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ECONOMIC CONTRIBUTIONS FROM OCCUPIED AREAS

19 March 1947

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Mr. Butts: Our subject this morning is: "Types of Organizations Employed to Obtain Contributions"-fairly limited-but in the scope as outlined, not only are the types to be commented upon, but the methods used to receive these contributions, and an estimate of the importance of these contributions to the total production available to Japan are also to be considered. As regards the last requirement, we shall only endeaver to approximate the figures.

In our determination of what we shall consider occupied areas, we may be inclined to think only of Southeast Asia, but we must remember that Japan's war economy dates very definitely from July 7,1937, and, to those who have followed events, from even an earlier date. So we should include China in our areas of occupation as well as Southeast Asia. Some would even go so far as to include Manchuria.

It was only a matter of weeks after the military occupation of Southeast China, that Japan controlled the economic life of that area. The extent and effectiveness of her planning and operations were reflected in the establishement of a Provisional Government of China in Peking in December 1937, a Federal Reserve Bank in March 1938 and National Development Companies to control and exploit natural resources and industry.

Japan's occupation techniques to obtain material contributions were developed and exercised in Manchuria. You will remember that the South Manchurian Railway was the official organ of Japan in Manchuria, both before and after the establishment of the State of Manchukuo. The Manchuria Development Company, established in 1937, took over from the Railway Company properties valued at approximately one billion yen approximately 300 million dollars at the then rate of exchange invested in some 71 affiliates and subsidiary organizations.

Japan had profited from several peaceful years in the area and had perfected organizations which enabled her to promote the production of resources which would both complement and supplement her own war economy. That was her specific purpose and she had so announced it several years before December 1941. China and the Southern areas presented very few new problems.

The political status of each of the Southern areas differed and because of this, slight varations in methods of procedures were

adopted by Japan. Siam was an independent state, French Indo-China was a French Colony with a Puppet Home Government. Both Siam and French Indo-China, by virtue of earlier treaties and agreements, were already cooperating with Japan. The Philippine Islands was a Commonwealth but still a responsibility of the United States. Burma had a small measure of self-government. The Netherlands East Indies, a Dutch colony, was without the protection of its home government. Malaya and the Straits Settlements, British colonies, were actively protected by a major enemy. However, the over-all planning and operations were similar in nature and scope.

Economic Program in the Southern Occupied Areas

The Premier of Japan on January 23, 1942 announced the government's program for the economic administration of the newly occupied areas. This program was much the same as that adopted in Manchuria and North China, hence the types of organizations and methods to be used were predetermined and could be enforced almost immediately. The program consisted of seven major undertakings.

1. Development of resources under Japanese control and in accord with her requirements of essential materials.

2. Self support of Japanese forces operating in the occupied areas.

3. Determination of materials to be exchanged with and between occupied areas.

4. Control of transport of all commodities by the Army and Navy.

5. Cooperation of established concerns in occupied areas with Japan.

6. Circulation of military scrip or local national currency at par with the Japanese yen.

7. Secure capital supplies for the development of resources Japanese banks, supported in turn by local banks.

Political

Local Advisory Councils were encouraged to assist the military and naval administrations. Provisional and National Governments were established where stability of operations and collaboration of the native population could be improved. A Provisional Government of the Republic of China was inaugurated in Peking, December 13, 1937. A National Government of China was proclaimed at Nanking in March 1940.

A National Political Council succeeded the Provisional Government at Peking but retained their Provisional Government powers. Hong Kong and Singapore were designated colonial governments and civilian governors were appointed. The Greater East Asia Ministry was formed in November 1942 as an integral part of the Japanese Government to conduct administrative affairs within the Greater East Asia sphere and to acquire raw materials in occupied areas through the operations of the National Policy Companies which, in turn, worked in close association with military administrations. Independent governments were established in Burma and in the Philippine Islands in 1943. Military and naval governments operated in Malaya and the Netherlands Indies.

