Japanese Civilization (Part 8)

– The Emergence of the Japanese Economic Sphere –

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The Elimination of Imported Currency at the End of the 17th Century

After the collapse of the Soviet Union, it was divided into a dozen or so republics. One of the first things these republics did was to establish central banks and issue their own currencies. The possession of its own currency is proof of a nation's independence.

Until the Edo period (1603-1868), Japan depended on copper coins imported from China for its currency. Can pre-Edo Japan be described as an independent nation even though it used money minted in China? If, for example, American dollars could be used as currency in present-day Japan, Japan could not be called an independent nation. During the American occupation after World War II, the General Headquarters of the Supreme Commander for the Allied Powers (GHQ) requested that the American dollar be recognized as valid currency in Japan, but the Japanese authorities flatly refused because this would have effectively turned Japan into another state of America. Similarly, we need to have reservations about recognizing Japan's national independence while it depended on Chinese currency. Taira no Kiyomori (1118-81) tried to transfer the capital of Japan to Fukuhara (now Hyogo Prefecture) in the late Heian period (781-1185) and Ashikaga Yoshimitsu (1358-1408) paid tribute to the Chinese court through vassal homage for the same reason: they needed currency from the Song (960-1279) and Ming (1368-1644) dynasties, respectively. Since Song and Ming coins passed as currency in Japan, Japan was part of the Chinese economic sphere.

Japan was not originally part of China. In order to avoid this fate, the Japanese had given their country its name, set up the emperor system and enacted national laws within less than half a century after they were defeated by the Chinese in the Battle of Hakusonko on the coast of the Korean peninsula in 663. Following the example of the city of Chang'an, the Japanese built Fukuharakyo and Heijokyo using the grid-patterned *jori* system, and, following the compilation methods used in the official history of China (authorized by the emperor), they drew up the *Nihon Shoki* (The Chronicles of Japan). The Japanese thus established a state comparable to China and fostered a national culture: Japan had become an independent country, both politically and culturally.

Another aspect of this drive toward independence was the minting of copper coins such as the *Fuhonsen*, *Wado Kaichin*, 12 coins of the imperial court of Japan (*Kochojunisen*). Here too, the newly formed Japanese nation followed the example of the copper coins that had been used in China from the Han dynasty (202 BC-AD 220).

However, the Japanese people, unaccustomed to the use of money, hoarded these copper coins and continued to barter using goods such as cloth or rice. With the development of a commodity economy, Japan's rulers devoted their energies to obtaining Chinese currency rather than minting their own, as if they themselves wanted Japan to be incorporated into the Chinese economic bloc. Since the Japanese statesmen had no compunction in using Chinese currency, Japan during this period can only be described as a semi-independent country.

The situation changed completely in the Edo period. The Tokugawa shogunate minted gold, silver and copper coins and by the end of the 17th century, imported currency had been almost entirely removed from Japan. This was an epoch-making development in Japan's economic history. Firstly, it meant that Japan had achieved economic independence from China. Secondly, and very significantly, Japan became the only country in the world that was domestically self-sufficient in and had complete control over the gold, silver and copper needed for minting money. None of the European countries was able to procure all these materials by themselves. Thirdly, due to the shortage of copper in China that arose during the Ming dynasty and became more serious in the Qing (Manchu) dynasty (1644-1912), China became increasingly dependent on Japanese copper, on which it had to rely almost completely during the first quarter of the 18th century. Fourthly, the Japanese copper exported to make up for this shortage came to be used as a means of exchange in trade not only in China but also in Asia as a whole. Fifthly, demand for Japanese copper extended even beyond Asia, influencing the European copper market. (However, most of the demand was in Asia and only a small quantity made its way to Europe.)

