894.60/1-145 -- 12-3146 - 47

January 9, 1945

In reply refer to
CD

My dear Mr. Grajdanzev:

In a study which the Department of State is making of the corporate structure of Japan, some questions have arisen regarding the "younger" Japanese combines. In your Memorandum on Korean Industry and Transport prepared for the I.P.R., 1943, it is noted that Mitsubishi influence in the Nitchitsu combine is regarded as considerable. Specifically, on p. 25, the statement appears, "We are unable to present the development since 1936 [of the Chosen Chisso Hiryo] in the same chronological order, but it is known that the range of activities of Noguchi and Mitsubishi (or, better, Mitsubishi and Noguchi) has expanded considerably since 1936."

The Department would appreciate it if you could amplify on the extent of Mitsubishi influence in the Nitchitsu. The Nippon Chisso Hiryo is suggested since the Chosen Chisso Hiryo is its subsidiary.

Data found in the Kabushiki Kaisha Nenkan, 1941, which is the latest information available to us, do not indicate that the Nippon Chisso Hiryo has strong Mitsubishi influence. For example, Mitsubishi influence in the ownership appears limited to 50,000 Iwasaki shares out of an authorized 4,000,000 shares almost all of which are fully subscribed. There does not seem to be Mitsubishi influence in the management. If any of the

older

Mr. Andrew J. Grajdanzev,
1 East 54th Street,
New York 22, New York.

DCR - ECA Unit
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Dist. ...

894.60/1-945

FE

older combines were to be named in this respect, Sumitomo would appear the most likely. Credit connections are divided between the Mitsubishi Ginko, the Sumitomo Ginko, the Dai-ichi Ginko and the Yasuda Ginko.

It is realized that in the beginning of Noguchi's business career there was a close connection between him and the Mitsubishi combine, but the materials examined indicate that this connection had been severed, unless revived in the last two or three years.

Whatever fuller information you may wish to make available to the Department on this subject would be very much appreciated.

Sincerely yours,

Robert P. Terrill
Acting Assistant Chief
Commodities Division

CD:EMH:MC
12/21/44 - 1/5/44

JAN 8 1945

JOHN EDGAR HOOVER
DIRECTOR

IN REPLY, PLEASE REFER TO
FILE NUMBER 110-3

Federal Bureau of Investigation
United States Department of Justice
Washington, D. C.

PERSONAL AND CONFIDENTIAL
BY SPECIAL MESSENGER

Date: January 11, 1945

To: Mr. Frederick B. Lyon
Chief
Division of Foreign Activity Correlation
Department of State

From: John Edgar Hoover - Director, Federal Bureau of Investigation

Subject: Location of Japanese Industries

There is being furnished you herewith a memorandum which contains information concerning the location of certain industries in Japan, which information was obtained through a confidential source, believed to be reliable, in Santiago, Chile. It will be noted that the information was originally furnished by individuals who have left Japan since the year 1940.

This information is also being furnished the Foreign Economic Administration and has been made available to the American Embassy at Santiago, Chile.

cc - Director of Naval Intelligence
Navy Department
Washington, D. C.

cc - Assistant Chief of Staff
G-2, War Department
Washington, D. C.

Attention: Brigadier General Carter W. Clarke

Enclosure

December 4, 1944

RE: JAPANESE INDUSTRY
Santiago, Chile

CARLOS PORRAS (CACERES), First Secretary of the Peruvian Embassy in Santiago, was interviewed and he advised he had previously been the First Secretary of the Peruvian Embassy in Tokyo but had returned to Peru in October, 1940. He said that he had spent 3 years in Japan but that he had no Japanese friends and that he was unable to give any up-to-date information on Japanese industrial facilities since he had left well before the outbreak of war with the United States.

According to Source A, the following members of the Chilean diplomatic corps were repatriated from Japan in September, 1943:

ARMANDO LABRA (CARBAJAL); wife and two children; former Chilean Minister in Tokyo.

MANUEL CUADROS (CERDA) and wife; former Commercial Attaché in the Chilean Legation in Tokyo, who returned to Chile in March, 1943.

JUAN MARIN, former Chilean Consul General in Shanghai who returned to Chile sometime in 1943 and was later sent as a diplomatic representative to San Salvador. He has recently been nominated for a post in China.

GUSTAVO LABARCA (GARAT), a Chilean newspaperman who formerly worked for "El Imparcial" in Santiago. He is pro-Japanese in sympathy and returned to Chile on December 27, 1943.

On the Gripsholm

GUILLERMO de la JARA, former Chilean Consul in Kobe, Japan. He is reported to have returned to Chile in September, 1943.

Sr. _____ROSELOT, the former Chilean Consul in Yokohama, who likewise returned to Chile in September, 1943.

Source A further advised that the following Chilean writers had recently been in Japan and had returned to Chile: MARIO PLANET; RODRIGO ABURTO; ARTURO IGLESIAS; CARLOS BARRY and JORGE VIAL (JONES). It should be noted that both ABURTO and IGLESIAS have made propaganda favoring the Japanese and are definitely pro-Japanese in sympathy.

ARMANDO LABRA (CARBAJAL), former Chilean Minister to Tokyo, was interviewed by Source B in regard to conditions in Japan. LABRA stated he was unable to supply specific information in regard to industrial facilities since at the time he left Japan foreigners had been excluded from industrial areas. He stated, however, that much of Japan's production was being handled on a piece basis in a manner approximating "sweat shop" methods which have been used in certain industries in the States. In this connection, he stated that Japanese families were given various units to manufacture in their own homes and that these were collected weekly by means of trucks and taken to a central assembling plant. He stated that this method of manufacture was common throughout Japan and that, although it was inefficient, it made for great diversification of industrial areas. He stated that the food shortage at the time he had left was acute and, in this connection, stated that a friend of his in the Japanese Government had told him that the food which was rationed to his family was sufficient only for the two children and that he was forced to depend upon black market purchases to secure food for himself and his wife. He also stated that upon his departure a Japanese diplomat had approached him and endeavored to buy whatever clothing and food LABRA might wish to leave in Japan. Also in connection with the food problem, LABRA added that the provisions on the Japanese exchange ship were extremely meagre.

EUGENIO SISIKIN, aged 23, a White Russian, was interviewed by Source A in connection with this case, at Rancagua, Chile, where he is employed by the Braden Copper Company as secretary to the Superintendente de Bienestar. SISIKIN advised he had left Japan on October 2, 1940, but that his brother, MIGUEL, had stayed on until July, 1941, before coming to Chile. SISIKIN was able to give very little specific information; however, he advised that there was an airplane plant near the mountain of Sugita, a suburb of Yokohama. He stated he had also noted new constructions near the town of Kamata. He likewise stated that just before his departure he had noted new factories being constructed in Tsurumi.

MIGUEL SISIKIN was interviewed by Source A and he advised he had left Japan in July, 1941, to come to Chile. He arrived in Japan in 1927 from Harbin, China. He stated he could speak but could not read or write Japanese and that he had gone to school in Japan from 1927 to 1933, when he graduated from St. Joseph's School. From 1933 to 1935 he was employed as a traveling salesman, selling ready-made clothes for his father who had a small clothing store in Japan. He advised that from 1935 to 1939 he had gone to Manchuko to study engineering but failed to finish the course because of the fact that the college he was attending was closed by the Japanese. In 1940

he returned to Sakalin Island, Japan, to continue in his work as a clothing salesman. He continued in this employment for one year until July, 1941, when he decided to leave Japan and come to Chile. He was able to give the following specific information in regard to Japanese industrial facilities:

The DATSON automobile factory is located at Tsurumi, a suburb of Tokyo. The ASANO shipbuilding plant is located at Seising, which is a port at the northern end of the Korea Peninsula.

He noted that subterranean hangars for planes were being constructed near the town of Konuma, which is close to the city of Toyohara, on the Island of Sakalin.

A synthetic oil plant was built in 1940 in Naihoro, Sakalin.

DEPARTMENT OF STATE

INCOMING TELEGRAM

DIVISION OF CENTRAL SERVICES TELEGRAPH SECTION

PLAIN

Bern

Dated March 5, 1945

Rec'd 5:00 p.m.

Secretary of State

Washington.

file

1401, Fifth.

894.60

German press publishes Tokyo despatch February 28 reporting Japanese Cabinet decision February 27 coordinate munitions industry with war situation announcement made Government expects utmost effort entire population to increase production munitions industry will be consolidated according groups types and geographical location Government will take over management privately owned munitions factories when deemed necessary.

HARRISON

MPW

DEPARTMENT OF STATE

INCOMING TELEGRAM

DIVISION OF CENTRAL SERVICES TELEGRAPH SECTION

PLAIN

Bern

Dated March 12, 1945

Rec'd. 5:04 p.m.

Secretary of State,

Washington.

1552, Twelfth

894.60/3-545 [illegible]

Sequence Legation's 1401, March 5, German press reports as war moves closer to Japs war industries being reorganized and special efforts made expand production among measures recently adopted are: iron steel industries supplied with coal raw materials from Manchuria and Japan proper instead southern territories machine tool industry added to list essential armaments industries prices increased to stimulate production existing premiums cooper lead iron ore extended to aluminum magnesium and other minerals mines given preferential treatment in labor supply some cases factory labor transferred to mines.

HARRISON

RB

STANDARD FORM NO. 64

Office Memorandum · UNITED STATES GOVERNMENT

DATE: 8/3/45

TO : A-C - Mr. Thorp

FROM : OFD - Mr. Phelps D.M.P.

SUBJECT:

There have been numerous discussions on this question of the dollar-yen rate and the proposal to General Crist in this letter has the approval of Treasury.

OFD:DMPhelps:db

JOHN EDGAR HOOVER
DIRECTOR

23330

FC-CPE JTL DC/R JA AWC RD

Federal Bureau of Investigation
United States Department of Justice
Washington, D. C.

IN REPLY, PLEASE REFER TO
FILE NUMBER 110-3

PERSONAL AND CONFIDENTIAL
BY SPECIAL MESSENGER

894.60/4-445

Date: April 4, 1945

To: Mr. Frederick B. Lyon
Chief
Director of Foreign Activity Correlation
Department of State

From: John Edgar Hoover - Director, Federal Bureau of Investigation

Subject: INDUSTRY IN JAPAN

There is attached hereto a memorandum concerning industry in Japan which is based upon information obtained from Chilean newspapermen and a diplomatic official of the Chilean Government stationed at Yokohama, Japan, all of whom returned to Chile from Japan in 1942.

It will be noted that the attached report furnishes information concerning the location of one of the largest shipyards in Hakata and an important hydroelectric plant and coal mines operated by the Japanese in Asia. Attention is directed to the statement that the Japanese intended to use the hydroelectric plant at Kirin to supply electric current for all of Manchuria. This plant is reported to be about 250 feet high and six-tenths of a mile in length.

This information has been made available to the American Embassy at Santiago, Chile, and it is also being furnished to the Foreign Economic Administration.

cc - Director of Naval Intelligence
Navy Department, Washington, D. C.

cc - Assistant Chief of Staff, G-2
War Department, Washington, D. C.
Attention: Brigadier General
C. W. Clarke

Enclosure

CS/MAJ

894.60/4-445

March 13, 1945

RE: JAPANESE INDUSTRY
Santiago, Chile

As a result of extensive interviews with Sources C, D and E, who were in Japan from September, 1941, until June, 1942, no information of a specific nature was developed regarding industrial production in Japan. Even though these sources visited various factories and industrial areas they were unable to furnish any statistical data on production. In general, they stated that the industrial factories were well constructed and that modern machinery and up-to-date manufacturing processes were being used. In this connection, however, Source C stated that in his opinion the manufacturing processes used were not up-to-date in any sense of the word and he did not believe that they resulted in a high productive output. Each of these sources stressed the point that Japan was woefully weak in raw materials, but that as a result of the lightning attacks subsequent to December 7, 1941, they seized areas such as the Philippine Islands, Sumatra, French Indo-China and the Malay Peninsula, which were rich in copper, rubber, oil and other materials of vital importance to Japan's war production.

These sources stated that the regions of Osaka-Nagoya-Kobe and Tokyo-Yokohama are the most important manufacturing centers in Japan. Within these regions are located innumerable factories in the manufacture of heavy machinery, rolling stock, cotton, silk, paper and some chemical products. Large important shipyards are located at Kobe and also along the coast between Yokohama and Tokyo.

These sources furnished the following information concerning the localities listed below. According to them, these areas are extremely important from the standpoint of the location of strategic war industries:

HAKATA — Capital of the Department of Fukuoka, on the Island of Kyushu. One of the largest Japanese shipyards is located in this city. Source C pointed out that the workers here lived within the limits of the shipyard itself and were permitted to leave only once a week. No relative was ever permitted to visit any of the workers within the shipyard.

NAGASAKI — Located on the western side of the Island of Kyushu and in the Department of Nagasaki. A very important naval base was reported by these sources to be located at Nagasaki.

SHIMONOSEKI — This port is located on the southern tip of the Department of Yamaguchi. Between this port and the port of Mojii, located at the northern end of the Department

of Fukuoka, Island of Kyushu, a tunnel was constructed under the water, and the sources mentioned above stated that they are positive that enormous traffic passes through this tunnel.

FUSHUN — Located 29 miles east of Mukden (also spelled Moukden), Manchuria. Here there is located a number of large coal mines. The productive area is believed to be 4.5 miles long, over 200 yards wide and over 150 yards in depth.

MUKDEN (MOUKDEN) — One of the principal cities in Manchuria and the site of several large airplane factories.

KIRIN — Located northeast of Mukden and 125 miles east of Hsinking, Manchuria. At Kirin there is located the most important hydroelectric plant in Asia. Sources C and D, who actually visited this plant, stated that the Japanese intended this plant to be the source of electric current for all Manchuria. The plant, which is located in a mountainous area, is reported to be about 255 feet high and six-tenths of a mile long.

HARBIN — A very important city located in Manchukuo. Here there are reported to be located several large air fields and numerous military garrisons. It is believed that several of the Japanese concentration camps are located in the vicinity of Harbin.

Concerning transportation in Japan, Sources C, D and E stated that the Japanese have developed a wonderful railroad system most of which has been electrified by this time. All roads between cities in Japan are very poor and it is practically impossible to carry on any volume of shipping by truck. All shipping of any consequence must be handled by boat or rail.

Reliable Source F, who was in Japan from December, 1939, until June, 1942, stated that Japan purchased a great quantity of copper and copper concentrates from Chile during those years. A small amount of copper is mined in northern Japan, especially in the vicinity of Kosaka, Province of Akita. Inasmuch as the copper content was so low, all of the copper mined in Japan had to be mixed with imported copper. According to this source, the Japanese Government constructed several copper refineries in Japan and in Korea, the exact locations of which will be set out below. After the conquest of the Philippine Islands, Japan had a source for good copper. In order to avoid unnecessary transportation, a complete copper refinery was shipped to the Philippines and set up in the same area where the copper is mined. This source was unable to furnish the location of this particular refinery.

Following are the names and locations of the copper refineries which the Japanese Government constructed in Japan and Korea. It should be noted that while this source was in Japan he recorded the exact location of these refineries on maps which he was successful in bringing to Chile:

HITACHI — This refinery is located a short distance to the north of the City of Mito, in the Department of Ibaraki.

HASSAI — This refinery is located in Northern Japan, in the northwest corner of the Department of Akita. It is located a short distance to the east of the City of Tsubaki.

MIYAKO — This refinery is located in the City of Miyako, a coastal city in the Province of Iwate. Source F stated that while in Japan he was reliably informed that the Japanese had constructed a synthetic nitrate plant at Miyako.

KAISHU — This refinery is located in the City of Kaishu, a coastal city in the Department of Kokai, Korea.

CHOKO — This refinery is located on the Yellow Sea at the southern tip of the Department of Chuseinan, Korea.

KOHNAN — This refinery is located on the Sea of Japan, a short distance south of the City of Kanko, Department of Kankyonan, Korea.

BUMPYO — This refinery is located in the City of Jensan, which is in the southern part of the Department of Kankyonan, Korea.

Source G advised that he resided in Japan from 1929 to 1941, when he came to Chile. He left his wife and two children in Yokohama. While in Japan, this source stated, he devoted most of his time to the fishing industry and because of that, spent the greater part of every year on the Island of Hokkaido. He stated that until he left Japan in 1941, the Japanese Government had not constructed any industrial factories nor made any military installations on the Island of Hokkaido. He stated there are about 18 fishing ports around the Island and each port has about 200 to 250 thousand inhabitants. This source was unable to furnish any information concerning industrial production in Japan proper. He stated that to the best of his knowledge a large naval base is located at Yokohama and that along the coast between Yokohama and Tokyo there were located several shipyards for the construction of battleships and submarines. He added that, generally speaking, the factories for war production are located in the vicinity of the cities of Osaka, Kobe, Nagoya and Tokyo.

July 2, 1945

In reply refer to
A-C

SECRET

My dear Mr. Johnstone:

This letter will confirm recent conversations which you have had with Mrs. Daugherty and with me. In connection with a program of papers which the State Department is preparing for the State-War-Navy Coordinating Committee, it will be very useful to have a draft statement on the role of heavy industry in the Japanese economy. The statement should not exceed 10 pages in length and should cover those industries which we have agreed to define as "heavy" for this purpose. I believe you have this list.

Sincerely yours,

Edwin M. Martin, Adviser
Far East Economic Affairs

Mr. Paul Johnstone,
Chief of Japan Special Services Staff,
Enemy Branch,
Foreign Economic Administration,
Washington 25, D. C.

A-C:EMMartin:ar
6/27/45

July 2, 1945

In reply refer to
A-C

SECRET

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This letter will confirm recent conversations which you have had with Mrs. Daugherty and with me. In connection with a program of papers which the State Department is preparing for the State-War-Navy Coordinating Committee, it will be very useful to have a draft statement on the role of heavy industry in the Japanese economy. The statement should not exceed 10 pages in length and should cover those industries which we have agreed to define as "heavy" for this purpose. I believe you have this list.

