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## PROBABLE DEVELOPMENTS IN JAPAN OVER THE NEXT DECADE

*Submitted by the*

### DIRECTOR OF CENTRAL INTELLIGENCE

*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 27 September 1955. 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; and the Deputy Director for Intelligence, The Joint Staff. The Atomic Energy Commission Representative to the IAC, and the Assistant Director, Federal Bureau of Investigation, abstained, the subject being outside of their jurisdiction.*

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## PROBABLE DEVELOPMENTS IN JAPAN OVER THE NEXT DECADE

### THE PROBLEM

To analyze recent trends in Japan and to estimate probable developments in Japan over the next decade, with particular emphasis on its international position and orientation.

### ASSUMPTION

No US-Chinese Communist hostilities.

### CONCLUSIONS

1. Japan is facing serious political and economic problems and it is unlikely, during the period of the estimate, to develop sufficient power and prestige to play a major role as a leader or defender of the non-Communist Far East. Given favorable international circumstances, however, it should make gradual progress and become a valuable adjunct to free world power in the Far East. (*Para. 85*)
2. We believe that Japan will remain basically aligned with the US, primarily because of its security and economic needs. But in its quest for a more independent position it will become more assertive toward the US and will seek to improve its relations with the Communist Bloc and with the countries of free Asia. (*Paras. 74-83*)
3. The Japanese must expand their economy considerably to sustain a large and growing population at tolerable levels of consumption and employment. The requisite export expansion will depend importantly on factors beyond Japan's control such as the level of world trade, the reduction of trade barriers, and the rate of economic growth in underdeveloped areas. Japan must also take internal measures to improve its competitive position. Because of its imbalance in dollar trade, Japan will need US assistance for at least the next few years. (*Paras. 40-58, 82*)
4. We believe that Japan will continue to rely on the US for strategic security but will seek an equal voice in arrangements for the defense of Japan, and is unlikely over the long term to agree to the contin-

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uation in Japan of bases under exclusive US control. It will strengthen its own defensive forces, with emphasis on the air force and navy, but its over-all effort will be limited. (*Paras. 59-73, 83*)

5. Some combination of conservative parties will probably remain in office during the next decade, except possibly for brief interludes of socialist control. The conservatives will probably maintain an essentially parliamentary system. However for some time to come their ability to provide strong and effective leadership will be hampered by persisting factional-

ism and the strength of the left opposition. (*Paras. 32-39, 82*)

6. Prolonged economic distress would radically alter the foregoing general prospect. It would weaken moderate political forces, encourage extremist parties of both right and left, and probably lead eventually to an ultranationalist resurgence. In the event of an imminent threat of general war, even if Japan retained its general alignment with the US, it might attempt to assume a neutral position in an effort to avoid nuclear destruction. (*Paras. 83-84*)

## DISCUSSION

### I. INTRODUCTION

7. Three years after independence and 10 years after the close of World War II, Japan has regained little of its former influence and prestige. It is only now beginning to play an active role in world affairs and it does not exhibit the cohesion, drive, and initiative that were characteristic of the prewar period. The Japanese domestic scene is still marked by factionalism, uncertain leadership, and a lack of purpose. Japan faces severe competition as well as political and economic restrictions in international markets. Despite recent improvement, its balance of payments situation remains unsatisfactory, and the volume of its trade must be considerably increased to maintain economic growth. Japan continues highly dependent on the US for its security and economic solvency.

### II. FACTORS AFFECTING JAPAN'S FUTURE POSITION AND ORIENTATION IN ASIA

#### Political Situation and Prospects

8. The continued domination of Japanese society and politics by conservative forces was demonstrated again in national and local elections held early in 1955. Although social-

ist strength increased slightly, the combined conservative vote still exceeded that of the socialists by a ratio of two to one. Extremist parties had little public support in these elections. The Communists placed only two candidates in the Lower House and nearly all candidates who may be characterized as extreme rightists were defeated. In provincial elections socialist supported candidates won only four of the 21 gubernatorial contests and less than 600 of the 2,459 prefectural assembly seats. Conservative predominance was even more strongly asserted in municipal elections.

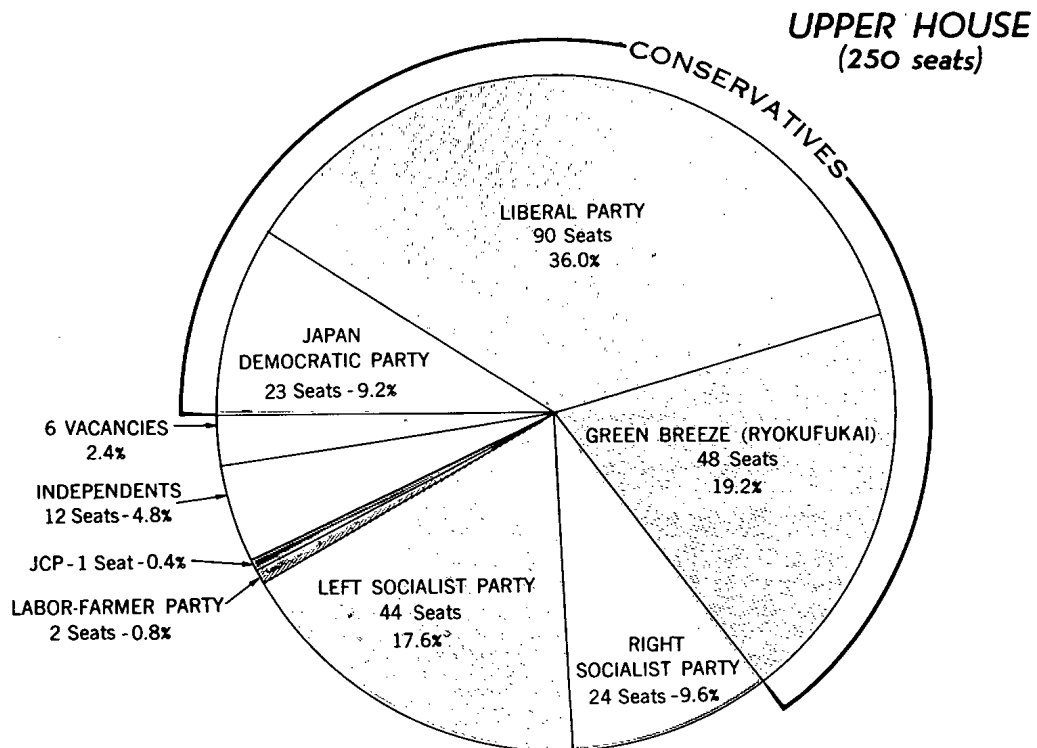
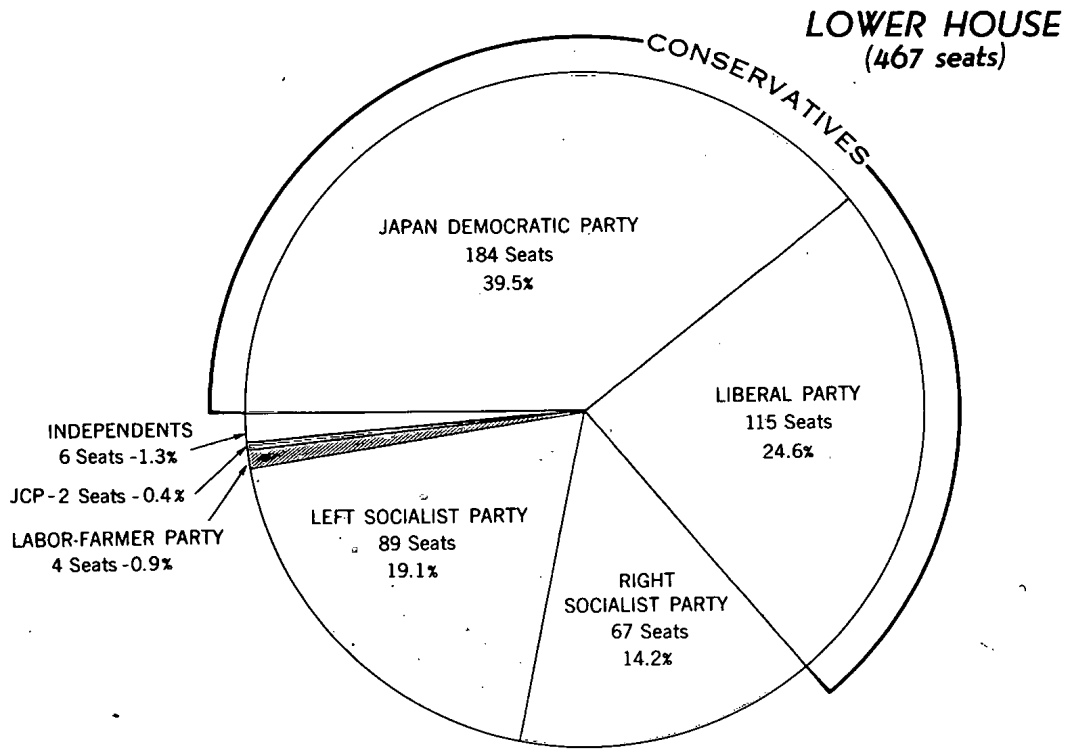
9. As a result of the Lower House elections, the Liberal Party, which had held office continuously from 1949 until its resignation in December 1954, was replaced as the leading conservative party by the newly organized Democratic Party. The Democrats under Hatoyama won 187 seats to 112 for the Liberal Party now headed by Ogata Taketora. With the relative positions of these two parties reversed, the Democrats formed another minority government whose tenure and ability to enact legislation, like that of conservative governments since 1953, continued to be contingent upon the attitude of the conservative opposition.

