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Japan in the Seventies: The Problem of National Power

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JAPAN IN THE SEVENTIES: THE PROBLEM OF NATIONAL POWER

NOTE

Prime Minister Sato has said that in the 1970s Japan must face the "problem of national power"—a concept which he has defined as the "aggregate of a country's political stability, economic strength, military might, its sway over international opinion, its cultural heritage, and so forth". In this Estimate we look at how these several aspects of Japanese national life are likely to evolve and interact during the decade, and at some of the implications for the US.

CONCLUSIONS

A. Japan enters the 1970s with the world's most dynamic economy, a population proud of its accomplishments, and a moderate government firmly in the political saddle. Its problems during the coming decade will be how to use its riches and growing self-confidence to improve standards of living at home and to find a suitable role for Japan abroad.

B. The chief arena of political competition will continue to be within the Liberal Democratic Party (LDP), and it is here that the most significant new pressures will make themselves felt. In the long run, the LDP can probably maintain its commanding position only if it meets mounting pressure for attention to Japan's social infrastructure needs, especially in the booming cities. In the process, support for the party itself is likely to change markedly from conservative rural constituencies to the urban middle classes.

C. Japan is in a strong position to continue rapid economic growth, although sooner or later a decline from the past average real growth rate of 10 percent a year is likely. But while Japan's strength and in-

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fluence within the international economic complex will continue to increase, so will the dependence of Japan's prosperity on continued access to foreign markets. A prolonged international recession or the imposition of severe foreign trade barriers by Japan's main trading partners would have grave economic repercussions in Japan, all the more so because its economic system is geared to rapid growth.

D. Japan's search for a "world role" will focus initially on gaining international status and recognition through, for instance, an enhanced role in the UN, and on continued efforts to promote Japanese economic interests abroad. By the end of the decade, Japan will be more nearly an equal in its economic relations with the US; is likely to be the dominant external factor in the economic life of non-Communist Asia and the largest external economic influence in China, Australia, and New Zealand; and in all likelihood will be the greatest single economic rival of the US even in such traditional American preserves as Latin America.

E. Politically, economically, and emotionally, Japan is attracted to the developed nations, particularly those of the Pacific Basin—the US, Canada, Australia, and New Zealand. Its economic role in East Asia gives it a major stake in the stability of that region. Its foreign aid to East Asia will increase substantially, accompanied by growing economic and eventually political influence. In Southeast Asia, however, Japan will try to keep its political activity in a multilateral context. Even in Northeast Asia, where Japan will engage in increasing bilateral exchanges on intelligence and internal security with South Korea and Taiwan, it will want to avoid political or security involvement which might provoke North Korea and especially China.

F. All Japan's Asian policies will be fundamentally affected not only by its relations with the US but also by its reading of the balance among the US, USSR, and China. The Japanese think they have an independent "bridge-building" role to play between the Communist and non-Communist powers in Asia. And to some extent they count on mutual antagonism among the three great powers to help Japanese influence with each one. They will be persistent in friendly overtures to China, and reluctant to engage in any activity which could be construed as "anti-Communist".

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G. The Japanese defense related industries will grow substantially over the decade, though the Self-Defense Forces probably will increase only gradually with primary emphasis on air and naval forces. The navy and air force will extend their area of operations, and eventually will come to accept a greater share of responsibility for defense of Japan's vital lines of communications. But Japan will not want to station troops abroad or to accept foreign military commitments, certainly not bilateral ones.

H. We are less certain about Japan's nuclear future. The issue will be the subject of growing national debate, and the decision will be affected not only by Japanese sentiment *per se* but also by US and Chinese policies. On balance, we think that unless the Japanese come to feel some imminent threat to themselves for which US protection is deemed unreliable, they probably will not decide to produce nuclear weapons at least for some years to come.

I. Japan will want the US military presence on its lands reduced and want a greater Japanese voice in the use of the forces which remain. But so long as it is ultimately dependent on American military protection, it will on balance probably want some US military presence on its territory to give force to the American commitment. Economic issues are likely to be a greater source of friction than US military bases. Most important of all, as the decade goes on, Japanese governments will be increasingly eager to demonstrate—to other Asians and to their own electorate—that their policies are independent of Washington's.

