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CHINA AIR MAIL

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FORTNIGHTLY NEWSLETTER SERVICE ON FAR EASTERN AFFAIRS

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No. 39.

December 4, 1940.

THE PRICE PROBLEM OF CHINA

The Chinese price level as a whole has continued to rise considerably during the last two weeks. The "Index of Retail Prices of Commodities for the Consumption of the Labour Class in Chungking" compiled by the Foreign Trade Commission of the Ministry of Finance shows the following Development:

(Basis: January/June 1937 = 100)

1937 November	107.0
1938 November	134.7
1939 November	249.3
1940 January	279.2
July	449.8
August	539.7
September	695.0
October	744.9
November 1st week	795.0
" 2nd "	851.3
" 3rd "	1,020.0
" 4th "	1,161.2

Prices in other cities of Szechuan which used to lag behind price developments in Chungking have been rising more quickly recently than in Chungking and are gradually approaching the high price level in the war-time capital. There is a tendency even in the agricultural districts for prices to approach the Chungking level.

Food Prices Rise More Quickly Than Prices Of Clothing Materials

Until early this year the upward movement of prices was led by textiles and other manufactured goods of which supplies were insufficient; while foodstuffs, being comparatively plentiful, followed them but slowly and at a great distance. Since the early summer the prices of rice and other foodstuffs began to rise much more quickly than those of clothing materials and many other manufactured goods which, however, also continued to increase. During the latest phase of the accelerated rise of prices rice alone has become responsible for the steep climb of the retail price level as a whole;

other foodstuffs closely followed the lead of rice; and the increase of the price of clothing materials almost came to a standstill. This point has already been mentioned in the last issue of the CHINA AIR MAIL but it deserves fresh emphasis.

The Relative Rise Of Food And Clothing Prices In CHUNGKING
(Retail Price Index Of The Foreign Trade Commission)

Basis: January/June 1937 = 100

1940.	Foodstuffs	Clothing	Proportion between the price increase of foodstuffs and of clothing.
March	195.0	672.6	100 : 345
July	414.2	1,028.7	100 : 248
August	513.6	1,131.3	100 : 220
September	702.8	1,219.6	100 : 173
October	741.4	1,514.1	100 : 204
November 1st week	791.9	1,545.5	100 : 195
" 2nd "	863.4	1,503.6	100 : 174
" 3rd "	1,055.8	1,522.6	100 : 144
" 4th "	1,222.0	1,573.6	100 : 127

A similar development is going on elsewhere in Szechuan, as illustrated by the following data on the cost of living in Chengtu:

Cost Of Living Of Labourers In CHENG TU
(Compiled by the Agricultural Economics Department
of the University of Nanking, now in Chengtu)

	General Index	Foodstuffs	Clothing	Proportion between the price increase of foodstuffs and of clothing.
1939 September	139.4	128.6	336.8	100 : 268
1940 August	389.4	376.2	933.1	100 : 235
Sept. Average	488.5	499.5	1,040.4	100 : 208
Sept. 25*	573.5	600.7	1,182.9	100 : 196

*No later figures are yet available.

The limited supplies of clothing materials and other manufactured goods have not increased in recent months. It would even seem that they have been further reduced because production in Free China and shipments from abroad have scarcely been sufficient lately to make up for the continuous reduction of old stocks. The recent relative fall of the price of textiles in terms of foodstuffs and several other consumption goods, therefore, must be taken as an indication that the high cost of foodstuffs is absorbing an ever larger part of popular purchasing power, leaving fewer and fewer consumers' dollars to exert an effective demand on the market of clothing materials.

The price of rice in Szechuan has risen very much. The pre-war price level of rice was about Ch\$0.10 per catty. It took more than two-and-a-half years of war for this price to be doubled. Even six months ago, early in May 1940, it was only Ch\$0.23. It rose quickly to Ch\$0.35 at the beginning of June. After a short period of reaction and near-stability during the harvest months, it reached the same level once more at the middle of August. From that time the rise became steeper each week. On November 5, rice in Chungking was Ch\$1.20; on November 21, Ch\$1.50; and on November 27, Ch\$1.80. (All these prices are for the cheapest grade of rice.) Another reaction, however, seemed to be setting in during the following two days.

The large part of the lower classes and government officials who for some time have been buying little else but rice and a few supplementary foodstuffs and fuel (the prices of which rose almost as much as that of rice) have therefore suffered a much larger increase in their cost of living than may appear from the average price indices composed of the various commodities entering their household budgets in normal times.

It has been stated repeatedly in former issues of CHINA AIR MAIL that the supply situation of rice is not in itself responsible for the continued rise: the authorities maintain that the present stocks, consisting of the reduced crop of this summer and a fairly large surplus left over from two exceptionally large previous harvests are

sufficient to cover the requirements of the civilian population and of those parts of the Army which are dependent upon Szechuan rice. It has to be added that the statistical analysis of the rice situation in the province leave much to be desired and that the actual relationship between demand and supply may be somewhat less satisfactory than originally estimated. But there is every indication that hoarded stocks are large and that the problem which is now becoming acute concerns shortcomings in the distribution of rice rather than a pronounced insufficiency of supplies. The need is now being felt for a more exact statistical survey, and the Government seems to be taking steps towards that aim.

The phenomenon of hoarding which plays so large a part in the present situation requires analysis. Why has hoarding increased to such a large extent? And in what hands are the hoarded stocks?

It seems that the main reason for the large-scale hoarding of rice (as well as wheat and other agricultural products) is the lack of other means of attractive investment.

The landlords and merchants and other classes of Szechuan have experienced two or three years of rare prosperity; large profits have accumulated in their hands, and this accumulated capital requires facilities for investment which must be to the taste of the traditional and somewhat backward Szechuanese.

Silver would probably have been the first preference, but silver has long been nationalised and ceased to be available for purchase in any but trifling quantities.

