

Birgitte Venæs

Japan's return to the world market

A study of actors, institutions and companies in
Japanese iron and steel trade

Master's thesis in history

Supervisor: Espen Storli & Mats Ingulstad

Trondheim, November 2018



Birgitte Venæs

Japan's return to the world market

A study of actors, institutions and companies in
Japanese iron and steel trade

Master's thesis in history
Supervisor: Espen Storli & Mats Ingulstad
Trondheim, November 2018

Norwegian University of Science and Technology
Faculty of Humanities
Department of Historical Studies

Acknowledgments

One of the most important things I learned while writing this thesis, is that it takes time the time it takes. “Those who wait on something good, is not waiting in vain.” This can be frustrating to comprehend. During the last two and a half years, I’ve learned a lot, both about Japanese economic history and my own capacity. Now, I feel the need to give my thanks to the incredible people that have supported me during the writing process.

First, I must express my sincere gratitude to my supervisors. Thanks to Espen Storli for presenting this interesting topic to me, for taking time from your schedule to listen to my frustrations, and for giving me advice. Thanks to Mats Ingulstad, for joining as my second supervisor. Thank you both for your book tips, your feedback and your kind and supporting words. One must be a little crazy to work as historians. I always left our meetings feeling motivated to continue working on my thesis. I also want to express my gratitude towards the people of the Fate of Nations project. Meeting you while writing my thesis gave me great professional input and a lot of laughs. You were, and will continue to be, a great inspiration to me. I am forever grateful for all the opportunities I was offered through this project.

This acknowledgment is not satisfied without mentioning the profound support I have received from my friends and family. The people on reading room 6394 deserve my gratitude not only because of their great sense of humor, but also for their advice, even though we studied very different subject. Thanks to all my co-students on history for motivating and challenging me. Thanks to Tatiana for interpreting squiggly American handwriting. Thanks to Anna, Ingrid and Maren, for your intricate humor and encouraging words. I must express my thanks to Daniel, for demanding me to believe in myself, for proof reading my thesis, and for making the best homemade carbonara. Finally, thanks to my mother, father and brother, who have supported my interest in Japanese culture and language for more than a decade.

This thesis is a product of the incredible support expressed by all of you.

乾杯！

Table of Contents

Acknowledgments	iii
Table of Contents	v
Abbreviations	vii
List of Tables and Figures	ix
Chapter 1: Introduction.....	1
1.1 Research question.....	4
1.2 Historiography.....	5
1.3 Methodology and primary sources	10
1.4 Thesis structure.....	12
Chapter 2: Background.....	15
2.1 The Cold War situation in Europe and Southeast Asia	15
2.2 The Japanese steel industry	17
2.3 Greater East Asia Co-Prosperity Sphere	22
2.4 American occupation of Japan	23
2.5 Trade and economy in the Cold War.....	25
2.6 Economic reform	28
2.6.1 Program for a self-supporting Japanese economy.....	30
2.7 The economic and industrial components of SCAP.....	34
2.8 General trading companies	37
Chapter 3: Postwar Japan's trade negotiations	39
3.1 Board of Trade's role in trade	40
3.2 Foreign traders introduced to Japanese trade	42
3.3 Island of Hainan	43
3.4 Republic of the Philippines	46
3.4.1 Stockpiled iron ore secured continuity	50
3.4.2 Japanese steel export to support Philippine Relief	51
3.5 India.....	52
3.5.1 Japanese companies uncertain on their position in trade matters.....	53

3.6 Malaya	56
3.6.1 E. Ott & Co. secured stockpiled iron ore for Japan.....	58
3.7 Swedish Trade Conference	59
3.8 Concluding remarks.....	63
Chapter 4. Japanese iron ore trade after the PRC	65
4.1 Preparing new policies for Southeast Asia	66
4.2 Increased Japanese operational authority	68
4.3 SCAP diminished their authority in trade matters.....	71
4.3.1 Concentration of the Foreign Trade and Commerce Division	71
4.3.2 Concentrating the Industry Division	73
4.4 Japanese pig iron production after World War II.....	74
4.5 Sample shipments from India	76
4.6 Hainanese iron ore continuity.....	78
4.7 People’s Republic of China and Hainan iron ore	79
4.8 Goa	83
4.8.1 Japanese investment developed Goanese mining.....	84
4.9 Concluding remarks.....	89
Chapter 5: Conclusion	91
Literature	95

Abbreviations

CCP	Chinese Communist Party
ESS	Economic and Scientific Section
FEC	Far Eastern Commission
FRUS	Foreign Relations of the United States
FTC	Foreign Trade and Commerce
JCS	Joint Chiefs of Staff
JMA	Japanese Military Administration
MITI	Ministry of International Trade and Industry
PIM	Philippine Iron Mines, Inc.
PRATRA	Philippine Relief and Trade Rehabilitation Association
PRC	People's Republic of China
SCAP	Supreme Commander for the Allied Forces
UKLIM	United Kingdom Liaison Mission
UNECAFE	United Nations Economic Commission for Asia and the Far East

List of Tables and Figures

Table 2.1	Japanese pig iron production in tons, 1933-1953
Table 2.2	Japanese iron ore import in tons, 1934-1949
Table 2.3	Iron ore production in selected countries in thousand tons, 1935-1944
Table 2.4	Imports into Japan: Major commodity groups: Average 1930-34, FY 1948, projections FY 1949-53
Table 2.5	Economic and Scientific Section Organization Chart
Table 3.1	Stockpiled iron ore from Malaya through E. Ott & Company
Table 3.2	Trade balance between Sweden & Japan in 1000 Svenska Kronor
Table 4.1	Japanese pig iron production in tons, 1942-1951
Table 4.2	Japanese iron ore imports during 1949
Table 4.3	Breakdown of Japanese iron ore imports in 1949 by source country in %
Figure 2.1	Map over iron mines in Southeast Asia

Chapter 1: Introduction

*“Japan cannot possess an independent destiny.
It can function only as an American or Soviet satellite.”¹*

This was a statement from a U.S. Policy Planning Staff meeting, as Washington considered to make a peace treaty for Japan in the fall of 1947. This was on the onset of the Cold War, which was a period in history that will remain an interesting study. The Cold War represented a type of conflict where the creation of alliances could decide the outcome if it came to develop into a hot war. This did not only involve getting strong, military superpowers on one’s side, but also to collaborate with smaller nations, due to their access to strategic raw materials that was vital in production of military commodities. It was a conflict of ideological and political nature, but also a competition in securing trade connections.

After the atomic bombs formally ended World War II, countries had different ideological beliefs on how to deal with postwar society. The Second World War left power vacuums in Eastern Europe and in Southeast Asia, and thus started a political and economic scramble for control and influence.² The Axis powers who lost the war, Germany and Japan, had to make amends for the destruction both countries had caused their respective continents. Germany was divided into four zones, with shared authority by the triumphant states, United States, France, Great Britain and the Soviet Union. Japan was undivided and held under occupation by the United States. While the four countries were to negotiate the restoration of Germany, the American army held sole authority over the rehabilitation of Japan.³ The American occupational forces were known as Supreme Commander for the Allied Powers (SCAP) and was led by General Douglas MacArthur.⁴

The reason that Japan entered the Second World War, was her military expansion in Southeast Asia. The Japanese Military Administration’s objective was to create a cooperative system, where Japan promised to protect Southeast Asian countries against Western

¹ Leffler, M. P. 1992. *A preponderance of power. National security, the Truman administration and the Cold War.* Stanford: Stanford University Press: 255

² Duara, P. 2013. “The Cold War and the imperialism of nation-states.” In Immerman, R. H. & Goedde, P. 2013. *The Oxford handbook of the Cold War.* Oxford: Oxford University Press: 90

³ Nye, J. S. & Welch, D. A. 2014. *Understanding global conflict & cooperation: Intro to theory and history.* Ninth edition. Essex: Pearson Education Limited: 157

⁴ Dower, J. 2000. *Embracing defeat: Japan in the aftermath of World War II.* London: Penguin Books Ltd: 45

imperialism and intrusion.⁵ Nevertheless, this was not the only objective for the expansion in Southeast Asia. Through the first half of the 1900s, Japan had managed to develop an extensive steel industry, without possessing the necessary raw materials to sustain it. The most important raw materials needed for steel production was iron ore, preferably of high iron content over 55% and coal, which was used in the production of the intermediary product pig iron. Iron ore was smelted into pig iron, which was used in steel production.⁶ Iron ore within Japan was of low quality, which led the Japanese to import high-quality iron ore from abroad. Therefore, the Japanese military expansion in Southeast Asia was also motivated by getting greater access to the region's iron ore reserves.⁷

The United States objective with the occupation was to democratize and demilitarize Japan, which meant officially to establish democracy, and to hinder a new Japanese aggression in the future. Later, their intention was to bring Japan into the sphere of capitalism, away from the Communist insurrections that found place on the continent.⁸ From 1947, Washington intended to raise Japan as a strong ally in the Pacific against the looming Communist threat from the Soviet Union. The Japanese populace's reaction to the American occupation was often depicted by Japanese cartoonists and poets, where terms as "gifts from heaven" and "democratization from above" was used. However, the democratization initiated by the American occupying forces could be seen as contradictory, as the people had to accept the terms set by SCAP, which was a group of foreigners to the Japanese people. Early into the occupation, the Americans did not intend for Japan to become an economic superpower. Japan should merely become the "workshop" of Southeast Asia with a second-rate economy. Just before the Korean War broke out in June 1950, John Foster Dulles of the Truman administration remarked at a cocktail party that Japan could export things such as cocktail napkins to America.⁹ He was not wary of the upcoming Japanese economic growth that would compete with the American scramble for resources and raw materials only decades later.¹⁰

⁵ By 1937, India, Malaya and the Philippines were colonies of Great Britain and the United States. In: Beasley, W. G. 1987. *Japanese imperialism, 1894-1945*. New York: Oxford University Press: 234-235

⁶ World Steel Association. 2018. *Fact sheet: Steel and raw materials*. (Web). https://www.worldsteel.org/en/dam/jcr:16ad9bcd-dbf5-449f-b42c-b220952767bf/fact_raw%2520materials_2018.pdf Accessed: 10.15.2018

⁷ Joseph F. Harrington and Benjamin M. Page, *Sources of iron ore in Asia*. March 1952, NARA, RG 331, Publications, Box 9017, Folder 45: 9, 14

⁸ Dower 2000: 23

⁹ Dower 2000: 70-73, 537-539

¹⁰ Vernon, R. 1983. *Two hungry giants. The United States and Japan in the quest for oil and ores*. Cambridge: Harvard University Press: 4

Today, Japan is still one of the leading steel producers, but this was not the obvious outcome. As mentioned, the most important materials to produce steel was iron ore and pig iron. To produce one ton of pig iron in the late 1940's, one would need approximately two tons of iron ore, depending on its quality.¹¹ Japan is a country that always has been a have-not country when it comes to important raw materials that is needed for steel production. Therefore, Japan fueled its steel production by importing large quantities of iron ore and other important raw materials from the Southeast Asian region. During the early 1940's the Japanese military government established this region as the Greater East Asia Co-Prosperity Sphere, which was severely exploited by the Japanese before 1945. The import of Southeast Asian iron ore for steel production became the cornerstone of the Japanese war effort.¹²

After the war, Japan lost its colonies, as well as the access to the raw materials it needed for its steel industry. Japanese steel production was deprioritized by SCAP because of the importance it played for the Japanese military during the war.¹³ However, Japan's steel industry rose remarkably in the coming years, and soon became Asia's most important steel producer. Countries that earlier had experienced subjugation by the Japanese military forces soon became dependent upon manufactured steel products from Japan, to rebuild their own economies.

Because of the power vacuum caused by the devastations of World War II, a geopolitical conflict between two ideologies, liberalism and communism followed. The diplomatic crisis between the Soviet Union and the United States would shape the world into two factions. The Soviet bloc started a propaganda offensive in Eastern Europe to provide a buffer zone against the Western capitalist countries backed by the United States, while Washington initiated the policy of containment, to stagnate the communist insurgencies, and to secure liberty to nation states in danger of falling under the Soviet sphere of influence.¹⁴ The big picture shows a dispute between the two superpowers' scramble for world supremacy, however, the world situation was of more intricate matter. It might look like the alliances were adamant, but there were times that the lines were not that rigid.

¹¹ Hiroshi Watanabe. *Mail to Portuguese diplomatic agent in Tokyo*. June 15th, 1951, NARA, RG 331, Topical File, Box 7351, Folder 4

¹² Yonekura, S. 1994. *The Japanese steel industry, 1850-1990: Continuity and discontinuity*. New York: Oxford University Press: 171

¹³ Nakamura, T. 1994. *Lectures on modern Japanese economic history, 1926-1994*. Tokyo: LTCB International Library Section: 135

¹⁴ Dockrill, S. R. & Hughes, G. 2006. *Cold War History*. Basingstoke: Palgrave Macmillan: 29-30

1.1 Research question

The Japanese steel industry was completely dependent on foreign imports of iron ore after the Second World War, but it faced a difficult time due to the American occupation and the loss of access to Southeast Asian iron mines. This thesis main research question is: what did Japan's return to the international market mean in an international context? How did SCAP and Occupied Japan cooperate to find sources of iron ore in the early Cold War? How did the American occupation administration react to the establishment of a Communist government in China, and how did U.S. policymaking after this affect Japanese iron ore trade? This thesis will focus on Japan and her neighboring countries in Southeast Asia in the context of the early years of the Cold War, from 1947 to 1951. It will present how the American occupation affected Japan's reentry into international society and display how the Japanese government and SCAP cooperated. Ultimately it will focus on how Japan and America worked together to achieve access to iron ore markets, and what actors they made contact with in such an urgent time of history. How visible were the Americans in the negotiation of trade arrangements? Who made the deals, and who pulled the threads? How was the Japanese import of iron ore seen in an international context? This dissertation will try to answer these questions.

Earlier studies have often viewed the occupation of Japan as the dawn of the "Postwar Miracle" and how Japan came to be such an influential actor in the world's steel industry. This also happened in a time where world society were aware of the atrocious endeavors that Japan had embarked upon in Southeast Asia. How was it possible, then, that Japan, only a few years after 1945, earned back the trust to trade with the countries they earlier occupied? It was no doubt because of the developing geopolitical tension, the need for postwar rehabilitation, in addition to U.S. Cold War policy and Japan's position in the region. Stephen G. Bunker and Paul S. Ciccantell claims that Japan's increased industrial production combined with government-company cooperation and the globalized raw materials network made her part of a new model of economic development. With America's help, Japan became able to freight millions of tons of iron ore and other raw materials across far distances, which was remarkable for its time.¹⁵ Historian Chalmers Johnson¹⁶ and economist Raymond Vernon¹⁷ say this is the reason that Japan is what we see today: a highly industrialized state and an important contributor

¹⁵ Bunker, S. G. & Ciccantell, P. S. 2007. *East Asia and the global economy. Japan's ascent, with implications for China's future*. Baltimore: Johns Hopkins University Press: 1

¹⁶ Johnson, C. 1982. *MITI and the Japanese miracle. The growth of industrial policy, 1925-1975*. California: Stanford University Press: 304

¹⁷ Vernon 1983: 1

to the world's steel market. This thesis will reflect that the topic is still relevant today, due to the current world situation with trade alliances and policies introduced by the United States.

1.2 Historiography

Many historical works have been written on the topic of the American occupation of Japan, and its relevance for the early years of the Cold War period. Research has been done on how occupied Japan came to influence Cold War politics in Southeast Asia. Some accounts have given a picture of how the American occupation formed Japanese postwar recovery and gone through important stages during the occupation. Researchers with Japanese language knowledge have given out very interesting accounts based on Japanese source material. Most of the works written has covered these areas quite specifically. Earlier accounts have analyzed how the United States, the country ending the Second World War, wanted to shape the postwar world. The geopolitical opposition that was growing between East and West during the late 1940's, made Japan, the Southeast Asian country with the most developed steel industry until the end of World War II, an important part of U.S. Cold War strategy for Southeast Asia.

A considerable amount of historical accounts has been written on the topic of United States Cold War policy, and by following different approaches they give a multifaceted picture of the situation. Melvyn Leffler takes the angle of security policy in his *Preponderance of Power - National security, the Truman administration and the Cold War*. It shows how U.S. policymakers exemplified that a powerful nation needed a strong industrial base of development. The United States was such a country, with a surplus of capital and a thriving industry due to its vast access to domestic raw materials. Leffler concludes that the U.S. was capable of forming a strong Western alliance because of these assets.¹⁸ Leffler's work describes how Washington interpreted their political position after the Second World War, and how they decided to handle the looming problems that could endanger America's position as an economic hegemon. In terms of Japan, he states that U.S. policymakers emphasized the importance of Japan finding new reserves of raw materials after the Communist coup d'état in 1949.¹⁹ He is right that the Japanese needed to find alternative sources of iron ore because they expected trade with China to be heavily restricted or even completely shut off, especially the strategic raw material trade. However, Mao Zedong's main focus remained to rebuild China from within: world domination was not his primary objective. The Soviet Union and Communist China had different opinions about the Communist doctrine. Shu Guang Zhang argues in his *Economic Cold War* –

¹⁸ Leffler 1992: 496

¹⁹ Ibid.: 501

America's Embargo against China and the Sino-Soviet Alliance that the Truman administration strict embargo policy against China was a result of the American loss of political and economic foothold in China after the establishment of the PRC.²⁰

Ian Jackson takes a different approach to U.S. foreign policy in the Cold War, claiming that the United States was willing to negotiate Cold War policies with Western European countries. In order to protect herself in the world, the United States main objective became to develop an economic alliance against the Soviet Union. The countries that participated in this alliance would be provided economic assistance, but they also had to prove their commitment to the alliance. Jackson's *The Economic Cold War* analyzes how trade relations between the Eastern and Western countries was of vital importance on how the Cold War would further develop. The United States wanted to ensure that the Soviet Union and her satellites did not get access to strategic raw materials needed in war production. Jackson shows how the Americans became aware that the motives of the Marshall Plan would only work in practice if the participating states did not trade strategic raw materials with the Soviet Union.²¹ In October 1949, Mao Zedong and the Chinese Communists seized power in China, and established the People's Republic of China (PRC). This made Washington consider including the PRC in the strategic embargo policy to contain Communism in Southeast Asia. Jackson writes that the British government, who recognized the PRC in January 1950, meant that the Truman administration exaggerated the Communist threat in Southeast Asia.²² Stephen Hugh Lee supports this, claiming in his *Outposts of Empire* that the British hoped for a "peaceful co-existence" solution where Great Britain's colonies Hong Kong and Malaya dealt with their own matters. The United States feared the spread of global communism.²³ With the outbreak of the Korean War in June 1950, British ministers came to understand that the expanding Communist threat in the region was imminent, and the discussions to expand the strategic embargo policy was started between the two governments.²⁴ This work does not speak too broadly of the Cold War situation in Southeast Asia or of the American occupation of Japan in large terms. It focuses mainly on the development in Europe. Zhang underlines the pivotal importance of the alliance relationship in order to successfully sustain the embargo policy. Although the United

²⁰ Zhang, S. G. 2001. *Economic Cold War – America's embargo against China and the Sino-Soviet alliance, 1949-1963*. New York: Stanford University Press: 265

²¹ Jackson, I. 2001. *The Economic Cold War. America, Britain and East-West trade, 1948-1963*. Hampshire: Palgrave Macmillan: 11

²² Ibid.: 53

²³ Lee, S. H. 1995. *Outposts of Empire. Korea, Vietnam and the origins of the Cold War in Asia, 1949-1954*. Canada: McGill-Queen's University Press: 73

²⁴ Jackson 2001: 64

States wanted to impose strict embargos and urged her allies to do the same, the British, French and Japanese still had commercial interest with China, and intended to sustain some economic ties to the country.²⁵

American security policy in Southeast Asia is better depicted in Andrew J. Rotter's *the Path of Vietnam, Origins of the American Commitment to Southeast Asia*. With insurgent Leftist groups on the Southeast Asian islands and a Communist force triumphing on the Chinese mainland, the Cold War threat against the democratic world had spread to another continent. Washington had in the early years focused on the democratization of Japan, and not on Southeast Asia as a region. Rotter analyzes the political shift in the American policy towards Southeast Asia. He claims that Washington understood that supporting Southeast Asia was important to keep the Soviet bloc from expanding in this region, and a strengthened Southeast Asia would also protect the rest of the world.²⁶ Rotter describes how the Truman administration started to increase their focus to provide aid for "undeveloped" countries in addition to the Marshall Plan. Economic aid was a new phenomenon in the years following the Second World War, and President Truman believed that aid to underdeveloped countries would strengthen American foreign policy and their presence in the Southeast Asian region.²⁷ However, the countries of Southeast Asia also faced shortage on dollars, and extensive U.S. aid would only widen this gap. U.S. policymakers believed that this problem could be solved if Japan became "the workshop of Asia", where Southeast Asia exported raw materials to Japan against finished Japanese steel manufactures. Rotter portrays the criticism from American allies to this objective, describing it as the Greater East Asian Co-Prosperity Sphere that the Japanese sought to develop in the early 1940s. Although the British government criticized Washington for this support to Japan, they did acknowledge that it was necessary for the development of the Southeast Asian region.²⁸

In *Aftermath of War: Americans and the remaking of Japan, 1945-1952*, Howard B. Schonberger gives analysis on the relationship that developed between Washington and the Japanese government during the occupation of Japan. It sheds light on what policies the American Congress wanted to implement in the recovery of Japan, and how these policies were made in the United States' own interest. His book elaborates the changes done in American occupation policy, from political reform and pacification to economic recovery, known today

²⁵ Zhang 2001: 267

²⁶ Rotter, A. J. 1987. *The Path to Vietnam. Origins of the American commitment to Southeast Asia*. Ithaca: Cornell University Press: 219

²⁷ Rotter 1987: 17

²⁸ *Ibid.*: 46-48

as the *Reverse Course*. The Reverse Course (逆コース) became a buzzword after the Japanese newspaper Yomiuri Shimbun first coined the term in November 1951.²⁹ It describes the alteration in American occupation policy where they started to focus on restoring the Japanese economy before a peace treaty could be established. Schonberger ponders on the American self-served intentions behind the policies imposed on Occupied Japan. The self-interestedness, he claims, was intensified by the Korean war, as Japan was used as a strategic base close to the Korean peninsula. No matter how self-interested, the Japanese economy and heavy industry benefited greatly by this conflict due to the presence of American troops.³⁰ Schonberger depicts how American foreign policy prioritized the Marshall Plan in Europe over Southeast Asia. He describes the effort put in by U.S. Undersecretary of the Army, William H. Draper Jr., who gave proposals for an economic aid program for Southeast Asia as well. In 1948, Draper wanted to establish Japan as an exporter of textile products to Southeast Asian countries. Historically, textiles had been the main export product of Japan until the steel industry took over. However, due to the decline of world demand on textile products, U.S. policymakers came to realize that the export of heavy industrial products was of much more benefit for the current geopolitical situation, and to strengthen their own position.³¹ Schonberger work focuses on policymaking in Washington and how this was corresponded to SCAP. Michael Schaller's book *The American occupation of Japan – The origins of the Cold War in Asia* also shows how U.S. policy was implemented in Japan, and also displays the disputes that arose between American policymakers. However, Schaller's book focuses mainly on communication between Americans on Capitol Hill in Washington D.C., and do not rely too much on accounts given by the Japanese. Schonberger's work includes interesting accounts where Japanese from the upper echelons of society undermined the policies that SCAP tried to implement.³² This thesis will try to complement Schonberger's work and show how actors within the American occupation regime, SCAP, discussed changes in occupation policy, and how they reacted to the changes that was negotiated in Washington. It will also consider correspondence between Japanese actors that were pivotal for Japanese postwar development.

²⁹ 渋沢社史データベース。(株)読売新聞社『読売新聞百二十年史』(1994.11) (Web). https://shashi.shibusawa.or.jp/details_nenpyo.php?sid=15340&query=&class=&d=all&page=41 Accessed 11.10.2018.

³⁰ Schonberger, H. B. 1989. *Aftermath of war: Americans and the remaking of Japan, 1945-1952*. Ohio: The Kent State University Press: 280-2

³¹ Schonberger 1989: 171

³² *Ibid.*: 281

As this thesis focuses on the Japanese steel industry, it is important to understand how it developed, and why it is relevant. The books written by Seiichiro Yonekura, William G. Beasley and Junko Tomaru all approach Japanese economic history in the 1900's through different angles, but all of them elaborates the importance of the Japanese steel industry's part in history. Seiichiro Yonekura and Junko Tomaru presents translated material from Japanese in, which gives insight in books and documents written by Japanese historians and officials. Yonekura's book *The Japanese iron and steel industry, 1850-1990* describes how the steel industry started in Japan with a government-funded steel company, the Yawata Steel Works (八幡製鉄所) in 1901. Yonekura further analyzes that the policies imposed by the Truman administration during the occupation forced Japan to become more competitive on the international market, and how the Japanese steel industry's focus changed from domestic war production during the 1930s and 40s to international competitiveness. Yonekura also emphasizes the importance of the Japanese government's establishment of the Ministry of International Trade and Industry (MITI), since this governmental organ assisted private steel companies in getting them situated in the international market.³³ This dissertation will go deeper into the relationship between SCAP and MITI and assess MITI's role in Japanese iron ore import. It will assess how Japanese iron ore import changed with the establishment of MITI.

While Yonekura focuses mainly on the Japanese steel industry's development and position in the global steel market, does Beasley and Tomaru provide elaborate context in which the steel industry was important. In *Japanese imperialism 1931-1945*, William G. Beasley writes that Japan expanded because the government sensed an imperial threat from the West, and many countries throughout South Asia was already governed by European rulers. Beasley proposes that on the onset of the Japanese expansion in Asia the focus was to protect and defend the region against Western influence. They focused on developing a Greater East Asia Co-Prosperty Sphere to secure Southeast Asian solidarity, but also to secure essential raw materials which the Japanese steel industry lacked, against Western imperialism. The solidarity term would become part of the Japanese propoganda for expanding its territories in Southeast Asia, where Japan would provide the Asian countries with protection against them getting essential raw materials in return.³⁴ Then, after the Wall Street market crashed in 1929, the Japanese instead started to focus on their own defense. That defense involved expansion of the military, which is naturally followed by increased military production. The Pan-Asian thought dwindled

³³ Yonekura 1994: 280-281

³⁴ Ibid.: 233-235

as Japan started to focus on their own survival. This industry needed large supplies of strategic raw materials such as iron ore, and the Southeast Asian nations were extensively exploited. Important to note from Beasley's work is that the Japanese army treated the peoples of Southeast Asia as of lesser value than of their Northeast neighbors.³⁵

The way the Japanese military government carried out its business in Southeast Asia gave repercussions for the aftermath of World War II. It is possible to comprehend the resentment the former Southeast Asian colonies had to Japan after 1945. They had no moral interest in reestablishing trade routes the country. However, they were still dependent on receiving steel products to manage their own economic rehabilitation after the war, and Japan happened to be the closest steel producer in the region. Junko Tomaru's *The Postwar Rapprochement of Malaya and Japan, 1945-61* provides a detailed account how Japan regained commercial connections to Malaya. It was not just because of SCAP and their intentions to turn Japan into the workshop of Asia; it was the British, Malaya's colonial leaders, which urged the restoration of the Japanese economy. Even though Great Britain was not entirely positive the Japanese economic presence in Southeast Asia that could threaten British assets in the region, they realized that this could favor British interests. With a restored Japanese economy and industry, British officials believed, she could alleviate the burden that Malaya was to Great Britain at the time. If Japan could import iron ore from the resource-abundant Malaya, the British colony could gain finished industrial goods in return and help rebuild the Malayan economy.³⁶

This thesis will attempt to fill a gap that is missing in the field of postwar Japanese economic recovery. It will shed light on the multilateral trade pattern that Japan slowly became a part of during the crucial years between 1947 and 1951. By illuminating the different actors behind the negotiations and agreements, one can compare the differences and similarities that emerged. In addition, it will show how Japanese iron ore trade influenced the early years of the Cold War.

1.3 Methodology and primary sources

To answer how Japan regained access to the international iron ore market, it is necessary to provide a proper picture upon Japan's earlier trade situation and how the geopolitical situation changed from World War II to the postwar era and the containment policy. Japan expanded its

³⁵ Beasley 1987: 255-256

³⁶ Tomaru, J. 2000. *The postwar rapprochement of Malaya and Japan, 1945-1961. The roles of Britain and Japan in South-East Asia*. Hampshire: Palgrave Macmillan.: 217

empire across large parts of Southeast Asia to acquire iron ore and other necessary raw materials, and this thesis will assess how some countries continued to export iron ore to Japan after the Second World War as well. This dissertation will assess if the governments of these countries remained positive to further trade with Japan, and if they allowed private traders to act on their own. Mediator companies are also an interesting matter, as they could buy the ore from mining companies in the respective countries and then sell it to Japan. These questions can be answered by looking on correspondence in forms of telegrams and memorandums sent between different actors.

The documents gathered for this dissertation was written by the American occupation regime, the Japanese government and trade actors that communicated with this authority through letters and telegrams. Two years after the end of the occupation, in 1954, the documents were sent to be stored at the National Archives and Records Administration in College Park, Maryland. In 1978, after wishes from the Japanese public, Japanese officials went to Washington on an ambitious mission to produce microfilm of the entire record library to bring back to Tokyo, where a large part of the material was produced in the first place. Therefore, these records are today available both in USA, in the National Archives, and in Japan, in the National Diet Library. For the last nine years, the National Diet Library in Tokyo has been digitizing parts of the American occupation records, which facilitates for finding some of the documents online.

This is a vast collection of documents that covers almost every aspect of the American occupation. The documents are assembled by different topics and different parts of the SCAP administration. The documents analyzed for this thesis concerns trade agreements, negotiations, import lists and policy changes in relation to Japanese iron ore import. The documents span from the period 1947 to 1951, which shows the development in how the Japanese and Americans cooperated to achieve imports of iron ore. The document collection also provides information about SCAP's hierarchal structure. They provide an important understanding of how SCAP was built, and what tasks each division managed. This thesis will focus on various divisions of SCAP, but the role of the Industry Division and the Foreign Trade and Commerce Division will be given special attention.

I visited both the National Archives in College Park and the National Diet Library in Tokyo. In the SCAP archive in Tokyo, I worked alone to find the documents that I needed. The archive catalogs were written in English because it is originally an American record group. I discovered trade offers and documentation of how the economic situation progressed in Japan. In the archive in College Park, I was assisted by archivist Eric Van Slander, who is familiar

with almost every aspect of the record group I was interested in. I managed to gather a large portion from the trade and economic sections. The documents were mainly written in English, but texts in Japanese also exists. If I had more time, I would have read and translated documents in Japanese. I know that my thesis would be enriched if I could read letters written in Japanese. However, because I am out of time, I appreciate the historiographical accounts where Japanese sources are used.

In addition to the main sources from the National Diet Library and National Archives and Records Administration, I have used the U.S. Geological Survey (USGS) and the Foreign Relations of the United States (FRUS). The USGS keeps records on metals and minerals extraction from 1932. The records I have used show the overview for world production of steel, in addition to a summary for world production of iron ore and pig iron. FRUS is an online database which contains correspondence between Washington and foreign officials. The part of the FRUS used for this thesis is several volumes under the period of the Truman administration, which covers Asian affairs.

