

Part Three: Economic and Cultural Issues

Japan's Economic Control in Southeast Asia during the Pacific War: Its Character, Effects and Legacy

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Introduction

On December 8th, 1941, Japan launched the Pacific War and occupied Southeast Asian countries one after the other, thus the history of Southeast Asia entered into a new stage. On the one hand, Japan replaced the United States, Britain, France, and Holland placing Southeast Asia in the Greater East Asia Co-prosperity Sphere under the rule of Japanese imperialists alone and established the so-called Southern Co-prosperity Sphere. On the other hand, the anti-Japanese activities in the Southeast Asian countries developed rapidly and reached an unprecedented level and scale. A series of major changes took place in Southeast Asia and also laid a foundation for the independence of Southeast Asian countries.¹ The Japanese military invasion caused a serious loss of social wealth, inflation and rampant black markets in Southeast Asia. The tyranny of Japan not only made the leaders of independence movements abandon the illusion of cooperation with Japan, but also aroused resistance in Southeast Asia.

Although Japan's rule in Southeast Asia lasted only three years and eight months, it not only had a tremendous impact on the whole region during the wartime in various aspects such as political, economic, social, cultural, ethnic and others, but also exerted profound influences on national independence, economic construction and social development in Southeast Asia after the end of the war. One of the characteristics of the history in Southeast Asia was "the break" in the course of development; that is, when the social history developed to a certain stage, it was interrupted by some external force.² Beginning in the 16th century, the normal course of development in Southeast Asia was interrupted by the invasion and domination of Western colonialism. In the 1940s, the region was invaded by Japanese imperialism. On August 15, 1945, however, Japan was defeated. And the world-wide anti-fascist forces won the victory, which greatly encouraged the national liberation movements in Southeast Asia. Peo-

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¹ Liang Yingming, Liang Zhiming *et al.*, *Modern History of Southeast Asia*, vol. 1 (Beijing: Kunlun Press), 2005, p. 394. References for all Chinese-language sources are given in English translation.

² Nicholas Tarling, tr. He Shengda *et al.*, *The Cambridge History of Southeast Asia*, vol. 1 (Kunming: Yunnan People's Publishing House, 2003), pp. 17-19.

ples all over the region made an arduous and heroic struggle against old and new colonialists and finally achieved national independence, thus returning to the normal track of national construction and economic development.

This historical “break” has left various impacts in Southeast Asia. If we do not understand these features, we cannot know Southeast Asia accurately. For this reason, this paper considers the Japanese rule in Southeast Asia during the Pacific War as a turning point, exploring the character, features, and effects of Japanese economic control.

1. The nature of Japanese economic control in Southeast Asia

During their military rule in Southeast Asia during the war, the Japanese from central to local authorities aimed to maintain economic activity in normal a state as possible. It was a necessary part of the total war. In order to establish the Great East Asian new order in which Japan was at the top of the pyramid, they incorporated Southeast Asia into the yen bloc, as a strategic supplier of important resources and also a dumping market for Japanese goods. The Japanese military and political authorities introduced a series of economic control policies to help Japanese companies entering Southeast Asia, suppressing the local business.

Japan wanted to monopolize the Southeast Asian economy, and was partly successful in making the region’s economy subordinate to its war efforts. In actuality, Southeast Asia became the second economic supplier in the yen bloc (as shown in Figure 1).

In January 1942, Prime Minister Hideki Tojo made a speech in the Diet. He declared that the key to the Great East Asia war was to establish strategic resource areas under Japan’s management and control. This was a frank message to clarify the objective of the Greater East Asia Co-prosperity Sphere. In February 1942, the Imperial General Headquarters-Government Liaison Conference agreed upon the

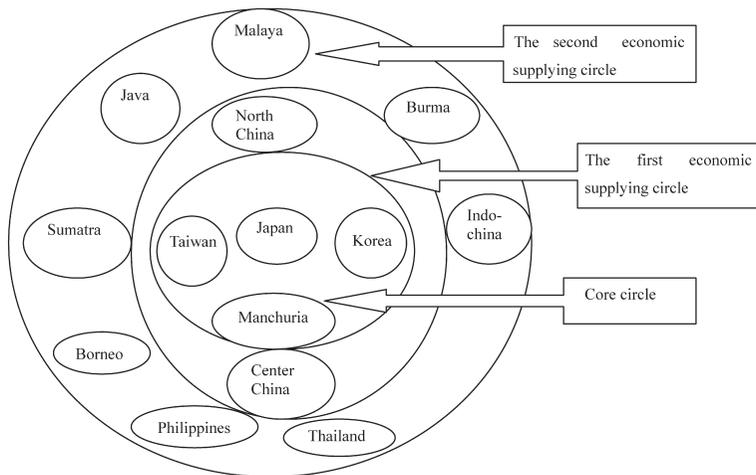


Figure 1. Structure of the “Yen bloc”

Source: Yang Dongliang, *Modern economic history of Japan*. Beijing: World Knowledge Press, 2010, p. 196.

Teikoku no Shigenken wo Ikani Suhekiya, a 15-year plan of the Empire's exploitation of natural resources from Southeast Asia; such as iron ore, coal, aluminum, petroleum, food as well as the requisition of ships in the occupied territories.³

The *Nanpo Keizai Taisaku Yoko* in December 1941 and the *Nanpo Kochiiki Keizai Taisaku Yoko* in May 1943 both stressed that obtaining important resources and reinforcing local supply capacity would contribute to the Great East Asia war. Japan would gradually establish a permanent basis for the construction of the East Asian economy. Southeast Asia would be a supplier of raw materials and also a market of Japanese commodities, so as to build a self-sufficient Greater East Asia Co-prosperity Sphere and an exclusive yen economic bloc. The documents showed Japan's real intent to incorporate Southeast Asia into its wartime economic regime. This idea was actually implemented in the Japanese wartime economic control policies in the region.

