

---

Manchuria as Japan's Economic Life-Line

Author(s): John R. Stewart

Source: *Far Eastern Survey*, Nov. 20, 1935, Vol. 4, No. 23 (Nov. 20, 1935), pp. 182-186

Published by: Institute of Pacific Relations

Stable URL: <https://www.jstor.org/stable/3022242>

---

JSTOR is a not-for-profit service that helps scholars, researchers, and students discover, use, and build upon a wide range of content in a trusted digital archive. We use information technology and tools to increase productivity and facilitate new forms of scholarship. For more information about JSTOR, please contact [support@jstor.org](mailto:support@jstor.org).

Your use of the JSTOR archive indicates your acceptance of the Terms & Conditions of Use, available at <https://about.jstor.org/terms>



is collaborating with JSTOR to digitize, preserve and extend access to *Far Eastern Survey*

JSTOR

# FAR EASTERN SURVEY

Fortnightly Research Service

AMERICAN COUNCIL • INSTITUTE OF PACIFIC RELATIONS

129 East 52nd Street • New York City

RUSSELL G. SHIMAN, *Editor*

Telephone: PLAZA 3-4700

Cable: Inparel

VOL. IV • 23

NEW YORK, NOVEMBER 20, 1935

Annual Subscription \$2.50  
Single Copies - - .25

## Contents

### MANCHURIA AS JAPAN'S ECONOMIC LIFE-LINE

Shanghai Lagging in Factory Control  
U. S. S. R. Exploiting Arctic Resources  
The Communist Bogey in North China?

Foreign Interest in Kailan Coal Mines  
Expanding Pineapple Production in Malaya  
International Restriction and China Tea Export

### MANCHURIA AS JAPAN'S ECONOMIC LIFE-LINE

*By John R. Stewart \**

THE strategic and economic importance of Manchuria is considered so vital to Japan that it is frequently referred to as the "life-line" of Japan. In a strategic sense Manchuria is regarded both as a first line of defense and as a valuable foothold on the continent. From the economic side, the Japanese stress their vital interests in Manchuria as a secure source of raw materials and foodstuffs, as a growing market for Japanese exports, as a profitable field for capital investment and as a prospective outlet for surplus population.

There is no doubt as to the broad extent of Japanese interests in Manchuria. Close economic relations are natural between adjacent regions, one densely populated and industrializing rapidly, and the other relatively undeveloped and rich in mineral, forest and farm resources. However, the economic importance of Manchuria can be overestimated; for an analysis of Japan's needs as an industrial country as against Manchuria's available resources will make evident that the solution of Japan's economic difficulties will not lie in Manchurian development. Indeed, it is thought possible that Manchuria may become a definite liability. Industries developing there can compete with those in Japan, while the costs of administering, defending and developing the new Empire on the continent may in the end prove a heavy drain on Japan's limited resources rather than a profitable venture.

In the years prior to the Mukden Incident in 1931, Japan built up a valuable investment in Manchuria.

The pre-Incident situation can be briefly described. 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 about 250,000 tons annually; and it provided small amounts of lumber, wool, hides and skins, industrial salt and shale oil. As a market, Manchuria took about 8% of total Japanese exports, ranking fourth behind the United States, China and British India.

The establishment of Manchoukuo as an independent state under Japanese control has brought many changes. No restrictions on Japanese enterprise now exist; for all the resources of Manchuria are open to exploitation to supply Japan's needs. Since 1933, when peace and order were in large measure restored, Japan has gone ahead energetically with development work and has invested a substantial amount of new capital. (See "Foreign Investments in Manchuria," *Far Eastern Survey*, June 5, 1935.) Of all the phases of development work, the extension of railways and other communications has proceeded most actively. A new and imposing capital has also been constructed at Hsinking. At the same time, industrial development has been pushed. A number of new industries have been established; the iron and steel, coal and oil shale industries have been expanded; and the output of industrial salt has been increased. Efforts to stimulate cotton and wool production have also been made. Moreover, imports have risen rapidly, so that Manchoukuo now occupies first place in Japan's export trade.

