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DEPARTMENT OF STATE POLICY

on

THE FUTURE OF JAPAN

June 26, 1964

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Department of State Policy Paper

on

The Future of Japan

The statement of "Policy Tasks" contained in pages 78-91 of this paper is approved as Department of State policy toward the future of Japan. The paper was prepared as a Basic National Security Policy Task by the Bureau of Far Eastern Affairs of the Department of State. It incorporates comments and revisions by the U.S. Embassy in Tokyo and was concurred in by the Embassy. It was discussed in the Secretary of State's Policy Planning Meeting and in the interdepartmental Planning Group. Suggestions by other Washington departments and agencies have been reflected in it, but it has not been formally coordinated and cleared by other agencies.

The following additional specific follow-up actions are being taken as a result of consideration of this paper:

a. State and Defense will conduct a joint study to define more precisely the appropriate missions of the Japanese armed forces which the U.S. should seek.

b. State will explore with the Japanese the possibility of creating closer relationships between the foreign policy planners in the U.S. and Japanese Governments through an arrangement broadly comparable to NATO's Atlantic Policy Advisory Group.

With the approval of this paper the BNSP Task on "The Future of Japan" is considered to be completed.

Dean Rusk
Secretary of State

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THE FUTURE OF JAPAN

Summary

Looking ahead over the next ten years, we can expect to find ourselves dealing with an increasingly strong, confident and nationalistic Japan. Pro-Western, conservative elements will probably retain control at least until 1969 or 1970, possibly alternating power thereafter with socialist governments of considerably more moderate hue than today's Japan Socialist Party. Japanese society will increasingly resemble Western industrial societies -- urbanized and suburbanized, sophisticated consumer tastes, apartment dwelling and gadget served. Japan's economic and security relations with the U.S. will remain vitally important to it -- and scarcely less so to us --, but the relationship will become less predominant in Japan's foreign relations and more pragmatic as Japan seeks its own way in the world and attempts to reduce its present extraordinary dependence on the U.S. China will remain an area of potential policy difference with us, but with the odds against a major split on recognition and other basic issues, partly because of the broad consensus in Japan in favor of self-determination on Taiwan. As Japan assumes a greater share of Free World burdens and responsibilities, it will demand, and we will wish to accord it, a greater voice in East Asian and world policy decisions.

There is no reason why we cannot live with these changes, and indeed benefit from them. Japan may be less under our influence than now, but it will be firmly anti-Communist, internally less divided, more conscious of its responsibilities, and over-all a greater source of Free World strength than it is today. Determined and able to stand on its own feet in pursuit of what it considers its true national interests, its position will

increasingly

increasingly resemble that of our major European Free World allies.

What the U.S. does or does not do in and with respect to Japan will remain highly important to Japan's future course, and thus to our own Far Eastern and world position. Events have proved the soundness of our Japan policies of recent years, and there appears no present ground for believing that the main elements of those policies will not retain validity over most of the next decade. Programs to promote moderating trends on the left should be continued as long as they are needed and effective. U.S. security guarantees should be maintained as the umbrella under which Japan should be encouraged steadily to expand and modernize its home defense forces and pursue other domestic and foreign programs directly or indirectly contributory to Free World interests. These include an enlarged and improved development assistance program, trade and investment liberalization, an ROK settlement, cooperative economic assistance programs in the Ryukyus, and expansion and modernization of Japan's neglected public services. Efforts should be made to guide Japanese energies in directions adapted to Japan's national aptitudes and motivations, including such projects as a revamped and generously financed foreign trainee program. The possibility should not be excluded of Japan's eventually, possibly within the next 10 years, assuming defense responsibilities outside the immediate Japan area, beginning with participation, hopefully well within the decade, in UN peace-keeping activities. Maintenance and strengthening of our consultative relationship with the Japanese Government on world problems of mutual concern will be of continuing importance in our efforts to keep Japan closely identified with and a major contributor to Free World goals and programs.

The prime requirement of a healthy course of developments in Japan over the next decade will be an adequate

rate

rate of growth of Japan's foreign trade. A trading nation, Japan stands to benefit greatly from Free World trade liberalization efforts, but is hampered in its desire to participate fully in reductions of trade barriers by the continued existence of a substantial proportion of high-cost, protected industries, by the rigidities of the Japanese wage and employment system, and by the economy's vulnerability to trade fluctuations arising from its heavy dependence on trade. The problem is clearly recognized in Japan, but U.S. patience, firmness and example will critically influence the outcome. It is difficult to see how Japan's minimum economic goals can be attained unless Japan is afforded opportunity to expand its sales on the U.S. market at least in proportion with the growth of the U.S. GNP, -- though maintenance of the high annual rate of sales expansion to the U.S. of past years (26% 1953-60 and 10% 1960-62) cannot be expected. This will require firm Executive Branch resistance of American industry demands for curtailment of Japanese imports, except in what will probably continue to be rare instances where market disruption can actually be proved. It is only less important that when the U.S. must act contrary to Japanese trading interests, time and effort be taken to put the best possible face on the action through diplomatic and other means to minimize the adverse reaction in Japan, instead of the Japanese learning of the matter for the first time through Washington press announcements, as so often in the past.

An attempt to predict Japanese developments ten years ahead should allow sufficient of the saving element of the earthquakes and typhoons that mark the natural scene. It would be rash to assume that the day of the sudden and unforeseen -- the 1952 May Day riots, the "Golden Dragon" fallout excitement, the Girard Case, the 1960

Security Treaty turmoil -- is over in Japan, or that seizures of irrationality in the Japanese character are now happily matters of the past. Wise U.S. policy toward Japan will reflect a capacity to anticipate and move quickly to encompass the unexpected.

I. INTRODUCTION

THE FUTURE OF JAPAN

I. INTRODUCTION

This paper looks ahead over the next decade in Japan, seeking to foretell the trend of development in that country in its Far Eastern and world contexts. It then indicates the lines of U.S. policy toward Japan which seem most in U.S. interest now and in the years ahead.

Obviously developments in Japan will be greatly affected by external factors. These will include the course of the global Free World-Communist confrontation, events in Communist China, Korea and Southeast Asia, and weapons developments. Although Japan will be far more affected by, than itself a cause of, these factors, events in Japan will be of increasing importance in shaping the environment in which Japanese developments occur. It is impracticable to make any more specific assumptions than that (1) general war will be avoided and (2) the Free World-Communist struggle short of general war will continue, in its various political, economic and military aspects.

II. IMPORTANCE

II. IMPORTANCE OF JAPAN

Japan is of very great importance to the United States. Growing rapidly, far more rapidly than its neighbors, it will probably ten years hence be even more predominant in the area, and of even greater significance to the U.S. than it is now. Its importance can be appraised positively -- the political, economic and military advantages the U.S. gains and will gain in increasing measure if Japan remains firmly aligned with us, and negatively -- the disadvantages and weakening of our position we would suffer if Japan went neutral or, as might follow, fell under Communist domination.

Politically, Japan stands as a great, vital example to other Asian nations of the workability of free institutions in an Asian environment. Japanese democracy, revived under the Occupation, has now established itself, in spite of continued weaknesses, as an effective, popularly approved governing mechanism and way of life. The country's remarkable postwar economic growth (as indeed in large degree its growth since the Meiji Restoration) has been accomplished under free capitalistic principles. This example of an Asian nation that has gone so far so fast by free, democratic means is a tremendous factor on our side in the Far Eastern Cold War. As Japan's power and influence have grown, its spokesmen have provided increasingly valuable support to Free World positions in the United Nations and other world councils. Japanese political influence will further expand as wartime animosities further recede and Asians become more aware of the lengthening lead of Japan over neighboring areas.

Japan's political roles of attractive example and loyal follower, though important, are essentially passive.

Japan's

Japan's will and ability independently to lead, influence, modify, or direct the actions and orientation of other nations are at present limited; to the extent they can be increased, Japan will be able to play an active role of even more fundamental importance to the United States, even though independent Japanese political influence would at times be exerted in directions tangential to our purposes.

Economically, Japan is our second most important trading partner, next to Canada. In 1962, we sold $1.41 billion worth of agricultural products, machinery, coal, scrap iron and other products to Japan, while buying $1.36 billion worth of goods from it. Over the five-year period 1958-62 we sold Japan $6.2 billion worth of U.S. products, while buying $5.2 billion of Japanese products. Clearly, some sectors of the U.S. economy are heavily dependent on the Japanese market, deriving benefits which far outweigh the injury which other industries suffer from the competition of Japanese exports. The benefits the American consumer derives from access to Japanese low cost, high quality manufactures should also not be overlooked. And Japan is an important -- and potentially more important -- source of capital and technical assistance for the LDC's, particularly in Southeast Asia. Over the next ten years, Japan, with its great and lengthening head start, can be expected to play a major role in East and South Asian trade and economic development.

Of very great, though largely still potential, importance is Japan's independent stake in maintaining the sort of world trading environment that is essential to our own prosperity, that is, her independent need for trading partners whose economies are free and expanding. As the decade advances, we may hope for Japan to become more of a prime mover in the expansion and strengthening of freer trade and the fostering of progress among the less developed countries.

Militarily,

Militarily, Japan serves as host for this country's second largest foreign base establishment, after that in Germany. Our Air Force and Marine counteroffensive air forces in Japan and Okinawa fill a key role opposite the growing power of Communist China and the Soviet Far East. Our naval bases there, by making it unnecessary for Seventh Fleet vessels to return to Hawaii or the West Coast for maintenance and repair, save us hundreds of millions of dollars a year in peacetime, and would have even greater logistics value in certain kinds of war situations, as the Korean War showed. Large quantities of ammunition and equipment are stored by the Army in Japan, available in case of need anywhere in the Far East. While the use of our Japan bases for launching of combat operations in wartime is subject to restrictions, notably the requirement for approval of such use (except in special circumstances) by the Japanese Government, there is sound reason for believing that our forces would be able to carry out their missions.

Japan's potential as a positive center of military power within the next decade is slight. Japan can and probably will develop a keener sense of its own stake in the military defense of the Free World and Free Asia, but it cannot under foreseeable conditions play more than a supporting role in defense operations. This role could in circumstances comparable to those of the Korean War (but probably not otherwise) include that of an arsenal for conventional arms and equipment.

Considering Japan's importance from the point of view of the disadvantages we would suffer if it were lost to us, it is clear that if Japan went neutral we would be evicted from our bases and lose the position of military strength we now have there. Our bases in Okinawa would be immediately threatened. Japan would, of course, also lose most of its present political, and some of its economic, value for us. If a neutral Japan, seeking closer political and economic ties with Peking and Moscow, ended

by falling

by falling under Communist domination, the great human and material resources of Japan would not only be lost to us but added to those of the Communist side, drastically affecting the balance of power in Asia and throughout the world. And if Japan with its strengths succumbed to Communist influences, the chances of other, weaker Free Asian nations maintaining effective resistance against the encroachments of their big Communist neighbors would be greatly reduced.

What happens in Japan over the next decade is without exaggeration of vital importance to U.S. interests.

III. POLITICAL

III. POLITICAL SITUATION AND PROSPECTS

A. Situation

The Japanese political situation today is in its surface features much the same as that which emerged in 1948 following a brief interregnum of conservative-socialist coalition rule. Conservative elements are firmly in power, opposed by a substantial minority of socialists and a small but active Communist party.

The conservative Liberal Democratic Party (LDP), headed by Prime Minister Ikeda and deriving its support primarily from the rural areas, small shopkeepers, business and finance, holds 63 percent of the Lower and 57 percent of the Upper House Diet seats*. Made up predominantly of ten "factions" headed by leading conservative political figures**, the LDP stands in domestic affairs for economic growth under private enterprise, parliamentary government, and expanded public services and social welfare. In foreign affairs it stands for increased foreign trade; the U.S.-Japan alliance; a strengthened, pro-Western UN; closer ties with Western Europe; stability under non-Communist governments in Korea, Taiwan and Southeast Asia; a position of leadership among the Afro-Asian nations; maintenance of territorial claims, but cooperation with continued U.S. administration of the Ryukyu and Bonin Islands; improvement of relations with the Communist nations to the maximum extent consistent with close Free World ties; and major power status for Japan below the level of the U.S. and USSR.

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* These and other figures in this chapter reflect the results of the November 21, 1963 general elections.

** The respective factions, with the approximate number of Lower House seats held by each, are: Ikeda 46, Sato 49, Kono 47, Miki 39, Ohno 29, Fujiyama 22, Fukuda (Party Renovation League) 21, Kawashima (Koyu Club) 19, Ishii 11, Kishi Group 5, Neutrals 6.

U.S.S.R.

The principal opposition, the Japan Socialist Party (JSP), holds 31 percent of the Lower and 26 percent of the Upper House seats. Drawing its support from industrial workers, government employees, younger white collar workers and the intellectual-academic community, the JSP has traditionally been an orthodox Marxist party, adhering to concepts of class warfare and proletarian dictatorship, but has recently been moving toward a more realistic or modern position. Its foreign policy objectives, though recently less emphatically and categorically expressed, continue fundamentally to resemble those of the Japan Communist Party, including neutralism with no, or very limited, Japanese armed forces; abrogation of the U.S.-Japan Security Treaty and removal of all U.S. bases from Japan; immediate return of the Ryukyu and Bonin Islands to Japanese administration and evacuation of U.S. bases there; abrogation of Japan's ties with the GRC and establishment of normal relations with Communist China; a peace treaty with the USSR even at the price of territorial concessions; and a U.S.-USSR-Japan-Communist China non-aggression pact and Asian nuclear-free zone.

The Democratic Socialist Party (DSP), formed in 1960 of right-wing Socialists repelled by the extremist character of the JSP, holds 5 percent of the Lower and 4 percent of the Upper House seats. Seeking, thus far with limited success, to establish itself as a "third force" in Japanese politics between the LDP and the JSP, the DSP advocates a moderate socialist program patterned on that of the West German and British socialist parties. In foreign affairs it favors a more "neutral", "independent" attitude than the LDP but recognizes Japan's basic community of interest with the U.S. and the West.

The Japan

The Japan Communist Party (JCP) holds 5 seats in the Lower House and 4 in the Upper House of the Diet. Working primarily through front organizations, student groups, the labor movement and the left-wing of the JSP, the Party seeks to undermine the U.S.-Japan relationship, expand trade and other relations with the Communist nations and hasten the day when Japan may itself come under Communist rule.

B. Established Trends

But while the outward picture still remains much as in earlier postwar years, there is evidence of important change underneath, reflecting the transformations in Japanese society since the war. This evidence suggests that before the decade is out there will be major alterations in the outward as well as the inward features of the Japanese political situation.

The most easily identifiable of the trends which appear to be in conflict with a simple perpetuation of the established political order is the slow but steady growth of leftist voting strength, commencing as far back as 1928 but more pronounced since the war. The trend is reflected in the increase in the combined vote of the leftist parties over the last sixteen years from 28 to 45 percent in the House of Councillors local constituency vote and from 21.6 to 40.4 percent in the Lower

House

House vote*. Obviously a straight line projection of this trend could produce some stripe of socialist regime by the end of the decade; and while trends do not necessarily continue in straight lines, neither do they usually vanish or reverse themselves without good reason.

Fortunately, there is another continuing trend, quite as clearly marked if less verifiable statistically, that mitigates the effects of the trend in voting habits. This is the drift of popular attitudes to the right, as evidenced recently by the lack of strong leftist opposition to the Government's efforts to reach a settlement with the ROK and develop cooperative U.S.-Japan economic assistance arrangements for the Ryukyus; by weakening opposition to the Self-Defense Forces and to the U.S. bases in Japan; by what the present Foreign Minister has called a growing "defense-mindedness" on the part of the general public; and, reflecting all these factors, by a definite "turn to the right" in the JSP and organized labor.

Political

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*For a more detailed examination of this trend, its implications and its interaction with other trends noted here, see Tokyo's A-383, Sept., 1962, "Japan-America--Prospects as of Late Summer, 1962". These shifts in voting strength have not been reflected in the distribution of Diet seats, in part because there has been no reapportionment in Japan since 1947.

In the November 21, 1963 Lower House elections the leftist parties' (JSP/DSP/JCP) 40.4% share of the popular vote represented an increase of 1.1% over their share in the 1960 elections. The annual rate of increase (.4%) was considerably smaller than between the 1958 and 1960 elections (when it was 1.5%), however, and the moderate Democratic Socialist Party significantly increased its Diet representation while that of the Japan Socialist Party fell slightly.

Political prospects in Japan over the next ten years can be viewed in terms of a race between these two trends -- the drift to the left in voting habits and the drift to the right in popular attitudes. If the leftward trend of voting habits should move more rapidly than the rightward trend in thinking, a leftist government could come to power that might destroy the American alliance and threaten the Free World position in the whole Far East.

In appraising this bleak possibility, it is helpful to relate the two trends to the movement of Japanese political society as a whole over a fairly extended span of time. The division between left and right in Japanese politics has traditionally been a division among the various social classes and functional groups, and the steady increase in the leftist vote has at least in part reflected shifts in the numerical proportions between these groups. This situation, however, may well be changing today. Japan seems to be approaching a stage in which class and functional identification is less meaningful to the voters. The leftists may be discovering that they can increase their vote meaningfully in the future only by sloughing off their class and functional distinctiveness and making a broader supra-class appeal to the voters. At the same time the conservatives seem on the verge of discovering that only through changing their class and functional image can they stem the loss of votes. The success of left and right during the next decade may depend on the relative speed with which the respective parties can lose their class labels and broaden their image to one of nation-wide appeal.

C. Historical Perspective

Governments in pre-militarist Japan were formed by conservative parties alternating in power. The parties were kept by the major financial-industrial combines,

but they

but they were able to count on the acquiescence and voting support of the bulk of a population still largely engaged in traditional occupations and dominated by pre-modern attitudes. In the 1920s and the 1930s, as the economy and society were modernized, new elements, primarily industrialized labor and the urban white collar worker, uprooted from the traditional matrix, emerged into self-consciousness. These elements found themselves exploited economically and inadequately represented in the government -- or actively suppressed. With Marxist intellectuals to point the way, a class-warfare view of society took deep root on the left.

At the end of the war, the "downtrodden" were given the means to protect themselves against the extremes of exploitation; they acquired proportionate representation in the national Diet and guarantees against physical or political suppression. But their acquisition of the means for peaceful realization of legitimate demands did not spell the end of class-warfare consciousness. A worker having difficulty feeding his family in the hard postwar years was easily convinced that he was still downtrodden and that the only hope for him was to bring down those who were treading on him. Moreover, Japan's defeat was misconstrued by many as a triumph of international communism, a harbinger of victory for the downtrodden classes in Japan as well as the rest of the world. In any case, with "class warfare" burned into their minds by years of bitter struggle and Marxist indoctrination, the leaders of the Left could not abandon it easily.

