

INSTITUTE OF CURRENT WORLD AFFAIRS

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Japan's China Policy in October 1962;  
Steering Between Blocs

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Dear Dick:

Since this is my first report on the China policy of a foreign country I ought to write some introductory comments about research methods and problems which, as far as I can see now, will also be applicable to subsequent countries. It is necessary to say frequently, as an abbreviation for a more complicated statement, that the Japanese think or feel or say so and so. I try to make such statements meaningful by obtaining a representative sample of relevant Japanese opinion; that is, opinion which might significantly influence the content of Japanese policy on China.

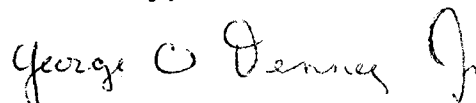
In this rough order of priority, I seek out appropriate government officials, political leaders in support or in opposition to the government, mass media moulders, business and labor figures, scholars, writers, educators and students. I also try to check these opinions with United States Government officials, foreign and American journalists, and other Americans residing in the country. Since my topic is a rather narrow foreign policy problem which rarely crosses the mind of the ordinary person, I do not make any special effort to learn what the "man in the street" thinks about it. A useful source and cross-check is the English-language press. In Japan this is especially helpful because the custom is for officials and leaders to tell reporters what they think and to give details of delicate matters which in the United States would be reserved for a calculated leak. The Embassy lets me have copies of its translations of selected articles from the local newspapers and magazines.

There is a little speech which I give at the start of each interview designed to make clear that I do not work for the State Department, that I am not making policy recommendations to the Senate Foreign Relations Committee and that the Institute expects no more from me than an informed report now and then. Most of my contacts have been well-educated, appreciative of my status and, with few exceptions, have spoken freely in what they have appeared to regard as a normal business interview. I have needed interpreters for less than a third of my talks, but even when English is used on both sides I am conscious of continuous distortion and over-simplification. It is possible to reduce some of the error by asking important questions in several ways, but the best thing is to be suspicious of the accuracy of one's notes.

Even though I am learning many basic facts, figures and cultural patterns for the first time, for the purpose of these reports to the Institute I shall have to assume the reader's familiarity with each country's history and political and economic situation. Some background information, however, which is specially pertinent to some aspect of China relations, I shall provide. Likewise, the history of China and of the two Chinese governments since 1949 would take too much space to review, but there are instances in which my subject country's view of such history may differ from the account generally accepted in the United States or may otherwise illustrate a significant point.

There are several topics which I regret not having time to discuss here. One is the negotiations looking toward normalization of relations between Japan and South Korea. Perhaps I can do so in my next report from South Korea. A second is the so-called Northeast Asia Treaty Organization and its relation to the Asian People's Anti-Communist League. A third is the Formosa independence movement, some parts of which are based in Japan, but it may be better to postpone this until my departure from Formosa. A fourth is the history of Communist China's strategy and tactics toward Japan, as viewed from Japan.

Cordially,



George C. Denney, Jr.

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A copy of Mr. Denney's report, JAPAN'S  
CHINA POLICY IN OCTOBER 1962: STEERING  
BETWEEN BLOCS, accompanies this letter.

R. H. Nolte

INSTITUTE OF CURRENT WORLD AFFAIRS

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## JAPAN'S CHINA POLICY IN OCTOBER 1962 ;

### STEERING BETWEEN BLOCS

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#### A. Summary of existing relationships and forecast

Any globe or map of the Pacific Ocean will show that Japan, about the size of California, is nestled close to East Asia whose vast expanse is governed by Communist China and Russia; 4500 miles away across the Pacific is the continent of North America dominated by the United States and Canada. Closer ties between Japan and America than between Japan and East Asia would, on the face of it, seem unlikely. The presence of a Japanese ambassador in Washington now but not in Peking therefore requires additional explanation and a weighing of history, economics and ideology. Lack of an ambassador in Peking seems unnatural to the Japanese, but how do they weight the scales? If the Japanese had not tried to fight China and the United States at the same time would they have been conquered by, and become economically and politically dependent upon, the United States? No, but that accounts for only the last thirty years; one must count the previous fifteen hundred years of communication, cultural borrowing and trade. Is China's economy not in the control of the Communist Government; whereas Japanese industry is in private hands? Yes, but the difference in systems does not exclude trade; and, moreover, the geography and the respective stages of development of the two economies are basically complementary. Does China not aim to subvert the whole free world, in which Japan is a peaceful and democratic member? Yes, but the Communists have made much economic progress and many necessary reforms in China, and their external aggressiveness may well be aggravated by the isolation which is forced upon them by the United States.

Japan is pondering such questions and, as it begins to emerge from isolation and dependence upon the United States, the idea may occur that it may be possible to steer a course in the Pacific safely off the shoals on either the eastern or western shores.

Since World War II - first under occupation and then under benevolent economic and political subordination - Japan has followed the lead of the United States in dealing with China. Diplomatic relations have been established only with the Government of the Republic of China, which is recognized as the government of all China. Other relations with Formosa are correct and economically mutually

beneficial but are of only moderate importance to Japan. Not much change soon is foreseen.

As the United States has insisted, Japan has officially turned its back on Communist China and has consistently voted with the United States to deny Peking representation in the United Nations. Japan has done so with mixed emotions even though it has not suffered from lack of contact with the mainland. Playing with the West has been extremely profitable to Japan, but it has experienced a nagging unease and distaste for participating in a quarantine of the Communist Chinese regime. There is no more serious difference of judgment between the United States and Japan than that over China policy. The commercially-minded governing majority ask why Japan can not have the best of both worlds without getting into trouble. The opposing economically-dissatisfied socialists, who have been crying in their frustration for a radical neutrality and friendship with China, are beginning to see how unrealistic, and unproductive of votes, such a stand is.

The Chinese Communist Party (CCP) realized the great obstacle to its ambitions if it were confronted by a strong, Western-oriented Japan. Both sweet and sour recipes have been offered. In the 1958-60 period the CCP tried through threats, subversion and a sudden breaking off of trade, to overthrow the Government of Japan and turn it against the United States. The failure of these tactics and economic difficulties at home may have led mainland China to try its current softer approach to Japan. Japan has responded cautiously but readily. Two semi-official, high-level trade missions went to Peking in the fall of 1962. The second is still there at the time of this writing, armed with authority for a five-year barter deal, with credit for China available to the same extent as it is offered by Western European countries. The United States has not said no very loudly, but it has not said yes either, so the Japanese Government is moving gingerly, also keeping an ear cocked toward Chiang. More trade (beyond the \$100 million or so which will be done informally in 1962) is all the Government seeks now, but it would not object to an increase in controlled exchanges of delegations. The Chinese are going to ask for some political steps closer to Japan in return for more trade, but they have said that they realize Japan can not simply break off relations with Formosa. The Japanese might think it appropriate to agree to such things as: (1) exchanges of newspapers and movies, (2) a permanent, non-governmental committee to study mutual problems, (3) a single channel for trading on each side, and (4) permanent trade missions in each country. If a trade understanding is reached, the value of trade will probably grow slowly for the next several years (in the \$200 to \$300 million range) but could become increasingly important to Japan as Communist China's economy matures.

From the Japanese Government point of view, these developments as of the end of October are just about right, and it hopes nothing

will happen to upset the trend. It would like to trade with both Chinas without getting politically beholden to either. It apparently has no plans for political initiatives beyond the present trade venture and will continue to be guided by United States policy. If a socialist government should come to power the field is free for speculation; the Japan Socialist Party platform, on China as well as other subjects, is radical, but it would be a political miracle if the Party were voted into office without substantial rightward modifications in its present positions.

Looking way down the road, an independent and perhaps neutral Formosa peacefully continuing alongside Communist China, both being recognized by Japan and both represented in the United Nations, with the Chinese Communists seated in an enlarged Security Council, would be the solution to the China problem most acceptable to the most Japanese. The governing group does not speak openly of this vision, but few public or private actions are inconsistent with it. In a few years, with the coming of a little more self-confidence, and barring a major change in Asian power alignments, the Japanese may consciously seek to mediate between Communist China and the United States.

## B. Political and Military Relations

1. History - Japan and China knew about each other at least as early as the fourth century A.D. because about 405 the Japanese court adopted the Chinese script. Early visitors to China included monks who brought back to Japan science, architecture, fine arts and the Buddhist religion. Japan's first real capital, Nara, established in 710, was Chinese in its design, religion, architecture and in the language of its laws and public documents. The Mongols under Kublai Khan tried to conquer Japan from Korea in 1281, but the invading fleet was repulsed with the help of a typhoon, which the Japanese called kamikaze, or divine wind. During the 14th century through the 16th century trade was vigorous and Japanese pirates operated along the Chinese coast. In the 1590's General Hideyoshi tried to conquer China but was defeated in Korea by Chinese and Korean soldiers. In the Tokugawa exclusion period (1639-1867) Japan refrained from contact with the outside world, but some Chinese were allowed to stay in Nagasaki and carry on minimal trade.