Sincerely yours,

Edwin M. Martin, Adviser
Far East Economic Affairs

Mr. Paul Johnstone,
Chief of Japan Special Services Staff,
Enemy Branch,
Foreign Economic Administration,
Washington 25, D. C.

A-C:EMMartin:ar
6/27/45

STANDARD FORM NO. 64

Office Memorandum · UNITED STATES GOVERNMENT

DATE: 8/3/45

TO : TRC: Mr. Radius
SD: Mr. Deimel

FROM : ED: Mr. Lockhart

SUBJECT: "Heavy Industry in Japan"

Mr. Radius
Mr. Deimel

Secret

HEAVY INDUSTRY IN JAPAN

THE PROBLEM

1. What should be the United States policy in the military government period with respect to heavy industry in Japan Proper?

BASIC FACTORS

2. See Appendix A.

DISCUSSION

3. See Appendix B.

CONCLUSIONS

4. United States policy with respect to Japanese heavy industry requires that:

   1) Estimates be made, industry by industry, of

      (a) Demilitarization requirements in respect to heavy industry; such estimates to distinguish between basic and essential measures on the one hand and supporting reinforcing measures on the other. The essential requirements of the Japanese economy should be borne in mind in choosing between alternative methods of achieving a given result.

(b) Peacetime

(b) Peacetime requirements of the Japanese economy; such estimates to distinguish between requirements for supporting a minimum subsistence level and those necessary to support a level reasonable as a minimum starting point for normal peaceful development. It is suggested that per capita consumption in 1931, or possibly 1942, be used as a guide in the determination of the production necessary to support subsistence levels; and 1936 as a guide in the determination of more adequate production levels. In estimating subsistence requirements, reconstruction needs in the immediate post-war emergency period, as well as normal maintenance needs, must be taken into account. In using 1936 as a guide allowance must be made for that part of heavy industrial output (probably around 40%) which went for military purposes. Only the remainder should be regarded as <u>essential</u> for normal operation. Consideration must be given to types of heavy industry required in producing exports to buy needed imports, as well as to heavy industries which can serve the domestic economy directly. In this connection the prospects for Japan in respect to foreign markets must be taken into account. Included here will be a consideration of the expected course of economic development of Japan's probable customers and competitors.

(c) Probable

(c) Probable or possible reparations claims as to amounts and types of goods.

2) Priorities in respect to our various objectives should be established as follows:

(a) Essential demilitarization requirements should take priority over all other considerations. In cases where conflict may arise because disarmament calls for denial to the Japanese economy of certain industrial facilities whose operation in the form proscribed would appear of great value to reconstruction or maintenance of subsistence standards of living, the use of the facilities under close supervision of the occupation authorities and after careful consideration may be permitted on condition either

(1) That no large scale replacements are made, but that the facilities are merely used until worn out; or

(2) That the facilities are removed to claimant countries on reparations account at the end of a specified period.

(b) The minimum requirements of the economy, whether for maintaining subsistence or more adequate levels as designated above, should be placed ahead of "supporting" security measures in the sense that the burden of proof in cases of conflict should be regarded as resting upon arguments for demilitarization.

The

The requirements of the Japanese economy, as defined above, should also be placed ahead of reparations claims, except that facilities not essential to minimum subsistence but essential as a starting point for further recovery may be temporarily assigned to production for reparations purposes. The facilities so used, however, should not be removed from Japan for reparations, or any other purposes.

(c) Productive facilities over and above those required in (b) should be withdrawn from the Japanese economy to the extent required by demilitarization measures of lower priority.

(d) Disposition of productive facilities of those heavy industries denied to the Japanese economy for disarmament purposes should be postponed until the Demilitarization Commission, operating in conjunction with military government and with the Reparations Commission, can decide whether such facilities should be converted to civilian use in Japan, transferred to liberated or other areas, or destroyed.

(e) Relief and reparations claims should have first call on productive facilities or on their product after the requirements of demilitarization and the needs of the Japanese economy (for reconstruction, minimum subsistence, and economic-recovery purposes) have been met; in addition,

addition, they should have first call on the product of any facilities not required for reconstruction or for maintaining subsistence standards of living.

3) Subsidies and all other forms of protection of heavy industry should be abolished, except that in cases where shortage of supplies and of foreign exchange in the emergency period appears to justify it, the government may assist those industries where necessary to avoid undesirable increases in the cost of living.

APPENDIX A - BASIC FACTORS

I. Basic Objectives

It is understood that the immediate economic objectives of United States post-war policy towards Japan are:

(a) To enforce a program of demilitarization.

(b) To control the Japanese economy so as to meet the needs of the occupation forces and the minimum subsistence requirements of the civilian population.

(c) To arrange for relief, restitution, and reparations.

Underlying these immediate objectives are the long-range aims of:

(a) Creating conditions which will insure that Japan will not again become a menace to the peace and security of the world.

(b) Encouraging

(b) Encouraging the development of a politically and economically democratic Japan within the framework of a sound and well balanced Far Eastern economy - not only as an and in itself, but as a long-run security measure.

II. Basic Assumptions

It is assumed:

(1) That there will be a full scale military occupation of Japan of not less than two years.

(2) That it is the purpose of the United States to achieve the above objectives with the minimum of control machinery.

(3) That the former empire-economic ties between Japan Proper and areas at present under her domination will be completely severed.

(4) That technical demilitarization and reparations commissions will operate in conjunction with military government in formulating and applying final policies within the limits of general policy directives.

APPENDIX B - DISCUSSION

I. Definitions and Scope

The term "heavy industry" as used in this report covers the following branches of industry: iron and steel, ferro-alloys, non-ferrous metals, coal and coke, oils, rubber products, chemicals, electric power, and the manufacture of transportation equipment, equipment

equipment for the generation and transmission of light, power, and heat, industrial machinery and equipment, and machine tools.

Certain branches of heavy industry, as enumerated above, and certain aspects of policy in respect to it are dealt with in separate reports and therefore excluded from special consideration here. These are armaments, aircraft, shipbuilding, and policy in respect to the present concentration of ownership and control of Japanese heavy industry.

II. The Importance of Heavy Industry in the Japanese Economy

The development of heavy industries in Japan is of fairly recent date. With its achievement, Japan became a modern country with an integrated economy of the western type. In the twenty years preceding the present war, Japan showed outstanding progress in the speed of expansion of her heavy industrial system, unsurpassed by any other development in her economy. The rise in importance of the heavy industries was accelerated by her preparations for war.

Value of Production of Heavy Industry

In 1926 the value of production for metals, machines and tools, and chemicals amounted to 1,796 million yen. In 1937, the total value for the same three branches of heavy industry equalled 8,829 million yen. From the table below it may be seen that while the total value of industrial production increased only 2.4 times from 1926 to 1937, the value of products in the metals industry was more than 7.6 times, in machines and tools

tools 4.6 times, and in chemicals 3.8 times the 1926 level. The share of heavy industry in the combined value of production of mining, manufacturing, agriculture, stockbreeding, fishing, and forestry amounted to 41% in 1937 and since then has undoubtedly risen.

TABLE I.

Index of Value of Production

	Metals	Machines & Tools	Chemicals	All Industries
1926	100	100	100	100
1937	756	445	379	236

Since the so-called "China Incident" in 1937, the heavy industries of Japan have made new strides in expansion, especially before and soon after Pearl Harbor.

Importance of Employment in Heavy Industry

From 1930 to 1944 the total number of employees in manufacturing and construction industries increased from 5.9 to 9.4 million or approximately 60 per cent. However, employment in heavy industries increased 4.3 times. Relatively, in 1930 only 23% of all employees in manufacturing and construction were in the heavy industries, whereas in 1944, 61% were so employed. Employment in the heavy industries increased not only by absorbing the entire increase in the labor force but also by diverting workers to heavy industry from other industries.

TABLE II.

Estimated Distribution of Employment, 1930 &1944
(in thousands)

	1930	1944
Estimated Labor Force	29,450	32,700
Total for Manufacturing and Construction Industries	5,876	9,400
Employed in Heavy Industries		
Total	1,351	5,750
Metals	399	800
Machinery and Tools	248	1,400
Shipbuilding	100	500
Aircraft	9	800
Vehicles	60	150
Ordnance	34	400
Chemicals	201	900
Mining	300	800
Percent of Employment in Heavy Industries to Total in Manufacturing and Construction	23%	61%

Government Assistance in Development of Heavy Industry

The development of heavy industries was achieved despite the lack of raw materials by two arrangements, one artificial and one potentially dangerous in time of war. In the first place, the government supported industries by subsidies, part ownership, and reduced taxation; in the second, the heavy industries were built up with a dependence on imports for the bulk of their necessary raw materials.

In order to assist in the rapid development of heavy industry, the government itself has become an important stockholder in various plants. The Japanese Government organized and is the largest

largest stockholder of the Nippon Seitetsu, the most important producer of iron and steel products in the Empire. The total capitalization of this mammoth business concern amounted to ¥ 394,900,000 in 1936, of which the Government owned ¥ 284,200,000.

A system of subsidies was also set up by the Government to spur production in certain heavy industries. In 1943 reported subsidies amounted to 683 million yen for coal, 229 million for iron, and 36 million for oil.

In an effort to overcome some of its dependence for raw materials on outside areas, Japan has given grants to industries for research in technologies to improve methods of production, to develop home resources in place of imported materials (for example, the use of iron sands), and to develop synthetic materials to replace needed raw materials (such as synthetic oil).

Heavy Industry's Dependence on Imports

The dependence of heavy industries of pre-war Japan on imports of raw materials from the colonies and foreign countries is shown in Table III. The largest imports from the outside were iron ore, aluminum, zinc and lead, whereas domestic production of coal and copper was relatively high. The production of steel is dependent on imported scrap iron, and aluminum on the import of bauxite.

Table III

TABLE III

Volume Ratio of Domestic Production to Demand of Principal Raw Materials - 1936

(Consumption = 100)

Material	Home Production	Imports from Colonies*	Imports from Foreign Countries
Iron ores	12.5	5.3	82.2
Pig iron	64.6	12.8	22.6
Steel	91.6	1.6	6.8
Copper	61.7	3.5	34.8
Aluminum	40.5	-	59.5
Zinc	37.0	-	63.0
Lead	8.0	-	92.0
Coal	89.2	6.5	4.3

* Including Manchuria

It should be noted that the relatively small amount of imports of coal does not give a true picture of the needs, however, since Japan had to import most of her coking coal, necessary for the production of coke.

Effect on Rest of Economy of Decrease in Heavy Industry

Due to the integration of heavy industry in Japan with the whole economic system, any cessation of production will not only throw an important segment of the population out of work and materially affect the national income, but it will also have far-reaching effects on other economic enterprises. For example, the

the shipment of heavy industrial materials and products amounted to 17.904 million tons out of a total cargo of 55 million tons carried in 1934, or 32% of all Japanese Empire shipping of essential commodities. The largest single item was coal, which amounted to approximately 25 percent of the total shipped. Moreover, mineral products constituted 46 percent of the total goods moved on railroads in Japan in 1936. The demand for electric power will be severely reduced by the loss of the heavy industry consumers as will be seen from the table below.

TABLE IV

Consumption of Electric Power by Industries
(in 1,000 kwh)

	1934	1938
Total consumption of all industry	9,264,568	18,587,369
Metals	1,200,700	4,850,078
Machines and Tools	292,408	1,327,433
Chemicals	4,044,205	7,747,379
Total	5,537,313	13,924,890
Percentage of Heavy Industries to Total Consumption	59%	74%

This table demonstrates how the removal of three industries would reduce the demand for electric power which Japan has developed for her industrial machine.

In the post-surrender period, it should be anticipated that there will be a critical situation in the heavy industries of Japan. A large portion of the industrial activity devoted to military products will be eliminated. Demand for raw and semi-manufactured

manufactured goods will drop. The contraction of heavy industry will be intensified by the loss of markets outside of Japan Proper. Moreover, as has been pointed out above, the readjustment in other industries due to the decline of the heavy industries will have a very serious repercussion on the whole industrial activity of Japan. It is probably safe to predict that approximately one-half of the people formerly employed in the manufacturing and construction industries will be unemployed in the critical transitional period after the surrender.

III. Factors in Policy Formulation

Demilitarization, the minimum needs of the Japanese economy, reparations, and the long-range objectives of the United States in the Far East and the international field generally, are all matters which must be taken into consideration in devising a post-war policy in respect to Japanese heavy industry. This report seeks to examine the implications for Japanese heavy industry of our policies on each of these subjects and to suggest the guideposts and procedures by which decisions may be reached with respect to the capacity which the Japanese should be permitted to retain in each major segment of heavy industry. These decisions will seldom satisfy all our objectives; they will be compromises in which the various objectives will have different weights but which taken together resemble as closely as possible a unified and consistent program. Too many factual questions must

must remain unanswered until we are in Japan to permit specific recommendations at this time, though more detailed studies can undoubtedly narrow greatly the area of decision which will remain at the time of surrender.

Demilitarization Policies

Extent of Restriction of Heavy Industry. Other papers provide for the elimination of specialized capacity for the production of implements of war, including ships, and of aircraft of all types. It remains to be considered what steps are necessary to eliminate

> "heavy industry capacity in excess of normal peace-time requirements and those key industries upon which an extensive war industry can be redeveloped." (SWNCC 150, C.1)

There is first the problem of identifying war industries of a non-specialized character. An approximate method of identification is indicated by the fact that stoppage of the production of armaments by the military authorities will immediately affect the basic industries and intermediary industries supplying the materials for military end-products. Estimates of the basic industry capacity that would be affected and, behind that capacity, estimates of raw materials involved in the denial of all plant capacity now producing military end-products will provide a yard-stick for determining the elements in Japan's industrial structure ~~exclusively~~ devoted to war purposes.

purposes. By this method it would be possible also to establish a level of industrial capacity which in general would be below the danger line for maintaining or creating a war machine.

However, a policy of banning all production identified as being for war purposes in 1944 or 1945 would be seriously defective. On the one hand, it would be inadequate at points where demilitarization required the complete elimination of a particular branch of industry rather than curtailment to civilian output levels. On the other hand, since heavy industry must in recent years have been devoted almost entirely to the production of war materiel, the use of this criterion would mean the virtual elimination of such industry. Complete and continued suppression would be a serious administrative task and furthermore, if it were successfully accomplished, would deal a severe if not mortal blow to the Japanese economy.

Even after war industries have been identified, therefore, there still remains the problem of indicating more precisely the kind and amount of capacity to be denied the Japanese economy.

In order to devise a workable demilitarization policy and one which can be reconciled with other purposes, it is suggested that disarmament measures be defined in respect to their degree of urgency and strategic importance for war and for control purposes. The purpose of grading security measures in this way would be to establish a basis for working out priorities in cases of conflict and to mark out the limits of a security program

program consistent with feasible administration. Demilitarization measures should be formulated on two or more levels - an upper level relating to those branches of industry whose elimination or restriction is considered essential, andlower levels relating to controls which would be valuable in enforcing the basic measures, but which are of somewhat less critical importance.

The area of essential controls would probably include industries of the type usually designated as "key" industries, including aluminum, magnesium, synthetic oil, synthetic rubber, and perhaps high alloy steel and machine tools.

Technical considerations will predominate in the selection of key industries. In the marking out of the less vital areas and the determination of permissible levels of output, however, an additional criterion, namely, the test of "excessive capacity", may be utilized, though engineering criteria will of course be decisive here also. Excessive capacity in heavy industry may be defined as that part of total capacity in excess of the amount used for civilian purposes in pre-war years. Specifically, it is suggested that production levels in 1936 be adopted as a guide. (Reasons for selecting 1936 are discussed below, see p. 28) The "excessive capacity" test is particularly valuable as a guide to demilitarization policies in that it provides a device for eliminating at the outset conflict between disarmament requirements and needs-of-the-economy requirements; for it establishes a dividing

a dividing line on one side of which falls "normal" peacetime production, and on the other, war production. However, it cannot be expected that this test will be of more than subordinate significance to be applied in cases of doubt; consequently, it cannot be counted upon to eliminate all conflict between disarmament requirements and those of Japan's peacetime economy.

One general principle should be borne in mind in the final drawing up of the specific demilitarization measures, namely, that the initial restriction of heavy industry should be severe enough to allow for possible loopholes in the control mechanisms and for a gradual relaxation of controls without loss of essential safeguards as progress towards peaceful reorganization of the economy occurs. The progressive lifting of controls may provide an effective stimulus to desired political and economic developments.

If a policy of selective, rather than blanket, elimination of heavy industries is adopted, special provision must be made for the fact that future scientific developments may alter methods of warfare in such a way as to shift the emphasis to types of products different from those which are now regarded as critical. Furthermore, ingenious alternatives for industrial processes now suppressed may be developed by the Japanese. One method of providing against such contingencies is, of course, to ban heavy industry in a wholesale manner, in the hope that all potential danger points will thus be included. It is believed, however, that a more effective solution to the problem and one which conflicts

conflicts less with other objectives would be to endeavor to adjust control measures to technological changes as they occur.

Nature of Controls

This paper is concerned basically with the initial reduction of plant capacity to the maximum permissible levels. The maintenance of both capacity and production within the limits permitted by security considerations will be covered in a paper on "Long-Range Control of Japanese Rearmament".

The initial reduction may best be accomplished by turning over to the Technical Disarmament and Demilitarization Commission the task of determining the facilities of which the Japanese are to be deprived in order to bring capacity within the limits to be decided upon in accordance with the principles laid down in this paper. These facilities may then be certified to the military government for transfer on reparations account, conversion to other types of production in which capacity is not limited or in which war damage has left less than the permitted amount, or scrapping.

Basic Needs of the Japanese Economy

As in the case of demilitarization measures, estimates of the requirements of the Japanese economy in respect to the products of heavy industry should be graded by levels of urgency in point of time, or essentiality. Those types of products required for immediate reconstruction of essential facilities and for maintaining the Japanese ~~population at a minimum~~ subsistence standard

standard of living should have the highest priority rating. Next in line will be the additional amounts of plant, equipment, etc., needed to give Japan a starting point for some measure of economic recovery on a self-supporting basis.