Apart from Japan, the main areas of copper production in Asia were China, Persia and India, but in all of them the yield was insufficient, making Edo Japan the world's largest supplier of copper. Before the Edo period, the Japanese economy could not operate without Chinese copper, but from this period onwards the whole Asian economy could not do without Japanese copper. By gaining complete control over the material used for domestic currency and then through its export, Edo Japan acquired the status of a nation that could influence the economy of China and the rest of Asia and, through Holland, the world economy. This meant that Japan had succeeded in attaining the same status as China, which had once held a monopoly on the

supply of copper coins. The Japanese economic bloc had emerged with a vigor that exceeded even that of its Chinese counterpart.

Japan's Role as a Supplier of Silver

If copper was the basic currency of the East Asian economic sphere, silver was the world currency. As a result of the large flow of copper coins out of China from the Song dynasty, the copper supply began to dry up and silver began to be used for money together with copper from the Ming dynasty onwards. The sources of this silver were Europe and Japan. Let us first examine the case of Europe.

The colonization of the New World by the Europeans began around 1500, but during this first century the demand in Europe from the new continent was almost entirely for gold and silver. The gold and silver that flowed rapidly into Europe from the New World caused inflation referred to as the "price revolution" in world history. In Spain, the gold and silver were consumed as war expenses and failed to stimulate economic growth. Britain, on the other hand, succeeded in achieving sustained economic growth by investing this gold and silver. By developing industry, particularly the wool industry, more rapidly than any other European nation, Britain established the foundations for the procurement of gold and silver.

However, the gold and silver of the New World were not used only for Britain's economic development. In the 17th century, European countries such as Britain, Holland, Belgium and Denmark together established the East India Company and carried this gold and silver, particularly silver, to "East India," i.e. Asia. Just as Europe wanted little other than gold and silver from the New World, Asia wanted little other than silver from Europe. Among the Asian countries, China and India in particular required huge amounts of silver from Europe. They had various attractive commodities to offer in return. In India, there was "Dhaka muslin," a fine silk fabric made in the Bengal region said to be as soft as the wings of a cicada. China had silk that the Europeans had coveted since Roman times, high-quality china ware on which even a knife could not leave a mark, and the tea to be drunk from china cups. And in Southeast Asia, where the civilizations of India and China met, there were pepper and spices. The Europeans were intoxicated by the lure of these goods from the ancient Asian continental civilizations and paid for them in silver.

The silver that flowed into China from Europe came by two routes: it was either taken to Europe over the Atlantic Ocean, then by ships of the East India Company via the Cape of Good Hope or the Indian Ocean to Malacca and Batavia (Jakarta), or it was carried in Spanish galleons to Acapulco in Mexico and thence over the Pacific Ocean to Manila. The city of Manila was built by the Spanish in 1571. They brought silver coins to Manila, purchased Chinese raw silk thread, silk fabrics and china with it, and then returned in their galleons over the Pacific Ocean. According to the Spaniard Antonio de Morga, writing in the 16th century, "The Chinese merchants just purchased silver coins; they showed no interest in any other goods from the New World, even gold bullion." Maritime Chinese from Fujian and Guangdong settled in Manila and by around 1600 the Chinese population there exceeded 15,000. These Chinese merchants took the silver back to China, used it to buy raw silk thread, silk cloth and china, and brought these back to Manila to sell. The maritime Chinese conducted the same kind of trade with the Japanese in Nagasaki during the Edo period.

When the Europeans set out for the New World in search of gold and silver, the Japanese were entering a period of gold, silver and copper mine development on a scale unparalleled in the history of mining. Through this development, Japan not only became the sole country in the world that was self-sufficient in gold, silver and copper but it also started exporting huge amounts of them to China. From the Sengoku (Warring States) period (1467-1568), Japan purchased a wide variety of commodities (cotton, tea, china, raw silk thread, silk fabric and others) from the maritime Chinese, paying for them with silver.