These changes have obviously increased the economic importance of Manchuria to Japan. They are,

\* Author of several articles on Manchuria; associated with the National Credit Office, New York.

however, entirely due to the substantial investment of Japanese capital, which is estimated at ¥471,000,000 for the three years 1932-34 and which will probably reach a larger figure this year. There is some doubt as to whether the new investment will yield a profitable return. Continuing industrial development in Manchuria will, moreover, accentuate the troublesome question of competition with domestic Japanese industries, unless a satisfactory division of labor can be worked out under the Manchoukuo-Japan economic bloc (see *Far Eastern Survey*, August 14, 1935, pp. 130-131).

While its political position was formerly limited on the one hand by Chinese sovereignty and on the other by the Russian interests in North Manchuria, Japan before the Incident was dominant economically in South Manchuria. Through the South Manchuria Railway Co., it operated the principal rail line and ports and controlled the principal industrial and mining developments. The basic situation with regard to control of raw materials and mines is now little different. It is therefore to be questioned whether the moderate economic gains that have been made will compensate for the huge military and economic costs of the Manchurian adventure. Manchurian development is requiring substantial capital outlays. If the investment should turn out not to be profitable, Manchuria will have become a drain rather than an outlet for capital. Against these considerations, of course, must be balanced the improvement in Japan's strategic position on the continent.

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

Typical of an industrial country, Japan's foreign trade consists largely of imports of raw materials and exports of finished goods. In the five-year period 1930-34 raw materials constituted 58.1% of total imports. This is a reflection of the scarcity of Japan's natural resources and resulting dependence on foreign supplies. Aside from minerals and fuels, Japan's chief imports of industrial raw materials consist of cotton, wool, lumber, paper and rayon pulp, tropical products, hides and skins, and salt. With the exception of salt, Manchuria supplies only the most negligible portion of these materials to Japan. However, efforts are being made to stimulate cotton and wool production, while forest resources are being developed and salt output is being increased.

Manchuria, lying considerably to the north of the world's cotton belts, is marginal land for cotton cul-

tivation. As the 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. Recently, with government encouragement and support, a number of ginning companies and cotton associations have been organized. Production and acreage have expanded, and the 1934 crop of about 140,000,000 lbs. represented more than a fourfold increase over 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 lbs. to Osaka. A substantial increase in both acreage and output is planned, with the two-fold purpose of crop diversification and of adding to Japan's self-sufficiency. However, it is not expected that cotton production in Manchuria will reach any significant figure.

Wool ranks after raw cotton on the list of Japan's raw material imports. Manchuria supplies a very negligible proportion of this, even though it has a numerous nomad population and possesses extensive areas on the Mongolian borders where sheep raising and other livestock industries could be developed. However, commercial livestock raising has not yet reached the Mongols. Sheep are raised primarily for meat rather than wool, and consequently the output of wool, hides and skins is not large. Merino sheep are being crossed with native stock and the Government program calls for the introduction of 4,000,000 head of sheep of an improved variety. In the meantime, Australia continues as the principal source of Japan's wool imports.

Japan possesses extensive forests, but nevertheless imports a moderate amount of lumber and also paper and rayon pulp. It is nearly self-sufficient in lumber, so that imports are moderate. Manchoukuo supplies very little of this, and none of the pulp required for Japan's growing paper and rayon industries. With regard to paper pulp, Japan is reported to produce about 80% of its needs, but practically all of its 150,000 tons annual requirements of rayon pulp must be imported. Four Japanese rayon companies are reported to be planning to establish rayon pulp factories in Manchoukuo, with an annual production of 30,000 tons each. At last report, November 7, 1935, the Manchoukuo Government had decided to approve the inauguration of these enterprises.

Manchuria has important lumber resources. Forests are estimated to cover 31% of its total area and to contain 4,172,000,000 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 timber. It was formerly a large exporter of lumber; but with the exhaustion of accessible forests, the trend was steadily downward. Since 1929, an import balance has been

shown, and the current building boom has brought a sharp increase in imports. The Manchoukuo Government is fostering the industry and railway construction in eastern and northern Manchuria is opening new forest areas to exploitation. Production will undoubtedly increase; but with rising domestic demands, it is not thought that Manchuria will become an important exporter of lumber.