Land would have been just as welcome an investment. But city property is not sought after while the danger of Japanese air raids persists. Only little agricultural land is now for sale (at exceedingly high prices) because most of it is in the hands of more or less well-to-do landlords. The comparatively small number of owner farmers who are also deriving some advantage from the war boom, are less pressed for cash than usual and therefore unwilling to sell what little land they possess.

Investment in new industrial enterprises no doubt appeals to the more progressive elements among the moneyed classes of Szechuan. But the scope for such investment is very much restricted by the extreme difficulties of providing the necessary machinery, technical advice, skilled labour, and raw materials; and the Government has undertaken much of the urgent industrial development work itself, requiring comparatively little financial co-operation from Szechuan capitalists who, anyway, are scarcely used to participation in joint stock enterprises.

Investment in Chinese dollars by way of bank deposits or government loans has never been popular in this backward province where modern banking has only very recently gained a foothold. The large Chinese banks which came to Szechuan together with the Government do not seem to have been very successful in their propaganda for modern forms of investment.

Investment in foreign exchange has long been made impossible by strict government measures against the flight of capital.

The result of all this has been that rice, the landowners' traditional means of storing a large part of their wealth in time of crisis, has once more assumed its old role.

This close relationship between the need for investment facilities on the one hand and the large-scale hoarding of rice on the other was not as quickly realised by the Government as it was by the wealthy classes of Szechuan. The proper policies of cutting state expenditure, increasing taxation, popularising investment in Chinese dollars and generally assuming a more effective financial and economic leadership were not carried out with sufficient energy, and the disobedience of the hoarders towards the Government's instructions to sell their rice was not punished in its initial stages.

It was almost generally assumed until recently that the prominent landowners and other members of the old provincial cliques which survived their late war-lord, General Liu Shan, were mainly to be held responsible for the hoarding. During the last few weeks, however, these circles have started a clever whispering campaign, spreading the view that individual hoardings are not as large and do not play as great a role as might be thought, but that the present shortage of rice is mainly

due to hoarding on the part of millions of small farmers. But it is a fact that three-quarters of the farmers of Szechuan are tenants who scarcely retain sufficient rice for themselves after delivering to their landlords half of their respective rice crops for rent. The tenant farmers and most of the small owner-farmers have never been responsible for more than an insignificant part of the market supplies on which the towns and cities have to rely. The rice market depends almost entirely upon the large and medium landowners whose rent revenue in rice is far above their own family requirements.

The truth of the matter seems to be that the landlords have made it a practice this year to leave part or all of their rice with the tenants. This method solves the storage problem of the landlords which has arisen from the unusually large volume of their accumulated stocks and it serves to make it more difficult for the Government to detect and possibly confiscate their big holdings of rice.

There can be no doubt that the Szechuan circles which are withholding from the market the rice required by the towns and cities are bearing a very large responsibility for the future of China. They have not responded to any former efforts at government persuasion nor to the attempted application of gentle force. But it seems that they will now be treated with greater determination.

Chiang Kai-shek Announces Stern Measures

The speech delivered by the Generalissimo before a number of Szechuan magistrates on November 27, in which he reminded them and the hoarders of former government orders to supply sufficient quantities of rice to the towns and cities, is couched in exceptionally firm language. It seems to be the preliminary to more drastic action than has been taken until now.

According to reports in the Chinese press, Chiang Kai-shek made the following statements.

"The object of this meeting is to find some solution to the present food problem. In spite of the formation of the Food Control Board some time ago, the food question of Szechuan has still failed to be settled satisfactorily.

"Some of the district magistrates have no doubt accomplished good results, but the work of most of the district magistrates is still far from satisfactory. They pretend to obey government orders but secretly work against our decree. If you go about your work conscientiously, whatever obstruction you may meet, I shall certainly try my best to help you to overcome it; but if you work against the Government you will be punished.

"I have requested the people of Szechuan to contribute food to the army. This is a good opportunity for them to show their love for, and do their duty to, their country. Many districts have done their very best....But many districts are still very disappointing, especially around Chungking and Chengtu. Chengtu is the residence of rich landlords. Why is their contribution so far below that of other districts? Their behaviour cannot be pardoned.

"In my announcement last month I have made myself quite clear. We must punish the selfish rich and protect the good people who have done their best to help the army with food. No matter how these rich rice owners scatter their hoardings and how cunningly they hide them, I shall get to know about them. I charge the head of each district to make a thorough investigation as to who these rice owners are and where they keep their rice hoardings. No matter who they are, you are to give me a report on them. If they do not give up their stocks they are obstructing our present struggle against Japan and working against the Revolution and hence deserve severe punishment. You must hand in your report within ten days. If you try to shirk your duty, being afraid of these rich landlords you, too, will be severely punished. But if you get into difficulty because you are carrying out your work fearlessly, I shall take full responsibility.

"My wishes are (1) that no more demands are to be made on those who have done their best to contribute rice to the army but that they must be helped in their need; (2) that the big hoarders are to do what I said in my last speech and if they refuse to do so, that their whole stock is to be confiscated and that they themselves are to be charged with the crime of obstructing our struggle against the enemy.

"..... One last word I am saying to you. Go back to your respective districts

and tell the rich rice owners that this is my message to them: If they do not bring out their rice hoardings they will be severely punished. They must not expect me to be lenient to them any longer if they continue to disobey me. The reason why I was so lenient to them before was that I expected them to help their country of their own accord. If they do not do so, they will have to be forced."

Much depends upon the effect this speech is going to have. It is likely that the price reaction which has set in immediately after Chiang Kai-shek's announcement will continue for some time; for the situation is such at present that even a relatively small increase of the market supplies must have a depressing influence on prices; and it has always been the policy of the hoarders to sell at least some rice when they are sufficiently hard pressed, thus trying to "appease" the Government and to play for time.