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DISCUSSION

1. In the years since World War II, most Japanese have equated "national power" with economic strength. This has been the almost-obsessive national concern; potentially divisive issues—even differences over how to share the wealth—have been largely subordinated to the hard work which has won international respect and restored Japanese pride and self-confidence. And the success of conservative governments in directing this effort has been the key to their domination of Japanese politics since the war.

I. JAPANESE POLITICS: The State of Play . . .

2. The instrument of this domination over the past 15 years has been the *Liberal Democratic Party* (LDP), which won 288 of the Diet's 486 seats in the recent parliamentary election.¹ The LDP still depends on Japan's rural population for the bulk of its votes. But the party's directing Establishment is an amalgam of business and financial leaders, top civil servants, and party professionals. In Japan's unusually homogeneous society, these men share ties of family and school, common outlook, and a strong sense of mutual obligation and loyalties.

3. There also are more practical links. Business leaders bankroll not just the party but individual politicians as well, and keep close, semiofficial contact with the recipients of their favors. In turn the government, through the Bank of Japan, controls the commercial bank loans on which Japanese business depends. The government also regulates—indeed sponsors—company mergers, price fixing, and production and market sharing. The bureaucracy has an unusually large role in shaping and implementing policy, as well as in processing the pork-barrel needs of individual Dietmen. Furthermore, top civil servants often "retire" to business posts and sometimes to political office. And a complex of "Deliberation Councils," including members from the business world, permeates every part of the bureaucracy. These and other ties result in probably the most deftly guided economy in the world—often called "Japan, Inc."—in which individual business ambitions are adjusted to serve the greater good.

¹ RESULTS OF DECEMBER 1969 LOWER HOUSE ELECTION

	SEATS	PREVIOUS STRENGTHS (Seats)
Liberal Democratic Party	288	277
Japan Socialist Party	90	140
Komeito	47	25
Japan Democratic Socialist Party	31	30
Japan Communist Party	14	5
Independent	16	9
TOTAL	486	486

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4. Japanese traditions call for government leaders to perceive and act on the national "consensus," rather than for open contests for votes on issues, as is the theory in Western democracies. This requires that the opposition's views be given (or seem to be given) full consideration however small its vote, that the government avoid any impression of arbitrary action, and even that information elsewhere considered confidential be allowed into the public domain. This means, in effect, that national policy changes only slowly, after persuasion and compromise within the LDP and after public opinion is fully prepared. The substance of the consensus in postwar years has been remarkably constant: first priority to economic growth, low military budgets coupled with close relations with the US in defense and foreign policy, no nuclear weapons in Japan or Japanese troops abroad, and no overt hostility toward China. In recent years this consensus has been affected by growing national awareness of Japan's extraordinary economic strength and a desire to project Japan's image as an independent "big power." These newer aspects have prompted efforts to recover territories occupied by the US and USSR, to scale down US military bases, and to sponsor such prestigious international activities as the Olympic games and Expo-70.

5. The LDP's success in discerning and expressing the national mood has helped to reduce the traditional opposition—the Socialists, Democratic Socialists, and Communists—to a degree of impotence and frustration most extreme in the *Japan Socialist Party* (JSP). The JSP entered the postwar era with high hopes. But its continued exclusion from power, the rivalries and recriminations within it, and its persistence in a Marxist ideology of ever decreasing relevance to Japan's affluent society, all have contributed to a rot which culminated in the loss of over one-third of its Diet seats—from 140 to 90—in the December 1969 election. Socialist backbenchers in the Diet, and the labor unions on which the JSP depends for money and campaign work, are openly impatient with the party. But they have been unable to move the party leadership. Virtually excluded from decision making, the party has resorted to demonstrations in the streets and physical disruption of the Diet in order to make its views felt. But these tactics of protest against the "tyranny of the majority" have lost the public sympathy they once helped engender for the JSP. Barring a near-miraculous revitalization of its leadership or some major and now unforeseeable political or economic failure on the part of the LDP, the JSP is likely to continue its decline into irrelevancy, or even to suffer serious splits.