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# JAPAN

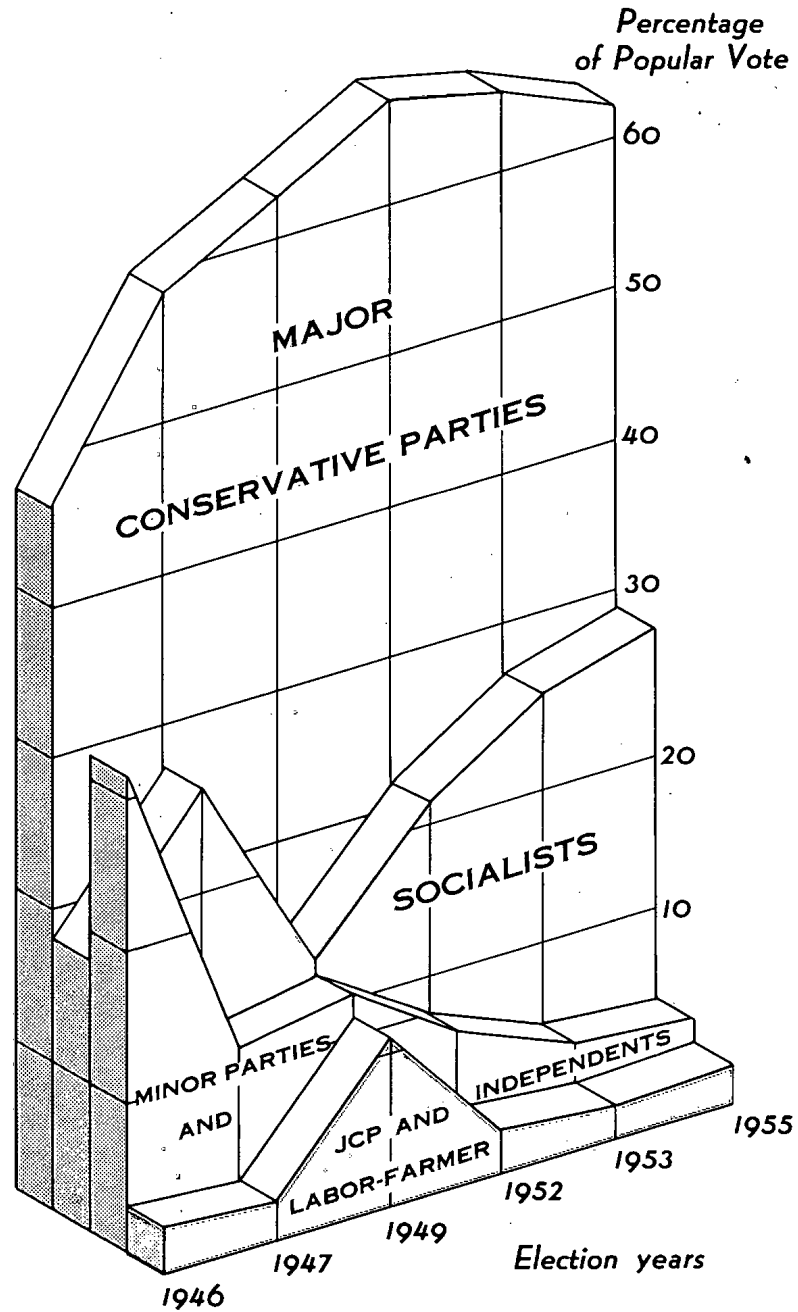
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# JAPAN COMPARISON OF ELECTORAL STRENGTHS IN THE LOWER HOUSE (1946-1955)



NOTE: In the early postwar period many conservatives ran as independents or as representatives of minor parties. Many of the independents and minor parties were gradually absorbed as conservative forces coalesced into two or three major groupings.

10. There are no major policy differences between the Democrats and Liberals. Both parties draw their main support from business and industry and from the conservative-minded rural electorate. The conservatives favor economic programs that conform to the needs of the major business and industrial interests. Conservative leaders believe in civilian supremacy in the direction of government and appear to believe that their own interests will best be served by the preservation of Japan's parliamentary institutions. Their program calls for continued gradual rearmament, curbs upon the subversive activities of the left and right, and revision of the constitution in order to strengthen the powers of the central government. Their foreign policy calls for alignment with the West while seeking a more independent and influential role for Japan in world affairs. While the Liberals criticized Hatoyama's apparent lack of caution in the initial phases of negotiations with the USSR, and while the Liberals have tended to place greater emphasis on the preservation of close cooperation with the US, there are no basic differences in foreign policy objectives in the conservative camp.

11. Despite the strength of the conservatives in the Diet and their basic agreement on policy issues, they have continued unwilling or unable to provide strong direction to the nation. They have been notably weak in championing measures which they believe necessary, but which are politically unpopular, such as rearmament and internal economic austerity. They have done nothing to assuage labor's fears that they are seeking to turn back the clock on its postwar economic and political gains. Constitutional revision continues to await improvement in the conservative position, and the government has not yet risked any effort to strengthen internal security measures.

12. Because of the government's failure to provide stronger leadership, the press and private organizations have been able to exert unprecedented influence on public opinion in key areas of national policy. Many such groups are conservative in orientation but the most

vocal are dominated by leftists, and some are Communist fronts. Only recently has the government sought to lead public opinion on rearmament and on foreign policy.

13. The indecision and weakness of the conservatives are due in part to inexperience in operating the new democratic pattern of government in which the Diet, political parties, and public opinion, have assumed far greater importance than ever before. The effectiveness of the conservatives is also impaired by the struggle for leadership which has become more acute since the Hatoyama faction left the Liberal Party in April 1953. Competition for leadership often has no relation to issues and is complicated by the importance of personal and family ties in Japanese political relationships and party organization.

14. Serious efforts are underway to unite the Democrats and Liberals, but the problem of merger is complicated by the rise of new personalities who are eager to replace the still influential generation of Yoshida and Hatoyama. Although a merger may take place, it is likely that competition for power among these new personalities will hamper effective unification of the conservative camp for at least several years.

