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General Summary
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PROBABLE DEVELOPMENTS IN JAPAN
THROUGH 1957

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The following intelligence organizations participated in the preparation of this estimate: The Central Intelligence Agency and the intelligence organizations of the Departments of State, the Army, the Navy, the Air Force, and The Joint Staff.

Concurred in by the

INTELLIGENCE ADVISORY COMMITTEE

on 10 August 1954. Concurring were the Special Assistant, Intelligence, Department of State; the Assistant Chief of Staff, G-2, Department of the Army; the Director of Naval Intelligence; the Director of Intelligence, USAF; the Deputy Director for Intelligence, The Joint Staff. The Director of Intelligence, AEC, and the Assistant to the Director, Federal Bureau of Investigation, abstained, the subject being outside of their jurisdiction.

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PROBABLE DEVELOPMENTS IN JAPAN THROUGH 1957

THE PROBLEM

To analyze the factors determining Japan's present strength, stability, and orientation, and to assess probable developments in Japan through 1957, with particular respect to Japan's future role in Asia.

CONCLUSIONS

1. Through 1957, Japan will not be in a position to play a leading or stabilizing role in Asian affairs. Assuming a continuation of US assistance, however, we believe that Japan will slowly gain in strength.
2. Japan will almost certainly continue to be economically and militarily dependent on the US. It will therefore continue to avoid any action that might seriously jeopardize its alignment with the US, in spite of numerous frictions arising out of its condition of dependence.
3. Within these limitations, Japan will attempt to pursue a more independent foreign policy, notably in terms of establishing more active and extensive economic and political relations with Communist China and the USSR. There will probably be some growth in neutralist sentiment, an increasing spirit of nationalism, and a continuing critical appraisal of US policy.
4. Japan's economic situation will continue to be precarious. Import requirements will remain high and even with the probable increase in trade with Communist China, exports will not be expanded sufficiently to avoid continuing balance of payments difficulties. Therefore, Japan will remain dependent on a continued high level of US expenditures and other financial assistance.
5. Moderate conservative elements will probably continue to dominate Japanese government and politics, although factional rivalry among the conservative elements will probably hamper governmental effectiveness. Conservative tenure is likely to be assisted by further increases in the powers of the central government.
6. Although the Japanese Communist Party is not likely to gain substantial parliamentary strength, it will continue to exercise an important influence through its ability to aggravate popular grievances and to exploit and infiltrate mass organizations of the non-Communist left. The Communists will probably be able to maintain their underground organization but not to increase significantly their potentialities for sabotage and subversion.

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7. Assuming US military assistance, the Japanese Government will continue to re-arm gradually during this period. By the end of the period, we believe Japan will have military forces capable of making a substantial contribution to its de-

fense, but by no means adequate to assume full responsibility therefor. Japan will be reluctant to accept military commitments beyond the immediate defense of Japanese territory and will hesitate to join any regional defense system.

DISCUSSION

I. JAPAN'S PRESENT POSITION AND ORIENTATION IN ASIA

8. Two years after regaining its independence and nine years after the close of World War II, Japan has not yet begun to play an active role in world affairs. The Japanese domestic scene has been marked by indecision and a lack of general purpose, and only recently has Japan begun to face up to its basic problems. Japan is not competing effectively in international markets, the volume of its trade is still considerably below prewar levels, and its balance of payments deficit has risen sharply during the past year. Japan continues to be almost totally dependent on the US for its security and for its economic solvency.

9. For a variety of reasons, the nearly 90 million Japanese have felt impotent and in large measure unable to determine Japan's future. As a consequence of defeat in 1945 and during seven years of occupation, Japanese traditional institutions were severely dislocated. The Japanese have suffered a loss of self-confidence and initiative and the nation has faced a precarious economic situation. The persistence of cold war tensions has further deprived Japan of opportunities to act with certainty and independence in world affairs. Japan has been deprived of a secure market and source of raw materials on the mainland of Asia, and the rise of a strong Communist China has greatly lessened the opportunity for Japan to become again a dominant power in the Far East. Confronted with strong military power on the Asian mainland, with the threat of an East-West conflict, and with the further development of nuclear weapons, the Japanese are mortally afraid of involvement in general

war. Moreover, the presence of a Communist regime in North Korea and gains in Communist power in Indochina have created a further sense of uncertainty and disquietude among the Japanese who look to future developments concerning Asia with apprehension as to the effects they will have on Japan. In these circumstances the Japanese have not exercised fully their capabilities, apparently preferring to rely on the US to support and protect Japan.

10. Japan still possesses certain of its prewar assets: the most highly developed industrial base in the Far East, a large skilled labor force, an energetic and disciplined population, and the potential to recreate a military machine. However, Japan's leaders recognize that the achievement of a position of strength and influence in Asia and as a world power will be at best a gradual process. At present, the principal domestic and foreign policy concerns of Japan's leaders are the revival of a strong sense of national purpose under the leadership of an effective and stable central government, the recovery of Japan's economic position with emphasis on the expansion of commercial relations with Asia, and the creation of a modest defense establishment in cooperation with the US. In large measure, effective Japanese support for Western policies depends on the degree to which these policies are considered to support Japanese national interests.

11. The Japanese public generally supports a Western alignment, and, with the exception of the Communists and Left Socialists, few Japanese leaders presently favor a policy of strict neutrality or of alliance with the Communist bloc. The main basis for this orienta-

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tion is that Japan at present sees no reasonable alternative that would serve its national interest. In addition, there is strong antipathy to Communism and distrust of the Communist bloc in conservative and Right Socialist circles and among the general public. The Japanese Government considers the Sino-Soviet Pact of 1950 and the failure of the Communist powers to recognize the San Francisco Treaty to be major obstacles to closer relations with the Communist bloc.

12. At the same time, there are indications of a slowly growing spirit of independence in the conduct of Japanese national and foreign affairs. The government is evidencing an increased tendency to bargain more vigorously with the US. There are indications of a lack of confidence in US policies in the Far East. Numerous groups in Japan, both official and unofficial, are now urging that the country modify its close US alignment which tends to cut Japan off from the Asia mainland, in their view Japan's proper area of activity and influence. Thus, Japan in mid-1954 is aligned with the US, yet restive; aware of Communist ambitions in Asia, yet eager to expand its economic relations with Communist China and the USSR.

II. POLITICAL AND SOCIAL SITUATION

13. Conservative forces continue to dominate Japanese society and politics. Traditional patterns of social and political authority are accepted and observed by a large majority of the people. Traditional symbols of national unity, including those of racial and cultural uniqueness, retain a fair measure of their prewar appeal. The Imperial institution remains a stabilizing symbol despite its loss of direct political authority.

