The Meiji Secret: The Emergence of Zaibatsu Dominance in Japan

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Abstract
This paper examines how the intervention of American sailors in Japanese politics created a dramatic social shift in Japan freeing Japanese merchants to begin building corporate enterprises. These corporate enterprises became subsidized by the government, expanded rapidly, and eventually became capable of influencing the government on its path to WWII. The control these companies exerted over the Japanese through their control over the economy was extensive. So pervasive were these companies that dissolution was near impossible without collapsing the Japanese economy, to this day many survive and thrive well beyond the Japanese borders.

Keywords: Zaibatsu, industrialization, Japan, World War II

Introduction
The period between 1853 and 1945 saw tremendous changes and economic growth throughout much of the world. As western nation states expanded globally and colonized large sections of the world, the Japanese people, united through war, under the Tokugawa dynasty saw trade booming and social class structures changing. As the Chinese empire fell into decline and became subjugated by the powerful colonizing nations of the west, the Japanese took note and vowed not to become weak and dependent on the West like the Chinese.

In 1853, when Commodore Matthew Perry arrived in Japan and demanded the opening of a Japanese port to American trade, the Japanese responded to Perry’s black ships in agreement; though they initially relented to him, the people began to question the current government. The Japanese took Perry to be a wake-up call, deposing their shogun (a military dictator) and installing their emperor, they began the march forward into a modernized state capable of competing with the strongest nations in the world. This rapid modernization astounded the world. As the Meiji

¹ Marcus Ramirez is a McNair Scholar; he also received support for this project through UW-Stout’s Office of Research and Sponsored Programs and presented parts of this work at the National Conference of Undergraduate Research April 11-13, 2019 at Kennesaw State University in Kennesaw, GA (Ed.)
period began, named after the emperor Meiji, great change took place in Japanese society and the door was opened for the merchant class to rise beyond its historically low station and begin transforming Japanese society.

The merchant class now able to grow more powerful began constructing corporations based around a single family, zaibatsu, which would rapidly take hold of the Japanese economy. These corporations would dominate the Japanese economy for more than one hundred years, being subsidized by the government in the beginning, moving into a powerful position quickly and influencing the government in its imperial ventures. Following the Japanese empire's defeat in World War II and the allied occupation, the US, connecting zaibatsu growth to Japanese aggression, moved to dissolve the zaibatsu.

However, the zaibatsu were so interwoven with the Japanese economy that the Allies were unable to truly cut them from the Japanese economy without opening Japan to potential Communist influence. Allied attempts to separate the economy and zaibatsu left behind Keiretsu, organizations made of several companies all run by different families but tethered together by a communal bank. The Keiretsu would create a new economic backbone. This paper will examine what created the zaibatsu and enabled them to devour the Japanese economy.

**The rise of the zaibatsu**

In 1945 Japan lay defeated, crushed by the nuclear bombs, the small nation spent forty-five years challenging some of the greatest nations at the time. For a year this small nation challenged the United States for control of the Pacific Ocean and possession of its resources. Japan's success had confounded many western thinkers and although this confusion had been happening for some time it reached an apex with Japan's ability to fend off one of the strongest nations on the planet. Following Japan's defeat, Westerners began to examine the Japanese nation to understand how it had transformed from a feudal state into one comparable to a European state in development and industrialization faster than any nation before it. "Japanese Industrialization and Economic Growth" by Carl Mosk goes further back than most observers to examine how the Japanese managed to rapidly industrialize. While most use Perry's black ships for a starting point, Mosk's paper makes a note of how the Shogunate had paved the way with basic forms of all the necessary tools for Industrialization.2

Under the Tokugawa Shogunate, samurai had lost their position in the system; without war they had no real jobs, becoming a burden on the nation. John Roberts’ Mitsui follows the Mitsui clan which in the 1600's had the foresight to move from being a samurai clan to a lower-class merchant family, freeing them up to eventually become one of the most powerful zaibatsu until Japan's defeat in 1945. The Mitsui clan also helped create some of the proto industry that Mosk mentions in his paper; as businessmen the Mitsui began starting small businesses in a variety of fields, brewing saké and making soy sauce to start with. The end of the Sengoku Jidai (warring states period) in Japan had brought prosperity to the nation. The now flourishing internal trade encouraged a loosening of the restrictions that had previously left merchants at the bottom of the Japanese social structure. The loosening of this social structure helped merchant families like the Mitsui to expand and develop themselves while also opening social doors.3

