a. 'Machine tool industry (excluding construction machinery industry).

'Although they will be steadily expanded according to the peacetime production conversion of already existing industries through arrangement of materials accompanying the promotion of industries, in general, based on the comprehensive national policy, and the repletion of armaments, but their installation capacity will be increased two to threefold by about the end of 1941 through the comprehensive national policy.'

"Appendix No. I of IPS Document 9002 A at page 16 discloses the types of plants using machine tools in peacetime which were to be converted to the manufacture of specifically named war materials. For instance, spinning and weaving machinery was to be converted to the manufacture of shells using lathes, fuses, weapons and parts; the machinery for manufacturing clocks and watches was to be converted to the manufacture of fuses and firearms, etc. It is a very simple conversion in most cases to use multiple purpose machine tools employed in one industry for another industry.

"77. The synthetic national policy mentioned in the Outline of the Five-Year Plan for Production of

a. 'Machine tool industry (excluding construction machinery industry).

'Although they will be steadily expanded according to the peacetime production conversion of already existing industries through arrangement of materials accompanying the promotion of industries, in general, based on the comprehensive national policy, and the repletion of armaments, but their installation capacity will be increased two to threefold by about the end of 1941 through the comprehensive national policy.'

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"77. The synthetic national policy mentioned in the Outline of the Five-Year Plan for Production of

War Materials (IPS Document 9002 A) placed additional emphasis upon the importance of stimulating production of machine tools. In the planned expansion table attached to the Outline of the Plan for the Expansion of Productive Power by the Board of Planning (Part III of IPS Document 1522), it is disclosed that the machine tool production was to be expanded from a value of 76,000,000 yen in 1938 to 200,000,000 yen in 1941. This expansion, of course, was to provide machine tools which could be converted in time of war as well as machine tools primarily intended for use in the manufacture of war materials. While this program of expansion aimed at self-sufficiency, Japan, nevertheless continued to import machine tools to supply deficiencies in her program."

THE PRESIDENT: The exhibit number should be referred to, as Mr. Liebert is really giving evidence and referring to documents tendered in evidence.

BRIGADIER QUILLIAM: I will ask the witness to substitute, when reading in the future, for document 9002 A, exhibit 841; and for document 1522, exhibit 842.

THE WITNESS: Shall I re-read paragraph 77?

BRIGADIER QUILLIAM: Yes, I think you had better.

THE PRESIDENT: Proceed.

THE WITNESS: Paragraph 77.

THE PRESIDENT: You need not read it again, no.

THE WITNESS: (Continuing Reading)

"78. While various laws directed capital investment into the development of an indigenous machine tool manufacturing industry and controlled the flow of materials to aid that development, a further special stimulus was given to the machine tool industry by the Machine Tool Industry Law passed in the spring of 1938. This Law made it necessary to obtain permission from the government to organize, transfer or suspend machine tool production or to modify or expand equipment. At the same time manufacturers were made subject to regulations regarding prices, purchases of equipments, use of materials, standardization of

products and other government controls. The government further was empowered to order mergers of plants and equipments, to order specific production and make compensation occurring in case of loss from such orders. As an encouragement to machine tool production under the Machine Tool Industry Law, those licensed machine tool producers were exempted from income,profits and local taxes for five years. Imports for the purpose of increasing the materials in support of the industry were made free of duty. In addition, the government provided development subsidies and in certain cases compensation for depreciation of capital investments. In subsidies for the manufacture of machine tools, the Commerce and Industry Ministry alone paid 296,000 yen in 1938, 500,000 yen in 1939 and 450,000 yen in 1940. These subsidies, of course, were in addition to other subsidies and were used for the encouragement of the industry solely.

"79. Among the biggest users of machine tools were the Japanese Army and Navy Arsenals which purchased special-purpose machine tools directly through purchasing missions which went around the world seeking prototypes for the infant Japanese industry. Between the years 1937 and 1940, the Japanese Army Ordinance and Aviation Arsenals purchased more machine tools

products and other government controls. The government further was empowered to order mergers of plants and equipments, to order specific production and make compensation occurring in case of loss from such orders. As an encouragement to machine tool production under the Machine Tool Industry Law, those licensed machine tool producers were exempted from income,profits and local taxes for five years. Imports for the purpose of increasing the materials in support of the industry were made free of duty. In addition, the government provided development subsidies and in certain cases compensation for depreciation of capital investments. In subsidies for the manufacture of machine tools, the Commerce and Industry Ministry alone paid 296,000 yen in 1938, 500,000 yen in 1939 and 450,000 yen in 1940. Those subsidies, of course, were in addition to other subsidies and were used for the encouragement of the industry solely.

"79. Among the biggest users of machine tools were the Japanese Army and Navy Arsenals which purchased special-purpose machine tools directly through purchasing missions which went around the world seeking prototypes for the infant Japanese industry. Between the years 1937 and 1940, the Japanese Army Ordinance and Aviation Arsenals purchased more machine tools

in the United States than any Japanese industrial company. For this period there were shipped from the United States to the Army Ordinance and Aviation Arsenals approximately 22½ Million Dollars worth of machine tools.

"80. The force of law and regulation focused on the procurement of machine tools resulted in enormous expansion of indigenous production as well as increased imports. The following table marked 'Production, Import and Export of Machine Tools, Japan Proper' shows this expansion clearly for the ten-year period before 1941. The attached chart marked 'Machine Tool Production and Net Imports in Japan Proper' is a graphic illustration of the table:

"PRODUCTION, IMPORT AND EXPORT OF MACHINE TOOLS, JAPAN PROPER, 1930 - 1941.

"1930, Production 2,250, Import 500/[1] estimated, Export 120/[1] estimated, Supply 2,630.

"1941, Production 46,058, Import 1,500/[I] estimated, Export 1,500/[1] estimated, Supply 46,058."

BRIGADIER QUILLIAM: May it please the Tribunal, I offer in evidence the original chart on page 61-A, which is IPS document 9030-61A.

THE PRESIDENT: Admitted on the usual terms.

CLERK OF THE COURT: Prosecution's document No. 9030-61A will be marked exhibit No. 847.

(Whereupon, the above-mentioned document was marked prosecution's exhibit No. 847 and received in evidence.)

THE WITNESS: "81. Closely allied to the machine tool industry from the standpoint of importance in industrial machines and end products is the precision bearing industry. Every important machine having moving parts uses precision bearings. War machines are no exception. For war machine purposes precision bearings are a critical item. Hence, certain types of industrial expansion can be quickly gauged by the expansion of the bearing producing industry and the output. The following table marked

"Production and Capitalization in Precision Bearing Industry, Japan Proper" shows the remarkable expansion of this industry. The table is graphically illustrated by the attached chart marked "Expansion of Precision Bearing Industry in Japan Proper."

"PRODUCTION AND CAPITALIZATION IN PRECISION BEARING INDUSTRY, JAPAN PROPER 1930-1941.

"Unit - Thousand Yen.

"1930, Authorized Capitalization, one million yen; Value of Production, one million yen.

"1941, Authorized Capitalization, 162,610,000 yen; Value of Production, 105,000,000 yen."

BRIGADIER QUILLIAM: May it please the Tribunal, I offer in evidence the original of the chart on page 62-A, which is IPS document 9030-62A.

THE PRESIDENT: Admitted on the usual terms.

CLERK OF THE COURT: Prosecution's document No. 9030-62A will be marked exhibit No. 848.

(Whereupon, the above-mentioned document was marked prosecution's exhibit No. 848 and received in evidence.)

THE WITNESS: "MOTOR VEHICLES, TANKS AND ROLLING STOCK INDUSTRY.

"82. The Japanese Motor Vehicle Industry was virtually nonexistent prior to 1936. Domestic

'Production and Capitalization in Precision Bearing Industry, Japan Proper' shows the remarkable expansion of this industry. The table is graphically illustrated by the attached chart marked "Expansion of Precision Bearing Industry in Japan Proper."

"PRODUCTION AND CAPITALIZATION IN PRECISION BEARING INDUSTRY, JAPAN PROPER 1930-1941.

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BRIGADIER QUILLIAM: May it please the Tribunal, I offer in evidence the original of the chart on page 62-A, which is IPS document 9030-62A.

THE PRESIDENT: Admitted on the usual terms.

CLERK OF THE COURT: Prosecution's document No. 9030-62A will be marked exhibit No. 848.

(Whereupon, the above-mentioned document was marked prosecution's exhibit No. 848 and received in evidence.)

THE WITNESS: "MOTOR VEHICLES, TANKS AND ROLLING STOCK INDUSTRY.

"82. The Japanese Motor Vehicle Industry was virtually nonexistent prior to 1936. Domestic

manufacture has not only been quantitatively small but poor in quality. Prior to 1936, almost all of the automobiles, engines and parts used in Japan were imported. Japan has always been much less dependent upon motor vehicles for transportation than most of the western countries. At the beginning of 1938, for example, Japan had only one truck or bus per 700 people as against one for 38 people in the United States, 81 in the United Kingdom, and 186 in Germany. Even Italy, ranking next lowest to Japan, had approximately twice as many per capita. With the advent of war planning indigenous motor transport production was considered an indispensable necessity for military forces. The establishment of an indigenous automobile industry in Japan, however, is not based upon sound economics or good business, but upon the opinion of the Japanese Government that reasons of national defense required the development of such an industry regardless of the cost involved.

"83. The Automobile Industry Control Law (Law No. 33), was enacted May 29, 1936 to 'firmly establish the necessary motorcar industry enterprise in order to adjust national defense and develop the nation's industry.' It was provided that all companies undertaking to manufacture motorcars must be

licensed by the government, whereupon, companies manufacturing motor vehicles were exempted from corporation, business and income taxes for a period of years. Likewise, motorcar manufacturing companies were exempted from import taxes on machinery and equipments necessary for the establishment of plants or the maintenance of their enterprises. Further, as an incentive to development, such companies were allowed to offer debentures, beyond the limitation provided in the Commercial Code, to the equivalent of double the amount of the paid-up shares. Protection of the infant industry was provided in that the government was authorized by the law to take whatever steps were necessary to restrict imports. These steps were taken very quickly.