But it will have to be seen whether the district magistrates themselves, many of whom may still be siding with the old provincial cliques, are willing and strong enough persistently to act against their former masters and associates. Meanwhile, measures will probably be taken to support or substitute the present provincial officials by direct agents of the Central Government.

It is to be hoped that the period of relief to be expected from the Generalissimo's present action will be used for shaping new policies for a fundamental solution of the growing economic and financial problems for which the accelerated rise of prices is an indication.

The Cost Of Transportation Over The Burma Road

A subscriber who has first-hand experience of transporting gasoline into China via the Burma Road writes as follows:

"According to our latest information the current cost of shipping one ton of gasoline (6 x 53 A.G. drums = 1 ton) from Rangoon to Chungking is something in the neighbourhood of CN\$6,600.00 which is over seven times the figure given by you." (The figures given in CHINA AIR MAIL No.36 were based on information received from competent Chinese quarters - The Editor) "Our calculations are as follows:-

Rail freight Rangoon/Lashio: Rs.40/- per ton	Ch\$ 240.00
Road freight Lashio/Wanting, Annas 5.1/4 per ton mile (1 ton = 6 drums) : Rs.39.06	234.30
Road freight Wanting/Kunming at Rs.70/- per drum	2,520.00
Road freight Kunming/Chungking - per ton	3,600.00
TOTAL COST	Ch\$6,594.30

"Incidentally we would mention that the railway freight rate of Rs.40/- per ton only applies to imported gasoline. Burma indigenous gasoline has to pay Rs.64/- per ton.

"To look at the matter another way, you state that the amount of gasoline consumed by a 3 ton truck for the round trip Lashio/Chungking and return is 580 American gallons. Certain bulk supplies can be bought ex drum at Wanting at a price of Rs.1/8 per Imperial gallon, but the greater part of the gasoline required for the journey must be taken in drums. The cost of 1 x 44 Imperial-Gallon drum gasoline is Rs.75/13/6. Assuming truckers purchase 80 gallons in bulk and the remainder in drums the average cost is, therefore, approximately Rs.1/6/4.5 per American Gallon. The cost of 580 gallons gasoline will be approximately Rs.811/8/0 at say Ch\$6.00 = Rs.1/- = Ch\$5,680.00 for the round trip or Ch\$2,840.00 for the trip Lashio/Chungking."

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CHINA AIR MAIL

NEW ASPECTS OF JAPAN'S ECONOMIC CRISIS

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FORTNIGHTLY NEWSLETTER SERVICE ON FAR EASTERN AFFAIRS

Editor: Guenther Stein, Room 34, French Bank Building, 5 Queen's Road, Hong Kong. Tel. 21579

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NEW ASPECTS OF JAPAN'S ECONOMIC CRISIS

1. Rice Shortage And State Control

For the first time since the beginning of the Sino-Japanese conflict Japan is facing a serious rice problem and there is every reason to expect that this rice problem will become more and more acute with the further prolongation of the war.

Until recently Japan has been able to produce almost all the rice she required. Her small deficiency was easily covered by the "surplus" squeezed out of her undernourished colonies Korea and Formosa, and Japan was always holding reserves of rice sufficient to tide over unfavourable crop years. Import of rice from foreign countries (of comparatively low quality) were small or insignificant and they were more or less balanced by exports of high-quality Japanese rice.

The harvest of 1940, however, was the smallest since 1935. Unduly favourable estimates at first deluded the Japanese people and probably even the Government about the real situation. But it has recently been learned that the actual crop amounted to scarcely 300,000,000 bushels, that is, it was 12.3% smaller than the insufficient crop of 1939 and 7.2% below the unsatisfactory average production of the last five years.

The Japanese Government is trying to blame the bad result of the last harvest on unfavourable weather conditions, but the spells of bad weather during the season were no more than a secondary factor in the heavy reduction of the rice crop. The increasing shortage of agricultural labour, due to a high rate of conscription and the continued drain of farm labour into war industries, led to a delay first of planting and then of harvesting and these delays exposed the rice plants more than normally to the vicissitudes of the weather.

The shortage of labour was also responsible for a further decrease of the rice acreage and less intense cultivation. The raw material shortage of the chemical industries aggravated the insufficiency of synthetic fertilizer; and the lack of iron, timber and other industrial materials further increased the difficulties of replacing and even repairing agricultural implements. The bad harvest was therefore the direct consequence of the accumulative effects of the war on Japan's economic life as a whole, i.e., of causes which are bound to play an ever larger role in the future.

Japan's requirements of rice during the current season, on the basis of customary rations, will probably amount to between 450,000,000 and 500,000,000 bushels. They may in fact be higher because of the increasing shortage of several other categories of foodstuffs which in normal years largely supplemented the staple diet of rice.

Formosa, too, had a very poor harvest this year, and the rice production of Korea, although above that of last year's disastrous result, does not allow for the large imports which the "mother country" is categorically demanding from the embarrassed Governor-General of the colony. Even a contribution of between 60,000,000 and 70,000,000 bushels from Formosa and Korea, that is, 45% of their combined production, would lead to further dangerous hardships in the colonies, without solving the supply problem of Japan proper. The rice production of Manchukuo remains insignificant in spite of all Japanese efforts to increase it, and it has been 15% below the level of 1939.

Japan's large reserves of rice, carried over for many years, have been all but exhausted on account of the steady decrease of production and the increased demands of the Army.

The Japanese Empire as a whole, therefore, will have to import between 80,000,000 and 140,000,000 bushels of rice from foreign countries.