What is equally important, though sometimes ignored, is that the conservative parties (since 1955 coalesced into a single party), also retained their class and

functional

functional identification, continuing to draw financial support from the moneyed interests and voting support from the more traditional sectors of society, and generally representing the interests of both. Conservative leaders, perhaps in a defensive reaction against the attitudes of the Left, also tended to relate the domestic struggle to the international cold war, speaking (as many still do) of the "Psychological 38th parallel" that divides Japan. Many of them turned to the United States as an ally, not just against the external threat of communism, but also against the class enemy within.

Meanwhile, postwar economic recovery and modernization were working transformations in society that, so long as political behavior was linked to class and functional identification, could only serve to swell numbers on the Left. There was a rapid (and still continuing) movement of the traditionally conservative rural population to the cities, where it largely lost its identification with its traditional roots. In some cases (and this trend is on the increase) industrialization moved into the rural areas, breaking up traditional social and economic identifications. This tendency was reinforced by non-economic factors; in both city and country there was a progressive replacement of older, traditionally conservative voters by the liberal, pacifist postwar generation as it came of age. Finally, not only the youth but all elements of Japanese society were freely exposed to the teachings and writings of the predominantly leftist academic-intellectual community, suppressed during pre-war and wartime periods.

These economic and social transformations rendered the attempt to force a class-warfare structure onto Japan's political situation increasingly anomalous. Capitalist prosperity, high employment, the better distribution of income, and the growth of confidence in

postwar

postwar guarantees of political freedoms and human rights caused a gradual slackening of concern over the bugaboos of "exploitation" and "oppression". The gradual recovery of a normal sense of national self-esteem by the Japanese people following the psychological shocks of the war and early postwar period made it increasingly possible for "progressives" as well as conservatives to think in terms of national rather than class goals.

The domestic context of the competition between the LDP and the JSP was changed significantly by these developments. As more and more of the electorate lost the class and functional ties that had bound them to the LDP, they did not automatically go over to the JSP, which seemed to have little to offer someone who was not downtrodden; or if they did start voting for the JSP they did so less than wholeheartedly. And some of the traditional supporters of the JSP began to drift away. The phenomenal success of the Soka Gakkai, a militant but so far politically amorphous Buddhist sect, in electing its candidates to the Upper House (where it is now the third largest "party") with the support primarily of low-income voters who would normally be expected to vote Socialist, illustrates this point. In other words, a middle-of-the-road floating vote, of people not really satisfied with either major party, and presumably willing to switch support to whichever one offers the most attractive candidates and program, assumed increasing importance.

The international context was also changing. Japan's own great success through modern capitalism; the strength, moderation and basic good will of the United States and the Free World; and the economic failures and unattractive domestic political conditions of the Communist countries made the triumph of international communism

seem not

seem not only less inevitable, but also less desirable.

While the ground would seem to have been long since prepared for giving the old-fashioned class-warfare concept of politics its overdue burial, the corpse is still strangely ambulatory in Japan; how it is disposed of will affect the political atmosphere for some years to come. At the present time, both major parties are just beginning to move toward adjustment.

On the Left, the doctrine of "structural reform" has dominated the thinking of the JSP mainstream for the last two years. With its clear spelling-out of "peaceful revolution" and its rejection of the post-revolutionary "dictatorship of the proletariat", this doctrine amounts to an attempt to disavow the notion of warfare between the classes. The JSP's former Secretary General Saburo EDA went even further with his "vision of the future"* and appeared to deemphasize "class" as well as "warfare". In essence he was arguing that the JSP, if it ever wanted to win power, must develop a program and a promise which would appeal to all classes in Japan. However, neither of these moderate doctrines yet holds unchallenged sway within the JSP. The "Eda vision" was sharply criticized by a plurality of delegates to the party's annual convention in 1962, and even "structural reform" is a highly controversial subject among party theorists.

On the Right, the LDP's response to environmental changes has been less articulate in terms of theory, but in a pragmatic way it may be further along the path of adjustment than the JSP. The LDP is under more pressure to adjust, as its vote is shrinking visibly. Prime

Minister

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*Eda's vision of the future of Japan under socialism, one he suggested to illustrate the kind of program that would have wide appeal, comprised America's high living standards, the USSR's broad social security, the UK's parliamentary democracy and Japan's war-renouncing Constitution.

Minister Ikeda's "low posture", viewed as an effort to govern on the basis of the broadest possible national consensus, is a move in this direction. But Ikeda's "low posture" does not have the unanimous endorsement of his Party. A few of the LDP leaders (like Hakuei ISHIDA) preach the necessity of actively developing a specific appeal for the wage-earning class, but there are more who would prefer to return to the "high posture" way of smiting the enemy hip and thigh.

D. The Future

(1) Assumptions: The development of the Japanese political situation over the next ten years will be strongly influenced by the manner and the rate of each of the parties' transition from class to broadly based popular party. This is a development which will not take place in isolation from the Japanese social, economic, and international environment. Certain minimum assumptions should be postulated about the course of this environment over the next ten years.

First, a course is assumed for the economy generally in line with the economic projections given elsewhere in this paper, one permitting a fairly steady rise in economic and social well-being, with the Government paying somewhat more attention to public sector investment, but not so much as to cause the growth of the GNP to fall much below 7 percent per annum. There is the possibility of some tightening of governmental economic controls and regulation of competition, but not so much as to require abridgment of popular freedoms.

Second, it is assumed that approximately the present balance of international power will be maintained, with neither the U.S. nor the USSR acquiring an overwhelming edge, with the "coexistence" line accordingly continuing to dominate Soviet foreign policy, with Communist China

remaining

remaining still too weak to risk a direct military clash with the U.S., and with the United States retaining its pre-eminent position in the Free World.

Third, it is assumed that the United States will conduct its relations with Japan broadly in accordance with the recommendations stated at the end of this paper.

One other feature of the environment deserves treatment: the strong possibility that Japan will adopt a single-seat small electoral district system in place of the present multi-constituent "medium-sized" district system. At least seven varieties of small-district system are being considered within the LDP, differing mainly in the form and degree of proportional representation to be incorporated. It is accordingly difficult to say precisely how a small district system will affect the formal balance of political forces, say in terms of Diet seats.

Whatever reform is adopted, it is likely if anything to accelerate the motion of both major parties away from the class-warfare-structured system. One of the chief merits claimed for the new system by its proponents is that it would put elections on a party-versus-party basis. The conservatives would no longer compete among themselves for shares of the more or less fixed conservative vote while the Socialists concentrated on getting out the vote of their equally fixed supporting class, as is too often the case in the present system. Each party would be competing against the other for an absolute majority of all votes in the district, and would therefore be forced to bid for the middle-of-the-road vote. Clearly each party would be provided with a new incentive to broaden its appeal even further beyond present class horizons.

(2) Prospects

(2) Prospects for LDP Transition to Popular Party: The LDP is under greater pressure to do something to halt the gradual constriction of its popular vote, and as a result may be a little further along than the JSP in the development of an appeal to all elements of the population. But it still has some hurdles to clear. Its most pressing task is to develop a fresh image; to many Japanese the LDP conveys an image of "the old men of the past", steeped in corruption, split up into "feudal" factions, and serving the interests of big business. It may not be too much to say that more people who vote Left are voting against the LDP than for the Socialists.

Reform efforts are under way, however. A majority of the LDP would agree that the existing factions--groups united by loyalty to and dependence upon a leader who hands out money for campaign and other political expenses and who backs his followers for ministerial posts, and which in turn vote the way their leaders tell them to in Party contests--should be reformed or done away with. Nearly every one agrees in principle that the collection and distribution of political contributions should be regularized and centralized in Party Headquarters. The disagreement (except for a few diehards) is over tempo and methods, with one group (Ikeda and the Takeo MIKI reform committee) representing the go-slow approach, and the other (Takeo FUKUDA and his Party Renovation League) demanding reform now.

The more pressing of these reforms are likely to take place, probably within the next five or six years, as the necessity for them is made more apparent by the continuing gradual expansion of the Leftist vote. If the reforms do not take place, it will most probably be because the LDP has somehow succeeded in broadening its popular base without reforms, thereby decreased their urgency.

If and

If and as the LDP reforms its image, it faces no insuperable difficulty in broadening its popular base. There are several lines it might follow. The most obvious effort is a direct attempt to develop an appeal to the wage-earner, such as Ishida preaches. While most LDP leaders are still highly suspicious of organized labor, except in company unions, Prime Minister Ikeda has shown a readiness to hold out the olive twig to labor on a few specific issues. Labor has responded by regarding him if not as a friend, at least as preferable to some of his rivals in the LDP. There is thus a foundation for progress in this field.

Aside from the direct approach to wage-earners, the LDP has two other strong appeals it is capable of exerting on Japanese in general. First, the prestige of successful incumbency has a strong appeal in Japan (apart from the hard advantages of money and power that go along with incumbency). Second, nationalism and patriotism are increasingly powerful forces, and the international position of Japan has improved to the point where patriotism can be made to work for the conservatives, as Ikeda is trying to do with his "third pillar theme".* As those who have been voting

* So long as the little-Japan psychology induced by defeat persisted, the notion of a puny Japan forever tied to America's apronstrings (for which the conservatives seemed to stand) had little nationalistic appeal; the advocates of neutralism or of "bridgeism"(the notion that Japan could serve as a link or go-between America and the East) could claim that their proposals would enhance Japan's role in the world, while the anti-Americans were able to mobilize xenophobic nationalism against the US alliance. Now that a big-Japan psychology is beginning to appear, none of these false doctrines can exert as broad an appeal as Ikeda's thesis that Japan, under LDP leadership, has attained the status of equal partnership with the US, and is now the "third pillar" of the Free World economy, with the attendant commitments and responsibilities this status entails.

voting left stop thinking about the class struggle, they may start thinking more like other Japanese aspiring to an honored and more influential role for Japan in world affairs.

There are other things which will help the LDP complete the transition to a broad-based popular party, or at least brake any movement in the other direction. For example, the institutions of government in postwar Japan are not those of a class monopoly, but are suitable to a broadly based democracy. Since the LDP is to some extent coextensive with the government, the broadly representative character of the government inevitably rubs off on it in some degree.

In sum, the LDP has a good chance of modernizing itself, and of doing so ahead of the JSP. If it does, it should be able to retain power throughout the decade.

(3) Prospects for JSP Transition to Popular Party: While the upcreep of the leftist vote is the strongest incentive to reform in the LDP, it, of course, acts on the JSP as a disincentive to change. Why change, if you can be assured of a steady increment of percentage points at each general election? The fact is, however, that the JSP is not satisfied with its current vote-getting ability. It is encountering increasing apathy on the part of its normal supporters, it is unable to draw enough attractive candidates from the labor unions, supposedly the vanguard of the class it means to represent, and the conviction is gaining ground even within JSP headquarters that the Party's appeal must somehow be broadened if it is ever to come to power.

Five main factors make it likely that the JSP will be impelled to complete the transition to a broadly based popular party within the decade.

First, as indicated above, there is the possibility of the LDP's enlarging its share of the popular vote, whether

by

by developing a new capability to appeal directly to normal supporters of the JSP or by strengthening its appeal to Japanese in general. Either way, an additional incentive would be provided the JSP to dilute or discard its traditional class-warfare approach.

Second, even without a halt in the upcreep of its popular vote, dissatisfaction within the JSP has grown to the point where the "warfare" between the classes is played down by a controlling majority of the party membership, and where Saburo Eda was able to marshal substantial--if not majority--support for an attempt to de-emphasize the class nature of the Party itself.

Third, even though Eda's "vision" was repudiated (by a hair's breadth) at the 1962 Party convention, it was warmly received by the media and the politically-minded public, and its repudiation was deplored.

Fourth, the JSP is constrained by Japan's governmental institutions to conduct itself and its relations with the ruling party in a framework of compromise and consensus, rather than in the context of real class warfare; it incurs the sanction of public disapproval if it disregards this framework.

Fifth, time and the increasing need to go outside the ranks of the working-class militants for attractive election candidates will someday break the hold of the prewar class militants on the leadership of the party. This will be the case particularly if the small electoral district system is introduced, for the JSP will then be under the compulsion of putting up in each district a candidate who has a chance to win the majority of the votes.

Granted that the JSP may for all these reasons be impelled to want to discard its class-warfare orientation,

will

will it be able to develop a broad appeal to the whole nation? We think it will, provided it can (a) convince the nation that it would avoid economic adventurism if it came to power; and (b) attune itself to the main currents of Japanese nationalism. The present JSP leadership has been at some pains to de-emphasize the theme of nationalization of industry, and indeed the mainstream leaders are now committed to domestic economic policies not much more radical than those, say, of the British Labor Party. Attuning itself to Japanese nationalism may present more of a problem. The "nationalism" of the JSP in the recent past has been of the protest variety, more akin to anti-colonialism than to the sentiment of patriotic national pride to which Ikeda's "third pillar" theme appeals. The Japanese people will increasingly reject anti-colonialist nationalism (which tends to equate Japan with the backward nations of Asia and Africa), with the result that the JSP will be forced much closer to the LDP position on basic foreign policy goals.

In sum, it seems probable that the JSP too will transform itself into a popular party before ten years have passed, but that it will do so later than the LDP. The delay will probably put off its accession to power beyond the end of the decade, but not much beyond.

(4) Alternative Possibilities: It appears, in short, that there is a strong probability, under the minimal assumptions at the beginning of this section, that both the LDP and the JSP will some time during the decade complete the transition to broadly based popular parties, with the LDP probably leading the way. The consequences, in terms of the kind of regime that will probably rule Japan through the decade, are discussed in the next section (E.,subparagraphs 1 and 2). It should first be admitted, however, that, even under our stated assumptions, it is possible (not probable) that one or both of the parties may fail to make the transition. In the case of the LDP, radical damage to its image through scandals or policy failures might

undercut

undercut its efforts to broaden its base. Or the accidents of internal politics might keep control of the LDP in the hands of those most resistant to change, rather than letting control pass on (perhaps with a SATO interregnum) to the more modern-minded generation of MIKI, OHIRA, FUKUDA, TANAKA (Kakuei), ISHIDA, NAKASONE, etc. Either of these developments affecting the LDP would reduce pressures on the JSP to broaden itself. If, in addition, the JSP achieved a substantial continuing increase in its popular vote in the next couple of elections, it might retain its class and functional identification throughout the decade.

If this happened, that is if both the LDP and the JSP failed to modernize themselves, the upshot would presumably be a continuation of the gradual upward trend of the Leftist vote (despite the growing restiveness within the Party and despite the possibility of a continuing drift of votes to the Soka Gakkai), carrying it inexorably closer to a popular majority, but without abandonment of its class and functional identification.

In the unlikely possibility that the LDP converted itself into a broad-based popular party while the JSP remained a narrow class party, the JSP as such would probably wither away to insignificance, leaving a very large vacuum. The vacuum would almost certainly be filled either by right-wing Socialists, whether under the DSP label or some other, or by a split in the LDP into two popular conservative parties, one moderate or liberal and the other further to the right.

There is even less likelihood of the JSP's making the adjustment while the LDP did not. If this happened, the the time of accession to power of a modernized Socialist party (E.2 below) would be considerably advanced.

Several other variations could be thought of, such as the possibility of split of the LDP into two or more parties without a concommitant withering away of the JSP,

or

or a gradual growth of the DSP at the expense of the JSP. However, these variations could occur without basically altering the situation. A split-up LDP would probably proceed in the form of a coalition pretty much along the course we have projected for a united LDP. If the DSP swallowed up the JSP, it would simply mean that the Socialists were changing their name as they broadened their popular base.

E. Probable Regimes and Policies

In terms of how Japan will be run in the decade ahead, the following order of probabilities emerges:

(1) Continued control of the government by a slowly modernizing LDP, with the LDP pursuing those policies for which there is a broad national consensus and de-emphasizing those whose appeal is to a more restricted conservative spectrum; meanwhile, the JSP's strength probably would be growing, enabling it to bargain with increasing effectiveness in the Diet and to exert an expanding influence on policy; this influence would become increasingly moderate, however, as the JSP also underwent modernization --

Under this most probable situation, the major determinants and objectives of Japanese foreign policy (discussed in detail in Section V) would be: prosperity through expanding trade, external security through world peace, major power status, maintenance of territorial claims, a pro-western United Nations, close ties with the US and Western Europe, and prevention of the spread of Communist control to other parts of Asia, including the ROK and Taiwan. While maintaining the claim to Okinawa and the Bonins, this most probable regime would, assuming stability on Okinawa itself, be satisfied with a degree of forward motion toward US-Japanese cooperation in regard to the Ryukyus which would leave US administrative control essentially intact at the end of ten years. It would express its determination to prevent the spread of Communism in Asia largely through the extension of a growing level of

economic

economic and technical assistance. It would pursue better relations with Communist China, a normalization of relations with the USSR, and expansion of trade with the Communist countries generally only to the extent necessary to satisfy public opinion. It would continue to pay lip service to Japan's relations with the Asian-African nations, but it would not subordinate any other important interests to those relations.

(2) Alternation of power between a modernized LDP and a modernized JSP, commencing six or seven years hence, with important differences of emphasis but with both generally seeking to give expression to the broad national consensus --

There would hardly be time for more than one period of JSP rule before the end of the decade, and during this period Japan would not lose much of its basic identity with the Free World. The JSP's policies while in power would differ from those of the LDP mainly in less emphasis on ties with the US and Europe; more emphasis on relations with Communst China and the USSR, and on Japan's relations with the Asian-African bloc; and more pressure for speedy return of Okinawa and the Bonins, and on the US base structure in Japan. Recognition of Communist China would be a probability (it is also a possibility under the LDP, should the majority of Free World nations move in that direction). If a Socialist regime were in power in 1970, it would almost certainly feel obliged to make some move towards a negotiated termination of or major change in the Mutual Security Treaty.

(3) Accession to power of an unmodernized JSP, which, though proceeding fairly cautiously with domestic reforms, would try as rapidly as possible to liquidate the US alliance and take Japan into neutralism, with considerable momentum towards a pro-Communist alignment --

The

The leadership of the JSP in these circumstances would be deeply divided between those who wanted to proceed cautiously, respecting the basic principles of parliamentary democracy, including the recognition of opposition parties, and those who wanted to move headlong towards a "socialist" state closer to the Communist model. The cautious element would probably win out (that is, responsibility would mature the party). There would be strong resistance throughout the nation to the more headlong course, and violence ranging from assassinations to attempted coups d'etat would be probable if this course were pursued. Such a regime would before long be forced to hold general elections, and would probably be defeated.

