invisible empire'. Twin sets of imperial historians had different interpretations for the motive of the expansion of British informal empire. However, it is notable here that all of them agreed with both the extension of British interests based on the powerful economy, and the usefulness of the concept of 'informal empire'. This is an important agreeable subject for the study of British Imperial History.

But we must be careful about the difference of coverage of informal and invisible empires as well. The trade-related informal empire mainly stretched over the underdeveloped or developing countries or regions in the non-European world. On the other hand, the interests of British financial and service sectors easily expanded beyond the confines of formal or informal empires and tended to be more global. Therefore, if we think about the relevance between the financial and service sectors and British overseas expansion, the British influence might be extended to range over the late industrialized countries in the West, or Japan, which was an ally of the UK and started to construct an independent empire in East Asia from the early twentieth century. We need to know the commonness and differences between the informal empire and the 'invisible' influence of the British financial and service sectors.

The second subject is the usefulness of 'peripheral theory' to understand the ambivalent relationships between British informal empire

and the indigenous elites or collaborators. Robinson and Gallagher stated in a study of the partition of Africa in the early 1960s that indigenous factors of Africa were as important as British strategic factors on Indian empire routes, as the causes of British overseas expansion<sup>20</sup>. Ronald Robinson summarized his interpretation in 1972 as a 'peripheral theory'<sup>21</sup>. Encouraged by these propositions, the historiography of British Imperial History in the 1970s and the early 1980s tended to emphasize the situations at the periphery, and the results of area studies dominated its historiography. Against these trends of historiography, Cain and Hopkins reasserted, in the latter half of the 1980s, the crucial importance of British economic interests as the prime cause of British overseas expansion. Since then, we have sharply divided opinions about the important roles of the metropolis or the periphery for British overseas expansion. Some scholars, like Andrew Porter<sup>22</sup>, confronted with the arguments of 'Gentlemanly Capitalism', and they pointed out that Cain and Hopkins completely ignored the indigenous logic and the complicated mixture of several interests for overseas expansion, revealed by the area studies in the 1970-80s.

In this paper, I positively assess the propositions of the 'peripheral theory' in order to clarify the characteristics of the structural power, by utilizing the arguments of relational power. In this context, I appreciate the unique works by a German scholar, Juergen Osterhammel, about the Anglo-Chinese relationship in the twentieth century<sup>23</sup>. Osterhammel tries

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<sup>20</sup> Ronald Robinson and John Gallagher with Alice Denny, *Africa and the Victorians: The Official Mind of Imperialism*, (London: Macmillan, 1961, 2<sup>nd</sup> edition, 1981).

<sup>21</sup> Ronald Robinson, 'Non-European Foundation of European Imperialism: Sketch for a Theory of Collaboration', in R. Owen and B. Sutcliffe (eds.), *Studies in the Theory of Imperialism*, (London, 1972).

<sup>22</sup> Andrew Porter, 'Gentlemanly capitalism and imperialism: the British experience since 1750?', *Journal of Imperial and Commonwealth History*, Vol.18(1990), pp.265- 295. ; Andrew Porter (ed.), 'Introduction to Japanese edition', *The Atlas of the British Empire*, (Tokyo: Touyo Shorin, 1997).

<sup>23</sup> Juergen Osterhammel, 'Imperialism in Transition: British Business and the Chinese Authorities, 1931-37', *China Quarterly*, LXLVIII (1984), pp.260-286 ; Juergen Osterhammel, 'China', in Judith M. Brown and W.R. Louis (eds.), *The Oxford History of*

to synthesize the British-centred theory with the peripheral one, by examining the relationship between China and the Great Powers from 1911 to the end of the 1930s, as 'collaboration and coexistence' within business system. He points out three characteristics of British policies to China in the 1930s; (1) the increase of British direct investment to the interior of China, and the retreat of financial interests, (2) the stabilization of the Chinese Nationalist Government in Nanjing and the strengthening of British collaboration with their bureaucratic capitalism, and (3) the expansion of Japanese 'informal empire' and its 'unstable coexistence' with British presence in China. According to his interpretation, with the weakening of the Chinese central government in Beijing in the 1920s, British financial control to China, the core element of British informal empire, tended to be eroded and the British government was forced to 'collaborate' with local nationalist forces in China. In this context, the Nationalist Government of Chiang Kai-shek in Nanjing became an ideal collaborator for the British. These explanations by Osterhammel are very useful to overcome the dichotomy between the metropolis and the periphery, and to reveal the exercise of the 'relational power' by the Chinese Nationalist Government against the Great Powers. They are also insightful to reconsider the interrelations among the Great Powers in East Asia<sup>24</sup>. His new approach to the informal empire in China proves to be helpful to get over the limits of the arguments of informal empire, centred on the extended framework of nation-states.

The third subject to consider is the relevance between the 'controversy about costs and benefits of empires' and the debates on informal empire. This controversy was raised by Patrick O'Brien and Avner

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*the British Empire*, Vol. IV : *The Twentieth Century*, (Oxford: Oxford University Press, 1999).

<sup>24</sup> As for the similar approach to the international rivalry in China at the turn of the nineteenth-twentieth centuries, see, Niels Petersson, 'Gentlemanly and Not-so-gentlemanly imperialism in China, 1880s-1911', in Shigeru Akita (ed.), *Gentlemanly Capitalism, Imperialism and Global History*, chapter 5.

Offer about the balance sheets of British imperialism to the metropolis<sup>25</sup>. The main arguments aimed at analyzing the cases of formal empire and the White Dominions, and by the definition of 'cheaper rule', informal empire was excluded from the debates on costs and benefits. But in the cases of formal empire, British India was treated as an exception in that India was a self-supporting dependency by its own huge finance and paid automatically her 'home charges' to the metropolis. However, if we concentrate our arguments on only the metropolis and the Dominions, we cannot comprehend the whole picture of financial and fiscal burdens for maintaining the British Empire. Therefore, we must consider the exceptional case of British India for re-examining the British presence in Asia. As I mentioned earlier, the overseas dispatch of Indian armies was crucial for maintaining the international order of Asia, and the subject was indispensable to understand the whole structure of national security or the military of the British Empire. Since the First Opium War (1839-42), Indian armies had been deployed several times at Chinese coasts and cities. Thus, when we discuss the 'controversy on costs and benefits of empires', we need a new global framework to include simultaneously the core of formal empire, British India, and an important informal empire in Asia, China.

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<sup>25</sup> P.K. O'Brien, 'The Costs and Benefits of British imperialism 1846-1914', *Past and Present*, No.120 (1988); Avner Offer, 'The British empire, 1870-1914: a waste of money?', *The Economic History Review*, second series, Vol. XLVI, 2 (1993), pp.215-238; Avner Offer, 'Costs and Benefits, Prosperity, and Security, 1870-1914', in Andrew Porter (ed.), *The Oxford History of the British Empire*, Vol. III : *The Nineteenth Century*, (Oxford: Oxford University Press, 1999), pp.690-711. See also the extended version of European imperialism, P.K. O'Brien, 'The Costs and Benefits of European imperialism from the conquest of Ceuta, 1415, to the Treaty of Lusaca, 1974', with Leandro Prados de la Escosura, *Revista de Historia Económica*, Año XVI, Invierno 1988, No.1, pp.29-88.

## 2. British military presence in Asia

### (a) Pax Britannica' and the structure of national security

Since the ancient times, the military strength was a basic factor for the formation and maintenance of imperial rule. At the height of 'Pax Britannica', the United Kingdom as the hegemonic state was militarily sustained by the paramount powers of the Royal Navy and Indian armies.