After the Japanese were forbidden from going overseas in the Kanei era (1624-1644), the maritime Chinese and Dutch brought Chinese merchandise to Nagasaki and took away silver in return. Japanese silver also found its way to China via Korea by way of Tsushima and Ryukyu (now Okinawa), which was ruled by the Japanese domain of Satsuma (now Kagoshima Prefecture). From the Kanei era onwards, the Dutch were the only Europeans able to obtain silver from Japan which, together with the New World, had become one of the world's two biggest silver-producing regions. From the Europeans' viewpoint, this meant that Holland held a monopoly on trade with Japan. Japan had established itself as an important part of the world economy.

Japan's Epoch-Making Copper Coin Supply Capacity

Modern money systems are characterized by the use of three types of coin: gold, silver and copper. In 1601 (the 6th year of the Keicho era), the Keicho gold and silver coins (*Oban*, *Koban*, *Ichibukin*, *Chogin* and *Mameitagin*) were minted in Japan with the aim of nationwide circulation. In 1605, one *ryo* of gold money was officially set as the equivalent of 50 *momme* of silver money. (Ryo was a unit of currency and momme was a unit of weight. One momme is about 3.8g.)

The success of the Tokugawa shogunate's minting of copper coins is particularly worthy of mention. As we have seen, Japan did not achieve the diffusion of its own government-minted currency until the Edo period, depending until then on Chinese copper coins.

Since the rapid inflow of copper coins in large quantities began in the middle of the 12th century, Chinese copper coins were used in Japan for almost 500 years. During the 12th century, for instance, as many as 70 different types of Song coin were imported into Japan,

and in 1242, 10 *kammon* of copper coins (10,000 coins), said to be the equivalent of the amount minted by the Southern Song in one year, were brought in by just one voyage. The earliest documents in Japan referring to the circulation of copper coins are the *Todaiji Monjo* (record), which mentions the sale of the estate of Todaiji in Yamato Province (now Nara Prefecture) for 27 kammon, and the *Toji Hyakugo Monjo*, which documents the sale of farmland in Kyoto in the years 1162 and 1176. In the late 12th century an order was issued prohibiting the circulation of Song currency but it proved ineffective. Valuation in terms of cloth was terminated in 1226 and taxes were calculated in terms of money from then on. In the Muromachi period (1333-1568), large quantities of Ming coins (*Taichu-tsuho*, *Kobu-tsuho*, *Eiraku-tsuho*, *Sentoku-tsuho* and others) were imported into Japan, promoting the diffusion of tax payment using money. This was known as the *kandaka* system, which was based on valuation in terms of *kan*, the monetary unit for copper coins. During the Edo period, the *nengu*, the payment of the basic land tax collected from the peasantry, was based on the *kokudaka* system in which tax was assessed in terms of rice measured in *koku* (one koku is about 180 liters). This replaced the system of tax payment using imported currency.

The most widely circulated of the imported coins were the Eiraku coins. Using these as their model, the Tokugawa shogunate minted the Keicho coins in around 1606 (Keicho 11) and the Genna coins in 1617 (Genna 3), but they were unable to replace the imported coins. The first government-minted coins to succeed in this way were the coins minted in the Kanei era (1624-1644). The Kanei coins were minted during the five-year period from 1636 to 1640 and, to ensure their diffusion, the export of copper was prohibited until 1645.

Subsequently, according to the autobiography of the scholar and statesman Arai Hakuseki (1657-1725), 500,000 kan were minted in the four years from 1656 to 1659 and 1,970,000 kan were minted during the 16-year period from 1668 to 1683. Through the Kanei currency, Japan eventually managed to eliminate the domestic use of imported currency. This operation took almost a whole century to complete, which clearly shows the strength of the will of the shogunate to ensure its success. Imported coins were thus completely supplanted by government-minted currency in Japan.