(4) A strengthened conservative monopoly of governmental power, unlikely to develop smoothly out of the present situation, could come about, for example, as a consequence of reaction to a period of Socialist misrule. Depending on the strength of the reaction, a trend into fascism could not be ruled out, but is not likely. More probably, either the conservatives would split into two popular parties or a much-chastened Socialist party would gradually come back as a popular party.

IV. ECONOMIC SITUATION AND PROSPECTS

Japan today is one of the major industrial powers of the world. It ranks fourth or fifth in the world in industrial production and fifth in the Free World in GNP. Its economic growth over the past decade, averaging 9 percent a year in real terms, has been phenomenal. It is one of the world's major trading nations and is among the Free World's major contributors of economic assistance to the developing nations.

The economy of Japan is heavily dependent on foreign trade and, therefore, highly vulnerable to external economic influences. Food and industrial raw material imports are vital to the national welfare, and significant fluctuations in foreign trade have immediate, drastic repercussions on every aspect of the national life. Japan's internal policies, foreign policies and security alignment all depend in the last analysis on the orientation of the nation's economic relationships, or more simply, on where it can make a living. Throughout the postwar period this has been overwhelmingly with the Free World, principally with the U.S.

Salient features of the Japanese economy are:

1. A population of more than 96 million highly literate, industrious and competent people, up from 73 million in 1941, but now increasing at the rate of only 0.94%, one of the lowest rates in the world;

2. A GNP of $53 billion for Japanese fiscal year 1962/63 (up from $20 billion in 1953), fifth largest in the Free World but still less than one-tenth that of the U.S.;

3. A per

3. A per capita national income of $466 (up from $261 in 1953), about three times the average of Far Eastern countries, but only about one-sixth that of the U.S. and one-third that of the UK and West Germany;

4. An economic growth rate which has averaged 9 percent in real terms over the past decade, including 18 percent in 1959, 13 percent in 1960, 15 percent in 1961, 5.7 percent in 1962 and about 7% in 1963;

5. Perhaps the highest rate of savings and investment in the world, averaging about 30 percent of GNP (upwards of 40 percent of GNP in 1961);

6. A combined national and local tax burden of about 22 percent of national income, as compared with 28% in the U.S., 31% in the UK, 30% in Germany and 27% in Italy;

7. A position leading the world in shipbuilding and fishing and as an exporter of textile products, ranking third in production of electric energy and fourth in crude steel;

8. A food self-sufficiency of about 85 percent, compared with 80 percent prewar, notwithstanding the marked increase in total population, decrease in farm population and increase in per capita food consumption since World War II;

9. Dependence on foreign sources for virtually all industrial raw materials, including petroleum, cotton, wool, iron ore, and coking coal;

10. A total foreign trade of more than $12 billion in 1963 (exports $5.5 billion FOB and imports $6.7 billion CIF), up from $3.7 billion in 1953 and now seventh in the Free World;

11. Predominant

11. Predominant reliance on the Free World for export markets (in 1963 Free Asia 33%,the U.S. 29%, Free Europe 13%, Africa 7%, South America 4%, Oceania 4%, the USSR 3% and Communist China 1%) and sources of imports (the U.S. 30%, Free Asia 30%, Oceania 9%, Free Europe 10.5%, South America 4%, Africa 3.5%, the USSR 2.4% and Communist China 1%);

12. A "dual economy" including large modern firms using advanced techniques, with relatively high capital investment and output per worker, and, at the same time, a continued substantial proportion of small relatively inefficient plants;

13. A social structure which has undergone major transformations since World War II, now closing resembling -- at least superficially -- that of the advanced Western nations, but with many traditional elements remaining.

An inescapable political imperative for any Japanese Government in power in the years ahead will continue to be preserve a high rate of economic growth, sufficient to absorb the growing labor force and at the same time permit continued improvement in living standards. In recognition of this fact, the Ikeda Government has made its "Double-the-National-Income-Plan," calling for an average annual increase in GNP of 7.2 percent between 1960 and 1970, the main plank of its political platform. Realization of the plan would result by 1970 in a GNP of 72 billion, a per capita national income of $707 and a two-way foreign trade of $20 billion for a Japanese population of 102 million.

A. The Domestic Scene

1. Economic Growth

The

The Japanese economy is expected to continue to grow in the Sixties, but at a somewhat slower pace than it did in the Fifties. While it is not likely again to achieve the phenomenal 15 percent annual rate of the 1959-61 period, the growth rate will continue to compare favorably with that of the other industrial nations. It appears highly likely that the ten-year plan goals for 1970 will be reached prior to that time. The standards of the "base year" had been exceeded before the first year of the plan began, and by the end of the second year of the plan (JFY 1962) a significant portion of the growth target had already been attained. The plan is now under review and it is probable that at least some of its goals will be altered.

This change of pace is not surprising. The Fifties in Japan were characterized by a drive to expand and modernize the industrial base with a view to increasing Japan's competitive position and of providing employment and rising living standards for a growing population. Having attained its present level of development with a large volume of investment in plant, the growth in the private sector is expected to be at a slower pace. Nonetheless the continuing need for modernization to improve and maintain Japan's competitive position will provide much of the same impetus which made for rapid growth in the Fifties.

Japan's remarkable postwar economic growth owes much to Japanese scientific aptitudes and to the nation's heavy investment in research and development. The emphasis placed on the basic sciences will work to Japan's competitive advantage in the years ahead.

2. Structural Shifts in the Economy

Emphasis on development is shifting from the private

to the

to the public sector. Japan's expansion in the past decade has been heavily concentrated in the industrial sector, with the over-all growth rate of 9 percent per annum reflecting annual growth rates of 20 percent in manufacturing industry. This phase of rapid industrial expansion, characterized by intensive demand for capital equipment, is largely over. Attention is consequently shifting to the public sector of the economy, which has been neglected in the postwar period, as evidenced by port congestion, overcrowded railways, crowded city streets and the shortage of adequate school and hospital buildings, parks and recreation areas, and sanitary facilities. This shift in emphasis does not mean that the goals of the ten-year plan will not be met; on the contrary, greatly expanded public investment in social overhead capital is an important part of the Double-the-National-Income-Plan.

Meanwhile, the pace of the structuraland social change associated with Japan's economic development will continue and, in all probability, accelerate. The farm population will continue to decrease, with a comparable rise in urban population. The number of small manufacturing enterprises will continue to decline, with industrial output becoming more and more concentrated in medium and large scale, and more efficient, firms. The relative importance of the so-called "early stage" industries (textiles, ceramics, etc.) will also continue to decline, as the contribution to GNP of more advanced industries and service industries increases. These changes will be accompanied by a rise in the quantity, quality and variety of consumer goods and services enjoyed by most Japanese. A growing proportion of the people will live in urban or suburban Western-style apartments, with increased reliance on modern conveniences to replace servants who are becoming increasingly scarce.

3. The Labor Force

Japan's

Japan's labor force will continue to grow more rapidly during the coming decade than the population as a whole. In the second half of the decade, however, the supply of new manpower entering the labor force is expected to decline. This, together with continued technological development and a consequent shift of emphasis away from labor-intensive commodities in Japan's trade, will accelerate the movement of workers from the farm to industry and from small to medium and large scale enterprises. For example, by 1970 the number of agricultural workers is expected to decline from 13 million (of a total labor force of 45 million) to 10 million (of a total labor force of 58 million). At the same time the consolidation of farm units through cooperative arrangements will be facilitated under the Basic Agricultural Law of 1961. Continuation of the change in the composition of the Japanese diet -- lowering the proportion of starch and raising the proportion of meat, fruit and fats --, will also tend to alter to some extent the nature of Japanese agriculture.

By 1965 the decline in the post-1949 birthrate will begin to be strongly felt in the labor market, and the new supply of young and technically trained workers is not expected to keep pace with the requirements of the expanding economy. During the past several years there has been evidence of labor shortages in certain sectors of the economy despite the large number of workers entering the labor force; this trend is likely to be accelerated in the Sixties. School graduates, having a choice, will almost invariably choose employment with large companies which offer better wages and working conditions and virtual life-time security. This will force small and medium-sized enterprises to raise starting wages. The resultant diminution of wage differentials between large and small establishments will tend gradually to break down the "dual structure" of the Japanese economy. Greater labor mobility, from small to large companies

and even

and even among larger firms, is already evident in the case of scarce technicians. This development, together with the evolving shift from a wage system based on seniority to one based on job classification, will increasingly undermine traditional reliance on lifetime job security and loyalty to one firm.

Wage pressures on small enterprises will encourage consolidation to achieve economies of scale and capital intensive techniques. In the retail field, for example, wage pressures plus consumer resistance to price increases have already begun to stimulate changes in retail distribution similar to those experienced in the U.S. and Western Europe. These changes will eventually force many small retailers out of business.

4. Living Standards

Less rapid growth should make for greater stability of theeconomy. Since 1952 Japan has had three recessions. Each was caused by government measures to correct a balance-of-payments deficit -- not by a slump in domestic demand. In all three instances the principal cause of the balance-of-payments deficit was a drastic increase in imports to supply the rapidly expanding economy. A lower rate of growth should permit a more even rate of progress than in the past. A general world economic crisis would of course be quickly felt in Japan and could have serious social and political, as well as economic, consequences.

Some leveling out of income distribution is expected over the next decade but not a radical redistribution. The reduction in the proportion of family and low-wage workers will be one factor. Also, in medium and large scale firms, wages will tend to absorb more of the gains from productivity than heretofore, as the supply of labor

in selected

in selected areas becomes short, and as organized labor's voice becomes more effective at the bargaining table (currently only one-third of the industrial working force is unionized). Government transfer payments (mainly for expanded social security programs) will increase considerably, as will Government investment for social overhead. Other Government spending is expected to keep pace with the over-all expansion of the economy.

Personal expenditures for the basic necessities are expected to decline as a percentage of disposable income. At the same time, living standards will further improve as per capita incomes rise. Consumption of meat, eggs, milk and processed foods will become more widespread. Consumer durable goods such as refrigerators, washing machines and automobiles will become more common. Housing also will improve both in quantity and in quality, as will public utilities and publicly provided services.

To sum up, the economic conditions of life will continue to improve visibly from year to year for most Japanese over the next decade. The material circumstances of life should be conducive to public content rather than dissatisfaction. On the other hand, the changes in social patterns involved for many persons, i.e. from peasant to urban worker, from the small family firm to the modern factory, and from family dwelling to apartment building, may incline some toward the left-wing parties, but with the moderating tendencies earlier noted.

B. Organization of Industry

Pre-war Japanese industry was organized on oligopolistic lines. "Excessive competition" -- uncoordinated price, export and investment policies -- was regarded as a social evil. During the Occupation this form of organization was broken up under an economic democratization policy which dissolved the Zaibatsu and enacted

antimonopoly

antimonopoly and fair trade laws along the lines of United States legislation.

Since the Peace Treaty there has been some re-combination, with Government approval and guidance, among the successor companies of the Zaibatsu. Through industry associations, also with Government approval and guidance, some of the pre-war practices of cooperative controls over production, pricing and sales have been re-introduced. (This has made possible the so-called "voluntary" export controls which the Japanese have placed on sales to the U.S. and other countries.) The legal and administrative arrangements which were designed to conserve foreign exchange while promoting foreign trade have enabled MITI -- and to a lesser extent other agencies -- to exercise considerable control over the business policies and practices of Japanese industries. Nevertheless the deconcentration policy, coupled with the rapid growth of the Japanese economy, has resulted in an significant expansion of the number of medium-sized enterprises and has led in many industries to a situation of so-called "excessive" competition.

Over the coming year Japan faces the acid test of the effects of compliance with Article VIII of the IMF Charter, to which it acceded as of April 1, 1964, and of the effects of the further trade and payments liberalization to which it is committed following this action. At the same time Japan faces the necessity of participating in the Sixth Round of trade negotiations under the GATT. Many Japanese fear that the competition of imported goods (and possibly accelerated new foreign investments) will disrupt domestic markets, aggravate already undesirable competition in certain industries, and force weaker firms into bankruptcy and shutdown, with resultant unemployment. There has been serious discussion among business interests and the Government of the possible need for a new "industrial order" to meet this

anticipated

anticipated problem.

An example of measures which have been considered is the Petroleum Industry Law, enacted in May 1962, which authorizes government control over imports, production and sales of petroleum products. The Japanese Government has thus far not made direct use of its authority under the law. It is likely that similar legislation will be enacted in the future to cover other specific "problem" industries; which industries will be covered by such legislation will be determined on a case by case basis.

It is too early to assess the extent of centralization of industry control which will develop over the coming years. It also remains to be seen whether such control will ultimately rest in the hands of Government bureaucrats or industry magnates. There seems little doubt that there will be some movement away from a liberal economy on American principles. In a Western community, such deliberate cartellization might have significant consequences in stifling enterprise, reducing the mobility of labor and other factors of production in response to market changes, and thus inhibiting economic growth. Japan's economic history since the Meiji Restoration shows, however, that Japanese society does not always follow Western rules.

The essential pragmatism of the Japanese people will dictate the eventual direction and extent of industrial organization. As Japan moves into a freer trade situation the actual effects of competition from outside will become clearer and will, in the last analysis, determine the form of Japanese industrial organization.

C. External Economic Relations

Essential to the realization of Japan's aspirations as a

as a world power and to the attainment of her goals for domestic growth and development is the success of her external economic relations -- in the fields of trade, finance and foreign assistance. Here one question underlies all others: will Japan be able to expand its exports at the rate required to pay for the imports essential to its projected growth? The answer to this question is basic not only to Japan's domestic development and stability, but also to the nature and extent of her participation in free world efforts to assist the developing nations.

Japan's phenomenal economic growth over the past decade has been accompanied by an even greater growth in her foreign trade. By 1963 Japan's total trade amounted to $12.2 billion, as compared to $3.7 billion in 1953. Between 1950 and 1960 Japan's exports increased at an average annual rate of about 19 percent. During this period the rate of growth in total world trade ranged from 5 to 7 percent. As the decade progressed, of course, the annual rate of increase in Japan's exports slackened from over 30 percent between 1949 and 1952, to 20 percent in the mid-Fifties and 14 percent between 1958 and 1961. This is not surprising since this was the period during which Japan re-entered the world market following a ten-year absence.

The ten-year income-doubling plan sets a target of $9.3 billion exports (FOB) and $9.9 billion imports (CIF) in JFY 1970 (on a customs clearance basis) as essential to the success of the plan. (On a foreign exchange payments basis this would amount to $8.5 billion exports and $8.1 billion imports.) This target envisages an average annual increase of 10 percent for exports and 9.3 percent for imports during the Sixties. With exports already at $4.9 billion in 1962, however, an annual increase of slightly less than 7 percent for the next 8

years

years will meet the target level.

1. The Balance of Payments Problem

The problem of maintaining balance of payments equilibrium with this reduced rate of export expansion, at the same time meeting the nation 's growth targets, is basic to the success of the Japanese growth plan. This will be the more difficult because of the persistent and increasing deficit which has developed in invisible transactions. Out-payments for shipping, insurance, tourism, royalties, interest and dividends have risen rapidly and will probably continue to increase for some time to come. At the same time, while ordinary receipts on these accounts will probably increase, the prospect is that U.S. measures to curtail U.S. military, MAP and AID expenditures will reduce Japan's special dollar receipts, which have sustained the invisible accounts and the entire balance of payments during the past decade.

The improvement in Japan's terms of trade over the past decade, which permitted Japan to buy more and more imports for a given amount of exports, cannot be expected to continue. Efforts by the developed countries (including Japan) to stabilize the prices of primary commodities from the LDCs and stem the deteriorating terms of the LDC's trade will, to the extent that they are successful, tend to increase the cost of Japan's imports.

In recent years long-term capital imports (amounting to a net inflow of $163 million in 1961, $262 million in 1962, and $47 million in 1963) have supplemented export earnings in Japan's over-all balance of payments. The Japanese plan calls for a continued increase in long-term capital imports, principally from the United States, both as a factor in maintaining balance of payments equilibrium and as an important source of financing for the

projected

projected industrial development essential to the success of the plan. By 1970, however, the plan envisages approximate balance between long-term capital inflow and outflow. Recent U.S. actions to restrain long-term capital outflow (the interest equalization tax) have caused grave concern in Japan. It is feared by many Japanese that the tax will result in such a drastic reduction in capital availabilities from the United States as to seriously affect Japanese industrial development and balance of payments. The actual effect of these actions on Japan's access to essential long-term capital will not be clearly evident for several months. In any event U.S. expressed intentions are to avoid administering these restraints vis-a-vis Japan in a manner which would cause serious economic difficulties in Japan.

Basically, therefore, the key to the problem is a steady growth in Japan's exports and the avoidance of excessive imports.

2. Trade

A reduced rate of economic growth may be expected to result in a slackening in the rate of increase in import requirements. The growing maturity of the Japanese economy may also be expected to result in a reduction of import requirements per unit of output -- as has been the case in other highly developed countries.

As noted earlier, it appears that Japan can meet its growth targets with a far lower annual rate of expansion in its export trade over the next 8 years than heretofore. The important question, therefore, is what are the prospects for its achieving even this reduced rate of export expansion? This will depend upon future developments both in the pattern and content of its trade.

Traditionally

Traditionally Japan has been highly dependent for export markets upon the developing countries (in large measure, the former colonial areas). Prewar (1934-36) 71 percent of Japan's exports went to Asia, Africa and South America. By 1953 these areas still accounted for 66 percent of Japan's exports. Although the decade following 1953 saw an increase in exports to these areas from $0.8 billion to $2.2 billion in 1962, Asia, Africa and South America accounted for only 45.5. percent of Japan's total exports in 1962. Of greater significance, however, is the fact that since 1960, when these areas accounted for 50 percent of Japan's exports, the value of Japan's sales to them has risen only by $0.2 billion. The slackening over the past two years of Japanese exports to the developing areas is related to the reduction in United States AID and MAP procurement offshore resulting from U.S. balance-of-payments measures. Japan's dollar receipts from United States AID procurement alone has fallen from $147 million in 1960 to $1.1 million in 1963. Thus, Japan continues to depend heavily for markets upon less developed areas where the near-term outlook for expansion is discouraging.

