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JAPAN AND THE AWAKENING DRAGON

A Case Study of Japan's
Current View of Communist China

by

Maurice J. Mountain

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Introduction

Napoleon is reported to have once said of China, "Let the dragon sleep. For when it awakes it will shake the world." Whether China is destined, as Napoleon prophesied, to shake the world may still be in question, but there can be little doubt that the dragon, since the Communists came to power in 1949, has awakened and is beginning to breathe fire at the world around it.

How this potentially fearsome creature will use its growing might is a matter of major concern to the United States at the present time. It is a concern, however, which does not appear to be shared by many other free-world countries, and among these the most important, from the standpoint of the United States, is Japan. The attitude of Japan is crucial for a number of reasons. Because of its strategic position adjacent to the Asian mainland, the military bases which Japan provides under the U. S.-Japanese Security Treaty figure prominently in U. S. defense plans. Moreover, Japan is the only free-world country in Asia which, at least in theory, could develop sufficient independent military strength to counter-balance that of Communist China. Conversely, as

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the paramount economic power of the Far East, the extent to which Japan may cooperate with the Communist Chinese could determine the success of the communist experiment in China and the further spread of communism in Asia.^{1/}

For these reasons, it would be well for the United States to know and understand, as far as possible, Japan's current views of Communist China. To determine what these are is the purpose of this paper.

Assumptions and Method

Two basic assumptions underlie this study. The first is that a nation's policies are designed to protect its interests against such threats to those interests as it perceives. The second is that a nation's actions provide more reliable clues to its policies than its words. If these assumptions are valid, then it follows that a nation's assessment of the threat it faces must be implicit in its policies, and these, in turn, can best be determined by an examination of the actions it has taken.

Accordingly, the method followed in this study is, first, to set forth some basic facts about Japan and its fundamental interests; then, against this background, to examine Japan's actions in three fields of

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policy--military, economic and diplomatic--in relation to Communist China; and, finally, to determine what kind of a Communist China fits the picture which emerges.

The material for this study was gathered in the course of a three-week trip, from February 24, 1966 to March 18, 1966, to the Far East, which included visits to Tokyo, Fukuoka, Taipei, Quemoy, Hong Kong, Singapore, Bangkok and Djakarta. While the study relies chiefly on documentary sources, it is also based on information obtained through interviews with U. S. officials, both in Washington and at each of the overseas posts visited, as well as on talks with Japanese government officials, business executives, newspaper editors and university people.

Some Basic Facts

Japan is an island nation, crowded with nearly 100 million people, short of arable land and lacking many of the natural resources necessary to its highly-developed industrial economy. It is, therefore, a trading nation whose very life-blood is its large and varied maritime commerce. Its greatest asset is its energetic, disciplined, skilled, literate and culturally homogeneous people.

Certain historical experiences have left deep marks upon these people. After centuries of isolation, they emerged upon the

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international scene and through prodigious efforts transformed their feudal nation in the space of little more than 75 years into one of the major powers of the world. Then, following the seizure of the reins of government by a group of professional military officers, they were propelled into a disastrous war in whose final stages they became the first, and up to the present time the only people in the world to experience an attack with nuclear weapons. The war ended in 1945 in total defeat and the military occupation of Japan by forces of the United States. Yet in the 20 years which have elapsed since the end of the war, the Japanese, by the same astonishing industry, discipline and adaptability which characterized their emergence from isolation 100 years earlier but this time aided substantially by generous American help, have created out of the ashes of ruin a new and democratic Japan which appears to be flourishing today as never before in its history.

Fundamental National Interests

Given the foregoing basic facts and historical experiences, Japan's fundamental national interests today are not hard to discern. To maintain and further promote her current prosperity, Japan's basic military interest must be security against aggression

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from abroad and disorder at home while, at the same time, avoiding any possibility of creating a military establishment which could dictate government policies. Her fundamental economic interest must be to protect and expand her overseas trade. Her basic diplomatic goal must be to enhance her international influence, partly as a matter of national pride, but more importantly to promote peace, particularly in Asia, and to insure continued friendly relations with her major trading partners.