15. Conservative leaders have also suffered from the general feeling of impotence which seized Japan following wartime devastation, defeat, and occupation. They have had to deal with problems in both domestic and foreign affairs which are complicated by external circumstances beyond their control. In this situation, they have been unable to formulate an objective for Japan in Asia that would have sufficient mystique and appeal to overcome the frustrations of defeat, restore self-confidence, and serve to unite the people. For these reasons their policies tend to be ad hoc, rather than expressed in explicit long-term programs.

16. In addition, the conservatives have had to take into account the weakening of conservative and traditional forces in the postwar period and the rise of a politically significant left-wing. Organized labor, the socialists, the

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intellectuals, and the free press are determined to preserve their postwar gains, and their combined strength has forced the conservatives to proceed with caution on many issues. The conservatives are seeking to reduce the influence of these forces, in part by constitutional revision and refurbishing of traditional symbols, in part by administrative action, and in part by adopting some of the more popular policies of the left.

17. The socialist movement in postwar Japan has derived its strength chiefly from organized labor, small entrepreneurs, intellectuals, youth, and women. The socialists rely more heavily than do the conservatives upon the urban electorate, although there has been a slight increase in the socialist vote in rural areas in recent years.

18. The socialists are still divided into Right and Left Socialist Parties. Apart from differences on rearmament, association with the West, and relations with the Japan Communist Party, the Right is essentially parliamentary and evolutionary in approach, the Left doctrinaire and revolutionary. In recent years the Left Socialists have gained at the expense of the Right because they have had the support of the stronger labor organizations and have been more successful in recruiting and developing young leaders. Even if present negotiations to merge the two parties succeed, there would probably be continued quarrels over party position and policies, and at least the conservative wing of the Right Socialists might soon split away.

19. Lack of unity has not prevented an increase in socialist strength since the party split in 1951, although the increase has been at a declining rate in the last two elections. In the 1952 Lower House elections the socialists commanded 21.4 percent of the popular vote. This figure increased to 29.2 percent by 1955. This proportion compares with the previous high of 26.7 percent received by the socialists in 1947.

20. To a considerable degree the gradual increase in the socialist vote probably represents a protest against conservative administrations

rather than a positive approval of the socialist program. The electorate has been reacting against such things as continued scandals in the government, neglect of small and medium business interests, and conservative factionalism. The socialists probably have also benefited from the irritations caused by the US presence and influence in Japan since the socialist program dwells heavily on foreign policy. At the same time, there is evidence that the socialists have been more successful than the conservatives in attracting new voters as they come of age. In the past, conservative politicians have depended heavily on certain traditional and paternalistic relationships with their constituents for a stable bloc of votes. Recent elections suggest a weakening of these traditional ties, and the conservatives have been slow to develop an active political organization at the local level. As a result, the socialists have been better able to mobilize their potential support especially in urban areas.

21. Organized labor, whose membership remains at about 6,000,000, exerts strong pressure on Japanese politics. Many of its leaders attach as much importance to labor's political as to its economic objectives. These objectives normally coincide with those of the socialists, and labor provides the chief sources of organized support for both socialist parties. Labor's considerable role in the success of the Left Socialist Party in the last election and the election of trade union officials under the Left Socialist banner has increased the influence of labor in the political field.

22. Factionalism is also present in organized labor. Sohyo (Japan General Council of Labor Unions), the largest federation with about 2.8 million members, is closely associated with the Left Socialists. However, its leadership has tended to pursue policies closely parallel to those of the Japan Communist Party and, in its preoccupation with political objectives, to overlook the economic interests of the workers. As a result, some member unions have seceded, and there has been a continuing struggle by more moderate elements to gain control of the Federation. Most recently, the

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moderates appear to have gained some ground when their candidate replaced fellow traveler Takano Minoru as Secretary-General. The chief support for the Right Socialists in organized labor comes from Zenro (All-Japan Congress of Labor Unions), organized in 1954 in part from Sohyo secessionists. However, Zenro's membership is still only 670,000 and it is unlikely that Sohyo's predominance will be challenged over the next few years.

23. At present, we estimate that the prospects for the development of a socialist opposition as a serious alternative to the conservatives are less than even. Although the socialists have more than regained the ground lost after their brief and ineffective hold on office in 1947, it is unlikely that they can continue to gain strength primarily as the focus of political protest, particularly if the conservatives continue to steal their thunder as they have by supporting normalized relations with the Bloc and a more "independent" line toward the US. Internal schisms in the socialist movement will probably persist and weaken any united party that may evolve. The doctrinaire approach of the socialists particularly in domestic affairs has only a limited appeal in Japan. Popular support is limited further by the widespread distrust of their ability to handle the practical responsibilities of government. Organized labor will probably increase somewhat in numbers, but it is organizationally and financially weak and subject to political and economic coercion by industrial leaders. Moreover, it is likely that conservative governments will take action in the next few years further to limit the economic strength and political activity of organized labor. Except in the event of a reversion to authoritarian government, however, organized labor will probably remain a major opposition political force with a significant potential for exerting economic pressure on both management and government.

#### *Ultrationalist Forces*

24. Extreme rightist and ultrationalist movements continued during the past year to be poorly organized and generally ineffective. They have few representatives in the Diet

partly because they lack popular support, partly because they cannot yet compete with major parties and partly because they are disdainful of parliamentary activities. Scattered evidence suggests, however, that the movements may be gaining some strength in local areas. Although extreme rightists constituted only a small percentage of successful candidates in the local elections of April 1955, more than half of the candidates representing rightist organizations were successful.

25. Some extreme rightist organizations have recently shown a tendency to return to terrorist tactics; most, however, apparently continue to concentrate on propaganda and fund-raising activity. Some progress was made within the past year toward a revival of veterans organizations. The most recent step in this revival, which has gradually accelerated since 1952, was the inauguration in June 1955 of the Japan Federation of War Comrades Associations in an effort to unify the separate veterans organizations which have sprung up in almost every prefecture. The leadership both of the new association and of a majority of the prefectural groups is drawn largely from the presurrender Imperial Reservist Association, once Japan's largest and most influential militaristic society. Espousing a program directed to the revival of nationalistic values and institutions, the veterans movement could serve as a powerful pressure group in support of extreme rightist views and could help to furnish leadership of a quality that the extreme right now generally lacks.

#### *The Japanese Communist Movement*

26. In accordance with international Communist strategy, the JCP has reoriented the party program away from the violent and revolutionary course adopted in 1950. The process of rehabilitation as a peaceful political movement with mass appeal was begun by the JCP in mid-1952 and has been markedly accelerated since late 1954. Major Communist leaders who had gone underground to avoid occupation controls came out of hiding and greatly increased their efforts to obtain united action with other political groups.

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27. A reorganization of the party structure was completed by July 1955, when a long delayed announcement of the death of Tokuda, Japan's leading Communist for three decades, and the concurrent abolition of his post of secretary-general suggested the adoption of committee-type rule along the recent Soviet pattern. Nosaka Sanzo has probably succeeded Tokuda as the leading Japanese individual Communist. A majority of the new Central Committee and all of the new Standing Executive Committee — which appears to have replaced the Politburo — were formerly members of the highest echelon of party control when underground, and there is no evidence that the JCP is now threatened by the serious factionalism at the highest level which afflicted the party, particularly in the period 1948–1951. A primary effort of the new organization however, is likely to be centered in the difficult task of maintaining internal party discipline and sense of mission in the relaxed atmosphere of legal and united front activity.

28. The significance of these recent developments on over-all JCP strength and potential is difficult to estimate. There is no firm evidence to indicate any significant change in JCP membership or in the strength of its active and passive supporters.<sup>1</sup> JCP efforts to form a united front with the socialist parties have not been successful, although there probably has been some cooperation at the local level, particularly for the purposes of election campaigning. Reports that the JCP is in the process of dismantling its covert structure, including the paramilitary apparatus, must be viewed with caution. Moreover, despite recent emphasis on legal activity, the covert organization of the JCP retains a substantial capacity for sabotage and low level espionage throughout Japan. Both at the overt and covert levels of party organization, primary emphasis appears to be not upon further expansion but upon consolidation and upon tempering of the hard core of party

<sup>1</sup> Party membership is estimated to range between 80,000 and 85,000. Active and passive supporters under various conditions may range from 500,000 to 1,000,000. In the February 1955 election, the JCP polled 774,000 or 2.1 percent of the total vote.

leaders and membership through a program of tightened party discipline.

