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Japan's Problems and Prospects

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JAPAN'S PROBLEMS AND PROSPECTS

CONCLUSIONS

A. Japan's postwar political institutions, although not yet put to the test of adversity, seem to be taking root, and the outlook for continued political stability appears favorable. Although the leftist political vote has been increasing, to the particular benefit of the Japanese Socialist Party, the conservative Liberal-Democratic Party will probably retain power over the next few years. (*Paras. 5, 7-9*)

B. Japan's economy continues to grow vigorously. It is, however, heavily dependent on foreign trade and is exceptionally vulnerable to threats to its export markets. A substantial expansion of foreign trade will be necessary if it is to meet its 10-year plan goals. Barring a worldwide depression, Japan's foreign trade outlook is favorable. The economy will almost certainly continue to expand, but probably not at the remarkable rate of recent years. (*Paras. 16, 33*)

C. Japan can be expected to move toward a greater involvement in world affairs and a more self-confident and independent posture during the next few years. Relations with the US will be marked by greater insistence on Japan's being consulted as a full partner on matters of concern to it and by great sensitivity to discrimination against it in US markets. In the absence of a material change in circumstances, there is little prospect of a major alteration in Japan's economic or political relations with Communist countries during the next few years. (*Paras. 27, 28, 34-36, 40, 41*)

D. The US-Japan Security Treaty will almost certainly remain the keystone of Japan's defense and military planning under conservative rule. US bases in Japan will be a sensitive subject and the Japanese would be particularly edgy about their use in con-

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nection with hostilities which Japan did not see as an immediate threat to itself. As economic prosperity increases and national self-esteem reasserts itself, Japan may show a greater interest in such issues as national defense and a more impressive military establishment. Strong antimilitary sentiment will, however, continue to prevail among the Japanese for some time to come, and it appears unlikely that professional military opinions will exert a significant influence on governmental policies for many years. (Paras. 38, 45, 49)

I. INTRODUCTION

1. The postwar period has seen profound changes in Japan's political institutions. A number of elements in the prewar scene—the military, the aristocracy, and the special bureaucracy surrounding the Emperor—have been all but eliminated as political forces. The entire legal and institutional framework of government has been fundamentally reorganized and liberalized; the role of political parties has been expanded, and the position of the opposition protected and strengthened; new elements have access to power; labor unions have emerged as a major force; civil rights have been extended; and the size of the electorate has quadrupled.

2. Economic and social transformation have also brought about basic changes in political life. Traditionally, such divisions between left and right as existed in Japanese politics have been rooted firmly in class and functional distinctions; Japan now appears to be approaching a stage in which such distinctions are becoming much less meaningful. There has been a rapid movement of the conservative rural population to urban areas. Industrialization continues to spread into rural areas, breaking down former social, economic, and political identifications. In both city and countryside, there has been a replacement of older, conservative voters by an anti-traditional postwar generation as it came of age. Moreover, in the postwar period, not only the youth, but all elements of Japanese society have been exposed to the teachings and writings of a predominantly leftist intellectual community which was released from past suppression under a tolerant Occupation.

3. These changes have been conducive to the development of leftist political forces. Nevertheless, the left has found it difficult to exploit its opportunities. Prosperity under capitalism, high employment, a better distribution of income, and the growth of confidence in the future have lessened the appeal of the leftist shibboleths of "exploitation" and "oppression" and have, to some extent, satisfied rising expectations. Japan is also currently experiencing a gradual recovery of a sense of national self-esteem which renders it increasingly advantageous for all elements to think in terms of national rather than class goals.

4. In recent years, some reaction to postwar political reforms has occurred: political figures purged during the Occupation are reappearing; the police system is being recentralized on the prewar pattern; there is also a trend toward the national control of education, and a steady diminution of local autonomy. Such revisionist trends as exist, however, seem limited in scope and do not appear to pose any immediate threat to basic advances made to date. A major control over the tempo

and nature of such trends will be the growing dependence of the political leadership on the mass support of an electorate which is slowly but steadily becoming more willing and able to use its ballots and influence in support of other than traditional candidates and programs.