6. The much smaller *Democratic Socialist Party* (JDSP) may actually have had more influence on government action over the years, as many of its moderate and pragmatic proposals have subsequently been adopted by the Liberal Democrats. But the JDSP has in the process become a "second conservative party", appealing only to those who want to register a mild opposition to the government. Of all the Japanese parties, the JDSP gained least from the Socialist debacle in the last elections, increasing its Diet seats only 1. Its poor electoral showings have thus far kept it from attracting those JSP politicians who might be tempted to defect to a more pragmatic socialist party; if the JSP does come apart in the future, the JDSP could of course expect to be a

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major beneficiary. But the JDSP's best hope for a share of power may lie in a possible future LDP need for a coalition partner, rather than in any prospect of itself becoming a major opposition force.

7. The *Japanese Communists* (JCP), on the other hand, have enjoyed something of a revival in recent years. Their remarkable success at the last national election in raising their Diet seats from 5 to 14, and in Tokyo city council elections of a year ago, confirmed the party in its strategy of working to establish itself as a non-violent, national force by demonstrating independence from foreign parties and at least tactical moderation. But most of the new Communist voters were in fact defectors from the JSP, and not new recruits to the left. Moreover, most Japanese are far from accepting the party's new "loveable" image while, on the other flank, it is under attack by radical students for having gone conservative. The JCP can hope, at best, to continue becoming a more respectable party and to have a larger voice in opposition councils. But it is unlikely to acquire a sufficiently "Japanese" image even to lead the opposition, much less to challenge the government.

8. A relatively new phenomenon in Japanese politics in the *Komeito*, or Clean Government Party. Komeito was established in 1964 as the political arm of the rapidly growing Value Creation Society (Soka Gakkai), itself an offshoot of the aggressive Nichiren Buddhist sect. Highly organized, superbly disciplined, virtually faction-free, Komeito is perhaps the first genuine attempt to form a broad-based political party in Japan. Its appeal is pitched primarily to the lower middle classes and the poor who feel uprooted and somehow left behind in Japan's race to new prosperity. The parent religion promises its members temporal gain—business success or marital tranquility or regained health—immediately upon conversion. And Soka Gakkai's enormously successful network of organizations for every conceivable Japanese interest group gives these people an important sense of "belonging".

9. Komeito's own platform is a very pragmatic (its critics say opportunistic) exploitation of the public's growing concern with domestic bread and butter issues. Its stand on social issues, and on the desirability of closer ties with China and more distance from the US, could be called "left". But there also is an element of religious fanaticism in Komeito's appeal, the suggestion of a Japanese mission to save the world from the two "extremes" of Christianity and Marxism, which reminds some critics of the rightist nationalism of the prewar period.

10. Komeito almost doubled its Diet strength—from 25 to 47 seats—in last December's election and, perhaps even more important, got an estimated one-third of its votes from outside Soka Gakkai's membership. But Komeito, too, faces serious obstacles. Its militancy, religious fanaticism, and lower-class image, as well as the charges against it of ultranationalism, limit its appeal in Japan's secular, status-conscious society. As the party tries to distance itself from the religion and deal more specifically with concrete issues, it risks losing the fervor and unity it has thus far enjoyed. And as it strives for respectability, it may find itself moving closer to the LDP on major issues rather than providing a

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new rallying point for potential opposition sentiment. The LDP, with its control of the economy, its access to talent, patronage, and funds, would easily hold the edge in any such contest.

. . . and the Potential for Change

11. Japanese politics is likely to change during the 1970s, and some new directions already are apparent. For one thing, the issues in debate are broadening and becoming more complex. Controversy will grow over how to divide the wealth, cope with Japan's urban and other environmental problems, educate the young, reapportion the Diet, find a world role and cope with Japan's defense problems, perhaps even how to write a made-in-Japan constitution.

12. And there will be more players in the political game. Many of Japan's new urban middle classes seem to be leaving some of their traditional group loyalties back in the village. In social life this tends to greater permissiveness, even a weakening of the Japanese urge for conformity and acceptability. In politics, this may mean voting more discriminatingly on the issues, or at least on a candidate's personal appeal, rather than on a basis of loyalty and obligation to a political boss. And while the Japanese are not yet flocking to become active members of political parties, they are making more use of special interest groups such as consumer associations and the PTA to press their ideas and demands on the government. Insofar as there is an erosion of the strength of paternalistic traditions, in government or in business, the potential for a floating vote will grow.