14. Despite the strength of conservative and traditional forces, however, postwar Japan has not exhibited the same cohesion in its social and political life that was evident in the prewar period. This condition has been caused in part by the strengthening of such political forces as organized labor, Socialism, and Communism, the eclipse of such groups as the military and the ultranationalists, and the in-

creased appeal of individualism. These postwar changes in Japanese political life have contributed to the caution with which Japanese governments have dealt with vital issues such as rearmament, domestic economic policy, international commitments, and the creation of effective national controls to deal with subversive organizations.

15. Conservative forces in Japan have sought to weaken those new social and political movements which they regard as major obstacles to strong and consistent governmental action. To this end the conservatives have tried with considerable success to adjust many of the reforms of the occupation to traditional Japanese forms and practices. Japanese governments in the next few years are likely to turn increasingly to traditional institutions and practices in an effort to achieve greater stability and effectiveness of government. This trend will almost certainly be strengthened by the reviving spirit of nationalism and by the increasing influence of military leaders.

16. Under the new constitution the role of elective institutions, and particularly of the National Diet, was strengthened. The ability of organized groups and public opinion to influence government policy through the medium of political parties was substantially increased. At the same time, certain traditionally powerful groups, notably the military and court cliques, were reduced to positions of negligible influence. The bureaucracy and financial and business interests have retained positions of substantial political power and currently exercise a major influence through both parliamentary and extra-parliamentary channels. However, on some issues public opinion, aroused by the press, has exercised considerable influence on government policy.

17. *Conservative forces.* With the exception of one brief period, Japan has been governed since the end of the war by conservative forces. The conservative parties draw their main strength from business and industry and from the conservative-minded farmers in rural districts. At present, the conservative parties hold roughly two-thirds of the seats in both houses of the Diet.

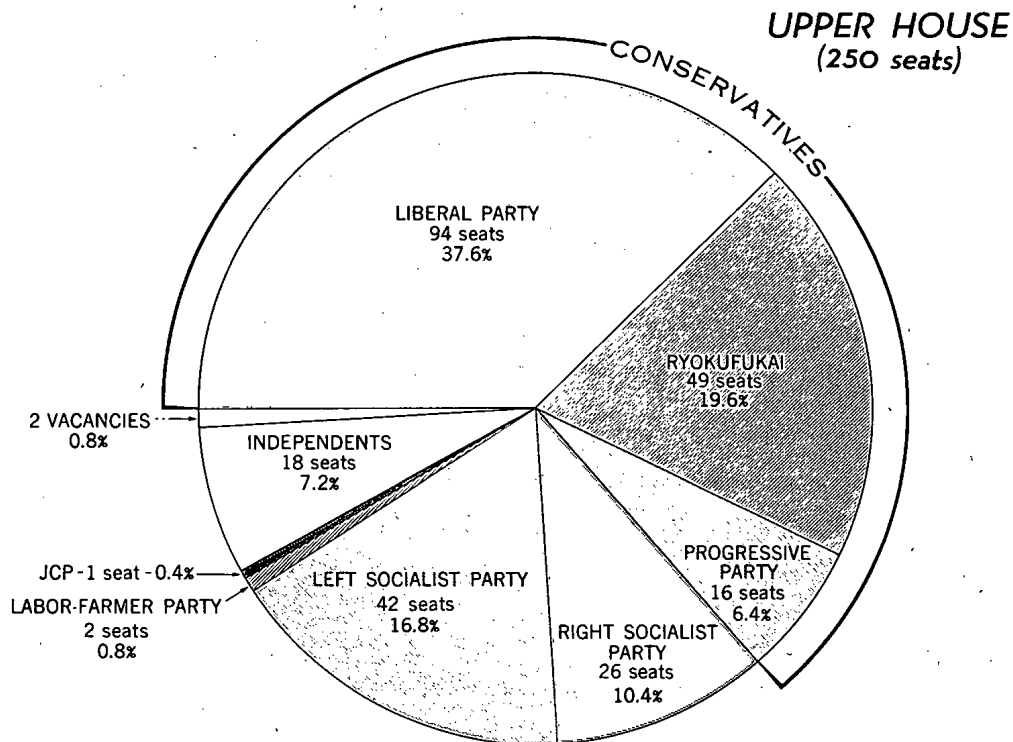
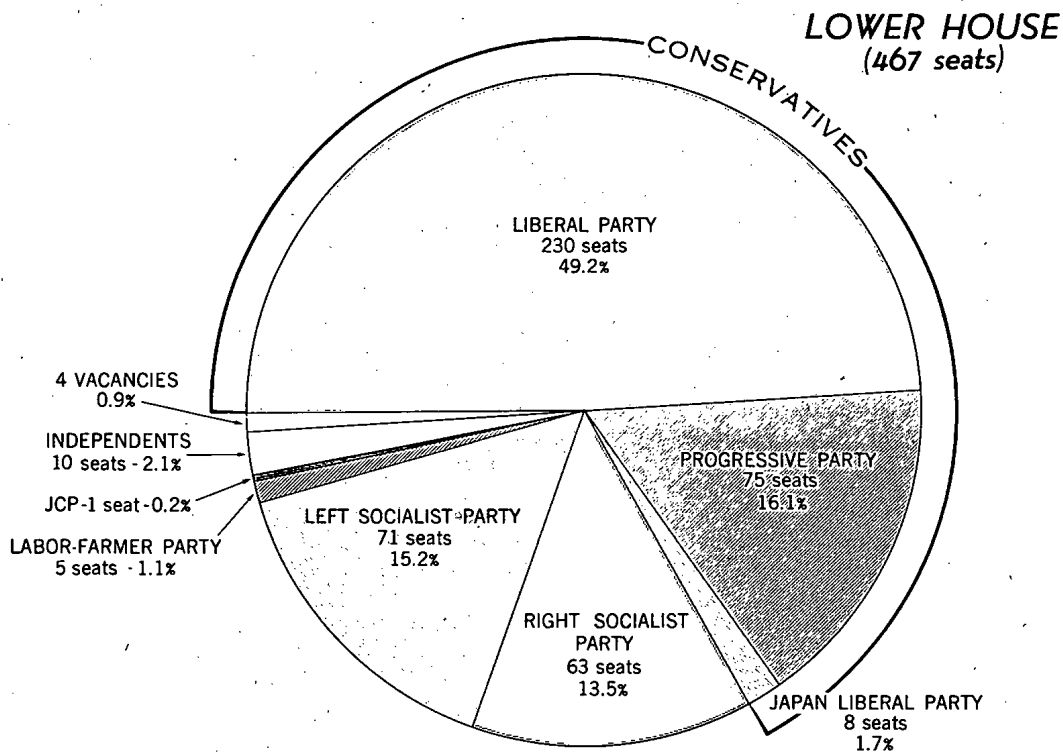
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JAPAN

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As of 1 July 1954



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18. The present government of Prime Minister Yoshida is organized by the largest party in the conservative group, the Liberal Party. The Liberals do not have a majority, however, and they must seek the cooperation of the two opposition conservative parties in the Lower House, the Progressives and the splinter Japan Liberal Party. In the House of Councillors, the Liberals are generally supported by the Progressives and the Ryokufukai (Green Breeze Society), a loosely organized group of conservative-minded independent members. In both houses, government legislation is subject to modification as the price extracted by these conservative opposition parties for their cooperation. The fact that the conservatives are split into factions, largely the result of personal rivalries among their leaders, has diminished the effectiveness of postwar Japanese governments.