1.4 Thesis structure

This thesis aspires to give answers upon how iron ore trade was reestablished between Japan and Southeast Asia, and how the different divisions within SCAP communicated with themselves, and with the Japanese. This dissertation is structured by five chapters: the first chapter describes the research questions, in addition to the historical context for the topic, as well as earlier research, primary source material and method. The next chapter covers the background information concerning Cold War policy, Japanese steel industry and the American occupation of Japan. This will operate as an introduction to chapter 3 and 4, which are chapters based on my own research using the primary sources. Chapter 3 will concern the situation after the economic shift in 1947, and how SCAP announced to foreign traders the possibilities to restart trade with Japan. The chapter will also display some of the countries and its representatives that decided to export iron ore to Japan, and how they together with SCAP and the Japanese government planned to initiate the trade arrangements. This chapter will show how the iron ore trade happened while it was completely controlled by the SCAP administration, and it will shed light on which actors took part in this trade. The fourth chapter will analyze how the state of affairs developed after the Communist takeover, which the Americans feared were prone to complicate the trade Japan had come to establish since mid-1947. Washington urged SCAP to make Japan look for other sources of iron ore, as they feared that they would lose access to the iron ore market in China. In addition, it will shed light upon the change in

policy that SCAP initiated after this time, which contributed to make the Japanese government more independent in terms of trade. The fifth and final chapter will show concluding remarks based on the findings from the research and assess the development in terms of Japanese iron ore import from the first empirical chapter to the second.

The thesis is written in both a chronological and thematical order. The chapters are written chronologically, but the chapter's content is written both chronologically and, where it falls naturally, thematically, to make it more comprehensible for the reader. This is done with the intention to show a chronological order of how the planning of trade arrangements developed with each country.

Chapter 2: Background

2.1 The Cold War situation in Europe and Southeast Asia

A country's steel production is often an indicator of its economic and military strength, and this perception increased during the Second World War.³⁷ After the war, European countries were devastated and in urgent need of restoring their economies and industries. As Washington offered economic aid through the Marshall plan to European countries in June 1947,³⁸ the Soviet Union denied Eastern European countries to partake in this offer, and started their Communist political expansion westwards.³⁹ This led the American government in April 1948 to impose an embargo on export of strategic materials to the Soviet Union.⁴⁰ Strategic materials included raw materials which could be used in military production, and this included iron ore. Iron ore is one of the important components in iron and steelmaking,⁴¹ and not only important for the production of military equipment, but also in building infrastructure in forms of railroads, ships and other industrial commodities which constitutes an industrialized state.

The situation in Southeast Asia was commensurate to the one happening in Europe. Japan, being an axis power during the Second World War, surrendered in August 1945, and was put under occupational rule of the United States under the Supreme Commander for the Allied Powers (SCAP).⁴² The Japanese military government, who had expanded its territories in west and southwards in Southeast Asia, left these countries in poor condition economically and morally. Southeast Asian nations also became divided politically, the most prominent one was Korea, which was split in half, with one American and one Soviet zone.⁴³ In the rest of the continent, communist groups started to form, such as the Hukbalahap (People's Anti-Japanese Army) in the Philippines and the Malayan People's Anti-Japanese Army in the British colony, Malaya.⁴⁴ Both groups were formed as resistance groups against the Japanese occupation by the nations in 1942. After the end of the occupation in 1945, they fought against imperialism and were in favor of the establishment of Communist states after 1945.⁴⁵ In China, Chiang Kai-

³⁷ D'Costa, A. P. 1999. *The global restructuring of the steel industry. Innovations, institutions and industrial change*. New York: Routledge: 4

³⁸ Leffler 1992: 159

³⁹ Ibid.: 185

⁴⁰ Jackson 2001: 18

⁴¹ D'Costa 1999: 4

⁴² Dower 2000: 40

⁴³ Beasley 1987: 257

⁴⁴ Westad, O. A. 2005 *The Global Cold War. Third world interventions and the making of our times*. Cambridge: Cambridge University Press: 115

⁴⁵ Fifield, R. H. 1951. *The Hukbalahap today*. In *Far Eastern Survey*, Vol. 20, No. 2. Published by the Institute of Pacific relations: 13

shek and the Nationalist military group Kuomintang fought the Chinese Communist forces, in which the Communists proved a stronger opponent.⁴⁶ What clearly divided the situations on the two continents was that no extensive U.S. aid program was offered in late 1948 to the Southeast Asian nations as it was in Europe.⁴⁷

Washington's fear that the Communists could take over Southeast Asia grew as they saw the rise of Communist militias.⁴⁸ They feared that the Soviet Union was to gain increased influence in the region, since the revolutionary groups were pro-Soviet and supported Communist world dominance. If the Soviets got access to Southeast Asia, they would potentially acquire substantial amounts of strategic raw materials, such as iron ore. If the Soviet Union ended up getting access to these reserves, the Communists could achieve momentum in the global balance of power. If the United States and SCAP lost Japan to the Communists, they risked not having an ally in the Pacific. After the Second World War, Washington had first put their confidence in the Chinese Nationalists to achieve American influence in Southeast Asia. However, as they saw the opportunity for a Nationalist victory dwindling, they decidedly turned their focus to Japan. If the U.S. assisted in the restoration of Japan, the country could become a "bulwark against Communism", and the protector of democracy in Southeast Asia.⁴⁹

The period that this thesis follows, from the Second World War to the onset of the Cold War, was a period where steel production was a very powerful asset. This makes the availability of the necessary raw materials for steel production important as well. The more industrialized a country was, the better this country would prosper in a military conflict. What is important to know, is that all raw materials were unevenly distributed. Some countries possessed large amounts of a natural resource, others did not. However, some countries could be more industrialized than others, and possessed the equipment needed to process these raw materials. Therefore, the interdependence between raw materials-rich nations and industrialized states is an interesting topic. The scramble for the raw materials necessary to sustain steel production is still a topic of relevance.

⁴⁶ Westad 2005: 65

⁴⁷ Rotter 1987: 17

⁴⁸ Leffler 1992: 94

⁴⁹ Rotter 1987: 16

2.2 The Japanese steel industry

Washington decided to put their bets on Japan in Southeast Asia in the early Cold War period because of the “loss of China”, and Japan’s strategic location in the West Pacific.⁵⁰ In addition, during the occupation, Japan’s steel industry came to be of high relevance for the American presence on the Pacific Rim. To understand how the resource-poor Japan made the steel enterprise possible, one must consider Japanese iron ore import before, during and after the Second World War, from the early stages of Japanese steel production, until the American occupation and the changes of policy in Japan. This will help us understand how the steel industry became important for Japan, how vital it was to acquire iron ore and where this placed her in world affairs. How the American occupation forces administrated Japan and to see that they understood the value of restoring Japan in the postwar era is also of vital importance.

In the early twentieth century, Japan was a small nation based on agricultural production. During the first half of the 1900s, Japan developed to become the largest iron and steel producing country in East Asia. This was quite remarkable, considering that Japan had scarce domestic reserves of the raw materials necessary for sustaining such an industry, such as iron ore and the iron ore resources they possessed were of low quality and thus expensive to process. Most of the Japanese iron ore contained an iron content of about 25-35%,⁵¹ while iron ore from Malaya contained around 60% iron.⁵² From 1905 to 1943, Japan doubled their pig iron output every five years.⁵³ To maintain this production output, Japan became close to completely dependent upon imports of raw materials necessary for steel production, including iron ore. This meant that the steady flow of imports of iron ore and other strategic raw materials became important for Washington’s intention to build Japan as a strong ally in the Pacific. Washington, in time, understood the importance of restoring the Japanese economy and industry and the country’s great relevance in the area it belonged. To restore the economy, the steel industry had to be prioritized, and the steel industry was dependent upon imported raw materials such as iron ore.

Japan started importing high-grade iron ore from China in the late nineteenth century, and soon China became one of the most important suppliers of iron ore to the country. The import of Korean iron ore accelerated from 1905.⁵⁴ Steel, as it is an important component in

⁵⁰ Rotter 1987: 16

⁵¹ Joseph F. Harrington and Benjamin M. Page, *Sources of iron ore in Asia*. March 1952, NARA, RG 331, Publications, Box 9017, Folder 45: 9

⁵² Joseph F. Harrington and Benjamin M. Page, *Sources of iron ore in Asia*. March, 1952, NARA, RG 331, Publications, Box 9017, Folder 45: 46

⁵³ Yonekura 1994: 2

⁵⁴ *Ibid.*: 55

shipbuilding and in manufacturing machinery, became increasingly important during wartime. Wars complicated the regular trade pattern, and in the case of World War I, Japan became an important supplier of ships and railroad equipment. The value on such products rose 545% from 1914 to 1919. Japanese general trading companies, especially Iwai & Co. and Mitsubishi, profited hugely from the First World War.⁵⁵ However, since iron ore producers like Germany and Great Britain were actively participating in the war, the exports to these countries declined, and in 1916 Japan faced a serious shortage of raw materials in steel production to put up with the increasing demand on Japanese shipbuilding. The Japanese then purchased steel from the United States in exchange for ships through the so-called U.S.-Japan Ship and Steel Exchange Pact of 1918.⁵⁶ This displays that Japan and the USA traded on a bilateral open account basis, also described as the barter system, which will be a relevant topic in the following chapters. After the First World War, imports of German and British iron ore rose, and cheap iron from India also had a significant increase. Half of the total iron import came from India, and this constituted around 80% of the total Indian iron ore export.⁵⁷

The Japanese steel industry had access to about 150 mines in Japan. In the period 1925-1945, they extracted most of their own iron ore from the Kamaishi mine and the Kuchan mine.⁵⁸ The ore's iron content average was 37% and 41%, respectively.⁵⁹ In 1946, only four of the 150 mines were utilized in 1946.⁶⁰

Japan's steel production expanded, and the urgency to acquire more iron ore grew. In 1929, Japan produced two million tons of steel, and before late, the volume of exports had surpassed the imports. After the opening of Japan to the world in the 1850s, Western technology and machinery took a large part from the import budget, but Japanese industrialists soon acquired the knowledge to produce its own. Japan soon became the supplier of heavy industrial goods to countries in Southeast Asia.⁶¹

⁵⁵ Tanaka, T. 2012. *Research on Sogo Shosha: Origins, establishment, and development*. Toyo Keizai Inc.: 3

⁵⁶ Yonekura 1994: 38, 79

⁵⁷ *Ibid.*: 91

⁵⁸ T. G. Andrews, Scientific Consultant from the Mining and Geology Division. *Iron ore resources of Japan*. February 26th, 1947, NARA, RG 331, General Subject File, Box 8905, Folder 26: 7, 11

⁵⁹ Joseph F. Harrington and Benjamin M. Page, *Sources of iron ore in Asia*. March 1952, NARA, RG 331, Publications, Box 9017, Folder 45: 23-24

⁶⁰ T. G. Andrews, Scientific Consultant from the Mining and Geology Division. *Iron ore resources of Japan*. February 26th, 1947, NARA, RG 331, General Subject File, Box 8905, Folder 26: 7, 11

⁶¹ Beasley 1987: 124-126

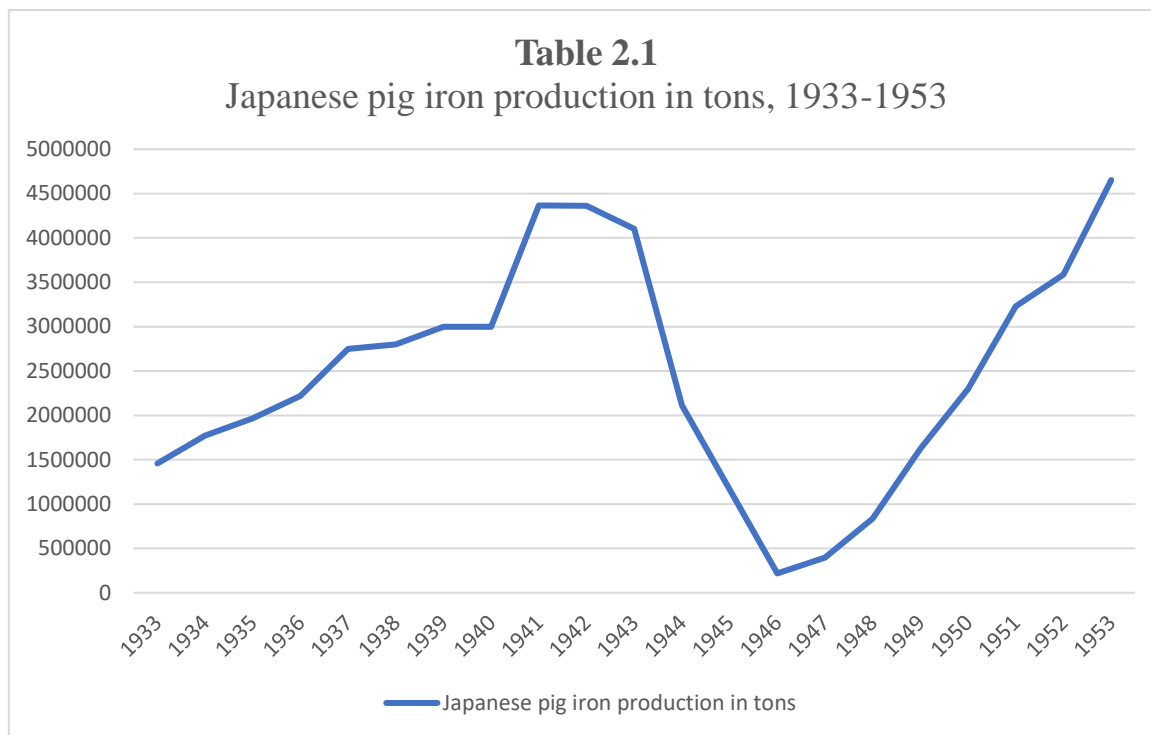


Table 2.1: Source: Compiled from Mines / Minerals Yearbook. 1933-1953.

Table 2.1 shows the development of Japanese pig iron production over a 20-year period. It starts in 1933, two years after Manchuria was occupied by the Japanese army.⁶² To produce one ton of pig iron, four to five tons of raw materials is needed, of which iron ore takes a large part. Pig iron is a component in steelmaking that is produced by smelting iron ore. The pig iron is melted together with other materials, such as carbon and scrap, to produce steel. In 1936, the Japanese government set a five-year production plan on the production of pig iron. Steel plants in Japan proper and Manchuria was to increase efficiency and produce six million tons in 1941. This plan was altered the following year, and it said production should be increased to eight million tons. In 1938, the production goal rose again, saying that the Japanese and Manchurian plants should together produce 12 million tons of pig iron in 1941.⁶³ As Table 2.1 shows, they never reached this goal, as only over four million tons was produced in 1941. The Japanese had too ambitious expectations towards their colonies.

⁶² Beasley 1987: 179

⁶³ Erselcuk, M. 1947. *Iron and steel industry in Japan*. Economic Geography, Vol. 23, No. 2. Published by Taylor & Francis, Ltd.: 107

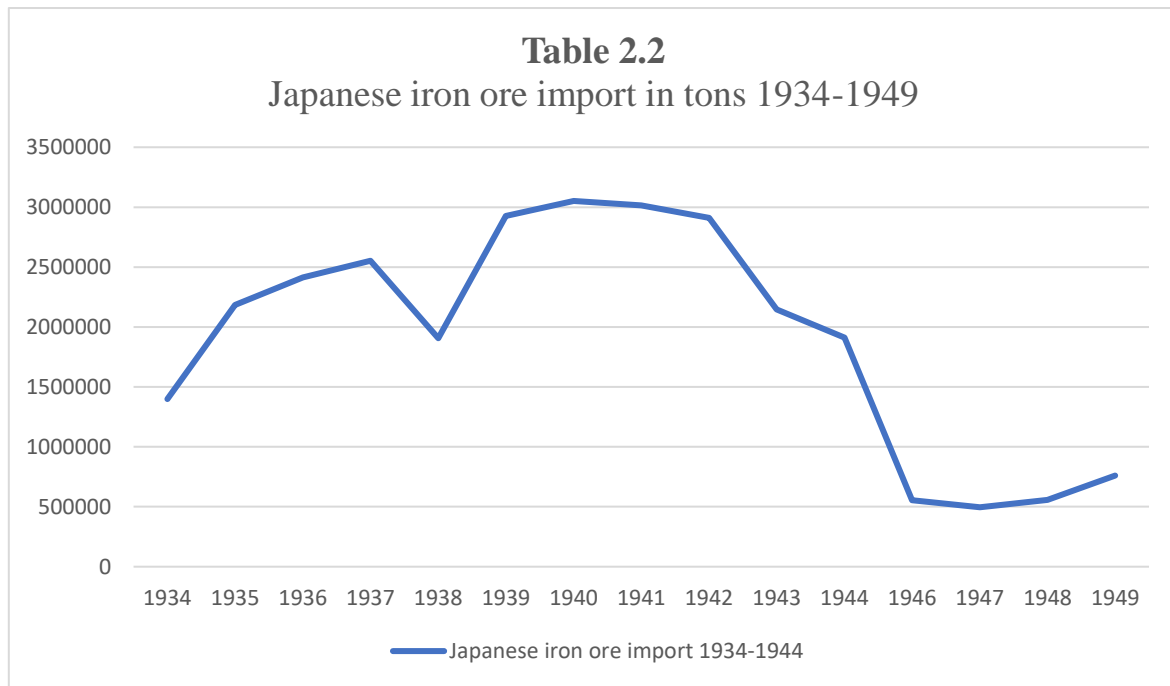


Table 2.2: Sources: Hasebe K. 1994. 1946-8 年の我が国鉄鉄生産における原料調達の一側面: 強粘結炭の調達を中心に。Hokkaido: Hokkaido University. :194, Erselcuk 1947 :114-115

Even though Japan tried to build enough plants, they did not get enough supplies of raw materials, because the American army put an embargo on iron and steel shipments, because of the Japanese military expansion in Southeast Asia.⁶⁴ Table 2.2 shows that Japan was too ambitious on their prospects for production of pig iron, as their iron ore import peaked in 1940 with only three million tons. Table 2.3 reveals the Japanese iron ore production from 1935 to 1944 and shows how the “Japanese” production rose after 1941, after the Japanese military expansion in Southeast Asia. The iron ore was indeed not Japanese but came from her newly acquired colonies. However, the Japanese iron ore production is rather insignificant compared to other countries’ iron ore output. In 1942, Great Britain’s iron ore production reached 20 million tons, while the United States broke their production record reaching an output of 107 million tons of iron ore.⁶⁵

⁶⁴ Beasley 1987: 222

⁶⁵ Melcher, N. B. 1948. “Iron ore”. In: Pehrson, E. W. & Matthews, F (Editors). *Minerals yearbook 1946*. Washington: United States Government Printing Office: 622

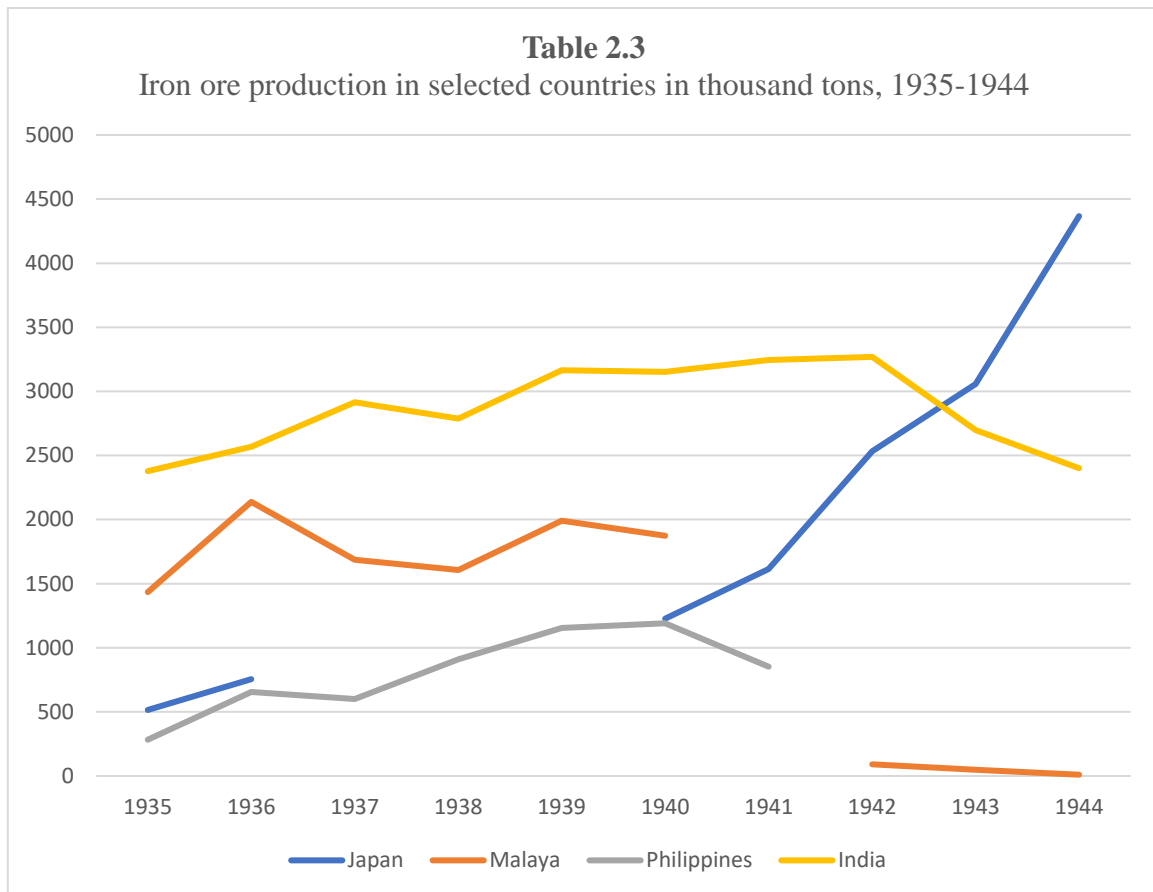


Table 1.3: Source: Compiled from Mines / Minerals Yearbook. 1935-1944.

Japan had also become to rely on scrap iron for their heavy industry and war production. Scrap iron from the United States had become an important component for Japanese steel production during the 1930s. The steel industry possessed integrated and non-integrated production facilities, of which the non-integrated steel producers depended on over 70 percent scrap to be used in production. Integrated producers were dependent upon only 50 percent scrap. Scrap from the United States amounted to 85% of all scrap iron imports, so this led to a fatal blow for the Japanese steel industry.⁶⁶ The steel industry then used more pig iron in production of steel, but this resulted in steel products of lower quality than in the use of American scrap iron. This embargo further culminated in the Japanese imperial army's attack on Pearl Harbor on December 7th, 1941. This initiated the Pacific War, the Asian equivalent to World War II, which lasted until the atomic bombing of Hiroshima and Nagasaki, and the Japanese surrender in August 1945.

⁶⁶ Yonekura 1994: 172

2.3 Greater East Asia Co-Prosperity Sphere

With the Japanese steel industry's increased demand on iron ore imports, Japan had to look elsewhere to find new reserves of the raw material. This led Japanese geologists and engineers to investigate the opportunity for mining iron ore in Southeast Asian countries. Financing the excavation of new mines was a joint venture by Japanese companies and local mine owners.⁶⁷ This was followed by the Japanese imperial army's expansion in Southeast Asia, a colonial empire which they named The Greater East Asia Co-Prosperity Sphere (大東亜共栄圏). In 1938, the Japanese imperial government issued a statement concerning "the future of East Asia". This document stated that Japan now occupied China, Korea and Manchuria, which was renamed Manchukuo. They intended to establish a "New Order" in East Asia, where Japan, Manchukuo and China would collaborate in establishing economic and cultural unity in the region, and to protect each other against Communist agitation.⁶⁸ By 1942, this sphere of influence included Korea, Manchukuo and the interior of China in the north and the Dutch East Indies and New Guinea in the south. The Japanese military government presented that the "relationship" was to benefit to all countries involved in the empire. The official speech was that the Japanese military was to provide protection for the countries that it controlled, and in return the Japanese extracted the raw materials they needed. This mindset started with the ideological movement known as "Pan-Asianism" in the 1880s, where Japanese expansionists envisioned an "Asian brotherhood" who protected each other against the Western powers.⁶⁹ This military expansion would dispossess Great Britain, France and the Netherlands of their colonies, and the Japanese chose to coin this the "liberation of Southeast Asia". A large part of the Japanese population believed that they broke the chains of European imperialism and saved Southeast Asia. If Japan was granted the raw materials they needed in this region, she would protect them from Western antagonization. The reality was that the Japanese Military Administration cruelly exploited her colonies and the relationship was not at all brotherly.⁷⁰

The Japanese military had great expectations on how much the colonies would contribute to the war effort. Japanese self-sufficiency on iron ore from its Southeast Asian

⁶⁷ Joseph F. Harrington and Benjamin M. Page, *Sources of iron ore in Asia*. March 1952, NARA, RG 331, Publications, Box 9017, Folder 45.: 14

⁶⁸ Japanese imperial government. *Statement of the imperial Japanese government concerning the future of East Asia*. November 3rd, 1938, National Diet Library Digital Collection, Call no. IPS-14 R06: 0164-0166, RG 331, International Military Tribunal for the Far East, Prosecution's Exhibits; [22 (Nos. 1260-1340)].

⁶⁹ Yo-Jose, L. N. 1996. *World War II and the Japanese in the Prewar Philippines*. in *Journal of Southeast Asian Studies*, Vol. 27, No. 1, The Japanese occupation in Southeast Asia. Cambridge University Press, on behalf of Department of History, National University of Singapore: 66

⁷⁰ Beasley 1987: 243

colonies reached its peak in 1943.⁷¹ The Japanese imperial government cut back on production of food and other commodities that was not directly beneficial to the war. This put the Japanese population under heavy stress as well. The two Japanese *zaibatsu* companies, Mitsui and Mitsubishi, made investments in the development of mines and factories in Malaya and the Philippines, where iron ore was abundant. However, due to damages on machinery caused by the Japanese invasions, production was slower than before the war. Transport also became a problem, as enemy ships attacked the vessels that were sent for Japan. Therefore, the Greater East Asia Co-Prosperity Sphere did not live up to its expectations because of damage from war as well as long distances. In addition, they situated themselves in an area in which they were not welcome, neither by Southeast Asians nor Western countries.⁷²

2.4 American occupation of Japan

Washington wanted to put a quick end to the hostilities in Southeast Asia and dropped the atomic bombs on Hiroshima and Nagasaki in Japan in August 6th and 9th, 1945. On August 8th, Soviet Foreign Minister Vyacheslav Molotov declared war on Japan. This was the last land battle of World War II, and the Soviet Union reclaimed the Kurile Islands and Sakhalin from Japan, but they never reached the original northernmost island, Hokkaido.⁷³ Emperor Hirohito announced Japan's surrender a week later, on August 14th, and on September 2nd, Japanese officials signed the surrender documents, which subjected Japan to the American occupation authority, the Supreme Commander for the Allied Powers.⁷⁴ On the Moscow Conference in December 1945, Foreign Ministers of the United States, the United Kingdom and the Soviet Union discussed how Japan, who led the extended Second World War in Southeast Asia, was to be managed. Molotov strongly protested the Americans taking sole control over the occupation of Japan.⁷⁵ The American Foreign Minister James F. Byrnes insisted that the United States should take control in solving Japan's rehabilitation after the war. Japan was not to be divided into zones governed by the victors, like the Allied solution that was applied to Germany.⁷⁶ Molotov argued that the nations contributing to the surrender of Japan should be allowed to participate in the postwar management of Japan. Molotov meant they had attributed

⁷¹ Joseph F. Harrington and Benjamin M. Page, *Sources of iron ore in Asia*. March 1952, NARA, RG 331, Publications, Box 9017, Folder 45: 14

⁷² *Ibid.* :227, 234-235, 248-249

⁷³ Ealey, M. 2006. *An August Storm. The Soviet-Japan endgame in the Pacific War*. The Asia-Pacific Journal: Japan Focus. Volume 4, Issue 2: 2-3

⁷⁴ Dower 2000: 40

⁷⁵ Bevin, E., Byrnes, J. F. & Molotov, V. M. 1946. *The Moscow Conference*. In Chronology of International Events and Documents, Vol 2. No. 1. Royal Institute of International Affairs: 22-23

⁷⁶ Schonberger 1989: 45

to the Japanese surrender with the invasion of Manchuria, Korea and the Sakhalin islands, while the American atomic bombs was being dropped further south. Byrnes disagreed and meant that the Soviet army's assistance had come too late. He also accused the Kremlin for being opportunistic for planning to invade Japan proper.⁷⁷ Therefore, the United States claimed direct responsibility for the occupation and rehabilitation of Japan. They declined the Soviet proposal to split Japan into zones apprehended by the victors the same way as how they handled Germany after the war.⁷⁸ In this way, the United States achieved the authority to construct postwar Japan the way they desired.⁷⁹

Washington had for long wanted a strong ally in East Asia against a potential threat from the Soviet Union. The American government first intended this to be China. Already back in 1939 the U.S. Treasury Department proposed to exploit the Second Sino-Japanese War to give the Americans economic influence in China. However, this changed by early 1947, Washington concluded that building relations with Japan instead of China would be of far less expense to the American taxpayer. Therefore, the Americans decided to forge ties with Japan, their former enemy, in a time of growing political tension in the world.⁸⁰ The Chinese had to concede with the policies that the American government implemented on the occupation of Japan, since China was dependent upon American aid for their postwar rehabilitation.⁸¹

The Allied occupation of Japan from 1945 to 1952 have in earlier studies been divided into two separate periods: the period of reform (1945-1947) and the period of recovery (1948-1952). In the first years of the occupation, SCAP abstained from taking any part in Japan's economic recovery; the Japanese would have to figure out this problem for themselves. The primary objective of the American occupation was to democratize and pacify Japan, and to make sure that the country never would become a threat to the world again, by removing its army entirely. This first period also focused on the dissolution of the large *zaibatsu* business conglomerates, which were family combines with monopoly on many industries, including war industries. This period also involved establishment of labor unions to secure worker's rights as a democratizing incentive against the family conglomerates. The American belief was that no country would thrive if the economy was not driven by private business, and they believed that

⁷⁷ Nye & Welch 2014: 157

⁷⁸ Dobbins, J., Poole, M. A. et al. (2008). *Post-World War II Nation-building: Germany and Japan*. In *After the War: Nation-building from FDR to George W. Bush*. RAND Corporation: 25

⁷⁹ Best, A. (2013). "Japan and the Cold War". In Immerman, R. H. & Goedde P. (Editors). *The Oxford handbook of the Cold War*. Oxford: Oxford University Press: 287

⁸⁰ Hsü, I. C. Y. 2000. *The rise of modern China*. Sixth edition. New York: Oxford University Press. :638

⁸¹ Liu, J. T. C. 1948. *Resurgent Japan: A Chinese view*. in *Far Eastern Survey*, Vol. 17, No. 23. Institute of Pacific Relations: 270

companies that claimed monopoly over certain parts of production stagnated competitiveness.⁸² However, the dissolution of the industrial *zaibatsu* put restraint on economic growth, and labor unions allowed a mouthpiece to Leftist values.⁸³ Marxism felt comforting for Japanese workers after the war, due to their history of being mistreated as people of a lower class by the industrial *zaibatsu* businessmen. The influence of the labor unions grew, as the workers' wages were much lower than prices of goods and commodities, and inflation was growing at an alarming rate. In 1946, the communists of Japan tried to take advantage of the labor unrest and tried to mobilize with intent to overthrow Yoshida Shigeru's government that was put in place by SCAP. A *coup d'etat* never happened, but it sent strong signals to the American occupation that the communists could gain foothold if they did not alter their occupation strategy. Thus, in March 1947, MacArthur signed a document procured by the Economic and Scientific Section, that economic recovery had to become part of the occupation authorities' primary objective, to avoid turmoil and unrest amongst the Japanese people.⁸⁴

2.5 Trade and economy in the Cold War

Before 1945, there were multiple superpowers in the world; the United States, the Soviet Union, France, Germany, the United Kingdom and the Japanese Empire. These countries together controlled 80% of the world's industrial production between 1936 and 1938. Following the war, with Germany, France and the United Kingdom severely weakened, and Japan and Germany defeated and loss of their imperial territories, the Soviet Union and the United States were the two great superpowers left.⁸⁵ Due to an immense need for economic rehabilitation in most countries in Europe, the two superpowers competed to gain the war-torn countries' trust. On June 7th, 1947, U.S. Secretary of State George Marshall offered economic assistance through the European Recovery Program, that became famous as the Marshall Plan. The Soviet Union protested Washington's aid program, accusing them for some form of American imperialist scheme. As a reaction, the Soviets established their own plan for Eastern Europe, which included economic aid for pledging allegiance to the Kremlin.⁸⁶ At first glance, this may seem a Samaritan project to restore peace and economic prosperity in the war-ravaged countries, but

⁸² Rotter 1987: 3

⁸³ Cohen, T. 1987. *Remaking Japan. The American Occupation as New Deal*. New York: The Free Press: 10, 13, 37

⁸⁴ *Ibid.*: 206, 269, 306

⁸⁵ Warner, G. 2013. "Geopolitics and the Cold War." In Immerman, R. H. & Goedde P. (Editors). *The Oxford handbook of the Cold War*. Oxford: Oxford University Press: 68

⁸⁶ Stöver, B. 2013. "Eastern Europe." In Immerman, R. H. & Goedde, P. (Editors). *The Oxford handbook of the Cold War*. Oxford: Oxford University Press: 176

this represented a deeper, more ideological reality. In retrospect, one superpower's aid program to friendly states was covert economic containment against its political opponent.⁸⁷

In Japan, the SCAP administration had planned to shape a democratic system for Japan and to ease her back into world society. However, as Communist insurgencies erupted in Burma, India, Indonesia, Malaya and the Philippines⁸⁸ made Washington reconsider its strategy. Japan had to be reintegrated in the world economy fast. The SCAP initiated “a shift in emphasis” in occupational policy, which changed focus from the basic democratization project, to developing the Japanese economy. Thus, Washington made an aid program not unlike the Marshall Plan initiated for Europe. U.S. policymakers understood that Japan could become an important influence to fight Communism in Southeast Asia. Anthony Best states that Japan had since the 1890s benefited to the containment of Russian expansion. It started with the Russo-Japanese war of 1894-1895, followed by the Anglo-Japanese alliance in 1902 that the Americans supported. Japan had developed an extensive steel industry during the war, and Washington realized that Japan could become able to secure pivotal raw materials to the Western bloc.⁸⁹ It just depended on Japan to find actors that wanted to sell them iron ore again.