The Japanese growth plan, which envisages exports at the level of $9.3 billion in 1970, anticipates that 49 percent (about $4.5 billion) of those exports will go to developing areas. (The plan is based on calculations using the 1956-58 average as a base year, when those areas accounted for 61.4 percent of Japan's exports.) To meet that goal exports to Asia, Africa and South America would have to double over the next 8 years. The current rate of expansion of that trade, as evidenced by the relatively small increase from $2 billion in 1960 to $2.2 billion in 1962, would indicate that exports to those areas will fall considerably short of the target.

Exports of light industrial products (textiles,

cement,

cement, bicycles, sundries) to these areas expanded up to 1958 but have grown very little since that time. Emphasis is shifting to chemicals and heavy industrial equipment. Growth of these exports, however, has been slow because of the early stage of development in these areas which limits their present absorptive capacity for such products and because of their lack of adequate capital and foreign exchange to finance such imports.

Expansion of Japan's exports to the LDCs will therefore depend principally upon the success of the cooperative efforts of the industrial countries, including Japan, to stimulate the economic growth and expand the external purchasing power of these countries. The long-run commercial importance to Japan of sustained growth and rising living standards in these areas is the most effective motivation for Japan to expand its efforts in the field of economic assistance. Nonetheless a major expansion in trade with these areas by 1970 does not appear likely -- a fact which dictates increased emphasis on expansion of trade with the industrial countries of Europe and North America.

On the whole the prospects for expansion of Japan's trade with Europe and North America appear favorable, provided that current movements toward further liberalization of world trade are not impeded or reversed. The success of the Sixth Round of negotiations under the GATT and other movements (e.g. in the OECD) toward general liberalization of trade, with Japanese participation, are essential to the trade expansion required for Japan to meet its growth targets. The following is based on the assumption that these efforts will be generally successful.

The Japanese

The Japanese have not failed to note that over two-thirds of the increase in total world imports from 1957 to 1962 consisted of increased imports into Western Europe. Japan's exports to Western Europe (including the UK) increased from about 8 percent of total exports in 1953 to about 14 percent in 1962; but they still accounted for only about 3 percent of the total imports of those countries. This fact, plus the comparatively high growth rate of the EEC countries and the fact that trade between industrialized countries has expanded far more rapidly than trade with LDCs, has made clear that closer economic relations with Western Europe are essential to a continued and sufficient expansion of Japan's exports. This fact has been basic to Japan's expressed willingness to participate in a meaningful way in the Kennedy round of tariff negotiations. The extent of its contribution toward the success of these negotiations will, of course, depend to an important degree on the benefits it is able to derive for its trade with Western Europe.

The Japanese anticipate, according to their Ten-Year-Plan, that their exports to Western Europe will have risen to about $1.1 billion by 1970. The prospects for exceeding that target appear good. Sales to those countries have risen from about $445 million in 1960 to about $695 million in 1962. This growth has resulted primarily from the success of recent Japanese efforts to work out accommodations with various European countries to eliminate discrimination against Japanese imports (e.g. the disinvocation of Article XXXV of the GATT by the UK). At the same time the Japanese have also increased their imports from Western Europe. The removal of discrimination against Japanese goods will open the way for Japan to develop and expand its trade in the growing Western European market, access to which has heretofore been severely limited for Japan.

The

The rate at which Japan's exports to North America will expand during the Sixties will depend upon the rate of growth of the U.S. economy, attitudes in the U.S. towards imports in general, and particularly from Japan, and the continued development by the Japanese of a more diversified, sophisticated and high quality mix in its exports. While about 33 percent of Japan's exports are to the North American continent, 28.5 percent (in 1962) of its total export sales are to the United States.

Over the past decade the expansion of Japan's exports took place mainly in consumer type, labor-intensive commodities such as textiles, radio receivers, plywood, toys, pottery, cameras and marine products. The Japanese believe that their share of the U.S. market for labor intensive goods has expanded almost to the limit and that the rate of increase in exports to the U.S. will diminish unless the proportion of exports of the products of heavy industry increases significantly. This is of course true of their trade with virtually all the areas of the world, and is reflected in the underlying emphasis in the Japanese Ten-Year-Plan on improving the efficiency and competitive position of heavy industry.

In sales to the U.S. alone, this shift in emphasis has been clearly evidenced over the past five years. For example, in 1958 textile fibers and manufactures (still Japan's largest export to the U.S.) accounted for 30.1 percent of Japan's sales to the U.S., but by 1962 this share had fallen to 21.6 percent. During the same period, on the other hand, sales of metals and manufactures had increased from 14.3 percent of exports to the U.S. in 1958 to 18.3 percent in 1962; and of machinery and vehicles from 8.5 percent in 1958 to 17.6 percent in 1962.

By

By further diversification and continued improvement in quality the Japanese hope to maintain their position in the American market, while improving it in Western Europe. They also hope that decreased emphasis on labor-intensive products will tend to reduce pressures for restriction of Japanese exports.

Assuming success in Japanese efforts to diversify and offer high quality sophisticated products, the question remains, however, whether the rate of expansion in the U.S. economy over the next 8 years will be sufficient to permit Japan to meet its 1970 export target. The Ten-Year-Plan envisages about $2.8 billion of exports to the U.S. in 1970. It is true that from 1953 to 1960 exports to the U.S. increased at an average annual rate of 26 percent. Between 1960 and 1962, however, they increased at an average annual rate of only 10 percent. (The 31 percent increase in exports to the U.S. during 1962 cannot be considered as indicative of a trend since sales had actually fallen in 1961 because of the recession in the U.S.) To meet the 1970 target of $2.8 billion Japan's exports to the U.S.--$1.4 billion in 1962--must double over the next 8 years, or increase at an annual rate of about 9 percent. This will be no easy task, considering the increasing competitiveness of the U.S. market and the pressures upon the U.S. to take more imports from the LDCs, unless the rate of expansion of the U.S. economy accelerates significantly over the next few years.

Japan's economic and commercial relations with the United States, as well as Western Europe, will be placed in a new framework upon Japan's assumption of Article VIII status under the IMF Charter, whereby trade restrictions for balance of payments reasons will no longer be permitted. Japan has already liberalized its import restrictions on many items and further liberalization may be expected. Assumption of this obligation, however, will subject the Japanese Government

to

to pressures to place greater emphasis on domestic administrative controls to prevent sudden deterioration of its balance of payments or disturbance of the structure of its industrial organization. In view of the importance of U.S. investment and trade to the external payments position of Japan, consultations concerning any shifts in U.S. trade and economic policies will become even more imperative for the Japanese than in the past. The protectionist attitude of many segments of Japanese industry will undoubtedly result in pressures on the government for restrictions in some form on foreign investment and trade. The Japanese Government's attitude toward such problems will be importantly influenced by U.S. economic policies toward Japan and U.S. treatment of Japanese products. Newly introduced and discriminatory protectionist measures in the U.S. would have a severe psychological impact in Japan, and could lead to a reappraisal of Japan's policies toward the U.S. On the other hand, liberal treatment of American goods and American investment by Japan will make it easier for the U.S. to resist requests by domestic firms and industries for protectionist assistance.

Barring serious adversity in its economic relations with the Free World, Japan's economic relations with the Communist countries will probably continue to be a marginal element in its foreign economic relations over the next decade. In 1963 Japan's exports to and imports from the Bloc amounted to less than 4 percent of its total trade. Even assuming the resumption of "normal" trade relations with the Communist countries, the Japanese Ten-Year-Plan envisages exports to those countries by 1970 at about $480 million, or just over 5 percent of total exports. Japanese business firms continue to show an interest in increasing exports to the USSR and Communist China, but there is considerably greater realism in the Japanese business community than in the past concerning market opportunities in that area. USSR efforts to interest Japanese business in the development of Eastern Siberia, as well as Communist Chinese

commercial

commercial offers, have not gone unnoticed in Japan. Post-war experience, however, has convincingly demonstrated the practical obstacles to large-scale trade with the Communist countries (e.g., political interference, payment difficulties, insistence on bilateral balancing, general unavailability of bulk commodities at attractive prices). Nonetheless there still remain the USSR's wealth of such natural resources as petroleum and lumber and the nostalgia toward Mainland China with its ethnic ties and as a traditional market. These factors will continue to induce many Japanese to keep a weather eye toward the East for profitable business opportunities.

In sum, Japan's ability to expand its trade at the rate required for continued economic growth will depend on (a) retention of its present share of a growing American market, (b) a substantial increase in its share of the Western European market, and (c) cooperation with other industrialized countries in staving off general economic collapse and promoting gradual economic growth in the less developed areas of the Free World. There are, of course, important areas of overlap in these three conditions. If, for example, Western Europe were to move more rapidly in opening up its markets to Japanese goods, Japan's economy would be better able to withstand short-term adverse developments in the less developed world. If, by some means not presently foreseen, the less developed world were to begin to enjoy a period of relative stability with moderate economic expansion, Japan could probably rely even more heavily than now on trade with these areas to meet its own growth targets. One thing seems certain: Japan will be unable to meet its foreign trade targets if all three major trade areas (Europe, U.S. and LDC's) move in an adverse direction. Under such an adverse combination of circumstances Japan might be tempted to turn more and more toward the Communist world as a last and not very hopeful resort.

3.

3. Assistance to LDCs

Japan's interest in "economic cooperation" with the developing areas is clear, as is the fact that it believes its interests will be served by providing assistance at an increasing rate over the next several years. In May 1963 Prime Minister Ikeda said that he planned to increase Japan's aid to the LDCs to "$400-500 million annually" (presumably he had in mind an increase in Japanese gross public and private aid to this figure within the next few years), in line with the OECD/DAC objective of reaching a level of assistance equivalent to one percent of the donor countries' GNP.

It is not possible to determine in precise quantitive terms the potential volume of Japanese economic assistance to the developing areas. There is little doubt, however, that it will continue to increase significantly throughout this decade. The Japanese give no military assistance. The only available indication of the probable level of Japanese economic assistance by the end of this decade is the estimate contained in the Japanese Government's "Doubling-the-National-Income Plan." According to the plan, investments, loans and deferred payment exports to the less developed countries (gross public and private aid) are expected to total $2.13 billion in 1970, which would be equivalent to about 2.9 percent of estimated GNP. This compares with $376.1 million in 1961, or 0.8 percent of GNP. While these figures do not represent the net flow of Japanese resources to the developing countries (as calculated under the DAC formula) they do indicate the rate at which the Japanese expect this flow to increase over the coming years.

By the early Fifties Japan had begun to extend credit and technical assistance to the developing areas. Beginning in 1955 payments under Japan's reparations and other postwar settlements with Burma, the Philippines,

Indonesia,

Indonesia, Laos, Cambodia and Thailand have accounted for a major portion of its foreign assistance. It is estimated that over the period 1955-76 grant assistance under these programs (plus the estimated $300 million grant portion of the Korean settlement now under negotiation) will total $1.663 billion. On a commitment basis, annual grant disbursements under these settlements will range from $71 to $93 million. Since the mid-Fifties the lending activities of the Japan Export-Import Bank have expanded significantly and loan terms have been lengthened from five to fifteen years; in 1961 the Overseas Economic Cooperation Fund was established to supplement and complement the activities of the Export-Import Bank and the Fund's relatively small capitalization has been gradually increased.

The bulk of Japan's economic assistance is handled on a bilateral basis, but Japan is an active participant in UN sponsored multilateral aid organizations and is a contributor to the IDA. It also participates in the IBRD-sponsored consortia for India and Pakistan-- to both of which it has extended substantial lines of credit--, and as a member of the DAC, is an active participant in a number of DAC and IBRD consultative groups.

Over the long term Japan's course in the field of economic assistance will be determined by the Japanese Government's estimate of what is in Japan's own best interest. Japan's aid policies will be influenced both by its international political and economic objectives and by the availability in Japan of sufficient resources to finance foreign assistance and, at the same time, meet the requirements for financing its own trade and economic development.

Japan's motivations to assist in the development of the less developed countries are both political and economic. The political motivations include Japan's desire 1) to see political and economic stability in the developing areas of the world, especially in the

Asian

Asian countries adjacent to Japan, 2) to counter the threat of the spread of Communist influence and control, particularly in Asia, 3) to improve political relations with the countries of Asia and to develop a position of leadership in Asia, and 4) to gain prestige among the countries of the Western world by impressing on them Japan's position as a leading and responsible industrial nation which has earned a prominent place in the councils of the Free World.

The Japanese desire to be recognized as an important force in the political and economic councils of the world, but without military involvement. They regard themselves as a bridge between the western industrialized nations and the countries of Asia. They wish to develop a position of leadership in Asia and, at the same time, to become a fully recognized and equal member of the "club" of western industrialized countries. They value their status as a partner of the U.S., and consider as implicit in this relationship continuing close consultation and coordination on matters of mutual concern, such as assistance to the developing areas.

These political considerations are a major factor in generating support among Japanese political and business leaders for expanded Japanese assistance to the developing areas. Economic factors are far more significant in generating public support for such assistance, however, and carry the greatest weight in determining the volume, direction and terms of Japan's official assistance to the developing areas.

The economic motivations for Japan's foreign economic assistance stem from Japan's need to develop stable sources of supply to meet the raw material requirements of its growing economy and to develop export markets for Japanese commodities. The Japanese are convinced that markets for their goods in the less developed countries are severely limited by those countries' lack of foreign exchange and domestic capital and by the

dependence

dependence of many of them on a few primary commodities for export earnings. They are convinced that expansion of Japan's trade with those areas requires accelerated economic development to broaden their potential as markets for Japanese products and, at the same time, to diversify their export potentialities. This view is borne out by the analysis of Japan's trade prospects outlined in the preceding section of this chapter.

The Japanese prefer to concentrate their assistance in the development field, and, for that matter, tend to believe that economic assistance in general should be principally in development projects. This basic concept of the role of economic assistance has been evident from the first reparations settlement. The Japanese exerted every effort, with surprising success, to assure that a major portion of reparations payments would be in the form of capital goods. This was not easy in view of the recipient governments' desire to receive salable consumer goods, and considering the fact that the Japanese bargaining position, particularly in the early annual program negotiations under those settlements, was relatively unfavorable. The Japanese have often complained that commodity assistance given by the U.S. and other industrial countries tends to disrupt normal trade and, in many instances, to usurp existing or possible markets for Japanese goods. They have been reluctant to finance commodity import assistance themselves, even in the face of the so-called "Buy American" policy, though they did recently agree in special circumstances to extend $12 million in commodity aid to Indonesia. The reason given for this reluctance is that such assistance, even if given in the form of Japanese goods, may jeopardize Japan's normal trade. The innate reluctance of the Japanese to finance assistance which will not result in demonstrable economic development also contributes to this view.

Despite the phenomenal growth of the Japanese economy over the past decade and its present strength and favorable exchange reserve position, there is a perennial shortage of capital in Japan in relation to requirements for the

financing

financing of trade and industrial development. This is clearly indicated by the high level of interest rates and the high level of foreign borrowing prevalent in Japan. The rate of saving and investment in Japan is about 30 percent of GNP, perhaps the highest in the world among developed nations. This capital is channeled into industrial development. This stems from a long-standing national practice of marshalling all possible resources to finance the economic expansion required to support a growing population at a rising standard of living.

Despite this remarkably high domestic rate of saving and investment, Japan's foreign borrowing to finance trade and industrial development also remains consistently high. As of the end of 1962 Japan's external liabilities incurred since World War II totalled more than $3 billion, including loans from the IBRD ($413.7 million) and the U.S. Export-Import Bank ($239.8 million), bonds floated in the U.S. ($100 million) and short-term liabilities ($2,450 million). (The $490 million GARIOA debt to the U.S. is not included in these figures). Japan's net short-term liabilities have been running at a level of $1.8 to $2.0 billion over the past 3 years. In general the rate of interest on these borrowings ranges between 4 1/2 and 6 percent. When taken in the context of Japan's great dependence on foreign trade (totalling $12.2 billion in 1963), these facts explain the care with which Japanese officials responsible for the management of the country's finance consider the use of Japanese capital to finance foreign development.

Traditionally in Japan credit extended for a period exceeding 5 years has been considered to be "soft." This attitude has stemmed not only from the perennial shortage of capital but also from the fact that historically Japanese foreign loans have been commercial in nature. Nonetheless, principally at our urging, these terms have been extended and now the Export-Import

Bank

Bank and the Overseas Economic Cooperation Fund extend loans for a period up to 15 years. In the case of the pending Korean settlement, the Japanese have agreed to extend loans over a period of 20 years, with a 3 year grace period, at 3 1/2 percent interest.

The same thing is true of the Japanese view of interest rates. Accustomed to high domestic rates, the Japanese view a rate of 5 percent on foreign loans as "soft." Moreover, the Japanese are not convinced that extremely soft terms are appropriate in many instances, pointing out that short-term loans have achieved good results in many developmental projects.

Except as provided specifically through ratification and implementation of the individual reparations and other specific settlements, the Japanese Government has no legislative authority for grant assistance. The Ikeda Government is now considering seeking special legislation which will permit Japan to extend grant assistance in small amounts to meet emergency requirements. The Japanese Ministry of Foreign Affairs, however, is meeting strong resistance from the Ministry of Finance which opposes in principle grant assistance.

The Japanese place the greatest emphasis on their economic assistance to the countries of free Asia. They view their economic aid effort in this area as an important and essential investment in the continued economic development and prosperity of Japan itself, and as a contribution to the political and economic stability of the area, which they consider essential to Japan's security. They have broadened their economic assistance to Latin America and Africa. In Latin America, where they have relatively large investments in Argentina and Brazil, the contribution accounted for almost 40 percent of total Japanese assistance disbursed in 1961. They are interested in the Alliance for Progress. In Africa they have participated in some IBRD and DAC sponsored consultative groups. In these areas Japan's interest is in broadening and expanding trade and in establishing Japan as a responsible participant with other industrial countries in efforts to assist the developing areas of the world generally.

V. FOREIGN POLICY OBJECTIVES AND PROSPECTS

Japan's foreign policy objectives and prospects may be summarized as follows:

A. Objectives Under Almost Any Non-Communist Regime (III.E.1,2,3 or 4)

Virtually all Japanese, except the Communists, share certain fundamental objectives. On the basis of our political and economic projections, it is safe to assume that the following will continue to be major determinants of Japanese foreign policy in the years a ahead, whether the LDP power monopoly continues or is broken by the JSP (whether modernized or not):

(1) Prosperity through Expanding Foreign Trade, as the only means of satisfying the universal desire in Japan for continued full employment and rising living standards;

(2) External Security through World Peace: Japan will continue to seek to utilize its foreign policy to strengthen the UN, promote limitation of armaments, especially nuclear armaments, and seek negotiated solutions of Cold War problems;

(3) Major Power Status: Without hoping to rival the US or USSR, Japan will increasingly seek a position of major influence and leadership on the next level;

(4) Maintenance of Territorial Claims: All non-Communist political elements will continue to insist on Japan's claim to sovereignty over the Ryukyus, Bonins, Southern Kuriles, Habomais and Shikotan, though the Japan Socialist Party (even if modernized) would be prepared, for the sake of a Soviet Peace Treaty, to "postpone" negotiations for return of the Southern Kuriles.