On the one hand, the Royal Navy was used by the British government, as the conventional means of enforcement of the 'Imperialism of Free Trade' in the middle of the nineteenth century<sup>26</sup>. The typical example of this military power was the gunboat diplomacy by Lord Palmerston against non-European countries in the middle of the nineteenth century. The deployment of sea power in a global scale needed a chain of the naval bases along the maritime transportation routes, and their security. Great Britain ensured the safety of two 'Empire Routes', led to British India and China, through the Cape of Good Hope and the Suez Canal. The Royal Navy divided the seas and oceans into several 'stations', and over half of British warships were stationed beyond home waters. The task of the Royal Navy was multifarious; it covered not only the protection and defence of maritime trade routes, the practice of gunboat diplomacy, but also the offer of 'international public goods' to the wider world. It meant the suppression of slave trade, the making of nautical charts and so forth. In addition, the Royal Navy was supplemented by the networks of mail steamers, like the Peninsular and Oriental Steam Navigation Company (P&O) in Asian waters. This International Mail service, supported by imperial subsidy, might be used as public goods.

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<sup>26</sup> B.R. Semmel. *British Naval Strategy and British Liberalism*, (New York, 1985) ; Katsuhiko Yokoi, *Ajia no Umi no Daieteikoku---Jyukyuseiki Kaiyou-shihai no kozo* [*The British Empire in the Oriental Seas---Maritime rule of Great Britain in the nineteenth century*], (Tokyo: Dobunkan, 1988).

On the other hand, Indian armies became important means for Great Britain to penetrate into the interiors of the continents from coastal areas, and they played more important roles than the Royal Navy for the formation and the maintenance of International Order of Asia. The military (army) strength of the British Empire consisted of the British Home Army (around 250,000) and Indian armies (about 140,000 respectively) just before the South African War in 1899. Almost half of the Home army has stationed at the formal empire, and especially, about 73,000 of British Army were always stationed in British India as a garrison. Compared with the strict Parliamentary control to the British Home Army through the Mutinies Act, Indian armies were easily dispatched to the non-European world by the arbitrary decisions of British government, and it was maintained by Indian finance. Indian armies had been used as the 'imperial garrison for the expansion the Empire' since the early 1840s at the times of the First Opium War and the First Anglo-Afghan War<sup>27</sup>. As for the justification for overseas dispatch of Indian armies and their charges, the three-sided disputes occurred between the British government, the Government of India and Indian nationalists. In the cases of Persia, Egypt, Sudan as well as partly in the case of China (the First Opium War), the cost of Indian overseas deployment was charged, to a great extent, with Indian finance. In order to maintain and expand the economic interests in Asia, Great Britain might use Indian armies cheaply, which enabled the pursuit of 'cheap' imperial defence strategy and imperial diplomacy. The role of Indian armies as an emergency corps was important for Britain to maintain an international order of Asia as the hegemonic state.

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<sup>27</sup> Ronald Robinson and John Gallagher with Alice Denny, *Africa and the Victorians: The Official Mind of Imperialism*. See also, Masaru Kaneko, "'Ankana Seifu" to Shokuminchi Zaisei----Eiin Zaiseikankei wo chusin ni shite' ["'Cheap Government" and Colonial Finance----Anglo-Indian fiscal relations'], *Fukushimadaigaku Shougaku Ronshu* [*Bulletin of Commercial Science, Fukushima University*], Vol.48-3 (1980).



### (b)The Boxer Rebellion and the Indian Army

When the Boxer Rebellion had broken out in China in June 1900, despite in the middle of the South African War, Indian armies were promptly dispatched to Beijing to rescue diplomatic missions and British subjects, as the main British corps of the Allied Forces.

In the nineteenth century, China used to be regarded as a British 'informal empire'. Since the First Opium War, Indian armies were dispatched to China three times before the Boxer Rebellion. At the times of the Arrow Incident in 1856-57, 5787 strength of Indian armies were deployed to attack Kwantung (Canton). At the Second Opium War of 1860, 11,000 strength of Indian armies were used to occupy Beijing. In each case, the British government covered whole costs of the dispatch of Indian armies to China, including ordinary expenses as well as extraordinary ones<sup>28</sup>.

When the Boxer Rebellion broke out in June 1900, the British government asked the Japanese government to dispatch its army against the Boxer, due to her heavy engagement and the deployment of Home armies in South Africa. However, following its military precedents in China, the British government decided to dispatch Indian armies from British India as an urgent countermeasure.

On 12<sup>th</sup> June 1900, Lord Hamilton, the Secretary of State for India, ordered to Lord Curzon, the Viceroy of India, to dispatch Indian armies to Hong Kong and Singapore to replace British and Indian regiments there. Soon the British government considered it desirable to increase the force from India to a strength of 10,000 native soldiers, and it informed that the cost of the expedition was to be borne by the British Treasury. 'The dispatch of the expedition was pressed forward with all haste and the first detachment to leave India for North China sailed from Calcutta on 25<sup>th</sup>

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<sup>28</sup> Wars on or Beyond the Borders of British India since 1849. in *British Parliamentary Papers*, 1900, Vol. LVIII, No.13. See also, Alan Harfield, *British and Indian Armies on the China Coast 1785-1985* (London, 1990).

June and arrived at Taku on 17<sup>th</sup> July. - after 29<sup>th</sup> June an almost continuous stream of transports carried away troops and stores, from Calcutta, Bombay, Madras, Karachi and Rangoon, right up to the middle of September<sup>29</sup>. Wei-hai-wei, a British leased port in Shantung peninsula, was selected by the War Office as the base for the troops in North China.

It is interesting to know the military connection between the South African War and British reactions to the Boxer Rebellion. The British tried to transfer heavy ordnance (four 6-inch breech-loading howitzers, two 9.45-inch howitzers and four 4.7-inch quick-firing guns) from South Africa to China. 'This heavy ordnance with 15 officers and 305 men of the Royal Garrison Artillery, left Capetown for Hong Kong on 23rd July. To draw these guns, 1,304 siege-train bullocks were sent to Wei-hai-wei from India, but long before the guns arrived, Peking had been captured by the Allies and the fighting was practically at an end. The guns remained at Wei-hai-wei, and the siege-train bullocks were sold by auction<sup>30</sup>. To ensure rapid communication between the troops, a submarine cable was laid from Shanghai to Taku via Wei-hai-wei.

At the beginning of October 1900, *The Times* reported the number of the Allied forces as follows: Japanese 20,000; Russian 10,349; *British Empire* 8,704; French 6,400; American 4,580; Italian 2,073; German 1,300; Austrian 139; Total 53,545. In addition, Russia kept 8,770 strength of garrison troops in Manchuria, and the British had garrisons 4,110 in Hong Kong and 3,136 in Shanghai as well<sup>31</sup>. In the meantime, the reinforcement of British military force continued, and the China Expeditionary Force consisted of four Brigades, mainly from Indian native infantry battalions. Finally, 21,000 strength of military forces (2,300 of European army, stationed in India, and 18,700 of Indian native infantry battalions) was

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<sup>29</sup> FO881/9496X, Official Account of the Military Operations in China, 1900-1901, by Major E.W.M. Norie (National Archive), Chapter VI. Despatch of the British Contingent—China Expeditionary Force---from India, p.43.

<sup>30</sup> Ibid., p.47.

<sup>31</sup> 'The British Expeditionary Force', *The Times*, 9<sup>th</sup> October 1900.

deployed for China expedition from British India.<sup>32</sup> In addition to these numbers, around 13,700 of Indian native followers, coolies and drivers, a similar number to native non-commissioned officers and men, were carried to China to support military activities. The British India Steam Navigation Company supplied 36 ships, the largest number of ships, and the total number of steamers employed was 53<sup>33</sup>.