29. Present JCP tactics will probably continue so long as the Communist Bloc emphasizes the normalization of international relations. The JCP will encourage Japanese economic and political relations with the Bloc, agitate for the withdrawal of US forces, and seek to penetrate and influence non-Communist mass organizations.

30. The JCP will probably remain an important political force in Japan in terms of its ability to exploit local grievances and popular causes. It will continue to infiltrate and influence, though not control, organized labor. It will continue to attract university students and intellectuals. In periods of economic stress, its popular support might grow considerably. The JCP cause will be assisted by the fact that the principles of Marxist and socialist economics will probably continue to have wide influence in university circles. Moreover, many intellectuals, significant elements of the press, and the Left Socialists will probably continue to oppose government measures which they fear would threaten civil liberties even though these measures were designed primarily to curb sabotage and espionage.

31. A prolonged period of relaxed tensions might give the JCP opportunities to throw off its stigma as an agent of the USSR, increase its mass support, and infiltrate organized labor, the government, and the armed services. We believe, however, that most political leaders will continue to recognize the JCP as an instrument of the USSR and that most of the socialists will continue to reject united front tactics. The government will be alert to infiltration in the armed services and the bureaucracy, and to Communist influence and propaganda in the schools. As a peaceful party, the JCP will continue to have problems of internal discipline and factionalism arising from personal as well as theoretical and tactical differences. Some of its popular issues will lose their appeal as conservative governments increase contacts with the Communist Bloc and as direct US influence on Ja-

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pan decreases. As in the past, the JCP is unlikely to make any significant headway in rural areas. The Japanese sense of national pride and respect or devotion to the Emperor appear incompatible with Communist programs. These circumstances, and the general social conservatism of the Japanese people, make it unlikely that the Communists can develop a mass party or following in Japan.

### *Political Prospects*

32. We believe that the moderate conservatives will dominate the government over the next few years. They will continue their present policies of achieving economic strength, of pursuing a gradual program of rearmament with US assistance, of undercutting the strength of the political left, and of strengthening the central government and traditional institutions. We believe that the conservatives will make some progress, particularly in rearmament and strengthening of central government power. Nevertheless, the attainment of conservative objectives will probably continue to be hampered by conservative factionalism and the strength of the left opposition. Failure to resolve factionalism and to adopt a more positive leadership role could result in a succession of minority governments with limited capacity to formulate and implement long range policy.

33. A strong public reaction to a failure in domestic or foreign policy might force the holding of general elections in which the socialists might win a plurality. Even in this circumstance the socialists would only come to power if they were united while the conservatives remained divided. If they did come to power, the socialists would have a difficult time agreeing on policy and a split would probably soon develop between the doctrinaire leftist members and the somewhat more pragmatic right wing elements. The period of socialist control would probably only be a brief interlude, therefore, during which the conservatives repaired their organization and prepared to reassert their control.

34. Beyond the next few years, the pattern of Japanese government is far less certain. A continued growth in socialist strength

would serve to encourage conservative unity and might limit the drift of conservative forces further to the right. It might also provide a more attractive rallying point than now exists for those elements in Japan who are not satisfied with traditional social, economic, and political forms. It is likely, however, that if the socialists should begin to offer a serious threat to conservative control, the conservatives would take vigorous action to undercut the socialist position. Moreover, socialist prospects will probably be limited by their own disunity, their lack of popular appeal, and the inherent conservatism of much of the electorate. Therefore, we believe it is more likely that the socialists will remain in a minority and that control of the government will alternate between two major conservative groupings.

35. Over the long run, it is uncertain whether conservative governments will be able to maintain their present moderate character and still govern effectively. Even under favorable conditions conservative governments may have increasing difficulty in satisfying competing demands of their various supporters. Popular pressures for completing the withdrawal of US forces and reduction of US influence will probably increase, and conservative governments may not move rapidly enough to satisfy these demands. The electorate will increasingly expect the government to expand social and economic welfare programs, and failure of the government to respond would strengthen the appeal of the socialist movement. On the other hand the government will have to take into account the pressures of business leaders who will not wish to see their taxes increased and who would be concerned that domestic costs not be increased. Pressures from the military may lead to conflicts with some financial interests and conservative politicians over the pace of rearmament, the degree of encouragement to be given nationalism, and the role of military power in the conduct of foreign affairs.

36. Moreover, democratic parliamentary institutions are not yet firmly established in Japan. If the moderate conservatives fail to give Japan effective leadership, extremist doc-

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trines of both the right and left, particularly the former, would have growing appeal. This danger is increased by the possibility that conservative politicians, in their efforts to preserve their position and to strengthen the authority of the central government, may revive institutions and practices that might jeopardize democratic processes. Many politicians, especially among the conservatives, are not fully committed to democratic institutions, and might join an authoritarian movement if it seemed to be gaining popular support. On the other hand, the groups which have benefited from recent reforms — labor, the socialists, and the intellectuals — would vigorously resist this trend and might greatly increase their cooperation with the Communists. This might lead to a period of dangerous unrest and uncertainty in Japan in which the operations of government would be seriously impaired.

37. However, the chances for a significant increase in the strength of extremist forces will be reduced if the moderate conservatives succeed in formulating objectives and slogans that serve to unite the Japanese people without returning to the dangerous appeals of ultranationalism. In any event, the chances of a seizure of power by the extreme right will for sometime be limited by the discrediting of ultranationalism, militarism, and racism during the last war; by the real strengthening of the moderate position in postwar institutions in Japan; by a general fear of war; by the weakness of the military as a political force; and by the fundamental changes in Asia which have removed any opportunities for quick and easy military adventures by Japan.

38. Within the period of this estimate, the JCP is not likely to win a significant parliamentary position, although in certain circumstances it might gain substantial support from the non-Communist left. Moreover, the JCP probably will not attempt, much less be successful in, an effort to overthrow the government by violence except in the event of a serious political crisis and then only in coordination with direct military threats from the Soviet Bloc.

39. Assuming favorable economic and political conditions, we believe the chances are better than even that the conservatives, partly in response to continued pressure from the press and the political left, will not revert to authoritarian patterns of government. In their effort to improve Japan's domestic and international strength, however, the conservatives will probably attempt to narrow the range of individual freedoms and to place greater restraints upon the activities of organized labor and subversive organizations. The conservative program probably will continue to give priority to measures designed to improve Japan's national unity and strength. The influence of the bureaucracy and the military will probably increase gradually but we believe that, except in the event of serious and extended crises, civilian political leadership will continue to control national policy.

### Economic Situation

40. The Japanese economy has demonstrated a considerable capacity for recovery and growth during the postwar period. Its large and flexible industrial plant is generally producing at levels only slightly below the peak achieved during World War II.

TABLE I  
INDUSTRIAL PRODUCTION  
(Indexes 1934-1936=100)

	Peak Year	1950	1954	Percent Change Over Previous Year	
				1953	1954
Total	179 (1944)	84	167	23	8
Mining	147 (1943)	97	117	7	-5
Manufacturing	182 (1944)	82	174	25	9
<u>Durable Goods</u>	320 (1944)	110	213	22	2
Lumber	177 (1954)	120	177	8	4
Ceramics	177 (1939)	98	175	13	12
Metals	243 (1943)	97	192	19	4
Machinery	463 (1944)	126	257	22	-4
<u>Non-Durable Goods</u>	150 (1954)	67	150	26	14
Food	192 (1954)	84	192	41	18
Textiles	114 (1937)	41	82	16	7
Printing	115 (1937)	45	110	36	3
Chemicals	267 (1954)	103	267	29	23
Rubber and Leather	172 (1953)	114	171	31	-1

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While agricultural production is approximately 15 percent above prewar levels, the population has increased about 27 percent in the same period. The gross national product climbed to a level of \$20.36 billion in 1954 — a figure which in real terms is about 40 percent above the 1934–1936 level. Both the per capita GNP and consumption levels in 1954 were about 10 percent above prewar. Housing, however, has not recovered to prewar levels.