B.

B. Objectives Under a Modernized LDP or JSP Regime (III.E. 1 or 2)

On the assumption of continued right or center leadership, Japan can be expected to continue to pursue the following additional objectives:

(1) A Pro-Western United Nations, to maintain an international environment conducive to the pursuit of Japanese interests. Although cooperative and helpful in the achievement of Free World aims, Japan's role in the UN has been hampered by leftist minority attitudes at home, by reluctance to jeopardize Japan's prospects as a leader of the Afro-Asian bloc, and by unwillingness to contribute forces for UN police actions. The coming years should witness a gradual strengthening of Japan's support for Free World positions in the UN, as leftist attitudes in Japan hopefully moderate and national self-confidence rises. The interpretation of the Constitution as ruling out the availability of Japanese forces for UN purposes now sets limits to the trend; whether this disability can be overcome by a reinterpretation of the Constitution on this point, or whether the Constitution will have to be amended, is hard to say. But some form of at least limited Japanese participation in UN peace actions will probably become possible within the decade, even under a modernized JSP regime (III.E.2).

(2) Maintenance of Ties with the US: Close ties with the US will continue to be essential to the achievement of Japan's fundamental objectives of expanding trade, external security and international status. Japanese governments can nevertheless be counted upon to assert the greatest degree of independence vis-a-vis the US which is compatible with these aims. Some increase in assertiveness can be expected under either LDP or JSP leadership. Occasional friction over trade policies, and the underlying fact of Japan's greater dependence on US

markets

markets than vice versa, will cause continuing resentment. As noted below (C.5), attitudes toward the perpetuation of the Mutual Security Treaty in its present form after 1970 will vary sharply between the LDP and JSP.

(3) Closer Ties with Western Europe: These will continue to be sought as a means of expanding trade, gaining status through acceptance as an equal by other advanced industrial nations, and lessening Japan's present undue dependence on the US market. Reflecting its intense desire to gain acceptance as one of the great industrial nations, instead of having to be content with a primary role among the underdeveloped nations of the Far East, Japan, having gained admission to the OECD, will maintain pressure for equal treatment in every respect by the European countries.

(4) Maintenance of Friendly Ties with the Afro-Asian Nations: This objective will remain secondary to Japan's ties with the US and the West. Whenever not in conflict with those ties, Japan will seek to build its influence with the Afro-Asian nations as an aid to expanded trade, as a means to major power status, and in an effort to counter pro-Communist influences among the Afro-Asian bloc in the UN.

(5) Strengthening Freedom in Southeast Asia: Japan has pursued a varied and substantial but nevertheless somewhat limited effort in Southeast Asia*, the limitations

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*Japanese Government grant and loan assistance to LDC's world-wide rose to approximately .6 percent of GNP in 1961, with assistance to Southeast Asian LDC's alone totaling about .3 percent of GNP (both figures based on actual expenditures). In 1962 assistance commitments and expenditures declined due to special factors. Assistance in 1963 is expected to exceed 1961 levels.

reflecting the capital shortage within Japan and the reluctance of private Japanese investors to undertake ventures in the politically unstable countries of the region. Japan is--and will increasingly be--strongly motivated toward actions and policies that will have the effect (whatever their motives) of strengthening resistance to Communism in SEA. The satisfactory development of countries in the area, first into markets and sources of raw materials, ultimately into trading partners, is a natural objective for Japanese traders and investors, and one that is not compatible with the communization of the area. Japan also desires to make an identifiable contribution to the political stability of the area through economic and technical aid, in order to enhance Japan's status among the world's advanced, assisting nations. Japan's ability to make such a contribution is limited at the present time by its capabilities, by the unacceptable military context of existing programs in many parts of the area, and by the overwhelming predominance of the US role. (Acting as a mere adjunct of the US program provides no satisfaction to Japanese national pride.) If these limitations dwindle, Japan's role will increase.

C. Divergencies Under LDP or JSP Rule (III.E., 1 or 2)

As noted under B above, there would be fairly important differences of emphasis between a moderate conservative regime and a moderate Socialist regime with respect to some important objectives and policies in the foreign policy field. There are some objectives and policies with respect to which this difference of emphasis would probably be so great as to represent a qualitative change; in these cases an approximate continuation of present policies can be safely projected only on the basis of retention of power by the LDP throughout the decade, -- considered in fact the most likely possibility.

(1) Preservation

(1) Preservation of Status Quo in ROK and Taiwan: Conservatives will continue to regard Communist control of either of these areas as a grave threat to Japan and to its hopes for a position of regional leadership, even though Japan will probably remain unable to contribute directly to their military defense. If relations with the ROK are normalized, increasingly close political and economic ties will follow. Although prepared to participate in Korea's economic development on a commercial basis, Japan is not likely to assume governmental economic burdens in Korea beyond the amount of the claims settlement, and a certain proportion of loans on favorable repayment terms. In the event of renewed Communist aggression in Korea, a conservative Japan will probably permit UN forces once again to utilize Japan as a staging area and logistics base, and might permit combat operations against the attacking forces to be launched from bases in Japan. It is unlikely, however, that Japanese forces would be sent to Korea even under a conservative regime. Even if Article IX of the Constitution were to be reinterpreted as permitting the despatch of Japanese forces abroad on UN peace missions, the GOJ would continue throughout the Sixties at least to reject direct military conflict with Communist China or the USSR, under any flag.

A moderate Socialist government would neither abrogate an existing agreement normalizing Japan-ROK relations nor cut off normal political and economic intercourse with the ROK. Nevertheless, even a moderate JSP would be committed to a more positive approach to bettering relations with the Communist nations, including Communist China and North Korea, and to the peaceful reunification of North and South Korea. Even though the JSP government might pursue both these approaches largely through verbal means, without doing anything concrete about them, this might still be enough to upset the delicate balance of ROK-Japan relations, leading to a renewal of friction and possibly

even a

even a new rupture of relations.

In regard to Taiwan, conservative governments will in general continue to prefer a perpetuation of the status quo to any alternative which they would fear might prove to be less stable. They will seek in their relations with the US and the UN (and in any degree of accommodation with Communist China which may become necessary--see below) to prevent the extension of Communist control to Taiwan. While they will not participate in any military defense arrangements with respect to Taiwan, they will carry on economic cooperation and will cooperate in political actions designed to strengthen and protect Taiwan. Even among the conservatives, sentiment will continue to grow for the formal acceptance of "two Chinas" and for eventual self-determination of the status of Taiwan. But these sentiments will be kept in check by regard for the stability of the GRC--barring such over-riding contingencies as a runaway public demand in Japan for recognition of Communist China, severe political instability in Taiwan following the death of President CHIANG Kai-shek, etc.

A moderate Socialist government would be reluctant to see Taiwan placed under Communist control against its will and would incline towards a "two-Chinas" solution if one seemed feasible; but it would rate political stability under the Kuomintang much less highly than would the conservatives. Unless the GRC were prepared to show considerable flexibility as regards its status in the UN and its position on self-determination for Taiwan, an impasse in Japan-GRC relations might be reached.

(2) Caution in Relations with Communist China: Japan, partly on the basis of its own appraisal of the China situation, partly out of recognition of its economic and military dependence on us, and partly because we have had a UN majority with us, has followed our lead

on China

on China for many years. With growing assertiveness and increasingly independent economic power, and with the example of the European trading powers to give them confidence, even conservative Japanese governments will give steadily less weight to dependence on the US as a reason for caution in improving relations with Communist China. However, their appraisal of their own self interest (including relations with Taiwan) will under present international circumstances continue to incline them against haste; and our UN majority on Chinese representation will continue to be an important factor in permitting them to sidestep domestic pressures for recognition of Peking. Nevertheless, knowing that up to a billion Chinese will be a few hundred miles away forever, with vast potentialities for good or evil for Japan, most Japanese will continue to feel an instinctive desire to "normalize" relations with mainland China. Should there be a convincing softening of Peking's attitude toward Japan, with prospects of expanded, truly beneficial trade, even conservative Japanese policies toward China could diverge from ours. Pressures for such a divergence will, on the one hand, be heightened by the increment in Communist China's prestige following its successful explosion of a nuclear device and, on the other, be moderated by awareness of Japan's increased dependence on US deterrent and defensive forces.

The possibility that a moderate JSP regime would or could hold out against pressures for normalization of relations with Communist China seems remote. About the most that could be hoped for is that a moderate Socialist regime, by giving expression to the broad national consensus in favor of self-determination on Taiwan, would cause the Chinese Communists themselves to reject normalization of relations.

(3) Attachment of Conditions to Full Normalization of Relations with USSR: Most Japanese have a reasoned

suspicion

suspicion and hostility toward the Soviet Union. This feeling derives from two hundred years of history, culminating in the Soviet Union's attack on Japan in the closing weeks of the last war and the Soviet refusal since that time to conclude a peace treaty returning Japan's Northern Islands. Even conservative Japanese governments can be expected to pursue trade with the Soviet Union from the standpoint of commercial self-interest, and will increasingly resist attempts to limit trade for political or what may seem to them marginal security reasons. But the conservatives will not be under any irresistable pressure to give up their past insistence that a Japan-USSR peace treaty is possible only on the basis of the Soviets' abandoning their demands for the removal of US bases from Japan and the surrender by Japan of the Southern Kuriles.

Even a moderate JSP regime would have difficulty in continuing unchanged the attitude of the conservatives toward the USSR, so deeply are they committed to an improvement of relations with the Communist nations. The Socialists could and probably would insist on a Soviet commitment to negotiate out the territorial questions, and they would probably demand Soviet flexibility on the timing of the removal of US bases; but they would have to attempt to achieve full normalization of relations.

(4) Cooperation in Continuing US Administration of Okinawa and the Bonins: Conservative Japanese governments will over the foreseeable future desire to avoid friction with the US over the Ryukyus and the Bonins. They will recognize that the continued US freedom of action in these islands affords security protection which Japan could not otherwise obtain without very heavy political costs. On the other hand, there are domestic political pressures against Japan's indefinite acquiescence in the effective detachment of portions of Japanese territory, and these pressures will mount as nationalism continues to revive.

revive. Conservative Japanese governments will probably acquiesce in continued US administrative control of the Ryukyus as long as they are convinced that such control is the necessary and minimum condition for the security benefits they obtain, and provided the US permits a sufficient Japanese role in the Ryukyus (a) to satisfy their domestic political needs, and (b) to assure that the Okinawans continue to view their future in association with Japan; and provided also (c) that there is reasonable political stability in the Ryukyus and (d) that the United States does not take action which would imply the permanent separation of the Ryukyus from Japan. There will, however, be continual probing by the Japanese to ascertain whether something less than exclusive US administrative control might not provide the US forces sufficient freedom of action to meet their and our minimum security needs. Also, the Japanese role in the Ryukyus, if it is to satisfy domestic political needs, must appear to be an expanding one; it must keep up a sense of motion toward eventual restoration of the islands to Japanese administration.

This expanding role need not necessarily be carried out in the governmental sector, where a growing role for Japan would inevitably come into conflict with exclusive US administrative control, not to mention our objective of a greater degree of autonomy for the Ryukyuans. While there is something to be said for having the major contacts between Japan and the Ryukyus channeled through a friendly, conservative Japanese government, the private sector appears to offer greater scope for expressions of Japanese interest in the Ryukyus that will not conflict with our concept of our own role. The Japanese Government will be under less domestic pressure to expand its own role in the Ryukyus if there are no significant obstacles to the continued development in the private sector of the natural cultural and economic ties between the two areas.

Should a moderate JSP regime attain power, it could

be

be expected to push for the full reversion of the Ryukyus to Japan. The US could, if it were willing to do so, probably negotiate a gradual, phased reversion, or a compromise under which some special status would be retained for US bases. If the US insisted on retention of exclusive administrative rights, it would do so at the price of serious damage to its relations with Japan.

(5) Acceptance of US Bases and Security Treaty: Even conservative Japanese are not entirely happy about the presence of American bases in Japan. But conservative governments for the next ten years or so will almost certainly continue to accept the US presence in Japan as a part of the Mutual Security Treaty package that provides Japan with the strategic deterrent essential to its security. If (as is considered probable) a conservative government is in power in 1970, it may request a revision of the Treaty but it will not request its termination.

The same cannot be said of the JSP. The JSP as it modernizes will move closer to the LDP position on basic foreign policy issues. It will probably also acquire a more realistic appreciation of Japan's security needs. But it is hard to imagine a JSP government under any circumstances agreeing to a perpetuation of the Treaty in its present form, including the presence of US bases in Japan proper. If the JSP were in power in 1970, it would feel itself committed to open negotiations looking toward a termination of the Treaty. Whether it would be receptive to renegotiation of the alliance in some form which did not provide for US bases in Japan would depend on the international situation at that time and on intervening developments in military technology, as well as on how much the JSP had mellowed.

D. Objectives Under an Unreconstructed JSP Regime (III.E.3)

The advent to power within the decade of an

unreconstructed

unreconstructed Socialist regime is highly improbable. Certain fundamental points in Japan's external objectives and policies (paragraph A of this section) would remain constant even if the JSP came to power more or less as now constituted. There would be important differences, however, in a number of areas, of which the following are illustrative:

(1) Closer Relations with Communist Nations: Such a regime would announce almost immediately upon its accession to power its readiness to conclude a peace treaty with the Soviet Union and regularize relations with Communist China. Its past record and public opinion would require the JSP to couple its announcement about a Soviet peace treaty with a statement of its intention to negotiate subsequently for the return of the "Northern Territories" (the Habomais and the Southern Kuriles, at least), but it would probably state that these territorial negotiations would have to be postponed until the removal of US bases could be worked out. It is conceivable that the Soviet Union, always touchy on territorial questions, might spoil the atmosphere by ruling out negotiations on the Southern Kuriles, but it seems more probable that the Soviets would keep quiet initially and that a peace treaty would quickly materialize. With it would probably come an expansion of the Soviet apparatus in Japan, including additional diplomatic and consular personnel, perhaps even Soviet "advisers".

In regard to China, it is possible that the new JSP regime might, while offering recognition to Peking, express some vague hope for a solution of the Taiwan problem in keeping with the desires of the people of Taiwan, or point to the need for a negotiated liquidation of Japan-Taiwan relations. But it would stop short of anything which might block the normalization of relations with the mainland. In any case, the GRC

would

would probably pull out at the first sign of Japanese recognition of Peiping, rather than countenance a "two Chinas" situation in Japan. The idea that the Soviet Union might try to manipulate the JSP towards positions (either in regard to Taiwan or relations with the US) that would keep the Chinese, both Nationalist and Communist, out of this new socialist preserve is intriguing, but is pure speculation, and the attempt might fail if the Soviets made it. The JSP regime would have to make some gestures towards Communist China, and the Chicoms would probably show enough flexibility to exploit them.

(2) Relations with US; Bases; Okinawa: The JSP regime would publicly declare its desire for continued good relations with the US almost as promptly as it announced its moves toward closer relations with the Communist nations. At the same time, it would demand negotiations for the termination of the Mutual Security Treaty and the restoration of Okinawa to full Japanese control. The present mainstream leaders of the JSP call for negotiated termination of the Treaty, not for scrapping it, and the sobering effect of accession to power would probably make them still more cautious. If, as we believe, this regime would be short lived, it is possible that the negotiations for termination of the Treaty might not be completed during the regime's tenure.

(3) Relations with Korea: As a part of its rapprochement with the Communist nations, an unreconstructed JSP regime would indicate a desire to improve relations with North Korea. What would happen to its relations with the ROK would depend upon whether relations had been normalized before the JSP came to power, and upon the attitude of the ROKG at that time. If the ROKG showed sufficient flexibility, the regularization of relations with North Korea by the new JSP regime might not go smoothly at all. There would be

the

the problem of a new claims settlement with North Korea, and there would be some sentiment in the JSP for a prior effort at Korean reunification which could take some time. In addition, to the extent that Japanese economic interests were involved in relations with South Korea (in the wake of the now-anticipated settlement under conservative auspices), they would not be solely the interests of "monopoly capital" but would include also those of small and medium enterprisers, fishermen, and others whom the JSP could not conveniently ignore.

E. Objectives Under a Conservative Monopoly of Governmental Power (III.E.4)

Analysis of the objectives of such a government would be of doubtful value. The government would either evolve into fascism or, more likely, soon be faced by renewed opposition by a moderate conservative and/or socialist party or parties.

VI. MILITARY SITUATION AND PROSPECTS

A. Japanese Forces

The Japanese military forces today are of limited size, possess serviceable equipment ranging from Korean War holdovers to F-104 supersonic aircraft, are well led, and enjoy improving, fairly good morale. The Ground Self-Defense Force (GSDF) has about 144,000 uniformed personnel organized in thirteen small divisions; the Air Self-Defense Force (ASDF) about 35,000 personnel and 1,000 fighter, transport and trainer aircraft; and the Maritime Self-Defense Force (MSDF) about 31,000 personnel with some 290 vessels -- destroyers, submarines, escort vessels, patrol craft, mine vessels and small craft. Two Nike and two Hawk SAM battalions will be installed by the end of 1967, and advanced air weapons control and anti-submarine systems (possibly including a helicopter carrier) are planned. A U.S. Military Assistance Program, averaging until recently about $70 million per year, has been sharply reduced, and is expected to phase out completely with the USFY 1965 program.

For many years unpopular and even resented by the public at large because of continued strong anti-militarist sentiments, the Self-Defense Forces are now accepted without enthusiasm but also with little or no antagonism. As a result of extensive civic action programs, exemplary troop conduct, and skillful public relations, they are even beginning to acquire a modest popularity and respect. The forces work in close cooperation with U.S. forces based in and about Japan, particularly in air defense, and participate in frequent joint maneuvers. The GSDF is capable of ensuring Japanese internal security and, supported by Japanese naval and air units, probably could withstand limited external conventional attack by forces similar in size to the GSDF for up to 30 days pending arrival of outside reinforcements. The Japanese

reserve

reserve structure is of limited size and training and would not be of much real value in an emergency.