"84. In spite of all the government's efforts to increase production of automobiles it was a very expensive industry, depending almost entirely upon government subsidy for its existence. For example, in the immediate pre-war period it cost about 8,000 yen for a Japanese producer to make a standard small size truck which was sold to the general public for 4,500 yen. This constituted a loss of approximately 3,500 yen which was made up by the government subsidy. Competition with imported vehicles under such

circumstances was so impossible that by 1938 import duties were approximately 50 per cent ad valorem on both cars and parts. By 1940 there were virtually no imports of automobiles to Japan.

"85. For the granting of these special protections and subsidies, the Automobile Industry Control Law provided, in effect, that the government should control manufacturing, planning and designing, operational facilities, sales, prices and other related matters. An interesting provision of this law was that the government might issue orders to a motorcar manufacturer directly for the manufacture of military cars or their parts and the establishment of special facilities deemed necessary to fill the orders. That the military demanded expansion of automobile production is shown in the provisions of the Outline of the Plan for the Expansion of Productive Power by the Board of Planning (Part III of exhibit 842) which provides that motorcar production should be expanded from 15,700 units in 1938 to 80,000 units by the end of 1941. That the military intended to use the Automobile Manufacturing Control Law as the authority for forcing production of automobiles is disclosed in the Outline of the Five-Year Plan for Production of War Materials by

the War Office (exhibit 841). As a policy to assist in the expansion of the automobile industry it was provided in the above-mentioned exhibit 841 at page 7, sub-paragraph 2, as follows:

"'In regard to armament industries (including tanks and special military vehicles) and industries manufacturing related parts and raw materials, they will be privately shown the estimated orders for over several years from time to time within the scope of not hampering the preparations suitable to the immediate situation in the future and will be guided toward rapid expansion with the supply of capital being made smooth.

"'In regard to airplane industries and industries manufacturing related parts and raw materials, they will be guided toward expansion for the time being according to the preceding paragraph in order to meet the urgent demands from the standpoint of peace time arrangement of military materials accompanying the repletion of armaments. However, large scaled expansion carried out according to the national policy will be considered. In regard to the expansion of automobile industry, the application of the Automobile Manufacturing Enterprise Law will be relied upon and the Military Automobile Subsidy Law will be utilized.'

"86. Indigenous automobile production was desirable from the military point of view, not alone for the production of automobiles, but also to create equipments and plants, a part of which could be converted

to the manufacture of tanks and aircraft and aircraft parts. The Outline of the Five-Year Plan for Production of War Materials (Exhibit 841) provides in Section II, page 4, as follows:

"'It is planned to expand and cultivate the munitions industries (including parts and raw materials industries) as well as the various industries to be converted in time of war simultaneously with the expansion of the major national defense industries and to strengthen the necessary control.

"'The emphasis of expansion is to be placed on the production of airplanes, arms and ammunition, tanks and military vehicles, which are the main factors for constituting fighting power, and on others directly connected to this.'

* * * * * * *

"'In regard to the automobile industry, those in the category of genuine war supplies such as tanks and special military vehicles will be governed by the foregoing Clause 2, but in regard to ordinary automobiles, it will be guided by the comprehensive national policy in such a way as not to impede the commandeering and supplying of the required number in time of war. However, necessary military administration measures will be devised to have a considerable portion of the

wartime capacity of the said industry cooperate in the wartime production of airplanes.'

"Appendix No. 3 of Exhibit 841 at page 27 sets out a schedule indicating the degree to which the automobile engine industry should be converted to the manufacture of airplane engines.

"87. With regard to the manufacture of tanks and armoured vehicles it was proposed to use the expansion of the automobile industry for the purpose of converting to the manufacture of tanks. The Outline of the Five-Year Plan for Production of War Materials (Exhibit 841) indicates on page 4, paragraphs 2 and 3; on page 9, paragraph 2c, Appendix I, pages 17 and 18; and Appendix 6, pages 34 and 35 that the two industries are inter-related for purposes of producing war equipments.

I will read those portions of the document!"

THE PRESIDENT: You had better read them after lunch.

We will recess now until half past one.

(Whereupon, at 1200, a recess was taken.)

Morse & Barton

AFTERNOON SESSION

The Tribunal met, pursuant to recess, at 1330.

MARSHAL OF THE COURT: The International Military Tribunal for the Far East is now resumed.

THE PRESIDENT: Brigadier Quilliam.

J O H N G R A N V I L L E L I E B E R T, called as a witness on behalf of the prosecution, resumed the stand and testified as follows:

DIRECT EXAMINATION (Continued)

BY BRIGADIER QUILLIAM:

BRIGADIER QUILLIAM: May it please the Tribunal, at the adjournment the witness was about to read from page 4 of exhibit 841. I will ask him to proceed.

THE WITNESS: Paragraph 2: (Reading)

"The emphasis of expansion is to be placed on the production of airplanes, arms and ammunition, tanks and military vehicles, which are the main factors for constituting fighting power, and on others directly connected to this."

Paragraph 3 --

Q Are you not going to finish paragraph 2?

A The selected portions have been marked. From paragraph 3: (Reading)

"In regard to the automobile industry, those in the category of genuine war supplies such as tanks and special military vehicles will be governed by the foregoing Clause 2, but in regard to ordinary automobiles, it will be guided by the comprehensive national policy in such a way as not to impede the commandeering and supplying of the required number in time of war. However, necessary military administration measures will be devised to have a considerable portion of the war-time capacity of the said industry cooperate in the war-time production of airplanes."

On page 9, paragraph 2c:

"Tank industry (including armored cars).

"The installation capacity will be increased two and a half times by 1939.

"The basis for estimating the objectives of expansion is as shown in Appendix No. 6."

From Appendix 1, pages 17 and 18.

Might I say that Appendix 1 is a Standard Chart of Conversion of peace-time production of Munition Industries. Page 17: Vehicles not to be converted into war-time production after conversion: locomotives for army use, parts of weapons, assembling of tanks, manufacturing of shells using lathes.

Peacetime production of automobile parts,

automobile assembly, on page 18. Ditto war time production after conversion, tank parts, automobile assembling.

Appendix 6, pages 34 and 35. Appendix 6, Basic Table (indices) for computation of objective of expansion for tank industry (including armored cars):

"Judgment. For the purpose of repletion of armaments, it shall be necessary to increase the equipment capacity, 1936, by approximately 2.6 times.

"Explanatory Diagram. Government-operated equipments have not been expressly classified in view of their capacity."

"Equipment capacity for: 1936, 100; 1937, 160; 1938, 175; 1939, 210; 1940, 196; 1941, 210; 1942, 162; 1943, 147.

"Equipment Capacity for 1936, 100.

"Peace-time Standard Capacity for 1936 (showin surplus margin of about 30%), 130.

"War-time Capacity for 1936, 220.

"Expanded Peace-time Equipment, 210.

"Expanded peace-time Capacity (allowing for 30% surplus margin), 260.

"Expanded War-time Capacity, 470; Expanded War-time Capacity of Government-owned Institutions, 220; War-time Production Conversion of Private Enterprises,

890, of which approximately 900 tanks are converted; a total of 1580.

"Engines -- Utilization of Automobile Industry - Manchuria.

"Steel Plates -- Manchuria.

"Remarks:

"(1) The Wartime Operating Rates shall be 180% similar to the Arms Industries.

"(2) Although this brand of war-time industry possess a fair deal of surplus margin at present, its equipment capacity shall be doubled by seizing the opportunity for doubling the quantity of Peace-time Equipment."

"It was further proposed to use the infant industry of Manchuria for the purpose of manufacturing tanks and military vehicles. The following is a quotation from pages 4 and 5, and 35 of IPS Document 9002-A:

"'The areas of expansion will be both Japan and Manchoukuo and their field of operation will be determined roughly as follows:

"'(a) In regard to the continent, particularly Manchuria, local production of airplanes, arms and ammunition, tanks and military vehicles will be started in connection with the development of raw

materials and resources and gradually developed to make possible mass production in time of war.' (pp 4 and 5).

"'War-time production Conversion of Private Enterprises *890 (* of which approximately 900 Tanks are converted)

"Engines--Utilization of Automobile Industry - Manchuria." (p 35)

"In the detailed schedule for expanded war material production in Manchuria, Appendix No. 7, IPS Document 9002-A, it was anticipated that 50 tanks per month, including armoured cars, would be manufactured.

"88. An increased production of rail transportation facilities was likewise a necessity brought about by war-time planned economy. The Outline of the Plan for the Expansion of Production Power by the Planning Board (Part III, IPS Document 1522) aims at the expansion in the production of locomotives from 877 units in 1938 to 1100 units by the end of 1941; of rail cars from 1161 units in 1938 to 2000 units by the end of 1941; of freight cars from 14,111 units in 1938 to 21,000 units by the end of 1941. This expansion would appear to be extremely significant when one considers the already well developed railway system in

Japan which was operated by the government. That the expansion of railway production equipment as well as the expansion of equipment itself was considered important for the war effort is disclosed in the Outline of the Five-Year Plan for the Production of War Materials (IPS Document 9002-A). At Appendix No. 1, page 17, a plan to convert the vehicle industry to the manufacture of locomotives for army use, parts of weapons, assembling of tanks, etc., is shown. It was further planned, in Appendix No. 7 of IPS Document 9002-A, that Manchuria was to provide a capacity of 130 light railway freight cars per month for military use.

"Aircraft Industry. 89. Aircraft production commanded top priority in the Japanese program for war preparations. In support of this statement I will read the following excerpts from the Outline of the Five-Year Plan for Production of War Materials by the War Office, (IPS Document 9002 A), ehibit 841:

"'a). Page 4, paragraphs 2, 3 and 4(a).

