ESTIMATE

of

Potential Military Strength

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Japan is suffering from an acute power shortage caused by a shortage of coal and a lack of rainfall. Power reduction except to essential military industries averages 30% and there is no immediate prospect of improvement. Coal is being imported from Canada and India and imports of Chinese coal are being increased. These measures will help but the situation cannot be expected to change much until the rainy season starts in May or June.
General Intelligence Summary - Electric Power Shortage

Japan is today faced with a multitude of problems of assorted sizes, but one, that brings home to the populace and industry some of the far-reaching effects of the struggle in China and its drain on the economic structure of Japan, is the dire shortage of power throughout the length and breadth of the nation.

To obtain foreign exchange, without which Japan may not replenish her war stocks, exports must be pushed and subsidized, even to the point where the lack of certain necessary commodities within the nation remains a source of perturbation and real annoyance. The relation between power and exports is obvious. With a cut in power consumption occurs a corresponding reduction in volume and value of export goods. And, at this writing the percentage reduction of power to all industries, except those vitally necessary to prosecute the war, is running in the neighborhood of 30 percent.

The present power shortage is not a phenomenon nor an entirely unforeseen possibility. In the summer of 1939 there were definite indications of a serious coal shortage for the coming winter. The authorities concerned were well aware of this and a great deal of meaningless wrangling from them plastered the newspapers, though no concrete measures were instituted to relieve the famine. Besides the lack of coal for generating and power purposes, there was an extremely light rainfall over the entire country and many large cities were forced to ration water for daily living. This water shortage forced hydro-electric plants to first curtail, then suspend operations entirely. One by one, particularly on the small tributaries of the larger rivers and lakes, the small power plants fell idle, and transmission and distribution facilities from other producing plants were unavoidably overloaded to prevent a complete lack of power in certain areas.

Alarmed by protests from consumers, the Government sought desperately to alleviate the power famine. Neon signs and other advertising lights were forbidden, an appeal was made to the public to diminish consumption and, when that failed of major results, the public was constrained to accept a thirty percent cut in power allotment to homes.

However, the worst was yet to come. Electric trains were heatless, then the service itself was cut by half, elevators and escalators either stopped completely or operated only during rush hours, electric heaters were forbidden, and in certain cities power was completely off for periods ranging from ten to fifteen hours each day. Factory districts, at first eliminated from the restrictions, received notification that each third day would be an enforced holiday, with no power available. Even though "holiday wages" were paid workers during enforced idleness, the rising costs of labor and idle machinery brought forth anguished howls of protest.

Attempting to make up for lost time, the industrialists worked overtime and used more power than had been planned so that the net effect of the power holidays was no decrease in consumption. The next step was to declare every other day or two days out of three a rest period.

Crowning the succession of misfortunes, terrific blizzards and offshore gales disrupted transmission lines, upset coal transportation schedules and added more woes to the everlengthening bare subsistence levels. The last, and least desired, remedy now appeared inevitable. Articles 3 and 4 of the Electric Power Adjustment Ordinance have been invoked for compulsory limitation of the power consumption and supply. Public clamor, and the failure of mere voluntary limitation left to administrative discretion to cope with the
difficult situation, forced the Cabinet to draft plans for invoking the Ordinance. The articles referred to read as follows:

**Article 3.** The Communication Minister may limit or prohibit the consumption of electric power, or order measures necessary for limiting or prohibiting the said consumption by designating the area, period and other particulars concerned in the said limitation or prohibition.

Suppliers of electric power shall take proper measures in regard to the supply of electric power when the foregoing limitation or prohibition is ordered or when the foregoing order for necessary measures are issued, so that the said measures may be enforced smoothly.

**Article 4.** The Communication Minister is empowered to order suppliers of electric power to supply or receive electric power and limit or prohibit the said supply.

The Communication Minister may order suppliers of electric power to take proper measures necessary for enforcing the limitation or prohibition stipulated in the foregoing paragraph.

Thus shifting the burden on to the shoulders of the Communications Minister does not in any manner relieve the power deficiency, nor does it insure that strict measures required for proper distribution to consumers are under way.

After consultations concerning the matter, the Communications Minister arrived at the conclusion that such proposed measures as a Coal Requisitioning Ordinance or compulsory buying of coal through appealing to amateur troubleshooters, would be quite useless in practice (through lack of cooperation). The cooperation of the Mitsui and the Mitsubishi interests was sought to secure the necessary 160,000 tons of coal required for power plant operation during February (from Canada and India). These acts are only stopgap measures and do not eliminate nor mitigate the fundamental problems. The essential, basic factor concerning the lack of coal for power generating purposes is the lack of adequate transportation facilities. This is caused by a desire on the part of shipowners to reap great profits in the booming trade between China-Manchoukuo and Japan by not diverting ships to the coal carrying routes (low freight rates), and by the lack of rolling stock and coordination in the railway setup in Japan proper.

Among the troubles encountered by industrialists are the following:

1. Because of the derangement of production plans in the export industries, claims in overseas transactions are likely to be favorably received by foreign customers, for failure to fulfill orders.

2. In industries such as spinning and weaving mills employing girl operatives, these operatives are granted leaves during enforced holidays. Holiday allowances are not tempting and labor troubles result from failure to return to work, the lack of information as to when power will be available and for other, lesser reasons.

3. Where the shift system is employed, the announcement of the suspension of operations on the occasion of the arrival of a new shift tends to undermine discipline and will eventually disable the management of the plants.

**Power Reduction in the Kwansei:**

Last summer the daily power supply for the Kobe-Osaka area amounted to 25,000,000 kwh. On the 1st of February, 1940, the supply amounted to 14,200,000 kwh, a decline of 10,800,000 kwh. An additional restriction effective on 2 February was a further cut of 1,000,000 kwh. Even the supply to electric furnaces was partially suspended. Electrolytic plants, which may be subject to explosions in case of power suspension, will also be affected after due notice to close down.
has been given. A general power supply suspension amounting to between 70 and 85 percent will also affect spinning mills, ceramics plants, weaving shops, fertilizer plants, beer breweries, confectionary and foodstuffs factories. Electric cars will decrease in number, further congesting traffic, and the power supply to small consumers will be so drastically cut as to enforce complete idleness.

Conditions of leading industries since the power supply restrictions went into effect on 14 January, 1940, are:

**Spinning:**
Power cut 45-55%, with an estimated (conservative) 30% reduction in output. As the spinning industry is one of the largest consumers of power, spinning mills have been forced to close one day in three, and, from 2 February, every other day.

**Chemical Industries:**
This is one of the least affected industries, as the dangers of explosions due to suspension of the power supply has made the authorities cautious. Electric furnaces are being shut down in the large plants.

**Smelting:**
Iron mills received a cut of 30-40%. Blast furnaces must be kept in operation but the electric furnaces (open hearth) are suspending operations. The largest producer of Aluminum in Japan is ceasing activities as his blast furnaces empty.

**Machinery:**
Scarcity and government control over materials had already forced this industry to accept a 20% cut in production, and the application of continued power restrictions to the smaller companies will seriously affect the small and medium sized producers (the great majority).

**Other industries:**
Glass plants and medicine factories have already accepted a 30% reduction in power. Glass production was almost halved and leading medicine plants have suspended operations. When the 2 February restrictions take effect, the 60-70% reduction will force many industries to close completely during the period of power limitation.
This report was prepared by Mr. D. W. Smith, Acting Commercial Attaché to the Embassy in Tokyo.

It should be noted that Mr. Smith concludes that:

a. No improvement can be expected in Japan's general economic position until the hostilities in China are terminated;

b. Shortages of daily necessities will become more acute in 1940;

c. The financial outlook is unfavorable and inflation accompanied by increased commodity prices, production costs and living costs can be expected;

d. Exports will be maintained at a high level by the policy of making heavy shipments to foreign currency countries;

e. Imports from the United States are expected to remain at the high 1939 level, although imports from other foreign currency countries will probably decline;

f. Government control of all phases of business, industry and trade will be extended.
General Economic Developments:

Preoccupation with the efforts to settle the China incident dominated Japan’s economy during 1939, and overshadowed all other developments including the notice of the abrogation of the United States-Japan Treaty of Commerce and Navigation, and the outbreak of the hostilities in Europe. While most economic statistics indicate unparalleled business and industrial activity and a decided improvement in the agricultural situation, there were signs that the economic structure of the nation was weakening under the continual strain of concentrating its economic resources towards coping with the situation in China.

The most obvious of these signs were: a sharp increase in note circulation and a definite trend towards inflation; a significant decline in the absorption rate of national bonds during the closing months of the year; an increase of 32% in the national debt and the necessity for increasing the tax burden of all classes; mounting commodity shortages due to the depletion of the reserve stocks that had been accumulated prior to the outbreak of the China incident and the concentration on the output of military and allied equipment; a decline in labor and industrial efficiency; and general discontent over the actual price control policies of the Government. Perhaps the most discouraging development of the year was the lack of actual progress made towards a solution of the China problem despite the territorial gains of the military forces.

Factory employment and industrial output reached a new high level but nevertheless the labor supply was inadequate and the volume gain in industrial production was limited primarily to unproductive goods by the munitions industries. Farm income reached the highest level since the 1914-18 war boom period, but the rise in farm prices was one of the prime factors in the upward trend of living costs in urban centers. Financial statistics reflected a high degree of internal prosperity brought about by the inflationary trend which has followed the heavy excess Government payments and rising commodity costs. The value of the export trade and the favorable merchandise trade balance were the highest ever recorded, the result of heavy shipments of both producers and consumers goods to the yen-bloc countries. There was, however, some improvement in the trade with foreign currency countries and a reduction of the visible unfavorable trade balance with these countries. There was a 32% gain in the national debt and further indications that increased bond issues would be required to finance the 1940-41 budget.

Commercial relations with other countries took a decided turn for the worse during 1939, all other developments in this field being minimized by the notice of the United States of its intention to abrogate the Treaty of Commerce and Navigation of 1911. There was general regret that the step had been taken and uneasiness over the fear of an eventual embargo on such urgently required materials as oil, scrap iron and machinery. Maturer deliberations and press comments from the United States intensified the apprehension of the business community regarding the prospects of a treatyless period as the year closed. Relations with Germany, which had given promise of becoming exceedingly favorable after the conclusion of a trade pact with that country, took a decided turn for the worse following the announcement of the German-Soviet non-aggression pact. Japan’s commercial relations with the Soviet Union remained strained during the greater part of the year, although towards the close of 1939, it appeared highly probable that trade negotiations would be opened between the two countries early in 1940. Inability to reach an
agreement with Great Britain over certain matters in connection with the administration of North China led to strained commercial relations with that country during the last half of 1939.

The outbreak of the war in Europe came as a severe shock to all classes of the Japanese people, this development greatly augmenting the numerous and perplexing problems facing the nation. The effect of the war was considerably lessened by the previous organization of the nation's economy on a wartime basis but the Government took immediate steps to further cushion the impact of European war developments. These included revisions in the Materials mobilization and productive capacity expansion plans, trade progress, and financial mobilization with dual aims of strengthening the economic structure and establishing an economic system which would insure self-sufficiency in the yen-bloc. Furthermore, measures were introduced to suppress speculation, regulate commodity prices, assure the continuation of low money rates for the smooth absorption of national bonds, provide necessary war risk insurance and supervise shipping. There was a speculative wave of buying of shares in export enterprises in anticipation of a war boom, but it was subsequently realized that Japan was not in a position to take full advantage of the opportunities offered by war in Europe.

At the close of the year it was obvious that the nation was unserved in its determination to carry on the China incident to a successful conclusion, but public leaders and economic observers were more outspoken regarding the indefinite period and the further sacrifices which would be required to achieve this objective. There was, however, general discontent towards the upward trend of living costs and of the ineffectual efforts of the Government to control commodity prices. The dissatisfaction on the part of the public against the Government's price policies and its inability to cope with commodity shortages were primarily responsible for the downfall of the Abe Cabinet shortly after the close of the year.

While the efforts to regiment the economic resources of the Empire covered all phases of industrial, commercial and business activity, particular attention was directed towards the execution of an ambitious industrial expansion program for the yen-bloc countries, and a domestic materials mobilization plan. Due to the commodity and labor shortages which prevailed throughout the year and a serious power shortage during the closing months of 1939, it is apparent that the scheduled expansion of industrial productivity was not accomplished. The materials mobilization plan likewise appeared to have fallen short of its objectives and both plans are reported to be due for drastic revision during 1940.

Throughout the year there was a further trend towards totalitarianism and evidence of a desire towards the planned economy measures of certain European nations. This was no new development, as there were no major changes in the country's basic economic policies, but rather a more intensive application of a policy of greater official control over the economic activities of the nation.

Economic Policies, Extension of Official Control and Trend of Legislation:

Japan's basic economic policies during 1939 remained unaltered from the preceding year in spite of two changes of cabinet. Practically all of the laws and regulations introduced and made effective during the year under review were aimed at marshalling the economic resources of the empire to the fullest extent for carrying on hostilities in China. Steps taken to achieve this objective were similar to those invoked in 1938 but the scope of governmental regulation of the nation's economy was expanded and control still more intensified.

Prolongation of the China hostilities and the outbreak of the European war necessitated the making of radical changes in Japan's program for industrial expansion and were instrumental in forcing the
Government to adopt more rigid official control of commodity prices. The paternalistic attitude toward the development of small-scale establishments was altered, regardless of their importance to the general productivity expansion program, the Government favoring the consolidation of capital investment and equipment in large-scale enterprises. The necessity for more intensive regulation of commodity prices and charges for services prompted the enactment of a series of price control regulations which froze quotations at the levels prevailing on September 18, 1939. In addition, regulations prevented further increases in freight charges, storage charges, insurance premiums, processing charges, wages and salaries. House and ground rents were also fixed, at the levels prevailing on August 4, 1938. The Central Commodity Price Control Commission was active throughout the year in fixing standard maximum prices for an ever expanding range of articles.

Efforts to combat commodity shortages and illegal transactions in commodities were made through the expansion of the distribution control system, there being a pronounced trend away from autonomous control by trade organizations in favor of official regulation. Many new commodities were added to the list of items subject to state control and previously instituted measures were revised and strengthened to provide for more intensive regulation. Particular attention was given to ensuring an adequate supply of raw materials for the export industries and for the rural communities. The desire to utilize basic commodities to the best possible advantage was reflected in the imposition of many new restrictions on the use of the materials required for military purposes. Restrictions were also imposed on the installation of new equipment for the non-urgent industries, and later on the installation and expansion of the mechanical facilities of small-scale undertakings.

Various measures aimed at mobilizing the labor forces of the nation were introduced during the year, including the compulsory registration of vocational ability, the restriction of employment, the restriction of working hours, control of wages, and the training of technicians and skilled workers. Most of these measures were introduced under the authority of the National General Mobilization Act.

The Government extended its active participation in industrial and commercial enterprises through the establishment of new semi-official monopolistic concerns including the Japan Power Generating and Transmission Company, and the Japan Aeronautical Transportation Company. Government aid to privileged enterprises was extended through the Light Metal Manufacturing Industry Law and the Shipbuilding Industry Law.

Important financial legislation introduced during 1939 included an upward revision of the China Incident Special Tax Law, an upward revision of the Temporary Excess Profit Tax Law, revision of the Temporary Funds Adjustment Law providing for more intensive Government supervision over loans, an expansion of the legal limit of fiduciary note issues of the Bank of Japan, the invocation of Article 11 of the National General Mobilization Law providing for the restriction of corporate dividends, and the granting of increased subsidies for gold production.

Towards the close of the year, the Government invoked Articles 10 and 13 of the National General Mobilization Law authorizing the expropriation of certain commodities and factories and workshops engaged in the production of such commodities.

Industrial Developments and Production:

Due to the attention centered on the production of munitions and allied equipment, Japanese industrial activity reached a record high during 1939. All available indices of industrial output indicate that the net volume gain in industrial production was
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about 5% to 6% over the previous year and from 10% to 12% over 1937. When it is considered that thousands of small firms have been established during war materials and the means to produce military equipment, that more than Yen 4,700 million has been invested in expanding the productive capacity of the nation since the outbreak of the China incident, and that factory employment reached an all-time record during the past year, Japan’s record of industrial output during 1939 is not impressive.

Factors responsible for the comparatively small volume gain registered in industrial production include the following; a shortage of coal and electric power, primarily as a result of the expanding of the nation’s productive capacity to a greater extent than the output of the electric power and coal industries, a severe drought which curtailed the power output of hydro-electric stations; a definite shortage of labor, particularly skilled labor, and a decline in labor efficiency due to the increasing physical exhaustion of workers and the employment of unskilled labor; a decline in plant operating efficiency which has resulted from the shortage of materials for maintenance since the outbreak of the China incident; a general shortage of basic raw materials, and the restrictions imposed on the activities of the “peace” industries.

The limited volume increase in industrial production during 1939, is reflected in the official indices of industrial activity published by the Ministry of Commerce and Industry. The composite index covering the major manufacturing industries and mining enterprises, averaged 179.9 (1931 - 1933 = 100) during the first nine months of the year, compared with 169.7 during the corresponding period of 1938, a gain of 6%. In view of the more pronounced steel and materials output prevailed during the last quarter, it is believed that the rate of increase was not so great as during the first nine months of the year and the estimated net gain in the volume of industrial production for 1939 therefore is placed at between 5% and 6%.

The slight volume gain in industrial production registered during 1939 was due almost entirely to the greater output of the heavy industries. The Ministry of Commerce and Industry’s composite index covering the output of pig iron, steel materials, and machine tools averaged 332.9 during the first nine months of 1939, compared with 304.2 during the same period of 1938, a gain of 17.1%. Varied trends were noted in the textile industry - the production of cotton yarn, raw silk, rayon textiles, and staple fiber being below that for the previous year but slight gains were reported in the output of cotton, silk and woollen textiles. Chemical production was restricted as a result of the prevailing shortage of electric power and the output of such important items as ammonium sulphate, calcium cyanide, soda ash and acetic acid was below the level of the 1938 production. A decline was also noted in the output of the cement and plate glass industries. The volume gain in the mining industry showed only a 3% increase over the previous year, according to the official index, despite the strenuous efforts being made to expand the nation’s output of minerals.

No figures are available concerning the volume or value of the production of Japan’s home industries during 1939, but this branch of industry, which is estimated to have produced between 12% and 15% of the total of all manufactured products during recent years has undoubtedly suffered to a considerable extent from the restrictions on the supply of raw materials. Although the value of the output of the home industries probably showed a slight increase during the past year, this trend was primarily the result of the increase in the cost of raw materials and the volume of production was undoubtedly below the level of the pre-incident years.

As in the previous year, the major industrial developments during 1939 were centered on expanding the productive capacity of the nation’s heavy industries with particular effort directed towards some degree of self-sufficiency in iron and steel materials, pig iron,
non-ferrous metals, automobiles and aircraft, and synthetic chemical products. Considerably less publicity was given to the development of substitute products than in the previous year but it is believed that the authorities were active in encouraging the further development of substitute industries and that the production of such products was greatly expanded during 1939.

In the early part of 1939, the Cabinet Planning Board announced a three-year program of industrial expansion for Japan, Manchuria and North China, the plan envisaging self-sufficiency in the basic commodities required for national defense by the end of 1942. The plan provides the increased output of iron and steel materials, coal, non-ferrous metals, petroleum products, artificial fuels, chemicals, wood pulp, machine tools, railway rolling stock, automobiles, and gold. No definite program was announced regarding the extent to which Japan's industrial output would have to be enlarged to carry out the scheduled increases but it is apparent that it will be necessary to greatly increase the domestic output of automobiles, machine tools, chemicals, and rolling stock, to ensure the successful outcome of this phase of the program.

The outbreak of the hostilities in Europe has consequently resulted in the necessity of revising the industrial expansion plans of Japan and the yen-bloc countries as the success of the plan depended to a considerable extent on plant equipment and materials from Germany which were to be furnished in exchange for Manchurian produce. The latest available reports regarding the revised program state that the Cabinet Planning Board intends to concentrate on increased mineral production and pay less attention to expanding the production of all other items, except those most urgently required by the military authorities.

There was a definite trend towards the consolidation of industrial firms and the diversification of production throughout the year. The former development was prompted by the desire to reduce production costs, and consolidate limited supplies of raw materials in order to maintain greater operating efficiency at certain plants. The diversification was most pronounced in the heavy industries, many concerns undertaking the production of parts which they had formerly purchased for assembly, the processing of raw materials instead of purchasing semi-manufactured goods, and the production of complete units, such as machine tools and heavy industrial equipment, instead of pig iron and steel materials.

Until the outbreak of the European war, it appeared that the Government was endeavoring to favor the small industrialist as steps had been taken during the early part of the year to finance the shifting of small industries from the production of consumption goods to munitions. A revision of the Industrial Association Law was also approved by the Diet which authorized the establishment of industrial guilds of less than ten members - such guilds being exempt from business taxes and eligible for government subsidies. Following the outbreak of the war, however, it was found that the further expansion of productive capacity should be limited to efficient large-scale producers and, accordingly, restrictions were imposed on the new establishment or expansion of mechanical facilities of small firms.