When Perry's black ships steamed into Uraga harbor in 1853, Japan's future changed dramatically. Perry forced Japan to trade with western nations and concluded treaties beneficial to the United States with the Shogun. Prior to Perry's arrival Japan had been stagnating with a decentralized government in place that failed to meet the needs of the people. The arrival of an external threat put pressure on the government which failed to appease the masses demanding a return of imperial power not seen since the first shogunate began in 1192. Perry's arrival left an image of stagnation on the minds of the Japanese and triggered a huge debate in how to act, which rapidly shifted into a civil war. The Shogun government tried to appease the foreigners and radical Daimyo (feudal lords) throughout Japan felt the reaction needed to be conflict with the west. The years before the Meiji ascendance were ripe with internal struggle and conflict for Japan, with provinces such as Choshu and Satsuma radicalizing and challenging the rule of the Tokugawa Shogunate.4

In 1867, Emperor Meiji ascended the imperial throne, and with his advisors and government officials began the Meiji Restoration period pushing Japan into modernity. The previous government was decentralized and reliant on local authorities which needed to be replaced by a central government. The Meiji government completed a spectacular starting feat, creating a centralized government in roughly half a century. The centralized government was more capable of spotting problems as well as repairing them. One such problem was the drastic technological and productive differences between Japan and western developed states. To fix this the government rescinded the Shogun's ban on travel to other nations and even encouraged it by organizing some groups to travel to Great Britain or the United States to observe their advanced economies and industries.5 Another problem to be settled was the treaties gained by the western powers from the Shogun. The western powers had used their treaties to control the majority of trade to and around Japan horribly restricting the nation and impeding its growth and development. This demanded industrial development to respond to and push out the foreign merchant

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3 John Roberts *Mitsui* (Boston: WeatherHill, 1973) Pg.11
4 Seiji Hashida *The International Position of Japan as a Great Power* (New York, The Columbia University Press, 1905) Pg.16
5 Marius B. Jansen *The Emergence of Meiji Japan* (New Jersey, Cambridge University Press, 1995) Pg. 172-173
powers. Professor Ohno’s “the Industrialization and Global Integration of Meiji Japan” notes a beneficial connection between the private and public sectors during this period that enabled the rapid development of industry. Meiji-period Japanese entrepreneurs took on the challenge of developing high level manufacturing with an ease that impressed outsiders.6

The emergence of a strong merchant class in Meiji Japan allowed for rapid development of manufacturing and industrial business. The Mitsui helped to develop railways throughout Japan by working with the government to sell bonds through their own bank moving millions of yen in bonds for the Meiji government. The intercource between government and corporations spawned from the national slogan “Shokusan Kougyou” (industrial promotion); such intercourse, however, complicated things. The zaibatsu had begun to align with government officials giving them special treatment. In 1874, the Mitsui were informed by some government officials of a raise in costs being applied to corporations in a few months. This knowledge kept them afloat but greatly hurt their competitors7. This intercourse between the zaibatsu and government officials would become dangerous later on.

With a strong merchant foundation made, the government then subsidized these corporations to compete with the westerners. The subsidized firms quickly supplanted the British and American trading companies around them and began to swallow up the surrounding markets. As the economy grew stronger the Japanese began to look beyond their borders and towards becoming an empire recognized by Europe.

In 1874, Japan disputed China’s control over the island of Taiwan and made its intent to replace China as premier of Asia clear by launching an expedition to take Taiwan. After moderate success on the island, Japan and China came to an agreement costing China three million taels (Chinese silver currency) and allowing Japan to annex the Ryukyu Islands but not Taiwan. In 1894 Japan, adopting a Western diplomatic tactic, decided to “open” Korea to foreign trade as the US did to Japan less than forty years prior.8 The opening of Korea would spark the first Sino-Japanese war diplomatic tactic, decided to “open” Korea to foreign trade as the US did to Japan less than forty years prior. The opening of Korea would spark the first Sino-Japanese war. The Mitsui were given a silk plantation used by the government to encourage more and better silk production across Japan.9 The success of this silk plantation was quite great and by the end of the century, it helped Japan to produce three quarters of the world’s raw silk.10

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6 Kenichi Ohno The Industrialization and Global Integration of Meiji Japan (National Graduate Institute for Policy Studies (GRIPS) Development Forum, 2003) Pg. 3
7 Ibid, Pg. 39
8 Seiji Hashida The International Position of Japan as a Great Power (New York, The Columbia University Press, 1905) Pg. 22
9 Ibid, Pg. 25
10 Ibid, Pg. 26
11 John Roberts Mitsui (Boston: WeatherHill, 1973) Pg.120
12 Ibid, Pg. 120
13 Ibid, Pg. 120
14 Ibid, Pg. 122
15 Ibid, Pg. 123
16 Ibid, Pg. 123
Sumitomo possessing all Japanese gold mines, using the gold to pressure competition out of existence. As these zaibatsu began to dominate their respective markets, they also moved into political office wherever possible to guarantee an advantage against competitors. For example, when the government offered Miike mine (an important coal mine) up for auction, it was the Mitsui clan who bought it with their family head Masuda Takashi, the current government appointed agent for coal exports, lobbying for its purchase. His competitor, the Mitsubishi, were being financed by Mr. Okuma, the foreign minister.  