5. Thus, the prospects for continued moderation in Japan's political institutions and policies seem reasonably good. There appears to be little chance that basic postwar reforms will be abrogated. It should be noted, however, that these institutions have developed in a period in which Japan has not had to face political or economic crises of sufficient magnitude as to put them to the test. While we believe that these political institutions are taking root, it does not necessarily follow that their evolution will insure continued compatibility between Western and Japanese interests, or that other factors, primarily economic, could not at some time bring about a radical change in Japan's current Western orientation.

II. POLITICAL PROSPECTS*

6. *Liberal-Democratic Party.* The ruling Liberal-Democratic Party (LDP) carries with it the prestige of success and the advantages of money and power. The LDP, however, is increasingly aware that it cannot rest on its oars. Many of its leaders realize that it must strive to replace the widely held view that the LDP is a party of "old-guard" politicians, steeped in corruption, enervated by factionalism, and responsive to the wishes of big business. These leaders recognize that the LDP must make the transition from a party based primarily on class to one based on broad popular appeal and gain the support of the growing body of independent voters who support whatever party offers the most attractive programs and candidates.

7. The LDP has proven adept at exploiting favorable economic and social conditions in postwar Japan and will probably continue to do so for some time. The party appears to understand what steps it must take to improve its political prospects and, despite continued factionalism, is making some modest progress. The international status of Japan has improved to the point where a judicious amount of nationalism can be made to work for the conservatives, as Prime Minister Ikeda is seeking to do with his theme of Japan as the "third pillar"—along with the US and West Europe—of the Free World. On balance, we believe the LDP will probably be able to maintain itself in power for the rest of this decade.

8. *Japanese Socialist Party.* The Japanese Socialist Party (JSP) will almost certainly continue to be the only major opposition party during this decade. It is supported by Sohyo, the principal trade union federa-

* See Table I for relative electoral strengths of Japanese political parties.

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tion, with a membership of some 4 million. There has been a long-term increase in the leftwing vote in Japan, with the JSP as the principal beneficiary. If this trend continues at the present rate, the JSP will present a serious challenge to conservative rule by the end of the decade. However, the JSP may find it difficult to continue to advance at recent rates unless it overcomes certain obstacles to achieving a broad appeal to the whole nation. Many Japanese fear that the JSP would follow radical economic policies which might jeopardize continued economic growth and prosperity. The party will have to attune its presently neutralist foreign policy to the main trends of Japanese nationalism and political life: its anticolonialist theme irritates more than it inspires the Japanese, since it equates Japan with the backward nations of Asia and Africa; and its "American imperialism" theme no longer serves as a convincing explanation for all the world's ills.

9. There has been within the JSP in recent years a demand for "structural reform," in effect a movement away from rigid doctrinaire emphasis on class warfare, and there has been some movement along these lines. The degree to which the Socialists will have moderated by the end of the decade cannot be estimated precisely. Long-term forces undoubtedly favor moderation, and some perceptible changes in JSP orientation are likely to occur over the next several years. However, the Socialists as a party have a capacity to cling tenaciously to anachronistic doctrines, and temporary returns to more radical positions cannot be ruled out. Thus far, there is little sign the JSP is undergoing the same process of moderation which has characterized many Western socialist parties.

10. *Democratic Socialist Party.* The Democratic Socialist Party (DSP) was formed by moderate elements of the JSP which splintered off in 1960. It has the support of the relatively small labor federation Domei Kaigi with some 1 million members. The DSP has experienced a steady decline in popular support and parliamentary influence. Many supporters are returning to the JSP with its superior organization and resources. The DSP may at best have a role as a partner in some coalition.

11. *Japanese Communist Party.* Over the next few years, the Japanese Communist Party (JCP) will probably continue to attract attention disproportionate to its size. When it seems politically profitable, it will act with other leftist groupings in demonstrations, directed primarily against US bases and the introduction of nuclear weapons in Japan and for closer relations with the Communist states. Its proven ability to get out the crowds for demonstrations will encourage the other leftist parties, particularly the JSP, to seek its support and to act in concert with it where popular protest seems advantageous. Given a continuation of the present economic prosperity and moderate political

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atmosphere, it seems unlikely that there will be any significant increase in popular support for the JCP or in its parliamentary strength. Its increasing association with Peiping's militant line in the Sino-Soviet split will probably further aggravate internal party dissension and could lead to another defection of party members similar to that in mid-1961 when an important JCP official, Kasuga Shojiro, and a few followers broke away from the JCP and formed the "revisionist" Socialist Reform Movement. Open espousal of the Communist Chinese side would further isolate the JCP from the other leftist forces which, in the main, are unsympathetic to Chinese attitudes on such issues as nuclear testing and coexistence.