Ample funds for industrial financing were made available through the extension of the bond issue of the Industrial Bank of Japan, although towards the end of the year it was evident that the Government intended to exercise greater control over industrial expansion by the revision of the 'Temporary Funds Adjustment Law providing for the reduction of the limits of loans which could be extended without official permission.
Cotton Spinning and Weaving:
The Japanese cotton textile industry during 1939 operated under somewhat improved conditions as compared with the preceding year. Although statistics show little improvement the disrupted state of the industry was largely smoothed out, as manufacturers and dealers became more accustomed to working under wartime restrictions. The export-import link system, which underwent considerable changes during 1938, continued in force during 1939 with only minor alterations. Raw cotton imports and textile shipments were slightly higher than those of the preceding year, but remained far below the normal pre-incident level. The advance in textile exports occurred in spite of heavy reductions in shipments to the yen bloc area, which were restricted by Government control.

The steady increase in stocks of pure cotton textiles has become a problem which officials and industrialists have not yet succeeded in solving. Warehouse stocks advanced from 180,000 bales in October 1938 to 334,000 bales for the same of 1939. Although definite information is no longer available, unofficial estimates indicate that an equal volume of textiles is on hand at mills. Since the total output of cotton cloth, including mixtures with staple fiber and wool, has shown only a slight increase over 1938, it is apparent that the unusually heavy stocks of pure cotton cloth are due to the diminished production of mixtures for domestic use.

Exports of cotton textiles during 1939 amounted to 2,446,000,000 square yards, a gain of 12% over the previous year. In spite of this gain in volume, the value of the shipments declined 0.3% due to the steady downward trend of prices, particularly in the case of grey cloth. The price decline is largely attributable to the linking system, which obliges manufacturers to dispose of their stocks in order to obtain new supplies of raw cotton. This serves to put the exporter at the mercy of foreign buyers, and in some cases it is reported that sales were made at quotations below the actual cost. Under the same incentive, there was a substantial increase during the first part of the year in the grey cloth trade, since the sales of this type permit a rapid turn-over. This adverse trend was partly alleviated in April by the establishment of the Cotton Yarn and Piece Goods Export Promotion Guild. All mills engaged in the export trade have to be members of this association, which has the power to withhold permits for raw cotton from those importers which export excessive amounts of the low-priced grey cloth. The guild is also reported to be empowered to buy up and export cotton goods which are offered at rates below cost, thus strengthening the market.

Raw cotton arrivals during the year amounted to 1,335,134,- 000 pounds, an increase of 7% over 1938. India and Brazil received most of the benefit of the advance, while imports from the United States and China declined. American cotton was heavily purchased at the beginning of the year, but imports during the summer and fall were so low that the early gains were completely offset. However, the American subsidy strengthened the competitive position, and even after the subsidy was withdrawn the speculative rise in Indian cotton prices continued to close the gap between American and Indian quotations. Consequently the outlook for American cotton during the 1940 year is considerably brighter.

Iron and Steel Industry:
The activity and output of Japan’s iron and steel industry undoubtedly reached a record level during 1939, but despite the expansion of the industry, the supply of iron and steel materials was admittedly short throughout the year. The scarcity of these materials is reported to be primarily responsible for the slow progress made in expanding the productive facilities of other industries as the shortages of steel for building purposes had held up the construction of many projected factories and workshops, while the lack of adequate
quantities of special steels has greatly restricted the activities of the machine tool, automobile and metal manufactures industries.

Early in 1939, the expansion program on which the industry was engaged was greatly enlarged. According to press and trade reports, the general industrial expansion plan of the yen-block countries provides for the following increases over the 1938 productive capacities: ordinary steel, 60%; special steels, 100%; steel ingots, 60%; pig iron, 100%; and iron ore, 150%. No details have been published regarding the extent to which the domestic industry is to enlarge its present productive capacities to attain these objectives but it is estimated that the Japanese share is 7,750,000 metric tons of pig iron, 9,200,000 metric tons of steel blooms, and 2,300,000 metric tons of steel materials. Definite progress towards this objective was made during the year, four new melting furnaces with an aggregate annual capacity of approximately 900,000 metric tons having been put into operation during 1939. Eight additional furnaces with an estimated 1,500,000 metric tons capacity were reported to be under construction at the end of the year and are scheduled to be blown-in during 1940.

The notice of the abrogation of the Treaty of Commerce and Navigation by the United States and the outbreak of the European war, resulted in a drastic change in the nation's iron and steel industry. Prior to these developments, it appeared that every effort was directed towards expansion of the industry regardless of size or efficiency. When some fear began to be entertained regarding the prospects of obtaining adequate supplies of scrap from the United States and iron ore from the colonial possessions of Great Britain and France, restrictions were imposed on the further development and expansion of small scale establishments and on deliveries of raw materials to unincorporated plants. Furthermore, it was decided to exercise direct control over scrap iron purchases and distribution; to establish pool price levels for raw materials in accordance with the classification of various plants based on equipment, quality of products and volume of material consumption; to allocate official production allotments, and to merge the three existing steel materials sales guilds into a single sales organization. Because of the uncertainty prevailing regarding the raw material supply, a maximum scrap allotment of 60% was officially established for the fourth quarter, monthly allotments of tin-plate were reduced to one-third of the previous monthly deliveries during the last two months of the year, the blacksheet allotments were reduced by 50%, and sales of steel materials to private consumers were temporarily discontinued by the Steel Materials Sales Guild.

Throughout the year the attention of the industry had been centered on the utilization of low grade domestic ores but these efforts were redoubled during the last few months of the year. Various reports were published to the effect that plans had been drawn up to cope with the possible embargo of scrap iron from the United States, that processes had been developed to produce steel materials direct from iron ore, and that domestic iron sand could be substituted for imported ore in the event of emergencies but there is no question that some apprehension prevails among iron and steel manufacturers concerning raw material supplies during the coming year.

Labor, Employment and Wages:

The previously accepted theory that Japan has an unlimited labor supply has been dispelled by the developments of the past two years as it is becoming increasingly obvious that the nation is incapable of supplying the military requirements for manpower and the industrial demand for factory workers at the same time. Despite a 10% increase in factory employment during 1939, the labor supply was totally inadequate and the shortage of workers, particularly skilled workers, was undoubtedly responsible for the slight net volume gain in industrial production. Employment in the mining industry is also estimated to have increased by 10% during 1939, however the shortage of labor was partially responsible for the lack of progress made by the
industry during the year, the coal industry in particular having been
greatly handicapped by the scarcity of miners.

To some extent the demand for labor in the heavy industries
was met by a shifting of employment from the light industries during
the past year, the machinery, vehicle, tool and instrument, and metal
industries registering gains of 29%, 27%, 30%, and 20% respectively
during the first eight months of 1939, compared with respective losses of
5%, 3%, 5%, and 15% in the spinning, weaving, dyeing, braiding
and knitting, and rubber industries. The concentration of employment
in the heavy industries since the outbreak of the China incident is
reflected in the official employment indices of the Cabinet Bureau
of Statistics. These show that at the end of August 1939 the rate of
increase of employment in all industries was 26% over July 1937. The
increase in the machinery industry was reported at 94%, precision
tool industry 68%, shipbuilding and vehicle industry 63%, and metal
industry 42%. They also show a definite concentration of labor in
large-scale undertakings, there actually being a 14% decline in em-
ployment in metal, machinery, shipbuilding and vehicle, precision
tool, and spinning and weaving establishments employing less than
50 workers during this period while there was a 29% increase in the
number of workers in similar establishments employing more than 50
workers.

The extent to which labor has been required to work over-
time to compensate for the shortage of workers since the outbreak of
the China incident is also reflected in the statistical reports of
the Cabinet Bureau of Statistics. Only a 3% gain in hours of em-
ployment was reported during July 1939 but there was a 29% average
increase in "extra hours" worked during that period compared with
July 1937. The increase in overtime work reached as high as 97% in
the machinery industry supports the view expressed in a previous
section of this report to the effect that the long hours that are re-
quired of workers are responsible for a decline in labor efficiency.

According to the Bank of Japan's labor indices, average
rates of wages in industry were 7.5% higher during the first eight
months of 1939 than during the previous twelve months, 11.4% above
those for 1937, and 13.7% above the average during 1936. Due to
overtime work, actual earnings made more pronounced gains than wage
rates, the average for the first eight months of 1939 being 9.9%
above the twelve months average for 1938; 20% above 1937; and 26.5%
above 1936.

Earnings have not kept pace with the upward trend of com-
modity prices which was responsible for recurrence of labor troubles
during the first half of the year. The actual number of labor dis-
putes during this period was 590 against 593 during the correspond-
ing period of 1939 but showed a gain of 171 from the number reported
for the last six months of 1938. The total number of laborers in-
volved in disputes during the 1939 first six months was 56,664 com-
pared with 31,330 during the same months in 1938. Evidence of dis-
content over the increasing disparity of the actual earnings and
commodity prices is afforded by the fact that 54% of the strikes
during the first half of 1939 were concerned with demands for higher
wages in contrast to only 45% during the same period of the preceding
year.

Commodity Prices and the Cost of Living:

Commodity price control was one of the outstanding pro-
blems of the past year for Japan as under the stimulus of diminishing
supplies, the difficulty of adjusting the demand and supply of com-
modities, and rising production costs, wholesale and retail
prices surged upward month by month. Prior to the outbreak of the
European war efforts had been made to regulate commodity prices by
extending the list of items subject to official price control but
these measures had comparatively little effect on the general up-
ward movement. Following the outbreak of the hostilities in Europe,
the Government moved to peg the prices of commodities at the levels

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which prevailed on September 18, by the invocation of Article 19 of the National General Mobilization Law. Even this action had little restraining effect, particularly since the application of the penal measures of the law were not strictly enforced. General dissatisfaction of the ineffective policies of the Government towards price control was openly expressed when an informal motion of non-confidence in the Government was passed by a majority of members of the Lower House of the Imperial Diet towards the close of the year and was one of the contributory causes of the downfall of the Abe Cabinet during the early part of January 1940.

The extent to which commodity prices advanced during 1939 is demonstrated by the price indices of the Ministry of Commerce and Industry and the Bank of Japan. These show that wholesale prices advanced by an average of from 8% to 11% during the first eleven months of the year over the monthly average during 1938; that they were from 15% to 22% higher than in 1937; and from 33% to 50% higher than in 1936, the spread between the figures being due to the separate methods of preparing the indices. Retail prices, prepared by the same sources, reveal more striking similarity and even more pronounced gains. The average retail price indices indicates an advance of between 12% and 18% during the first eleven months of 1939 over the monthly average of 1938, and gains of 28% to 31% over 1937 and 40% to 46% over 1935. The Tokyo retail price index of the Bank of Japan for the month ending December 15, 1939, shows that compared with the corresponding period of 1938, food prices advanced by 17.4%, fuel by 4.4%, clothing by 12.7%, and "other" commodities by 10.5%.

The rise in living costs during the past year is reflected in official indices compiled by the Cabinet Bureau of Statistics. These show an advance of 15.3% in the cost of living for the laboring class and a 14.1% gain for the salaried class during the twelve months ending December, and increases of 30.7% and 28.5% respectively since the outbreak of the China incident. The most pronounced gains in living costs during 1939 occurred in food and clothing which advanced by approximately 23% and 21% respectively over the previous year. Light and fuel costs advanced by about 7% and rents by approximately 5%.

Agriculture:

The improvement in agricultural conditions in Japan was one of the most favorable aspects of the nation’s economy during the past year - it being estimated that the gross farm income reached the highest level since the period of the World War. This development was entirely unpredictable at the end of 1938, as during the previous two years, and particularly since the outbreak of the China incident the rise in the price of farm products had lagged far behind the prices of the commodities required by agricultural communities. After the first few months of 1939, there was a complete reversal of the disparity between farm prices and quotations for goods for consumption in rural areas. Official weighted index figures compiled by the Ministry of Agriculture and Forestry show a 50% increase in average prices of rice, wheat and raw silk from the end of December 1938 to the end of November 1939 while the advance in the cost of the principal articles of consumption required by farmers was only 6% during the same period. Figures from the same source show an 81% advance in farm prices since June 1936 and a 59% advance in the prices of goods for farm consumption during the same period.

No official estimate of gross farm income has yet been published but in November one of the leading Japanese economic journals, "The Orient Economist," estimated that the gross value of the 1939 rice, wheat, and cocoons crops at $4,057 million compared with $2,718 million in 1938. While farm production costs advanced steadily during 1939, the increase in the net returns to producers was even greater and resulted in more general prosperity in rural areas than has existed for years. The improved conditions in these areas were reflected in an increased demand for currency, the liquidation of bank loans, and a sharp rise in rural bank deposits.
Although the rice crop in the Western part of Japan was seriously damaged by one of the worst droughts in recent years, weather conditions were reported to have been favorable for all crops in other sections of the country. Estimates of the 1939 rice crop of Japan Proper indicate that it was about the same as in the previous year, but a sharp decline in the volume of the Chosen crop has necessitated restricting domestic rice consumption and the importation of the foreign rice to balance the supply and demand until the 1940 crop is harvested. The yields of other cereal crops - wheat, barley, and rye - reached record high levels and the cocoon crops are reported to have reached the highest level since 1933.

The favorable returns of the 1939 crops in the face of the heavy drain on farm labor for military service and factory employment, a decreased supply of fertilizer, and a general shortage of farm implements and equipment were primarily the result of the reorganization of Japanese agriculture on a wartime basis.

**Raw Silk:**

Conditions at the close of 1938 and during the first part of 1939 clearly foreshadowed a rapid increase in prices during the year. Domestic consumption was heavy, foreign demand was strong, and stocks on hand were low due to the poor 1938 cocoon crop. Speculative activities on the part of raw silk dealers, combined with the naturally strong position of the market, soon forced quotations up to a point where the Government began to sell its holdings under the law which provides for such sales when prices reach a certain specified maximum level. The market succeeded in absorbing the official silk in a few months and continued its upward trend.

During most of the year there were rumors that the authorities would take some action to control prices, but, aside from warning the dealers that control was inevitable if quotations continued to advance, no official steps were taken to curb the upward trend. The Government's forbearance presented a sharp contrast to price legislation in other lines, and was locally ascribed to the increased amounts of foreign exchange which became available as a result of the higher unit cost to foreign importers. The outbreak of the war in Europe, the strong position of the American market and heavy domestic consumption all helped to sustain the forward movement of the raw silk price. The extent of the increase in quotations is shown by the fact that the average price during December 1938 was ¥821.00 per bale compared with ¥2,250.00 per bale on December 30, 1939.

Although no legislation was enacted to halt the price rise a Government plan which went into effect on January 1, 1940 provides for the establishment of a reserve fund for the "maintenance and security" of the silk industry. Payments into the fund are to be made from foreign sales of silk on a graduated scale. These payments start at a base rate of ¥1,700.00 per bale. At prices above this level 30% of the difference must be paid into the fund. This percentage gradually increases up to 70% of all amounts in excess of ¥1,900.00 per bale. Further legislation early in January 1940 established an allotment system for raw silk to be used in manufacturing textiles for domestic use. This is designed to make heavier supplies of silk for foreign trade.

**Rice:**

Government measures to check rising prices and to control the distribution of rice were important features of the 1939 trade in this commodity. The first development along these lines was the passage of the law providing for the Japan Rice Company. Although this proposal was opposed by a number of influential people, including most of the important rice dealers, it was approved by the Diet in March. The "Bill for the Control of Rice Distribution", as this legislation was entitled, ordered the establishment of a ¥30,000,000 concern, one-half Government owned, to operate and control the rice
exchanges throughout the nation. The former private exchanges were closed in October when the new company was organized, and all dealers thereafter were licensed by the Government and were only permitted to do business within a limited price range and under strict official supervision.

At first the passage of this law tended to discourage further price advances on the open exchange, even before such increases became illegal. However, the failure of the June rainy season and the small volume of arrivals from Chosen drove quotations up to ¥36.90 per koku (one koku equals 5.12 bushels), the highest level since 1926. At that time the Government stepped in and established an official maximum price of ¥36.00 per koku, which resulted in a large volume of illegal, "out of the market" business at much higher prices.

The diminished volume of imports from both Chosen and Taiwan, combined with heavy domestic consumption, reduced stocks at the end of the rice year (October 31) to only 4,061,351 koku, the smallest carry-over since 1918. When this dangerous condition became apparent, the vernacular press began to take up the rice question, and political parties, rice dealers and agricultural groups helped to impress upon the Government the necessity for some immediate action. The authorities responded by appealing to the farmers directly and through the prefectoral government to sell their rice as soon as possible in order to relieve dangerous conditions in the southern sections which had been severely affected by the drought. Although the farmers were assured that no price increase was contemplated, the Government raised the rice price to ¥43.00 per koku after a substantial volume of sales had been made. In the face of protests resulting from this action, it was finally decided to reimburse agriculturists for their losses. The low volume of stocks on hand and the reluctance of the farmers in disposing of their crop were responsible for a rice shortage which occurred in metropolitan areas during December. This condition, which was attributed to poor distribution, caused considerable local dissatisfaction, but the authorities took measures to remedy the situation so that the shortage was alleviated by the end of the month.

Although the second estimate of the 1939 rice crop placed the harvest at 65,281,000 koku, a decrease of only 0.9% from the preceding year, the outlook for 1940 is distinctly gloomy. Chosen, which normally supplies Japan Proper with 5,000,000 to 10,000,000 koku had one of the poorest crops on record, and it is admitted that arrivals from that area during the present rice year will not exceed 1,500,000 koku at best. The reduced volume of rice to be supplied by Chosen, and the low level of the 1939 carry-over were responsible for heavy rice purchases from foreign countries, announced by the authorities in December. Further purchases will probably be made later in the season. In addition to measures to provide for a heavy crop during 1940, the Government has taken steps to lower domestic consumption by ordering sake (rice wine) producers to curtail their output, and by prohibiting the use of fully polished rice, since the consumption of partly polished rice increases the volume of food available. Some quarters are demanding a ration system or the establishment of a Government monopoly. The authorities will avoid action of this type except as a last resort, but stricter control of rice supplies and distribution appears to be inevitable.

Financial Developments:

While the majority of financial statistics indicate a high degree of internal prosperity and unparalleled business activity throughout Japan during 1939, it is becoming increasingly obvious that the financial structure of the nation is being weakened by the continual strain of meeting the costs of the military campaign in China. At the end of 1939, the national debt of the country was slightly more than twice as great as in June 1937, the month prior.
to the outbreak of the China incident, and if the current deficits are maintained the long-term debt will again double at the end of four more years. To Japan's credit it must be noted that the entire cost of the China incident has been financed internally and the nation has not had to resort to the flotation of foreign loans. During the last half of 1939, however, there was a pronounced decline in the rate of digestion of national bonds and a pronounced inflationary trend which was manifested in a sharp increase in the note issue and a steady rise in commodity prices. These developments admittedly caused some apprehension in financial circles and the task of maintaining the bond absorption rate at a satisfactory level and controlling the inflationary trend were among the greatest economic problems facing the nation at the close of the year.

The position as regards Japan's gold reserve is not known but from the reports published during the year regarding the unsatisfactory results obtained from gold mining operations it must be assumed that the gold output was not as great as had been anticipated. Despite a visible unfavorable trade balance of ¥405,000,000 with foreign currency countries, however, the specie reserve of the Bank of Japan was reported unchanged at ¥501 million.

As in the previous year all foreign exchange transactions were rigidly controlled by the Finance authorities. Due to the scarcity of foreign exchange, importers experienced increasing delay and difficulty in securing permits to make remittances in foreign currency. The foreign exchange situation became so acute during the last half of the year, that the majority of American firms exporting to Japan refused to consider new business except on the basis of an irrevocable letter of credit confirmed by an American bank. There was a further accumulation of the frozen funds of American firms operating in Japan during 1939.

Aside from a wave of speculative buying of shares in certain export industries which soon subsided, and the linking of the yen to the dollar instead of the pound, the outbreak of the war in Europe had comparatively little effect on Japanese financial markets. The action of the Government in pegging the yen at $0.235-7/16 instead of its former pegged level of 1 a. 2 d. was intended to facilitate the operation of Japanese funds abroad and to prevent the yen from fluctuating in terms of dollars. The strict control of foreign exchange in London also prompted the move to link the yen with the dollar. The outbreak of the hostilities in Europe did have the psychological effect of stimulating the upward trend of commodity prices in view of the anticipation of a world rise in commodity quotations. It was generally realized, however, that due to the concentration on the settlement of the China incident, the prevailing commodity shortages, and inability of the nation to finance the sale of goods in world markets, Japan was in no position to profit from the war in Europe to the same extent that it profited in 1914-1918.