Furthermore, in response to the requests from the British government, Australian colonies sent a contribution to the British Imperial forces assembling in China, in the shape of a Naval Brigade, consisting of 200 men from Victoria and 300 from New South Wales. This volunteer contribution from Australia was highly appreciated by the Home government as a sign of military cooperation for the British Empire, which symbolized an upsurge of patriotic sentiment<sup>34</sup>.

At the turn of 19<sup>th</sup>-20<sup>th</sup> centuries, China became the target of the scramble for sphere of influences among Great Powers, especially after the Sino-Japanese War of 1894-95 and the conclusion of the Shimonoseki treaty. For Great Britain, it was necessary to try to preserve and, if possible, to expand its imperial interests in China. In those days, Indian cotton yarn was exported to China from Bombay and it dominated Chinese market. Its export to China formed an important linkage for the development of intra-Asian trade and an intensive intra-Asian competition developed between Indian cotton yarn and Japanese one in Chinese market<sup>35</sup>. In this sense, as *The Times* pointed out, British India had a certain level of economic interests for the maintenance of International Order in China<sup>36</sup>.

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<sup>32</sup> Military Expeditions, 1895-1900, in *British Parliamentary Papers*, 1903, No.108.

<sup>33</sup> FO881/9496X, Official Account of the Military Operations in China, 1900-1901, by Major E.W.M. Norie (National Archive), Appendix E: Transport by Sea of the British Contingent, China Expeditionary Force, from India to China, 1900, from a Report by Captain W.S. Goodridge, pp.426-428.

<sup>34</sup> Ibid., p.50; G.S. Barclay, *The Empire is Marching: A Study of the Military Effort of the British Empire 1800-1945* (London, 1976), p.36.

<sup>35</sup> Kenji Koike, *Keieidairi Seido Ron* [*The arguments on Agency House*] (Tokyo: Ajiakeizai-kenkyusho, 1979), p.202.

<sup>36</sup> 'Interests of India in China', *The Times*, 6<sup>th</sup> October 1900, col.10-a.

According to the Official Report of the Welby Commission, the Royal Commission on the Administration of the Expenditure of India, India had a 'modified interests' in China. The British government dispatched Indian armies to North China against the Boxer Rebellion on the largest scale in its record of overseas deployments.

Indian nationalists in British India heavily criticized these military measures of British government. At the Annual Meeting of the Indian National Congress of 1902 and the Budget Speech of Imperial Legislative Council in 1903, Surendranath Banerjea and Gopal K. Gokhale criticized too great a burden of the 'military in India' and excessive Indian military budget, which enabled the Government of India to dispatch Indian native armies to China and South Africa at the turn of the centuries. They strongly demanded a reduction of military budget in India and a cutback in military strength.

Finally, the British government spent the following sum from the Imperial (Home) Treasury, as the covering cost of overseas dispatch of Indian armies at the turn of the 19<sup>th</sup>-20<sup>th</sup> centuries: £ 353,000 in 1899; £ 852,000 in 1900; £ 817,000 in 1901; £ 565,000 in 1902; £ 241,000 in 1903; £ 102,000 in 1904; total sum £ 2,930,000<sup>37</sup>. The British government skilfully headed off criticism from Indian nationalists and even from the Government of India, by bearing the whole expenses of overseas deployment of Indian armies.

At the turn of the nineteenth-twentieth centuries, the British Empire got over the military crises of the South African War and the Boxer Rebellion in East Asia, through the mobilization of Indian armies in China and the military support from the White Dominions in South Africa. The same imperial war strategy was adopted at the First World War on a massive scale. In addition to 980,000 soldiers from the Dominions, British India deployed about 1,100,000 number of strength abroad, and newly

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<sup>37</sup> East India. Employment of Troops out of India (China, Somaliland, East Africa). in *British Parliamentary Papers*, 1905, Vol. LVII, No.99.

recruited around 1,440,000 personnel, including non-combatants, within India for the purpose of imperial war cooperation. By the times of the First World War, the military international order centred on Great Britain, was sustained by the system of general mobilization and the willing cooperation of 'collaborators' within the British Empire.

### (c) The National Security and the Structural Power in Inter-War years

The First World War became a big turning point of military international order, by accelerating the rise and expansion of the total influence of the United States. According to a common view, the Inter-War years were regarded as the times of hegemonic shift from the UK to the US, or the era of Anglo-American co-hegemony<sup>38</sup>. It was true that the pre-war British pre-eminence in the field of military power collapsed under the rising naval power of the US and Japan. Under the regime of Washington treaties, the military strength of the Royal Navy was treated on equal terms with the US navy.

As for the aspects of imperial diplomacy, the British government wanted to renew the Anglo-Japanese Alliance, but by the opposition of the United States and the Dominions, especially by Canada, it substituted for the Treaties of Four Powers and Nine Powers to create an American centred international order in the Pacific. It is worth mentioning that the Dominions enhanced their voices through the wartime military cooperation and that they could exert gradually the 'relational power' against the British (Home) government in the process of imperial diplomacy.

On the other hand, the deployment of Indian armies as the Imperial Army was steadily restricted after the First World War. First of all, it was urgent for the Government of India to demobilize the newly recruited personnel around 1,500,000 and to mitigate its financial burden. Similar to the British fiscal situations, the tight condition of Indian finance was forced

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<sup>38</sup> See, C.P. Kindleberger, *The World in Depression 1929-39*, (Berkeley, 1973).

to curtail the military expenditure of India in the 1920s. However, the overseas territories of the British Empire expanded to cover the new 'informal empire' in the Middle East, such as the Mandates of the League of Nations (Iraq, Trans Jordan and Palestine) and the new protectorates in the Persian Gulf. This led to the creation of overstretch of Anglo-Indian military powers. In addition to the increase of military obligations overseas, Indian nationalists, especially the political leaders of the Indian National Congress, consistently opposed to the imperialistic overseas deployment of Indian armies, after the enactment of the Government of India Act of 1919. Like the cases of the Dominions, the collaborators in British India could get a constitutional status for partly exercising the 'relational power' against Great Britain.

After the careful discussions at the Committee of Imperial Defence, the British Cabinet confirmed the policy for restricting overseas dispatch of Indian armies in January 1923. This basic stance was maintained throughout the 1920s, except for the only case of their dispatch to Shanghai in 1927.

(d) The dispatch of Indian Armies to Shanghai in 1927: the Shanghai Defence Force<sup>39</sup>

On 31 January 1927, the British government informed Chinese government in Beijing of the dispatch of 'the Shanghai Defence Force'. In early January 1927, British concessions in the middle courses of the Yangtze river, Hankow and Chiuchiang, were occupied by Kuomintang military forces, and British subjects were forced to evacuate to Shanghai. The dispatch of the Shanghai Defence Force was, therefore, a precautionary measure against the approach of the Kuomintang forces to

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<sup>39</sup> This section is overlapped with my previous GEHN paper, Shigeru Akita, 'The British Empire and the International Order of Asia: From the Hegemonic State to the 'Imperial Structural Power'', (January, 2004), pp.12-17.

the Shanghai International Settlement in their conquering advance to the Northern China<sup>40</sup>.