"'b). Page 8, sub-paragraph 3.

"'c). Pages 21, 22 and 23 through (6); page 26 and page 27 of Appendix 3.'"

THE PRESIDENT: The IBM will be suspended for a few minutes to correct some defect.

THE WITNESS: (Reading) Paragraph 2:

"The emphasis of expansion is to be placed on the production of airplanes, arms and ammunition, tanks and military vehicles, which are the main facotrs for constituting fighting power, and on others directly connected to this.

"In regard to the expansion of the airplane industry in particular, the utmost effort will be exerted toward it to guide it speedily and rapidly.

"3. The objective of expansion will be based on the sufficiency of the war time supply requirements.

"In regard to airplane industry, it will be guided toward active expansion so as to be able to comply with the realization of the gigantic perfection plan aiming for the creation of an invincible airforce and the national aviation policy based on the comprehensive national policy without a moment's delay, although the primary aim will at first be to adapt it to the fixed repletion of armaments plan.

"4(a) In regard to the continent, particularly Manchuria, local production of airplanes, arms and ammunition, tanks and military vehicles will be started in connection with the development of raw materials and resources and gradually developed to make possible mass production in time of war."

LIEBERT DIRECT

Page 8, paragraph 3:

"The objectives of expansion for industries manufacturing munitions throughout Japan and Manchoukuo are generally as follows; in cases where the annual schedule is not listed, the objectives are to be obtained by the end of 1941.

"a. Airplane industry (including industries manufacturing parts and special raw materials)

"Installation capacity is to be roughly doubled during 1938.

"Subsequent expansion will conform to the national aviation policy to be handled as the comprehensive national policy and the new aviation repletion expected to be realized in addition to the already determined repletion of armaments, particularly looking forward to the epochal expansion of installation capacity. (The above mentioned national policy provides for an installation capacity ensuring a peacetime production of 10,000 planes through a protective policy and for a standing strength of 2,000 civilian airplanes). Even if the above listed national aviation policy is not realized quickly, the installation capacity will at least be tripled by about 1939."

Appendix 3, page 21:

"Basic Table for Computing the Objective of

LIEBERT DIRECT

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"Installation capacity is to be roughly doubled during 1938.

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Appendix 3, page 21:

"Basic Table for Computing the Objective of

LIEBERT DIRECT

Expansion for the Airplane Industry Cultivated under the already Fixed Military Budget.

"(Goal to be five years hence and to include Japan and Manchoukuo)

"(Judgment) 1. Accompanying the repletion of armament, it is necessary to increase the 1937 installation capacity of factories connected with military aviation three-fold.

"2. Expansion of about two-fold, especially, must be completed by 1938.

"Present State: 1936 perfected units, Army, 522; Navy, 520. Total war time operation capacity: Army, 700; Navy, 700.

"Based on present plan: Army, 140 companies; Navy, those of war time connections are estimated.

"Repletion of Armamaents, 1937 to 1943 units perfected annually: From 522 for the Army raises to maximum of 1450 and drops to 1050; the Navy from 520 raises to maximum of 900 and drops to 700.

"Expansion accompanying repletion of armaments, 1939 (40), expansion ratio about 3 fold; for the Navy about 1.8 fold.

"Total peace time operation capacity: for the Army about 4,000; for the Navy, about 2400 (will be accompanied by additional increase).

"1942 and thereafter

"Required war time capacity (first year): Army, about 4000, but to meet the requirements of emergency organization (140 companies) about 10,000; for the Navy, about 3,000 (about 1500 during period of preparation for war).

"Supplementary measures: War time expansion and Army-Navy munition industry mobilization agreement for A. Creation of active aviation industry through the establishment of the national aviation policy for B (Refer to Part 2).

"Note: Upon their realization through national measures as listed in Part 2, the policy of cultivation of industries concerned must undergo the necessary changes."

Appendix 3, part 2, page 23:

"Computation of Objectives of Expansion for Airplane Industry based on National Policy Measures.

"Estimation of War-time Productive Power.

"Judgment.

"(1) If an equipment capacity be maintained so as to make it possible to cope with a peace-time operation of 10,000 planes, the following mobilization plan will, even in the case of a peace-time actual demand of 3,000 planes, make the capacity reach close

to an annual production of 20,000 planes from and after the 8th month, and over 20,000 planes from the 10th month.

"However, the total of the first year's production will be a little less than 13,000 planes, and that of the second year approximately 30,000 planes.

"(2) In the event of it being possible to make the peace-time actual demand around 4,000 planes, this would, in addition to increasing the certainty of mobilization, bring the total of the first year's production up to around 14,500 planes.

"Mobilization Plan.

"(1) The personnel at the beginning of the outbreak of war will be increased about seven-fold.

"(2) Production for the first two months will be conducted in the following manner:

"(1) With 2/3 of the peace-time personnel.

"(2) On 20% of the total equipment.

"(3) Net working time, 13 hours.

"(3) The training of newly employed workers will be conducted as follows during the first two months:

"(1) 1/3 of the peace-time workers shall be placed in charge of training (17 men to one trainer).

"(2) Training by two daily shifts' (Day

and night).

"(3) In day-time on 80% of the suspended equipment.

"(4) At night time on 100% of the equipment.

"(4) From and after the third month production will be conducted as follows:

"(1) Equal dividing-up of peace-time workers and newly employed workers in both day and night-time.

"(2) Enforcing of a two-shift system of 22½ actual working hours to be divided equally day and night.

"(5) From and after the sixth month the peace-time equipment will be increased monthly by 5% (implying Production Increase from that month).

"(6) Along with the foregoing, the personnel will be increased monthly (1/3 of peace-time) from and after the fourth month to meet 10% of the peace-time equipment."

Page 26 of appendix 3:

"Months from outbreak of war. Number of planes produced by permanent equipment; monthly production: first month, 217; second month, 217; third month, 217; fourth m nth, 217; fifth month, 900; sixth

month, 1158; seventh month, 1300; eighth month, 1450; ninth month, 1450; tenth month, 1600; eleventh month, 1600; twelfth month, 1750; thirteenth, fourteenth, fifteenth, sixteenth, seventeenth, and eighteenth months, 1750.

"Annual production, total (first year) 12,076 planes.

"Increased Equipment, Increased Production: increase commencing the eighth month, 33; ninth month, 83; tenth month, 158; eleventh month 225; twelfth month, 291; thirteenth month, 375; fourteenth month, 458; fifteenth month, 541; sixteenth month, 625; seventeenth month, 708; eighteenth month, 791.

"Total annual production (first year) 12,866 planes; second year, 30,996 planes (up to 24th month).

"Descriptive explanation: Number of monthly production planes - 10,000 time Body Production Index over 12. "

Page 27:

"However, should the production of engines fail to keep up, it will become necessary to utilize the automobile industry.

"Remarks:

"(1) The required degree of conversion of the automobile engine industry shall be roughly as

follows:

"Quantity of shortage of airplane engines equals 10,000 times 28.3% times 8 times 1.5 over 12, equals 2.831.

"28.3% represents the 8 months' average of difference in production indices.

"1.5 represents 1.5 engines per body.

"By calculating the foregoing, the quantity of shortage of automobile engines shall be 28,831 times 20 or 56,620 units.

"(2) The War-time First Year Capacity of the Automobile Industry will be at least 150,000 units (peace-time 100,000). In addition, it will bepossible to obtain a capacity for the production of 57,000 units from the capacity now used for the production of miniature cars and 3-wheel as well as 2-wheel motorcycles.

"Judgment re possibility of meeting demand for war-time military planes.

"By concluding an Army-Navy Munition Industry Mobilization agreement based on the figures for 1937 according to different operations along with the above chart and by placing the peace-time regular civilian air force of 2,000 planes at the disposal of the Army, there will be no difficulty in effecting the following supply of Military Planes, that is, first year,

approximately 10,000 planes; second year, approximately 20,000 planes."

"90. To give effect to planned aircraft expansion concerted action was taken by the government in the promulgation of the Aircraft Manufacturing Law in March 1938. This Law provided for the licensing of manufacturers of aircraft, aircraft parts and accessories by the Japanese Government. Subsidies in the form of exemptions from income and business profit taxes, local government taxes, import tax on tools, machinery and materials necessary for the development of plants were to be granted as well as encouragement money for the manufacture of new types of aircrafts. Likewise, licensed companies were allowed to effect an increase in capital even before original capital on the company was fully paid up and were allowed to issue debentures up to twice the paid-up capital without security. For these and other special privileges the government completely took over the direction of the licensed plants. Such direction included supervision and authority to order expansion of plants, special manufacture, researches, training of technicians, joint use of facilities, fixing of prices and all other matters 'necessary in the public interest'. Thus the aircraft manufacturing industry became completely dominated by the government's program for its expansion.

"91. The following table illustrates the expanded production of military aircraft for the years 1935 to 1941 inclusive:"

THE PRESIDENT: The totals will suffice on that. I think it will be sufficient to give the totals.

BRIGADIER QUILLIAM. As your Honor pleases.

THE WITNESS: "Army aircraft bodies, 1935 total 349, 1941 total 3787; Navy aircraft bodies, 1935 total 408, 1941 total 2080; Army and Navy aircraft motors, 1935 total 584, 1941 total 11,654

"The above table does not show the production of aircraft for civilian use nor does it show the true picture of expansion in the production potential of aircraft as developed during these years. Such potential can best be judged by the development of the machine tool industry, the light metal industry, the automobile industry and others which were expanded with a view to conversion of their facilities to the manufacture of aircraft and aircraft parts. One can properly say that the aircraft industry was being prepared for war production on a far greater scale than appears from the actual production of war planes, although that production proceeded along the schedule outlined by the War Office."