Despite the many unfavorable domestic and international developments of the past year, the stock market staged a strong recovery from the dullness which had influenced transactions during 1936. The accumulation of surplus funds was responsible for an unprecedented wave of speculative buying of spot issues for investment purposes, spot transactions accounting for 18% of the total volume of transactions of 114,866,000 shares, compared with 9% of the 1938 transactions of only 96,062,000 shares. Long-term transactions were influenced by the suppression of speculative operations in the stock and commodity markets, receipt of stock dividends, and fear of more intensive Government control over business and industry. Nevertheless, average stock quotations showed a steady upward trend throughout the year. According to a report of the Hypothec Bank of Japan, the average value of a group of selected shares was ¥95.68 during December 1939 compared with ¥80.08 during the corresponding period of last year, while the Tokyo Stock Exchange's index of share prices
advanced from 150.45 (1921 = 100) to 160.3, a gain of 6%. Average yields declined steadily, the average for the month of November amounting to 5.45% compared with 6.69% in January, 6.17% in June, and 5.66% in September.

There was a heavy demand for bank loans for the financing of the industrial expansion program, the loans outstanding at the end of the year totalling ¥15,606 million, an increase of 23% over 1938. There was, however, more than a corresponding increase in bank deposits, namely a gain of 31% for a total of ¥25,091 million at the end of the year. Bank holdings of securities increased by 30%, the value of such holdings amounting to ¥12,306 million on December 31, 1939.

Rising commodity prices, the sluggish trend of circulation of the huge sums paid to the munitions industry, increased prosperity in rural districts, and an increasing tendency towards cash transactions resulted in an unprecedented demand for circulating media, particularly during the last half of the year. The average daily note issue of the Bank of Japan was reported at ¥2,374 million, compared with ¥1,919 million during 1936, and ¥1,585 million during 1937. During October, the tax free limit of the Bank of Japan of ¥2,764 million was exceeded by more than ¥100 million for the first time since the new limit was established on April 1, 1939. On December 30, when the total note issue reached a record high of ¥3,817,752,000, the excess of the legal limit reached ¥1,116,465,000. At the close of the year (December 31), the note issue stood at ¥3,679 million, an increase of ¥924 million over the corresponding date of 1938.

The substantial increase in postal savings and life insurance contracts reflected the general internal financial prosperity which prevailed throughout the year. Total postal savings deposits amounted to ¥5,574 million at the end of December, a net increase of ¥1,199 million for the year, while outstanding life insurance contracts in force at the end of October were valued at ¥23,485 million, an increase of ¥4,175 or 21% over the corresponding date of 1938. The improved financial status of the agrarian community was reflected in a decline in rural bank loans on immovables.

The financing of the 1939-1940 budget was accomplished to the extent of 56% through the issuance of national bonds during 1939, the total issued during the year amounting to ¥5,281 million, compared with ¥4,330 million in 1938. The visible absorption rate was somewhat higher than in the previous year, advancing from 87.4% to 89.2%; however, the rate fell from 104% during the first half of 1939, to approximately 77% during the July-December period. Furthermore, the higher rate of bond digestion during the past year was made possible, to some extent, through the increased purchases by the Deposits Bureau which utilizes postal savings deposits for this purpose - thus explaining the strenuous efforts being made to encourage this form of savings.

Due to the decline in the rate of absorption of new bond issues towards the end of 1939, some concern has been expressed regarding the future trend of digestion as estimates of the probable issues during 1940 are placed at approximately ¥5,800 million. Finance Ministry officials have issued repeated statements to the effect that the Government will not resort to compulsion to require banks to purchase new issues but such steps may eventually become necessary if the heavy expenses in connection with the military campaign in China are maintained at present levels.

The huge bond issues of the year resulted in a further increase of ¥5,597 million in the national debt, the total outstanding long-term indebtedness of the nation amounting to ¥21,580 at the end of 1939. Actual Government revenue for the first eight months of the 1939-40 fiscal year amounted to ¥1,939 million, an increase of ¥318 million over the receipts during the corresponding
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period of last year, while the expenditures totalled ¥1,750 million, an increase of ¥276 million during the same periods.

In December, the Cabinet approved budget estimates of ¥10,360 million for the 1940-41 fiscal year for the General Accounts and the Extraordinary Military Special Accounts. These estimates, which are by far the largest in the nation's history, represent an increase of ¥951 million over the 1939-40 budget. The amount of ¥5,900 reserved for the General Accounts, represents a gain of ¥1,095 million over the expenditures approved during the current year, while the ¥4,460 million reserved for the Extraordinary Military Special Accounts is ¥145 million lower than the current budget. The increases in the departmental estimates in the General Accounts were strongly criticized on the grounds that it represents a permanent expansion of Government spending.

The necessity of obtaining additional sources of revenues and the desire for a more simplified and flexible tax system was responsible for the complete revision of the present tax system towards the end of the year. The new tax system, which has yet to be approved by the Diet, and which will undoubtedly be introduced from the beginning of the next fiscal year on April 1, 1940, will provide for a further increase of ¥373 million in revenues next year and an increase of about ¥510 million thereafter. All classes will share in the increased tax burden which has been made necessary by the increasing costs of government and the military activities in China. The rise in revenue from taxes, from approximately ¥1,050 million during the 1936-1937 fiscal year to ¥2,245 million in the 1939-40 fiscal year, reflects the tax burden which has been imposed since the outbreak of the China incident.

Ample funds were available for the financing of the 1939-40 budget and the industrial expansion program, the total capital payments, including short-term Government notes, reached ¥10,245 million compared with ¥8,625 million during the previous year, according to a report of the Hypothec Bank of Japan. Stock payments increased by ¥206 million to ¥1,799 million while the value of corporation bonds increased by ¥644 million to ¥2,065 million - both record highs. Of the total new capital paid for corporation bonds and stocks during the year, ¥1,701 million was invested in the manufacturing industry, an increase of ¥642 million over the 1938 investments, and ¥310 million in mining enterprises, an increase of only ¥19 million over the amount involved during the previous year.

Despite the heavy demand for funds for industrial financing, money rates remained easy throughout the greater part of the year due to the excess Government payments which averaged ¥444 million monthly or ¥48 million more per month than in 1936. Over-night rates were quoted at 2.1% to 2.55% during the greater part of the year, but the rate firming to 2.73% during December due to the unusually heavy demand for funds for year-end settlements.

The general increase in business activity during 1939 was reflected in the bill clearings which reached an all-time high in number and value - amounting to 51,810,126 valued at ¥107,151 million, increases of 9.6% and 24.4% respectively over the previous year. There was a further reduction in the number and value of dishonored bills reported in 1939, the total amount involved being insignificant compared with the total clearings.

Foreign Trade:

The total foreign trade of the Empire was valued at ¥7,050 million, a 23% increase over the previous year but a 3% decline from the all-time record established during 1937. Exports, which totalled ¥3,952 million, increased by 35% over the previous year to a new high level. Imports of ¥3,127 million were 10% greater than in 1938. The favorable merchandise balance of trade was valued at ¥695 million, the highest trade balance ever recorded.
The foreign trade of Japan Proper was valued at ¥5,494 million, an increase of ¥1,141 million or 21% over the previous year. Imports were valued at ¥2,917 - a 9.5% increase. Exports were valued at ¥3,576 million - an all time high, and an increase of ¥886 million or 32% over the previous year. The favorable merchandise balance of ¥659 million represents a marked increase over the 1938 favorable balance of ¥27 million.

The expansion of the country's export trade during the past year was primarily the result of increased shipments to the yen-bloc countries, as despite the restrictions imposed on this trade during the fourth quarter, total shipments to Manchuria, Kwantung Leased Territory, and China (exclusive of Hong Kong) were valued at ¥1,747 million, a gain of 50.0% over the 1938 trade. Imports from the same countries were also much higher than in the previous year, increasing from ¥564 million to ¥682.9 million, a 22.1% gain.

Trade with foreign currency countries increased by 12.1%, exports rising by 18.0% to ¥1,029 million, and imports by 6.4% to ¥2,234 million. The net unfavorable foreign currency merchandise trade balance fell from ¥575 million to ¥405 million.

Japan's foreign trade by geographical areas showed some variations compared with the previous year but fairly significant changes compared with the trade in 1937. In brief, there has been a definite increase in the importance of Asiatic markets, particularly the yen-bloc countries, the share of this area in the export trade rising from 30.4% in 1938, and 65.0% in 1939, and in the import trade from 34.3% to 38.4% and 40.4% respectively. All other geographical areas took less from Japan in 1939 than in 1937, although during the past year the exports to North American markets (Includes United States, Canada and Alaska, according to the Japanese trade returns.), accounted for 18.4% of the trade, compared with 16.4% in 1938. Only North American countries increased their share of Japan's import trade during the past two years, accounting for 36.4% of the total foreign merchandise purchases in 1937, 37.6% in 1938, and 38.7% in 1939. There was some improvement in the relative importance of South American imports during 1939, namely from 3.4% to 4.0% of the total, but the share of this area was not so great as in 1937, when arrivals from this source accounted for 4.3% of the total.

Shipments of all economic groups registered substantial value gains during 1939. Foods, drinks and tobacco increased by 43.8% as the result of increased exports of aquatic products, tea and canned foodstuffs. Raw material shipments advanced by 74.4% due to the heavy volume of lumber shipments to the yen-bloc countries. A 41.1% gain was registered in exports of semi-manufactures due to the rise in the value of raw silk shipments and substantial volume and value gains in the exports of vegetable oils, and cotton and rayon yarns. Exports of manufactured goods increased by 23.5% due to the heavy demand for such products originating from Manchuria and the occupied areas of China.

There was a significant increase in the value of imports of raw materials and semi-manufactures during 1939, and a decline in the value of arrivals of manufactured products - a reflection of the efforts to reduce the unfavorable foreign currency trade balance by the processing of materials in Japan. Receipts of raw materials advanced by 9.1% and semi-manufactures by 22.5%, increased purchases of oil cake and raw cotton being responsible for the gain in the value of the former group, and a sharp increase in the value of certain unlisted items, believed to be chiefly ores and metals, was responsible for the gain registered in the latter group. Heavier purchases of textiles and products from China were the sole reason for the increase in the total arrivals of food, drink, and tobacco. Reduced purchases of aircraft and automotive products are believed to have been primarily responsible for the 12.8% decline in the value of imports of
of manufactured products during the year, as machinery imports, which constitute one of the major items of the group, were somewhat higher than in the previous year.

Various steps were taken to eliminate some of the difficulties which had been experienced by the export trade during the previous year and to encourage the trade. The measures introduced during 1939, included the modification and the extension of the link system, a system of compensation for producers of export products, and the establishment of special firms to facilitate the delivery of raw materials to firms engaged in the manufacture of goods for foreign markets. Despite the desire to promote exports, some effort was also made to conserve existing supplies of basic materials and equipment by the subjecting of a wide range of non-ferrous metals and minerals, industrial and electrical machinery, and drugs to a system of licensing. Similar restrictions were also imposed on a wide range of products for shipments to the yen-bloc countries.

Foreign Trade with United States:

Japan's total trade with the United States was valued at ¥1,643 million, a 24.6% gain over the previous year. Imports were valued at ¥1,002 million, a 9.5% increase, and exports at ¥641 million, a sharp gain of 50.6% over the previous year. Imports of raw cotton which constituted only about 15% of the value of the total United States trade with Japan, declined by 11.6%, this loss being more than offset by increased purchases of scrap iron, refined copper, and machine tools. Although not shown in the official customs returns, it is believed that the value of imports of petroleum products, aircraft and automotive products also fell off during the year.

There was a substantial improvement in exports of many important items to the United States during 1939. The sharp rise in raw silk prices was entirely responsible for a value gain of 47% in silk shipments, as the volume was below that of the previous year. Gains in other commodities, however, were even more pronounced. Tea registered an advance of 79%, acoustico products 168%, canned foods 162%, vegetable oils 71%, fish oils 60%, camphor 91%, unbleached cotton textiles 336%, and electric bulbs 65%. More moderate advances were noted in the value of porcelainware and toys, these items registering gains of 28% and 16% respectively.

Effects of the European War:

The outbreak of the European war had a stimulating effect on exports to all markets, including the yen-bloc areas despite the restrictions imposed on shipments to these areas during the last quarter, although the value gains registered during the last four months of the year were due to the fall in the value of the yen. Shipments to all countries, which had averaged ¥263.3 million during the first eight months of the year, increased to ¥367.5 million during the last four months. Exports to the yen-bloc areas increased from ¥132.3 million to ¥172.0 million, while those to foreign currency countries from ¥131.0 million to ¥195.5 million. The most pronounced gains were made in shipments to the North American and South American markets, the former increasing from a monthly average of ¥40.6 million to ¥83.0 million and the latter from ¥4.3 million to ¥8.2 million. Exports to "other Asiatic markets" advanced from ¥45.2 million to ¥93.6 million, to Central American markets from ¥3.0 million to ¥14.2 million, to Oceania from ¥7.3 million to 9.4 million, and to European markets from ¥19.6 million to ¥20.1 million.

Imports were comparatively little affected by the war, averaging ¥240.5 million during the last four months, compared with ¥243.4 million during the previous eight months, although arrivals from European markets dropped from ¥29.3 million to ¥18.5 million. Imports from Germany were surprisingly well maintained despite the
economic blockade, receipts from that country being valued at an average of Y6.7 million during the September-December period, compared with Y14.5 million during the previous eight months.

The Outlook for 1940:

No improvement can be anticipated in Japan's general economic position until the economic resources of the nation are directed towards the production of productive goods instead of non-productive military equipment. The many perplexing economic problems facing the nation at the beginning of 1940, can not be solved by the strengthening of Government control but only by the termination of the military campaign in China which is the root of the economic ills of the nation. Furthermore, the trend of economic developments during the coming year will depend largely on the course of action which the United States intends to follow regarding exports to this country. A complete embargo on exports of all materials would disrupt Japan's plans for industrial expansion, curtail the output of the munitions industries, and greatly handicap the export trade which is dependent to a considerable extent on American raw materials and semi-manufactures.

In the financial field, the outlook is decidedly unfavorable. The nation appears in no immediate danger of a complete financial collapse but nevertheless a more pronounced inflationary trend is anticipated with the consequent ill-effects on commodity prices, production costs, and living costs. Bond issues will, of necessity, have to be larger than in the past and it is probable that compulsory measures will have to be introduced to ensure a satisfactory absorption of the new issues. Strenuous efforts will be made to cope with the expansion in note issue and it is most likely that a compulsory system of savings will be instituted.

The commodity shortages, particularly the shortages of daily necessities will not only continue but will probably become much more acute than they were during 1939, and in order to cope with the situation the Government will undoubtedly be forced to institute a rationing system for such commodities as rice, matches, coal, charcoal, and sugar. Only a very slight gain in the volume of industrial production is anticipated during 1940, due to the lack of adequate supplies of raw materials and the probability of a pronounced fuel and electric power shortage during the first quarter of the year.

Farm income will probably be about the same as in 1939, and continued prosperity is anticipated in rural areas. In all probability, average silk prices will not be maintained at the high levels which prevailed during the latter part of 1939, but any decline in farm income from this development will undoubtedly be offset by higher average rice quotations. Particular efforts will be made to furnish adequate supplies of goods to farm areas, particularly farm implements and fertilizers, in order to maintain crop yields at satisfactory levels. Efforts will also be made to stabilize the prices of goods for consumption by farmers even at the cost of Government subsidies. Although there is every prospect for another prosperous year for agriculture during 1940, the current rice situation is admittedly precarious. Any adverse developments such as unfavorable weather or floods which might affect the 1940 rice crop would be calamitous for the nation.

It is anticipated that exports will be maintained at a high level during 1940, due to continued heavy shipments to foreign currency countries. Imports should show little change due to the rise in world commodity prices since the outbreak of the European war, although Japan's volume of imports from foreign currency countries will probably decline. Imports from the United States are expected to at least remain at about the 1939 level in view of the dependence on that country as a source of raw materials for the heavy industries, providing, of course, that no restrictions, moral or otherwise, are imposed on shipments to Japan. Every effort will be
made to maintain export shipments to the United States, but it is not likely that the total value of the trade will show much improvement due to a probable decline in raw silk quotations. Particular efforts will be directed towards improving trade relations with South and Central American countries.

Government control will be extended and intensified to provide for the official regulation of all phases of business, industry and trade.
The best known Japanese Naval writer, Mr. Masanori Ito, who formerly had close relations with the Japanese Navy Department, discusses the U.S. Navy and the naval building program.

It is interesting to note that Mr. Ito states:

a. In his opinion the relative strengths of the American and Japanese Navy are 5 and 4.

b. Japan must increase her building if this ratio is to be maintained.
The following articles by the well known Japanese Naval writer, Masanori Ito, have received widespread publicity in Japan, having been first published in Japanese in the Tokyo Asahi and later in English in the Japan Times, both daily and weekly.

Mr. Ito has in the past had excellent relations with the Japanese Navy Department, and it has been considered that the views expressed in his articles reflect to a very great extent the views of the Japanese Navy. In recent years no Japanese has been able to write intelligently of the Japanese Navy, since all aspects of that service are considered to be secret. Mr. Ito's articles have, therefore, lost much of their value and interest.

These articles, in which the American naval programs and the American fleet are discussed are forwarded in full translation in view of Mr. Ito's past and present connections with the Japanese Navy. It is probable that they were prepared after consultation with the Japanese Naval Publicity Section, and represent semi-official naval opinion in Japan. This Japanese estimate of the comparative strengths of the American and Japanese navies is interesting, and it should be noted that the hope is expressed that "public opinion" in the United States should be exerted. Altho the latest United States building program since it tends to cause antagonism between America and Japan.

U.S. Naval Expansion Program May Prove Menace to Japan.

"Five years have passed since the world began its armament expansion race. In that time the aggregate military budget of all nations jumped from ¥22,000,000,000 in 1932 to ¥65,000,000,000 in 1939."

"If we realize that military expenditures of the eight major powers totalled ¥13,000,000,000 in 1913, just before the World War, it is easy to see how intense has been the armament race in recent years."

"Under these circumstances no nation could afford to stand aloof from the drive for larger and larger defense systems. All found it vitally necessary to participate, regardless of their national policies. Even though their policies called for world peace and friendship through trade, those policies were considered the very reason for arms expansion. Every country considered its arms expansion a protection measure."

"President Roosevelt's message to Congress January 4, which cited a defense budget amounting to ¥10,000,000,000 stressed the necessity of such an expenditure because of the United States' national policy."

"Since the armament expansion plan is nothing new in a world plunged into a frantic race for larger defenses, the American people must have taken it as a matter of course."

"But since we live on the other side of the Pacific, it cannot fail to attract our attention. Geographically we are compelled to be interested in any news about the United States Navy. Likewise, it is the United States which is of all countries most concerned about developments in the Japanese Navy."

"The President's message explained the necessity of the expansion plan, but the real expansion has been going on ever since he was elected President."

"In 1932, America's defense budget was $770,900,000, or 6.6% of the total. In the present year the defense budget is $2,336,000,000, occupying 27.8% of the total. This means that annual military expenditures have increased three times during Roosevelt's presidency. The increasing defense budgets have been spent steadily for a premeditated expansion program."
"Leaving aside the Army and Army Air Force enlargement plans, which are comparatively less interesting to this country, we shall examine how the United States Navy has been enlarged.

"The examination will present to our eye a great, well-balanced fleet which has been looming with increasing clearness in detail.

"When the universal naval expansion race had not yet started, in 1933, the United States appropriated $130,000,000 from the Industrial Recovery Fund to build 32 battleships aggregating 180,000 tons, ostensibly to help business recovery.

"Born in this stage of expansion are the two aircraft carriers YORKTOWN and the ENTERPRISE, the 10,000-ton cruiser QUINCEY and the 10,000-ton light cruiser BROOKLYN and twenty cruiser-destroyers each with a cruising range of 6,000 nautical miles.

"The famous Vinson plan was announced in 1934, involving six capital ships and 96 auxiliary ships aggregating 102 craft and 430,000 tons. It had a great significance to the United States Navy and added to the pressure Japan was feeling in the West Pacific because the plan fundamentally was aimed at enabling the fleet in the seas to carry out a long-range expedition.

"Because the 15 capital ships of the U.S. Navy lacked auxiliary craft which would have made possible a transoceanic expedition, they did not constitute a menace to Japan at the time of the Manchurian Incident. The Vinson plan was formulated in view of this fact. For the U.S. Navy, the plan was most appropriate, for Japan it constituted a menace.

"The second Vinson plan was announced in 1936, adding to the Pacific tension. Considering the first Vinson plan unsatisfactory for the operation of a large fleet in the seas, 4,000 nautical miles off the American coast, the United States decided on a 20% expansion, including construction of craft specially suited for ocean strategy. It involved two battleships, two aircraft-carriers, nine cruisers, 23 destroyers, nine submarines, and 26 various special duty craft aggregating 71 vessels and 400,000 tons.

"Many ships built according to the above plans are now on the Pacific. 96 others are still under construction.