Commodore Perry "opened" Japan in 1854 and the country thereafter modernized itself rapidly and followed some Western ways in industry, military techniques and parliamentary forms. In 1874 it sent an expedition to punish Formosa (then nominally under China) for killing a few Ryukyans, and the Ryukyus were incorporated into the Japanese Empire in 1879. Thereafter until 1945 Japanese and Chinese interests were almost continually in conflict; Japan growing stronger and more belligerent and China becoming weakened and divided by Western and Japanese imperialism. Japan fought China in 1894-95 and gained part of Manchuria, the Pescadores and Formosa. Japan

participated in the Western military action to put down the Boxer Rebellion in 1900. Victory over Russia in 1905 gave Japan Southern Sakhalin, "paramount" interest in Korea, and Russia's leasehold on the Liaotung Peninsula. Japan was becoming a training ground for China at the rate of 10,000 students a year. 1910 saw the annexation of Korea; in 1914 Japan took the German Islands in the Pacific and the German claim on the Shantung Peninsula; and in 1915 the infamous "twenty-one demands" on China strengthened Japan's position in Manchuria and China proper. Japan was not satisfied and used the Mukden railway explosion as an excuse for invading Manchuria in 1931 and establishing the Manchukuo regime under the puppet "Henry" Pu-Yi. On July 7, 1937 Japan began its undeclared war on China which ended with Japan's surrender on August 14, 1945.

On hearing in 1962 the virtually unanimous Japanese statements about cultural affinity and predisposition toward friendship with the Chinese it would seem wise, in view of the foregoing history, to entertain a question as to the extent of reciprocation from the Chinese.

2. Present relations - Japan's foreign relations were conducted by the Supreme Commander for the Allied Powers from the end of the war until the Japanese Peace Treaty became effective in April 1952. Because of the dispute over representation, neither Chinese government was represented at the signing of the Treaty in San Francisco on September 8, 1951. The Japanese and the Nationalist Chinese Government concluded a peace treaty on April 28, 1952 in which Japan reiterated its renunciation of all claims to Formosa and the Pescadores. The treaty was with a Government of China but was silent on the question of that government's territorial control, Chiang K'ai-shek not being in control of the mainland. A contemporaneous exchange of letters provided, in effect, that if Chiang ever regained control of the mainland the treaty would cover such territory.

Japan has normal diplomatic relations with Nationalist China. The relationship is friendly but neither country is pleased with the attitude of the other concerning Communist China. Neither country has military or security obligations toward the other. The Nationalists aim to prevent Japan from having extensive relations with the mainland and to keep Japan as the major trading partner of Formosa. Japan worries about Chiang's talk of invading the mainland and fears being drawn into such a conflict. Trade with Formosa is of minor significance to Japan. Having friendly relations with the power on Formosa is important to Japan because of Formosa's nearness to the Ryukyus, control over which the Japanese will eventually regain from the United States. The Japanese feel gratitude toward Chiang for not asking reparations from Japan and for quickly repatriating Japanese prisoners after the war. The ideal relationship with the Nationalist Government, from the Japanese point of view, would be maximum trade and minimum political ties. Their comparatively recent control over Formosa and the existence among Formosans living in Japan of an

independence movement make the Japanese aware of dissatisfaction of the island-born under Nationalist rule.

There is an annual meeting of delegations from Japan and Formosa, composed partly of government and partly of private persons, which promotes cooperation between the two countries. Its main business is trade and the group deals effectively with that subject. The Nationalists would like the Japanese to agree to declarations opposing Communist China but the Japanese shy away. Cultural relations between the two countries are limited to several friendship associations and the exchange of delegations from time to time. There is also an avid audience in Formosa for the limited number of Japanese movies allowed to come in.

October 10, 1962 was the 51st anniversary of the Chinese Revolution of 1911 and the subsequent founding of the Republic of China. Messages were exchanged with Japan and carried in the Tokyo press. The Ambassador from the Republic of China discussed the iniquity, bellicosity and brutality of the Communist regime and the necessity and "holiness" of the Nationalist mission of fighting back to the mainland to rescue their brethren. The Japanese Ambassador to the Republic of China praised its improvement in living standards, noted the anti-Communist stand of the Republic, expressed pleasure in the friendly relations with Japan and voiced confidence in the Republic's continued march toward the lofty ideals of Dr. Sun Yat-sen.

Japan's relations with Communist China should be considered from three angles: the official posture, the actual practice and the hopes and attitudes of the Japanese. The official status is easy to describe. Japan has made no peace treaty with Communist China. Japan does not recognize the government of the People's Republic of China and has no diplomatic relations with it. There are no government-to-government agreements or dealings.

Unofficial relations are active and increasing but they have small economic and political significance as yet. Trade, carried on through private channels on the Japanese side, has never ceased. Trade has never exceeded the 1956 high of about 3% of Japan's total trade; it went down nearly to zero in 1960; but it is rising rapidly in 1962 so that it may reach \$100 million, which, however, will still be less than 2% of the total. Cultural exchanges are steady, though carefully controlled by both sides. More visitors to Communist China come from Japan than from any other country. Dozens come from China to Japan in groups each year. Hundreds go to China from Japan in groups each year.

Japanese wishes and thinking about Communist China are of course part of their desires and policy toward the whole outside world. The foreign policy of the governing majority, which appears to have at least five years' tenure ahead, seeks economic progress and greater independence for Japan in cooperation with the West and especially



the United States. Japan admits the advantages of military protection by the United States, but its people fear domestic military revival and nuclear power and so it is easy for them to excuse low expenditures for their own security. Japan would like to be more of a leader among Afro-Asian nations but the Japanese would be more effective if they did not tend to look down upon "backward" peoples. Although Japan has more ties with other countries than ever before, some Japanese still feel unwanted and unloved in the West. These find an extra reason for avoiding a hostile relationship with Communist China. Japan knows that it is only a middle-sized, not a big, power and would like to play it safe between the blocs. Foreign Minister Ohira was in Europe this month and Prime Minister Ikeda will go next month. Intending no slight to the United States and not downgrading the importance of that tie, these statesmen want to protect and enhance Japan's interest in trade with the Common Market.

A large majority of the Japanese people is dissatisfied with Japan's relationship with Communist China. They think the Communist Government ought to be recognized and be represented in the United Nations. They think Japan ought to have the kind of political relations with Communist China which it has with the Soviet Union; that is, wary, arms-length business dealings. They believe an increase in trade would be helpful to Japan and not dangerous. There is agreement on all sides that trade with Communist China in the near future will be small because Japan does not need much of the commodities which China is now able to export. Except for the extreme left, the Japanese would like to continue having diplomatic relations and trade with Nationalist China.

Expressing negatively and summarily these same sentiments, one can say that most Japanese do not fully accept the tenets of United States policy toward China, except the policy of insisting upon a peaceful settlement of differences between the Communists and the Nationalists. Japan acquiesces in American policies on China for several reasons: (1) fear of economic reprisals by the United States; (2) appreciation that "normalization" would bring little new benefit compared with the possible big harm from the United States and the danger of subversion from Communist China; (3) the unwillingness of the Communists to concede that Japan can not turn its back on the West; and (4) reluctance to jeopardize the beneficial relationship with Formosa. Rather than run these risks the Government of Japan prefers to flex skillfully between the pressure from Communist China and the left socialists at home, on the one hand, and the pressure from the United States and Nationalist China, on the other, so as to obtain the economic benefits from the substance of a "two Chinas policy".

3. Attitudes in the government party - The Liberal-Democratic Party holds comfortable majorities in the Diet and has considerable freedom to maneuver on China policy within the domestic political scene because both the LDP and the main opposition party, the Japan

Socialist Party (JSP), agree on the principle that Japan should have closer relations with Communist China. The arguments between the parties are about how fast and how far to go and how much attention should be paid to the pointing finger of the United States. Differences of opinion on the proper degree of change are of course also to be found in the factions and wings of the LDP which vie for ascendancy.

It is unwise for the short-term visitor in Japan to try to describe the power struggle within the LDP or even to say who are in what faction. It is rash for him to pretend to explain the relationships between the party politicians and the government bureaus which they head. It is positively foolhardy to speak authoritatively about the interlocking directorships in banking and industry, the political power of agriculture and small business, the mixture of public and private interests in each Diet member and the ways in which decisions are made. A veteran newspaperman told me that the elective system in Japan is stable and beneficial to those who run it in the same way that Tammany Hall was in New York at one time, except that you can not tell who the bosses are.