⁸⁷ Spaulding, R. M. 2013. “Trade, aid and economic warfare.” In Immerman, R. H. & Goedde P. (Editors). *The Oxford handbook of the Cold War*. Oxford: Oxford University Press: 394

⁸⁸ Guan, A. C. 2013. “The Cold War in Southeast Asia.” In Immerman & Goedde. *The Oxford handbook of the Cold War*. Oxford: Oxford University Press: 233

⁸⁹ Best 2013: 287

Figure 2.1

Map over iron mines in Southeast Asia

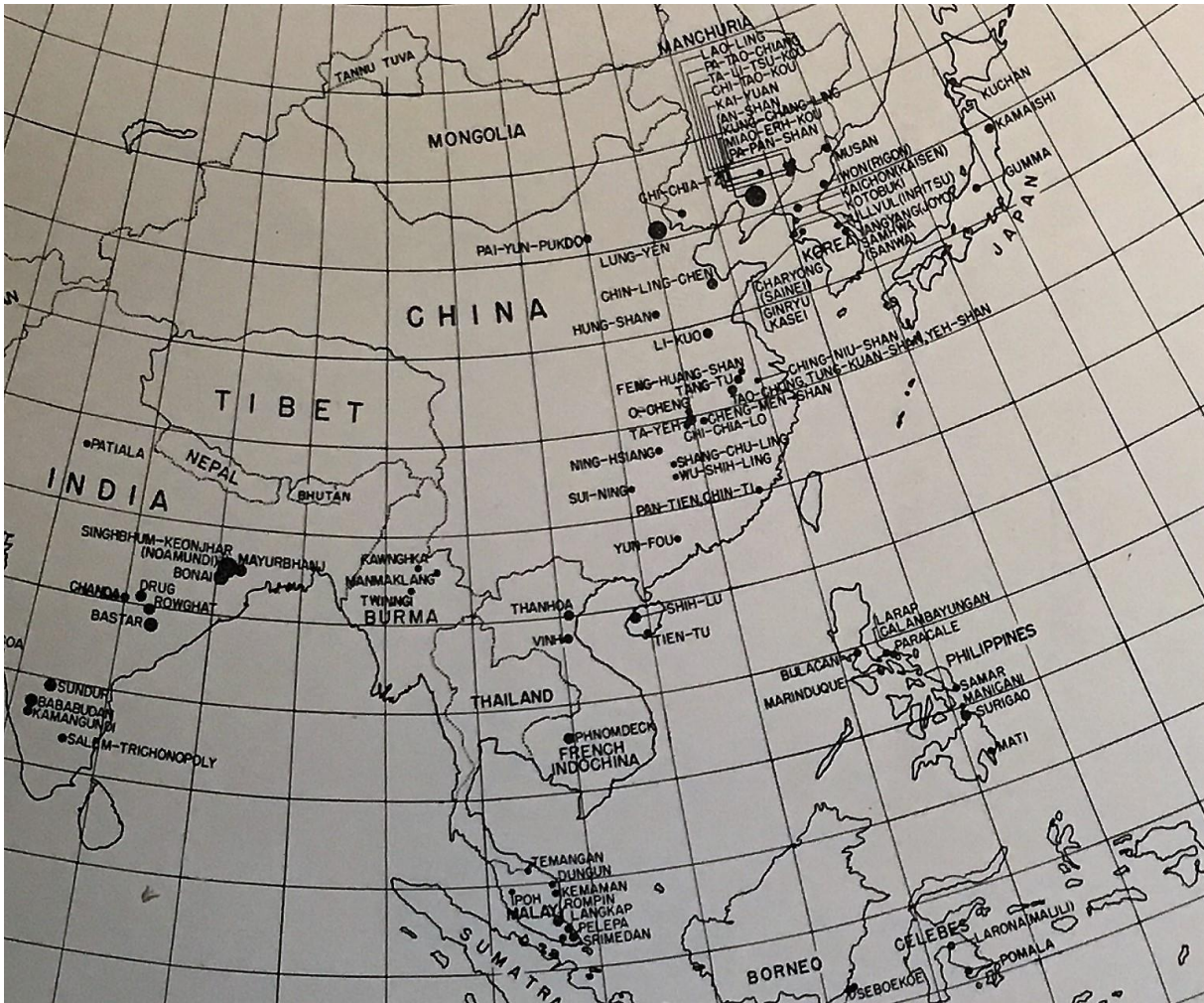


Figure 2.1: Source: Joseph F. Harrington and Benjamin M. Page, *Sources of iron ore in Asia*. March 1952, NARA, RG 331, Publications, Box 9017, Folder 45.

Countries in Southeast Asia possessed abundant reserves of iron ore after the war. Most of the iron ore that the Japanese used in steel production before and during the war, was imported from this region, and some mines still supply Japan today.⁹⁰ Figure 2.1 displays the region's available iron ore deposits in the late 1940's and was presented by SCAP's Natural Resources Division in March 1952. Before the surrender in 1945, Japan had access to mines in Manchuria, Korea, mainland China and Hainan, French Indochina, Philippines and Malaya. Japan lost access to all these mines in August 1945 which led steel production to almost to a complete halt.⁹¹ Japanese production of crude steel fell to 560000 tons in 1946. This is a considerable

⁹⁰ Nakamura 1994: 92

⁹¹ *Ibid.*: 148

drop since Japanese crude steel production reached 7,65 million tons in 1943.⁹² The American government hoped to reestablish trade connections with the region in mid-1947. The independent American Council of Foreign Relations discussed in May 1947 the need to control the access to raw materials both in Europe and Japan.⁹³ This was due to two reasons: to rehabilitate the Japanese economy and restart economic prosperity within the Southeast Asian region, and to be able to keep strategic raw materials and iron ore out of the Communist sphere. Ultimately, Washington feared that Japan was prone to fall into the Soviet orbit if the Japanese economy did not get necessary raw materials and attain available markets for her exports.⁹⁴

2.6 Economic reform

In the first months of the occupation, the American government sought to prevent Japan to initiate another military conflict. In November 1945, the Joint Chiefs of Staff (JCS) which was the highest authority in the U.S. military establishment, instructed SCAP to sharply reduce Japanese production of iron and steel. These materials was seen as the core of Japanese military production, and part of the Japanese imperial government's objective to prioritize production of heavy machinery during the war.⁹⁵ The Americans sought to tear down the economic fundament of Japan, which was steel production, and tried to strengthen other parts of society that is associated with a democratic country, such as land reform and enfranchisement of women. The JCS meant that if Japan was to be demilitarized, the steel industry had to be abolished or severely decreased, since steel was associated with instruments of war. However, due to the world situation of Communist insurgencies in Southeast Asia and Eastern Europe, the situation changed, and the Americans realized that to help Japan to revive economically could influence the bigger picture; to contain the rise of Communism. Already in 1946, the U.S. Treasury Department argued that Japan could become a "bulwark against Communism" and be developed as a military base against potential future military operations against Russia. Instead of breaking down Japanese industry, as proposed by the Joint Chiefs of Staff, Japanese industry should be strengthened, so that she could develop as a Pacific ally to the United States.⁹⁶

However, considering Japan to be poor at the iron ore needed to produce pig iron and steel, this work would not be an easy endeavor. The American government understood that to prevent Soviet influence to penetrate Southeast Asia, it was the United States that would have

⁹² Yonekura 1994: 2

⁹³ Leffler 1992: 180

⁹⁴ Rotter 1987: 253

⁹⁵ Schaller, M. 1987. *The American occupation of Japan. The origins of the Cold War in Asia*. Oxford: Oxford University Press: 60

⁹⁶ Schaller 1987: 122

to facilitate for Japan's economic recovery so that Japan could start trading with the region again. Two years after the beginning of the occupation, Japan already had relied on American aid funding for over hundreds of millions of dollars merely on absolute necessary goods such as food and fuel, and the country suffered from a great dollar deficit.⁹⁷

As Washington devoted to their shift in Japanese occupation policy in early 1947, a concrete plan on how to make Japan become self-supported did not yet exist. In the *Path to Vietnam*, Rotter claims that the idea of economic aid to other countries was still something new in the late 1940's. He stated that Truman believed that the lack of an economic aid program for a country in need would weaken American foreign policy. There existed a vacuum in countries devastated by war, and the people in these countries would be susceptible to any country offering them help: if the United States did not take action, then the Soviet Union would.⁹⁸ Undersecretary of the U.S. Army William H. Draper concluded that the current economic policy imposed by SCAP in Japan would possibly obstruct the American's objective to democratize the country. This would further impede their effort to keep the Communist sphere from growing in Southeast Asia. Draper also criticized the *zaibatsu* dissolution programs, as he also did of the decartelization of large business combines in Germany at the time, claiming that this would stagnate economic growth for both countries and their respective continents.⁹⁹

Draper cooperated with SCAP's Economic and Scientific Section to propose a recovery program for Japan. The Economic and Scientific Section (ESS) was the part of SCAP that dealt with economic policies that was to be initiated on the occupation of Japan. The *Economic Rehabilitation of Japan, South Korea and the Ryukyu Islands* program, also known as the Green Book, was put forward to Congress in early 1948, a Southeast Asian version of the Marshall Plan. In this program, Draper requested funding for Japanese import of industrial raw materials in addition to the necessary goods that Japan needed to survive. The funding was known as appropriated dollar funds and were divided into two programs: The General Aid Rehabilitation In Occupied Areas (GARIOA) and Economic Rehabilitation for Occupied Areas (EROA). GARIOA was to facilitate imports of food, medicine and other necessary commodities to tend to the basic need of society, to prevent outbreak of disease and prevent unrest among the Japanese people. The EROA was spent on resources that would facilitate for industrial recovery and economic rehabilitation. These funds came directly from the US government, hence the American taxpayer, so SCAP hoped to substantially decrease the use of appropriated funds for

⁹⁷ Dower 2000: 529

⁹⁸ Rotter 1987: 17

⁹⁹ Schonberger 1989: 163

Japan., The focus of this rehabilitation program was to make raw materials such as iron ore and coal more accessible for the Japanese steel industry, and to put export of such products in prior to the export of textile and other light industry products. Export of heavy industry products would be Japan's way back into the world market, due to the rise in global demand of such commodities, while the demand in textiles, earlier an important industry of Japan, had drastically declined.¹⁰⁰ However, since the Marshall Plan for Western Europe was being reviewed around the same time in March, Congress concluded that the European aid program was of a more urgent matter, and Draper's request for EROA funding through the Green Book failed.¹⁰¹

2.6.1 Program for a self-supporting Japanese economy

In 1948, Japan had an economy afflicted by an enormous trade deficit. This meant that the Japanese imported food, fuel and medicine, of which they were unable to stabilize with the current amount of exports. However, their debt was already of astronomical numbers. The Americans concluded that Japan would be relieved from this problem only if they maximized their exports on finished steel products. The import of food had to become second priority. Thus, the Japanese population would have to accept these terms and live on fewer calories than before the war.¹⁰² They would have to increase their spending on raw materials such as iron ore. This would later be used in steel production, that, finally, would be exported to countries that was in need for finished steel. This would alleviate Japan of its deficit and restore a balance of payments.

Joseph M. Dodge, a banker from Detroit well known for his postwar banking policies, came to be an important figure in the postwar economic reconstruction of Japan. He heavily criticized the SCAP administration's interest in establishing labor unions and social welfare programs. He did nevertheless acknowledge Japan to be "an important border area in the worldwide clash between Communism and Democracy and that only a self-supporting and democratic Japan can stand fast against Communism."¹⁰³ In November 1948, in cooperation with the Economic and Scientific Section, he presented the *Program for a Self-Supporting Japanese Economy* to Congress. The U.S. government did not have great interest on the rehabilitation of the Japanese economy, as they felt that the Leftist insurgencies in Southeast

¹⁰⁰ Quoted in Schonberger 1989: 171

¹⁰¹ Ibid.: 182

¹⁰² Economic and Scientific Section. *Program for a Self Supporting Japanese Economy*. November 1948, National Diet Library Digital Collection, Call no. GS (B) 02675-02677, RG 331, Japanese Organizations, 1946-52, Box 2267, Folder 18: ii

¹⁰³ Schonberger 1989: 199-201

Asia were of a more urgent matter. In December 1948, a memorandum was presented by a member of the State Department's Policy Planning Staff, John P. Davies. It consisted of a factual proposition that the U.S. helped Japan to restore their economy by recreating the trade connections between Japan and the Southeast Asian countries. If they also restored the heavy industry sector in Japan, they could secure raw materials from the areas that was under threat of Communist influence.¹⁰⁴ Thus, the matter of restoring the Japanese economy and heavy industry sector became a pivotal step for Washington in the containment of further Communist encroachment of Southeast Asia.

In the summary of the *Program for a Self-Supporting Japanese Economy*, it was stated that the main objective was to make Japan self-supported as quickly as possible. The program conveyed that the realistic time estimated to achieve this objective was stated to be five years, thence by 1953. Japanese self-support would happen if three objectives were completed: (1) to get access to and increase import of necessary raw materials for the Japanese heavy industry sector, (2) permit Japan access to world trade, and (3) increase exports of industrial goods.¹⁰⁵ To make self-support possible, the U.S. provided Japan with dollar funds appropriated by the American Congress. The ESS hoped that by 1953, Japan would be less dependent of U.S. appropriated funds, preferably completely self-supported and able to pay for their imports solely with the receipts of exports.

The appropriated economic aid was as mentioned American dollar funds in form of GARIOA and EROA dollar funds. Until 1949, only GARIOA was used.¹⁰⁶ This meant that not one American dollar was spent on industrial rehabilitation until this year. In the *Program*, to truly be able to make Japan self-supportive by 1953, Japan would have need for some extra funding, especially in 1949 and 1950, when the establishment of a trade economy was most pivotal to further development. The graph below represented SCAP's tentative objective for the use of appropriated funds, through both GARIOA and EROA.¹⁰⁷ This shows that in 1947 and 1948, all funds used was GARIOA, and the intent was to provide Japan with more EROA

¹⁰⁴ Schaller, M. 1997. *Altered States: The United States and Japan since the Occupation*. New York: Oxford University Press: 19

¹⁰⁵ Economic and Scientific Section. *Program for a Self Supporting Japanese Economy*. November 1948, National Diet Library Digital Collection, Call no. GS (B) 02675-02677, RG 331, Japanese Organizations, 1946-52, Box 2267, Folder 18: 6-7.

¹⁰⁶ Economic and Scientific Section. *Program for a Self Supporting Japanese Economy*. November 1948, National Diet Library Digital Collection, Call no. GS (B) 02675-02677, RG 331, Japanese Organizations, 1946-52, Box 2267, Folder 18: :20-23.

¹⁰⁷ Economic and Scientific Section. *Program for a Self Supporting Japanese Economy*. November 1948, National Diet Library Digital Collection, Call no. GS (B) 02675-02677, RG 331, Japanese Organizations, 1946-52 Box 2267, Folder 18: 2

funding during the years of 1949 and 1950. Washington saw these years as utterly pivotal to establish an economic fundament on which to rehabilitate Japan, as they witnessed the increased agitation by Communist groups in Southeast Asia.¹⁰⁸ SCAP had a long-term goal that by 1951 Japan would pay for imports with manufactured commodities.

The use of appropriated funds was as mentioned very contested as it was funded by the average American. The American administration hoped to change Japan's sources of imports to non-dollar areas, due to the "Dollar Gap". Japan, and large parts of the world, suffered from a dollar deficit due to large trade imbalance with the dollar area. The dollar area constituted the United States, Canada and the Philippines.¹⁰⁹ This meant that imports from the dollar area was greater than the exports back to these countries, and that non-dollar areas such as Japan and Great Britain did not possess enough dollars to practice trade with the dollar area. Thus, their dollar debt kept growing, as both Britain and Japan received financial aid by the United States. Thus, USA hoped to keep their own raw materials for domestic production, and Japan had to procure enough raw materials from other countries without spending too much of the appropriated funds. Japanese import of raw materials from non-dollar areas would help Japan to curb its dollar deficit. Japanese exports of finished heavy industrial goods to the United States, the Far East and other countries would also help Japan in earning more dollars.

The Program for a Self-supporting Japanese economy, launched in November 1948, would focus entirely upon the Japanese economy's recovery through expanded exports. The Green Book envisioned to raise the standard of living to the levels of 1930-34, in addition to economic recovery.¹¹⁰ Due to the situation in 1948 where no significant change had been achieved in one year in terms of increased exports compared to imports, the Green Book was concluded a failure by the ESS. The Green Book consisted of forecasts and assumptions that a balanced economy would increase the standard of living accordingly. The Program of November 1948 did not hope to estimate the same, or to make any assumptions on the outcome, but on what actions was necessary; how the industry and trade situation was to be administered.¹¹¹ The necessary steps to be taken towards a self-sufficient Japanese economy seemed to consist of tighter economic structures in the new Program, and shortening heavily upon import of supplies that didn't directly affect economic thriving, such as food imports.

¹⁰⁸ Rotter 1987: 16

¹⁰⁹ Economic and Scientific Section. *Program for a Self Supporting Japanese Economy*. November 1948, National Diet Library Digital Collection, Call no. GS (B) 02675-02677, RG 331, Japanese Organizations, 1946-52, Box 2267, Folder 18: 19

¹¹⁰ *Ibid.*: 2

¹¹¹ *Ibid.*: 3

Table 2.4
Imports into Japan: Major commodity groups
Average 1930-34, Fiscal Year 1948, Projections Fiscal Year 1949-1953

	Average	1930-34	FY 48					
	(A)	(B)						
	1930-34	1948	FY 49	FY 50	FY 51	FY 52	FY 53	
Millions of dollars								
Total imports	740	2450	685	830	1075	1220	1370	1500
Textile fibers	228	760	151	200	269	317	393	440
Metals, ore and coal	73	303	11	100	117	163	214	240
Foodstuffs	187	560	1375	282	386	390	361	392
Other imports	252	827	148	248	303	350	402	428
Indexes (Average 1930-34 = 100)								
Total imports	-	100	28	33.9	43	40.8	55	61.2
Textile fibers	-	100	19.8	26.3	39.4	41.7	51.7	57
Metals, ore and coal	-	100	3.6	33	38.6	53.8	70.6	70.2
Foodstuffs	-	100	66.6	50.4	68.9	69.6	64.5	70
Other imports	-	100	18.1	30	36.6	42.3	48.6	51.8
Percent distribution								
Total imports	100	-	100	100	100	100	100	100
Textile fibers	30.8	-	22	24.1	25	26	28.7	29.3
Metals, ore and coal	9.9	-	1.6	12	10.9	13.4	15.6	16
Foodstuffs	25.3	-	54.5	34	35.9	32	26.4	26.2
Other imports	34	-	21.9	29.9	28.2	28.6	29.3	28.5

Table 2.3: Economic and Scientific Section. *Program for a Self Supporting Japanese Economy. Projected imports by major commodity groups, 1949-1953.* November 1948, National Diet Library Digital Collection, Call no. GS (B) 02675-02677, RG 331, Japanese Organizations 1946-52, Box 2267, Folder 18. :2-3

Table 2.4 shows that the Program prospected that the import of foodstuffs was to be drastically reduced. While it amounted to over half of all the imports in 1948, import of food was planned to drop to around 30% in 1949. Imports of raw materials such as iron ore and coal accumulated to only one per cent in 1948, and planned to expand to twelve per cent in 1949. Import of foodstuffs was to continue to drop until 1953, which shows the new emphasis of the new Program.¹¹² The plan of this Program almost resembled the Japanese imperial

¹¹² Economic and Scientific Section. *Program for a Self Supporting Japanese Economy. Projected imports by major commodity groups, 1949-1953.* November 1948, National Diet Library Digital Collection, Call no. GS (B) 02675-02677, RG 331, Japanese Organizations, 1946-52, Box 2267, Folder 18: 2-3 (table).

government's plan of a Greater East Asian Co-Prosperity Sphere, where the production of food would be deprioritized for the production of steel manufactures.

Japan was technologically isolated during the Second World War and did not get access to new technology until the war's end. SCAP came to understand this and included in The Program a chapter devoted to steel production. It expressed that to prioritize heavy machinery production before textile production would be the solution to restore foreign exchange. The United Nations Economic Commission for Asia and the Far East (UNECAFE) had in recent discussions concluded with a rising demand of Japanese heavy machinery and metal products by countries in the Far East. The Japanese steel industry had also expanded greatly towards the end of the 1930s, and that it would be able to produce enough for domestic consumption and still have a large surplus of steel able for export. The only component that seemed to be lacking was the actual raw materials for the industry, especially iron ore, scarcely found inside Japan without its colonies.

2.7 The economic and industrial components of SCAP

To be able to understand how the American administration worked together, this subchapter will present the SCAP administration with its most relevant divisions. As this thesis will focus on the economic aspect of the SCAP hierarchy, the research on the Economic and Scientific will occupy parts of this thesis. The Economic and Scientific Section (ESS) was from the beginning designed with Major General William Marquat as chief, and had responsibility of supervising the economic, financial and scientific developments throughout the occupation. This section also overlooked the dissolution of the family business conglomerates, formerly known as the *zaibatsu*. The *zaibatsu* became infamous as large business combines that profited greatly from the war, especially the steel producing *zaibatsu*.¹¹³ All the economic institutions associated with the occupation, both American and Japanese, public and private had to report to the Economic and Scientific Section's underlying divisions.¹¹⁴ Table 2.5 displays the complete hierarchy of the ESS, and its overlying superintendents.

¹¹³ Schonberger 1989: 64

¹¹⁴ Dower 2000: 210

Table 2.5 Economic and Scientific Section Organization Chart

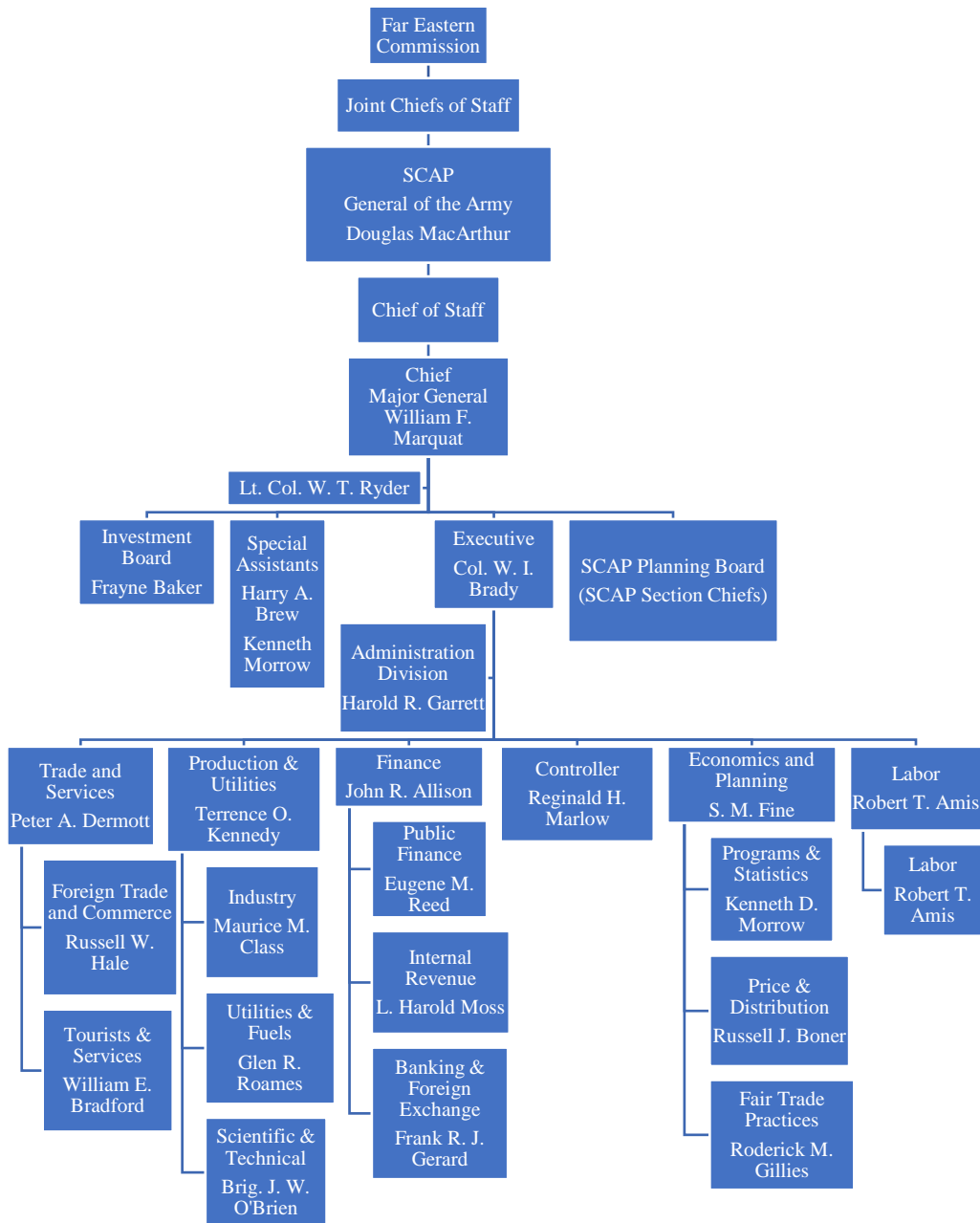


Table 2.4: Source: Chief of Staff. Organization Chart: Economic and Scientific Section. November 20th, 1950, NARA, RG 331, Topical File, Box 6408, Economic & Scientific Section organization booklet.

John Dower compared in his book *Embracing defeat* the economic administration of Japan and Germany. While postwar Germany's economic management was shared between her four occupying countries, postwar Japan's economic management, included financial, commercial and industrial, was concentrated into one single section within the American occupational regime.¹¹⁵ This shows the power that the ESS possessed during the occupational period, but also the responsibilities it carried. Its importance was however not realized until a

¹¹⁵ Dower 2000: 529

couple of years into the occupation, as the American's objective with their time in Japan changed. Their focus shifted from dissolving the powerful business conglomerates to achieving self-sufficiency of the Japanese economy.¹¹⁶ Draper realized that the *zaibatsu* could benefit to this new goal, as many *zaibatsu* had been affiliated with the steel industry.¹¹⁷

ESS consisted of several subdivisions, and the Foreign Trade and Commerce Division (FTC Division) is relevant to my thesis due to its duties in administrating Japanese foreign trade. The Japanese government was not allowed to conduct any foreign trade before the second half of 1947, and all foreign trade went through SCAP.¹¹⁸ In 1947, this changed. The Americans established the Foreign Trade and Commerce Division to recommend policies and procedures regarding Japanese foreign trade, to the Director of Trade and Services, Peter McDermott. These policies and procedures had to be in cohesion with SCAP's objective for the occupation. Foreign trade was also to be kept under surveillance by the FTC Division, which in turn had to be reviewed for the American government and the Far Eastern Commission.¹¹⁹ The FTC Division also played a monetary role, where they negotiated financial arrangements for trade agreements on behalf of SCAP and the Japanese government. To regulate the procurement regarding appropriated funds also were a part of their duties.¹²⁰ This thesis will show the expanded importance of this division, and to highlight its position in the development of Japanese foreign trade in the years after 1947.

The Industry Division overlooked all Japanese production and allocation of raw materials for the different industries. It was established to forward proposals from the Japanese industry to the Director of Production and Utilities (DPU). DPU was located on the same stage of the ESS hierarchy as the DTS, and the DPU further forwarded proposals to the Chief of ESS. The Industry Division oversaw the relevant branches of the Japanese government, such as the Mineral Products Department. The Industry Division's aim was to restore trade balance, and to achieve this the revenue from export of industrial output had to even out the costs of the imports. The proposals that the Japanese industry included import requirements for raw materials for the coming quarter, to ensure sufficient production output. The request was either declined or approved, and then forwarded to the FTC Division. The Industry Division also had to guarantee

¹¹⁶ Schonberger 1989: 75.

¹¹⁷ Ibid.: 175

¹¹⁸ Ibid.: 154

¹¹⁹ No author. *Attachment to Administrative memo 34: Foreign Trade and Commerce Division*. August 22nd, 1949, NARA, RG 331, Topical File, Box 6408, Economic and Scientific Section organization booklet.