41. Japan's rate of economic growth slowed considerably in 1954 as a result of the tapering off of economic activity generated by the Korean War and because of the deflationary measures initiated by the Japanese government in late 1953. In 1954 Japan's GNP in real terms increased by only three percent in contrast with a 12 percent increase in 1953. Japan's capital formation as a percentage of GNP also declined in 1954, but it has continued at a rate comparing favorably with that in Western European countries, although per capita GNP is substantially smaller.

	1953–1954	1953–1954
	Per Capita GNP (in US dollars)	Gross Investment as a percentage of GNP
UK	941	16
West Germany	672	25
Italy	395	19
Japan	227	25

At the same time the decline in internal prices induced by deflationary measures, and the adoption of export incentives, together with the generally high level of international economic activity, produced some improvement in Japan's balance of payments in 1954.

	1952	1953	1954*
	(US \$ millions)		
Current Transactions			
Exports, f.o.b.	1,276.0	1,257.8	1,593.7
Imports, c.i.f.	2,031.8	2,404.7	2,399.4
Trade Balance	-755.8	-1,146.9	-805.7
Nonmonetary gold	5.6	2.4	2.7
Special dollar earnings	804.9	785.8	575.2
Investment income	-4.9	-23.1	-38.8
Transportation and insurance	184.3	171.8	188.3
Other goods and services	-8.4	4.9	25.6
Balance of Current Transactions	225.7	-205.1	-52.7

\* estimated

During the first six months of 1955, Japan had a surplus in its foreign exchange transactions which was equivalent to about \$140 million in contrast to a deficit of \$177 million during the same period in 1954.

42. Japan's relatively rapid recovery was greatly stimulated by the large-scale grants of US assistance and special US dollar expenditures in Japan. In the early postwar years, 1946–1949, the economy was kept functioning by direct US economic assistance of some \$2 billion. In the following period, 1950–1955, the Japanese received some \$3 billion partly from direct economic assistance that continued into 1951, and partly from special dollar earnings from US government expenditures for military and other procurement and the dollars spent by UN troops in Japan.

	Trade Deficit (US \$ millions)	Special Dollar Earnings (US \$ millions)	as percent of Trade Deficit
1952	736	860	114
1953	1,135	786	69
1954*	806	575	71
1955*	650	450	69

\* estimated

43. Despite its economic recovery and growth in the past few years, Japan is still dependent on special dollar earnings and has made little progress toward solving basic economic problems. Japan must expand its exports substantially in order to offset the imports that will be required to enable its economy to support a rapidly growing population (about one million per year) in a country which has limited natural resources. At present nearly 25 percent of Japan's food must be imported. Crop yields are already high on Japan's intensively cultivated arable land, and the marginal increases in productivity expected in the future will probably not keep pace with rising consumption requirements. Other physical resources are limited in type and quantity. Japan must import nearly all its sugar, raw cotton, wool, and crude petroleum and large quantities of refined petroleum, rubber, coking coal, iron ore and scrap, and nonferrous metals.

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44. One of the limitations on Japan's ability to increase its exports has been the high costs of production and the uneven quality of Japanese goods. Fuel and power costs are high in Japan and interest rates on loans for capital investment range around 10 percent. Wage rates for labor are low relative to other industrial countries, but so is labor productivity. Low productivity is a reflection of obsolescence in plant and equipment, the generally low level of industrial technology, and the common practice of underemployment of labor. Japanese industrialists have in general failed to adopt contemporary production management and cost accounting procedures. Depreciation reserves are frequently nominal. There has been a tendency to maximize immediate output at the expense of long-term improvements in efficiency, and maintenance is often inadequate.

45. Japan's trading problems have also been complicated by the necessity of developing new export markets and new sources for important raw materials as well as by changes in the pattern of demand for Japanese products. The Western hemisphere, particularly the US, has largely replaced the Chinese mainland and Korea as a major source of many of the basic commodities needed by the Japanese economy. In the postwar period the US had 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 15 percent in 1954; mainland China by itself accounted for 15 percent of all Japanese exports in 1936 but for only about one percent in 1954. This shift has been an important factor in Japan's balance of payments difficulties largely because the expansion of Japan's exports to North America has been limited both by trade restrictions and the similarity of the products of the Japanese and US economies. In an attempt to secure more of its basic commodities elsewhere and to further expand its markets, Japan has sought to develop South and Southeast Asia as a major trading area. Japanese trade with the area has increased more rapidly than its trade with other areas, but in

real terms has only recovered to prewar levels. Japan's efforts to expand its trade with South and Southeast Asia have been impaired by discriminatory trade barriers and foreign exchange shortages in the area. Moreover, antagonism toward Japan and fears of a revived Japanese economic imperialism, the demands of economic nationalism, the unsettled reparations questions, and the continued economic ties of the newly-independent countries to their former mother countries have also hampered the expansion of Japanese trade. Japan's exports are now about one-half and imports about three-fourths of prewar levels in real terms.

46. Japan's trade and payments problems arising from postwar shifts in trade pattern are also complicated by the inconvertibility of currencies. The following table indicates the currency pattern of Japanese trade:

	1935	1951	1952	1953	1954
	(In percentages of total trade)				
<u>Exports</u>					
Dollar area	51.1	23.4	31.2	38.4	34.4
Sterling area	27.1	45.2	42.4	24.7	30.3
Open account area	22.8	31.4	26.4	36.9	35.3
<u>Imports</u>					
Dollar area	50.8	59.0	60.2	54.2	58.5
Sterling area	26.7	23.3	24.7	25.0	18.2
Open account area	22.5	17.7	15.1	20.8	23.3

47. Japan's response to its economic problems has been conditioned by a variety of factors. Prior to 1949 the occupation authorities did not place emphasis on solving Japan's economic problems, but allowed direct US economic assistance to support the economy. Moreover, US assistance, while contributing to economic recovery, allowed Japan's government and business leaders to delay taking actions to make Japan's economy more self-sustaining. During the Korean War, Japanese production was greatly stimulated, but basic problems remained and new problems of inflation and excessive imports developed. It was only in October 1953 that the Japanese government faced these problems and initiated an austerity program. The main elements of

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this program were restrictions on bank credit, tighter controls on the use of foreign exchange, reduction of government expenditures, and the balancing of the budget at a level slightly less than one trillion yen (\$2.8 billion). The impact of the deflationary program on the economy was relatively mild, but wholesale and export prices declined and imports were cut back. However, the deflationary program has been gradually relaxed since late 1954.

48. Other programs to increase productivity, to cut costs, and to facilitate trade have continued or have received increased emphasis. To facilitate production for export, the government has reduced interest rates on loans to export industries and has made special allocations of foreign exchange to assist in importing goods needed by export industries. High costs and low productivity are being attacked through the application of science and technology and by increased sponsoring of foreign technical assistance. However, the government is unwilling to offer sufficiently favorable terms to attract foreign investment.

49. To facilitate expansion of exports the government has encouraged integration and combination among trading companies enabling them to strengthen their competitive position in foreign markets. It has also adopted a series of measures to gain increased acceptance of Japanese products abroad. Japan has established trade and payments agreements with virtually all non-Communist countries, except the US, but these agreements are so drawn that Japan is still vulnerable to unilateral actions that could increase restrictions on its trade. Japan has finally won admission to GATT (General Agreement on Tariffs and Trade), but many of its principal trading partners have reserved the right to withhold from Japan the benefits of membership.