It is in terms of these basic interests that Japan's policies--military, economic and diplomatic--need to be examined for such light as they can shed on her current view of Communist China.

Military Policies

Japan today is militarily a weak nation. A comparison of her present armed forces with those she possessed on the eve of Pearl Harbor points up this fact. In 1941, Japan had a 3 million man army; a formidable air force; and the third most powerful navy in the world, a navy whose combat fleet included 11 capital ships, 18 heavy cruisers, 130 destroyers, 73 submarines and 10 aircraft carriers. Today Japan's authorized military strength consists of a 170,000 man Ground Self-Defense Force, a 40,000 man Air Self-

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Defense Force, and a Maritime Self-Defense Force whose principal ships are 29 destroyers or destroyer escorts, 7 submarines and 77 amphibious craft. ^{2/}

Although Japan's present forces are small and lacking in logistic back-up and reserves, they are nevertheless well-trained and equipped with modern weapons, and even in their present state are capable of maintaining internal security and of defending the home islands against air, sea or ground attack for a limited period. ^{3/}

From the standpoint of Japanese military policy, the government has not so far seen fit to provide sufficient funds to enable the defense forces to build up to more than 87% of their fully authorized strength. Japan's defense budget is now about \$850 million, which represents 8% of the total national budget and about 1.3% of GNP. The United States, which provided Japan with more than \$1 billion in military assistance during the period 1950 to 1965, has long urged Japan to increase its defense expenditures. But while there has been some absolute increase over the years, the proportion of Japan's GNP expended on defense has remained relatively constant while the share of the national budget allocated to defense has actually been declining. ^{4/} Most interesting is the fact that this picture has shown no appreciable change since the explosion by Communist China of nuclear devices in 1964 and 1965. The question is, why not?

The question is, why not?

One answer is that no particular change is called for. To be faced with a possible nuclear threat is nothing new for the Japanese. They have been living under a Soviet nuclear threat for more than a decade, and it is a vastly greater one than anything the Communist Chinese can now pose. Against the Soviet threat they have had, and still have the protection of the U. S. nuclear umbrella. If they can count on that umbrella to guard them against the Soviet Union, whose nuclear retaliatory power the United States must necessarily respect, can they not place even more reliance on it to protect them from a Communist China whose nuclear power cannot be applied against the continental United States in any meaningful way?

But while this may be one answer, there is another possible one. It is clearly Japanese policy to rely upon the power of the U. S. nuclear deterrent. Yet it is also Japanese policy to continue to prohibit the introduction into Japan of U. S. nuclear weapons even though the deterrent value of the U. S. nuclear arsenal might be increased thereby. The most common explanation for this anomaly is that the Japanese, as a result of their wartime experience, have set their faces against nuclear weapons, against nuclear proliferation and against nuclear testing, and to permit the introduction of nuclear weapons into Japan, even for their own defense, would be inconsistent

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with their basic beliefs. This is quite true. Yet it is equally true, again as a result of wartime experiences, that they also set their faces against the possession of any military forces whatever to the extent that Article 9 of their constitution provides that "land, sea, and air forces as well as other war potential, will never be maintained." Nevertheless, they today are maintaining an Army, Navy and Air Force even though, by calling them Self-Defense Forces, they can pretend otherwise. It can, of course, be argued that Japan's constitution was promulgated in 1947 during the U. S. occupation and at a time when a completely disarmed Japan was a goal of U. S. policy. But against this it can be pointed out that Japan has been a sovereign nation since 1952 and has been free to modify this particular provision of its constitution if it saw fit. What this suggests is that, where the national interests of Japan are involved, practical considerations rather than logical consistency are likely to provide a more reliable basis for explaining her policies.

In the case of her steadfast position against the introduction of nuclear weapons, a meaningful explanation in terms of practical considerations would be that since Japan is extremely vulnerable to nuclear attack, she recognizes that she must do everything possible to avoid drawing the fire of those who have such weapons. Even

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though she continues to rely for her protection on U. S. nuclear power, her best chance of escaping devastation in a nuclear war involving the United States is simply to have no U. S. nuclear weapons on her soil and to be thereby an unprofitable target for either a first or second strike by an enemy of the United States.

