

The Imperial Bank of Iran and Iranian Economic Development, 1890-1952

Geoffrey Jones
London School of Economics

Between 1889 and 1928 a British bank served as state bank and bank of issue of Iran (usually known as Persia until the 1930s), and held a virtual monopoly of the modern banking sector of that country. The Imperial Bank of Persia was one of a large group of British "overseas banks" founded in the nineteenth century which pioneered banking and established branches all over Asia, Australasia, Africa and South America. A number of these banks had widespread branch networks: the Oriental Bank Corporation in the 1880s, for instance, spanned Africa, Australasia and Asia [2, p. 164]. The geographical spread of operations of these banks was far wider than those of British manufacturing multinationals until after 1945, and they represent a fascinating--and much neglected--manifestation of British international business. The British overseas banks are conceptually akin to Mira Wilkins' "free-standing companies" [17, pp. 84-7; 18]. They did not grow out of the domestic operations of any existing bank headquartered in Britain and conducted no domestic banking, although they sometimes collected UK deposits, at least until 1914.

THE HISTORY OF THE IMPERIAL BANK

The Imperial Bank was founded in London in 1889 on the basis of a Concession from the Iranian government which made it state bank, with the exclusive right to issue notes and tax free status, for sixty years. Nineteenth century Iran was "one of the most backward countries in the world" [4, p. 20]. A British oil company discovered oil in 1908, but it was not until the 1930s

BUSINESS AND ECONOMIC HISTORY, Second Series, Volume Sixteen, 1987. Copyright (c) 1987 by the Board of Trustees of the University of Illinois. Library of Congress Catalog No. 87-72645.

that Iran acquired any railways or modern industry. Iran was also subject before 1914 to continual foreign interference because of its geopolitical situation between the Russian Empire and British India [13].

An immediate question is why British investors should want to found a bank in such a country. The peculiar answer is that the bank was founded by mistake. The story went back to a Concession given in 1872 to Baron Julius de Reuter, naturalized Briton and founder of Reuters' News Agency, which granted him control over most of Iran's natural resources. Long regarded as a deplorable example of the corrupt ruling Qajar Shahs' selling their country to Western capitalists, the Reuter Concession is more accurately portrayed as a serious attempt by the government to promote economic growth [16, p. 21]. The core of the Concession was a plan to build railways, which the government recognized it had neither the capital nor technology to construct itself. The Reuter Concession, however, was opposed within Iran and by Russia, forcing the Shah to cancel it, and it was not until 1889 that Reuter was able to get compensation.

In 1887 the Russians forced the Shah to agree not to give railway concessions to any foreign company without their permission. Reuter had a brilliant idea. An obscure article in the 1872 Concession had given him the right to establish a national bank. Reuter argued that such an institution would be an Iranian rather than a foreign company, and therefore free from the Russian veto on building railways. The Shah liked the idea, and almost to the last moment of the negotiations for the Imperial Bank's Concession (signed January 30, 1889), the Iranians and the British were preoccupied by railways. However, Russian pressure forced the omission of the magic word "railway" from the Concession, and in March the Tsar forced the Shah into a 5-year moratorium on the construction of all railways. Reuter and the Shah were left with a bank instead of a railway [10, ch. 1].

The Imperial Bank was publicly floated in London. The Eastern trading house of David Sassoon took around 30% of the share issue and had a seat on the Board. Other directors illustrated the original purpose behind the Bank. There was a representative of Glyn Mills, a domestic bank active in the finance of foreign railways [8, p. 133]. The Bank's chairman was a former chairman of the Hongkong Bank, the leading British overseas bank in the East, who was active in various "development" projects in China. The Board sat in London, supported by a tiny London Office, and with the chief executive in Tehran. The staff sent out to manage the Bank in Iran--and Iraq and India where the Bank had branches in the 1890s and again in the interwar years--were almost entirely British. The similarities to "free-standing companies" in the extractive and industrial sectors are tantalizing.

