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MANCHURIA SINCE 1931

BY

JOHN R. STEWART

Prepared for the Sixth Conference of the Institute of Pacific Relations, held at Yosemite Park, California, from August 15th to 29th, 1936.

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FOREWORD

THIS review and appraisal of events in Manchuria since 1931 has been prepared at the request of the Secretariat of the Institute of Pacific Relations because of its obvious bearing on the questions scheduled for discussion in the Round Tables of the Yosemite Conference. It is recommended for study by all conference members, particularly in connection with the Round Table on Japan and the Round Table on the Changing Balance of Political Forces in the Pacific and the Possibilities of Peaceful Adjustment. It should also be read in conjunction with a parallel paper on Economic and Political Developments in Manchoukuo to be submitted by the Japanese Council of the Institute. Additional information is given in "The Far East, 1934" and "The Far East, 1935" by G. E. Hubbard, submitted by the British Council, in Chapter IX of "The United States in World Affairs, 1934-35" by Whitney H. Shepardson and William O. Scroggs, submitted by the American Council, in Chapter XXXIII of "Japanese Trade and Industry" by the Mitsubishi Economic Research Bureau, submitted by the Japanese Council, and incidentally in other data papers by several of the National Councils; while a collection of relevant documents will be submitted by the Secretariat of the League of Nations.

Since the region under review is not represented in the Institute of Pacific Relations, and since the sovereignty over it is in dispute, the author has here and there supplemented information from official Manchoukuan reports by drawing on more critical sources. Although this paper is issued by the Secretariat, it should be understood that the author alone is responsible for statements of fact or opinion contained in it.

New York,
May, 1936

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SUMMARY

MANCHOUKUO has now existed for four years as an "independent" state. The political framework of the new empire has been consolidated and a considerable investment has been made in its economic development and in the defence of the territory. The Manchurian venture is therefore reaching a stage where it must demonstrate its utility, and Manchoukuo must stand on its own feet. However, it is open to doubt whether the small economic gains accruing to Japan from control of Manchuria will compensate for the high costs of the project and the heavy increase in responsibilities which it involves.

At the same time, in any assessment of the probable value of the Manchurian venture, economic need cannot be taken as the sole determining factor. The vital strategic element has been throughout the dominating motive of the Japanese Army, which is believed to have engineered the 1931 Mukden Incident, and which has controlled the creation and development of the new state. Strategic needs have guided Army policy and therefore Manchurian policy; and the direction of development has consequently been to build up in Manchuria a secure base for further continental expansion. The emphasis has thus been on railways, roads and other communications and the expansion of industries of potential war value, namely iron and steel, oil, coal and chemicals.

Because of the hesitancy of private capital to engage in Manchurian developments and also because of the restrictions placed on the free play of private enterprise, the South Manchuria Railway has had to shoulder the burden of financing the Army's strategic ventures. As most of the money has been put into uneconomic enterprises, particularly into the construction of strategic railways, the S.M.R. now finds its financial condition impaired. Over-expansion has inspired doubts in the financial community in Japan which have been reflected in difficulties over floating additional debenture issues and in misgivings expressed by investors over the ability of the Company to maintain its present high dividend rates. To meet the situation, the S.M.R. has had to announce a five-year financial plan considerably reducing fu-

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ture debenture issues; and the Manchurian Affairs Bureau has had to launch a new campaign to popularize Manchurian investments.

The gains to Japan of the Manchurian venture have so far been small, and it is problematical what the long-term benefits will be. It is true that Japan now has access to all the resources of Manchuria; but on the other hand these resources are mainly of an agricultural nature which Japan does not need as much as industrial raw materials and minerals. Manchuria does have coal and iron, but the largest enterprises in these lines were controlled by Japan previously, so that the situation has been little changed by the creation of Manchoukuo. The most concrete gain was of a semi-political nature: namely, the ending of Chinese competition which was threatening to undermine the S.M.R. and the whole Japanese position in Manchuria.

Problems have also arisen around the respective roles of Japan and Manchoukuo in an economic bloc arrangement. Industrial development on a moderate scale is proceeding in Manchuria, involving some transfer of branch plants to Manchuria. This has raised the spectre of Manchurian competition either in the Japanese domestic market or through the reduction of Manchurian imports of Japanese goods.

Against the small economic gains of the Manchurian venture can be set the heavy increase in responsibilities involved. Japan is now burdened with the task of administering, policing and defending an immense area on the continent, which makes necessary the maintenance of a large military force in Manchuria. As there is little prospect that Manchoukuo will soon be able to provide for its own defense or make any considerable contribution to the upkeep of the Japanese forces, the garrisoning of Manchuria will undoubtedly be a heavy drain on Japan for many years. Japan's army costs in Manchuria amounted close to one billion yen for the five years 1931-35, about one-tenth of the total revenue of the Japanese Empire.

Moreover, the deterioration of Japan's international position as the result of the occupation of Manchuria has brought a huge increase in army and navy expenses which has seriously unbalanced the budget and greatly increased the national debt. In fact, the cost of military and naval expansion, together with Manchurian activities, is the principal financial problem of Japan. Furthermore, the Manchurian events have led the U.S.S.R. greatly

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to strengthen its border defenses and armed forces in Siberia and to cement its ties with Outer Mongolia. This is bringing a corresponding increase in Japanese forces in Manchuria.

The direct and indirect costs of the Manchurian venture have thus been heavy and are still rising. Against this can be cited only small economic gains. The balance is represented by the possible strengthening of the Japanese strategic position. The Japanese Army is securely established in Manchuria and has its strategic railways and roads and certain heavy industries. But so far the situation is that there has been heavy outlay on, but little actual profit from, the Manchurian venture. The import boom financed by Japanese investments is drawing to a close, but the economic foundations of Manchoukuo continue weak because of the depressed export trade and the poor state of agriculture. Critical years are ahead for the Manchoukuo Government and for the S.M.R. which both depend upon trade and agriculture for their revenue. Whether Manchoukuo will turn out to be an economically sound venture from the Japanese point of view and will yield a return on the capital invested is a doubtful question, contingent upon long-term developments and upon Manchoukuo's ability to regain export markets. As development has been along strategic lines, the answer to the query "What profit Manchuria" may well be negative, when given in economic terms, whatever may be the ultimate political benefits to Japan.

The present study has been made primarily to ascertain the part which Manchoukuo is playing, and likely to play, in Japanese national economy. This is, of course, only one of the international concerns in the development of the new state. Also important, in the minds of many readers, will be the question as to how the Manchurian people themselves are faring under the new regime. This is a question, however, which, in the absence of authentic information, cannot be answered at this stage. Similarly, the stake of other nations in Manchuria and the place which it occupies in the changing balance of political power in the Far East cannot here be exhaustively examined.

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MANCHURIA SINCE 1931

INTRODUCTORY. THE BACKGROUND

MANCHURIA, formerly the three Eastern Provinces of China and now the "independent" but not generally recognized state of Manchoukuo, is a region of marked political and economic importance. Its strategic position at the meeting-place of the tides of Japanese, Russian and Chinese expansion, coupled with its natural wealth of undeveloped resources, has induced international rivalries of such intensity that Manchuria has enjoyed for many years the unenviable reputation of being one of the "sore spots" of the world.

Manchuria first became important in international affairs at the time of the Sino-Japanese War in 1894-95. It subsequently came to play an increasingly significant role as the focus of conflicting national interests in the Far East, recent writers having variously labeled it "The Cradle of Conflict," "The Cockpit of Asia," and "The Tinder Box of Asia." However, with Manchuria now securely under Japanese control, Japan has become a continental power. Consequently, the center of conflict has tended to move westward to Mongolia and North China, into which regions Japan is now steadily expanding its influence from its Manchurian base.

That base occupies an extensive territory. Carved from three provinces of Manchuria and one of Inner Mongolia, Manchoukuo has an area of 400,000 square miles and a population of 32,500,000.[1]

Manchuria contains several regions with strongly marked geographical and economic features. Its heart is the broad central plain, composed of the Sungari, Nonni and Liao River valleys, enclosed by an outer ring of mountains on three sides. The mountain areas contain forest and mineral resources, while favorable environmental conditions on the prairie-like central plain make it a fertile cereal-producing region. The land is level or slightly rolling, the soil is generally fertile, and the climate, though very cold in the winter and with a none too abundant rain-

[1] As of December 31, 1934 excluding Kwantung and the S.M.R. zone. *General Survey of Conditions in Manchoukuo*, Nov. 1935, pp. 4-5.

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fall, is similar to the spring-wheat belt of North America. Moreover, railway and road construction is easy over the level plain; while prior to railway construction river and sea routes provided access to markets in China Proper.

This land, similar in many respects to the American West, has been one of the pioneer regions of the Twentieth Century. As one of the last undeveloped areas with fertile soil in Asia and with rich farm, forest and mineral resources, Manchuria at the turn of the century offered a ready field for rapid economic development under foreign influence.

Though largely undeveloped, Manchuria was not, however, an empty, sparsely populated region. For many centuries there had been an important Chinese community in South Manchuria. In spite of prohibitions by the Manchus, Chinese immigration and settlement went on steadily during the 19th century, so that by 1900 Manchuria had a population estimated at 17,000,000, mostly Chinese. There were a number of good-sized cities and a well-developed trade in farm products with China Proper.[2] This trade followed the route of the Liao River to the port of Newchwang at the head of the Gulf of Liaotung and from there by steamer or native craft to Chinese ports. It was a trade severely restricted by geographic factors. During the intensely cold winter the frozen roads teemed with cart traffic bringing the products of farm and forest to the great depots on the banks of the Liao, down which they were shipped to Newchwang for export after the opening of navigation in the spring. During the summer the miry roads were deserted, and the thousands of animals used for transport in the winter were diverted to farm work. In 1899, exports through Newchwang, the only open port, consisting of bean products, wild silk, gold, ginseng, furs and skins, amounted to $18,500,000, Chinese currency.

The development of Manchuria was until then taking place under purely Chinese auspices. The turn of the century, however, brought foreign influence, the construction of railways and ports, and a rapid acceleration of the rate of development. Two periods may roughly be discerned. The first lasted from the end of the Russo-Japanese War until the Mukden Incident of 1931. The

[2] For a description of Manchuria prior to 1900, see *Manchuria, Its People, Resources, and Recent History,* published in 1901 by Alexander Hosie, a former British Consul-General at Newchwang. (J. B. Millet, Boston, 320 pp.)

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second and present period began with the restoration of relative peace and order after the creation of Manchoukuo.

The first period left an impressive record of economic progress. In a quarter of a century, Manchuria developed into a prosperous region contributing significantly to world commerce. Foreign trade, together with that with China Proper, increased fourteen-fold; and at the same time the proportion of Manchuria in the total foreign trade of China rose from 12 to 21 per cent. Manchurian soya beans became a staple in the world's raw material trade, exports of beans, oil and cake increasing by 1,970 per cent. Dairen grew into one of the leading ports in the Far East, ranking next to Shanghai in the trade of China; and the Fushun coal mines were developed into the largest in the Orient, exporting to Japan, China and the countries of South Eastern Asia.