Minimum Subsistence Requirements

In this connection, estimates should be made of (a) the supplies needed for the rehabilitation of essential services to the extent necessary to protect the public health and to maintain the production and distribution of requisite civilian supplies. Particular emphasis should be placed on the rehabilitation of transportation and communication facilities and of water, electric, and gas utilities; (b) the types and amounts of goods needed for the normal consumption requirements of the economy at minimum subsistence levels. The output of consumption goods in the year 1931, the low point of the depression, would supply more guidance in this connection than outputs of recent war years. It is believed that the very low consumption levels indicated for the war years by official figures should not be used as a post-war standard. Still less should estimates of wartime production of consumption goods be used. In the first place, the official figures probably exaggerate the actual curtailment of consumption; they represent goals, rather than records of accomplishment. Secondly, wartime consumption levels have depended for their acceptance upon patriotism and coercion, and the occupation authorities would probably be met with serious non-cooperation

non-cooperation and unrest if they attempted to impose such severe standards for a prolonged period. Finally, Japan, like most other countries, has been living on its capital during the war, and as time goes on more and more replacements of productive facilities in consumer industries and of consumer durable goods will be needed to sustain even the wartime living standards.

The requirements coming under these heads can theoretically be met if necessary by imports rather than by indigenous production. It is to be remembered, however, that the reconstruction needs of countries devastated by war will be heavy and will be added to the "normal" accumulation of civilian requirements of all other countries returning from war to peace. At the same time many countries - notably Japan - will undoubtedly suffer from an acute shortage of exportable goods and hence of foreign exchange with which to purchase needed supplies. In the light of these facts and since it is our stated policy when giving assistance for relief or rehabilitation purposes to give priority to liberated areas, it is to be concluded that there are compelling reasons for making the greatest possible use of Japanese home industry.

Economic Recovery in Japan

Our general policy objectives clearly imply that Japan should be allowed, if possible, to retain some industrial facilities over and above those necessary to support the population at subsistence

subsistence levels. The importance of this consideration is frequently underestimated. The threat of renewed aggression by Japan - if it is to reappear - would be most apt to show itself not five or ten, but fifteen, twenty or twenty-five years hence. By that time, experience shows, years of peace will have reduced the consciousness of danger in the United States and other Pacific countries, and the restrictions imposed on Japanese military strength at the peace settlement will very likely have been relaxed to a point where they will have lost much of their effectiveness. Our determination to keep Japan militarily impotent will have weakened, but Japan's desire to free herself from the restrictions may have strengthened. Moreover, military security against Japanese aggression, or participation in acts of aggression initiated by others, will always be dependent to a large degree on international cooperation. It would be foolhardy to predict now that the next generation will necessarily see a great strengthening of international bonds; it is greatly to be hoped for, but cannot be counted on in formulating United States policy. As the years pass it is reasonable to believe that security from Japanese aggression will come to depend more and more on how greatly Japanese attitudes, motivations and policies change and reduce the impetus toward war within Japan - and it is to be hoped,also, on effective international security arrangements - and progressively less on the various restrictions we impose.

Such changes, however, will be possible only in an atmosphere of reasonable prosperity. ~~We cannot be certain~~ an economically viable

viable Japan will become a peaceful Japan - Germany with one of the highest living standards in Europe has started three major wars and two minor wars in the last 75 years. But we can be certain that if Japan is kept impoverished and destitute, especially if her destitution is the result of economic restrictions imposed upon her by the victors, she will not change, or if she does it will be for the worse. Rather the military spirit will tend to be perpetuated and even intensified. It is only if she is afforded opportunity to achieve a reasonably satisfactory living standard, with hope of gradual improvement of that standard through legitimate enterprise, that an environment will be created in which her conversion to peaceful attitudes can be accomplished. In principle, therefore, Japanese peacetime industry should not be restricted to achieve a theoretically perfect condition of disarmament where such restriction would seriously handicap the operation of the peacetime economy.

The position taken here that Japan should be permitted to retain some part of her heavy industries, it must be emphasized, is predicated on the assumption that such a policy will be coordinated with serious efforts directed towards the democratic reorientation of Japan, politically and economically. As a safeguard against the possibility that an unreformed Japan might be turned loose with significant amounts of heavy industry left intact it is proposed that we begin with maximum attention to demilitarization requirements and minimum concessions to the needs-of-the-economy. Relaxation of controls can then be made dependent

dependent upon the growth in Japan of peaceful institutions and attitudes.

The problem here is to determine what criteria should be applied in deciding the minimum amounts and types of heavy industry which Japan would need (a) to provide at least a starting point for some measure of economic recovery; and (b) to avoid creating excessive unemployment and economic distress.

An estimate of Japan's needs in these respects must be based on an understanding of the role which heavy industry has played in Japan's economy and would be likely to play if allowed free development in a peaceful economy in the future. Various facts have been presented in Section II of this report. Their significance for the present question may be summarized as follows:

The Japanese metals and machinery industries in 1936, when Japan's economy was still organized primarily on a peacetime basis, accounted for 32 percent of the total value of factory production and 28 percent of all factory employment. If the chemical industries were to be included in these totals the proportions would be respectively 50 and 39 percent. Japan's heavy industries, as those of any modern industrial nation, form a highly important part of her industrial structure. Their loss would have several very important effects:

(a) The country's entire requirements of heavy industrial products for reconstruction and future industry and trade would have

have to be imported, imposing a heavy burden on its balance of payments.

(b) Efforts for Japan's further modernization and industrial development (roads, sanitation, building, and a gradual improvement of agricultural and industrial techniques) would be greatly hampered.

(c) Japan would be unable to participate in the provision of capital goods to an industrializing China, India or Netherlands Indies, where otherwise there may be some demand for Japanese cheap but serviceable heavy products.

Some have argued that Japan until the 'thirties possessed very little heavy industrial capacity, specializing in textiles and other light manufactures, and yet possessed an adequate living standard. In 1928 all heavy exports combined comprised only 3.8 percent of total exports. Why, it is asked, could she not learn to rely on her light industries again?

The importance of the heavy industries in Japanese economy before 1930 is frequently underestimated. Even in the early 'twenties, when armaments production was at a minimum, the metals, machinery and chemical group accounted for approximately a fourth of factory production and employment. Had Japan been required to import all of her heavy industrial requirements during the 'twenties her living standards might have been appreciably lower.

But

But the most important reason to doubt that Japan could achieve an adequate subsistence if deprived of her heavy industries is the difficulty she will undoubtedly experience in finding as extensive markets for her light exports as she did during the 'twenties. Silk, which in that relatively prosperous decade made up as much as 40 percent of Japan's exports, and which even in 1940 was still in point of net return the country's leading export item, will face a much reduced demand. (A higher value of cotton textiles was exported, but the raw material had to be imported.) Further, industrialization in economically backward Far Eastern countries may seriously curtail some of Japan's leading markets for cotton textiles, ceramics, cheap metal and rubber goods, and other light exports. These countries, if they follow the usual pattern, will develop the light industries first, and will raise trade barriers for their protection. While industrialization will promote higher living standards and increased demands for many types of products, those demands are more likely to be for capital goods, or for consumers goods requiring heavy industrial equipment for their manufacture, than for light products; and while it is not to be desired, for security reasons, that Japan should monopolize or even predominate in this trade, there seems to be good reason for creating conditions under which she can participate in it in moderation.

While the above discussion indicates that the Japanese economy would suffer severly under a program of unsparing elimination

elimination of heavy industry, there is another side to the question. Some curtailment, it appears, far from running directly counter to natural economic forces would be in harmony with them.

First, it is to be noted that in all probability China and Manchuria, as the possessors of rich resources of coal and iron, will eventually become the centers of heavy industry in the Far East, particularly with the start these areas will have while Japan is repairing war damage. The principles of comparative advantage further suggest that the Japanese economy must in the long run be built around the exploitation of her geographic position as a commercial center and the development of special skills and techniques. It may be anticipated, therefore, that eventually natural developments - if the environment is one of international freedom of trade - will of themselves place limitations on Japan's industrial strength and reduce her internal war potential.

Secondly, as indicated above (Section II, App.B), heavy industry in Japan is largely a hothouse growth, and while subsidies and other forms of protection including war contracts may merely have accelerated its inevitable development, it is more probable that many branches of heavy industry would not have developed as fully, if at all, if left to themselves.

Finally, it may be argued that Japanese heavy industries represent a distorted growth for the reason that they have depended

depended upon unbalance - specifically topheaviness - in the economy. With Japan's low per capita income, it has required a heavy concentration of wealth and income to provide the savings necessary to establish capital goods industries on a large scale. It may even be that the existence of such savings, pressing for investment outlets, has acted as a stimulus to the development of heavy industries. In any event, if the effect of our post-war policies should be to achieve a wider distribution of income in Japan, it is to be expected that total consumption at any given level of national income would be larger than in pre-war years, savings would be smaller, and a redistribution of demand, with less emphasis on heavy industries, would occur. If, in other words, the Japanese economy should become orientated more towards general welfare and less towards privilege, some part of heavy industry might die a natural death, even if not eliminated by Allied decision.

It is clearly not possible to identify precisely which branches of heavy industry have been fostered artificially or are dependent upon unbalance in the economy. Even if such identification could be made, it would not be desirable in every case to eliminate the branches of industry thus marked out because of the anticipated shortages of goods and of foreign exchange in the early post-war period. The appropriate procedure in the light of these facts would seem to be to remove in the first instance all overt subsidies and other forms of protection - a step which does not preclude

preclude the resumption of government aid if justified in particular cases during the emergency period.

The most promising approach to the problem of establishing criteria by which to judge the amounts of heavy industry required as a minimum basis for self-supporting economic recovery is to select some pre-war year as a guide. Because of the virtual transformation in the Japanese economy during the 'thirties and because of the character of the outlook for the future as suggested above, it is difficult to see how the clock could be set back as far as 1929 or 1930, the years when the textile industries reached their peak of relative importance. The later 'thirties, in particular 1936 as the last pre-war year, offer a better guide to a production pattern which would provide Japan with a balanced economy in line with present skills, technical knowledge, equipment, and prospective markets.

As already stated, allowance should be made for the fact that even by 1936 the Japanese economy was partially on a war footing. There is no way of knowing precisely how much of Japan's heavy industry capacity was excessive as the term is here defined. However, a general idea may be obtained in the following way. It appears that out of a national income of some Yen 16 billions in 1936 about Yen 11 billions represented private consumer outlay. The remaining Yen 5 billions were distributed between government expenditure and private investment. Yen 1 billion of national government expenditures are listed under the head "Army and Navy". In addition

In addition, a part of private investment certainly represented expansion of armaments and other heavy industries. A comparison of investment in Japan with that of other countries is suggestive in this connection. Net investment in Japan in 1936 appears to have constituted about 18.4 percent of the national income. The comparable average for eleven other major countries in the relatively prosperous period 1925 to 1930 was approximately 10 percent. It is not unreasonable to conclude that Japan's unusually high investment ratio was due to expansion in war industries, and that investment that might directly contribute to the raising of consumption levels in Japan was <u>at the most</u> no larger than the 10 percent average for most of the rest of the industrial world. On this basis, total war expenditures, including governmental, may be put at around Yen 2 billions. A very large part of these expenditures must have represented outlay for the products of heavy industry. The combined output of the metallurgical, engineering, and chemical industries in 1936 is estimated at Yen 5 billions. We should probably not be far wrong in assuming, therefore, that allowing for understatement of war expenditures, as much as two-fifths, or Yen 2 billions, of heavy industrial output went for military purposes. Consequently, a limitation of heavy industry to three-fifths of its 1936 levels would give Japan enough heavy industry both to support a civilian economy at the "above-subsistence" levels of 1936 and to allow for a reasonable rate of growth. Overall figures such as the above

above cannot, of course, by themselves provide an adequate basis for estimating peacetime needs but, when qualified by a consideration of prospective post-war conditions as compared with those of 1936, including population changes, they may serve as a rough guide and as a check on estimates built up piecemeal, product by product. 1/

In order to make accurate estimates, branch by branch, of industry it would, of course, be necessary to begin from data relating to basic consumer needs - food, shelter, clothing, etc.- with 1936 as the guide. These data would indicate the types and amounts of heavy industry, such as those concerned with transportation equipment, construction materials, machinery, fertilizers, and consumer durables needed to support these consumption levels either directly, or indirectly via exports to obtain needed imports. To these requirements must of course be added an allowance for a normal rate of expansion of productive facilities.

Reparations

1/ Between 1936 and 1939 the gross product of the metallurgical, chemical, mining, and engineering industries combined is estimated to have increased two and a half times. Between 1939 and 1944 it undoubtedly underwent another increase at least as great as that of the total national income, or in other words it must have doubled again - a total increase of nearly 500 percent of the 1936 levels. These figures suggest the magnitude of the permissible curtailment recommended here and they indicate also that there will have to be a tremendous percentage reduction by war damage before heavy industry capacity will fall back to pre-war levels.

Reparations

The integration of reparations policies with the other objectives is a matter of establishing a reasonable system of priorities. It must be recognized at the outset that an adequate program of demilitarization, plus a reasonable policy in respect to Japan's minimum needs, will place limitations upon the amount of reparations which can be paid.

No questions of conflict will arise in cases where claimant countries will accept in payment of reparations productive facilities which have already been marked for withdrawal from the Japanese economy. In cases where conflict does arise, it is believed that the following principles of action should be adopted: Reparations should not be placed ahead of requirements for minimum subsistence, or for the occupation forces. Nor should reparations be placed ahead of minimum requirements for economic recovery, as might occur if productive facilities were removed to claimant countries. However, to the extent that it is decided to draw upon current product in the payment of reparations, the latter may take priority over economic-recovery requirements on condition that, after a stipulated period of time, the productive facilities so used should revert to Japan. When the minimum needs (as defined above) of the Japanese economy within the limitations imposed by the demilitarization program have been provided for, reparations should have first call on any remaining productive facilities. There would seem to be no case, however, for

for removing machinery or equipment to claimant countries in cases where it is not established that the receiving countries can utilize the equipment productively; in other words, removal should not be made merely for the sake of depriving Japan of such facilities.

It is to be understood finally that no branches of heavy industry should be rehabilitated merely for purposes of reparations, though in exceptional cases facilities, which are later to be dismantled, might be operated under supervision.

Markets

It is assumed to be a basic principle of policy that we do not interfere with Japanese heavy industries merely for the purpose of creating advantages for the United States or any other country over Japan in international trade. Such action would be entirely contrary to our declared aims, expressed in the Atlantic Charter, of promoting unhampered international intercourse.

Possible Effects of the War on Heavy Industry in Japan

The discussion above has been predicated on the assumption that, in general, heavy industrial facilities will be present in sufficient quantities after the war to create problems of curtailment. It is quite possible, however, that as a result of war damage and the removal of industry to the mainland there may be little, if any, need for further restriction. The questions to be

to be answered will then in the main take two forms: (1) to what extent and in what cases should the reestablishment of heavy industries by the Japanese from their own resources be permitted; (2) to what extent and in what cases should assistance be given in such rehabilitation as is permitted?

The foregoing discussion adequately covers the first question, for it relates to levels of industry which, though set forth as limits of curtailment, may equally well refer to limits of reestablishment. The second question, however, has not been dealt with and requires explicit treatment. It is understood that, where absolutely necessary, assistance to Japanese industry may be given for purposes of restoring essential facilities, and for supporting the Japanese people at minimum subsistence levels. It is believed, further, as has been stated above, that it is of vital importance to long-run security that the Japanese be allowed some prospects of being able to lift living planes above minimum subsistence levels; and accordingly such assistance in the rehabilitation of heavy industry as is essential to this purpose should not be proscribed. It is recognized, however, that imports for such purposes should be subject to the proviso that, where supplies are inadequate, liberated areas should have preferential treatment. Of course, provision must be made for payment by the Japanese for such imports.

Secret

ED:MRDaugherty:ec
July 27, 1945

August 22, 1945

ansd 8/21/45 Tues

2342 Walnut St.
Allentown, Pa.
August 11, 1945

Foreign Service Bureau
Department of State
Washington, D. C.

Gentlemen:

Congressman Harry L. Towe has recommended that I contact your Bureau with a view towards securing an appointment as administrator or similar capacity in the organization being set up to administer control of the industries in defeated Axis countries. I am particularly interested in a position involving control of the aircraft, steel, and/or manufacturing industries of Japan. A resume of my background is attached, and I should like to draw your attention to the fact that I have had considerable production, engineering, and administrative background in actual manufacturing and production plants, which should be of value to any Bureau which intends to administer and oversee the organization and re-location of the industries in the defeated nations.

Will you please let me know what further information or steps are required, in order that you may take some definite action on this application.

Sincerely yours,

A. F. Barnard

A. F. Barnard

July 20, 1945

Resume of Experience - A. F. Barnard

1929-1932 - Lehigh University - Metallurgical Engineering Graduate

1933-1935 - Crucible Steel Co. of America - Spaulding & Jennings, and Atha Works - Employed as cold roller in the manufacture and cold rolling of carbon and alloy strip steel, drill rod, spring steel, etc. Metallurgical inspection and supervision of hot and cold rolled carbon and alloy steel bars, rods, and forgings. One year in charge of the night shift in the Finishing Mill, engaged in the manufacture of the above products.

1935-1940 - Columbia Steel Co. - U. S. Steel Corp.
Open-hearth quality control. This included completion of a quality control program which had already been underway, and also included the establishment of a program in the company's plant at Torrance, California. Transferred to the general office as Assistant to the General Manager in charge of the Alloy and Stainless Division. Handled all sales correspondence and mill contact work with customers; cleared all orders for technical accuracy in the mill, and handled and settled all claims resulting from customers' complaints. Engaged in the sale and promotion of stainless and alloy steels and handled introduction and promotion of low alloy, high tensile steels in transportation and aircraft fields. Worked with aircraft manufacturers to promote the use of alloy and stainless steels in that industry.