The Imperial Bank's history can be split into pre- and post-1928 periods. Before 1928 it was effectively the only modern bank in the country, with the exception of a Russian bank founded in 1890, which made a lot of "political" loans and ended life in disarray [1]. The Bank had 24 branches in all major Iranian cities by 1928, which served retail and service markets: taking deposits, making advances, financing trade, and dealing in foreign exchange. It also functioned as the state bank: issuing bank notes; importing silver for mintage into currency; keeping the government's accounts and acting as a recipient of its revenues; and making advances to the government. The Bank also floated Iran's two foreign loans in London (1892 and 1911), and British government loans were on-lent through the Bank to the Iranian government between 1903 and 1919. The British government loans were used as an instrument of diplomacy, and on occasion the Foreign Office obliged the Bank to cease lending to Iranian governments it did not like [10, pp. 87-92, 116-7, 128, 192-3].

The Imperial Bank's wide range of functions--far removed from any stereotyped picture of a British "exchange bank"--were matched by its' wide range of obligations. The British shareholders expected dividends. The Shah wanted a state bank. The Foreign Office wanted an agent of Empire. The Bank's policies fluctuated according to which "interest group" exerted the most influence. When crunches came--as in the two World Wars--the Bank put the interests of the British government first, the shareholders second, and the Iranian government last [10, chs. 6, 11].

This order of priority helps to explain the second stage of the Bank's history--from 1928 to 1952--when it was attacked by nationalist governments and eventually withdrew from Iran. A striking feature of this period was the violent reaction against British business as a whole in Iran, especially the two enterprises which dominated the modern sectors of the economy: the Anglo-Iranian Oil Company and the Imperial Bank. By the early 1950s there was nothing left of British business in Iran except a single firm of contractors [5].

The foundation of the new Pahlavi dynasty by Reza Shah in the mid-1920s was followed by a campaign to modernize Iran, and to challenge foreign business. A central bank--Bank Melli--was founded in 1928. The Imperial Bank lost its role as state bank, and in 1933 had to relinquish its note-issuing powers. In the 1930s exchange controls and barter agreements destroyed the Bank's business in financing foreign trade. Foreign exchange business became increasingly centralized on Tehran, leaving the Bank's extensive provincial branch network to waste away. Opportunities to participate in Iranian industrialization were spurned as the Bank went into a corporate sulk. In 1936 the 7 Board members had an average age of 71, and an 83-year old Chairman who had become a director in 1913 after retiring from the Indian Civil Service. The directors resembled a collection of Old Testament prophets: they

certainly had no sympathy for the new Iran. The Imperial Bank lost market share very rapidly to Bank Melli--by 1939 it held only 9% of Iranian bank deposits--and closed half its branches in the 1930s. After a respite during the Second World War--when Britain and Russia deposed Reza Shah and occupied Iran--the Bank was subjected to growing government regulation. The Bank decided to pull out, and concentrate on new branches established in the Arabian Gulf in the 1940s [11, ch. 1]. In September 1951 the Bank was banned from dealing in foreign exchange during the dispute about the nationalization of the Anglo-Iranian Company, and left Iran in the following year [10, ch. 12].

THE IMPACT OF THE IMPERIAL BANK UPON THE IRANIAN ECONOMY

Few could disagree with Rondo Cameron's view that in a developing economy "financial innovation...may assume an importance commensurate with technical innovation in industry" [6, p. 8]. However, British overseas banks have rarely been cast as positive economic forces: indeed, in much Indian and Latin American literature their policies have often been severely criticized. This section assesses the impact of the Imperial Bank on the Iranian economy.

Did the Bank extract "large" profits from Iran for its British shareholders? British banks in this period were allowed to disguise their profits by making transfers to or from "inner" or "secret" reserves before reaching their published profit figure. The Imperial Bank's "real" profits were on average about twice as high as its published profits between 1890 and 1952 [11, pp. 276-9]. Even so, the Bank's financial performance was unspectacular by comparison with British domestic or other overseas banks. It was consistently less profitable (in terms of published profits as a ratio of market value of paid-up capital) than the Hongkong Bank, except during the special circumstances of the Second World War. Table 1 provides an analysis of the real rates of return to shareholders from dividend income for five periods (based on the assumption that the shareholders bought and sold shares at the beginning and end of each period.).