Furthermore, this period saw rapid railway construction. Manchuria's fairly extensive network of 3,700 miles of lines was in marked contrast with that of only 5,200 miles serving China Proper. The spread of communications was accompanied by a steady increase in agricultural production and in the area of cultivated land. In the decade after 1920, the land under new settlement exceeded 1,000,000 acres per annum. This was made possible by an extensive immigration from North China which reached a peak of 836,000 net in 1927. Population nearly doubled during the period.

Progress was thus rapid, but the Manchurian economy as it developed during the first three decades of this century was one-sided. It emphasized an agriculture predominantly of a plantation nature—the hand cultivation of the great estates of absentee landlords by poor refugee laborers from North China. This agriculture was, moreover, dependent on foreign markets—soya beans, the principal crop, being the basis of the export trade. At the same time, the manufacturing, mining, forestry and pastoral industries were comparatively neglected, except where Japanese needs brought a few large-scale mining developments.

Foreign trade was typically that of an undeveloped country. Raw materials and foodstuffs were exported and manufactured goods imported with a large "favorable" merchandise balance of trade to cover capital costs. Over half the export trade consisted of soya beans and the by-products, oil and cake, and the balance was made up of other farm products and raw materials such as

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millet, coal, pig iron, salt and tussah silk. This dependence on the export of farm products and raw materials exposed Manchuria to the effects of the world depression with its shrinkage of foreign trade which weighed most heavily on the countries producing raw materials.

Manchuria was closely linked to North China and Shantung, from which there was a steady tide of emigration caused by overpopulation, famine and civil war, and also a large seasonal movement of coolie labor each year. This seasonal labor was a vital factor in agriculture, construction, mining and transportation and had grown up because of the easy access to Manchuria by rail and water from North China. This seasonal migration of coolie laborers, numbering hundreds of thousands returning each winter with their money to their Shantung homes, was a regular feature of Manchurian life in the years before the Mukden Incident.

These main features of Manchurian development during the first period were complicated by foreign influence and capital. At first the Russians, then the Japanese, engaged in railway and port construction which opened the country to rapid settlement and made possible a remarkable expansion of the export trade in soya beans and other farm products. This progress occurred during a period of comparative peace and order, but the rate of development was slowed down by political conflicts, caused partly by the rivalry of foreign interests, but primarily by the rise of Chinese nationalism. This more and more became a force directed against Japan, although other disputes arose from time to time over the status of the Chinese Eastern Railway, then controlled by the U.S.S.R.

The unstable division of political and economic power in Manchuria lent itself readily to political difficulties. Japan controlled and policed the South Manchuria Railway zone and the Kwantung Leased Territory; but the sovereignty of China was generally recognized, and a Chinese regime administered the Three Eastern Provinces. Japan operated the principal railway and the principal port and controlled the largest industrial and mining enterprises; but the population was overwhelmingly Chinese, and agriculture was almost entirely in Chinese hands.

The Chinese attitude was originally one of passive resistance to Japanese programs of economic expansion. However, with the resurgence of Chinese nationalism in the years 1928 to 1931, there

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developed a definite drive toward greater political and economic power in Manchuria. The "Young Marshal," Chang Hsueh-liang, affiliated himself with the Nationalist movement and became increasingly unadaptable to Japanese wishes. This was reflected in the hundreds of cases of alleged treaty violations, upon which the Japanese placed so much stress in arguing their case before the League. At the same time, the Chinese authorities were building an independent railway system, based on the new port of Hulutao, which was menacing both the profits and the position of the South Manchuria Railway. This competitive rail system was particularly annoying to the Japanese; for it embraced a number of lines financed by Japan as feeders for the S.M.R. and on which the debt was in arrears. The Chinese lines, quoting cheap silver currency rates, were taking so much business from the S.M.R. which quoted gold yen rates that the latter for the first time in its history began to lose money in 1931. As the S.M.R. was the chief instrument of Japanese economic expansion in Manchuria, its undermining constituted a serious threat to the Japanese position.

To an increasing degree the initiative in economic development and political control was thus passing to the Chinese regime. This challenge to the dominant position of Japan in South Manchuria was met by the Japanese Army with the Mukden Incident of September, 1931. The Chinese program, and specifically the Chinese attempt to take over the Chinese Eastern Railway in 1929, collapsed with remarkable speed. Subsequent developments saw the complete elimination of Chinese influence and the absorption of the competitive Chinese lines into the S.M.R. system.

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FOUR YEARS OF MANCHOUKUO

THE IMMEDIATE result of the Japanese occupation of a large part of Manchuria in the last three months of 1931 was widespread disorder and turmoil in Manchuria. Gradually, however, a new Japanese-controlled administration was created—the "independent" state of Manchoukuo—and a relative degree of peace and order was restored after a series of anti-bandit campaigns. Towards the end of 1932, the Japanese authorities were in a position to proceed energetically with the large-scale development of Manchurian resources. The main lines of this development have been determined by the Army, which has had as its instruments the Manchoukuo Government and the S.M.R. Co. It originally intended to create an earthly "paradise" in Manchuria, with *Wangtao*, the kingly way, as the guiding principle. Manchuria was also envisaged as an economic base, which would solve many of Japan's problems, provide homes for many colonists, and increase Japan's self-sufficiency and military power.

March 1, 1936 marked the fourth anniversary of the creation of Manchoukuo. With the experience of four years, it is possible to assess in a preliminary way the nature of the progress made by the new state. Such a study is of necessity based upon the interpretation of official data, as little other source material is available.

Chinese observers point to the economic collapse of Manchuria. From the other extreme, official Manchurian sources constantly stress Manchoukuo's steady progress and healthy growth. Actually, moderate progress has been made, but the economic foundation continues weak in view of poor farm conditions, the adverse balance of trade, and an uncertain investment situation. There are indications of a slowing down of the rate of development, partly because of the current difficulties of the S.M.R. in marketing additional debentures and partly because of the anticipated need of funds for North China enterprises.

The prevailing uncertainty is related to the record of the past four years. On the one hand, the political foundations of the new state have been strengthened, the provincial and local administrations centralized, the currency unified and stabilized at par with

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the yen, and the budget, on the whole, balanced. Railways and other communications have been rapidly extended, a number of new industries established, and industrial and mining production increased. The development program has been accompanied by an import boom of impressive proportions which has made Manchoukuo one of the leading markets for Japanese exports in the past few years.

On the other hand, current development financed by Japanese investments is offset by the weakness of the agricultural base. Fundamentally, Manchuria is an agricultural country. Its relative prosperity prior to the Mukden Incident was based upon the steady rise of farm output and expanding export markets for soya beans and other farm products. However, in the past few years, farm production has declined considerably, soya bean prices have been very low, and foreign markets for Manchurian beans have contracted. In addition, immigration from China and the movement of seasonal labor have been curtailed, and new land settlement is virtually at a standstill despite railway construction in the north and east where there are large areas of unused arable land. The poor state of agriculture, caused by floods and by general insecurity, is matched by an unsatisfactory trade situation, marked by stagnation in the export trade and a heavy adverse balance. Rural problems have been complicated by the failure to eliminate banditry which, though greatly reduced from the 1932 peak, is still a menace.

Fields of Development

On the political side, the foundations of the new state have been consolidated and the regime given an aspect of permanence by the enthronement on March 1, 1934 of Henry Pu-yi as Emperor Kangteh of a revived Manchu Empire. The stability of the regime is of course dependent upon Japanese support. The mechanics of government now seem to be operating smoothly, though actual power and responsibility are with the numerous Japanese officials. The provincial and local administrations have been centralized and apparently made more efficient. In order to break completely with the old order, not only was the capital moved from Mukden to Hsinking, but the four old provinces were broken down into ten new provinces and the special Mongol province of Hsingan. In preparation for the abolition of extraterritoriality, the

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Government has devoted considerable attention to reform of the taxation system, to promulgation of modern codes of law, and to the development of an adequate system of police, courts and prisons. Legal codes and administrative systems are based on Japanese models.

There has been little improvement, however, in Manchoukuo's international status. Japan and Salvador alone have extended full recognition, the rest of the world following a non-recognition policy. The U.S.S.R. and China have of necessity granted a measure of *de facto* recognition, as in the case of postal and railway agreements, but it is significant that one of Premier Hirota's three points for the adjustment of Sino-Japanese difficulties calls for the recognition of Manchoukuo. There have been hints from Hsinking that consular jurisdiction might be abolished by unilateral action; but in view of the serious foreign complication which this would involve, it is not probable that this step will soon be taken.

However, in August 1935, the Japanese Government agreed to the gradual withdrawal of its extraterritorial rights in Manchoukuo and the transfer of administrative rights in the S.M.R. Zone. This pledge was carefully qualified by the proviso that withdrawal was to be by gradual stages so as to avoid sudden changes in the position of the Japanese community and was made conditional upon the perfection of Manchoukuo's administrative system. This also applied to the transfer of administrative rights in the S.M.R. Zone, while the Kwantung leased territory was specifically excluded. The Japanese Government is thus moving slowly in this important reform. The transfer of taxation rights as the first stage in withdrawal was originally scheduled for October 1935, but did not take place until July 1, 1936. The transfer of police rights and actual authority in the S.M.R. Zone is expected to materialize in 1937.

Currency. Reform of the currency was one of the first steps taken by the new regime, and represents a definite accomplishment. The currency situation was formerly very confused, with a variety of local depreciated currencies and foreign notes in circulation. To replace the local notes, the Manchoukuo yuan was established in June 1932, and by the end of June 1935, 97 per cent of the old notes had been redeemed. The unification of the currency under the yuan was further advanced by an agreement

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made in November 1935, for the gradual withdrawal of the Bank of Chosen gold yen notes circulating in Manchuria to an estimated amount of 70 or 80 million yen. The Japanese Government also agreed to the greater use of the yuan in making payments by the S.M.R. and the Kwantung Army, the principal Japanese organs in Manchuria.

The yuan, though unified, has been a managed currency from the start, with an embargo on the export of silver. Nominally, it is on a silver basis, consisting of 23.91 grams of pure silver. It was at first linked to the Chinese silver dollar and consequently rose to a premium over the yen when silver appreciated as the result of the American silver purchases. The yuan reached a peak of Yen 121.50 per MY 100 in October 1934; but later declined until, in September 1935, it reached par with the yen, at which point it was stabilized. The Japanese Government has promised its moral support in maintaining this parity.

Simultaneously with the creation of the yuan, the Central Bank of Manchou was established to act as bank of issue. Doubt as to its stability was expressed by the Lytton Commission[3] on the grounds that its original small paid-up capital was subscribed by the Manchoukuo Government, which in turn borrowed from the Central Bank to balance its first budget.