It is true that Japan, during the last twelve months, has extorted from the occupied areas of Central China something like 50,000,000 bushels of rice; but much of it has already been used to fill the considerable gap between demand and supply during the last season and it is doubtful how much the most ruthless Japanese methods will succeed in obtaining from China until next summer. The large consumption centre Shanghai has already been forced, this year, to live almost entirely on rice from French Indo-China, Siam and Burma because its usual, near-by sources of supply had been so thoroughly drained by Japan. North China, where the large Japanese forces of occupation and the accompanying Japanese civilians have created a considerable rice problem, had also to import large quantities of rice from those countries.

It may be asked whether Japan's conquest of part of French Indo-China will not easily solve her problem. This is not at all likely. The average export surplus of the French colony during the last three years has been no more than 50,000,000 bushels. These exports which used to go to France, Hongkong, Singapore, the Netherlands East Indies, etc., and are now playing a large role in the supplies of Shanghai and North China, originate mainly from Saigon over which the Japanese, so far, have no control.

The export surplus of Siam is slightly smaller than that of French Indo-China. Its average amounted to about 47,500,000 bushels during the last three years. Siam is still outside the orbit of Japan's power and she does not seem willing to give up her old-established markets in favour of a special bargain with Japan.

Moreover, Siamese and French Indo-China rice still has to be purchased against foreign exchange of which Japan is very short indeed; and the price of rice in both these markets has been rising considerably, mainly on account of the large demand from the occupied areas of China.

A comparison of Japan's deficiency on the one hand and her potential sources of supply on the other does not give a favourable picture. Japan will have to struggle hard and to pay a high price in order to make both ends meet. Even outright conquest of both French Indo-China and Siam and their incorporation into the "Bloc of Far Eastern Co-Prosperity" would scarcely protect Japan against the consequences of the further decrease of her domestic rice production which seems almost inevitable. Burma with its annual export surplus of about 100,000,000 bushels might therefore become another object of Japan's ambition; but the price of war with Great Britain would have to be paid for a mere attempt at gaining control over Burma.

Meanwhile, the people in the big Japanese cities are making their first experiences in standing in queues in front of food shops, and the Government is trying hard to submit the distribution of rice to rigid state control, "considering the facts," according to the Minister of Agriculture, that "the rice supply situation next year may be worse than this year."

Farmers and landowners are required to sell to the State all the rice beyond their own needs. These Government "purchases" will virtually amount to confiscation, for the Government, afraid that cash payment for the rice will further accelerate inflation, is considering a system by which part of the purchase money is to be invested in Government

loans, while passbooks for gradual withdrawals in cash are to be issued for the remainder.

The Japanese rice of the new harvest now coming onto the market, before being sold to consumers, is being mixed with foreign rice which is distasteful to the Japanese because it is not glutinous like their native rice. Part of it is even mixed with barley, and none of the rice sold in the shops must be fully polished.

Producers as well as consumers have therefore ample grounds for fresh dissatisfaction and the Minister of Agriculture who is so ruthlessly interfering with the old-established customs of free rice sales and of the consumption of pure, white, glutinous rice, has every reason to appeal to their "self-sacrifice" for the sake of the glories of "Greater East Asian Co-Prosperity". Many other changes in the country's economic life may have been borne with comparative patience but these are certain, in the long run, to create serious opposition to the Government and its futile expansionist policies.

2. The Growing Shortage Of Materials

Rice is by no means the only food which is scarce. Eggs are almost unobtainable now in the big cities, for the farmers withhold them in retaliation against the price-fixing policy of the Government; arrivals in Tokyo alone are 43% smaller now than they have been last year and the reduced supplies are bought wholesale by restaurants, hotels and well-to-do families.

Milk for babies is being rationed. The numerous city people in Kobe who became accustomed to the consumption of bread and had to stand in long queues before the bakeries, have now to apply for special permission and tickets before they can buy any. Ration cards for sugar, dairy products and other necessities for infants are issued only against doctors' certificates.

The market supply of fish is suffering from an acute shortage of oil for the engines and the lighting of fishing boats and from an acute shortage of fishing nets and other materials, so that the Fishery Federation had to present the Government with an urgent demand for help.

Charcoal, the cooking and heating fuel of the majority of the people, is extremely scarce and several cities have allotted no more than 75 lbs per person for the whole of the winter season from November to March, i.e. $\frac{1}{2}$ lb. per day. The shortage of electric current is once more becoming acute and the existing consumption restrictions have been considerably tightened.

Durable clothing materials have almost entirely disappeared from the market, cotton, wool and even native silk having to be mixed to a large extent with staple fibre. The public protest against the low quality of staple fibre which often does not survive the first washing has been so categorical that the Government had to punish the worst offenders, five large manufacturing firms, by withholding all raw materials from them. Children's clothes are now to be produced from wild hemp, a kind of ramie. School uniforms and stockings for school children have been severely rationed.

The shortage of all other kinds of manufactured goods has become chronic and their quality is deteriorating further.

The refuse of Tokyo is to be used for the manufacture of alcohol, fertilizer, etc., dog's hair is to be used as a wool substitute, and the Army authorities have asked the public to collect, dry and deliver to them for horse forage all the used leaves from its tea-pots. The campaign for the collection of scrap iron from the people is to be intensified because no more than 10,000 tons have been obtained during the last two years, as against the original government estimate which predicted the collection of at least 50,000 tons per annum.

Industrial production, as a whole, that is, total production for civilian and war purposes, is actually decreasing. The production index of the Ministry of Commerce and Industry which is based on the level of production of the period from 1931 to 1933 (= 100) had reached 180.6 during the first half of 1939 but fell to 174.2 during the first half of 1940.

Building activity is at a lower ebb than ever. The shortage of materials

has prevented the finishing of many structures just before they were ready for use, while it is impossible in numerous cases to start building although all the necessary permits have been obtained.

The shortage of ships is also becoming more and more acute. The increasing insufficiency of the supply of raw materials, coal, electric power, labour, machinery, etc. has caused a serious delay in shipbuilding and ship repair work. The Ministry of Communications is trying in vain to overcome these difficulties by ever stricter application of control measures.