"Industrial Control. Paragraph 92. In addition to the direct and indirect controls for stimulation of specific industries, as outlined briefly in the foregoing surveys, in furtherance of a planned economy as demonstrated by laws and regulations affecting the specific industries, other direct measures of industrial control of universal nature were planned and executed. In support of this statement I will read the following excerpts from the Outline of the Five-Year Plan for Production of War Materials by the War Office, dated 23 June 1937, (IPS Document 9002-A):

"'a) Page 3, paragraphs 1, 2 and sub-paragraph 3.

"'b) Page 5, paragraph 6.

"'c) Pages 13 and 14, Section V.

Page 3:

"Outline of the Five Year Plan for the Production of War Materials.

"Policy.

"In order to cope with the present situation and to establish the foundation of our national defense powers accompanying the perfection of armaments, it has been planned to carry out a speedy epoch-making expansion of war industries and to exercise the necessary control over them from the standpoint of national defense.

"For this purpose, special stress will be laid on accomplishing the following purposes generally by the end of the 1941 fiscal year, and the operation of Japan's economy will be made to develop rationally by unifying the handling of affairs by military administration as well as maintaining a close contact with the synthetic national policy."

Sub-paragraph 3:

"Hurrying up the control of war material industries, having in mind the conversion from a peacetime basis to a wartime basis."

Page 5, paragraph 6:

"The underlying principle of control will be to meet the requirements of national defense.

"For this purpose, the emphasis of control

will be placed on the positive expansion of such industries and their advancement into the continent and necessary measures will be devised to ensure proper and smooth execution of the mobilization, with special care being given not to cause any failure of enterprises through unnecessary feeling of uneasiness and fear on the part of businessmen."

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Greenberg & Ender

Page 13, Section V.

"V. Outline of Control.

"1) As regards the controlling of war material industries, perfection will be sought in regard to removing the various factors likely to impede wartime expansion, in view of the special characteristics of these industries, especially the characteristic of the demands in wartime and those in peacetime having a wide difference.

"In this instance, every effort will be made to maintain the standard working hours and prevent the strengthening of operations by means of extension of hours, and to accelerate the expansion of installations.

"2) With the object of planning the material strengthening of the munition mobilization capacity, enterprises will be guided mainly according to the following points through the Superintendent system:

"(a) Old-fashioned equipment will be improved; up-to-date equipment will be reinforced.

"(b) Obstacles in the course of production accompanying conversion into wartime production will be rectified, and lags in the various

associated industries will be removed.

"(c) Control over industrial copartnership will be effected to facilitate the disposition of the previously mentioned clauses.

"The aforementioned supervision for the present, will be executed from the standpoint of the parties placing the orders, but plans will be made for the strengthening of guidance and supervision by enacting the necessary laws and regulations as soon as possible.

"Furthermore, the Superintendent system will be carefully restudied as regards organization, system, structure and stationing, and consideration will be given to the unification and adjustment of Factory Administration Government Office and Factory Superintendent systems at the time of enforcement of munition mobilization.

"3) To facilitate the peacetime to wartime conversion of industries: manufacturing war materials, structural control will be accelerated according to the following points:

"(a) Proper guidance will be given to the merger and incorporation

of enterprises.

"According to the needs of the times, an organ to facilitate the general control of industries manufacturing important war materials will be gradually established.

"(b) The formation of an organic production bloc will be fostered. For this purpose, the nuclear factories and the sub-contracting factories will be logically arranged, and their relationship with parts factories, material factories and raw material factories will be adjusted.

"Special attention will be given towards putting an end to the present disorganized condition of the sub-contracting factories.

"(c) The organizing of unions will be guided from the military point of view to enable the mass power of the small-sized factories to collaborate effectively in the

production of war materials in time of war.

"4) Social policies will be tempered from the viewpoint of national defense in a wide sense and the necessary control over industries manufacturing war materials will be exercised.

"For this purpose, consideration will be given to profit control, labor control and localization of industries."

"I shall also read the following excerpt from pages 3 and 4, paragraph 3 of the Outline of the Plan for the Expansion of Productive Power by the Board of Planning, dated January, 1939 (Part III of exhibit 842):

"3. Method of execution.

"This plan is to be realized in accordance with the real object of its planning, with the government, and the people united as one, and with the entire strength of the nation backed by perfect cooperation and firm determination directed toward it. Accordingly, in executing this plan, the government should take every possible measures for its accomplishment, so that there could occur no setback in its execution.

"For this purpose, the government should endeavor to make a proper and effective use of the various systems and facilities for the promotion of industries executed heretofore, and in view of the fact that this plan aims at a rapid and intensive expansion of the productive power, the government shall devise special measures in regard to the control and encouragement of enterprises, the supplying of technicians and laborers, the accommodation of funds and the supplying of necessary

materials according to the condition of the various industries for accelerating and securing the execution of the plan.

"Pursuant to the above policy, the government is to take such measures, if necessary, as to enact laws and to enforce the National Mobilization Law."

"93. To accomplish the purpose of general concentration of industrial control for war purposes it was planned to build upon the basic structure of cartels and control mechanisms already in existence in industry. A brief review of these mechanisms will serve to explain the simplicity and completeness of their operation. In December 1929, rationalization of industries in a narrow sense first came into being with the formation of the Special Committee on Industrial Rationalization of the Ministry of Commerce and Industry. In June of 1930, the Emergency Industrial Rationalization Bureau was formed. This Bureau, created for normal government purposes, formulated plans for standardization and simplification of parts and products, dissemination of scientific industrial management data, and generally provided for substantial measures to assist in national recovery and promote industrialization for export trade.

"94. A first direct attempt to control heavy industries for the sake of a national planned economy was undertaken in August 1931 with the passage of the Major Industries Control Law. This law provided for large scale heavily capitalized industries by facilitating industrial self-control and making legally enforceable agreements made between producers

and important industries with regard for the public welfare. However, an amendment to this law in 1936 enforced cartelization of major industries and placed such industrial self-control organs under direct government supervision. In cases where persons operating in the major industries made a cartel agreement which effected one-half or more of the total production within the specific industry such an agreement had to be registered with the Government Control Committee and could be modified by that Committee in the public interest. Of course, such cartel agreements within the Major Industries forced many mergers of plants and equipments and threw the the control of the Major Industries generally into the hands of the large groups. The industries specifically cartelized by the government permission and direction were cotton spinning and weaving, silk spinning and weaving, rayon, paper, carbide, flour, sulphuric acid, cement, copper, sugar and oil pressing. Other Major Industries such as iron and steel, mining, import and export and shipbuilding were being effectively consolidated by other special laws and programs.

"95. The effect of such enforced cartelization was to destroy the ability of the small and medium scale industries to compete with large industrial

organizations controlled by the so-called Zaibatsu interests. Since anti-monopoly laws were repugnant to this Japanese method of industrial control for the national welfare, smaller concerns united into guilds and unions for protection. The Industrial Guilds Law, as amended in 1931, contained provisions for the unionization and associational control of smaller manufacturing industries with provisions similar to the Major Industries Control Law. Again in September 1932, by the Commercial Guilds Law, control and organization of commercial undertakings was fostered. Increased facilities for guilds, and associations from a standpoint of banking, were provided in 1936 by the Central Bank for Commercial and Industrial Associations which loaned money at cheap rates and provided many special facilities.

"96. The extent of the forced mergers of companies and their recapitalization for streamlined operation is disclosed in the statistics of the Bank of Japan which tell plainly what was accomplished by such measures. During the year 1940, 212 major corporation mergers took place affecting capital investment of 2,300,000,000 yen, approximately. During the first half of 1941, 172 major companies mergers took place, affecting capital investment of

over 3,000,000,000 yen. (By 1941 there were over 1000 Kogyo Kumiai or Guilds formed of smaller enterprises). The significance of these enormous mergers indicates the strength of the government's program and the desire to build a complete control structure upon a foundation of unification of similar enterprises under government supervision."

"97. Following the Plan for Control provided for in Section V of the Outline of the Five-Year Plan for Production of War Materials, exhibit 841, there resulted the National General Mobilization Law effective May 1938 which is Court exhibit #84. This law is the basic legislation for the complete mobilization of all facilities for war economy not otherwise provided. I will read the following excerpt from the National General Mobilization Law," Articles 1 to 31, inclusive, pages 1 to 16.

"General Mobilization Law

"Article 1

"The term national general mobilization as used in this law denotes the control and operation of human and material resources in order that the nation may be enabled to display its total power most effectively for the realization of national defense purposes in time of war (including an incident corresponding with a war, the same applying correspondingly to the following parts).

"Article 2.

"The term general mobilization goods in this law denotes things listed below: (1) armaments, war vessels, ammunitions and other military

goods, (2) garments, foodstuffs, beverages and fodders which are necessary for national general mobilization, (3) medicines, medical instruments, other sanitary materials and veterinary materials which are necessary for national general mobilization, (4) ships, airplanes, rolling stock and vehicles, horses and other materials for transportation which are necessary for national general mobilization, (5) goods for communications which are necessary for national general mobilization, (6) engineering and building materials and goods for lighting system which are necessary for national general mobilization, (7) fuels and electric power which are necessary for national general mobilization, (8) raw and other materials, machines and tools, equipment and other goods which are necessary for the production, repair, distribution and conservation of each of the foregoing stipulations and (9) goods besides each of the foregoing which may be designated by Imperial Ordinances as necessary for national general mobilization.

"Article 3.

"General mobilization businesses under this law denote those which are listed below

(1) Businesses relating to the production, repair, distribution, exportation, importation, and storing of general mobilization goods, (2) businesses relating to transportation and communications which are necessary for national general mobilization, (3) businesses relating to money and banking which are necessary for national general mobilization, (4) businesses relating to sanitation, veterinary sanitation and relief which are necessary for national general mobilization, (5) businesses relating to education and training which are necessary for national general mobilization, (6) businesses relating to experiments and researches which are necessary for national general mobilization, (7) businesses relating to information and campaign of education which are necessary for national general mobilization, (8) businesses concerning guarding which are necessary for national general mobilization and (9) businesses besides each of the foregoing which may be designated by Imperial Ordinances as necessary for national general mobilization.