RESULTS OF ELECTIONS FOR THE LOWER HOUSE, 1949, 1952, AND 1953

	PERCENTAGE OF SEATS			PERCENTAGE OF TOTAL POPULAR VOTE		
	1949	1952	1953	1949	1952	1953
Conservative parties	76.8	69.7	66.5	65.4	66.2	65.7
Socialist parties	10.3	23.8	29.6	13.6	21.4	26.5
Communist party	7.5	...	0.2	9.6	2.5	1.9
Other	5.4	6.5	3.7	11.4	9.9	5.9

19. As a group, the conservatives favor: an economic program that conforms to the needs of the major business and industrial interests, policies designed to prevent the rise of subversive influences either on the right or the left, and a foreign policy that calls for alignment with the Western bloc at the same time that it seeks opportunities to permit Japan to exercise a more independent role in world affairs. In dealing with Japan's many domestic and foreign problems, the conservatives will tend increasingly to restore traditional forms and practices and to centralize the political and economic powers of the national government. To insure continuation of conservative control and to achieve more effective

government, the majority of the Liberals and Progressives will probably merge to form a single conservative party, or at a minimum, to cooperate in a coalition government. Yoshida will probably be replaced during the period of this estimate, but his successor is not obvious at this time. The outlook is for conservative governments backed by majorities in the Diet but still hampered by political rivalries. The military, and, to a lesser extent, the court circles will probably regain a measure of their traditional influence.

20. *The Socialist Parties and Organized Labor.* The Socialist movement in postwar Japan has derived its strength chiefly from its close identification with organized labor, small entrepreneurs, intellectuals, youth, and women. Though there have been separate Right and Left Socialist parties since October 1951, they share a common constituency. The Socialists rely more heavily than do the conservative parties upon the urban electorate, although there has been a slight increase in the proportion of Socialist seats drawn from rural constituencies.

21. The Right and Left Socialist parties derive more popular support from their opposition to the domestic and foreign policies of the Yoshida government than from their own programs. The Left Socialists oppose the existence of Japanese armed forces and advocate a rigorously neutral position in foreign affairs. The Right Socialists, on the other hand, are prepared to countenance a more limited rearmament program than that advocated by the government, and favor some form of collective security through the UN, rather than unilateral reliance on the US. The two Socialist parties generally have achieved unity of action within the Diet and, together with the conservative opposition, have been successful in amending or preventing the passage of a number of important bills submitted by the Government.

22. The chief source of organized support for the Socialist movement is the Japanese trade union movement. Organized labor, whose present membership is about 5,850,000, is one of the principal forces in Japanese political

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life. Its leaders regard the achievement of labor's political objectives to be as important as the economic. Despite certain differences, the political and foreign policy views of organized labor have demonstrated a significant degree of uniformity and generally conform to the views of the Socialist parties, though neither party has been able to translate the membership of organized labor into assured blocs of electoral support.

23. The principal union federation, *Sohyo* (Japan General Council of Labor Unions), has about 2.75 million members or almost one-half of organized labor in Japan. Though it has generally been identified with the Left Socialist party, *Sohyo* under the leadership of its secretary-general, Takano Minoru, has for more than a year tended to pursue pro-Communist policies. The other major labor federations are *Sodomei* (the Japanese Federation of Trade Unions), and *Zenro* (the All-Japan Congress of Trade Unions) — 680,000 total membership — which have generally been associated with the Right Socialists.

24. A number of factors have thus far limited the strength of the Socialist movement. It is divided into left and right wings which compete for political power and control over organized labor, and differ over rearmament and foreign policy. In particular, they differ over the question of cooperation with the Communists. The organized labor movement has been adversely affected by the recent stiffening in the attitudes of government and management toward organized labor, and by schism growing out of the Communist activities and influence in the trade union movement. These developments may weaken the organized support of the Socialist parties. Despite the pressures for a reunification of the Socialist parties which would be generated by a conservative merger, chronic factionalism probably will continue to retard such a development. Similarly, such factionalism probably will continue to limit the over-all influence of Socialism and organized labor, although during the period of this estimate these two groups will probably retain sufficient strength to act as a brake on the government's increased conservatism.

25. *Communism*. Despite setbacks since 1952, the Japanese Communist Party¹ remains an important political force. The Communists have had considerable success in heightening existing popular grievances, whatever their origin, and have had some success in infiltrating non-Communist organizations and institutions. Communist sympathizers and possibly party members hold a few of the leading positions in the extremist faction of the Left Socialist party, and the Communists have considerable influence among the leaders of *Sohyo* and some of its major affiliates, including the influential Japan Teachers Union. The greatest Communist threat probably lies in its substantial capability for exploiting labor unrest. Despite increasing emphasis on overt activities, the party has retained its underground organization with a capability for conducting espionage which is considerable at low levels, and sporadic sabotage and terrorist operations against both Japanese and US targets. It has continued to emphasize the development of paramilitary forces, although it has apparently made little progress in this respect. There is also some evidence of Communist infiltration in the bureaucracy and the security agencies.

26. However, Communist strength in Japan is not great enough at present to seriously disturb the country's stability or alter its orientation. The Communist party has not recovered the substantial loss of popular support which it suffered as a result primarily of its violent activities in the spring of 1952. The party's thinly disguised character as an instrument of international Communist policy

¹ The total overt and covert party membership is estimated at between 80-85,000 persons. In addition, between 100,000 to 250,000 persons are believed to be nonmember sympathizers who actively participate in Communist-sponsored movements. There are an estimated 500,000 to 650,000 additional "leftists" who may be classed as "passive" sympathizers through their occasional participation in pro-Communist movements. In addition, there are an estimated 80,000 active and 350,000 passive supporters among the Korean minority. These figures total roughly 1,000,000-1,400,000. The Communist popular vote at the last Diet election (1953) was 653,000.