It is characteristic for the retrograde development of Japan's economic life which has set in as a consequence of forty-one months of war that shipbuilders in Osaka have now begun the construction of large wooden sailing ships with auxiliary Diesel motors, not only for coastal but also for "near sea" traffic. Five such ships of 380 tons each are now being constructed in consequence of the shortage of steel plates, machinery and fuel, and more are to follow.

The strait jacket policies of price-fixing and regulations for producers and consumers are being carried on in minute detail in every field. They are reminiscent of the feudal Tokugawa period prior to the Restoration when every imaginable detail of production and consumption was elaborately fixed by the State. New price regulations and standards have recently been promulgated for hardware, hats, sporting goods and musical instruments. A long list has been published according to which dolls of one foot three inches are to be sold at so much if dressed in silk and at so much if dressed in artificial silk, while other sets of prices apply to larger or smaller dolls, to the cases in which they are sold, etc., etc.

On larger issues, too, government control is continuously becoming more rigid, more complex, more obstructive and more harmful, without achieving its main purpose, that is, to strengthen the country's war economy and morale.

Chambers of Commerce and other organisations are openly complaining that this rigid control suffocates the country's economic life, dulls initiative and causes the economic activities of the people to diminish unnecessarily.

It has been brought to the attention of the Government that there are at present considerably more than 500 official committees, commissions and other bodies concerned with interference in the country's economic life.

3. Prices, Wages, And Inflation

Japan prides herself of having conquered the problem of rising prices: the official cost of living index of the Statistics Bureau of the Cabinet (based on the prices of July 1938 = 100) was 146.1% in September 1940 but dropped to 143.9% in October. It was still 14.8% higher than in October 1939 but has returned to the level of last spring. This success of the Government's price control measures, however, is more apparent than real.

(1) The goods of which this cost of living index is composed are no more of the same quality as before and they are continuing to deteriorate: rice which was sold fully polished until some time ago is now polished to no more than 30% and often mixed with barley; coal is of much lower quality and has only part of its former fuel value; clothing materials which used to be of solid cotton, wool, or silk, and gave many years of wear, are now consisting to the extent of one-third, one half or even more, of "staple fibre" and their durability is reduced to a few months or even weeks; all other consumption goods have undergone similar deterioration and the index price figures are disguising the very deep fall in the standard of living of the people which was the price they had to pay for the apparent stabilisation of its cost.

(2) These, like all other Japanese price index figures are composed of "official" prices. But a large part of popular requirements is still being covered in the "black market" where prices are infinitely higher. This is borne out by the fact that cases of police prosecution for the infringement of price regulations number hundreds of thousands.

(3) Short weight of goods sold at official prices has become very frequent. To give but one example: the Tokyo economic police recently discovered that more than half of the fruit shops examined by its squads were selling short weight, cheating their customers to the extent of 20 to 30%. Police regulation of retail trade has

thus led to an astonishing deterioration of the commercial integrity of the small Japanese shopkeepers which used to be proverbial.

Wages and salaries have also been submitted to strict government regulations which aim at keeping them as low as possible. The following monthly "starting rates" per month have been promulgated as upper limits: University and technical high school graduates, if employed in technical jobs, Yen 85 (£5.3/- or US\$20.-) and if employed in office work, Yen 75 (£4.11/- or US\$17.60). Graduates of Middle Schools Yen 42 (£2.11/- or US\$9.90). Graduates of Girls' high schools, Yen 33 (£2.- or US\$7.80). Graduates of primary schools Yen 21 (£1.5/- or US\$4.90). The largest annual increase in salaries and wages permitted under the new ordinance is 7%, and family allowances (for any number of children) are strictly limited to Yen 10 per month for those who have an income of less than Yen 100 per month.

This ordinance "for the establishment of a fair and just wage system" is being applied to practically all workers in Japan. It permits the Welfare Minister to order employees to reduce wage rates for skilled workers and to fix lower wages wherever he thinks fit.

Companies wanting to increase their staff must first obtain permission from the authorities and the shifting of clerks, labourers, engineers, etc. from one employer to another is being restricted.

At the same time, a special ordinance has been promulgated for a certain restriction of the bonuses of company directors which has been widely criticized in business circles because it is feared that this measure will "interfere with the spirit of enterprise".

While prices have been stabilised to some extent in connection with the fixing or reduction of salaries and wages and dwindling of popular consumption, inflation is growing steadily.

The note circulation of the Bank of Japan has developed as follows:

1937, lowest	Yen 1,318,000,000
1938, average	1,918,000,000
1939, average	2,574,000,000
1940, January	3,133,000,000
July	3,306,000,000
October	3,529,000,000

The national debt has developed as follows:

1937, June	Yen 11,018,000,000
1938, June	14,190,000,000
1939, June	18,924,000,000
1940, June	24,772,000,000
October	26,700,000,000

It is officially estimated that the issue of deficit bonds which have still to be made during the remainder of this year will raise the total national debt of Japan to about Yen 28,000,000,000 by December 31, 1940. The total issue of deficit bonds during 1940 will then have reached the unprecedented total of Yen 6,000,000,000.

According to the first estimates for the next budget, Government expenditure for other than military purposes will be at least Yen 1,200,000,000 higher in 1941/1942 than it is expected to be in the current fiscal year. The estimates of the Army and Navy which have not yet been handed to the Ministry of Finance will probably grow by an even larger sum.

The estimates of next year's revenue, on the other hand, show an increase of no more than Yen 533,000,000. Even if total non-borrowed revenue for 1941/1942 reaches the comparatively high estimate of Yen 4,664,000,000, it will not be sufficient to cover the estimated "civilian" expenditure of about Yen 5,000,000,000 for the administration, the debt service, etc., while the colossal budget of the Army and Navy will have to be covered entirely by the issue of deficit bonds. The increase in the national debt in the coming fiscal year, therefore, will again be of record dimensions.

