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PROBABLE DEVELOPMENTS IN JAPAN

Submitted by the
DIRECTOR OF CENTRAL INTELLIGENCE

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on 9 February 1960. Concurring were The Director of Intelligence and Research, Department of State; the Assistant Chief of Staff for Intelligence, Department of the Army; the Assistant Chief of Naval Operations for Intelligence, Department of the Navy; the Assistant Chief of Staff, Intelligence, USAF; and the Director for Intelligence, The Joint Staff, and the Director of the National Security Agency. The Atomic Energy Commission Representative to the USIB, the Assistant to the Secretary of Defense, Special Operations, and the Assistant Director, Federal Bureau of Investigation, abstained, the subject being outside of their jurisdiction.

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PROBABLE DEVELOPMENTS IN JAPAN

THE PROBLEM

To analyze recent trends and to estimate probable developments in Japan over the next five years, with particular emphasis on Japan's international orientation.

CONCLUSIONS

1. Japan's critical dependence upon the US for defense and on the non-Communist world for trade will continue to be a powerful deterrent to any significant shift in Japanese foreign policy. Assuming ratification of the US-Japan Treaty of Mutual Cooperation and Security—which we believe to be likely—and no major economic reverses, Japan's foreign policy will probably remain essentially unchanged over the next two or three years. (Paras. 12, 16-17)

2. Under the revised security treaty, the US will probably be able to maintain a substantial military position in Japan. Despite continued left-wing opposition to US forces and bases in Japan, and the dependence of these bases upon Japanese labor for effective operations, we believe that the US will be able to use them for logistical support of security actions in the Far East. The Japanese Government probably would not agree to the launching of combat operations from the bases

unless it were convinced that the hostilities involved a critical threat to Japan's security. (Paras. 37-38)

3. It is highly unlikely that Japan will consent to the introduction of nuclear weapons into Japan during the period of this estimate. Except in an extreme emergency such as a direct threat of attack on Japan itself or, possibly, as a last resort to keep South Korea from falling before a Communist invasion, it is virtually certain that Japan would not agree to permit the launching of nuclear strikes from bases in Japan. (Para. 39)

4. A key factor in Japan's international orientation is the state of the economy. The economic outlook for Japan is good, assuming continued high levels of foreign trade, particularly with the US. A prolonged economic recession would probably create strong pressures within Japan for expanded relations with the Bloc, particularly Communist China. (Paras. 13, 28-30)

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5. Under any government an important Japanese foreign policy objective will be the improvement and, eventually, the normalization of relations with Communist China. Japan will probably make no significant overtures in that direction so long as Communist China continues its hostility toward the Kishi government or insists upon the loosening of US-Japanese ties and the acceptance of Peiping's claim to Taiwan as the price for improved relations. However, if Peiping were to reduce its demands and adopt a conciliatory approach, Japan would probably agree to Chinese Communist offers to expand trade and other relations. If Communist

China were admitted to the UN, or if other major nations were to recognize Peiping, Japan would probably feel a strong compulsion to recognize Peiping, although it would probably seek US acquiescence. (Para. 18)

6. There is widespread, but at present quiescent, neutralist sentiment in Japan. This sentiment could increase rapidly if the Japanese came to believe that US deterrent power could not prevent Communist aggression. Soviet rocket and space achievements have already raised some doubts on this score where none existed two years ago. (Para. 20)

DISCUSSION

I. INTRODUCTION

7. Japan is the most dynamic of the non-Communist states of Asia. Its economy is expanding at a rapid pace; its social structure is undergoing significant change; and its foreign policy is developing along lines of greater independence and self-reliance. Because Japan is still dependent upon the US for defense and on the non-Communist world for economic opportunities, its foreign policy is based upon the maintenance of close ties with the US and the West. Moreover, Japan has achieved remarkable results in almost every field of endeavor during the past 15 years and, although the nation is not committed by tradition to any fixed orientation in world affairs or wedded to Western patterns of political behavior, in broad outline the present form of parliamentary democracy and Japan's alignment with the West are supported by the majority of the Japanese people.

8. Many of Japan's historic national values and traditions were destroyed or weakened by military defeat, occupation, and foreign imposed reforms. The process of integrating old and new values is not yet complete and many

uncertainties remain in the highly complex Japanese society.

9. Japan is enjoying a period of prosperity which transcends anything it has previously experienced. Its economy has proved capable of impressive rates of expansion. However, certain basic facts remain: Japan is poor in natural resources; it still has a serious population problem; and its economy is highly vulnerable to international economic conditions over which the Japanese have no control.

10. Moreover, the political structure is far from stabilized. Most of the population, particularly the peasants and businessmen, is conservative in outlook. It is upon this element that the governing Liberal-Democratic Party (LDP) bases its strength. There is a sizable, restless, radical element, comprising about one-third of the electorate, among organized labor, intellectuals, and students from which the large Japan Socialist Party (JSP) and the smaller Japan Communist Party (JCP) draw their followers.

11. The most significant political conflict is not between the radicals and conservatives, but among the leaders of the various factions

of the conservatives, many of whom have shown political irresponsibility in their intra-party struggles for power. In seeking to advance their political careers, few are restrained by party discipline or by the broader considerations of Japan's internal stability or international position. Although the leaders of all factions of the Liberal-Democratic Party appear to recognize the necessity of close ties with the West, they do not hesitate to exploit foreign policy issues for personal advantage. The Prime Minister is subject to continual attack from Socialists and Communists on the one hand and, on the other, is constantly undermined by the aspirants for his job among the faction leaders of his own party. The press keeps up a rapid drumbeat of bitter and sweeping criticism of successive Japanese governments. Consequently, the position of a Prime Minister such as Kishi, who is seeking specific changes in important internal matters and pursuing a dynamic foreign policy, is especially precarious.