1940- - Chief Metallurgist with Vultee Field, during which time the writer headed up the Metallurgical Group and Materials Group. This involved investigation and development of all aircraft materials, including plastics, aluminum and magnesium alloys, together with low alloy and stainless steels and their applications to aircraft use. Handled all shop and production problems involving the fabrication of ferrous and non-ferrous metals. Transferred to the Allentown Division to head up the Process Engineering Department. Was placed in charge of the Chemical and Metallurgical Laboratory and handled all chemical and metallurgical welding and Materials Engineering work; set up and controlled shop processes and manufacturing methods, and handled investigations of production problems as they arose.

Professional Activities

American Society for Metals

American Welding Society

Airframe Materials Committee of SAE - Was an active member of this committee for several years in framing various material and process specifications for the aircraft industry and the joint Army-Navy Aeronautical Board.

Sub-Committee on Welding of Armor

Professional Activities (Continued)

Ferrous Metallurgy Advisory Board (NDRC) - This was a confidential committee set up by the Army Air Forces to coordinate and aid in developing work on welding techniques of armor plate, with specific reference to its application in aircraft.

Resistance Welding Standards Committee of the American Welding Society - The writer was one of the founders of the above committee which had for its purpose the standardization of resistance welding (spot and flash welding) of non-ferrous alloys in aircraft.

August 22, 1945

In reply refer to
JA

My dear Mr. Barnard:

The receipt is acknowledged of your letter of August 11, 1945, in regard to the possibility of your employment in a position in connection with controls to be exercised over industry in Japan.

In view of the fact that Allied authority in the early post-war period in Japan is to be exercised through military agencies, it is suggested that you may wish to direct your inquiry to the Civil Affairs Division of the War Department.

Sincerely yours,

Erle R. Dickover
Chief
Division of Japanese Affairs

AUG CR
22 1945

Mr. A. F. Barnard,

2342 Walnut Street,

Allentown, Pennsylvania.

JA:WTurner:mls
8-21-45

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CS/LE 894.60/8-1145

THE FOREIGN SERVICE
OF THE
UNITED STATES OF AMERICA

AMERICAN EMBASSY
London, September 20, 1945

BY AIR POUCH

UNRESTRICTED

No. 25549

Subject: Japan's Industrial Future

The Honorable
The Secretary of State,
Washington.

Sir:

I have the honor to enclose for the Department's information clippings of two articles entitled, "Japan's Industrial Future", which appeared in the Manchester Guardian on September 13 and 14, 1945. These articles are the only ones which have appeared in the daily press discussing the long-term industrial future of Japan and its probable implications for Western trade.

The first article gives a brief survey of Japan's trade before the war and points out how maintenance of her standard of life depended on Japan's ability to increase her exports of manufactured goods in order to obtain essential raw materials. The second article considers what the future must be when Japan has lost her former overseas territories, from which she obtained substantial quantities of foodstuffs and raw materials, and has been compelled to alter radically her industrial structure. The Guardian thinks it probable that Japan will be forced to destroy a large part of her heavy industries and perhaps be compelled to make reparations in the form of new equipment to China. It is also pointed out that Japan's depleted merchant marine will no longer contribute to her invisible exports.

The writer of the articles believes that the only solution left to Japan by which she can maintain a reasonable standard of living will be to concentrate

her resources

her resources on the consumption goods industries and attempt to build up an export trade in consumers goods which will enable her to buy the food and raw materials she needs. It is recognized that textiles will play a leading part in such trade, and the writer states:

> "If this process of adjustment is carried through--and the task will be an immense one,--then certain Western industries may after a few years suffer even more seriously than they did before the war from Japanese competition. This will be particularly true of textiles, once the period of restocking is over. Lancashire clearly cannot view this prospect with equanimity."

The Guardian points out that if Japan is not permitted to develop an export trade in consumers goods, the result may well be a steep fall in her standard of life and perhaps famine. The question is then asked as to why we should allow Japan's troubles, which are of her own making, to affect our economic policy, and the writer gives two reasons why this should be done. He believes, first, that apart from general principles of economic policy which the United Nations may adopt, it is against our own interest that a center of famine and despair should be allowed to appear in the Far East, and, secondly, he points out that it can be of no benefit to the impoverished peoples of Asia if they are deprived of access to cheap Japanese consumption goods. The writer concludes:

> "For many years to come the alternative to supplies of such goods from Japan will not be an equivalent quantity of British or American goods, but a much lower level of consumption among the native populations than would otherwise exist. No doubt, in the long run, Western countries themselves would benefit from industrial expansion and the rise of the standard of life in Asia; but certain industries in those countries may well be damaged."

It is particularly interesting that these first serious articles on the future of Japan should appear in a paper from the center of the British cotton industry and should advocate the necessity of the British industry resigning itself to future Japanese competition in Asia on a large scale.

Respectfully yours,

For the Ambassador:

John M. Allison
First Secretary of Embassy

Enclosures: atts-m,
Manchester Guardian articles entitled "Japan's Industrial Future" (in quadruplicate)
1/ dated September 13, 1945
2/ dated September 14, 1945

1 copy of despatch and enclosures to Division of Japanese Affairs

JMA/ejg

Enclosure No. 1 to Despatch no. 25549 dated 20 September 1945
from American Embassy, London, England.

PAPER: MANCHESTER GUARDIAN NUMBER:

CITY: LONDON DATE: SEP 13 1945

JAPAN'S INDUSTRIAL FUTURE

I—Her Reliance on Foreign Trade

By a Correspondent

As a result of her defeat, Japan will presumably lose her colonies, including Korea and Formosa, and she will cease to enjoy the privileges which have hitherto been hers in Manchuria and China. Her political control will thus be confined to the main islands, known as Japan Proper. Within this comparatively small area (about one-fifth larger than that of the British Isles), which is by no means rich in natural resources, nearly eighty million persons will have to maintain themselves in the next few years. This population, moreover, unless held in check by famine and disease, is likely to grow fast (perhaps by a million a year) for some time to come, because a high proportion of the population is at present within the fertile age groups. In the next few months the United Nations will have to decide on their economic policy towards Japan in the light of these and other relevant facts, and in accordance with that policy Japan will have to begin to effect far-reaching adjustments in her economy.

FOOD IMPORTS

To estimate the nature of these adjustments it is necessary to glance at the outstanding features of the Japanese economic system. Before the war with China, out of an occupied population of some 34,000,000 about 14,000,000 were engaged in agriculture and about 600,000 in fishing. These two great industries provided the bulk of the foodstuffs which the people consumed; but it is wrong to imagine that Japan was self-sufficient in her food supply. She did not, it is true, depend to any considerable extent on imports from foreign countries; but she derived large quantities of food from her Empire. During the thirties imports of rice, the staple food, amounted to over one-sixth of the nation's consumption, and most of them came from Korea and Formosa. Other leading food imports consisted of sugar from Formosa and beans from Manchuria. It will be difficult for Japan to dispense with these imports without reducing her already low dietetic standard. The area of arable land is narrowly limited because of the mountainous nature of the country, and there is little or no fresh land to be brought under cereals. The most intensive methods of cultivation are already employed. The typical farming family has a holding of under two and a half acres, and it ekes out its livelihood by various subsidiary employments, such as the rearing of silkworms which provide the chief industrial raw material produced in Japan.

For many years before the war the number of persons occupied in agriculture had been stationary, and the successive increases in population had been absorbed mainly by manufacturing industry and commerce. In 1937, on the eve of the war with China, about 9,000,000 persons were engaged in manufactures and mining, and the pace of industrialisation during the previous decade had been very rapid. Japan had begun her industrial career by developing the textile industries, and in 1929 her economy was highly specialised in two branches of that group—namely, cotton goods and raw silk. During the next decade raw silk production declined; but, along with a continuous expansion in the cotton industry, there was a rapid development of new textile trades, notably rayon and woollen and worsted. The industries that made the most substantial advance, however, were the metal and engineering trades. Their rise could be attributed partly to improvements in technical methods and partly to rearmament and to heavy investment in building up the industries of Manchuria. A number of other trades also expanded rapidly—namely, rubber, paper, glass, pottery, hosiery, chemicals, and several miscellaneous consumption goods industries. Thus, before the war the Japanese economy was much less specialised than it had been in 1929.

Apart from raw silk, most of the raw materials for these industries came from abroad, including cotton, wool, and other textile materials, pulp, iron ore, pig iron and scrap, non-ferrous metals and ores, vegetable oils, hides and skins, and rubber. Moreover, although Japan had good supplies of water-power, she was on balance an importer of coal, and she had to obtain the bulk of her oil requirements from foreign countries. Thus, the employment of her growing population and the maintenance of her standard of life were bound up with this process of industrialisation, which in turn depended on her securing access, on good terms, to foreign, and to a less extent colonial, supplies of raw materials.

EXPORT TRADE

Up to 1929 Japan had paid for her imports mainly by exporting raw silk to America and cotton textiles and a few other manufactured consumption goods to Eastern Asia, India, and the South Seas. She had then a highly specialised export trade both in markets and commodities. After the American slump the steep and permanent fall in raw silk exports led her to concentrate on exports of manufactured goods. Exports of cotton piece goods continued to grow. Markets were found for other textiles, especially woollen and worsted and rayon goods; and at the same time there was a great expansion of exports other than textiles. The impoverished peoples of Asia and the South Seas were coming to depend increasingly on the cheap manufactured consumption goods which Japan sent to them, while her export of capital goods to Asia was also becoming significant. These developments in Japanese trade gave rise to serious problems among the old-established industries of Western countries; but the exports played a part in raising the standard of life in Asia, and had the Japanese economy not been distorted by preparation for war the development would doubtless have been carried even farther. In addition to these growing exports of manufactured goods, Japan also derived an important income from the services provided by her shipping.

This brief account is sufficient to bring out the supreme importance for Japan of her foreign trade. In the next article an attempt will be made to suggest what the future has in store for her.

Enclosure no. 2 to Despatch no. 25549 dated 20 September 1945 from American Embassy, London, England.

PAPER: MANCHESTER GUARDIAN NUMBER:

CITY: LONDON DATE: SEP 14 1945

JAPAN'S INDUSTRIAL FUTURE

II—Must She Export More Textiles?

By a Correspondent

In the previous article it was shown that the maintenance of Japan's standard of life before the war depended on her ability to increase her exports of manufactured goods in order to obtain essential raw materials. What are her prospects for the next decade? The loss of Korea, Formosa, and Manchuria (to say nothing of Southern Saghalien and the South Sea mandated territories) will mean that she will have to obtain essential foodstuffs from areas outside her own political control and currency system.

This colonial trade, which was conducted in circumstances very favourable to the home country, will now become foreign trade. Even if she is allowed to do business on equal terms with other nations in her former colonial territories, she will no longer be able to mould the economy of those territories to her special advantage. The stimulus to export will thus become even greater than before. It is probable, moreover, that Japan will be forced to destroy a large part of her heavy industries, which, as we have seen, were becoming increasingly important in the pre-war decade. No doubt policy in this field will depend on how far Japan is to be compelled to make reparations in the form of new equipment to China; but in any event these heavy industries will presumably not be in a position to provide commercial exports, and Japan may even become again dependent on imports of finished steel and engineering products, as she was before 1929. Her depleted mercantile marine will no longer be able to contribute to her invisible exports.

A CHANGED ECONOMY

What is likely to be the response of her economy to these new conditions? She will doubtless attempt to reduce her food imports to the minimum by devoting more of her manpower to agriculture and fishing than she did before the war. But, as we have seen, she already uses all her available arable land, and she already carries intensive cultivation very far. In these circumstances the return from the application of additional labour to farming would be small. In fishing her opportunities may be reduced if, as is likely, Russia denies her access to the fishing-grounds in the northern seas. It seems probable then that the only solution left to her will be that of retracing part of the course she has followed since 1929, of concentrating her resources to an increasing extent on the consumption goods industries, and of attempting to build up an export trade in those goods sufficient to enable her to buy the raw materials and food she needs. But to succeed in that attempt she would have to create an export of these commodities far greater than she had before the war, for her population has grown and other sources of foreign income will no longer be available to her.

She will be faced, however, with a most serious obstacle in her efforts to revert to her former structure. In 1929 about two-fifths of her exports consisted of raw silk, and this trade is unique in that it does not depend on imported raw materials. Silk exports, however, had greatly diminished by 1937, and they are hardly likely to regain their former position in view of the probable competition of nylon. Thus, if Japan is to obtain the necessary quantities of foodstuffs and raw materials she will have to sell abroad much larger amounts of wholly manufactured consumption goods than she did during the thirties. Those goods are most likely to consist of textiles (cotton, rayon, staple fibre, and woollens and worsted) and of miscellaneous goods such as rubber manufactures, small metal goods, pottery, hosiery, toys, and light electrical apparatus. If this process of adjustment is carried through—and the task will be an immense one,—then certain Western industries may after a few years suffer even more seriously than they did before the war from Japanese competition. This will be particularly true of textiles, once the period of restocking is over. Lancashire clearly cannot view this prospect with equanimity. Yet, if Japan is unable or is not permitted to develop on these lines, it is difficult to see what alternative remains to her, and the result may well be a steep fall in her standard of life and perhaps famine.

EFFECT ON THE WEST

It may legitimately be asked whether Japan, having brought this fate on herself, is to be permitted to disturb the economies of the victor nations. Why should we allow her troubles, which are of her own making, to influence our economic policy, especially as we shall be hard put to it in finding solutions for our own industrial difficulties? Further reflection, however, may suggest that the problem cannot be dismissed so lightly. In the first place, apart from the general principles of economic policy to which the United Nations are committed, it is undoubtedly against our own interest that a centre of famine and despair should be allowed to appear in the Far East. In the second place, it can hardly be to the benefit of the impoverished peoples of Asia that they should be deprived of access to the cheap manufactured consumption goods which Japan can provide in return for their raw materials. For many years to come the alternative to supplies of such goods from Japan will not be an equivalent quantity of British or American goods, but a much lower level of consumption among the native populations than would otherwise exist. No doubt, in the long run, Western countries themselves would benefit from industrial expansion and the rise of the standard of life in Asia; but certain industries in those countries may well be

BY AIR POUCH

London, September 20, 1945

UNRESTRICTED

No. 25549

Subject: Japan's Industrial Future

The Honorable
The Secretary of State,
Washington.

Sir:

I have the honor to enclose for the Department's information clippings of two articles entitled, "Japan's Industrial Future", which appeared in the Manchester Guardian on September 13 and 14, 1945. These articles are the only ones which have appeared in the daily press discussing the long-term industrial future of Japan and its probable implications for Western trade.

The first article gives a brief survey of Japan's trade before the war and points out how maintenance of her standard of life depended on Japan's ability to increase her exports of manufactured goods in order to obtain essential raw materials. The second article considers what the future must be when Japan has lost her former overseas territories, from which she obtained substantial quantities of foodstuffs and raw materials, and has been compelled to alter radically her industrial structure. The Guardian thinks it probable that Japan will be forced to destroy a large part of her heavy industries and perhaps be compelled to make reparations in the form of new equipment to China. It is also pointed out that Japan's depleted merchant marine will no longer contribute to her invisible exports.

The writer of the articles believes that the only solution left to Japan by which she can maintain a reasonable standard of living will be to concentrate

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her resources on the consumption goods industries and attempt to build up an export trade in consumers goods which will enable her to buy the food and raw materials she needs. It is recognized that textiles will play a leading part in such trade, and the writer states:

> "If this process of adjustment is carried through--and the task will be an immense one,--then certain Western industries may after a few years suffer even more seriously than they did before the war from Japanese competition. This will be particularly true of textiles, once the period of restocking is over. Lancashire clearly cannot view this prospect with equanimity."

The Guardian points out that if Japan is not permitted to develop an export trade in consumers goods, the result may well be a steep fall in her standard of life and perhaps famine. The question is then asked as to why we should allow Japan's troubles, which are of her own making, to affect our economic policy, and the writer gives two reasons why this should be done. He believes, first, that apart from general principles of economic policy which the United Nations may adopt, it is against our own interest that a center of famine and despair should be allowed to appear in the Far East, and, secondly, he points out that it can be of no benefit to the impoverished peoples of Asia if they are deprived of access to cheap Japanese consumption goods. The writer concludes:

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It is particularly interesting that these first serious articles on the future of Japan should appear in a paper from the center of the British cotton industry and should advocate the necessity of the British industry resigning itself to future Japanese competition in Asia on a large scale.

Respectfully yours,

For the Ambassador:

John M. Allison
First Secretary of Embassy

Enclosures:
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1/ dated September 13, 1945
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1 copy of despatch and enclosures to Division of Japanese Affairs

JMA/ejg

PAPER: MANCHESTER GUARDIAN NUMBER:

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To estimate the nature of these adjustments it is necessary to glance at the outstanding features of the Japanese economic system. Before the war with China, out of an occupied population of some 34,000,000 about 14,000,000 were engaged in agriculture and about 600,000 in fishing. These two great industries provided the bulk of the foodstuffs which the people consumed; but it is wrong to imagine that Japan was self-sufficient in her food supply. She did not, it is true, depend to any considerable extent on imports from foreign countries; but she derived large quantities of food from her Empire. During the thirties imports of rice, the staple food, amounted to over one-sixth of the nation's consumption, and most of them came from Korea and Formosa. Other leading food imports consisted of sugar from Formosa and beans from Manchuria. It will be difficult for Japan to dispense with these imports without reducing her already low dietetic standard. The area of arable land is narrowly limited because of the mountainous nature of the country, and there is little or no fresh land to be brought under cereals. The most intensive methods of cultivation are already employed. The typical farming family has a holding of under two and a half acres, and it ekes out its livelihood by various subsidiary employments, such as the rearing of silkworms which provide the chief industrial raw material produced in Japan.