¹²⁰ No author. *Attachment to Administrative memo 34: Foreign Trade and Commerce Division*. August 22nd, 1949, NARA, RG 331, Topical File, Box 6408, Economic & Scientific Section organization booklet.

allocation of raw materials.¹²¹ This thesis will show how the FTC Division and Industry Division cooperated in the establishment of trade agreements with foreign iron ore exporters. This depended on their cooperation with the Japanese government and steel industry.

2.8 General trading companies

The contribution to trade done by Japanese general trading companies must also be mentioned for the analysis of this thesis. General trading companies (GTC), or *Sougou Shousha* (総合商社) is today considered a Japanese phenomenon. These companies were established by Japanese merchants as a reaction to the heavy influence of foreign merchants in Japanese ports at the eve of the nineteenth century. Instead of using a foreign trade mediator, Japanese merchants started to trade directly with the trade actors in other countries.¹²² The companies Ataka & Co. and Iwai & Co. is examples of GTC's that focused on the import iron ore to supply the government-owned iron and steel company Yawata Steel.¹²³

General trading companies became something extraordinary. These companies did not just conduct trade, but also performed multifarious functions, such as third country trading, and introducing new technology to other countries and facilitate financing for developing raw materials. As the European export to Asia declined during World War I, the GTC gained relevance as Japanese manufactured commodities rose in demand in this period to substitute for European goods. Until 1945, Japanese GTCs had gained considerable influence in Southeast Asia, and Ataka & Co. alone had in total 39 branch offices located in the region. After the Japanese surrender, the GTC's overseas operations stopped completely, confined to restricted domestic trade only. In August 1947, they were allowed by SCAP to start operating again, albeit under heavy restrictions.¹²⁴ This thesis will display some GTC's activities in the postwar era and examine how important they became as actors in trade in the period 1947-1951.

¹²¹ Harold R. Garrett. *Current organization and functions: Industry Division*. February, 1951, NARA, RG 331, Topical File, Box 6408, Industry Division organization booklet.

¹²² Tanaka 2012: 3

¹²³ Tanaka, A. 2009. *The role of Sogo Shosha in mass procurement system of resource*. Nagoya: Nagoya City University: 4

¹²⁴ Kawabe, N. 1990. "Overseas activities and their organization" In: Yonekawa, S. 1990. *General trading companies: A comparative and historical study*. United Nations University Press: 174-175

Chapter 3: Postwar Japan's trade negotiations

Following the devastation of two atomic bombs, Japan surrendered on August 14th, 1945. The Americans established their occupational authority in Tokyo on September 2nd, that became to be known as the Supreme Commander for the Allied Powers (SCAP).¹²⁵ As a result, Japan lost her colonial empire, and the deposits of raw materials in Southeast Asia became unavailable to Japan. On November 4th, SCAP denied the Japanese government to participate in international trade and was forced to cut contact with foreign trade actors, both outside and inside Japan.¹²⁶ The economic situation soon became a matter of austerity, as SCAP mainly focused on democratizing the country and removing its troops as well as securing food imports until 1947.

SCAP already succeeded in dissolving Japan's military during the following 1946. In early 1947, the U.S. Department of State discussed the possibility to propose a draft peace treaty, and it was at a time purely confidential. On March 17th, 1947, however, General MacArthur told the press, without consulting Washington, that time has come to establish a peace treaty for Japan.¹²⁷ The following fall, the first American Secretary of Defense, James Forrestal, and several other members of the American government argued that this would ensure the economic collapse of Japan.¹²⁸ Japan's economy suffered due to industrial standstill, since the flow of imports of raw materials from her former colonies had come to a halt.¹²⁹ SCAP began to fear that the Japanese would become too dependent upon American aid for basic commodities, since production was next to non-existent.¹³⁰ Therefore, to develop Japan to become financially independent, the American occupation regime focused on restoring the economy. This meant that imports of raw materials and industrial production was restarted under strict supervision. SCAP ended up taking the decisions, and the Japanese needed permission to carry out foreign trade, either publicly or privately.

The former Japan-occupied countries in Southeast Asia first and foremost wanted to restore their own country and find their position in the new polarized world situation. To assist in the restoration of their former enemy was not something they were enthusiastic about. However, their loathing for Japan did not help their industrial and economic situation. The

¹²⁵ Dower 2000: 40

¹²⁶ H. W. Allen. *Official relations between Japanese government and representatives of neutral nations*. November 4th, 1945, National Diet Library Digital Collection, Call no. SCA-1 R2, RG 331, Supreme Commander for the Allied Powers Directives to the Japanese government (SCAPINs).

¹²⁷ FRUS, 1947, The Far East, Volume VI. *Memorandum of conversation, by the Assistant Chief of the Division for Northeast Asian Affairs (Allison)*. March 20th, 1947.

¹²⁸ Schonberger 1989: 71

¹²⁹ *Ibid.*: 135

¹³⁰ Rotter 1987: 16, 37

Japanese military government did bring technology to the countries in the Greater East Asia Co-Prosperity Sphere during the war to build up the local economies, to be able to sustain the extraction of raw materials. Malaya is an example of this.¹³¹ Much of the expertise disappeared with the Japanese surrender, and Allied air raids against the Japanese army in Southeast Asia had further devastated the infrastructure that Japan had brought to the region.¹³² Southeast Asian states were in need of manufactured steel to restore their country and the closest steel producer with the largest output in the region, was Japan. The U.S. Department of the Army stated in February 1949 that only Japanese steel manufactures could rehabilitate the Asian economy.¹³³

This chapter will focus on the period from the change in occupation policy in 1947 until the Communist takeover of China in October 1949. This period was crucial for SCAP to reestablish Japan's position in foreign trade. It will first assess the position of the Board of Trade within the Japanese government, as this actor came to represent the Japanese and their role in trade matters, which was controlled by the American occupation administration in the first years of the occupation. Then, the chapter will determine how private trade representatives were introduced to trade with Japan after the war. Further on, it will analyze countries and actors that Japan made early trade contact with, and how they with some ramifications succeeded in establishing trade routes. How did SCAP and Occupied Japan cooperate to find sources of iron ore in the early Cold War?

3.1 Board of Trade's role in trade

On October 10th, 1945, SCAP ordered the Japanese government to establish an agency that would distribute the goods that SCAP imported to Japan, and to give SCAP the finished commodities that was to be exported.¹³⁴ This resulted in the establishment of the Board of Trade (貿易庁). This agency consisted of the Administration Bureau (総務局), the Export Department (輸出局) and the Import Department (輸入局). The Board of Trade was the sole Japanese agency that could participate in trade this early after the war. This meant trade was only handled by the government, and private actors was not allowed.¹³⁵ The Board of Trade

¹³¹ Tomaru 2000: 24

¹³² Kushner, B. & Muminov, S. 2017 *The dismantling of Japan's empire in East Asia: Deimperialization, postwar legitimation and imperial afterlife*. New York: Routledge: 20

¹³³ Rotter 1987: 45

¹³⁴ Johnson 1982: 187

¹³⁵ アジ歴グロッサリー. No date. 貿易庁. (Web).

<https://www.jacar.go.jp/glossary/term1/0110-0010-0050-0040-0070.html> Accessed: 10.31.18

was installed as an external agency of the Ministry of Commerce and Industry on December 18th, 1945. The Ministry of Commerce and Industry was established in 1925 and was the Japanese political organ responsible for trade and market expansion. In 1943, the Ministry was changed to the Ministry of Munitions. It oversaw the organization of the production of military equipment during the Second World War. After the war ended, Japanese officials renamed the ministry back to its original name, hoping that the Americans would not notice.¹³⁶ On December 18th, 1945, the Board of Trade was recognized as the agency that would handle foreign trade under SCAP's authority.¹³⁷

In the spring of 1947, as Washington realized the value of the Japanese steel industry, they decided that imports of petroleum in the period April to June 1947 should fuel this industry. The U.S. army's Adjutant General Department demanded that the Board of Trade should be in charge to allocate the petroleum to the Japanese steel producers.¹³⁸ This shows that Board of Trade's duty was to allocate what the American occupation forces imported to Japan. This was one of the first duties done by the Board of Trade. On May 28th, 1948, their position was slightly promoted, as the Assistant Adjutant General George R. Connor declared that the Board of Trade was authorized to communicate with foreign trade actors.¹³⁹ This reveals the limited responsibility that the Board of Trade held in 1947, and how their position developed a year after. It also displays how Washington started to focus on the development of the steel industry.

The Board of Trade was responsible for allocating imported iron ore to Japanese steel producers. Board of Trade's allocation of resources within Japan had to be approved by the Industry Division from the Economic and Scientific Section. The Board of Trade was held responsible to check if the imported quantity was according to the contract. The Board of Trade therefore acted as the Japanese mediator between Japanese steel companies and the government, as well as between the Japanese government and SCAP. Thus, the Japanese government and SCAP cooperated in the import of iron ore and other raw materials, but SCAP gave the orders

¹³⁶ Johnson 1982: 32, 188

¹³⁷ Burdette M. Fitch. *Board of Trade*. April 3rd, 1946, National Diet Library Digital Collection, Call No. SCA-1 R3, RG 331, Supreme Commander for the Allied Powers Directives to the Japanese Government (SCAPINs).

¹³⁸ R. M. Levy. *Importation of petroleum products for the Imperial Japanese government, April through June 1947*. May 14th, 1947, National Diet Library Digital Collection, Call No. SCA-1 R5, RG 331, Supreme Commander for the Allied Powers Directives to the Japanese Government (SCAPINs).

¹³⁹ George R. Connor. *Authorization for direct communication between Japanese government Board of Trade and firms, persons and foreign missions on commercial matters*. May 28th, 1948, National Diet Library Digital Collection, Call No. SCA-1 R6, RG 331, Supreme Commander for the Allied Powers Directives to the Japanese Government (SCAPINs).

on how the Board of Trade should handle the trade further.¹⁴⁰ This was to establish trust around the Japanese government among the Japanese people, and also to set the American occupational forces free from any responsibility, should something go wrong during the process.¹⁴¹ As we will see later in the chapter, Board of Trade was sometimes allowed to negotiate with the foreign trade actors.

SCAP made the Board of Trade request bids on iron ore from countries where iron ore was cheap, as the American iron ore that covered much of Japan's supply was expensive, and the freight across the Pacific Sea was costly.¹⁴² In June 1948, SCAP started sending trade representatives to iron ore deposits which Japan controlled during the Pacific War.¹⁴³ According to restrictions imposed by the Far Eastern Commission, Japanese nationals was not allowed to travel overseas, since Japan still was regarded a hostile nation until a peace treaty was established.¹⁴⁴ Therefore, SCAP sent representatives of their own to examine the mines that the Japanese had occupied during the war.

3.2 Foreign traders introduced to Japanese trade

As Washington hoped to establish Japan as a strong ally in the Pacific, they knew that the Japanese economy and industry had to be restored. To do this, raw materials such as iron ore had to be imported from outside Japan. Washington therefore hoped to make Japan look appealing to the actors exporting essential raw materials.¹⁴⁵ The United Kingdom Liaison Mission (UKLIM) argued that the Americans should open Japan to foreign trade actors. The British also had interests in Southeast Asia, such as their colony Malaya, and hoped that a strong Japan would assist in the rehabilitation of the region.¹⁴⁶ In August 1947, acting chief of the Foreign Trade and Commerce Division Peter McDermott introduced private trade representatives to Japan. In SCAP, the Foreign Trade and Commerce Division oversaw the monitoring of the Board of Trade's actions regarding trade matters. The Division recommended who Japan should initiate trade with, both to the Japanese government and the upper echelons

¹⁴⁰ F. E. Pickelle. *Memo for Board of Trade, Ministry of Commerce and Industry, Import of Hainan iron ore from E. Ott and Company, Ltd, Hong Kong.* January 21st, 1948. NARA, RG 331, Topical File, Box 7351, Folder 3.

¹⁴¹ Burdette M. Fitch. *Board of Trade.* April 3rd, 1946, National Diet Library Digital Collection, Call No. SCA-1 R3, RG 331, Supreme Commander for the Allied Powers Directives to the Japanese Government (SCAPINs).

¹⁴² Yokoi, N. 2004. *Japan's Postwar economic recovery and Anglo-Japanese relations, 1948-1952.* Routledge, New York: 97

¹⁴³ Industry Division. *Check sheet: Imported iron ore and iron ore requirement.* June 12th, 1948, National Diet Library, Tokyo, Call no. ESS (C) 03501, RG 331, General Export & Import File, Box 6509, Folder 16.

¹⁴⁴ Hsu, C. Y. 1948. *Japan re-enters international society.* In *Far Eastern Survey*, Vol. 17, No. 9. Published by the Institute of Pacific Relations: 227

¹⁴⁵ Bunker & Ciccantell 2007: 91

¹⁴⁶ Tomaru 2000: 48

of the Economic and Scientific Section.¹⁴⁷ Through information memos, SCAP introduced foreign businessmen on what they should know about trading with Japan. This memo was very generalized; it did not say anything about who these private trade representatives were.¹⁴⁸ One might conclude that this were firms that were interested in trading with Japan; companies that had been recommended to do so by the United States and companies that was stationed in countries that had exported iron ore to Japan earlier. The memo from August 1947 was one of the first cases where SCAP contacted foreign trade actors to promote trade with Japan. McDermott sent this memo to inform that the American occupation forces were currently surveilling trade with the country.¹⁴⁹

Providing these information memos, SCAP wanted to convey that the FTC Division currently had responsibility for trade with Japan. In the seventh information memo of September 22nd, current acting chief of the FTC Division, Frank E. Pickelle asked the private trade representatives to send their complete mail and cable address to both the Japanese Board of Trade and the FTC Division.¹⁵⁰ From that point, one can establish the fact that the private traders contacted not just the FTC Division, but also the Board of Trade, when they found interest in trading with Japan. Through the following years, we can see a lot of different trading companies and actors issue their interest in exporting iron ore to Japan. The next sections will shed light on how actors from several countries made contact with Japan to sell them iron ore, and that the iron ore exporting countries could benefit from trading with Japan. It will also show that the SCAP authorities, although they allowed private traders in Japan, were strict in the progress of setting up contracts.

3.3 Island of Hainan

Hainan, a small island located in South China, became an important source of iron ore to Japan during the war. For a small island, it held abundant reserves of iron ore. Because Hainan was located close to French spheres of influence in China and Indochina, France and the Qing dynasty in China agreed that Hainan was to be leased by the French from 1907. China promised not to give up the island to another country without French consent. Japan recognized French influence on Hainan with the Franco-Japanese pact in 1907 and on the Four Power Pact of

¹⁴⁷ E. A. Johnson. *Administrative memorandum*. November 14th, 1949, NARA, RG 331, Topical File, Box 6408, Foreign Trade and Commerce Division booklet.

¹⁴⁸ Peter A. McDermott. *Information memo no. 1*. August 20th, 1947, NARA, RG 331, General Export & Import File, Box 6667, Folder 5

¹⁴⁹ Peter A. McDermott. *Information memo no. 2*. August 20th, 1947, NARA, RG 331, General Export & Import File, Box 6667, Folder 5.

¹⁵⁰ F. E. Pickelle. *Information memo no. 7*. September 22nd, 1947, NARA, RG 331, General Export & Import File, Box 6667, Folder 5.

Washington in 1922, where they promised to respect each other's sphere of influence. During the late 1910's, Japan became interested to invest in Hainan, because of rumors of great possessions of raw materials on the island. This was combined with its strategic location which would give Japan sea route access to the region.¹⁵¹ The Japanese government cooperated with Taiwan to examine the island. Although Japan had promised France that the Japanese military would respect French territory, they invaded the island in 1939. They defeated the Nationalist Kuomintang forces located there and occupied the island until 1945. The traditional transport system consisting of roads and rivers was upgraded with the construction of railroads by the Japanese army forces, connecting the most important areas with reserves of iron ore; the Tiantu and Shilu mines. The iron ore appeared to be of high quality and quite favorable to the Japanese heavy industry.¹⁵²

Following the end of World War II, the Kuomintang and the Communist forces fought to win back territory on the mainland after the Japanese had left. The communists had the upper hand, as they had occupied large parts of Northern, Southern and central parts of China.¹⁵³ The Kuomintang controlled Hainan and held their stance against the communists until spring 1950. The Kuomintang then fled to Taiwan, and Hainan was implemented with the PRC, together with the mainland.¹⁵⁴ Trade between Japan and China became heavily restricted after the Communist takeover, but correspondence indicates that Japan in fact bought iron ore from Hainan after Hainan fell under the communists.¹⁵⁵ This will be reviewed in the following chapter that reviews the period after 1949.

By early 1947, the American government had started to lose faith in Kuomintang and its fight against the communists. In September 1947, the Industry Division within the ESS took up the discussion whether they should consider restarting the import of Hainan iron ore.¹⁵⁶ However, the Sino-Japanese relationship was complicated after eight years of Japanese occupation and warfare, and China's internal politics was at this point strained. With the change in occupation policy to rehabilitate the Japanese economy the same year, this illuminates a shift

¹⁵¹ N. D. H. 1938. *Growing interest in Hainan mainly strategic*. In *Far Eastern Survey*, Vol. 7. No. 17. Published by Institute of Pacific Relations: 203

¹⁵² Phillips, R. T. 1980. *The Japanese occupation of Hainan*. In *Modern Asia Studies*, Vol. 14, No. 1. Cambridge University Press:95-96

¹⁵³ Hsü 2000: 619

¹⁵⁴ Brødsgaard, K. E. 2008. *Hainan – State, society, and business in a Chinese province*. New York: Routledge: 12

¹⁵⁵ S. K. Sun. *Hainan iron ore barter trade*. December 29th, 1950, NARA, RG 331, Topical File, Box 7351, Folder 3.

¹⁵⁶ Natural Resources Section. *Inclusion of the requested imports of Hainan iron ore*. September 2nd, 1947, NARA, RG 331, Topical File, Box 7351, Folder 3.

in Washington's postwar political commitment. Immanuel C. Y. Hsü claims that USA turned to focus on establishing Japan as a strong ally in the Cold War instead of China.¹⁵⁷

The Chinese Mission in Japan was established by the Kuomintang government, and worked to assist the Chinese people who'd acquired citizenship in Japan following the war. It consisted of individuals being familiar with Japan and their language, and the Kuomintang hoped it would contribute to build a healthy trade relationship with Japan after the war.¹⁵⁸ On September 15th, 1947, Koyee Ling from The Chinese Mission in Japan sent an overview over the availability of iron ore from Hainan, through the Foreign Liaison Branch within GHQ, to SCAP.¹⁵⁹ This may seem odd, as Japan had from 1937 to 1945 exploited and ravaged China, starting with the Manchurian incident in 1931 followed by the attack on Nanking in 1937.¹⁶⁰ The American army forced Japanese soldiers to support the Nationalists together with their own troops against the communists in the months after Japan's surrender.¹⁶¹ The Chinese Nationalists realized that the communists had the advantage on the continent; the Kuomintang defended only a few coastal positions and accepted all the help they were offered. Therefore, they decided to cooperate with SCAP and Japan. With their Chinese Mission in Japan, they used Hainan iron ore as a chance to continue trade between Japan and China. 1947 was a crucial year for Japan to restart import of iron ore, while the Kuomintang tried to stagger the Chinese Communist forces on the continent. In addition, they hoped to save their trade relationship with Japan, because of the major decrease in American aid to Kuomintang.¹⁶²

SCAP continued the discussions concerning the import of Hainan iron ore during October 1947, but there was a certain disagreement on how much they wanted to spend on this ore. The island's infrastructure built by the Japanese had suffered damage from the war, so to prepare Hainan for the export of more iron ore would be expensive. The Industry Division had put forward a proposed purchase commitment that Major Schettler, Chief of the Minerals, Metals and Fertilizers Unit disagreed to initiate the trade deal on the presented terms. He argued that the price could be negotiated, since he had noticed that SCAP and Japan was the only bidders interested in the Hainan iron ore at that time. This was a result of the extensive damage that the Hainan mines and ports suffered, and trade with the island became unfavorable.

¹⁵⁷ Hsü 2000: 638

¹⁵⁸ Kushner, B. 2015. *Men to Devils, Devils to Men: Japanese war crimes and Chinese justice*. Cambridge, Harvard University Press: 85-86

¹⁵⁹ Koyee S. M. Ling. *Hainan Island iron ore*. September 15th, 1947, NARA, RG 331, Topical File, Box 7351, Folder 3.

¹⁶⁰ Hsü 2000: 584

¹⁶¹ *Ibid.*: 621

¹⁶² *Ibid.*: 634

Because of this, Schettler thought it strange that the Chinese had proposed that they could ship the ore quite quickly after purchase.¹⁶³ The most important thing was that the ore was available for export, and that the Chinese were willing to sell it to Japan. If the Kuomintang continued to control Hainan, iron ore trade should in theory be possible, since the Kuomintang was in favor of an alliance with America and Japan. It also depended upon Japanese expertise in forms of technology to be exported to Hainan.

The company that offered iron ore to Japan from Hainan was a company named E. Ott & Co. This was a Swiss firm based in Hong Kong who acted as a business mediator for German companies as well.¹⁶⁴ One of the first iron ore contracts signed was on iron ore from Hainan on December 10th, 1947, between this company and the Japanese Board of Trade.¹⁶⁵ Swiss companies was a frequent occurrence in Southeast Asia in this period. E. Ott was an important mediator for deliveries of iron ore from Hainan and Malaya to Japan, as this company was well established in exports from both countries after the war.¹⁶⁶ In the years to come, E. Ott & Co. would provide Japan with a considerable amount of its total import of iron ore.

3.4 Republic of the Philippines

Another country that exported iron ore to Japan after the Second World War was the Philippines. After a turbulent past dominated by foreign rulers, the Philippines was given their independence in 1946. Until 1898, the Philippines was a Spanish colony. With the Spanish-American war ending with American victory in 1902, the archipelago was claimed by the United States. Japan occupied the Philippines in 1942 as part of their hoped to establish a Greater East Asia Co-Prosperity Sphere, to achieve governance over the countries and their resources in Southeast Asia. With the Philippines' independence in 1946, the new President that was appointed was Manuel A. Roxas, a supporter of the Japanese occupation regime just a few years earlier. It was not the ideal president that the United States had envisioned, but it was accepted as the Americans still had influence economically and militarily on the islands.¹⁶⁷ The newly established Philippine government faced threat by an armed Communist group named

¹⁶³ Major H. A. Schettler. *Hainan iron ore purchase commitment form. October 30th, 1947*, NARA, RG 331, Topical File, Box 7351, Folder 3.

¹⁶⁴ Bayer.jp. *History of Bayer in Japan*. (Web). <https://www.bayer.jp/english/about/bayerinjapan/history.html>
Accessed: 03.12.2018.

¹⁶⁵ F. E. Pickelle. *Memo for Board of Trade, Ministry of Commerce and Industry, Import of Hainan iron ore from E. Ott & Company, Ltd, Hong Kong*. January 21st, 1948. NARA, RG 331, Topical File, Box 7351, Folder 3.

¹⁶⁶ Tomaru 2000: 52

¹⁶⁷ Araneta, S. 1948. *Basic problems of Philippine economic development*. In *Far Eastern Survey*, Vol. 21, No. 3. Published by Pacific Affairs, University of British Columbia: 282

Hukbalahap, which was originally created by farmers to fight the Japanese army during the occupation,¹⁶⁸ and it is possible to understand their disdain for the new Philippine government.

However, it did not take long before other countries expressed their doubt for the independent status of the Philippines. A British diplomat stated that the Philippine independence only existed in theory, not in practice. The Soviets wrote in newspapers that the independence the Philippines was given, was actually a covert imperial mission of the United States. President Roxas answered with saying that these claims were unsubstantial and accused the Soviets for trying to undermine Philippine independence.¹⁶⁹

This section will shed light upon the Philippines and their recent relationship with Japan, and how Japan was reintroduced to the import of Philippine iron ore. The Philippine opinion towards exporting its precious iron ore to Japan after the Second World War was mixed. During the war, almost all the iron ore that was extracted in the Philippines was sent to Japan. On June 5th, 1948, the Manila Times published a public opinion statement which gives an impression of the what the people thought on trading with the Japanese:

*"No export to Japan of raw materials, especially from the mines, should be permitted which would help in its rehabilitation. We should avoid contact with Japan. Let us free ourselves from the great American delusion."*¹⁷⁰

This reflects the Philippine people's defiance for both Japan and USA, as both states have once had political control over the island nation. The people expressed their desire to free themselves from subjugation. However, some meant that the Japanese occupation brought prosperity to the country. Businessmen living in the Philippines saw Japanese political influence in their country as a financial and economic opportunity to develop their country. This may have been in relation with the Pan-Asian movement where Filipinos favored the thought of Japanese presence over American colonialism. Another reason could be that a significant number of Japanese peasants and business investors had situated themselves on the islands during the 1920s and 1930s, due to desire for a better life as well as lax U.S. immigration policies in the Philippines.¹⁷¹

Before the Pacific War, the Philippines had the largest Japanese population in Southeast Asia outside Japan. These were common people that wanted to develop businesses. Long before the Japanese imperial army's occupation of the Philippines in the 1940s, has Japanese mining

¹⁶⁸ Westad 2005: 115

¹⁶⁹ FRUS, 1946, The Far East, Volume VIII. *The Ambassador in the Philippines (McNutt) to the Secretary of State*. Manila, October 21st, 1946.

¹⁷⁰ Boericke, W. F. 1948. *Philippine mines: recent progress*. Far Eastern Survey, Vol. 17, No. 17. Institute of Pacific Relations: 205

¹⁷¹ Yu-Jose 1996: 64, 68-9

companies been present on the archipelago. The Japanese extracted in total 48000 tons of iron ore from the Calambayungan mine in 1918 and 1919 through the Japanese zaibatsu company Kuhara Kogyo, but this operation ceased due to the lack of substantial outcome.¹⁷² Kuhara Kogyo was established in 1905, and during World War I this company became one of Japan's greatest industrial companies. This company was the predecessor to Nihon Sangyo, or better known today as Nissan.¹⁷³ Evidently, Japanese steel companies had participated in the development of the mining industry in the Philippines. In 1923 and 1930, a Swedish geologist examined the Calambayungan deposits on behalf of a Chinese company and the Philippine Atlantic Gulf and Pacific Company. The Atlantic Gulf and Pacific Company was established in 1899 and was the mother company of the Philippine Iron Mines, Inc, (PIM). This company became one of the largest mining companies in the Philippines and became an important iron ore contractor to Japan after the Second World War.¹⁷⁴ Both these companies were established while the United States governed the Philippines, which might lead us to believe that these companies were established by the Americans.

During the 1930's, Japanese companies started to increase their output of iron ore from the Philippines. In 1934, the Japanese general trading company Iwai & Company started to import iron ore from Larap in 1934 through Philippine Iron Mines, Inc. In 1937, Japanese engineers bought a sample of iron ore from the Surigao mine in the Philippines, and their satisfaction of its quality turned them to apply for a mining lease to the Philippine government. This meant that the Japanese would operate the mine on their own accord, which the local government hesitated to permit.¹⁷⁵ The Surigao mine was considered to be one of the world's largest iron ore reserves. The Philippines' domestic yearly iron consumption was not large, hence they did not have either the capital for, nor the need to excavate these mines.¹⁷⁶ However, if the Japanese could operate the mine themselves and financed the mining equipment, this could prove a lucrative business for the Philippines. The first large shipment of iron ore was provided by PIM, as they negotiated a contract with a Tokyo-based company in 1938. During

¹⁷² Joseph F. Harrington and Benjamin M. Page, *Sources of iron ore in Asia*. March 1952, NARA, RG 331, Publications, Box 9017, Folder 45: 37

¹⁷³ Blackford, M. G. 2008. *The rise of modern business in Great Britain, the United States and Japan*. Arnhem: The University of North Carolina Press: 159

¹⁷⁴ Joseph F. Harrington and Benjamin M. Page, *Sources of iron ore in Asia*. March 1952, NARA, RG 331, Publications, Box 9017, Folder 45: 37

¹⁷⁵ Joseph F. Harrington and Benjamin M. Page, *Sources of iron ore in Asia*. March 1952, NARA, RG 331, Publications, Box 9017, Folder 45: 32

¹⁷⁶ Porter, C. 1939. *Philippine independence in a mineral-conscious world*. In the Far Eastern Survey, Vol. 8, No. 22. Institute of Pacific Relations: 258

1939, they carried 770000 tons of iron ore from the Larap mine to Japan.¹⁷⁷ As the Americans imposed an embargo on strategic materials including iron ore to Japan in 1941, the Japanese invaded and occupied the Philippines in 1942,¹⁷⁸ even though they knew that this would greatly provoke Washington. With the Japanese occupying the Philippines, they gained complete access to the island's reserves of iron ore. However, due to the lack of functioning sea vessels, only small amounts of Philippine iron ore were exported to Japan during the last years of the Second World War.¹⁷⁹

In the preparations to establish a peace treaty for Japan after the Second World War, the Philippine government requested to impose a strict policy upon Japan. However, due to the geopolitical situation with growing Communist sentiment in China as well as the Soviet-sympathizing group Hukbalahap, the Philippine government came to understand that the best way to protect its newly achieved independence was to agree with the American occupation of Japan. They had to set aside their grudges and rather cooperate with the Americans and the Japanese. The government decided that this was a better fate than to risk falling under Soviet Communism.¹⁸⁰

In July 1947, as SCAP and Washington came to the decision to change its occupation policy towards expanding foreign trade, the Industry Division and Foreign Trade Division had internal discussions on the possibility to restart the import of Philippine iron ore to fuel the Japanese steel industry. The Japanese was already familiar with the area and the mines, and it could thus be lucrative to restart this enterprise. However, the iron ore from this particular deposit located in the Philippines, was high in sulfur content, which was especially unfavorable in Japanese steel production. This ore would require a considerable amount of processing due to its low quality. The Industry Division argued that the Philippine iron ore was of lower quality than iron ore from Hainan, and thus the FTC Division put this trade opportunity on hold until further notice.¹⁸¹

¹⁷⁷ Joseph F. Harrington and Benjamin M. Page, *Sources of iron ore in Asia*. March 1952, NARA, RG 331, Publications, Box 9017, Folder 45: 32

¹⁷⁸ Robinson, L., Johnson, P. B. & Oak, G. S. 2016. *U.S.-Philippine relations in historical perspective*. In U.S. Special Operations Forces in the Philippines, 2001-2014. RAND Corporation. (Web). <http://www.jstor.org/stable/pdf/10.7249/j.ctt1cd0md9.9.pdf?refreqid=excelsior:8f73668e63f1169ce67a5f607a51f9ea> Accessed 04.17.2018

¹⁷⁹ Erselcuk 1947: 112

¹⁸⁰ Fifield, R. H. 1951. *Philippine foreign policy*. In *Far Eastern Survey*, Volume 20, No. 4. Institute of Pacific Relations: 33-35

¹⁸¹ Industry Division, *Offer of Philippine Iron Mines, Inc., to sell iron ore to Japan*. July 15th, 1947, NARA, RG 331, Topical File, Box 7351, Folder 5.