"Article 4.

"In time of war the Government if necessary for national general mobilization may enlist subjects

of the Empire and place them in general mobilization businesses in accordance with provisions of Imperial Ordinances. This provision does not prevent the application of the Conscription Law, however,

"Article 5.

"The Government if necessary for national general mobilization in time of war may cause subjects of the Empire or juridical persons or other organizations of the Empire to cooperate with the State or local public organizations or other persons designated by the Government.

"Article 6.

"The Government if necessary for national general mobilization in time of war may issue orders which are necessary regarding the use, employment or discharge or assumption of offices or assumption of services or retirement of employees or wages, salaries and other working conditions, in accordance with provisions of Imperial Ordinances.

"Article 7.

"The Government if necessary for national general mobilization in time of war may issue necessary orders regarding the prevention or

settlement of labor disputes or the closing of plants, suspension of operations, or restriction or prohibition of acts relating to labor disputes, according to provisions of Imperial Ordinances.

"Article 8.

"The Government if necessary for national general mobilization may issue necessary orders regarding the production, repair, distribution, transfer or other dispcsal, uses, consumption, holding and movement of goods, in accordance with provisions of Imperial Ordinances.

"Article 9.

"The Government if necessary for national general mobilization in time of war may restrict or prohibit exportation or importation, or may impose export duties or import duties, or may increase or decrease export duties or import duties, in accordance with provision of Imperial Ordinances.

"Article 10.

"The Government if necessary for national general mobilization in time of war may use or expropriate or cause a person who administers general mobilization business to use or expropriate general mobilization goods, in accordance with

provisions of Imperial Ordinances.

"Article 11.

"The Government if necessary for national general mobilization in time of war may restrict or prohibit the establishment of corporations, capital increases, consolidations, changes in the purposes of businesses, floatation of debentures or the second and subsequent calls for unpaid portions or capital; and may issue orders regarding dispositon of corportation profits, writing off of fixed assets or other matters concerning accounting; and also may issue orders against banks, trust companies, insurance companies and others designated by Imperial Ordinances regarding the operation of their funds, or undertaking or guaranteeing monetary obligations.

"Article 12.

"The Government if necessary for national general mobilization in time of war may make special arrangements in accordance with Imperial Ordinances, and irrespective of the provisions of Article 297 of the Commercial Code, with respect to floatation of debentures of a corporation engaged in a general mobilization business to meet expenses for equipment belonging to the

said corporation.

"Article 13.

"The Government if necessary for national general mobilization in time of war may manage or use or expropriate the whole or part of factories or workshops or vessels and other facilities which are convertible into it, in accordance with provisions of Imperial Ordinances."

THE PRESIDENT: A majority of the Court do not desire any more of this to be read. In fact, a majority of the Court are opposed to it being read at all. I was unable to get their views in time.

BY BRIGADIER QUILLIAM (Continued):

Q Will you please continue with the reading of the statement, Mr. Liebert?

A (Reading)

"98. One of the first important ordinances affecting industry promulgated pursuant to the National General Mobilization Law was the Ordinance Concerning the Plan by the Promoter of a Business for General Mobilization, dated 26 July 1939. This Ordinance provided that the Ministers of War and Navy could call in the owners or promoters of selected businesses, named pursuant to ordinance under the National General Mobilization Law, and order such persons to make plans for production following a set national production schedule. This authority of the Ministers included the power to order the type of training programs of personnel within the specific industrial plants in conformity with anticipated needs for skilled personnel as disclosed in exhibit 842. Such methods forced businessmen to cooperate in the execution of the plans of the Army and Navy

to fullest extent of their facilities and skills.

"99. One of the most forthright industrial ordinances promulgated pursuant to the National General Mobilization Law, was Imperial Ordinance No. 901 of December 28, 1939 entitled 'Use and Expropriation Ordinance of Factories and Workshops.' Pursuant to this Ordinance the War and Navy Ministers were given the authority to authorize expropriation of materials, lands, buildings, constructions, machinery and equipment, deemed necessary for the national general mobilization. Upon notification by the competent ministers, the owners and operators of selected plants simply turned them over to the government direction and management. Likewise, by order, the owners or operators of such plants who turned them over for government use were to make available their workers as demanded by the government. This expropriation law applied likewise to patents. Article No. 27 of the National General Mobilization Law provided for a method of compensation. This ordinance, aimed at materials and equipments manufacturers, was a constant threat to private ownership to obey the instructions of the Army and Navy and provide the equipments desired.

"100. The most sweeping of all the control

ordinances, however, was the Key Industries Control Ordinance promulgated August 30, 1941. This Ordinance was based upon the provisions of Article 18 of the National General Mobilization Law and was to serve as a foundation for the complete control of all major industries by the government, using the cartel structure already in existence as its guiding principle. It was provided that the major industries named by the government were to form themselves into control associations according to type of industry. Thus there was to be in each major industry such as, iron and steel, cement, machinery, chemical, rubber, rolling stock, etc., one single national industrial organization for each kind of industry. The power of each such national association was to:

"(a) Participate in the government's plans concerning production and distribution in the industry concerned and the demand and supply of raw materials, funds, labor required in the said industry, and also the government's other plans concerning the said industry.

"(b) Control and guide concerning the production and distribution in the industry

concerned and also the control and guidance concerning the enterprises in such industries which are owned by its members or by persons who form the organizations which become members of the said control organizations.

"(c) Increase the perfection of the organization of the industry concerned.

"(d) Establish the importance of technique, the promotion of efficiency, the standardization of specifications, the importance of the accounting system, and other facilities for the development of the enterprises in such industry.

"(e) Oversee the investments and resources in the industry concerned.

"(f) Conduct inspection of the enterprises in the said industry.

"(g) Control other enterprises which are necessary for the attainment of the importance of the control of the association.

"The system established provided that each industrial Control Association should nominate a president who would be appointed by the government."

"All of the important directors of associations were appointed subject to government sanction. The right of dismissal of officials was in the hands of the government. The Control Association, by direction of the president, could impose special levies on the members, order the merger of enterprises within the industry for the sake of efficiency, order changes in plant equipments and management and, in general, exercise complete and autocratic control over the entire industry. The fixing of production plans, the allocation of materials to individual plants to effect planned production, the nomination of sale of all products, the establishment of wage policies and the fixing of prices within each industry was made pursuant to the joint planning of the heads of the Control Associations and the Planning Board who united policy and production. In this connection it can be said that one of the functions of the Planning Board was to compare the indigenous supplies of materials with production demands and make plans for the means of securing and paying for deficiencies, making such adjustments as were consistent with the national policy. All producers were forced to become members of their respective industrial association or go out of business. In certain cases

diversified companies had to belong to several associations. In those cases where individual producers were too small to participate they were either merged into larger enterprises, or were formed into a union of similar enterprises and the union taken in as a member of the Control Association. In each prefecture sub-control associations were formed for the sake of efficiency in dissemination of orders and effective control.

"101. This elaboration of the control association system was the perfection of the already well-functioning system with the added element of universal application. It was established immediately preceding the outbreak of war to perpetuate peak wartime production which was planned to be reached by the end of 1941. The timing of such activities would appear to be extremely significant when one considers the element of preparation in the light of events subsequent to December 7, 1941.

"102. In addition to the many methods for stimulating war materials production, otherwise cited, the government directly took over the job of equipping war industry plants pursuant to legislation enacted November 25, 1941 (Law No. 91). This Law was entitled, 'Law Concerning The Sangyo Setsubi Eidan'

('Industrial Equipment Corporation'). By virtue of the aforementioned law, the government created a special equipment corporation, a juridical person, with the following object:

"'Article 1.

"'The objectives of the Industrial Equipment Corporation are, in time of war **** inclusive of a serious accident that shall be regarded as the same, to have the following industries equipped with necessary plants, such as munitions industries, the production of which shall be increased on certain definite lines of the government programmes and other indispensable industries for national economy when any other enterprisers could hardly do the same or maintain such equipments, and are to build ships that shall conform to gauge designated by the government, and to make full use of industrial plants, inclusive of machines and implements to be used in furnishing the mentioned plants, which are not yet brought to completion or employed **** these shall be called the unfinished and unemployed plants in the following Articles'.

"To achieve the purposes outlined in the objectives for the establishment of this corporation it was empowered to transact the following business:

'(1) To construct or purchase plants of the indispensable industries for the national economy when other enterprises cannot construct or maintain such plants.

'(2) To land, invest in and sell the plants obtained or constructed.

'(3) To give orders to build or manufacture ships, ship's engines and equipment that shall conform to government specifications.

'(4) To sell such ships and ship's equipments.

'(5) To buy, sell and hold the unfinished and unemployed plants.

'(6) To act as mediator in making full use of unemployed plants.

'(7) Do the necessary business to carry out the above named purposes.'

"103. As a further facility to carrying out the business of the Industrial Equipment Corporation it was exempted from income, corporation, business and

local taxes. Its entire capitalization of 400,000,000 yen was supplied by the government, and for additional funds it was authorized to issue debentures up to 15 times the amount of the paid up capital, with the government standing security for the payment of both principal and interest. The governors, directors and auditors of the corporation were to be appointed by the government. In addition to all this, the corporation was authorized to expropriate or use land, and the rights connected with land other than the ownership, when it was deemed necessary in constructing plants of the indispensable industries.

"104. The planned and accomplished expansion in production by the various industries before December 7, 1941 as disclosed in the foregoing surveys, far exceeded the amount of materials and potential needed for the conduct of the war in China. The elaborately detailed planning and careful gathering of controls in the hands of the government effectively chained all industry to the national policy of industrial preparation for a far greater conflict. In a speech made by Kenryo SATO, Chief of the Military Affairs Section of the War Ministry, in March 1942, a copy of which is IPS document 9027-A, this fact is made unmistakably clear."