12. During the next 12 months, Kishi and his government will face some very difficult tasks. The most important will be the ratification of the revised US-Japan security treaty and related agreements which is now scheduled for Diet debate in the spring of 1960. The issues involved bear directly upon many of the most sensitive aspects of Japanese politics and public susceptibilities. The outcome of the debates will not only affect the political future of Kishi, a major proponent of close ties with the US, but will also have an important bearing on the entire range of US-Japan relations.

13. There are several factors which will continuously affect Japan's international orientation. Primary among these is the state of the economy. Japan is completely dependent upon foreign trade and international market conditions for its economic well-being. Consequently, any Japanese government must place first emphasis upon maintaining the best possible trading position. Any significant economic reverse, especially if accompanied by a denial of economic opportunities or discrimination against Japan by the West, would tend to strengthen the hand of the

nonconservative political groups and to increase pressures on the government to cut its defense expenditures and seek commercial and political rapprochement with the Bloc, especially Communist China.

14. There is also Japan's proximity to an increasingly powerful Communist China. The Japanese people in general have a considerable sense of rapport with the Chinese, based upon historic, cultural and commercial ties. Virtually all Japanese leaders believe that eventually Japan must normalize relations with Communist China. Another consideration is the widespread neutralist sentiment in Japan. Among the nonleftist elements of the population, this is based upon an extreme sensitivity to nuclear weapons, a sense of military inadequacy in the East-West conflict, and a desire to concentrate upon economic improvement.

15. Working contrary to these considerations are the factors that favor Japan's continued alignment with the West—economic prosperity based almost entirely on trade with the non-Communist world; the need to continue to rely on the US for defense; Communist China's intransigent attitude toward Japan; a deep suspicion of the USSR; and a reviving national pride.

II. THE OUTLOOK ¹

Foreign Policy

16. Japan's critical dependence upon the US for defense and trade will continue to be a powerful deterrent to any significant shift in Japanese foreign policy. Assuming ratification of the US-Japan security treaty and no major economic reverses, the broad outlines of Japan's foreign policy will probably remain essentially unchanged over the next two or three years. However, the nature and strength of the US-Japan relationship will depend in large measure upon the US response to Japan's urge for recognition as a responsible, mature power in world affairs and upon Japan's success in expanding its trade with the non-Communist world.

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¹ See Annex for an analysis of the Present Situation and Trends. **DATE: NOV 20 1960**

17. The pattern of US-Japanese relations will also be affected by domestic political developments in Japan. The current high degree of cooperation with the US reflects the leadership of Prime Minister Kishi, who appears to be the most aggressive advocate of close US-Japanese ties among the leading Japanese political figures. Even under Kishi, however, Japan will not be guided wholly by US wishes if its own domestic and international interests appear to dictate a different course. If Kishi should be replaced, working relationships between the US and Japan might become more difficult, especially if the transfer of power were accompanied by acute dissension among the conservatives. However, we do not believe that any other likely conservative Prime Minister would alter drastically the broad outlines of Japanese foreign policy.

18. Under any government an important objective of Japanese foreign policy will be the improvement and, eventually, the normalization of relations with Communist China. We do not believe that Japan will make any significant overtures to gain this objective so long as Communist China continues its undisguised hostility toward the Kishi government, or so long as it insists on the loosening of US-Japanese ties and the acceptance of Peiping's claim to Taiwan as the price for friendship. If Communist China were to reduce its demands and adopt a conciliatory approach, domestic pressures would probably force Japan to move rapidly to expand trade and other relations which, in turn, would increase pressures for recognition. If Communist China were admitted to the UN, or if other major nations, such as Canada or France, recognize Peiping, Japan would probably feel a strong compulsion to recognize Peiping, although it would probably seek US acquiescence. Although increasingly aware of the difficulties involved, Japan will probably continue to hope that some kind of "two Chinas" solution will be found which would keep Taiwan non-Communist.

19. Although Japan's trade and cultural relations with the USSR will probably expand gradually, the relationship between the two countries is unlikely to advance beyond that

of correct formality. If the USSR reverts to a menacing and tough approach toward Japan, Japan's attitude will almost certainly harden. There is a strong current of hostility toward Russia in Japan, and the issues of Soviet occupation of the South Kuriles and restrictions on Japanese fishing are formidable, although not insurmountable, obstacles to a rapprochement.

20. Beneath the surface in Japan there is a strong strain of neutralist sentiment which is shared to some degree by all elements of the population. Most Japanese support the Kishi government's forthright rejection of neutralism as a safe or realistic course for Japan to follow under present world conditions. However, neutralist sentiment could be increased to the point of threatening Japan's close alignment with the West if the Japanese come to believe that US deterrent power could not prevent aggression. Soviet rocket and space achievements have already raised some doubts on this score where none existed two years ago. Neutralist sentiment in Japan would also be stimulated by the appearance of a *détente* between the West and the Soviet Union.

21. No significant or lasting improvement in the bitter relations between Japan and South Korea is likely so long as Rhee is in control in South Korea. The Japanese have probably come to the view that negotiations with South Korea under Rhee serve little or no purpose, but they will probably continue to seek through diplomatic channels some basis for future agreement.

22. In its relations with the Afro-Asian area, Latin America and the Middle East, Japan will continue to place primary emphasis upon economic diplomacy, seeking to expand its markets and sources of raw materials. In dealing with these areas, and in the UN, Japan will continue to characterize itself as primarily an Asian country and to stress its freedom from US and western influence. At the same time, however, Japan to an increasing extent will regard itself as a world industrial power sharing a basic mutual interest with the major industrial states of the world.

23. *Political Prospects.* During the next five years, the Japanese Government will almost certainly remain in the hands of moderate conservatives who will probably seek no drastic change in Japan's domestic or security policies. Barring a prolonged economic recession, successive conservative Japanese governments will probably continue to have the support of a large majority of the Japanese people. Within this broad trend, however, considerable political changes are possible.