The Philippines and Burma were granted independence only because each of them had anticipated independence at an early date Japan wishing to secure the utmost collaboration of the peoples of those areas could not be less magnanimous than the United States and Great Britain. However, Japan warned each of them that independence would be granted only if there were full cooperation and if self-sufficiency were attained to such a degree that they would no longer depend upon her to maintain their economy. Military governments operated nearly two years.

Finance

Financial domination was associated with and closely followed military and political control. The banking structure and currency of each area was reorganized to harmonize with Japan's structure. The operations of the local banks were restricted to domestic transactions which could not affect the external position of the currency. Japanese banks participated in industrial loans and investments and the development of natural resources, loaned funds to Central Banking Institutions and controlled all foreign exchange movements.

Central Banks and Currency

The Federal Reserve Bank was established in Peking in March 1938 to unify the currency of the area then occupied by Japan. Its notes circulated at parity with the Japanese yen. All export and import trade was subject to compulsory clearance in Federal Reserve note exchange. The Central Reserve Bank was established at Nanking in December 1940 to lend support to the new national government and to destroy the currency of the Chungking Government. Its notes were to replace Japanese yen, Japanese military scrip and Chungking notes. The Bank of Indo-China continued to operate under clearing agreements which had been established prior to December 8, 1941 with the Yokohama Specie Bank. The bank of Siam was reorganized in May 1942. Its capital consisted largely of a loan of 200 million yen

from Japan which was said to be secured by sterling balances in London. Clearing agreements were made with the Yokohama Specie Bank. Military scrip was widely introduced into the Philippine Islands, Malaya, the Netherlands Indies and Burma, and circulated at par with the local currencies. New national currencies were completely disassociated from any foreign currency. Local banks in each area were authorized to continue operations so long as they cooperated with the Japanese administrations. They were encouraged to accept savings deposits which became Japanese assets for local procurement and contributions to the general war effort. Central banks were established in the Philippines in 1943 and in Burma in January 1944.

National Policy Companies

National Development Companies were established by Japan for the specific purpose of investing funds in foreign areas for the promotion of economic enterprises which could contribute material resources to Japan's economy. The first of these was the Oriental Development Company established in 1908 to exploit resources in Korea and Manchuria. The Taiwan Development Company and the South Seas Development Company were established in 1936, the latter operating in the Mandated Islands and South Seas. The Manchurian Development Company, established in 1937, took over from the South Manchurian Railway the management of heavy industries and the exploitation of all mineral resources. The North China and Central China Development companies were established in 1938 with a combined capital of 450 million yen to invest in and advance funds to strategic and basic industries essential to the war effort. These included communications, transportation, harbors, telephone and telegraph, electric power, coal and ores, salt, etc. The Southern Development Company established in March 1942 pursued the same functions in the southern areas, primarily in Malaya, the Netherlands Indies, and Burma. The capital of these companies was subscribed in equal parts by the Japanese Government and private industry, including local industry in occupied areas.

Local Procurement

Japan, as are all conquering nations, was interested in local procurement but possibly to a greater extent than most. No nations, conquering the vast areas occupied by Japan and anticipating the ultimate opposition of the United States and at least a part of the British Empire, has had so small a war potential within its own boundaries. She did not have adequate raw material resources, adequate finance, adequate processing capacity, or adequate manpower. The 4 M's, Materials, Manpower, Money and Machinery were all in short supply.

Most of the strategic materials are produced in Eastern Asia. Of the raw materials, iron and nickel ores required a great deal of shipping tonnage as did bauxite. None of these could be processed at the source of supply. Foodstuffs and petroleum required considerable tonnage and the latter a very special type of transport equipment. Procurement was associated with transport, and unless these commodities of Southeast Asia could be transported by sea, a distance of from 1500 to 3000 miles and the average was at least 2500 miles, they were only of limited use. There was no surplus cotton except in North China. Coal supplies were ample in the northern areas, but again, transport was the problem. Rubber and tin were readily available in whatever quantities desired. The large surpluses of sugar, rubber and tin could not be consumed, and since they could not be shipped elsewhere, they had no bargaining power.