The Shanghai Defence Force consisted of the 20<sup>th</sup> Indian Mixed Infantry Brigade from Bombay and Calcutta (Indian contingent) as well as the 13<sup>th</sup>/14<sup>th</sup> British Infantry Brigades from Great Britain and the Mediterranean (British contingent). Before the arrival of these forces, the British government ordered an Indian battalion, which had been stationed in Hong Kong, to move to Shanghai, and it reached there on 27 January as an urgent countermeasure. The main strength of the 20<sup>th</sup> Indian Mixed Infantry Brigade were two British infantry battalions and two Panjabi native battalions. The Government of India and her military authorities quickly responded to the Imperial Government's request of borrowing armed forces. It was reported that the early arrival of the Indian battalion and the Indian contingent alleviated the pressures for the defence of the International Settlement and offered a sense of security to the British subjects as well as other foreign nationals. In February 1927, the number of the British contingent was 9,506 and the Indian contingent was 6,409 (British 2,252; Indian 4,157). In addition, according to Sir Austin Chamberlain, the Minister for Foreign Affairs, the Royal Navy sent 13 cruisers, 2 aircraft carriers, 20 destroyers, 17 river gunboats, 12 submarines and other small ships to the Chinese Waters by April 1927<sup>41</sup>. Other Great Powers, including Japan, also dispatched naval forces to the Chinese waters, and the total number of foreign forces was approximately 23,700 by June 1927. The British military presence occupied a dominant position among these military forces, about 16,000 personnel, which reflected the position of Great Britain as the structural power in East Asia.

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<sup>40</sup> As for the International Settlement of Shanghai in the inter-war years, see Harumi Goto-Shibata, *Japan and Britain in Shanghai 1925-31*, (Basingstoke, 1995) ; Robert Bickers, *Britain in China*, (Manchester, 1999), chapter 4 'Dismantling informal empire'.

<sup>41</sup> Shanghai Defence Force. Embarkation Strength of Personnel, 18 February 1927, M2126, I.O.L.C., L/MIL/7/19396.

Prior to the final decision of sending the Shanghai Defence Force, the British government tried to persuade other Great Powers to form reinforcements. The International Settlement of Shanghai was under the administration of the Shanghai Municipal Council, and it declared the emergency on 21 March 1927. Under the conditions of cosmopolitan nature of the International Settlement, it was desirous to get military cooperation from other Great Powers and to coordinate British diplomacy towards China, especially with Japan and the United States. At the Cabinet meeting of 17 January, Sir Austin Chamberlain decided to ask the Japanese government to dispatch a 4,000-strong force and to postpone the final decision for 48 hours pending information as to the attitude of Japan<sup>42</sup>. However, on 21 January, the Japanese government refused to cooperate with the U.K., which resulted in the independent action of the British government<sup>43</sup>.

On the other hand, the British government expected a cooperation from another Great Power, the United States. They informed the U.S. of their intention of sending the Shanghai Defence Force at an earlier stage and sought for an implicit understanding with the U.S. Government. However, the United States was cautious to avoid an involvement in military intervention, while it ordered the U.S. Marines (1,200) to be on standby alert for any emergency and, later, dispatched reinforcements (2,300) from San Diego in March 1927. 'Without the active cooperation, or, at least, the open support and approval of other interested Powers, notably Japan and the United States of America'<sup>44</sup>, the British government was forced to play the lonely game with Chinese nationalism in 1927 as the structural power.

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<sup>42</sup> Telegram from Foreign Office to Sir J. Tilley, No.10, 17 January 1927, FO371/12449, No.7302.

<sup>43</sup> Telegram from Sir J. Tilley to Foreign Office, No.31, 21 January 1927, F600, in Ibid.

<sup>44</sup> Telegram to Sir M. Lampson(No.2), 4 August 1927, FO371/12408, No.7884.



As mentioned earlier, the main unit of the Shanghai Defence Force was the 20<sup>th</sup> Mixed Indian Brigade, dispatched from Bombay and Calcutta. However, this was the final overseas dispatch of Indian Armies in peace time before the Second World War. And it reflected the military value of Indian Armies within the British strategy of imperial defence at the times of an emergency. Originally, it was necessary to replace the dispatched battalions by other ones, when 'the Army in India' was deployed beyond Indian frontiers. But in this case, due to the financial difficulties in India and Great Britain and the emergent nature of Chinese events, it was impossible to make such a replacement in India, and it became imperative for the British government to shorten the periods of dispatch as far as they could<sup>45</sup>. Therefore, they groped for an early withdrawal of the Indian contingent of the Shanghai Defence Force, and at the Cabinet meeting of 6 July 1927, they decided to withdraw the 20<sup>th</sup> Indian Mixed Brigade after a heated debate<sup>46</sup>. By the end of October, all battalions from India returned to their original bases in India.

There were several Parliamentary debates about the Shanghai Defence Force in the Houses of Parliament, especially focusing on the length of deployment and the defrayal of their expenses. In early February 1927, the India Office sent their refusal of payments for 'any part of the cost of troops sent from India for the defence of the Settlement at Shanghai' to the War Office<sup>47</sup>. The telegram enumerated the reasons as follows; (1) the Report of the Welby Commission in 1900 declared that India had only 'a modified interest in questions affecting China and the Malay Peninsula'. It would not justify the imposition on Indian revenue of any portion of the burden of cost of operations in China ; (2) the whole cost of the China Expedition of 1900 was borne by His Majesty's Government

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<sup>45</sup> Telegram from the Secretary of State for India to the Viceroy, 21 January 1927, F616, FO371/12449, No.7302.

<sup>46</sup> Cabinet 30 (27), 6 July 1927, F6148, FO371/12455, No.7312.

<sup>47</sup> The Under Secretary of State for India to the Under Secretary of State, War Office, 9 February 1927, Financial F680/27, I.O.L.C., L/MIL/7/19408, M934.

as a precedent. The incidence of the cost of the Indian Mixed Brigade again became the subject of dispute in March between the India Office versus the War Office and the Exchequer. Lord Birkenhead, the Secretary of State for India, resisted the claim of the War Office on constitutional and equitable grounds, and 'also on the grounds of the smallness of Indian interests in China.' He referred to the Viceroy and the Government of India for their opinions. The Viceroy, worried about the reaction from Indian opinions, responded that 'the effect would be very damaging and would hopelessly prejudice chance both of getting any sane discussion here on the general Army policy, and also any chance of inducing India gradually to be willing to take an increasing share of Imperial obligations and burdens'<sup>48</sup>. Finally, the British Cabinet decided not to impose the costs of the Indian Mixed Brigade on Indian finance on 23 March 1927, just a few days before the end of the session of the Indian Legislative Assembly. This was a highly political decision, reflecting the balance of Indian opinions against the overseas deployment of Indian Armies and the conditions of Indian and British finances to defray the charges.

On 17 August 1927, Sir V. Wellesley, the Assistant Under-Secretary of the Foreign Office, sent a Memorandum about the 'Use of force in China' to Sir M. Lampson, the British Minister in Beijing, in which he summarized the stance of the Foreign Office; 'There has, I think, never been any question that where British life was in danger force must be used, whatever the consequences. As regards the protection of British property, whatever may be theoretically the correct view, in practice it becomes a question of infinite complexity—for which it is impossible to lay down any guiding principle. . . . The reason why we sent the troops to Shanghai was the imminent danger to British lives and the impossibility of

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<sup>48</sup> Incidence of the Cost of the Indian Mixed Brigade of the Shanghai Defence Force. Cabinet. Secret. C.P.100(27), I.O.L.C., L/F/7/1360. Telegram from Viceroy to Secretary of State for India, 20 March 1927.

evacuation. The fact that 50% of our interests are concentrated in Shanghai was, of course, an important consideration, but the determining factor was essentially the unique position of Shanghai, the fact that it could be defended with little risk of unfortunate consequences'.<sup>49</sup> This memorandum shows implicitly the delicate nature of the Shanghai Defence Force, especially that of the protection of British property in Shanghai.