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makes its announced objectives suspect to the Japanese. Efforts to develop popular support through legal political activities are hindered by exposures of the party's covert program of subversion and violence. The fact that almost all the party's top leaders remain underground has hindered the overt activities of the Communist party. There are indications that the party continues to be troubled by internal dissension. The party is also confronted by increasingly effective police and other government control measures. The Communists exert little direct influence on the major Japanese newspapers or radio broadcasting media. They are unable to exercise a direct and continuing influence on the policies of either Socialist party. Although 7-10 percent of union membership is composed of Communists or Communist sympathizers, the degree of Communist party control in organized labor is far short of that achieved in the immediate postwar period.

27. The Japanese Communist Party will remain an important political force in Japan because of its ability to exploit popular grievances, the capabilities of its covert apparatus, and its influence in certain leftist, labor, and intellectual circles. Moreover, the party's efforts to alienate the Japanese from their government and its policies of alignment with the US will be reinforced by Communist bloc pressures and inducements aimed at Japan. However, the Communist party itself will continue to have only a small popular following and to have negligible parliamentary representation. The Communists will probably be able to maintain their underground organization but not to increase significantly their present covert capabilities. The Japanese Communists will almost certainly not be able to subvert or overthrow the Japanese Government during the period of this estimate.

28. *Ultrationalist forces.* The point of view of the ultrationalists often coincides with that of the Communists. They share an anticapitalist bias, a contempt for parliamentary government and established political procedures, and a desire to establish a totalitarian state. Like the Communists most ultrationalists seek to heighten anti-Ameri-

canism, but unlike the Communists they envisage a strong power position for Japan in Asia, independent of both the US and the Communist bloc.

29. Extreme rightist groups have become increasingly active in recent months, but ultranationalism continues to be hampered by the absence of a number of its prewar sources of strength. It lacks the strong military forces that once supported and protected it, the Imperial institution has been weakened, and ultranationalism can no longer depend on an official mythology to which all Japanese were once required to subscribe. Extreme rightist groups are capable of carrying out scattered acts of violence, but they do not at present pose a serious subversive threat, nor does ultranationalism as yet play more than a minor role in Japanese society.

30. As time goes on, however, the gradual reappearance of traditional institutions and values, and a probable modest increase in the size and the influence of the Japanese military establishment, will give the extreme right somewhat more respectability than it presently enjoys. Moreover, although ultranationalist groups will probably not play a major and direct role in Japanese politics during the next few years, these groups will be able increasingly to exert pressure on the moderate conservative majority.

III. JAPANESE ECONOMIC SITUATION

31. Despite basic maladjustments, the Japanese economy has demonstrated a considerable capacity for recovery and growth during the postwar period, and at present presents a picture of considerable prosperity. Japanese national income of US \$16 billion in calendar year 1953 exceeded that of calendar year 1952 by about 12 percent in real terms and that of prewar (1934-1936) by about 34 percent. Japanese industries are generally producing at levels not far below the all-time output records achieved during World War II. Production of foodstuffs has increased over prewar by an estimated 15 percent. Japanese per capita consumption of food and textiles in 1953 was substantially above 1952 and slightly above the prewar average of

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1934-1936. However, this postwar recovery and present prosperity have been largely achieved as a result of US expenditures which have enabled Japan to avoid facing up to its basic economic problems.

TABLE I

INDUSTRIAL PRODUCTION			
Indexes (1934-1936=100)			
	Peak Year	1950	1953
<i>Total</i>	179 (1944)	84	153
Mining	147 (1943)	97	122
Manufacturing	182 (1944)	82	157
<i>Durable Goods</i>	320 (1944)	110	209
Lumber	168 (1953)	120	168
Ceramics	177 (1939)	98	155
Metals	243 (1943)	97	183
Machinery	463 (1944)	126	266
<i>Non-Durable Goods</i>	129 (1953)	67	129
Food	135 (1953)	84	135
Textiles	114 (1937)	41	76
Printing	115 (1937)	45	107
Chemicals	216 (1953)	103	216
Rubber & Leather	172 (1953)	114	172

32. Japan's basic economic problem is that of supporting a rapidly growing population despite an extreme shortage of domestic natural resources. The maintenance of an adequate standard of living, the continued high rate of investment, and defense requirements have made necessary a high level of imports throughout Japan's modern history. Before 1945, Japan sought to cope with its trade problem by forcing the pace of industrial development and by overseas expansion designed to secure markets and sources of raw materials. Defeat and occupation closed this avenue of approach, disrupted Japan's empire trade pattern, and disorganized the domestic economic system. Thus, the Japanese were confronted with the task of reorganizing their internal economic system simultaneously with the more basic problems involved in developing a new pattern of external trade. In the postwar period, Japan has not been able to expand output from its domestic re-

sources sufficiently to reduce its continued high import requirements, nor has it found a way to expand its exports to a level that would ensure self-support. This problem has been further aggravated in recent years by the failure to divert available resources from consumption into the investment needed to modernize its industrial plant and thus improve its international competitive position.

33. Only 15 percent of the land in Japan, which approximates California in area, is arable. The country is now inhabited by 88 million people and it is estimated that by 1970 the population will reach 100 million. As a result of a severe and growing population pressure, Japan has become increasingly dependent on a large and uninterrupted flow of imported foodstuffs and fibers. Although agricultural output has increased some 15 percent over the prewar level, at present some 20 percent of food requirements must be imported. A second principal result of the population growth has been an increase in underemployment as evidenced by the prevalence of part-time work and a surplus of workers on the farm.

34. Japanese industry has operated at high cost during and since the Korean War as compared to that of other industrial countries. Although Japan has excess capacity in its manufacturing plants, much of the equipment is obsolescent and in poor condition. In the first half of 1953 labor productivity in industry generally was only about two percent higher than in 1935. In certain industries, such as coal mining, it was still considerably below prewar levels. In most other industrialized countries, such as the US, Sweden, the UK, and Canada, the prewar level of labor productivity had been exceeded by 20-40 percent by 1951. In addition, the Japanese have not effectively standardized the quality of their product. As a result of these difficulties, Japan's ability to compete in international markets has been impaired, and many important Japanese products would have been noncompetitive in world markets had it not been for inflated international price levels resulting from world-wide shortages during the period of the Korean War and immediately thereafter.