It can be seen that the Bank's shareholders earned rising real returns up to 1939. However, the growth in the rate of return in the 1920s was largely due to the large profits made by the Bank during the First World War, especially from servicing the British Army. During the 1930s Iran contributed little to the Bank's profits. Every year between 1931 and 1939 the profits from the Bank's London Office exceeded by a large margin those from Iran: in 1931, 1933, 1934 and 1935 the Bank made losses in that country. London's profits were derived from investment income, and--in 1933 and 1934--sale of investments. The Bank's profitability in Iran increased very sharply after the

Allied occupation in 1941, but fell away once more when the British military left the country.

TABLE 1
Percentage Real Rate of Return from Dividend
Income for Imperial Bank Shareholders
1890-1949

Period	Return (%)
1890-1907	0.28
1908-1920	3.12
1921-1932	12.71
1933-1939	12.89
1940-1949	4.68

Note: 1913 prices = 100

The upshot is that while one can take the view that the Imperial Bank were rapacious capitalists, one has to acknowledge that they were not particularly successful rapacious capitalists. Like many British multinational manufacturers [12, pp. 18-20], they were good at pioneering but less successful at securing the rewards of pioneering. A curious feature of the Bank's history was that the same pattern of events was later repeated. During the 1940s the Bank (known as the British Bank of the Middle East after 1952) established itself as the first and only bank in many of the small Arabian Gulf states, including Kuwait, Dubai and Oman. This was a remarkable piece of entrepreneurial banking, especially given the Bank's senility in Iran. However, the Bank again became fixed in its established pattern of business. When the large rise in oil prices in 1973 and 1974 resulted in a huge flow of funds into the Gulf, the Bank was unable to supply the wholesale and merchant banking facilities required, and most of the business of re-cycling petro-money went to more competitive international banks [11, ch. 10]. The Imperial Bank's history provides a particularly vivid illustration of the chronic inability of much of twentieth century British business to incorporate a concept of dynamic change into its management strategies.

A number of factors explain the Imperial Bank's conservatism and comparatively low returns, including genuinely adverse economic and political conditions in Iran; the unprogressive environment of British banking as a whole from the 1920s to the 1970s; a widespread failure in the British government as well as business to understand modern Iranian nationalism [15, pp. 638-40, 651-3]; the Bank's long freedom from competition in Iran; and the poor quality of the Bank's British staff, who were recruited for their

"character" and sporting abilities, and offered no training [10, chs. 5, 10]. The Bank--like all the other British businesses in Iran--grew on the basis of a monopoly concession, secured at a time when British political power was strong, and Iranian political power and business enterprise weak. As soon as these circumstances changed the Bank did not have the management resources to adjust.

Turning from the institution to the Iranian economy, the Bank pioneered modern banking in the country, just as Anglo-Iranian created Iran's oil industry. It operated throughout the country, and when Iran was divided into British and Russian "spheres of influence" in 1907 the Bank's branches spanned both sides. The Bank--unlike the oil company [7, p. 398]--was not "enclavist," and arguably was the only truly "national" institution in Iran before the 1920s. Iran was not without financial institutions before the arrival of the Bank, and any consideration of its impact needs to assess its effects on the traditional money-lenders (sarrafs). The impact was remarkably little. In 1908 the Bank estimated that it handled only 6.5% of Iran's foreign trade finance, with the remainder mainly in the hands of sarrafs. The flexibility of their loan terms and cultural ties were among the factors which preserved the sarrafs from Imperial Bank competition. Using a Hymer/Kindleberger conceptual framework [9, 14], the Imperial Bank's "advantages" over local financiers were limited to certain sectors of the banking market. The Imperial Bank did not retard the development of indigenous modern banking. The British Bank was obstructive when the Bank Melli was being formed in 1928, but to little effect [10, pp. 207-8].