"America's naval expansion, which has been made to date in three stages, led the world naval race rather than followed it. The fourth expansion plan is now presented to Congress.

"The expansion program which has been followed by the U.S. Navy may be summed up as follows:

(a) Expansion for Industrial Recovery, 1933, 32 craft and 120,000 tons.
(b) First Vinson Plan, 1934, 102 craft and 430,000 tons.
(c) Second Vinson Plan, 1936, 72 craft and 400,000 tons.

Total: 286 craft and 950,000 tons.

"The warships involved in the three plans are: 8 capital ships, 5 aircraft carriers, 21 cruisers, 100 destroyers, 41 submarines, 30 vessels for special duties. Some of the ships already were built, the majority are now under construction. Work on the rest will start this year. All the vessels involved in the expansion programs will be at sea in 1942.

"The present U.S. Navy is gigantic but it lacks balance. Besides the ARKANSAS with 16-inch guns, it has 14 capital ships, 5 aircraft carriers, 18 eight-inch-gunned cruisers, 17 six-inch-gunned light cruisers, 223 destroyers and 91 submarines, totalling 369 craft and 1,250,000 tons.

"Closely investigated, however, reveals that although in tonnage the ratio of the U.S. Navy to Japan's is 5 to 3, in real strength it is 4 to 5, in my estimate. This is because obsolescent ships with poor performance are listed in the first fighting units in its lineup. It real battle these old vessels will prove an impediment rather than help.
"Especially noteworthy are its destroyers, of which there are 223. In my view, only from 55 to 60 of them will be useful in transoceanic expedition, in the points of cruising range, fighting power and speed. The rest of them are good only for coast patrol. The same may be said of the submarines. About two-thirds of the 91 undersea craft belong to obsolescent types.

"The U.S. Navy has a sufficient number of 8-inch gunned cruisers but is short of 6-inch-gunned light cruisers. In the latter type the U.S. Navy lags behind the Japanese Navy considerably. This lack in light cruisers and destroyers greatly limits the performance of the main fighting unit in a transoceanic expedition.

"The figures above are of January 1939 but subsequent additions were quite few. They explain clearly why the 1933 and 1934 expansion programs were necessary.

"We shall now examine what sort of improvement is being made under the three-stage expansion program.

"Warships built after 1933 are the most up-to-date in the world. At this rate, the U.S. Navy is likely to boast of a well-balanced fleet which will find it easy to accomplish a 4,000 nautical mile expedition. Such a fleet will comprise 21 capital ships including eight newly built ones, eight aircraft carriers and about 600 airplanes. The light cruisers will number 35, the new destroyers 144, and the new submarines 56. The U.S. Navy's fleet in 1942 will be composed of the following craft: Battleships 21 550,000 tons

Aircraft Carriers 8 200,000 tons

Cruisers 50 450,000 tons

Destroyers 144 228,000 tons

Submarines 56 82,000 tons

Total 279 1,510,000 tons

"If special service ships are added, the total will be about 300 ships amounting to 1,500,000 tons. The whole tonnage will be far superior to the present U.S. Navy's in quality.

"Especially the quality of the U.S. auxiliary vessels in 1942 is far better than that of 1933. And auxiliary vessels as a fighting unit is very important. In fact destroyers will be a decisive factor in a large naval battle.

"Britain feels herself still insecure with her more than 170 destroyers. Because Germany lacked cruiser-destroyers, she had to sacrifice one of her pocket battleships for commerce destruction warfare. Poland's navy is not yet defeated because its three destroyers are still active in the North Sea. The United States could stage a naval battle near Japan if only she had a powerful fleet of destroyers.

"The new United States destroyers are of two types. One is capable of cruising 8,000 nautical miles without refueling although it is only 1,500 tons and carries 400 tons of heavy oil. It has four 5-inch guns, sixteen 21-inch torpedo tubes and develops a speed of 37 nautical miles per hour. It costs ¥17,000,000 to build a vessel of this type.

"The other type is 1,600 tons with eight 5-inch guns, 12 torpedo tubes. It has a cruising range of 5,000 nautical miles. The U.S. Navy is said to boast that it compares favorably with a Japanese destroyer of the FUBUKI type. It costs ¥80,000,000 to build a destroyer of this type. The sum is the same as required for building the Japanese battleship YAMASHIRO.

"The United States will spend about ¥1,600,000,000 to build a fleet of one hundred new destroyers of the two types. When it is completed it will become possible to stage a battle for about a week in the waters near Japan after refueling at Wake or Midway. I might add here that America's new submarines are able to cruise from 15,000 to 17,000 nautical miles without refueling.

"However, the United States is still unsatisfied with this stage of expansion. The Vinson plan, proposed to Congress on January 3, the fourth expansion since 1933, aims at a 400,000-ton
increase in the present naval strength. It also stipulates that the President is to be empowered to increase the rate of expansion to 50% and that the Naval Air Force is to be increased to 6,000 craft. At least, part of the plan is expected to be realized and will constitute a considerable menace to Japan. In the three first stages of its expansion, the U.S. Navy will be more powerful than one strong enough to defend the country. In the fourth stage, it will become definitely a navy strong enough to attack another country. And Japan will be forced to cope with it.

"In the spring of 1936, editorials of the New York Times played a leading part in the shelving of the bill to militarize Guam. We shall watch whether the recently proposed naval expansion plan, which tends to cause antagonism between America and Japan, will be likewise laid aside by the force of public opinion."

B. U.S. Navy to be Modernized.

"For over two years the organization of an independent Atlantic Fleet has been urged in the United States, and recently opinions in favor of this move are gaining force. It is probable that such a plan may materialize - but in a remote future. However, since America often accomplishes the unexpected, the organization of an American Atlantic Fleet has more possibility of realization than the grand-scale construction program announced by Spain recently.

"International politics would be the determining factor. An early peace in Europe would cause the plan to be dropped, since it is probable that a policy of the limitation of armaments would be followed by the Powers after the war. Should the war be protracted, there is a strong possibility that America will carry out a great expansion of her Navy. It should be remembered that America may gradually construct ships without announcing a definite plan for the organization of an Atlantic fleet. It should also be remembered that additional ships so built could reinforce the Pacific Fleet within one week. In other words, an additional naval vessel on the Atlantic is a potential unit on the Pacific.

"In the past, in certain circles in Japan it was maintained that battleships displacing over 35,000 tons could not pass through the Panama Canal. This is nothing but propaganda. Ships with a beam of 106 feet have no difficulty in passing through the canal. (The beam of the HOOD, the largest warship afloat displacing 42,000 tons, is 106. The same design is practicable for a 50,000-ton battleship.)

"Several months ago American naval authorities announced that the actual ratio between the U.S. and Japanese Navies stood at the ratio of 5 to 4. It was suggested that while a simple comparison between total tonnages of the two navies remained at 5 to 3 as was provided by the Washington Treaty, when age of vessels and equipment is taken into consideration the actual ratio stood at 5 to 4 and that accordingly in order to regain her superiority America had to build additional ships.

"Depending on the methods of calculation the ratio may be variously computed at 5 to 4 and 5 to 3.5. At any rate the author firmly believes that the Japanese Navy's actual fighting strength is above the ratio set by the Washington Treaty. Accordingly, he believes that our navy should be able to meet the U.S. Navy and retain control of the west Pacific. From the American standpoint her Navy is not strong enough to insure victory 5,000 nautical miles away. In short, the Japanese Navy in an aggressive campaign will necessarily be defeated, but on the defensive it will have a chance to win. The U.S. Navy will always be victorious against Japan if it remains on the defensive but may be defeated if it undertakes an overseas campaign. Japan desires to add to the margin of safety in her defensive strategy and eventually to establish a margin which will secure her position for an aggressive campaign."
"The competition is silently but steadily going on. It has been some time since the question of a naval race was much before the public but nevertheless the naval authorities of both countries have been busy in building and manufacturing ships and naval equipment. The rumor that Japan is building super-NAGATO-class ships, and the fact that the U.S. has decided to construct two battleships displacing 45,000 tons shed some light upon this silent competition.

"As to the actual situation existing at present one important fact is that during the past three years America has succeeded in modernizing her auxiliary vessels. For instance, at present she has completed 18 10,000-ton-8-inch gun cruisers comparable to our ATAGO class ships. Her treaty cruiser fleet is the largest in the world; and even though our FURUTAKA class vessels are included our comparative ratio in this category is but 60%.

"In addition to the 10,000-ton-8-inch-gun cruisers, light cruisers and destroyers are types indispensable for an overseas campaign. In America, the construction of these types has progressed rapidly; the BROOKLYN class cruisers displacing 10,000 tons and carrying 6-inch guns are in no way inferior to our KUMANO class ships, and the ATLANTA class vessels are superior to our ISUZU class. In three more years America will be in possession of 50 cruisers with a total displacement of 450,000 tons, including the above mentioned light cruisers as the main force.

"The same improvement will be accomplished with destroyers types and within three years new destroyers numbering 144 units displacing 228,000 tons will be in service. The existing destroyer strength consists of 223 vessels of which modern units do not exceed 52. Thus, by 1942 American destroyer strength will be trebled.

"In the same manner large submarines capable of overseas operations will be increased to 56, with a total displacement of 82,000 tons which is more than twice the existing strength.

"The question is what will be Japan's naval strength in 1942, when the American construction programs are completed?

"Provided that the existing comparative ratio is now 5 to 4, how much building will be necessary to maintain the ratio? Or, is the necessary construction already in progress? We should remember that the silent construction race is going on.

Report No. 21-40
ATTACHE'S REPORT 7206-S

From NA/TOKYO Date Feb. 10, 1940 Serial No. 22 File No. 902-100

Source of information

Subject Japan Policy - Basic

Reference

No Changes in Japanese Naval Programs to Result from Latest American Program

Japan will not increase or change her building program as a result of recent proposed increases in the U.S. Navy. Her present program was formulated after considering previous American programs and whatever changes may be necessary will be made after further study has been given to the latest American program.
No Changes in Japanese Naval Programs to Result from Latest American Program

The concern with which the Japanese press and people have received the reports of the contemplated increases in the American Navy have been reported to the Department. This concern appears to be genuine and widespread. However, according to statements reported to have been made by the Naval Minister in the Budget Committee of the Diet, the Japanese Navy does not propose to make any changes in the building program already drawn up - at least not for the present. Vice Admiral Yoshida stated that while the latest American expansion program was scheduled for completion within the next two years there was considerable difference between beginning a program and finishing it. Japan will therefore not have to begin a counter-program immediately but can watch developments, receive more complete and detailed information, make certain studies and then formulate her own building program to meet her own needs. The Naval Minister also intimated that Japan's present program is based on the previously approved American programs, and that if the funds for continuing this program are approved, the Japanese people can face the future with confidence that their Navy is sufficient for present needs.

In discussing the Navy section of the China Incident Budget, the Navy Minister stated that the ¥737,000,000 which was requested was to be used for the maintenance of vessels, transports, air units and landing parties in China - including pay, purchases of munitions, clothing, food, fuel, general supplies, emergency repairs to vessels, and grants to war dead. He withheld further details in order not to reveal "strategic secrets" and made no mention of the use of China incident funds for naval construction purposes - a use to which a considerable portion of these funds is being diverted.
ATTACHÉ'S REPORT

From MA/Tokyo Date Feb. 18, 1940 Serial No. 50
Source of information Various
Subject Japan Political - International relations

Reference

Note—(The review, editing, and distribution of reports by O. M. I. will be greatly simplified if a brief summary of the contents is enclosed in
this report. Attention should be given to important, personal, or political aspects, and the gist of the report.)

General Intelligence Summary - International Relations

Japan's international position is a difficult one, and it appears to be getting worse. The Japanese are worried because they do not know what to do to improve it.
Report No. 29
Japan
February 15, 1940

100 - Political
103 - International
relations

General Intelligence Summary - International Relations

The most pressing international problems which now face the Japanese Government, aside from the problems arising from the hostilities in China, are the adjustment of relations with the United States and with Soviet Russia. During the past several months the Japanese have made various attempts to improve relations with the United States so that a Treaty of Commerce and Navigation might be negotiated and at the same time to remove various points of friction between Japan and the Soviet Union. So far these efforts have met with indifferent success. Not only has Japan's international position shown no improvement but with American-Japanese trade relations being placed on a "twenty-four hour" basis, it appears to have weakened considerably.

The uneasiness and uncertainty of the future of Japan's relations with foreign countries has been reflected in the interpellations in the Diet, in the press and in the general conversation of the people. There is a deep undertone of anxiety in regard to the present situation, both internal and external, and certainly one of the greatest causes for this anxiety is Japan's precarious international position. This is a period of crisis in Japan's history, and from the Japanese standpoint this crisis is made worse by the fact that nobody in Japan seems to know what to do to meet it.

Japanese-Chinese Relations:

Japan's international difficulties spring from her problems in China. During the past two and a half years she has spent 16½ billion yen and lost several hundred thousand of her best citizens in trying to carve out an Empire on the continent. So far she has failed and to make matters worse she doesn't know what to do to insure success. Greater military efforts are possible, but they cannot be exerted without running grave risks of internal trouble and dissent. Present military efforts have proved inadequate and no retreat is possible without endangering her hold on Manchoukuo and Chosen.

Recent Japanese military efforts have been designed to inflict severe damage on the remaining Chinese armies rather than to occupy territory. Drives to the west of Paotow into Inner Mongolia, to the north of Canton and to the west of Nanning have been made, and in each case the Japanese have withdrawn - for no good reason except that the forces used were not strong enough to defend the extended lines of communication. No real progress has been made since the capture of Nanning. Other Japanese efforts have been designed to cut the remaining supply routes to the interior of China and in this, greater success has been attained. The recent attacks on the Yunnan railway seem to have destroyed for all practical purposes the most important remaining route. Further attacks on this line and the roads from Indo-China can be expected, and if the "incident" is not settled soon, attacks on the Burma road and on the overland routes to Soviet Russia can be expected.

The Japanese public is putting great faith in the new central Government about to be formed under Wang Ching-wei. They believe that the peace terms revealed in Hongkong early in January are approximately correct. Unfortunately for Japan the acceptance of these or any other terms by a new puppet government, will not create the stability and security necessary for economic and political reconstruction. Japan must continue to lose men and to spend money in China - because if she does not she will find herself reduced to a second or third rate power and she is not yet prepared to admit defeat.

Report No. 29-40
Japanese-American Relations:
The Japanese do not know what to do about their relations with the United States. They realize that it is essential for Japan to continue to export silk and other products to America and to have American raw materials available for their use and now they find themselves in the position of being assured of neither of these essentials. The action of the United States in terminating the Treaty of Commerce and Navigation has left Japan without any such assurance whatever. The Japanese Government, the Army and the people are genuinely alarmed - in spite of bold announcements that Japan will not give in to outside pressure.

If it is the considered policy of the United States to do everything short of going to war to have the Japanese continental program fail, the present policy of "non-cooperation" with Japan will be continued. Each month finds Japan becoming weaker and weaker - economically, financially, socially and militarily - and each month finds her farther and farther from her goal in China, provided Chinese resistance does not collapse completely. It might even be to the advantage of the United States to give greater assistance to China - financial, material and moral, in order to increase China's ability and determination to continue the struggle.

Many Americans appear apprehensive that such a course will eventually lead to hostilities with Japan, but it is believed that such a risk is very remote. Other countries - Soviet Russia, Great Britain, France, Germany and Italy - have supplied China with materials, money, technical assistance, etc., and have not gone to war with Japan. The United States can do the same without taking undue risks.

Other Americans believe that Japan and Soviet Russia may combine and agree to split China up into spheres of influence. This of course is possible but effective Soviet-Japanese cooperation for any great period of time seems to be entirely out of the question. The aims of these two nations in the Far East are too far apart for that to come about.

Japanese-Russian Relations:
Japan's relations with Russia are better now than they have been for a number of years, but they are still far from satisfactory. Late last year a modus vivendi extending the validity of the fishery agreement for another year was signed and trade discussions aiming at a trade agreement between the two countries are being held in Moscow. On the other hand the border negotiations held at Chita and Harbin ended in failure and the problems connected with the Japanese leases in Karafuto remain unsettled. There can be no doubt however that there has been a recent improvement in relations between the two countries - as evidenced by the lack of the usual charge and counter-charge when the Harbin conference broke up - but at the same time there has been no positive or complete rapprochement.

The fact remains that it is to the advantage of both Japan and Soviet Russia to compromise their differences to the extent of avoiding a repetition of the Nomonhan and other border incidents, and to restore normal trade relations between the two countries. This can be done without bringing up such controversial questions as Russian assistance to China, conflicting interests in Inner and Outer Mongolia and the anti-Comintern Pact. It is probable that in the end it will be done, to the mutual advantage of both countries. At the same time it appears most improbable that a genuine rapprochement, not to mention an alliance (as advocated by certain Japanese radical elements), will be brought about in the near future.
Japanese-British Relations:

Japan's relations with Britain continue to be bad, and the prospects are that they will remain bad until the China incident is settled one way or another. An important part of Japan's continental program is to eliminate foreign interests from the Far East and the nation with the greatest interests - Great Britain - happens to be the country which is the most vulnerable and least able to strike back. Japanese attacks on British interests could be expected for this reason if for no other. There are many Japanese who feel that this policy - which is really an Army-Navy policy - is a mistaken one and that it is in Japan's best interests to restore good relations with Great Britain in order to prepare for the eventual struggle with Russia. However, just as the work of this group begins to show certain results a Tientsin incident or an ASAYA MARU affair happens and the relations between the two countries deteriorate again. Public feeling in Japan toward the British will not improve for a long time to come.

Relations with other Countries:

Since Japan, at the present time, has adopted a policy of "independent and autonomous" diplomacy based upon her need to dispose of the China affair, her relations with countries other than China, the United States, Soviet Russia and Great Britain depend entirely on the attitude these countries take toward the new situation in East Asia. The anti-commintern pact has not been abrogated, since to do so might antagonize Italy, and feeling toward Germany has continued to be generally favorable in spite of the German-Soviet rapprochement. Various problems between Japan and these other countries remain but they are of minor importance. Among these are the disagreement with France over the bombing of the Yunnan railway which may make the negotiation of a new commercial pact between the two countries difficult and the termination by Japan of the Treaty of Arbitration and Conciliation with the Netherlands. These are, however, relatively unimportant compared with other problems facing all of the countries concerned.
General Intelligence Summary - Social

SOCIAL UNREST INCREASING

Social unrest in Japan is increasing as a result of inflation, commodity shortages and high costs of materials. The Japanese people are beginning to complain more openly, and what is worse there are thousands of violations of Governmental economic regulations. There appears to be no doubt that the "spiritual mobilization" campaign to make the people endure hardships to bring about the conclusion of the China Incident has not been completely successful. The desire to make a personal profit from the incident is much more in evidence than the desire to endure hardships.
Throughout Japan today there is an undercurrent of dissatisfaction with the policies of the government and the results of the "Holy War," particularly concerning the economic conditions pertaining to daily livelihood. This does not necessarily connote that a revolution, or mass uprising, is in the immediate offing, but as an indication of the elastic limit of Japanese patience and ability to maintain a united front at home, it explains the subtle murmurs and less concealed outbursts of all classes against being pushed too far by a government frantically endeavoring to terminate the Incident.

Well known are the hardships imposed upon, and ably carried by the great mass of the Japanese people. During the past winter there has been a marked shortage of daily necessities such as coal, charcoal and gas for heating purposes; cotton and wool for clothing are largely unobtainable at any price; automobiles and gasoline are under such severe restrictions that they properly may be considered symbols of the wealthy, and the transportation systems in general have suffered a considerable decrease in both efficiency and accommodation. Matches and beer are being rationed, food supplies are hoarded and sold at double the officially "fixed" figures, and the cost of any mentioned article has risen, officially by about 40%, actually by about 100% over the level of last year. Paper money is plentiful throughout the nation and there is an apparent, though misleading, internal prosperity. This has been caused by a sharp increase in the note issue of the Bank of Japan, heavy excess governmental payments with a corresponding inflationary trend and a terrific rise in commodity prices and the cost of living.

Had wages risen in proportion to the mounting commodity prices the populace would have had grounds on which to base complaints. But the government, by invoking the various articles of the National General Mobilization Law, attempted to stabilize wages at pre-incident levels, meanwhile sanctioning some increases of commodity prices by a succession of official edicts. The differences between the two levels has already caused considerable hardship to the portion of the population who are factory workers, office workers and otherwise employed in fixed salary positions. Labor disputes, principally over wage problems, have mounted to alarming proportions — so much so that even the well controlled press is beginning to take notice. The following appeared in the Tokyo Kokumin recently:

"The labor disputes are becoming serious. There are indications that laborers, including ordinary factory workmen, skilled laborers and technicians, will sabotage when forced to do so unless some measure is devised quickly to prevent it. Should the Government fail in seeing to it that these factories and firms devise appropriate measures to cope with the situation with which they are confronted at present, serious results will follow."