The deployment of Indian armies in Shanghai finished without delay, and the British government paid the whole costs of their deployment. The principle of whole fiscal coverage by the British (Home) government was finally settled in the late 1920s.

Through these financial and political restraints, Great Britain as the military power experienced the limits for the expansion of military strength even after its rearmament in 1933. Therefore, it was logical for the British government to pursue the appeasement policies toward Nazi Germany, Fascist Italy and Japan in the latter half of the 1930s. As we will see at the next section, the exercise of British power shifted to the full use of her economic influence through the financial and service sectors of the City of London, after the relatively weakening of military strength and decline of her influence in the structure of national security.

### **3. Economic interests of the British Empire and Industrialization in Asia**

In this section, I observe a sketch of the international order and British roles in the Inter-War years, especially in the 1930s. In those days, the weight of Great Britain in the field of national security relatively declined, and the priorities shifted to the structure of economy. On the other hand, other European Powers and Asian countries or regions tended

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<sup>49</sup> Foreign Office Memorandum. Use of force in China. Sir V. Wellesley to Sir M. Lampson, 17 August 1927, F7023, FO371/12408, No.7884.

to act on their own terms, and participated in the exercise of the 'relational power'.

#### (a)The Structural Power in the world economy

In the 1920s, Great Britain aimed to restore and revive the pre-war predominant conditions of 'Pax Britannica'. The return to the International Gold Standard in 1925 at the old rates symbolized this effort of the 'return to normalcy'. The return at old rates meant a revaluation of sterling over the market exchange rate. The export of British industries suffered a severe blow from this decision, but the financial sectors in the City of London welcomed this return as necessary measures to preserve the value of overseas assets in sterling and to maintain the status of international financial centre against New York. The outbreak of the financial panic in 1929 interrupted the 'return to normalcy' and the negative impact of the Great Depression upon the British Empire was to come belatedly at the beginning of the 1930s.

Firstly, I reconsider the economic reactions of Great Britain and the 'periphery' of the British Empire towards the Great Depression from the viewpoint of the structural power. According to a common view, the British Empire reacted to the Great Depression through the formation of the bloc economy, that is, the Imperial Preferences at Ottawa Conference on Imperial Economy and the sterling area. In September 1931, Great Britain seceded from the International Gold Standard, and adopted the system of managed currency of devalued sterling. In March 1932, British government introduced uniform ten percent import duties by the Import Duties Act. And in July and August of the same year, the Imperial Economic Conference was held at Ottawa to introduce the system of Imperial Preferences, which finally seemed to end the free trade regime and to shift to the protectionism. The sterling area complemented the trade bloc of the British Empire. The countries and regions within the Empire

forced to hold the 'sterling balances' in London as a reserve currency. It has been said conventionally that the Ottawa system of trade bloc and the sterling area formed the block economy of closed nature, centred on the United Kingdom, and that the international influence of Great Britain greatly receded in the 1930s. These events seemed to lead to the loss of the status of the hegemonic power of Great Britain. However, thanks to the advance and development of recent research, these conventional interpretations of the 1930s tended to change and be revised. New researches in the economic history revealed that Great Britain in the 1930s could still continue to exert her influence in the fields of economy on a global scale, as the structural power.

In the following paragraphs, I observe three examples of the revisionist interpretations.

#### (i) Reconsideration of the Imperial Preferences---the case of British India

Firstly, I reconsider the realities of the Imperial Preferences, the core of the Ottawa agreement of 1932. The erection of the Imperial Preferences within the British Empire had been advocated by Joseph Chamberlain and tariff reformers for the benefits of British industries at the turn of the centuries. However, the Imperial Preferences in the 1930s were favourable to the dependent countries and regions within the Empire, especially to the Dominions. The Ottawa system consisted of a bundle of bilateral trade agreements between the UK and each colony, and formed a mild type of Imperial Preferences, due to the reluctance to a comprehensive framework of the Dominions. The Dominions were allowed to maintain their existing import duties at present rates for revenue purposes. On the other hand, the UK reduced the tariff rates to primary products of the colonies and dependencies, which was quite advantageous to the Dominions.

As a result, despite a high expectation of British industries, British export of manufactures to the Dominions stagnated, and the export of primary products from the Dominions to the UK increased to a great extent. British trade surplus to the colonies quickly changed to her trade deficit. The UK became the largest importing country and British home market turned to be the most attractive one for the colonies, as an alternative export market of their primary products, instead of the US and other European countries. The Dominions could use the foreign exchange (sterling), accrued from primary products, to service their cumulative debts. Through these indirect ways, they could evade their default on financial obligations to the City<sup>50</sup>.

The situation of British India was similar to the cases of the Dominions. After the Tariff Convention of 1919, the Government of India got a *de facto* tariff autonomy and was allowed to levy import duties on British products, especially on cotton goods, for revenue purposes. The tariff rates were raised gradually in the latter half of the 1920s as a solution of fiscal problems, and they never reduced its level after the Ottawa agreement of 1932<sup>51</sup>. The Government of India levied the differential tariff of Imperial Preferences mainly on Japanese cotton products, and the Imperial Preferences actually played a role as the protective tariff for Indian domestic goods.

In those days, it was critical for Great Britain to collect debts derived from past overseas investment. To achieve this goal, two things were necessary; (1) the increase of Indian trade surplus and (2) the stabilization of the exchange rates of Indian rupee at higher level. To increase the trade surplus of India, the Government of India promoted the export of raw cotton, jute products and cotton products, and it pursued consequently policies of constraining manufactured import from the United Kingdom. At

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<sup>50</sup> Cain and Hopkins, *British Imperialism 1688-2000*, chapter 5.

<sup>51</sup> B.R. Tomlinson, *The Political Economy of the Raj 1914-1947: The Economics of Decolonization in India*, (London, 1979), pp.118-120, 131-137.

the Indo-Japan trade negotiations of 1933-34, the increase of raw cotton export to Japan became one of the critical subjects of negotiations<sup>52</sup>. These export-oriented trade policies were coincidentally favourable to Indian nationalists, especially Indian capitalists in Bombay, who were eager to see the development of Indian cotton industries and Indian industrialization. The moderates within Indian nationalists, therefore, continued to act as the 'collaborators' to the British Raj. In this context, the peripheral or collaboration theory might partly be applicable to British India.

On the other hand, as for the second target of Indian financial and fiscal policies, British financial interests, centred on the City of London, accomplished their aims, despite the strong opposition of Indian nationalists. The critical point in dispute was the level of the exchange rates between the sterling and Indian rupee. Indian nationalists strongly claimed the reduction of the exchange rates to 1s 4d (1 rupee = 1 shilling 4 pence) in order to promote Indian export by lower rates of their currency. However, the British government made no concession at all on a higher level of the exchange rates, that is, 1s 6d (1 rupee = 1 shilling 6 pence), on the ground that higher exchange rates were essential to preserve the value of British investment in India and to collect smoothly debts<sup>53</sup>. We could identify the policies of similar type of high exchange rates between local currencies and the home currency in the Straits Settlements and the Dutch East Indies. In consequence, the colonial currencies in South and Southeast Asia were never devaluated, and kept stable at higher rates after the Great Depression, due to the financial and fiscal priorities of home governments. Great Britain exercised the structural power to sustain financial interests of the City, even though it adopted more flexible trade policies in India.

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<sup>52</sup> Naoto Kagotani, *Ajia Kokusai Tusho-chitujo to Kindai-Nihon* [*International Order of Trade in Asia and Modern Japan*], (Nagoya: Nagoya University Press, 2000), chapter 5.

<sup>53</sup> Tomlinson, *The Political Economy of the Raj 1914-1947*, pp.124-131.