Analysis of the Bank's standing, using the official figures, is difficult. At any rate, connections with the Government are close. Present paid-up capital is 15,000,000 yuan, subscribed by the Government. The Bank itself lent the Government the money with which to subscribe to at least half of this capital in the form of the State Founding Loan (Central Bank shares) of 7,500,000 yuan. The bulk of the Bank's resources was derived from a Bank of Chosen loan of 18,000,000 yen and from the liquidation of the assets of the four note-issuing banks of the old regime. In this connection the Government issued a 33,000,000 yuan Central Bank of Manchou Loss Compensation Loan. These bonds are held by the Central Bank, which also holds almost all of the Government's domestic bonds and has in addition made advances to finance highway and construction work and to provide the funds for the Government's share in several development enterprises.

[3] See Report of the Commission of Enquiry on Appeal by the Chinese Government, League of Nations, Geneva, 1932, pp. 100-101.

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On September 30, 1935, the debts of the Manchoukuo Government amounted to the following:[4]

	Loans	*Advances*	*Total*
Domestic (M. yuan)	61,825,250	39,246,452	101,071,702
Foreign (yen)	100,000,000	18,290,000	118,290,000

Debts at that time were about equally divided between domestic and foreign. The latter were due entirely to Japan, while the domestic obligations were almost entirely held by the Central Bank of Manchou. The Bank's 1935 year-end statement of condition[5] showed Government bonds of 48,000,000 yuan and advances of 52,950,000 yuan. These bonds and advances represented 27 per cent of the Bank's total assets, including miscellaneous advances of 18,952,081 yuan to the provincial governments.

Note issue on December 31, 1935 amounted to 178,656,000 yuan. Against this the Bank had a specie reserve of 51.6 per cent, as compared with a legal minimum reserve of 30 per cent, which can consist of gold or silver bullion, reliable foreign currencies, or deposits with foreign banks in gold or silver accounts. Actual bullion reserves are not reported, and it is therefore believed that a large part of the reserves are in Japanese currencies or deposits which are themselves inconvertible into bullion.

Communications. Railway unification and construction rank with currency reform among the outstanding achievements of Manchoukuo. Three competing rail systems formerly existed—the Japanese S.M.R., the Soviet-controlled Chinese Eastern Railway and the Chinese Government lines. The S.M.R. now operates all the railways and has coordinated them with its system. The former Chinese lines, some of them heavily indebted to the S.M.R., were in March 1932 placed under the management of the S.M.R. which created the General Direction of State Railways as the operating organization. At the same time, the defaulted debts of the Chinese lines were funded at 130,000,000 yen, but regular interest payments on this debt have not been maintained.

In March 1935, after protracted negotiations, the Soviet interest in the Chinese Eastern Railway was acquired by Manchoukuo

[4] *General Survey, op. cit.*, pp. 18-19.
[5] *Business and Finance in Manchoukuo*, Central Bank of Manchou, Dec. 1935, p. 11.

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for 170,000,000 yen. The line was renamed The North Manchuria Railway and made a part of the state railway system. The broad gauge of the southern branch from Harbin to Hsinking was changed to standard gauge in the summer of 1935, but no plans have been announced for changing the gauge of the main line, an undertaking which probably will be deferred because of the expense involved. Instead, a number of locomotives and cars have been changed to broad gauge to build up the depleted rolling stock.

Since the advent of Manchoukuo, railway construction has been particularly active, with construction work done and funds supplied by the S.M.R. under contract with the Manchoukuo Government. The record is as follows:

Old Railways	6,324.2	km.
Constructed fiscal year ending June 1933	421.7	"
" " " " June 1934	638.4	"
" " " " June 1935	775.8	"
Constructed since June 1935	927.5	"
Total new construction	2,763.4	"

These figures show a 44 per cent increase in railway mileage under Manchoukuo, but the peak of new construction has been passed, and the rate of development is now slowing down. However, in December 1935 announcement was made of plans for seven new lines to cost 85,000,000 yen[6] and totaling 809 km.

Most of Manchoukuo's new railways were projected years ago by the former Chinese regime which also had been energetic in railway construction. In the most active period, the five years 1925-29, 1,700 km. of new lines were built.

The new Manchoukuo lines round out the railway network, particularly in the thinly settled regions of the east, north and west, along the Soviet and Mongolian borders. They are primarily strategic in nature, but have nevertheless been valuable in the long campaign against banditry and in opening new areas to settlement. However, they are not self-supporting; and the financial burden of these strategic lines is one of the factors in the present uncertainty regarding the S.M.R.'s future. Efforts are being made to encourage settlement along the new railways, and experts have been sent

[6] See *Far Eastern Survey* Feb. 26, 1936, p. 48. Also S.M.R. Memorandum by Charles Bishop Kinney (Dairen, Feb. 1, 1936).

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abroad to study methods employed to develop traffic along lines in new territory.

Of marked strategic importance are the Peianchen-Heiho line, reaching north to the Amur, the two new lines extending westward toward the Mongolian border, and the developing system of railways in the east based on the new Korean port of Rashin. In particular the Hsinking-Tumen Railway, with the port of Rashin, provides a new and shorter route from Japan to central Manchuria. Study of the map will make evident the high strategic value of this new sea-rail route which connects with a network of lines pointing to the north and west.

The port of Rashin was formally opened in November 1935. Situated in North Korea on the Sea of Japan, it was only a small fishing village a few years ago. Because of its natural advantages as a harbor, it was selected as the eastern terminus of the new rail system, displacing Vladivostok which was once an important outlet for the products of North Manchuria. Rashin now claims a population of 30,000. When the last of the three stages of construction is completed in 1937, it expects to be a modern city of 300,000, with a port handling 9,000,000 tons of goods annually. While this may be an over-optimistic picture of future Manchurian development, Rashin will undoubtedly become an important port equipped to rival Dairen as an outlet for Manchurian products. To encourage traffic through Rashin, railway rates now discriminate in its favor. Its main advantage is the shortness of the route to Japan. From Hsinking to Tokyo is 2,070 km. via Rashin, as against 3,000 km. by way of Dairen.

Work on the port of Hulutao has been resumed as an outlet for Jehol Province. Hulutao was in process of construction as the terminus of the competitive Chinese railway system which would undermine Dairen and the S.M.R.; but the Mukden Incident interrupted the harbor development which was then being undertaken by a Dutch construction company for the Chinese Government.

Railway and port construction have been accompanied by the development of other communications. In this work the General Direction of State Railways has taken an important part. It operates more than 6,500 km. of water routes and close to half of the bus lines. On September 1, 1935, there were 90 bus lines running over routes with a total of 7,900 km.[7] Of these, 4,200 km. were

[7] *General Survey, op. cit.*, pp. 45-46.

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operated by private companies and the balance by the General Direction. Air lines operated by the Manchurian Air Transport Co. now link the principal cities. The telephone and telegraph system has been expanded by the Manchurian Telephone and Telegraph Co. which also controls radio broadcasting and operates a powerful new station at Hsinking and stations at Harbin and Mukden. Highway construction has also been pushed energetically by the Bureau of State Highways, which was established in March 1933 and has spent some 15,000,000 yuan in building and improving roads. At the end of June 1935, 58 highways extending 5,475 km. had been completed. The original ten-year program called for the construction of 60,000 km. of new highways, as follows: (a) 12,500 km. of first class roads (connecting the capital with chief cities or ports), (b) 12,500 km. of second class roads (between chief cities), (c) 35,000 km. of third class roads (between hsiens).

Industries. In addition to currency reform and the improvement of communications, a further mark of progress under Manchoukuo is to be seen in the development of industry and mining. By October 1934, 117 new companies had been established, with an authorized capital of 544,000,000 yen and a paid-up capital of 323,000,000 yen.[8] These figures, while impressive, are apt to be misleading; for they include the capitalization of several large official companies which represented reorganizations of old enterprises. The actual number of new enterprises has not been large; and they have been mostly in the construction, trading, and public utility lines. The old industries of bean-oil refining, flour-milling and silk reeling have continued practically unchanged. On the other hand, a number of old enterprises have been revived and expanded, and there have been some new developments in cement, pulp, ammonium sulphate, distilling, oil-refining and motor cars. Two S.M.R. enterprises—the iron works at Anshan and the oil shale plant at Fushun—have grown considerably; and several new projects—aluminum, coal liquefaction and soda ash—are being financed by the S.M.R.

The outstanding enterprise is the Anshan Iron Works which was reorganized in 1934 as the Showa Iron and Steel Works,

[8] Bank of Chosen figures quoted in *Manchurian Month*, March 1, 1936, p. 11.

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capitalized at 100,000,000 yen. This has been for years an important producer of pig iron, with output steadily increasing. An old plan was carried out in June 1935, when a steel plant was completed and began operating. Productive capacity is now 440,000 tons of steel a year, but a further increase to 570,000 tons is planned for the current fiscal year.

The principal mineral resources of Manchuria are coal, iron ore, oil shale and gold. These have been exploited for years, but under Manchoukuo output has increased moderately, while certain new gold fields and coal deposits are being opened up in North Manchuria. The production figures for the two principal minerals are as follows (in thousands of metric tons):

TABLE I. PRODUCTION OF COAL AND PIG IRON

	Coal	Pig Iron	
		Anshan	Total
1929	9,893.6	210.4	286.7
1930	10,040.7	288.4	348.0
1931	9,048.1	269.5	335.1
1932	7,108.3	287.1	368.2
1933	9,062.6	317.6	433.5
1934	11,546.0	346.7	462.8
1935	12,000.0 (Est.)	.....	.....

According to the new Manchoukuo mining laws, dated August 1, 1935, all mineral wealth belongs to the Government, but mining rights are open to Manchoukuo subjects and juridical persons subject to Manchoukuo laws. The important point about these new laws is that a long list of minerals, including coal, iron, oil and oil shale, are declared necessary for the national defense and made the monopoly of the Manchurian Mining Co., an official company controlled by the Minister of Industry.[9] As this covers all the important minerals except gold, which is likewise monopolized by the Manchurian Gold Mining Co., the Open Door can hardly be said to exist in Manchoukuo as far as mining enterprise is concerned.

[9] *Manchurian Economic Review*, Jan. 15, 1936, pp. 5-7.

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The Japanese program of development has brought modernization to the cities and has completely transformed the appearance of urban Manchuria. For several years there has been marked activity in construction work, and new homes, shops, factories, public utilities, and government buildings are springing up. The outstanding example of modernization is Hsinking, the new capital, where a large and modern city has quickly risen from the prairie. It is perhaps significant that the two most imposing structures in Hsinking are the Kwantung Army headquarters and the Japanese Embassy. The net result of modernization at Hsinking and at other centers has been to give the cities of Manchuria an increasingly Japanese appearance, against a background supplied by the 30 million Chinese, or "Manchus" as they are now called.