There are, however, some distinct shadings of views on China policy within the ruling group. The big issue in the summer and fall of 1962 was the possibility of increasing trade with Communist China. Two high-level, non-official visits were made to Peking by groups of Liberal-Democratic Party and business leaders, and these visits and the preparations for them kept policy-making and speculation active. On the LDP left-hand side were those like Matsumura and Takasaki who were enthusiastic about the benefits to small and marginal businesses of more trade and who dreamed of larger-scale cooperation between Japan and Communist China. On the right were big businessmen like Ishizaka, President of the Federation of Economic Organizations and Chairman of the Board of Directors of the Tokyo Shibaura Electric Company, who worried about contact with communism and the possibility of United States resentment which might dry up loans from Wall Street and restrict imports from Japan. In the center were the Prime Minister and Cabinet who alternated between statements that Japan would do what it thought best regardless of United States wishes and statements that trade with Communist China would probably not amount to much, so there was no use getting excited about it. Helping them were the government experts who made the detailed trade estimates and took the soundings of pressure from the Governments of the United States and Nationalist China.

The views of the pushers toward warmer dealings between Japan and Communist China may be illustrated by the attitudes reported in the Tokyo press of Mr. Kenzo Matsumura, senior leader of the LDP who returned on September 25, 1962 from the first big economic talks in Peking since the 1958 breakdown, and of Mr. Tatsunosuke Takasaki, another senior member of the LDP who departed October 26 for more detailed trade negotiations in Peking. Mr. Matsumura consulted fully

with Prime Minister Ikeda before he left, had ten hours of discussion with Chinese Premier Chou En-lai, and returned expressing his conviction that Sino-Japanese relations would be improved even though Peking's stand on the inseparability of politics and economics remained unchanged. The very fact that Peking warmly received an executive member of the LDP, to which it had always been hostile, seemed auspicious. Matsumura said that Japan should act as a go-between to soften the hard feelings between the United States and Communist China. He thought that it was a most opportune time for Japan to lend a helping hand to the famine-stricken China mainland. He said:

The Communist Chinese people would probably overcome their present crisis even if we did not help them, but it is our historical relationship with China and our moral sense that tells us we should cooperate more closely with that country. I believe that the time is now ripe for Japan to deepen its cultural and economic ties with them, without sticking to the ideological problem.

Mr. Takasaki went further:

Now is the time to increase exchanges in various fields between Japan and Communist China as the two countries have just begun to regain a mutual understanding.

Mr. Takasaki's vision was that someday Japan could build a common market with Communist China and other Asian countries while respecting each other's political systems and that Japan and China might even abandon the nationality of their iron and steel industries to operate them jointly. He admitted that these suggestions were only dreams at present. The Matsumura-Takasaki category also included second-level businessmen who had not prospered as much as others in the booming trade with the West, lesser politicians in the LDP who wanted to attract attention, and opportunists who figured that trade and other ties with Communist China were probably going to expand and so they might as well get on the bandwagon early.

The controlling center group of the Liberal-Democratic Party is inclined to look at the question of China something like this. It starts from the premise that Japan belongs to the free world and can not, realistically, be a neutral. The security tie with the United States may not be enjoyable, but it is necessary for an unarmed Japan. Trade is the life blood of Japan, one-third of trade is with the United States and that portion is growing. Such economic concentration may be risky but it has been profitable. These facts of political and economic dependence being what they are, until the United States changes its China policy Japan has no alternative but to follow its lead. Nevertheless, after reciting the usual rubric about cultural affinity and geographic proximity to Communist China,

the center LDP expresses its belief that the United States should be willing to have Japan trade in a small percentage with Communist China so long as no strategic goods are sent and so long as no political tie is established.

It was annoying to the LDP (and to the public generally) to have Assistant Secretary of State Harriman appear to be lecturing Japan about the well-known dangers in trade with Communist countries in his September 26, 1962 speech, but the Party is slowly accepting the necessity for close friends to speak their minds even if they must disagree. It does not seem to the ruling center that the United States is going to try to halt Japan's renewed flirtation with China mainland trade; if this were the intention, surely Secretary Rusk would have raised the subject when he talked with Foreign Minister Ohira in Washington in early October.

The existing position of Japan vis-a-vis Nationalist China is accepted without enthusiasm as one of the tension-ridden consequences of United States policy. No one believes Chiang will get back on the mainland, but the risk of pushing him too hard and leading him to make a deal with the Communists is perceived. Most LDP voters privately say that recognition of an independent Formosa, together with recognition of the Peking Government, would be the best long-run solution, but meanwhile they are not unhappy with the status quo on Formosa and the tidy Nationalist trade which goes with it.

Although the majority of the LDP may feel that the United States has been overly emotional about shunning Communist China, its members would not be quick to change policy even if a free hand were possible. On Chinese representation in the United Nations, for instance, they do not wish to get ahead of the tide. They would probably wish to abstain from voting on a two-China resolution (unless it had the votes to pass) so as to stay on good terms with both the Nationalists and the Communists.

The Liberal-Democratic Party is far from being "soft on Communism" and yet there is in it a fundamental divergence from the official United States opinion about the best tactics to use with Communist China. One president of a large company turned to an ancient fable for an analogy. I shall paraphrase his argument:

You remember the story of the Wind and the Sun each trying to be first to make the traveler remove his cape. The Wind tried to blow it off, but the harder he blew the more tightly the traveler wrapped his cape around himself. The Sun was successful because his steady heat made the traveler glad to remove his cape. Now the Communists have had control for a few years, but 5000 years of Chinese individualism will sooner or later have its effect on the new regime and it will be easier to live with. When the United States tries to keep China in a corner

the Communists have a whipping boy to use in persuading the Chinese people that regimentation and suffering are forced upon them from the outside.

Why does the Government of Japan aid large delegations of important Japanese to go to Peking to negotiate about trade? Why does not Japan deal the way European countries do which do not recognize the Peking Government; namely, by making contracts at the semi-annual Canton Trade Fair or sending two or three men to Peking without fanfare? Sending a big delegation, such as the 40 representatives of Japanese industries who accompanied Mr. Takasaki on October 26, is reminiscent of the days of old when British merchants had to repeatedly prostrate themselves before the Emperor if they wanted the business, and it gives prestige and helpful publicity to the Chinese Communists. The Japanese say that the mainland is nearby and easy to fly to, but entry is through Hong Kong and then a long ride to Peking. The answer is not simply that the Chinese have outsmarted the Japanese. The Liberal-Democratic Party has internal political problems on its hands. First, activity on the China trade front takes some of the heat out of the JSP attack on the Japan-South Korea "normalization" negotiations. Secondly, the socialist opposition has a popular issue in demanding an end to slavish following of United States China policy. The weeks of well-publicized palaver over Mr. Takasaki's terms of reference enabled the Ikeda Government to show that it was doing something positive to end Japan's separation from China. These weeks of discussion also allowed time to test the mood of the United States Government and business circles. The Japanese love ceremony and large group functions. Moreover, when a delicate mission is to be performed, it is better to have many share the responsibility in case the undertaking turns out badly. There is also the motivation that, if the China trade is going to be lucrative, one should get in on the ground floor.

The right wing of the Liberal-Democratic Party does not favor a change in Japan's relations with the two Chinas. The Keidanren, for example, the Federation of Economic Organizations in which the big banks and big industries are represented, is mildly opposed to expansion of trade with Communist China. Mr. Ishizaka, Keidanren's President, said in early October that such trade would likely have more negative than positive results because of the harm it might do to Japan's relations with the United States. Businessmen of this point of view are inclined to emphasize the difficulty of finding Japanese needs for mainland products, the inferior quality of mainland coal, the emergency which befell Japanese steel makers when the Communists dishonored their iron ore contracts in 1958, and the threat of the loss of trade with Formosa. A minority view in the Keidanren is that more China trade would do no harm if it can be separated from politics, that such trade should be thought of as a bonus and not relied upon, that a foot in the door of a market of 650 million people is only prudent and that the LDP ought to take the political capital out of the issue for the Japan Socialist Party. The whole

right LDP wing has two principal fears. One is that American business will become less cooperative or even take some punitive action on account of mainland trade. Such risk might be small, it is true, this reasoning goes, but in view of the overwhelming importance to Japan of its economic and political benefits from the United States as compared with the speculative nature of increased mainland trade, why take any risk? Communism in Japan is another spectre. More trade will bring closer political ties, just as Chou En-lai has said it must, and political ties facilitate Communist penetration. These rightists deplore the weakness of the state and the lack of patriotism among Japanese. They continue to push for a police law permitting the anticipation of violence. They secretly wish for the amendment of Article 9 of the Constitution so that Japan might have a legitimate and respectable armed force. They feel that a mistake was made in the Constitution which vests sovereignty in the people rather than in the Emperor.