50. Japan has attempted to deal with the trade barriers and high tariffs imposed in particular by the dollar and sterling countries through negotiation. It has gone so far as to impose export quotas and financial restrictions on manufacturers of some products destined for these areas in order to allay fears of dump-

ing. These measures have had some success in the sterling area, but Japanese exports to the US have not increased significantly. The Japanese hope to increase their trade by achieving a larger role for Japan in providing technical assistance to underdeveloped nations. So far the slow rate of economic growth in South and Southeast Asia has disappointed Japanese expectations for an increase in trade with this area. However, the Japanese are hopeful that increased US economic and military aid to South and Southeast Asia will expand Japanese trade opportunities. The Japanese have not neglected their "traditional" market on the Asian mainland. Japan's trade with Communist China increased during 1953 when restrictions on this trade were relaxed and a further sharp increase occurred in 1954 as a result of improved trading arrangements. However, Japan's trade with Communist China remains only 1.2 percent of Japan's total trade.

#### *Economic Trends*

51. Japan's economy will probably continue to expand through the next year or so, though at a considerably slower rate than in 1950 to 1953. It is almost certain that major features of the deflationary program will be modified during this period, thus stimulating economic activity. However, if favorable trends in world economic conditions continue and if defense expenditures are not increased substantially, we believe that Japan's foreign exchange position will not deteriorate seriously despite declining special dollar earnings.

52. For the next year or two, the Japanese economy has sufficient strength and reserves to enable it to withstand a mild economic shock, such as a minor recession in world economic activities. However, a substantial decline in these activities would have serious repercussions for Japan. It would lose access to many of its more important export markets and thus would find it increasingly difficult to finance imports. Internally, this would probably give rise to lower consumption and employment levels, and such a situation could weaken the position of a moderate conserva-

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tive government. Such a decline might also provide additional arguments for reductions in defense expenditures.

53. In the long run, Japan can provide increased employment opportunities and secure a rising standard of living only if it can balance its 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 increased production of export goods, and increased imports of consumer goods will be required to meet the demands induced by rising levels of income.

54. By 1965 Japan's population will probably have increased from 88 million to 97 million, and its labor force from 40 million to 49 million. To maintain a relatively high level of employment and to provide for normal increases in living standards and per capita productivity, gross output would probably have to rise from \$20 billion to about \$32 billion — an annual growth rate of 4.2 percent. A high level of investment in productive plant would have to be maintained and imports would have to increase to an annual rate of about \$4 billion (compared with the current level of 2.4 billion). To finance these imports and to replace special US dollar earnings, Japan's commodity exports would have to increase from \$1.6 billion to \$3.4 billion. It should be noted, however, that Japan might make such strides in the use of synthetics and other substitutes as greatly to increase self-sufficiency and substantially alter long-term import and export requirements.

55. We believe that Japan could, with effective government economic leadership, make substantial progress toward meeting the purely domestic requirements for a steady expansion of output. It can reduce costs, improve industrial technology, and increase productivity. Japan has consistently demonstrated the capacity to invest 20 to 25 percent of GNP.

56. However, the problem of expanding exports is, in large measure, beyond Japan's control. Although Japan will probably succeed in mak-

ing its exports more competitive, expansion of its markets will probably continue to be hampered by trade restrictions. Moreover, while Japan will seek new outlets in the underdeveloped countries, these markets will not increase rapidly because of the political instability of these countries and their limited economic ability to absorb aid. Further, Japan will constantly face keen competition from Western industrial nations in these areas.

57. Japan would like to increase its trade with Communist China, and a moderate increase in present levels is likely over the next few years. Expansion in the short run will be limited, however, by Japanese desires not to offend the US. Japan will also be concerned not to jeopardize its important trade with Taiwan by a too close association with Communist China. With present controls, we believe that by 1957 Sino-Japanese trade might reach an annual figure of \$70 million each way. If controls on Chinese trade were lowered to the level now applied against other Bloc countries, we believe that by 1957 Sino-Japanese trade could probably be raised to at least \$100 million each way. It might even reach \$150 million, but we believe this would require some diversion of Chinese trade from other export markets. However, the long run prospects for resolving Japan's economic problems through a large scale expansion of China trade appear poor even if all controls are removed. As a result of its program of industrialization and the reorientation of its economy toward the Bloc, China is now either consuming internally or exporting to the Bloc a large portion of the grains, iron ore, and coking coal that Japan would like to import. Japan is wary of becoming dependent on Communist China as a major trading partner and Communist China could not undertake a large-scale expansion of its trade with Japan without disturbing Sino-Soviet economic commitments presently underlying its basic development plans.

58. We believe that even with favorable world conditions, Japan will probably require foreign economic assistance for several years, at least, and that the Japanese economy will remain extremely sensitive to major fluctuations in

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the international economy for the next decade. Further Communist advances in South or Southeast Asia would obviously have a serious economic impact on Japan.

## Military Situation and Prospects

### *General Considerations*

59. Japan's conservative governments have favored a moderate program of rearmament. They realize that only through some measure of rearmament can Japan insure internal security and contribute to its national defense, increase Japan's influence in international affairs, and secure greater independence in relations with the US.

60. However, the extent, nature, and pace of rearmament have been major sources of disagreement between the US and Japan and have been divisive issues in domestic Japanese politics. Although there is now a general acceptance of the need for Japan to have its own defense forces, even on the part of most socialists, popular opinion does not support a rapid or sizeable build-up of the armed forces beyond their present levels. Some groups oppose large-scale rearmament because they fear resurgence of military influence on government. Many also argue that no expansion of authorized strengths can be undertaken without revision of the war renouncing article of the constitution. Such revision is opposed in principle by the left wing parties who fear that if the constitution is once amended it would be easier for the conservatives to make further revisions which would modify constitutional guarantees of personal rights and freedoms. It is widely believed that Japan has no need for large forces since it has no expansionists aims, and it is frequently argued that any forces which Japan could support for the foreseeable future would be of little value in defense against a major foe with nuclear weapons. The socialists claim, and this view may be shared by some conservatives, that rearmament under present circumstances of dependence on the US would create forces that would act as an instrument of US rather than Japanese policy. However, the most widespread arguments against larger defense

forces rest on economic grounds. The Japanese and particularly the government, argue that Japan cannot afford to allocate substantially more funds to defense until the economy is on a sounder footing. There is also strong pressure to devote more funds to social welfare at the expense of rearmament.

61. The Japanese government, under both Yoshida and Hatoyama, has been responsive to public opinion on the question of rearmament. It has been unwilling to support the long range force goals, except for the air force, considered desirable by the US.

62. In deference to constitutional limitations, Japan's military services are still called "Self-Defense Forces" and as such lack the prestige of regular military establishments. Morale is good in all services and lack of a conscription law has not yet affected attainment of authorized strength since ample qualified volunteers have been available. However, the armed forces suffer from a shortage of funds, facilities, and equipment, and from uncertainties and lack of coordination in top level government planning.

### *Ground Forces*

63. The Ground Self-Defense Force (Army) is currently organized along US lines into a two division corps with supporting combat and service units, and four separate divisions each with organic support units. The GSDF is currently effective at the Battalion Combat Team level. It has an authorized strength of 150,000 men and an actual strength of about 131,000.

64. A force-wide reorganization and expansion from a four division to a six division force which took place last year improved its potential effectiveness and made possible the transfer of responsibility for the ground defense of Hokkaido from US to Japanese units. Under currently proposed force goal limitations of 180,000 men, the GSDF will remain much too small to defend Japan against large-scale Communist invasion and it will continue for some time to be dependent on US sources for logistical support. However, the GSDF is capable of maintaining internal security and its effectiveness as a small, mobile combat

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force will continue to improve through training and modest expansion.