4. The Destruction Of Small And Medium Industries

The economic policies which aim at the creation of a "National Defence State Of The Highest Degree" are undermining the very existence of small and medium-scale enterprise upon which the strength of Japan had been based during all the years of her rise to power.

The ban of many "non-essential" goods, i.e., of goods for civilian consumption has already ruined numerous small and medium-scale enterprises which were unable to turn to the manufacture of armament goods or otherwise to secure government orders. The agencies for the distribution of "controlled" raw materials which are composed of the representatives of Big Business and government officials are discriminating against the small and medium-scale manufacturers who were also the first if not the only victims of governmental price control and many other bureaucratic restrictions of economic life.

The new Japanese Government, moreover, has made it its special aim to foster the development of large-scale enterprise by way of mergers. In the cotton spinning industry, for example, the existing 77 companies and innumerable small enterprises are to be fused into 12 mammoth concerns none of which is to have less than 500,000 spindles. The number of cotton, wool and other weaving enterprises, at present more than 25,000, is to be reduced by mergers to about one-tenth, the minimum size of "permissible" units being fixed at 300 cotton or staple fibre looms, 100 wool or artificial silk looms, etc. In the iron and steel, machinery and chemical industries, too, the merger of small enterprises or their absorption by large companies is to be carried out as a means of rationalisation.

In the export trade the small and medium-scale enterprises with their guilds which have been the backbone of Japan's foreign trade until very recently, are now being crowded out of their business by a few large and powerful firms. In the Netherlands East Indies the old-established small and medium firms are being drastically undercut by their big rivals who are selling at 30 to 40% below current market prices and the victims vainly suggested to the Government their "hope that the larger companies will voluntarily stop their anti-national actions and give more serious consideration to national interests."

The result of all this is a very large volume of actual unemployment (and acute dissatisfaction) among thousands of small and medium businessmen most of whom are quickly losing whatever reserves they may have had. The Government is discussing "relief policies", promising "proper measures" and "due consideration", and preparing for the "re-education" of these uprooted business men, so that they may be employed in other capacities or even settled as farmers in Manchukuo. The latest government device is the proposed establishment of "information bureaus at police stations in every prefecture to give further suggestions to these people".

In its naive endeavour to quickly "modernise" Japan's economic structure, the Government is even going so far as to plan the wholesale removal of a good part of small and medium-scale enterprises to Manchukuo and North China, so that Japan will be able to become "a country of precision industries", the leader of the "Greater East Asian Sphere of Co-Prosperity" in which all other members will provide a maximum of useful services to Japan.

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FORTNIGHTLY NEWSLETTER SERVICE ON FAR EASTERN AFFAIRS

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THE "GREATER EAST ASIA SPHERE OF CO-PROSPERITY"

The Japanese Government has laid down "fundamental principles" for a "Ten-year East Asia Economic Plan" by means of which "Japan is to attain her mission of promoting the permanent peace of the world through the creation of the "Greater East Asia Sphere of Co-Prosperity".

(1) "The objective of the Japan-Manchukuo-China Economy is to establish within the next ten years a state of self-sufficient economy among these three countries, at the same time expediting the creation of the Greater East Asia Sphere of Co-prosperity so that the economic position of East Asia in the world may be strengthened."

(2) "Japan's guiding idea in establishing the Japan-Manchukuo-China Economy is to promote the co-existence and co-prosperity and the general welfare of the three countries through their close co-operation, in consonance with the lofty principle of hakko ichiu" (i.e., the legendary command of a pre-historic Japanese emperor to his successors "to unify the eight corners of the world under one, Japanese, roof.").

(3) "In order to expedite the establishment of the Japan-Manchukuo-China Economy, Japan will invigorate her national spirit, effect reforms in all branches of administration, and increase her national resources, while aiding economic construction in Manchukuo and China. To this end she will try to develop science and technical skill and foster various industries."

(4) "Japan expects Manchukuo, which is inseparably related to Japan, speedily to adjust and develop her important key industries."

(5) "Japan expects China to develop her natural resources and rehabilitate her economy in co-operation with Japan and Manchukuo. It is particularly desired of China to direct special attention to the development of the means of transportation and communication, the provision of better facilities for the exchange of goods, and the exploitation of natural resources, so as to contribute to the establishment of the Greater East Asia Sphere of Co-Prosperity."

To strengthen Japan for carrying out this "mission" the Japanese Cabinet has now announced the outlines of a programme for intensified economic mobilisation

which is to be the basis of her New Economic Structure.

(1) "Since Japan is committed to working for a new world order, primary importance must be given to the task of achieving a phenomenal expansion of military and naval armaments. Japan is therefore confronted with the necessity of bringing about the highest degree of productivity in all industries concerned with the production of munitions."

(2) "In formulating measures for adjusting the supply and demand of materials, the following order of priority will have to be observed:"

- (a) "war materials"
- (b) "materials indirectly needed for the enlarged armament programme"
- (c) "materials for economic construction work in Manchukuo and China"
- (d) "materials for export, in accordance with the new trade policy of the Government"
- (e) "materials the production of which ought to be maintained if the lowest standard of living necessary for the people is to be guaranteed by the State".

This latest official announcement about the aims of the New Economic Structure adds: "One effect of thus concentrating production on the nation's vital needs will be a further shrinkage of the supply of materials needed for the light industries and of a variety of goods for general use among the people".

I. Confusion In Japan

All these vague plans for "Greater East Asia" and for Japan proper, however, have not yet been elaborated in any detail and it seems that even the leading members of the Cabinet, faced by acute economic difficulties and wide differences of opinion about the way in which these high-sounding projects are to be executed, have not made up their minds to what extent they are really meaning to carry them out.