Frustration over Japan's impotence and longing for the good old days of 1940 make the extreme right in Japanese politics an ambivalent ally of the United States. The youth who assassinated Japan Socialist Party leader Asanuma in 1960 regretted before his suicide that he had not six more lives to give for the Emperor. Expedience dictates obedience to the United States on China and other policies, but such support is at the same time felt by such extremists to be galling subservience.

4. Attitudes in the Japan Socialist Party and its chances for power - It might be argued that there is no point in saying much on this topic because the governing LDP has a comfortable margin of seats in both houses of the Diet and because the JSP does not itself speak of winning power in the Diet before five years have passed. The socialists have not held power since a brief period during the early years of the Occupation. I believe JSP attitudes and opportunities are worth discussing because Diet seats do not accurately reflect public opinion. This may be illustrated by the fact that after the July 1, 1962 elections for the upper house the Liberal-Democratic Party had 61% of the seats and the Japan Socialist Party, the Democratic Socialist Party and the Communist Party had 32% of the seats among them, but in the votes cast in the prefectures the LDP received 47% and the JSP-DSP-JCP received 44%. The disparity is accounted for by the heavier weight given by the election law to rural votes in the apportionment of seats, and the LDP relies heavily upon farmers who have prospered since the Occupation land reform program. The long-term urbanization trend, however, favors the JSP, and its strength is slowly but steadily growing.

The JSP attitudes on China policy are radically to the left of the LDP and are in sharp opposition to the policies of the United States. If the JSP carried out its platform there would be big changes Japan's China policy. On the other hand, the JSP probably can not obtain power without moderating its stand. The counter-argument is

that if public sentiment reflects the votes cast for the parties on the left, the LDP will tend to gravitate toward the left on China policy in order to preserve its position.

The main source of strength for the JSP is the trade union movement. SOHYO, the General Council of Trade Unions of Japan, which has a membership of nearly four million, throws its weight to the JSP. There is a wide spectrum of positions in the Party, from the well-organized Communists on the left to socialists on the right who really believe in democracy. One must put a big question mark as to the peaceful relinquishment of power by the JSP if it ever got in. The "mainstream" faction of Eda and Narita now state that violent revolution and dictatorship are not necessary, that JSP could win a parliamentary victory, and that the Party would not insist on permanent rule. Democratic Socialist Party leaders say, "Don't believe it."

The JSP candidates draw much support from intellectuals, teachers, students and journalists as well as a considerable protest vote from people who don't really expect the JSP to win. These voters have foremost in their minds the fact that the JSP holds the blocking one-third which prevents the conservative government from amending the Constitution. They suspect that the LDP would like to rearm Japan, develop nuclear weapons, restrict the rights of women, curtail freedom of speech and press and restore the pre-war powers of the police. The JSP is handicapped because the rapid growth and relative prosperity of the economy give most voters little to complain about. The JSP suffers from being too closely identified with the Japanese Communist Party, and the subscription of some of its leaders to the thesis that "United States imperialism is the common enemy of the socialist countries and Japan" violates the sense of reality of most Japanese. This so-called Asanuma statement, signed in Peking, and other actions by Communist China and the Soviet Union against the common view of the interest of Japan, have lost votes for the JSP. Saburo Eda, the Secretary-General of the JSP, is trying to lead the Party toward more realistic policies which will command more support from the Japanese people.

The JSP platform on China is clear and definite. No change in this plank is under consideration at the moment. A Japanese Socialist Government would immediately open negotiations with the People's Republic of China for diplomatic and all other kinds of relations. The government at Peking would be recognized as the government of all China, including Formosa. The JSP opposes any two-Chinas policy, and the Party has made public its agreement with the Chinese Communist Party on this principle. The JSP expects that the Communists will eventually take control of Formosa and hopes that this will be accomplished peacefully, and as a domestic affair. Through peaceful negotiation American troops should be made to withdraw from Formosa and from the Straits. The use of force in the Straits by either the

Communists or the Nationalists would be equally bad. Peking's representative should be seated in the United Nations as the representative of China and the Taipei representative should be thrown out. A World War II peace treaty should be negotiated between Japan and Communist China, and the treaty with the Nationalists should be cancelled. The JSP realizes that this would open up the question of reparations, but it would be both amazed and unhappy if Communist China made a claim for reparations from a socialist Japan.

The JSP would have exerted greater efforts than the LDP to promote trade expansion with Communist China. The JSP would not have yielded to United States pressure to delay such expansion. Now that the LDP Government appears to be moving in the "right" direction the JSP has mixed feelings; it can not oppose what is being done but it hates to see the LDP profit. The JSP feels bitter toward the Chinese Communist Party which urged JSP leaders to sign the so-called "common enemy" statement referred to above (which hurt the JSP at home) but which has gone ahead toward bigger trade deals with LDP businessmen. The JSP has no objection to continuing trade with Nationalist China under the conditions outlined above.

With respect to cultural relations between Japan and Communist China there is also little difference between the public positions of the two main parties. The JSP blames the lack of diplomatic relations for the low number of Chinese who have come to Japan and believes, correctly, that the Government's true policy is to have as few Chinese coming to Japan as possible.

Some indications of friction between the Japan Socialist Party and the Chinese Communists have been mentioned. A major disagreement occurred in August 1962 at the Hiroshima Conference Against Atomic and Hydrogen Bombs. The big issues were the question of nuclear testing by the Soviet Union and the relative priorities to be given to nuclear disarmament, to national liberation movements, and to anti-United States base protests. The secretariat of the Conference put on the agenda for discussion a report of the July 1962 Congress on General Disarmament and Peace which took place in Moscow. The Communists from China opposed putting the Moscow report on the agenda. Other delegates, including the Russians, disagreed, and the upshot was a compromise under which the report was simply read without discussion. This episode amazed the JSP and SOHYO delegates, but it was only the beginning. The Chinese Communist delegate proceeded to make the following statement, which no Japanese running for office could possibly agree with:

It is clear that nuclear weapons are powerful weapons for peace when they are held by the Soviet Union and other socialist countries. They are used as wicked weapons when they are in the hands of the imperialists. It is erroneous to fail to see this difference.



The Chinese delegate further argued that the ban-the-bomb movement should not have as its primary aim complete disarmament but should struggle against American policies and support national independence efforts. The JSP delegates again had to disagree. At the close of the Conference the Chief Chinese delegate attacked JSP Secretary-General Eda, by name, as the leader of a conspiracy to destroy the Peace Movement of Japan. This attack came as a great shock and led Mr. Eda to reply in a long article in the September 15, 1962 issue of Japan Socialist Review.

Eda reiterated his disagreement with the Chinese point of view. He argued that the anti-bombs movement is "above the difference of classes and political creeds, because of the very nature of thermonuclear weapons and warfare." Thermonuclear war would leave no victors and could not be a war of justice in his view. Eda warned the Chinese Communists that if they attempted to dictate their contrary views, the Japanese socialist movement would have its independence brought into question and would become alienated from the masses. He urged an end to name calling. Eda concluded by pointing out that if the Japanese people and workers gained the impression that the Chinese leaders "would force their own line on the Japanese mass and progressive movements" such result would "help the reactionary forces which continue their policy of antagonizing China."

One JSP official told me that he had to explain the Chinese Communist tactics by their ambition to take a place of equality with the Soviet Union in the direction of the world peace movement. He said that the Chinese favor Soviet nuclear testing because they wish to test nuclear weapons themselves soon. On October 21, 1962 the Peking Radio denounced Mr. Eda as an "agent of United States imperialism".

There is not evidence sufficient to say that this friction between the JSP and the CCP will lead to some change in the JSP policy on relations with China, but the habit of the JSP to endorse almost anything issuing from Peking has probably been broken. A change in China policy alone would not be sufficient to alter the political fortunes of the JSP anyway. How much moderating the JSP needs to do on other questions to gain power is beyond the scope of this report as is the speculation over whether the conservative parties and the military would permit the JSP to hold power if, owing to a shocking scandal or severe depression, it were unexpectedly swept into office. On the latter subject one military figure seemed to have the problem all worked out in his mind. If the JSP tried to change the governmental system illegally, the Self-Defense Forces would not be bound to obey. If the JSP tried to make drastic changes legally and with popular support, the Self-Defense Forces would be split in their judgment about what to do.

It may be of interest to give some individual opinions from within the JSP both to show the range and to suggest that the Party

platform on China policy should be regarded as a maximum goal near but short of which most JSP followers would be satisfied to achieve. Let me paraphrase excerpts from a discussion with a prominent member of the JSP who is a member of its International Policy Bureau and who was a visitor to Peking with the late Asanuma when the famous "common enemy" statement was made:

Q. Why does the JSP object to a two-China arrangement?

A. To recognize both governments would be improper because the Taiwan Government can exist only with United States backing, and it is this backing which causes tension in Asia. It causes Communist China to prepare to use force to liberate Taiwan. If the United States would withdraw its aid from Taiwan, Chiang would collapse and the use of force by Communist China would not be necessary. A peaceful settlement could then be worked out in the United Nations.