BRIGADIER OUILLIAM: May it please the Tribunal, I offer in evidence IPS document No. 9027-A.

THE PRESIDENT: Admitted on the usual terms.

CLERK OF THE COURT: Prosecution's document No. 9027-A will receive exhibit No. 849.

(Whereupon, the document above mentioned was marked prosecution's exhibit No. 849 and received in evidence.)

BRIGADIER OUILLIAM: May it please your Honor, the certificate attached to that document is somewhat defective.

THE PRESIDENT: Well, it is conditionally admitted.

BRIGADIER QUILLIAM: But I have pointed it out to my learned friend, Mr. Logan, who informs me that the defense waive the irregularity.

BY BRIGADIER OUILLIAM (Continuing):

Q Will you continue, Mr. Liebert?

A (Reading) "I will read an excerpt from that document taken from pages 5 and 6 which reviews government policy for industrial production in connection with the China Incident which needs no further amplification from me."

THE PRESIDENT: Well, we will recess now for fifteen minutes.

(Whereupon, at 1445, a recess was taken until 1500, after which the proceedings were resumed as follows):

Wolf & Yelden

MARSHAL OF THE COURT: The International Military Tribunal for the Far East is now resumed.

THE PRESIDENT: Brigadier Quilliam.

BRIGADIER QUILLIAM: May it please the Tribunal, with the adjournment the witness was about to read an extract from exhibit 849, commencing at page five.

THE WITNESS: (Reading):

"B. Miscalculation of Japan's Fighting Power.

"'The fundamental cause of the commission of such a serious blunder by American leaders may be traced back to the fact that Japan's excessive humility toward America in her past foreign policy and other matters invited for herself American contempt. Especially since the outbreak of the China Affair, America thought Japan had completely exhausted her national strength.

"'In 1936 our army formulated a national defense plan, for the army felt keenly the necessity of expanding armaments and productive power in order to secure and develop the results of the Manchurian Incident. As the expansion of armaments and rearmament by the European Powers were to be completed by 1941 or 1942, we anticipated an international crisis at about that time. Therefore, considering it necessary

to complete by every means possible the expansion of our armaments and productive power by 1942, we decided to effect a great expansion by means of a six-year armament plan for the period 1937 to 1942, and a five-year production expansion plan for the period 1937 to 1941. In 1937, the first year of this plan, the Lukouchiao Incident broke out. What worried us most was the fear that this incident might cause the break-down of our Armament Expansion Plan and the Five-Year Production Expansion Plan. So we decided to see that the Chinese Incident would not end in a war of attrition to our side. Accordingly, generally speaking, we spent 40% of our budget on the Chinese Incident and 60% on armament expansion. In respect to iron and other important materials allotted to the army, we spent 20% on the Chinese Incident and 80% on the expansion of armaments. As a result, the air force and mechanized units have been greatly expanded and the fighting power of the whole Japanese Army has been increased to more than three times what it was before the China Incident. I believe that our Navy, which suffered very little attrition in the China Affair must have perfected and expanded its fighting power. Of course, productive power of the munition industry has been expanded ~~70% to 80%~~ seven or eight fold

at a rough estimate.

"'Besides the above-said armaments and productive power, we have separately defeated each anti-Japanese force in China and occupied the greater part of the important portions of China, and the iron ore, coal, cotton and other important defense resources obtained from these areas are now contributing greatly to our fighting power. We have completed our establishment of strategic points on the continent, in particular our troops have marched into French-Indo-China, which gave us powerful footing for the present Greater East Asia War. Furthermore, through four and a half years of the China Affair we have gained real training in actual fighting. Their intangible results are now being developed before our eyes.'"

"FINANCIAL PREPARATIONS

"105. Under the Japanese form of totalitarian imperialism financial controls for the years immediately preceding 1941 were designed for two purposes:

"(1) To integrate dependent territories into the economic system of Japan in order to draw from them materials and wealth necessary for strengthening the Japanese economic position, and to control the flow of money and goods to achieve the maximum

benefits of foreign trade in support of industrial production for war purposes.

"(2) To use most effectively the total financial capacities of Japan proper to build up war production and war production potential by direct and indirect government spending and by rigid control over the flow of money capital, and goods.

"INTEGRATION OF TERRITORIES

"106. During the Manchurian Campaign, 1931 to 1932, the Japanese Army relied upon the Bank of Chosen (The Bank of Issue of Korea under the control of the Japanese Government) to supply currency and to provide banking facilities. As a result of these operations, chiefly on behalf of the Japanese, bank note circulation of the Bank of Chosen, rose from 75,000,000 yen on June 30, 1931 to 222,000,000 yen at the close of 1935 when gradual withdrawal of these notes was initiated; at which time notes of the Central Bank of Manchuria(The Bank of Issue of Manchoukuo) were issued instead. Additional financing for industry during this period was handled through the South Manchurian Railway, a national policy company of the Japanese Government, which, together with its subsidiary companies, spread like an octopus into nearly every phase of Manchurian

developments.

"107. After the establishment of the Manchoukuo Government an agreement was entered into between the Imperial Japanese Government and the Imperial Government of Manchoukuo which politically as well as practically bound the economies of the two nations. I have a copy of a record of the meeting of Privy Council held on 3 July, 1935, (IPS Document 875A), which discloses the true purpose of the agreement from the Japanese Government's point of view."

BRIGADIER QUILLIAM: May it please the Tribunal, I offer in evidence IPS document No. 875A.

THE PRESIDENT: Admitted on the usual terms.

CLERK OF THE COURT: Prosecution's document No. 875A will receive exhibit No. 850..

(Whereupon, the document above referred to was marked prosecution's exhibit No. 850, and was received in evidence.)

THE WITNESS: I shall read the first eight pages of that record.

(Reading):

"SECRET

"Record of the Meeting of Privy Council Held on 3 July, 1935.

"Re: A) The conclusion of an agreement between Japan and Manchoukuo on the establishment of a Joint Economic Committee.

B) The changes to be made in the organization of the Ministry of Communications.

The meeting of the Privy Council was opened on 3 July 1935 in the presence of His Majesty the Emperor."

I will omit the reading of the names of those present and read from page 2 commencing with the actual notes of the meeting.

THE PRESIDENT: You might read the names of any of the accused who were present.

BRIGADIER QUILLIAM: The only accused was the Vice-Chairman, HIRANUMA.

Will you continue, please, reading?

THE WITNESS: (Continuing)

"Our subject will be the conclusion of an agreement on the establishment of a Joint Economic Committee between Japan and Manchuria. We shall have the first reading, and omitting the recitations we

shall immediately hear the report of the chairman of the Investigation Committee.

"Reporter ARAI: Having been appointed members of the Investigation Committee to study on the subject which was referred to the Privy Council by His Majesty the Emperor for deliberation, we held a committee meeting on the 27th of this month, and after inquiring the Minister of State and other authorities connected with the subject, we have completed its investigation.

"The Empire's basic policy toward Manchukuo is, as it has been declared in the Rescript of March 1933, on the withdrawal from the League of Nations and in the Japanese-Manchurian Agreement concluded in September 1932, to recognize and respect Manchukuo's independence and help its progress and development by maintaining an inseparable relationship between the two countries.

"It has been the constant wish of the Japanese Government to adhere to this principle in taking any form of measures and to secure a strong connection with Manchukuo. Thereby, based on the article on the united front in the Japanese-Manchurian agreement, Japan has established the right to garrison Japanese troops permanently in Manchukuo and has also formed military agreements with her."

"In the diplomatic field, it was concluded in the official documents exchanged at the time of the establishment of the Manchurian Empire last March, that Manchuria should submit, beforehand, all diplomatic and military matters to the Japanese government for thorough and unreserved deliberation. However, in comparison to the military diplomacy, no system has been established, as yet, for cooperative measures in the economic field which plays a close and vital role in uniting the two countries. Therefore, the Japanese Government has no formal voice in the management of the economic problems of Manchuria which have important relations with that of Japan, especially in the supervision of the Japanese-Manchurian joint concern having its object in the important industries of that country, and Japan, at present, is obliged to leave it up to the discretion of the Manchurian Government.

"This is no way to hold an inseparable tie between the two countries, nor is it without doubt, the way to strengthen the economic inter-dependent relations of our countries. As long as it is related to the unity of both countries, it is necessary that Japan should gain formal voice in the economic field as well as in the military and diplomatic fields through

the establishment of cooperative measures based upon an organization. To meet this necessity Japan has found it well to conclude a pact with a view to establishing a joint instrument between the two countries, and has been able to draft concrete plans for this purpose by having a Japanese diplomat in Manchuria negotiate with that government.

"The agreement of the program is a document entitled: 'An agreement between Japan and Manchukuo on the establishment of a Joint Economic Committee,' with an 'annex' giving the precise details of the agreement and is a 'matter of understanding concerning the conclusion of a pact for the establishment of a joint committee, agreed upon by representatives plenipotentiary of both countries.' The fundamental principles of each department are as follows:

"I. The Agreement.

"(1) A Joint Economic Committee of Japan and Manchukuo will be established permanently in Hsinking, Manchoukuo.

"(2) The committee will deliberate on and answer all questions submitted by the Japanese and Manchurian governments on all important matters concerning the economic tie of the two countries and the supervision of business of the Japanese-Manchurian

Joint special corporation. The two governments cannot settle any of the above matters until they have been submitted to the committee for deliberation.

"(3) If necessary, the committee may make proposals to the governments of Japan and Manchukuo on any matter concerning the rational economic unification of the two countries.

"(4) The organization and operation of the committee will be prescribed in the annex.

"(5) The agreement will go into effect on the date of signature. Both Japanese and Chinese will be the official language, and in case of a difference in the interpretation of the two texts, it will be settled according to the Japanese text.

"II. Annex.

"The fundamental principle of the organization and operation of the committee will be prescribed in the annex.