According to information from reliable sources, there have been five separate, minor outbreaks in the northern prefectures of Honshu during the past six months. The general causes were a shortage of rice, lack of food, and materials and the reactionary police supervision of distribution. The men involved were sent to China for "field service", and it is expected that few will return. The Japanese are noted for their quick and forceful suppression of any disturbances. In Fukuoka there was a rice riot involving nearly a thousand people, not long ago. It was easily quelled with the prevailing stern measures.
In talking with small shopkeepers, after their confidence has been sapped and a promise made to keep information from leaking to the police, it has been learned that thousands of small businessmen have been forced out of business by lack of commodities to sell. No replacements for certain stocks have been forthcoming and when the available supply has been exhausted no other alternative remained but to close. Any recriminations, any bitterness voiced aloud was a sure signal that a police officer would shortly call upon the storekeeper and demand an explanation. To the question, "What is there for me to do?", the usual and obvious answer is always, "Go to Manchoukuo". A ticket (one way) is provided free by the authorities to the family. However, the Japanese apparently have no great desire to leave the poor comforts of their homeland to seek their fortunes in the cold discomforts of an alien land, for the percentage of men and their families going to Manchoukuo is small and generally forced. Consequently, the men are coerced into factory labor to support their families. And if their wages are not sufficient to do this properly, it is reasonable to assume that they remain dissatisfied.

Soldiers returning from the front in China will prove among the most troublesome sources of unrest in Japan. Japanese informants state that the soldiers are disgusted at the misinformation printed in the daily newspapers concerning the China Incident, casualties, and the glowing accounts of Japanese victories. Disseminating a correct interpretation of occurrences on the continent will further the people's distrust of the propaganda smothering the country. Educated and thinking men and women throughout the nation are already openly asking why, with the unbroken stream of glorious victories featured by the press, the Imperial forces have not succeeded in terminating the Incident and setting up the New Order in East Asia. The recent statements of the Premier and the War Minister in the Diet, calling for the renewed determination of the people to withstand a lengthy period of hostilities have served to heighten the general and widespread apprehension and uneasiness.

It is difficult at this time to judge the ultimate effects of this increasing social unrest which prevails throughout the country. So far, it has not reached alarming proportions, because, while the general economic situation is becoming more serious, it is not yet desperate. The Government is taking great precautions to keep the general public from knowing exactly what is going on and being done to "stabilize living conditions". Vague statements, meant to be reassuring, are issued periodically by Government officials and these are generally accepted, but there is no doubt that the Japanese people are becoming more and more skeptical as the incident drags on and commodities become more and more scarce in spite of Government pronouncements. The Japanese have always boasted that the nation's spiritual power and patriotic sentiment was sufficiently great to enable the nation to meet any possible crisis and to endure any hardship with an indomitable spirit. The thousands of violations of the Government's economic regulations, the widespread hoardings of commodities in spite of the national spiritual mobilization propaganda, the willingness with which all classes of people attempt to profit by the Incident lead to the conclusion that the successful conclusion of the China Affair is not yet of sufficient importance to the great masses of the people to cause them to endure great hardships willingly. If the Japanese mainland were being invaded there would be no question about the national morale, no matter how great the hardships, but the success of the China campaign and the setting up of the New Order in East Asia are another matter. Even the well disciplined, docile and easily lead Japanese are beginning to complain. If this year's crops are good; if commodity prices and wages are adjusted; if the shortage of consumer goods is remedied; if the electric power problem, the coal problem and the rice problem, are solved; and if more interest can be aroused in the China affair, the authorities will be able to prevent the
present social unrest from reaching serious proportions. However, if the crops are poor; if the policy of exporting commodities badly needed at home is continued and if the China incident continues to be a serious drain on the nation’s treasury much longer, the complaints may change into something more serious and the undercover opposition to the Government’s policies may change into more active opposition.
Japanese Naval Budgets - Fiscal Year 1940-41

The Naval Budget for the Fiscal Year 1940-41 as announced in the Official Gazette totals ¥1,768,039,570.

The published figures give no details of the Budget, but it should be noted that increased funds are appropriated for ship construction, improvements to yards, the expansion of the air force and operating expenses of ships and stations.

The amounts for ship construction will be greater in 1941-42 and 1942-43 than for the present year.
Japanese Naval Budgets - Fiscal Year 1940-41

Following approval by the Diet certain details of the Government's basic general budget and supplementary budgets were promulgated in the Official Gazette. These details are given below.

A. Basic General Budget

<table>
<thead>
<tr>
<th>NAVY</th>
<th>Budget</th>
<th>Budget</th>
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<tbody>
<tr>
<td>Ordinat Account</td>
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<td>1939-40</td>
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<td>1. Navy Department Proper</td>
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<td>(a) Pay</td>
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<td>TOTAL - Navy Department Proper</td>
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<td>2. Military Expenses.</td>
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<td>(a) Pay</td>
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<td>(b) Office expenses (furniture, postage, stationery, hauling expenses, telegrams, cables)</td>
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<td>7,284,939</td>
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<td>(c) Miscell. pay and expenses (foreign and domestic travel, employees pay, subsistence and quarters allowance, entertainment expenses, etc.)</td>
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<td>(d) Expenses for food and clothing</td>
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<td>(e) Ship construction, ordnance manufacture and repairs (includes purchase airplanes and aviation equipment)</td>
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<td>(f) Expenses for maneuvers</td>
<td>1,775,011</td>
<td>1,606,695</td>
</tr>
<tr>
<td>(g) Care of patients</td>
<td>1,293,331</td>
<td>1,200,698</td>
</tr>
<tr>
<td>(h) Upkeep of Naval Ports</td>
<td>61,875,049</td>
<td>50,656,734</td>
</tr>
<tr>
<td>(i) Operating expenses of ships and stations</td>
<td>2,126,099</td>
<td>1,815,365</td>
</tr>
<tr>
<td>(j) Hydrographic expenses</td>
<td>3,209,650</td>
<td>2,535,417</td>
</tr>
<tr>
<td>(k) Miscell. training expenses</td>
<td>1,262,951</td>
<td>1,157,765</td>
</tr>
<tr>
<td>(l) Aid to families of enlisted men</td>
<td>5,265,111</td>
<td>3,561,820</td>
</tr>
<tr>
<td>(m) Subsidy to employees' mutual aid guild</td>
<td>12,109</td>
<td>11,338</td>
</tr>
<tr>
<td>(n) Expenses in connection with prisoners</td>
<td>99,300</td>
<td>65,300</td>
</tr>
<tr>
<td>TOTAL - Military Expenses</td>
<td>349,468,658</td>
<td>285,587,555</td>
</tr>
</tbody>
</table>

3. Miscellaneous Expenses (discharge allowance, special death gratuity, accident allowance, etc.) | 875,166| 884,896|

TOTAL - ORDINARY ACCOUNT | 351,298,461| 287,215,495

Extraordinary Account:

1. Ship construction expenses | 359,652,069| 299,074,625

The above item is a continuing expenditure. Future annual allocations of funds are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1941-42</td>
<td>¥390,836,000</td>
</tr>
<tr>
<td>1942-43</td>
<td>384,185,000</td>
</tr>
<tr>
<td>1943-44</td>
<td>290,083,000</td>
</tr>
<tr>
<td>1944-45</td>
<td>62,335,000</td>
</tr>
</tbody>
</table>
Report No. 49-40

A. Basic General Budget, continued

NAVY, continued

Extraordinary Account, continued

2. Additions and improvements to shore stations
   (a) Office expenses .................................................. 3,070,680 1,990,500
   (b) Naval dockyards, additions and improvements to ........... 117,806,045 65,435,234
   (c) Facilities and equipment for various defense corps .......... 23,850,400 13,600,850
   (d) Miscell. equipment for Naval ports ........................... 5,998,200 4,021,000
   (e) Expenses of training facilities .............................. 13,034,258 6,488,992
   (f) Expansion of hospital facilities ............................. 1,574,600 743,740
   TOTAL - Item 2 .................................................. 165,334,184 92,280,315

The above item is a continuing expenditure. Future annual allocations

of funds are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Budget 1940-41</th>
<th>Budget 1939-40</th>
</tr>
</thead>
<tbody>
<tr>
<td>1941-42</td>
<td>1942-43</td>
<td>1943-44</td>
</tr>
<tr>
<td>Office Expenses</td>
<td>2,684,790</td>
<td>1,642,470</td>
</tr>
<tr>
<td>Naval dockyards, additions and improvements to ........... 95,454,724</td>
<td>55,275,520</td>
<td>30,500,170</td>
</tr>
<tr>
<td>Facilities and equipment for various defense corps .......... 23,445,600</td>
<td>11,533,600</td>
<td>5,011,600</td>
</tr>
<tr>
<td>Naval dockyards, additions and improvements to ........... 5,481,286</td>
<td>3,625,990</td>
<td>2,938,200</td>
</tr>
<tr>
<td>Facilities and equipment for various defense corps .......... 23,445,600</td>
<td>11,533,600</td>
<td>5,011,600</td>
</tr>
<tr>
<td>Miscellaneous equipment for Naval Ports ........................ 10,094,500</td>
<td>3,024,120</td>
<td></td>
</tr>
<tr>
<td>Expansion of training facilities .............................. 2,724,100</td>
<td>1,745,300</td>
<td></td>
</tr>
<tr>
<td>Expansion of hospital facilities ............................. 2,724,100</td>
<td>1,745,300</td>
<td></td>
</tr>
<tr>
<td>TOTAL - Item 2 .................................................. 165,334,184</td>
<td>92,280,315</td>
<td></td>
</tr>
</tbody>
</table>

3. Expansion of Naval Air Force

The above item is a continuing expenditure. Future annual allocations

of funds are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Budget 1940-41</th>
<th>Budget 1939-40</th>
</tr>
</thead>
<tbody>
<tr>
<td>1941-42</td>
<td>1942-43</td>
<td>1943-44</td>
</tr>
<tr>
<td>1941-42</td>
<td>$79,820,000</td>
<td>$77,884,000</td>
</tr>
<tr>
<td>1942-43</td>
<td>73,884,000</td>
<td>$79,820,000</td>
</tr>
<tr>
<td>1943-44</td>
<td>29,600,000</td>
<td></td>
</tr>
</tbody>
</table>

4. Alteration, repair and equipment of vessels

(a) Modernization of ships ......................................... 26,400,000 | 40,717,000
(b) Special repairs to ships .................................... 14,100,000 | 12,795,000
(c) Replacement of submarine storage batteries ................. 1,721,904 | 1,728,424
(d) Construction of miscellaneous boats ........................ 782,000 | 790,000

TOTAL - Item 4 .................................................. 43,003,904 | 56,030,424

The above item is a continuing expenditure. Future annual allocations

of funds are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Budget 1940-41</th>
<th>Budget 1939-40</th>
</tr>
</thead>
<tbody>
<tr>
<td>1941-42</td>
<td>1942-43</td>
<td>1943-44</td>
</tr>
<tr>
<td>1941-42</td>
<td>$18,667,000</td>
<td>$18,667,000</td>
</tr>
<tr>
<td>1942-43</td>
<td>6,289,000</td>
<td></td>
</tr>
<tr>
<td>1943-44</td>
<td>4,000,000</td>
<td></td>
</tr>
<tr>
<td>1944-45</td>
<td>4,000,000</td>
<td></td>
</tr>
</tbody>
</table>

5. Replenishment and renewal of military stores ................. 11,017,000 | 7,864,000

Report No. 49-40
A. Basic General Budget, continued

<table>
<thead>
<tr>
<th>Budget 1940-41</th>
<th>Budget 1939-40</th>
</tr>
</thead>
<tbody>
<tr>
<td>6. Construction and repairs to buildings</td>
<td>289,362</td>
</tr>
<tr>
<td>7. Expenses of trial digging of naval reserve oil field</td>
<td>570,000</td>
</tr>
<tr>
<td>8. Work to be performed by Navy for other government departments</td>
<td>770,569</td>
</tr>
<tr>
<td>9. Making charts for public sale</td>
<td>172,356</td>
</tr>
<tr>
<td>10. Research expenses</td>
<td></td>
</tr>
<tr>
<td>Research in engines and ordnance</td>
<td>6,052,684</td>
</tr>
<tr>
<td>11. Gratuities (a) Lump sum payment</td>
<td>340,040</td>
</tr>
<tr>
<td>12. Japan's share of International Hydrographic expenses</td>
<td>2,875</td>
</tr>
<tr>
<td>13. Restoration of earthquake damages</td>
<td>200,000</td>
</tr>
<tr>
<td>14. Despatching vessels to northern waters</td>
<td>680,000</td>
</tr>
<tr>
<td>15. Making meteorological charts of upper air currents</td>
<td>49,663</td>
</tr>
<tr>
<td>16. Increase in allowance due to appreciation of foreign currencies</td>
<td>740,478</td>
</tr>
<tr>
<td>17. Expenses for ordnance equipment for training purposes</td>
<td>2,000,000</td>
</tr>
<tr>
<td>18. Amount transferred to special account to replenish circulating capital of Navy Yards</td>
<td>5,900,000</td>
</tr>
<tr>
<td>TOTAL - Extraordinary Account</td>
<td>677,646,669</td>
</tr>
<tr>
<td>Ordinary Account</td>
<td>351,298,467</td>
</tr>
<tr>
<td>TOTAL - Basic General Budget</td>
<td>1,028,945,136</td>
</tr>
</tbody>
</table>

B. First Supplementary Budget

NAVY

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Military Expenses</td>
<td></td>
</tr>
<tr>
<td>(a) Miscell. pay and expenses</td>
<td>49,778</td>
</tr>
<tr>
<td>(b) Subsidy to employees' mutual aid guild</td>
<td>8,281</td>
</tr>
<tr>
<td>(c) Miscell. expenses</td>
<td>36,381</td>
</tr>
<tr>
<td>TOTAL - Military Expenses</td>
<td>94,440</td>
</tr>
</tbody>
</table>

C. Extraordinary Military Expenses

The Official Gazette gives the following information concerning this budget:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Army</td>
<td>2,973,000,000</td>
</tr>
<tr>
<td>Navy</td>
<td>737,000,000</td>
</tr>
<tr>
<td>Reserve fund</td>
<td>750,000,000</td>
</tr>
<tr>
<td>TOTAL</td>
<td>4,460,000,000</td>
</tr>
</tbody>
</table>
### Summary of Above Budgets:

**NAVY:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Basic Budget Ordinary account</td>
<td>351,298,461</td>
</tr>
<tr>
<td>Extraordinary account</td>
<td>677,646,869</td>
</tr>
<tr>
<td>First Supplementary Budget</td>
<td>94,440</td>
</tr>
<tr>
<td>Extraordinary Military Expenses</td>
<td>737,000,000</td>
</tr>
<tr>
<td><strong>Total - Navy</strong></td>
<td>1,766,039,370</td>
</tr>
</tbody>
</table>

Report No. 49-40
This organization of the Combined Fleet shows no great change from previous years. Two additional capital ships and four additional heavy cruisers have been added to the fleet.
Japanese Combined Fleet - Organization

The following appears to be the organization of the Japanese Combined Fleet, which is now holding maneuvers between Formosa and the Mandate Islands. This Fleet was in Action on 31 March, 1940.

Combined Fleet: Mutsu (F)

<table>
<thead>
<tr>
<th>First Fleet:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Battleship One</td>
<td>Mutsu (F), Nagato, Ise</td>
</tr>
<tr>
<td>Battleship Three</td>
<td>Yuga (F), Konro, Kirishima</td>
</tr>
<tr>
<td>Battleship Five</td>
<td>Hiei (F), Haruna</td>
</tr>
<tr>
<td>Destroyer One</td>
<td>Senei (F)</td>
</tr>
<tr>
<td>Destroyer Eleven</td>
<td>Niyuki, Shireyuki, Hatsuysuki</td>
</tr>
<tr>
<td>Destroyer Twenty Four</td>
<td>Kawakaze (F), Unikaze, Yamakaze, Suzukaze</td>
</tr>
</tbody>
</table>

| Subdiv Eight | I-5, I-4, I-6 |
| Subdiv Thirteen | ? |
| Subdiv | ? |

Airce One | Akegai (F), Ryujo |
| Desge Sixteen | ? |

Second Fleet: Chokai (F)

| Crudiv Four | Chokai (F), I'aya |
| Crudiv Five | Likumi (F), Suzuya, Kusano |
| Crudiv Six | Chikuma, Tone |
| Crudiv Seven | Aoba, Kinuasa |

| Destroyer Two | Kure (F) (?) |
| Destroyer Six | Shibiki, Iazuchi, Inazuma |
| Destroyer Seven | Ushio, Oboro, Akebono |
| Destroyer Eight | Asagiri, Asagiri, Yugiri |

| Subdiv Two | Isuzu (F) (?) |
| Subdiv Eleven | ? |
| Subdiv Twelve | I-66, I-69, I-70 |
| Subdiv | ? |

Airce Two | Soryu (F), Hiryu |
| Desge | ? |

Report No. 61-40
ATTACHE'S REPORT

From NA/TOKYO Date APRIL 22, 1940 Serial No. 65
Source of information Official Gazette
Subject Japan Aviation
Reference

The total amount appropriated for civil aviation in the 1940-1941 Budget is ¥50,334,540. While part of this is for non-military aviation, it is believed that the greater part is for the purpose of developing military aviation.
Civil Aviation Items - Budget Fiscal Year 1940-41

The following is a resume of the amounts appropriated for civil aviation in the basic general budget for the fiscal year 1940-41. It is clear that the proper place for most of these expenditures would be under the Army or Navy budgets. For example, the items "Training Institute for Pilots - ¥1,082,106" and "Expenses for establishment of training facilities for pilots - ¥10,757,069" are obviously intended to augment the training facilities for Army and Navy pilots. Expenses for the Aviation Research Laboratory ¥491,666 and ¥3,595,556 is no doubt used as a source by the military for developing military airplanes. The items, "Subsidies for establishing air defense facilities" which adds up to a considerable amount is a purely military undertaking. Summing up, it may be said that the civil aviation items appearing in the Budget for the Fiscal Year 1940-1941 are intended almost solely for the development of military aviation.

Department of Communications:
Ordinary Account:
Aviation Bureau
(a) Pay ¥322,653
(b) Office expenses ¥751,211

Training Institute for aircraft crews 1,621,103
(a) Pay ¥82,074
(b) Expenses of work performed ¥1,339,032

Central Aviation Research Laboratory 491,588
(a) Pay ¥45,461
(b) Operating expenses ¥425,205

Extraordinary Account:
Air Transportation Subsidies 10,882,000
Aviation subsidies 1,189,637
Subsidy for improvement of flying fields ¥1,280,177
Expenses for establishment of flying fields ¥2,000,895
Expenses for establishing facilities for aviation tests 100,000
Expenses for establishing facilities for safe flying 370,000
Expenses for encouragement of the aviation industry 4,200,320
Expenses for making preparations for opening international air routes 17,238
Expenses for establishment of training facilities for pilots 10,757,069

The above item is a continuing program details of which follow below:
1941-42 - 16,114,411
1942-43 - 9,150,200

Expenses for establishment Central Aviation Research Laboratory 3,595,556

The above item is a continuing program details of which follow below:
1941-42 - 14,026,956
1942-43 - 16,470,000
1943-44 - 17,660,000
1944-45 - 5,292,400
1945-46 - 3,000,000
1946-47 - 3,400,000

Report No. 63-40
**Department of Home Affairs:**
- Subsidies for establishment of Air defense facilities: ¥5,248,477
- Subsidy to Japan Air Defense Association: 100,000
- Subsidy to air defense corps: 1,500,000

**Department of Education:**
- Expenses for establishment of aerological observation facilities: 12,500
- Experimental expenses for unifying aviation research: 50,000

**Korean Government General:**
- Aviation subsidies: 72,523
- Air Transportation subsidies: 649,354

**Formosa Government General:**
- Air transportation subsidies: 1,948,000
- Civil aviation subsidy: 30,000
- Subsidy to air defense association: 20,000
- Subsidy for aircraft repairing industry: 120,000
- Improvement of Taihoku air field: 205,000
- Establishment of Taihoku No. 2 air field: 350,000

**Saghalien Prefecture:**
- Expenses for establishment of flying field: 300,000
- Air defense expenses: 124,267

**South Sea Islands Prefecture:**
- Establishment of aircraft communication facilities and other facilities: 1,186,225
- Establishment of facilities for air routes: 512,174

**Total:** ¥50,334,540
Japan will probably continue to keep her naval building programs secret.
Japan's "Naval Secrecy" Policy

As has been reported to the Department, the official re-action in Japan to our proposed naval building program is that while Japan is greatly concerned about any expansion of the United States Navy, there is as yet no need for anxiety, since the Japanese Navy is "strong enough to cope with any situation". The Japanese Navy Department realizes that in preparing Japanese Naval estimates they have a very great advantage over the United States, since our future programs are widely debated long before they are approved and the vessels authorized are laid down. However, another important reason for the comparative calm with which the latest program received here is that the Japanese Navy is already engaged in a building program which is at least as large as that reported by the Chief of Naval Operations on 15 April to the Senate Naval Affairs Committee. Admiral Stark's estimate of eight battleships, four aircraft carriers, eight cruisers, thirty-two destroyers and twenty submarines is believed to be a conservative one. With this program in hand, the Japanese do not need to be "alarmed" for the time being.

