THE FUTURE OF JAPANESE SHIPPING

BY DANIEL MARX, JR.

TODAY, WHEN United States policy toward Japan is undergoing re-examination both in this country and abroad, one aspect of that policy—namely, the future role of the Japanese merchant marine—merits careful study. American policy respecting Japanese shipping is naturally influenced by our worldwide diplomatic, commercial and maritime policies.

Our diplomatic policy may be described, at the expense of over-simplification, as being shaped by our desire to check the spread of Communism. The dominant trend of our foreign economic policy has been to encourage freer, multilateral trade and to terminate discriminatory practices. Our maritime policy, representing one of several deviations from the major trend of our foreign economic policy, is to have a merchant marine large enough to carry a substantial portion (frequently interpreted to mean fifty percent) of our foreign trade, even if subsidies are necessary. These patterns have affected our program for Japanese shipping since V-J Day and its prospects for the future.

Early Recommendations

In November 1945 the Basic Initial Post-Surrender Directive to the Supreme Commander for the Allied Powers stated as an ultimate objective the establishment of conditions which would give the greatest possible assurance against renewed Japanese aggression and which would permit Japan eventually to become a responsible member of the family of nations. This directive did not attempt to formulate a shipping program. Concrete recommendations came in April 1946 from a reparations mission headed by Mr. Edwin W. Pauley. The report of this group was based on the thesis that the Allied Powers should take no action to assist Japan in maintaining a standard of living higher than those of neighboring countries injured by Japanese aggression; such a small proportion of the prewar Japanese income had been devoted to popular domestic needs that, in spite of the destruction of war, Japan’s potential production remained greater than the Japanese people had been able to enjoy in peacetime.

The Pauley Mission recommended that Japan be limited to a merchant marine of 1,500,000 gross tons, including 1,250,000 gross tons for the home islands trade. All ships were to be subject to a maximum of 5,000 gross tons and to have a maximum speed of twelve knots; these restrictions were amended in September 1947 to 6,000 gross tons and fifteen knots. The original provisions were expected to provide 114 ships, totaling 869,000 gross tons, for reparations; but at the end of 1947, after the maximum allowable size and speed had been increased, it was found that only eight ships totaling less than 60,000 tons would qualify for reparations, leaving the Japanese merchant fleet at approximately 1,300,000 gross tons (compared with the prewar figure of approximately 6,000,000 gross tons). Of the fifty-three shipbuilding and ship-repair installations capable of handling steel vessels, the Pauley report recommended that the Japanese be permitted to retain ten large yards and twelve smaller yards which could provide adequate repair facilities and build 100,000 gross tons of new shipping annually. Japan’s prewar shipbuilding capacity was approximately 800,000 tons per year.

In February 1948 a group of industrial engineering and appraisal firms known as Overseas Consultants, Inc., which had been retained by the Department of the Army to investigate Japanese industry, completed a half-year study of the reparations problem. Their report was based on the principle that a strong industrial Japan would be less dangerous to the peace and prosperity of the Far East than a continuation of her present instability. The same premise and very similar conclusions characterized the report of the Draper Mission, which spent three weeks in Japan and Korea.

These reports pointed out that relief expenditures in Japan are costing United States taxpayers nearly $400,000,000 a year and that, since Japan can produce only eighty percent of its minimum food requirements and has a population increase of 1,000,000 persons per year, political stability can be achieved only by a continuance of large-scale American aid or by restoration of selected Japanese productive facilities which might earn foreign exchange to pay for imports of food and necessary industrial raw materials. The advisers felt that such a restoration, if properly supervised, would not contribute to Japan’s war-making ability.

Overseas Consultants, Inc., concluded that by 1953 Japan will have to import about $275,000,000 (1939 value) more in food and other commodities than she

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did in 1937. To pay for these goods and to overcome the deficit in invisible income—indeed independently of American aid—Japan will probably have to export goods with a 1939 value of about $450,000,000 more than she did in 1937. The report stated that because of its high efficiency, Japanese shipping should be permitted to earn a substantial portion of the necessary foreign exchange. The opinion was expressed that Japanese productive efficiency, relative to that of other countries of the Far East, will permit the war-devastated areas to obtain more from Japan by exchanging food and raw materials with her in return for manufactures and services than if they themselves were to try to utilize such reparations equipment as might be awarded them.