12. *Soka Gakkai*. Efforts of both the JCP and the socialist parties to increase their shares of the popular vote will probably be undercut by the Soka Gakkai (Value Creation Society) which is drawing members from the same low-income milieu from which the extreme leftists have traditionally drawn their strength. This partly religious, partly political movement has achieved a considerable measure of influence since 1959, and now has probably several million followers. Its avowed objective is the elimination of corruption through the establishment of its militant Buddhist creed as the state religion, and it pursues this goal by aggressive proselytizing at home and abroad and, to an increasing degree, by political activity. Dissatisfaction with present conditions, personal frustrations, and poverty have played a large part in its growth, but many have joined because they see in the propagation of its creed the salvation of the nation at a time when they believe Japan to be riddled with political corruption and engulfed by alien influences. In spite of its predominantly lower class following, the organization's nationalism and traditionalism leads to some affinity with the LDP.

13. The Soka Gakkai may eventually decline to the status of relative unimportance that has been the fate of numerous postwar quasi-religious movements in Japan. However, its strong and efficient organization, militant recruitment tactics, continued exploitation of antiwar sentiment, opposition to political corruption, and the championing of popular causes point to a probable increase in its growth and political representation over the next few years. Its leaders are young and dynamic, but do not as yet appear to be power-hungry or self-seeking. For the short run, the Soka Gakkai does not appear to pose any major political problem for conservative rule. As yet, its elected representatives have demonstrated neither great political responsibility nor initiative. Greater legislative strength, however, could lead them to develop a more comprehensive political action program. If this should occur, the Soka Gakkai's authoritarian methods and organization, and its nationalistic doctrines, would probably cause it to move to the right; its political philosophy could evolve into a uniquely Japanese form of totalitarianism, which

might eventually pose serious problems for moderate conservative forces in Japan.

14. *Right Extremists.* The number of right extremists is small and they are divided into several hundred groups. There is widespread opposition to the tactics of assassination and terror which some pursue and they are viewed with distrust by the government. They will continue to be a disruptive element on the political scene. However, barring an unlikely coalescence of their forces, they will almost certainly not have a significant influence in government, military, or business circles over the next few years.

III. ECONOMIC PROSPECTS

15. Since the end of World War II, Japan has enjoyed a higher rate of economic growth than any country of the industrial West; between 1958 and 1961, it exceeded that of any other country in the world.* A number of factors have contributed to these successes. Postwar governments have followed policies which have favored economic development and stability and have taken prompt remedial action to offset periodic downturns in the economy. There has been a high rate of domestic savings and investment. The Japanese still work hard and adapt quickly to scientific and technological advances. US aid and offshore procurement were important boosts to the economy, particularly in the 1950's. Many of these factors will continue to operate and will assist in maintaining the current prosperity.

16. Japan is, however, deficient in nearly all the basic natural resources needed to keep the economy running. Thus, the critical element in Japan's economic viability will continue to be its ability to achieve a volume of export trade adequate to pay for vital and increasing imports of sources of energy, raw materials, and food.

17. Japan's consumption of energy will probably nearly double in the next 10 years. Most of the useable hydroelectric power sources have been developed; Japanese coal, though plentiful, is generally not of high grade and production costs are high. Oil deposits are small, scattered, and difficult to exploit, and Japan will have to continue to import well over 90 percent of its crude oil. The development of the Japanese oil concessions in the Persian Gulf will eventually reduce the foreign exchange costs of oil. The cost of developing these concessions and required royalty payments are now, however, resulting in a net drain on Japanese foreign exchange resources. Japan is pushing ahead in the development of nuclear power as an energy source, but the effort has been hampered to some extent by a lack of funds for both basic and applied scientific research. By 1970, Japan plans to have five nuclear

* See Table II for statistics on Japan's economic growth.