"(1) The committee shall consist of eight members, four from each country, which shall report to each other. In case of absence of any member, a proxy will be appointed through the conference of the Japanese plenipotentiary in Manchukuo and the Prime Minister of Manchukuo. If necessary, the two governments may appoint the same number of temporary members

after a consultation.

"(2) The chairman of the committee will be elected by mutual vote among the members. (He will be elected at every meeting.)

"(3) The same number of secretaries will be appointed by the two governments from among the staff members to take care of the general affairs of the committee.

"(4) All matters of the committee will be decided by a majority. The chairman has the right to vote as a member, and in case of a tie he has the right to make the decision.

"(5) The rules for the proceedings in the committee will be set by the committee after obtaining approval of the two governments.

"III. Understood matters.

"More definite rules on the organization and power of the Joint Economic Committee will be given here in detail:

"(1) Japan's permanent members of the committee shall consist of the Chief of Staff of the Kwantung Army, the Chief Councillor in full service at the Japanese Embassy in Manchukuo, Chief of the Kwantung Bureau, and one member specially appointed by the government."

"The Manchukuo members shall consist of the Ministers of Foreign Affair, Commerce and Industry, and Finance, and Head of General State Affairs.

"(2) The important matters to be deliberated by the committee, and are connected with the economies of the two governments are: the export, import and tariff problems; the development and control of the important industries; the enactment and amendment of laws concerning the establishment of a special Japanese-Manchurian Joint Corporation; investment; and other important problems concerning the economic connection of the two governments and are within the power of the Manchurian Government. Those matters important to the economic ties of both governments but are within Japan's power will not be taken up by this committee. Because they will not be deliberated by the committee they will be made into unilateral contracts binding only the Manchurian Government.

"(3) The important matters to be deliberated by the committee concerning the supervision of business of the special Japanese-Manchurian Joint concern include: the important amendments in the regulations of corporations, the purpose of which is to materialize important industries concerned with economic unity of both governments, and which have been established

according to the laws of one of two countries and more than half of whose capital has been raised by the government, citizens, or juridical persons of the opposite government; the disposition of the profit of said corporation and the recognition of the decision to amalgamate or dissolve.

"As there is as yet no corporation established according to the Japanese law with more than half of Manchurian investment, the agreement in reality binds only the Manchurian Government in this point also. Due to the existence in the document of such one-sided articles binding only Manchukuo, the authorities have declared, after an agreement brought forth by the two governments, to have this point kept secret.

"The point is that the agreement aims at the realization of a rational unification of the economies of the two countries by a full and close cooperation to strengthen permanently the economic relations according to the principles of the Japan-Manchukuo Agreement. For the purpose the Japanese-Manchurian Joint Economic Committee has been formed. Whenever important economic question relating to the two countries arise, the committee will deliberate on it and settle it."

"In view of the special relationship of the two countries and the assistance the committee will accord Japan in accomplishing her Manchurian policy, the said agreement is approvable in its general principle with little or no disapproving points in the articles. It is needless to say, such special provisions without proper application will never attain expected results, so the authorities must give their fullest attention in enforcing the agreements. The agreement has been approved unanimously by the Investigating Committee with hopes that the authorities will not err in their enforcement and would render the best results.

"The result of the investigation has been reported as above.

"MOTODA: According to this agreement, matters concerning Japanese-Manchurian joint concerns with more than half of capital invested by opposite party must be deliberated by the committee. Is it proper to set the investments of both countries on an equal basis?

"Furthermore, the committee shall consist of four members from each country, from among whom the president is appointed by mutual election. The chairman not only has a right to vote but has the

power of decision, acquiring for himself a tremendous power. His term, moreover, has not been set.

"According to the investigation report the chairman is elected at every meeting, but such matters require more definite rules or it will give rise to doubts. I think it proper to set this rule in the agreement and also in the proceedings regulations. At any rate, with only the rules of agreement the question brought to the committee for deliberation are apt to be decided by the chairman alone. The agreement, I feel, is not completed on this point. May I hear the opinions of the authorities regarding this matter?

"HIROTA: By his question, I take councillor MOTODA to mean that should the committee consist of four members from each country Japan might be at a disadvantage in case a matter is decided by the chairmana. I ask him to consider the fact that three out of the four from Manchukuo are Ministers and the remaining one is the Chief of General State Affairs who is, and will be, a Japanese forever, I am confident. Although he is an official of Manchuria, he is the central organ assuming the leadership of that country. Therefore, in case of a difference of opinions between

the two countries, it cannot be imagined that he will make any decision that will be disadvantageous to Japan.

"The chairman may make the final decision at times, but we felt it improper for him to have a permanent position, so we have adopted the system of electing the chairman at every meeting according to the nature of the matter to be deliberated. This point, however, may need full reconsideration when regulations for the proceedings are enacted in the future.

"In short, the set up of the committee may apparently seem equal on the part of both countries, but in reality it is not. Such being the case, we should like to have the agreement stand as it is despite some points that may be difficult to interpret.

"MOTODA: I do not think that there is any need of enforcing treaty rights between the two countries today, but not to form any agreement for this reason should be a lack of prudence. If agreements are to be formed, it should be made so as to be applicable to the nation's plans for a hundred years.

"It has been stated in the Investigation Report that the fullest attention should be paid in enforcing the agreement, that no error should be made,

etc. I hope that the authorities will give their full consideration to this point, which I think comprises many meanings.

"SAKAMOTO: I agree with the opinion of Councillor MOTODA. According to the Foreign Minister's reply, a Japanese is appointed as Chief of General State Affairs, and as he will do his duty as a Japanese, he will not act against Japan's interest. Should he act in favor of Japan in case of an opposition of the two countries' interest, he will incur the ill-feeling of the Manchukuo people. As long as he is an official of Manchukuo, we must not be too sure that he will not act against Japan's interest. I should like to ask the authorities' opinions on this point. Furthermore, there is no case in our country where a chairman is elected at every meeting. Can the authorities tell me of such a case, if it should exist?

"HIROTA: I take the question to mean that even if he is a Japanese, the Chief of General State Affairs must do his duty as a loyal official of Manchukuo; and that therefore, it will be impossible for him to decide in favor of Japan's interest. The Chief of General State Affairs, who is the general manager of the Japanese officials there, is employed

by the Manchoukuo Government to guide it. He is an official of Manchoukuo and simultaneously a leading instrument dispatched by Japan. He, therefore, must perform both duties, and it is his primary duty to see that there will not be any opposition between Japan and Manchoukuo.

"In case the Manchoukuo members of the Committee should purposely scheme to act against Japan's interest after the committee is formed, the Chief of General State Affairs will take proper measures after giving due consideration to the interests of both countries. It will be his duty to lead Manchukuo in such a way that such fear would be unnecessary.

"KURIYAMA: (Member of Investigation Committee): There was a question as to the existence of such a system of legislation in which the chairman is elected by mutual vote from among the members. The chairman of the Board of Directors of the League of Nations is generally elected by mutual vote at each meeting from among the members, and he acts as the temporary chairman until the new chairman is elected. The election of the chairman of the Joint Economic Committee will function almost in the same manner. We are thinking of establishing detailed prescriptions on this point

in the procedure regulations that will be set up in the near future. As the members of this committee are formally Japan and Manchoukuo on an equal basis, we have taken this form of election.

"SAKAMOTO: I feel that this committee is different from that of the League of Nations, but I shall not relate on that at present. The idea seems to be that there will be no mistakes because the Chief of General State Affairs occupying the important position of leading Manchuria is an official of Japanese descent. However, we cannot be too positive that the present relations between Japan and Manchuria will never change forever, so I hope the authorities will put their fullest efforts in fulfilling the points stressed in the Foreign Minister's reply.

"Chairman ICHIKI: As there are no more discussions, we shall omit the second reading and pass on to the vote. Those in favor of this plan will please stand up.

"(Every member stands up.)

"Chairman ICHIKI: The whole council has decided in favor of it."

The Agreement Regarding the Establishment of the Joint Economical Committee of Japan and Manchoukuo (IPS Document 2196A) was signed on the

15th of July, 1935.

BRIGADIER QUILLIAM: May it please the Tribunal, I offer in evidence IPS Document No. 2196-A.

THE PRESIDENT: Admitted on the usual terms.

CLERK OF THE COURT: Prosecution's document No. 2196-A will receive exhibit No. 851.

(Whereupon, the document above referred to was marked prosecution's exhibit No. 851 and was received in evidence.)

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THE PRESIDENT: The HIROTA mentioned as being present is the accused, is he not?

BRIGADIER QUILLIAM: May it please your Honor, I would like to check those names and refer to the matter later. I am not quite sure.

THE PRESIDENT: In this exhibit 850, the HIROTA mentioned was a foreign secretary.

BRIGADIER QUILLIAM: Yes.

THE PRESIDENT: And my colleague has pointed out that the biographical notes supplied to us show that HIROTA was foreign secretary at this particular time; HIROTA, the accused.

BRIGADIER QUILLIAM: I feel sure, your Honor, that it is the accused, but I would like to make the check as I am unable to say positively.

Will you proceed, Witness, please?

THE WITNESS: I will read that document, the import of which can be more clearly understood in the light of the preceding document.

"'Agreement Regarding the Establishment of the Joint Economical Committee of Japan and Manchoukuo.

"'Treaty 7. 17 July 1935.

"'WHEREAS the Imperial Government of Japan and the Imperial Government of Manchoukuo wish to materialize the rational union of economy of Japan

and Manchoukuo for the purpose of eternally strengthening the relations of economically mutual reliance now existing between the two countries and,

"'WHEREAS the Governments of the two countries recognize the necessity of close cooperation concerning important economical problems between the two countries, in accordance with the principle of the Japan-Manchoukuo Protocol signed on the Fifteenth of September in the Seventh Year of Showa, corresponding to the Fifteenth of September in the First Year of Daido, the Governments of the two countries have decided to establish the Joint Economical Committee and made the following Agreement;

"'ARTICLE I. The Joint Economical Committee of Japan and Manchoukuo shall be established in Hsinking of Manchoukuo.