Overseas Consultants, Inc., therefore recommended that Japan be permitted to build up her merchant fleet to 4,000,000 gross tons. This proposal implies substantial replacements as well as new acquisitions, since Japan’s present fleet consists for the most part of substandard war-built ships and old prewar vessels. It also implies the purchase or construction of about 3,500,000 tons within six years. Since a lack of foreign exchange prevents the purchase of foreign-built ships, and a shortage of steel hinders the construction of new vessels in Japanese yards, such a rapid growth in tonnage seems improbable. The report recommended that Japan be permitted to charter vessels for temporary service but that her permanent needs be met by home construction. According to Overseas Consultants, Inc., Japanese yards can now build about 100,000 tons annually, but could expand their capacity to 400,000 tons by 1954. Thus, allowing for obsolete ships put out of service, Japan could achieve the ownership of a fleet of about 4,000,000 tons by 1960. The report would allow a permanent construction capacity of 400,000 tons annually, with adequate repair facilities.

Shipping and Japan’s Economy

Before the war, Japanese shipping was an important segment of the Japanese economy, especially as a source of foreign exchange. The United States Department of Commerce has estimated that in 1936, before the invasion of Manchuria, Japan had a net shipping income of 146,000,000 yen. While this constituted only 0.7 percent of the empire’s national income, employment in the shipping industry comprised less than 0.3 percent of the total labor force employed. Shipping provided the nation with approximately one-twentieth as much foreign exchange as did all merchandise exports. There can be little doubt that shipping services are a valuable source of foreign exchange for a densely-populated island country located astride one of the world’s major trade routes and possessing a skilled sea-going population.

In the future the Japanese merchant marine will probably regain much of its lost position. Although Japan no longer has the modern, high-speed fleet she once possessed, she should be able to provide formidable competition with slower vessels. Speed has no great commercial importance on most Far Eastern and trans-Pacific shipping routes. Silk shipments, which previously helped to support many of the faster vessels, have declined both in value and in volume. Even with this basic cargo, before the war many of the speedier Japanese merchant vessels required government subsidies which were furnished because of the strategic importance of fast ships. Japan’s competitive advantage rests in her abundant supply of cheap labor. Although the postwar organization of labor unions has raised Japanese wages, seamen’s wages are still substantially less than those paid by Occidental competitors. Speed is of much greater economic significance for American and other vessels with high operating expenses. This is not the case with the growing competition that Japan will have to face from Indian, Philippine, and possibly Chinese shipping.

The restoration of Japanese shipping does not hinge solely on the question of comparative efficiency or other advantages. It involves competition with United States shipping, much of which is subsidized. The National Federation of American Shipping, protesting the proposed expansion of the Japanese merchant marine, has pointed out the importance of American-flag shipping to national defense. The question arises, therefore, as to where the Japanese will obtain 4,000,000 gross tons of shipping by 1954, as recommended by Overseas Consultants, Inc. The most obvious source is the United States reserve fleet. Such vessels, if withdrawn and chartered or sold to Japanese, will come into considerable direct or indirect competition with tonnage operated by Americans.

The crux of the problem from the American point of view is what program will, in the long run, redound to the greater advantage of American citizens and taxpayers. We can continue to operate a sizable merchant fleet and to pay substantial subsidies to maintain it. Such a program would force Japan to find other sources of the foreign exchange she needs. Or we can continue to grant Japan substantial funds for relief—unless we are willing to risk a decline in her standard of living to the point where political stability is endangered.

Little mention has been made in this article of the danger of a restored Japanese merchant marine as an instrument of aggressive war because the writer believes that a fleet of 4,000,000 gross tons of relatively slow vessels will not constitute a threat to peace. The economic efficiency typical of Japanese ship operation, however, does not extend to the Japanese ship-construction industry. It might, therefore, be advisable, both in the interest of economy and as additional insurance that Japan will not again engage in aggressive war, to limit her shipbuilding capacity more severely than Overseas
Consultants, Inc., and others have recommended. It will probably prove advantageous to allow adequate ship-repair facilities, although Japanese ship operators may find it more economical to effect certain repairs abroad.