Q. What about the wishes of the native Formosans?

A. They should be respected. I have visited Formosa and have found that the people are dissatisfied with the rule of Chiang, just as they didn't like the rule of Japan. They want to rule themselves, but they know that they can not exist as an independent state. The best solution would be to make Formosa part of Communist China and then a peaceful achievement of their desires could be worked out.

Q. Why would the outcome be any different from Tibet, where the natives also wanted autonomy?

A. But Formosans include no Dalai Lama, no counter-revolutionist. The Dalai Lama was a feudal dictator who could not be allowed to continue his oppressive rule. The Formosans are Chinese, after all, and the two groups of Chinese would arrive at a peaceful solution provided the United States did not interfere. Communist China will never agree to a referendum, so the problem can not be solved in that way.

Q. If Communist China will not permit the Formosans to vote their choice, then is it not better for the United States to stay in control of Formosa so that, in the interest of Formosans, it can oblige Chiang to permit a referendum some day?

A. Chiang will never permit the Formosans to have a voice.

Q. The JSP calls for a neutral and defenseless Japan; why not solve the Formosa problem by making it neutral and defenseless?

A. The difference is that Japan is industrialized and can be really independent.

Q. Well, who is better able to help Formosa industrialize; the United States or Communist China?

A. China has had two or three years of trouble, but it is still able to give some foreign aid. There is a delicate problem of national feeling here; it is better to have aid given and received between people of the same race. American aid in Asia has not always been welcome.

In that conversation I felt that I might as well have been speaking to a member of the Chinese Communist Party. In another meeting, however, with a very important person in the SOHYO hierarchy, also a staunch supporter of the JSP, I encountered fewer doctrinaire stances:

Q. How large can Japan-Communist China trade be if Japan gives credit?

A. I don't know; trade is really limited by the amount of China's beans, coal and iron ore which Japan can use.

Q. How would you rate China's ability to repay credits advanced?

A. China's prospects are better than they would be were Chiang still in control. Peking has had its troubles, but it will not go bankrupt because the new China is better than the old.

Q. Would you recommend that Japan have diplomatic relations only with Peking even if you knew that the Nationalists would cut off trade?

A. I realize that trade with the Nationalists has been bigger than trade with the mainland, but Taiwan would have a choice, it need not cut off trade.

Q. How about a two-China policy to save the Formosa trade?

A. That would not be necessarily wiser. From an economic point of view it might be better to have relations with both, but this might be impossible politically.

Q. Which China will give Japan more trouble over a two-China policy?

A. Nationalist China.

Q. Do you think the United States could persuade Chiang to agree to a two-China policy?

A. Chiang would have no choice but to comply, but the United States is not going to do it. It will be better for Japan to recognize only Communist China, but work for the opportunity for the Formosans to decide their own future.

Q. You mean through a free election?

A. Yes, through the United Nations would be one way to do it.

Q. When the SOHYO representatives went to the Conference Against Atomic and Hydrogen Bombs, did they support Mr. Eda against the Chinese delegates?

A. Yes. SOHYO is against the imperialism of the United States, but that is not the main interest of SOHYO. The main issue is the struggle against monopolistic capitalists in Japan. This is the same as I told Robert Kennedy.

A final sample of JSP views comes from a graduate student at Tokyo University, a former national officer in the Zengakuren (All-Japan Federation of Student Government) who was expelled from the Japanese Communist Party in 1958 for criticising Stalinism and who now supports the Eda reform movement within the JSP:

Q. In view of all the harm done by Japan in China during World War II and before, why does the JSP assume that the Chinese Communists are friendly toward Japan?

A. It is hard to explain, but perhaps the guilt feelings among Japanese for these bad actions give rise to an expectation of forgiveness. There is more concrete evidence too: (1) Chou En-lai in a speech said that China would not ask for reparations; (2) treatment of Japanese prisoners-of-war by the Chinese was better than that of the Russians; (3) the Chinese Communist army was well-disciplined whereas Chiang's army was brutal and ill-disciplined; and (4) the CCP has put up Japan-China peace monuments in various places in Communist China.

Q. What is the political orientation of students at Tokyo University?

A. From 1948 to 1958 the Zengakuren was in the control of the Japanese Communist Party but after the "Japanese Poznan" of June 1, 1958 when the Zengakuren passed a number of resolutions complaining of undemocratic processes in the JCP, the leadership has been in the hands of a coalition of independent radical groups. The May 1962 elections at Tokyo University for Junior Class President showed how things are now going. Three thousand votes were cast for five candidates put up by five radical groups. The election was won by the son of Saburo Eda (the JSP Secretary-General), the candidate of the Socialist Student League, a classical Leninist group, with 1000 votes (approximately). The second man, from the Socialist Youth League, the youth branch of the JSP, got 800 votes. The third high, from the Revolutionary Communist League, a Trotskyite outfit, received 560 votes. Number four, from the Structural Reform Faction, made up of former JCP members who now admire Italian CP leader, Togliatti, got 450 votes. Last was the JCP candidate with 190 votes, the least in history on the Tokyo University campus.

5. The Democratic Socialist position - In the fall of 1959 a group of right-wing socialists separated from the Japan Socialist Party and formed the Democratic Socialist Party (DSP). According to DSP leaders today, the JSP and the JCP have the same world outlook and the same Marxian insistence upon permanent revolution, but the JSP is more dangerous in Japan because it pretends to be democratic; hence the split-off of the DSP. The DSP is supported by ZENRO, the All-Japan Trade Union Congress of about 1 million members (growing faster than SOHYO) and by small businessmen and shopkeepers. It needs better organization and less concentration on senior personalities. The Party lost 5 of its 16 seats in the House of Councillors in the July 1962 elections and polled only 7.3% of the prefectural vote. It may be that fragile Japanese democracy is not ready yet for middle-of-the-road parties. Perhaps the samurai spirit of do-or-die and all-or-nothing persists enough to weaken attempts at compromise between the "ins" and the "outs".

The JSP says that Communist China should be recognized and should have Formosa. The DSP, on the contrary, deliberately avoids any pat solution regarding Formosa. It wants Communist China given a seat in the United Nations. The U.N. should decide Formosa's fate; a separate seat is a possibility. The Nationalist Government might be guaranteed on Formosa by the U.N. for ten years and then a plebiscite might be held so that the Formosan people could have a free choice. A referendum for the island-born is essential in any solution. The DSP also disagrees with the JSP that a new peace treaty with Communist China is necessary once Japan recognizes the Peking Government. In other respects the DSP and JSP China policies are similar.

Several responses of a senior leader of ZENRO indicate the moderation of Democratic Socialist Party attitudes and show them to be close to the views of the Liberal-Democratic Party center:

Q. What would be some of the consequences for ZENRO unions if Communist China were recognized?

A. The unions would play a big role in combatting the JCP. For the past two years 1300 leaders of all the labor unions in Japan have been invited to go to the Soviet Union. Mainland China would do the same thing, once recognized. Unless union members become better indoctrinated they could easily be influenced. Unions throughout Asia need to organize to counter Communism; for example, the International Confederation of Free Trade Unions is too weak in the Far East.

Q. If the DSP would recognize Peking, what would it do about Nationalist China?

A. That is a practical question, to be distinguished from the matter of U.N. membership. The United Kingdom recognizes Communist China; yet it gets along all right with Formosa. The real problem is to persuade

Chiang to let the mainland alone and make Formosa independent. The United States and other free countries must persuade Chiang to do this. No doubt there is disagreement among Chiang's followers about the two-China idea. Outside countries can assure those who favor the two-China idea that they will not be deserted when Communist China is recognized too. Japan can play a role here because of its trade, which is important to Formosa, and because many Formosans were educated in Japan. Japan and the United States should cooperate on such a program of persuasion of Chiang.

Q. Do you agree with JSP optimism concerning trade with the mainland?

A. The JSP overestimates the necessity of trade with Communist China because the JSP has Communists concealed within it. Trade with the mainland should be increased, but gradually so as not to scare the Nationalists and cause them to cut off trade between Japan and Formosa.