A foreign enterprise can, as is well-known, make an important contribution to a host economy by supplying foreign capital, and thus filling a resource gap in that economy between desired investment and domestic savings. The Iranian economy can be categorized as "capital short" before the 1960s, but the Imperial Bank did little directly to improve the situation. The convention of British banking was to transfer as little as possible of shareholders' funds to a foreign country, because of exchange and political risks. Around £500,000 of capital was transferred to Iran by the Bank by 1891, but some of this was subsequently remitted back again, and at the end of the 1920s all capital not in fixed assets was remitted to Britain. The Imperial Bank--like manufacturing multinationals in many host economies--was not a significant source of funds to supplement domestic savings.

The Bank raised most of its funds from within Iran. The strategy was to use a branch network to build up a local deposit base, which then financed lending. Reverting to theory, the Imperial Bank's "advantage" lay not so much in supplies of capital, but in superior skill and enterprise, together with access to British political and military influence. The Bank's unwillingness to use its own funds attracted growing criticism in Iran, and became a major

bone of contention in the 1930s. On several occasions between 1933 and 1936 the government asked the Bank to provide funds, on commercial terms, to help finance the industrialization program, only to be turned down (against the advice of the Bank's Tehran management) by the Board in London. The Bank was eventually forced into lending in 1936 under extreme coercion [10, pp. 227-33].

The Bank did, however, make a contribution to the Iranian economy by mobilizing domestic savings. Arguably, much of this money would have remained hoarded, or locked into traditional money lending, at least until the creation of the Bank Melli. Nevertheless considerable doubts have been expressed about the uses to which the mobilized savings were put. It has been claimed that the Bank "discriminated against Persians in giving credit" [3, p. 295]. British banks in India, Egypt and Africa especially before 1914, largely lent to British firms and trading companies, usually to finance foreign trade, but in Iran the Imperial Bank always lent to local merchants: the few expatriate firms offered too little business. Moreover, the Bank's managers in Iran--to the horror of the Board in London--frequently abandoned British banking orthodoxy and made unsecured loans on the basis of a customer's "name." However, it does seem that expatriate firms were often granted larger credit facilities than Iranian merchants. In the early 1920s, for example, an expatriate firm in the carpet industry was allowed unsecured overdrafts up to £35,000, a level of credit higher than that allowed to "local" enterprises.

A more serious criticism of the Bank's lending policies maybe that the Bank primarily provided Iranian merchants and expatriate firms alike with short-term credit for working capital. The provision of long-term capital for industrial investment on the lines of German-style investment banking might have had a more beneficial developmental function. However, short-term credit freed the resources of merchants for fixed investment, especially as credit facilities were frequently rolled over beyond the conventional six month period. By these means the Bank played an important role in the finance of the expanding carpet industry (largely run by expatriate European firms) in pre-1914 Iran. There were many and varied obstacles to industrialization in Iran before the late 1920s--political instability, absence of tariffs, poor labor supplies--and it is doubtful if the Bank could have overcome such constraints by longer term advances, especially as there is no evidence of an unsatiated demand. It is perhaps noteworthy that the Bank Melli, after its formation in 1928, did not embark on any industrial promotion role on the lines of Bank Misr in interwar Egypt, although the Government did establish an Agricultural and Industrial Bank which provided cheap credit to the burgeoning industrial sector in the 1930s.