There has been a suggestion that as a result of Admiral Stark's statement regarding the Japanese program, and probable increases in our program, the Japanese may be obliged to reconsider their "secrecy policy". This may be the case, and it is possible that we may expect some official or unofficial disclosure of what the Japanese are doing. However, the Naval Attaché inclines to the belief that the "secrecy policy" will be continued at least for the present. There are a number of good reasons to support this belief. Firstly, the Japanese have come to realize the great advantages which are theirs if they can keep the United States, Great Britain and Holland uninformed about what they are doing. They know what these nations are building, and they can prepare, in secret, the vessels they need to meet the nations they consider their most probable enemies. This secrecy policy would work to Japan's disadvantage only if the United States were to cut-build Japan by an overwhelming ratio - say two to one, and there appears to be no immediate prospect of this. Secondly, the Japanese Navy does not want the Japanese people to know how much their Navy is expanding. Naval authorities know that as long as they inform the people in vague terms that this is an "emergency situation" and that in order to meet it they must have certain sums of money to build up the Navy to meet foreign threats, the money will probably be appropriated. On the other hand, the Japanese Diet and people would probably refuse to sanction a building program which is as large as the United States program. With Japanese economic and financial position deteriorating under the strain of the China Incident, the people would question the wisdom of embarking on a naval race with the wealthiest country in the world - for no apparent reason.

The purpose of the Japanese Navy is much better served by keeping from the world at large and the Japanese people particularly, what sacrifices are being demanded of the nation in order to build up a huge navy.
The official Japanese Budget for the fiscal year 1940-41 calls for an expenditure of ¥10,857,341,434. Ordinary and extraordinary revenues to meet these amounts are ¥6,822,963,303. No detailed statements of other revenues are available — published budget figures being designed to prevent the public from getting a clear picture of government finances.
Government Budget - Fiscal Year 1940-41

The figures for the 1940-1941 budget as passed by the 75th Diet are given below:

### General Accounts

<table>
<thead>
<tr>
<th>Category</th>
<th>Ordinary</th>
<th>Extraordinary</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Imperial Household</td>
<td>¥ 4,500,000</td>
<td></td>
<td>¥ 4,500,000</td>
</tr>
<tr>
<td>Foreign</td>
<td>23,855,174</td>
<td>40,474,138</td>
<td>64,029,312</td>
</tr>
<tr>
<td>Home</td>
<td>336,861,529</td>
<td>173,935,526</td>
<td>510,796,055</td>
</tr>
<tr>
<td>Finance</td>
<td>1,097,925,183</td>
<td>724,331,573</td>
<td>1,822,256,756</td>
</tr>
<tr>
<td>War</td>
<td>1,022,761,400</td>
<td>1,274,781,061</td>
<td>2,297,542,461</td>
</tr>
<tr>
<td>Navy</td>
<td>351,248,461</td>
<td>677,846,699</td>
<td>1,029,095,150</td>
</tr>
<tr>
<td>Justice</td>
<td>51,536,687</td>
<td>5,565,039</td>
<td>57,101,926</td>
</tr>
<tr>
<td>Education</td>
<td>159,121,969</td>
<td>27,540,814</td>
<td>186,662,783</td>
</tr>
<tr>
<td>Agriculture &amp;</td>
<td>62,035,636</td>
<td>146,397,464</td>
<td>208,433,099</td>
</tr>
<tr>
<td>Forestry</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commerce &amp;</td>
<td>9,412,964</td>
<td>80,526,525</td>
<td>89,939,489</td>
</tr>
<tr>
<td>Industry</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Communication</td>
<td>297,174,749</td>
<td>70,057,432</td>
<td>367,232,181</td>
</tr>
<tr>
<td>Overseas</td>
<td>2,950,186</td>
<td>52,893,608</td>
<td>55,843,794</td>
</tr>
<tr>
<td>Welfare</td>
<td>84,266,861</td>
<td>66,123,913</td>
<td>150,390,774</td>
</tr>
<tr>
<td>Total</td>
<td>¥2,562,709,002</td>
<td>¥3,160,883,301</td>
<td>¥5,723,592,303</td>
</tr>
</tbody>
</table>

### 1st Supplementary Account

<table>
<thead>
<tr>
<th>Category</th>
<th>Ordinary</th>
<th>Extraordinary</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance</td>
<td>¥ 46,208,576</td>
<td></td>
<td>¥ 46,208,576</td>
</tr>
<tr>
<td>Home</td>
<td></td>
<td>1,400,249</td>
<td>1,400,249</td>
</tr>
<tr>
<td>Education</td>
<td></td>
<td>90,000</td>
<td>90,000</td>
</tr>
<tr>
<td>Agriculture &amp;</td>
<td></td>
<td>9,602,400</td>
<td>9,602,400</td>
</tr>
<tr>
<td>Forestry</td>
<td></td>
<td>162,584</td>
<td>162,584</td>
</tr>
<tr>
<td>Welfare</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>¥ 46,208,576</td>
<td>¥ 11,476,233</td>
<td>¥ 57,684,809</td>
</tr>
</tbody>
</table>

Report No. 71-40
Report No. 71-40

2nd Supplementary Account.

<table>
<thead>
<tr>
<th></th>
<th>Ordinary</th>
<th>Extraordinary</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign</td>
<td>263,260</td>
<td>5,033,944</td>
<td>5,297,224</td>
</tr>
<tr>
<td>Home</td>
<td>553,190</td>
<td>9,142,298</td>
<td>9,697,488</td>
</tr>
<tr>
<td>Finance</td>
<td>26,334,389</td>
<td>7,577,311</td>
<td>35,911,670</td>
</tr>
<tr>
<td>War</td>
<td>117,982</td>
<td>147,437</td>
<td>265,419</td>
</tr>
<tr>
<td>Navy</td>
<td>94,440</td>
<td>35,947</td>
<td>130,387</td>
</tr>
<tr>
<td>Justice</td>
<td>31,258</td>
<td>202,502</td>
<td>233,760</td>
</tr>
<tr>
<td>Education</td>
<td>1,120,519</td>
<td>194,764</td>
<td>1,315,283</td>
</tr>
<tr>
<td>Agriculture &amp; Forestry</td>
<td>2,172,603</td>
<td>43,708,073</td>
<td>45,880,676</td>
</tr>
<tr>
<td>Commerce &amp; Industry</td>
<td>128,691</td>
<td>75,983,185</td>
<td>76,111,876</td>
</tr>
<tr>
<td>Communications</td>
<td>£,130,010</td>
<td>25,594,445</td>
<td>33,609,455</td>
</tr>
<tr>
<td>Overseas</td>
<td>2,476</td>
<td>8,149,522</td>
<td>8,152,002</td>
</tr>
<tr>
<td>Welfare</td>
<td>66,985</td>
<td>1,981,861</td>
<td>2,048,846</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>39,058,003</strong></td>
<td><strong>177,818,319</strong></td>
<td><strong>216,884,322</strong></td>
</tr>
</tbody>
</table>

China Incident

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Army</td>
<td>¥2,973,000,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Navy</td>
<td>737,000,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reserve Fund</td>
<td>750,000,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>4,460,000,000</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The total of the foregoing accounts is as follows:

General Accounts: ¥5,622,962,303
1st Supplementary: 57,694,809
2nd Supplementary: 216,684,322
China Incident: 4,460,000,000

Income:

The revenues by which it is planned to meet the expenses connected with the General Accounts are as follows:

a. Ordinary Account.

<table>
<thead>
<tr>
<th></th>
<th>¥</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxes</td>
<td>2,569,900,599</td>
</tr>
<tr>
<td>Stamp receipts</td>
<td>107,000,678</td>
</tr>
<tr>
<td>Receipts from Government Enterprises and property</td>
<td>453,998,437</td>
</tr>
<tr>
<td><strong>Contributed from Special Accounts of Communications services</strong></td>
<td>¥1,500,000</td>
</tr>
<tr>
<td><strong>Contributed by Bank of Japan</strong></td>
<td>27,435,495</td>
</tr>
<tr>
<td><strong>Miscellaneous receipts</strong></td>
<td>77,763,771</td>
</tr>
<tr>
<td><strong>Transferred from Special funds</strong></td>
<td>7,439,559</td>
</tr>
<tr>
<td><strong>Total Ordinary Revenues</strong></td>
<td>¥3,345,116,939</td>
</tr>
</tbody>
</table>

Report No. 71-40
b. **Extraordinary Account.**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (¥)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extra profit tax</td>
<td>557,463,863</td>
</tr>
<tr>
<td>Sales of Government property</td>
<td>8,937,838</td>
</tr>
<tr>
<td>Contributed by public bodies to expenses for public works</td>
<td>7,564,473</td>
</tr>
<tr>
<td>Shares of public bodies in public works</td>
<td>11,957,191</td>
</tr>
<tr>
<td>Receipts in Encouragement Fund for scientific research</td>
<td>25,000</td>
</tr>
<tr>
<td>Transfers from Special accounts</td>
<td>8,071,859</td>
</tr>
<tr>
<td>Contributed by insurance companies</td>
<td>3,352,159</td>
</tr>
<tr>
<td>Receipts in Compensation Funds</td>
<td>3,886,110</td>
</tr>
<tr>
<td>Receipts in Ordinary sources from Special Accounts</td>
<td>6,700,000</td>
</tr>
<tr>
<td>Miscellaneous receipts</td>
<td>123,722,975</td>
</tr>
<tr>
<td>Receipts from issue of public loans</td>
<td>1,671,177,866</td>
</tr>
<tr>
<td>Surplus brought forward from previous fiscal year</td>
<td>75,000,000</td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
<td>2,477,845,364</td>
</tr>
</tbody>
</table>

(Ordinary and Extraordinary)

No detailed statement of revenues to meet the expenses incident to the 1st Supplementary account have appeared. The only statement published is as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (¥)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Miscellaneous</td>
<td>440,000</td>
</tr>
<tr>
<td>Ordinary Department</td>
<td>229,980</td>
</tr>
<tr>
<td>Bond issues</td>
<td>57,014,849</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>57,684,809</td>
</tr>
</tbody>
</table>

The following is a statement of the revenues to meet the expenses of the 2nd Supplementary account.

a. **Ordinary Account.**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (¥)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sake brewery tax</td>
<td>16,983,450</td>
</tr>
<tr>
<td>Government Enterprises and Sales of Government property</td>
<td>2,035,197</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>51,579</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>19,070,226</td>
</tr>
</tbody>
</table>

b. **Extraordinary Account.**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (¥)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales of Government property</td>
<td>39,924</td>
</tr>
<tr>
<td>Share of public bodies for public works</td>
<td>296,667</td>
</tr>
<tr>
<td>Donations for Scientific research</td>
<td>137,000</td>
</tr>
<tr>
<td>Receivable from Special Accounts</td>
<td>344,070</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>13,925,964</td>
</tr>
<tr>
<td>Bond issues</td>
<td>176,349,383</td>
</tr>
<tr>
<td>Surplus from fiscal year 1939-1940</td>
<td>4,581,086</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>197,814,096</td>
</tr>
</tbody>
</table>

Total for 2nd Supplementary Account 216,684,322
The revenues by which the appropriations for the China Incident are to be met are stated very briefly as follows:

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Miscellaneous</td>
<td>¥ 600,000,000</td>
</tr>
<tr>
<td>Bond issues</td>
<td>¥ 3,860,000,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>¥ 4,460,000,000</strong></td>
</tr>
</tbody>
</table>

The following table is a comparison of corresponding totals in the 1939-1940 and 1940-1941 budgets.

<table>
<thead>
<tr>
<th>Source</th>
<th>1939-1940</th>
<th>1940-1941</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regular account</td>
<td>¥ 3,694,666,976</td>
<td>¥ 5,622,962,303</td>
</tr>
<tr>
<td>1st Supplementary</td>
<td>¥ 910,543,937</td>
<td>¥ 57,694,809</td>
</tr>
<tr>
<td>2nd Supplementary</td>
<td>¥ 195,332,614</td>
<td>¥ 216,664,322</td>
</tr>
<tr>
<td>China Incident</td>
<td>¥ 4,805,000,000</td>
<td>¥ 4,460,000,000</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td>¥ 9,409,543,527</td>
<td>¥ 10,557,341,434</td>
</tr>
</tbody>
</table>
ATTACHÉ'S REPORT

From N/A Tokyo Date May 15, 1940 Serial No. 76 File No. 900-918
Source of information Japan Reliable
Subject Navy Ships

Reference

Note.—(The review, editing, and distribution of reports by O. H. I. will be greatly expedited if a brief summary of the contents is entered in this space. Mention leading geographical, personal, or political names, and the gist of the report.)

Japanese Naval Vessels Built or Building

List of Japanese naval vessels in commission or which have been launched.
JAPANESE NAVAL VESSELS BUILT OR BUILDING

CAPITAL SHIPS:

Fuso
Kongo
Hyuga

Mutsu
Ise
Kirishima

Yamashiro
Haruna
Nagato

(1) Name unknown. (Launched 30 November, 1939 at Kure Naval Station)

ARMORED CRUISERS:

Asa
Adzuma

Kasuga
Idzumo

Yakumo
Iwate

"A" CLASS CRUISERS:

Furutaka
Ashigara
Kinukasa
Chokai
Kogami
Kumano

Nyoko
Aoba
Atago
Haguro
Mikuma
Tone

Kako
Takao
Nachi
Yaya
Suzuya
Chikuma

"B" CLASS CRUISERS:

 Hirato
Sendai
Tatsuta
Naka
Kitaraki
Natori

Yubari
Tenryu
Jintai
Tama
Yura
Kiso

Yahagi
Abukuma
Kuma
Isuzu
Oi
Kino

Katori (Launched 17 June, 1939 at Mitsubishi, Yokohama)
Kashima (Launched 25 Sept., 1939 at "

AIRCRAFT CARRIERS:

Hosho
Soryu

Kaga
Akagi

Ryuyo
Hiryu

Shokaku (Launched 1 June, 1939 at Yokosuka Naval Station)
Zuikaku (Launched 27 November, 1939 at Kawasaki, Kobe)

SEAPLANE CARRIERS:

Notoro
Chiyoda

Kami
Nizuho

Chitose

Report No. 74-40
<table>
<thead>
<tr>
<th>Destroyers, First Line:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Kinokaze</td>
<td>Nokaze</td>
</tr>
<tr>
<td>Natsukaze</td>
<td>Sawakaze</td>
</tr>
<tr>
<td>Shikinami</td>
<td>Mutsuki</td>
</tr>
<tr>
<td>Akutsuki</td>
<td>Uzuki</td>
</tr>
<tr>
<td>Shiozaki</td>
<td>Nenchii</td>
</tr>
<tr>
<td>Hiyodomi</td>
<td>Fujitsuki</td>
</tr>
<tr>
<td>Atago</td>
<td>&quot;akeba</td>
</tr>
<tr>
<td>Shiratsuyu</td>
<td>Hatazuki</td>
</tr>
<tr>
<td>Yudachi</td>
<td>Shirakumo</td>
</tr>
<tr>
<td>Semide</td>
<td>Umikaze</td>
</tr>
<tr>
<td>Kuroshio</td>
<td>Hatafuyuki</td>
</tr>
<tr>
<td>Arashi</td>
<td>Asashio</td>
</tr>
<tr>
<td>Kasa</td>
<td>Ayamami</td>
</tr>
<tr>
<td>Arashi</td>
<td>Suzuki</td>
</tr>
<tr>
<td>Kim aroused</td>
<td>Yuzuki</td>
</tr>
<tr>
<td>Tsubasa</td>
<td>&quot;eketake</td>
</tr>
<tr>
<td>Kuroshio</td>
<td>Tsuga</td>
</tr>
<tr>
<td>Akatsuki</td>
<td>Asagiri</td>
</tr>
<tr>
<td>Kasa</td>
<td>Sagiri</td>
</tr>
<tr>
<td>Isuzu</td>
<td>Kage</td>
</tr>
<tr>
<td>Minegumo</td>
<td>Hozumi</td>
</tr>
</tbody>
</table>

Amatsukaze (Launched 19 October, 1939 at Maizuru Naval Station)
Tokitsukaze (Launched 18 November, 1939 at Uraga Dockyard Uraga)
Uraizake (Launched 10 April, 1940 at Fujinomiya Dockyard, Shikoku)
Hayashio (Launched 19 April, 1939 at Uraga Dockyard, Uraga)
Isokaze (Launched 19 June, 1939 at Sasebo Naval Station)
Arami (Launched 22 April, 1940 at Maizuru Naval Station)

<table>
<thead>
<tr>
<th>Destroyers, Second Line:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Iwate</td>
<td>Fuji</td>
</tr>
<tr>
<td>Nakagiri</td>
<td>Kashi</td>
</tr>
<tr>
<td>Niigata</td>
<td>Nashi</td>
</tr>
<tr>
<td>Taka</td>
<td>Kayo</td>
</tr>
<tr>
<td>Yuzuki</td>
<td>Sumire</td>
</tr>
<tr>
<td>Takanami</td>
<td>Hagi</td>
</tr>
<tr>
<td>Usuki</td>
<td>Kurokaya</td>
</tr>
<tr>
<td>Saiki</td>
<td>&quot;eketake</td>
</tr>
<tr>
<td>Tsuchi</td>
<td>Tsuga</td>
</tr>
<tr>
<td>Akashi</td>
<td>Asagiri</td>
</tr>
<tr>
<td>Higashi</td>
<td>Sagiri</td>
</tr>
<tr>
<td>Tsurumi</td>
<td>Kage</td>
</tr>
</tbody>
</table>

Torpedo Boats:

| Chidori                | Hayabusa             |
| Kii                     | Hatsukari            |
| Otori                   | Kiji                 |
| Kiri                    | Hato                 |
Report No. 74-40

## SUBMARINE CHASERS:

<table>
<thead>
<tr>
<th>No.</th>
<th>No. 2</th>
<th>No. 3</th>
</tr>
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<tbody>
<tr>
<td>No. 1</td>
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</tr>
<tr>
<td>No. 4</td>
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<td></td>
</tr>
<tr>
<td>No. 7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>No. 10</td>
<td></td>
<td></td>
</tr>
<tr>
<td>No. 51</td>
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</tbody>
</table>

## SUBMARINES:

<table>
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<tr>
<th>Ro</th>
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</thead>
<tbody>
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<td>28</td>
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</tr>
<tr>
<td>29</td>
<td>4</td>
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<td>30</td>
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<td>58</td>
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<tr>
<td>31</td>
<td>6</td>
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<td>32</td>
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<td>61</td>
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<td>62</td>
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<td>40</td>
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<td>16</td>
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<td>42</td>
<td>17</td>
<td>70</td>
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<td>71</td>
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<td>73</td>
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<td>46</td>
<td>21</td>
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<td>47</td>
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<td>75</td>
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<td>49</td>
<td>24</td>
<td>77</td>
</tr>
<tr>
<td>50</td>
<td>25</td>
<td>78</td>
</tr>
<tr>
<td>51</td>
<td>26</td>
<td>79</td>
</tr>
</tbody>
</table>

## SURVEY SHIP:

Kosho

## GUNBOATS, FIRST CLASS:

- Yodo
- Ataka (Launched 26 March, 1939 at Fujinagata Yard, Osaka)
- Sumida (Launched 30 October, 1939 at " " " " )

## GUNBOATS, SECOND CLASS:

- Kotoka
- Hira
- Toba
- Hozu
- Saga
- Atami
- Seta
- Futami
- Katata

## SUBMARINE TENDERS:

- Komabashi
- Jingei
- Chogei
- Taigei
- Tsurugisaki
- Nisshin (Launched 30 November, 1939 at Kure Naval Station)
**REPORT NO. 74-40**

**REPAIR SHIPS:**

<table>
<thead>
<tr>
<th>Asahi</th>
<th>Akashi</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tokiwa</td>
<td>Ashizaki</td>
</tr>
<tr>
<td>Ento</td>
<td>Itsukushima</td>
</tr>
<tr>
<td>Okinoshima</td>
<td>Yaezama</td>
</tr>
<tr>
<td>Natsushima</td>
<td>Kurokami</td>
</tr>
<tr>
<td>Toshiba</td>
<td>Namsi</td>
</tr>
<tr>
<td>Hisashio</td>
<td>Katashima</td>
</tr>
<tr>
<td>Katoku</td>
<td>Enoshima</td>
</tr>
<tr>
<td>Shirakami</td>
<td>Hatsuake</td>
</tr>
</tbody>
</table>

**NAME LAYERS:**

- *Shumushu* (Launched 14 December, 1939 at Tama Dockyard, Hibiichi)
- *Mariu* (Launched 26 August, 1939 at Mitsubishi Dockyard, Yokohama)
- *Hashidate* (Launched 23 December, 1939 at Osaka Steel Works, Osaka)

**No. 1 to 7 incl.**

**No. 11 to 15 incl.**

**No. 21 to 25 incl.**

**No. 41 to 45 incl.**

**LINE STEEPERS:**

<table>
<thead>
<tr>
<th>No. 1 to 6 incl.</th>
<th>No. 7 to 12 incl.</th>
<th>No. 13 to 16 incl.</th>
</tr>
</thead>
</table>

**OILERS:**

<table>
<thead>
<tr>
<th>Sunosaki</th>
<th>Ondo</th>
<th>Erimo</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hayatomo</td>
<td>Sata</td>
<td>Naruto</td>
</tr>
<tr>
<td>Tsurumi</td>
<td>Iro</td>
<td>Shiriya</td>
</tr>
</tbody>
</table>

**STORE SHIPS:**

<table>
<thead>
<tr>
<th>Harimaya</th>
<th>Uroto</th>
<th>Nojima</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shirezutoko</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**ICE BREAKER:**

<table>
<thead>
<tr>
<th>Odomari</th>
</tr>
</thead>
</table>

**NET LAYERS:**

<table>
<thead>
<tr>
<th>Shirakawa</th>
<th>Tsukubame</th>
<th>Kamome</th>
</tr>
</thead>
</table>

**TRAINING SHIPS:**

<table>
<thead>
<tr>
<th>Shikishima</th>
<th>Fuji</th>
</tr>
</thead>
</table>

**TARGET SHIP:**

<table>
<thead>
<tr>
<th>Settsu (?)</th>
</tr>
</thead>
</table>
The following vessels will be classed as special service ships until more definite information is obtained as to their class.