This reasoning may be especially applicable to Communist China's nuclear capabilities. That the Japanese see the Chinese in a different light from the Soviets is clear. The Russians have been Japan's historic enemy; the Chinese have not. The Soviet arsenal of missiles is designed to counter not only U. S. power but also to deal with the military situation in Europe; by contrast the Chinese nuclear weapons development seems to have little relevance to the military situation in Asia and to be a response specifically to U. S. power. In any case, the Japanese cannot fail to recognize that the Soviet Union can attack the United States directly in its homeland, whereas the Chinese cannot. Thus whatever fears Japan has of Chinese nuclear weapons may be more related to the U. S. presence in Japan than to hostility on the part of China towards Japan itself. For lacking the ability to strike the American continent, China could lash out, if the U. S. sufficiently provokes it, at American positions in the Far East, and such action could include strikes against military bases in Japan.

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How Japan might view the situation if the U. S. had no bases on her territory cannot, of course, be inferred from any of her present actions, but it is possible to speculate that she might not be unduly worried even then about a Chinese nuclear attack. The industrial might of Japan has great potential value for Communist China, and as long as the Chinese have any hope that this economic power may one day be brought either wholly or in part to serve their purposes it would appear to make little sense for them to destroy it. ^{5/}

The deployments of Japan's Self-Defense Forces provide some further clues regarding Japan's assessment of the extent to which Communist China poses a military threat. While Japan's air defenses show some concentration around major centers of population, which is to be expected, there is nothing in their present pattern to suggest that they are geared to an attack from China. In point of fact, many of them are located along the east coast of Japan where they would be most serviceable in defending against an attack from aircraft carriers, a weapons system which the Chinese do not possess. In addition, of Japan's 13 ground divisions, 4 of them, or 30% of Japan's total ground strength, are stationed in the northernmost home island, Hokkaido, nearest to Soviet-held Sakhalin and the Soviet Maritime Provinces. By contrast, only 2 divisions, or

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17% of the total ground strength, have been placed on the island of Kyushu, nearest to China. While it is reasonable to suppose that administrative considerations, such as the availability of serviceable barracks and maneuver areas in Hokkaido, have something to do with this pattern of deployment, it is also reasonable to suppose that, to the extent that Japan is at all concerned with possible military incursions, these troop dispositions reflect a greater concern with the Soviets than with the Communist Chinese.

Both geography and order-of-battle figures support such a conclusion. For example, Sakhalin is separated from northern Hokkaido by only 50 miles of water. The Soviet Maritime Provinces are approximately 200 miles away. In this area the Soviets have stationed sizeable air and sea forces which are capable of mounting an attack against Japan, including the landing of ground forces. On the other hand, the nearest point of the Chinese mainland is some 500 miles distant from Kyushu and, although the Chinese have overwhelming ground forces, they have neither the sea nor airlift necessary to transport any considerable number of troops, nor do they have the air and seapower to provide support for an invasion of Japan.

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One other possible reason for Japan's seemingly relaxed attitude toward Communist China is Korea. Only 100 miles distant, this peninsula traditionally has been regarded by the Japanese as a "dagger pointed at the heart of Japan." As long as this area is not in hostile hands, Japan can count on a buffer between itself and any power, whether Chinese or Russian, which would seek to attack across this land bridge from the Asian mainland. Today a militarily powerful South Korea, backed by the United States, stands guard against any communist expansion southward into this area.

In this connection, mention should be made of the ratification in December 1965 of the Japanese-Republic of Korea Peace Treaty. This was the culmination of 14 years of negotiations and included the largest reparations payment, some \$800 million, by Japan to any of her former enemies. In view of the limited economic opportunities which Korea offers Japan, this action on Japan's part may have more military than economic significance.

In all of the foregoing there is little to indicate that Japan views the Communist Chinese as a military threat. In fact, their actions suggest that they are less worried by China than they are by the Soviets with the one possible exception of a fear that some U. S. action might goad the Chinese into a nuclear attack against U. S. bases in Japan.