"'ARTICLE II. The Committee shall present its opinion to the Governments of Japan and Manchoukuo in compliance with the consultation of the two Governments regarding the important matters of economical connection of the two countries and the control and inspection of the business of Japan-Manchoukuo special joint companies.

"'ARTICLE III. The Governments of Japan and Manchoukuo, concerning the matters mentioned in the

preceding ARTICLE, shall ask the opinion of the Committee beforehand and manage them in accordance with the opinion.

"'ARTICLE IV. The Committee shall be capable of making a proposal to the Governments of Japan and Manchoukuo concerning all the problems on the rational union of economy of Japan and Manchoukuo, as the case may be.

"'ARTICLE V. The organization of the Committee and its management shall be provided in the Annexed Papers to this Agreement.

"'ARTICLE VI. This Agreement shall be enforced on and from the day of its signature.

"'The text of this Agreement is written both in Japanese and Chinese and in case there rise any difference in construing the Japanese and the Chinese texts, the Japanese text shall be authorized.

"'In witness whereof, the undersigned, rightly authorized by their respective Governments, affix their signature and seal to this Agreement.'"

I will dispense with the reading of the structure of the organization.

"108. The creation of the Industrial Bank of Manchuria in December, 1936, furnished a means of financing the planned development of Manchurian industry."

"The Bank was originally capitalized at 60,000,000 yen and later increased to 100,000,000 yen. Officials of the Bank were appointed by the Government and its activities supervised by the Finance Ministry. The Industrial Bank was authorized to issue debentures up to fifteen times the amount of paid up capital and authorized to issue saving debentures to secure necessary funds for industrial development purposes. The facilities afforded by this Bank provided easy financing for preferred industries named by government policy which after all was Japanese dominated.

"109. In November, 1935, the yen bloc was established when Manchoukuo's currency was legally cut off its silver basis and stabilized at par with the yen. This action integrated the monies of the two countries, Japan and Manchoukuo. The yen bloc was enlarged in March, 1938, when Japan, her colonies, Manchoukuo and the dominated parts of China accepted the money notes issued by the Federal Reserve Bank of China. Under the regulations then put into effect Manchoukuo and China utilized the yen balances supplied by Japanese Banks practically as their exclusive currency reserves.

"110. The 'Essentials of the Five-Year Program of Important Industries by the War Ministry,' dated

29 May 1937, (Part I of Exhibit 842) discloses that the Japanese War Ministry in its planning intended to make use of the reserves and materials of Manchuria and North China. The following quotation is taken from page 1, paragraph 2 of that Document:

"'Although our Empire is made the subject in the promotion of important industries for national defense, the requisite industries (for national defense) should be pushed ahead to the continent as far as possible according to the principle of right work in the right place with Japan and Manchuria as a single sphere and in consideration of their necessity in our national defense, and, furthermore, observing the far-sighted future policy of our Empire, we should pick out the most important resources, should ingeniously take the initiative in economic exploitation of North China, and should make efforts to secure its natural resources.'

"This Document contains also a schedule citing a general goal for promotion of important industries in Manchuria, as well as in Japan, and expressing specifically the intention to supply certain deficiencies from Manchuria. However, 'The Outline of the Five-Year Plan for Production of War Materials,' (Exhibit 841), shows this planned integration to be vital to war expansion. I will read the following

excerpts from that Document:

"a) Page 3 (all).

"b) Section III, pages 5 to 7 inclusive."

THE PRESIDENT: You have not read this part before, have you, Witness, that is, sub-paragraphs 1 and 2 you are about to read?

THE WITNESS: Yes, I had intended to read.

May it please the Tribunal, I have read excerpts from page 3 before, with the exception of sub-paragraphs 1 and 2. For the sake of continuity of thought I had intended to reread the entire page.

THE PRESIDENT: We do not want it read again, Mr. Liebert.

THE WITNESS: I will read sub-paragraphs 1 and 2, which have not heretofore been read.

THE PRESIDENT: Well, if they are pointless they are not worth reading; perhaps they are, without the context.

BRIGADIER QUILLIAM: I suggest that you follow straight through to page 5, Mr. Liebert.

MR. BROOKS: If the Tribunal please, there have been other times when they have gone back and reread, and the defense does not have any objection to that part being reread. It does not make sense.

THE WITNESS: Section III, pages 5 to 7, Outline of Expansion. 1. Building-up on the continant.

"1. In the 5-year Industrial Plan of Manchoukuo, proper guidance will be given to the group

of war industries such as aeroplanes, arms and automobiles and in addition to increasing and strengthening the national defense value of this plan, the establishment of industries for the manufacture of necessary parts and raw materials will be encouraged and various machine tool industries convertible into these in time of war will be cultivated.

"'Accompanying the carrying out of the economic development of Korea, efforts will be exerted towards the promotion of major industries according to the preceding paragraph.

"'2. Government-managed arsenals will be newly established or enlarged as a nucleus for the guidance of war industries in Manchoukuo and Korea.

"'3. As for the war industries in Manchoukuo and Korea and others convertible into these in time of war, emphasis will be laid on Southern Manchuria and Northern Korea, in particular, from a military point of view and for the present, guidance will be so given as to have these established in the following areas:"

Areas a, b, and c are not relevant.

"'In addition to the above, however, the creation of such industrial zone within the Tungpin-Tao District will be considered depending on its

future development. Furthermore, the cultivation of war industries may be undertaken, if necessary, even in the industrial zone of Eastern and Northern Korea. Facilities within the industrial zones and areas will be suitably dispersed as a precaution against air raids.

"'4. Relative to the setting-up of industrial zones in Manchoukuo and Korea, consideration will be sought for the gradual realization of the following transportation facilities:"

I will omit that portion.

"'5. Maximum effort will be exerted toward overcoming the various factors impeding the speedy construction of the war industries in Manchoukuo and others convertible in time of war.

For this purpose, attention will be given to the following items:

"'a. Absorption and acquisition of capital.

"'b. Acquisition of technique and labor.

"'c. Adjustment of both munition and civilian demand industries and preparation for conversion into wartime production.

"'d. Elimination of lags within the various related industries.

"'e. Counter-measures against depression and development of export measures."

"'f. System and organization of enterprises.

"'g. Cultivation and protection.'

"111. It was also the intent of the War Ministry to fully utilize the resources of Chosen (Korea). Integration had already been effected during the four decades in which Chosen had been completely dominated by Japan. Financially, Chosen was controlled by Japan through control of investments as well as through the operation of the Bank of Chosen which was an official bank of issue of Japanese currency and the single effective instrument by which fiscal policies of the Japanese Government were carried out in that territory. So strong was the hold of Japan over the economic structure of Chosen that approximately 97% of all corporations (Kaisha) doing business in Chosen were controlled by Japanese. When one adds to the picture the fact that the Government of Chosen was completely Japanese, one can understand the completeness of the integration of the two economies under the control of Japan.

"112. Since the turn of the Century the economic structure of Taiwan (Formosa) has also been dominated by Japan. Taiwan is predominantly an agricultural territory normally exporting sugar, rice, and sweet potatoes. What few industries it had were developed predominantly by the Japanese. Like Chosen, dominance

was exercised through control of investments and control of the Government. The Bank of Taiwan, likewise an official bank of issue of Japan, carried out the fiscal policies of the Japanese Government in that territory. Similarly, the Commercial and Industrial Bank of Taiwan (operating as it did in purely commercial circles), was at the disposition of Japanese policy makers. Formosa, like the mandated islands in the South Pacific, was, in all factual respects, a colony of Japan.

"113. The direct integration of the economy of China into that of Japan did not commence until a later date. The integration, however, was planned by the War Ministry to carry out the military objectives as previously cited in paragraph 110 of this statement. Further evidence of planning to use the facilities of China for war purposes is disclosed in the 'Resume of Policy Relating to Execution of Summary of Five-Year Program of Important Industries,' dated 10 June 1937, (Exhibit 842), which states on page 1, sub-paragraph B, the following:

"'This plan is for the establishment of a plan for the expansion of the productive power of the major industries of our country based on the policy for the establishment of a comprehensive plan

for Japan, Manchoukuo and China through close contact and coordination among Japan, Manchoukuo and China.'

"114. During the first year of hostilities in China, 1937-1938, the Japanese Army used the bank notes of the Bank of Chosen in North China and the bank notes of the Bank of Japan in Central China, together with scrip denominated in yen, so-called 'military' yen. However, the practice of using currency in occupied territories which was valid for circulation in Japan had disturbing effects upon Japan's monetary structure. As a consequence, the practice of using official Bank of Japan notes backed by specie was definitely abandoned in the autumn of 1938, at which time the Federal Reserve Bank of China was formed and the yen bloc extended through the use of the facilities of this bank. The Japanese in North China made use of the new local currencies issued by the Japanese-dominated Federal Reserve Bank of China, whereas in Central and South China the 'military' yen became the sole legal tender of the Japanese Army.

"115. A word might be said of the Federal Reserve Bank of China. The Federal Reserve Bank of China was incorporated on February 11, 1938, and commenced actual business on the 10th of March of the same year. The main purpose of the bank was to

stabilize currency and control the money market, and foreign exchange; and for such purposes it was authorized by the government to manufacture and issue currency. The Governor and Vice-Governor of the bank were appointed by the government, and its directing personnel were mainly Japanese. The currency issued by the Federal Reserve Bank of China was linked to the Japanese yen, and so paved the way towards Japanese investments in North China and greatly facilitated the exploitation of this territory. The original credit of the bank was established by a credit of 100,000,000 yen from the Japanese Banking Syndicate. This Japanese government dominated bank, becoming as it did the 'Bank of Banks' in North China, through careful extensions of preferred credits and the manipulations of its funds and foreign exchange, carried out the Japanese Government's policies in financial fields within the area dominated by the Bank."