3.4.1 Stockpiled iron ore secured continuity

Japanese steel companies favored the idea to continue import of iron ore from former colonies because of the promise of high quality and close proximity to Japan. It appeared to be considerable amounts of iron ore the Japanese military had extracted from Filipino mines but failed to bring back to Japan before the surrender in 1945. Iwai & Company's iron ore import from the Larap mine in the Philippines is an example of this. The import of Larap iron ore came to a halt with the U.S. embargo upon iron ore export to Japan.¹⁸² Imports from the Larap mine would not be continued before 1948, but Iwai had sent a request to PIM on September 15th, 1947 to import the stockpiled iron ore. Iwai was interested in importing the stockpiled amount of 114000 tons, and to continue their trade relationship from that point forward. However, PIM was not allowed to undertake any action before they received permission from the American occupation authorities, and they needed the Philippine government's verification as well.¹⁸³

This sheds a light upon the Philippine company's willingness to continue business and find markets to sell their ore. However, the Philippine government was hesitant to consider establishing business deals with Japan this early following the Second World War. All things considered, Japan was about the only importer of Philippine iron ore in the late 1930s,¹⁸⁴ and to stop this delivery would put a great burden on the iron mining companies and the young independent country's economy. The market vacuum that Japan left the Philippines in 1945 was significant. Also, both Iwai and PIM needed validation from their superiors; Iwai from an occupational administration that wished to slowly introduce Japan into world trade society, PIM from a newly established republic who was hesitant because of recent memories of Japanese military occupation. Iwai and PIM were therefore in the same kind of situation in this matter.

In March 1948, Iwai and PIM both had received verification from SCAP and the Japanese government to continue this trade, and they now awaited the Philippine government's viewpoint of the matter. They also discussed the possible reintroduction of import of iron ore from the Calambayungan mine, in addition to Larap. There were still much that had to be done before a trade deal could be initiated. The quality had to be assessed, and also the docking possibilities in the Philippine ports. PIM have not been able to do a thorough analysis of the stockpiled iron ore, nor the unextracted ore. PIM claimed it seemed like the extracted ore had

¹⁸² Joseph F. Harrington and Benjamin M. Page. *Sources of iron ore in Asia*. March 1952, NARA, RG 331, Publications, Box 9017, Folder 45: 37

¹⁸³ H. J. Belden. *Philippine iron ore to Iwai & Co*. November 4th, 1947, NARA, RG 331, Topical File, Box 7351, Folder 5.

¹⁸⁴ Joseph F. Harrington and Benjamin M. Page, *Sources of iron ore in Asia*. March 1952, NARA, RG 331, Publications, Box 9017, Folder 45: 30

not been sorted according to quality, and that it was possible that this ore may have had great amounts of unwanted attributes, such as high content of sulfur. In addition, several mines were badly damaged, and restorations was necessary to be able to continue mining.¹⁸⁵ Philippine ports also suffered from the damages after the Second World War.¹⁸⁶ Measures had to be taken if the trade deal with the Philippines should be possible.

3.4.2 Japanese steel export to support Philippine Relief

In the end of August 1948, the FTC Division received an answer from the Philippine government. A message from Placido Mapa, the Secretary of Agriculture and Natural Resources had been forwarded to Division Chief Frank Pickelle from the President of PIM, Henry J. Belden.¹⁸⁷ PIM, as was sponsored by the government, needed approval for export action from the central government. This was like the situation in Japan: the Japanese government needed approval from the ESS. The fact that PIM's President was American, strengthens the belief that the company was established by Americans.

In the letter, Mapa indeed seemed to be in doubt whether to initiate this trade deal with Japan. He would approve it on one condition on behalf of the Philippine republic: that this iron ore exported to Japan would be converted into finished goods such as galvanized iron sheets and reinforcing bars. These products should then become available for export to the Philippines and their aid program, the Philippine Relief and Trade Rehabilitation Association (PRATRA). This organization was established to rebuild the Philippines after the war.¹⁸⁸ This trade relationship would be considered a win-win situation; the Philippines provided Japan with iron ore for their steel industry that would increase Japanese export of finished industrial goods, as well as Philippines got use of the iron ore it wasn't able to process itself, as of purchasing finished goods from Japan.

Thus, the Industry Division anticipated that a value-for-value trade basis, or barter trade, would be the appropriate arrangement on Philippine iron ore. In other words, finished goods such as galvanized sheets, reinforcing bars, nails, hot rolled bars was to be exported to the Philippines to the same estimated price as the value of the iron ore shipped to Japan.¹⁸⁹ In this

¹⁸⁵ H. J. Belden. *Iron ore from Calambayungan mine, Philippines*. March 1st, 1948, NARA, RG 331, Topical File, Box 7351, Folder 5.

¹⁸⁶ Boericke 1948: 202

¹⁸⁷ Placido L. Mapa. *Iron ore from the Philippines*. August 26th, NARA, RG 331, Topical File, Box 7351, Folder 5.

¹⁸⁸ H. J. Belden. *Iron ore from the Philippines*. September 2nd, NARA, RG 331, Topical File, Box 7351, Folder 5.

¹⁸⁹ W. H. Dietz. *Iron ore from Philippine Islands*. September 7th, 1948, NARA, RG 331, Topical File, Box 7351, Folder 5.

way, a dollar deficit on the trade between the Philippines and Japan would be avoided, since the estimated value of the goods was evened out. In *Path to Vietnam*, Rotter states that, in spring 1950, “the Philippines [...] remained hostile to the establishment of trade contacts with the Japanese.”¹⁹⁰ The initiation of this trade arrangement in 1948 may thus indicate that the Philippine government was not that restrictive, considering that trade with Japan could provide to the Philippine PRATRA relief program with manufactured steel necessary to restore their economy.

3.5 India

After being a British colony since the seventeenth century, India claimed her independence in 1947. Just after their liberation, a new dispute kept the Indian Prime Minister Jawaharlal Nehru preoccupied. On January 13th, 1948, the Pakistani government indicated interest to be given U.S. financial aid, in order to develop a relationship of “friendship, commerce and navigation”. The Charge of India Howard Donovan warned that this might antagonize India, due to their territorial disputes over Kashmir, the mountainous region which narrows between the two countries. India feared that any financial aid that Pakistan would receive from the United States could be used against them militarily in this conflict. Donovan stated it was possible both that India could see U.S. financial aid to Pakistan as a hostile act, or that they could extend a similar request of aid.¹⁹¹ A couple of months later, the Secretary of State informed President Truman that the Kashmir conflict could develop to pose a threat to international peace, which was the last thing that Washington needed at the time. The aid to Pakistan was therefore suspended until the dispute calmed down.¹⁹² At the same time, Soviet Foreign Minister Molotov traveled to India in order to convince Indian Communists to mobilize and to choose the Eastern side of the Cold War.

On these grounds, Nehru proclaimed in a speech on March 8th, that India was to remain independent and neutral in the time of global political conflict. Indian ambassador Henry F. Grady assumed that this amounted to an answer against the Soviet Union’s endeavors.¹⁹³ Prime Minister Nehru did not want to have any part in great nations’ politics. He wanted to focus on India, to develop economic growth and find her role in the region. Goa, which will be mentioned

¹⁹⁰ Rotter 1987: 139

¹⁹¹ FRUS, 1948, The Near East, South Asia, and Africa, Volume V, Part I. *The Chargé in India (Donovan) to the Secretary of State*. January 28th, 1948, New Delhi.

¹⁹² FRUS, 1948, The Near East, South Asia, and Africa, Volume V, Part I. *Memorandum by the Secretary of State to President Truman*. March 11th, 1948, Washington.

¹⁹³ FRUS, 1948, The Near East, South Asia, and Africa, Volume V, Part I. *The Ambassador in India (Grady) to the Secretary of State*. March 18th, 1948, New Dehli.

in the next chapter, was a Portuguese colony on the west coast of India. Portugal refused to give up Goa to become a part of India, even though it geographically was a part of the emancipated Indian nation.¹⁹⁴ The following section will review India's role in the establishment of iron ore trade connections with Japan, and consider how SCAP and Japan cooperated to establish trade connections with India, who wanted to stay out of large nation's politics in the Cold War.

India had abundant reserves of raw materials, and one of the largest iron ore deposits on the Indian peninsula was located in the Singhbhum district in the northeast.¹⁹⁵ Japan was particularly interested in her iron ore, and Japanese expansionists indeed hoped to invade India at some point, after they had seized the Southeast Asian region. Evidently, they never reached that far.¹⁹⁶ Prime Minister Nehru aspired to make India prosperous, and intended to keep the natural resources within India for their own country's development.¹⁹⁷ However, albeit that iron ore and raw materials was vastly available throughout the peninsula, the production of finished steel had not yet become common in India. It did not have the capacity to produce enough for domestic use.¹⁹⁸ India could benefit from Japanese steel production, if she contributed with her iron ore. If India chose to develop trade connections with Japan, which was occupied by the U.S., she would then indirectly pick a side in the Cold War.

3.5.1 Japanese companies uncertain on their position in trade matters

India had large deposits of iron ore and other raw materials necessary to sustain a steel industry. The country was at that time, next to Japan, the largest producer of iron and steel in the East, but it did not have the capacity to satisfy the steel requirements for her young nation. Ataka & Co.¹⁹⁹ was on March 25th, 1948 contacted by an Indian mining company, named Baijnath Sarda. Sarda had received information that iron ore was in great need in Japan and addressed their desire to sell their raw materials there.²⁰⁰ Since India was incapable of producing enough steel for its own use, the country could sell their iron ore to Japan and buy finished steel products in return.

¹⁹⁴ Rotter, A. J. 2013. "South Asia." In Immerman & Goedde, *The Oxford handbook of the Cold War.*: 212, 224

¹⁹⁵ Joseph F. Harrington and Benjamin M. Page. *Sources of iron ore in Asia.* March 1952, NARA, RG 331, Publications, Box 9017, Folder 45: 76

¹⁹⁶ Beasley 1987: 29

¹⁹⁷ Rotter 2013: 220

¹⁹⁸ Kamat, M. M. 2008. *Goa's iron ore export: an empirical investigation into growth, contribution and competitiveness.* [Ph.D]. Goa: Goa University: 85

¹⁹⁹ Ataka & Co. was a general trading company established in 1918, which had established its business firmly in Southeast Asia until 1945, as it had established 39 branch offices; two of them in Malaya, and four in the Philippines. Kawabe 1990: 176

²⁰⁰ Ataka & Co. Ltd, Tokyo branch. *Indian iron ore via Baijnath Sarda.* June 14th, 1948, National Diet Library, Tokyo, Call no. ESS(B) 04608-04609, RG 331, Metals & Minerals File, Box 6507, Folder 54.

Ataka & Co. became the company in charge of exchanging information between SCAP, the Board of Trade and Baijnath Sarda. On June 14th, 1948, they requested Baijnath Sarda to send them a summary of the previous exports of iron ore to Japan. Ataka & Co. enthusiastically expressed that this could convince SCAP to hasten their assessment of the import of Indian iron ore. Ataka & Co. also confirmed that they had received offers from Indian businessmen on visit in Japan, on large amounts of several machineries.²⁰¹ This shows that foreign trade actors was visiting Japan in hope of gaining Japanese-produced steel products. Ataka & Co. emphasized that this only increased their need for the Indian iron ore. Thus, Baijnath Sarda contacted SCAP directly with the iron offer in mid-June. As they had not received an answer by July 22nd, they firmly requested their quick answer.²⁰² However, SCAP did not seem to be as enthusiastic by the iron offer as Ataka & Co. was, and they decided to delay the reply exactly one month later. In addition, the Economic and Scientific Section refused to answer Baijnath Sarda themselves and requested the Board of Trade to send a cable composed by the ESS.²⁰³ At this stage, the Americans wanted the Japanese government to keep contact with the companies offering iron ore, instead of direct intervention from SCAP. They gave verification in the form of the cable the Board of Trade was asked to dispatch, as not to make it look like the SCAP authorities overrode every decision. This contrasts to the kind of communication SCAP and Japan had with the Philippines. Japan was left on the sidelines when it came to communication with the Filipinos. Since India had not been occupied by the Japanese during the Pacific War, SCAP wanted to project the image of a strong Japan that took care of its own affairs, to countries that had no colonial experience with Japan. In addition, the Indian government did not play an important part in the negotiations of this trade arrangement.

Another matter that arose during this communication, was Baijnath Sarda's misunderstanding on who they should negotiate trade deals with. Osaka Koeki Kaisha was a Japanese trading company that represented Baijnath Sarda in Japan, and on August 7th, they proposed a bid upon sales of iron ore to the Board of Trade.²⁰⁴ The Japanese government answered that they were interested, but also confused, because Ataka & Co. had already

²⁰¹ Ataka & Co. Ltd, Tokyo branch. *Indian iron ore via Baijnath Sarda*. June 14th, 1948, National Diet Library, Tokyo, Call no. ESS(B) 04608-04609, RG 331, Metals & Minerals File, Box 6507, Folder 54.

²⁰² F. E. Pickelle. *Cable to Baijnath Sarda re iron ore*. August 23rd, 1948, National Diet Library, Tokyo, Call no. ESS(B) 04608-04609, RG 331, Metals & Minerals File, Box 6507, Folder 54.

²⁰³ Ibid.

²⁰⁴ Hisano Tarakura. *Bid on iron ore from Baijnath Sarda*. August 7th, 1948, National Diet Library, Tokyo, Call no. ESS(B) 04608-04609, RG 331, Metals & Minerals File, Box 6507, Folder 54.

proposed this trade offer in the first place.²⁰⁵ The Board of Trade informed Baijnath Sarda on August 12th that Ataka & Co. was the only one that was to provide iron ore from this firm.²⁰⁶ This indicates that Baijnath Sarda had sent offers on iron ore to a number of agents, of which all had forwarded the offer to the Board of Trade. However, the Board of Trade insisted that Ataka & Co. was the only company that would represent the Indian mining company. On September 7th, Ataka & Co. told B. Sarda that since they had conducted such business for over thirty years, they were the company most qualified.²⁰⁷

Osaka Koeki Kaisha seemed to disagree with this. In November 1948, on behalf of Baijnath Sarda, Osaka Koeki Kaisha presented a final offer on 100000 tons of iron ore to the Foreign Trade and Commerce Division and the Industry Division.²⁰⁸ This was a conflict between the private trading company Osaka Koeki Kaisha and the Japanese government. Osaka Koeki Kaisha seemed to be the delinquent in this whole matter, as Japanese companies were supposed to send inquiries on trade agreements to Board of Trade, and then the Board of Trade would forward this to SCAP. Confusion spanned until December, as Baijnath Sarda sent a telegram to Osaka Koeki Kaisha telling them to act according to the Japanese Board of Trade's and SCAP's guidelines.²⁰⁹ The Indian mining company seemed to be quite tired of the matter. On January 4th, 1949, a contract of 100000 tons of iron ore was signed between S. P. Banerjee, who operated as the general business mediator for Baijnath Sarda, and the Board of Trade. It was approved by Russell W. Hale, chief of FTC Division.²¹⁰ Thus, the first contract on iron ore from India was signed, ten months after the first correspondence from Baijnath Sarda. It shows it was internal conflicts between private Japanese trading companies and the Japanese government. The trading companies wanted to represent their client, but the Japanese government were forced to follow the American occupation forces' guidelines. However,

²⁰⁵ Ataka & Co. Ltd, Tokyo branch. *Three Japanese firms interested in Indian iron ore*. August 12th, 1948, National Diet Library, Tokyo, Call no. ESS(B) 04608-04609, RG 331, Metals & Minerals File, Box 6507, Folder 54.

²⁰⁶ Director of Export Bureau, Board of Trade. *Negotiations exclusively through Ataka & Co*. August 12th, 1948, National Diet Library, Tokyo, Call no. ESS(B) 04608-04609, RG 331, Metals & Minerals File, Box 6507, Folder 54.

²⁰⁷ Ataka & Co, Ltd. *Iron ore from India*. September 7th, 1948, National Diet Library, Tokyo, Call no. ESS(B) 04608-04609, RG 331, Metals & Minerals File, Box 6507, Folder 54.

²⁰⁸ Osaka Koeki Kaisha. *Final offer of 100,000 long tons of Indian iron ore*. November 24th, 1948, National Diet Library, Tokyo, Call no. ESS(B) 04608-04609, RG 331, Metals & Minerals File, Box 6507, Folder 54.

²⁰⁹ Baijnath Sarda. *Iron ore*. December 15th, 1948, National Diet Library, Tokyo, Call no. ESS(B) 04608-04609, RG 331, Metals & Minerals File, Box 6507, Folder 54.

²¹⁰ Russell W. Hale. *Contract of iron ore*. January 4th, 1949, National Diet Library, Tokyo, Call no. ESS(B) 04608-04609, RG 331, Metals & Minerals File, Box 6507, Folder 54.

negotiations went through at last, and India became an important supplier of iron ore to Japan from this point forward.

3.6 Malaya

Malaya refers to today's West Malaysia and the Republic of Singapore. At the time after World War II, Malaya was a British colony until 1957. Japan had been present in Malaya since the 1910's, where some few Japanese had developed their own rubber plantations. It did not take long before small Japanese firms were replaced by larger Japanese business enterprises, many of them affiliated with the *zaibatsu*. An example was Kuhara Kogyo, later to become known as Nippon Kogyo as part of Nissan, was in 1916 the first Japanese company to excavate for iron ore in the area.²¹¹ Japanese iron mining in Malaya started in 1921 with an output consisting of 74250 tons, while it increased to 1616099 tons in 1938, which is an over 2000% increase. Malaya was rich in raw materials, most famous for her tin and rubber,²¹² but also had considerable reserves of iron ore. In fact, the Japanese assisted the Malayan government in developing the mines. Malaya was at the time a colony of the British, but they tolerated the Japanese iron ore business because of the taxes Japan had to pay for the export. The tax was an important benefactor to the Malayan economy. Malaya was unable to process the ores themselves, since they lacked the coal to operate a furnace, as well as the machinery.²¹³ From 1936 to 1940, about one million tons of iron ore was extracted yearly.²¹⁴

The Japanese army's expansion southwards included Malaya as well as the Philippines, and the Japanese initiated an invasion of the country in 1941, and severely exploited the natural resources and as well as the local population for forced labor. Malaya became one of the most important suppliers of iron ore to Japan during their imperial years. The Malayan Dungun mine especially benefited Japan with high quality iron ore during the war. Nippon Kogyo started iron ore production in this mine in 1941, but shortage of ships made it difficult to sustain a stable flow of shipments to Japan.²¹⁵ In 1945, the Japanese was expelled from this area as well, and yet again they lost an important supply of iron ore.

After Japan's surrender, British troops returned to Malaya, and the Malayan People's Anti-Japanese Army (MPAJA) started in late August 1945 to prosecute the Japanese living in

²¹¹ Tomaru 2000: 23

²¹² Rotter 1987: 57

²¹³ Thompson, V. 1941. *Malayan iron ore for Japan*. In *Far Eastern Survey*, Vol 10, No. 11. Institute of Pacific Relations: 130

²¹⁴ Signed M.H. *Development of Zungun (Dungun) iron ore mine in Malaya*. March 17th, 1948, NARA, RG 331, Topical File, Box 7351, Folder 7.

²¹⁵ Joseph F. Harrington and Benjamin M. Page. *Sources of iron ore in Asia*. March 1952, NARA, RG 331, Publications, Box 9017, Folder 45: 44

Malaya, as well as their Malayan collaborators. Malaya was a so-called plural society with a population consisting of many nationalities. Many Chinese lived in Malaya, and Chinese communists posed the majority group in MPAJA. This guerilla group started an insurgency against the British colonial powers in 1948, later to be known as the Malayan crisis, or *The Emergency*. The British Colonial Office realized that it was pivotal to maintain order in Malaya in order to contain the spread of Communism, and called to arms forces from the Commonwealth, including the Middle East, Africa and Hong Kong. Warfare was expensive, and Britain had to rehabilitate her colonies after the Second World War. In addition, Great Britain was at the time about to incorporate the terms of the Marshall Plan, and their colonial affairs were not their highest priority. Thus, postwar trade with Japan was highly favored,²¹⁶ although popular Malayan opinion against the Japanese was negative related to earlier experience. However, this trade relationship could develop the Malayan economy through import of Japanese manufactured steel, if Malaya supplied Japan with iron ore exports. Since Malaya did not have the technology to process her iron ore, it would be beneficial for them to export the ore to Japan and later import finished manufactured steel products from the country.

Malayan iron ore was a matter of interest for the U.S. occupation administrators, as it became of great importance to the Japanese steel industry before the end of World War II. The ore from Malaya was one of the fundamentals in the development of the industry. In addition, the Japanese were familiar with the mines and the ore's quality was satisfactory. However, the Malayan government denied Japanese entry into their waters.²¹⁷ The solution became the Swiss company E. Ott & Co. This company exported Hainan iron ore to Japan and took over the practice of selling iron ore from the Malayan Dungun mine after Nippon Kogyo.²¹⁸ On July 24th, 1948, the Board of Trade signed a contract on Malayan iron ore with E. Ott & Co., and the trade agreement was approved by the FTC Division. The ore in question had already been mined and was stored at one of Malaya's ports.²¹⁹ What is interesting here is the continuity of the iron ore mines in both Malaya and Hainan: both were subject to Japanese resource exploitation during the occupation years, and both countries provided Japan with iron ore also after the war, and the ore being exported was often from stockpiles from before 1945. Junko Tomaru concluded it had to do with the role E. Ott & Co. played during the war, trading with Japan

²¹⁶ Tomaru 2000: 39, 45

²¹⁷ International Trade Bureau, MITI. *Observation on draft import contract for Malayan iron ore*. October 24th, 1949, NARA, RG 331, Topical File, Box 7351, Folder 7.

²¹⁸ Joseph F. Harrington and Benjamin M. Page. *Sources of iron ore in Asia*. March 1952, NARA, RG 331, Publications, Box 9017, Folder 45: 44

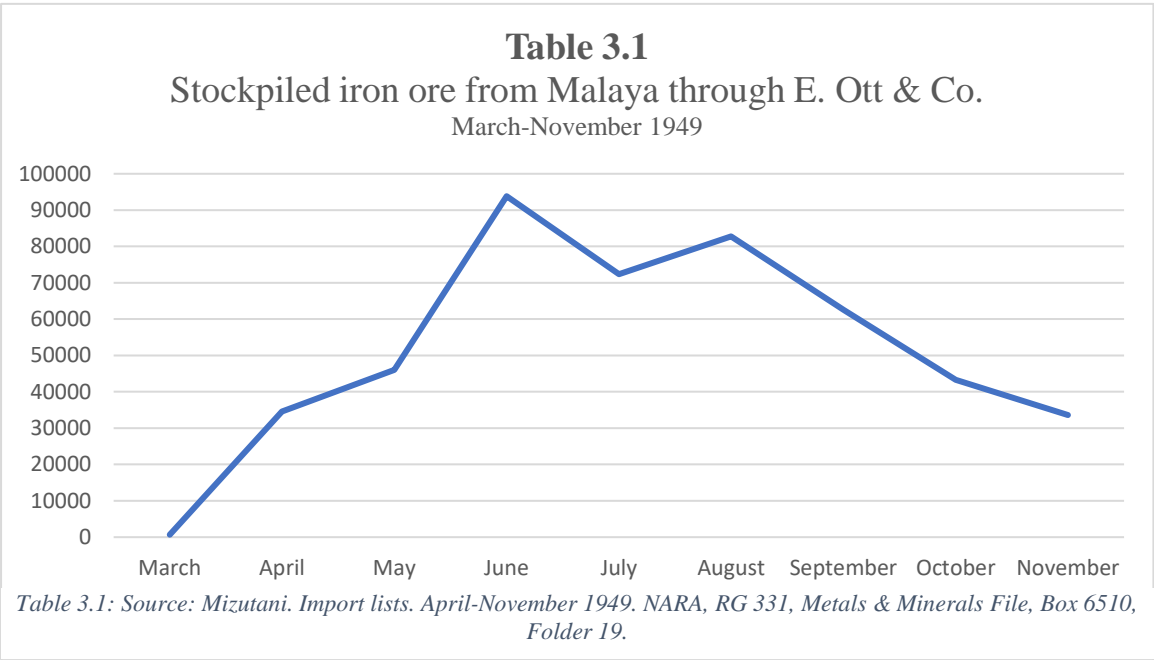
²¹⁹ R. W. Hale. *Approved performance bond between E. Ott & Co. & Board of Trade*. July 24th, 1948, NARA, RG 331, Topical File, Box 7351, Folder 7.

during the occupation of Hong Kong.²²⁰ Japan gained access to the iron ore market in Malaya and Hainan through E. Ott & Co., which operated as a mediator company between contested territories and Japan. This company made the trade possible.

3.6.1 E. Ott & Co. secured stockpiled iron ore for Japan

Four years after the end of the Second World War, skepticism still reigned amongst Southeast Asian governments to Japan trading with countries that they had subjugated to their military rule during the 1930s and 40s. Many governments were hesitant to let Japanese ships enter their naval territory. Therefore, when the ESS authorities set up contracts with companies, they often depended shipping done by mediators. The Malayan government did not allow Japanese vessels into Malayan waters and relied upon freight provided by E. Ott & Co.²²¹ By August 1949, this seemed to have changed, as some Japanese vessels started to get authorized access to some ports in Malaya. Using their own ships, Japan was able to save some expenses on freight.

Iron ore imports from Malaya became increasingly relevant in 1949. From March through November 1949, E. Ott & Co. exported in total 469793 tons of iron ore to Japan. After November 14th, E. Ott & Co. stops appearing on the import lists as a provider of Malayan iron ore to Japan.²²² Tomaru explains that the iron ore that Japan imported until the end of 1949 is stockpiled iron ore.²²³ This is the same situation as in the Philippines: the Japanese is importing iron ore that has already been mined. Table 3.1 displays the import of stockpiled iron ore from



²²⁰ Tomaru 2000: 52

²²¹ Ibid.

²²² Mizutani. *Import lists*. April-November 1949. NARA, RG 331, Metals & Minerals File, Box 6510, Folder 19.

²²³ Tomaru 2000: 52

Malaya. In March, with only one vessel, E. Ott & Co. shipped 683 tons with one vessel. The shipment peaked in June, with 93821 tons, exported by ten vessels, with an average load of 930 tons. As from August, shipments done by E. Ott & Co. decreased,²²⁴ which indicates lowered Japanese dependence on the Swiss company. This also tells us that the iron ore that E. Ott & Co. sold to Japan, was stockpiled iron ore that was mined by the Japanese before the end of World War II. In the end, Japan had to pay for the iron ore that they had mines themselves, and it was E. Ott & Co. that administered the export of it to Japan.

3.7 Swedish Trade Conference

It is relevant to include a European country that traded with Japan after the war. Sweden is a country that maintained neutral position through two world wars, while they provided warring states with raw materials necessary for war production. Swedish iron ore became important to the German steel industry in the late 1930's, which made Washington question Sweden's loyalty to European liberty.²²⁵ Also after the Second World War, Sweden wanted to remain neutral in the political conflicts happening on the European continent and in Southeast Asia. Even after the Soviet expansion in Eastern Europe, Sweden wanted to keep selling iron ore and other strategic raw materials to the Soviet Union. This came obviously as a disadvantage to the USA and could compromise Sweden's access to financial aid through the Marshall Plan.²²⁶ Sweden wanted to remain neutral so that it could uphold her trade relations with both the liberal and the Communist side of the Cold War, something that frustrated Washington deeply.

Sweden was a challenge to Washington in the late 1940's. Because Sweden is rich in natural resources and in proximity of Eastern Europe, the American government suspected that a Soviet invasion of Sweden was not entirely implausible. However, even though the Swedish government wanted to keep a friendly relationship with the Soviet Union, Swedish military elaborated the need to keep close cooperation with the Western states due to the need for supplies and an export market for their goods.²²⁷

After World War II, Sweden needed imports of industrial products from the U.S. Due to acute currency crisis, import surplus and a shortage of dollars, Sweden experienced difficulties in establishing trade with dollar areas and achieving necessary commodities. As Sweden had remained neutral during the Second World War, was the Marshall plan only of

²²⁴ Mizutani. Import lists. April-November 1949. NARA, RG 331, Metals & Minerals File, Box 6510, Folder 19

²²⁵ Hagglof, G. 1960. A test of neutrality: Sweden in the Second World War. In *International Affairs* (Royal Institute of International Affairs 1944-), Vol. 36, No. 2. Oxford University Press: 154

²²⁶ Karlsson, B. 1992. Handelspolitik eller politisk handling: Sveriges handel med öststaterna 1946-1952. [B essay]. *Ekonomisk-historiska institutionen vid Göteborgs universitet.*: 123, 135

²²⁷ FRUS, 1949, Western Europe, Volume IV. *Policy statement of the Department of State.* August 15, 1949.

minor assistance to this problem.²²⁸ Sweden intended to trade iron ore with Eastern European states in the years following the war, and the US worked hard in negotiations to make Sweden abstain from this. They wanted Sweden to pick a side in the Cold War and end their tradition of remaining neutral. Washington actively tried to avoid iron ore to reach the Soviet Union through embargo policies and trade restrictions. These restrictions also applied to the export of Swedish iron ore.²²⁹ The American government proposed that Great Britain should import more iron ore from Sweden and produce their own steel, instead of importing steel from the USA.²³⁰ But Sweden apparently had a market for her iron ore in Southeast Asia as well. On October 14th, 1948, SCAP purchased iron ore from the Swedish trading company Herbert Dieden & Co, through the Sweden Open Account.²³¹ SCAP came to the realization that Sweden could become an important provider of iron ore to Japan. At the same time, this could divert some of the iron ore to go to Japan instead of the Soviet Union.

The naval distance between Sweden and Japan is important to take into account. Sweden had three options to travel by sea to Japan: the shortest route passed through the Suez Canal with a dwindling 20000 kilometers. Other options that amounted to an ever longer distance was around Cape Horn, Cape of Good Hope or through the Panama Canal. Compared with India, Japanese farthest Asian trade partner, the distance is about 8500 kilometers by sea travel.²³² This shows to what extent the United States was devoted to divert iron ore from ending up in the Soviet Union.

Sweden and Japan had one thing in common – both being subject to a crisis known as the Dollar problem. The Dollar problem was a monetary crisis that many countries suffered from after the Second World War. In practice, if a foreign person wanted to purchase an item from the United States, he would be unable to pay for it in his local currency and had to pay with dollars. If he was short on dollars, he would struggle to attain these goods he desired.²³³ Both countries had low dollar reserves and struggled with debt. This was their common ground,

²²⁸ Edwardsson, A. 2016. *Handel med förhinder. -En studie av Sveriges handelsförbindelser med Kina respektive Japan under 1950-talet (1949-1961)*. [Master's thesis]. Lund Universitet: 13

²²⁹ Myant, M. 2010. *The Czechoslovak Economy, 1948-1988 – The battle for economic reform*. New York: Cambridge University Press: 15-16

²³⁰ Karlsson, B. 1992. *Handelspolitik eller politisk handling: Sveriges handel med öststaterna 1946-1952*. [B essay]. Ekonomisk-historiska institutionen vid Göteborgs universitet: 193

²³¹ Open account trade functioned to stimulate foreign trade: the buyer pays for the goods when they arrive at his destination, which is lucrative for the buyer. In Foreign Trade Division. *Foreign trade during the third year of the occupation*. September 1st, 1948, National Diet Library, Tokyo, Call no. CHS (A) 03232, RG 331, Topical File, Box 3626, Folder 11.

²³² Sea Distances.org. (Web). <https://sea-distances.org/> Accessed 11.11.2018

²³³ MacDougall, D. (1954). *A lecture on the dollar problem*. In *Economica*, New series, Vol. 21, No. 83. Published by Wiley on behalf of the London School of Economics and Political Science and The Suntory and Toyota International Centres for Economics and Related Disciplines: 186

and the representatives decided to find a solution that would fit them both. Japan was in possession of goods that Sweden needed and vice versa. This would also be a possibility to secure iron ore to a country which the US administered, which meant less iron ore for the Eastern European countries.