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It is worth noting, however, that Japan's defense policies, like so many other aspects of Japanese conduct, have a quality of flexibility about them. For example, under Japan's present 5-year build-up program for her Self-Defense Forces, which involves modernization of equipment more than increase in size, a shift will be made to greater Japanese defense production.^{7/}

Having created a modern industrial plant over the past several years, Japan already has the infrastructure for extensive defense production. At the present time, both her aircraft and shipbuilding industries are producing combat planes and fighting ships, and there is no question that they could be geared up to rapidly rearm Japan if such a decision were to be made. It is perhaps not without significance that Japan is also making important efforts in defense research, particularly in the field of rocketry. Moreover, many of her present weapons and many of those she intends to acquire are "dual capable", a fact which has led the Director General of the Defense Agency to undertake a public information campaign to assure the Japanese people that the acquisition of such weapons is not the forerunner of Japan's obtaining its own nuclear capability but rather is the result of an inherent characteristic of modern weapons.^{8/} In addition to these developments, it can be pointed out

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that Japan has invested considerable sums of money in atomic research, and if she should one day wish to become a nuclear power the foundation for such a capability is already in place. Whether Japan will at some time in the future seek to rearm on a large scale and to have its own nuclear weapons may be in doubt, but the important point is that Japan's military policies to date have clearly left these options open to her and in a way that seems to be above the level of chance.

Economic Policies

The basic object of Japanese trade is to obtain imports. Although public attention in Japan is usually focussed on the need to expand exports, these are not ends in themselves, but rather the means by which to pay for imports. As pointed out earlier, Japan is lacking in many of the resources her industrial economy requires. She needs raw materials, fuels and foodstuffs to the extent that these constitute about 75% of her imports. All of her cotton, wool, natural rubber, bauxite, phosphate rock, nickel and abaca, more than 90% of her crude petroleum, tin ore, sugar and iron ore, and about 50% of her soybean, wheat and salt come from abroad.

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In recent years, Japan has been making intense efforts to expand her exports. While her chronic need for commodity imports would ordinarily explain the drive behind these efforts, it is not sufficient to explain the almost frenzied searching for new and larger markets everywhere and anywhere which appears to characterize Japanese trade policies today.

An additional motivating factor appears when the trade deficit which Japan has had in all but one of the last 15 years is examined. This deficit has been caused, in large part, by the heavy investments Japan has been making throughout this period in new plant and equipment and in modernizing her productive capacity. These capital investments have begun to show results, particularly in such areas as shipbuilding, where Japan now leads the world, and in steel production, where Japan ranks third. However, Japan is now in danger of having excess plant capacity. ^{10/} This, in itself, might not be a critical matter if this plant capacity were paid for. But the fact is that it is not, and it is this situation which gives the special quality to the current drive for exports, for they are needed not only to pay for current commodity imports but also to pay for 15 years of capital imports already received.

At this point, the nature of Japan's financial structure comes into sharp focus. There is no doubt that the growth of Japan's economy

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over the past 15 years has been little short of miraculous, but the underlying truth is that it has all been accomplished on borrowed money. Indeed, the whole economy runs on credit in a way that is somewhat scary to orthodox Western economists. For example, Japan's business firms, on the average, are capitalized with no more than 20% of equity money, the rest being made up of loans. Japan's debt service alone on foreign money amounts to something like \$500 million per year. In addition, her trade is financed by foreign money, most of it U. S., to the extent of \$1.7 billion in short-term import usance credits. Under this arrangement, Japan does not have to use her own foreign exchange to finance her trade, but it means that her foreign exchange reserves are placed in some jeopardy every time there is an upward movement of U. S. interest rates. How crucial this risk is can be seen in the fact that the amount of short-term money she has outstanding almost equals her total of \$1.9 billion in foreign exchange reserves. ^{11/} Given these circumstances, expansion of Japan's exports in every possible market is perhaps more vital than ever before.

Against this background, it is entirely understandable that Communist China would look like a good market to Japan. There are some 700 million Chinese on the mainland, and they need almost every

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kind of item that Japan can produce. Moreover, memories of the past must enter the picture, for in the period 1934-36 China was the market for 25% of Japan's exports and supplied 14% of its imports.