Integration was the result of this subordination. The purpose of Japan's economic policies was to control its economic lifeline throughout Southeast Asia, securing the region as an integral part of its wartime economic system. For this purpose, the Japanese army established military and political institutions in the occupied territories. These institutions were closely linked with the Japanese homeland. In the early days of the Pacific War, the Japanese wished to keep Southeast Asia as a supplier of raw materials and at the same time a market of Japanese products. However, as the war situation deteriorated, Japan became unable to provide its products to Southeast Asia. Therefore, it was obliged to pursue a new policy of strengthening the local supply capacity in Southeast Asia.

However, this meant that Japan intensified its brutal rule and economic exploitation to sustain its war efforts. In this regard, Japanese economic domination of Southeast Asia was not merely an invasion, but even an act of pillaging. It is true that the Japanese built roads, railways, airports, seaports and others as well as some industrial facilities in the occupied territories, thus contributing in one way or another to later economic development in the region. But Japan's ultimate aim was to plunder the resources there, so we should never praise their conduct.

To conclude, the Japanese pursued their own interests. It was not to promote the economic development in Southeast Asia. It was an economic pillage. They regarded Southeast Asia as a source of raw materials and a market for Japanese products, therefore they did not really intend to develop local industries there. In reality, they prevented the local initiative for industrial development and tried to keep wages of local workers as low as possible.⁴ The Southern Co-Proprosperity Sphere built by the Japanese was an obvious aggression and their purpose was to build a colonial empire. They desired politically to rule all people in Southeast Asia, economically to monopolize rich resources and vast markets, militarily to hold strategic points and compete with the United States and the Great Britain over a long period of time, and spiritually to enslave the people of the occupied territories with fascist culture.⁵

³ Sugiyama Gen, *Sugiyama Memo: Seiful Renraku Kaigi to Hikki* (Tokyo: Hara Shobo, 1967), pp. 85–6.

⁴ John Costello, tr. Wang Wei et al., *The Pacific War (1941–1945)*, vol. 1 (Beijing: Oriental Press, 1985), p. 263.

⁵ Hu Dengkun and Luo Zhigang, *An Outline of World War II* (Wuhan: Wuhan University Press, 2005), p. 232.

There was a vicious cycle. Japan intended to plunder the resources of other countries for the benefit of the domestic monopoly capitalist class and its ruling group, but the war for plundering consumed a large amount of resources. So Japan had to adopt the policy of war escalation to expand the territory of control. This vicious cycle finally led to the collapse of economic control in Southeast Asia.

In general, the nature of Japanese economic control in Southeast Asia was an economic invasion. In order to satisfy the needs of the war economy, Japan adopted control policies that sucked up all resources in Southeast Asia. Japan cut traditional economic links between Southeast Asian countries and their former rulers and others. In addition, they could not guarantee the supply of industrial products and other commodities in Southeast Asia, nor could they effectively transport commodities from the region. Thus, the economic system in Southeast Asia was severely damaged. Inflation, the rampancy of black markets and the extreme poverty were the inevitable results.⁶

The Japanese conduct was far more brutal than that of the Western colonialists. To be sure, the Westerners had also violated the sovereignty of the Southeast Asians and plundered the local resources. Therefore, the leaders and people in Southeast Asia hated Western colonialism and some of them even wished to cooperate with Japan. But they eventually realized the true nature of Japanese invaders and started to oppose them. Japan finally lost the war, but this did not mean the return of the Westerners. After the Japanese surrender, Western colonialists were also driven out of Southeast Asia.

People in Southeast Asia are resentful of the backwardness caused by Western colonialists. But they cannot forget the destruction and violence caused by Japanese fascists during the wartime period.⁷

2. Characteristics of Economic Control by Japan in Southeast Asia

During the Pacific War, the primary characteristic of Japanese economic control in Southeast Asia was known as “self-sufficiency.”

Around the time of invasion, in the *Nanpo Keizai Taisaku Yoko* and a series of documents, the Japanese government stressed that the most important aim was to construct the self-sufficient regime of the Greater East Asia Co-prosperity Sphere and to build the exclusive yen economic bloc with Japan at the hub. Japan tried to forge Southeast Asia to be a supplier of raw materials and a dumping market for its goods. However, the Japanese military leaders made light of the logistics of supply. Traditionally, they usually took the policy of expropriating the local materials for this purpose. Therefore, when they invaded Southeast Asia, they applied the policy of requisitioning local materials in accordance with the self-sufficiency principle.

In the early days of military and political rule, Japan had no plan to foster industrial zones in the occupied territories; it simply imported strategic materials, such as oil, rice and mineral products from Southeast Asia. But as the war progressed, the naval blockade by the Allied forces forced Japan to

⁶ Liang Zhiming, *History of Colonialism—Southeast Asia* (Beijing: Peking University Press, 1999), p. 486.