Photo : Currency Museum, Bank of Japan

Keicho Oban coins were minted in Japan in 1601

The success of the replacement of imported Chinese currency suggested the possibility of the use of Japanese copper coins in the Asian region, where Chinese currency was used. Japan had always had the capacity to export not only copper coins but all of the materials it used for money in the Edo period. While the countries of Europe possessed large amounts of gold and silver that they had all but plundered from the New World, Japan also had a vast domestic supply of materials for currency through its development of mining in the Sengoku period. And while the Europeans took to Asia about one-third of the precious metals they acquired in America, Japan's "annual silver exports alone at that time (the beginning of the 17th century) accounted for 30% or 40% of the total amount produced throughout the world." (Iwao Seiichi, *Sakoku* [National Isolation], Chuokoron-sha, 1970.) According to Hakuseki's *Honcho Hoka Tsuyo Jiryaku* (Record of Circulation of Japan's Legal Tender), the total amount of gold and silver flowing overseas from Nagasaki during the 61 years from 1648 to 1708 was "more than 2,397,600 ryo of gold and over 374,209 *kamme* (kan) of silver," while copper exports during the 46 years from 1663 to 1708 "amounted to over 114,498,700 *kin* (money unit)."

Among gold, silver and copper currency, copper coins, especially the Kanei coins, were particularly significant because Chinese copper coins served as international currency in Asia. They had been used in the east, not only in Japan but also in Korea and Ryukyu, in Java and Vietnam in the south, in the kingdom of Islam in the west, and in the northern regions of Xi Xia and Chin. Japan's development of the capacity to supply copper coins was therefore an epoch-making occurrence in the Asian economic bloc. The impact on China merits particular attention. Because China had had a monopoly on the supply of copper coins to East Asia, the fact that Ming and Qing China imported Japanese copper is liable to be overlooked. However, China's copper self-sufficiency became uncertain during the Ming dynasty, and the mint of the Ming regime came to rely increasingly on "foreign copper," as Japanese copper was called in China. During the 15th and 16th centuries, "foreign copper" became one of China's main imports and from the 17th century it was its chief import. In the next section we will consider the impact this had on China.

China's Achilles Heel – The Shortage of Copper

Qing China was revered by the Western powers as a sleeping lion. But China had an Achilles heel: the shortage of materials for minting money. In

1644, the Qing government set up a central mint in Beijing, but due to serious copper shortages local mints were closed and in 1673 the use of copper products was prohibited. The mint ordered the purchase of copper scrap but, as a result of the copper shortage, the value of copper in terms of silver rose from 1000 to 700 *mon* (money unit) per ryo of silver. The proposals made to the Chinese government during this period show that the copper shortage was causing trouble to both government and citizens. They include suggestions that the copper content of money should be decreased and the claim that the root of China's economic problems was that it could not import copper from Japan.

To resolve this problem, China strengthened its control of trade and relocated the main region used for trade with Japan from Fujian, which was under the control of the Zheng clan, to the vicinity of the Chang Jiang river, where government-controlled facilities had been established. From 1689, China's imports of Japanese copper increased considerably and the annual consumption of copper by the central mint reached 39,000 piculs (1 picul = approx. 60kg). The central mint had relied on private merchants for the procurement of copper, but from 1699 this role was transferred to merchants in the employ of the bureau of internal affairs. (Private merchants, however, were not excluded from trade with Japan.) For almost 40 years from 1684 to 1723, Qing China depended entirely on Japan for the copper used for minting coins. All of the 40,000 piculs of copper consumed annually by the central mint came from Japan.

Japan could not respond indefinitely to this massive demand for copper from China. Eventually, in 1715, Hakuseki issued the *Shotoku Shinrei* (New Regulations on Ships and Trade), which permitted only Chinese possessing a *shimpai* (a certificate of permission to visit Japan issued by the Nagasaki magistrate's office) to conduct trade with Japan and limited the amount of copper that could be exported. On the shimpai, the name of the current era in Japan (Shotoku) was written. However, this obligation to recognize the other country's calendar system placed the Chinese in the position of a subject, which ran counter to the natural order of things in Qing China. For this reason, all of the shimpai were confiscated at Ningbo. After that, Chinese ships did not come to Japan for two years.

