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Intelligence Report

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POSITION OF SELECTED COUNTRIES AND GROUPS ON
ECONOMIC WARFARE MEASURES: ATTITUDES AND
POLICIES OF JAPAN TOWARD TRADING WITH THE
SOVIET BLOC

I. BACKGROUND

1. Present Controls

Present Japanese governmental controls of trade with the Soviet Bloc were set up on the initiative and under the guidance of the Supreme Commander of the Allied Powers (SCAP) and were administered by the US Occupation authorities in Japan almost to the day that Japan attained sovereignty. In accordance with overall US policy Japanese exports to the Bloc were placed under controls in the latter part of 1949 and early in 1950. These controls were tightened further upon the outbreak of the Korean hostilities in June 1950, and after entry of the Chinese Communists into the Korean hostilities in December 1950 and in January 1951. On December 6, 1951, the Japanese Government, then still under control of the SCAP, banned those exports to China, North Korea, Hong Kong and Macao of all raw materials, semi-processed and manufactured goods which were subject to licensing controls in Japan. Shipments of controlled goods to Hong Kong were made contingent upon receipt of certification from the Hong Kong Government that such goods were for essential use in Hong Kong and not for transshipment to other areas. Goods landed in Japan for transshipment were also made subject to export licensing.

During the period since January 1951, the list of commodities subject to licensing controls has been further expanded and now includes virtually all commodities except the following major categories: food-stuffs other than staples, raw silk and silk fabrics, woolen fabrics, paper products, certain light machinery, bicycles, and a few other minor items.

The export controls developed prior to Japan's attainment of full sovereignty on April 28, 1952, are still substantially in force at present both in law and in practice. The level of controls and the

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resulting restriction on trade with the Soviet Bloc are more stringent than those of any other country with the exception of the United States and Canada. They are stricter than those of COCOM.

2. Japan's Prewar and Present Trade with Mainland China

While Japanese trade with the Soviet Union¹ and Eastern Europe has always been relatively insignificant, trade with mainland China (including Manchuria) was of primary importance to Japan, particularly during the years before and during World War II. In 1941, for instance mainland China (including Manchuria) supplied about 17 percent of Japan's total imports and took about 27 percent of its total exports. More than half of Japan's total coal imports, about a quarter of its iron ore imports, and three-quarters of its soybean imports and a large share of its salt imports in 1941 were from mainland China.

Sino-Japanese trade during the post-war period fell below prewar and wartime levels, in part, because Japan's economy and especially its foreign trade recovered only gradually from wartime disruption, and in part because internal strife and conflict prevented the development of China's trade. In addition Japan's loss of investments in China and the repatriation of Japanese nationals from China deprived Japan of important markets and trading contacts in China. However, Japan's trade with China improved from 1946 to 1950. Nevertheless, by 1950, Japan's exports to the Soviet Bloc, almost all of which went to mainland China, were only 2.5 percent of the total value of exports. Japanese imports from the Bloc, again almost exclusively from China, in 1950, constituted 4.6 percent of all imports. In 1951 only about 1 percent of total Japanese trade was with the Soviet Bloc — less than 1 percent of exports and 1.6 percent of imports.

II. JAPAN'S INTERESTS IN CHINA TRADE

Japanese interest in expanded trade with China reflects both political and economic drives, which stem from the basic objective of reestablishing Japan's power position in the Far East. Politically, the broad desire for continental trade may be considered a facet of the process of feeling out independent courses of action befitting the pragmatic political and economic interests of Japan as a sovereign state — a desire which in the case of China, is buttressed by a conviction that Japan cannot remain isolated from its Asian neighbors with which its

1. The present territory of the USSR includes South Sakhalin which was an important source of coal, wood pulp and lumber for Japan when it was part of the Japanese Empire.

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relations in the past were so important.

On the economic side, pressures, in Japan for trade with China are based on Japan's postwar balance-of-payments difficulties and its need to recover the prewar volume of trade. At present, Japan's exports in real terms are only about 1/3, and imports slightly less than one-half those of prewar.