6. The Sokagakkai - A religious organization practicing the teachings of Nichiren Shoshu, "the Supreme Buddhism," the Sokagakkai has gone into politics in the last few years and has had remarkable success in getting votes among the uneducated poor. Its tenets are humanitarian and pacifist. Its members, organized in ways similar to Communists, are ardent proselytizers and they vote as a bloc. In the July 1, 1962 elections for the House of Councillors they added nine candidates to their six incumbents and now have the third highest party total in that body. Their domestic and foreign policies are extremely vague. Their foreign policy platform lists four items: (1) Establishment of good trade relations with Communist China, (2) Recovery of Okinawa, (3) Return of Northern Territories, and (4) Promotion of Emigration Policy. In two hours discussion with four of their leaders in the House of Councillors I was able to get some amplification of their thinking about China. The Sokagakkai is anti-Communist but its legislators favor diplomatic, trade and cultural relations with both Communist and Nationalist China. The latter is believed to be more friendly to Japan. Chiang should not use force to recover the mainland, where an internal breakdown is believed by Sokagakkai to be likely. Both Chinas should be represented in the United Nations. The Sokagakkai should work to persuade the peoples of both blocs in the world to stop hating each other. This can be done if both sides will keep in mind the objective of serving the happiness of all the people of the world. This is the "great principle of the universe." Beyond this point the argument seemed to me to be circular. It did not, certainly, become any more specific as to China policy.

7. The pull of the United States and the push of Communist China - Enough has been said above about the way various categories

of persons in Japan think about the question of China, and why they do, to warrant the conclusion that the present balance of forces will continue to erode support for the present policy of the United States. Looking at the internal political situation in Japan alone, there is little reason to change the prediction. What if there is a big change in the attitude or the power of Communist China; will that make any difference to Japan? Not much; Japan desires official relations with China for reasons which, for the most part, make the character of the governing regime there irrelevant. The answer is not the same with regard to a change in the amount of influence which the United States can exert on Japan. The United States has been holding Japan back from recognition of Peking. To the extent that tension on the brake is relaxed, Japan will move toward official relations.

Not all of the Japanese rationale is easy to understand. One has no trouble appreciating the argument that one can not begin to persuade the CCP that it is mistaken in its policies until one starts to talk with them. Similarly, the contention that contact between peoples is bound to undermine the control of the CCP is familiar. When it comes to believing in Chinese Communist Government promises, or relying upon unenforceable contract agreements, however, Japanese judgment seems more open to question. For instance, in a conversation with a conservative Japanese businessman he mentioned his willingness to sell, and Chinese interest in buying, a new plant to produce chemical fibers for making textiles. I asked whether it was not against Japanese interest to sell such know-how and equipment to Communist China and thus enable it to compete with the same Japanese products in Asian markets. The answer was that a clause would be put in the contract whereby China would agree not to use the new plant to compete with Japan outside China. Enforceable? No, but this businessman was willing to take the chance that the Chinese would live up to their word.

In the United States the government party is opposed to a change in China policy and the opposition party is even more opposed. In Japan the government party is lukewarm about its China policy and the opposition is strongly against it. Any statement made by a United States government representative on China is immediately attacked by the JCP, JSP and the DSP, at least, as both wrong on the merits and also an unwarranted interference in Japan's affairs.

Even private American efforts in Japan may get into trouble if they touch the controversial China area. The Ford Foundation and the Asia Foundation thought it would be a good idea to assist some Japanese institution to expand its studies on contemporary China. After extensive conversations with scholars in various institutions, it was agreed that the Toyo Bunko (Oriental Library) in Tokyo would accept the responsibility and that the foundations would put up the money for research professorships, a new library and seminar facilities and funds for publications and conferences. The scholars who were to direct the work were middle-of-the-road politically but not

active in politics. Unfortunately the Ford Foundation in New York issued a press release in April 1962 which linked the Toyo Bunko grant with another grant to the Academia Sinica in Formosa and expressed the hope that the results of new research on contemporary China would have some value for United States foreign policy. That was enough. The main Chinese Communist newspaper in Hong Kong attacked the project. The Japanese Communists immediately went on the offensive using the same line: this was tainted money whose purpose was to tie Japanese scholarship to United States and Nationalist Chinese policies in an "academic Northeast Asia Treaty Organization." Articles were written, protest meetings were organized, and various forms of intimidation were practiced. A special reason for the fury of the storm was the existence in Tokyo for the past 10 years of the Chinese Research Institute, a well-subsidized Communist activity, which has had a near-monopoly of influence on Japanese intellectuals with regard to information on mainland China. The Toyo Bunko scholars stood their ground, however, and the project is going forward with some features being delayed. Unless some new factor is introduced, it is expected that the storm will blow over. Some lasting damage has been done. The American educational foundations operating in Japan will have to be very cautious for a long time.

### C. Economic relations

1. History of Japanese trade with mainland China - Before World War II China was the second largest trading partner of Japan, next to the United States. In 1920 China's share in Japan's exports was 26.6% and in imports 17.7%. After 1938 due to the fact that Japan had conquered much of China, and because the rest of the world was stopping trade with Japan, trade with China rose sharply. In 1939 China's share in Japan's exports was 34.1% and in imports 16.6%. Trade with Korea and Taiwan, Japan's colonies, became very important; the pre-war average (1934-1936) indicating that 40% of Japan's trade was with Korea, Taiwan, China and Hong Kong, and China's share was about 15%.

After World War II the forecast was that Japan would have a hard time, having lost her colonies and China, suffering from war damage, surrounded by low-income countries and having to import expensive raw materials from far away. Not so. Japan's iron, steel and chemical industries expanded rapidly, national income increased 149.8% between 1950 and 1960, and per capita income in 1960 was three times the average of Asian nations of the Far East. At the same time, Japan's trade with China, Hong Kong, Taiwan and Korea accounted for only 9% of total trade in 1960. The reasons for this remarkable recovery and trade shift, briefly stated, were: (1) Imports declined as a percentage of national income because reformed domestic agriculture became more efficient and industry shifts meant lower dependency on imported raw materials (like cotton) and a higher ratio of value added by domestic processing; (2) Reductions in ocean freight rates permitted importation of raw materials, including oil and iron ore, cheaply; (3) Abundant, cheap, skilled labor in Japan and the liberal import policies of highly developed countries enabled Japan to expand her



exports rapidly; (4) Due to higher purchasing power, Japan's domestic market expanded, bringing the ratio of total exports to national income down from a pre-war 22.4% to a post-war 12.4%; (5) The unusual Japanese propensity to save provided bank funds for industrial investment; and (6) The weakness of unions and the frugality of owners resulted in low rates of personal consumption and permitted relatively high rates of investment in modern plant equipment.

Post-war trade with China has been small, reaching a peak in 1956 of 2.7% of Japan's exports and 3.6% of imports, declining to nearly nothing after the 1958 Nagasaki incident, and now starting up again but still less than 2% of total trade. This trade up to 1958 was carried on pursuant to trade agreements, private on the Japanese side (with the government looking over the shoulder) and nominally private on the Chinese side. Trade agreements were made in 1952, 1953 and 1955. A fisheries agreement was made in 1955 and extended in 1956. A fourth unofficial trade agreement was made in 1958, but was cancelled in May 1958 before it went into effect as a result of an alleged Japanese insult. The pattern of exchanging manufactured industrial products for China's agricultural and mineral products continued after the war, but Japan's export of finished consumer goods has dropped off relative to fertilizers, steel and machinery.

The 1958 trade agreement included a larger barter of Japanese steel products for coal and iron ore. It also promised that Japan would allow the Communist trade mission in Japan to raise its flag and to have certain protection for its records and activities akin to consular privileges. The Nationalist Chinese Government threatened to cut off all its trade if the agreement were carried into effect. The Kishi Government, then facing an election, yielded and repudiated the foregoing political concessions. In May 1958 a Japanese youth ripped the Chinese Communist flag down from a wall behind a commercial exhibit in Nagasaki. Peking immediately cancelled the whole trade agreement, giving Japanese iron foundries a brief emergency because they had counted on imports of coal and iron ore. In further retaliation the Chinese did not renew the fisheries agreement when it expired in June 1958 and miscellaneous trade with Japanese companies was halted. In August 1958 the CCP passed the word to visiting Japanese Socialist Party members in Peking that trade would not be resumed except in accord with three political principles: (1) that Japan not take a hostile attitude toward China; (2) that Japan not take part in "intrigues for creating two Chinas;" (3) that Japan not hamper normalization of Sino-Japanese relations (meaning cultural relations).

Trade in 1960 reached bottom, China's share in Japan's exports being .07% and in imports .5%. In 1959 the Chinese first began to relax their position by permitting the export to Japan of "special consideration" items, such as lacquer, for which there was regional demand in Japan, or highly prized foods, such as water chestnuts, or supplies to hard-hit industries, such as tung oil. SOHYO, the leftist

Japanese trade union, acted as broker between Chinese seller and Japanese buyer and collected a fee. Japanese buyers had to join Japan-China friendship societies. In late 1960 Kazuo Suzuki, a leftist who had helped organize a Japan-China Trade Promotion Association, had an audience with Chou En-lai who enunciated three trade principles under which China would be willing to do business: (1) Peking desires a government-to-government trade agreement, but pending conclusion of such an agreement, (2) it is willing to continue "special consideration" trade, and (3) it will allow trade only through firms considered "friendly" to China. These are the "three economic principles" to go along with the "three political principles" laid down by Peking in 1958, and the two sets are said by Peking to be inseparable.