But necessity is the mother of invention. In 1717, the Qing government made the high-handed decision to interpret the shimpai as a commercial procedure that had no political meaning. The confiscated certificates were returned to the merchants, eight provinces – Jiangsu, Anhui, Jiangxi, Fujian, Zhejiang, Hubei, Hunan and Guangdong – were ordered to procure copper, and public merchants were ordered to secure 44,352 piculs of copper per year. However, the merchants refused to purchase copper whose price had been raised in accordance with the export regulations imposed by the Tokugawa shogunate, and were consequently unable to provide the Chinese government with the copper it required. Faced with this grave situation, the Qing government considered various measures for the procurement of copper, including the use of copper from a mine discovered in Annam in 1722, but finally decided to develop copper mines in the mountainous Yunnan region far south of Beijing. Even so, Japanese copper continued to be imported, accounting for more than half of China's copper coin production. However, the yield from the Yunnan copper mines steadily increased and the central mint finally succeeded in procuring from it the required 40,000 piculs. In 1741, the amount of copper transported from Yunnan to Beijing reached 63,000 piculs. Eleven years later, the weight of the coins was also raised and in 1773 the amount of money produced by the mint increased. This led in turn to a decrease in the value of copper coins, forcing the government to reduce production. The Japanese copper trade was finally no longer of importance to China.

China was thus highly reliant on Japanese copper at the beginning of the Qing dynasty, the Qing mint being particularly dependent on Japanese copper in the first quarter of the 18th century. Although China subsequently succeeded in achieving copper self-sufficiency through the development of the Yunnan copper mines, it had depended on Japanese copper for more than one century. The copper trade was the most important factor governing trade between China and Japan. Although the Japanese government kept out the Chinese through its exclusion policy and so did the Chinese government against the Japanese, both governments gave preferential treatment to Chinese engaged in trade at the port of Nagasaki. It is particularly significant that the Qing government gave approval to trade with Japan as a special category of commercial activity that was not part of the tribute system. From China's viewpoint, trade under a world order that centered around China was conducted in the form of the tribute system, which meant that other countries had to accept the use of the Chinese calendar system when conducting this tribute trade. In the case of the Shotoku Shinrei, however, the Chinese entered into an inverted relationship with Japan in which they used certificates marked with Japan's era name. From the Chinese standpoint, this meant giving approval to trade with Japan in a form that deviated from the official tribute trade. From this it is clear that well over one century before the opening up of Japanese ports to foreign trade in the mid-19th century, the advantage in the power relationship between China and Japan was already moving to Japan.

Japan Independently Adopts the Gold Standard in the Edo Period

Blessed with plentiful resources, Qing China prided itself on its self-sufficiency, but this was undermined by its dependence on overseas countries for the vital supply of materials for minting money. Japan, on the other hand, achieved self-sufficiency in the copper coins that circulated throughout East Asia and in the silver that was used in

the world market. In this respect, Japan clearly held economic superiority over China.

Japanese silver first entered China at the beginning of the 15th century. At that time, Ming China produced around 5,000kg to 10,000kg of silver annually, but the supply was running out and silver from Japan and the New World was imported to make up for this deficiency. In the 1570s, the Potosi silver mine in Bolivia embarked upon mass production and was producing more than 250,000kg per year by the end of the 16th century. Since this was estimated to account for about 60% of the total amount produced in the world excluding Japan, world silver production must have amounted to around 400,000kg. Meanwhile, Japan had developed large silver mines such as the Omori and Ikuno mines, which yielded as much as 600,000kg a year in their heyday. This figure clearly shows how huge Japanese silver production was. More than 100,000kg of silver was supplied to China from both Japan and the New World in the 1570s, rising to 800,000kg by the 1640s. In China, Japanese silver was melted down into silver coins called "horseshoe silver," while New World silver (in the form of silver coins) arriving via the Acapulco – Manila route was used as it was or converted into horseshoe silver coins. The Chinese government did not take any part in the production process, leaving everything to private operators. The situation was very different in Japan, where silver production was controlled by the Tokugawa shogunate at silver mints known as *ginza*.