⁷ Liu Nianbo, “On the Influence of Eastern and Western Colonialism on the History of Southeast Asia,” *Journal of Xuzhou Normal University (Philosophy and Sciences Edition)*, 3 (1999): 108.

strengthen local supplies and to utilize local resources for shipbuilding, machinery manufacturing, rubber, cement, and food processing. However, they could not improve the situation much. They could not ensure smooth transportation. They had to limit the transportation only to the most important materials and decrease the consumption of other materials.⁸ Thus, they could not utilize fully their booty, and their war capacity seriously declined. Even so, no Japanese died of starvation in the homeland during the Pacific War. In the meantime, two million people died of starvation in northern Vietnam, due to the Japanese rice requisition.⁹

The second characteristic of the Japanese wartime economic control in Southeast Asia was that it was more severe and coercive compared with Western colonial rule. The Westerners did not want real industrial development in their colonies, but they developed at least some light industries, especially processing and transportation. They built railway and telegraph networks. Such urban centers as Singapore, Jakarta and Saigon began to spring up.¹⁰ In contrast, Japan's authoritarian rule tried to achieve an absolutely exclusive economic monopoly in Southeast Asia. In order to forge Southeast Asia into a supply base of manpower and material resources, the Japanese applied brutal economic control policies. The results were huge suffering and economic recession in the region.

As for the financial policy, the currency issuing agencies of the Western colonialists stored a high proportion of reserves in the mother country and its banks with large assets performed trade exchange business,¹¹ which ensured the value of the local currency generally at a reasonable level. By contrast, Japan adopted the policy of squeezing, with Tokyo as the center of trade settlement, instead of London and New York, so as to achieve the goals of establishing the "yen economic bloc." In addition, Japan issued military currency-currency and Southern Development Bank Notes. There was neither any restriction on the amount of issuance, nor any financial funds to maintain their value. Inflation was inevitable in the occupied territories of Southeast Asia. The local people suffered a lot.¹²

In terms of industry and trade, the Westerners yoked Southeast Asia with the capitalist global production and marketing system. Plantations increased rapidly in Southeast Asia. The mineral industry and export processing gradually expanded and foreign trade rapidly grew up. Their economic development was uneven and distorted by the Westerners' profits. Even so, the Southeast Asian colonies could trade not only with their rulers, but also with other countries. At the beginning of the 20th century, dozens of raw materials and agricultural products in Southeast Asia were in the leading position of the world trade. The export of oil, rubber, tin, sugar, quinine, rice and other products was in the forefront of the world. Southeast Asian colonies also became a commodity market and investment destination of

⁸ Kobayashi Hideo, *Daitoa Kyoeiken no Keisei to Hokai* (Tokyo: Ochanomizu Shobo, 2006), p. 380.

⁹ Eguchi Keichi, tr. Yang Dongliang et al., *History of Japan's aggressive war for fifteen years* (Tianjin: Tianjin People's Publishing House, 1995), pp. 204–205. The figure of two million people remains controversial. Prof. Motoo Furuta (University of Tokyo) has conducted some research in northern Vietnam and has speculated that the death toll is about 1.4 million to 1.5 million.

¹⁰ Liang et al., *Modern History*, pp. 334, 337.

¹¹ Nanpo Kaihatsu Kinko, *Nanpo Kakuchi Tsuka Kinyu ni Kansuru Senzen Jokyo Chosa* (Tokyo, 1942), pp. 5–7.

¹² Kobayashi, *Daitoa Kyoeiken*, p. 445.

capitalist countries other than their rulers.¹³

However, Japan attempted to establish an exclusive “yen economic bloc” and implemented a strict economic control using military force. Because of Japan’s shortage in natural resources, it hoped to monopolize oil, rubber, tin, iron, coal and rice in Southeast Asia.¹⁴ During the war, Southeast Asia exclusively traded with Japan, and the varieties of export products and related industries in the region become restricted only to Japanese demands. Their vulnerability became bigger. Although Southeast Asia had a trade surplus *vis-à-vis* Japan, it became a source of revenue for Japan and the profits were not returned to the local people. Their economic burden became more and more serious.

Compared with what the Western colonialists had done, Japan’s action in South East was totally destructive. According to Mochtar Lubis, a famous Indonesian writer, Japan’s brutal rule convinced the Indonesian people that they must never fall back into colonial rule, whether under the rule of Japan or Holland. This idea became the spiritual pillar of the Indonesian independence movement. “I would like to thank the Japanese domination in Indonesia. It makes us realize that Japan totally ignored the people of our country. Compared with the colonial rule of Holland, Japan should be described as a cruel and brutal invader.” The Philippine scholar R. C. Jose argues that Japan’s victory over the US was not the reason why the independence movement surged in the Philippines. On the contrary, with the Japanese invasion, “the steps toward independence in the Philippines had been reversed.” “Bleeding still comes out from the wounds of Japanese economic control.”¹⁵

The third characteristic of the Japanese economic control in Southeast Asia was that its main targets were finance, industry and trade, and that its control over prices was relatively weak. Its main purpose was to meet the needs of Japan’s wartime economy, ignoring the people’s livelihood in Southeast Asia. Japan issued a great quantity of military currency—currency and Southern Development Bank Notes. The Japanese army also forced Overseas Chinese in Malaya and Singapore to pay *honokin* (compulsory donations) for reducing the amount of local currency—currency in circulation and replacing it with Japanese legal tender. This measure was not only to punish the Overseas Chinese who had supported the anti-Japanese war in China, but also to meet the Japanese plan to enhance military spending.