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This colonial trade, which was conducted in circumstances very favourable to the home country, will now become foreign trade. Even if she is allowed to do business on equal terms with other nations in her former colonial territories, she will no longer be able to mould the economy of those territories to her special advantage. The stimulus to export will thus become even greater than before. It is probable, moreover, that Japan will be forced to destroy a large part of her heavy industries, which, as we have seen, were becoming increasingly important in the pre-war decade. No doubt policy in this field will depend on how far Japan is to be compelled to make reparations in the form of new equipment to China; but in any event these heavy industries will presumably not be in a position to provide commercial exports, and Japan may even become again dependent on imports of finished steel and engineering products, as she was before 1929. Her depleted mercantile marine will no longer be able to contribute to her invisible exports.

A CHANGED ECONOMY

What is likely to be the response of her economy to these new conditions? She will doubtless attempt to reduce her food imports to the minimum by devoting more of her manpower to agriculture and fishing than she did before the war. But, as we have seen, she already uses all her available arable land, and she already carries intensive cultivation very far. In these circumstances the return from the application of additional labour to farming would be small. In fishing her opportunities may be reduced if, as is likely, Russia denies her access to the fishing-grounds in the northern seas. It seems probable then that the only solution left to her will be that of retracing part of the course she has followed since 1929, of concentrating her resources to an increasing extent on the consumption goods industries, and of attempting to build up an export trade in those goods sufficient to enable her to buy the raw materials and food she needs. But to succeed in that attempt she would have to create an export of these commodities far greater than she had before the war, for her population has grown and other sources of foreign income will no longer be available to her.

She will be faced, however, with a most serious obstacle in her efforts to revert to her former structure. In 1929 about two-fifths of her exports consisted of raw silk, and this trade is unique in that it does not depend on imported raw materials. Silk exports, however, had greatly diminished by 1937, and they are hardly likely to regain their former position in view of the probable competition of nylon. Thus, if Japan is to obtain the necessary quantities of foodstuffs and raw materials she will have to sell abroad much larger amounts of wholly manufactured consumption goods than she did during the thirties. Those goods are most likely to consist of textiles (cotton, rayon, staple fibre, and woollens and worsted) and of miscellaneous goods such as rubber manufactures, small metal goods, pottery, hosiery, toys, and light electrical apparatus. If this process of adjustment is carried through—and the task will be an immense one,—then certain Western industries may after a few years suffer even more seriously than they did before the war from Japanese competition. This will be particularly true of textiles, once the period of restocking is over. Lancashire clearly cannot view this prospect with equanimity. Yet, if Japan is unable or is not permitted to develop on these lines, it is difficult to see what alternative remains to her, and the result may well be a steep fall in her standard of life and perhaps famine.

EFFECT ON THE WEST

It may legitimately be asked whether Japan, having brought this fate on herself, is to be permitted to disturb the economies of the victor nations. Why should we allow her troubles, which are of her own making, to influence our economic policy, especially as we shall be hard put to it in finding solutions for our own industrial difficulties? Further reflection, however, may suggest that the problem cannot be dismissed so lightly. In the first place, apart from the general principles of economic policy to which the United Nations are committed, it is undoubtedly against our own interest that a centre of famine and despair should be allowed to appear in the Far East. In the second place, it can hardly be to the benefit of the impoverished peoples of Asia that they should be deprived of access to the cheap manufactured consumption goods which Japan can provide in return for their raw materials. For many years to come the alternative to supplies of such goods from Japan will not be an equivalent quantity of British or American goods, but a much lower level of consumption among the native populations than would otherwise exist. No doubt, in the long run, Western countries themselves would benefit from industrial expansion and the rise of the standard of life in Asia; but certain industries in those countries may well be damaged.

COPY FOR: DIVISON OF
JAPANESE AFFAIRS.

BY AIR POUCH

London, September 20, 1945

UNRESTRICTED

No. 25549

Subject: Japan's Industrial Future

The Honorable
The Secretary of State,
Washington.

Sir:

I have the honor to enclose for the Department's information clippings of two articles entitled, "Japan's Industrial Future", which appeared in the Manchester Guardian on September 13 and 14, 1945. These articles are the only ones which have appeared in the daily press discussing the long-term industrial future of Japan and its probable implications for Western trade.

The first article gives a brief survey of Japan's trade before the war and points out how maintenance of her standard of life depended on Japan's ability to increase her exports of manufactured goods in order to obtain essential raw materials. The second article considers what the future must be when Japan has lost her former overseas territories, from which she obtained substantial quantities of foodstuffs and raw materials, and has been compelled to alter radically her industrial structure. The Guardian thinks it probable that Japan will be forced to destroy a large part of her heavy industries and perhaps be compelled to make reparations in the form of new equipment to China. It is also pointed out that Japan's depleted merchant marine will no longer contribute to her invisible exports.

The writer of the articles believes that the only solution left to Japan by which she can maintain a reasonable standard of living will be to concentrate

her resources

her resources on the consumption goods industries and attempt to build up an export trade in consumers goods which will enable her to buy the food and raw materials she needs. It is recognized that textiles will play a leading part in such trade, and the writer states:

> "If this process of adjustment is carried through--and the task will be an immense one,--then certain Western industries may after a few years suffer even more seriously than they did before the war from Japanese competition. This will be particularly true of textiles, once the period of restocking is over. Lancashire clearly cannot view this prospect with equanimity."

The Guardian points out that if Japan is not permitted to develop an export trade in consumers goods, the result may well be a steep fall in her standard of life and perhaps famine. The question is then asked as to why we should allow Japan's troubles, which are of her own making, to affect our economic policy, and the writer gives two reasons why this should be done. He believes, first, that apart from general principles of economic policy which the United Nations may adopt, it is against our own interest that a center of famine and despair should be allowed to appear in the Far East, and, secondly, he points out that it can be of no benefit to the impoverished peoples of Asia if they are deprived of access to cheap Japanese consumption goods. The writer concludes:

> "For many years to come the alternative to supplies of such goods from Japan will not be an equivalent quantity of British or American goods, but a much lower level of consumption among the native populations than would otherwise exist. No doubt, in the long run, Western countries themselves would benefit from industrial expansion and the rise of the standard of life in Asia; but certain industries in those countries may well be damaged."

It is particularly interesting that these first serious articles on the future of Japan should appear in a paper from the center of the British cotton industry and should advocate the necessity of the British industry resigning itself to future Japanese competition in Asia on a large scale.

Respectfully yours,

For the Ambassador:

John M. Allison
First Secretary of Embassy

Enclosures:
Manchester Guardian articles entitled "Japan's Industrial Future" (in quadruplicate)
1/ dated September 13, 1945
2/ dated September 14, 1945

1 copy of despatch and enclosures to Division of Japanese Affairs

JMA/ejg

PAPER: MANCHESTER GUARDIAN NUMBER:

CITY: LONDON DATE: SEP 13 1945

JAPAN'S INDUSTRIAL FUTURE

I—Her Reliance on Foreign Trade

By a Correspondent

As a result of her defeat, Japan will presumably lose her colonies, including Korea and Formosa, and she will cease to enjoy the privileges which have hitherto been hers in Manchuria and China. Her political control will thus be confined to the main islands, known as Japan Proper. Within this comparatively small area (about one-fifth larger than that of the British Isles), which is by no means rich in natural resources, nearly eighty million persons will have to maintain themselves in the next few years. This population, moreover, unless held in check by famine and disease, is likely to grow fast (perhaps by a million a year) for some time to come, because a high proportion of the population is at present within the fertile age groups. In the next few months the United Nations will have to decide on their economic policy towards Japan in the light of these and other relevant facts, and in accordance with that policy Japan will have to begin to effect far-reaching adjustments in her economy.

FOOD IMPORTS

To estimate the nature of these adjustments it is necessary to glance at the outstanding features of the Japanese economic system. Before the war with China, out of an occupied population of some 34,000,000 about 14,000,000 were engaged in agriculture and about 600,000 in fishing. These two great industries provided the bulk of the foodstuffs which the people consumed; but it is wrong to imagine that Japan was self-sufficient in her food supply. She did not, it is true, depend to any considerable extent on imports from foreign countries; but she derived large quantities of food from her Empire. During the thirties imports of rice, the staple food, amounted to over one-sixth of the nation's consumption, and most of them came from Korea and Formosa. Other leading food imports consisted of sugar from Formosa and beans from Manchuria. It will be difficult for Japan to dispense with these imports without reducing her already low dietetic standard. The area of arable land is narrowly limited because of the mountainous nature of the country, and there is little or no fresh land to be brought under cereals. The most intensive methods of cultivation are already employed. The typical farming family has a holding of under two and a half acres, and it ekes out its livelihood by various subsidiary employments, such as the rearing of silkworms which provide the chief industrial raw material produced in Japan.

For many years before the war the number of persons occupied in agriculture had been stationary, and the successive increases in population had been absorbed mainly by manufacturing industry and commerce. In 1937, on the eve of the war with China, about 9,000,000 persons were engaged in manufactures and mining, and the pace of industrialisation during the previous decade had been very rapid. Japan had begun her industrial career by developing the textile industries, and in 1929 her economy was highly specialised in two branches of that group—namely, cotton goods and raw silk. During the next decade raw silk production declined; but, along with a continuous expansion in the cotton industry, there was a rapid development of new textile trades, notably rayon and woollen and worsted. The industries that made the most substantial advance, however, were the metal and engineering trades. Their rise could be attributed partly to improvements in technical methods and partly to rearmament and to heavy investment in building up the industries of Manchuria. A number of other trades also expanded rapidly—namely, rubber, paper, glass, pottery, hosiery, chemicals, and several miscellaneous consumption goods industries. Thus, before the war the Japanese economy was much less specialised than it had been in 1929.

Apart from raw silk, most of the raw materials for these industries came from abroad, including cotton, wool, and other textile materials, pulp, iron ore, pig iron and scrap, non-ferrous metals and ores, vegetable oils, hides and skins, and rubber. Moreover, although Japan had good supplies of water-power, she was on balance an importer of coal, and she had to obtain the bulk of her oil requirements from foreign countries. Thus, the employment of her growing population and the maintenance of her standard of life were bound up with this process of industrialisation, which in turn depended on her securing access, on good terms, to foreign, and to a less extent colonial, supplies of raw materials.

EXPORT TRADE

Up to 1929 Japan had paid for her imports mainly by exporting raw silk to America and cotton textiles and a few other manufactured consumption goods to Eastern Asia, India, and the South Seas. She had then a highly specialised export trade both in markets and commodities. After the American slump the steep and permanent fall in raw silk exports led her to concentrate on exports of manufactured goods. Exports of cotton piece goods continued to grow. Markets were found for other textiles, especially woollen and worsted and rayon goods; and at the same time there was a great expansion of exports other than textiles. The impoverished peoples of Asia and the South Seas were coming to depend increasingly on the cheap manufactured consumption goods which Japan sent to them, while her export of capital goods to Asia was also becoming significant. These developments in Japanese trade gave rise to serious problems among the old-established industries of Western countries; but the exports played a part in raising the standard of life in Asia, and had the Japanese economy not been distorted by preparation for war the development would doubtless have been carried even farther. In addition to these growing exports of manufactured goods, Japan also derived an important income from the services provided by her shipping.

This brief account is sufficient to bring out the supreme importance for Japan of her foreign trade. In the next article an attempt will be made to suggest what the future has in store for her.

PAPER: MANCHESTER GUARDIAN NUMBER:

CITY: LONDON DATE: SEP 14 1945

JAPAN'S INDUSTRIAL FUTURE

II—Must She Export More Textiles?

By a Correspondent

In the previous article it was shown that the maintenance of Japan's standard of life before the war depended on her ability to increase her exports of manufactured goods in order to obtain essential raw materials. What are her prospects for the next decade? The loss of Korea, Formosa, and Manchuria (to say nothing of Southern Saghalien and the South Sea mandated territories) will mean that she will have to obtain essential foodstuffs from areas outside her own political control and currency system.

This colonial trade, which was conducted in circumstances very favourable to the home country, will now become foreign trade. Even if she is allowed to do business on equal terms with other nations in her former colonial territories, she will no longer be able to mould the economy of those territories to her special advantage. The stimulus to export will thus become even greater than before. It is probable, moreover, that Japan will be forced to destroy a large part of her heavy industries, which, as we have seen, were becoming increasingly important in the pre-war decade. No doubt policy in this field will depend on how far Japan is to be compelled to make reparations in the form of new equipment to China; but in any event these heavy industries will presumably not be in a position to provide commercial exports, and Japan may even become again dependent on imports of finished steel and engineering products, as she was before 1929. Her depleted mercantile marine will no longer be able to contribute to her invisible exports.

A CHANGED ECONOMY

What is likely to be the response of her economy to these new conditions? She will doubtless attempt to reduce her food imports to the minimum by devoting more of her manpower to agriculture and fishing than she did before the war. But, as we have seen, she already uses all her available arable land, and she already carries intensive cultivation very far. In these circumstances the return from the application of additional labour to farming would be small. In fishing her opportunities may be reduced if, as is likely, Russia denies her access to the fishing-grounds in the northern seas. It seems probable then that the only solution left to her will be that of retracing part of the course she has followed since 1929, of concentrating her resources to an increasing extent on the consumption goods industries, and of attempting to build up an export trade in those goods sufficient to enable her to buy the raw materials and food she needs. But to succeed in that attempt she would have to create an export of these commodities far greater than

She will be faced, however, with a most serious obstacle in her efforts to revert to her former structure. In 1929 about two-fifths of her exports consisted of raw silk, and this trade is unique in that it does not depend on imported raw materials. Silk exports, however, had greatly diminished by 1937, and they are hardly likely to regain their former position in view of the probable competition of nylon. Thus, if Japan is to obtain the necessary quantities of foodstuffs and raw materials she will have to sell abroad much larger amounts of wholly manufactured consumption goods than she did during the thirties. Those goods are most likely to consist of textiles (cotton, rayon, staple fibre, and woollens and worsted) and of miscellaneous goods such as rubber manufactures, small metal goods, pottery, hosiery, toys, and light electrical apparatus. If this process of adjustment is carried through—and the task will be an immense one,—then certain Western industries may after a few years suffer even more seriously than they did before the war from Japanese competition. This will be particularly true of textiles, once the period of restocking is over. Lancashire clearly cannot view this prospect with equanimity. Yet, if Japan is unable or is not permitted to develop on these lines, it is difficult to see what alternative remains to her, and the result may well be a steep fall in her standard of life and perhaps famine.

EFFECT ON THE WEST

It may legitimately be asked whether Japan, having brought this fate on herself, is to be permitted to disturb the economies of the victor nations. Why should we allow her troubles, which are of her own making, to influence our economic policy, especially as we shall be hard put to it in finding solutions for our own industrial difficulties? Further reflection, however, may suggest that the problem cannot be dismissed so lightly. In the first place, apart from the general principles of economic policy to which the United Nations are committed, it is undoubtedly against our own interest that a centre of famine and despair should be allowed to appear in the Far East. In the second place, it can hardly be to the benefit of the impoverished peoples of Asia that they should be deprived of access to the cheap manufactured consumption goods which Japan can provide in return for their raw materials. For many years to come the alternative to supplies of such goods from Japan will not be an equivalent quantity of British or American goods, but a much lower level of consumption among the native populations than would otherwise exist. No doubt, in the long run Western countries themselves

THE FOREIGN SERVICE
OF THE
UNITED STATES OF AMERICA

OFFICE OF THE UNITED STATES POLITICAL ADVISER

Tokyo, Japan, December 21, 1945.

NO. 118

SUBJECT: Transmission of Summaries of Industrial Inventories.

The Honorable

The Secretary of State,

Washington.

Sir:

I have the honor to refer to this Mission's telegram no. 210, December 17, 1945, and to enclose summaries (in single copy) of the first seven of twenty-three separate inventories on Japanese industry prepared and completed on December 1, 1945 by the Industrial and Research Divisions of the Economic and Scientific Section, SCAP, for Ambassador Edwin W. Pauley, as released by the Public Relations Office of SCAP on December 15, 1945. As stated in the reference telegram, the summaries are doubtless available to the Department in Washington, and are transmitted purely as a matter of convenience.

Respectfully yours,

George Atcheson, Jr.

Enclosure: att. 1.

Summaries of Industrial Inventories, 1 - 7.

Original and ozalid to Department.

860.2
RAFearey:vs

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GENERAL HEADQUARTERS
UNITED STATES ARMY FORCES, PACIFIC
Public Relations Office

PRESS RELEASE:

19:30
15 December 1945

SUMMARIES OF INDUSTRIAL INVENTORIES

The following are summaries of the first seven of twenty-three separate inventories on Japanese industry prepared and completed on Dec. 1 by the Industrial and Research Divisions of the Economic and Scientific Section, SCAP, for Ambassador Edwin W. Pauley, chief of the United States reparations mission in Japan.

Summaries of the remaining sixteen inventories will be released as soon as they are completed.

GENERAL HEADQUARTERS
UNITED STATES ARMY FORCES, PACIFIC
PUBLIC RELATIONS OFFICE

INDUSTRIAL INVENTORY
NO. 1.

THE TEXTILE INDUSTRY

(The following information for the press is from the inventory of Japan's industry prepared by the Industrial and Research Divisions of Economic and Scientific Section, SCAP, for Ambassador Edwin W. Pauley, chief of the United States reparations mission in Japan. The inventory is based upon statistics and statements of the Japanese government and industry authorities and was completed on 1 December.)

The Japanese estimate that 157,000 bales of raw silk will be available for export by December, 1947. This includes 46,000 bales now on hand, plus 51,000 to be manufactured by June, 1946; 29,000 more by September, and 31,000 more by December. This is the estimated capacity from facilities now available and expected to become available.

The Japanese plan to devote practically all the facilities of their silk industry to raw silk suitable for export. Production of silk short-cut fibre, for domestic use, will be stopped in order to increase export silk output.

