

# **Lecture: Contemporary Economic History of Japan**

**No. 13**

## **Chapter 2: Japanese Economy under Wartime Economic Control**

### **2-1 Sino-Japanese War and Yen Block**

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## 2-1 Sino-Japanese War and Yen Block

- **Feb. 1936: 2/26 Incident**
- **Mar. : Hirota Cabinet formed**
- **Jun. 1937: Kaya-Yoshino Three Principles**
- **Jul. : Sino-Japanese war begun**
- **Sep. : Ammunition Industry Mobilization Orders/Applicable law, Temporary Export-Import Commodities Measures Law, Fund Temporary Capital Adjustment Law enacted**
- **Oct. : Planning Agency established**
- **Apr. 1938: National Mobilization Law, Electricity Control Law, enacted**
- **Jul. 1939: U.S. notified repeal of Japan-U.S. Trade Treaty**
- **Sep. 1939: WWII erupted**
- **Oct. : Price Control Ordinance, Wage Temporary Measures Ordinance, enacted**
- **Jul. 1940: U.S. banned exports of gasoline/scrap iron, etc. to Japan**
- **Sep. : Japan-Germany-Italy Tripartite Pact**
- **Oct. : Taisei Yokusankai formed**
- **Nov. : Dai Nippon Sangyo Hokokukai formed**
- **Oct. 1941: Hideki Tojyo Cabinet formed**
- **Dec. : Pacific War begun**

## 2-1-1 Dividing World Economy into Blocks

- In 1930, the U.S. newly established a tariff law that triggered off the international tariff war.
- In 1932, UK convened Ottawa Conference whereby set its sights on the formation of an exclusive economic block focusing on the preferential tariff system within British Commonwealth of Nations as the principal axis.
- The formation of this sterling block touched off the foundation of own economic block for Japan and Germany. Thus, the world came to be divided into multiple blocks, making a smooth trade relations impossible to sustain.

## Transit of Global Trade

- Depressed economy of countries eventuated in an extreme shrinkage of the world trade.
- By forming the block, countries impounded shrunk merchandise trade to secure the area as own export market, as well as strived to cover an imperfect function of the international payment mechanism by turning the area to own currency block.

	Quantity Index	Price Index
1913	74.0	73.5
1920	53.5	---
1929	100.0	100.0
1930	93.0	87.1
1931	85.6	67.7
1932	74.6	52.4
1933	75.4	46.7
1934	78.2	43.5
1935	81.8	42.4
1938	88.8	45.5

## Global Trade of Industrial Goods and Primary Produce

- Particularly, countries of primary produce whose prices took nosedives aimed to cover by increasing quantity, and provoked further declines in prices.
- Industrial goods also faced heavy fall in prices. As a whole, adjustments were made based on the price fluctuation, which worsened the corporate profitability.
- In UK, the degree of its reliance on the block economy enhanced as in its grain importation from the empire coming to occupy the majority share.
- This was the reason for UK to have achieved its economic recovery without depending on a deficit finance.
- UK impounded 30% of the global trade.

## 2-1-2 Sino-Japanese War and Vision of Yen Block

- Japan's economy, having lost its financial restraint with the 2/26 Incident, continued on expanding the military expenditure as requested by the army.
- At the time the size of the general account was just 2.8 billion-odd yen, the army demanded an outrageous military expenditure of 2.5 billion yen, but, amid fears of terror, neither the cabinet nor the parliament could hold this back.
- This horrendous demand for the buildup of armaments immediately bounced back to steep rise in imports, and from the fall of 1936, Japan came to suffer the rapidly-deteriorating international balance of payments.
- Resulting from this situation were that, domestically, the economic control was shifted into full swing, and that externally, in the wake of the Sino-Japanese war in Jul. 1937, Japan looked toward forming the "Japan-Manchuria-China" block including the Chinese mainland, and that, further into the 1940s, the country began to aspire for building "Greater East Asia Coprosperity Sphere" including southern regions.

- The spread from the block of Japan-Manchuria to that of Japan-Manchuria-China was wholly ascribable to the miscalculation of Manchu development plans.
- And the development from the Japan-Manchuria-China block to Greater East Asia Coprosperity Sphere became decisive because England and America, being against the unilateral expansion of the Japanese interests in Asia, in their diplomatic intercourse with Japan for their support of China, took such measures as breaking off the trade agreement and prohibiting exports of strategic goods, against the background of their confrontation with Japan due to its invasion to the Chinese mainland.