One of the basic raw materials of Japan's expanding chemical industry is salt. It is imported in large quantities, about 20% coming from Manchuria. The salt industry is one of the oldest in Manchuria. Salt is produced by evaporation along the shores of the Liaotung Peninsula and is also gathered from salt lakes in the semi-arid west of 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 the export of 700,000 tons a year to Japan is envisaged. Plans have also been advanced to establish a soda ash factory at Dairen to utilize Manchurian salt. This has been opposed by Japanese chemical interests, so that the plan has not matured.

The above analysis indicates that Japan obtains very little of its requirements of industrial raw materials from Manchuria. However, a somewhat greater degree of dependence on Manchuria is evident in the case of foodstuffs and fertilizers. In foodstuffs, Japan is virtually self-sufficient despite its dense population. Imports of foodstuffs amounted only to 9.0% and 7.6% of total imports in 1933 and 1934 respectively, the principal items being beans and peas, wheat, rice and paddy, 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 considerable part of the oil-yielding seeds.

Manchuria is the world's leading producer of soya beans, which are exported in substantial amounts—either as raw beans, oil or cake—to Europe, the United States, China, Japan and other countries. As soya beans are the leading crop and as bean products provide over half of the total exports, the prosperity of Manchuria, and its foreign trade, railways and banks are in large measure dependent upon the bean trade. Depressed conditions in recent years, coupled with Manchuria's dependence on this single crop, have led the Manchoukuo Government to foster diversification of agriculture.

In this program, one of the chief crops proposed is wheat, already an important crop in North Manchuria.

**Wheat Growing** Wheat production is being increased; but it will be some time before Manchuria supplies even its own needs in wheat and flour. Trade figures show that flour ranks second after cotton piece goods in

Manchuria's import trade. To meet this situation, the revised Manchoukuo tariff of November 1934 placed duties on wheat and flour for the first time.

Japanese agriculture is on an intensive basis and the liberal use of fertilizers is therefore required. Manchurian bean cake has been widely used by Japanese farmers for many years; but dependence upon bean cake has been lessened by the increasing popularity of commercial fertilizers, particularly ammonium sulphate. The rapid expansion of Japanese production has reduced imports of fertilizers, as reflected in the following figures:

	Amonium Sulphate Production	Imports (in thousand metric tons)	Imports of Bean cake
1928	232.4	282.2	973.8
1929	234.6	377.6	825.4
1930	265.8	300.6	919.6
1931	393.2	222.4	1,015.5
1932	604.2	117.0	618.2
1933	713.6	108.4	539.6
1934	800.0	160.9	646.0

Japan is thus nearly self-sufficient in ammonium sulphate. However, the reduced use of bean cake has adversely affected the bean oil industry in Manchuria, since the bulk of the bean cake is exported to Japan.

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. built a new plant at Dairen last year. Annual output is 180,000 tons a year. The expansion of production in Manchuria may yet lead to competition with the fertilizer industry in Japan.

A closer degree of dependence on Manchuria exists in the case of minerals and fuels than with either of the previous groups. Japan is poorly endowed with mineral resources, especially with the basic materials of modern industry—coal, iron and oil. Manchuria possesses fairly large coal deposits, exports a considerable quantity of pig iron to Japan each year, and is expanding its output of shale oil.

Japan has an important iron and steel industry which has been enjoying boom conditions in the past few years. Consequently, Japan is

**Large Iron Resources** now practically self-sufficient in steel production. However, domestic iron ore resources are meager and imports of iron ore, pig iron and scrap iron are heavy. While it exports no iron ore, Manchuria is the principal source of pig iron imports. Its iron ore resources are reputed to be the largest in the Far East and are estimated as high as one billion tons of ore, with a metallic iron content of 300 to 350 million tons. The bulk of these deposits consist of low-grade ores which must be smelted on the spot. Two modern iron works, the largest located at Anshan and owned by the S. M. R. Co., have operated for many years in Manchuria, but with no marked financial success. An ore concentration plant, which has apparently solved the



poor ore problem, was constructed in 1926 and production has since increased. Figures for Japanese pig iron output and imports and for Manchurian production are as follows:

	Production in Japan	Imports into Japan (in thousand metric tons)	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

The increase in pig iron production, particularly at Anshan, in the past few years, has enabled Manchuria to supplant British India as the principal source of Japan's pig iron imports. In the four-year period 1931-34, it supplied 67.6% of Japan's imports. In comparison, imports from Manchuria were about one fourth of production in Japan. Further increases in Manchurian production are expected. The old Anshan Iron Works was absorbed last year by the Showa Iron and Steel Works, capitalized at ¥100,000,000. A new steel plant was completed this year and another blast furnace is under construction. An annual production of 460,000 tons of pig iron and steel is planned.