Now operable in Japan are 160 silk reeling factories with 28,300 basins with an annual production capacity of 97,000 bales of 132 pounds each. However, the Japanese plan to increase reeling facilities by 26,000 more basins by January, 1947.

Current acreage for mulberry farms is estimated at between 416,000 and 440,000 but a detailed report is expected from the Japanese in March. This compared with 1,306,000 acres in 1940.

The cocoon yield per mulberry acre is estimated at between 440 and 470 pounds so the total cocoon yield is expected to run between 207 million and 183 million pounds. Between 155 million and 177 million pounds are "quality" cocoons, equivalent to between 164,000 and 187,000 bales of exportable raw silk.

For silk weaving, 9,526 broad looms are existent of which 8,097 are operational and capable of turning out 3,497,000 pounds or 2,657,750 square meters of cloth annually. Also existent are 3,209 narrow looms of which 2,728 are operational and capable of 617,771 square meters annually.

Annual processing capacities for silk cloth include: Dip dyeing, 26,265,000 pounds or 146,208,500 square meters; printing, 1,989,000 pounds or 11,072,100 square meters; finishing, 9,261,000 pounds or 51,552,900 square meters.

The textile inventory was prepared under the direction of Maj. Harold S. Tate, chief of the textile division, E. and S. S., and Lieut. Frank J. Collins, chief of the raw silk section, textile division. Major Tate is on military leave from his position as head of the textile industrial education department of Clemson College, South Carolina. Lieutenant Collins formerly was director and general superintendent of the Grove Silk Company, Scranton, Pa.

(more)

SILK STATISTICS.

Year	Mulberry Farms (Acres)	Number of Sericulturists	Silkworm Eggs (Kilograms)	Cocoons (Pounds)	Number Mills	Number Basins
1936	1,388,000	1,856,000	213,891	685,286,000	2,418	222,247
1937	1,375,000	1,819,000	235,501	710,750,000	1,892	196,547
1938	1,347,000	1,696,000	210,898	622,153,000	1,827	191,821
1939	1,307,000	1,651,000	195,640	750,814,000	1,813	187,290
1940	1,306,000	1,645,000	185,300	723,763,000	1,773	183,055
1941	1,212,000	1,592,000	194,859	577,452,000	1,027	196,098
1942	1,011,000	1,526,000	140,965	461,732,000	540	86,894
1943	892,000	1,300,000	128,911	446,729,000	389	60,290
1944	646,000	1,000,000*	99,226*	333,801,000	196	37,344
1945	523,000*	700,000*	61,020*	186,210,000*	160	28,344

*Estimated.

All these figures are for the calendar years indicated.

	RAW SILK						SILK STAPLE FIBRE	
Year	# Production (Bales)	# Exports Bales	# Value of Exports (Yen)	# Domestic Use(Bales)	## No. Mills	## No. Basins	# Production (Pounds)	
1936	705,458	505,300	393,518,000	200,158*				
1937	731,193	472,736	379,479,000	293,042				
1938	698,096	436,221	379,954,000	347,043				
1939	737,552	335,826	533,657,000	405,991				
1940	717,901	313,748	450,458,000	364,795				
1941	536,226	20,439	32,377,000	462,458	23	253	2,017,000	
1942	473,475	10,888	19,574,000	436,238	60	3,529	16,615,000	
1943	265,365	7,780	14,769,000	255,642	56	3,436	19,389,000	
1944	142,722	.....	.....	140,000*	87	5,333	23,059,000	
1945	100,000*	.....	.....	.....	79	4,673	8,267,000*	

*Estimated.
#Silk year, May to April.
##Calendar year.

COTTON AND COTTON STAPLE FIBER.

In existence at present are 2,712,694 spindles of which 2,577,059 are operational. Those operational include 2,190,219 cotton spindles, capable of 490,629,000 pounds of cotton yarn, and 386,840 staple fiber yarn, annually.

There are 102,380 cotton looms existent. Operational are 66,929 broad looms, capable of producing 310,550,560 pounds or 1,038,481,072 square meters of cotton cloth annually, and 12,371 narrow looms, capable of producing 34,440,864 pounds or 115,170,249 square meters.

Of staple fiber looms, there are 31,540 existent. Of these, 20,019 broad looms are operational, capable of 38,436,480 pounds or 128,531,589 square meters of cloth annually, and 3,701 narrow looms, capable of 4,263,552 pounds of 14,257,318 square meters annually.

Finishing and dyeing plant capacities annually for cotton and staple fiber cloth are: Bleaching, 73,548,000 pounds or 236,579,400 square meters; dip dyeing, 113,270,400 pounds or 364,353,120 square meters; printing, 15,300,000 pounds or 49,215,000 square meters; finishing, 13,536,000 pounds or 43,540,800 square meters; total, 215,654,400 pounds or 693,688,320 square meters.

RAYON AND ARTIFICIAL SILK

Rayon production facilities are estimated as capable of produc-

ing 121,176,000 pounds of yarn annually. Rayon staple, 237,600,000 pounds annually. Spun silk spindles total 150,852 of which 135,766 are workable and capable of producing 5,430,640 pounds annually.

In artificial silk weaving, 75,352 broad looms are existent of which 55,932 are workable and capable of producing 67,118,400 pounds or 311,727,680 square meters annually. Existent also are 36,221 narrow looms with 18,843 workable and capable of producing 15,828,120 pounds or 73,512,740 square meters.

Finishing and dyeing capacities for rayon cloth include: Dip dyeing, 35,020,000 pounds or 146,208,500 square meters; printing, 2,652,000 pounds or 11,072,100 square meters; finishing, 12,348,000 pounds or 51,552,900 square meters; total, 50,020,000 pounds or 208,833,500 square meters.

WORSTED AND WOOL

Existent are 397,724 worsted and 425 woolen spindles. The worsted spindles include 351,951 workable with annual capacity of 28,636,080 pounds of yarn and the woolen spindles include 382.5 workable, capable of 29,230,650 pounds of yarn annually.

There are a total of 10,400 worsted and woolen looms existent. They include 5,658 worsted and 3,182 woolen looms workable with annual capacities of 23,763,600 pounds (39,732,739 square meters) of worsted and 38,184,000 pounds (33,251,900 square meters) of wool.

FLAX AND CHINA GRASS

Existent are 50,610 flax spindles, with 43,018 workable and capable of 17,637,380 pounds of yarn annually, and 67,544 China grass spindles, with 57,412 workable and capable of 20,668,320 pounds of yarn a year.

In existence are 14,602 looms for flax and China grass, 11,682 of them workable and capable of producing 51,400,000 pounds or 136,416,090 square meters of cloth.

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GENERAL HEADQUARTERS
UNITED STATES ARMY FORCES, PACIFIC
PUBLIC RELATIONS OFFICE

INDUSTRIAL INVENTORY
NO. 2.

THE SHIPBUILDING INDUSTRY

(The following information for the press is from the inventory of Japan's industry prepared by the Industrial and Research Divisions of Economic and Scientific Section, SCAP, for Ambassador Edwin W. Pauley, chief of the United States reparations mission in Japan. The inventory is based upon statistics and statements of the Japanese government authorities and industrial leaders and was completed on 1 December.)

Japan's shipbuilding industry currently has sufficient ways to accommodate simultaneous construction of 176 steel ships of varying sizes and 2,000 small wooden coastal and fishing vessels, but is unable to use all of them due to labor and material shortages.

In the steel ship category, the inventory showed the Japanese industry had three yards with a total of five ways capable of building vessels of over 20,000 tons, and seven yards with 15 ways for 10,000-20,000 ton ships.

Other steel ship facilities include 48 ways in 17 yards for 5,000-10,000 ton ships, 80 ways at 34 yards for 1,000-5,000 tonners, and 28 ways at 18 yards for vessels under 1,000 tons.

Many of the steel ship yards contain ways for vessels of more than one weight category. The total number of yards listed was 64.

For wooden vessels, the inventory listed 548 yards at which 2,000 ships totaling 200,000 gross tons could be constructed over a period of four months if sufficient machine shops, saws, wood cutters and labor were available.

However, with the facilities available, only 700 ships totaling 70,000 gross tons currently can be constructed simultaneously.

The inventory also listed 63 drydocks available for repair of vessels from 300 up to 20,000 gross tons or more, with nine being the largest number available in any one category. Four floating drydocks also were listed.

The shipbuilding industry inventory was supervised by Capt. Morris N. Lipp, chief of the shipbuilding branch, industrial division, E. and S. S., SCAP. Captain Lipp is on military leave from his civilian position of city engineer at Miami, Fla.

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GENERAL HEADQUARTERS
UNITED STATES ARMY FORCES, PACIFIC
PUBLIC RELATIONS OFFICE

INDUSTRIAL INVENTORY
NO. 3.

TELEPHONE AND RADIO EQUIPMENT INDUSTRY

(The following information for the press is from the inventory of Japan's industry prepared by the Industrial and Research Divisions of Economic and Scientific Section, SCAP, for Ambassador Edwin W. Pauley, chief of the United States reparations mission in Japan. The inventory is based upon statistics and statements of the Japanese government authorities and industrial leaders and was completed on 1 December.)

TELEPHONE EQUIPMENT

Twenty-two factories operated by 15 companies currently are in existence for the manufacture of telephone apparatus, central station equipment and telephone plant equipment other than wire and cable. However, the machinery and labor of many of the factories are dispersed at present. The industry considered it probable that when existing machinery is again installed and manned with adequate labor, present production capacities could be doubled.

The monthly schedule of estimated production includes: 53,500 telephones, 2,406 telegraph sets, 45,580 manual switchboard lines, 18,000 switch gear lines, 75 repeaters and 5 sets of carrier equipment.

In its peak condition prior to the start of its destruction during the war, the Japanese telephone system had local plants, covering the 9 largest cities and the 55 prefectures in the Japanese homeland, that included approximately 1,600,000 subscribers and 7,366 exchanges of all types.

The estimated overall war damage to the system was estimated at 25 per cent, mostly in terminal equipment, central office equipment and telephone instruments in cities. Additional depreciation was estimated at another 25 per cent due to wear and tear and to poor maintenance.

The Japanese estimated that 47 per cent of the telephones in the system was destroyed or damaged by the war. Compared with a peak of 1,592,157 telephones before war damages, there were 840,245 operating on 1 September, a decrease of 748,865.

Tokyo, with 46 exchanges and 199,962 telephones at its peak, suffered 157,430 (79%) damaged or destroyed with only 42,532 operating on 1 September. Seven exchanges have been discontinued due to damages. Twenty-eight exchanges had 80 per cent or more of their telephones destroyed or damaged.

Osaka, whose telephone system was about the hardest hit in the nation, had 103,229 (90 per cent) of its peak 115,630 telephones destroyed or damaged and had only 12,401 operating on 1 September. Five of its 24 exchanges have been discontinued. Nineteen suffered over 80 per cent loss of their telephones, 14 of these over 90 per

cent.

Kyoto, one of the most lightly hit cities, suffered loss of only 30 out of its 30,118 telephones. The inventory noted the complete wiping out of 9,700 telephones at Hiroshima and 4,905 at Nagasaki.

RADIO EQUIPMENT

Receiving Sets: Twenty-seven companies operating 35 plants are capable of assembling 378,000 receiving sets per month if all components, including tubes, were available. Lack of tube production is the critical bottleneck. Some of the larger companies are capable of producing complete sets but the smaller ones can turn out only the chassis or cabinet or can run a part of the production line for parts. It is estimated the assembly capacity could be increased about 300 per cent in six to twelve months' time with sufficient labor, material, components and tubes. Present production is about 50,000 sets a month.

Tubes: Ten major tube producing companies operating 19 plants have a production capacity of 890,000 receiving set tubes and 17,000 transmitting set tubes per month. Present output, however, is only ten per cent of capacity due to shortages of labor and material. It is estimated the capacity could be tripled if the plants were rehabilitated, dispersed machinery were re-installed and sufficient labor were available.

Radio set components: Twenty companies, operating 31 plants for production of such components as condensers, etc., could probably increase their capacity by 40 per cent when in full production with adequate labor and fuel.

The average Japanese receiving set for civilian use was said to be cheaply constructed and insensitive compared with the average set in the United States. All have standard broadcast bands and are unable to pick up foreign short-wave stations.

The inventory said: "An extremely small number of clandestine short wave receivers were found in the hands of daring Japanese who faced a severe penalty if caught, but the total quantity was insignificant."

In the early stages of the war, there were about 7,500,000 broadcast receivers in Japan, or one for each two homes. About 1,600,000 were destroyed in air raids. Of the remainder, about 3,000,000 are still in operating condition.

No plants currently are making exclusively military or naval type electronic equipment such as radar or aviation radio equipment. Machinery or productive capacity in these has either been or is being destroyed with 90 per cent destruction estimated by 31 December.

All production of civilian type radios was stopped by the end of 1944 so that no plants have been found making combinational military and civilian radios. Production of radios now being encouraged by occupation forces are all of civilian type, both short- and long-wave.

Civilian home receiver sales: 1935, 654,617; 1936, 756,882; 1937, 1,018,037; 1938, 938,437; 1939, 1,163,899; 1940, 1,371,681; 1941, 1,413,157; 1942, 1,116,343; 1943, 829,753; 1944, 757, 189.

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GENERAL HEADQUARTERS
UNITED STATES ARMY FORCES, PACIFIC
PUBLIC RELATIONS OFFICE

INDUSTRIAL INVENTORY
NO. 4.

ALUMINUM AND MAGNESIUM

(The following information for the press is from the inventory of Japan's industry prepared by the Industrial and Research Divisions of Economic and Scientific Section, SCAP, for Ambassador Edwin W. Pauley, chief of the United States reparations mission in Japan. The inventory is based upon statistics and statements of the Japanese government authorities and industrial leaders and was completed on 1 December.)

Ten plants for the manufacture of alumina, the aluminum oxide produced from bauxite or other raw material, and eight plants for the manufacture of aluminum metal by electrolytic reduction of the alumina, were reported in Japan proper at the end of the war. In addition three alumina factories and five aluminum plants were reported in Formosa and Korea with five more under construction in Korea, Manchuria and North China.

The ten alumina plants in Japan had a reported annual capacity of 357,100 tons. Most of it came from six plants producing 325,000 tons from Bauxite and using the Bayer process. Three plants had a capacity of 14,100 tons, produced from clay with acid and sulphur dioxide processing. The tenth factory was capable of turning out 18,000 tons from bauxite shale with the fusion process.

The exact extent of war damage to the facilities of these plants was not indicated although damage to five of them, with a production capacity totaling 232,000 tons annually, was mentioned. It was believed that with sufficient raw material--mainly bauxite--plus the necessary labor and rehabilitation of machinery, production capabilities are about 250,000 tons of alumina per year, produced in six plants.

Eight aluminum metal reduction plants with an annual production capacity of 134,200 tons were in existence in Japan at the end of the war. Some war damage, its exact extent not reported, was reported to three of the plants having a total production capacity of 58,000 tons a year. It is believed that with the necessary materials and labor, the industry is capable of about 100,000 tons a year.

Aluminum metal production in Japanese plants hit its peak in 1943 with 141,084 metric tons, but slid off to 110,343 tons in 1944 and to only 6,647 tons in 1945. The decline in monthly production figures was shown from the peak of 15,030 tons in March, 1944, to 10,094 in September, 1944; 7,010 tons, in November; 4,363 tons, in January, 1945; 2,829 tons, in April, and 1,538 tons, in May, the last reported month.

Most of the large plants, because of Japan's inability to import bauxite, ran completely out of that material in 1944. Bauxite stocks on hand as of 31 August 1945 were reported at absolute zero. The greater part of good-grade bauxite formerly was imported from Bintan Island, in the Dutch East Indies, but Allied strikes on Japanese shipping began cutting imports in 1942 and 1943 and obliterated them

completely after the Allied invasion of Leyte in October, 1944.

Annual aluminum production by years (metric tons): 1935, 3,211; 1936, 5,802; 1937, 14,434; 1938, 22,367; 1939, 29,559; 1940, 40,863; 1941, 71,747; 1942, 103,075; 1943, 141,084; 1944, 110,343; 1945, 6,647.

Aluminum stocks on hand on 31 August 1945 included 3,277 tons of ingoted metal, 4,659 tons of alumina, 35,705 tons of bauxite shale --and no bauxite.

Korean plants include two alumina factories producing 15,400 tons annually and three aluminum reduction plants of 29,500 tons of metal annually. One alumina plant (capacity 24,000 tons) and two aluminum reduction plants (capacity 24,000 tons of metal) were located in Formosa. One of the latter plants, capable of turning out 9,000 tons, was reported as "unrestorably destroyed."

The 18 alumina and aluminum metal plants in Japan were operated by 12 companies with a total capitalization of 1,877,022,580 yen.

MAGNESIUM

Magnesium metal stocks on hand in Japan on 31 August 1945 were 41 metric tons, plus 3,215 of magnesia, 5,396 tons of magnesite and 1,496 tons of magnesium chloride.

Production of 12 leading magnesium metal plants in Japan and abroad hit its peak in 1944 with 4,471 tons but dropped to 873 tons during the portion of 1945 the industry operated. At the end of the war, there were six large-scale producers capable under normal conditions of turning out 6,950 tons in Japan proper, with another six plants in Korea able to produce 7,700 tons a year.

The inventory stated that there was no evidence that Japanese plants had been using sea water to produce magnesium.

Production for the last ten years of the 12 leading plants (in metric tons): 1936, 665; 1937, 856; 1938, 1,192; 1939, 1,755; 1940, 2,921; 1941, 2,497; 1942, 2,433; 1943, 3,689; 1944, 4,471; 1945, 873.

NON-FERROUS METAL GOODS

The inventory showed the following Japanese plants:

Copper goods: 39 factories (sheet, wire, rods, castings, wire and cable, etc.).

Aluminum goods: 41 factories (sheet, wire, tubes, foil, pots and pans, etc.).

Brass goods: 11 factories (rods, wire, sheet, etc.).

Magnesium goods: 3 factories (forgings).