(ii) The reconsideration of the sterling area---Chinese Currency Reform in 1935

Secondly, I will reconsider the nature of the sterling area in the 1930s. The sterling area consisted of the United Kingdom, the Dominions like Australia, New Zealand, South Africa and Irish Free State (except for Canada and Newfoundland) as well as dependent territories, such as British India, the Straits Settlements, Hong Kong and Aden so on. In addition to these countries and regions within the formal British Empire and Commonwealth, the sterling area also included several peripheral countries, such as Scandinavian countries, three Baltic countries, Portugal, Siam, Iraq, Egypt and Argentina, all of which had intimate economic links with Great Britain.

Great Britain had the closest economic relations with Argentina in Latin America from the nineteenth century, and she concluded the Roca-Runciman Pact in 1933. This Pact had been regarded as a typical example for defending British industrial interests in the non-empire markets in rivalry with the United States, by enforcing a cut of import duties against British manufactured goods. It had been the dealings in exchange for the secure import of Argentine chilled beef to the UK. However, recent works in the economic history revealed the linkages between the Pact and British financial interests. Argentine government didn't cut the rates of import tariffs in order to protect domestic industries (import-substituting industrialization) and to secure tariff revenues. In the second article of the Roca-Runciman Pact, a provision of exchange control was inserted as a ratification of Argentine exchange control since 1931. According to the Pact, the Argentine government set up the Exchange Margin Fund to give the service of British debts a top priority. In exchange for it, the British government offered a new Roca Funding Loan on favourable conditions (redeemable in twenty years at four percent interest per year). The Argentine Minister of Finance, Pinedo, showed



willingness to cooperate with the British government. He implicitly pursued pro-City policies in order to secure export markets of Argentine beef and agricultural goods in the United Kingdom<sup>54</sup>. Through these pro-British financial and economic policies, Argentina continued to keep the status of British informal empire as an “honorary dominion” in the 1930s.

In addition to this successful case, the British government tried to expand her financial influence beyond the sterling area in the 1930s. It was the Currency Reform in China in 1935 that the British government made a strong commitment for her financial interests.

After the First World War, Great Britain had played leading roles for the formation of the Second International Consortium to China, with the United States to provide joint loans to Chinese government by the coordination of Four Great Powers. The key figure had been Charles Addis, the London manager of the Hong Kong and Shanghai Bank and a leading banker of the City of London. The Second Consortium could achieve no result against its original high expectations, owing to the strong Chinese resistance to international intervention. However, British initiative in the Second Consortium could be interpreted as another case of exerting the ‘structural power’ in financial matters by setting the ‘rules of the game’ of international finance in China. But different from the pre-War period, the British must carefully consider the intentions of American bankers, especially the representative of the Wall Street of New York, Thomas Lemont. In this sense, even in the case of China, the aspects of exercising the ‘relational power’ tended to be strengthened by negotiations and compromises among Great Powers as well as with Chinese governments<sup>55</sup>.

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<sup>54</sup> Cain and Hopkins, *British Imperialism 1688-2000*, chap.22 ; Jun Satou, ‘1930 nendai Igrisu no Tai-Aruzenchin Tusho-seisaku no Tenkai [British Trade and Commercial Policies to Argentina in the 1930s], *Seiyoushi Kenkyu* [*Studies in Western History*](Sendai: Tohoku University), Vol. 27 (1998).

<sup>55</sup> See Mitani Taichiro, ‘Japan’s International Financiers and World Politics, 1904-31’, *Proceedings of the British Association for Japanese Studies*, 1980; Mitani Taichiro, ‘Kokusai Kinyushihon to Ajia no Sensou---Shumatuki ni okeru Taichu-Yonkoku-

In the 1930s, the British government got a new opportunity of extending her influence in China through the deterioration of Chinese currency problems. Since the announcement of the silver purchasing policy by American government in July 1934, the price of silver at international market drastically rose, and it caused the massive drain of silver from China and the serious deflation or standstill of Chinese economy. In response to this economic crisis, in the autumn of 1934, the Chinese Nationalist Government tightened the control of foreign exchange and tried to manipulate silver price by the raise of silver export duties and the introduction of silver equalization tax. At the same time, Chinese government asked for a foreign loan to the UK, the US and Japan in order to stabilize her currency. Only the British government responded to this Chinese request, and they proposed, in February 1935, the holding of a conference of Great Powers on Chinese financial matters. In March the UK government decided to dispatch Frederic Leith-Ross, the Chief Economic Adviser to the British Government, to China and Japan. First, the Leith-Ross Mission visited Japan in September 1935, and asked the Japanese government to cooperate the following proposal to China; (1) an Anglo-Japanese Joint Loan to China via Manchukuo, and (2) the abolition of silver standard and the introduction of a sterling exchange standard. This proposal was innovative in that it aimed at achieving three related policy targets simultaneously, that is, (a) the inclusion of China into the sterling area, (b) a *de facto* recognition of Manchukuo, and (c) Anglo-Japanese harmonious diplomacy. It seemed to reflect British presence in China as the structural power, in order to complement its military vulnerability by its financial and diplomatic power. In the end, this unique banker-like proposal was not realized by the refusal of the

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Shakkan-Dan' [International Capital of Finance and Wars in Asia---The Chinese Consortium of Four Great Powers at the final stage], *Nenpou Kindai-Nihon Kenkyu* [Annual Report of Modern Japan Studies], vol. 2 (1980).

Japanese government, and Leith-Ross went to China to cooperate for the Currency Reform of Nanjing government.

In China, prior to the visit of the Leith-Ross Mission, T.V. Soong, the former Finance Minister of the Chinese Nationalist government, and H.H. Kung, had already drawn an original plan of Currency Reform, assisted by American financial advisers. On 3<sup>rd</sup> November 1935, the Currency Reform finally came into force, and it prescribed (1) the issue of new Chinese currency as a managed currency, (2) nationalization of silver, and (3) an unlimited sale of foreign exchange. The British government ordered British expatriate banks in China, including the HSBC, to cooperate for Chinese Currency Reform, by using new currency and delivering silver to the Chinese government.

The Nationalist government could utilize the balance of powers between the UK and the US for the pursuit of its Currency Reform. On the one hand, prior to the Reform, they negotiated with the US Treasury about the massive sale of nationalized silver, and concluded three silver sale agreements with the US, which enabled them to sell \$ 100,000,000 worth silver by July 1937. The US purchase of nationalized silver provided the Chinese government with US dollar exchange, an important prerequisite for the stabilization of new currency. The Secretary of the Treasury, Henry Morgenthau, tried to link Chinese currency with US dollar and to enhance American influence to the Chinese government in the field of international finance<sup>56</sup>. On the other hand, the British government persuaded the Chinese to link new currency with sterling as well, and Leith-Ross insisted his success in introducing a sterling exchange standard into China. The Chinese Nationalist government did not officially recognize the linkage (peg) of Chinese currency either with sterling or with

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<sup>56</sup> Shigeru Akita, 'British informal empire in East Asia, 1880-1939: a Japanese perspective', in R. Dumett (ed.), *Gentlemanly Capitalism and British Imperialism*, chap.6; P.J. Cain, 'British Economic Imperialism in China in the 1930s: The Leith-Ross Mission', *Bulletin of Asia-Pacific Studies*, Vol. VII (1997).

US dollar, and propagated their original character of Currency Reform<sup>57</sup>. However, in a recent joint-research project on International Order of Asia in the 1930s, Kaoru Sugihara revealed that the exchange rate of new Chinese currency stabilized with sterling at a lower rate. Despite the official denial of the Chinese government, new Chinese currency was *de facto* linked with the key currency of the 1930s, sterling, and in consequence China 'joined' the sterling area<sup>58</sup>. The Chinese government could get the stable and international credit for their new currency, both by dexterously manipulating the balance of powers between the UK and the US and by taking advantage of each power's forte<sup>59</sup>.