24. Prime Minister Kishi's political future is uncertain. He need not call general elections until 1962 and his prestige has risen following his recent visit to Washington to sign the security treaty. He has announced his intention to run for another two year term as President of the LDP (an office which carries with it the prime ministership) in the party elections scheduled for January 1961. The political power and leverage which accrue to the Prime Minister, give Kishi a considerable advantage over his rivals. His opponents are competing among themselves and have shown no signs of developing the issue, the unity, or the support necessary to bring him down. His rivals, however, are restless and impatient and Kishi himself is not a particularly popular figure within the LDP or with the public at large. If he desires to remain in power, he will have to call upon all of his political skill to avoid the pitfalls that lie ahead in the Diet struggle over ratification of the new security treaty, the probable subsequent reorganization of the cabinet and party leadership, and the party election. Should Kishi leave office, voluntarily or otherwise, the transfer of power to a new regime would probably involve a bitter struggle for power among several aspirants, including Foreign Minister Fujiyama, Finance Minister Sato (Kishi's brother), Minister of International Trade and Industry Ikeda, and Takeo Miki and Ichiro Kono, both former cabinet ministers.

25. The two party system as it has developed since 1955 (when the left and right wing Socialists formed the Japan Socialist Party and the Liberal and Democratic Parties merged) was disrupted when right wing Socialists, including 52 Diet members, defected from the

JSP in late 1959 and early 1960 to form the new Democratic Socialist Party (DSP). The ultimate fortunes of the new party will depend on its ability to attract additional defectors from the JSP, enlist the support of small businessmen and farmers who now back the LDP, and weaken the hold of the JSP and *Sohyo* on organized labor. Conservative unity is still not firmly established and a split in the LDP is possible, although we do not believe it likely.

26. Despite recent defections and election defeats, the Japan Socialist Party, with its disciplined labor support and its ability to influence public opinion, will continue to be a major force on the Japanese political scene, capable of severely harassing the conservative government and restricting its freedom of action. The DSP and the JSP will probably cooperate on many major issues, and the policies of the Socialists will reflect the attitudes and receive the support of large segments of the Japanese people. However, so long as the Socialists remain split, with the JSP essentially a class party largely dominated by organized labor, the Socialists will probably not be able to attract much more than the one-third of the electorate which has hitherto supported them. The Socialists could attain power in the next five years only if the conservative alignment were to disintegrate, or if there were to occur a prolonged economic recession which the conservatives proved unable to cope with. Neither of these developments appears likely.

27. The Communists, through their "united front" activities and their penetration of labor unions, mass media, teacher and student groups, will continue to exercise a substantial influence on Japanese opinion, and will retain their capabilities for violence and sabotage. If they soft-pedal their revolutionary goals and act in concert with the Socialists and other "peace-loving" organizations, the Communists may regain gradually some of the respectability which they lost in the past with their violent tactics. However, except in the event of an economic disaster or near-breakdown of the social order, they are unlikely to become a significant political force in their own right.

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28. *Economic Prospects.* Japan's economic prospects are dependent upon international economic and commercial developments, and particularly upon continued access to the US market. Japan's efforts to attain the level of exports necessary to sustain expanding industrial production, a rising standard of living, and adequate foreign exchange reserves will be centered on the US. In response to US pressure, Japan has agreed to liberalize to some extent its present restrictions against the importation of selected manufactured goods and industrial materials, and it will continue its attempts, by voluntary export controls, to forestall the erection of US trade barriers against Japanese imports. It will also seek to persuade the US to maintain its present ICA and other offshore purchase programs because special dollar earnings from this source and from outlays by and for US troops in Japan still mean the difference between profit and loss in Japan's external accounts.

29. Assuming the current level of world prosperity and continued access to a "fair share" of the US market, the Japanese economy will continue to grow. In 1959 the economy recovered rapidly from the recession of 1958, and it is likely that GNP in JFY 1960 will increase about 6.5 percent. Japan's high rate of investment will probably continue and be concentrated in the basic industries, steel, electric power, transportation, chemicals, and machinery. The government will probably not hesitate to apply its controls—on credits, investments and imports—if the rate of investment again threatens to result in excess production and a speculative increase in imports.

30. The issue of trade with Communist China will probably not become an acute political problem as long as the Japanese economy continues to prosper, and Peiping continues its antagonistic policies toward the Japanese Government. Japan will seek actively to expand its trade in all promising markets, including the USSR, but for the period of this estimate, at least, trade with the US will continue to be the key to Japan's economic well-being and the point of primary emphasis in its trade efforts. A major economic reverse would create strong pressures within Japan

for expanded relations with the Bloc, particularly Communist China.

31. *Military and Security.* Japan will continue to depend primarily on US deterrent strength for its defense. At the same time, the trend toward acquiring and developing technically advanced conventional weapons will continue and probably accelerate, provided there is no significant economic recession and despite a considerable amount of popular opposition. Although at the end of the period of this estimate Japan will probably have a well-trained and efficient defense force, it will still have only limited ability to defend Japan against major attacks.

32. Japan will probably make substantial progress in research and development of nuclear energy for peaceful uses within the period of this estimate. Japan may eventually develop its own nuclear weapons, although not within the period of this estimate.

33. *The US-Japan Security Relationship.* The revised US-Japan security treaty and related agreements were presented to the Japanese Diet on 5 February 1960. It is likely that the ensuing Diet debate over ratification will be one of the most bitter and protracted in post-war Japanese history. The Japan Socialist Party and its well-organized supporters, faced with the certainty that the treaty will be ratified if the Diet vote follows party lines, will probably use demonstrations, strikes, parliamentary obstructionism, and possibly a Diet boycott to prevent or delay ratification. However, their extremism will be tempered by the moderate attitude of the Democratic Socialist Party. The Japan Communist Party will use its influence over segments of organized labor, students and front groups to attempt to rally public opposition to ratification. The brittle unity of the Liberal-Democratic Party will be under severe strain and Kishi will probably have a very difficult time maintaining party discipline. Although we believe that he is likely to achieve Diet ratification, a general election on the issue is possible.