Lead goods: 4 factories (pipe and sheet).

Tin goods: 1 factory (tinfoil).

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GENERAL HEADQUARTERS
UNITED STATES ARMY FORCES, PACIFIC
PUBLIC RELATIONS OFFICE

INDUSTRIAL INVENTORY
NO. 5.

ELECTRIC POWER

(The following information for the press is from the inventory of Japan's industry prepared by the Industrial and Research Divisions of Economic and Scientific Section, SCAP, for Ambassador Edwin W. Pauley, chief of the United States reparations mission in Japan. The inventory is based upon statistics and statements of the Japanese government and industry authorities and was completed on 1 December.)

As of 20 November 1945, there were in Japan 1,898 hydroelectric, thermal and steam generating plants or stations for electricity with a maximum generating capacity of 13,465,488 kilowatts.

Hydroelectric: Hydroelectric plants totaled 1,550 including 1,479 public utility plants and 71 privately owned. The public utility plants (which include electric supply companies, electric railway companies and government railway plants) totaled 1,479 of which 38 are still under construction and 3 are being enlarged. Private plants totaled 71 of which 2 are still under construction.

Public and private hydroelectric plants can generate a capacity of 6,665,071 kilowatts, of which the public utility plants generate 6,400,536.

Of the total of 1,550 plants, 19 have a capacity of 50,000 kilowatts or more; 301 have capacities ranging from 5,000 to 49,999, and 1,230 are under 5,000 kilowatts.

Thermal: There are 298 thermal plants with a total generating capacity of 4,114,367 kilowatts, of which 20 large public utility installations alone generate 2,220,500 kilowatts. Public plants number 123, with a generating capacity of 3,019,277 kilowatts, and private plants total 178 with a generating capacity of 1,095,090 kilowatts. Of the 298 total, 21 have a capacity of 50,000 kilowatts and over, 110 have capacities of between 5,000 and 49,999 kilowatts, and 167 are under 5,000.

Steam: The inventory showed 50 steam electric plants, including 44 owned by the Japan Electric Generating and Transmission Company. The 50 plants' generating capacity is 2,686,050 kilowatts.

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6.665
9.119
2.656
18,465

GENERAL HEADQUARTERS
UNITED STATES ARMY FORCES, PACIFIC
Public Relations Office

INDUSTRIAL INVENTORY
NO. 6

(The following information for the press is from the inventory of Japan's industry prepared by the Industrial and Research Division of Economic and Scientific Section, SCAP, for Ambassador Edwin W. Pauley, chief of the United States reparations mission in Japan. The inventory is based upon statistics and statements of the Japanese government and industry authorities and was completed on 1 December.)

IRON AND STEEL

The inventory showed that there currently are eight companies operating ten pig iron plants in Japan, and 422 companies operating 623 steel plants as follows: Rolled steel, 38 companies, 45 plants; special steel, 74 companies, 134 plants; forged steel, 60 companies, 108 plants; cast steel, 200 companies, 256 plants, and ferro-alloy, 50 companies, 80 plants.

Pig Iron

The inventory listed 37 blast furnaces for pig iron with an annual capacity in 1944 (at 100 per cent operation) of 6,554,000 tons production, which had dropped to 5,613,000 tons by the end of the war.

Special irons production capacity was listed as 284,640 metric tons of sponge iron, 200,000 metric tons of electric pig iron and 30,000 metric tons of charcoal pig iron. Sponge iron production, 1941, was 99,907 metric tons; 1942, 112,791; 1943, 158,128; 1944, 150,723.

Japan's peacetime annual pig-iron requirements were listed as 2,600,000 metric tons, with the likelihood this could be reduced to 2,200,000 tons if the amount of ingot steel required for finished steel could be lowered. On the basis of 2,600,000 metric tons, however, the following materials would be required: Iron ore, 5,000,000 metric tons (2,000,000 domestic, 3,000,000 imported); coking coal, 6,160,000 metric tons (3,940,000 domestic, 2,220,000 imported); manganese ore, 46,000 metric tons (domestic); limestone, 1,693,000 metric tons (domestic). The requirement of 2,200,000 metric tons of pig iron would include 1,700,000 basic and 500,000 foundry pig iron. Average Japanese consumption of pig iron in the period 1926-1930 was 1,624,000 metric tons, including 1,146,200 basic and 478,000 for foundries.

Japanese pig iron production rose steadily from 1,010,000 metric tons in 1932 and had increased fourfold to 4,311,000 tons annually through 1941. Annual production other years: 1935, 1,906,000; 1937, 2,308,000; 1939, 3,178,000; 1940, 3,569,000;

During the four years 1935-1938 inclusive, Japanese imports of pig iron were over the 1,000,000 metric ton mark, bolstered from sources listed as "others" besides Manchuria, India, Korea and Formosa, Imports from the "other" sources rose from a negligible 2,817 metric tons in 1934 to 240,614 in 1935, 325,421 in 1936, 498,679 in 1937 and 320,401 in 1938, before slumping again to 55,765 in 1939 and 1,750 in 1940.

Over the eight-year period 1934-1941 inclusive, imports from Manchuria averaged 353,000 metric tons; from India, 271,000, and from Formosa and Korea, 161,000.

Steel

Japan's ingot steel production capacity at the end of the war was estimated at 11,194,000 metric tons annually, including 8,304,000 metric tons of open hearth and 2,890,000 metric tons of electric furnace steel. This was down approximately 2,000,000 from the estimated 1944 capacity of 13,221,000 metric tons, which included 9,913,000 of open hearth and 3,308,000 of electric furnace steel.

Actual production, however, was well below the indicated capacities, due mainly to shortages of some materials, to loss of skilled labor, and disruptions of transportation that interfered with the supply of materials. Average production of ingot steel during the five years 1940-1944 was approximately 7,176,000 metric tons a year, including 5,400,000 of open hearth and 1,776,000 of electric furnace.

From 1932, when ingoted steel production in Japanese mills was 2,112,598 metric tons, the production figure rose steadily to 3,322,657 in 1934; to 5,080,000 in 1937, to 5,488,535 in 1938, and then dropped slightly to 5,046,447 metric tons in 1941. Steel imports (not including small amounts from Korea and Formosa) rose from 229,634 metric tons in 1932 to a peak of 722,402 metric tons in 1937, dropping off to 214,711 in 1940 and only 57,879 in 1941.

Open hearth furnace facilities in Japan included 195 furnaces with a capacity at the end of the war of 7,458,300 metric tons annually, plus scattered small furnaces with an additional annual capacity of 845,700 metric tons. Electric furnace facilities included 762 Heroult electric furnaces, with a total charging capacity of 3,330 metric tons, and 119 high frequency induction furnaces, with a total charging capacity of 95,145 metric tons.

There is only one large Bessemer steel plant in Japan, and its annual production capacity is estimated at 500,000 metric tons. Actual production in 1944 was 193,000 metric tons of Bessemer steel, compared with 352,000 in 1942 and 333,000 in 1941.

Japan's rolling mills' production capacity was estimated at 7,222,000 metric tons annually at the end of the war, compared with 8,567,000 metric tons in 1944.

Total estimated tonnage of ingot steel required by Japan in peacetime now is estimated at 3,100,000 metric tons a year. This would provide 800,000 metric tons for construction purposes (buildings, bridges, etc.), 500,000 for machinery, 400,000 for shipbuilding, 300,000 for railroads, 150,000 for the electricity industry, 150,000 for coal and other mines, 100,000 for oil, gas and water supply equipment and machinery, and 400,000 for miscellaneous purposes including the canned goods, chemical, cement and aluminum industries.

The 3,100,000 metric tons of ingot steel would be designed to produce 2,210,000 metric tons of finished steel and would require 2,600,000 metric tons of pig iron production, according to Japanese estimates.

However, the inventory pointed out that Japan's production figures for 1927-1930 showed 2,210,000 metric tons of finished steel could be produced from only 2,652,000 metric tons of ingot steel, which in turn would require only 2,200,000 metric tons of pig iron.

On the basis of a production of 3,100,000 metric tons of ingot steel, however, the following raw materials would be required: iron ore, 576,000 metric tons (which would have to be imported); coal, 1,250,000 metric tons (domestic): manganese ore, 100,000 metric tons (60,000 domestic, 40,000 imported); scrap, 720,000 metric tons (domestic), and smaller quanties of limestone, flourspar, magnesium clinker and dolomite, all available in Japan.

Special steel production, most of it from the electric furnace process, increased from 18,000 metric tons in 1930, to 69,000 in 1935, 362,000 in 1940, and 950,000 in 1944. Its capacity in 1944 was estimated at 1,386,000 metric tons at 100 per cent operation. A large proportion of the special steel went into aircraft and war equipment --of its 1944 production, 600,000 metric tons were planned for use in aircraft, 280,000 for other army and navy equipment, and 70,000 for other general purposes. The great expansion of production in special steel was believed intended primarily for war purposes, and future peacetime needs of the Japanese for it were believed by Allied authorities to be of a minor nature.

Japan's special steel stocks on hand at the end of the war indicated there would be sufficient to meet Japan's needs for a number of years, except for certain ones. Such stocks approximated 750,000 metric tons, including semi-finished material. Of this amount, 636,000 metric tons was finished steel, about half of which was reported suitable for peacetime consumer needs.

Compared with average Japanese consumption of 16,360 metric tons of special steel annually during the five years 1926-1930, the estimated yearly tonnage requirements of the Japanese for special steel (not including carbon steel manufactured in flat furnaces) in the immediate post-war world are 65,000 metric tons. This includes 25,000 metric tons for automobiles and railroads, 29,000 for "civil welfare" (public works), 5,000 for shipbuilding and 2,000 for miscellaneous purposes such as communications, provisions and bridgebuilding.

GENERAL HEADQUARTERS
UNITED STATES ARMY FORCES, PACIFIC
PUBLIC RELATIONS OFFICE

INDUSTRIAL INVENTORY
No. 7

COAL AND PETROLEUM

(The following information for the press is from the inventory of Japan's industry prepared by the Industrial and Research Divisions of Economic and Scientific Section, SCAP, for Ambassador Edwin W. Pauley. chief of the United States reparations mission in Japan. The inventory is based upon statistics and statements of the Japanese government and industry authorities and was completed on 1 December.)

COAL

One hundred and forty-three Japanese coal mines produced 49,335,000 metric tons of coal in 1944, accounting for 92 percent of the year's output, compared with their production of 57,309,000 metric tons in 1940.

In Kyushu, the nation's greatest coal production center, 83 mines turned out 27,531,000 tons in 1944 compared with 33,055,000 in 1940. In Hokkaido's 34 mines, 14,409,000 tons were produced in 1944 compared with 15,378,000 in 1940. Honshu mines (26) turned out 7,395,000 tons in 1944, and 8,876,000 in 1940.

The estimated production of Japanese coal mines, with present equipment, is estimated at 20,500,000 tons from 1 April 1945 to 31 March 1946, and 22,000,000 tons from 1 April 1946 to 31 March 1947. Production goal is 40,000,000 by 1949. Difficulties today are lack of raw materials and the lack of labor due to repatriation of Korean miners with subsequent difficulty of obtaining Japanese replacements.

Stockpiles that existed in June, 1945, are rapidly being depleted. Despite the indicated capacities of production, actual production at present is estimated at only one-fifth of that required for Japan's normal peacetime minimum needs. However, it is believed that the industry has the potential to produce 25,000,000 tons annually above the pre-war level of domestic requirements.

Average coal consumption in Japan for the five years 1926-1930 was 33,481,000 metric tons a year, including 4,816,000 for domestic heating, 4,392,000 for metallurgy, 5,734,000 for power generating, 816,000 for chemicals, 5,291,000 for shipping and 12,436,000 for others. Coke consumption increased from 1,000,000 metric tons in 1926 to 1,500,000 in 1930, with consumption for metallurgical plants rising from 881,150 to 1,305,060 over the same period.

During the five years 1940-1944, Japan's coal production declined from 57,309,000 metric tons in 1940 to 55,602,000 in 1941, 54,179,000 in 1942, 55,539,000 in 1943 and 49,335,000 in 1944. Imports likewise dropped, from 10,123,000 in 1940 to 9,807,000 in 1941, 8,844,000 in 1942, 6,117,000 in 1943, and 3,324,000 in 1944. Consumption figures likewise dropped; 1940, 65,653,000 metric tons; 1941, 62,106,000 1942, 61,594,000; 1943, 59,899,000; 1944, 51,730,000.

Quarterly coal production for 1945 was 10,980,000 metric tons through 30 June, 5,315,000 through 30 September. It was estimated

that approximately 1,900,000 metric tons would be produced in the quarter ending 31 December. Stocks on hand reported on 30 June were 3,899,000 metric tons.

The original book cost of Japan's coal mining industry was estimated at 977,981,000 yen. Minus depreciation estimated at 42,791,000 yen and war damage estimated at 21,717,000 yen, the present worth of the industry is approximately 913,473,000 yen.

The industry employed approximately 300,000 persons at capacity operation.

The coal carbonization industry has a current put-through capacity of 9,252,670 metric tons of coal per year, compared with 11,871,650 before war damage. Its facilities include 811 benches including 714 in horizontal retorts with current capacity of 1,045,680 metric tons a year, compared with 1,344,050 before war damages; 23 in vertical retorts with a current capacity of 189,140 metric tons compared with 243,300 before war damages; and 74 in coke ovens with a capacity of 8,017,850 metric tons compared with 10,824,300 before damages. There are 16 low temperature carbonization plants capable of processing 730,000 metric tons a year.

City gas plants account for 770 of the 811 benches, including all the 714 horizontal retorts, all the 23 vertical retorts and 33 of the coke ovens. Their total processing capacity before war damage was 3,858,650 metric tons of coal a year, compared with 2,828,670 now.

Steel plants accounted for 24 of the coke oven benches with a processing capacity before damages of 6,200,000 metric tons annually, now 4,668,000, and other industrial plants accounted for the remaining 17 coke ovens (before war damage capacity, 1,813,000 metric tons; afterwards, 1,756,000).

PETROLEUM

Annual production of crude petroleum in Japan proper rose from 225,726 kiloliters (one kiloliter equals 264 gallons) in 1933 to a peak of 392,643 in 1937 and dropped steadily thereafter to 262,713 in 1943 before rising slightly again to 269,159 in 1944.

The production increase through the peak was due to an extensive drilling campaign encouraged by a footage subsidy given by the Japanese government. The downward trend through 1941 was attributed to overdrilling, and the continued drop through 1944 to the government policy of shipping drilling equipment and personnel out of Japan to rehabilitate the captured oil fields of the Dutch East Indies.

Two-thirds of Japan's production in the three-year period 1942-1944 came from the Akita district, the output of which averaged 176,452 kiloliters annually of the total average annual production of 265,236. The Niigata district turned out 25 per cent or an average of 67,537 for the three years; Yamagata, 5 per cent or 13,497 kiloliters average annually, and Hokkaido, 3 percent or 7,760 kiloliters.

Seven oil fields were listed in the Niigata district, the largest producing 24,653 kiloliters in 1944; eleven in the Akita district, the largest turning out 67,332 kiloliters in 1944, and two each in the Yamagata and Hokkaido districts.

No estimates were available on crude petroleum reserves in Japan.

File in CA Industry 1-2

STANDARD FORM NO. 64

Office Memorandum · UNITED STATES GOVERNMENT

DATE: Nov. 7, 1946

Went to ITP + then DC/R 11/13/46

DC/R file

893.60/10-1646

TO :~~JKP~~ JGV

FROM :AEK

SUBJECT: Trone's report on enemy industrial plant taken over by Chinese.

Trone's report is a very realistic piece of reporting by an admittedly competent individual. Its chief significance in relation to Departmental interest, it seems to me, would be from the standpoint of the light which it throws on Chinese Government policies and attitudes with regard to the operation of industrial plants as state enterprises. Of the more than 400 plants taken over 200 were offered for sale and as of late September 103 had been disposed of. The report would seem to indicate that the situation is still fluid insofar as Chinese Government interest in operating the plants is concerned, since as indicated above a number of plants have been disposed of while on the other hand there is a very evident disposition to hang on to still others, notably in the textile and chemical fields.

I think the report should be referred to DRF as grist for their mill in connection with their interest in attempting to evaluate current developments in China in relation to the interest of the Chinese Government in operating industries as state enterprises. Please, therefore, return the report to CA after you have finished with it.

AEK

CA:GWoodard:eoh

893.6176/11-746

STANDARD FORM NO. 64

ARR

Office Memorandum · UNITED STATES GOVERNMENT

DATE: Nov. 5, 1946

TO : ARR

FROM : CRB

SUBJECT:

I have passed on to GOW the Bayne letter. Herewith my comments. Mr. Trone seems to have no aversion to "planned economy". If the Chinese Government will get out of business and leave private business utterly free, I believe it will take at most a couple of years for a business boom in China. This planned economy business--whether in China or elsewhere-is based on the assumption tht government direction is more far-seeing and more economical as well as technically more able than private enterprise and planning. There is nothing in all history to bear this out except wishful thinking oft repeated.

STANDARD FORM NO. 64

File in CA

Office Memorandum • UNITED STATES GOVERNMENT

TO : Mr. Penfield
Mr. Ringwalt

FROM : Mr. Bennett

DATE: November 5, 1946

went to ITP then DC/R

SUBJECT: Industrial Conditions in Shanghai.
(Mr. Bayne's letter of Oct. 16, 1946)

DC

The September 25th letter of Mr. Trone to Dr. Soong which is the subject of Mr. Bayne's letter deals primarily with the utilization of former enemy industrial plant taken over by the Chinese Government and for the most part turned over to Chinese Government organizations for operation.

Mr. Trone's report would seem to indicate that even allowing for obsolete and deteriorated equipment the operation on the whole is not creditable as compared with private operation. Over staffing, inefficient management are clearly indicated and where there is an effective demand for the product as in the case of the textile plants there is an evident urge to achieve high profits rather than high production and immediate distribution.