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35. In addition to its other difficulties, the events of the postwar period have forced the Japanese to alter radically their pattern of trade. Japan has become more dependent than before the war upon the Western hemisphere as a source of imports and as a market for exports. In the postwar period the US has been the most important single source of imports, as well as the largest market for Japan. Korea, Taiwan, and mainland China accounted for 42 percent of Japan's total exports in 1936 but only about 14 percent in 1953; mainland China by itself accounted for 18 percent of all Japanese exports in 1936 but only about 0.4 percent in 1953. This shift has been an important factor in Japan's balance of payments difficulties, largely because expansion of trade with North America has been limited both by trade restrictions and similarity of products offered for sale, i.e., textiles and manufactured industrial goods. To compensate for the loss of traditional markets, the Japanese have made some efforts to develop South and Southeast Asia as a major trading area. In 1953 about 21 percent of Japan's total imports and about 30 percent of total exports were accounted for in South and Southeast Asian trade as compared with roughly 17 percent in 1936 for both exports and imports. In real terms, however, trade with South and Southeast Asia was no larger in 1953 than in the prewar period.

TABLE II

JAPAN'S TRADE PATTERN BY AREAS, 1936 AND 1950-1953			
Exports	1936	1950	1953
	(as percentage of total)		
Asia	64.	46.	51.
North & Central America	18.	26.	23.
Others	18.	28.	26.
<u>Total</u>	<u>100.</u>	<u>100.</u>	<u>100.</u>
Imports	1936	1950	1953
Asia	53.	32.	33.
North & Central America	26.	49.	43.
Others	21.	19.	24.
<u>Total</u>	<u>100.</u>	<u>100.</u>	<u>100.</u>

36. The full impact of this situation became apparent as the international market soft-

ened in mid-1951 and Japan's high export prices discouraged purchases of Japanese goods. The internal rise in prices and wages in Japan made reduction of export prices difficult, even with the simultaneous decline in raw material import prices. Thus, as of mid-1953, although Japanese export prices had declined substantially, Japan's export prices for many products remained somewhat higher than those in most of the major competing countries. At the same time, Japan's competitive position has suffered because of discriminatory restrictions against Japanese exports, particularly in the sterling area. Also, Japanese exports to the raw material producing countries of Asia were reduced because of restrictions on imports, applied by these countries as a result of a reduced availability of foreign exchange.

37. As result of these many difficulties, Japan's total foreign trade in real terms has been and remains substantially below prewar levels. Moreover, imports have far exceeded total export earnings, a situation made possible only because Japan has received large-scale direct and indirect US assistance. Although the Korean War led to a sharp rise in the level of Japanese exports, the rise in imports was even sharper. This trend has continued at an accelerated rate in the post-Korean War period resulting in an increased trade deficit each year.

TABLE III

	VALUES AND PHYSICAL VOLUME INDICES OF JAPANESE FOREIGN TRADE			
	Imports		Exports	
	Value \$Million	Volume Index	Value \$Million	Volume Index
1934-1936	980.0	100.0	939.6	100.0
1950	974.4	32.8	819.6	29.6
1953	2,409.6	74.5	1,274.8	35.0

In 1953 and during the first quarter of 1954 the Japanese deficit from commercial trade became so large that US expenditures in Japan, though continuing at a high level,

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were unable to offset it. As a result Japan's foreign exchange position has deteriorated seriously.

TABLE IV

JAPAN'S BALANCE OF PAYMENTS 1936, 1952, AND 1953				
Commercial Trade Balance	US Government & Military Pro- curement and Personnel Expenditure		Other Items	Surplus (+) or Deficit (-)
	<i>(million US dollars)</i>			
1936	-14.		21.	+7
1952	-756.	786.	228.	+257.
1953	-1,135.	786.	159.	-190.

38. A substantial increase in Japanese exports is essential if Japan is to develop a self-supporting economy. Although the current balance of payments deficit might be temporarily alleviated through import "austerity," in the long run the Japanese can only provide increased employment opportunities and secure a rising standard of living by balancing their trade at a higher, rather than a lower, level. The increase in exports must be sufficient not only to balance the present level of imports but also to permit an increase in this level. Increased imports of raw materials and capital goods will be required for production for export, and increased imports of consumer goods to meet the demands induced by rising levels of income.

39. The Japanese have recently adopted a series of measures designed to reverse the trend of an increasing trade deficit. As an immediate measure, the Japanese Government has adopted an austerity program designed to lower export prices and to reduce the 1954 import level some 10 percent below 1953, by restricting credit and reducing foreign exchange allocation. On the export side, the Japanese Government has adopted a series of measures designed to facilitate Japanese exports and to make Japanese goods more competitive in international markets, including: (a) establishment of facilities abroad for servicing exported Japanese equip-

ment; (b) encouragement of integration and combination in foreign trade companies to strengthen the financial position of export companies and the formation of cartels and trade associations to reduce competition among Japanese importers and exporters; (c) reduction of interest rates on loans to export industries; (d) allocation of foreign exchange to assist those imports needed to support export industries; and (e) adoption of a dual price system whereby export goods are priced below those for the domestic market. The Japanese are also seeking to correct the more fundamental problems raised by obsolescent plant and technology, and low labor productivity. The rate of investment in industry has risen somewhat above the 1934-1936 level. At the same time, the Japanese have had some success in obtaining foreign capital.

40. Japan has also sought to deal with the problem of trade restrictions imposed by other countries. One approach has been to build up a system of bilateral trade and payments agreements between Japan and countries outside the dollar area. Japan has also made efforts to obtain equality in trade relations by seeking membership in the General Agreement on Tariffs and Trade. The Japanese are also seeking to expand trade in their "traditional" markets on the Asian mainland and with the Soviet Far East. Following the Korean armistice in 1953, controls on Japanese trade with the Soviet Bloc countries, and in particular with Communist China, were somewhat relaxed. Since then Japan's trade with the area has shown an upward trend, though remaining a very small percentage of Japan's total trade. Although many Japanese have expectations of greatly increased trade with Communist China, the government has warned business leaders that this is illusory because China has reoriented its trade toward the USSR. Notwithstanding, the pressure for increased Japanese trade with Communist China and the USSR continues to be strong, even among conservative industrial groups.

41. The weakness of applied research and development is an outstanding problem in the Japanese economy. While Japanese theoretic-

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cal research has given Japan a place of prominence in international science, applied science and technological development have produced only a few significant successes, and Japanese industry has depended extensively on foreign developments and assistance.

42. Recent government plans demonstrate that Japan is now seeking greater technical self-reliance. Japan's scientific and technical organization, manpower resources, and research and education facilities are believed to be adequate for the support of a research and development program of great value. We believe such a program will be carried forward vigorously. However, it will require considerable time and effort, to translate this development into higher productivity and lower costs of production.