In the 1900’s The Japanese again prepared for war. Boxer troubles in China had the Japanese marshal their armies to subdue the rebels, but during this campaign, they found the Russians positioning themselves against the Japanese politically to secure their own control over Asia. The Russians secured possession of Manchuria and refused to relinquish it. While in possession of Manchuria, Russia had also moved to secure suzerainty over Korea which Japan opposed. Japan sought a defensive alliance with Britain to counter Russia’s ally France and then surprise attacked the Russian fleet at Port Arthur. This attack marked the beginning of the Russo-Japanese war (1904). The loss of this fleet put the Russians at a serious disadvantage and to repair it, they maneuvered their Baltic fleet around the Eurasian continent to regain the sea. As the Baltic fleet moved it was watched by zaibatsu assets around the globe who all reported back to Japan preparing the Japanese navy to acquire assets in China. When the RoC (Republic of China) entered hostilities with the Manchu government plenty of Japanese merchants rushed in to sell arms to both sides. Unfortunately for the zaibatsu, the merchants combined with their urge to throw money to Sun Yat Sen, had weakened the Pro-Japanese sentiment in China and when Sun capitulated to Yuan Shih-Kai the Japanese had lost everything they worked for. In 1914 WWI had broken out and Japan had taken sides with the allies. The war would be incredibly beneficial for the Japanese in both economic development and territorial expansion. Now at war with Germany, Japan moved swiftly to secure the Chinese and island territories that Germany possessed. Following the war, these assets remained in Japanese control. The Japanese gave thanks that the war truly took place in Europe leaving many western nations starving for ammunitions and resources. With the war being Europe’s primary focus, Japan could happily build its infrastructure and industry in preparation for future expansion. At the start of 1915, Japan submitted to the Chinese president a list of demands (the Twenty-one demands) made by the zaibatsu and things they had wanted for a long time. While the war raged on, the Japanese leveraged the supplies they had been sending to Russia

investments from the Japanese Government, the Mitsui zaibatsu, and the Mitsubishi zaibatsu. The importance of this Company and region was evident when in the 1930’s the region was full of a million Japanese subjects accounting for 40% of the annual Japanese trade.

In the late 1800’s amid so much international travel, Japanese citizens began secret societies with a variety of purposes. Learned individuals could use these societies to study and research history, politics, geography, language, etc. while at the same time “continental Ronin” gathered information, recruited informants, smuggled gold or opium, sabotaged railways, fomented rebellions, etc. These societies all acted for the sake of the emperor and to expand the Japanese empire. These societies also acted somewhat like the union busters of the US, keeping workers in line and where necessary securing mineral rights and the like from problematic entities. One of these societies, the Black Dragon Society, had actually funded rebellious efforts in China leading up to the Boxer rebellion. Even after the rebellion and growth of Japan onto mainland China these societies showed their usefulness. They worked feverishly with the zaibatsu to “develop China, to promote a better understanding between the two countries, and mutually enjoy the happy outcome of coexistence and prosperity”. Together they funneled millions of yen into China to develop it and stir pro-Japanese sentiment. The zaibatsu were able to use Sun YatSen to help them acquire assets in China. When the RoC (Republic of China) entered hostilities with the Manchu government plenty of Japanese merchants rushed in to sell arms to both sides. Unfortunately for the zaibatsu, the merchants combined with their urge to throw money to Sun Yat Sen, had weakened the Pro-Japanese sentiment in China and when Sun capitulated to Yuan Shih-Kai the Japanese had lost everything they worked for. In 1914 WWI had broken out and Japan had taken sides with the allies. The war would be incredibly beneficial for the Japanese in both economic development and territorial expansion. Now at war with Germany, Japan moved swiftly to secure the Chinese and island territories that Germany possessed. Following the war, these assets remained in Japanese control. The Japanese gave thanks that the war truly took place in Europe leaving many western nations starving for ammunitions and resources. With the war being Europe’s primary focus, Japan could happily build its infrastructure and industry in preparation for future expansion. At the start of 1915, Japan submitted to the Chinese president a list of demands (the Twenty-one demands) made by the zaibatsu and things they had wanted for a long time. While the war raged on, the Japanese leveraged the supplies they had been sending to Russia