Japan tried to appropriate strategic materials. The military and political authorities implemented a monopoly policy on specific local products, such as oil and quinine, and prohibited from selling them to enemy countries. Japan also applied a restriction policy toward some products. For example, rubber and sugar were overproduced, because their traditional Western markets were no longer available and the Japanese domestic consumption of those products was rather limited. The Japanese authorities on one hand applied the policy of stockpiling and rationing, while reducing the amount of production. Concerning food production, Japan in principle adopted the strategy of self-sufficiency to feed its

¹³ Sun Fusheng, “A comparative study of Western Rulers’ Colonial policies in Southeast Asia,” *Journal of Xiamen University*, 1 (1995): 95.

¹⁴ Rhoads Murphey, tr. Huang Linyi, *History of Asia*, vol. 2 (Beijing: People’s Publishing House, 2010), p. 652.

¹⁵ Hagiwara Nobuyuki and Goto Kenichi, *Tonan Ajia Shi no naka no Kindai Nihon* (Tokyo: Misuzu Shobo, 1995), p. 133.

armies. In some places where food was not enough, Japan reduced the cultivation areas of other crops and increased the yield of grain. On the contrary, in the areas where major production was grain, Japan reduced the acreage of grain cultivation to plant cotton and other crops. A series of Japanese measures destroyed the existing development model, without reestablishing a new model. They simply brought great chaos to the local economy and society.

The fourth characteristic was that the Japanese economic control policies were fluctuating in accordance with the changing war conditions. By the first months of 1942, Japan started its economic control in the occupied area of Southeast Asia. However, by 1944, the Allied forces counterattacked Guadalcanal and Burma, while anti-Japanese resistance movements became active in many places. In Burma, the air raids from India threatened the normal economic activities. In April 1944, the Allies troops took over New Guinea, which was the eastern end of the Greater East Asia Co-prosperity Sphere. Japan had to modify its economic control policies frequently to respond such changes.

Because war conditions were constantly changing, Japanese economic policies could not reflect the reality of the occupied territories. This resulted in a dualistic nature of Japanese economic control in Southeast Asia. Generally, Japan imposed a top-down hierarchy. However, there were many struggles between the central authority in Japan on one hand and the military and political authorities in Southeast Asia on the other. For example, on the issue of overproduction of rubber and sugar, the central authority considered them as strategic materials to maintain the economic superiority over the enemies and asked to keep their production capacity as much as possible. However, the local authorities in Southeast Asia tried to cut the amount of production to save the cost of economic control and ensure the supply of food.

The fifth characteristic was that the monopolistic *zaibatsu* companies played overwhelmingly important role in controlling the Southeast Asian economy. In the northeastern part of China, Japan let the South Manchurian Railway Company (Mantetsu), the Manchurian Industrial Development Company (Mangyo) and other monopolistic companies remain at the forefront of economic plunder. In the occupied territories of mainland China, Japan set up Kita Shina Kaihatsu Kabushikigaisha (in North China) and Naka Shina Shiko Kabushikigaisha (in Central China). They were the two main companies to incorporate the Chinese economy into the imperial economy. They guided Nissan and other *zaibatsu* companies to march toward China in accordance with the policy of "one industry one company."

In Southeast Asia, Japan did not establish such a comprehensive company, because the region was divided between the army and navy. In addition, learning lessons from the occupation of China, Japan tried to avoid the monopoly system of "one industry one company." In order to support Japanese business activities in Southeast Asia, Japan established the Southern Development Bank. It financed the Japanese military as well as Japanese companies operating in the region. Thus, Japanese monopolistic capital flowed into Southeast Asia.

As is shown in Table 1, Japan's total investments in Southeast Asia in the wartime were more than 3.5 billion yen. The investments tended to concentrate in the East Indies (present-day Indonesia) and

Malaya, where the most important strategic materials such as petroleum, tin and bauxite were produced. The amount of Japan's investment for these two territories reached 2.22 billion yen, accounting for 62% of its total investment in Southeast Asia. In terms of funding sources, loans from the Southern Development Bank were more than 1.5 billion yen altogether, accounting for 43% of the total amount of funding. Loans from other sources was less than 1.2 billion yen, accounting for 32%, while the share of the companies' own funding was only 25% (900 million yen).¹⁶

With the support of the Japanese government, the main *shosha* such as Mitsui, Mitsubishi, Daido Boeki and other trading companies dominated the trade between Southeast Asia and Japan and the intra-regional trade. The main products in Southeast Asia were monopolized by Japanese enterprises. Thus, Japanese *zaibatsu* such as Mitsui, Mitsubishi, Sumitomo, Furukawa etc., replaced British and American capitals.

The sixth characteristic was that inflation in Southeast Asia was more serious than in the other occupied territories. In central China, for example, the Munition Distribution Association controlled the circulation of military currency in the market to keep the balance between them and the yuan. By contrast, in Southeast Asia, Japan issued military currency and Southern Development Bank Notes without considering the balance between money and material. In Southeast Asia, Japan had not established any organization similar to the Military Currency Association which it had established in China. There were only unlimited withdrawals from an Emergency Armaments Expenditures Special Account. Furthermore, Japan had no time to establish current circulating institutions, and to reconstruct rationing organizations of daily necessities. "Military spending and developmental funds enhanced incessantly, while the quantity of supplies declined. It resulted in the growing inflation and rising prices in the occupied territories. The life of local inhabitants was extremely miserable."¹⁷ As shown in Figure 2, the volume of military currency and Southern Development Bank Notes in the occupied territories of Southeast Asia rapidly increased.