Since 1930, the Japanese population has more than doubled, while the Korean population has increased moderately. The largest population gains in these groups have been for Manchoukuo outside the railway zone, the increase being as high as 530 per cent. The figures for October 1, 1935, compared with five years earlier, are as follows:[10]

	Railway Zone and Leased Territory	*Manchoukuo*	*Total*	*Increase over 1930*
Japanese	356,217	145,034	501,251	273,441
Korean and Formosan	36,470	798,069	834,539	227,420
Total	392,687	943,103	1,335,790	500,861

The Japanese have come to Manchuria either as soldiers and officials or as business men, technical experts, etc. Colonization efforts have met with little success; consequently, the Japanese population outside the Army consists almost entirely of urban residents. A number of cities in the Railway Zone or leased territory show marked increases in Japanese population:

	1930	*1935*
Dairen	96,389	139,750
Mukden	24,360	61,998
Hsinking	11,788	34,909
Anshan	6,959	15,936

[10] *Japan Chronicle,* Dec. 19, 1935, p. 786; *Manchurian Month,* March 1, 1936, pp. 27-28.

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To accommodate this inflow of Japanese has meant much urban construction activity. Half a million Japanese thus control all Manchuria. It is an economically and politically dominant group, but with no roots in the soil. Actual colonization has been performed by the Koreans, whose background and standards of living are similar to those of the Chinese.

Problems of the New Regime

As brought out in the foregoing, a number of constructive developments can be noted as evidence of the progress and stability of Manchoukuo. A relative degree of peace and order has been restored, the political foundations are consolidated, the currency has been reformed, the budget fairly well balanced, railways and other communications are extended, and a program of economic development has been launched. This, however, is only one side of the picture. The urban building boom has been offset by continued depression in the countryside, reflected in reduced production, low bean prices, and shrinking markets for Manchurian export staples. The cities have been prosperous, but the poor state of agriculture has weighed heavily on the Chinese farm population. The farm problem, as in so many other countries, is at the heart of the economic difficulties of the new state.

Agricultural conditions in Manchoukuo have been unsatisfactory from the start. Banditry, floods, and unsettled conditions have resulted in a serious decline in farm production, which is seen in the following figures for the four principal crops[11] (in thousand metric tons):

TABLE 2. PRODUCTION OF PRINCIPAL CROPS

	Soya Beans	Kaoliang	Millet	Wheat
1930	5,298	4,780	3,276	1,357
1931	5,227	4,497	2,960	1,580
1932	4,268	3,729	2,615	1,133
1933	5,205	4,229	3,273	1,429
1934	3,347	3,334	2,076	639
1935 (Est.)	3,822	3,842	2,970	934

[11] For 1930-33, *Manchoukuo Year Book* 1934; for 1934-35, *Business and Finance in Manchoukuo*, Dec. 1935, p. 9.

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The 1935 estimates indicate a moderate recovery from the low point of the previous year; but production is still well below the previous average. Soya beans are of primary importance; for they are Manchuria's staple crop and supply over half of the total exports. The price of soya beans is therefore one of the best guides to the state of Manchuria's prosperity. Bean prices fell off steadily from 1932 through 1934, but recovered at the end of 1935 due to short shipments from the interior and excessive losses from moisture. Low bean prices have been accompanied by reduced production, partly from other causes, so that there has been no accumulated carry-over.

To meet these depressed conditions and to lessen dependence on a single crop, the Manchoukuo Government has fostered crop diversification. Wheat, cotton, sugar beets, tobacco and hemp are being encouraged as alternative crops; but these efforts have met with little success as yet. At one time, much attention was given to cotton growing in Manchuria which would supply a considerable part of Japan's needs. Little is now heard of this project, and the emphasis is now upon the potential great increase of cotton supplies from North China. Since flour ranks after cotton goods as the leading import, the expansion of wheat-growing and flour-milling would materially aid in reducing the adverse trade balance. But it would at the same time cut into Japanese flour exports for which Manchoukuo is the largest market.

Foreign Trade and Investments. The poor state of agriculture with reduced output and low prices has had as its counterpart a sharp decline in the export trade. Exports dropped by 40 per cent from 1931 to 1933, remained unchanged in 1934, and fell off again moderately in 1935. The trade figures are stated in Table 3[12] (in million M. Yuan).

The 1933-34 exports were 31 per cent below the average for the six-year period 1926-31. This is a not unsatisfactory showing when compared with the much greater shrinkage of world trade during the depression years. The decline of the export trade is, however, of primary importance to Manchoukuo in view of its economic and financial position.

[12] From *Annual Returns of the Foreign Trade of Manchoukuo* and *Manchuria Year Book.* (Haikwan Taels for years 1926-32 converted at ratio of 1 Tael = 1.56 M. Yuan.)

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TABLE 3. FOREIGN TRADE OF MANCHURIA

	Exports	Imports	Total	Trade Balance
1926.....	578.4	431.9	1,010.2	146.5
1927.....	636.5	419.5	1,056.0	217.0
1928.....	677.1	472.6	1,149.7	204.5
1929.....	664.0	514.2	1,178.2	149.8
1930.....	618.9	478.9	1,097.8	139.9
1931.....	739.2	341.6	1,080.8	397.7
1932.....	616.2	301.1	917.2	315.1
1933.....	448.5	515.8	964.3	(−) 67.4
1934.....	448.4	593.6	1,042.0	(−) 145.1
1935.....	421.1	604.1	1,025.2	(−) 183.0

The fall in exports can be attributed to two factors: first, the virtual closing of the Chinese market and, secondly, the decline in the bean trade. The largest export losses were in the years 1932 and 1933 and can be analyzed as follows (in million yuan):

	1932	*1933*
Decline in total exports.....	123	168
Decline in exports to Japan.....	58	17
" " " " China.....	60	115
" " " " U.S.S.R. ..	37	21

The contraction of the Chinese market, which reduced its purchases from 230.6 million yuan in 1931 to 55.3 million yuan in 1933, was a blow to Manchoukuo's export trade. It was caused by a Chinese boycott of Manchurian goods, the creation of customs barriers between China and Manchoukuo, and China's own economic difficulties in the last few years. Also significant is the reduction of exports to Japan despite the close economic relations existing between the two countries.

The decline in the bean trade has been the result of adverse world trade conditions and particularly of Germany's exchange difficulties which have led to considerable curtailment of German bean purchases in the past few years. To deal with this situation, a German trade mission visited Japan and Manchoukuo late in 1935 and negotiated a trade agreement, the terms of which have not yet been made public. Any step to increase Germany's bean purchases would aid the trade situation greatly, for the decline in

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the bean trade has been the major factor in recent export losses. Soya bean exports dropped 46 per cent in value between 1931 and 1934; while the total bean product exports, including raw beans, bean cake and bean oil, fell off 52 per cent. As brought out above, the largest export declines were in 1932 and 1933. Of these losses, beans, oil and cake accounted for 51 per cent in 1932 and 73 per cent in 1933.

The exports of other agricultural products and of minerals have also declined. These losses are seen in the following figures of exports grouped by products (in million yuan):

TABLE 4. COMPOSITION OF EXPORT TRADE

	1930	1931	1932	1933	1934	1935
Soya Beans	181.5	240.7	217.2	169.1	160.4	130.1
Bean Cake	103.3	124.8	103.4	57.6	51.5	51.4
Bean Oil	41.9	57.4	37.3	18.5	16.3	20.1
Kaoliang	10.3	23.9	28.4	7.2	7.3	4.0
Millet	38.5	17.0	23.6	14.7	19.9	9.0
Raw Silk	14.4	17.6	9.7	9.6	7.4	7.3
Coal	58.0	76.1	44.4	47.2	42.0	40.5
Pig Iron	13.9	17.2	15.1	10.4	10.4	10.3

Stagnation in the export trade has been accompanied by an import boom. Imports in 1933, the first year of the boom, rose 71 per cent from the 1932 low and exceeded the previous high point in 1929 by a small margin. The increase in imports has since been moderate, and the slowing down of the import boom is seen in the following figures (in million yuan):

	1933	*1934*	*1935*
Increase in imports...	215	78	10

In fact, the nominal rise in imports during 1935 was not sufficient to counterbalance the further falling off of exports, with the result that total trade for 1935 declined slightly.

It should be pointed out with regard to the import boom that it does not represent an increase in the purchasing power of the native population or reflect a rise in the general standard of living.

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The increase in imports has consisted almost entirely of construction materials and of supplies and luxuries for the increased Japanese community in Manchuria. Indeed, there is evidence that the import of goods for mass consumption has fallen off.[13]

The rapid expansion of imports of construction materials is seen in the following figures[14] (in million M. yuan):

	1932	*1933*	*1934*	*1935*
Construction Materials	38.0	88.2	142.6	143.9
Per cent of total imports	12.6	17.1	24.0	23.9

The index numbers showing value of imports of capital goods and construction materials have risen sharply as follows:

	1932	*1933*	*1934*	*1935*
Iron and Steel	100	200	290	275
Machinery and Tools	100	175	507	625
Vehicles and Vessels	100	457	624	798
Timber	100	283	455	552
Cement	100	403	503	221

Since the creation of Manchoukuo, the trend of Manchuria's trade has been reversed. Previously, with an expanding export trade, a large favorable balance had been shown. This reached a peak of 398,000,000 yuan in 1931; but two years later, in 1933, an adverse balance of 67,000,000 yuan was shown. With a further rise in imports and continued stagnation in the export trade, the adverse balance reached 183,000,000 yuan in 1935.

While imports have doubled since 1932 and total trade has risen to the pre-1931 level, the trade situation cannot be considered satisfactory in view of the depressed export trade and the heavy adverse balance of trade. The import boom, it is true, gave Manchoukuo first place in Japan's export trade in 1934 and second place in 1935. On the other hand, this import boom has been directly tied to Japan's development program in Manchuria and the accompanying influx of Japanese residents. It has only been made possible by the substantial investment of Japanese capital. The direct relation between the two factors is evident in the following figures:

[13] See A. J. Grajdanzev, "Profit and Loss in Manchuria," *Pacific Affairs*, June 1935.

[14] *Manchurian Month*, May 1, 1936, p. 17.

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	1932	1933	1934	1935
Manchoukuo-Japan trade balance (in million yuan)	− 27.3	− 140.8	− 211.0	− 250.7
Japanese investments (in million yen).....	119.0	118.0	244.0	346 (Est.)

Japan has thus put over 800 million yen into Manchurian development in the past four years; 630 million yen have been returned in the form of a favorable trade balance; but at least part of the remainder is accounted for by the flight of capital from Manchuria to China Proper in 1932 and 1933.

This substantial flow of Japanese capital has been invested through three main channels: (1) loans to the Manchoukuo Government; (2) capitalization of private industrial companies; and (3) the financial operations of the S.M.R. The last has been by far the most important. In the three years 1932-34, the S.M.R. supplied 65 per cent of the capital for Manchurian development.