Since Japan regained its status as a sovereign nation in 1952, it has been trying to increase its trade with mainland China, and it has succeeded in doing so to a significant degree. While this trade amounted to only \$15 million in 1953, today it may be as high as \$500 million. Communist China is now Japan's fifth best customer for exports, and it ranks eighth among the countries from which Japan draws its imports. Among free world countries, Japan is the third largest trading partner of Communist China. Major Japanese exports to China are fertilizer, general machinery, iron and steel, artificial fiber and fabric. Principal Communist Chinese exports to Japan are pig iron, soy beans, maize, fish and, in 1965, rice.^{12/}

Although Japan has used a number of devices to avoid recognition of Communist China, even by implication, there is no doubt that the Japanese government is behind this growing trade and supports it. For example, official sanction has been given to the exchange of trade missions and to the initiation of trade fairs in each country. Business groups, such as the iron and steel industry, have sent delegations to China to explore trade possibilities and a number of "private" trade

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agreements have been reached. Given the interlocking nature of government, business, and the banks in Japan, it is virtually impossible for such activities to have been carried on without the cooperation of the government. The most formal arrangement of this kind was the negotiation in 1962 of a five-year "private" trade pact known as the Liao-Takasaki agreement, which called for the exchange of some \$100 million worth of goods annually and the setting up in each capital of a trade liaison office.^{13/} The Japanese negotiator was a Mr. Tatsunosuke Takasaki, a former head of Japan's Ministry of International Trade and Industry. In 1964 slightly more than one-third of Japan's trade with Communist China was conducted under this arrangement.^{14/} The remainder of Japan's trade with Communist China is carried out on the basis of individual deals by what the Chinese call "friendly firms".

For the most part, Japan's trade with Communist China is based on barter and does not involve foreign exchange. Moreover, it appears to be kept fairly closely in balance from year to year.

In spite of the theoretically endless market China seems to present, the Japanese are gradually discovering that it has serious limitations. Not only is China short of foreign exchange, but it also seems unable to generate surpluses of goods of interest to Japan.

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In addition, many of the commodities China can offer, such as pig iron, can be obtained by Japan more cheaply elsewhere. What Japan is finding out is that the economy of China, at least as it is currently being managed, is not capable of supporting a large increase in trade. Added to this is a growing recognition in Japan that it is not trade in which the Communists are interested but rather self-sufficiency and that such transactions as the purchase of a Japanese vinylon plant, for example, are not harbingers of expanding commerce but an effort on the part of the Chinese to reduce their dependence on outside sources of supply.

From the Japanese viewpoint, China's economy could benefit substantially by the introduction of Japanese industrial know-how and managerial skills, and Japan is in a position to export them. At this point, however, political considerations enter from the Communist side. The Chinese are extremely cautious about the admission of Japanese technicians, and those that are accepted are insulated as far as possible from the local population and their tours are kept to a minimum length. In addition, any proposal by the Japanese that they might be willing to invest in plants in China provided they can manage them is coldly received.

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The picture which thus emerges is of a Japan anxious to increase its trade with Communist China, but finding, in terms of economic realities, that the market is not as large as was hoped and that unless the Chinese economy improves on its own there is little Japan can do about it until the Communists change their political outlook sufficiently to permit the introduction of Japanese entrepreneurial skills and management into China.

Diplomatic Policies

Japan regained its sovereignty when the San Francisco Peace Treaty came into effect in 1952. Since then the broad outlines of its diplomatic policies have become reasonably clear. Basically, they are aimed at wiping out the memory of its role in World War II and gaining acceptance of Japan as a peaceful nation dedicated to maintaining friendly relations and promoting mutually advantageous trade with all countries.

In pursuit of these aims Japan very early arranged for, and has now largely completed, reparations payments totalling about \$1 billion to Burma, Indonesia, the Philippines and Vietnam. In addition, as has been mentioned earlier, she has reached a settlement, involving some \$800 million, with the Republic of Korea. She has given

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unwavering support to the United Nations and has taken consistent public positions against nuclear testing and the spread of nuclear weapons.