Coal, iron ore, manganese ore, soybeans and many other items which Japan must now in part import against dollars, could formerly be obtained from China on a non-dollar basis. Although Japan is now receiving a portion of its iron ore and coal requirements from non-dollar areas such as Malaya, India, Goa etc., the supplies particularly of coking coal, which are at present available from these areas, are insufficient to meet Japan's requirements. Development projects designed to increase the availability of such supplies in non-dollar areas close to Japan, principally South and Southeast Asia, are as yet largely in the planning stage. Japan has taken initial steps to increase output of iron ore and coal in India and Goa but the magnitudes made available so far have been small. Eventually, South and Southeast Asia may become a much more significant source of industrial raw materials from Japan, but for at least the next 5-10 years, Japan will have no alternative to trade with the Chinese mainland except for reliance on dollar-sources of supply. Since before and during the war mainland China supplied the bulk of such supplies, denial of trade with China would appear to perpetuate Japan's dollar deficit problem.

The availability of China's raw materials, in particular iron ore and coking coal, is of significance to Japan's cost of production of iron and steel and manufactured metal products -- important items in Japan's export trade. Since Japan must at present import these raw materials from more distant areas than China -- primarily the US, Canada, India, Malaya, the Philippines -- the difference in freight cost is of importance in determining raw material cost differentials, particularly in a period of rising raw material prices. It cannot be demonstrated, however, that the present high level of prices of Japanese iron and steel exports which is above the world-market level can be solely or even primarily attributed to the inaccessibility of Chinese raw materials. It is strongly influenced by other factors such as the technical inadequacies of Japanese steel production, and apparent insistence on exceptionally large profit margins.

The loss of Chinese markets for exports is also of concern to Japan. Historically, China has been one of Japan's principal customers of textiles, manufactured goods, machinery and equipment and an important

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field for Japanese capital investments. The full economic recovery of Japan depends heavily on the possibilities of developing export markets for Japanese manufactured goods. The mainland market of mainland China is therefore of great practical significance and has considerable attraction for Japanese businessmen in their plans to increase exports.

On the international market, Japan is engaged in a competitive struggle with the major producing nations of America and Western Europe. Given the limitations of the dollar markets, this competitive struggle for other markets will concentrate on Asian countries. Thus Japan is concerned with maintaining a competitive position in trade with China, and desires that its exports to China be subject to no more restrictive provisions than the exports of the UK and Western European countries, Japan's competitors in that market.

The estimate of Japanese businessmen as to the benefits which could at present be derived from trade with mainland China are probably much overestimated. In fact, mainland China could at present not furnish some of the commodities such as raw cotton and soybeans which Japan would like to import. It is doubtful that Japan could trade on as favorable terms with the Communist regime in China as was possible when Japan was in political control of the area. China has increased its own textile production to a level that would probably prevent Japanese exports of textiles from rising to even the approximate levels that now are assumed possible by many Japanese exporters. Recent indications are that China would, however, be likely to insist on imports of Japanese iron and steel, non-ferrous metals and metal products, transportation and communications equipment, and similar items almost all of which are high on the present prohibited export lists.

While increased China trade, on balance, would somewhat improve Japan's competitive position on the world market, would ease Japan's balance-of-payments problems and would stimulate industrial expansion in Japan, it is not essential to continued economic growth so long as Japan retains its present large dollar income from the US, is able gradually to expand its trade with sterling areas, and particularly with South and Southeast Asia. Hesitancy on the part of many Japanese as to continuance of current high levels of dollar income, and as to the rate of development and the potential magnitude of trade with other areas, however, has aided further pressure in favor of increased China trade.

III. JAPANESE ATTITUDES ON TRADE CONTROLS

1. The Government

In its public statements, the Japanese government has in general

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supported the trade control policy now in force. It has on occasion expressed its skepticism as to the reality of developing a significant volume of trade with the Chinese Communist regime. It has treated recent trade tenders by the Soviet Union in the same vein.

However, though the Japanese Government is publicly committed to present levels of controls, it has also, as a matter of assertion of its own sovereignty and desire for equal treatment, indicated its desire to "adjust" trade control levels downwards. This may (in part be the result of strong internal pressures among "distressed industries" for new export outlets, and in part a reaction to the stigma of SCAP sponsorship which adheres to the present trade controls. At present, the request for such an adjustment covers a few non-strategic items only: paper products, wool-knit gloves, dyestuffs and textile machinery. For the duration of active hostilities in Korea, Japan will probably not seek a further substantial relaxation of trade controls. But with the cessation of UN action in Korea, Japan may be expected to insist on levels of control no more stringent than those exercised by other major powers. Japan's desire for membership in the COCOM is a clear indication of the direction in which the Japanese government is likely to move.