The investment of Japanese capital in Manchurian development has brought temporary prosperity to the cities and has financed the import boom of the past few years. At the same time, agriculture, the basic activity, has been seriously depressed through internal disturbances and the contraction of export markets. Large-scale investment, however, is a temporary feature. It cannot continue indefinitely; and in fact, the rate of investment is now rapidly slowing down, as reflected in the five-year financial plan of the S.M.R. which calls for the sharp reduction of future debenture issues. The stimulus of investment is therefore coming to an end, and the import boom is due to subside. The revival of the export trade is essential to the future financial stability of Manchoukuo and to a profitable return on the huge Japanese investment.

Manchurian prosperity in the past, such as it was, rested on expanding export markets for soya beans and other farm products and raw materials. This undue dependence upon soya beans has been criticized as unbalanced because it resulted in the neglect of the manufacturing, mining, forest and pastoral industries. The Japanese program of development is bringing greater diversification to Manchuria's economic life; but concrete benefits from this diversification are not yet apparent and may not accrue for many years. It is significant in this connection that despite Japan's many-sided needs for raw materials, Japanese control of Manchuria has so far resulted in an actual decline in exports to Japan. As a

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matter of fact, available resources in Manchuria are limited in scope, and many of the existing enterprises are not yielding the expected returns. It can therefore be stated that the Manchurian economy, as in the past, continues to be based upon agriculture, which for its prosperity depends upon the restoration of export markets for the old staples—soya beans, oil and cake, millet and kaoliang. Manchuria's great needs are the recovery of its export markets and the placing of agriculture on a sound basis.

Where are these restored export markets to be found? To a considerable degree the position of Manchuria's great export staple—soya beans—is tied to the recovery of world trade in general; but some improvement is expected through the recent trade agreement with Germany, which is the largest bean market and which has greatly restricted its purchases in the past few years.

The most important problem is the Chinese market, for it is here that the biggest export losses have occurred. Unfortunately, customs barriers now hamper what was formerly a free regional exchange of products. Furthermore, since the loss of the Manchurian export surplus, China's own balance of payments is more heavily adverse. In addition, China's ability to buy Manchurian products has been reduced by various measures to restrict the seasonal movement of labor to Manchuria and to cut down the volume of remittances from Manchuria to Shantung and Hopei. Some hope is placed in large-scale cotton development in North China,[15] for this would make possible a three-cornered trade, with China selling to Japan, Japan selling to Manchoukuo, and the latter selling to China.

Larger export markets are also necessary if a return is to be made on the substantial Japanese investment. In lieu of counterbalancing invisible items, a debtor country requires a favorable merchandise balance of trade. Such a favorable balance was shown in the decade of Manchurian prosperity prior to 1931. The Japanese stake was then much smaller, amounting to 1700 million yen in 1931.[16] Over 800 million yen of new capital has been poured in during the past four years, and it seems probable that before the development program is completed the former Japanese investment will be doubled. To provide a return on this investment, Manchuria's export trade will have to be expanded

[15] *Manchurian Month*, Feb. 1, 1936, p. 7.
[16] *Third Report on Progress in Manchuria to 1932*, S.M.R. Co., p. 48.

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considerably. This, it is believed, will be a test of the economic soundness of the Japanese adventure in continental expansion.

Many doubts on this point exist. That is the reason for the growing lukewarmness of Japanese financiers towards Manchurian investments and for the troubled financial future of the S.M.R. due to excessive investments in Manchuria. Furthermore, in February 1936, the Tokyo Bank Clearing House committee advised careful study of the effects of the further outlay of capital in Manchuria. According to the reports[17] the committee feared the freezing of Japanese investments in Manchuria, which would mean the collapse of the import boom and would seriously affect the domestic bond market in Japan. Thus, it becomes apparent that the whole situation pivots upon the revival of the export trade. Without a marked expansion of exports, how can Manchoukuo yield a return on the huge investment made in its development?

The Budgetary Situation. The poor state of agriculture and the adverse trade balance also have a direct bearing on Manchoukuo's budgetary problems. Customs duties are the principal source of revenue, followed by internal taxes, including production and land taxes and excise duties, such as the salt gabelle and wine and tobacco taxes. When the import boom subsides, other sources of revenue will be essential to supplement the reduced income from customs duties. The yield of internal taxes depends upon the state of business and agriculture which, as already stressed, are directly tied to the export trade in farm products.

The Manchoukuo budgets, complicated by ordinary and extraordinary items, special accounts and supplementary budgets, are not easy to analyze. There has been a steady increase in revenues, particularly from customs duties, which have exceeded estimates each year. Recent budgets have been balanced without much recourse to borrowing, except to finance the purchase of the Chinese Eastern Railway. This is requiring bond flotations in Japan of 180 million yen, the largest financial venture of the new state. Other loans from Japan have amounted to only 58 million yen, but the Manchoukuo Government has also issued domestic bonds

[17] *Japan Chronicle,* Feb. 20, 1936, p. 77; *China Weekly Review,* March 14, 1936, pp. 54-55; *Manchurian Economic Review,* Feb. 15, 1936, pp. 25-26.

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of 62 million yuan and has borrowed 39 million yuan in short term advances from the Central Bank of Manchou.

Manchoukuo finances appear to be in fairly good condition. However, the explanation for this favorable showing is that Manchoukuo has not paid for its own defense or for bandit suppression and has not provided the funds for development work. The bulk of military expenses have been borne by Japan under the Japan-Manchoukuo Protocol. Manchoukuo's contributions to the upkeep of Japanese forces in Manchuria have been trifling, amounting to 9 million yuan in the fiscal year ending June 30, 1935, and 19.5 million yuan in the current year. In comparison, Japan's army costs in Manchuria for the five years 1931-35 are estimated at close to one billion yen.[18] While not a debt of Hsinking's, it can be considered as part of the overhead of the Manchurian venture, as can the considerable outlays by Japan in development work. Furthermore, the S.M.R., not Manchoukuo, has built and financed the new railways and ports and has organized mining and industrial development. In short, the Japanese Government and the S.M.R. have been paying the bills for the new state.

The Position of the S.M.R. Finally, unfavorable farm conditions and the depressed export trade have a direct bearing upon the revenues and future financial position of the S.M.R. It derives the bulk of its revenue from railway traffic and to a lesser extent from its coal mines. The many other enterprises in which it is engaged are, in general, a drain upon its resources. In the fiscal year 1935, for example, railways showed a profit of 86.5 million yen and coal mines 10.9 million yen. But when the debits of other accounts were charged off, the net profit for the year amounted to only 49.8 million yen.

Railway revenues are thus the main support of the S.M.R. These revenues are in turn directly dependent upon the state of agriculture and foreign trade. During the past few years the import boom has compensated for the declining export trade. Consequently, the Company has been able to show good profits and to pay 8 per cent annual dividends on its privately owned shares. The recent earning record is as follows[19] (in million yen):

[18] *Japan Chronicle,* Oct. 10, 1935, p. 455.

[19] *Fourth Report on Progress, op. cit.;* Annual Reports of the S.M.R.; 1935 figures in *Japan Chronicle,* March 26, 1936, p. 130.

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TABLE 5. FINANCIAL RECORD OF THE S.M.R.

	Revenues	Expenses	Profits
1929.....	241.6	195.5	45.5
1930.....	188.1	166.4	21.7
1931.....	187.1	174.5	12.6
1932.....	245.9	184.7	61.3
1933.....	248.0	205.1	42.9
1934.....	270.7	224.2	46.5
1935.....	298.4	248.6	49.8

The future, however, is uncertain. The import boom and the present prosperity based upon capital investment are temporary features—1935 revealed the tapering off of the import boom, and the slowing down of the rate of new investment is already evident. Soon, therefore, the Manchurian economy must begin to show its stability and yield some return to Japan. In this situation the basic question for the S.M.R. is: When the import boom subsides, will the export trade revive enough to furnish rail revenues to support the new debt structure and still maintain high dividend rates on the privately owned shares? Partial answers are seen in the recent declining trend of S.M.R. shares, in the concern expressed by investors over the dividend rate and the future of the Company, and the inability of the Company to market its planned quota of debentures during the past fiscal year.

The interrelated questions of trade, rail revenues, and the state of agriculture are vitally important because of the increasingly topheavy financial position of the S.M.R. It has borne the main burden of the program of economic development, supplying nearly three fourths of the new capital invested in Manchoukuo. Its debt has consequently increased substantially. In addition to the increase in its share capital, which in 1933 was raised from 440 to 800 million yen, the S.M.R. has floated a large number of debenture issues in Japan. The steady rise in annual debenture issues is seen in these figures (in million yen)[20]

1930.....	20	1933.....	145
1931.....	30	1934.....	160
1932.....	79	1935.....	175

[20] Supplied by the New York Office of the S.M.R.

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The S.M.R., being half owned and entirely controlled by the Japanese Government, has been used as the instrument of Japanese economic expansion on the continent. It has therefore never been able to function as an ordinary business enterprise, though at times efforts have been made to run the company on that basis. Because of its mission in Manchuria, the S.M.R. has had to finance many ventures for which there was no, or only a weak, commercial foundation. That is the fundamental reason for the present financial uncertainty. It has spent hundreds of millions of yen on strategic railway construction and has put other large sums into special enterprises desired by the Army. The substantial increase in its debt has thus been almost entirely contracted to finance uneconomic enterprises. A particular drain has been the strategic railways, for which the accounts have not been published. Although it may be said that essentially the S.M.R. is not an economic enterprise, nevertheless the Army is concerned in running it as nearly as possible as a business enterprise in order to preserve its credit standing.

To allay the uncertainty aroused by the trend of the company's affairs, the S.M.R. has evolved a five-year financial plan. Under this program, the rate of development will be slowed down considerably, and in particular the amount of debenture issues will be gradually reduced. The budget for 1936-37,[21] the first year under the five-year plan, calls for a considerable reduction in expenditures for new development. It totals 155 million yen, divided into three accounts: (1) ordinary, 36 million yen; (2) extraordinary, 13 million yen; and (3) special, 106 million yen. The extraordinary account provides sums for the construction of Rashin harbor and for three projects at Fushun for expanding coal mining, the power station and the oil shale plant. The special account provides 49 million yen for new Manchoukuo railways, 35.5 million yen for the improvement of Manchoukuo railways, and 21 million yen for investments in various undertakings. The sums needed for the extraordinary and special accounts are to be raised by calling in unpaid share capital of 36 million yen, by issuing debentures of 80 million yen, and also by opening the shares of a number of subsidiary or affiliated companies to public subscription. Two points about the new budget are important. First, it apparently makes no, or very little, provision, for invest-

[21] *Japan Chronicle*, March 26, 1936, p. 130.

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ment in North China enterprises, and secondly, it cuts very sharply the appropriation for new railway construction. This is reduced from 114 million yen in 1935 to 49 million yen in 1936, a reduction of 60 per cent.

It remains to be seen whether the reductions in debenture issues envisaged in the five-year plan and embodied in the first budget under the plan will remove the doubts of the investing community regarding the over-expansion of the S.M.R. The program of new investments is still substantial, even though considerably below the scale of the past few years. At any rate, the basic problems of a depressed export trade, the poor state of agriculture, and their close connection with rail revenues still remain. The financial stability of the S.M.R. and its ability to raise capital through debentures and new stock issues are of first importance to the future development of both Manchoukuo and North China.