34. The major targets for the anti-treaty forces will probably be the duration of the treaty (10 years), the limitation of the treaty area to

Japan proper, the rights of the US to use its military bases in Japan in a conflict in which Japan is not directly involved, and the question of introduction of nuclear weapons into Japan by the US.

35. The US has met Kishi's most urgent requirement by agreeing that the US will consult with the Japanese Government before making major deployments of forces into Japan, including major changes in equipment (specifically the introduction of nuclear weapons), or before using military bases in Japan to conduct combat operations directly from Japan. The language of the present Administrative Agreement governing the status of US forces in Japan will be modified somewhat to remove its occupation flavor and to bring it more closely into line with the NATO Status of Forces Agreements, and the requirement that Japan make an annual contribution in yen to the support of the US forces in Japan has been eliminated.

36. The terms of the revised security treaty do not affect the status of US bases on Okinawa. However, Japan will continue to seek an increasing degree of participation in Ryukyuan affairs, and the presently quiescent issue of US administration of the islands may again become a source of friction in US-Japan relations should major issues arise in US relations with the islanders.

37. With the ratification of the security treaty, the US will probably be able to maintain a substantial military position in Japan. Despite the provisions of the treaty, however, the unimpaired use of Japanese bases for logistical purposes in support of security actions elsewhere in the Far East is not certain: for example, the operation of US bases being highly dependent upon Japanese labor, strikes and sabotage could greatly reduce their effectiveness for logistical support. The presence of US forces and bases in Japan will continue to meet with strong opposition, particularly from the Socialists, Communists, and the large elements of organized labor which are under left-wing domination. Moreover, in a time of crisis in which Japan itself were not immediately threatened, it is possible that another Japanese Government might interpret the

treaty narrowly or press for its revision, particularly if it encountered strong internal opposition to the US use of the bases. However, on balance, we believe that the US would be able to use Japanese bases for logistical purposes in support of security actions elsewhere in the Far East during this period, although the Japanese Government would expect to be informed in advance of our intentions.

38. The Japanese regard the consultation arrangements provided in the new treaty as designed primarily to prevent Japan from becoming involved in hostilities against its will. The Japanese Government probably would not agree to the use of US bases in Japan to launch combat operations involving conventional weapons against targets elsewhere in the Far East unless it were convinced that the hostilities involved were a critical threat to Japan's immediate or future security. Approval for such combat operations would be almost certain in the event of a Communist attack on the Republic of Korea, and probable in the case of Taiwan itself. However, the Japanese would base their decision on their own analysis of the situation, carefully balancing the importance of the threatened area to Japan's own security against the likelihood of retaliation against Japan.

39. It is highly unlikely that the Japanese Government will consent to the introduction of nuclear weapons into Japan during the period of this estimate. Except in an extreme emergency such as a direct threat of attack on Japan itself or, possibly, as a last resort to keep South Korea from falling before a Communist invasion, it is virtually certain that Japan would not agree to permit the launching of nuclear strikes from bases in Japan.

40. If Prime Minister Kishi should fail to obtain approval of the new security treaty, the US military position in Japan would be seriously threatened. If, as is probable, a conservative government remains in power, US bases could probably be maintained substantially in their present form for a year or two, because no conservative government would be willing to risk sacrificing the economic and other benefits Japan derives from its associ-

ation with the US by demanding a withdrawal of US forces. However, failure to secure ratification of the treaty would impair all aspects of the US-Japan relationship, and would result in a gradual deterioration of our base position. The speed of this deterioration would depend upon the reaction of the US to the defeat of the treaty, the circumstances under which it was brought about, and the willingness of those who succeeded Kishi to seek a new basis for continuing the relationship. Whatever the circumstances, however, defeat of the new security treaty would lead the public to expect the present military arrangements to be altered, and the use of US bases to be circumscribed by additional restrictions.

41. An announcement by Communist China that nuclear weapons were stationed on Chinese soil would have a profound effect in Japan. We believe it likely that such an announcement would greatly increase neutralist tendencies among the Japanese people and public pressures upon the government to seek an understanding with Communist China. However, if Kishi or some other Prime Minister of similar convictions and courage were at the head of the Japanese Government, the government might agree to the stationing of US nuclear weapons in Japan, but not without some form of Japanese participation in control of their use. Even so the Japanese Government would probably have to move against strong public opposition.

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ANNEX

PRESENT SITUATION AND TRENDS

A. Political

1. *Kishi and the Liberal-Democratic Party.* Prime Minister Kishi recovered from the Police Bill defeat which nearly led to his political eclipse in late 1958, and his position has been strengthened by the results of the municipal and Upper House elections in the spring of 1959.² The elections, in which Kishi's foreign policy was a major campaign issue, marked the first time since the end of the occupation that the upward trend in the Socialist's popular vote was reversed. Although the Liberal-Democratic Party did little more than hold its own; the election was considered to be a major victory for the conservatives and a vote of confidence for Kishi. This has enabled Kishi to hold to his policy of no official contacts with Communist China and to move forward with the revision of the US-Japan security treaty.