**SALVAGE SHIPS:**

- Kuribashi
- Hokuyo
- Itahashi
- Saruhashi
- Yodohashi

**SPECIAL SERVICE SHIPS:**

- Ukishira (Line layer ?)
- Aotaka (Cruiser ?) (Launched 3 January, 1940 at Harima Dockyard)
- Kasaii (Gunboat ?) (Launched 26 January, 1940 at Mitsubishi, Nagasaki)
- Hachijo (Cruiser ?) (Launched 10 April, 1940 at Sasebo Naval Station)
- Kunajiri (Line layer ?) (Launched 6 May, 1940 at Tsurumi Dockyard)
- Kyosai

**MISCELLANEOUS BOATS (YARD CRAFT, ETC.):**

- Chikubu
- Oshima
- Asuka
- Kaiyo No. 1
- Kaiyo No. 2

- Hitonose
- Yamasen
- Tenkai

- Atada
- Hayase
- Futagami
The Combined Fleet is carrying out a normal operating schedule which differs very little from previous years.
Operating Schedule of Combined Fleet

Reference: Report No. 136 - 39

Official information in regard to the operations of the Japanese Fleet has been secret for a number of years and no reports of major ship movements are allowed in the press. The normal operating bases of the Fleet, that is, Saeki Bay in the Bungo Channel and Ariake Bay in Southern Kyushu are as good as closed areas to foreigners, and therefore cannot be visited to advantage. The police control in these sections is so strict that even Japanese who are not natives of the local towns and villages are looked on with suspicion and are forced to leave unless they can give a good reason for their presence in the vicinity of the major fleet bases. It has been found impossible, therefore, to learn with any degree of certainty what the Japanese Fleet is doing.

It is believed, however, that the operating schedule of the Fleet follows the same general plan that has been in effect for many years. That is, the training year is divided into three periods, the first from February to April, the second from June to September, and the third from October to December. The first period is devoted to individual ship operations after which the Fleet makes a short cruise to Chinese ports or Formosa, the second and third periods are devoted to division and Fleet training after which a fleet problem is worked out.

So far this general schedule has been followed during the present training year, that is, the Fleet assembled in Southern Kyushu in February and made a short cruise to the South-China area in April. On the first of May the major units of the Fleet entered Yokosuka to remain most of the month. Depending, of course, on the international situation, the month of May will be devoted to upkeep and overhaul and the second period of the year will be started in June. Fleet units are expected to visit home ports again in September, unless something unusual happens.

The above information, while very sketchy, has been obtained in various conversations with active and retired officers and their wives. Several officers on duty in Tokyo have sons serving in the Fleet (on Karato, Kirishima and Ariake). These sons are now visiting their parents in Tokyo, expect to leave about the end of month to be gone until September when they will probably be able to visit their parents again.
ATTACHE'S REPORT

From: M/A TOKYO. June 5, 1940. Serial No. 83. Field No. 600-602

Source of information: Reliable

Subject: JAPAN Cities & Towns - Coast Cities and Towns

ISLAND OF JALUIT - MARSHALL GROUP

The following information in regard to JALUIT Island was obtained from a BRITISH source believed to be entirely reliable. The information is reported to be correct as of 1938-1939.

Distribution:
JAPAN
June 5, 1940.

ISLAND OF JALUIT - MARSHALL GROUP

602-100 Importance

JALUIT is the capital of the MARSHALL Group and Headquarters for Naval and Military operations in the Islands. It is a first-class advanced base for stores and air scouts.

602-200 Population

Natives 1,000; JAPANESE 700 (Approximate)

602-300 Topography and Hydrography

There are three approaches to the port and open waterways leading to an enclosed anchorage. Natural island formation. Troops could land ashore. Landings jetties and slipways already built. No bays or inlets of appreciable size. The surrounding country is gently undulating. Coconut trees to 40 feet and car- lolo nut trees to 30 feet. Maximum height of island 30 feet above mean low water.

602-400 Anchorages

Depth of SE passage 40 fathoms. Swinging room for at least six heavy cruisers in protected anchorage. Ships in anchorage could be shelled from ships off the island.

602-500 Climatology

The JAPANESE Navy maintains a meteorological station.

602-600 Industries

Copa, shell of all kinds, coffee (15 tons per month), fishing, shark fishing, fish drying. A modern cannery. A plant for extracting essential oils from copra. All owned and controlled by the JAPANESE. Glycerine is extracted from copra and stored at JALUIT. All industries vulnerable to air attack and artillery bombardment.
MITSUBISHI Engineering Shop, situated between the two aerodromes. Well
fitted with lathes, drilling and grinding machines, modern cylinder and reboring
machine. Staff of three draughtsmen and forty engineers and mechanics. Largest
casting possible about 1,500 pounds.

One main concrete jetty about 600 yards long. Two smaller jetties about
60 yards each. On large jetty, two railroad tracks for shuttling freight. Depth
of water at large jetty, high tide 25 feet, at low tide 20 feet.

Three mobile cranes, capacity ten tons each, on large jetty.

All above vulnerable and exposed to air and artillery attacks.

Lighting system consists of two small stations employing six-cylinder Diesel
engines. Government owned. Operating voltage 110 AC, 60 cycles. Supply to
town and airfield. Some powered windmills.

Gas - Nil

Considerable tank storage for fuel (diesel oil and aviation gasoline) at
airfield. Storage is in corrugated, above-ground tanks.

Concrete rain water basins and several deep wells. The well water is hard
and brackish, but usable. Seaplane and landplane bases have own supply.

JALUIT is the eastern terminus of the JAPAN-SOUTH SEAS Airline, which is
considering fortnightly service by 4-engined Kawasaki flying boats. Traffic is
now mail only, and in the future will be restricted to JAPANESE officials and
mail.

The aircraft base at the Navy seaplane anchorage and are serviced by naval
personnel.
602-1500 Other Transportation

There are about seventy-five trucks and as many cars on the island. These could be used to transport troops and supplies to any portion of the island.

602-1700 Harbor Craft

Above fifty, ranging from 4-cylinder 15 HP to 300 HP, all Diesel. Most of the larger ships are radio equipped.

602-1800 Communications


602-1900 Streets

Good roads made of powdered coral. Road rollers and other necessary equipment for road building. In JAL/IT Town, about four miles of bitumen roads. Easy access to all parts of the island.

602-2000 Buildings

The town is a modern one, with all conveniences. Hardware stores of all sorts. There are two main streets, the Marine Parade along the waterfront being three-fourths of a mile long. The main government building is the Municipal Building of two stories, concrete construction, 150 feet square, overlooking the harbor. Hardware stores are one-story concrete buildings. All others are one story, thatched or weather board JAPANESE type houses.

602-2100 Health and Sanitation

Septic tanks in all JAPANESE houses.

Two JAPANESE hospitals, 10 beds and outhouses. Well equipped. Situated in residential area. Native hospital, 10 beds and outhouses. Both JAPANESE and native doctors.

603-200 Fortifications

Bases and trunnions mounted for 6-inch guns along the Marine Parade. No guns mounted.

Report No. 83-400 (3)
Three 6 inch guns and a battery of four 4.7 inch field pieces.

Barracks for the regular garrison of 500 soldiers.

Troops stay six months on JALUIT and then return to JAPAN.

601-300 Air Defense

Two landing fields, each with a large hangar capable of housing 20 medium-sized planes. No repair facilities visible but usual handling gear blocks and tackles in evidence. Adjacent galvanized iron store houses, camouflaged.

Very suitable as base for seaplanes. Sheltered harbor and good sea runway.

On beach opposite southern airfield is a small naval air station. One hangar, ramp. Six KAWASHI flying boats are the usual force on station.

The airfields are for use of carrier-based planes, as none are regularly stationed there. The entire air defenses of the island could be demolished with a few well placed bombs.

603-400 Mobile Batteries

Machine guns and antiaircraft guns. Numbers not specified. AA guns in barracks mounted on trailers and towed by Diesel tractors.

Searchlights, mobile, mounted on trucks - pneumatic tires. Diameter of projectors - 10 inches. Candle power estimated at 1500.
ATTACHE'S REPORT

From: N/A - Tokyo  Date: June 19, 1940
Serial No.: 99  File No.: 400-400
Source of information: Press and Conversations
Subject: Japan - Industrial - Manufacture - Steel production

Reference:

# SCARCITY OF SPECIAL STEEL OF GOOD QUALITY IN JAPAN

The Special-Steel Manufacturing Crisis in Japan.

Stocks on hand of nickel, cobalt, molybdenum and vanadium are small and diminishing steadily.

Higher prices of raw materials have forced revisions of production schedules, and higher subsidies.

Tendency of Army to subject industry to totalitarian control.
SCARCITY OF SPECIAL STEEL OF GOOD QUALITY IN JAPAN

The Japanese Army and Navy are gravely concerned over the present inadequate supplies of steel and special steels for production of munitions and allied materials.

The present difficulty is a result of external and internal factors over some of which the government has no control. The European war, with a subsequent blockade of Germany and extension of hostilities to Scandinavia, has strangled the importation of high-grade special steel from Germany and Sweden. Anxiety also exists over the possibility of further American restrictions on export of scrap and steel to Japan.

Further complicating the situation, stocks of raw materials required for the local manufacture of special steels are small, and diminishing steadily. Supplies of nickel, molybdenum, cobalt, and vanadium on hand are practically exhausted. Heretofore, American scrap iron and steel imported by Japan contained percentages of alloys which were reclaimed in melting down. Recently, the Japanese have complained that the scrap from America no longer contains these alloys. It is probable that since scrap prices have risen, the Japanese are buying only the lower grades of scrap and feeling cheated because of the absence of alloys.

Finally, the prices of scrap iron and steel, and all other metals, have risen to new highs. The Military forces, having planned certain objectives for production in 1939-40, refuse to consider demands of the steel manufacturing companies for an increase in prices for munitions. The Budget allotted certain amounts for the armed forces and they are determined to obtain munitions for prices contemplated during compilation of the budget. This requires that either: '1, the steel producers operate at a considerable loss, or, '2, that the government, from some special extraordinary account, compensate with subsidies all losses incurred. In either case, the government loses money while the Army and Navy apparently remain within budgetary limits.

The Army prices upon which the budget estimates were based, were those of the third quarter, 1936. Since then, the prices of scrap iron and steel have risen more than thirty percent, and prices of the nickel, molybdenum, cobalt, and vanadium alloys have sky-rocketed even more. A choice had to be made between a volume reduction of thirty percent in production for the armed forces, or increased appropriations. Since the latter method required convening the Diet, which might have asked embarrassing questions on other policies of the government, and possibly caused a cabinet crisis, the government has announced that it will divert funds from other departments to subsidize losses. The amount of the subsidy was announced at ¥170,000,000 (170 million yen) and further subsidies for coke and coal will amount to ¥100,000,000 (100 million yen) more.

During May and June, the Army authorities have tried to force industry into totalitarian control, but have been opposed by the Commerce and Industry Ministry, presided over by one of the major industrialists in Japan. Apparently, a battle between the major industrialists and the Army over control of industry will continue, with no decision probable unless a coup by Army factions gives them complete control of governmental policies.

After consultations between the Ministry of Commerce and Industry and Military representatives, the following initial steps were decided upon:

Report No. 98-40
1.) More stress must be laid upon production of high-grade special steels. Large companies must increase production or instruct smaller companies in the required processes.

2.) There must be restrictions in the amounts of special steels to conserve dwindling supplies of vanadium, cobalt and nickel. Preference in allotting supplies of these precious metals will be granted to companies producing special steel products for the armed forces.

3.) A "purge" of small, inefficient companies will be undertaken.

Steel companies have sprung up like mushrooms during the Incident, a total of 80 now being registered. After an investigation, it was found that only five companies may be considered first-class producers. These companies are: Japan Special Steel Manufacturing Co., Special Steel Manufacturing Co., Daido Steel Mfg. Co., Kobe Steel Works, and the Hitachi Works.


The other sixty-nine companies produce "inferior" quality goods, not desired by the armed forces.
Japan has arranged for supplies of strategic raw materials from the Netherlands East Indies.
STRATEGIC MATERIALS DESIRED FROM NETHERLANDS EAST INDIES

The political and military considerations which have made Japan express her interest in the future status of the Netherlands East Indies are well known. At the present time it appears probable that Japan will take no steps to try to take over these Islands as long as:

(a) there is no prospect that they will be occupied by another power - the United States, Great Britain, France or Germany. (The first three of these powers have notified Japan that they desire to maintain the status quo and Germany has stated that she is not interested. Holland has stated that she does not desire or need the assistance of third powers in maintaining her position there.)

(b) Japan can continue to receive supplies of materials which are necessary for her to carry on her war effort and her world trade and at the same time find a badly needed market for her products.

There is no doubt that Japan hopes at some future time to dominate the Netherlands Indies - economically and politically - and that if a good opportunity presents itself, she will attempt to do so. The time will be carefully chosen, and the attitude of the United States will be ascertained beforehand. In her present weakened condition, Japan does not want to attempt an attack on any area even though the possible gains may be very great, if she runs a risk of having to fight the United States.

However, it is essential at this time that Japan obtain numerous raw materials, and the Netherlands Indies are a great potential source of supply. She has indicated to the Netherlands government that in the course of the next year she would like to purchase the following strategic materials from Netherlands India:

<table>
<thead>
<tr>
<th>Material</th>
<th>Quantity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Petroleum</td>
<td>1,000,000 metric tons</td>
</tr>
<tr>
<td>Scrap Iron</td>
<td>100,000</td>
</tr>
<tr>
<td>Nickel Ore</td>
<td>150,000</td>
</tr>
<tr>
<td>Bauxite</td>
<td>200,000</td>
</tr>
<tr>
<td>Salt</td>
<td>100,000</td>
</tr>
<tr>
<td>Manganese Ore</td>
<td>50,000</td>
</tr>
<tr>
<td>Rubber</td>
<td>20,000</td>
</tr>
<tr>
<td>Chrome Iron Ore</td>
<td>5,000</td>
</tr>
<tr>
<td>Tin</td>
<td>3,000</td>
</tr>
<tr>
<td>Wolfram</td>
<td>1,000</td>
</tr>
<tr>
<td>Molybdenum</td>
<td>1,000</td>
</tr>
<tr>
<td>Castor seeds</td>
<td>4,000</td>
</tr>
<tr>
<td>Quinine bark</td>
<td>600</td>
</tr>
</tbody>
</table>

After studying this list of Japan's requirements, the Netherlands authorities are reliably reported to have answered that they are prepared to supply Japan's needs to the extent of their ability. With many of the desired items, there is no question but they point out:

(a) Japan should enter into contracts for the petroleum now, in order to insure that the desired quantity can be supplied. Japan's purchases in the last three years have been:

Report No. 99-40
Therefore, 1,000,000 tons is almost twice as much as was purchased last year. It is interesting in this connection to note that the Japanese stated that they were decreasing purchases from the United States and increasing purchases from India because of the tanker shortage and the shorter voyage to Borneo from Japanese ports.

(b) Japan can have all of the scrap iron available but it may be impossible to supply 100,000 tons. Japan’s purchases in the last three years have been:

- **1937**: 103,700 tons
- **1938**: 60,600 tons
- **1939**: 47,200 tons

These amounts represent almost the entire supply.

(c) The salt can be supplied if new fields are opened, but time will be required for this to be accomplished, and contracts should be made at the earliest possible date if quick delivery is desired.

(d) Manganese ore production in the Netherlands Indies is as follows:

- **1937**: 15,700 tons
- **1938**: 11,200 tons
- **1939**: 7,300 tons

In the past Japan has not purchased any manganese there, but she can in the future if she so desires.

(e) Netherlands India produces wolfram in negligible quantities and no molybdenum has ever been found in the islands.

It is believed that the negotiations have been satisfactory to both the Dutch and the Japanese and that as soon as details as to payments, etc. have been arranged, contracts will be let and Japan will get the raw materials she desires.
INDUSTRIALIZATION OF CHOSEN

Chosen, especially the northern part of the peninsula is being rapidly industrialized due to the location, raw materials, abundant water power and cheap labor. The Japanese Army is aiding these plans because it is hoped to make Chosen an important supplier of the materials needed by the Army in operations on the continent.
Industrialization of Chosen

Industry in Chosen has developed by leaps and bounds since the Manchurian Incident began in 1931. This development includes both heavy and light industries, and has reached the point where Chosen is playing a most important role in the East Asia Economic Bloc and in the Japanese Empire Defense plans.

This rapid industrialization of Chosen may be ascribed to the following factors:

(a) Encouragement of industrialization by the Japanese Government;
(b) An increase in the margin of Japanese capital available for investment;
(c) Army policy of placing Chosen on a self-sufficient, war footing basis industrially;
(d) Tendency to industrialize areas where raw materials are available;
(e) Abundance of cheap labor to be exploited;
(f) Abundance of raw materials and resources, especially mining, forestry, marine products and agriculture;
(g) Abundance of water power;
(h) Geographical position near Manchukuo and China which reduces freightage, insurance, etc.;
(i) Cheap land available for factory sites.

At the same time that Chosen is being developed industrially, the Japanese Army has not lost sight of the importance of improving agriculture in order to make Chosen an important source of rice for either the Japanese mainland or for the Japanese Army on the continent. If these plans materialize, most of the food needed by the Japanese Army in operating against Soviet Russia or China will be supplied by Chosen.

The last year for which figures are available is 1938 when the total industrial output was ¥1,140,118,000, an increase of 16% over 1937. The following table shows this production classified by major industries:

<table>
<thead>
<tr>
<th>Industry</th>
<th>1938</th>
<th>Ratio to 1937</th>
<th>Gain over 1937</th>
<th>Rate, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spinning and Weaving</td>
<td>184,621,159</td>
<td>15</td>
<td>23,657,235</td>
<td>14</td>
</tr>
<tr>
<td>Metals</td>
<td>91,966,228</td>
<td>8</td>
<td>41,199,924</td>
<td>45</td>
</tr>
<tr>
<td>Machinery and Tools</td>
<td>26,796,957</td>
<td>2</td>
<td>10,234,215</td>
<td>38</td>
</tr>
<tr>
<td>Ceramic Products</td>
<td>35,877,198</td>
<td>3</td>
<td>10,805,935</td>
<td>30</td>
</tr>
<tr>
<td>Chemicals</td>
<td>352,819,312</td>
<td>31</td>
<td>47,870,935</td>
<td>14</td>
</tr>
<tr>
<td>Sewing and Woodworking</td>
<td>15,054,000</td>
<td>1</td>
<td>3,317,445</td>
<td>22</td>
</tr>
<tr>
<td>Printing and Binding</td>
<td>15,948,123</td>
<td>2</td>
<td>643,648</td>
<td>4</td>
</tr>
<tr>
<td>Foodstuffs</td>
<td>277,537,781</td>
<td>24</td>
<td>39,174,955</td>
<td>14</td>
</tr>
<tr>
<td>Gas and Electricity</td>
<td>24,501,947</td>
<td>2</td>
<td>-15,503,653</td>
<td>-64</td>
</tr>
<tr>
<td>Other Industries</td>
<td>124,123,880</td>
<td>12</td>
<td>19,470,447</td>
<td>15</td>
</tr>
<tr>
<td>Total</td>
<td>1,140,118,000</td>
<td>100</td>
<td>180,610,220</td>
<td>16</td>
</tr>
</tbody>
</table>

As might be expected, the large Japanese companies which have played such an important part in the development of Japan Proper are also interested in developing Chosen. These companies include Mitsui, Mitsubishi, Nippon Shipyard, and Nippon. Important enterprises include:

Report No. 153-40
Another interesting and important fact in connection with this development is that Northern Chosen, that is, Kankyo-Nokudo and Kankyo-Nando, formerly purely agricultural areas, now produce 40% of Chosen's industrial products. This percentage will probably be increased when the various hydro-electric plants now being constructed are completed. At the present time the Fusenko, Choshinko, Kanko and Yalu rivers are used to supply considerable quantities of electric power. Important power plants are those of the Chosen Fertilizer Co., Choshinko Hydro-electric Co., Yalu Hydro-electric Power Co., Funei Hydro-electric Co., and the Kokai Hydro-electric Co.
INTELLIGENCE REPORT

Serial No. 180

Monograph Index Guide No. 691-300

(If abbreviate with SUBJECT given later, see O. N. I. Index Guide. Make separate report for each main title.)