Japanese defense expenditures, excluding support of U.S. forces in Japan (reduced to about $17 million annually in recent years), increased from $168 million in JFY 1952 to $686 million in JFY 1963. $765 million has been included for defense in the JFY 1964 budget, but almost all of the increase will be absorbed by personnel and other cost increases. The proportion of GNP devoted to defense declined slightly from 1952 to the present, amounting in 1963 to 1.1 percent -- compared with U.S. 10.4 percent, Germany 4.9 percent, and Turkey, with less than half Japan's per capita national income, 6 percent. The Japanese long term (1962-66) defense plan calls for defense expenditures of 1.25 percent of estimated GNP in 1966.

The limited Japanese defense effort is attributable to three main factors:

(1) Past Experience with Militarism: The average Japanese citizen's attitude toward his nation's forces continues to be strongly colored by memories of the police state which the military imposed on Japan in the mid-1930's; by war sufferings, including nuclear devastation; by total military defeat; by seven years of occupation devoted to the eradication of militarism and the inculcation of pacifism, enshrined in Article IX of the Constitution; and by fifteen years of sustained effort by the left wing in Japan, including the bulk of those engaged in the education of the nation's youth, to foster neutralism and prevent or retard the establishment of a defense capability. There remains in almost all Japanese a longing for "peace," a desire to avoid involvement in the Cold War, which could lead to involvement in a nuclear, hot war, and an aversion to things military.

(2) Doubt

(2) Doubt of the Practical Value of Larger Japanese Forces: The lukewarm attitude of the average Japanese toward the Self-Defense Forces (SDF) is also influenced by doubt of the military value to Japan of large defense forces. Perceiving no direct or immediate threat to Japanese territory, with the U.S. treatybound to assist Japan against whatever threat may arise, with Japan's assumed inability to develop forces capable of defending the country against major Communist attack, and highly doubtful that a "forward strategy" of forces abroad would be in Japan's security interest, the man in the street is inclined to give some credence to the leftist view that a strong, modern SDF makes no sense as an instrument of defense against external aggression but does create risk of an eventual recrudescence of military influence in Japanese society, and even worse, of helping to involve Japan in a U.S.-USSR nuclear war.* At the same time, the Government, influenced by the pacifist, neutralist tendencies of a large proportion of the people, the widespread desire to improve relations with Communist China, and the persistent even if diminishing faith of many Japanese that the UN will someday be an effective guarantor of Japan's security, has thus far felt it inexpedient,

although

*The situation is regarded in Japan as basically different from that of West Germany or the other continental NATO countries, which have land frontiers with the USSR and which, with major U.S., UK and Canadian support and participation, have been able to build a land-air "shield". The public sees no real similarity either between Japan's situation and that of the free South and Southeast Asian countries, which also have land frontiers with the Bloc. The Sino-Indian conflict did not significantly alter this view -- except among the intellectuals who were noticeably shaken.

although itself recognizing the need for a greater defense effort, to paint the external security threat and the need for an expanded defense effort in realistically graphic terms. While increasing number of Japanese, notably fishermen who have been in contact with the "Rhee Line," are finding comfort in the knowledge that Japan has some ready forces of its own, many intelligent Japanese are genuinely doubtful of Japan's need for 200 F-104 aircraft, a modern AC&W system, and a modern anti-submarine force, viewed against the realities of Japan's alliance with infinitely greater U.S. forces.

(3) Reluctance to Accept the Cost of Larger Forces: Finally, the attitude of the average Japanese toward the SDF is much influenced by the forces' cost. Japan has embarked since the war on a wide variety of badly needed social welfare and public improvement programs. These are to be expanded. The defense forces, for the reasons already noted, have been a much begrudged contender for public funds in competition with these politically popular programs. Informed Japanese are aware of the great advantage which the smallness of Japan's defense burden has been, first during the reconstruction period and then during the nation's dramatic economic growth, and are naturally reluctant to give up this advantage. There is no discernible sense of guilt on this score, in view of the part the Allies so recently played in eliminating and forbidding the revival of Japanese forces, and in view of the rights afforded U S. forces in Japan, which are thought to increase the chances of Japan's direct involvement in a nuclear war. The left is proud that Japan's defense effort is so small, and seeks to make political capital of its role in keeping it that way. The aspirations of the average Japanese to international status at this stage are being generally met through

the nation's

the nation's economic accomplishments; through the role Japan has sought to play in the UN and elsewhere on behalf of disarmament, particularly the abolition of nuclear weapons, and world peace; and through Japanese foreign aid programs, widely considered in Japan to be at the limit of Japan's capacity. Reviving Japanese nationalism includes a military element, in that it is again becoming permissible to take pride in Japan's historical accomplishments, including some military victories. But there is no tendency to glorify present or potential military prowess.

Looking to the future, how important will these factors continue to be? What new considerations will enter the equation? What, on balance, are the Japanese forces apt to look like in 1970? The answers to these questions lie in the following areas:

(1) Revival of Japanese National Pride

Homogeneous, energetic and with a long and well-defined national history, the Japanese have traditionally been a proud, patriotic and nationalistic people. The Japanese military tradition is many centuries old. National pride has, however, revived very slowly since the war, and as just noted, pride in Japanese military traditions and prowess has revived only slightly.

Economic accomplishments and a slowly increasing desire for international status are nevertheless beginning to impart a growing sense of national identity and purpose. The Japanese public is viewing Japan less and less as a helpless poor relation of the great powers and more and more as a middle power on about the level of Britain or France, with a real role to play. Total reliance on the U.S. (or, as the Socialists would have it, on non-aggression pacts with the U.S., U.S.S.R, and Communist China) for Japan's security is inconsistent

with

with this new role and with Japan's reviving national pride. There is every indication that Japan will seek to make its weight felt abroad primarily in the economic and political, rather than the military, fields. But there are already signs of growing realization that a respectable independent military capability is an essential element in the international stance of a middle power. This realization appears likely to be translated into an annual increase in defense spending at a slightly higher rate than the 15 percent average of the past several years. How great the rate of increase will actually turn out to be will also be affected by other factors, discussed below.

(2) Communist Chinese Nuclear Explosion

The most dramatic external stimulus to greater defense-mindedness in Japan presently foreseeable would be a Chinese Communist nuclear explosion (CCNE). But a CCNE, generally accepted in Japan as only a matter of time, is not expected to have a radical or dramatic effect on Japanese public opinion or Governmental policies, and will not be thought to have much altered Japan's real strategic situation. Japan has lived with a nuclear capability in the Soviet Far East for some years, and regards the Soviet Union as a greater potential threat than Communist China. A CCNE nevertheless will probably improve the opinion climate for an increased Japanese defense effort, and may even set the stage for eventual Japanese Government moves toward constitutional revision to "regularize" Japan's armed forces, and toward acquisition or acceptance of nuclear weapons in Japan. Existing quiet but steady

pressures

pressures on the Government by the Japanese military for a greater defense effort will be intensified*.

(3) Japanese Attitudes toward Nuclear Armament

The almost psychopathic aversion of the public to anything even remotely nuclear has appreciably abated over the last two years, as the people, partly as a result of successive U.S. and Soviet nuclear test series,

have

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*A CCNE will of course have consequences in Japan extending well beyond the stimulus it may provide to an expanded Japanese defense effort. It will probably enhance the already widespread feeling in Japan that a greater effort should be made to tame and moderate the Chinese Communists so that they will not, out of frustration, ignorance or ultra-nationalistic truculence, be prompted to use a nuclear bomb and thereby touch off a holocaust. There will be recognition that the most likely targets in Asia for a Chinese Communist bomb will be the U.S. bases there, including those in Japan. Peiping's efforts to propagandize this point for its impact in Japan, and as a means of focusing its nuclear threat against the hated Americans and not against Afro-Asians, will encourage anti-U.S. base sentiment in Japan. From its position as a nuclear power Peiping could effectively alternate threats of nuclear devastation with pleas for disarmament, nuclear free zones and peace. Japanese distaste for GRC mainland raids and return-to-the mainland propaganda can be expected to increase. On the other hand, a sustained, carefully developed program to acquaint the Japanese with the facts and realities of a Chinese Communist nuclear capability could do much to mitigate the kind of fears and queasiness which the Chinese Communists will seek to induce among the Japanese.

have been gradually forced to accept the facts of present-day life. Although, significantly the Japanese language press played it down, former Prime Minister Yoshida in mid-1962 publicly stated that Japanese nuclear armament must not be ruled out. Thus, even though the strategic wisdom of Japan's possession of nuclear weapons seems questionable, a move in that direction before the end of the decade now appears at least possible.

The results of Japanese consideration of nuclear armament will probably lie in large part in U.S. hands. If U.S. deterrent and defense power in the Western Pacific remains undiminished, and if U.S. determination to use this power under our U.S.-Japan Security Treaty commitments remains clear, Japan may forgo nuclear weapons for its own forces indefinitely, not wishing to add to the possibilities of nuclear attack on Japan's concentrated and exposed population centers and hesitating to incur the costs of duplicating already available U.S. nuclear power, costs which would raise Japan's defense budget to many times its present level. The arrangement possibly most to its taste (and also most to U.S. advantage, since it might permit withdrawal of part of our costly -- in terms of foreign exchange -- and vulnerable airbase establishment in Japan) would be a steady expansion of U.S. sea-based nuclear deterrent power in the Japan area, closely integrated with the SDF and utilizing Japanese ports. If this does not prove feasible, Japan may reluctantly accept nuclear warheads on its territories for the use of U.S. counter-offensive forces, though such acceptance would undoubtedly be conditional on greater restrictions on combat use of U.S. bases in Japan than are provided by the present consultation commitment.

If as the decade progresses a number of additional nations acquire nuclear weapons, and if there seems

increasing

increasing room for doubt of U.S. readiness to risk nuclear war on Japan's behalf, possibilities of Japan's seeking nuclear weapons for its own forces from the U.S., perhaps under arrangements similar to the NATO Nuclear Stockpile, will increase. Later, if the cost of production of nuclear weapons and delivery systems does not seem entirely beyond its means, Japan may, in response to domestic pressures, now almost entirely absent, for an independently controlled Japanese nuclear deterrent and defensive force, undertake to produce nuclear weapons and delivery systems of its own. It has been estimated (NIE 4-3-71) that if it decided now to embark on a nuclear weapons program, Japan could probably have its first nuclear device in five or six years and its first weapons deliverable by aircraft a year or so later; it could probably develop 1,000-mile missiles in about the same time, and compatible fission warheads for such missiles by 1970.

None of the conjectural projections in the preceding paragraphs can be advanced with any confidence, though they now seem in the realm of possibility. A more cautious prediction would be that there will probably be a strong tendency throughout the decade to continue to rely on the U S. for Japan's strategic defense, combined with a growing acceptance of the need for steady improvement in the capability of Japan's own forces to meet the demonstrable minimum conventional requirements for home defense.

B. U.S.-Japan Military Cooperation

U.S.-Japanese military relations over the past ten years have been characterized by the progressive replacement of U.S. forces by Japanese units, established with substantial U.S. material and training assistance. U.S. deployments in and about Japan have

thus

thus been influenced by developing Japanese capabilities, and the development of Japanese forces has been influenced by U S. dispositions, by U.S. military doctrine, and by reliance on U.S. material assistance. But for the most part force strengths and deployments on each side have been determined independently, by factors not related to the forces of the other country.

Put another way, U.S.-Japan military relations during this period have been typical of the pattern of U.S. military relations with militarily weak and backward nations. The Military Assistance Advisory Group has been the main point of contact, command liaison has been limited, and a minimum of reliance has been placed on Japanese forces in the development of U.S. strategic plans. With the end of grant military aid, the rebirth of Japanese national pride, and the hoped for at least moderately accelerated Japanese defense buildup, the U.S.-Japan military relationship will require some readjustment.

A conspicuous exception to the present pattern has been the area of air defense, where a thoroughly integrated U.S.-Japanese system exists. This system has been built over the years, quietly, without fanfare, and most Japanese would be surprised and perhaps indignant if they knew the extent to which their Air Self-Defense Force is keyed into the U.S. worldwide air defense network. However, Japan's skittishness toward military action reasserts itself even within the tight framework of this system. At the "moment of truth" rules of engagement for Japanese pilots are considerably more cautious than those for their American counterparts. Such differences are probably inevitable, even where cooperation is closest, as long as the Japanese use a narrow definition of permissible defense activities.

The coming

The coming decade may present other opportunities for close collaboration in defense matters. The United States is currently interested, as a dollar-saving measure, in developing cooperative logistics arrangements with Japan. Such arrangements may provide not only a more economical defense but also an additional area in which Japan can be tied to the United States. Cooperation in this field will, however, be limited by the U.S. requirement to maintain an independent capability to make logistical use of its Japan bases to support actions outside Japan on which U.S. and Japanese views may differ.

Only a tentative start has thus far been made in cooperative U.S.-Japan defense planning, outside the air defense field. The restrictions Japan has imposed on its own defense activity has discouraged American military commanders from placing great reliance on Japanese forces in their own plans. They have consequently been reluctant to bring Japanese military leaders into their defense planning. As Japanese attitudes toward defense change over the next decade, opportunity may be afforded to build increasingly meaningful U.S.-Japan joint planning and command relationships which will materially reinforce the Alliance.

VII. U.S. POLICY

VII. U.S. POLICY TASKS

Japan has come a long way in the past ten years. It has achieved a level of economic power that was considered impossible ten years ago. Its ability to translate this power into effective influence in world affairs has grown less rapidly, but has become increasingly manifest in the last few years. In the next ten years we may expect Japan's power potential to continue to grow, and as it does we may hope that its ability and willingness to exert its influence for good in world affairs will more and more catch up with its potential. The objective is to have Japan find national satisfaction within the free community, as part of the Northern Hard Core, making the largest contribution of which it is capable to the preservation and strengthening of a world order in which free institutions fare best.

Before considering U.S. policies to further this objective in the years ahead it may be helpful to identify the key elements in Japan's success so far, as the same elements are likely to figure in whatever degree of success is achieved over the next ten years.

One obvious element is the tremendous talent and industry of the Japanese people and leadership motivated primarily by the pursuit of material rewards. Korean war order and U.S. aid played their part, but effective mobilization of the energies of the Japanese people for material betterment has been and will remain the key moving element. Perhaps the greatest single direct contribution of the United States to Japan's success has been the granting to Japan of sufficient access to United States markets to assure the availability of rewards for her hard work -- a "contribution" from which we ourselves have benefited. While the

satisfaction

satisfaction of national pride will be an increasingly important factor in mobilizing Japanese energies, it is hardly likely to displace or even rival the factor of material incentives.

A second obvious element in Japan's economic success has been the lack of a heavy defense burden, thanks to the security conferred by its alliance with the United States. While there is every reason to believe that Japan will be assuming progressively larger tactical defense responsibilities, its defense burden will probably remain considerably smaller than those of other advanced industrial nations. This should not be considered as necessarily adverse to U.S. interests, considering the realities of Japan's security position and requirements and the number of other high priority purposes for which we would like to see Japanese resources utilized.

Japan's progress toward a more responsible role in world affairs has been more recent than her economic success, and the elements in it are harder to identify, but the following have certainly been important: (a) economic prosperity, which has made it possible for Japan to aspire to equality with the advanced nations; (b) the relative stability and popularity of the Ikeda Administration; (c) actions by the U.S. (the Kennedy-Ikeda talks, the joint committees, the references to Japan in Presidential messages, etc.) and by European countries that have betokened recognition of Japan's importance and equality; and (d) shifts in attitude and outlook on the part of Japanese leaders and the public, for which U.S. information and exchange programs, personal contacts and exchanges of visits of world leaders are in part responsible.

In general,

In general, the United States should manage its relations with Japan so as to perpetuate the circumstances that have brought such notable progress to date. But this may not always be enough or even appropriate. In the decade of the Fifties, the Free World had the aspect of an armed camp, with various frightened and impecunious nations huddling about the United States seeking protection and assistance, and in return accepting with good or ill grace their assigned roles and positions in the Free World's perimeter defenses. The armed-camp type of Free World has no great role to offer Japan, and if such a structure were again forced upon the world, Japan's "success" would have to be redefined: a position of importance in the quartermaster department would be about all she could aspire to.

Fortunately, the world seems to be moving towards a structure that offers Japan even more scope than she now has. Diversity, a threat to the Communist world but one of the strengths of the Free World, will hopefully permit Japan to pursue its own independent goals, within a broad framework of Free World objectives, and thereby achieve a degree of national satisfaction -- and a mobilization of national energies -- that could never come from merely carrying out assigned roles. Economic competition, if it becomes a truly decisive element of Communist-Free World relationships, is an area in which Japan can make a distinguished contribution. In drawing up the recommendations which follow, movement has been assumed in this hopeful direction, or at least no retrograde motion.

U.S. Tasks for the Coming Decade

Key U.S. tasks in Japan for the coming decade emerging from the present analysis are set forth below, not necessarily in order of importance.

(1) Pursue

(1) Pursue trade and economic policies toward Japan consistent with the maintenance by Japan of a rate of economic growth adequate for political stability and for the realization of Japan's potential for service to Free World causes --

Principal lines of action directed to this fundamental requirement include close consultation on mutual trade and economic problems, through the cabinet-level U.S.-Japan Joint Economic Committee and otherwise -- a sound operating principle would be to treat Japan the same as Canada; admission of a rising level of Japanese products to this country on a non-discriminatory basis; minimization of U.S.-Japan economic frictions as much as is politically possible in the interests of our broader Japan objectives; continued efforts to assure national treatment for U.S. investment in Japan; encouragement of full Japanese participation in Free World efforts for the reduction of trade barriers; and support of Japan's efforts to secure full and equal membership in the association of the Free World's advanced industrial nations, and to obtain non-discriminatory access to Western European markets.

(2) Maintain and strengthen existing programs to promote moderating trends on the left, while making clear to the conservatives our continued strong support for them and consequent concern for enhancement of their popular appeal --

A major new instrument in our efforts to reach and influence the non-Communist left in Japan is the "Japan-America Foundation" planned to be established with $25 million worth of yen received as part of Japan's $490 million GARIOA obligation settlement.