43. *Short-run Prospects.* So far the Japanese efforts to correct some of their more pressing economic problems have not achieved much success. During 1954 the rising trend of imports has continued and it is anticipated that special earnings accruing from US Government and personnel expenditures will decline substantially. Over the next few years, Japan almost certainly will continue to have a balance of payments deficit even though exports are likely to increase somewhat as a result of a combination of Japanese Government measures to promote exports, a reduction of discriminatory trade restrictions, and an increase in trade with mainland China.

44. Over the next few years the determining factors in the Japanese balance of payments situation will be the level of business activity in the US, the level of US expenditures in Japan, the level of restrictions against Japanese exports in foreign markets, and indirectly, the level of US expenditures in other Asian countries which are potential importers of Japanese goods. A further serious decline or cessation of special dollar earnings from the US would lead to a rapid loss of foreign exchange because no quick adjustment to such a decline could be made. If Japan were unable to acquire compensatory foreign aid or loans, it would inevitably require drastic, painful, and politically dangerous internal adjustments which would be accompanied by reduced em-

ployment, lower consumption, and generally depressed business conditions. A serious decline of business activity in the US would cause a substantial reduction in Japanese exports to the US and to countries which are suppliers of raw materials to the US, such as Indonesia, the Philippines, and Malaya. The impact of such a decline on the Japanese economy would more than wipe out any gains that the "austerity" program could possibly produce.

IV. PRESENT MILITARY AND POLICE SITUATION

Military Issues and Organization

45. Rearmament continues to be a controversial issue in Japanese politics, although this issue no longer revolves to any great extent around the questions of whether Japan should once again build military forces. General support now has been obtained for the government's defense program and there appears to be a growing popular acceptance of military institutions. The major issues in rearmament now center around such important questions as the eventual size of the military establishment, the speed of military build-up, missions to be assigned, and the relation of the military establishment to Japan's new political institutions.

46. These questions, in turn, reflect a number of uncertainties. Within the government itself, and throughout Japan, there is debate over how much rearmament Japan can afford without suffering a considerable decline in the present standard of living. There is anxiety over what commitments Japan must undertake in return for US military assistance. In addition, there is a widespread fear of a resurgence of prewar militarism, a lack of a strong sense of danger, and a questioning of the utility of building extensive forces in an atomic age. The major focus for political opposition to rearmament is found in the so-called "war renunciation" clause of the post-war Constitution. By steering a middle course between the groups that want to revise the Constitution as a prelude to all-out rearmament and those who want to "protect" the

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Constitution by prohibiting any build-up of defense forces, the government has succeeded in making modest progress in rearmament without creating serious political or psychological reactions in Japan.

47. Despite these uncertainties, a defense reorganization effective 1 July 1954 provided for strengthening the Japanese defense forces and gave Japan the nucleus for a modern defense establishment. Under this reorganization, the Prime Minister retains over-all control of the defense establishment, but he now has a top advisory organ on defense matters, the National Defense Council.

48. Japan's armed forces are now organized as the Ground Self-Defense Force (Army), the Maritime Self-Defense Force (Navy), and the Air Self-Defense Force (Air Force). Morale in all forces is high, and the lack of a conscription law has not yet affected development of the armed forces since ample volunteers have been available. The recent authorization of a reserve force, though presently limited to 15,000 men, provides the basis for further strengthening the armed force in the event of an emergency. Progress in attaining increased combat effectiveness in all services should be rapid during the period of this estimate. Despite this progress, however, Japan's forces will be able to carry out their mission of defending Japan only in concert with the US forces.

49. *Ground Forces.* The Ground Self-Defense Force (Army) is currently organized into four divisions plus supporting combat and service units (including artillery, armor, and technical service). The Army will be expanded to six fully equipped divisions of 12,000 men each by April 1955. The four existing divisions of the ground forces have a capability to conduct combined arms operations with units up to regimental combat team in size. However, for extended operations, Japanese ground forces would require US logistical support. The two divisions, scheduled for activation prior to April 1955, will attain the same level of combat effectiveness shortly after activation since they will be filled largely with personnel from existing units.

50. The Northern Corps stationed in Hokkaido, which currently has one subordinate division, has been provided with a full complement of support units in preparation for its expansion by an additional division. This build-up is being undertaken in anticipation of a withdrawal of US ground forces from Hokkaido.

51. *Naval Forces.*² During the period of this estimate the Maritime Self-Defense Force (Navy) will develop the capacity to make a significant contribution to the defense of the sea frontiers of Japan and within five years has good prospects for achieving naval strength comparable at least to that of the Chinese Communists. Naval personnel are still engaged primarily in training, with 6,600 men afloat and 3,300 ashore. By 1 April 1955 naval personnel are scheduled to expand to about 16,000. Naval effectiveness can be expected to improve considerably as former Imperial Navy personnel take an increasingly active role, and as modern ships and equipment become available.

52. In the event of a national emergency, there are legal provisions for the naval forces to be augmented by Japan's Maritime Safety Board (MSB).³ Strictly a coast guard in concept, the MSB has a personnel strength of about 5,100 afloat and 5,000 ashore. About 15 percent of its vessels are in the process of

² MSDF vessel strength includes: 18 frigates and 50 landing ships support large on five-year renewable loan from the US, and 33 minesweepers and 72 auxiliaries and service craft. During 1954 and 1955 the US is scheduled to loan or transfer the following vessels to Japan: 2 destroyers, 2 destroyer escorts, 1 submarine, and 3 minesweepers. The MSDF FY 1953 building program includes: 2 escort destroyers, 3 escort vessels, 6 motor boat/submarine chasers, 4 minesweepers, and 1 tender minelayer. FY 1954 program includes: 8 subchasers, 3 motor boat/submarine chasers, and 3 minesweeping boats. The MSDF also has a small naval air arm.

³ About 50 percent of personnel are in administrative billets. The 410 vessels of the MSB include 95 patrol boats (100 to 1,000 tons), 207 harbor craft, 24 surveying boats, and 84 miscellaneous craft. Fifty-nine vessels are to be armed, of which 8 have already received 3-inch, 40 mm, and/or 20 mm guns. A few helicopters are also available.

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being armed, the larger vessels to have weapons up to and including three-inch guns.

53. *Air Force.* Japan's Air Self-Defense Force (Air Force) has only recently been authorized and has no operational capabilities at this time. However, the Japanese desire a rapid air force build-up. A program of retraining of Japanese World War II pilots has already been initiated under US direction. It is anticipated that two squadrons will be equipped with F-86 fighters during US fiscal year 1955 and one wing (three squadrons) by January 1956. The rapid development of an effective fighting force is facilitated by a reservoir of experienced air force personnel from World War II and the prevalence of mechanical and technical experience and aptitude among a larger group of eligible personnel.