"Friendly firms" are so designated by the International Trade Promotion Committee of Communist China upon the recommendation of the Sino-Japanese Trade Promotion Association and the Japan-China Friendship Association. Applicants must pay a small fee which is divided among the associations, the Japanese Communist Party and other organizations helpful to Communist China. About 40 "friendly firms" were designated at first, but the number had grown to 168 by October 6, 1962, according to the Japan Times. It is well-known to all that many "friendly firms" are dummies for companies which prefer not to offend directly interests which they care about in the United States or Nationalist China. "Friendly firms" must allow a member of the Japanese Communist Party to join them, at least in a minor or nominal capacity, but this appears not to have interfered with business. Dummies are often ill-disguised sections of large corporations. Chiang K'ai-shek has not threatened any embargo on account of these subterfuges. "Friendly firms" include, by dummy or directly, the major trading firms of Japan: Mitsui Bussan, Mitsubishi Shoji, Marubeni-Iida Co., C. Itoh Co., Nichimen Jitsugyo, Sumitomo Shoji, Toyo Menka, and so on. Some Japanese government officials believe that it is insulting to use dummies but face is saved all around. The contracts for goods are made at the semi-annual Canton Trade Fairs in the spring and fall. With 168 firms from Japan showing up to do business with the government-controlled Chinese enterprises, the Japanese do some bidding against each other. The Ikeda Government would like to narrow this bargaining to one channel.

Under this "friendly firm" formula trade with mainland China has risen rapidly since 1960. In 1961 Japan's exports were \$16.6 million and imports from China were \$30.8 million. In 1962 for only the first half of the year such exports were \$24.9 million and imports were \$23.9 million. Thus trade values will probably approximate in 1962 the previous peak of 1956 even if no acceleration results from the special Matsumura and Takasaki missions.

2. The Matsumura mission - Kenzo Matsumura is a senior leader of the government Liberal-Democratic Party and more politician than businessman. He is not a member of Ikeda's faction. In 1959 after the failure of the fourth collective private trade agreement with

Communist China Mr. Matsumura went to Peking to see what could be done. He met a stone wall. The statements of CCP officials were offensive to the Kishi Government then in office and the CCP was doing everything it could in Japan to topple the Kishi Cabinet. During the Conference Against Atomic and Hydrogen Bombs in August 1962 Mr. Matsumura sent word to the Chinese delegates that he would be willing to go to Peking again. An invitation from Chou En-lai was forthcoming. Three meetings were held in September between Matsumura and Chou lasting a total of ten hours. Liao Chen-chih, chairman of the Chinese Afro-Asian Solidarity Committee assisted. After the sessions on September 16, 17 and 19 no formal statement was issued, but Foreign Minister Chen Yi gave an interview to Japanese correspondents accompanying Matsumura, from which the following excerpts were quoted by the Mainichi reporter:

According to the Chinese side's way of thinking, I believe the main political obstacle which has been blocking normalization of diplomatic relations between the two countries is that the successive Cabinets have been subservient to the U.S., participated in the plot to establish two Chinas, and regarded China as an enemy. Mr. Matsumura says that this situation can be gradually rectified under the "step-by-step accumulation" formula for economics. We also agree to this view, and we are considering a gradual advance formula. Private trade between the two countries can be expanded through the adoption of the accumulation formula for economics. Friendship between the two countries can also be restored through a political accumulation formula.

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U.S.-China relations cannot be improved because the U.S. has the plot to establish two Chinas. It is the U.S. and not China which is to blame for this. However, we have a different opinion toward Japan. Our relations with Japan should be such as to enable the two countries to co-exist on a friendly basis. Our view toward the matter is not so rigid as to say that we will have no interchange with Japan unless Japan immediately severs its connection with Chiang. This is because we know well about the circumstances that it is difficult for Japan to sever its connection with Chiang immediately. We, therefore, are hoping to accomplish our aim under the gradual advance formula. However, since we cannot consent to the Japanese Government's attitude, there is no need to have diplomatic relations with Japan right now.

Mr. Matsumura amplified this report when he got back to Tokyo on September 25. Mainichi carried the following summary:

Matsumura met the press in the lobby of the airport and made the following statement: (1) Unlike the case of his visit to Communist China three years ago, the two sides were able to reach mutual understanding. He thinks that this opens a road between the two countries and that concrete matters will be decided on the occasion of Takasaki's visit to Communist China. (2) Problems concerning the extension of air lines, postal services and meteorological observation were not settled, but he considers it possible to settle the problem of establishing ship service. (3) In regard to the problem of establishing a new liaison organ between the two countries and to be managed by Liao Cheng-chih and Matsumura, the discussion did not develop to that extent.

The Japanese press hailed these results of the Matsumura mission as steps "toward breaking the present deadlock in Sino-Japanese relations" and as "setting the stage for expansion of Sino-Japanese trade." No one with whom I talked, including those few who opposed the trend, drew a different conclusion.

3. The Takasaki mission - Tatsunosuke Takasaki once worked in a fish cannery in San Diego and was also formerly in the Japanese Cabinet as chief of the Ministry of International Trade and Industry. He was active in the Manchurian steel industry and is now in both the fishing and canning businesses. His views, quoted earlier, suggest that he puts on rose-colored glasses when looking at problems of trade with China. He is certainly not pro-Communist.

Between September 25, when Matsumura returned, and October 26, when Takasaki's mission departed for Peking, a series of meetings and consultations took place between Takasaki and other members of the LDP and between Takasaki and the chiefs of the ministries of Foreign Affairs, International Trade and Industry, Finance and Economic Planning. The government ministers also had their own meetings. Ikeda said on October 6 that it would take five or six years for Sino-Japanese trade to reach the scale of trade with Nationalist China and that people should not dream of the past; but on October 11 he told Matsumura that he merely meant to say that too much can not be expected. Daily reports and speculations on the subject appeared in the press.

The two main issues seemed to be credit and the question of selling ammonium sulphate fertilizer. Regarding credit, the questions were how much to give and on what items. In favor of credit were the facts that the European traders with China had extended some and that in its present economic difficulties China could not buy much without receiving credit. Against credit were the fact that Japan had been unable to comply with all the requests of Taiwan and other Southeast Asian countries for credit and the argument that giving credit was aid, not trade. The ammonium sulphate problem revolved around Nation-

alist China's rumored threat to cancel its purchases of 300,000 tons a year of ammonium sulphate if Japan exported even one ton to Communist China and the opposing fact of Nationalist China's heavy dependence upon trade with Japan.

The Ikeda Government's problem was summed up editorially by the Japan Times (which ordinarily gives the Government line):

Both the Matsumura and Takasaki missions must be labeled "private," that is to say they have no official status, but this does not mean to say that they have no connection with the Government. The latter's position is a highly delicate one. While it does not wish to upset the present over-all pattern of the nation's trade, it cannot refuse to listen to those sections of the nation which feel that trade with China could, and should, be considerably enlarged. The Government, moreover, as in duty bound, is eager to increase the over-all volume of Japan's foreign trade, and if arrangements can be made with Peiping by Japanese businessmen to do more trade with the Chinese mainland it cannot stand in the way so long as this country suffers no political or other injury. .... It must not give offense to the United States, Japan's largest trading partner, nor to the Nationalist Chinese Government in Taiwan with which territory Japan at present does a trade of a total value of \$130 million a year.

With an eye both to Japan-Communist China trade and to the progress in the Japan-Republic of Korea talks (which may result in Japan paying at least \$300 million to Korea) the Ikeda Government decided on October 11 to extend to Nationalist China a \$10 million loan in yen to be repaid over 10 years for capital equipment from Japan for the construction of a dam, power station, shipbuilding yard, sugar mill and a city gas supply system. The Government also decided to extend deferred payment arrangements of from 12 to 13 years to Nationalist China to help import from Japan materials necessary for the construction of the dam and the other installations.

The final Government position on Takasaki's terms of reference was adopted at a Cabinet meeting on October 16. Some decisions were definite; some were masterfully ambiguous as announced. The Government will apply the same trading principles to Communist China that Western Europe is currently applying. The Government will support Takasaki's plan to expand trade with an over-all barter formula over a five-year period. Japanese imports and exports will be controlled so as not to leave an imbalance at the end of five years; but if sales exceed purchases in any year the Government will approve application of deferred payment terms for the Chinese excess purchases. In regard to the applicability of specific trade items and the extent of credit, a case-by-case study will be made comparing the practices now

established between Communist China and West European countries. The major export items are expected to be chemical fertilizers, agricultural chemicals, steel products, chemical fabric weaving plants and farm implements. The principal imports will be soybeans, coking coal, iron ore, salt and corn.