Manpower, in the form of common labor, was readily available, but it was of little value except in agriculture. Japan needed skilled workers and technicians who could be utilized in the production of end products. They were not available and it was necessary to supply that type of labor from Japan itself. Furthermore, the labor utilized was not cooperative.

Appropriate processing equipment, generally speaking, was not available. There were no large industrial areas in Southeastern Asia and no heavy industries. Some processing installations had been destroyed, in which case their only value was as scrap iron. Japan could not reconstruct or build new industrial plants as her own capacity was fully occupied with defense production. The only important exception was that Japan did install petroleum production equipment, some of which had been held in reserve for this special purpose.

There was no avenue leading to foreign exchange, but Japan did secure sums of foreign currencies and precious metals. They were of value only insofar as they could be used to force delivery of needed supplies by those who might refuse to accept military scrip for smuggling purposes, for bribes, or for the retirement of Japanese currency and scrip if thought desirable. There was always the hope, too, that the foreign currency might someday be redeemed to Japan's profit.

The establishment of Central Banks, together with issuance of new national currency, permitted Japan to limit circulation to a specified political zone, to maintain a stable currency value within the zone and to control the movement of all goods across political borders through the operation of exchange controls. The economy of each area became independent of any other and should Japan wish to withdraw from one area to another the currency of the abandoned area would be of no value.

Processing capacity consisted chiefly of small machine shops, rice milling equipment, sawmills, small shipbuilding facilities and a few small canneries. In the aggregate they were of some value, but their contribution to the total production facilities was insignificant.

Methods of Procurement

The control of all finance measures, together with the operation of all means of transport, was sufficient to place the production of all commodities, except crops hoarded by the farmers, in the hands of the Japanese. Whatever the true value of the currency, production could only result from capital investment and payments in a form which would permit the seller to buy other goods. The Japanese sponsored currency was legal tender. No commodity could be moved from its source without the use of some form of transport which was operating under the supervision of military authorities. During transportation, all goods were subject to requisition or confiscation by the military authorities or they might be directed to such destinations as would best suit Japan's needs. No goods could move out of a political area unless they were handled by one or more designated Japanese trading companies which had been granted monopoly rights. This, together with finance controls, prevented any possible disposition other than that specified by the Japanese authorities.

There were labor corps in each area. The military or naval administrations assumed full responsibility for labor requirements in the transportation and communication fields and in the mining of certain strategic materials.

Cooperation with native producers was always encouraged. This objective, attained by joint investment of capital or loan, was usually successful as the native owner would thus avoid outright confiscation of his property or its acquisition at a very low price. This function was performed by the development companies.

Local Organization

Japan had two fundamental policies: that she control all industries, utilities and resources suitable for war purposes and that the task of self-sufficiency in civilian needs, including supplies for local Japanese civilian and military personnel, be given to the Puppet Government or local administrative organizations. Civilian councils and neighborhood associations were held responsible for the complete regimentation of the civil population. Groups might be arranged according to nationality as in the case of the Chinese Residence Association and the Indian League in Malaya.

Civilian Supplies

Each community was responsible for its own immediate economy. The village was held responsible for the deeds of each family and the family was held responsible for an individual. In many areas the system used in earlier years in Manchuria--the grouping of ten families -- was followed. These village and communal groups were placed in charge of the requisitioning and rationing of rice, vegetables, kerosene, soap, salt, etc. They sometimes collected taxes and sought and collected "voluntary" contributions to the Japanese authorities as compensation for the protection they received.