With regard to the communist world, Japan has extended diplomatic recognition to all countries with the exception of Communist China, East Germany, North Vietnam, North Korea and Albania. It is interesting to note in the case of four of these exceptions, that while Japan trades with them, diplomatic recognition would be politically offensive to countries with whom Japan has a greater volume of trade. Leaving out the United States, with whom Japan conducts about one third of her total trade, in the case of Communist China there is the Taiwan government; for North Korea there is South Korea; for North Vietnam there is South Vietnam; and for East Germany there is West Germany.

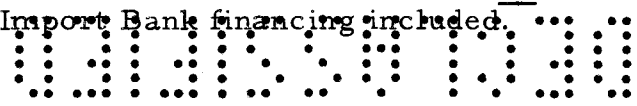
In trading with countries which it has not so far recognized, Japan constantly finds itself in diplomatic trouble. Nowhere is this more true than in her dealings with Communist China, for the Taiwan government has shown itself particularly sensitive to any Japanese move which even implies that the mainland government has any claim to legitimacy. For example, when a member of a Communist Chinese delegation defected in Tokyo in 1963 and the Japanese eventually shipped

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him back to the mainland, there were demonstrations in Taipei which included an attack upon the Japanese Embassy there. Shortly thereafter Japan dispatched Mr. Yoshida, a former prime minister, to Taipei to smooth things over and to assure the Nationalist government that not only would Japan not recognize the Communist regime, but it would not extend government financing to any trade with mainland China. It is characteristic of Japanese diplomacy that this pledge was made by Mr. Yoshida as a private citizen and in the form of a letter which has never been made public. It is also characteristic of their diplomacy that when the government was questioned later about the validity of this pledge, the government's position was that the terms of the Yoshida letter were not considered binding, but that the government shared its philosophy for the time being.

When Japan negotiated the sale of a \$20 million vinylon plant to Communist China in 1964 there were more protests from Taiwan, but the sale nevertheless went through. However, when the proposal for the sale of a second plant was made in early 1965 and this time with financing by Japan's Export-Import Bank, Taiwan exerted sufficient pressure to cause the proposal to be dropped. Moreover, very shortly thereafter Japan agreed to loan the Taiwan government \$150 million in yen credits at the rate of some \$30 million per year

with Export-Import Bank financing included.



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But the diplomatic troubles Japan has experienced with Taiwan in connection with trade with the mainland have not been nearly so great as those she has been faced with by the Communist Chinese themselves. In May of 1958 a young Japanese dragged down and tore to pieces a Communist Chinese flag which had been flying over a building in Nagasaki where a Chinese exhibit was on display. Probably fearing to imply recognition of the Communist regime, the Japanese charged him only with destroying property. The Communist response was immediate. The Chinese foreign minister not only launched a violent denunciation of the Japanese government but unilaterally abrogated a \$100 million trade agreement which had just been negotiated with the Japanese iron and steel industry and ordered all other trade arrangements made along similar lines to be cancelled at once. From that point until the signing of the Liao-Takasaki agreement in 1962 trade with China 17/ virtually ceased.

While there have since been suspicions that the real reason for this abrupt Chinese action, which occurred about the time of the Great Leap Forward, was that the Chinese had found they could not meet their end of the 1958 trade agreement, the shock to the Japanese business community was one from which they have not yet recovered.

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The constant introduction of political factors into what the

Japanese prefer to regard as simple business matters is a continuing source of annoyance and embarrassment to Japan. For example, in November 1965, a group representing the Japanese fishing industry went to Peking to negotiate an annual agreement governing the size of certain fish catches, the mesh of nets to be used, and similar technical matters. Before the Chinese would enter into any discussions whatever, they insisted that the Japanese delegation sign a statement for publication condemning the ROK-Japanese Peace Treaty and U. S. aggression in Vietnam.

In connection with the proposed sale of the second vinylon plant in 1965, there is some doubt as to whether the Chinese sought financing by the Japanese Export-Import Bank because they could not purchase the plant without such financing or because they felt such involvement of the Japanese government in the agreement would be a step towards diplomatic recognition.