54. Tentative plans call for a force consisting of 33 squadrons by June 1960. The defensive role of the Air Force is emphasized by its tentative 1960 force goals of 30 squadrons of fighters, fighter bombers, and tactical reconnaissance aircraft. During the period of this estimate, we believe that Japan, with US assistance, will be provided with a relatively small but effective modern Air Force which will be able to contribute substantially to its own air defense.

Industrial Mobilization

55. Japan has the industrial potential and the fundamental skills necessary to support its armed forces. Realization of this potential depends on financing for plant conversion and retooling, and on effective demand for end-items. Some progress has been made in rehabilitating the ammunition industry, largely through US offshore procurement contracting for ammunition items. Japanese shipyards now have a considerable capacity for the construction of all types of naval vessels. Aircraft production is in the planning stage although repair and overhaul operations are expanding. The aircraft industry has produced a few small aircraft and a few experimental aircraft engines and is planning the production of US-designed jet aircraft. Japanese industry has produced about 25 percent of the equipment requirements for the

ground forces, including wheeled vehicles, ammunition, communications equipment, medical equipment and supplies, engineering equipment and supplies, and quartermaster items. Japan's present capability in armaments production remains limited by general economic and technological shortcomings common to practically all Japanese industry. In particular, there is a major deficiency in the field of specialized electronics, and there is a serious lack of costly special tools, research facilities and staffs, and design and production know-how. Moreover, all lines of armaments are handicapped by the need to import industrial raw material and by the shortage of investment capital in Japan. The government is reluctant to give financial assistance to defense industries, and private investment in this field is largely dependent on the promise of offshore procurement orders from the US. For these reasons, further major expansion in the production of armaments in Japan would require continued external financial and technical assistance, and increased interest on the part of the Japanese Government in the development of such production.

56. No formal commitment has been made by the Japanese Government to increase its defense forces beyond the total authorized by 1955. At present, discussions on future plans are underway both within the Japanese Government and between Japan and the US. Planning is complicated by uncertainties as to the total scope, balance, and role of Japanese forces in the context of US plans for the defense of Japan; and by the difficulties of interrelating US military economic assistance with defense planning. Therefore, Japan's military establishment in 1957 cannot be envisioned with any precision. However, it is likely that Japan will continue a program of gradual armament as long as it receives MDAP assistance and as long as there is not a serious deterioration in the economic situation. In the period of this estimate, Japan will probably have forces in all three branches capable of making a substantial contribution to its defense but by no means adequate to assume full responsibility therefor.

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Police

57. The decentralized police system introduced by the Occupation has been significantly revised to provide a police organization whose activities will be coordinated and to a large extent controlled by the new National Police Agency. As a result of this reorganization, police effectiveness will probably improve, although the extent of national control and the scope of police power are still not as great as in the presurrender period. Japanese police surveillance of subversive elements has been steadily improving and is generally good. Under emergency conditions, the police, with the assistance of the armed forces, would be able to neutralize all significant subversive elements.

V. PROBABLE DEVELOPMENTS

58. Japan's stability, strength, and orientation are peculiarly dependent on developments beyond Japan's control. While Japan can improve somewhat its ability to compete on world markets, in the next few years avoidance of an economic crisis depends in great degree on continued receipt of US assistance in some form. Similarly, Japan can do much to increase its military strength, but its security will continue to depend in large measure on US willingness and ability to defend Japan. Finally, although Japan has some flexibility of diplomatic maneuver, its foreign policy alignment is predominantly determined by factors in the international situation beyond its ability to influence.

59. Moderate conservative governments will probably continue to govern Japan through 1957. They will avoid policies and actions that might jeopardize their tenure; they will consolidate their hold by measures to centralize and strengthen governmental powers. The conservatives will also trade on their ability to secure from the US at least the support necessary to avoid national crises that might force them from office.

60. The chief threat to moderate conservative tenure would probably arise in the event of a prolonged and serious deterioration in domestic economic conditions or in the event that

the Japanese became fearful as to their national security. In these circumstances, it is possible that the Socialists might be voted into power. We believe it more probable, however, that the character of the Japanese Government would shift further to the right, accompanied by a revival of authoritarian techniques of political and economic control. In these circumstances the influence of the military and ultranationalists might be strengthened significantly.

61. Over the next several years, Japan's dependence upon a high level of imports will almost certainly increase, because of a continued population growth, a need to maintain approximately present per capita consumption levels, increasing investment requirements, and an expansion of the defense establishment. Though Japan will make some progress in raising indigenous production and in taking other measures to curb this increase of imports, and though it will probably succeed to some extent in enhancing its international competitive position by improving industrial productivity, it will be unable to expand exports sufficiently to avoid continuing balance of payments difficulties. This will not be significantly altered even though trade with Communist China will almost certainly expand, and though restrictions affecting Japanese trade with the non-Communist world are likely to be reduced. Devaluation of the yen, a possible step in Japan's attempt to improve its international competitive position, is not likely to give more than temporary relief. Thus, Japan will continue to have a large balance of payments deficit, which can be met only by a high level of US expenditures or financial assistance.

62. *Defense Outlook.* For the next several years, Japan probably will continue a program of gradual rearmament. Particular emphasis will be placed on the development of naval and air establishments, and on defensive rather than offensive capabilities. The pace and scope of this rearmament will be considerably influenced by the nature and amount of US assistance. Japan will be wholly unable to undertake aggressive adventures of its own in Asia. Japan will probably refrain from un-

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dertaking overseas military commitments and will remain unenthusiastic about participation in regional defense organizations. Even with gradual progress in rearmament, Japan will probably continue to be reluctant to join in an alliance with such neighbors as Korea and Nationalist China, and will prefer to participate in security arrangements backed by the UN.

63. During the period of this estimate Japan is virtually certain to maintain its US alignment even in the face of a drive for greater independence of action. The foundation of this US alignment will be Japan's continuing dependence on US economic and military assistance. The dominant political groups will probably continue to believe that the best prospects for achieving national strength and stability lie in continued close association with the US. Only the Communists, Left Socialists, and some ultranationalists will oppose this in principle.

64. However, numerous sources of friction will continue adversely to affect US-Japanese relations. US forces in Japan continue to occupy land and installations desired by the Japanese. They also serve as a reminder that Japan is still subjected to foreign influence. Pressures will probably mount for the withdrawal of these forces or for their restriction to a few naval or air bases. Demands for the return of the Ryukyus and Bonins may increase. The recent incident involving Japanese fishing vessels in the area of US nuclear experiments at Bikini is indicative of the way in which US-Japanese relations can be set back by an issue that arouses deep emotional response. Sensitivity to any action that appears to the Japanese to accord them less than economic, political, and social equality will continue to characterize relations with the US.