In late October 1948, SCAP representatives met with Swedish trade representatives on the Swedish Trade Conference that was arranged in Tokyo. The Swedish Trade Conference lasted eight days, from October 26th to November 2nd. There were three Swedish representatives, Olof Ripa, a Swedish diplomatic representative, Nils E. Ihre and Hans O. Swedborg, both being Swedish trade delegates. From SCAP it was nine representatives, amongst them Frank E. Pickelle, chief of FTC Division, and various members of the Economic and Scientific Section.²³⁴ Through five meetings, the representatives discussed how trade of specific commodities could benefit both Japan and Sweden. The SCAP representatives requested iron ore and pig iron, while Sweden wanted shipbuilding technology from Japan. However, Japan still lacked the resources to make their shipbuilding industry to properly function. The Swedish representatives expressed doubt whether they could provide Japan with the amount of iron ore and pig iron that was requested. The Swedish iron ore was in addition about double the price of the iron ore Japan purchased from Southeast Asia.²³⁵

The agreement of a payments solution that did not affect both countries' dollar shortage became the most crucial topic of the conference. The representatives came to conclude to a deal that would be favorable to both parts: a barter trade solution where commodities were sold at an equal price between the countries, without neither having to fall short on dollar. Since the iron ore from Sweden was expensive, SCAP had to verify that Japan upheld their part of the contract in providing Sweden with the proper amount of textile products, so that they would not face any trade deficit on their watch.²³⁶ The conference ended with SCAP presenting a draft of a *Letter of Understanding*²³⁷ to the Swedish Diplomatic Representative, Leif Ohrvall. This Letter showed how trade between Sweden and Japan was to be conducted, and a summary of the progress of the Swedish Trade Conference and was to be presented to the Swedish government for validation. The letter said that until Sweden and Occupied Japan established a

²³⁴ No author. *Swedish Trade Conference, list over conferees*. October 1948, NARA, RG 331, Subject File, Box 6417, Folder 27.

²³⁵ F. E. Pickelle. *STC: Third meeting*. October 29th, 1948, NARA, RG 331, Subject File, Box 6417, Folder 27.

²³⁶ Carl C. Campbell. *Memo for record: Textile Division: Swedish Barter Trade*. March 1st, 1949, National Diet Library, Tokyo, Call no. ESS (C) 03503, RG 331, Metals & Minerals File, Box 6509, Folder 20.

²³⁷ F. E. Pickelle. *STC: Fourth meeting*. November 1st, 1948, NARA, RG 331, Subject File, Box 6417, Folder 27.

financial agreement, trade would be conducted on a barter trade basis and should be freely authorized within the parameters of this letter of understanding.²³⁸

The status on import of Swedish iron ore was evaluated by the ESS on the Swedish Trade Review in November 1949. It was obvious that trade was expanding more rapidly than both parties had anticipated. The contracts signed up until June 30th, 1949 amounted to exceed the estimated minimum trade value for the whole calendar year 1949, for both Sweden and Japan. Japan had until this date of June 30th imported almost double of what the trade estimate made in 1948 had proposed.²³⁹ Table 3.2 shows the trade balance between Sweden and Japan, and it displays that Sweden had a large trade deficit in 1947. Sweden had difficulties with exporting enough to achieve a trade balance in this period. In the prewar years, Sweden exported more than it imported, and had thus an export surplus. In mid-1949, the trade balance was about to even out, with only a slight export surplus.

Table 3.2
Trade balance between Sweden and Japan in 1000 Svenska Kronor

	1938	1947	1948	Jan.-May. 49
Swedish exports	26252	577	12035	10509
Swedish imports	15627	9997	6401	8068
Balance	10625	-9420	5634	2441

Table 3.2: Source: Hunt, E. Survey of trade developments between Sweden and Occupied Japan, 1949. July 27th, 1949, NARA, RG 331, Subject File, Box 6417, Folder 27.

This shows that SCAP succeeded in achieving Swedish iron ore imports to Japan, as well as avoiding this iron ore to fall into the hands of the Soviet Union. The trade with Japan also helped Sweden to increase her exports. However, the import lists show that Sweden only exported a fraction of the total iron ore import of Japan during 1949. Herbert Dieden & Co. sold a mere 10000 tons to Japan during September and October.²⁴⁰ Considering that two Swedish ships with 2600 and 7300 tons sailed 20000 kilometers to reach Japan, shows SCAP's commitment to extend Swedish iron ore to Japan.

²³⁸ F. E. Pickelle. *STC: Draft on Letter of Understanding*. October 30th, 1948, NARA, RG 331, Subject File, Box 6417, Folder 27.

²³⁹ F. E. Pickelle. *STR: Fourth meeting*. November 3rd, 1949, NARA, RG 331, Subject File, Box 6417, Folder 27.

²⁴⁰ Mizutani. *Import lists*. September-October 1949. NARA, RG 331, Metals & Minerals File, Box 6510, Folder 19.

3.8 Concluding remarks

This chapter has shown how Japan's reintroduction to the world's iron ore market. On the grounds that Japan had imported iron ore from Malayan, Philippine and Hainanese mines before 1945, the FTC Division decided that it would be lucrative to reestablish trade with these countries, since Japanese engineers' familiarity with the mines. Due to the current geopolitical situation with the Cold War reaching East Asia, Washington became even more determined to redevelop these trade routes. Malaya and the Philippines were opposed to sell iron ore to Japan, but the Swiss mediator company E. Ott & Co. and the American-owned Philippine Iron Mines, Inc. convinced their respective governments that this would support their own economic development, since they did not have a well-established steel industry of their own. This means that SCAP and Japan took advantage the situation where countries suffered after a world war and faced instability due to Communist insurrections. They made trade agreements with private trading firms and contracting companies, and SCAP started to put their faith in the Japanese general trading companies to develop trade routes across far distances. This chapter has also shown how the Japanese and Americans made it possible to do trade in the face of the dollar gap. Japanese iron ore trade was, whenever possible, conducted on a barter basis. This did not only avoid the dollar gap from widening, but also contributed to Japan establishing an export market for her finished manufactures. The barter solution was lucrative for both the development of export markets and for keeping dollar costs down. Ultimately, this also gave Southeast Asian countries access to steel products from Japan. SCAP's inclination to avoid iron ore from going to the Soviet Union reflects their attempt to develop iron trade from Sweden to Japan. This chapter has also shown that SCAP was not as authoritarian as earlier research has claimed. The American occupation held absolute authority, but the chapter shows that the Japanese government were authorized to discuss with foreign actors without constant SCAP surveillance. Also, SCAP was selective in what trade agreements they decided to involve themselves in. With the Philippines, SCAP wanted to have a central role in the negotiations, while with India, the Japanese took care over most of the bargaining.

Chapter 4. Japanese iron ore trade after the PRC

During the second half of 1949, the power balance in Southeast Asia had tipped towards the Communist's favor. The Soviets had detonated their first atomic bomb in August, much earlier than Washington had anticipated, and the communists hoisted their flags in Beijing. On June 25th, the Korean War broke out. As they saw the Nationalist Kuomintang forces were about to lose their foothold in China in early 1949, policymakers in Washington was uncertain on how to deal with the China situation.²⁴¹ They discussed whether they should act with direct intervention against the Chinese Communists, but this could risk China to move towards closer cooperation with the Soviet Union. This could ultimately put Japan in a dangerous situation after a peace treaty, as Japan traditionally had been highly dependent upon food and raw materials from China. Washington discussed with the British government to put China under the same strategic embargo policy they had initiated in Europe, to avoid strategic materials to end up in the Eastern bloc. They also considered the idea to continue trading strategic materials with China with increased surveillance through export licenses; with certification that these strategic imports were not to be utilized for Communist military causes. This was an attempt to avoid China from falling under subservience to the Kremlin. SCAP was ordered to confirm that Japan would follow the same policy, and to find alternative sources of desired commodities necessary for the restoration of Japan.²⁴²

The State Department started discussions that the preparations of a Japanese peace treaty should find place soon. They feared that if the occupation lasted too long, the Japanese might become uneasy and that Left radicals could exploit the situation. However, they also feared that if the Americans introduced a peace treaty too early, a power vacuum could arise, of which the Left could take advantage of.²⁴³ As the Korean War broke out, American commitment to protect Southeast Asia became even more clear. Japan and her steel industry's role became even more important, as the United States used her as a military base, due to her proximity to the Korean peninsula. The Japanese steel industry needed even more iron ore and raw materials to supply the American troops' fight against the Communist North Korean army. Ironically, it was the Korean War that made the Japanese economy flourish, since Washington fueled dollars into Southeast Asia, hoping that it would increase Japanese exports.²⁴⁴

²⁴¹ Rotter 1987: 108

²⁴² FRUS, 1949, Volume IX, China. *Note by the Executive Secretary of the National Security Council (Souers), on United States policy regarding trade with China.* February 28th, 1949.

²⁴³ Leffler 1992: 334

²⁴⁴ Rotter 1987: 205

Japan's recent trade establishments was in potential danger of succumbing to the Chinese Communists, as Leftist groups formed all over the Southeast Asian region.²⁴⁵ In April 1950, the communists took control over Hainan as the Nationalists fled from the island. The trade embargo imposed on trade with China put heavy restrictions on Japanese import of Chinese iron ore, and Japan was forced to import considerable amounts of expensive iron ore from the United States to sustain production growth.²⁴⁶ Washington believed that the Communist threat could be managed with Japanese industrial machinery supplied to Southeast Asia, but the Japanese steel industry needed an alternative to the American iron ore.

This chapter will analyze how SCAP and Washington started to prepare Japan to manage their own trade by reducing SCAP's divisions and staff and general influence in trade arrangements. How did the American occupation administration react to the Communist victory in China, and how did U.S. policymaking affect Japanese iron ore trade?

4.1 Preparing new policies for Southeast Asia

Washington's faith in rehabilitating Japan was equal to their determination to protect Southeast Asia against Communist agitation. This claim substantiates the tendencies presented in chapter 3, that Japan and Southeast Asia had a mutually advantageous relationship where Japan imported iron ore from Southeast Asian countries, which imported finished steel products from Japan. As Andrew Rotter argues in *Path to Vietnam*: "...policymakers ultimately reached a consensus on the importance of Southeast Asia to the containment of Communism and the restoration of Japan,"²⁴⁷ one can see that USA's focus shifted from investing in one solitary nation, Japan, to Southeast Asia, as an entire region. The region stretching from Pakistan in the West to Japan in the East, amounted in late 1949 to the non-communist part of Asia. It faced a relevant Communist threat from the north, from China and the Soviet Union.²⁴⁸

The Communist coup in China and the establishment of the PRC was something that Washington had been prepared of since early 1949. The establishment of the PRC influenced the geopolitical situation as it manifested a Cold War in Asia. U.S. policymakers had since February discussed together with Whitehall to prepare an extended embargo policy that would include strategic trade with China, because they feared that China would re-export these

²⁴⁵ Hsü 2000: 619

²⁴⁶ Jan, G. P. 1969. Japan's trade with Communist China. In *Asian Survey*, Vol. 9, No. 12. Published by University of California Press: 903

²⁴⁷ Hsü 2000: 127

²⁴⁸ *Ibid.*: 108-109

strategic imports to the Soviet Union.²⁴⁹ The United States' first Ambassador at Large, Philip Jessup, presented on November 14th, 1949 the *Outline of Far Eastern and Asian Policy*. In the Outline, Jessup presented potential solutions for how the U.S. could handle the situation in Southeast Asia, and how these solutions could function as an alternative to Communism. It also devoted a couple of paragraphs to Japan, and how the restoration of the country could benefit the whole region. The Outline also suggested to use the restoration of Japan to show the world what the United States was capable of, and how cooperation with the United States could prove to be more beneficial than to devote their country to Communism:

*Make every effort to see to it that political and economic progress in Japan is such as to demonstrate the advantages of close association with the United States and our ability as a democracy to deal with the problems of Asia.*²⁵⁰

U.S. officials also stressed the need to search for and consolidate markets in Southeast Asian countries other than China, for the Japanese to export their finished steel products.²⁵¹ In addition, the State Department wanted the United States to start to pull out of Japan and to prepare the country for a peace agreement and independence from occupational rule. This was to be done in combination with Japan's increased presence in trade and industry in Southeast Asia.

The State Department and other foreign officials argued by the fall of 1949 that it would not be long before Japan should be able to write a peace treaty. President Truman appointed John Foster Dulles as adviser in the peace treaty negotiations with the Japanese government. This meant that the occupation of Japan was intended to end earlier than April 1952. However, because of the Communist victory in China, the loss of U.S. atomic monopoly as Soviet Union had a successful detonation of their own atomic bomb, and outbreak of the Korean war in June 1950 contributed to put the peace treaty negotiations on hold.²⁵² The Secretary of State knew that the Japanese were in favor of a peace treaty as soon as possible. He feared that this could lead to Japanese disgruntlement followed by social unrest, of which the Soviets would exploit to gain political foothold in Japan.²⁵³ The Americans thus needed to prove that they intended to give Japan back their freedom. It would just take a little longer than first envisioned.

²⁴⁹ FRUS, 1949, Volume IX, China. *Note by the Executive Secretary of the National Security Council (Souers), on United States policy regarding trade with China*. February 28th, 1949.

²⁵⁰ FRUS, 1949, The Far East and Australasia, Vol. VII, Part 2. *Outline of Far Eastern and Asian policy for review with the President*. November 14, 1949.

²⁵¹ Rotter 1987: 128

²⁵² Ibid.: 132

²⁵³ FRUS, 1949, The Far East and Australasia, Volume VII, Part 2. *Memorandum of conversation, by the Secretary of State*. December 24th, 1949.

4.2 Increased Japanese operational authority

The State Department argued in fall 1949 that Japan would not be overthrown by a Soviet military attack, but rather through a plausible state coup based on social unrest. Therefore, the U.S. Secretary of State Dean Acheson meant that Japan would have to be given greater authority over her own affairs.²⁵⁴ As a result, SCAP initiated changes in occupation policy which affected both the American administration and the Japanese. In late 1949, they introduced alterations in foreign trade where Japan was given more operational authority. Frank E. Pickelle from the FTC Division conveyed the changes to foreign businessmen through a general memo on January 1st, 1950. This memo was alike the first message that was procured three years before, to the private trade representatives trading with Japan. This memo provided information about the Japanese government's heightened position in foreign trade. It contained a summary over how imports into Japan was to be conducted from that point. From this date, the Japanese government received responsibility for the control of imports. SCAP formerly rescinded its instructions and regulations over this part of the Japanese government, and this was meant to give Japan the maximum possible freedom to private trade in the case of imports into Japan. SCAP's direct control over imports into Japan that did not involve the use of appropriated dollar funds provided by the US was ceased at this point.²⁵⁵ This meant that the private trade representatives got a sense that Japan received back some of her power to conduct trade with foreign countries and companies. However, SCAP still controlled cases where additional dollar funds were provided by the U.S. government. Until then, all foreign trade regardless of payment solution, either barter or the use of appropriated dollar funds, was done under surveillance of SCAP, and the foreign private traders knew that it was the Americans that pulled the threads. From this point forward, SCAP created the image that the Japanese government could trade with foreign actors if it wasn't done on the American taxpayers' bill. This means that trade agreements done by the barter system or trade with Sterling areas, done in pound sterling, such as Malaya, was now monitored by the Japanese government's Ministry of International Trade and Industry and not any longer by the FTC Division.

The Ministry of International Trade and Industry (MITI) was a new political organ established by the Japanese government on May 25th, 1949. Japanese prime minister Yoshida Shigeru felt that the old Ministry of Commerce and Industry (MCI) was too closely affiliated with the wartime Ministry of Munitions, which coordinated war production, and transferred the

²⁵⁴ Leffler 1992: 334

²⁵⁵ F. E. Pickelle. *Importing into Japan, private trade representatives*. January 1st, 1950, NARA, RG 331, General Export & Import File, Box 6667, Folder 5.

functions of the MCI and Board of Trade to this new ministry. The creation of MITI was a reaction to the Americans launching the Dodge plan in February, which mainly focused on controlling inflation. Its name reveals that it was established to facilitate the increase in industrial production combined with the expansion of trade. The old Board of Trade came to be the new International Trade Bureau of MITI.²⁵⁶ This was an important change in postwar Japan's trade situation, as MITI is considered by research to be an important part of the "Postwar Miracle" that Japan experienced two decades following the American occupation. What is interesting about the Ministry of International Trade and Industry, is that it was a Japanese government agency small in scope, but it achieved considerable authority in the postwar era. John Dower stated that MITI gained even more centralized economic authority after the outbreak of the Korean War.²⁵⁷

Although Japan was still occupied by SCAP, did the Japanese government slowly start to achieve increased governance in trade. In January 1950, Pickelle gave instruction to MITI on how trade would be conducted. MITI had to follow the Foreign Exchange and Control Law,²⁵⁸ which was passed by the Japanese government on December 1st, 1949. Japanese companies that wanted to import goods from foreign countries were required to send an application to MITI.²⁵⁹ This gave MITI the advantage to control what should be imported, based on the Japanese government's wishes, and for the sake of protecting local industries.²⁶⁰ The application consisted of an import license and an allocation certificate. The import license told MITI what kind of commodity came from what country, while the allocation certificate revealed which Japanese company that wanted to import. When an application on imports reached MITI, they assessed it on the grounds of the Foreign Exchange and Control Law if this import was desired. If Japanese companies wanted to trade with certain countries, like China, the Soviet Union, the Philippines and Sweden, MITI had to get approval from the FTC Division. In addition, MITI was obligated to provide to SCAP a daily summary of the allocation certificates that had been issued.²⁶¹ This reveals that the American occupation regime still wanted to control parts of Japanese trade, especially when it came to trade with certain countries. Nevertheless, MITI's authority to approve and decline applications gave the Japanese government more governance to decide what happened to the country.

²⁵⁶ Johnson 1982: 191

²⁵⁷ Dower 2000: 544

²⁵⁸ F. E. Pickelle. *Import procedure*. January 1st, 1950, NARA, RG 331, Topical File, Box 6411, Folder 15.

²⁵⁹ Johnson 1982: 194

²⁶⁰ Suzuki, T. M. 1994. *The technological transformation of Japan*. Cambridge: Cambridge University Press: 168

²⁶¹ F. E. Pickelle. *Import procedure*. January 1st, 1950, NARA, RG 331, Topical File, Box 6411, Folder 15.

Japan had become less dependent upon the dollar as a payment solution, as Japan had access to markets that did not use dollars as a payment method for foreign trade. The use of bilateral barter agreements also contributed to the decreased dependence upon dollar funds from the United States. Private Japanese trade actors were also mentioned in Pickelle's memo to the private trade representatives. The steel producers Japan Steel Co. (日本製鉄株式会社) and Japan Steel Tube Co. (日本鋼管) were examples on Japanese private actors that engaged themselves in early private foreign trade in Japan. They were given more freedom in terms of foreign trade. The steel companies could circumvent SCAP's surveillance by applying to trade with countries not mentioned in Pickelle's memo. At this point, private Japanese traders would have to direct their desired imports through MITI.²⁶² MITI would from this point forward get more responsibilities in terms of commerce and would continue to have a central position Japanese industry and foreign trade in decades to come. Even though SCAP still controlled some aspects of private foreign trade, did this memo indicate that Japan was about to regain its commercial independence. The Japanese achieved more governance in their own country instead of being completely controlled by a foreign occupational force.

With the memo to the trade representatives, Washington wanted to show the world that the restoration of Japan was to be fulfilled quicker than anticipated. They thought that this would provide Japan with more export markets, and with more foreign trade contacts that could provide Japan with more iron ore and other essential raw materials. The Americans further intended to emancipate Japan economically and further down the road declare the country independent from foreign hands. Nonetheless, Japan was still dependent upon economic support from the US. The memo shows that MITI received authority to apply for a loan through appropriated dollar funds and had to declare what they intended to spend it on. Earlier, it was SCAP that did the financial work, while the Japanese trade agencies only operated as some sort of façade. Now, the Japanese government attained more influence in trade matters, and could even participate in the spending of funds. This at least in theory. SCAP was still practically in full possession of power when it came to trade, especially where the dollar area was concerned. In the end, the memo reflects what was declared in the *Outline for Far Eastern and Asian Policy*. SCAP wanted to announce that Japan was developing fast because of assistance provided by the United States, because the Americans had the resources to do so.

²⁶² Johnson 1982: 191

MITI did not wait long to put together trade arrangements after their establishment. The Department of the Army and the State was informed on January 18th, 1950 by SCAP that MITI had contracted iron ore from several companies in the Philippines already during last December. This shows that the alterations were quick in coming into action. MITI established the payment to be in export of Japanese goods through a barter trade solution.²⁶³ This was the same procedure that was used in the earlier trade arrangements made with the Philippines in 1948. Although the official statement said that Japan did not need verification for a trade deal when trade happened when dollars was not part of the question, SCAP was to approve the goods that was to be shipped back to the Philippines. This shows that SCAP still possessed control over what was exported out of Japan. Still, this was very much a preferred payments solution to all actors: Japan had a market for her export goods, USA did not have to spend additional dollars and the Philippines gained greatly desired steel manufactures from Japan. However, SCAP monitored the exports of industrial commodities and reported this back to Washington, to make sure that these goods came to the intended recipients, and not in the hands of the Hukbalahap or faced transshipment to the Communist bloc.

4.3 SCAP diminished their authority in trade matters

As SCAP decided to give the Japanese more authority over their own affairs, they also went on to decrease their presence in foreign trade practice in Japan in late 1949. The Economic and Scientific Section set out to reduce the number of divisions and to diminish their authority over the Japanese. Divisions that became of lesser relevance to economic development was reestablished as branch offices under the Industry Division and Foreign Trade and Commerce Division, as these remained to be highly relevant organs for Japanese economic recovery. The import of raw materials such as iron ore and the production of steel became one of the most important parts of economic development where SCAP could provide aid and guidance.

4.3.1 Concentration of the Foreign Trade and Commerce Division

Harold R. Garrett, Chief of the Administration Division, proposed to abolish the Textile Division November 10th, 1949, and to establish a new Textile Production Branch under the Industry Division.²⁶⁴ Textile production and export had for a long period played a central role for Japanese industry until that point, until taken over by the steel industry in the 1930s,²⁶⁵

²⁶³ W. F. Marquat. *Philippine iron ore*. January 18th, 1950, NARA, RG 331, Topical File, Box 7351, Folder 5.

²⁶⁴ Harold R. Garrett. *Request for consolidation for textile functions within ESS*. November 10th, 1949, NARA, RG 331, Topical File, Box 6408, FTC Division information booklet.

²⁶⁵ Colpan et al. 2002. *The Structural Transformation and Strategic Reorientation of Japanese Textile Businesses*. Kyoto: Kyoto University: 66

which would be a more lucrative export business than textile. Because of the shortage on raw cotton in Southeast Asia as a result from the damages done during the Second World War, the Japanese textile producers had to import costly American raw cotton. This resulted in an expensive finished textile product for the export market.²⁶⁶ The revenue made from textile export could no longer pay for Japan's import of food and fuel. As a result, the SCAP administration's Textile Division was downsized, and several positions in this division was transferred to a branch office under the FTC Division. This whole action could trace back to what the Economic and Scientific Section stated in the *Program for a Self Supporting Japanese Economy* from one year earlier, which said that steel would become a more important export commodity than textiles. This was done due to the diminished importance of the textile industry in Japan, and the increased focus on the steel industry.

The Japanese steel industry, U.S. policymakers concluded, had the potential to develop the nations of Southeast Asia, and further to prevent Communist agitation in these countries. SCAP's intention at this point was to diminish their role in the economic development of Japan as well. Thus, the FTC Division and the Industry Division was further downsized in addition to the abolishment of the Textile division.²⁶⁷ The American occupation authorities had started to give more power back to the Japanese people. SCAP was downsizing slowly and had started retracting from their authoritative position, possibly as part of their thoughts to establish a peace treaty quickly. The reorganization of the Textile Division was approved by the ESS on December 25th, 1949. The former Textile Division was reorganized as the Textile Branch within the Industry Division.²⁶⁸ This reveals how SCAP was about to diminish their role in Japanese political and economic affairs, and their intention to focus upon the development of the steel industry. Further, they wanted to focus upon giving the Japanese an export market for their industrial goods.

The FTC Division's mission was to keep surveillance over the Japanese government's actions, and to oversee that SCAP's and ESS's foreign commercial objectives for Japan was properly implemented. The Division's functions were to provide to the ESS proposals of plans and procedures for expanding Japan's foreign trade, as well as to keep correspondence with the Department of the Army, Joint Chiefs of Staff (JCS) and the Far Eastern Commission (FEC) and to give advice on behalf of SCAP on how to conduct foreign trade. They were also to

²⁶⁶ Schaller 1987: 143

²⁶⁷ Harold R. Garrett. *Request for consolidation of Textile functions within ESS*. November 10th, 1949, NARA, RG 331, Topical File, Box 6408, Foreign Trade and Commerce Division *information* booklet.

²⁶⁸ Economic and Scientific Section. *Request for consolidation of textile functions within ESS*. December 25th, 1949, NARA, RG 331, Topical File, Box 6408, Foreign Trade and Commerce Division *information* booklet.

develop financial agreements best suited SCAP's objectives, and also to regulate appropriated and non-appropriated funds to use in financial agreements of exchange of goods with foreign governments and actors.²⁶⁹ Although SCAP was cutting staff, the FTC Division was one of the most important institutions of the US occupation authorities to achieve their objective of a self-sustaining Japan.

4.3.2 Concentrating the Industry Division

By early 1951, ESS continued its divisional downsizing. In February Harold Garrett announced to General Marquat, chief of the ESS, that the Utilities and Fuels Division was to be abolished. The remaining operations were to be consolidated as the Utilities and Fuels Branch under the Industry Division.²⁷⁰ The Americans saw that they could cut down on their staff and consolidate its most important divisions, and the Industry Division was one of them. The Industry Division was a part of the SCAP administration and was designated to present proposals on policies and procedures on behalf of Japanese industry. The Industry Division also brought the Japanese steel industry information about decisions made by the chief of ESS.²⁷¹ The Industry Division functioned as a mediator between the upper hierarchy of ESS and the Japanese steel producers. They put forward the demands of the Japanese industry to the ESS, and thus they corresponded with the FTC Division. The FTC Division then facilitated for the Japanese traders on what they should import of raw materials to provide for the country's developing industry. It cooperated with the Programs and Statistics Divisions upon the requirements for industrial production that had been prepared by the Japanese government.²⁷² The number of divisions was reduced, and it is obvious to see that SCAP wanted to be of smaller influence on the Japanese society. Thus, they removed the divisions that was superfluous to the end goal of the occupation: to make Japan economically independent.

SCAP concentrated the FTC Division and the Industry Division, whose cooperation could secure Japan within the economic sphere of Southeast Asia. If Japan could become the workshop of Asia, Japan needed a stable supply of iron ore from Southeast Asia. In return Japan

²⁶⁹E. A. Johnson. *Administrative memorandum no. 53*. November 14th, 1949, NARA, RG 331, Topical File, Box 6408, Foreign Trade and Commerce Division *information* booklet.

²⁷⁰H. R. Garrett. *Administrative memorandum pertaining to a phase of the reorganization of ESS*. February 10th, 1951, NARA, RG 331, Topical File, Box 6408, Industry Division *information* booklet.

²⁷¹H. R. Garrett. *Attachment to administrative memorandum*. February 10th, 1951, NARA, RG 331, Topical File, Box 6408, Industry Division *information* booklet.

²⁷²H. R. Garrett. *Attachment to administrative memorandum*. February 10th, 1951, NARA, RG 331, Topical File, Box 6408, Industry Division *information* booklet.

would provide the developing countries and former colonies with industrial steel products necessary to develop their own economies.

4.4 Japanese pig iron production after World War II

Due to the imports of iron ore from abroad and American focus to restore Japanese industry, the Japanese production of pig iron was slowly increasing. Table 4.1 on the following page shows that the production output in 1950 had reached the same level as in 1944. Japan had to continue to import iron ore to sustain the growth of the production of pig iron, to be able to fuel the steel industry. By March 1st, 1950, the Economic and Scientific Section and Japanese steel companies disagreed on the import volume of iron ore, and how much that was necessary to import. While MITI had received wishes from Japanese steel producers to import more iron ore, the Industry Division claimed that the current import volume was enough for Japanese steel production.²⁷³ Shown in Table 4.2, iron ore imports in 1949 reached its peak in May, with 188477 tons, before it started to decline, with the lowest import volume in October, with 99530 tons. This is what made the steel producers worry, because they had the capacity to keep up the increase of production of pig iron and steel. They only needed sufficient imports of iron ore. Table 4.3 reveals percentage distribution of the iron ore imported in total. Imports of American iron ore declined during 1949 and that import of Chinese iron ore was at its highest in the third quarter, to when American iron ore imports were at its lowest. It also displays the increased percentage of Philippine iron ore in the end of the year.

²⁷³ W. H. Dietz. *Memo for record*. March 1st, 1950, NARA, RG 331, Topical File, Box 7317, Folder 37.

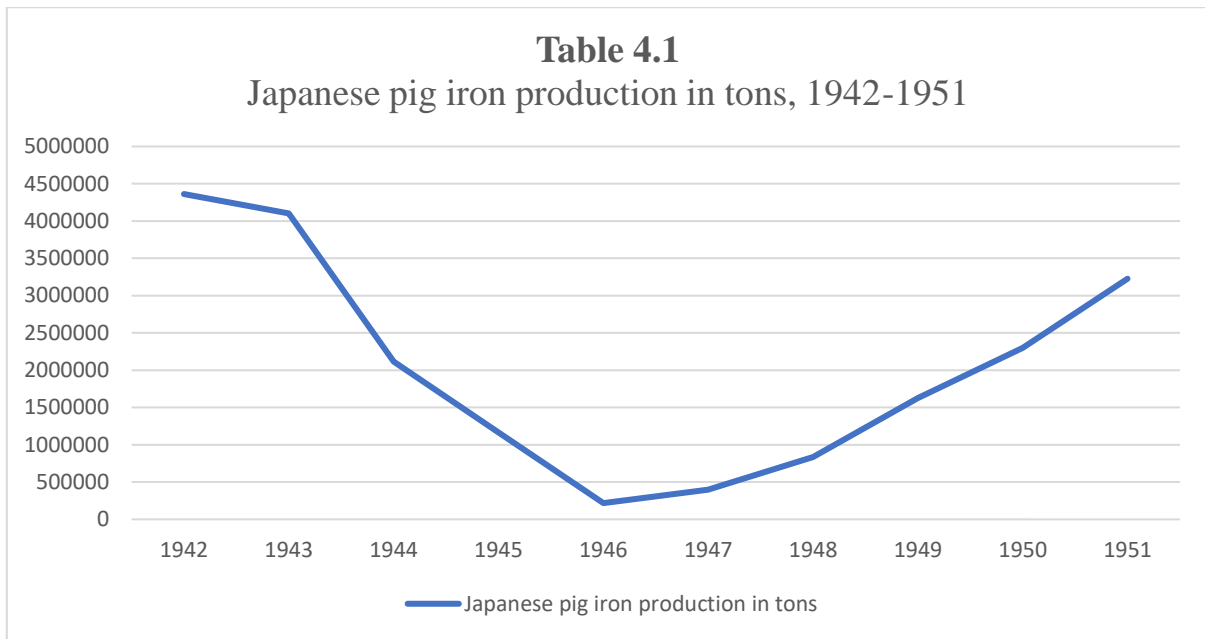


Table 4.1: Source: Compiled from Mines / Minerals Yearbook. 1942-1951.