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power stations in operation. Nuclear power, however, will probably account for less than two percent of Japan's primary energy output by 1973.

18. Japan will also remain short of many important industrial raw materials. It imports the bulk of its requirements of iron ore and coking coal. Deposits of nonferrous minerals, with the possible exception of zinc, are insufficient to meet needs. All aluminum ore is imported, and minerals to support the chemical industry are generally inadequate. Japan must turn to outside sources for all its cotton and most of its wool, and faces critical shortages in timber for construction and industrial purposes.

19. Through a highly successful program of intensive cultivation, multiple cropping, and extensive use of chemical fertilizers, Japan has made impressive gains in agricultural output, but it still must import about one-fifth of its requirements of foodstuffs. A uniquely effective birth control program has reduced the annual rate of population growth to about one percent, but the slowly expanding population and higher consumption standard will keep Japan a major food importer.

20. Labor problems will add to Japan's difficulties as the economy continues to expand. The ratio of qualified job-seekers to available jobs has been declining in recent years, and the chief labor difficulty in the near future will be to train enough workers in the proper skills to meet rapidly changing needs. At the same time, rapid modernization and rationalization in industry will create troublesome pockets of unemployment, especially in the coal mining and other older industries.

21. Shortage of skilled workers and pressure from trade unions for parity with West European wage levels will probably continue to force wages up, as has been the case since the end of World War II. Thus far, however, rising labor costs have not impaired Japan's competitive position in world markets, since industries producing for export have generally been able to keep increases in productivity ahead of increases in costs. Consumer prices are also on the rise, in part because of increased support prices for rice and in part because productivity in some industries producing consumer goods primarily for domestic consumption and in the distribution system has not kept pace with rising wage costs. The government has not as yet acted to check these inflationary trends and may be forced to unpopular measures in order to do so.

22. Facts no longer support the popular view of Japan as a low-wage country whose exports have an unfair advantage in other markets. There has been a definite shift in Japan's exports away from labor-intensive towards capital-intensive goods, and Japan's current export industries consist mostly of large firms whose average wage levels are relatively high. The role of traditional Japanese export industries such as textiles, toys, and ceramics in Japan's overall foreign trade is declining and low-wage areas such as Communist China, India, Hong Kong,

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Taiwan, and South Korea are now competing with and, in many cases, underselling these traditional Japanese products in the Far East and in other world markets.

23. *Trade with the US.* Japan is acutely aware of its economic and political interdependence with the US and the Free World, and concern for its Western markets will remain the paramount factor in its economic policy for at least this decade. In recent years, the US has accounted for nearly one-third of Japan's foreign trade, with only Canada having greater imports from and exports to the US. Trade between Japan and the US in 1962 reached a new high of \$3.2 billion—exports to the US of \$1.4 billion and imports of \$1.8 billion. Further removal by Japan of restrictions on imports should increase US sales to Japan and Japan will probably continue to be the leading purchaser of US farm products and an important customer for coking coal, iron ore, and capital goods, particularly heavy equipment.

24. A number of crucial problems will plague Japan-US trade relations and may create sensitive political issues as well. Over the past few years, Japan has had serious balance of payments problems, including an important imbalance in its trade with the US. So long as the US faces similar problems of its own, it will be difficult for Japan to increase its exports to the US (visible and invisible) so as to reduce the Japanese import surplus. The suspension of US offshore procurement, the curtailment of US defense expenditures overseas, and the implementation of the Buy-American Act have adversely affected Japan's balance of payments, as well as certain Japanese industries. Also, under the Ship-American policy, the US Government has encouraged preferential treatment for US flag vessels, to the detriment of Japanese shipping earnings. For the short term, Japan's balance of payments will remain a major restraining factor in its economic expansion; as long as this situation obtains, the US will be the chief target of Japanese criticism and Japan will seek means of redressing the balance.

25. *Trade with Communist China.* Trade with mainland China continues to have considerable appeal to the Japanese, who recall the large trade with this area up to World War II. Although developments over the past years on the mainland have weakened the lure of the China market, certain business and government circles in Japan and much of the public look forward to China's eventual economic recovery and the expansion of Peiping's trade with non-Communist countries. The Sino-Japanese trade agreement of November 1962 marked the renewal of quasi-official economic relations between the two countries, broken off by Peiping in 1958 for essentially political reasons.