Table 1. Source of investment funds of Japan in Southeast Asia during the Pacific War (Unit: million yen)

	Own funds	Loan of the Southern Development Bank	Other borrowings	Total
Philippines	9434	34634	11366	55434
North of Borneo	2568	257	3357	6182
Malaya	24978	58229	22522	105729
East Indies	32978	41571	41826	116375
Burma	4702	14753	10895	30350
Thailand	6422	304	11605	18331
Indochina	7391	1324	11562	20277
Others	837	1391	3043	5271
Total	89310	152463	116176	357949

Source: Kobayashi Hideo, *Nihonjin no Kaigai Katsudo ni Taisuru Rekishiteki Chosa (Nanpo Hen)* (Tokyo: Yumani Shobo), 2000, p. 237.

¹⁶ Kobayashi, *Daitoa Kyoieken*, pp. 506-507.

¹⁷ *Ibid.*, p. 445.

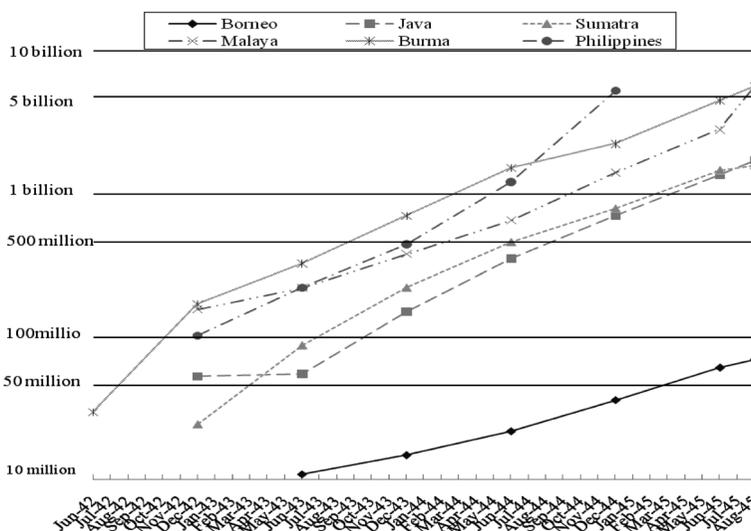


Figure 2. Japan's monetary distribution in the occupied territories of Southeast Asia (Unit: yen)
 Source: *Nihon Ginko, Senjichu Kinyu Tokei Yoran: Showa 12 Nen kara Showa 20 Nen 8 Gatsu made* (Tokyo: *Nihon Ginko Tokeikyoku*, 1947)

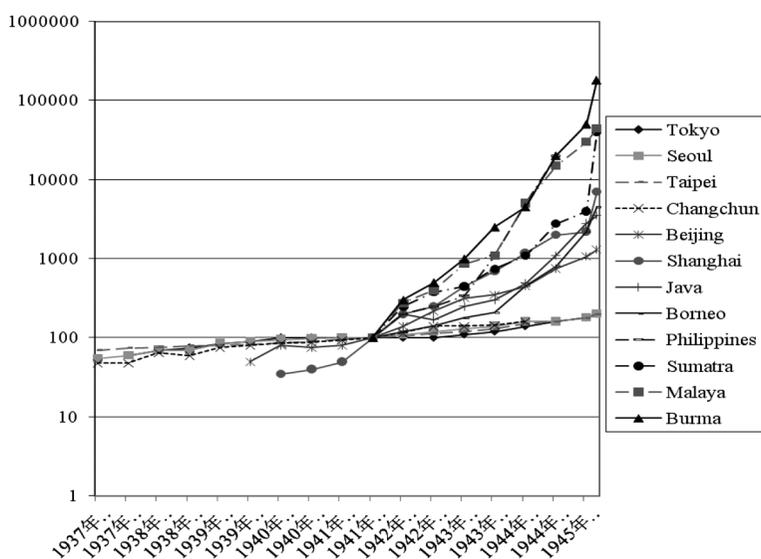


Figure 3. Price indices in various countries of Greater East Asia Co-Prosperity Sphere (Based on 100 in December 1941)
 Source: *Nihon Ginko, Senjichu Kinyu Tokei Yoran: Showa 12 Nen kara Showa 20 Nen 8 Gatsu made* (Tokyo: *Nihon Ginko Tokeikyoku*, 1947), pp. 159–60.

Severe inflation occurred not only in Southeast Asia, but in the various regions of China as well. Figure 3 shows the price indices in the Greater East Asia Co-Prosperity Sphere. Serious inflation started in various places in 1942. In terms of harshness of inflation, however, Tokyo, Seoul, Taipei, Beijing and Changchun belonged to the first group. Shanghai, Borneo and Java belonged to the second group. Su-

matra, Burma, and the Philippines and belonged to the third group. The Greater East Asia Co-prosperity Sphere formed a concentric circle with Tokyo at the center: the more peripheral places suffered from more serious inflation.¹⁸ Generally speaking, inflation was the most serious in Southeast Asia.