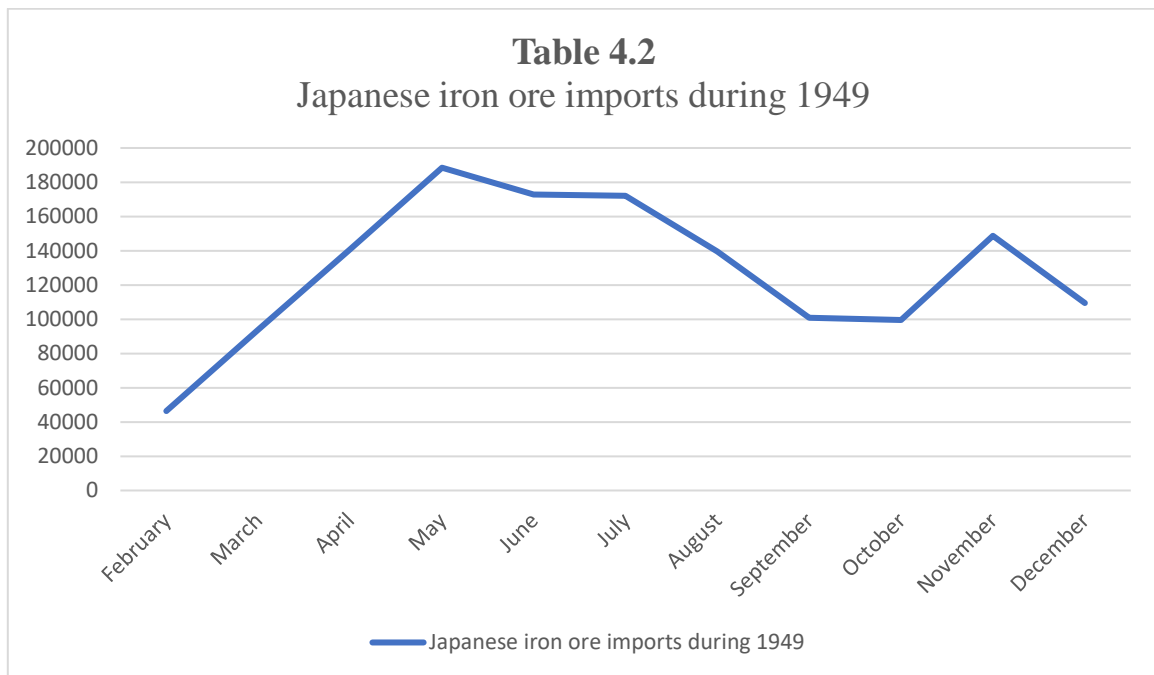


Table 4.2: Source: Mizutani. Import lists. February-December 1949. NARA, RG 331, Metals & Minerals File, Box 6510, Folder 19

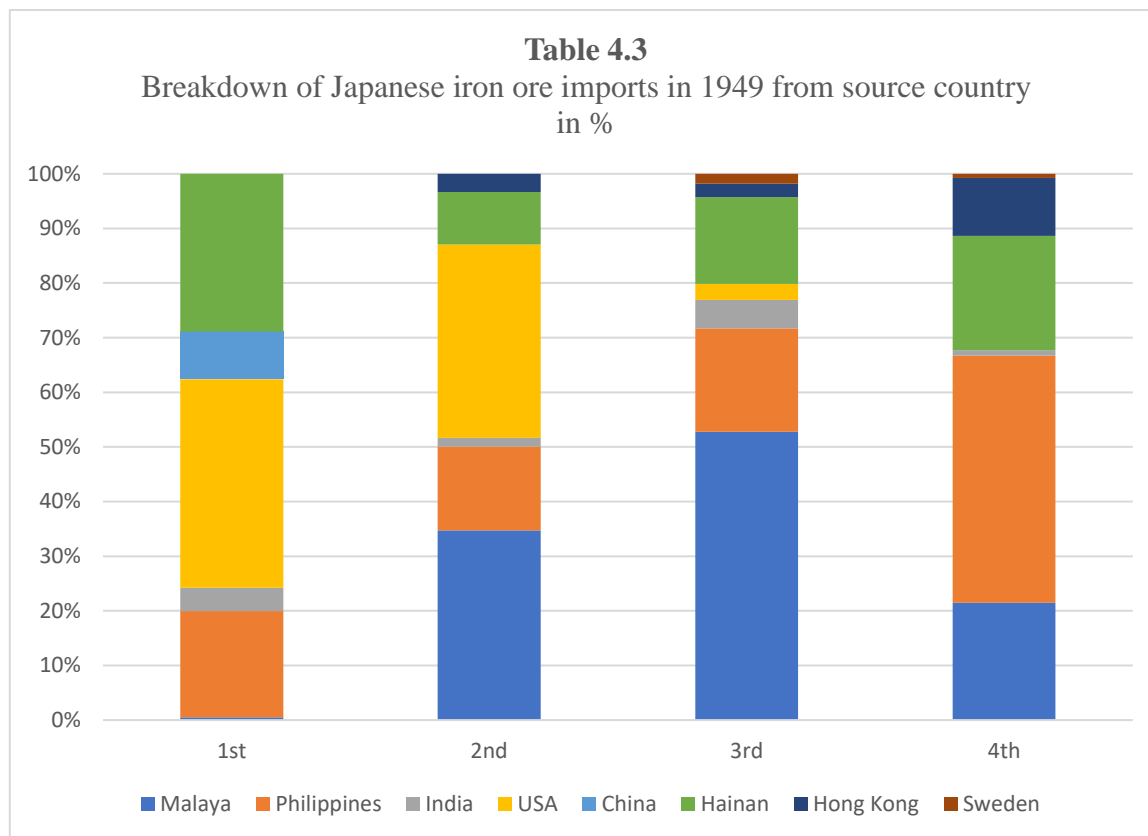


Table 4.3: Source: Mizutani. *Import lists. February-December 1949. NARA, RG 331, Metals & Minerals File, Box 6510, Folder 19*

Now, it is necessary to assess the trade situation following these alterations, and how the Japanese and SCAP operated to find new sources of iron ore and how they established new trade connections in Southeast Asia countries in the period after the Communist coup in China.

4.5 Sample shipments from India

As the political alliance divide between the east and west in the Cold War had become more rigid during 1949, India's president Nehru still held on to his belief that India was to be non-aligned in the conflict. He shunned the Soviet Union and Communist China regarding their lack of respect for human liberty. However, he sympathized with the communists standing up for Chinese peasant's rights and the Soviet view on economic equality.²⁷⁴ Therefore, combined with the Americans providing military support for Pakistan, India's neighbor and political rival, Nehru had problems with choosing a side. However, as mentioned in chapter 3, Nehru needed finished steel products and other commodities to develop India's economy. In Washington's search for a market for Japanese steel products in Asia, India proved a viable recipient, as it

²⁷⁴ Rotter 2013: 219-20

was able to provide with raw materials in return. In addition, this trade would require the use of British pound sterling and would hence avoid the use of dollars as a payment's solution.²⁷⁵

As MITI became the highest Japanese authority in trade matters, they received requests on December 10th, 1949, from the Japanese companies Japan Steel and Japan Steel Tube to import iron ore from the Sandur mine in India.²⁷⁶ The Sandur mine was famous for its iron ore with high content of manganese,²⁷⁷ and the reserves amounted to over 130 million tons of iron ore.²⁷⁸ If Japanese steel producer could secure a contract on this iron ore, they could be sure that they would have sufficient access to the iron ore they needed to increase steel production.

Because the price on iron ore on the world market had risen due to the increasing demand by the USA.²⁷⁹, this ore would be more expensive than the regular iron ore. Manganese was an important mineral in steel production and was highly desired by American steel producers as well. Americans hoped to get access to high-quality iron ore for their own production. However, president Nehru was not in favor of going too fast into trade negotiations with foreign countries, especially the United States.²⁸⁰ This is therefore quite interesting, considering that Japan technically was under American rule, and Japan importing iron ore from India was one of the United States many objectives.

The company that Japan Steel Tube and Japan Steel wanted to buy iron ore through, was called the Oriental Metal & Mineral Corporation (OMMTC). Information about this company is extremely difficult to unveil, but this could indicate that it was a Japanese trading company based in India. What is interesting is that the president of the OMMTC is named Takashima, which is a Japanese surname. Since Japanese steel companies had recommended this ore, one could conclude that they already were in contact with the OMMTC before this correspondence with MITI found place on December 10th.

This indicates that the Japanese steel companies had contact with trading companies in India which either had Japanese representatives or were a fully Japanese company. If the Japanese want to accept the offer, they had to procure an answer to a company named Société

²⁷⁵ Rotter 1987: 45

²⁷⁶ T. Takashima, Oriental Metal & Mineral Trading Co. *Manganiferous iron ore from India*. December 10th, 1949, NARA, RG 331, Metals & Minerals Files, Box 6510, Folder 20.

²⁷⁷ Manganese has the attribute to remove unwanted elements from the iron ore in the making of steel. This made steel production more cost effective. In: Cannon, W. F. 2014. *Uses of manganese*. (Web). <https://geology.com/usgs/manganese/> Accessed: 05.04.2018.

²⁷⁸ Joseph F. Harrington and Benjamin M. Page, *Sources of iron ore in Asia*. March 1952, NARA, RG 331, Publications, Box 9017, Folder 45: 76

²⁷⁹ T. Takashima. *Manganiferous iron ore from India*. December 10th, 1949, NARA, RG 331, Metals & Minerals Files, Box 6510, Folder 20.

²⁸⁰ Rotter 2013: 220

Générale pour le Commerce de Produits Industriels (Sogeco).²⁸¹ By looking at the contract that was made between Sogeco and MITI, it shows that OMMTC operated as a mediator company between these two actors.²⁸² This indicates that the Indian iron ore trade was managed also by European companies based in Luxembourg, and that Japan had expanded their business contacts through Japanese steel companies already in 1949.

4.6 Hainanese iron ore continuity

Hainan Island was technically still a part of China even after the Communist coup of Peking in October 1949. However, the Nationalist Kuomintang still held control over the island at this point. The Japanese government and SCAP feared the communists, but because of a common Asian heritage did Japan not fear Communist China as much as the Soviet Union. Japan have had cultural and commercial ties with China since ancient times and favored to continue this relationship.²⁸³ Although mainland China and the Communist government decided to adopt to a socialist command economy like the one in the Soviet Union, raw materials and iron ore from Hainan was retrievable for the free world. On November 9th, 1949, MITI received a new offer on Hainan iron ore presented by the Mutual Trust & Company.²⁸⁴ Mutual Trust & Co. was a Hong Kong based company that operated as a mine contractor from one of the largest mine sites in Hong Kong, the Ma On Shan mine, in 1949.²⁸⁵

Mutual Trust Company sold iron ore to Japan from this mine earlier in 1949, but the Industry Division reported to the FTC Division that the company did not deliver the contracted amount on time. Mutual Trust struggled to fill the quota on iron ore exports to Japan by relying only on the Ma On Shan mine.²⁸⁶ The reason for this was that the ore mining on Ma On Shan was unproductive due to high labor costs and the low quality of the iron ore restricted the output. Thus, the Mutual Trust Company started to freight additional iron ore from Hainan to Japan. This was done in the way that Mutual Trust's ships was sent down to Hainan to pick up iron ore, then went to Hong Kong to pick up the remaining scheduled iron ore and then set out for

²⁸¹ Sogeco was a company based in Luxembourg, which handled the distribution of manganese, iron ore and other ferrous metals. In: Industrie.lu, *Historique – Geschichtlicher Überblick*. No date. (Web). <http://industrie.lu/SOGEKO.html> Accessed 13.04.2018

²⁸² Sogeco. *Purchase of Indian Sandur manganiferous iron ore*. December 1949, NARA, RG 331, Metals & Minerals Files, Box 6510, Folder 20.

²⁸³ Leng, S-C. 1958. *Japanese attitudes toward Communist China*. Far Eastern Survey, Vol. 27, No. 6. Institute of Pacific Relations: 82

²⁸⁴ J. Montalte. *Offer on Hainan iron ore*. November 7th, 1949, NARA, RG 331, Subject File, Box 6416, Folder 15.

²⁸⁵ Industrial Heritage. No date. *Exploring the industrial heritage of Ma On Shan*. (Web) <http://gyc.elchk.org.hk/en/fours/> Accessed 04.10.2018.

²⁸⁶ Industry Division. *Alteration of contracts*. September 23rd, 1949, NARA, RG 331, Topical File, Box 7351, Folder 7.

Japan.²⁸⁷ In addition to this, Mutual Trust Co. specified that shipments would be done as far as possible by Japanese vessels.²⁸⁸ This indicates that Hong Kong ports increasingly started to accept Japanese ships in Hong Kong waters.

What is interesting is that the import lists, provided by the International Trade Bureau in MITI, do not display any imports from Hainan through Mutual Trust, even though it has been confirmed by earlier research that Hainan iron ore was indeed sold and shipped to Japan by this company.²⁸⁹ The only import of Hainan iron ore in the period December 1949 to February 1950 was done by the Swiss mediator company, E. Ott & Company. Mutual Trust sent iron ore to Japan with Hong Kong listed as the country of origin. As Mutual Trust said that the Hainan iron ore was to be freighted from Hong Kong to Japan by Japanese vessels, it may have occurred that Mutual Trust shipped the iron ore to Hong Kong, and then loaded onto vessels provided by E. Ott & Co. Therefore, the import lists said that the iron ore arrived from Hong Kong.

4.7 People's Republic of China and Hainan iron ore

By April 1950, Hainan Island had become a part of Communist China, as Chiang Kai-Shek and the Kuomintang fled to Taiwan as they lost their foothold on the island. As the Chinese Communists had acquired power in all of China, U.S. Secretary of State Dean Acheson hoped to avoid China from becoming another satellite of the Soviet Union. He feared that the Kremlin could use the PRC to attain more political influence in Southeast Asia. Nevertheless, Mao Zedong was not fond of Soviet leader Stalin in the first place, especially because the Kremlin had wanted extraterrestrial rights in Northern China. Acheson hoped that the tension between the Soviet Union and the PRC could turn the Chinese Communists to become dependent upon trade with the Western bloc, since China did not possess large industrial potential.²⁹⁰

The Ministry of International Trade and Industry feared that the access to Hainan iron ore would become difficult if the island succumbed to the Communist revolutionaries. In addition, the Korean War broke out June 25th, 1950, and the need to produce enough steel to meet the increasing demand on Japanese steel for war materials again made the need for iron ore skyrocket.²⁹¹ This made the Americans encourage the import of American iron ore, which

²⁸⁷ The Industrial History of Hong Kong Group. 2017. *Ma On Shan Mine – The open cut years*. (Web). <https://industrialhistoryhk.org/ma-on-shan-mine-part-1-the-open-cut-years/> Accessed 28.05.2018

²⁸⁸ J. Montalte. *Offer on Hainan iron ore*. November 7th, 1949, NARA, RG 331, Subject File, Box 6416, Folder 15.

²⁸⁹ Mizutani. *Import lists*. December 1949-February 1950. NARA, RG 331, Metals & Minerals File, Box 6510, Folder 19.

²⁹⁰ Leffler 1992: 293

²⁹¹ Yonekura 1994: 197

was more expensive than the Southeast Asian iron ore.²⁹² It became important to find sources that could substitute the American ore so that Japan could keep the dollar gap from widening.

As Japanese steel production increased, did Japanese exports of finished steel products to Southeast Asia accelerate. Japan increased her exports to Malaya by 285% from 1950 to 1951. The British government was not too enthusiastic for the increasing influence Japan got in trade with Malaya, as they fronted support for the revival of Sino-Japanese trade. The United States merely shrugged of the British discontent and continued to support Japanese trade with Southeast Asia. The Economic and Scientific Section acknowledged that China was lost, and that Japan relied on raw materials from Southeast Asia.²⁹³ It became increasingly important to provide the Japanese steel industry with more iron ore, as the demand on Japanese steel products rose. The fact that Japan had established trade contacts with various countries in Southeast Asia by this point was crucial for the time to come.

The newly established Communist government of China hoped to industrialize the Chinese economy. In addition, they aspired to subjugate all private enterprise under their control, because the government understood that private enterprise might help the industrialization of their country. Through a campaign of the “five-anti”, finding private businessmen to be guilty of any of the five illegal actions: bribery, theft, tax evasion, fraud or leakage of government secrets, they succeeded in making private businessmen dependent upon financial assistance from the Chinese government.²⁹⁴ In this way, they made private enterprises act according to government plans. It is reasonable to believe that this also included private foreign trade.

The Chinese Communist government in North China expressed desire to establish trade with Japan in April 1949. The Minister of Industry and Commerce of the Chinese Communist government had contacted Oliver Edmund Clubb, the American Consul General at Peiping.²⁹⁵ He expressed desire to restore Sino-Japanese trade to prewar levels, and that trade should be carried out by Chinese firms on a barter basis.²⁹⁶ The Chinese wanted to trade food products such as soybeans against Japanese copper wire²⁹⁷, which they supposedly intended to use in the

²⁹² Melcher, N. B. & Forbes, J. M. 1953. “Iron ore”. In: *Bureau of Mines/Minerals Yearbook 1950*. Madison: University of Wisconsin: 461

²⁹³ Tomaru 2000: 59

²⁹⁴ Hsia, R. 1953. *Private enterprise in Communist China*. In Pacific Affairs, published by the University of British Columbia: 330

²⁹⁵ Today’s Beijing.

²⁹⁶ FRUS, The Far East: China, Volume IX: *The Consul General at Peiping (Clubb) to the Secretary of State*. April 30th, 1949. Peiping.

²⁹⁷ FRUS, The Far East: China, Volume IX: *The Consul General at Shanghai (Cabot) to the Secretary of State*. May 11th, 1949. Shanghai.

construction of telecommunication cables. The American Department of State demanded to let them know for what the Chinese wanted to use the Japanese steel.²⁹⁸ The Chinese Communists continued to propose trade agreements to the Department of State. By July 1949, the Department of State received trade proposals from the Yuan Tung Development Company. This company made trade arrangements on behalf of the Communist government of North China.²⁹⁹ Department of State argued that to initiate such trade could give the impression that Japan still depended on Chinese trade. They proposed to answer the Chinese by saying that certain steel products they wanted were in short supply.³⁰⁰ Even though Washington was skeptical to initiate trade with a Northern Communist Chinese government, they did consider it. The Ambassador for China, John Leighton Stuart, argued that if a trade agreement should be instituted, it would not last long. When the communists took over all of China and established a central government, foreign trade would be monopolized by the State. The Americans expected that the Communism that would be practiced in a Chinese Communist state would be the same as in the Soviet Union.³⁰¹

The Chinese Communist forces entered the Korean war by siding with the Northern army against the South in October 1950. This ultimately led the United States to stop all Japanese trade with China³⁰², because this could endanger the American war effort on the Korean peninsula. In late December 1950, the Japanese Sanyo Shoji Kaisha Ltd.³⁰³ discussed a potential trade agreement on Hainanese iron ore with the Chinese company Yuan Tung Trading & Co. This company was affiliated with the Yuan Tung Development Company, which was also working on behalf of the Chinese Communist government. This company seemed enthusiastic to establish a trade agreement with Sanyo Shoji Kaisha, as they wanted to do their “utmost” to make a trade deal despite the “difficulties under the present world situation.” Yuan Tung requested Sanyo to arrange the shipping, as no sea vessel was available for them in China. The Chinese company also proposed doing the trade with the barter method, where they requested silicon steel and copper wires in return for iron ore from Hainan. If these materials were not available for Japanese export, Yuan Tung requested other products, such as medical

²⁹⁸ FRUS, The Far East: China, Volume IX: *The Secretary of State to the Consul General at Tientsin (Smyth)*. July 6th, 1949. Washington.

²⁹⁹ FRUS, The Far East: China, Volume IX: *The Secretary of State to the Consul General at Peiping (Clubb)*. July, 30th, 1949. Washington.

³⁰⁰ FRUS, The Far East: China, Volume IX: *The Department of the Army to the Supreme Commander for the Allied Powers in Japan (MacArthur)*. May 7th, 1949. Washington.

³⁰¹ FRUS, 1949, The Far East: China, Volume IX: *The Ambassador in China (Stuart) to the Secretary of State*. May 12th, 1949. Nanking.

³⁰² Tomaru 2000: 59

³⁰³ Sanyo Trading Co., Ltd. was a Japanese trading company established in 1947. Sanyo Trading Co., Ltd. *History*. (Web). <http://www.sanyo-trading.co.jp/english/company/history/> Accessed: 04.04.2018.

instruments and bicycles. Yuan Tung would facilitate for everything regarding the local conditions on Hainan Island, and assist in the loading of the ores on Japanese vessels.³⁰⁴ The Chinese were interested in trading with the Japanese because trade with the Soviet Union declined,³⁰⁵ and the Chinese knew how much Japanese steel producers valued Hainanese iron ore.

This is an interesting point, considering that Sino-Japanese trade should be impossible after Washington imposed the embargo on trade on strategic war commodities. How is it possible that Japan received an offer on strategic raw materials from Communist China, even though strict embargos were initiated? Here, it is necessary to present a theory that describes what happened: the linkage model. This model was developed by James N. Rosenau, which describes when connection between two countries, often hostile to each other, is done in channels other than intergovernmental connections. Hoadley and Hasegawa describes the Sino-Japanese linkage model, where the Chinese Communist government connected with private trade actors in Japan.³⁰⁶ Sanyo Shoji Kaisha and Yuan Tung Trading Co. were two companies that represented each side of the Cold War. This sheds light on trade initiatives that was unofficially made in less conventional channels. It shows a tendency that the Chinese Communist government contacted non-governmental actors, and they hoped to see Japan admit to a neutral position against their country.³⁰⁷

In early January 1951, MITI reviewed the application license they received from Sanyo Shoji Kaisha, which decided if they were allowed to initiate a trade agreement with Yuan Tung. Japanese steel producers were delighted that Hainanese iron ore could once more become available. The Japanese steel industry had increased need for more iron ore because of the American involvement in the Korean war, and the high-grade iron ore from Hainan had become precious to the Japanese steel producers. As Japan still was occupied by the United States, and strategically located by to the Korean peninsula, the American army was equipped with Japanese manufactures. It was reported that Yuan Tung had received permission from the Peking government to export iron ore to Japan, which underbuilds the Sino-Japanese linkage

³⁰⁴ S. K. Sun. *Iron ore offer from Yuan Tung Trading & Co.* December 29th, 1950, NARA, RG 331, Topical File, Box 7351, Folder 3.

³⁰⁵ Hoadley, J. S. & Hasegawa, S. 1971. *Sino-Japanese relations 1950-1970: An application of the linkage model of international politics.* In *International Studies Quarterly*, Vol. 15, No. 2. Published by Wiley on behalf of The International Studies Association: 141

³⁰⁶ Hoadley & Hasegawa 1971: 132-133

³⁰⁷ *Ibid.*: 135

model. This shows that the Cold War world was not completely divided into two isolated blocs, as it was influenced by actors that saw desperate measures for desperate times.

4.8 Goa

Goa had been a Portuguese colony since the sixteenth century, located on the Southwest coast of India. In the 1950s Portugal gained Western support as to continue to keep Goa as a colony, because it would secure the North Atlantic Treaty Organization (NATO) a military base on the peninsula.³⁰⁸ Goa was annexed by India in 1961 and became India's smallest state in 1987. After the Second World War, the Portuguese turned Goa into a duty-free port. The United States and Great Britain tried to convince Portugal to give up her territorial concessions in Goa, as Great Britain did with India in 1947. At this time, Portugal refused.³⁰⁹ This was because the state of Goa was rich in iron ore deposits, and the Portuguese government began excavating mines in 1947. However, in the late 1940's the Goanese iron ore was extracted manually, which was labor intensive, expensive and ineffective.³¹⁰

The American government urged the Japanese to find alternative sources of iron ore, so that Japan could get a stable supply for her steel industry, due to the decrease in imports of Chinese iron ore after 1949. Tomaru writes that this led to the dispatch of the so-called Morrow Mission. This Mission consisted of SCAP officials and Japanese businessmen and was set out to study the possibility to develop iron mines in Southeast Asia in July 1951. Amongst the countries they examined were the Philippines, Pakistan, Burma, Hong Kong and India.³¹¹ Already in early 1950, however, Goanese trading companies expressed their interest to trade with Japan. The import-export company C. Soubra and & Co.³¹² wanted to sell Japan high-grade iron ore from Goa. On March 9th, 1950, the Industry Division asked Soubra to extend their offer to the Japanese on March 9th, due to the increased governance of the Japanese in terms of trade.³¹³ Although the Industry Division asked Soubra to send their offer to the Japanese, they did discuss this internally. The offer from Soubra was proposed to be done by the barter solution, and therefore the Economic and Scientific Section proposed to extend their

³⁰⁸ Singhal, D. P. 1962. *Goa – End of an epoch*. The Australian Quarterly, Vol. 34, No. 1. Published by Australian Institute for Policy and Science: 83

³⁰⁹ FRUS, 1950, Western Europe, Volume III. *The United States Delegation at the Tripartite Preparatory Meetings to the Secretary of State*. May 4th, 1950, London.

³¹⁰ Newman, R. S. 1984. *Goa: the transformation of an Indian region*. From Pacific Affairs, Vol. 57, No. 3. University of British Columbia: Pacific Affairs: 429-430

³¹¹ Tomaru 2000: 95

³¹² Soubra is today known as the construction company Soubra Metal Group. It was founded in Beirut in 1925. In: Soubra Metal Group, *About us*. 2015. (Web). <http://www.soubrametalgroup.com/about> Accessed 02.04.2018.

³¹³ W. H. Dietz. *Portuguese India iron ore through C. Soubra & Co., Ltd*. March 10th, 1950, NARA, RG 331, Topical File, Box 7351, Folder 4.

intended import quota on iron ore.³¹⁴ This shows that the Japanese steel producers had expressed need for an increase in iron ore imports, because their production out had increased. The ESS had denied it at first, but with the offer on barter trade with Soubra, they approved it, since trade would be conducted on a value-for-value basis. Soubra was also asked to direct their interest in sales of iron ore to the Japanese steel manufacturers. This shows that SCAP wanted to interfere less in Japanese state of affairs and gave the steel producers more governance to negotiate a deal with foreign companies.

4.8.1 Japanese investment developed Goanese mining

As Japanese production of steel continued to rise during 1951, the steel industry needed greater access to iron ore. This led Japanese steel producers to make plans for investment to develop mines during 1951. In June, Japan Steel Tube put forward to FTC Division a new development plan for iron mining in Goa. MITI and Japanese steel companies wanted to invest and help develop Goanese iron mines in the production of Goanese iron ore. Up to this date, Japan already extracted iron ore from the Sirigao and Khasti mines and planned to excavate new mines in Goa. The Sirigao and Khasti mines was examined by Japanese engineers in 1939, but due to the long distance from India's west coast to Japan, they did not deem it cost effective to develop these deposits at that time. During 1948-1950, the Japanese received iron ore from Sirigao and Khasti in small quantities only, because the mines was worked by manual labor, which was inefficient. Production annually at the Sirigao mine amounted to a mere 50000 tons, and the output at Khasti was even smaller. Japanese steel companies suggested to supply equipment to these mines to be able to exploit iron ore more efficiently.³¹⁵ In 1951, the Sirigao and Khasti mines were operated by the Goanese company Chowgule & Co.³¹⁶, and this company would also oversee handling the new mines that the Japanese planned to develop.³¹⁷

Whilst awaiting the FTC Division's approval, Watanabe Hiroshi from Japan Steel Tube told the Portuguese diplomatic agent in in Tokyo, Albano Nogueira, concerning the Japanese interest in Goanese iron ore. The Portuguese diplomatic agent acted on behalf of the Portuguese government in Japan. Since Goa still was a Portuguese colony, they had to discuss cases

³¹⁴ W. H. Dietz. *Portuguese India iron ore*. March 25th, 1950, NARA, RG 331, Topical File, Box 7351, Folder 4.

³¹⁵ Maps over iron ore mines in Southeast Asia. Source: Joseph F. Harrington and Benjamin M. Page, Sources of iron ore in Asia. March 1952, NARA, RG331, Publications, Box 9017, Folder 45: 81

³¹⁶ Chowgule & Co. was established in 1916 and started exporting iron ore in 1939. In: *Chowgule Brothers PVT, Ltd.* 2016. (Web). <http://chowgulebrothers.com/timeline.php> Accessed: 07.04.2018.

³¹⁷ Hiroshi Watanabe. *Development plan for Goan iron ore*. June 1951, NARA, RG 331, Topical File, Box 7351, Folder 4.

concerning Goa with the Portuguese government in Lisbon.³¹⁸ This meant that Japan had diplomatic agents within the country that they often discussed trade matters with, and they became important mediators between Japan and the home country. Watanabe explained to Nogueira the Japanese iron and steel industry's production potential. Production output would soon be able to reach 6 million tons of pig iron and almost 10 million tons of crude steel. The production plan for 1951 was half of this amount, about 3,2 million tons of pig iron and 5,4 million tons of crude steel. To be able to reach this potential, the Japanese steel industry would need over 5,5 million tons of iron ore, and it was pivotal for Japan to import at least four million tons from abroad.³¹⁹ This shows the confidence of the Japanese steel producers. However, their production goal looks like the ambitious output that the Japanese government wanted steel producers to make in 1941. The Japanese mining development plan in Goa was therefore an essential part to make this production goal possible.

Japan imported iron ore from Hainan, Malaya, the Philippines and India at this point, but due to the Communist situation in China, Hainanese iron ore was not as available as it has been before. Japan was therefore filling the remaining needs of iron ore from import of American reserves, which was more expensive both in freight and in weight. Hence, Watanabe stressed that they wanted to pursue opportunities for importing more iron ore from Goa, due to her closer proximity and cheaper prices.³²⁰

Japan Steel Tube had not been satisfied by the iron ore previously received from the mines in Goa and thought that the quality could be improved if only various mechanical equipment was installed in the mines. Watanabe had visited Goa himself, and met with Vishwasrao Dattajirao Chowgule, who owned Chowgule & Co. Manasvi Kamat considers the cooperation between Japanese steel companies and Chowgule to have been a pioneering project of introducing mechanization of Goanese iron mines to be able to export high quality iron ore from Goa after the second world war.³²¹ Between their respective companies, they concluded that to provide Goanese mines with Japanese machinery would prove fruitful for the extraction of iron ore. This objective had to be approved by SCAP and the governments of both Portugal

³¹⁸ Sen B. 1965. *Functions of a Diplomatic Agent*. In: A Diplomat's Handbook of International Law and Practice. Springer: Dordrecht: 46

³¹⁹ Hiroshi Watanabe. *Mail to Portuguese diplomatic agent in Tokyo*. June 15th, 1951, NARA, RG 331, Topical File, Box 7351, Folder 4.

³²⁰ Hiroshi Watanabe. *Mail to Portuguese diplomatic agent in Tokyo*. June 15th, 1951, NARA, RG 331, Topical File, Box 7351, Folder 4.