Manchuria as Japan's Economic Life Line

Manchuria has long been considered of great strategic and economic importance to Japan. That nation over a period of years has developed a set of "interests" in Manchuria which are regarded as vital. To safeguard its position against Chinese nationalism Japan brought about the creation of Manchoukuo, and the maintenance of the "independence" of the new state is a basic aim in Japan's policy for East Asia.

Strategically, Manchuria is regarded as the first line of defense against Russian communism and at the same time a base for further expansion on the continent. Economically, Manchuria is looked to as a secure source of raw materials and foodstuffs, as a growing market for Japanese goods, and as a prospective outlet for surplus population. In the eyes of critics of Japan's expansionist policy, Manchoukuo is seen as a drill ground and military base for the anticipated conflict with the U.S.S.R.

There is no doubt as to the broad extent of Japanese interests. They were important before 1931, constituting a special position; they are far more important now that Japan has assumed control over all Manchuria and has invested considerable sums in its development. Close economic relations are a natural geographic adjustment between two adjacent regions, one densely populated and industrializing rapidly on a narrow raw-material base, and the other relatively undeveloped and rich in mineral, forest and

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farm resources. However, the economic importance of Manchuria can easily be overestimated. An analysis of Japan's needs as an industrial country as against available resources in Manchuria reveals that neither self-sufficiency nor the solution of Japan's economic difficulties can be found in Manchurian development. In fact, it is felt in some quarters that Manchuria may become a definite liability rather than a life-line; for the growth of industries in Manchuria involves competition with those in Japan, while the direct and indirect costs of establishing, defending and developing the new empire are proving to be a heavy drain on Japan's limited resources. The profit and loss statement of the Manchurian adventure has so far shown a heavy balance against Japan. It remains to be seen whether it can in time be turned into a profitable investment.

Before 1931, Manchuria was the leading source of Japan's imports of soya beans, bean cake and coal; it ranked second as a source of pig iron, supplying some 250,000 tons annually; and it provided small amounts of lumber, wool, hides and skins, industrial salt and shale oil. As a market, Manchuria ranked fourth after the United States, about 8 per cent of Japanese exports being taken by China Proper and British India.

Since the creation of Manchoukuo, some economic gains have been made. The iron and steel, coal, oil shale and industrial salt industries have been expanded. Enterprises to produce aluminum, soda ash and oil through coal liquefaction are in their initial stages, and efforts are also being made to stimulate cotton and wool production. As a result, Manchuria is now the leading source of Japanese imports of coal, pig iron, soya beans and cake. It is a moderate source of salt, ammonium sulphate, and oil and may yet produce exportable surpluses of wheat, lumber, pulp, wool, cotton, aluminum and soda ash. Through the import boom, Manchoukuo rose to first place in 1934 and second place in 1935 as a market for Japanese exports.

However, these economic gains are moderate and seem distinctly small when compared with the heavy overhead cost of the Manchurian venture. The basic situation with regard to control of raw materials and mines is but little changed; for, Japan before 1931 controlled the principal mineral resources and, through the economic domination of the S.M.R. in South Manchuria, had access to the raw materials supplied by the farms. The outstanding

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gains are, first, the strengthening of Japan's strategic position on the continent and, secondly, the consolidation of the S.M.R.'s economic power through the elimination of the competitive Chinese railways.

An analysis of the present position reveals that Manchuria has increased somewhat its relative importance as a source of supply and as a market. For convenience in presentation, Japan's needs as an industrial country and Manchuria's relation to them will be divided into three groups: (1) industrial raw materials, (2) foodstuffs and fertilizers, and (3) minerals and fuels.

Japan's foreign trade is typical for an industrial country. Imports consist largely of raw materials and exports of manufactured goods. In the five-year period 1930-34, raw materials constituted 58.1 per cent of total imports. Aside from minerals and fuels which will be considered later, the chief raw material imports during this period were cotton, wool, lumber, paper and rayon pulp, tropical products, hides and skins and salt. With the exception of salt, Manchuria supplied only the most neglible portion of these materials. With regard to raw materials, therefore, Manchuria's value to Japan is entirely one of problematical future development. In this direction efforts are being made to stimulate cotton and wool production, forest resources are being developed, and salt output is being increased.

Manchuria lies considerably north of the world's cotton belts and is therefore marginal land for cotton cultivation. As its extremes of climate are tempered in the south by the warm waters of the Yellow Sea, cotton has been grown in a small way in South Manchuria for many centuries. Prior to 1931, the S.M.R. made some effort to foster cotton growing, but with no particular success. After the creation of Manchoukuo, government support and encouragement led to the organization of a number of cotton associations and ginning companies. As a result, production and acreage have expanded, the 1934 crop of 140 million pounds representing a fourfold increase over that of 1930. The first shipment of raw cotton to Japan was reported in February 1935 when the Chinchow factory of the Manchuria Raw Cotton Society exported 220,000 pounds to Osaka. However, production is still very small; and although an ambitious program of expansion was laid down, recently little has been heard of cotton growing in

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Manchuria. The emphasis is now on the great potentialities of cotton cultivation in North China.

Raw wool ranks after raw cotton among Japan's imports. Manchuria supplies a very small part of this, even though it has a considerable nomad population inhabiting extensive pastoral areas in western Manchuria. However, commercial livestock-raising or sheep-farming on a large scale has not yet reached the Mongols. Merino sheep are being crossed with native stock, and the Government program calls for the introduction of 4 million head of sheep of an improved variety. This will probably be a slow development, and in the meantime Australia continues as the principal source of Japan's wool supplies.

Japan itself possesses extensive forests, but nevertheless imports a moderate amount of lumber and also paper and rayon pulp. Very little of the lumber and none of the pulp comes from Manchuria. However, four Japanese rayon companies have planned the establishment of rayon pulp factories in eastern Manchuria, with an annual production of 30,000 tons each. These enterprises are still in an initial stage. There are important lumber resources in Manchuria. Forests are estimated to cover 31 per cent of the area and to contain some 4,000 million cubic meters of standing timber. While these figures are impressive, the lumber industry is relatively undeveloped, and the country has for some time been a net importer of lumber. It was formerly a large exporter of lumber; but with the exhaustion of accessible forests, the trend in exports was steadily downward; and since 1929 imports have exceeded exports. Railway construction in the mountainous areas of eastern and northern Manchuria is opening new forest areas to exploitation. Lumber production will therefore increase; but with rising domestic needs, it is not thought that Manchuria will become an important exporter.

One of the basic raw materials of Japan's expanding chemical industry is salt. Of the large quantities imported, about 20 per cent comes from Manchuria. The salt industry is one of the oldest in Manchuria. It is produced by evaporation along the shores of the Liaotung Peninsula and is also gathered from salt lakes in semi-arid western Manchuria. Output varies with weather conditions, but in the past few years exports to Japan have run between 200,000 and 300,000 tons. Salt fields are being rapidly expanded, and an export of 700,000 tons a year to Japan is planned.

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It is thus apparent that Japan obtains very little of its requirements for industrial raw materials from Manchuria. A somewhat greater degree of dependence can be shown in foodstuffs and fertilizers. In foodstuffs, the Empire is virtually self-sufficient despite the dense population.[22] Imports of foodstuffs amounted to only 9.0 and 7.6 per cent of total imports in 1933 and 1934 respectively, the principal items being beans and peas, wheat, rice, raw sugar and oil-yielding seeds. With two of these items exports are also important, namely wheat flour and refined sugar. Of the foodstuffs Manchuria supplies practically all of the beans and a large part of the oil-yielding seeds. The beans and seeds, however, are mostly for industrial use rather than for food.

Japanese agriculture is on an intensive basis, and the liberal use of fertilizers is therefore necessary. Manchurian bean cake has been widely used for many years, but dependence upon it has been lessened by the increasing use of artificial fertilizers, particularly ammonium sulphate. The rapid expansion of the Japanese fertilizer industry has greatly reduced imports and has made Japan virtually self-sufficient in ammonium sulphate. It has at the same time adversely affected the Manchurian bean trade by reducing imports of bean cake which come almost entirely from Manchuria. The ammonium sulphate industry has also been started in Manchuria. In addition to a moderate production as a by-product of the iron, oil shale and gas industries, the Manchuria Chemical Industries Ltd. has built a new plant at Dairen with an annual output of 180,000 tons. The expansion of production in Manchuria may yet lead to competition with the fertilizer industry in Japan.

In the case of minerals and fuels, a greater degree of dependence on Manchuria exists than with the other two groups. Japan is weak in mineral resources, particularly in the basic materials of modern industry—coal, iron and oil. There are fairly large coal deposits in Manchuria, the export of pig iron is increasing, and oil shale output is being expanded, while coal liquefaction is in its initial stages.

The Japanese steel industry has been enjoying boom conditions in the past few years. Japan is virtually self-sufficient in steel; but iron ore resources are meager, and imports of ore, pig iron and

[22] See E. F. Penrose, *Population Theories and Their Application* and John E. Orchard, *Japan's Economic Position.*

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scrap are consequently heavy. While no ore is exported because of the poor quality of the ores, Manchuria is the principal source of pig iron imports. The iron ore resources of Manchuria are estimated as high as one billion tons, with an iron content of about 300 to 350 million tons. However, the bulk of these deposits consists of low-grade ores. Their utilization on a commercially practicable basis has been one of the primary problems of the Manchurian iron industry. This problem was solved technically, though hardly economically, by the construction of an ore concentration plant in 1926. Production has since greatly increased. Figures for Japanese pig iron output and imports and Manchurian production are as follows (in thousand metric tons):

TABLE 6. JAPAN'S PIG IRON SUPPLIES

	Production in Japan	Imports into Japan	Production in Manchuria	Production at Anshan
1928.....	1,092.5	569.2	287.5	224.5
1929.....	1,087.1	654.1	286.7	210.4
1930.....	1,161.9	405.8	348.0	288.4
1931.....	917.3	399.4	335.1	269.5
1932.....	1,010.8	444.4	368.2	287.1
1933.....	1,598.0	640.9	433.5	317.6
1934.....	1,935.8	614.4	462.8	346.7

As the result of increased production, Manchuria has been able to supplant British India as the principal source of Japan's pig iron imports, but Japan continues to depend heavily upon foreign supplies of iron ore and scrap iron. In the four-year period 1931-34, Manchuria supplied 67.6 per cent of Japan's imports. In comparison, imports from Manchuria were about one-fourth of Japanese production. The further increase of Manchurian production is planned. The former Anshan Iron Works was merged in 1934 into the new Showa Iron and Steel Works, capitalized at 100 million yen. A steel plant was completed in 1935 and, as a result, Manchurian imports of iron and steel declined from 58.2 million yuan in 1934 to 51.5 million in 1935. An annual output of 460,000 tons of iron and steel is planned at Anshan.