26. The current pact provides for trade of about \$100 million annually for five years. Actual trade, however, will almost certainly exceed this level, since it is likely that a sizeable volume of business will be con-

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ducted for cash or short-term credit at trade fairs or through "friendly firms"—mainly small, leftist-oriented companies and some dummies of large trade concerns. Nevertheless, mainland China's share of Japanese trade will probably not exceed one to two percent of Japan's overall foreign trade for several years. A number of factors will limit the growth of this trade: Japan will continue generally wary of dependency on Communist Chinese sources of supply and will be unwilling to jeopardize its US and non-Communist Asian markets. Any large expansion of trade with mainland China during the next few years would require the granting by Japan of extensive medium- and long-term credits which the government would probably be reluctant to do. Japan is also well aware of the political pitfalls in dealing with Peiping and the propensity of the Communist Chinese to inject politics into commercial relations. The present limited arrangement appears useful to the Japanese Government: it serves to offset leftist political pressures for increased trade with Communist China; it offers protection against the political liabilities the government would incur if it failed to meet West European competition for the China trade; and it meets minimum demands among the conservative business community for entry into the China market.

27. In the long run, it is possible that Japan's trade with mainland China will grow to an extent not now foreseen—whether due to improvements in the Chinese economy, a persuasive softening in Peiping's policies, a decision by Communist China to look to the Free World for large-scale support for its industrial program, or other factors. Until the end of this decade, however, it seems likely that Japan will move only gradually toward improving its position in the mainland China market, exercising caution and avoiding unacceptable economic or political risks in its relations with the US.

28. *Trade with the USSR.* Barring dramatic changes in Japan's overall relations with the USSR, the prospects over the next few years for Japan-Soviet trade appear to be only slightly better than in the case of Communist China. Over the next three years, Japan-Soviet trade will take place under an agreement signed in February 1963, replacing one which expired in December 1962. However, since the establishment of normal trade relations with the Soviets in 1957, Japan has built up a large import surplus, which has resulted in a considerable drain on Japan's foreign exchange reserves. Even if this imbalance were redressed, Japan would face difficulties in absorbing greater quantities of Soviet materials such as coal, iron ore, timber, and oil, because Japan already has stable and advantageous trading relationships in such goods with non-Communist countries. In all these circumstances, it appears unlikely that Soviet-Japanese trade will increase greatly over the present three percent of Japan's total trade.

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29. It is possible that Soviet plans for the development of Siberia could, over time, give a significant boost to Japan-Soviet trade. The Soviets have dangled such perspectives before the Japanese since 1957, but so far have imposed conditions unacceptable to the Japanese. There is still talk of the Japanese participating in the construction of a Siberian oil pipeline, between Irkutsk and Nakhodka on the Pacific coast. However, prospects for this project are stalled over Soviet insistence on favorable credit terms, Japanese unwillingness to accept increased imports of Soviet crude oil in repayment, and Japan's reluctance to breach Western restrictions on selling large-diameter pipe. The recent extension of a five-year credit to Peiping for a vinylon fiber plant, however, may herald a loosening of Japanese credit to Communist countries for certain kinds of industrial development.

30. *Trade with the EEC.* Japan's trade relations with West Europe have improved markedly as a result of Prime Minister Ikeda's talks with various countries in 1962-1963. Great Britain, France, and the Benelux powers have agreed to discontinue discriminatory trade measures against Japanese products. Periodic cabinet-level meetings and Japan's entry into the OECD should stimulate closer economic relations. However, Japanese exports still face a high Common Market tariff wall and increased trade within the market will be at least partly at the expense of trade with other countries including Japan. For the next few years there will probably not be any great increase in Japan's trade with West Europe beyond the present 13 percent of its total trade (six percent with the EEC countries and seven percent with other West European nations).