Japan's efforts to supply civilian requirements were generally limited to instruction in new methods and techniques in agriculture, which might produce improved and larger quantities of products. Small amounts of machinery, principally spinning and weaving equipment which could be utilized to partially satisfy the demands of civilian and military personnel were supplied from Japan. The civilian population was always informed that it must become self-sufficient and that Japan's contribution would be in the field of education and light industry, and in the equitable distribution of the products of the East Asia Sphere.

A summation of the effectiveness of Japan's plans and procedures indicates that her financial measures were successful; that native labor contributed toward Japan's needs insofar as their capabilities permitted with the exception of farmers, who were inclined to grow a limited supply of foodstuffs rather than industrial materials; that local transport was universally inadequate because of inability to maintain the properties; that sea transport was inadequate because insufficient tonnage to service the long distances, and that processing facilities were inadequate. The native populations were given the responsibility of maintaining their own economy with very little assistance from Japan. The failures were due to inadequate facilities which were inherent in Japan's own industrial weakness during a period of wartime economy, rather than in the planning which had proven successful in the northern areas.

I have some data on the production in the Japanese Empire and Manchuria, and in the occupied areas of raw materials essential in a war economy, and which were available to Japan. There are also estimates of wartime requirements. Only coal, copper and rice approximated self-sufficiency in Japan. Production of all other items were less than 50 per cent of requirements. The production of nickel, tungsten, molybdenum, antimony, mercury, bauxite, petroleum, cotton, tin and rubber was small or non-existent.

Peacetime production in Japan and the occupied areas would have yielded surpluses in chromite, coal, industrial salt, rice, tin, rubber, petroleum, bauxite, and iron ore. However, under wartime conditions, apparent surpluses of coal, salt, rice, petroleum and possibly other materials, were in short supply, largely because of lack of transport facilities, rail, river and ocean.

Japan imported about 52 percent of her prewar consumption of iron ore; the occupied areas during the war might have contributed 62 percent of requirements. Nickel imports were 75 percent or more of prewar requirements, but the occupied areas could have supplied only 33 percent of war requirements. Tungsten ore imports were perhaps 75 percent of peacetime requirements, but they would have supplied only 25 percent of war needs. Imports of antimony ores in peacetime supplied 84 percent of requirements, but they were sufficient for only 7 percent of war needs. Copper supplies in the occupied areas to supplement domestic production were more than sufficient to meet requirements. Coal imports in peacetime were 7 percent of consumption but war needs required 22 percent. Imports of petroleum products accounted for more than 75 percent of peacetime requirements, but it is doubtful if Japan received more than 50 percent of import requirements during the war. Cotton imports accounted for about 85 percent of domestic needs but the occupied areas probably supplied less than 25 percent of wartime needs. It is needless to say that the occupied areas could have furnished ample rubber and tin supplies.

We must bear in mind several factors which have a direct bearing upon these rough estimates, and which may cause them to be at considerable variance with the facts. Estimates of requirements in the early years of the war took into consideration American manufacturing methods. It was learned later that Japan did not use the same percentage of alloys in a given production of metal products. Cotton cloth contained as little as 20 or 30 percent of cotton, staple fibre being mixed therewith. Woolen garments were not available except in very special cases. Substitute and synthetic materials used exceeded expectations. Hydro-electric power failed at intervals and operations were often limited to several hours each day. There were surpluses of rice in many areas, but due to lack of transport, there was actual starvation within a few hundred miles of large warehoused stocks.

We are learning that production in a specified area does not necessarily mean that it will be available to some other area. Surpluses are not always an economic potential of an occupying force if they must be transported elsewhere for processing.

A STUDENT:

Do you have any information on the interest rates that Japan-dominated banks charged the producers in the various areas and the merchants?