From: Naval Attaché

At: Navy

Date: September 27, 1940

Reference

Source

Various reliable Evaluation: Reliable

(Associates, correspondence, previous related report, etc. If applicable)

Subject

Japan

AVIATION - COAST DEFENSES - AIR DEFENSES

(Rating reported on) (Main title as per Index Guide) (Subdivision) (Make separate report for each title)

RAJISANE AIR AND NAVAL BASES WITHIN RANGE OF PHILIPPINE OPERATIONS

A concise compilation, with sketches, of the defenses and bombing objectives at

Kaihara Island
Wei Chow Island
San Chow Island
Chusan Islands
Amoy
Canton
Pescadores Islands
Taiwan, and
Palau

DECLASSIFIED

R.O. 11652, Sec. (E) and (D) or (G)

OSD letter, May 3, 1972

By: RT

NASS Date: MAY 21 1973

[Table with classifications and distribution codes]
Japanese Air and Naval Bases within Range of Philippine Operations

The operating bases from which Japanese armed forces must necessarily commence any aggressive or hostile action against the Philippine Islands are Hainan Island, Taiwan, Weihai, bases in occupied territory in China, and Palau.

It is assumed, from previous study of Japanese war and observation of Japanese military activities in China, that the initial indication of hostilities would be widespread bombing raids in the Philippines for the purpose of effectively destroying, or severely limiting, the aviation and submarine defense forces. These bombing raids could develop from three directions, namely, Hainan, Taiwan and the Pacific Ocean east of the Philippines. The latter raids would be either forays by carrier aircraft or bombing missions carried out by the 4-engined Patrol planes based at Palau, or on aircraft tenders operating nearby. In any event, the attacks would undoubtedly be coordinated, and have the advantage of surprise.

To permit a logical estimate of the situation by our defense forces in the Philippine Islands, the following concise compilation of Japanese bases for air and surface craft, within a thousand miles of the Islands, is hereby submitted:

HAINAN ISLAND

Airdromes:

Kiangchow. The present main airdrome on the island is an enlargement of the old Chinese field at Kiangchow, located midway between Hoihau and Kiangchow, and northwest of the latter place. The original field has been extended and now includes the area formerly occupied by a village to the westward. The present field is reported to accommodate 300 aircraft. The known AA defenses consist of two batteries of AA (4.7") and eight AA machine guns. These defenses have probably been recently augmented. In April, 1940, there were 40 naval planes based at the field, approximately 200 aviation personnel, and a detachment of troops for guard duty. There are barracks, fuel and munition dumps at the field. (For sketch see Appendix "A").

Planes stationed here are:

2 sq. SSF (Type 97)
3 sq. S/E Light Bombers (Type 98)
1 sq. Fiat BR 20's HB
2 sq. Reconnaissance (Type 97). (108 planes)

Sanya. Located north of Yulinkan Bay and East of Dog Hill. During early 1940, at least 2000 workmen were constructing and enlarging the field into a large air base. During April, 1940, five naval planes were stationed at the field. At present, the 14th Air Regiment of 4 squadrons consisting of 2 sq. SSF (Type 97) and 2 sq. HB (Type 97) are based here. (54 planes). For sketch see Appendix "B")

Landing Fields:

Wen Chang. (Yun Sio) Located southeast of Kiangchow and west of Toncan Point. Auxiliary

(132° 25')

Report No. 160-40

Yai-Chu. Located near beach, midway between Saeko Point and Great Cape.

Tungchiao. Located vicinity of Tong kin, northeast of Yulinkan Bay. Auxiliary.

Three other fields in southern part of island, location indefinite from information available. (See sketch of Hainan Island, marked \textit{APPENDIX C}).

Fortifications:

In addition to the eight gun emplacements in the vicinity of Same and Yulinkan Bays, concrete gun emplacements have been constructed at the following locations:

1. Ying Ko Tsai (Ying Khoe). (Southwest Point)
2. Ma Line (East of Great Cape, near Yemmin)
3. Tung Chow. Gaolong Bay area, east of Yulinkan Bay.
5. In vicinity of Senya airbase.
6. Aihsiien Ching. Approximately midway between Snake Point and Great Cape (South coast).

Three or four guns have been installed along the coast north of Tongcon Point (Northeast coast).

Some improvements have been made in the old Chinese fortifications at Hoihow Bay.

Reported (but not verified) that seven emplaced in vicinity of Chappy Bay (West Coast).

See sketch of Hainan Island, \textit{APPENDIX C}).

Ammunition Storage Facilities:

1. Northern Area; newly constructed building located in rear of Fu Yun Hospital, Hoihow.
2. Southern Area; located in a large cave (Lok Pi Tung) approximately twelve miles northeast of Yulinkan Bay.

A considerable number of barracks and concrete storehouses have been completed in the area adjacent to Yulinkan Bay. Work in the area is continuing.

Facilities for rotating out seaplanes have been constructed at Yulinkan Bay (See \textit{APPENDIX B}).

Eighteen storehouses have been completed at Hoihow. A large quantity of military stores is concentrated here.

Naval Anchorages:

\textbf{Naval vessels have been observed at the following points:}

\textbf{North Coast:} Hau Sui Bay
Chingwai Bay
Hoihow Bay
Pochin Bay

\textbf{East Coast:} Chunlen Harbor
Paknso

\textbf{South Coast:} Yulinkan Bay (\textit{APPENDIX B})
Gaolong Bay (\textit{APPENDIX B})

General:

Hainan is being developed by the Japanese Navy as a major base for expansion southward.
There are about twenty thousand troops garrisoning the island, which is used as a rendezvous for supplies, aircraft, troop transports, supply ships and naval units. For some time, large forces have been poised for a swift descent on French Indo-China.

Although nominally under complete Japanese control, Chinese guerrillas operate with comparative freedom from molestation in the uninviting interior. Portable short wave stations operated by Chinese regularly report on Japanese activities.

The island is noted for its poisonous snakes, impenetrable thickets and unhealthy climate. Tropical diseases, such as cholera, dysentery and malaria take a heavy toll of the invaders.

WEI CHOW

The island of Wei Chow lies in the Gulf of Tongking, northwest of Hainan and south of Pakhoi. It was occupied by Japanese forces in 1936 and used as an air base for operations against Pakhoi and Yamchow in the Nanning campaign. APPENDIX "E" a sketch of Wei Chow, is self-explanatory, with locations of objectives accurately marked. Other pertinent data also on sketch.

SAN CHOW (SAM CHUI)

San Chow is an island off the South China coast, directly south of the Portuguese Colony of Macao. It was occupied by the Japanese Navy and converted into an air base for carrier aircraft for use against Canton (and Hongkong).

The airfield is situated on the southern tip of the island. It is roughly rectangular in shape, with the long dimension E-W. A paved runway extends the length of the field. Size of airstrip 1000 by 300 yards. Hangars and barracks on N side of field. Fuel storage and one hanger underground in steep hill directly N of field. Ammunition dump and gas bousers to W of hangars.

The following bases (plus Hainan) are under Vice Admiral Shiro Takeda, Comdr. Second China Expeditionary Fleet (Flagship H.I.J.M.S. CHOKAI) which operates south of the Yangtze delta:

CHUSAN ISLANDS Naval Base (TINGHAI)
AMOY Special Base
CANTCN Special Base

Chusan Islands - Minor repairs, supplies, seaplane tender base.
AMOY - Carrier and seaplane tender base.
Canton - Heavy landplane bomber base, (can accommodate 90 planes) present force 1 sq. HB (Type 97).

PESCADORES ISLANDS

BAKO (or NAKO)

The Pescadores are a group of fortified islands about 50 miles west of central Taiwan. For details of fortifications, see Monograph - Japan - Pages 39 & 137. Further information follows.

Bako is on Hokoto Island, largest of the group. A small naval station, with minor facilities is situated as shown in sketch. A seaplane station with tender moorings is located here. The large main radio station is near the naval yard. There is a 25 ton floating, cantilever crane. Two landing grounds, shown in sketch are being extended. 1 sq. Patrol planes. (Sketch labelled APPENDIX "G")
Taiwan (Formosa)

Taiwan is a large island, north of Luzon, the most strongly fortified base of Japanese operations outside Japan Proper. Large Army ground and air forces are stationed here, and several naval and air bases.

The Naval anchorages and air bases are at Keelung, Tamsui and Takao. That at Takao is situated at the mouth of the Shimotamsui river, about 12 miles SE of Takao, and is easily recognizable from the air.

Army Air Bases are situated at:
- HOKUTO
- SHINCHIKU
- ROKUKO
- POTISHI
- KAGI (Largest Base)
- OKAGAKA
- HIZITO
- HOZAN
- REIGARYU
- KATO
- SUTSURYU
- BORC
- KARENKO
- SUO
- GINAN
- TAIHOKU (Keelung)
- ITAHASHI

Total Army planes, about 200.

Other air fields, which could be converted into military bases are at:
- TAICHU
- XOKO
- TAINAN
- AIIPING
- KAIKC
- GARANBI

MAIN BOMBING OBJECTIVES: The single main railroad down western Taiwan, Kagi, Takao, Toko, Tainan, the main Navy Radio station at Hozan, and Taito are considered the principal objectives for bombing raids from the Philippines.

OPPOSITION TO BE EXPECTED: Fishing boats, some wireless equipped, as "listening posts". 50 cal AA machine guns. 4" AA batteries at Kagi, Taito.

MINOR FIGHTER TACTICS: Against hangars, airfields, gasoline and fuel oil dumps - 100 Pound and Incendiaries.
Against factories - 100 Pound and Incendiaries.
Against docks, harbor installations, etc. 500 Pound.

PALAO

About five hundred miles East of Davao, in the Marshall

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Ropopo is the Japanese mandated island of Palao. It contains a seaplane base, landing field for carrier aircraft, oil tanks, and fortifications. The inner and outer anchorages, as well as all other points of interest are marked on the sketch, APPENDIX "H". Units of the 4th Fleet based on Palao at present have already been reported to the Department.
APPENDIX "A"

KIUNGCHOW (KIUNGSHAN) AIRDROME
HAIRAN ISLAND

Located midway between Hoihow and Kiungchow. Field: Flat and grassy. Usable in all weather.
Altitude: 20'
Size: 600 x 500 yards.
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APPENDIX "B"

[Hand-drawn map of Yelahanka Bay and Sanya Field]

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APPENDIX "D"

[Diagram showing geographical details, including labels for Middle Island, Gara Long Bay, Sampan Bay, Cape Gara Long, and a note about no anchorages or supplies for paddy fields.]
APPENDIX "E"

- Seng Sai Village
- Roman Catholic Mission
- AIR FIELD
- New Brick Block
- Boo Sai Village
- Nam Tong Cheng Village
- Namwan Bay
- Seaplane anchorage
- Island
- West Point

Highest land 250'
Landing field 1200 x 2000' on
Unmarked roads joining
military posts (not shown)

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APPENDIX "H"

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[Handwritten sketch with annotations]

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See Hydro Chart # 8423

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AIR RAID DEFENSE IN JAPAN

1.) Air raid signal and means of communication.
2.) Action taken during raids.
3.) All clear signal.
4.) Air Defense Organizations.
5.) Fire hazards.
6.) Remarks.
AIR RAID DEFENSE IN JAPAN

Air Raid Signal:
Ten blasts of sirens mounted atop buildings, intervals of three seconds, between blasts. Radio broadcast and telephonic air raid warnings.

Action to be Taken:
All traffic must come to a standstill, people must leave conveyances and seek shelter beneath "eaves of buildings or in bomb-proof shelters IF they can find any". People must evacuate houses.

All outside illumination must be turned off and houses are required to be shrouded in such a way that no light is visible from without. No smoking on streets. Trams and street cars shall not move, as the flashes from overhead wires would give away main streets. Tubs of water are required at the entrance to each home.

All Clear Signal:
A steady blast of the siren lasting one minute. Any other noise resembling a siren to be prohibited.

Air Defense Organizations:
Air Defense organizations in Japan are purely local in character. Generally, each street and ward association is assigned to regulate its premises. Uniformed volunteers (with little or no training) are in charge. Fire fighting facilities are woefully inadequate. Hoses are old, worn and leaky. Water mains are shut off at night. Little pressure is available. Fire hydrants are few and far between. Slugish canals and drainage pools are used for suction by hand-pumped and hand-carried fire apparatus.

Fire Hazards:
Nine-tenths of Japanese houses are roofed with tiles. Ninety-nine out of a hundred are constructed of flimsy wooden materials which catch fire and burn with alarming rapidity. Incendiary bombs sowed widely over an area of Japanese cities would result in the destruction of the major portions of these cities.

Factories, warehouses, business buildings are constructed of stone facades, behind which the lath and plaster lend small support against bomb blasts. Newer government buildings are of concrete and steel construction.

Remarks:
The Japanese people have never had the war carried to their shores. The China Incident has been a remote and nebulous dream, affecting the citizenry but little. Should the war be
brought home, and their homes and factories razed, the over-rated prestige of the Japanese armed forces would suffer seriously. Morale is now none too high with the man in the street, particularly after three and a half years of belt tightening have restricted him to the bare necessities of life.

Bomb shelters are few in number and totally inadequate to accommodate even a minute percentage of the population.

Transportation facilities are already over-crowded, and the evacuation of the civilian population would be attended by tremendous difficulties. Since every home in Japan is already crowded, few accommodations for refugees are available.

A complete list of important bombing objectives, including aircraft factories, steel and gas works, main transportation systems and government buildings will be prepared and forwarded.
DISTRIBUTION OF SHIP AND CHINA BASED AIRCRAFT

From reliable sources, the numbers and types of naval aircraft stationed in the Japanese fleets and at all outlying bases is tabulated herein. Data as of 1 September, 1940.

Combined Fleet aircraft, all types .................. 320
Other fleets, aircraft, all types .................. 159
At bases in China, Hainan, Taiwan, Palao, Jaluit, aircraft, all types ................. 549

Total naval aircraft at sea and at bases outside Japan 1008
DISTRIBUTION OF SHIP AND CHINA BASED AIRCRAFT

The following tabulated list of aircraft afloat and at Japanese bases outside the mainland of Japan Proper is the result of observations by merchant captains and warships who identified planes by numbers on fuselage and tail. The data is considered the most reliable obtainable, and final date of observation was 30 August, 1940.

The abbreviations used when referring to types of aircraft is explained as follows:

- **SSP** - Scout Seaplane, Type 94 twin float, 95 single.
- **SSF** - Single Seater Fighter. Low wing monoplane.
- **TB** - Torpedo Bomber. Type 96 biplane. Fixed wheels.
- **DB** - Dive Bomber. Type 94 biplane.
- **VP** - Patrol. Type 97 four-engined Kawanishi.

It will be noted that at no time have the Japanese carriers (except KAGA) been seen with more than 46 aircraft, although in this office's previous reports a maximum of 60 have been estimated aboard the larger type.

The standard number of aircraft in a Japanese squadron is twelve, except for Petrol Squadrons, which contain eight.

<table>
<thead>
<tr>
<th>COMBINED FLEET</th>
</tr>
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<tbody>
<tr>
<td>11 Type 94 SSP</td>
</tr>
<tr>
<td>16 Type 95 SSP</td>
</tr>
<tr>
<td>27 SSP</td>
</tr>
<tr>
<td>CRUISERS (Myoko 5, Nagara 2, plus 27 cruisers)</td>
</tr>
<tr>
<td>69 SSP</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>1.) AKAGI</td>
</tr>
<tr>
<td>Type 96 SSF 12</td>
</tr>
<tr>
<td>Type 96 TB 24 (2 squadrons)</td>
</tr>
<tr>
<td>Type 97 TB 12</td>
</tr>
<tr>
<td>46 (4 squadrons)</td>
</tr>
<tr>
<td>2.) HIRYU</td>
</tr>
<tr>
<td>Type 96 SSF 12</td>
</tr>
<tr>
<td>Type 96 TB 12</td>
</tr>
<tr>
<td>Type 96 DB 12</td>
</tr>
<tr>
<td>48 (3½ squadrons)</td>
</tr>
<tr>
<td>3.) HOSHO</td>
</tr>
<tr>
<td>Type 96 SSF 12</td>
</tr>
<tr>
<td>Type 97 TB 8</td>
</tr>
<tr>
<td>20 (1½ squadrons)</td>
</tr>
</tbody>
</table>

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4.) RYUJO
   Type 96 SSF  6
   Type 96 TB  12
   Type 96 DB  12
   30 (2½ squadrons)

5.) KORYU
   Type 96 SSF  12
   Type 97 TB  12
   Type 96 DB  18
   42 (3½ squadrons)

SEAPLANE CARRIERS

1.) MIZUHO
   Type 94,95 SSP  20
2.) NOTORO
   " " "  9
3.) KAMOI
   " " "  9

MISC. VESSELS

1.) CHOGEI
   Type 95 SSP  1
2.) TAIGEII
   Type 95 SSP  3

Total planes in Combined Fleet, distributed by types as follows:

Type 94 and Type 95 Float Seaplanes  136
Type 96 Single Seater Fighters  54
Type 96 Torpedo Bombers  46
Type 97 Torpedo Bombers  32
Type 96 Dive Bombers  46

320 aircraft

NORTH CHINA FLEET

CRUISERS

1.) IVATE
   Type 95 SSP  1
2.) KUMA (?)
   Type 95 SSP  3

THIRD FLEET (YANCTZE)

KINUGAWA MARU
   Type 94,95 SSP  10
IDZUMO
   Type 95 SSP  1
OKUSHIMA
   Type 95 SSP  12

FIFTH FLEET (SOUTH CHINA)

CHOKAI
   Type 95 SSP  3
NATORI
   Type 95 SSP  1
SENDAI
   Type 95 SSP  1
One unidentified
   Type 95 SSP  1

AIRCRAFT CARRIER

KAGA
   Type 96 SSF  12
   Type 96 TB  12
   Type 97 TB  12
   Type 96 DB  12

60
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AIRDRAFT TENDERS

1.) CHITOSE Type 94, 95 16
2.) CHIYODA Type 94, 95 16
3.) KAMIKAZE MARU Type 94, 95 SSP 24

(24 SSP carried belong to 14th air squadron, with signal #6 prefixed to plane numbers)

MISC. VESSELS

JINGEI Type 95 SSP 1

The aircraft carriers Shokaku and Zuikaku have not yet been identified with fleets. Zuikaku will be commissioned in November 1940. Each is reported to carry 60 aircraft as in KAGA. Upon receipt of further information this point will be cleared.

BASES IN CHINA, NAVAL AIRCRAFT ONLY.

1.) TSINGTAO Type 95 SSP 6 (# squadron)
   15th Air Squadron consisting of:
   Type 96 LB 12
   Type 96 HB 36 (3 squadrons)
   Takao Unit Type 96 HB 24 (2 squadrons)

2.) SHANGHAI Type 97 SSP 24
   12th Air Squadron consisting of:
   Seversky SSF 12
   Type 97 SSF 24 (2 squadrons)
   Type 95 TB 6 (# squadron)
   Type 95 HB 24 (2 squadrons)
   Type 99 LB 12
   Type 97 SSF 12
   Type 97 SSP 12
   Type 96 HB 108 (4 squadron)

3.) HAJNIN Detachment of 12th Air Squadron:
   Type 97 TB 12
   Type 97 SSF 12

4.) KIUKIANG Detachment of 14th Air Squadron:
   Type 97 SSF 12
   Type 96 LB 12
   Type 96 HB 12 (# squadron)

5.) CANTON Detachment of 14th Air Squadron:
   Type 96 SSF 12
   Type 96 LB 12

6.) SIAN CHOW (#6 Base) Detachment of 14th Air
   Squadron: Type 97 TB 12

7.) Y.M CHOW (#12 Base) Detachment of
   Unidentified Unit. Type 97 SSF 12

8.) NANNING Detachment of 14th Air Squadron
   Type 97 SSF 12
   Type 97 TB 12
   Type 96 HB 36

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