31. *Trade with Latin America.* A favorable climate exists for an increase in Japan's political and economic relations with South and Central America. These relations have not been hampered by such special factors as the wartime bitterness that affects relations with many Asian states, or the fear of Japanese competition that influences many European countries. Trade with Latin America has increased in the past few years and was six percent of Japan's total trade in 1962. Despite Latin American inflation and shaky economic and political structures, over half of Japan's official loans and guaranteed export credits in recent years have been to Latin America. Japan is also involved in an increasing number of joint ventures in the region. Part of Japanese interest in Latin America is attributable to successful Japanese emigrant colonies there, especially in Brazil. Japan is making greater publicity efforts and Latin American leaders are visiting Japan with greater frequency, and it appears likely that these and other factors should open the way to a steady if not spectacular increase in trade.

32. *Trade with Non-Communist Asia.* Japan's trade with non-Communist Asian nations is as large as its trade with the US (about one-third of total trade). It has, however, shown little recent growth and, with

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the exception of a few countries, will probably not rise appreciably during the next few years. Inhibiting factors, particularly in southeast Asia, are unsettled political conditions, low purchasing power, and, generally, a large trade surplus in Japan's favor. Also, a number of Asia's non-Communist nations are developing home industries which are protected and in competition with Japanese products. In its search for markets and raw materials, Japan will continue to interest itself in south and southeast Asia. Its reparations program to various southeast Asian countries is improving Japan's image in the area and facilitating trade. Trade with Australia may show a substantial increase over the next few years. Australia is already an important Japanese source for wool, grains, and coking coal, and may also become one of Japan's chief sources of iron ore. Otherwise, however, prospects for a significant increase in this area's share of Japan's trade do not appear promising.

33. *The Economic Outlook.* Japan's phenomenal recovery and growth and its success in dealing with the business cycle have been based on a more or less steadily expanding market for its exports in the non-Communist world. Foreign trade is the critical element in the Japanese economy. The current 10-year plan (1960-1970) calls for a virtual doubling of Gross National Product (GNP) over the 10-year period, an annual increase of over seven percent. This will require more than a doubling of foreign trade. In the first three years of the plan, Japan surpassed the planned goals, averaging about a 10-percent growth of GNP per annum. As has been pointed out above there are difficulties in the path of continued growth at the planned rate, particularly in the cases of the two most important markets for Japanese exports, the US and non-Communist Asia. If Japan's exports fail to increase at something like the planned rate, the economy will suffer. While the government will probably retain the power to offset periodic economic downturn by monetary and other measures, it could not prevent the difficulties which would result from a serious deterioration in foreign trade. We cannot estimate with any high degree of assurance the course of Japanese trade during the remainder of the plan period. However, we believe that, barring a worldwide depression involving the US, the chances are good that Japan's economic growth will continue at a healthy rate.

IV. INTERNATIONAL RELATIONS

34. In the next few years, Japan will probably move gradually away from its postwar insularity and toward a greater involvement in world affairs. This development will almost certainly take place within the framework of a fairly firm commitment to association with the Free World, particularly the US. At the same time, there will be a trend towards greater independence of posture and less inclination to follow the US lead on outstanding international questions.

35. *Relations with the US.* Japan's dealings with the US in the next several years will be marked by greater insistence on its acceptance as a full and equal partner, and by heightened concern over continued access to the US markets. To Japan, partnership will principally mean prior consultation on contemplated US actions affecting Japan's political and economic interests.

36. Continued major economic problems in Japan-US relations can be expected, springing from Japanese export initiatives and efforts of US producers to protect themselves against Japanese competition. The recent agreement on the allowable levels of Japanese textile exports to the US was reached only with difficulty. Further difficulties are likely to arise over Japanese exports of woolens, metals, and machinery. Any settlement involving real or imagined discrimination against Japanese goods can be expected to produce adverse public reaction in Japan and increase pressures on the Japanese Government and in business circles for countermeasures.

37. Japanese attitudes towards military relations with the US are ambivalent. On the one hand, there is general public acceptance of the need for US military protection to insure Japan's security. Thus, the Japanese can be expected to be sensitive to US moves they might interpret as lessening the US commitment or ability to defend Japan from Communist attack. Steps toward further withdrawals of US forces from Japan or a drastic reduction of US military expenditures in Japan would almost certainly create considerable uneasiness and mistrust in Japan, particularly among government leaders.