2. Nevertheless factional rivalries within the LDP still constitute a threat to Kishi's position. In forming a new cabinet following the elections Kishi was rebuffed in his efforts to engage the responsibilities of all the major factional leaders and was forced to rely primarily on a new factional grouping led by his brother, Finance Minister Eisaku Sato, and Minister of International Trade and Industry Hayato Ikeda. This arrangement left

² Of the 467 Lower House seats, the LDP holds 288, the Socialists 165 and the Communists one; there are two independents and 11 seats are vacant. The LDP has 136 of the 250 Upper House seats and is supported by almost all of the 25 independents; the Socialists have 84 Upper House seats, the Communists three, and two are vacant. The Socialist totals include the 54 Diet members (38 in the Lower and 16 in the Upper House) who seceded from the JSP in late 1959 and early 1960 to form the Democratic Socialist Party.

important segments of the party (including that led by Ichiro Kono, a bitter rival of Ikeda and hitherto a strong Kishi supporter) outside the cabinet and the party hierarchy. Although temporarily quiescent in recent months, these rivalries will almost certainly come to the surface again as the various factional leaders seek opportunities to upset Kishi's leadership. Thus far, Kishi, firmly supported by the business community and with substantial financial resources at his disposal, has been able to beat down challenges to his authority and to maintain a reasonably firm degree of party discipline. His task has been made easier by the fact that his rivals are also competing sharply among themselves, and have been unable to form an anti-Kishi "united front." After the security treaty is ratified, it is likely that Kishi will attempt to reshuffle his cabinet and the hierarchy of the Liberal Democratic Party to further strengthen his position.

3. *The Japan Socialist Party.* The position of the opposition Japan Socialist Party deteriorated during 1959. In March, a Socialist mission to Peiping designed to play on popular enthusiasm for normalization of relations with Communist China, boomeranged. The mission joined in a joint communique with Chou En-lai condemning US imperialism. This cost the Socialist Party considerable public support. The poor showing in the Upper House elections, even in the Socialist's urban strongholds, aggravated the long-standing intraparty conflict between the dominant left-wing, which is tied to the Communist-infiltrated General Council of Labor Unions (SOHYO), and the minority right wing which advocates a less militant and economic program which might appeal to Japan's conservative masses.

4. In October, after a bitter debate in the party convention, this conflict led to the defection of 33 right wing Socialist Diet members under the leadership of Suehiro Nishio. Additional defections followed, and when the new Democratic Socialist Party was formed in late January, under Nishio's chairmanship, it included 54 Diet members and had the full support of *Zenro*, Japan's second largest trade union confederation. The Socialist Party defections reflected not only right wing dissatisfaction with the extremist policies of the JSP but also what appears to be a growing demand for a party that lies somewhere between the present conservative and JSP camps. Whether or not the DSP in time gains a firm foothold as a major political force, the new party may well tend to restrain JSP extremism and also to act as a moderating force on the conservatives. Meanwhile JSP leaders and their *Sohyo* colleagues, unfazed by the election results continue on their extreme leftward course. Their foreign policy objectives, including abolition of the US-Japan security treaty and the eventual neutralization of Japan, continue to be virtually undistinguishable from those of the Communists. The participation of the JSP and *Sohyo* in a demonstration at the Diet 27 November in the course of which demonstrators forced their way past police into the Diet grounds, earned them extensive public criticism and probably helped to enhance the public standing of the new party movement.

5. *The Japan Communist Party.* The Japan Communist Party has an estimated membership of about 70,000 and it has attracted about one million votes of a total 40 million (about 2.6 percent) in national elections. However, it controls only one seat in the Lower House and three in the Upper House of the Diet. The party has heavily infiltrated intellectual circles, student groups, and leftist teachers, government employees, and railway workers unions. As a consequence, it exerts considerable influence. However, the party is plagued by factional cleavages based largely on ideological differences. The party has substantial capabilities for mass violence and sabotage. An estimated 30 to 40 thousand of its members are hardcore Communists who would probably remain loyal to the party under try-

ing and hazardous circumstances. Probably half of this number would engage in illegal and covert activities if ordered to do so.

B. Economic

6. Japan recovered quickly from its 1957-1958 economic recession once the upward trend in international trade was resumed.³ By mid-1959 Japan's industrial production was more than 25 percent above the comparable period of 1958. Foreign exchange reserves, which slipped to about \$450 million in September 1957, climbed to a postwar high of nearly \$1.3 billion by November 1959.⁴ High levels of activity now characterize almost all areas of the manufacturing sector of the economy. Japan's rapid transition from recession to expansion during the past 18 months demonstrates the dynamic aspect of the economy. However, Japan's recession and recovery also demonstrate the precarious balance of its economy, its heavy dependence upon favorable foreign trade conditions, and its sensitivity to external developments over which the Japanese have no control.

7. Although Japan is at present enjoying a high rate of industrial expansion and prosperity, it faces a number of long-range and permanent economic problems. Japan's balance of payments position, although dramatically improved, will probably always be precarious because of the need to import virtually all the raw materials to keep its industry going and slightly less than 20 percent of its food requirements.⁵ In three periods of mild recession the government has demonstrated its ability to cushion the effects of an international economic downturn by controlling the domestic money supply, restricting imports, and regulating credit. However, it probably could not maintain an austere program over a long period of time without serious economic and political consequences. The recent improvement in Japan's economic position has led its trading partners to press

³ See Table 1, Selected Indexes of Japan's Economic Growth.

⁴ Japan's year end foreign exchange reserves in million US dollars were: 1956—841; 1957—525; 1958—861; and November 1959—1,291.

⁵ See Table 2, Balance of Payments, 1955-1958.

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hard for an end to Japanese import and payments restrictions.

8. In addition, Japan has sizable foreign obligations. It is expected to pay out a total of nearly \$2 billion in grants and loans over the next 20 years under its reparations agreements. Also it must service and repay almost \$150 million in PL 480 loans to the US and about \$250 million on IBRD loans granted for steel, transportation and electric power projects. It must provide its share of funds for the IDA and the expanded requirements of the IMF and IBRD. It must finance its capital exports on terms which are as attractive as its international competition. In addition, the US is seeking to reopen negotiations to settle Japan's Government and Relief in Occupied Areas (GARIOA) debt, for about \$600 million.