13. Japanese labor is increasingly interested in greater economic benefits for its members, and less willing either to sacrifice higher wages to company growth or to lend itself to the archaic ideological crusades of Marxist parties. Thus regardless of whether the presently competing labor federations unify or not, the labor movement will probably be a much more conservative factor in Japanese politics even while becoming more aggressive in wage demands. Active labor support for the Socialist Party, in terms of money, votes, and supporting demonstrations, will continue to grow weaker.

14. At present Japan has no "defense establishment" in the American sense. Some large corporations and their subcontractors participate in Japan's equipment procurement programs, but military procurement does not play a major role in Japan's economy or in the profits of individual companies. Nonetheless, some industrialists and political leaders are becoming more outspoken in pushing defense and defense-related industries. The military's influence may be further enhanced by Defense Chief Nakasone's efforts to improve the morale and image of the services. Nakasone also wants to create a permanent Defense Committee in the Diet, and this could become the arena for a "lobby" and for opposition to it. But even with considerable defense-related industries would play a relatively small role in Japan's economy; and certainly the military are not likely to threaten civilian control of the government.

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15. Student protests seem to be losing influence in Japan. Until quite recently, student demonstrations complimented the efforts of leftist parties to disrupt government policies, and police suppression of the students won the left some general sympathy. However, as the level of student violence rose and the police became more skillful in handling it, the mass of students, the general public, and even most leftwing parties came to shun student extremists. The young radicals appear resigned to their isolation and reportedly plan to concentrate more on individual acts of terrorism than on getting large numbers into the streets. At the same time rightist student groups are announcing plans to take on their radical leftist classmates in defense of "traditional Japanese values". Student extremists of whatever political stripe will probably remain a serious nuisance but not a political force if they continue present trends toward terrorism and toward fighting among themselves. But should they abandon the tactics of flagrant violence their influence on public opinion, and particularly on academic opinion, could grow.

* * * *

16. The new issues and participants in Japanese politics certainly will offer opportunities to the opposition parties. But Japan remains essentially a conservative society, and the strength of tradition is likely to be just as impressive as the pace of change. Furthermore, the opposition is in poor shape to take advantage of opportunities. Not even Komeito, which has greatest growth potential, seems likely to become a serious threat to the LDP's political dominance. Nor is there any evidence that the opposition parties could cooperate in a united front. Indeed the "multiparty" opposition which emerged from the last election, with no one party able even to pretend to leadership, theoretically gives the LDP a freer hand than ever.

17. Of course there could be political realignments during the decade. But an upheaval great enough to challenge the present Establishment is unlikely in the absence of a major national crisis. This sanguine outlook for the LDP is not an unmixed blessing for Japanese democracy. If those who do stand outside the consensus feel the legal means to influence closed to them, they will be tempted to lash out violently against "the system" as the "new left" does in the West, or to work covertly against it as the Japanese Communists have done in the past.

18. But most Japanese—whether the old Establishment of big business, or the new hopefuls in the military or local interest groups, or possibly even organized labor—are likely to conclude that the way to make their influence felt is through the LDP. At least for the next several years and probably well beyond that, this will be the chief arena of political competition. The LDP itself is likely to change, reflecting the changes in Japanese society and its consensus. The LDP will concentrate less on the dwindling rural population and more on capturing the emerging "floating vote" in the cities and new suburbs.

19. The present LDP leadership is certain to have at least two more years of power beyond next autumn's party elections, when Prime Minister Sato will choose either to have a fourth two-year term as party chief or to name a successor—most likely Finance Minister Fukuda or Party Secretary Tanaka—from

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among the familiar faces. Beyond that, differences over the more complex issues of the 1970s will complicate the old game of personal rivalries and factional horse-trading in contests for party leadership. The issues which will influence these contests can be described as Japanese concern over three groups of questions: How to manage the further development of the economy? How to meet Japan's pressing social infrastructure needs and thus ease the inevitable tensions of a booming, urbanizing society? And how to find a world role which adequately expresses Japan's economic strength and the talents of its people?