(3) Encourage the assumption by Japan of a greater measure of commitment and responsibility for

the economic

the economic development and general advancement in freedom of the underdeveloped countries, particularly in Southeast Asia --

Japan is already well motivated by commercial self-interest, national pride and in some cases (the ROK) security interests, towards assisting the less developed countries. Prime Minister Ikeda has often proudly noted that Japan is fifth among free nations in the amount of its overseas aid. A gap nevertheless remains between Japan's recognition of its interest in the advancement of less developed countries and its current contribution. In Southeast Asia this results in part from the fact that assistance to that region, of primary importance for Japan, is dominated by the U.S. and has strong military overtones. Japan's national pride cannot get much satisfaction out of merely helping to implement a program that is American in conception and objectives. But Japan can clearly "afford" to do more in the narrow economic sense, and more and more frequently one finds Japanese leaders themselves pointing out publicly that Japan's relatively modest defense burden enables it to do more by way of economic assistance to less developed countries. In addition to continued U.S. urging of a larger Japanese economic aid effort, with easier repayment terms for loan assistance, there is room for discreet U.S. pressures on behalf of particular forms of assistance especially adapted to Japanese national capacities and pride, including the following:

(a) An Expanded and Improved LDC Training Program in Japan -- Japan's role as a forerunner in modernization is an immensely gratifying one to the Japanese. While Japan is already doing a good deal in technical assistance and training programs*, some of its apparent

success

*From April 1954 through October 1961 approximately 3,500 trainees, fellows, scholars and students from countries in Southeast Asia, the Near and Middle East, Africa and Latin America received training in Japan. During the same period some 500 Japanese technical experts and technicians served in those areas.

success is more statistical than substantial. Most of the trainees leave Japan with improved skills but little improvement in attitudes or political beliefs. Although the Japanese Government is now seeking to improve this situation, the trainees have been poorly per-diemed and their orientation has been perfunctory. There is reason to believe that with proper stimulus and possibly some U.S. guidance (which might be provided in connection with our own third-country training programs, even though U.S. support of such programs will be much reduced after FY 1964) a really good program could be put together. A kind of "stay-at-home" Peace Corps program*, under which young people from the LDCs were brought in considerable numbers to Japan to acquire the feel of a modern, free enterprise society, could if generously funded and properly developed do a great deal to improve regional attitudes toward Japan as well as further economic progress in countries of origin.

(b) Assignment to Japan of Areas of Particular Aid Responsibility -- While it would run counter to the recent multilateralization of assistance efforts, giving Japan a larger role with the U.S. in particular overseas programs -- or even letting it carry the ball alone -- might in selected instances offer the Japanese

more

*A Japanese peace corps on the American model has some backers in Japan, and may in time be realized, but is inhibited by (1) the absence of a deeply-rooted (Christian) ethic in support of "good works" abroad without tangible reward; (2) language difficulties -- virtually no LDC populations outside of Korea, Taiwan and Okinawa understand Japanese, and few Japanese emerging from the universities speak English well enough for effective transfer of knowledge and skills to LDC peoples having some understanding of English; (3) the lifetime employment and seniority features of the Japanese industrial system, which render Japanese youth extremely reluctant to defer or interrupt their progress up the ladder of advancement; and (4) the susceptibility of a large-scale Japanese SEA peace corps program to leftist charges in Japan and abroad of the revival of "Co-Prosperity Sphere" ambitions.

more gratification, more experience, and involve them more deeply than the same amount of energy spread over a miscellany of projects and consortia around the globe. The fascination of Burma for the Japanese may be partly due to the feeling that it is an area of manageable needs where the U S. has not done too well, and where success, if achieved, would be a Japanese success. While primary Japanese responsibility for an aid program in an area such as Burma might have undesirable overtones of spheres of interest, and while the bulk of Japan's overseas assistance should for many reasons continue to be offered in a broadly collaborative context, the point remains that Japan's national pride will be more fully committed to the success of aid programs in which the Japanese feel that they have had a major role in determining the aims and objectives as well as providing the assistance.

In addition, the Japanese Government might be discreetly encouraged in its efforts to establish a grant aid fund. A major deficiency of its present aid programs is the absence of any mechanism for dealing with urgent requirements for grant assistance. Reparations grant payments are all earmarked in adbance, and Japan does not have any fund analogous to the U.S. President's Contingency Fund which can be drawn on in an emergency. The fund should be large enough to permit a meaningful Japanese participation in multilateral aid undertakings when Japan itself agrees that such action is politically or economically desirable.

(4) Continue to ensure Japan's external security under the Security Treaty of 1960, living up in every way to our consultation commitment and other obligations under the Treaty --

The coming

The coming decade may see further reductions, in addition to those already scheduled, of our Japan-based forces, reflecting balance of payments considerations, the improved mobility of U.S. forces, and, possibly, increased capacity to transfer land-based U.S. deterrent power to nuclear capable underwater or surface craft. Any such reductions of our Japan-based forces, though not falling under our consultation commitment, should be discussed in advance with the Japanese Government with a view to ensuring that they do not undermine Japanese public confidence in U.S. security guarantees in the Japan area, that adequate U.S. base facilities are maintained in Japan for emergency use, and that the impact of the withdrawals on the Japanese economy is minimized. At the same time the US should not deny, and should in fact affirm, the interrelationship of the readjustments and the assumption by Japan of essentially complete responsibility for home defense (paragraph 5 below).

As the ties of military collaboration developed by our military assistance program are strained by the end of grant aid, we will have to be on the alert for new ways -- command liaison, cooperative logistics, joint planning -- to give concrete meaning to the U.S.-Japan military partnership.

(5) Discreetly encourage an increased Japanese defense effort, such as to permit Japanese forces to assume at the earliest feasible date essentially complete responsibility for defense activity within, and immediately adjacent to, the Japan administrative area; proceed with the phase-out of the U.S. Military Assistance Program by USFY 1965 --

U.S. interests over the past ten years have been well served by Japan's rapid economic growth, partially

attributable

attributable to the smallness of its defense burden. It is doubtful whether either our or Japan's best interest would be served by diversion of Japanese energies into a markedly expanded defense effort. At the same time, there is need for an expanded Japanese military contribution confined to the home islands. This has been privately but explicitly recognized by Prime Minister Ikeda. The Japanese public, by Ikeda's own testimony, has become "more defense-minded". With the further growth of the economy and national pride there is likely to be increasing feeling in Japan that a greater capability is essential to recognition as a major world power. The U.S. should discreetly encourage this view, noting that the necessary effort can be made with the Japanese defense burden remaining quite small by world standards. There should be no attempt to frighten the Japanese with ill-defined and unconvincing threats of imminent attack. The keynote of our position should rather be demonstrable necessity, along the following lines:

(a) Japan's fundamental (strategic) security needs are covered by the U.S. alliance; (b) it is nevertheless important that Japan demonstrate independent defense determination and capacity obvious to a potential aggressor; (c) Japan's defense effort is increasing, but there are certain additional contingencies short of overt, major attack (e.g. threat of a limited naval blockade, provocative or probing air intrusions) with which Japan should be prepared to cope without U.S. assistance; (d) Japan can easily develop truly high quality, modern home defense forces, making Japan a hard nut for any aggressor to crack, without distorting the emphasis of its national policy; (e) Japan, in expanding and modernizing its forces, should consider purchasing a substantial proportion of its equipment from the U.S., thereby benefitting from U.S. production

experience

experience particularly in more sophisticated items, achieving substantial savings on many items, promoting interchangeability of equipment in the interest of effective joint defense, and alleviating the U.S. mutual defense dollar drain in Japan; and (f) Japan should seek to strengthen its security legislation and regulations to permit more effective production and operational coordination with the U.S.

(6) Discreetly encourage a Japanese contribution of forces for UN actions --

For an indefinite period ahead the Japanese public is unlikely to support, and other Free World Asian nations are unlikely to desire, the assumption by Japan of overseas mutual security commitments outside the Japan area and its immediate approaches. Public sentiment is nevertheless gradually building up for doing away with the inhibitions on Japan's participation in the peace-keeping functions of the UN. The U.S. should be alert to opportunities to abet this sentiment's growth. The attachment of a few Japanese officers to a UN peace mission, even in the capacity of observers, and even if they had to be drawn from the attache staffs of nearby Japanese embassies, would be a significant step forward, and we should be on the lookout for opportunities to urge the Japanese to take it. In the remoter future, if a UN peace force as a part of a general disarmament program ever became a serious possibility, the creation of a Japanese contingent would be a strong additional motive for doing away with inhibitions on overseas deployment of Japanese forces.

(7) Continue to encourage a settlement with the ROK, followed by constructive leadership of a Japan-ROK alignment, thus significantly strengthening Free World unity in Northeast Asia --

The long-

The long-deferred settlement with Korea will hopefully, when achieved, mark the beginning of an increasingly fruitful relationship between the two countries, under which Japanese investments and the Japanese market will contribute greatly to Korean economic progress. Ultimately, but probably not in this decade, a mutual security arrangement may be developed.

(8) Seek to exercise a discreetly restraining influence over the extension of Japanese ties with Communist China, and a discreetly helpful role in GRC-Japan relations --

There will continue to be opportunity for U.S. diplomatic and other efforts to confine Japanese economic, cultural and other ties with the mainland within acceptable bounds, generally definable as no closer than the ties maintained by Western European countries, and thereby to help to preserve a satisfactory GRC-Japan relationship. It would be tragic if the long hoped-for normalization of Japan-ROK relations were paralleled by a deterioration or rupture of GRC-Japan relations. It would be even more tragic if Mainland China policy, the only major matter on which U.S. and Japanese views differ significantly, were allowed to become a seriously divisive factor in U.S.-Japanese relations; avoidance of this danger must remain a vitally important preoccupation of both Governments.

(9) Endeavor to maintain and strengthen Japanese Government cooperation in measures to ensure a stable environment for our bases in the Ryukyus --

Sharp differences over the Ryukyus (or Bonins) could seriously damage our relations with Japan, in addition to jeopardizing our base positions in those

areas.

areas. U.S. administration of these island areas presents a made-to-order popular issue for the Japanese left, combining patriotic irredentism with anti-militarism. Fortunately the conservatives, aware of the importance of our Ryukyus bases to Free World, particularly Japanese,security, are anxious to avoid differences. They are likely to continue to acquiesce in U.S. administration as long as they can maintain a defensible position against domestic criticism, and as long as they are given no reason to believe we are trying to detach the Ryukyus (or Bonins) permanently or wean the Ryukyuans away from eventual reassociation with Japan.

The primary stimulus to irredentism in Japan is dissatisfaction in the Ryukyus themselves -- "when the Ryukyuans itch the Japanese scratch." A reasonable sense of satisfaction with their lot on the part of the Ryukyuans will go far to control tensions over the Ryukyus. To this end President Kennedy's March 19, 1962 policy for the Ryukyus established guidelines for the creation in Ryukyuans of a sense of well-being through (1) economic progress, (2) substantial local autonomy, and (3) free participation in Japanese cultural life with assurance of eventual political reunion.

Full implementation of this policy offers the possibility of an equilibrium in the Ryukyus capable of lasting for the next ten years or longer. It should be recognized, however, that such success may prove elusive. We are, after all, engaged in the anachronistic task of imposing an unwelcome administration on a foreign people. The inherent instability of this situation may remain sub-acute for considerable periods if we are both lucky and wise, but will almost

inevitably

inevitably reasset itself. It seems certain that a situation will arise, perhaps in the next ten years, which will force the United States to seek to re-establish equilibrium on a new basis. This will probably have to be found in reducing the degree of exclusive U.S. administrative control to the absolute minimum, allowing for a substantially enlarged role for the Ryukyuans or Japanese or both. As the years pass, and particularly if, as seems likely, more and more Japanese come to share U.S. views of Free World security requirements, it will become increasingly difficult to maintain the position that full administrative control of the islands is essential to the operation of the bases.

In brief, there is good reason to hope that over the next decade conservative Japanese governments can be persuaded that a carefully reasoned minimum level of U.S. administrative control remains in Japanese interest. The same might prove true of a modernized socialist (JSP) government (III.E.2). An unmodernized JSP would almost certainly seek to force us out of the Ryukyus and Bonins as part of its general program to liquidate the U.S. alliance and take Japan into neutralism (II.E.3).

(10) Continue to seek ways to advance Japan's cultural, scientific and educational status and to bring Japan further into an equal, nationally gratifying relationship in these fields with the U.S. and other advanced Free World countries; in this context, eliminate the discriminatory aspects of our immigration quota system --

This effort will call for maintenance and strengthening as feasible of existing U.S.-Japan cooperative cultural, educational and scientific committees. With

respect

respect to immigration, removal of the discriminatory features of U.S. immigration legislation as applied to Japan is feasible only in the context of the removal of these features as applied to all peoples indigenous to the Asia-Pacific Triangle. Amendments to the Immigration and Nationality Act of 1952 to eliminate the Triangle provisions (under which persons of, for example, Japanese ancestry born outside Japan are chargeable to the Japanese quota), and to place the Far East on the same footing as all other quota areas, are now under consideration by the Congress, strongly supported by the Departments of State and Justice. It is hoped that one of these amendments will be adopted within the next year or two, removing the racial bias offensive to Japan as to other Far Eastern countries implicit in the Asia-Pacific Triangle concept.

(11) Encourage Japan to adopt a position of more dynamic leadership in Far Eastern and Asian regional associations --

The Japanese have made it clear that they cannot derive satisfaction from a role which equates Japan with India, and that they will resist the role of counterweight to China. The idea of Japan as the northern anchor in a line running around Asia to India (the southern anchor) is increasingly repellent to the Japanese, while the counterpoise role not only tends to equate Japan with China but also to make of Japan an instrument or adjunct of the policies of the advanced nations, setting Japan apart from them. So long as advanced-nation status remains Japan's goal, her enthusiastic participation in any regional association can be expected only if her unique position as the only advanced nation in Asia is at least tacitly recognized.

One of

One of the biggest obstacles to such recognition up to now has been the failure of Japanese participants in regional activities to assert the necessary leadership. We may be approaching a turning point in this regard, however. At the Djakarta Asian Games of 1962, had the Japanese rather than the Indians led the opposition against Indonesian political discrimination, their leadership could probably have carried the day. Many Japanese saw this clearly and were keenly ashamed of their representatives' failure to take the lead. Japan may be ripe for an attempt at more dynamic leadership in the regional associations to which it now belongs, and the experience in and taste for leadership thus acquired could gradually lead to the enhancement of its influence in all its regional relationships. We should accordingly be on the lookout for regional meetings at which problems of common concern are likely to arise and where Japan's leadership might decide the outcome, encouraging the Japanese Government to ensure that Japanese leadership is exerted in these cases.

(12) Maintain and strengthen our consultative relationship with the Japanese Government on world problems of mutual concern --

Japan's recent progress toward a more positive and responsible role in the Free World community is attributable in part to the increasing readiness the U.S. Government has shown to consult with the Japanese Government in advance about world as well as regional problems, pursuant to the President's understanding with Prime Minister Ikeda in Washington in June, 1961. The goal, not yet fully attained, should be a consultative relationship with Japan similar to that with

our

our major European allies. Attention to this requirement will pay dividends in Japanese goodwill and cooperation out of all proportion to the relatively minor effort involved.

As a holdover from Occupation and early post-Treaty years, the Japanese remain overly concerned with U.S. views on and reactions to Japan's foreign policy courses. Improved and expanded Japanese policy planning might enable the Japanese Government more effectively to define and follow Japan's own enlightened national interests. The U.S. should encourage the organization of such planning, and perhaps establish a liaison arrangement between U.S. and Japanese policy planners broadly similar to that between U.S. and NATO planners. The end result could be a better appreciation by Japan of its stake in freedom worldwide and of its broader interests and responsibilities.

SECRET

5 June 1964

SC No. 00622/64A
Copy No. 2

Japan

SPECIAL REPORT

SHIFTING JAPANESE ATTITUDES ON DEFENSE

CENTRAL INTELLIGENCE AGENCY
OFFICE OF CURRENT INTELLIGENCE

NO FOREIGN DISSEM

SECRET

DISSEMINATION CONTROLS

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5 June 1964

SHIFTING JAPANESE ATTITUDES ON DEFENSE

The deep antimilitarist feelings which prevailed in postwar Japan are gradually fading. Public attitudes show some signs of mellowing, and the Ikeda government is slowly building up the country's defense forces and adopting a posture more openly sympathetic toward them. A constitutional ban on armed forces as such still hampers the build-up, however, and Japanese opinion is far from persuaded of Japan's need to maintain a defense establishment commensurate with its booming economy and growing role in world affairs.

Background

The Japanese nation's total sense of shame after World War II and the shock of military defeat after decades of propaganda on the country's invincibility brought national rejection of all institutions associated with the military. Communists, extreme leftists, and pacifists--newly freed from the restrictions which curbed their activities in prewar Japan--helped generate a climate of opinion in which Japan's position of unarmed neutrality in the East-West struggle became popular. Intellectuals--professors and schoolteachers--of this persuasion were influential in furthering this attitude among young people. The deep impact of these views is evident still.

Pacifism was institutionalized in Article IX of the constitution drawn up in 1946. This renounces war as a sovereign right of the nation and declares that "land, sea, and air forces, as well as other war potential will never be maintained."

This seemingly absolute limitation began to be circumvented in 1950, when a quasi-military force called the National Police Reserve was created to fill the internal security vacuum created when US forces began to leave Japan for Korea. Four years later the fiction was carried further. A law was passed establishing the Japanese Defense Agency as a bureau within the prime minister's office, to administer what was called a Self-Defense Force (SDF). In 1959 the Supreme Court approved the SDF's legal status, but as long as Article IX remains on the books, an air of uncertainty prevails over Japan's military establishment.

Armed Force Without Support

The Defense Agency today is controlled by civilian officials determined to prevent any resurgence of militarism. The score of senior civilians who

FIGURE 1

JAPAN'S NATIONAL DEFENSE BUDGET

Fiscal Year *	Million US Dollars	% of Total Budget	% of GNP
1960	493.8	10.8	1.72
1961	493.6	9.8	1.43
1962	579	8.6	1.1
1963	670	8.5	1.2
1964	764.4	8.1	1.1 (est)

*1 April - 31 March

FIGURE 3

MANPOWER IN JAPAN'S SELF-DEFENSE FORCES
(Fiscal Year 1963)

	Planned	Authorized	Actual
Ground	171,500	144,060	141,002
Maritime	39,291	33,291	32,024
Air	41,757	39,057	37,176
TOTALS	252,548	216,408	210,202

FIGURE 2

MAJOR GOALS OF JAPAN'S SECOND LONG-RANGE DEFENSE BUILDUP PLAN
(Fiscal Years 1962 - 1966)

Budget:
Annual increase of $51.1 - 59.7 million in defense spending, with the goal of reaching $761.7 in final year of plan.

Ground Self-Defense Force:
Manpower strength of 180,000 (8,500 over previous legally authorized strength). Nike and Hawk missile battalions, 2 of each.

Maritime Self-Defense Force:
39 new ships to replace 28 obsolete vessels, resulting in an over-all tonnage increase from 119,000 tons at beginning of plan to 143,000 tons.