9. Another long-term economic problem is how to provide employment for a labor force that will increase at the rate of more than one million annually for the next decade. Although the decline in the birth rate, which began in the early 1950's, will reduce this pressure in the future, Japan has always been plagued by widespread underemployment, even in times of prosperity.⁶ Equally important, the Japanese Government will be under heavy pressure to increase living standards. Although the Japanese people are living better than at any time in their modern history and have the highest living standard in Asia, they expect a steady improvement commensurate with Japan's status as one of the world's leading industrial nations.⁷ This na-

⁶The Japanese Government has successfully attacked Japan's population problem through a vigorous program of education and free medical service. As a result, Japan's birth rate dropped from 34.3 per thousand in 1947 to a low of 17.2 in 1957. Even so, the population is still increasing. The rate of increase in the 1952-1958 period averaged 1.2 percent and the total population, estimated at 92.7 million in mid-1959, is expected to exceed 96 million by the end of 1965.

⁷For the purposes of comparison: In 1958, Japan's per capita income was approximately \$258, that of West Germany was \$721.7; Japan's per capita GNP was \$305, West Germany's \$972; Japan's foreign exchange reserves at the end of that year were \$861 million, West Germany's \$6,321 million.

tional sentiment has compelled Japanese governments to ease taxes on individual incomes, to invest heavily in economic development and social welfare programs, and to limit military expenditures.

10. In addition Japan is facing increasingly stiff competition in international markets from other exporting nations. Japan has devoted considerable effort to expanding trade with underdeveloped areas, particularly South and Southeast Asia. Although this effort has brought some limited success, the Japanese are well aware that the trade potential of these areas is limited by their lack of financial resources and by their inability, at their present stage of economic development, to absorb a large volume of imports. For several years, Japan has advocated a joint US-Japanese regional economic development scheme for Southeast Asia, with the expectation that, in time, the purchasing power of the area would be increased, making possible expanded Japanese exports. However, the Japanese clearly regard the underdeveloped areas as secondary to the US as a potentially expanding market. In the period 1954 to 1958, non-Communist Asia's share of total Japanese exports declined from 48 to 35 percent, while the US share increased from 17 to 24 percent.

11. Japan's search for raw materials and markets accounts in large part for the attraction of "normalizing" relations with Communist China apparent among practically all elements of the Japanese population. To date, Japan's trade with the Communist Bloc has been of marginal economic importance, representing only 2 to 4 percent of Japan's trade. This trade has declined even below these levels since May 1958 when Communist China, which accounted for about 75 percent of Japan's trade with the Bloc suspended trade with Japan, largely for political reasons. The current economic prosperity in Japan has reduced the domestic pressure for trade with Communist China. However, trade with the USSR has increased rapidly, although it is still only about one percent of Japan's total trade.⁸

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⁸See Table 3: Japan's Trade with the Sino-Soviet Bloc.

12. The US is Japan's most important trading partner, accounting for 24 percent of Japan's exports and 35 percent of its imports in 1958.⁹ During 1959, for the first time in the postwar era, Japan achieved a surplus in its merchandise trade with the US. Apart from its fear of an international business recession, Japan's greatest economic concern is that the upward trend in its exports to the US may be adversely affected by US restrictions on imports resulting from the recent appearance of a deficit in the US balance of payments position, or from pressures exerted by many US producers whose products compete with Japanese imports. The Japanese leaders, fearful of the possible economic and political consequences, are very sensitive to any indications that their access to the US market may be curtailed. Moreover, the Japanese are concerned by the downward trend in special dollar earnings which has resulted from the reduction in US troops stationed in Japan and a cutback in offshore procurement programs.¹⁰ Since World War II Japan has not achieved a surplus in its world trade accounts, and special dollar earnings have made the difference between profit and loss in Japan's international accounts.

2. Military ¹¹

13. In the face of public suspicion and disapproval, the Japanese Government has proceeded, gradually but steadily, to build up its Self-Defense Forces. Despite considerable public reluctance and the opposition of the Socialist and Communist Parties, the Japanese Government is accepting the idea that Japan should carry an increasing share of the cost of its own defense. Between 1953 and 1959, Japan more than doubled its defense budget,

⁹ See Table 4: Foreign Trade by Geographic Areas.

¹⁰ The special dollar earnings are generated by US offshore procurement programs (purchases in Japan for third countries) and by outlays for and by US troops in Japan. Over the past few years Japan's income from this source was as follows: (in million US dollars) 1954—575; 1955—545; 1956—591; 1957—549; 1958—484; and January—September 1959—349.

¹¹ See Table 5: Current Strengths of the Japan Self-Defense Forces.

from about \$167 million to \$378 million. This still represents only about 10 percent of the national budget and less than two percent of GNP. Japan's Self-Defense Forces now number about 210,000 and the National Police Agency about 140,000. The government is now considering its military program for the 1960-1965 period. Under this program the defense budget would be doubled again in the next five years. Most of this increase would go to improvements in the quality of arms and equipment. First priority is the strengthening of Japan's air defense capabilities by acquiring improved radar equipment, converting the Air Self-Defense Force to century-series fighters, and acquiring a defensive ground-to-air and air-to-air missile capability. Second priority is to strengthen antisubmarine and mine warfare capabilities of the Maritime Self-Defense Force, and third priority is to improve the mobility of the Ground Self-Defense Force.

14. During the past year the training and capabilities of Japan's 162,000 man Ground Self-Defense Force have shown marked improvement. However, the ground forces are presently capable of conducting only limited defensive operations within Japan. The Japanese Air Self-Defense Force has made significant strides towards becoming an effective, modern air force. It has a personnel strength of about 24,000, and its aircraft strength is nearly 1,000, including 650 jets. The air force now has a limited capability to perform its missions of air defense and tactical support. The Japanese Maritime Self-Defense Force is still in a formative stage of development. Although this force is well-trained, the fleet is small.