The success of Chinese Currency Reform reveals that the Chinese Nationalist government could exert the 'relational power' and maintain its autonomy and that the sterling area had a feature of openness and flexibility towards outer countries. After 1932, Japan also devaluated Yen against sterling and practically pegged it to sterling at a lower exchange rate. With the success of Chinese Currency Reform, there appeared the 'devaluated zone of currencies' against sterling in East Asia<sup>60</sup>. Sterling area was extended into East Asia to incorporate two non-member countries, Japan and China, and British financial influence was preserved as the structural power.

### (iii) Industrialization in Asia and the British Empire

The third factor we must reconsider is the relationship or

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<sup>57</sup> See, Yutaka Nozawa (ed.), *Chugoku no Heisei-Kaikaku to Kokusai-kankei* [Currency Reform in China (1935) and China's Relations with Japan, Britain and America], (Tokyo: Tokyo University Press, 1981), Part 1.

<sup>58</sup> Kaoru Sugihara, 'The formation of industrialization-based currency order in East Asia', in Shigeru Akita and Naoto Kagotani (eds.), *1930 nendai-no Ajia Kokusai-chitujyo* [International Order of Asia in the 1930s] (Hiroshima: Keisui Publisher, 2001), chap.2.

<sup>59</sup> Toru Kubo, *Senkanki-Chugoku Jiritu-eno Mosaku: Kanzei-tsuka seisaku to Keizai hatten* [Searching for Self-reliance of Inter-War China: Tariff-Currency Policies and Economic Development] (Tokyo: Tokyo University Press, 1999), chap.8.

<sup>60</sup> Kaoru Sugihara, 'The formation of industrialization-based currency order in East Asia'.

connectedness between the British Empire and industrialization in Asia in the 1930s.

(b) Industrialization in China and British economic interests

In a previous article, I have emphasized the existence of a complementary relationship between the United Kingdom as a hegemonic state and Japanese industrialization at the turn of the 19<sup>th</sup>-20<sup>th</sup> centuries<sup>61</sup>. The complementary relationship between British financial interests and Asian industrialization still persisted in the latter half of the 1930s, especially between China and the UK<sup>62</sup>. Owing to the success of Currency Reform, industrialization in China was accelerated in 1936-37, and the trade deficit of China greatly decreased, due to the expansion of Chinese exports. Following the development path of Japan, China emerged as the second core region for the development of intra-Asian trade<sup>63</sup>. As Osterhammel pointed out, in addition to the previous indirect investment in securities and dividends, a new type of British expatriate business emerged to make direct investment at inland provinces of China, like the Anglo-American Tobacco and the Imperial Chemical Industry (ICI)<sup>64</sup>. To a less extent, in the case of British India, a similar process of industrialization, compatible with British financial and service interests, progressed in the Inter-War years as well<sup>65</sup>.

Finally, at the following section, I observe the interdependence between the Japanese economic development and the economic

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<sup>61</sup> Shigeru Akita, ' "Gentlemanly capitalism", intra-Asian trade and Japanese industrialization at the turn of the last century,' *Japan Forum*, 8(1) (1996), pp.51-65.

<sup>62</sup> See, Shigeru Akita, 'The British Empire and the International Order of Asia: From the Hegemonic State to the 'Imperial Structural Power'', (January, 2004), pp.19-25.

<sup>63</sup> Kaoru Sugihara, *Ajikan-Boeki no Keisei to Kozo* [*The Formation and Structure of Intra-Asian Trade*], chap.4.

<sup>64</sup> Juergen Osterhammel, 'Imperialism in Transition: British Business and the Chinese Authorities, 1931-37'.

<sup>65</sup> See, Shigeru Akita, 'British Economic Interests and the International Order of Asia in the 1930s', in Shigeru Akita and Nick White (eds.), *International Order of Asia in the 1930s and 50s* (London: Ashgate, 2006 forthcoming), chap. 4.

presence of the British Empire and Commonwealth in the middle of the 1930s.

(c) The changing perspective of 'complementarity' - Japan and the British Empire

*The British Consular Reports* expressed high expectations of growth in the Japanese capital goods market, and encouraged the formation of a highly developed 'commercial nation', which would lead the rapid growth of intra-Asian trade in the early 1910s. This more favourable attitude of British officials towards the expansion of the Japanese export trade coincided with the financial interests of the City of London.

However, during the inter-war years, this complementarity tended to diminish, especially in the case of British exports of machinery. Just after World War I, it was noted that 'American competition is being keenly felt and threatens to become a permanent danger.' 'The pre-war positions of Great Britain and America have been reversed and a recapture of the market will be a matter of the greatest difficulty,' while 'a great advance was made in local [Japanese] manufacture.'<sup>66</sup> The rapid growth of Japanese manufacturing industry was accelerated in the 1920s<sup>67</sup> and the early 1930s 'under the stimulus of a vigorous campaign for the encouragement of home products'<sup>68</sup>. This reflected 'the increasing ability of Japan to supply her own machinery requirements'<sup>69</sup>, and indeed Japan started to export its machinery and machine tools to Manchuria in the 1930s (and especially after 1934). Therefore, the competitiveness of

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<sup>66</sup> Department of Overseas Trade, *Report on Economic and Commercial Conditions in Japan, 1919*, p.39.

<sup>67</sup> On British perceptions of Japanese economic development in the 1920s from a different angle, see John Sharkey, 'British Perceptions of Japanese Economic Development in the 1920s: with special Reference to the Cotton Industry', in *The History of Anglo-Japanese Relations, 1600-2000*, Vol. IV, Janet Hunter and S. Sugiyama (eds.), *Economic and Business Relations*, (Basingstoke, 2002), Chapter 7.

<sup>68</sup> Department of Overseas Trade, *Report on Economic and Commercial Conditions in Japan, 1932*, p.68.

<sup>69</sup> *Ibid*, 1932.

British machinery was lost in the Japanese import-market and led to the weakening of a recognized sense of complementarity, given the difficulties of keeping pace with the higher development of Japanese industrialization.

At the same time, British financial interests witnessed a diminishing share of Japanese business. Japan reopened its foreign-bond issues in 1923, especially for the reconstruction projects following the Great Earthquake. Japan raised \$ 536,000,000 (£ 57,000,000) from foreign capital markets up to 1931, when the country was forced to re-adopt an embargo on sales of gold following the abolition of the gold standard by the British government. This period in the 1920s was referred to as the second introductory period of foreign capital<sup>70</sup>. However, the proportion of British capital was reduced owing to the heavy inflow of American money in the 1920s. In these processes, the financial presence and influence of the City of London declined significantly. Moreover, the Japanese government adopted new monetary and financial policies from 1932.

On the eve of the Great Depression of 1929, Japanese economic development was described as 'remarkable and well-sustained'<sup>71</sup>, notwithstanding the Financial Crisis of 1927. Over half of Japan's imports were raw materials, and it was noted that 'Japan's position is not unlike that of Great Britain. . . . She must purchase abroad the raw materials of industry, and with her profits buy such finished goods as she requires'<sup>72</sup>. This changing character in Japan's import-trade gradually increased the value of imports from British India [raw cotton and pig-iron], Malaya [iron ore and rubber], Australia [wool] and the Dutch East Indies [sugar]. 'As

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<sup>70</sup> On the loan issues on the London capital market by Japanese governments in the 1920s, see Toshio Suzuki, 'Japanese Government Loan Issues on the London Capital Market during the Interwar Period', in Hunter and Sugiyama (eds.), *Economic and Business Relations*, Chapter 5.