MR. BUTTS:

No sir, I do not. I doubt if they were much interested in interest rates. The loans made by Japanese banks in occupied areas were solely for the production of war materials. In many cases they invited the producer to become partners with the Japanese. Japan wished to invest capital in any business producing goods which would serve the war effort. The proprietor was asked, "Allow us to invest capital to match your investment and let us operate with you." In many cases the producer faced two problems. He could accept the proposal of joint ownership or risk having his property confiscated for the duration of the war. That was his alternative. In this manner the Japanese were successful in securing the cooperation of many owners, particularly in China. It is my opinion that interest rates were immaterial insofar as the Japanese were concerned, primarily because they were not using hard money for procurement purposes.

A STUDENT:

You said Japan needed time to capitalize. Did she, like Germany, expect a short, speedy, successful war in which she would get time to capitalize or had she based her whole economies on that?

MR. BUTTS:

Japan anticipated--this is my best information--that she would have a period of several years in which to cultivate the friendship of the people, to establish self-government and to educate them in production methods. That was her belief. She was not prepared for a speedly aggressive war as prosecuted by the United States.

DR. PETERSON:

To what extent did Japanese infiltrate into the Philippines before the war for the production of maguey and abaca?

MR. BUTTS:

The Japanese infiltrated into not only the Philippines, but into all of the subsequently occupied areas. They came as common laborers, business men, investors and as government representatives. The Philippines was no stranger to the Japanese; neither was Malaya, the Netherland Indies, Borneo, the small island of Timor nor Australia. Japan took nearly two million tons of iron ore annually from leased properties in Malaya in the years immediately preceding the war. The entire operation was by Japanese. They supplied all mining equipment; all technicians; and all transportation; they supplied everything. She operated bauxite, rubber and tin properties. I think that in the case of the Philippines the Japanese did not own properties producing agricultural or mineral products, but they did make loans to some

operating companies, with liens on production as security. This has some of the advantages of actual ownership.

They did not take the best quality of abaca. A second quality was acceptable. She was the sole purchaser of iron ore in the Philippines, nearly one million tons annually, but she did not own the properties. I understand that Japanese loans stimulated the mining of manganese and that she was the sole purchaser of all production until 1940 when the United States bought for stockpiling purposes.

MR. MASSELMAN:

Do you think that the Japanese would have followed the policies outlined in the occupied areas if they had anticipated they were going to be there only three or four years?

MR. BUTTS:

Definitely yes, presuming that the anticipation followed the declaration of war. Had Japan anticipated shortly thereafter that her occupation was to be relatively short, I assure you that she would have been ruthless enough to have taken all she could possibly secure without worrying about educating native populations in production for self-sufficiency or of giving to them even the barest essentials. Japanese psychology is such that predetermined plans cannot be readily or quickly altered, and since a certain defect was not realized for many months, the planned policies were continued in effect until the time of surrender.

A STUDENT:

In that connection, I would like to make a comment, that in 1943 in the rice region south of the lake areas, the Japanese confiscated the rice and also induced or by one means or another were able to obtain 50,000 coolies. I believe that is the only time that a raid was developed to obtain labor since about 150 years ago, except for the slave trade in Africa.

MR. BUTTS:

Was forced labor used in the construction of the railway which connected Bangkok with Moulmein in Burma? Does anyone know about that situation?

A STUDENT:

Prisoners of war, sir.

MR. BUTTS:

They were all prisoners of war?

A STUDENT:

So I understand. We encountered forced labor all through New Guinea, people they had brought down from Asia to work for them.

MR. BUTTS:

Did you learn that there were labor movements from Java or from other islands in that vicinity, and if it was forced labor?

A STUDENT:

The Japnese had taken people all through that area and left them at one little spot or another. Everywhere we went we found people who had been in virtual slavery and they told of their various jumps from one place to another, but these people were all from Formosa and came into China from Formosa.

MR. BUTTS:

Does anyone else wish to contribute any information upon this subject? Apparently not. I shall hand to the committee assigned this particular problem some estimates of production and requirements in the year 1942, which will indicate shortages and surpluses of a number of critical materials.

(18 April 1947--350)E