15. The public revulsion against nuclear weapons continues unabated. However, the highly sensitive issue of nuclear weapons has been relatively quiescent during the past year, possibly because there have been no recent nuclear weapons tests in the Pacific. The Japanese public has accepted with equanimity the government's announced intention to acquire a defensive capability in ground-to-air and air-to-air missiles, a step which would have been vigorously denounced two or three

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years ago as a move toward introducing nuclear weapons into Japan.

D. Foreign Policy

16. Japan's international position and the pattern of its foreign policy have continued essentially unchanged during the past year. Japan remains closely aligned with the US and the West; in Southeast Asia, lingering hostilities toward Japan are disappearing and no longer constitute a major obstacle to Japan's expanding economic and diplomatic activities in that area; Japan has played an active and constructive role in the UN, thereby increasing its prestige and international stature; and Japan's relations with the Government of the Republic of China remain friendly. The major problem areas in Japan's foreign policy are its relations with the Communist Bloc and the serious state of Japanese-South Korean relations.

17. Both Communist China and the USSR are conducting vigorous campaigns to lead Japan toward neutralism. Particularly during the first part of 1959 the USSR maintained a steady flow of diplomatic notes, propaganda broadcasts, and public speeches attacking Kishi's foreign policy of close relations with the US and the negotiations for a revised US-Japan security treaty. Moscow warned that these policies were "pregnant with grave consequences" and urged neutralism for Japan. The USSR's cultural offensive is running in high gear with top flight Soviet artists performing throughout Japan before appreciative audiences. The USSR's scientific achievements have greatly enhanced Soviet prestige with the scientific and technically-minded Japanese. Moreover, Khrushchev's visit to the US, which was exhaustively covered by Japanese press and TV, appears to have made a strong and favorable impression in Japan. Nevertheless, Japanese leaders continue to fear and distrust the Soviet Union, which they regard as the major threat to Japan's security. Sensitive outstanding issues between the two are the Soviet Union's

continued occupation of the Southern Kuriles, Shikotan, and Habomai, and the increasingly stringent restrictions which the USSR imposes on Japan's northern fishing operation. Thus far the Japanese have declined to conclude a peace treaty with the USSR until Japanese territorial claims are recognized.

18. Communist China's intransigent behavior on the international scene during the past year and its crude efforts to upset the Kishi government by trade restrictions, propaganda, manipulation of the Japan Socialist and Communist Parties, and by bald threats, have disillusioned many Japanese and, in fact, increased public support for Kishi. Due primarily to Japan's current prosperity and the way in which Peiping overplayed its hand, domestic pressures on the Japanese Government to seek accommodation with Communist China have declined. As yet, however, the Japanese public does not appear to bear the same suspicion of the Chinese as they do of the Russians. Most Japanese, probably including Kishi and other key conservative leaders, believe that Japan must eventually arrive at some kind of modus vivendi with the Communist regime in China. With the conclusion of the revised US-Japan security treaty, many Japanese believe the next goal should be improved relations with Communist China.

19. Japanese-ROK relations are complicated by a residue of historical and cultural antagonisms which do not yield easily to the normal approaches of western-style diplomacy. Perhaps in no other area are specific issues so intertwined with questions of "face," "sincerity," and "responsibility."

20. There is no prospect for any real improvement in ROK-Japanese relations as long as Rhee is alive. Even after his death, the legacy of distrust and animus will persist. It is likely, however, that after Rhee's death Korea's leaders will view their relations with Japan on a more pragmatic basis and that mutually beneficial economic ties will be permitted to develop.

Table 1
SELECTED INDEX OF JAPAN'S ECONOMIC GROWTH
 (Current prices)

| (Calendar years) | 1952 | 1953 | 1954 | 1955 | 1956 | 1957 | 1958 | 1959 | Plan JFY 1962 |
|--|------|------|-------|------|------|----------------|------|----------------|------------------|
| Gross national product | 100 | 117 | 125 | 135 | 153 | 170 | 175 | 190 | 189 |
| Gross national product per capita | 100 | 115 | 123 | 131 | 147 | 161 <i>est</i> | 161 | | |
| Industrial production | 100 | 122 | 132 | 142 | 174 | 206 | 209 | 250 <i>334</i> | 294 |
| Exports (f.o.b.) | 100 | 100 | 128 | 158 | 196 | 225 | 225 | 255 | 372 |
| Imports (c.i.f.) | 100 | 119 | 118 | 122 | 160 | 211 | 150 | 173 | 239 |
| Percentage increase over previous year of: | | | | | | | | | |
| GNP | | 17 | 7 | 8 | 13 | 11 | 1 | | |
| Total production | | 20 | 8 | 8 | 23 | 16 | 1 | | |
| Industrial production | | 22 | 8 | 8 | 23 | 18 | 0 | | |
| Exports | | 0 | 28 | 23 | 24 | 15 | 1 | | |
| Imports | | 19 | insig | 3 | 31 | 32 | -29 | | |
| Personal consumption as a percent of GNP | 59.8 | 61.6 | 63.2 | 62.5 | 59.1 | 57.8 | 60.6 | | |
| Gross private investment as a percent of GNP | 19.4 | 19.5 | 16.9 | 15.5 | 22.4 | 26.0 | 16.3 | | |

Source: International Financial Statistics, International Monetary Fund.

Table 2
BALANCE OF PAYMENTS, 1955-1958
 (Calendar years; values in millions of US dollars)

| | 1955 | 1956 | 1957 | 1958 | (January-June) 1959 |
|--|------------|------------|-------------|------------|------------------------|
| Exports (f.o.b.) | 2,006 | 2,482 | 2,857 | 2,870 | 1,524 |
| Imports (f.o.b.) | -2,061 | -2,613 | -3,255 | -2,501 | -1,493 |
| Trade Balance | -55 | -131 | -398 | 269 | 31 |
| Transportation and Insurance (net) | -157 | -316 | -518 | -176 | -97 |
| Government (net)* | 510 | 505 | 466 | 403 | 175 |
| Others (net) | -94 | -117 | -135 | -136 | -72 |
| Balance Goods and Services | 205 | -59 | -585 | 460 | 38 |
| Capital Transactions | | | | | |
| Non-Government | 31 | 33 | 36 | 39 | 22 |
| Government (Reparations payments, short-term government borrowing, etc.) | -11 | -5 | -65 | -234 | -27 |
| Balance | 20 | 28 | -29 | -195 | -5 |
| NET TOTAL ALL CURRENT TRANSACTIONS | 225 | -31 | -614 | 265 | 33 |

* Mainly special dollar receipts.