Air Self-Defense Force:
Continuance of modernization program, goal of 1,030 aircraft at end of planning period. Acquisition of semi-automatic tactical air weapon system--i.e., base air defense ground environment (BADGE) system.

640601 4

manage the defense program tolerate only limited assistance from the professional soldier in formulating policy.

The military services are demoralized by an official attitude which they feel pays only lip service to the importance of defense forces and a popular attitude which remains generally cool to defense needs. As a result, the efficiency of the military establishment has suffered. According to some informed critics, the SDF is less concerned with fulfilling its primary mission of defending the homeland than it is with pay rates, retirement benefits, and personal gain.

The SDF relies on voluntary recruitment for a two-year term of service to fill its ranks, and laws allow recruits to

resign at any time. The generally low regard for the man in uniform reduces the quality of recruit, especially in the ground forces, and the turnover rate is a continuing problem. The SDF is currently 4 percent below its budgeted strength (see figure 3).

A surplus of candidates is available nevertheless for the Defense Academy and for officer candidates' schools. However, since Japan's institutions of higher learning today are overcrowded and competition for admission is keen, the surfeit of applicants for the service schools is possibly attributable more to the desire for an education than for a military career.

Those who do choose the SDF as a career are plagued by the uncertainty of serving in an unpopular force with a precarious legal position, and by the realization that constitutional bans on a military justice system make it difficult to maintain discipline in the ranks. There are, moreover, constitutional interpretations which preclude military conscription and certain weapons of modern warfare such as longer range rockets and missiles.

The Government's Attitude

Despite the drawbacks, the Japanese Government, while still relying primarily on American protection, has been slowly building up its defense forces for several years. The mainstay is the US-Japan Mutual Security Treaty of 1960, which provides maximum security at a minimum cost to Japan.

Japan is midway through its second five-year Long Range Defense Buildup Plan (1962-66) (see figure 2). Under this plan the country's absolute defense spending has steadily mounted (see figure 1), but the defense share of the government's total budget and of the gross national product (GNP) during a time of dynamic economic conditions has been easing off. The 1.1 percent of the estimated GNP allocated for defense in the current budget ranks well below that of European NATO countries, which by the most recent figures spent an average of 6 percent of GNP for defense in 1962. The smallest spender, Luxembourg, devoted an estimated 1.5 percent of the GNP to defense.

Nevertheless, the government of Prime Minister Hayato Ikeda appears to be taking an increasingly positive attitude toward defense. The revision of Article IX as part of a larger program of constitutional revision has been discussed tentatively. Elements of Ikeda's Liberal Democratic Party have offered a bill to elevate the Defense Agency to the status of a fully independent ministry.

Government leaders now are willing to associate themselves publicly with the military establishment. Ikeda for several years has taken the salute from the SDF at parades marking the establishment of the force and

in recent months has made speaking appearances before meetings of the senior SDF commanders. The Emperor, too, has become involved. In December 1962,he reviewed for the first time an SDF honor guard.

Popular Views Easing

There are also some signs that popular apathy or outright hostility toward the military may gradually be turning into an attitude of acceptance. In a recent public opinion poll a majority--52 percent--approved of Japan's maintaining the self-defense forces. In a similar poll five years ago only 39 percent approved.

The press too is beginning to devote space to serious presentation of military problems, including those dealing with nuclear weapons. Several years ago these same newspapers were the major mirrors of pacifism and neutralism, if not major contributors to such sentiments.

Interest in Japan's military exploits in the 1941-45 "Pacific War" is also growing, and war films and war songs are becoming popular. Sales of war toys and games are reviving. Veterans' organizations are experiencing a resurgence, and organizations of parents of men now in the SDF are being established.

Ikeda Treads Softly

Ikeda nevertheless sees ample evidence that Japan is not yet ready for any substantial or speedy remilitarization. The tentative moves toward constitutional revision have brought charges from the socialist opposition that the government is reverting to a pre-1945 style of militarism and is plotting with big business interests to undertake full-scale rearmament. The government's only major effort to "sell" the SDF has been in the area of public works and disaster relief. Indeed, the most welcome SDF elements are engineer units which are locally regarded as a source of heavy machinery and of manpower for public construction projects--to which unit commanders are instructed to provide maximum assistance.

A further reason for caution is the division of opinion within Ikeda's LDP. Some party members remain sharply opposed to any moves to bolster the defense establishment. In the face of this vocal minority, Ikeda has allowed the bill establishing a full-fledged defense ministry to fall to the end of the legislative calendar. This position almost certainly kills it for this year's session of the Diet. This tactic may cause trouble for Ikeda at the LDP convention next month if opposing faction leaders think sufficient mileage can be

generated from this issue to upset his bid for an unprecedented third term as party president.

Outlook

Ikeda thinks of Japan as one of the three pillars of the free world, along with Western Europe and the United States. If he could have it his way, he would probably move rapidly toward his military goals, and in so doing he would like to take advantage of the renewed sense of national self-confidence and independence inspired by the nation's spectacular economic revival. However, for this generation at least, popular revulsion to war will continue to deter any drastic revision of the present go-slow policy. (SECRET NO FOREIGN DISSEM)

* * *

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08107

OUTGOING TELEGRAM Department of State

INDICATE: ☐ COLLECT
☐ CHARGE TO

LIMITED OFFICIAL USE

59

Origin FE

ACTION: AmEmbassy TOKYO 3246 IMMEDIATE

JUN 12 4 30 PM '64

Info:
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Embtels 3694 and 3673

Request immediate response our question (Deptel 3121) whether PriMin Ikeda favors participating in trans-Pacific telephone call. Would also be helpful if Embassy would provide a suggested one-minute draft statement the President might use.

END

RUSK

Drafted by: FE:MGreen:ej 6/12/64

Telegraphic transmission and classification approved by: FE - Marshall Green

S/S - Mr. McKesson

Clearances:
White House - Mr. Komer (subs)
FE:EA - Mr. Ainsworth

LIMITED OFFICIAL USE

FORM 8-63 DS-322

OFFICIAL USE ONLY

June 12, 1964

MEMORANDUM FOR JACK VALENTI

We have to move into high gear on LBJ/Ikeda trans-Pacific phone call if we are to have everything buttoned up by 18 June. We understand that Ikeda is signed on. Following needs to be done.

I. Location. We must decide this right now and let AT&T know. Since LBJ will be in Washington, George Reedy and I urge Fish Room. It's big enough to have the guests needed and AT&T can proceed with installations without bothering President in his office.

II. Whom to Invite. I recommend: (a) FCC members; (b) Jap Ambassador--Japs request this; (c) President of AT&T and a few other executives; (d) senior official of Jap cable company--stationed in New York; (e) two vice-presidents of RCA, which owns a share of the cable; and (f) the press. These invitations should go out now since we only have six days. Attached is a master invitation letter.

III. The Program. The President need merely come over from the Mansion for the first five minutes or so at 10 p.m. He should be introduced (just the minimum few words such as "The President of the United States") by some White House staffer or the President of AT&T. I am having State prepare (we will redo) a one-minute statement for President, which will then be translated by a State interpreter (since one purpose is to get LBJ big coverage in Japan).

Then Ikeda will speak for a similar time to President, which will also be interpreted.

Second, Linda (who will be in Hawaii as guest of Governor Burns) would like to talk with the President briefly. President can then leave.

Then senior FCC Commissioner Hyde (Henry in Europe) will talk to Jap Communications Minister.

Fourth, AT&T Chairman Kappel will talk from London with Honolulu and Tokyo.

Finally, press will be allowed to speak to Tokyo on separate circuits to be available.

We need your earliest OK on these arrangements.

cc: McGB
Mr. Reedy

R. W. Komer

DRAFT LETTER TO INVITEES

Dear _____:

At the President's request I should like to invite you to participate in a brief ceremony inaugurating the first trans-Pacific telephone cable from the United States to Japan. The ceremony will take place at the White House at 10 p.m. on June 18, 1964.

The cable will be inaugurated by an exchange of messages between the President and Prime Minister Ikeda of Japan.

You are invited to be present in the Fish Room of the White House no later than 9:45 p.m. on June 18.

Sincerely,

74

Japan

INCOMING TELEGRAM *Department of State*

46

~~CONFIDENTIAL~~

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TO SECSTATE WASHDC
STATE GRNC
BT
~~C O N F I D E N T I A L~~ IMMEDIATE 3727 JUNE 13 DECLASSIFIED

JUNE 13, 1964
1:21 A.M.

I M M E D I A T E

Authority E.O. 11652 SEC. 5(A) and (D)
By LW, NARS, Date 8-6-75

REF EMBTEL 3722

FOLLOWING IS SUGGESTED DRAFT MESSAGE PRESIDENT JOHNSON TO PM IKEDA, JUNE 19 VIA NEW CABLE.

QTE: IT IS A GREAT PLEASURE TO BE ABLE TO TALK DIRECTLY WITH YOU, MR. PRIME MINISTER, THROUGH THIS NEW CABLE SPANNING THE PACIFIC OCEAN. OUR CONVERSATION TODAY MARKS ANOTHER MILESTONE IN THIS EXCITING AGE OF SCIENTIFIC AND TECHNICAL ACHIEVEMENT, IN WHICH THE PEOPLE OF OUR TWO NATIONS AND THE WHOLE WORLD ARE BEING BROUGHT INTO CLOSER CONTACT EACH DAY. IN THIS AGE, WHEN THE NEED FOR MUTUAL UNDERSTANDING HAS NEVER BEEN GREATER, WE ARE FINDING NEW MEANS OF ACHIEVING IT. IN THE CONSTRUCTION OF THIS CABLE, WE HAVE ANOTHER OUTSTANDING EXAMPLE OF THE BENEFITS OF TECHNICAL COOPERATION BETWEEN OUR TWO COUNTRIES.

THIS CABLE ADDS THE FIRST PHYSICAL LINK TO THE MANY INTANGIBLE BONDS THAT TIE OUR TWO NATIONS TOGETHER. IT IS DRAMATIC EVIDENCE THAT WE ARE BOTH NATIONS OF THE PACIFIC. THE OCEAN THAT LIES BETWEEN US -- ONCE SEEN AS A BARRIER -- NOW SERVES AS A BRIDGE. THE OPENING OF THIS CABLE WILL GREATLY INCREASE THE SPEED AND QUALITY OF TELEPHONIC COMMUNICATIONS BETWEEN THE UNITED STATES AND JAPAN AND WILL PROVIDE SUPERIOR TECHNICAL MEANS FOR CARRYING ON THE DIALOGUE SO IMPORTANT TO TWO OF THE MAJOR PARTNERS OF THE FREE WORLD.

I WANT TO TAKE THIS HISTORIC OCCASION TO EXTEND MY WARMEST GREETINGS TO YOU, MR. PRIME MINISTER, AND TO CONVEY THROUGH THIS NEW CABLE, THE FEELINGS OF GOODWILL AND FRIENDSHIP WHICH THE AMERICANS PEOPLE HOLD TOWARD THE PEOPLE OF JAPAN.

UNQUOTE

GP-4.

EMMERSON

NOTE: ADVANCE DELIVERY TO S/S-O JUNE 13, 1:30 A.M.
PASSED TO THE WHITE HOUSE JUNE 13, 1:40 A.M.

~~CONFIDENTIAL~~

3205
75

ADDRESS OFFICIAL COMMUNICATIONS TO
THE SECRETARY OF STATE
WASHINGTON 25, D. C.

DEPARTMENT OF STATE
WASHINGTON

S/S 8763

DECLASSIFIED
Authority E.O. 11652 SEC. 5(A) and (D)
By LW, NARS, Date 8-6-75

~~CONFIDENTIAL~~

June 15, 1964

MEMORANDUM FOR MR. McGEORGE BUNDY
THE WHITE HOUSE

Subject: Proposed Presidential Telephone Message to Japanese Prime Minister Ikeda

Enclosed, in accordance with Mr. Komer's telephone request of June 12 to Marshall Green, is a draft message proposed for the President's use in the projected trans-Pacific telephone conversation with Prime Minister Ikeda on June 18. It is adapted from Embassy Tokyo's telegram 3727 ~~3726~~ dated June 13, which was previously passed to the White House.

Benjamin H. Read
Executive Secretary

Attachment:

1. Proposed Presidential Telephone Message to Japanese Prime Minister Ikeda

GROUP 4
Downgraded at 3 year intervals; declassified after 12 years

~~CONFIDENTIAL~~

JUN 16 1964

75a

Proposed Presidential Telephone Message to
Japanese Prime Minister Ikeda

It's a great pleasure, Mr. Prime Minister, to be speaking to you directly this way even though we are thousands of miles apart. ~~We don't need a so-called "hot line" between our offices, but it's good to know that we have excellent communications.~~

We both, I am sure, clearly recall the days when the Pacific Ocean seemed a great distance separating our countries. ~~Even telephone communications used to be a hit-and-miss proposition.~~ All that is something of the past. As our countrymen have closer and closer ties with yours, there is an imperative need for these new rapid and effective means of communications. A great many people in Japan and the United States will be talking together in this way. I am sure that this will help us know and understand each other better, and strengthen still further the excellent relations between our countries.

(x) → Mr. Prime Minister,

I want to take this pleasant and historic occasion to extend to you, to your family and to all your countrymen my warmest regards, and to convey the feelings of friendship which the American people hold for the people of Japan.

Personal for [illegible]

R In fact,
I look on this cable as another ~~link~~ the many bonds which link our two great nations together. The ocean that lies between us -- once seen as a barrier -- now serves as a bridge. Our conversation today also marks another milestone in this exciting age of scientific and technical achievement which is ~~increasingly~~ bringing ever closer together the peoples of the world. It is especially fitting that ~~the~~ this cable should bring closer together two major Free World partners which share among them great responsibilities and great hopes for peace and progress in the world.

76 10508

OUTGOING TELEGRAM Department of State

INDICATE: ☐ COLLECT
☐ CHARGE TO

~~CONFIDENTIAL~~

DECLASSIFIED
Authority E.O. 11652 SEC. 5(A) and (B)
By LW, NARS, Date 8-6-75

57

Origin FE

ACTION: Amembassy TOKYO PRIORITY 3289

Jun 16 8 00 PM '64

Info: SS PR P USIA NSC OC

Tokyo's 3784

VERBATIM TEXT

Following is text Presidential message for transpacific cable ceremony: QUOTE. It's a great pleasure, Mr. Prime Minister, to be speaking to you directly this way even though we are thousands of miles apart. We both, I am sure, clearly recall the days when the Pacific Ocean seemed a great distance separating our countries. All that is something of the past. As our countrymen have closer and closer ties with yours, there is an imperative need for a rapid and effective means of communication.

A great many people in Japan and the US will be talking together in this way. I am sure that this will help us know and understand each other better, and strengthen still further the excellent relations between our countries.

In fact, I look on this cable as another of the many bonds which link our two great nations together. The ocean that lies between us -- once seen as a barrier -- now serves as a bridge. Our conversation today also marks another milestone in this exciting age of scientific and technical achievement which is bringing ever closer the people of

Drafted by: E:EA/J:TWAinsworth:~~XXXXXXXX~~pmg 6/16/64

Telegraphic transmission and classification approved by: FE - Marshall Green WG

Clearances:
EA - ~~Mr. Feer~~ Mr. Christensen
S/S
White House - Mr. Komer (in draft)

~~CONFIDENTIAL~~

FORM 8-63 DS-322

CONFIDENTIAL

the world. It is especially fitting that this cable should bring closer together two major free world partners which share great responsibilities and great hopes for peace and progress in the world.

Mr. Prime Minister, I want to take this pleasant and historic occasion to extend to you, to your family and to all your countrymen my warmest regards and to convey the feeling of friendship which the American people hold for the people of Japan. END QUOTE.

GP-4

END.

RUSK

Japan

RELEASE AT 11 A.M. EDT JUNE 17, 1964

OFFICE OF THE WHITE HOUSE PRESS SECRETARY

THE WHITE HOUSE

The President will exchange greetings with Premier Hayato Ikeda of Japan Thursday night at 10 p.m. in ceremonies opening the first telephone cable between the United States and Japan.

The ceremonies will be held in the Fish Room of the White House, beginning at 9:45 p.m. with a short briefing. Following the President's telephone exchange with Premier Ikeda other American officials will converse with their counterparts in Tokyo.

# # #

10653

78

OUTGOING TELEGRAM Department of State

INDICATE: ☐ COLLECT
☐ CHARGE TO

~~CONFIDENTIAL~~

33

Origin FE

ACTION: Amembassy TOKYO IMMEDIATE 3301

DECLASSIFIED

Jun 17 12 09 PM '64

Info:

Authority E.O. 11652 SEC. 5(A) and (D)
By LW, NARS, Date 8-6-75

Deptel 3289

SS
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Correcting reftel, text of Presidential message for transpacific cable ceremony not yet cleared by White House and still subject to change. If text shown GOJ, this should be made clear.

GP-4.

END

RUSK

Drafted by:	Telegraphic transmission and
FE:EA:RAFearey/pmh 6/17/64	classification approved by: EA ~~FE~~ - ~~Mr. Green~~ R.A. Fearey

Clearances:

White House - Mr. Komer (substance)

S/S - Mr. McKesson

~~CONFIDENTIAL~~

FORM 8-63 DS-322

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OUTGOING TELEGRAM Department of State

INDICATE: ☐ COLLECT
☐ CHARGE TO

53

LIMITED OFFICIAL USE

Origin SS Info:

ACTION: AmEmbassy TOKYO 3320 IMMEDIATE

Jun 17 10 37 PM '64

LIMDIS

Latest draft of proposed Presidential statement for inaugural ceremony follows. It has not yet been cleared with the President but it is unlikely to be greatly altered. Therefore you may pass it to the GOJ for info with the above caveat. We will probably not be able to send final changes if any.

QUOTE

Mr. Prime Minister:

This is an historic and happy occasion. The new cable between our countries is another welcome step toward transforming the Pacific from a barrier to a bridge between Asia and America.

I am sure better communications will mean even better understanding between our peoples.

We are proud this symbol of the strong bonds of friendship

Drafted by: 6/17/64
Text recd from WH;Mr. Komer

Telegraphic transmission and classification approved by: S/S - Don Christensen

Clearances:

LIMITED OFFICIAL USE

FORM 8-63 DS-322

between the United States and Japan is being placed in service this year when the Olympic games focus the eyes of the world on your country and your capital city.

May I take this opportunity to express to you and your countrymen the sympathy and concern of my countrymen for the suffering and sorrow inflicted by the earthquakes this week.

We are proud to work with your country in the labors of the Free World, Mr. Prime Minister--and it is my pleasure to talk with you in this way tonight. UNQUOTE

END

RUSK