Whether the Bank's preoccupation with the finance of the foreign trade sector was beneficial to Iran is also debatable. The Bank served before 1914

to strengthen the links between Iran and the international economy. Iran's growing dependence on primary commodity exports, such as opium, and the importation of manufactured cotton textiles--both activities with whose finance the Bank was largely concerned--may not have been the ideal development pattern, although in the political and economic circumstances before 1914 it is hard to envisage viable alternative scenarios for Iran, and there were significant income gains from the trade sector. The Bank should not be seen as an instrument drawing Iran into an exclusive trading relationship with Britain's Asia empire. Certainly, before 1914, the Bank's southern branches in Iran were primarily concerned with financing trade and arranging exchange between Iran, Britain and British India. In 1927 80% of the lending of Bushire, Shiraz and Esfahan branches was to finance Iranian exports of opium to the East, especially the British colony of Singapore and China. However, the Bank's northern branches, such as Tabriz, Mashad and Rasht, were largely engaged before 1914 in financing Russo-Iranian trade, such as the large Iranian exports of rice and cotton to its northern neighbor. During the 1920s the Mashad branch financed exports of cotton and wool to the Soviet Union, and Rasht financed trade in rice, cotton and dried fruits, while all the northern branches worked closely with the Soviet trade monopolies established after the 1917 Revolution.

The Imperial Bank performed only a marginal entrepreneurial role in Iran, although it did more in this direction than British banks within the United Kingdom! As befitted an institution founded by people who wanted to build railways, the Bank became involved in road construction and mines in the 1890s, with disastrous results. Again, just before 1914 the Bank was involved in an attempt to build railways--the Persian Railways Syndicate--but this too was unsuccessful [10, pp. 56-64, 92-4, 129-31]. Iran's first railways were built by the government in the 1930s. The Imperial Bank probably made a more important contribution to business enterprise in Iran by encouraging before 1914 a fall in the high interest rates prevailing in the traditional economy.

The Bank did stimulate the Iranian economy by contributing to its monetization. The Bank constructed a nationwide branch network in a country which previously lacked a national financial market. It introduced a paper currency, and reformed the metallic coinage before 1914. However, the economic benefits of these measures were to some extent muted. The note issue grew slowly and spasmodically (nil in 1890; £500,000 in 1905; £180,000 in 1916; £2.5 million in 1928). The Bank's Charter obliged it to maintain high cash reserves against the note issue, limiting its enthusiasm for expanding the issue. Moreover, the acceptance of notes was reduced because they were only payable at par at the branch of issue: a Tabriz note would only be encashed in Tehran at a discount [10, p. 126]. Despite complaints from the Imperial Bank's own managers in the 1920s, this policy was not changed until 1929,

when the Bank Melli forced the matter by encashing Imperial Bank notes at par all over the country [10, p. 219].

Arguably, one of the Imperial Bank's most clear-cut contributions to Iranian economic development was its educational role. This may seem paradoxical. The Bank had little interest in education and offered no formal training to its British or Iranian staff. Such attitudes were characteristic of British business, arguably as late as the 1970s. Yet in Iran before the 1920s the Bank provided one of the few stable sources of employment where basic office and banking skills could be acquired, and the English language studied. The numbers employed were small--never more than 400 at any one time. In contrast, the oil company employed 20,000 Iranians in 1930. Nevertheless, the Bank's role in training a modern business elite was noteworthy, as it was to be again in the Arabian Gulf in the 1940s and 1950s.

There were flaws here too. Like all British overseas banks until the 1950s, the Imperial Bank would not employ locals as managers. In contrast, the Imperial Ottoman Bank--which had mixed British, French and Turkish ownership--employed Middle East nationals in managerial positions from an early date. Attitudes within the Imperial Bank would now be regarded as grotesquely racist. The Bank's first chief executive, Joseph Rabino, was born in London but with an Italian father, and he was always regarded with great suspicion by his Board. When he resigned in 1908 one director cited with approval a view that the Bank would henceforth be a "white man's bank" [10, p. 108]. In the interwar years there was a steady flow of dissatisfied Iranians from the Imperial Bank to national institutions, especially the Bank Melli. The Bank came to perform a valuable role as an involuntary training school for the modern economic sector. Needless to say the Imperial Bank did not welcome this role, and in one case it was positively ruinous. In 1936 the Bank's most prominent local employee, Abol Hassan Ebtehaj, resigned after having his requests for promotion rejected. By 1942 he had become Governor of the Bank Melli and over the following eight years waged a relentless war of attrition against his former employer [10, pp. 305-9, 315-331].