<sup>71</sup> Department of Overseas Trade, *Report on Economic and Commercial Conditions in Japan, 1929*, p.1.

<sup>72</sup> Ibid., 1929,---Foreign Trade.

her manufacturing capacity advances, she buys more raw materials and less finished products, to the advantage of those countries which supply such commodities as raw cotton, wool, wheat, iron, oil and timber.<sup>73</sup>

Accordingly, the importance of the British Empire, especially that of British India, increased greatly, whereas the imports of manufactured goods from the United Kingdom to Japan dropped drastically.

In the late 1920s, Sir George Sansom, the British Commercial Counsellor in Japan, observed that 'this appears to be an inevitable tendency in world trade . . . the sale of vast quantities of raw materials by these regions increases in the long run their purchasing power and their consumption of manufactured goods'.<sup>74</sup> He also pointed out that 'disturbed conditions, or any other causes which reduce purchasing power in China or British India, affect seriously the total volume of her [Japanese] exports and, indirectly, her purchasing power in foreign markets in general . . . The defeat of a customer in one market may mean the loss of a customer in another'.<sup>75</sup> His remarks reveal the so-called 'final demand linkage effect', which promoted industrialization in Japan. Kaoru Sugihara explained its logic as follows: Southeast Asian countries, such as Burma, the Straits Settlements, and the Dutch East Indies, specialized in the production and export of primary products to European countries; in return, they earned hard currency, sterling, and imported cheap consumer goods from Japan or British India<sup>76</sup>. Through the process of its rapid recovery from the Great Depression, Japan became an important buyer in the world's markets of raw materials and 'one of the most important

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<sup>73</sup> Department of Overseas Trade, *Report on Economic and Commercial Conditions in Japan, 1930*, p.18.

<sup>74</sup> Department of Overseas Trade, *Report on Economic and Commercial Conditions in Japan, 1927*, p.64.

<sup>75</sup> Department of Overseas Trade, *Report on Economic and Commercial Conditions in Japan, 1929*, p.18.

<sup>76</sup> Kaoru Sugihara, 'Japan as an Engine of the Asian international economy, c.1880-1936', *Japan Forum*, 2(1), (1990).



consumers of raw materials'.<sup>77</sup> Therefore, Japanese demands and imports of raw materials contributed, to a great extent, to the economies of the primary-producing countries. The Commonwealth countries could get foreign exchange (sterling) and pay back their debts to the UK without default. These economic linkages were favourable to the financial interests of the City of London. In this sense, we can identify an 'empire-scale final-demand linkage effect' between the British Empire and the Japanese economic development in the 1930s. As the structural power in Asia, the economic interests of Great Britain and those of Japan were mutually interdependent and the free trade regime was essential for each other.

## Conclusion

I shall now sum up the arguments of this paper about the relationship between the British Empire and International Order of Asia.

First, at the turn of the 19<sup>th</sup>-20<sup>th</sup> centuries, Great Britain was the hegemonic state with its vast formal empire (colonies) as well as informal economic influence (informal empire). For the national security structure of hegemonic state, the overseas deployment of Indian armies, financially supported by Indian budget, was essential for exercising its military and diplomatic influences in Asia and Africa. British military reactions to the Boxer Rebellion and the South African War reflected the interests of the British Empire in maintaining its role of hegemonic state, as the provider of 'international public goods' (=security). They could mobilize Indian armies and the volunteers of White Dominions to expand formal and informal empires in non-European world.

However, in the Inter-War years, especially from the late 1920s to the 1930s, the military influence of Great Britain no doubt declined, and

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<sup>77</sup> Department of Overseas Trade, *Report on Economic and Commercial Conditions in Japan, 1932*, p.39.

British presence in Asia seemed to transform itself. The dispatch of Indian armies to Shanghai in 1927 was a good example to show the connectedness between British economic interests and the security for the declining hegemonic state. The Shanghai Defence Force was the last peace-time overseas deployment of Indian armies. Due to the financial stringency in India as well as in the UK, the British government was forced to withdraw the Shanghai Defence Force as far as they could. They also had to worry about the reactions from Indian nationalism against using Indian armies overseas. But they could manage to defend their economic interests in China and took the leadership for maintaining the 'rules of the game' in the field of security in East Asia. We may call this kind of British influence as the structural power.

Second, during the Inter-War years, and especially in the first half of the 1930s, *the British Commercial Reports on Japan* tended to shift the focus of their attention from the British home economy to the markets of the British Empire. From the British point of view, Japanese economic development in the 1930s was a form of import-substitution industrialization. Although Japan emerged as the most formidable competitor in cotton goods markets, especially in China, the importance of British India greatly increased for the Japanese export economy in the early 1930s, as an expanding market for the Japanese cotton industry and as a vital source of raw cotton. On the other hand, for British India, the Straits Settlements and Australia, Japanese imports of primary materials also played an important role in the process of the recovery from the Great Depression and for the further expansion of export markets of their primary products.

In the 1930s, the economic development of China was centred on Shanghai, especially the foreign-controlled International Settlement, where the UK held the paramount position in regard to financial and service interests. The Chinese currency reform of 1935 was important not

only for the Nationalist Government of China but also for Britain in order to exert and maintain its financial influence as the structural power.

In addition to industrialization in East Asia, even in the case of British India, the rapid development of cotton industries occurred in the 1920s and was accelerated under the Great Depression from the early 1930s. The Government of India introduced emergency measures, such as surcharges and increased tariff rates in 1931-33, to tackle the fiscal problems. These policies, in turn, unintentionally promoted the growth of Indian cotton industries.

Therefore, we can identify in the 1930s a very unique complementary relationship between British economic interests and industrialization in Asia; that is, (1) complementarity between British financial interests ('gentlemanly capitalism') and the financial needs of China and British India, and (2) mutual economic interdependence, or an 'Empire-scale final- demand linkage effect', between Japan and the British Empire.

Third, in the 'long nineteenth century' (until the First World War), the UK was the hegemonic state, heavily dependent on British India in security as well as in economic structure (i.e. the multilateral settlements)<sup>78</sup>. However, in the Inter-War years, especially in the 1930s, the military vulnerability of the British Empire was brought to light for the world. As a response to it, a focal point of British external and imperial policies shifted, to a great extent, from military action to financial and fiscal influences, supported by resilient financial and service sectors of the City of London. Through this process, British external influences and its presence in Asia tended to transform. As the 'Imperial Structural Power' with vast colonial territories (=formal empire), the UK must compensate for the loss of its military influence by the alternative field of economic structure. In reality, in the Inter-War years, Britain lost its competitive

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<sup>78</sup> See, S.B. Saul, *Studies in Overseas Trade* (Liverpool, 1960).

power for the production of consumer goods, especially cotton goods, due to the rapid economic development of East Asia (Japan and China) and the beginning of Indian industrialization. British capital goods export also faced a threat from American and Japanese competitors. In consequence, the financial and service sectors of the UK remained as a few fields of British comparative advantage, and the British government tried to do their best to preserve its dominant position in these sectors abroad.

In these contexts, the presence of Great Britain in Asia was an important determining factor for the formation of the industrialization-based 'International Order of Asia' even in the 1930s. Industrialization in Asia, especially in East Asia, was promoted by utilizing the financial and service sectors of the City of London. In return, Great Britain could maintain the status of the 'Imperial Structural Power' by taking advantage of the progress of industrialization and the emerging markets in East Asia.

Much more significant was the tendency towards the emergence of mutual economic interdependence during the 1930s. If we think about these kinds of interconnection among various countries and regions, we may create a kind of 'Global History' as relational and comparative history.