Japan is virtually self-sufficient in coal as far as quantity is

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concerned. Production of approximately 36 million tons a year is nearly adequate for domestic needs, and net imports of coal averaged only 2,049,000 tons a year in the three-year period 1932-34, the bulk coming from Manchuria. Japan, however, is deficient in coking coal. While certain Manchurian coal fields are said to yield a good coking coal, Japan does not yet draw on these sources. Manchurian exports consist of non-coking Fushun coal which is competitive with Japanese coal and therefore enters the Japanese market on a quota basis.

The Manchurian coal reserves, estimated at 4,800 million tons, serve to supplement Japan's limited coal resources. Annual production has run around 10 million tons, of which 8 million has been from the great Fushun mine of the S.M.R. The Fushun mine is being expanded, and the former Chinese mines have been consolidated in the Manchuria Collieries Company which plans a production of 5 million tons in five years.

As in the case of iron ore, Japan depends mainly on foreign sources for its oil supplies. Manchuria possesses no known oil fields, but does have extensive oil-shale deposits which are being developed. The largest deposit is at Fushun, overlying the coal bed, and it is here that exploitation has been begun because the shale must in any case be removed in the process of coal mining. The Fushun oil-shale plant was completed in 1930 and has since been considerably expanded. The output in 1934 amounted to only 54,000 tons of oil, but in 1936 a production of 300,000 tons is expected, of which 75,000 tons will be refined into gasoline and the balance sold to the Japanese Navy. Shale-oil development is thus proceeding; but it will be some time before Manchuria will be able to supply even its own oil requirements, and it can probably never free Japan from dependence on other foreign supplies. Coal liquefaction is another possibility which is being experimented with by the S.M.R. which is constructing a liquefaction plant during the current fiscal year.

As the result of the construction boom, Manchuria (including Kwantung) has assumed a new importance as a market for Japan. In the years just before 1931, it took some 8 per cent of total exports and ranked fourth as an outlet for Japanese goods. However, the program of Manchurian development has brought a sharp rise in imports from Japan, and in 1934 Manchuria appeared as the leading market for Japanese exports, surpassing the

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United States by a narrow margin. In 1935, despite a further increase in purchases from Japan, Manchuria dropped to second place in Japan's export trade. Manchuria's new importance as a market is seen in the following figures (in million yen):

TABLE 7. MANCHURIA'S SHARE IN JAPAN'S EXPORTS

	Japan's Total Exports	Exports to Manchuria	Per Cent to Manchuria
1928....	1,972	189	9.1
1929....	2,149	189	8.7
1930....	1,469	122	8.3
1931....	1,147	77	6.9
1932....	1,410	147	10.3
1933....	1,861	303	16.3
1934....	2,171	403	18.6
1935....	2,499	449	17.9

Exports to Manchuria have thus increased nearly six times over the 1931 low point. At the same time, the proportion of Japan's exports taken by Manchuria has risen steadily except for a slight recession in 1935. This is the result of two factors: first, the Manchurian import boom under which imports doubled from 1932 to 1935, and secondly, the higher percentage of Manchurian imports supplied by Japan, which rose from 42 per cent in 1929 to 72 in 1935. Of the two factors, the second is the more permanent, as control of Manchoukuo naturally involves a commanding position in the import trade, whereas the import boom has already begun to taper off.

Japan exports a wide variety of goods to Manchuria. In practically all Manchurian imports, except oil and tobacco, Japan has a commanding position. This is seen in the following percentages of imports supplied by Japan during 11 months of 1935:[23]

Unbleached Cotton Cloth....	97	Machinery and Tools.....	74
Finished " "	98	Vessels and Vehicles.....	92
Cotton Yarn.....	69	Wheat Flour.....	61
Woolen Fabrics.....	91	Sugar.....	91
Silk Fabrics.....	98	Paper.....	85
Iron and Steel.....	82	Timber.....	71

[23] *Manchurian Month*, May 1, 1936, p. 17.

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In certain of the products mentioned the Manchurian market is of considerable importance to Japanese industry. In 1935 Manchuria took the following percentages of total exports from Japan:

Wheat Flour	91	Sugar	35
Machinery and Parts	63	Woolen Fabrics	32
Iron	61	Cement	27
Beer	56	Marine Products	15
Soap	49	Cotton Piece Goods	10
Paper	42		

Under the old regime, China Proper was a larger market for Japan than was Manchuria, but the situation has been reversed since 1932. In 1934, Japanese exports to Manchuria were nearly four times those to China, and in 1935 three times. On the other hand, the Manchurian import boom has done little more than compensate for the shrinkage of the Chinese market. In 1935 for the first time total exports to the two regions exceeded the 1929 figure. This is seen in the following table of Japanese exports to China and Manchuria (in million yen):

TABLE 8. JAPANESE EXPORTS TO CHINA PROPER AND MANCHURIA

	China Proper	Manchuria	Total
1929	347	189	536
1930	261	122	383
1931	156	77	233
1932	141	147	288
1933	108	303	411
1934	117	403	520
1935	149	449	598

The ties of trade and investment between Japan and Manchuria are very close, yet the creation of an economic bloc is not without difficulties. Two basic problems are involved: first, the question of industrial competition from Manchoukuo and, secondly, the situation of private investments. To deal with these problems, a Japan-Manchoukuo Joint Economic Commission was created in

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July 1935 as an advisory body to the two governments on all questions of mutual economic interest. Little has been accomplished by the Joint Commission. It has not mapped out any broad policy of control over the direction of Manchurian development; and private capital has remained reluctant to invest any large sum in Manchurian development.

The hesitancy of private capital in Manchurian development has been caused first, by the failure of various enterprises to show the expected results, and secondly, by the restrictions imposed by the policy of economic control. The guiding influence in Manchurian development has been the Japanese Army. Its professed aims have been the maximum development of war industries and strategic railways. It has repeatedly proclaimed the intention that the benefits of Manchurian development should accrue to the Japanese people as a whole and not to a few capitalists. The Army therefore laid down an economic policy which provided for general economic planning, the subjection of "enterprises bearing upon the national defense, public utility or public benefit to national or public management by special companies," and the supervision of other enterprises open to the free management of private persons, "making necessary adjustment with due thought to the people's welfare, interest and the maintenance of their livelihood."[24]

This policy retarded the inflow of private capital. Therefore, in June 1934, the Manchoukuo Government issued a clarification of its policy of economic control. It stated that special measures had been devised with regard to "enterprises which have important bearing on national defense and those of a public nature and for public benefit, and also those which constitute the basis for all industries, such as transportation, communications, iron and steel, light metals, gold, coal, petroleum, automobiles, ammonium sulphate, soda and lumber." Private investment and management were welcomed in other industries, "subject to certain degrees of administrative supervision." This "clarification," however, left the opportunities of private capital still decidedly restricted in scope. The feeling among industrial and financial groups has been that the uncertainties of government control should be removed, and

[24] *Economic Construction Progress of Manchoukuo,* issued March 1, 1933, by the New York Office of S.M.R.

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that the number of industries which are restricted to official companies should be reduced.

In addition to the differences between financial and Army groups over the control of private capital, there is the basic question of Manchuria's role in the economic bloc. Should Manchuria be solely a producer of foodstuffs and raw materials to supply Japan, or should industrial development also be allowed to take place in Manchuria? The difficulty with industrial development is that it leads either to competition in the Japanese market or to reduction of the market for Japanese goods in Manchuria. For example, such industries as coal, ammonium sulphate and soda ash are directly competitive between the two countries; others, like cement, flour, sugar-refining, and iron and steel have reduced or threatened to reduce Japanese exports to Manchuria. A considerable number of branch plants have been set up in Manchuria, but definite details regarding this trend are not available. Cheap labor and nearness to raw materials and markets are the principal advantages of developing industries in Manchuria. On the other hand, freight rates are high, the costs of fuel and electric power are high, and peace and order are still imperfectly established.

There is another aspect of Manchuria's role as the economic "life line" of Japan, and that is its value as a potential outlet for Japan's surplus population. On the surface it would appear that the opportunities for Japanese colonization in Manchuria were excellent. On the one hand is densely populated Japan and on the other is relatively underpopulated Manchuria which has extensive areas of land capable of settlement. In fact, half of the land supposedly fit for agriculture is as yet unsettled. Actually, however, difficulties of climate, different agricultural methods, and differences in standards of comfort and economic position have stood in the way of Japanese colonization. Such colonization has been practically nil. Immigration and settlement reached tremendous proportions in the decade prior to 1931, but this settlement was by Chinese and to a lesser extent by Koreans. Their standards of living are much lower than those of the Japanese, and in addition they are adapted to similar agricultural conditions.

While farm colonization has not developed, Manchuria has nevertheless offered good opportunities in white-collar jobs for numerous Japanese. The Japanese have gone to Manchuria as

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officials, technicians, artisans and business men, in short as the dominating economic class. Since 1931-32, the Japanese population has more than doubled and is now slightly in excess of 500,000. They are almost entirely located in the cities, 350,000 of them in the Kwantung Leased Territory and the Railway Zone.

Since the establishment of Manchoukuo, there have been many plans for, but little actual accomplishment in, Japanese farm colonization. Several reservist settlements, practically on a military basis, have been established in North Manchuria in the vicinity of Chiamussu; but they have encountered many difficulties from bandits, local opposition and the climate and have made very little progress. Typical of both the costs and the small scale of colonization efforts is the Furusato settlement of the "Tenli" sect, a short distance from Harbin.[25] This village of 2,400 acres was settled by 50 families in the autumn of 1934 followed by 20 more families the following autumn. They were granted loans of 3,000 yen per family, without interest, repayable in equal monthly installments over a twenty-year period. This included costs of land, buildings, tools and livestock and also current expenses.

Ambitious plans are advanced from time to time for large-scale farm colonization, but little is actually accomplished. The President of the recently formed Manchuria Development Co. talked of a plan for the settlement of 50,000 acres a year in the Sungari valley, with 50 acres to a household.[26] If costs were the same as those at the Furusato settlement, the initial investment would amount to 3 million yen per thousand families.

The Position of Foreign Interests

Foreign interests and investments in Manchuria other than Japanese and Russian have never been very large. Japan and Russia formerly held spheres of economic interest in South and North Manchuria respectively, and other foreign interests made little headway. In 1930 Japanese and Russian investments accounted for 96 per cent of foreign investments in Manchuria, as follows:[27]

[25] *Manchurian Month,* Jan. 1, 1936, pp. 58-9.
[26] *Manchurian Economic Review,* Oct. 15, 1936, pp. 8-9.
[27] *Manchuria Year Book 1934.*

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	Amount in Yen	*Per Cent*
Japan	1,616,966,000	70.1
U. S. S. R.	590,000,000	26.0
Great Britain	39,590,000	1.7
U. S. A.	26,400,000	1.2
France	21,086,000	0.9
Sweden and Denmark	1,007,000	0.1
Total	2,295,049,000	100.0

Investments other than those by Japan and Russia were thus of minor importance. They were mainly of a commercial nature, including oil, tobacco and match distribution, and also banking facilities and a British bondholders' interest in the Peiping-Mukden Railway.