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20 Ibid, Pg. 167
21 Ibid, Pg. 167
22 John Roberts *Mitsu* (Boston: WeatherHill, 1973) Pg.178
23 Ibid, Pg. 180
25 John Roberts *Mitsu* (Boston: WeatherHill, 1973) Pg.194

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for more agreements between the two over possession of China and its assets.\textsuperscript{26} As China had found itself without any European support, it acquiesced to the Twenty-One demands made by Japan in January of 1915.\textsuperscript{27} As the war raged on and European economies were nearing collapse the loans they had issued to China had stopped and, in their place, Japan had stepped in, making large profits off of the war.\textsuperscript{28} Japan offered several Chinese warlords large sum loans in return for more of the Chinese economy being given to the zaibatsu. The zaibatsu themselves had also stepped in and begun giving China extensive loans that in 1918 had amounted to as much as 295 million yen.\textsuperscript{29} By 1916 things were working well for Japan. In July Japan formed an alliance with Russia to better rip apart China as well as secure their own interests and borders.

The war had allowed for Japan to export over a billion dollars’ worth of goods a year. The war had even opened new avenues as foreign companies couldn't produce needed goods for Japan anymore thus zaibatsu began looking for ways to fill the gaps. Mitsui Corporation had made a foray into American companies just before the war started, buying Standard Aircraft Corporation, which gave them roughly a 14-million-dollar profit and immeasurable experience in aircraft production.\textsuperscript{30} The wealth gained following the war enabled the zaibatsu to buy more stock in foreign corporations and also created a new social class the narikin\textsuperscript{31} who were bolder with their money and more capable of reckless investments.

The narikin could be incredibly effective in their economic pursuits and occasionally, they would compete with the stronger zaibatsu corporations. One such narikin, the effective Kaneko Naokichi, had helped the Suzuki Shoten trading house to become so powerful that it held transactions amounting to more than a billion yen per year.\textsuperscript{32}

The zaibatsu had fused themselves so well with the Japanese government that at the Washington conference (Nov, 1921 – Feb 1922) there were plenty of zaibatsu business men there as “People's representatives” for the Japanese delegation.\textsuperscript{33} By this period massive anti-big business sentiment had begun to build and ferment in Japanese society; to quote Roberts' Mitsui “The concentration of ownership in the hands of the zaibatsu had made their oppressive presence felt in every aspect of the economy…their political and financial maneuvers… increased public distrust and hatred of big business and its corrupt political leaders.”\textsuperscript{34}

The Great Depression (1929 - 1939) made one thing clear for nations dependent on foreign trade, the global market could collapse at any moment, and the collapse of global markets told the Japanese government it needed to expand its borders. With the imperial mindset of the government strengthened, the zaibatsu followed suit, undercutting competitors and pushing further into foreign markets. The Japanese state began to re-equip and arm its military. The military demands were reflected by the economy as a decline in light industry such as textiles (30%) was replaced by production in heavy industry which began to dominate over 40% of the Japanese industrial production.\textsuperscript{35} Following WWI the zaibatsu had begun to assist the government wherever possible in return for economic benefit. Historian Kozo Yamamura stated “Japanese governments looked to the zaibatsu for aid and assistance in financing public budgets, in building foreign trade and colonial enterprise, and in creating heavy industries required by the Army and Navy…”\textsuperscript{36} With the government so dependent on them, the zaibatsu became incredibly powerful.

WWII began for Japan in 1936 with the Second Sino-Japanese war. The war demanded the expansion and growth of the munitions and strategic industries, and further expansion of the heavy industries continued through the war into 1941.\textsuperscript{37} The Japanese invaded China for a second time hoping to annex all of China after stealing Manchuria. The theft of Manchuria occurred in 1931 when a Hyper-nationalist Japanese army went rogue and invaded Manchuria. The Japanese were initially successful capturing much of Northern China and pressing into Nanking. In Nanking atrocities committed by the Japanese helped bolster the Chinese desire to repulse the invaders and the Japanese advance began to grind to a halt.

In 1941 the Japanese attacked Pearl Harbor in a surprise attack aimed at destroying the American pacific fleet specifically the carrier ships that weren't present during the attack. The Pearl Harbor attack was synchronized with multiple naval invasions throughout the pacific giving the Japanese control over plenty of Indonesia and the Philippines as well as scattered islands between the United States and Japan.