³²¹ Kamat, M. M. 2008. *Goa's iron ore exports. An empirical investigation into growth, contribution and competitiveness*. Ph.D. Goa: Goa University, Department of Economics: 99

and Japan.³²² The work between Chowgule and Japanese steel producers proved a great success, as Goa received the necessary machinery and equipment to make iron ore extraction more efficient. Watanabe visiting Goa shows that Japanese steel companies could send representatives abroad to foreign countries to examine sites of iron ore mining, as well as to meet with foreign companies interested in trade with Japan.

It is evident that the situation in China put stress on Japan, as the Japanese steel producers favored Chinese iron ore because of its quality and China's closeness to Japan. Watanabe informed the Portuguese diplomatic agent that trade arrangements with China was uncertain, but that they hoped the situation would change for the better. The import of Chinese iron ore was greatly desired due to China's closeness to Japan and was also part of SCAP's objective to secure important raw materials in Southeast Asia for Japanese steel production. If iron ore trade between Japan and China was to resume, it would affect the iron ore trade with Goa, because China's ports were much closer to Japan than Goa's. Watanabe honestly stated that they would most likely prioritize import of Chinese iron ore in the future, if it would be possible, but that Goa still would be an important contributor of iron ore.³²³ Due to the distance between Japan and Goa, the Japanese steel companies were put in a difficult situation. Investment in developing Goanese mines would be a costly endeavor. However, to reestablish Chinese iron ore trade seemed to become difficult, and the Japanese steel industry had an ever increasing need to discover more sources of high-grade iron ore. In addition to the political situation in China, the mines, except the ones located on the coast and on Hainan, was located far into the interior of the country, which would make freight more expensive toward the nearest ports.

Because of this, Watanabe guaranteed, the iron ore trade with Goa would continue to be of great importance to Japan, and more or less of a permanent nature. Watanabe thought that on these grounds, he could negotiate to get a better price on the Goanese iron ore. If the price was satisfactory, Japan Steel Tube would provide Goa with the technology it needed to secure high-quality iron ore from their mines. Chowgule & Co. would secure the installation of the new machinery on the mine sites. The payment the Goanese iron company had to provide, was the iron ore mined by Japanese equipment.³²⁴ Japan Steel Tube wanted to be frank with the Portuguese diplomatic agent, when mentioning China, but also feared that it could take time

³²² Hiroshi Watanabe. *Mail to Portuguese diplomatic agent in Tokyo*. June 15th, 1951, NARA, RG 331, Topical File, Box 7351, Folder 4.

³²³ *Ibid.*

³²⁴ *Ibid.*

before China would resume operating iron ore trade with Japan. The fear of losing Goa's trust and access to her resources, remained a fear to the Japanese steel company. The fact that Japan Steel Tube offered to provide technology to Goa also indicates that their steel production fared well, and that they would provide with the expertise needed to be able to extract high-grade iron ore from Goanese iron ore mines.

Japan Steel was not the only Japanese steel producer that was interested in iron ore from Goa. The development plan was supported by Yawata Steel (八幡製鉄) and Fuji Steel (富士製鉄) as well.³²⁵ When most of the large steel producers huddled together for a trade arrangement to be made, this could only indicate that the demand for steel products kept growing. This could also signal that the steel companies understood the growing power they had in Japan. The steel companies knew that SCAP depended upon their success: to produce enough steel products for exports so that this could pay for their imports to achieve a trade balance. They also knew that securing Goanese iron ore from the Communist sphere also was of great importance for SCAP's plan for Southeast Asia. It was a sign of solidarity as well, that the Japanese companies joined forces and that they expressed independence from the American occupation administration.

Watanabe informed the Industry Division on July 5th about the current situation with Goa. The establishment of a trade agreement progressed slowly, and Watanabe apologized for not having prepared the necessary papers for SCAP yet. The reason for this was that the Portuguese government appeared to still be assessing the situation. Watanabe asked the Industry Division for assistance to straighten out the obstacles.³²⁶ These obstacles was not specified in the mail, but one could assume that the Portuguese government remained unsure about the matter. All the other components suggested that this trade agreement was possible: The Japanese steel companies had frequent contact with the iron companies in Goa and was experienced with buying iron ore from this area from before. Nihon Kokan was willing to sell technological machinery to Chowgule, which would increase the material output and establish a fundament for the Goanese economic development. In return, Chowgule would pay for this new machinery with iron ore, which only would amount to a win-win situation. Japanese steel

³²⁵ Hiroshi Watanabe. *Mail to Portuguese diplomatic agent in Tokyo*. June 15th, 1951, NARA, RG 331, Topical File, Box 7351, Folder 4.

³²⁶ Kokan Mining Company. *Mail to Industry Division*. July 5th, 1951, NARA, RG 331, Topical File, Box 7351, Folder 4.

companies would get access to high-grade iron ore, and the Goanese economy would benefit greatly on this trade with Japan.

It was not only in Goa that MITI wanted to invest in developing iron mines. They also started to draw up plans for Malaya, the Philippines and India. The mines in question were developed by the Japanese during the Second World War. The Japanese government funded these development plans with 32 million dollars,³²⁷ which shows the substantial commitment the Japanese had in developing iron ore mining in local economies. From 1949 to 1951, imports of iron ore and other commodities more than tripled.³²⁸ Table 4.4 indicates the production output of Goanese iron ore from 1947 to 1954. In 1948, the output was only 8000 tons annually, while production increased substantially in the years after Nihon Kokan proposed a development plan for Goa in June 1951.

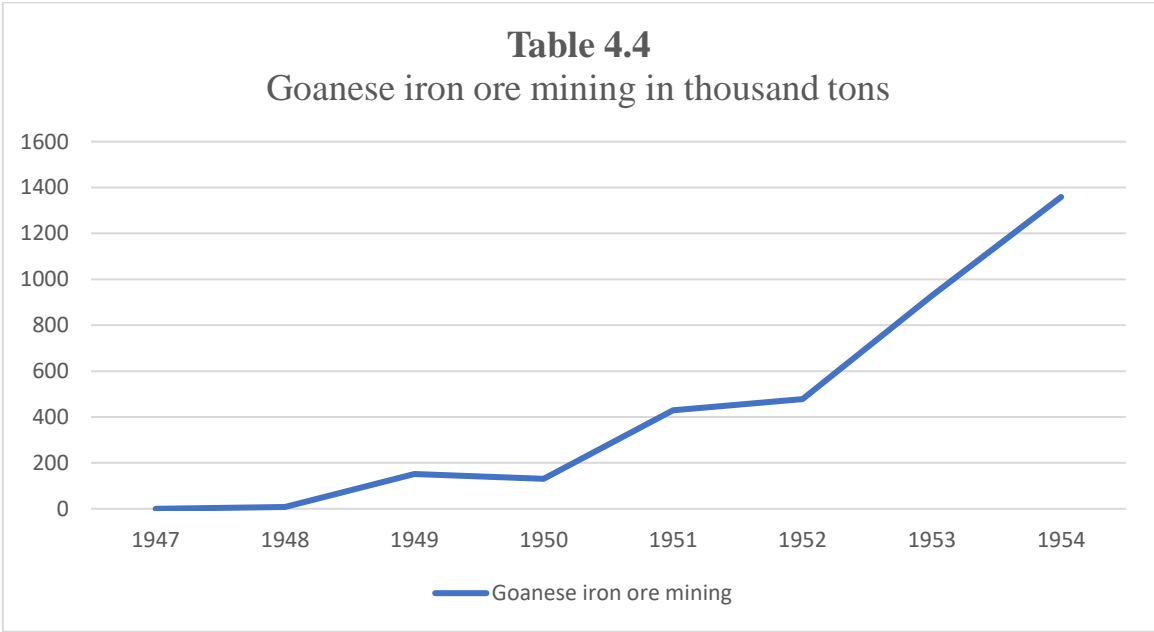


Table 4.4: Compiled from Mines / Minerals Yearbook. 1947-1954

³²⁷ Tomaru 2000: 97

³²⁸ Leffler 1992: 434

4.9 Concluding remarks

This chapter has shown how the downsizing of the SCAP administration gave the Japanese greater authority over their own trade in late 1949, and that it culminated in the Japanese steel companies' investment in iron ore mining in Southeast Asia. This was a result of the geopolitical situation and the view of SCAP that Japan could further develop both herself and the Southeast Asian region through getting higher authority. Chapter 3 shows the preliminary of this development: that Japan first started trading finished goods against iron ore to Southeast Asia, which provided Japan with her first export market after the Second World War. The American occupation administration combined the cutting back on staff with giving MITI and Japanese steel producers greater authority in their own affairs. The Korean war and the struggle to fulfill iron ore quotas led the Japanese and SCAP to explore new opportunities in Goa. Japanese representatives in India explored new opportunities there. On the other hand, they also got unexpected offers, such as Hainanese iron ore from the People's Republic of China. This secured the continuity of iron ore imports from Hainan. The Japanese started to develop new mines in Southeast Asia, and with the assistance of Japanese private traders they formed a new trade relationship with the Communists on the continent.

Chapter 5: Conclusion

In 1945, Japan found herself with a broken economy and a lost empire in a polarized postwar world, but she managed to get back onto her feet during the early 1950's. The country went from being completely controlled by the American occupation authorities in 1945, to start investing in mining development abroad only six years after the surrender. The Cold War that came to Asia in 1947-48 gave SCAP an opportunity to develop Japan as a strong ally in the Pacific. As the Cold War escalated on globally in 1949, the American occupation authorities gave the Japanese greater governance over their own trade. This was possible because of the political circumstances created by the global tension that followed a devastating world war. For the U.S. occupying authorities, a more independent Japan that could assist in her Southeast Asian neighbors' restoration was the best possible solution to contain Communism.

Earlier research has often depicted Southeast Asian countries as being hostile to Japanese reintroduction to world trade. Certainly, they were not keen on trading with Japan again after the devastations imposed during the Second World War. For example, Andrew Rotter claims that the Philippines and Malaya were not interested in trading with Japan in 1950. Although Japan was loathed by her southern neighbors, the Southeast Asian countries found themselves in the same situation as their former enemy. They were in great need for opportunities to develop their own economies. This thesis has shown both the Philippines' and Malaya's willingness already in 1948 to trade iron ore for finished steel products from Japan. This was due to the influence that the United States and Great Britain had over these respective countries. Although the British hesitated against Japanese trade with Malaya, they acknowledged that this was necessary for the restoration of Malaya. In the Philippines, the company that sold iron ore to Japan in 1948 was the American-established Philippine Iron Mines, Inc, which had a trade relationship with Japan before the Second World War. The Americans exploited the Philippine need for steel equipment for their own development programs. These colonial connections were exploited to establish trade routes for Japan after the war, in order for SCAP to achieve its goal to rebuild the Japanese steel industry.

Japan's reintroduction to iron ore trade in Southeast Asia instigated political reactions for the region's further development. Not everyone shared the enthusiasm that the United States backed Japan to regain her trade connections in Southeast Asia. As Tomaru points out, the British were divided on the issue with the trade connections that Japan had formed with Malaya. In 1951, First Commissioner-General for the UK in Southeast Asia, Malcolm MacDonald, and first British Ambassador to Japan after World War II, Esler Dening, were positive to the

increased Japanese presence in Malaya in the last couple of years. They argued that Japan could function as a development agent in Malaya, since the British government already was preoccupied with the reconstruction of the British Isles. Japanese influence in Southeast Asia could also give protection against Communist insurgencies, MacDonald claimed. Foreign Secretary Anthony Eden did not support the view of Japan as a development agent nor their influence in the British colony. The Embassy of Thailand asked Eden to see this as a great opportunity to Great Britain, that Japanese influence could contribute to British trade interests in the region. Denning, while on a visit to Japan in July 1952, even requested that Japan should import more iron ore from Malaya.

The verdict on whether Japan posed a threat to Great Britain's commitment in Southeast Asia came in 1953. A British trade mission visited Malaya to assess Japanese trade activity, and it was confirmed that Japanese influence competed directly with British interests. The British Foreign Office realized that this was a case to choose the lesser of two evils: prevent Japanese steel exports to Malaya which compromised Malaya's economic defense against Communism, or allow Japanese trade with Malaya, and for that reason, lose economic influence in the colony. The British chose the latter.³²⁹ A small country without a history of economic significance at the corner of the world, suddenly challenged one of the world's greatest colonial and economic powers.

During the last year of the occupation, Washington wanted to accelerate Japanese steel industry and Southeast Asian development. Since the American occupation was coming to a close, excavation of Southeast Asian iron mines was in focus. Japan could not afford to buy expensive American iron ore for too long. The joint Japanese-American Morrow Mission started examining Southeast Asian mines in July 1951, without consulting Great Britain, which greatly antagonized the British. The UKLIM compared the Morrow Mission with the Japanese engineers that set out to lay the groundwork for the Greater East Asian Co-Prosperity Sphere during the 1930's, and that it looked particularly grim due to the American party support this time.³³⁰

The Japanese government was not demoralized by this statement. Quite the contrary, it seemed to motivate the Ministry of International Trade and Industry as they put together development plans for iron ore mining in Goa, India, Malaya and the Philippines. Director of

³²⁹ Tomaru 2000: 73

³³⁰ Ibid.:96

the Programmes and Statistics Division, Kenneth D. Morrow,³³¹ stated concerning the development of the Malayan Rompin mine, they would reach “a realization of the union of Japanese industry and techniques with the economic development of Southeast Asia, as designed with the U.S. Economic Aid for Southeast Asia.”³³² SCAP had great expectations for the iron mining in Malaya, as Malayan iron ore had great significance for the Japanese steel industry before the Second World War. In 1953, one year after MITI made the development plans for Malaya, the iron ore production amounted to one million tons. In 1960, Malaya produced and exported around 4,5 million tons of iron ore. This was a 530% increase. As for the production development from 1953 to 1960 for Goa and India it amounted to 500%, and 272%, respectively. The production output in the Philippines maintained her production output at around one million tons annually.³³³ This shows how SCAP, MITI and Japanese steel producers through foreign mining investment affected world iron ore production in the early Cold War.

As a result of the increased Japanese mining programs in countries abroad, the Japanese steel industry faced an increase in production output during the 1950's and 60's. A problem that the industry suffered from was that Japanese steel and pig iron were uncompetitive on the world market, as it were expensive compared to American and West German products. To deal with this problem the Japanese government initiated the First Modernization Program in 1951, which focused on cost reduction and effectivization of the steel plants. In four years, production output of pig iron rose 214%, from 2930000 to 6290000 tons. To be able to supply the steel industry with enough iron ore, they set up long-term contracts with the Philippines, Malaya and India. As a result of effectivization, the amount of iron ore in the production of iron ore was reduced.³³⁴ Before 1950, the steel industry used about two tons of iron ore to produce one ton of pig iron, but in 1955 this had decreased to 1,5 tons. In 1956, Japan started to close in on her competitors' prices. Japanese steel producers hoped to continue this trend on cost reduction in the Second Modernization Program, starting in 1956. This program focused on the improvement of steel plants, giant blast furnaces and basic-oxygen furnaces, that would require less iron ore and scrap, the latter of which the old open-hearth furnaces depended heavily upon.

³³¹ Organization chart: *Economic and Scientific Section*. November 20th, 1950, NARA, RG 331, Topical File, Box 6408, Economic & Scientific Section organization booklet.

³³² 'Memorandum from the Member for Economic Affairs (of the Federation of Malaya) [MEA-FM]' (c. November 1951, CO1022/177. Reference in Tomaru 2000: 98

³³³ Reno, H. T. & Lewis, H. E. 1958. "Iron ore" In Bureau of Mines/Minerals Yearbook 1957: 607, Holliday, R. W. & Lewis, H. E. 1961. "Iron ore" In Bureau of Mines/Minerals Yearbook 1960: 590-591

³³⁴ Kawahito, K. 1972. *The Japanese steel industry. With an analysis of the U.S. steel import problem*. New York: Praeger Publishers: 22, 28

The steel industry, the shipping industry and the Japanese government cooperated in constructing larger ships which would decrease the cost on freight over long distances. As a result of the Second Modernization, the production of pig iron doubled. The extensive construction of new blast furnaces in steel plants contributed to the Japanese needing less iron ore in pig iron production than her competitors. By 1960, Japanese steel plants required 806 kilo iron ore to produce one ton of pig iron, while the United States' needed 1,590 tons.³³⁵ Due to the American involvement in the Vietnam War in the 1960's, the U.S. Army's purchase of war-related materials amounted to 2,6 billion dollars from 1964 to 1969.³³⁶ The Modernization Programs helped Japan establish herself as a highly competitive steel producer on the world market. Japan went from producing almost five million tons of crude steel in 1950, to nearly 67 million in 1968. Japan became the world's largest exporter of steel.³³⁷ 20 years earlier, this was something no one could have expected.

³³⁵ Ibid.: 35, 37, 45

³³⁶ Rotter 1987: 214

³³⁷ Ibid.: 66

Literature

Primary sources

Department of State: Office of the Historian:

Foreign Relations of the United States, 1946, The Far East, Volume VIII.

<https://history.state.gov/historicaldocuments/frus1946v08/d715>

Foreign Relations of the United States, 1947, The Far East, Volume VI.

<https://history.state.gov/historicaldocuments/frus1947v06/d368>

Foreign Relations of the United States, 1948, The Near East, South Asia, and Africa, Volume V, Part I.

<https://history.state.gov/historicaldocuments/frus1948v05p1/d397>

Foreign Relations of the United States, 1949, The Far East and Australasia, Vol. VII, Part 2.

<https://history.state.gov/historicaldocuments/frus1949v09/d933>

Foreign Relations of the United States, 1949, The Far East: China, Volume IX.

<https://history.state.gov/historicaldocuments/frus1949v09/d790>

Foreign Relations of the United States, 1949, Western Europe, Volume IV.

<https://history.state.gov/historicaldocuments/frus1949v04/d430>

Foreign Relations of the United States, 1950, Western Europe, Volume III.

<https://history.state.gov/historicaldocuments/frus1950v03/d508>

National Archives and Records Administration, College Park, Maryland. Records of the General Headquarters Supreme Commander for the Allied Powers (GHQ/SCAP), RG 331:

- Administration File
- General Export & Import File
- General File
- General Subject File
- Metals & Minerals Files
- Publications
- Subject File
- Topical File

National Diet Library 国立国会図書館, Tokyo, Japan. Records of the General Headquarters Supreme Commander for the Allied Powers (GHQ/SCAP), RG 331.

- General Export & Import File
- Metals & Minerals File
- Topical File

National Diet Library Digital Collection, 日本占領関係資料 (Web). <http://dl.ndl.go.jp/>

- International Military Tribunal for the Far East, Prosecution's Exhibits
- Japanese Organizations, 1946-52
- Supreme Commander for the Allied Powers Directives to the Japanese Government (SCAPINs)

U.S. Geological Survey. Bureau of Mines Minerals Yearbook. 1933-1953.

<https://minerals.usgs.gov/minerals/pubs/usbmmyb.html>

- Kiessling, O. E. (Editor). 1935. *Minerals Yearbook 1935*. Washington: United States Government Printing Office, 1935.
- Pehrson, E. W., Keiser, H. D. (Editors). 1941. *Minerals Yearbook review of 1940*. Washington: United States Government Printing Office.
- Pehrson, E. W., Keiser, H. D. (Editors). 1947. *Minerals Yearbook 1945*. Washington: United States Government Printing Office.

- Fischman, L. L. (Editor). 1953. *Minerals Yearbook 1950*. Washington: United States Government Printing Office.
- Bureau of Mines. 1958. *Mineral Yearbook Metals and Minerals (except 1955)*. Volume 1. Washington: United States Government Printing Office, 1958.

Secondary literature

Araneta, S. 1948. *Basic problems of Philippine economic development*. In *Far Eastern Survey*, Vol. 21, No. 3. Published by Pacific Affairs, University of British Columbia.

Beasley, W. G. 1987. *Japanese imperialism 1894-1945*. Oxford: Oxford University Press.

Bevin, E., Byrnes, J. F. & Molotov, V. M. 1946. *The Moscow Conference*. in *Chronology of International Events and Documents*, Vol 2. No. 1. Royal Institute of International Affairs.

Blackford, M. G. 2008. *The rise of modern business in Great Britain, the United States and Japan*. Arnhem: The University of North Carolina Press

Boericke, W. F. 1948. *Philippine mines: recent progress*. *Far Eastern Survey*, Vol. 17, No. 17. Institute of Pacific Relations.

Brødsgaard, K. E. 2008. *Hainan – State, society, and business in a Chinese province*. New York: Routledge.

Bunker, S. G. & Ciccantell, P. S. 2007. *East Asia and the global economy. Japan's ascent, with implications for China's future*. Baltimore: Johns Hopkins University Press.

Cohen, T. 1987. *Remaking Japan. The American Occupation as New Deal*. New York: The Free Press.

Colpan et al. 2002. *The Structural Transformation and Strategic Reorientation of Japanese Textile Businesses*. Kyoto: Kyoto University.

D'Costa, A. P. 1999. *The global restructuring of the steel industry. Innovations, institutions and industrial change*. New York: Routledge.

Dobbins, J., Poole, M. A. et al. 2008. *Post-World War II Nation-building: Germany and Japan*. In *After the War: Nation-building from FDR to George W. Bush*. RAND corporation.

Dockrill, S. R. & Hughes, G. 2006. *Cold War History*. Basingstoke: Palgrave Macmillan.

Dower, J. 2000. *Embracing defeat. Japan in the aftermath of World War II*. London: The Penguin Press.

Ealey, M. 2006. *An August Storm: the Soviet-Japan endgame in the Pacific War*. The Asia-Pacific Journal: Japan Focus. Volume 4, Issue 2.

Edwardsson, A. 2016. *Handel med förhinder. -En studie av Sveriges handelsförbindelser med Kina respektive Japan under 1950-talet (1949-1961)*. [Master's thesis]. Lund Universitet

Erselcuk, M. 1947. *Iron and steel industry in Japan*. Economic Geography, Vol. 23, No. 2. Published by Taylor & Francis, Ltd.

Fifield, R. H. 1951. *The Hukbalahap today*. In *Far Eastern Survey*, Vol. 20, No. 2. Published by the Institute of Pacific relations.

Hagglof, G. 1960. *A test of neutrality: Sweden in the Second World War*. In *International Affairs (Royal Institute of International Affairs 1944-)*, Vol. 36, No. 2. Oxford University Press.

Hasebe K. 1994. 1946・8年の我が国銑鉄生産における原料調達の一側面: 強粘結炭の調達を中心に。Hokkaido: Hokkaido University.

Hoadley, J. S. & Hasegawa, S. 1971. *Sino-Japanese relations 1950-1970: An application of the linkage model of international politics*. In *International Studies Quarterly*, Vol. 15, No. 2. Published by Wiley on behalf of The International Studies Association.

Hsia, R. 1953. *Private enterprise in Communist China*. In *Pacific Affairs*, published by the University of British Columbia.

Hsu, C. Y. 1948. *Japan re-enters international society*. In *Far Eastern Survey*, Vol. 17, No. 9. Published by the Institute of Pacific Relations.

Hsü, I. C. Y. 2000. *The rise of modern China*. Sixth edition. New York: Oxford University Press

Immerman, R. H. & Goedde, P. 2013. *The Oxford handbook of the Cold War*. Oxford: Oxford University Press.

Jackson, I. 2001. *The Economic Cold War. America, Britain and East-West trade, 1948-1963*. Hampshire: Palgrave Macmillan.

Jan, G. P. 1969. *Japan's trade with Communist China*. In *Asian Survey*, Vol. 9, No. 12. Published by University of California Press.

Johnson, C. 1982. *MITI and the Japanese miracle. The growth of industrial policy, 1925-1975*. California: Stanford University Press.

Kamat, M. M. 2008. *Goa's iron ore exports. An empirical investigation into growth, contribution and competitiveness*. Ph.D. Goa: Goa University, Department of Economics.

Karlsson, B. (1992). *Handelspolitik eller politisk handling: Sveriges handel med öststaterna 1946-1952*. [Master's thesis]. Ekonomisk-historiska institutionen vid Göteborgs universitet.

Kushner, B. 2015. *Men to Devils, Devils to Men: Japanese war crimes and Chinese justice*. Cambridge, Harvard University Press.

Kushner, B. & Muminov, S. (2017). *The dismantling of Japan's empire in East Asia: Deimperialization, postwar legitimation and imperial afterlife*. New York: Routledge.

Lee, S. H. 1995. *Outposts of Empire. Korea, Vietnam and the origins of the Cold War in Asia, 1949-1954*. Canada: McGill-Queen's University Press.

Leffler, M. P. (1992). *A preponderance of power. National security, the Truman administration and the Cold War*. Stanford: Stanford University Press.

Leng, S-C. (1958). *Japanese attitudes toward Communist China*. Far Eastern Survey, Vol. 27, No. 6. Institute of Pacific Relations.

Liu, J. T. C. (1948). *Resurgent Japan: A Chinese view*. in Far Eastern Survey, Vol. 17, No. 23. Institute of Pacific Relations.

MacDougall, D. (1954). *A lecture on the dollar problem*. In *Economica*, New series, Vol. 21, No. 83. Published by Wiley on behalf of the London School of Economics and Political Science and The Suntory and Toyota International Centres for Economics and Related Disciplines.

Myant, M. (2010) *The Czechoslovak Economy, 1948-1988 – The battle for economic reform*. New York: Cambridge University Press.

N. D. H. 1938. *Growing interest in Hainan mainly strategic*. In Far Eastern Survey, Vol. 7. No. 17. Published by Institute of Pacific Relations.

Nakamura, T. (1994). *Lectures on modern Japanese economic history, 1926-1994*. Tokyo: LTCB International Library Foundation.

Nye, J. S. & Welch, D. A. 2014. *Understanding global conflict & cooperation: Intro to theory and history*. Ninth edition. Essex: Pearson Education Limited.

Phillips, R. T. (1980). *The Japanese occupation of Hainan*. In *Modern Asia Studies*, Vol. 14, No. 1. Cambridge University Press.

Porter, C. (1939). *Philippine independence in a mineral-conscious world*. In the Far Eastern Survey, Vol. 8, No. 22. Institute of Pacific Relations.

Rotter, A. J. (1987). *The Path to Vietnam. Origins of the American commitment to Southeast Asia*. Ithaca: Cornell University Press.

Schaller, M. (1997). *Altered States: The United States and Japan since the Occupation*. New York: Oxford University Press.

Schonberger, H. B. (1989) *Aftermath of war: Americans and the remaking of Japan, 1945-1952*. Ohio: The Kent State University Press.

Sen B. (1965) *Functions of a Diplomatic Agent*. In: *A Diplomat's Handbook of International Law and Practice*. Dordrecht: Springer.

Silva, C. (1999). *Keep them strong, keep them friendly. Swedish American relations and the Pax Americana, 1948-1952*. Ph.D. Published by the Department of History, University of Stockholm.

Suzuki, T. M. (1994) *The technological transformation of Japan*. Cambridge: Cambridge University Press.

Tanaka, T. 2012. *Research on Sogo Shosha: Origins, establishment, and development*. Toyo Keizai Inc.

Tanaka, A. 2009. *The role of Sogo Shosha in mass procurement system of resource*. Nagoya: Nagoya City University.

Thompson, V. (1941). *Malayan iron ore for Japan*. Far Eastern Survey, Vol 10, No. 11. Institute of Pacific Relations.

Tomaru, J. (2000). *The postwar rapprochement of Malaya and Japan, 1945-61*. The roles of Britain and Japan in South-East Asia. Hampshire: Palgrave Macmillan.

Westad, O. A. (2005). *The Global Cold War. Third world interventions and the making of our times*. Cambridge: Cambridge University Press.

Yo-Jose, L. N. (1996). *World War II and the Japanese in the Prewar Philippines*. In *Journal of Southeast Asian Studies*, Vol. 27, No. 1, The Japanese occupation in Southeast Asia. Cambridge University Press, on behalf of Department of History, National University of Singapore.

Yokoi, N. (2004). *Japan's postwar economic recovery and Anglo-Japanese relations, 1948-1952*. Routledge: New York

Yonekawa, S. (1990). *General trading companies: a comparative and historical study*. Tokyo: United Nations University Press

Yonekura, S. (1994). *The Japanese steel industry, 1850-1990: Continuity and discontinuity*. New York: Oxford University Press.

Zhang, S. G. 2001. *Economic Cold War – America's embargo against China and the Sino-Soviet alliance, 1949-1963*. New York: Stanford University Press.

Web sources

アジア歴グロッサリー。 No date. 貿易庁。

<https://www.jacar.go.jp/glossary/term1/0110-0010-0050-0040-0070.html> Accessed:

11.01.2018

Bayer.jp. No date. History of Bayer in Japan.

<https://www.bayer.jp/english/about/bayerinjapan/history.html> Accessed: 03.12.2018.

Cannon, W. F. 2014. No date Uses of manganese. <https://geology.com/usgs/manganese/>

Accessed: 05.04.2018.

Chowgule Brothers PVT, Ltd. 2016. <http://chowgulebrothers.com/timeline.php> Accessed:

07.04.2018.

Ghorpade, Y. R. 1971. The Sandur manganese and iron ores limited in *Economic and Political weekly*, Vol. 6, No. 27.

<http://www.jstor.org/stable/pdf/4382247.pdf?refreqid=excelsior%3A0d685d870804ae57b48e10782f337e84> Accessed: 05.04.2018

Industrial Heritage. No date. Exploring the industrial heritage of Ma On Shan.

<http://gyc.elchk.org.hk/en/fours/> Accessed 04.10.2018.

Industrie.lu, Historique – Geschichtlicher Überblick. No date.

<http://industrie.lu/SOGECEO.html> Accessed 04.13.2018

Robinson, L., Johnson, P. B. & Oak, G. S. (2016). U.S.-Philippine relations in historical perspective. In U.S. Special Operations Forces in the Philippines, 2001-2014. RAND Corporation.

<http://www.jstor.org/stable/pdf/10.7249/j.ctt1cd0md9.9.pdf?refreqid=excelsior:8f73668e63f1169ce67a5f607a51f9ea> Accessed 04.17.2018

Sanyo Trading Co., Ltd. History.

<http://www.sanyo-trading.co.jp/english/company/history/> Accessed: 04.04.2018.

Sea Distances.org. (Web). <https://sea-distances.org/> Accessed: 11.11.2018

渋沢社史データベース。(株)読売新聞社『読売新聞百二十年史』(1994.11) (Web). https://shashi.shibusawa.or.jp/details_nenpyo.php?sid=15340&query=&class=&d=all&page=41
Accessed 11.10.2018.

The Industrial History of Hong Kong Group. 2017. Ma On Shan Mine – The open cut years

<https://industrialhistoryhk.org/ma-on-shan-mine-part-1-the-open-cut-years/>

Accessed: 05.28.2018.

World Steel Association. 2018. *Fact sheet: Steel and raw materials*. (Web).

[https://www.worldsteel.org/en/dam/jcr:16ad9bcd-dbf5-449f-b42c-](https://www.worldsteel.org/en/dam/jcr:16ad9bcd-dbf5-449f-b42c-b220952767bf/fact_raw%2520materials_2018.pdf)

[b220952767bf/fact_raw%2520materials_2018.pdf](https://www.worldsteel.org/en/dam/jcr:16ad9bcd-dbf5-449f-b42c-b220952767bf/fact_raw%2520materials_2018.pdf) Accessed 11.05.2018