An interesting, but significant sidelight on Japan's diplomatic policies towards Communist China is the fact that although the Chinese deal quite summarily with the Japanese and often make vituperative public attacks on the Japanese government, the Japanese do not reply in kind except in one particular respect. When Chinese trade

delegations are scheduled to come to Japan the Japanese government carefully screens the personnel involved and refuses admission to individuals it considers may be political trouble-makers. The noteworthy fact is that the government publicly announces this intention which is all the more remarkable because it takes no such action with Soviet or other Communist country representatives. ^{18/} One reason for this selectivity is the fact that the Japanese Communist Party is probably the most pro-Chinese Communist Party outside of China itself, but this also implies that the Japanese government considers Communist China a threat in at least one respect--political subversion--and they are not going to let diplomatic niceties stand in the way of dealing with it promptly.

To cope with these recurring difficulties, the Japanese have developed a simple but ingenious diplomatic device. They have announced to one and all that they conduct their trade on the basis of a "separation of economics from politics." ^{19/} By adopting such a position they are able to fend off critics of their actions in both camps. To the Taiwan government, which tends to see in every transaction with the Communist Chinese a move toward diplomatic recognition, Japan can point out that their relations with the mainland are purely economic in nature and have no political implications. To

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the Communists who invariably attempt to inject political considerations into trade arrangements, the Japanese can point to their policy of handling such matters separately.

That the Japanese actually believe such a separation is possible is doubtful. It is much more likely that they believe economics and politics are not only closely interrelated but that economics must come first. In this resides the essence of their difficulties with Communist China, if not with Taiwan, for in the former regime, at least, not only are politics and economics inseparable, but politics comes first.

The admission of Communist China to the United Nations is something which, under the present circumstances, Japan cannot openly favor, but there is little doubt that she would welcome it. Not only would it get her off the awkward spot she is now in between Peiping and Taipei, but she may have some hope that once Communist China is released from her present political isolation she will come to adopt, as does Japan, the principle that where political doctrine and economic advantage are in conflict a sensible government knows that business interests must have precedence.

Conclusions

To summarize, Japan's policies--military, economic and diplomatic--appear to imply the following beliefs about Communist China:

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1. Japan does not regard Communist China as a military threat unless a Sino-U. S. war should occur. 2. While she sees a great potential export market in China, she is becoming aware that no great increase in trade is in prospect unless there is marked improvement in China's economic productivity. 3. She is also becoming aware that the political limits on Japanese trade with China are being set by the Communists and not by the free world. 4. In this connection Japan appears to believe that a China less isolated from the rest of the world might become more reasonable on matters of trade and that one step to accomplish this would be to have China in the United Nations.

As to the future, the method used in this paper does not lend itself to predictions, dealing as it does with an analysis of only what has happened so far. However, Japan's fundamental interests and needs are chronic in nature and are not likely to change much in the next several years. Her policies toward China, therefore, are likely to change only as China herself changes or the world picture changes. If this is the case, one could guess that Japan's trade with China will expand probably in direct proportion as the general state of the Chinese economy improves. If the Communists ever reach the point where they take a more relaxed attitude on political matters, there is a good chance that Japanese investment in enterprises on the mainland will follow.

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In the meanwhile, Japan will continue to watch with great

interest the movements of the Chinese dragon as it gathers its strength.

But unless there is some startling change in the dragon's behavior it is

likely to be an interest which contains more elements of hope than of

fear.

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- 19. On October 18, 1963, Prime Minister Ikeda in a statement to the Diet made the following comment, "Our trade with Communist countries is steadily growing. With mainland China, normal private trade has developed since last year, but this is based strictly on the principle of separation of economics from politics. In no way does this mean a change in our normal diplomatic relations with the National Republic of China, for it is our desire to further cement the relations between our two countries."

BIBLIOGRAPHIC NOTE

In view of the nature of this study, which is based almost entirely on records of trade, of defense spending, of Japanese reparations payments, financial statistics, and recorded agreements, and used published works primarily as sources for such facts rather than for their interpretative judgments, a bibliography of key books on Japan would be inappropriate and is, therefore, not included.