Source: International Financial Statistics, International Monetary Fund.

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Table 3
JAPAN'S TRADE WITH THE SINO-SOVIET BLOC
CALENDAR YEARS 1954-1958 AND JANUARY-JUNE 1959
(In millions of US dollars)

| | 1954 | 1955 | 1956 | 1957 | 1958 | January- June 1959 |
|--------------------------------------|-------|------|-------|-------|------|--------------------------|
| Exports (f.o.b.) | | | | | | |
| Communist China | 19.1 | 28.5 | 67.3 | 60.5 | 50.6 | 1.9 |
| USSR | insig | 2.1 | 0.8 | 9.3 | 18.1 | 5.9 |
| Others | 4.9 | 8.8 | 5.2 | 6.8 | 6.3 | 2.9 |
| Total | 24.0 | 39.4 | 73.3 | 76.6 | 75.0 | 10.7 |
| Percent of Japan's World Total | 1.5 | 2.0 | 2.9 | 2.7 | 2.6 | 0.7 |
| Imports (c.i.f.) | | | | | | |
| Communist China | 40.8 | 80.8 | 83.7 | 80.5 | 54.4 | 9.2 |
| USSR | 2.3 | 3.1 | 2.9 | 12.3 | 22.2 | 13.8 |
| Others | 5.3 | 5.2 | 15.9 | 17.6 | 9.6 | 4.8 |
| Total | 48.4 | 89.1 | 102.5 | 110.4 | 86.2 | 27.8 |
| Percent of Japan's World Total | 2.0 | 3.6 | 3.2 | 2.6 | 2.8 | 1.6 |

Table 4
FOREIGN TRADE BY GEOGRAPHIC AREAS
CALENDAR YEARS 1936, 1954-1958, AND JANUARY-JUNE 1959

| | 1936 | 1954 | 1955 | 1956 | 1957 | 1958 | January- June 1959 |
|--|------|------|------|------|------|------|--------------------------|
| Exports^a (total in billions of US dollars) . | 0.9 | 1.6 | 2.0 | 2.5 | 2.9 | 2.9 | 1.5 |
| Imports^b (total in billions of US dollars) . | 1.0 | 2.4 | 2.5 | 3.2 | 4.3 | 3.0 | 1.7 |
| Exports (in percent of total) | | | | | | | |
| Asia | 64 | 49 | 42 | 41 | 40 | 37 | 35 |
| Europe | 8 | 9 | 10 | 10 | 12 | 11 | 10 |
| North and Central America | 18 | 21 | 27 | 26 | 26 | 29 | 36 |
| (United States) | (16) | (17) | (22) | (22) | (21) | (24) | (29) |
| South America | 2 | 10 | 7 | 5 | 3 | 4 | 3 |
| Africa | 5 | 8 | 10 | 16 | 17 | 14 | 13 |
| Australia and Oceania | 3 | 3 | 4 | 2 | 2 | 3 | 3 |
| Imports (in percent of total) | | | | | | | |
| Asia | 53 | 31 | 37 | 33 | 29 | 32 | 33 |
| Europe | 9 | 8 | 7 | 7 | 9 | 9 | 11 |
| North and Central America | 26 | 46 | 41 | 44 | 46 | 45 | 42 |
| (United States) | (25) | (35) | (31) | (33) | (38) | (35) | (32) |
| South America | 3 | 7 | 4 | 4 | 4 | 3 | 2 |
| Africa | 3 | 2 | 3 | 3 | 2 | 3 | 3 |
| Australia and Oceania | 6 | 6 | 7 | 9 | 10 | 9 | 9 |

Figures may not add to totals because of rounding.

^a f.o.b.

^b c.i.f.

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Table 5

CURRENT STRENGTHS OF JAPANESE SELF-DEFENSE FORCES

Ground Self-Defense Force

Personnel Strength: 160,000
Principal components: 5 army headquarters
6 infantry divisions
4 combined brigades

Maritime Self-Defense Force

Personnel strength:
General service 19,600
MSDF air arm 6,000
25,600

Ship strength:

| | | | |
|---|----|---|----|
| Destroyer (DD) | 13 | Minesweeper, Ocean (MSO/MMC) | 1 |
| Submarine (SS) | 1 | Minesweeper, Coastal (MSC) | 12 |
| Escort Vessel (DE) | 6 | Minesweeper, Coastal (Old) (MSC(O)) | 9 |
| Patrol Escort (PF) | 18 | Minesweeper, Inshore (MSI) | 21 |
| Submarine Chaser (PC) | 9 | Minesweeping, Boat (MSB) | 6 |
| Support Landing Ship (Large) (LSSL) | 23 | Minelayer, Coastal (MMC/ARC) | 1 |
| Amphibious Vessels | 7 | Auxiliary Vessels | 17 |
| Motor Torpedo Boat (PT) | 9 | Service Craft | 92 |

Under Construction: DD-5, SS-3, PC-3, MSC-4.

Air arm strength: 194 aircraft (no jets).

Air Self-Defense Force

Personnel strength: 24,000

Includes 710 trained pilots.

Aircraft strength: 980 aircraft

Includes 650 jets, of which 1230 F-86F aircraft are in storage.

Tactical units:

- 4 Fighter squadrons (Jet, F-86F)
- 2 All-weather fighter squadron (Jet, F-86D)
- 2 Transport squadrons (Prop, C-46D)

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