With regard to coal, Japan is virtually self-sufficient. Annual production runs around 36,000,000 tons a year, and there is also a considerable export

#### Coal

#### Competition

are not large. They consist principally of low-grade bituminous and sub-bituminous coal and supplies of anthracite and coking coal are inadequate. Domestic production is therefore supplemented by imports. Net imports of coal averaged 2,049,000 tons a year in the three-year period 1932-34, the bulk coming from Manchuria. Actually, Manchurian coal competes seriously with the domestic product; and for some time, therefore, it has entered the Japanese market on a quota basis.

Manchuria possesses important coal resources. Reserves are estimated at 4,800 million tons and annual production is around 10 million tons, of which 8 million is the output of the great Fushun mine of the S. M. R. Co. The coal mines, aside from those operated by the S. M. R. Co., have been consolidated in the Manchuria Collieries Co., which plans an output of 5 million tons a year in five years. Fushun production is also increasing, so that Manchuria could readily supply a far larger proportion of Japan's coal needs if restrictions were relaxed. Fushun coal is good coal, cheaply produced, by open-pit mining. Certain of the other Manchurian coal fields—Penshihu, Mulin-Mishan and Hokang—are said to yield a good coking coal. Coal production in Manchuria has been increasing to meet the rising domestic demand. Output during 1935 is estimated at 12 million tons.

As in the case of iron ore, Japan depends mainly

upon foreign sources for its supplies of petroleum.

#### Oil Requirements

Manchuria possesses no known oil fields, but it has extensive oil-shale deposits which are being developed. The largest deposit is at Fushun, overlying the coal bed. It is estimated to contain 5 billion tons of shale, which with a 5% yield of oil can give over 1.8 billion barrels of oil. Exploitation began in 1930 when a shale oil distillation plant was completed. The Japanese navy has taken its entire output. Recently, additional equipment was installed at a cost of ¥6,000,000 and the output for the current fiscal year beginning April 1st is estimated at 300,000 tons of heavy oil. This is a substantial increase, as 1934 production amounted to only 54,000 tons. Of the increased output, 75,000 tons will be refined into gasoline and the balance will go to the navy. Production costs at the Fushun distillation plant are low, as the shale overlies the coal beds and must in any case be removed. Output can thus be economically increased, but it will be some time before Manchuria supplies even its own oil requirements.

Manchurian production of other minerals is not important. Gold mining is an old industry, but output is moderate. The principal gold fields are in the far north and are being exploited by an official company. To utilize clay deposits, the S. M. R. Co. has established the Japan-Manchuria Aluminum Co. with a capital of ¥5,000,000, but no progress in this new industry has been reported.

As a market, Manchuria (including Kwantung) has assumed a new importance to Japan. Before the Incident, it took some 8% of total exports and ranked fourth as an outlet for Japanese goods. However, development work in Manchoukuo has been accompanied by a sharp rise in imports and in 1934 Manchuria appeared as the leading market for Japanese exports, surpassing the United States by a narrow margin. Exports to Manchuria in 1934 were nearly four times those to China. The growing importance of Manchuria as a market is seen in the following figures:

	Japan's total exports (in million yen)	To Manchuria	% 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

The proportion taken by Manchuria has thus been rising faster than total export trade during the recent boom in Japan. This is the result of two factors; first, the sharp rise in Manchuria's imports, which nearly doubled between 1932 and 1934, and secondly, the higher percentage of Manchurian imports supplied by Japan, which rose from 42.0% in 1929 to 58.3% in 1932 and 64.5% in 1934. Of these two factors the

second is probably permanent, as control of Manchoukuo naturally involves a commanding position in Manchuria's import trade.