"Although the authorities realise the necessity of enforcing such measures, they seem themselves opposed to them on the grounds that the establishment of an entirely new economic structure may lead to chaos", writes the "Kokumin". And the "Hochi" adds: "The Government and the leaders of the Association for Assistance to the Imperial Rule (the central organ of the so-called New Structure Movement which supplanted all political parties) are still indulging in discussions on ideology and conception." The comments of the Japanese press as a whole imply the undeniable fact that there is now worse confusion of thought in Japanese Government circles than ever.

But the Army, through the new Minister of War, continues to press the Government for action: "A quick and appropriate execution of policies is needed", the new Minister of War stated recently "and it is sincerely hoped that the public will give up its reckless criticism of the New Economic Structure and be determined to weather the storm with might and main."

It is, however, not only the general public which is unwilling to suffer ever-increasing privation for the sake of ill-conceived and impracticable plans of national aggrandisement: "Severe criticism has also been raised by financiers and industrialists against the New Economic Structure Plan", writes the "Miyako", "and the Cabinet ministers who are alive to this situation, have decided to advise the Planning Board to revise the Plan in an appropriate way in order not to lose prestige for the Government and to tone down public antagonism." The substance of the Government's plans for economic reform has thus once more become the object of much controversy, and the Cabinet has already decided on principle that Government interference with private enterprise, in spite of the far-reaching demands of the Army, will be restricted to a minimum.

The mere publication of these vague and impracticable plans at a time when the scarcity of goods is becoming more and more acute in all fields, is meanwhile defeating the very ends the Government has in view, i.e., the much-desired revival of confidence in the future and a recovery of production which has been falling off during 1940: "Because of the unrest created in financial circles on account of the failure to clarify the precise nature of the proposed economic measures there is certain to be a slight further drop in the production power of the nation", writes the "Kokumin".

Even the Ministers of War and Navy are recognising the inevitability of these unfavourable developments, but they insist upon their demands, stating laconically: "A decrease of industrial production and the creation of a certain degree of unrest among the people will have to be put up with for the time being."

There is little reason to expect, therefore, that the "phenomenal expansion of armaments" and the "increase of national resources" which are being desired, will materialise. On the contrary, Japan will have very great difficulties indeed to maintain her armament production on the present scale. Nor does it seem that an "invigoration of the national spirit" can be achieved under steadily deteriorating material circumstances and under the disturbing influence of barely disguised conflict and confusion in Government quarters.

It would seem from all this, and from the growing economic difficulties of the country which were described in the last issue of CHINA AIR MAIL, that Japan has never been as ill-equipped as at present for the creation around herself of a great economic bloc.

But what are the conditions in the countries Japan has chosen as the vassal members of this bloc she is striving for?

II. The Example Of Manchukuo

Things in Manchukuo are not going well. According to the "Miyako": "The Government of Manchukuo is urging its people to cease hoarding goods and to be more willing to sell what they have (to Japan). The Manchukuo Government calls this a moral economic movement, the general principle being that moral virtues form the foundation of economy and diplomacy. The need for morals is being felt most acutely."

It is symptomatic of the atmosphere prevalent in Manchukuo after eight years of Japanese rule that the Government is promoting a "Let-Us-Be-Kind Week" during which a special effort will be made to impress upon civil servants (many of whom are Japanese) and others the necessity of abandoning an often too typically boorish and churlish attitude", according to the "Manchuria Daily News".

Japan's investments in Manchukuo since the foundation of the new state have surpassed the total of Yen 3,000,000,000, the relative magnitude of which can best be appreciated by comparison with the production of wealth in Japan: the annual average of this capital export to Manchuria during the last eight years has been equivalent in value to at least one-quarter of the Japanese rice crops during that period. But these investments in Manchukuo which have contributed much to the acute deficiency of investment capital in Japan proper are still failing to produce the expected returns and the Japanese Government is realising that even larger investments would be required to exploit the rich natural resources of the country to the desired extent.

But Japan's ability of exporting capital to Manchukuo in one way or another is more than ever limited and this is the main reason why it is now seriously contemplated bodily to transfer certain small- and medium-scale industries from Japan to her dependency. The scheme is impracticable for many reasons, but it indicates clearly the economic weakness of the Japanese empire builders.

Most of the increase of Manchurian supplies Japan has been able to secure since her conquest of the country has not been due to Manchukuo's economic development at the hands of Japan but to the Japanese policy of monopolising Manchurian trade at the expense of other countries. In the monthly average of the first seven months of 1940, Manchukuo's total exports amounted to Yen 64,000,000, as against total exports of considerably more than Yen 100,000,000 in the average month of 1932 (calculated in terms of the price level of 1940.) The Japanese share in Manchurian exports in 1940 was 70% while her share had been no more than 38% in 1932.

But Japan had to pay heavily for her virtual monopoly of Manchurian exports: against every Yen's worth of goods Japan received from her dependency in 1940 she had to send to Manchukuo three yen worth of her own manufactures, the monthly average of Japanese imports from Manchukuo amounting to Yen 45,000,000 while that of Japanese exports to Manchukuo was Yen 141,000,000. In 1932, however, there had been a normal balance of trade between the two countries, with a Japanese import surplus of about Yen 3,200,000 per month.

Nor has Japan been able to protect Manchukuo from the inflation she is suffering herself: The note issue of the Manchukuo Central Bank rose from the very high average

of Yen 425,700,000 in 1938 to Yen 467,700,000 in October 1939, and then quickly to Yen 710,000,000 in October 1940. The price level in Manchukuo is considerably higher, and its control proves even more difficult, than in Japan.

Eight years of Japan's rule over Manchuria have proved once more her inability, material as well as psychological, for large-scale economic development work abroad and for genuine co-operation with other countries, thus confirming the conclusions to be drawn from several decades of Japanese rule over Formosa and Korea.