#### *Naval Forces*

65. The Maritime Self-Defense Force (Navy) has an authorized strength of 19,400 men, and an actual strength of 15,000 men. It has two destroyers, 20 escort vessels, one submarine, and numerous minesweepers, amphibious vessels, and auxiliaries. Most of the major type vessels are on loan from the US. The MSDF is currently capable of conducting limited ASW, minewarfare, and escort operations within the Japanese coastal waters. Its air arm, consisting of 961 men and 57 aircraft, was officially established in August 1954 and is engaged primarily in training activity. Japan's Maritime Safety Board (Coast Guard), with its 10,000 men, 95 patrol craft, and 300 other small craft, is utilized in a security capacity and is available to augment the MSDF in event of war.

#### *Air Force*

66. The Air Self-Defense Force is still in an early formative stage. It has 92 training and transport aircraft and no combat capability. With USAF support, the ASDF is engaged in an intensive training program and present plans call for the development of a force of fighter, fighter-bomber, and transport type aircraft. By the end of 1958 some units should be capable of assisting in the defense of Japan.

#### *Internal Security*

67. Primary responsibility for Japan's internal security is charged to the NPA (National Police Agency) which has an authorized police strength of 114,715 organized into seven regional bureaus. Although the police can maintain internal security in an emergency not accompanied by an act of external aggression, they cannot protect isolated military installations from sabotage. This vulnerability to sabotage poses a definite threat to US forces in Japan. In the event of an uprising during an invasion it would be necessary for military units to reinforce the police. Gradual improvement in the security picture is anticipated as the police and other internal security agencies gain self-confidence and as they learn

to utilize their existing powers more effectively. However, significant changes must await the passage of adequate security legislation. At present there is no antiespionage law nor any general law protecting Japan's own defense secrets. There is, however, a law to protect MDAA (Mutual Defense Assistance Agreements) secrets and a weak statute against subversive organizations.

#### *Industrial Support*

68. Japan has the industrial potential and the fundamental skills necessary to support a large-scale expansion of its armed forces. However, such an expansion could not be carried out without a heavy government investment in defense industries. We believe that such a program is unlikely, at least for the next few years.

69. Japan is now dependent on the US for most heavy and specialized items of military equipment. Japan is producing light weapons, ammunition, and service equipment, though not yet in sufficient quantities to meet current requirements. It is also producing small naval craft up to and including destroyer types and is planning to manufacture US type aircraft with US financial and technical support. Domestic production of light military equipment for Japan's own forces and for export will probably increase moderately. In the main, however, the Japanese are unlikely to divert any substantial portion of their budget to increased armaments production. Rather, they will seek continued US assistance, both in the form of end items and as financial aid in the development of armaments production facilities.

#### *Research and Development*

70. Japan has the skills and talents for applied research and development in modern weapons. Research in military fields, however, is handicapped by opposition to large-scale rearmament, by lack of funds, antiquated facilities and relative isolation from the rapid postwar developments in weapons systems. Therefore, Japanese scientists and engineers will be heavily dependent on US and other foreign data and experience for the next

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few years. Nevertheless, the Japanese will probably devote increased effort to military research, particularly in the fields of electronics, jet engines and aircraft, guided missiles, and eventually nuclear energy. With the completion of modern research facilities some of which are already being built, the Japanese will be undertaking increasingly independent programs of weapons development particularly after 1960. For example, Japan may be producing air defense weapons systems of its own design by 1965.

#### *Future Plans*

71. We have no clear evidence that Japan's military leaders have developed, or discussed with political leaders, long-range strategic plans. It appears, however, that the military leaders are aware of the importance of modern weapons and desire to emphasize the development of modern defense systems for protection of air space and coastal waters and of highly mobile but relatively small forces for ground defense. Responsible officials are suggesting that Japan's defense efforts should be primarily directed toward development of defenses against air attack. They appear to plan on large-scale US participation in Japan's defense in the event of enemy attack in the foreseeable future.

72. The government's present tentative defense plans call for a modest and gradual strengthening of the armed forces over a six-year period ending 31 March 1961. Under this tentative plan Japan would build its army strength to 180,000 men by 1959 distributed in 6 divisions and 4 brigades. Naval strength would reach 33,000 men and 200 ships, including 17 destroyer types, 23 patrol vessels, and 4 submarines. Most of this augmentation is scheduled to come from domestic shipbuilding facilities. The naval air arm would include 10 squadrons of 12 antisubmarine aircraft each. The air force would expand to about 33 squadrons (700-800 combat aircraft) and about 50,000 men by 1961. These plans fall short of Japan's capabilities in terms of manpower and industrial potential, and will impose a lesser burden on the economy than the defense effort of numerous other countries. Nevertheless,

given the political and economic problems facing Japan, it probably represents the upper levels that Japan will support in its rearmament program over the next few years.

73. Beyond the next few years, the pace and extent of Japan's rearmament will depend on many contingent factors. The pace of rearmament might decline if there were a prolonged relaxation of tensions, and probably would if the socialists won office. On the other hand, a rapid withdrawal of US forces or an increase in international tensions might stimulate an increase in the pace of rearmament. Moreover, a strong rightist government might attempt more rapid and extensive rearmament in order to support a more independent foreign policy. Except in these circumstances, however, we believe that, over the long term, the Japanese government will not devote a large share of its resources to defense.

### III. PROBABLE DEVELOPMENTS IN JAPAN'S POSITION AND ORIENTATION

#### **Trends Through 1958**

74. Most Japanese at present favor a Western alignment, because they feel that this will support Japanese national interests and because they see no reasonable alternative. At the same time there is a growing spirit of independence in the conduct of Japanese national and foreign affairs and an increasing demand for a revision of US-Japanese defense arrangements including a reduction of US forces. There is a feeling that the danger of war and the need for US protection has lessened. There is also a belief that the US will have to defend Japan in any case in order to protect the US position in Asia. Thus the Japanese are more inclined to attempt independent action which may offset their ties with the US and might eventually weaken them.

75. Moreover, irritants in relations between the US and Japan have increased. US pressure for Japanese rearmament, the existence of US bases in Japan, US experiments in the Pacific with nuclear weapons, US opposition to increased trade with Communist China, and the problem of paroles for war criminals are all issues which have troubled relations

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between the two governments. At the same time Japan probably anticipates that US economic support will decline further and that US diplomatic support will become a less vital factor in achieving Japan's objectives.

76. Japan is becoming more critical of US policies, more unwilling to accept US advice, and more eager to find opportunities for demonstrating its independence. Japan's increased assertiveness in its relations with the US is, in part, a natural reaction to the years of close identification of the conservative camp under Yoshida with US policies. Hatoyama and other conservative politicians undoubtedly have felt the need to break with the past, assert their independence and win a "made in Japan" label for both domestic and foreign policies. The prospects are that this reaction against close identification with the US may continue for some time. In this climate, Japan will prove increasingly difficult in negotiations with the US, and will probably seek full consultation on all matters affecting strategic, economic, and political developments in northeast Asia and especially an equal voice in planning for the defense of Japan.

77. Japan will support US policies in the Far East to the extent that such policies are clearly in Japan's interest and carry little risk of military involvement. It would support US military operations in the Far East which would not carry serious risk of involving Japan itself, but would not participate with its own forces unless its own security were immediately threatened. On the other hand, US opposition probably will not prevent Japan from joining other countries in supporting reductions in controls on trade with Communist China. Japan is also unlikely in the next few years to take measures, such as participation in regional defense pacts, that tend to increase military commitments to the West and which they fear would limit possibilities for broader contacts with neutralist and Communist states.

78. General support for a policy of greater independence in foreign affairs has encouraged Hatoyama's government to try to normalize

relations with the USSR and Communist China. Japan has begun talks with the USSR on a peace treaty and has permitted unofficial contacts with the Chinese Communists to grow rapidly during the last few months. At the same time it has been careful not to sacrifice Japanese interests or to risk loss of US support. It has consistently held that the settlement of territorial issues and the repatriation of Japanese nationals are prerequisites to the establishment of diplomatic relations with the USSR. It has shown some skepticism about the value of trade and political relations with Peiping and has been concerned lest contacts with Communist China should prejudice trading relations with Taiwan and the level of US aid for Japan. Despite the current cautious approach of Japan toward the Bloc, we believe that Japan will probably establish diplomatic relations with the USSR within the next year or so. Recognition of Communist China will probably be delayed and will continue to depend in part on the attitude of other non-Communist powers toward China, especially that of the US. If many of the major allies of the US extend recognition to Communist China, the question of recognition would become a major issue in Japanese politics and could strain relations with the US. Short of establishing full diplomatic relations, however, Japan will probably attempt to increase trade with Communist China and may agree to limited official contacts with Peiping for the settlement of specific issues.