38. On the other hand, US bases in Japan and related problems of weapons and forces will continue to involve issues of great sensitivity in Japan-US relations. The government is bound to be responsive to the popular pressures which the left can whip up on these issues. We do not believe that this situation will lead to demands by any conservative government for evacuation of the bases. However, the government will be particularly edgy whenever US bases in Japan are used in connection with combat operations which the Japanese do not see as involving a direct threat to Japan itself. The government will probably not feel able to consent to the storage of US nuclear weapons in Japan, but it may finally take the risk of agreeing to allow US nuclear-powered submarines to make resupply visits to Japan.

39. Continued US administration of Okinawa will probably not become an active political issue in Japan during the next few years. The present government and sophisticated opinion recognize the importance of Okinawa to the defense of Japan and non-Communist Asia. If the Japanese should come to believe that the rights or welfare of the Okinawans were being prejudiced or that the US intended to make the present administrative arrangements permanent, the leftists could

whip up popular resentment, and the question of the return of the islands to Japan could become a major issue.

40. *Relations with Communist China.* The present LDP leadership feels that recognition of Peiping and advocacy of its admission to the UN can be avoided for some time since the minimum demands of both the LDP leftwing and the Socialist opposition have been met by the restoration of limited economic relations with the mainland. Moreover, many conservative leaders see real disadvantages in changing Japan's China policy at this time. In the first place, it would offend the US. Also, Japan would lose the considerable commercial benefits it derives from trade with Taiwan, which might not be easily offset by corresponding benefits in trade with the mainland. On the other hand, popular attitudes will probably continue to reflect a preference for recognition of Communist China, a general feeling that Peiping's exclusion from the UN is unnatural, and a widespread desire to expand trade as much as possible. The government is not now under strong pressure to adopt this view as its own.

41. *Relations with the USSR.* Whereas the Japanese recognize cultural and historical affinities with China and believe they can somehow handle the Communist Chinese, the attitude of Japanese toward the USSR has traditionally been marked by distrust, dislike, and fear. Over the past year or so, the USSR has been seeking in various ways to change its unflattering image and to improve relations with Japan. Although surveys reveal the USSR still to be the country most disliked by the Japanese, these Soviet efforts may not be in vain: there will probably be a greater inclination on the part of the Japanese to favor superficial manifestations of friendship and a greater response to Soviet culture and trade initiatives than in the past. This will be particularly the case if Soviet policy persists in its current effort to seek a general relaxation of East-West tensions.

42. The Japan Foreign Office asserts that the only obstacle to a peace treaty with the USSR is the issue of territories seized by the USSR after World War II. Japan might settle for the return of Shikotan and the Habomai islands but would probably not renounce its claims to the two southernmost Kuriles (Etorofu and Kunashiri) except in return for other concessions. In the present phase of Soviet policy, the USSR may make a move to settle its differences with Japan and achieve a peace treaty.

43. *Relations with Other Countries.* Prime Minister Ikeda has publicly committed himself to attempt a settlement of differences between Japan and the Republic of Korea (ROK). In past years, domestic political difficulties and deep-rooted prejudices and animosities on both sides have made the solution of outstanding issues very difficult. More recently, some progress toward ameliorating relations has been made,

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and this movement will probably continue. Japan is informally committed to extend grants and loans to the ROK of around \$600 million as part of an overall settlement. Even if there is no early settlement, Japanese commercial and financial relations with the ROK will probably grow. Japan will probably continue to view good relations with the Republic of China (GRC) to be in its strategic and economic interest. However, a substantial increase in Japanese trade with Communist China would cause severe strains with the GRC and might even face Japan with the alternatives of either reducing such trade or having the GRC break off economic and diplomatic relations with Japan.

44. The Japanese will be concerned to preserve and build up present and potential markets in underdeveloped areas, especially in non-Communist Asia. To this end, Japan will probably take some limited foreign policy initiatives other than those associated with direct commercial advantage. Such Japanese moves are likely in the health, public welfare, and education fields, and the development and gradual expansion of a Japanese technical "Peace Corps" will probably be undertaken by the government. Nevertheless, in these and other projects, Japan's financial contribution will almost certainly be small when compared to the programs of other industrial countries. The Japanese have at various times floated rather vague proposals for regional groupings. The motivation has apparently been to better trade prospects, to emulate the economic groupings in Europe, and to enhance Japan's world position. Similar initiatives may be expected in the future.