III. Japan Destroys Her Own Basis In Occupied China

The Japanese Foreign Minister, Yosuke Matsuoka, repeated recently that "Japan intends to liberate the inhabitants of the whole region ("Greater East Asia") from the shackles of Imperialism, to extend to them fraternal love and thus to realise the benefits of co-existence and common prosperity." It is not necessary to recall the tragic facts by which the Japanese Army and Navy as well as Japanese officials and civilians in China are every day disproving the validity of the moral pledges of their Foreign Minister. But it must be emphasised what prospects Japan's methods of colonisation in China are opening for "co-operation" between the two countries and for their "common prosperity".

The Japanese puppet administration in Nanking with Wang Ching-wei as its head has not been given any authority in the occupied areas and the Minister of Finance of this regime, recently, had to make the following confession to the Japanese press on the occasion of his visit to Tokyo: "About eight months have passed since the new National Government was established at Nanking; yet in this interval the new Government has done nothing noteworthy", in spite of its "strong conviction in favour of co-operating with Japan for the establishment of a New Order in East Asia."

General Abe, who was responsible for negotiating the Japanese "peace" treaty with Wang Ching-wei must have been struck by the persistent arrogance of his countrymen in China which makes co-operation impossible even with Chinese who are prepared to betray the cause of their own nation. For General Abe repeated in a recent interview with the Japanese press his old complaint about the inappropriate behaviour of many of his countrymen in China: "The Japanese people must do away with the former feelings of antagonism and superiority in dealing with the Chinese."

While there is neither an effective puppet organ for "co-operation" on the Chinese side, nor the proper spirit for co-operation on the Japanese side, Japan is also lacking the investment capital required for the economic development of the occupied territories of China. Even the "special area" of Inner Mongolia to which Japan ascribes exceptional strategic and economic importance now has to "modify the policy originally laid down for mining development under the Five-year Industrial Plan, in view of the difficulty which is being experienced in securing adequate capital and production goods." ("East Asia Economic News").

Similar conditions exist in North China where the urgent demands of the Japanese Army for the development of iron and coal resources cannot be heeded because of Japan's lack of investment capital and machinery. It is therefore being considered to discard obsolescent mining machinery in Japan in order to ship it to North China.

A number of large development schemes in different parts of occupied China had to be dropped altogether. And there is much complaint in Japan about the failure of Chinese capitalists in the occupied areas to take an interest in such projects and contribute money towards their realisation.

Instead of being able to expand the production of the occupied areas the Japanese are responsible for its steady decline. Raw cotton and silk are the two outstanding examples of the disastrous effect of Japan's economic policies in China and of her delusions about the prospects of economic co-operation between the two countries.

While Japan is preparing to shift a considerable part of her cotton industry to China in order to make use of that country's cheap labour and raw material, the production of raw cotton in the occupied areas is declining from year to year. It has been so small in 1940 that even the old-established cotton mills in North China, equipped with a total of 1,200,000 spindles, are operating at only 35% of their capacity; in spite of the fact that raw cotton has been brought in from the Japanese-controlled areas of Central China. The "Eight-year Plan for the Increase of Cotton Production in North China", to be accomplished in 1946, is already proving a complete failure. In Shanghai, even the Japanese-owned mills receive only a small percentage

of the quantities of Chinese raw cotton that had originally been expected and their prospects for 1941 are more gloomy than ever.

In the futile attempt to force the recalcitrant Chinese farmers to produce more raw cotton for Japanese mills, the Japanese in Central China are systematically undermining the age-old cultivation of silk. Another reason for this policy of destroying the native Chinese silk industry, which is only too successful, lies in the Japanese interpretation of the term "economic co-operation": since Japan is herself a producer of natural silk and is experiencing increasing difficulties in her sales abroad, it is China's task to leave the narrowing field entirely to Japan and to cease producing silk. In this case, too, many old-established Japanese enterprises in China are suffering severely from the high-handed measures of their own authorities.

The high-sounding Japanese plans for the "development" of China cannot disguise the fact that it remains the practical policy of Japan to despoil the occupied areas of what little stocks and current production there are left. A concrete example will illustrate this policy. The distribution of the current monthly production of coal in Shantung province has been decreed by the local Japanese authorities as follows: 50% are to be exported to Japan; 20% are to be delivered for the use of Japanese Army and Navy units in Shantung and the strategic Kiaochow Railway; 15% are to be used for Japanese factories and homes in Shantung and for other foreigners; and all that remains for use in local Chinese industries and for the household use of the Chinese population, to be distributed through a Japanese-controlled monopoly, is another 15% of the total or less than half of their minimum requirements. The lack of new equipment, so far, makes it impossible to increase or even normalise production.

In contrast to all this it is worth quoting the following sentences from a publication of the Information Bureau of the Japanese Cabinet which deals with the efforts of the National Government in Chungking to consolidate its basis of resistance in the South-west and North-west of China:

"These efforts cannot be made light of. Taking everything into consideration, Chungking has done well, misdirected and vain though its efforts have proved to be. The weakness of the Chiang regime does not represent the weakness of the Chinese people who are faithfully sharing the burden in accordance with the principle, 'offer whatever you have, money or service'. It is indeed astonishing how the Chungking regime can carry on the construction of railways and highways in its straitened circumstances..."

"What the new National Government (meaning Wang Ching-wei) and Japan should do now, is to liberate the energies and patience of these toiling masses which are engaged upon the fruitless task of economic construction in the mountainous regions of the Interior, and divert them to the greater and sounder work of constructing a new East Asia."

A Japanese Government publication could scarcely be more outspoken in its envious appreciation of the construction work that goes on in Free China, in the implied realisation of Japan's own economic failure in the occupied area, and its futile appeal to the Chinese people to renounce their national construction work in favour of rendering services to Japan.