3. The Influence of Japanese Economic Control in Southeast Asia

Japan transformed Southeast Asia to be the supplier of raw materials and the investment place of its own. Although Japan's occupation in Southeast Asia lasted only for a short period, its economic control had a tremendous impact in various aspects, political, economic, social and cultural. According to an estimate by the Japanese military headquarters in 1938, if the war were prolonged till 1945, expenditures would have to be kept at 10–20 billion yen. This cost would far surpass what Japan could afford. Therefore, Japan chose the policy of fueling war with warfare, expanding the territory of occupation to plunder all resources and wealth from it. In November 1941, Finance Minister Okinori Kaya said:

Southeast Asia has been importing a large number of various materials. And if our army occupies the areas, the import of these materials would be stopped. In order to make their economy run smoothly, we need to supply materials to Southeast Asia. But for the time being, we cannot take care of the residents' living conditions in these areas so much, for the simple reason that our country does not have enough surplus materials. Therefore, we have to implement the policy of exploitation.¹⁹

Japan plundered all Southeast Asian countries under the slogan of Greater East Asia Co-prosperity Sphere. Even for Thailand, a so-called quasi-ally, the *Economic Implementation Strategy for Thailand* made by Japan in September 1942 prescribed that the economy of Thailand "would be guided by Japan" and its industry "would be required to meet the planning of the Greater East Asia Co-prosperity Sphere." In the East Indies, Philippines, Malaya and Burma, Japan plundered oil, bauxite, tin, rubber and other strategic materials to "ensure the acquisition of important strategic resources."²⁰ However, Japan did not do so through the normal two-way trade; it paid in worthless military currency and Southern Development Bank Notes, instead of using any material or gold or another hard currency. Japan set up the Nanyo Development Company and other enterprises. Japan also appointed Mitsui, Mitsubishi, Ishihara, Aso, Furukawa and other *zaibatsu* companies to monopolize the economy industries in the occupied territories.

In order to fully expropriate important materials in the occupied territories, Japan issued military currency without restriction, while it could not guarantee the materials supply. Japan set up the Southern Development Bank and through it issued banknotes for use in the occupied territories. It also fi-

¹⁸ *Ibid.*, p. 450.

¹⁹ David Bergamini, tr. Zhang Zhenjiu *et al.*, *Japan's Imperial Conspiracy*, vol. 2 (Beijing: Commercial Press), 1984, p. 1027.

²⁰ Sugiyama, *Sugiyama Memo*, pp. 425–31.

nanced Japanese enterprises exploiting the resources in Southeast Asia. Thus Japan not only controlled the finance of the occupied territories, but also exploited the local residents brutally. The Southern Development Bank lent 7 billion yen to the Japanese government to balance its budget in 1944–5.²¹ The unsecured currency was eventually returned to the occupied territories to plunder the scarce materials, thus causing shortages of local supplies and the jumping of prices in Southeast Asia. Although the local residents held large amounts of military currency and Southern Development Bank Notes, real materials to maintain its value had almost disappeared.

According to *the Policy of the United States for Japan After capitulation at the preliminary stage* published by the US government on September 6, 1945, the Japanese government announced on September 16 that “all the military currency and money issued by the Japanese government and military authorities should be invalid, and their transactions should be prohibited.” Thus, shortly after the end of the war, military currency and Southern Development Bank Notes became worthless paper.²² In other words, Japan released a large amount of military currency and Southern Development Bank Notes and plundered the resources and property of Southeast Asia, thus shifting the burden of costs onto the local people.

Japan stopped trade between its occupied colonies and third countries, in the hope of building an exclusive yen bloc. Japan wanted to replace Western countries as a provider of industrial products, while importing raw materials. But the Tokyo government could not achieve this goal. The export of goods from Japan and the economic construction in the occupied territories became extremely difficult. Southeast Asia suffered from shortages of food and clothing. After 1943, Japan had to initiate a policy of developing light industry in the occupied territories. However, its ability to provide necessary machinery, textiles, garments and other industrial products was very limited. In order to meet the military's needs, Japan also forced all Southeast Asian countries to change the agricultural economic structure, so as to provide military supplies. Instead of sugar cane, pepper and coffee, Japan compelled local farmers to plant cotton, hemp and so forth for military purposes.²³

The Japanese not only plundered natural resources, but also ordered the local residents to work as a forced labor in oil exploitation, mining, timber logging and road construction. There were about 200–300,000 workers engaging in the construction of the Thai–Burma Death Railway. Most of them were residents of Burma and Malaya. More than 72,000 people died in this project. In the year of famine, Malaya, for which self-sufficiency in food production was impossible suffered more seriously than Burma, one of the rice bowls in Southeast Asia.

Thailand entered into an alliance with Japan, and annexed part of the territories in Malaya, Cambodia, Laos and Burma with Japanese support. In September 1942, Japan formulated the *Outline of Eco-*

²¹ Historical Research Department of Academy of Military Sciences, *History of the Second World War*, vol. 2 (Beijing: Military Science Publishing House, 1995), p. 761.

²² Uchida Masatoshi, tr. Luo Weilong *et al.*, *Reflections on Postwar Compensation* (Beijing: Academic Publishing House, 1999), p. 101.

²³ Song Chengyou *et al.*, *Japan's Postwar Diplomatic History: 1945–1995* (Beijing: World Knowledge Press, 1995), p. 240.

conomic Measures toward Thailand, for the comprehensive control of Thai economy. The document stipulated that the exchange rate between the baht and yen should be 1 : 1, which meant a 36% depreciation of the baht. This resulted in soaring prices in Thailand. In addition, Japan forced Thailand to grow cotton, jute and other crops to serve the Japanese textile industry. This disturbed the Thai traditional agricultural economy.²⁴ The production of four export commodities—rice, rubber, teak, and tin—sharply decreased. By the end of the war in 1945, Thailand, which had been one of the world's biggest rice exporters had only an annual output of 3.5 million tons, barely enough to satisfy local demand. Poverty, unemployment and inflation drove the country to the brink of collapse.²⁵ Japan also took over domestic transport in Thailand; by the end of the war, the country's transport system had been paralyzed.