He cites numerous instances of attempts to achieve a speculation profit by diverting the original purpose of plants to making (usually at a loss) articles in actual or prospective demand for the production of which neither the plant nor the management are technically equipped. Losses occur even where there is a demand for such goods because of the cost of production and they are sold at loss to acquire operating funds.

Overstaffing supplies a lot of jobs and employs some labor but per capita production is low and results in a loss. The N.R.C. operations are illustrative of this fault. Nine factories employ 1060 workers and 250 staff - staff to workers more than one in five. In one instance there are 170 staff to 500 workers.

Mr. Trone makes three principal recommendations:

1. Increase electrical power by the purchase of a 24,000 KW floating power station by either the N.R.C. or the Shanghai Power Co. which is at present the only large generator of power.

Shanghai Power Co. is ready to buy if reasonable arrangements can be made with the Government to assure an adequate price for power supplied. Mr. Trone's outline of N.R.C.'s activities does not indicate that the increase of power would solve such problems as overstaffing, technical deficiencies in management, labor and equipment and inadequate ability in both production and marketing direction.

2. In order to re-equip and expand the textile industry establish a plant for producing textile machinery. He points out

rightly

rightly that there is such a world shortage of spindles and textile machinery that China cannot for a long time import adequate supplies of spindles and machinery. I would question if it won't take even longer to build and equip with the necessary staff plants of such a highly specialized nature. Furthermore in this as in the present plants cited by Mr. Trone, the crux is management and especially government-operated plant management.

3. Finally Mr. Trone advocates an overall plan for "interlocking all productive activities" under government control including "Transportation, power production, heavy industries etc." recognizing however that, "entirely new forms of organization would have to be evolved to bring about a degree of efficiency comparable with that existing in similar well-managed private enterprises" (Underlining is mine).

Apart from the question of the desirability of promoting any further Chinese Government monopolies there is nothing in this report or the history of Chinese Government operation of industry , transportation or such governmental bodies as the Salt and Customs Administrations that lead one to think such a plan could be even moderately successful without a very large measure of western managerial and technical direction. (Not mere advisors)

FE:CRBennett:et

THE FOREIGN SERVICE
OF THE
UNITED STATES OF AMERICA

OFFICE OF THE UNITED STATES POLITICAL ADVISER

Tokyo, Japan, December 26, 1945

No. 126

SUBJECT: Transmission of Summaries of Industrial Inventories.

The United States Political Adviser has the honor to refer to this Mission's despatch no. 118, December 21, 1945, which enclosed summaries in single copy of the first seven of twenty-three separate inventories on Japanese industry prepared and completed on December 1, 1945, by the Economic and Scientific Section, SCAP, and to enclose copies, in duplicate, of inventories Nos. 15 to 23 inclusive. Copies of inventories Nos. 8 to 14 inclusive were not made available to this office; it is assumed, however, that the material has been forwarded to Washington and may be obtained there.

Enclosures:

Two copies of inventories
Nos. 15 to 23 inclusive
dated December 21, 1945

In triplicate to the Department.

860.2
JWBurnett:jwb

INTGR...

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860.2
JWBurnett:jwb

GENERAL HEADQUARTERS
UNITED STATES ARMY FORCES, PACIFIC
Public Relations Office

PRESS RELEASE

21-December 1945

LAST OF THE SUMMARIES OF INDUSTRIAL INVENTORIES

The following are summaries of the last of twenty-three separate inventories on Japanese industry prepared and completed on Dec. 1 by the Industrial and Research Divisions of the Economic and Scientific Section, SCAP, for Ambassador Edwin W. Pauley, chief of the United States reparations mission in Japan. The inventories are based upon statistics and statements of the Japanese government and industry authorities.

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GENERAL HEADQUARTERS
UNITED STATES ARMY FORCES, PACIFIC
Public Relations Office

INDUSTRIAL INVENTORY
NO. 15

SYNTHETIC OIL

Five leading companies, in the year April, 1944, to March, 1945, turned out 14,015 kiloliters of motor gasoline, 241 of aviation gasoline, 31,339 of bunker fuel oil, 3,032 of gas oil, 3,225 of semi Diesel oil and 2,319 of lubricating oil.

This compared with production from April, 1942, to March, 1943, of: Motor gasoline, 10,433 kiloliters; aviation gasoline, 6,696; bunker fuel oil, 19,678; semi Diesel oil, 8, and gas oil, 3,560.

Although details on other companies were not available, it was reported seven other firms had an annual production of 35,618 kiloliters of synthetic products of all types.

Storage facilities listed included 1,334,896 barrels at production centers, 3,780,546 at refineries, 701,962 at distribution points and 1,561,551 in storage space for importers. Of the total amount, earthen and underground storage space accounted for only 239,012 barrels.

However, in addition, there were army and navy fuel storage facilities; the navy alone had bulk storage facilities for 5,210,000 metric tons of heavy oil of which 1,887,000 was subterranean. Storage for approximately 2,000,000 tons of naval fuel has been dismantled and storage for another 389,000, including 323,000 at Kure and 46,000 at Yokosuka, was damaged by the war. Naval light oil storage facilities totaled 266,000 barrels of which 160,000 was underground.

No report has been received from army facilities yet.

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GENERAL HEADQUARTERS
UNITED STATES ARMY FORCES, PACIFIC
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INDUSTRIAL INVENTORY
No. 16
AUTOMOTIVE

Standard Passenger Cars

Neither Toyota or Nissan, the two Japanese companies that manufactured standard size passenger cars, have produced any new cars since 1944 because of government restrictions. In 1943, Toyota produced 66 and Nissan 291, compared with 458 by Toyota and 1,211 by Nissan in 1938. During 1941, 1942 and 1943, the two firms produced a total of 2,193.

The facilities of these companies have been largely used for truck manufacture so that at present neither is prepared to manufacture passenger cars. However, when the necessary changes are made, Toyota will be able to manufacture about 150 cars a year (in addition to the present yearly output of 15,000 trucks) and Nissan about 500 cars a year (in addition to 15,000 trucks also).

Midget Passenger Cars

The principal manufacturer of midget (Datsun) passenger cars has been the Nissan Company. There were a few other manufacturers in the field before the war but production was limited and it was abandoned entirely when the war started.

No production of midget cars at all was reported in 1944. The last reported year was 1943 when 233 midgets were manufactured, compared with 511 in 1941, 773 in 1939 and 2,789 in 1938. Manufacture has been limited in recent years to filling military orders only. The company reported it is prepared to restore production but may require some time to do it.

Light Trucks

The Nissan Company, manufacturer of the midget passenger car, likewise is the principal producer of Japan's light four-wheeled truck. Zero production was reported for 1944, compared with 204 in 1943, 928 in 1941, 2,178 in 1939 and 4,224 in 1938. The company plans to resume work as soon as circumstances permit.

There are six manufacturers of the light three-wheeled truck in Japan but their present production capacities are unknown. Material shortages and air raid damage affected production seriously. The only data available showed production of 13,831 in 1938, 15,172 in 1937 and 11,167 in 1936.

Heavy Trucks

Nissan, Toyota and the Diesel Company are the tree principal producers of heavy trucks. Toyota is now producing about 500 a month and expects to be turning out 1,000 a month early in 1946. Nissan, in worse condition than Toyota, is producing less than 100 a month. Diesel had a pre-war capacity of 8,000 units a year butsits 1944 production was only 3,845, much less in 1945.

Toyota reached peak truck production in 1941 and 1942 with 15,555 and 15,558 in the two years respectively but fell off to 9,769 in 1943, rising slightly to 10,689 in 1944. Nissan's truck production, at 8,299 in 1938, hit its peak in 1941 with 17,276 but dropped to 6,181 in 1942, 9,724 in 1943 and 7,012 in 1944.

The pre-war truck production capacity of the three companies was 36,000 but during the war, the automobile industry suffered from [illegible] shortages of materials [illegible]

shortages of materials and loss of workers due to the pressure of more important or urgent demands such as those of the aircraft industry. Many sub-contractors in the industry turned to more profitable businesses, adding to the difficulties of the automobile makers.

The three manufacturers face a number of serious difficulties in re-commencing manufacture on a commercial scale. Their problems include shortages of housing, food, clothing and transportation for the workers as well as critical shortages of raw materials.

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GENERAL HEADQUARTERS
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INDUSTRIAL INVENTORY
NO. 17

NON-FERROUS METALS

Copper

Copper production occupied an important part in Japan's metal industries, particularly in manufacture of munitions. It started early in Japan, although production in 1876 was less than 4 million kilograms and half of that was exported. Production, however, grew rapidly, reaching 78,614,000 kilograms in 1936. But consumption likewise increased rapidly so that it was necessary to import 47,794,000 kilograms in 1936.

It was during the years 1931-1936 that Japan changed from an export to an import nation for copper. In 1931 imports were only 2,019,900 kilograms against exports of 26,603,200 kilograms and domestic consumption of 51,264,881. By 1934 imports had risen to 91,368,300 kilograms against exports of only 12,621,600 kilograms, while domestic consumption had risen to 105,748,970. In 1936, with imports of 47,794,000 kilograms, exports totaled only 7,000 kilograms and domestic consumption was 127,524,000 kilograms.

During the war years, however, Japan was practically cut off from her principal import market and had to depend on local production, her colonies and reclaimed copper. Yet Japan was still able to produce 123,721,000 kilograms of electrolytic copper in 1943, producing 68,881,000 of it from concentrates from Japan proper, 3,816,000 from Korea, 4,027,000 from Formosa and 5,789,000 from other foreign districts. Scrap accounted for another 26,427,000 kilograms; dump and residue, 4,763,000; scrap from munitions, 9,671,000, and miscellaneous, 347,000. Sources for 1944 production totaling 99,196,000 kilograms were: Concentrates from Japan proper, 54,975,000; from Korea, 4,475,000; from Formosa, 3,281,000; from other foreign districts, 3,203,000; scrap, 19,334,000; dump and residue, 3,425,000; scrap from munitions, 8,202,000; miscellaneous, 2,301,000.

In 1943, Japan's copper requirements were 75,000,000 kilograms (50 per cent) for ammunition, 30,000,000 (20 per cent) for power transmission and communications, and 15,000,000 (10 per cent) apiece for (1) marine uses, (2) air and land transport and (3) other industrial uses.

The production of cable and wire is controlled by six large companies while three companies operate the main copper rolling mills.

Japan currently can produce between 60,000,000 and 70,000,000 kilograms of refined copper in the home islands, and this amount was believed probably to be about equivalent to her peacetime needs. The smelting and refining industries are developed to a capacity far above that which can be met with domestic ores and much in excess of peace-time requirements for copper.

Actual production of copper concentrate ore from Japanese mines during 1940-1944 (in kilograms): 1940, 68,321,000; 1941, 69,900,000; 1942, 78,110,000; 1943, 92,131,000; 1944, 78,463,000.

During 1943 and 1944, eleven mines operated by three companies produced approximately 50 per cent of the copper concentrate mined in Japan. Of the 1943 production totaling 43,846,000 kilograms, five Mitsubishi Mining Company mines produced 19,721,000; three Nippon Mining Company mines, 16,096,000; three Furukawa Mining Company mines, 11,029,000. Of the 1944 production totaling 78,463,000, the figures were: Mitsubishi, 14,954,000; Nippon Mining,

15,700,000; Furukawa, 7,945,000.

The famous 300-year-old Besshi Copper Mine of the Sumitomo Mining Company produced as follows: 1940, 8,148,000 kilograms; 1941, 6,420,000; 1942, 7,223,000; 1943, 6,308,000; 1944, 5,594,000.

Copper ore imports during 1942-1944: From the Philippines, 1942, 1,163,000 kilograms; 1943, 7,900,000; 1944, 1,981,000. From Formosa, 1942, 3,936,000; 1943, 4,798,000; 1944, 4,573,000. From China: 1942, 45,000; 1943, 133,000; 1944, 48,000. No copper ore imports were reported from Manchukuo during the period. South America provided 4,049,000 kilograms in 1942 but none was reported thereafter. Imports of 657,000 kilograms were reported from Canada in the same year but none thereafter.

Thirteen Smelters in Japan processed approximately 85 million kilograms in 1944, compared with 109 million in 1943, 83 million in 1942, 61 million in 1939 and 57 million in 1935.

Nine principal refineries accounted for all of Japan's refined copper through 1941, although small scattered refineries began functioning subsequently, turning out 3,501,000 kilograms in 1942, 763,000 in 1943 and 11,589,000 in 1944. The nine smelters as of this year had a potential production capacity of 147 million kilograms annually. Total actual production for Japan included: 1944, 99,213,000 kilograms; 1943, 122,849,000; 1942, 105,140,000; 1941, 94,587,000; 1939, 70,142,000; 1935, 54,432,000.

Japanese imports of refined copper, during the seven years 1935-1941 inclusive, totaled 581,492,000 kilograms--of which 493,247,000 or approximately 85 per cent came from the United States. During the next three years, however, such imports only totaled 5,270,000 kilograms. Manchuria provided 535,000 of this amount in 1942 but none subsequently. Imports from China rose from 48,000 in 1942 to 450,000 in 1943 and 4,077,000 in 1944.

The inventory listed a total of 39 copper fabricating plants in Japan for such things as sheet, wire, rods and bars, rivets and screws, pipe and tubing, castings and wire and cable. There likewise are 11 brass fabricating plants for rods, bars, wire, sheet and other products.

Zinc

Records for the war period in Japan seem to indicate that mine production exceeded smelter capacity. A possible explanation of this is that lead and zinc occur together, and that the urgent demand for lead ore forced the production of more zinc than the smelters could treat.

Zinc mine production records for the years prior to 1940 were not available but for the subsequent years production was as follows (in kilograms of zinc content): 1940, 43,972,000; 1941, 52,924,000; 1942, 84,864,000; 1943, 93,307,000; 1944, 75,870. During the same period, zinc smelter production was: 1940, 59,703,000 kilograms; 1941, 61,092,000; 1942, 60,196,000; 1943, 62,280,000; 1944, 61,200,000.

Imports of zinc metal between 1925 and 1940 inclusive ranged from a low of 23,915,000 kilograms in 1925 to a peak of 58,220,000 in 1939. During the four years 1941-1944, however, imports for the entire period totaled only 13,840,000 kilograms.

Zinc ore imports during the three-year period 1942-1944 totaled only 19,680,000 kilograms of which 9,962,000 came from Manchukuo, 9,105,000 from Korea, 381,000 from Burma and 232,000 from French Indo-China.

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During the period 1935-1940 inclusive, when zinc metal imports totaled 221,586,000 kilograms, 162,821,000 (approximately 73 per cent) came from the United States, Canada and Australia--United States, 53,582,000; Canada, 63,292,000; Australia, 45,947,000. During 1941-1945, when imports dropped to 13,840,000, about 71 per cent (9,888,000 kilograms) came from French Indo-China. Most of the balance was accounted for by imports in 1941, before the war started, of 3,284,000 kilograms from the United States and Mexico.

The inventory listed eight zinc refineries with 1945 production capacity of 178,600,000 kilograms. However, actual production in 1944 was only 60,232,000 kilograms; 1943, 61,473,000; 1942, 57,467,000; 1941, 61,092,000; 1940, 59,703,000; 1935, 30,207,000.

The Mitsui and Mitsubishi Mining Companies account for a major portion of zinc mine production. Of the total in Japan in 1944, 75,870,000 kilograms, Mitsui produced 39,301,000 and Mitsubishi 9,505,000. Of 1943's peak production of 93,307,000 kilograms, Mitsui turned out 42,295,000 and Mitsubishi 10,901,000.

Lead

Japanese lead production (in kilograms of refined lead) rose from 3,337,000 in 1925 to 7,807,000 in 1935, 22,655,000 in 1940, 25,716,000 in 1941, 25,832,000 in 1942, 32,031,000 in 1943, and 34,929,000 in 1944.

During the seven years 1935-1941 inclusive, metallic lead imports totaled 577,042,000 kilograms of which 302,201,000 (about 52 per cent) came from the United States and Canada. A part of the balance was accounted for with 33,414,000 from India in 1935-1936, and 71,342,000 from Mexico and 33,453,000 from Burma during 1939-1941. Practically all imports during 1942-1944, totaling 6,489,000 kilograms, came from Manchuria (4,999,000) and China (1,398,000 in 1944).

Lead ore imports during the war came mostly from Manchukuo. During 1942-1943, imports totaled 4,847,000 kilograms of which Manchukuo provided 4,431,000.

The Mitsubishi and Mitsui Mining Companies dominated the lead mining field, the two of them producing 9,894,000 kilograms of Japan's total production in 1944 of 17,344,000 kilograms.

Three lead smelters with a 1945 production capacity of 37,380,000 kilograms reported actual production of 20,167,000 in 1944, 21,236,000 in 1943, 16,489,000 in 1942, 15,507,000 in 1941 and 13,727,000 in 1940.

Five refineries with a 1945 production capacity of 53,800,000 kilograms produced 34,929,000 in 1944, 31,494,000 in 1943, 23,213,000 in 1942, 25,716,000 in 1941, 22,655,000 in 1940 and 7,807,000 in 1935. One refinery at Hiroshima, with a listed capacity of 15,000,000 kilograms in 1944, did not begin operating until 1943. What damage it sustained was not noted.

TIN

Tin refinery production rose from 392,000 kilograms in 1925 to 930,000 in 1930 and 2,095,000 in 1935 before it declined gradually to 1,398,000 in 1939, building up again to a peak of 3,816,000 in 1942, and dropping once more to 1,815,000 in 1943 and 772,000 in 1944. Practically all such production was carried on at one refinery through 1941, when a few smaller ones were built and put into production.

Imports of refined tin were between 3,000,000 and 4,500,000 kilograms annually from 1925 to 1937. They rose to 8,744,000 in 1938, 7,063,000 in 1939, 10,869,000 in 1940, 5,480,000 in 1941, 9,706,000 in 1943 and 11,227,000 in 1944. There was no import data