It is more doubtful whether the present level of Manchuria's imports can be maintained. Manchuria's exports have fallen off considerably.

**Manchou-kuo's Declining Exports** As a result, a large adverse balance of trade has developed, whereas in the past a large export surplus has been the rule. The recent rise in imports has accompanied Japan's program of development in Manchuria and has been financed by a substantial investment of Japanese capital. As an import surplus financed by new investment cannot continue indefinitely, a decline in imports is to be expected, unless the export trade can be revised. The finding of larger markets for Manchuria's staple products will require a considerable improvement in world trade. Too much reliance cannot be placed on closer development of the Manchoukuo-Japan economic bloc, but more promising is the possible expansion of the Chinese market for Manchurian exports as a result of the present policy of enforcing a Sino-Japanese rapprochement.

It is thus evident that economic relations between

Manchuria and Japan are now much closer than before the Incident. These ties have been strengthened by a substantial investment of new Japanese capital in Manchurian development. This has financed

an import boom which has brought Manchuria to first place as a market for Japanese goods. In addition, Manchuria is now the leading source of Japanese imports of coal, pig iron, soya beans and bean cake. It is an important source of industrial salt, ammonium sulphate, and oil and may eventually produce moderate exportable surpluses of wheat, lumber, pulp, cotton and aluminum. Yet the prospects of some of these products are not entirely bright and certain of them will involve competition with similar industries in Japan. But these limitations of Manchurian development may soon be supplemented by Japanese activity in North China where Shansi coal, Chahar iron ore and Shantung cotton offer fruitful fields of enterprise.

#### PRINCIPAL SOURCES:

*Manchuria Daily News; Manchuria Month; Manchoukuo Information Bulletins, Dept. of Foreign Affairs, Hsinking; Manchoukuo Year Book; Japan-Manchoukuo Year Book; Monthly Circular, Mitsubishi Economic Research Bureau; Oriental Economist; Japan Weekly Chronicle; Trans-Pacific; Financial and Economic Annual of Japan; Japan Advertiser Annual Review; Monthly Returns of the Foreign Trade of Japan; Daily News Record, New York.*

## SIGNIFICANT DEVELOPMENTS

### SHANGHAI LAGGING IN FACTORY CONTROL

The high incidence of industrial accidents in China and especially in Shanghai, the most important manufacturing center, with 3,618 factories employing some 305,550 workers, is a standing indictment of the lack of adequate factory legislation and enforcement. In 1933, the first year for which reliable data is available, three types of industrial accidents were conspicuous: the high percentage of deaths attributable to electrical causes, of which there were 16 in the International Settlement as against 19 in the whole of England during the preceding year; loss of limb through machines; and accidents occurring on buildings under construction.

Although a stringent factory law was promulgated in Nanking in December 1929, little has been done to apply it forcefully. The Central Bureau of Factory Inspection, set up by the Ministry of Industries, announced in 1934 a program for the gradual enforcement of the law in five stages, omitting mention of any stipulated time in which these steps were to be completed. The efficacy of this plan depends largely on cooperation from the foreign-controlled areas, notably the International Settlement of Shanghai, for here is concentrated a large part of the factory industry of China.

The Shanghai Municipal Council, long indifferent to the matter, finally endorsed factory legislation when the National Government began to express an active interest. Following a disastrous rubber mill explosion in 1933, an amendment was made to the by-laws granting the Council the right to control factory conditions in the Settlement by a system of licensing. The Council, while insisting on the retention of its administrative integrity, expressed a willingness to cooperate with the Chinese government in the concurrent adoption and enforcement of legislation. The Chinese authorities, however, opposed this procedure on the ground that the Settlement is Chinese territory and that the control of industrial conditions, especially in Chinese factories, is primarily the responsibility of the National Government. At the same time they pointed out the necessity for unified control. No working basis of agreement between the two bodies has yet been decided upon despite intermittent negotiations.

Meantime the Shanghai Municipal Council has been undertaking safety inspection in the International Settlement and has attempted to establish a certain minimum safety standard in all factories, whether owned by Chinese or foreigners. A survey of factories made