# 1-2-3 Reality of Yen Block

Trade Balance by Block									
Million Yen									
	Aggregate Amount			Yen Block			Third-Country Market		
	Export	Import	Balance	Export	Import	Balance	Export	Import	Balance
1929	2,149	2,216	-67	471	376	95	1,678	1,840	-162
1930	1,470	1,546	-76	348	283	65	1,122	1,263	-141
1931	1,147	1,236	-89	221	236	-15	926	1,000	-74
1932	1,410	1,431	-21	276	205	71	1,134	1,226	-92
1933	1,861	1,917	-56	411	281	130	1,450	1,636	-186
1934	2,172	2,283	-111	520	311	209	1,652	1,972	-320
1935	2,499	2,472	27	575	350	225	1,924	2,122	-198
1936	2,693	2,764	-71	658	394	264	2,035	2,370	-335
1937	3,175	3,783	-608	791	438	353	2,384	3,345	-961
1938	2,690	2,663	27	1,166	564	602	1,524	2,099	-575
1939	3,576	2,918	658	1,747	683	1,064	1,829	2,235	-406
1940	3,656	3,453	203	1,867	756	1,111	1,789	2,697	-908
1941	2,651	2,899	-248	1,659	855	804	992	2,044	-1,052



- Reality of the yen block was Japan had a favorable trade balance against the yen block, but faced an opposite situation with the third countries: It was not that the block-economy formation could cover the foreign currency required to import such main resources as iron ore, raw cotton, and petroleum.

# Trade Relations with Yen Block

Unit: 1,000 Yen & %						
Shipped-Out Item	1928			1936		
Party Territory	Key Item	Amount	Ratio	Key Item	Amount	Ratio
Taiwan	Cotton/Silk Fabric	15,078	11.4	Fertilizer	28,491	11.7
	Ferrous Metals	8,695	6.6	Cotton/Silk Fabric	19,325	7.9
	Dried Fish, etc.	5,498	4.2	Ferrous Metals	16,257	6.7
Korea	Cotton Fabric	42,766	14.5	Machinery	40,862	6.3
	Ferrous Metals	15,066	5.1	Silk Fabric	36,565	5.6
	Silk Fabric	13,376	4.5	Cotton Fabric	32,118	5.0
Manchuria & Guangdong	Cotton Fabric	60,264	33.6	Cotton Fabric	75,552	15.2
	Flour	10,311	5.8	Machinery	47,534	9.5
	Machinery	5,267	2.9	Transport Equipment	30,068	6.0
Northern China	Cotton Fabric	30,186	29.0	Machinery	8,984	14.9
	Flour	13,567	13.0	Transport Equipment	7,288	12.1
	Machinery	10,779	10.3	Ferrous Metals	6,963	11.6

Shipped-Out Item						
Taiwan	Sugar	121,413	56.6	Sugar	163,495	45.6
	Rice	53,229	24.8	Rice	124,309	34.6
	Banana	8,615	4.0	Mineral Ore	15,637	4.4
Korea	Rice	183,421	54.9	Rice	249,426	48.1
	Soybeans	23,340	7.0	Fertilizer	38,390	7.4
	Raw Silk	16,251	4.9	Soybeans	23,461	4.5
Manchuria & Guangdong	Soybeans Remains	72,856	34.3	Soybeans	60,519	25.3
	Soybeans	49,541	23.4	Coal	26,718	11.2
	Coal	23,677	11.2	Soybeans Remains	25,388	10.6
Northern China	Seed Cotton & Cotton Lint	25,796	37.9	Seed Cotton & Cotton Lint	19,287	27.7
	Coal	6,069	8.9	Coal	10,656	15.3
	Beef	5,789	8.5	Beef	6,198	8.9

- Trade within the block was patterned as the importation of resources and exportation of products: Resources in the block fulfilled some degree of the role to secure them necessary for the reproduction of the Japanese economy.
- But ...,

# Dependence on Staple Imports and From-Where Composition

Item	Dependence on Import	Wherefrom to Ship In						Grand Total
		Korea	Taiwan	Southern Ocean Islands	Manchuria & Guandong	Sub Total	Other	
Petroleum	82				0.91	0.91	99.09	100
Coal	10	9.90	3.73		43.68	57.31	42.69	100
Iron Ore	89	8.81			7.18	15.99	84.01	100
Scrap Iron	72		1.15		1.80	2.95	97.05	100
Pig Iron	33	12.00			19.00	31.00	69.00	100
Bauxite	100						100.00	100
Magnesite	100				99.30	99.30	0.70	100
Cotton	100	0.96				0.96	99.04	100
Sheep Wool	100				0.18	0.18	99.82	100
Pulp	68						100.00	100
Crude Caoutchouc	100						100.00	100

Item	Dependence on Import	Wherefrom to Ship In						
		Korea	Taiwan	Southern Ocean Islands	Manchuria & Guandong	Sub Total	Other	Grand Total
Mineral Phosphate	100			9.31		9.31	90.69	100
Ammonium Sulfate	25	20.13			34.41	54.44	45.56	100
Sodium Chloride	75		5.58		31.72	37.30	62.70	100
Soybeans	75	21.04	1.01		77.95	100.0	0.00	100
Wheat	30	3.28			6.39	9.67	90.33	100
Sweet Corn	76					26.00	74.00	100
Rice	15	60.45	37.66			98.11	1.89	100
Sugar	88		80.28	4.00		84.28	15.72	100
Machine Tool	46					54.00	46.00	100

- Amid the high dependence on foreign countries to secure key resources without sufficient means of external settlement, the block economy did not exert its effect for the development of Japan on its way to become a military economy.