In Burma in 1944, the average daily output of oil fell sharply to 1/15 of the prewar level, and that of minerals to less than 1/10. In the same year, the grain yield was only 3 million tons, less than half of the prewar production. The amount of rice exports was only 2% of the prewar level. Transportation had been also severely disrupted: 85% of boats on the Irrawaddy River were destroyed, and about half the railways were out of operation. Due to the deterioration in transport system, famine hit the northern part of the country, while southern Burma had a surplus of rice. Furthermore, contagious diseases spread in northern Burma. Japanese soldiers killed old and sick people to stop the spread of epidemics.²⁶

Indochina provided a huge amount of rice, rubber, coal and other resources to Japan. The amount of its rice exports to Japan was 46.8 thousand tons in 1940, 58.5 thousand tons in 1941, 97.4 thousand tons in 1942, and 1.02 million tons in 1943. In 1944, due to the reduction of rice cultivation area and the natural disasters, grain yields sharply decreased. However, Japan still took 49.6 thousand tons of rice from Indochina. Thus, in the last years of the Pacific War, Japan caused an unprecedented famine in Indochina, because the Japanese imposed rice levies in northern Vietnam and the coastal transport routes between the rice-rich south and the starving north had been blocked by US air attacks. In winter and spring of 1944–1945, more than two million people died of starvation, i.e. 1/10 of the national population in Vietnam.²⁷

Japan applied different systems and policies depending on the specific conditions for each territory in Southeast Asia. In the countries which had the most valuable resources, especially the East Indies and Malaya, Japan imposed direct military rule. To the less important places, such as Burma and the Philippines, Japan gave more “autonomy,” even organizing so-called “allied states.” Thus, the influence of Japanese economic control was different from one place to another.²⁸ With the Japanese invasion, the former struggle between the oppressed peoples and the Western colonial rulers was replaced by

²⁴ Tan Zhuyuan *et al.*, *Economic History of Postwar Southeast Asia (1945–2005)* (Beijing: Ethnic Press, 2007), p. 152.

²⁵ Tian He and Zhou Fangzhi, *The Nations-Thailand* (Beijing: Social Sciences Academic Press, 2005), pp. 257–58.

²⁶ Wang Zhongtao and Tang Zhongnan, *History of Japan* (Beijing: People's Publishing House, 2008), p. 387.

²⁷ Tan *et al.*, *Economic History*, p. 340.

²⁸ Liang *et al.*, *Modern History*, p. 430.

the new struggle between the anti-fascist and fascist forces. Resisting against the Japanese aggression and struggling for national independence became the top priority. Japan announced the recognition of independence for Burma and the Philippines in 1943. Then in 1944, it also announced that Indonesia would be independent in the near future. In 1945, Japanese launched a military coup, announcing the independence of Vietnam, Cambodia and Laos from France. The Japanese purpose was to establish puppet regimes in Southeast Asia. However, Japan could not aid the development of national liberation movement in these countries.²⁹

Some nationalists in Southeast Asia had once considered that the enemy of their enemy would be a friend, dreaming of defeating Western colonialism with the help of the Japanese. At the beginning of the occupation, Japan made some empty promises to attract the leaders of national independence movements to win their supports. They started working together with the Japanese. Aung San and his comrades in Burma were all deceived into collaborating with the Japanese Army. However, witnessing the Japanese cruel fascist rule, they began changing their attitude.³⁰ Japan portrayed itself as the liberator of Southeast Asia from the Western imperialists, but its brutal rule, exploitation and slavery aroused people of all classes to take up weapons to fight against Japan. In Vietnam, under the leadership of the Indochinese Communist Party and Hồ Chí Minh, the Việt Minh was formed in May 1941, to launch the national liberation movement.³¹ In August 1945, they succeeded in their revolution. In Thailand, Regent Pridi Phanomyong launched the "Free Thai" movement in January 1942. In December 1944, a nationwide anti-Japanese mass organization-Thailand Anti-Japanese Alliance was founded.

The anti-Japanese movements in various parts of Southeast Asia dealt a heavy blow to Japan's economic control. The Allied victory and the Japanese surrender provided an opportune moment for the Southeast Asians. Economic control in the wartime had lasted less than four years, but it was a catastrophe for the people of Southeast Asia. The Southeast Asian people never forgot this disaster.³²

4. The Legacy of Japan's Economic Control in Southeast Asia

Every coin has two sides. On the one hand, the people of Southeast Asia suffered greatly from Japan's economic control and its destructive influences. The struggle between the Japanese imperialists and the Southeast Asians led to the upsurge of the national liberation movement in all countries. On the other hand, Japan's invasion terminated Western colonial rule. At the beginning of the war, US, British and Dutch colonial troops fled in disorder under the Japanese attack. A large number of colonial officials and soldiers became captives of the Japanese army. It was the first fiasco of the Western rulers since they colonized Southeast Asia. This incident broke down the colonialists' myth of invincibility. The people of Southeast Asia witnessed the fragile nature of the old colonialism, thereby boosted

²⁹ Liang, *History of Colonialism*, pp. 22-3.

³⁰ Historical Science Society of Japan, tr. Jin Feng et al., *History of the Pacific War*, vol. 4 (Beijing: Commercial Press, 1962), p. 57.

³¹ Hayashi Saburo, *Taiheiyo Senso Rikusen Gaishi* (Tokyo: Iwanami Shoten, 1951), p. 50.

³² Song et al., *Japan's Postwar Diplomatic History*, p. 242.

their confidence to fight for national independence.