In announcing the foregoing policy the Government probably purposely left unclear whether credit will be given on a case-by-case basis depending on the commodity or whether credit will make up any year-end sale-purchase deficit. What about ammonium sulphate? On October 23, according to press reports, the Government decided to use its good offices to persuade reluctant ammonium sulphate industry representatives to depart with Takasaki and the Foreign Ministry made a request to the Government of the Republic of China not to cancel its purchase contracts for ammonium sulphate even if Japan exports that commodity to Communist China.

The 40 persons who left with Mr. Takasaki for Peking included representatives of companies concerned with machinery, ammonium sulphate and ammonium chloride fertilizers, textiles, fisheries, agricultural chemicals, oils and fats, iron and steel and banking. Many were company presidents, managing directors and executive directors. They were not, however, from the largest concerns in each field. They were presumably each chosen by their respective industry associations and were acceptable to Mr. Takasaki and to the government. They were of a policy-making level of responsibility, but this mission is of such political and economic significance that frequent checking with Tokyo will be necessary.

4. Trade prospects - Takasaki was not expected to return to Japan from Peking until well after my departure from Japan. Not to be able to report the results of his mission is like being obliged to omit the last chapter of a detective story. In estimating the future of Japan-Communist China trade, therefore, I can not do much more than list some things to think about.

The Japanese feel that their 30% trade with the United States is abnormally good, and they are frightened that they might lose it. They worry about United States motives with respect to the Common Market and the new Trade Expansion Act, but they have the comforting fact in mind that Japanese exports to the United States in the first half of 1962 rose by 41% over the same for the first half of 1961. Trade with the Communist bloc as a whole is thought of as a kind of a bonus; good if it comes, but do not count on it. Trade with mainland China, however, brings into play the emotional and historical factors mentioned earlier. United States disapproval is one of the main limits. It is well to remember here that Japanese businessmen do not care as much about their political ties with the United States as we might think they do. They are inclined to sell and buy where the profits are best, and ideological questions come much later. Moreover, the general Japanese public and press do not feel and respond to United States business leverage and government suggestions

as much as Japanese business and government circles do. Only the United States portion of Japanese trade is expanding significantly, and they do not know how long that can last, so the Japanese inevitably are tempted to think that more trade with the Communist world may be the way to fulfill their absolute requirement of continuously expanding trade. Since the United Kingdom has 6% of its trade with the Communist bloc, whereas Japan has only 3%, the Japanese think that the United States should be tolerant of the Takasaki mission.

How long will the favorable conditions continue which made possible Japan's remarkable post-war recovery in spite of a decline in its trade with neighboring countries? There are already signs of a shift from a low-income, under-employment economy to a high-income, full-employment one, and this means that Japan's cheap labor advantage will gradually diminish. Competition is now being experienced from India in textiles and rubber shoes and from Hong Kong in (of all things) transistor radios.

In relation to Japan, Communist China should be thought of as an underdeveloped country. Economic history suggests that Japan's trade with Communist China will go through three phases: (1) importing raw materials, (2) competing with China in third areas in cheap industrial goods, and (3) buying light industrial products from China in return for the sale of heavy, complex industrial items. Right now the barter of China's raw materials for Japan's basic industrial products is all that is possible, and the chief economic limits are Japan's needs for such raw materials and its ability to offer credit. China's foreign exchange balance is drawn down to maybe \$300 million, of which perhaps \$150 million will be used annually to buy food grains and be balanced off against an equal amount of foreign exchange which China should be able to earn in its own trade. Communist China's basic principle has been to keep a balanced trade with each trading partner. In deciding how much credit to extend, then, Japan should lay heavy stress on its estimate of how much China can earn in its trade with Japan and largely neglect China's earning prospects elsewhere.

There are still other questions to be considered in estimating the possible extent of Sino-Japanese trade: (1) the international political uncertainties, (2) the ability of Japan's social structure to withstand subversive efforts from the mainland, (3) the rapidity with which Japan achieves a better distribution of income, (4) the possibility of a serious economic depression in Japan, (5) trade competition from China in products with high labor content, and (6) the relative rates of growth of China's economy and population.

Juggling these many considerations and the impressions of a short visit, I conclude that trade with the mainland will grow slowly for several years and that the farther ahead one projects, the more important trade with Communist China will be for Japan. Whether the percentage of Japan's trade with China will ever get back to the pre-

war level is doubtful because no orthodox Communist country trades with the capitalist world any more than it has to.

5. Japan's trade with Nationalist China - This trade is much more important to Nationalist China than to Japan. It has been stable, with Japan running a large favorable balance which Formosa would like to have put in balance through Japanese investment and lowering of some restrictions on Formosan exports. Most of Formosa's exports to Japan (\$67.7 million in 1961) are foodstuffs, such as crude sugar, salt, bananas and canned pineapple; its imports (\$96.3 million in 1961) are iron and steel products, machinery, ships, rolling stock, textiles and marine products. Formosa's exports to Japan might, of course, be increased if its economy were shifted to maximize development instead of being maintained on a war footing.

6. United States pressure against Sino-Japanese trade - What pressure? Little is visible. Little is necessary. The American attitude on anything connected with Communist China is so well-known that no official needs to mention it often. Japan's dependence upon the United States is so obvious to Japanese as to be part of their thought habits. Reaction of businessmen here to a request for examples of pressure is, first, puzzlement and, second, slight irritation - why rub it in?

Harriman's speech of September 26 in Washington, which included a very mild reference to the possibility of Communist countries using trade for political purposes, and Ambassador Reischauer's brief aside along the same line during an October 17 speech to the Foreign Correspondents Club of Japan were the only public, official pronouncements that I noticed. Privately, Embassy officers in their talks with Japanese officials stress the fact that Japan will have less to lend to the free underdeveloped countries in Asia if it extends credit to Communist China. Local American businessmen are asked to express critical interest in the Takasaki mission. On the other hand, Japanese businessmen who have come to the Embassy asking whether, if they go on the Takasaki mission to Peking, they will later be refused a visa to go to the United States, have been assured that this will not be held against them.

#### D. Cultural Relations with Mainland China

1. Personal attitudes - I feel unsure of the ground here. Most Japanese say that they like Chinese. Have they met any lately from the mainland? No. Nevertheless, the attitude of favorable predisposition is prevalent. It is no doubt well-founded, for older Japanese, upon previous military experience in Shantung Province, or work in a steel mill in Manchuria or memory of a mistress in Shanghai. For younger Japanese, ideological sympathy is mixed with what they learned in school about the cultural origins of Japan and about Japanese history. Intellectuals have admired the Chinese Communist leadership for their use of intellectuals in the program of the regime, in contrast to the situation in Japan where intellectuals have felt left



out of important contributions to the running of the country. During recent months, however, the clashes between the Chinese Communist Party and the Japan Socialist Party (most intellectuals being adherents of the JSP) have raised a few doubts in the minds of these intellectuals.

2. Exchanges of persons and other contacts - In 1961 China allowed 87 persons to come to Japan in 12 groups, a youth delegation, the People's Relief Society, journalists, delegates to the Atomic and Hydrogen Bomb Conference, etc. Japan allowed 507 persons to go to China in 81 groups. The Chinese invited mostly convinced sympathizers who could be counted on to pass the good word on their return. There has been no normal tourist travel between the two countries. These figures may be compared with the corresponding totals for exchanges between Japan and the Soviet Union during 1961. Tourists go back and forth, the Russians in organized groups, of course. 1303 went to the Soviet Union and 763 came to Japan.

Radio Peking broadcasts  $4\frac{1}{2}$  hours daily in Japanese. Japan broadcasts 3 hours daily to Southeast Asia in appropriate languages, including some broadcasts in Chinese.

Peking's main propaganda magazine is delivered in Japan at the rate of about 120,000 copies per year. Japan has no publications propaganda effort in China. Moscow's propaganda magazine is delivered in Japan-about 960,000 copies. Communist China is handicapped at present by a shortage of paper, but its publications are much more effective because their content and style are more appealing to the Japanese; a proof of cultural affinity, no doubt. China has publishers in Japan which turn out books and pamphlets for it exclusively, but in addition many big publishers here who are not leftists nevertheless put out things of benefit to China, partly so as to be considered a balanced house and partly to earn the profits which come from the substantial sales of publications having the sponsorship of a Japan-China Friendship Society.

Moscow sends many more performers and other cultural attractions to Japan than Peking. The arrival of a pingpong team from Peking in October was the only such attraction which I saw reported in the press.

Japan's Diet Library has an agreement with one of the large libraries in Peking for the exchange of about one hundred periodicals and technical journals and several hundred books, on request, annually. Some individual Japanese scholars have worked out arrangements with Chinese scholars in the same field to exchange materials.

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