V. MILITARY PROSPECTS

45. Barring hostilities directly threatening Japan's security, the next few years will almost certainly see no major changes in Japan's defense policies, military establishment, or assessments of the Soviet and Chinese Communist threats. The US-Japan Security Treaty will almost certainly remain the keystone of Japanese defense and military planning for the rest of this decade. As economic prosperity increases and national self-esteem reasserts itself, it is likely that Japanese concern over such issues as national defense and the desire for a more impressive military establishment will slowly grow. Nevertheless, strong antimilitary sentiment will continue to prevail among the Japanese populace.

46. Japan's current defense outlay is proportionally one of the lowest in the world, and in past years has not kept pace with the growth of either the budget or GNP. There is little prospect for drastic change. Expenditures under the Second Defense Plan (1962-1966) will probably continue to run slightly ahead of scheduled annual increases, but these increases will be partially offset by likely decreases in US military aid before the plan ends in 1966. The annual defense outlay under the draft Third Defense Plan (1966-1971) would come to less than 1.7 percent of the estimated GNP during that period. (European NATO

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countries currently devote about five percent of GNP to defense; the US, about 10 percent; Japan's defense outlay in 1963 was under 1.2 percent of GNP.)

47. Within these severe restrictions, public acceptance of growing defense expenditures and the need for improved defense capabilities will probably continue to grow slowly. Leftist forces will not cease their clamor against US bases, but some moderation of opposition to the Self Defense Forces (SDF) seems possible. With a continuing accretion of the good will already gained by the SDF through disaster relief and other civic projects, its public image will probably improve. Within the next few years, for example, the public will probably be receptive to the elevation of the present Defense Agency to a full ministry.

48. Japan's military can also be expected to make steady, if slow, progress in various aspects of advanced weaponry. The Defense Agency will push development of a variety of Japanese missiles. Japan's research and development on sounding rockets has produced excellent results. While no work to adapt these rockets to a military role has apparently been done to date, Japanese efforts to develop an independent missile system in the future are probable. Nuclear weapons and delivery systems are within Japanese industrial and scientific capabilities, though widespread antipathy within the scientific community as well as among the general public will continue to limit research and development in this field. This situation might change after the Communist Chinese acquire nuclear weapons. Japan might then opt for developing its nuclear program to the threshold of a weapons capability, a point which it would take several years to reach, but it would be much more reluctant to cross that threshold than most other countries. The Japanese military will continue to prepare for the possibility of a change in Japan's anti-nuclear policy by continuing to include tactics for an atomic battlefield in SDF training, and by continuing interest in dual-capable weapons systems. Nevertheless, it seems likely that Japan will continue to rely on the US nuclear deterrent and not try to develop its own nuclear weapons at least during this decade.

49. Pressure from military circles for greater independence from civilian control in military planning and policy will probably grow in the future, and leading military officers may become dissatisfied with the scope and tempo of the Japanese military effort. Nevertheless, it appears virtually certain that professional military opinions are not likely to exert a significant influence on defense policy decisions for many years. Through this decade at least, it is almost certain that Japan's military policies will continue to be determined by the civilian government leadership, responsive primarily to what it believes the political traffic will bear.

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TABLE I

RESULTS OF LATEST JAPANESE GENERAL ELECTION
House of Representatives, November 1960

PARTY	SEATS GAINED	PERCENT OF POPULAR VOTE
Liberal-Democratic	296	57.5
Socialist	145	27.5
Democratic Socialist	17	8.7
Communist	3	2.9
Minor and Independent	6	3.4
	<u>467</u>	<u>100.0</u>

TABLE II

SELECTED STATISTICS ON JAPAN'S ECONOMIC GROWTH

	1958	1959	1960	1961	1962	TARGET GOALS 1970
Gross National Product (Billion US dollars) 1961 prices	30.7	36.3	41.1	47.2	50.3	81.4
Industrial Production Index	67.0	80.3	100	119.3	128.6	260
Exports F.O.B. (Million US dollars) ...	2877	3456	4055	4236	4916	9320
Imports C.I.F. (Million US dollars)	3033	3599	4491	5810	5637	10150

SOURCES: AID Data Book, Washington, D.C., 1963
Japanese Economic Planning Agency

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