The Japanese destroyed the existing colonial regimes. Due to the shortage of talented administrative officials, the Japanese had to employ and promote local people. Under Western rule, the majority of native Southeast Asians were only at the bottom of colonial administration, but now local officials had the opportunity to fill the vacancies in senior positions. The Thirty Comrades, which constituted the core leadership of Burma National Army headed by Aung San, were trained by Japanese army officers in Hainan. After Burma was given “independence,” the Thirty Comrades occupied the important military and political positions. Many Burmese leaders either received Japanese military training during the war, or studied in Japanese military academies.³³ Thus, some degree of affinity for Japan had been cultivated among some Southeast Asian leaders.

In order to quickly understand the situation concerning ethnic minorities, labor, meteorology, customs, education, health, mining, industry, commerce, agriculture, transportation, and finance, the Japanese civil and military authorities took over research institutions and related documents held by Western “old masters.” In January 1943, the Japanese military administration established an investigation department to carry out economic surveys in the occupied territories. Japanese companies started business activities in Southeast Asia. Their experience and knowledge accumulated during the war helped their reentry into Southeast Asia after the war.

At the beginning of the war, the Westerners destroyed local factories, while the technicians and skilled workers escaped. The Japanese authorities tried to fill up this vacuum, but could not train technical personnel and skilled workers overnight. Even so, the Japanese carried out short-term technical training for the local people in the fields of electricity, soap production, tannic acid, mechanics, carpentry, rubber, liquefied petroleum production and so on, so as to sustain the production in the region. They also conducted various experiments and researches. To a certain extent, these activities laid the foundations for the new national industry in Southeast Asia. However, it must be pointed out again that the independence of Southeast Asia was the result of the victory by anti-fascist forces, together with the Japanese fascists’ failure and the drastic changes in postwar international circumstances.

As a part of war-time efforts to mobilize manpower in Southeast Asia, Japanese authorities built up paramilitaries, such as the Burma National Army. The paramilitary members were recruited among Southeast Asians of the younger generation. They were trained and provided with weapons by the Japanese. Most of them had strong nationalistic thinking. And they eventually became the supporters of national independence movements, when the war entered the critical stage before the Japanese defeat. On the eve of their defeat, the Japanese granted *de facto* independence to some countries while the ruling power was still remained in their hands. However, the majority of the people felt that they were very proud to be the citizens of an independent state and they would not agree to become the subjects of foreign powers any longer. It can be said that the leaders of independence movements in Southeast

³³ Saito Teruko, “Japan’s Inconsistent Approach to Burma,” *Japan Quarterly*, 39 (1992): 24.

Asia had gradually reached a consensus during the Pacific War that they would achieve full independence and no longer be a part of the Western colonial empires. This was also one of the reasons why the people in the countries of Southeast Asia strongly resisted Western colonialists' return to Southeast Asia after the war.

In short, Japanese civil and military rule and its economic control had replaced the position of Western masters in Southeast Asia. It ended the old pattern of Western colonial rule and established Japan's new exclusive ruling order in Southeast Asia, but it did not create a new chapter in the history of Southeast Asia. The Pacific War engendered a series of serious economic and social changes in the region. The war also combined the anti-fascist struggle in the region with the struggle all over the world. National liberation movements reached to the unprecedented height. The victory of the anti-fascist war and the collapse of Japan's military and economic control opened a new chapter in the history of Southeast Asia, paving the way for the independence and creating favorable conditions for the development in the counties of Southeast Asia.

Conclusion

After signing the Treaty of Peace in San Francisco, Japan vigorously promoted economic cooperation with countries in Southeast Asia under the policy of combining compensation, assistance, investment and trade. In this way, Japan not only successfully achieved a peaceful return to Southeast Asia and ensured the industrial raw materials and overseas market, but also enhanced its economic power and political influence in East Asia. This kind of post-war achievement could not be obtained using military force during the Pacific War. Since the 1970s, with the rapid development of Japanese economy and Southeast Asian countries' policies for attracting foreign investment, Japanese businesses have massively entered into these countries. After 1980s, especially with the high appreciation of the yen, Japanese investment in the region increased. This trend has continued up until now, thanks to the end of Cold War confrontation, economic globalization and regional integration.

ASEAN's role in regional and global affairs is increasingly important. Therefore, Japan tries to promote all-round and in-depth cooperation with ASEAN countries in the aspects of politics, economy and security. Politically, in its quest for a permanent member seat in the U.N Security Council, Japan hopes to win support from ASEAN countries. Economically, Japan promotes bilateral or regional economic cooperation with ASEAN countries, trying to consolidate its status of a great economic power and a leading actor in the integration process of East Asia. Japan promotes security cooperation with ASEAN countries vigorously to reduce the degree of dependence on the United States, encouraging ASEAN countries to contain China. All in all, Japan has sought to establish a new-type partnership with ASEAN countries, which is a strategic need to maintain its status as a great economic power and to become a great political power.

History has proved that Japan's aggression, its attempt to re-divide the world and its illusion of seeking hegemony in the Asia-Pacific region during the Pacific War, were finally defeated by the world an-

ti-fascist forces, leading to the demise of the Empire of Japan. This kind of serious historical lesson is worthy of attention. As a negative example, Japan's military expansion proved that it was not feasible to change the international order in East Asia by force. A nation's development path not only depends on striving to strengthen itself, but also rests with mutual respect for national sovereignty, equality, peaceful coexistence and mutual benefit. Each country has its own sovereignty and interests and each has its own traditions and customs. Any country cannot impose its own will upon others by easily using forces and waging wars.

The new order of the East Asia region in the future should be a new type of cooperation, opening and harmony which is based on the idea of peace, friendship and cooperation, aiming at mutual benefit and common development.