In the world market, the countries of Europe used gold while in Asia both China and India used silver. The value of silver measured in terms of gold hardly changed at all during the second half of the 17th century to the second half of the 19th century, fluctuating only slightly between 14 to 16 units of silver per unit of gold during this period. The demand for silver in India was enormous. In the late 19th century Karl Marx wrote, "Indian society is very attached to ornaments made of gold and silver. Even the lowest classes usually possess some kind of gold articles such as a pair of gold earrings or a necklace. Gold and silver are widely used even for the rings they wear on their fingers and toes. Women and children often wear thick gold or silver bracelets or anklets, and gold and silver images of deities can be seen in their homes." In India, silver was used to mint silver rupees, the national currency. The civilizations of China and India were thus bottomless pits for the consumption of silver. Located in an Asia characterized by this high silver consumption, Edo Japan used silver as well as gold coins and the value of silver in terms of gold remained stable at a ratio of around 11:1 from the 17th century to the closing years of the Tokugawa shogunate in the mid-19th century. Japan was broadly divided into two economic regions: East Japan, whose basic currency was gold, and West Japan, which used silver, mirroring the structure of the world economy, where gold was used in the West and silver in the East.

In the so-called Tanuma period (1767-86), during which the official Tanuma Okitsugu exerted his greatest influence on shogunate policy, silver coins known as *Nanryo Nishugin* were minted in Japan. Although these coins were made of silver, they were measured in the units of gold money – ryo, *bu* and *shu* (1 ryo = 4 bu; 1 bu = 4 shu) – becoming the first silver coins in Japan to be measured in terms of numerical value. Prior to that, the value of silver coins such as the Chogin and Mameitagin had been measured in terms of weight. After the minting of the Nanryo Nishugin, silver coins became an auxiliary to gold and the gold standard gradually took root. It is very significant that Edo Japan independently moved in the same direction as Europe, which had also adopted the gold standard.

When Japan abandoned its policy of national seclusion and opened its doors to the West in 1854, silver coins known as Mexican dollars were circulating on the seas of Asia. These Mexican dollars, which were exchanged with Japanese silver on the basis of weight, were also referred to as "Western silver" by the Japanese. When Japan's ports were opened to foreign trade, the parity of gold and silver in the domestic market was 1 of gold to 5-10 of silver, as compared to a parity of 1:15 in the international market. At Japan's newly opened ports, therefore, foreign traders were able to obtain gold using silver, which was scarcer in terms of gold than on the international market, returning overseas with vast amounts of Japanese gold money.

In addition to adjusting the parity of gold and silver to the international standard, Japan established a new money system replacing the standard 1-ryo gold coin with the 1-*yen* gold coin. Unlike the Chinese, the Japanese people did not use "Western silver" within their borders, confining its circulation to the ports opened to foreign trade. With the enactment of the *Shinka Jorei* (New currency regulation) by the Japanese government in 1871, Japan adopted a gold standard and issued a 1-yen silver coin, which was mainly used for trade payments. This meant that Japan adopted a multiple-standard system in which it used a gold standard internally and a silver standard externally. The 1-yen silver coin used for trading payments imitated the shape of the Mexican dollar used as the international currency in the China Sea region. A total of 165-million yen's worth of silver yen were issued until minting was terminated in 1897. The silver yen drove out the Mexican dollars not only at the foreign trade ports in Japan but also from the seas of Asia. Within about 30 years from the opening of Japan's ports, the silver yen thus came to dominate the markets of East Asia and Southeast Asia. JJTI

(Continued in Part 9)

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