79. The Japanese have recognized that conclusion of reparations agreements and establishment of normal diplomatic relations with countries of the Far East are essential if they are to exploit their economic opportunities in the area. Except for the ROK, where mutual antipathy has kept relations strained, Japan has made gradual progress toward gaining a recognized place among the Asian countries. Anti-Japanese sentiment is receding, and Asian leaders tend to recognize the inevitability of closer relations with Japan. Burma has recently signed a peace treaty and reparations agreement with Japan and it is likely that the Philippines and Indonesia will follow suit over

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the next few years. The effective and restrained conduct of Japanese diplomacy at Bandung is probably indicative of the manner in which Japan's relations with non-Communist Asia will be carried on over the next several years.

80. Within the next few years Japan's present position and orientation in Asia are unlikely to be greatly modified. While Japan's strength and influence will probably gradually increase, it will remain dependent on the US for economic and military assistance, and in a larger sense, for strategic security. Japan will not be able in the next few years to develop sufficient military strength and sufficient foreign trade to follow a completely independent policy or to exert any great influence in Asia. There is no desire in Japan to become dependent on the Communist Bloc, and a nonalignment policy, however desirable it may seem to some Japanese, will not be a practical alternative so long as Japan remains economically and militarily dependent on the US.

81. Japan's orientation probably would not change radically if the socialists won power. Any socialist government would probably include Right Socialists who would exert a moderating influence on foreign policy. The socialists would exercise less restraint in relations with the Bloc, particularly Communist China, and they would press for a more rapid withdrawal of US forces from Japan. However, the socialists are no more desirous than the conservatives of becoming pawns of the Sino-Soviet Bloc, and would recognize that it is in Japan's interest to maintain close ties with the West.

### Trends Over the Next Decade

82. Japan's stability, strength, and orientation over the longer run will continue to be peculiarly dependent on developments beyond Japan's control. Japan's economy will remain extremely sensitive to fluctuations in the world economy and Japan may require dollar assistance well beyond 1960. However, if Japan is able to expand exports and to maintain a rate of economic growth sufficient to avoid serious internal instability, moderate conserv-

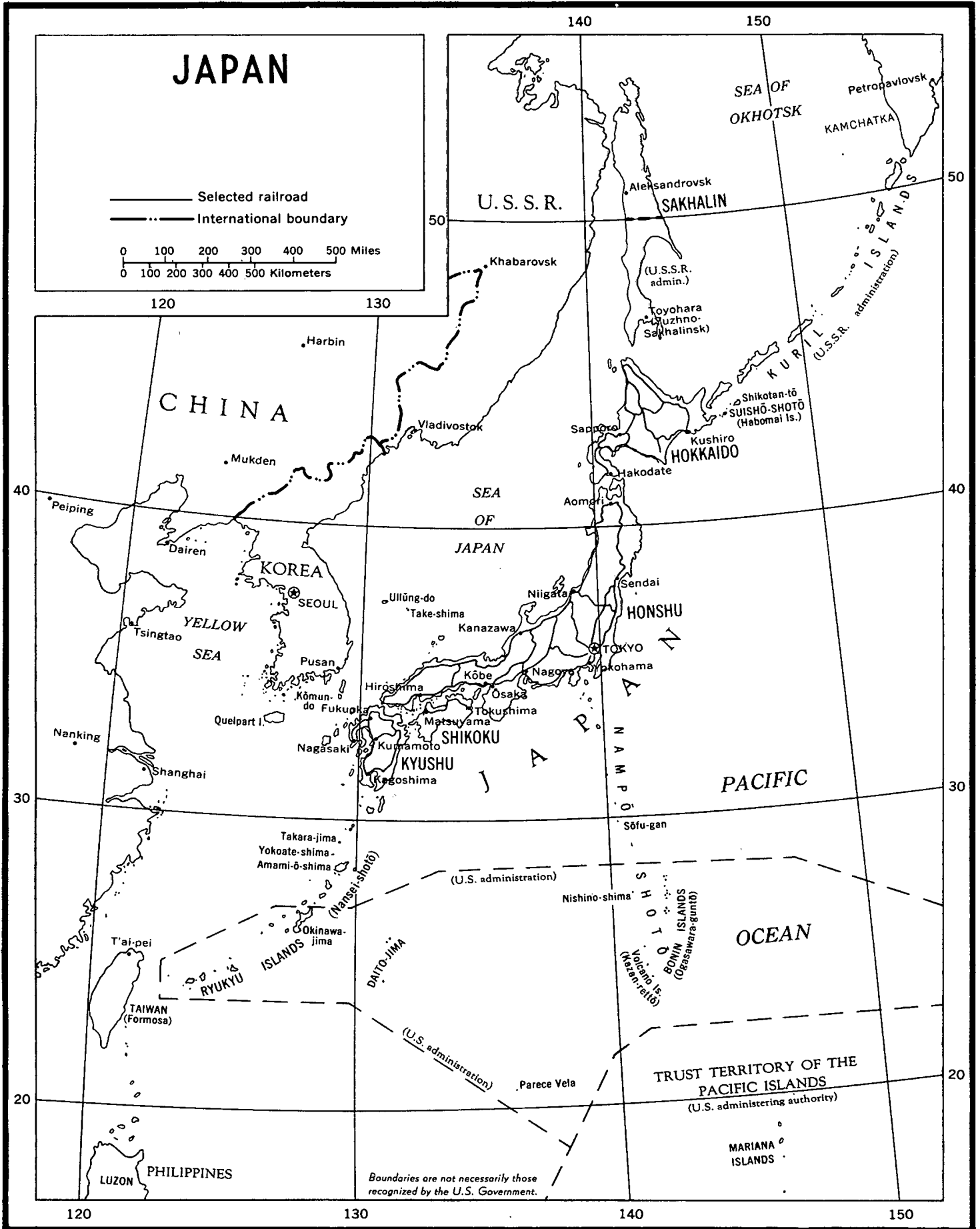
atives will probably continue to control Japan's government. Although Japan will probably maintain its basic alignment with the US over the next decade, it will prove an increasingly difficult nation with which to bargain as it grows in strength. It will seek to make arrangements with the US, and with the Communist Bloc, that enhance its own strength and position in Asia. Within the decade Japan will probably establish relations with Communist China.

83. For many years Japan will not have the economic and military strength to support a politically or militarily neutral position and it is therefore unlikely to alter its general alignment with the US. However, while Japanese governments are likely to continue to look to the US for strategic security, they are unlikely over the long term to agree to the continuation in Japan of bases under exclusive US control. Moreover, in a period of prolonged relaxation of tensions the Japanese might even estimate that they could gain economic advantages and increase their political independence by further weakening their military ties with the US. Even if Japan retained its general alignment with the US, it might attempt to assume a neutral position in the event of an imminent threat of general war, fearing that its ties to the US might invite the destruction of the Japanese homeland through nuclear attack.

84. A prolonged and severe economic recession might bring extreme rightists to power and lead Japan to adopt more opportunistic policies. The accession to power of a rightist, ultranationalist regime would seriously reduce the prospects that Japan could serve as a focal point for the strengthening of free Asia.

85. In any event, Japan is unlikely to develop sufficient power and prestige to play a major role as a leader or defender of the non-Communist Far East over the next 10 years. Given favorable world economic conditions and internal stability, however, it should make gradual economic and military progress. So long as it retains its alignment with the US it should constitute a valuable adjunct to Free World power in the Far East.

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