65. Japanese relations with the US will be affected, not only by frictions, but also by a desire to assert a greater degree of independence. Partly in a desire to avoid war, to free itself from foreign control over security affairs, and to enhance the prospects of trade with Communist China, Japan will constantly reassess the desirability and feasibility of

achieving a more independent position, possibly in conjunction with an Asian third force. Moreover, there will probably be some growth in neutralist sentiment prompted by US and Soviet nuclear developments and by Japanese wishful thinking as to the prospects of coexistence. Neutralist sentiment might increase if Communist power should be extended further in Asia or if war between the US and the USSR appeared imminent. However, we believe that the Japanese Government will not conclude during the period of this estimate that neutrality is in fact desirable or feasible.

66. Japan will continue its attempts to better its political relations and expand its economic relations with non-Communist Asia, attempting thereby both to enhance its position in Asian affairs and to reduce its dependence on the US. There is, however, little prospect that the obstacles that to date have prevented closer relations between Japan and these countries will be rapidly overcome. Reparation negotiations with the Philippines have been underway for several years and again appear stalled. Similar negotiations with Indonesia, which are at a much less advanced stage, will probably be at least equally difficult. Relations with Korea will probably continue to be exacerbated by Korean distrust of Japanese intentions and by the ingrown Japanese sense of racial and cultural superiority. The best that Japan can probably achieve in the next few years is a gradual broadening of its economic contacts in the area. The Japanese will be particularly concerned over developments in South and Southeast Asia because of the economic importance the area has for Japan, and will make serious efforts not to arouse distrust in these areas. They have welcomed the settlement in Indochina insofar as tensions were eased; at the same time they will watch carefully for signs of US weakness or strength elsewhere in Asia.

67. Japan will probably take increased advantage of, if it does not actively promote, opportunities for more extensive relations with the Communist bloc and particularly with Communist China. Informal commercial and cultural relations with the USSR and Communist China, therefore, are likely to expand. Japan probably will not be willing to

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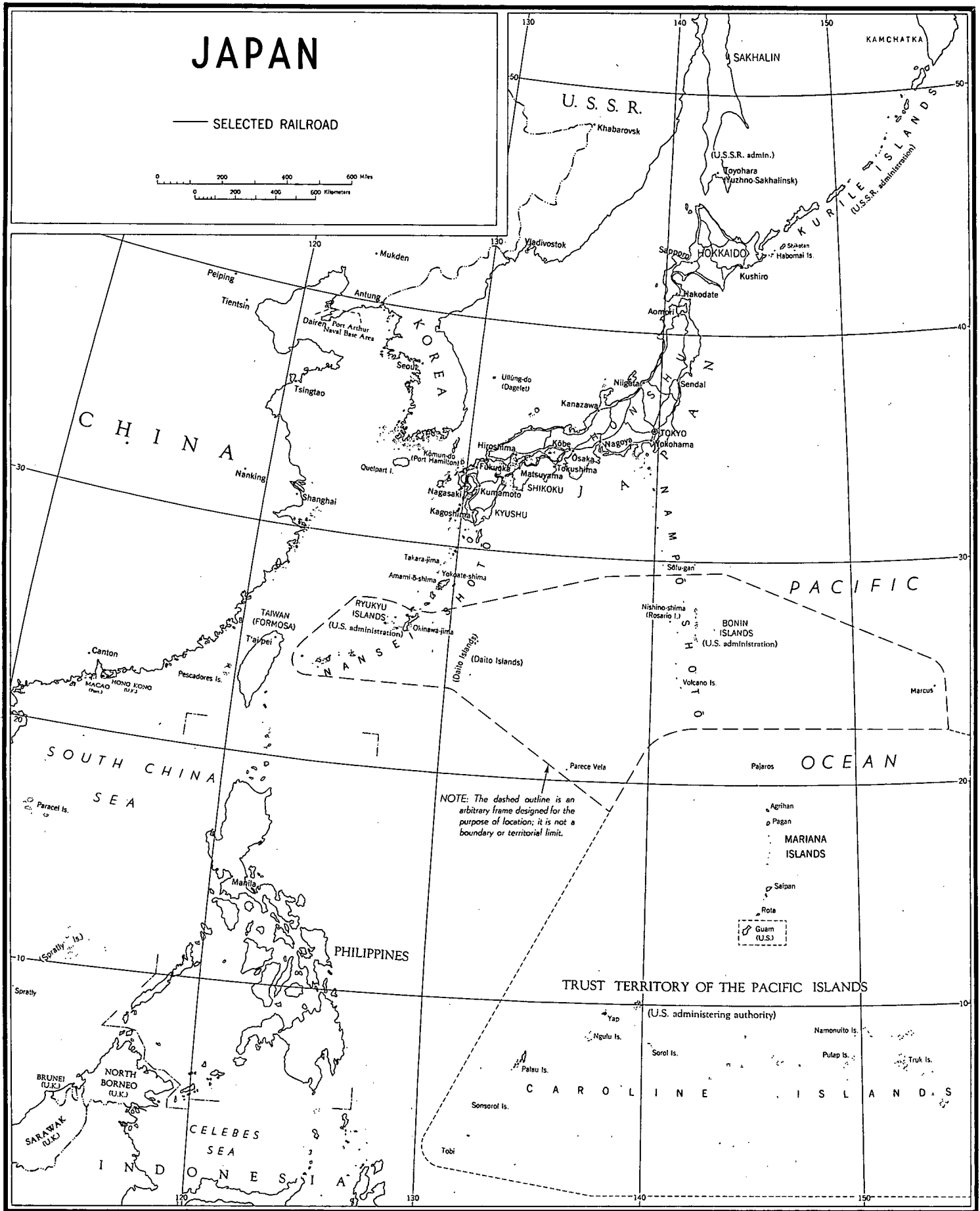
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conclude a peace treaty or resume normal diplomatic relations unless the USSR abandons its insistence on the severance of Japan's close alignment with the US and at least tacitly recognizes the San Francisco peace treaty.

69. In sum, assuming a continuation of US assistance, we believe that Japan during the period of this estimate will slowly gain in strength, and will, within a pro-Western orientation, attempt to pursue a more inde-

pendent foreign policy. It will seek to avoid commitments to the US that would limit future freedom of action and will attempt to expand commercial and political relations, particularly with the Asian mainland. Japan will recognize its strategic importance to the US, and will attempt to extract the maximum in military and economic assistance from the US. However, during this period Japan will not develop sufficient strength to play a leading or stabilizing role in Asian affairs.

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