Since the creation of Manchoukuo, the situation has radically changed. Foreign interests have diminished, the Russian interest has been practically eliminated since the sale of the Chinese Eastern Railway, and Japan now has a virtual monopoly of investments in Manchuria. The general movement of foreign capital has been one of withdrawal. While definite figures are not available, a number of foreign firms and construction companies have withdrawn; and at least one branch of a foreign bank has been closed. This has been partly the result of the loss of much lucrative foreign business with the former Chinese regime, particularly with Chang Hseuh-liang's arsenal at Mukden. The outstanding debts of the old regime were liquidated shortly after the founding of the new state, which paid 2,810,000 yuan in cash and 5,500,000 yuan in bonds.[28]

As a matter of policy, Japan pledged continuance of the Open Door in Manchuria. The Manchoukuo Government also made the same pledge in a letter of the Foreign Minister to leading Foreign Powers dated March 12, 1932: "With regard to the economic activities of the peoples of foreign nations within the State of Manchuria, the principle of the Open Door shall be observed."[29] Thus the door has remained theoretically open; but with Japan putting up the money for development and controlling the administration and practically all business in Manchoukuo, it was inevitable that the bulk of the trade should be with Japan. Since the Incident Japan has cemented its hold on Manchurian trade, so

[28] *General Survey, op. cit.*, p. 6.
[29] *Fourth Report on Progress, op. cit.*, p. 252.

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that in 1935 75.6 per cent of the import and 51.6 per cent of the export business was with Japan and Korea. The percentage of trade with other countries has consequently shrunk, with the largest reductions in the trade with China and the U.S.S.R. The trend is shown in the following table of imports by countries (in million yuan):

TABLE 9. MANCHURIA'S IMPORTS FROM PRINCIPAL COUNTRIES

	1929	Per cent	1935	Per cent
Japan and Korea	217.8	42.4	456.7	75.6
China proper....	156.2	30.4	32.0	5.3
U.S.S.R.	24.7	4.8	1.2	0.2
U.S.A.	40.7	7.9	24.9	4.1
Gr. Britain.....	15.2	2.9	9.5	1.6
Germany.....	13.3	2.6	14.7	2.4
Total.....	514.2		604.1	

Japan has thus greatly increased its share in the trade of Manchuria, but mainly at the expense of China and the U.S.S.R. The increase in Japan's proportion between 1929 and 1935 was 33 per cent as against a reduction in China's share by 25 and of Russia's by 4.6 per cent. The share of the three leading non-Asiatic countries—Great Britain, Germany and the United States declined only from 13.4 to 8.1 per cent. The course of trade with the United States shows the trend (figures in million yuan):

TABLE 10. MANCHURIA'S TRADE WITH THE U. S. A.

	Exports to U.S.	Imports from U.S.	Total
1929.....	17.7	40.7	58.4
1930.....	11.0	32.5	43.5
1931.....	9.7	19.6	29.3
1932.....	5.0	17.8	22.8
1933.....	7.5	29.0	36.5
1934.....	6.0	35.2	41.2
1935.....	15.6	24.9	40.5

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Trade with the United States has thus held up fairly well. There is little evidence here of the closing of the door to American trade except in the 1935 figures which reflect the reduction in imports resulting from the institution of the Manchoukuo Oil Monopoly the previous year.

The Oil Monopoly was proclaimed in November 1934, and became effective in April 1935. Under its provisions, the sale and distribution of oil, including gasoline, kerosene, light and heavy oil, benzine and fuel oil substitutes, were made a government monopoly. Distribution was to be obtained through licensed general wholesalers and wholesalers operating under the supervision of the Oil Monopoly Bureau as to prices, equipment, etc. Many of the native agents of the foreign oil companies became licensed wholesalers under the Monopoly Bureau. The purpose of the Monopoly was said to be to obtain control over a commodity essential to national defense and industrial development and to promote oil production in Manchoukuo. In the latter respect the Monopoly is providing a subsidy for domestic production. The Fushun oil-shale plant is being expanded, and the Manchuria Petroleum Co. is building a refinery at Dairen to refine imported crude oil.

As the oil trade in Manchuria was formerly almost entirely in the hands of the foreign companies, the net result of the Monopoly was to divert this profitable trade to Japanese interests. While the foreign companies have thus been eliminated from oil distribution in Manchuria, they can continue to import petroleum products, but can sell only to the Monopoly Bureau in amounts based upon their previous share in the Manchurian market. The percentage share of the Standard-Vacuum Oil Co. is reported as 35, that of the Texas Co. as 20, the Asiatic Petroleum Co. as 25 and the Soviet Oil agency as 10.

The United States, Great Britain and the Netherlands protested against the Oil Monopoly as an infringement of the Open Door, but these protests have been ineffective. However, the outcry raised over the Oil Monopoly is believed to have deterred Manchoukuo from instituting a similar monopoly for tobacco, which would have eliminated foreign companies active in cigarette and tobacco distribution in Manchuria.

There has been some effort to interest foreign capital in Manchurian development. A number of foreign financiers and eco-

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nomic missions have inspected conditions in Manchuria, but there have been only two developments of a concrete nature. The British-American Tobacco Co. built a new factory at Liaoyang, and French interests obtained a 300,000 yen contract to construct two new government buildings at Hsinking. Outside of these two small developments, there has been little opportunity for foreign activity in Manchuria. This has been, first, because of the deterring example of the Oil Monopoly, second, because of the lack of suitable opportunities for profitable investment, and third, because of the restrictions of the economic control of the Government and the mining laws which give a monopoly of the extraction of minerals and of important associated industries to official companies.

British, French, German and Belgian missions have visited Manchoukuo in the past few years. There has also been some activity by Czech and Polish interests to develop trade. Several French financial groups have taken an interest in Manchurian possibilities, but without significant results. M. Marlet, a director of the Paris-Holland Bank, traveled through Manchuria in 1933 and also visited China and Japan. M. André d'Olivier spent considerable time in Manchoukuo as representative of the National Federation of Economic Expansion; and agents of leading French engineering companies visited the country in March 1934. The two companies resulting from these missions—the Franco-Manchu Consortium and the Manchuria Exploitation Union—were merged in 1934. The available capital of these companies was at no time large, that of d'Olivier's company amounting to only 100,000 yen. As far as is known, nothing has been done outside of securing the small building contract previously mentioned.

A mission of the Federation of British Industries headed by Lord Barnby visited Japan and Manchoukuo in the fall of 1934. The purpose of the mission was "to study conditions in Manchoukuo and to ascertain whether British Industry could cooperate with local interests in its development." The report of the mission recorded the impressions that law and order had been largely restored, that Manchoukuo's finances were on a fairly stable basis, and that modernization was proceeding at a rapid pace.

The chief opportunity for British industry was found to lie in the provision of capital goods for development work now taking place in communications, building construction and industry. In

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these fields the mission offered British collaboration, which was accepted with definite assurance that offers of concrete business on a substantial scale would be made. The report stated that "concrete proposals are now being considered by the Government of Manchoukuo, with a view to a substantial participation by British Industry in the various development work which is contemplated."

This business apparently never materialized. A possibility is that credit terms could not be agreed upon; for the report of the mission recognized that in the absence of any immediate possibility of Manchoukuo's raising long-term loans, any important British activity would have to be based upon "a system of deferred payments of reasonable length." The security of the S.M.R. Co. was suggested.

The British Mission and French activities thus brought little in the way of concrete results. Recently, there has been activity by German and Belgian interests. The German economic mission, headed by Dr. Otto Kiep, former Consul-General in New York, arrived in Japan on October 30, 1935. In December it made a three weeks' visit to Manchoukuo, conferring with S.M.R. and Manchoukuo officials; but the mission spent most of its time in Japan where Manchoukuo was represented in the negotiations by K. Matsushima, director of the Agricultural Bureau of the Manchoukuo Ministry of Industry. Early in January a draft agreement was reported, but was denied by the Manchoukuo Government. Japanese news reports at the time mentioned the exchange of trade commissioners and German purchases of beans for 100 million yuan a year as against Manchoukuo purchases of 30 million yuan worth of German industrial goods. As this reported agreement evoked a protest from the Chinese Government, the German mission made a brief visit to China to reassure the authorities at Nanking. Negotiations then lagged until late in April 1936, when the conclusion of a trade agreement was announced, but the terms have not yet been made public. It was said to provide for the stationing of a Manchoukuo commercial secretary in Germany.

A trade agreement was necessary because of the unbalanced trade between Germany and Manchoukuo. The balance has been heavily against Germany, which has consequently restricted its purchases of Manchurian beans. As Germany has been the largest market for Manchurian beans, the curtailment of its purchases has, as we have seen, been an important factor in Manchoukuo's eco-

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nomic difficulties. The figures for the past three years show the trend of this trade (in million yuan):

	1933	*1934*	*1935*
Exports to Germany.....	66.4	53.3	32.8
Imports from Germany.....	10.6	12.5	14.7

Germany has thus been able to reduce its adverse balance from 55 million yuan in 1933 to 18 million yuan in 1935. At the same time the trade situation is really a three-cornered one. Germany has a large export market in Japan, and the favorable balance obtained in that trade has considerably exceeded the adverse balance with Manchuria. Moreover, the statistics are somewhat misleading since some exports of beans nominally consigned to Egypt or Suez or the Netherlands are really destined for Germany, so that the apparent unfavorable balance is understated.

While the German negotiations were still uncompleted,[30] a Belgian mission, headed by Rudolphe Van Loo, visited Manchoukuo in March, 1936.[31] It was said to have made a number of important contracts in Manchoukuo and Japan, which would facilitate direct trade with Belgium. A statement by the mission also declared that "The S.M.R. has agreed to allow certain Belgian concerns we recommend to tender bids for all sorts of railway equipment, iron foundries, and cement works. Moreover, we are ready to invest our capital in tanneries, breweries, private railway lines and certain other manufactories in Manchuria." If the experience of the British and French missions is a guide, this statement of intention will not lead to any important developments or to the investment of much foreign capital in Manchurian industry.

[30] The terms of the trade agreement between Germany and Manchoukuo were made public on June 1, 1936. The agreement, which is for a one-year period subject to renewal, provides for German purchases of Manchurian products to the amount of 100,000,000 yuan, payable ¾ths in foreign exchange and ¼th in reichmarks. Furthermore, if the favorable balance in the Reich-Japan trade exceeds 63,750,000 yuan, Germany is to increase its purchases of Manchurian goods by that amount. On its part, Manchoukuo agrees to use its reichmark receipts to buy German goods: i.e. to the amount of 25,000,000 yuan.

[31] *Manchurian Month,* April 1, 1936, p. 27.

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