In the light of United States diplomatic, commercial, and merchant marine policy, certain conclusions may be drawn. Strategic reasons appear to argue for an increase in Japanese tonnage, just as they argue for the curtailment of the reparations program in Germany and for the restoration of productive facilities in Bizonia. The American program for freer, non-discriminatory, multilateral trade also appears to favor the restoration of Japanese shipping unless punitive or strategic reasons intervene. Freer trade may well mean more business for all ship-operating countries, although it appears highly doubtful that the volume of trade will consistently employ all of the vessels maintained by the nations of the world in the interest of security and foreign exchange earnings.

If Japan is to resist Communism and become a reliable ally, she must have a material standard of living above the subsistence level. The achievement and maintenance of such a standard will be less expensive for the American taxpayer if the Japanese are permitted to produce and sell in the world's market the goods and services they can provide at low cost—notably shipping. Unless it is clearly to the American taxpayer's advantage both to subsidize his own merchant fleet and to restrict Japanese shipping, the future should see a greater Japanese tonnage than was contemplated immediately after the war.

News Chronology

December 3 to 23, 1948

December 4: China. Chinese officials in Washington disclose that their government is seeking $3,000,000,000 in military and economic aid from the U.S. in the next three years.

December 5: Indonesia. Premier Hatta announces that his delegation and the Dutch have reached a deadlock over the question of who should control the Indonesian army during an interim period before the creation of a sovereign "United States of Indonesia."

December 6: Japan. The Far Eastern Commission announces that SCAP is being authorized to allow an unlimited number of merchants and traders to "enter and reside in Japan" to carry on import and export trade.

December 6: United States. The Supreme Court, in a five-to-four decision, agrees to hear arguments on motions for writs of habeas corpus filed in behalf of two convicted Japanese war criminals, former aides to Tojo.

December 8: Australia. The Dutch delegation withdraws from the ECAFE meeting in Sydney after the Commission votes eight to two to admit the Republic of Indonesia to associate membership. The Netherlands delegate states that he is withdrawing the 47,000,000 natives of Dutch-controlled Indonesia from the purview of the Commission.

December 8: China. The Control Yuan files a bill of censure against Dr. T. V. Soong, accusing him of "squandering public funds" in the construction of airstrips in Kwangtung.

December 9: Japan. In the Far Eastern Commission the United States abandons its plan to break up Japanese industrial, financial, and family combines on the ground that much of the work has already been accomplished by SCAP. The Commission votes ten to one against the Soviet proposal that, after the conclusion of a peace treaty, an international commission be set up to insure against revival of Japan's war industry.

December 10: China. A U.S. naval official states that U.S. Marines will soon be moved to Shanghai to protect American lives and essential property, including electric power plants.

BOOKS ON THE PACIFIC AREA

NEW PATHS FOR JAPAN. By Harold Wakefield. New York and London: Oxford University Press, under the auspices of the Institute of Pacific Relations and the Royal Institute of International Affairs, 1948. 223 pp. $3.75. 15s.

This book is composed of two parts, "The Evolution of Modern Japan" and "The War and After." The former, a revision of Mr. Wakefield's earlier work, Japan in Defeat, is an analysis of prewar Japanese society, the latter a descriptive and historical account of a relatively brief period ending in August 1947. Both parts are interestingly written and solidly informing. The book should be especially useful to non-specialists and as collateral reading for college classes.

Although the author offers no original theses, his knowledge and appreciation of Japanese culture are exhibited in many paragraphs. He is, apparently, hopeful rather than confident that Japan will be transformed into a democratic and peaceful nation. He might well have revealed more of the prewar liberal effort upon which hope must largely rest, but his topical coverage is so broad as to preclude extensive treatment of parliamentary struggles and the labor movement. He is most successful in his handling of economic factors, though his statement that the zaibatsu "were not in the least inspired by democratic ideals" overlooks the economic aspect of democ-