The attack had the effect of dragging the United States into the war against the Axis powers (Germany, Japan, and Italy). By the time the war in the pacific had come to involve western powers, following the fall of Germany in 1944, the zaibatsu were heavily involved in the government. They had their hands around resources from across a widespread empire and heavy national demand for oil, rubber, and steel fed the zaibatsu’s industry. In Bisson’s The Zaibatsu’s Wartime Role it’s clear that after restructuring their corporations around Heavy industry, allowed them to profit massively from war. To quote Bisson “The extensive heavy industrial enterprises of

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26 & Ibid, Pg. 195  
27 & Michael A. Barnhart \textit{Japan And The World Since 1600} (London, Hodder Headline PLC, 1995) Pg. 54  
28 & John Roberts \textit{Mitsui} (Boston: WeatherHill, 1973) Pg.196  
29 & Ibid, Pg. 197  
30 & Ibid, Pg. 202-203  
31 & John Roberts \textit{Mitsui} (Boston: WeatherHill, 1973) Pg.203  
32 & Ibid, Pg. 203  
33 & Ibid, Pg. 248  
34 & Ibid, Pg. 249  
35 & T. A. Bisson “Increase of Zaibatsu Predominance in Wartime Japan” Pacific Affairs 18 No.1 (1945) pg. 55  
36 & Kozo Yamamura “Zaibatsu Prewar and Zaibatsu Postwar” The Journal of Asian Studies 23, No.4 (1964) Pg. 550 - 551  
37 & T. A. Bisson “Increase of Zaibatsu Predominance in Wartime Japan” Pacific Affairs 18 No.1 (1945) pg. 56  
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Mitsubishi enabled this concern to derive maximum advantage from the war. At the end of 1942 the paid-up capital of its mining, electric, steel, oil, and chemical subsidiaries already totaled nearly 400 million yen.” These massive corporations pushed themselves into the major industrial markets of war and used this control to leverage their positions against the government which during the war was primarily military men.38 Roberts corroborates the impenetrability of the zaibatsu economy by military men and their government stating “Although the Kwantung Army’s fascists rode roughshod over Japan…they never quite established the economic dictatorship they hungered for. In the very darkest days that loomed ahead, servitors or friends of the zaibatsu appeared in every cabinet…”39 The zaibatsu had established total control over the Japanese economy.

Following the Second World War, MacArthur occupied Japan to enforce dramatic changes on the Japanese state. He tore into the zaibatsu, though fearing communism left them mostly intact creating the new Keiretsu which were more decentralized but much the same corporations. The process of dismantling the zaibatsu was as such “To dissolve the zaibatsu, the government effectively confiscated all shares held directly or indirectly by the most prominent zaibatsu families…It then resold the acquired stock. It finished the process shortly after the Tokyo Stock Exchange reopened in 1949…it left the internal affairs of the corporations largely intact.” in the article “ Does Ownership Matter? Evidence From The Zaibatsu Dissolution Program”. The corporations had been separated into multiple smaller corporations all connected by a group bank. These Keiretsu would still be a powerful economic force. In the 1990’s American writers were rife with fear of the growing Japanese economy. The idea that the United States had been out-negotiated on trade deals for years was easily found with books like Trading Places: How We Are Giving Our Future to Japan and How to Reclaim it being published while focusing on this topic.40 The arrival of Japan into the great political game and its sudden emergence as a preeminent power confused many. Through careful research and study of Japan’s past, many through the years have found at the heart of Japan’s growth and development the zaibatsu and their economic dominance pushing Japan into new heights.

Conclusion

Through this paper I have shown how the zaibatsu used Japan’s modernization for their own benefit. The zaibatsu grew rapidly under governmental subsidies, were gifted lands and resources by an expansive government, and quickly gained control over the Japanese economy. The zaibatsu wielded the economy like a weapon to control the Japanese government and influence its actions. Following Japan’s defeat in WWII, many of the corporations that existed in this age of development and expansion for Japan continued on. Mitsubishi unfazed by the wars and actions of its government or foreign governments persists to this day as a corporate entity feared by competitors. Mitsubishi isn’t alone as a zaibatsu to have survived the war and dissolution, Mitsui persists in a different form as does Sumitomo Corp. three of the biggest zaibatsu still contending with each other to this day.41 With many of these corporations surviving on, their control of the Japanese economy was clear and their ability to dominate markets and the global system should be examined more closely.

38 T. A. Bisson “The Zaibatsu’s Wartime Role” Pacific Affairs 18 No. 4 (1945) pg. 355-356
39 John Roberts Mitsui (Boston: Weatherhill, 1973) Pg.323


Weimer, George. “Keiretsu, Kudzu, Zaibatsu, And You; Are we Japan’s new colony?” *Industry Week*, vol.241, no.6, 1992, Pg.