The contemporary literature on multinationals has much discussion on the sovereignty impact of foreign direct investment. Foreign investment inevitably involves some loss of economic independence for host countries, given that ultimate decision-making resides abroad. This issue was particularly important in Iran, and for many Iranians any positive economic gains from British enterprise in Iran were outweighed by the effect on the country's sovereignty. The Bank was widely cast as an agent of British imperialism, and with reason. During the two World Wars and in the early 1920s the Imperial Bank put British diplomatic interests before those of Iran: Reza Shah in the 1920s referred bitterly to "Lord Curzon's Bank of Persia," in view

of the Bank's apparent subservience to the British Foreign Secretary [10, p. 195]. In fact, matters were not so simple. The Bank was never entirely the tool of the British government: it had to make profits for its shareholders. Conversely, the Foreign Office distrusted the Bank before 1914, as it did most British commercial interests. During the interwar years Foreign Office officials were often dismissive of the Bank's reactionary policies. However, the relationship between the Bank and the British government was sufficiently close that it is not surprising that Iranians missed the peculiarly British nuances of the situation.

Paradoxically, perhaps, the Bank may have assisted Iran to retain independence before 1914. The Bank helped to reform the ramshackle financial administration of the government. More importantly, its lending to the government helped to prevent Iran from falling under the direct dominion of Britain and/or Russia. True, the Bank acted as a channel for British government loans and issued Iran's loans on the London Stock Exchange. It can thus be cast as an instrument in an imperialist "strangling" of Iran. However, the Bank's own large advances to the government before 1914 kept the Army paid, and thereby ensured that some central government presence was maintained in parts of the country. They also enabled Iran to meet sufficient of its debt repayments to the British and Russian governments that they were never given an excuse to end Iran's independence. The British government trusted the Imperial Bank as it did not other "Iranian" institution, and the British authorities were prepared to work through it rather than directly. Certainly, Iranian governments preferred borrowing from the Bank to borrowing from foreign governments, whose loans carried political conditions [10, pp. 115-24].

CONCLUSION

In nationalist literature in Iran the Imperial Bank, like the Anglo-Iranian Oil Company, has often featured as a rapacious capitalist and imperialist agent. While serious criticisms can be leveled at the Bank's policies, the overall picture often appears closer to farce than to wickedness. Established by people who wanted to build a railway rather than run a bank, the Bank had a struggle to make profits even when it held a banking monopoly. It made most money when the British Army occupied or fought in Iran during the two World Wars. In the interwar years, the Bank's political judgment was jejune, and in the 1940s it was crippled by the actions of an aggrieved former employee now heading its national rival. However, it must be admitted that unlike many British overseas banks, and even more British "free-standing companies," the Imperial Bank survived.

The impact of the Bank on the Iranian economy was a mixture of costs and benefits, but it does seem that the benefits outweighed the costs before the 1920s, even though the Bank could have done better. During the 1930s the Bank's hostility to Iranian government policies, especially industrialization, only added to the many obstacles in the way of economic development.

A final reflection takes an Iranian government perspective. The nineteenth century Shahs had originally sought the assistance of foreign businessmen such as Reuter to modernize their economy. Although they preferred a railway to a bank, they had persuaded a group of British capitalists to establish a bank, and transfer sufficient skills and resources to Iran to ensure its survival. This institution had given Iran a modern banking system; facilitated trade; issued a paper currency; financed the government; mobilized savings; and provided a cadre of skilled Iranian bankers. When, from the 1920s, Iran had developed sufficient resources to have its own bank, the services of the Imperial Bank were unceremoniously disposed of. In a long-term perspective, at least, Iran did well from this foreign direct investment.

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**PROBLEMS OF MULTINATIONALS IN CHINA AND
JAPAN SINCE WORLD WAR I**