The present conservative Japanese Government views its alignment with the US as the cornerstone of its foreign policy. It is therefore not likely to jeopardize this relationship, or to take the risk of incurring a serious deterioration of US public attitudes vis-a-vis Japan by requesting any drastic reduction of trade controls with the Soviet Bloc.

The Japanese Government, furthermore, is fully aware of the security and economic benefits, actual and potential, of close relations with the US. Assurances of US economic assistance, either based on Japan's future balance-of-payments requirements or on its security needs, are a basic objective of the policies of the present government. The need for such economic assistance is not infrequently stated in terms of an alternative to trade with the Soviet Bloc, especially China. Any benefits derived from such trade would, in the opinion of the Japanese Government, fall far short of the advantages of the potential economic aid which Japan may need, and hopes to obtain from the US when special procurement of the UN forces in Korea ceases.

The attitudes of the Japanese Government probably reflect to some degree a general lack of security consciousness among the Japanese public. There exists in Japan an old and ingrained distrust of Russia and a fear of potential Communist aggression. But though Communist China is viewed as a member of the Soviet Bloc, it is considered to be a less important

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and therefore less dangerous partner in this bloc than the USSR. The accuracy of the US assessment of Communist Chinese aggressive intentions in relation to Japan, and the rest of Asia, is frequently doubted. There is, on the other hand, considerable confidence among the Japanese that they would be able to deal with Communist China on a business basis without jeopardizing their own interests and that they could trade successfully with China.

On balance, the present position of the Japanese government supports trade controls vis-a-vis the Soviet Bloc as a condition for its continued alignment with the US and as a contribution to UN action in relation to China. But such controls are not necessarily viewed as measures to protect Japan's own security by denying to the Soviet Bloc strategic materials which might enhance its economic potential for war.

Thus Japan is anxious to demonstrate its solidarity with the US and the Free World, and may therefore be expected to lend continued support to selective controls, interpreting them as much as possible on a permissive basis. However, Japan would most likely not support a further increase of controls over present levels, unless at least the members of COCOM would adopt more stringent controls on an equal basis. Regard for US public opinion and for the effect on potential US economic aid will dictate caution in any attempt of the Japanese Government in relaxing present control levels. But the present objective of the Japanese Government is unmistakably a downward adjustment of controls to the COCOM levels.

2. Pressures of Japanese Business and Political Groups for Increased China Trade

The interest in increased trade with the Soviet Bloc is strong among many leading Japanese business groups and is supported by many metropolitan papers. Several business organizations have recently been reported to have made concrete offers to Communist Chinese trade representatives in an effort to resume barter trade. Others indicated their intention to press for "indirect" trade via Hong Kong. Many leading manufacturers reportedly lend close support to these moves.

Among the most articulate groups demanding resumption of trade with China are the textile manufacturers and exporters of the Osaka area -- formerly the center of Sino-Japanese trade. But pressure for increased trade in fact is not restricted to any one particular interest group. As difficulties in export markets or in obtaining raw material imports arise, any distressed business group may join in the demand for lowering of trade controls as a remedy for its particular problems.

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Aside from business interests, support for an increase in trade relations with the Chinese mainland has come from politically diverse groups in Japan, although there exist wide divergencies among them as to the extent and timing of such an increase. In the main, too, trade relations are merely part of a much wider interest (shared by both rightists and leftists, although for different reasons) in expanding Japan's role in Asia. Representatives of all major opposition political parties have gone on record in favor of increased trade with the mainland -- a position only partially motivated by a desire to try to embarrass the government party. However, on the part of the conservative Progressive Party and the right-wing Socialist Party, the call for trade relations with China has usually been cast in highly generalised terms, on the basis of hope for the future. The lowering of trade controls is implied rather than specifically proposed and some recognition is paid to the dangers and difficulties of trade with the Chinese Communists. On the other hand, left-wing Socialists have come close to the Communist position, in calling for more immediate and fuller resumption of trade relations as a part and parcel of the establishment of closer political relations with the Soviet Bloc, and in particular with Communist China.

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