II. ECONOMIC AND SOCIAL ISSUES

The Economy

20. The key to any judgment about Japan, perhaps even to the continued moderation and caution of the LDP leadership, is further economic growth. The Japanese economy has expanded at a real average annual rate of 10 percent in the past 15 years—an extraordinary performance by any standard. There have been frequent predictions of an imminent slowdown; but in recent years the rate of growth has accelerated to 13 percent. By comparison the US considers 4 percent a good performance and most West European countries are satisfied with a 5 percent growth rate. The Soviet economy too, in spite of its strong growth orientation, has slowed to about 5 percent.

21. Japan's phenomenal growth rate has been partly due to the fact that it was simply catching up with other major industrial powers. But it has now more than caught up with most of them, and growth still continues at a high rate. Japan now has the world's third largest Gross National Product (GNP), trailing only the US and Soviet Union. Per capita GNP is fast approaching that of the UK and if past rates of growth continue it will reach the present US level before 1980. We still expect a slowdown in Japanese growth sooner or later, perhaps in the second half of the 1970s. But barring a world depression or severely restrictive US import policies we expect growth to be around 10 percent in the next few years.

22. In some respects, Japan is in a better position than in the past to sustain rapid economic expansion. Its improving balance of payments position reached the point in the late 1960s where the country was running almost continuous surpluses. This has given the government greater flexibility in its economic policies, and makes less likely the periodic slowdowns imposed in the past to conserve foreign exchange. The high and still growing standards of education and technical skill of the Japanese people, their increasingly sophisticated sales network across the world, even Japan's reputation as the world's most dynamic economy, all give it a position of great strength from which to operate abroad and have foreign investors clamoring to be let into Japan.

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23. The restraints the Japanese economy is beginning to encounter are in part a product of its enormous success in the past. The birth rate has been declining as prosperity has been growing, and now Japan faces labor shortages.

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The labor force is expected to expand at about one percent a year during the 1970s, a good deal slower than the 1.5 percent average annual rate during the 1960s. More Japanese are staying in school longer and wanting better jobs at higher pay when they do go to work, which means employers will have an especially hard time finding enough manual workers.

24. Labor stringencies have put Japanese unions in a strong bargaining position: wages rose by about 16 percent last year and pressure is on for wage increases on the order of 20 percent this year. Consumer prices have been rising on the order of 5 percent a year for the past few years. Until last year, export prices were very stable because the increase in wage costs and in productivity were about equal. But since early 1969, export prices have also risen by about 5 percent, partially because of the higher wage rates.

25. Some of the force behind Japan's growth may diminish in the 1970s. Rising labor costs will continue to push up the price of Japanese exports. While similar inflationary pressures throughout the industrialized world will help keep Japan's competitive position strong, there could be some slowdown in its rate of export growth. Moreover, Japan will no longer have quite so much room for catching up with other industrial powers. Heretofore Japanese labor productivity on the average has been well below that of the US and Western Europe while the level of education of Japanese workers was among the world's highest, thus allowing plenty of room for improvement as sophisticated plant and equipment were introduced. And Japan's industrial technology has lagged behind that of other industrial powers, thus enabling Japan to benefit from research done at other's expense. Both these advantages are diminishing. Labor productivity is nearing West European levels. And acquiring new technology may become more expensive as Japan moves from being a purchaser of US and West European licenses to a position of being a world leader in domestically developed technology.

26. Still, Japan clearly has the resources and institutions to grow rapidly in the 1970s. The government has the control mechanism, and the demonstrated skill, for controlling prices and manipulating resources more easily than most of its trade rivals. The powerful Ministry of International Trade and Industry (MITI), in concert with other government departments, can "advise" the large economic combines to concentrate on those activities with greatest growth potential, and on a rational division of work among them. Thus the industries which have experienced the most phenomenal growth in past years—automobiles, steel, and consumer electronics—probably will grow somewhat more slowly in the future. But at the same time the Japanese will be concentrating on the expansion of their chemical, space, computer, transportation, and nuclear energy industries.

27. The most apparent threat to this rosy prediction is from external Prolonged world recession or the imposition of severe import restrictions in the US could create a serious economic crisis in Japan. The most dynamic Japanese industries are also the most dependent on world markets and it would be diffi-

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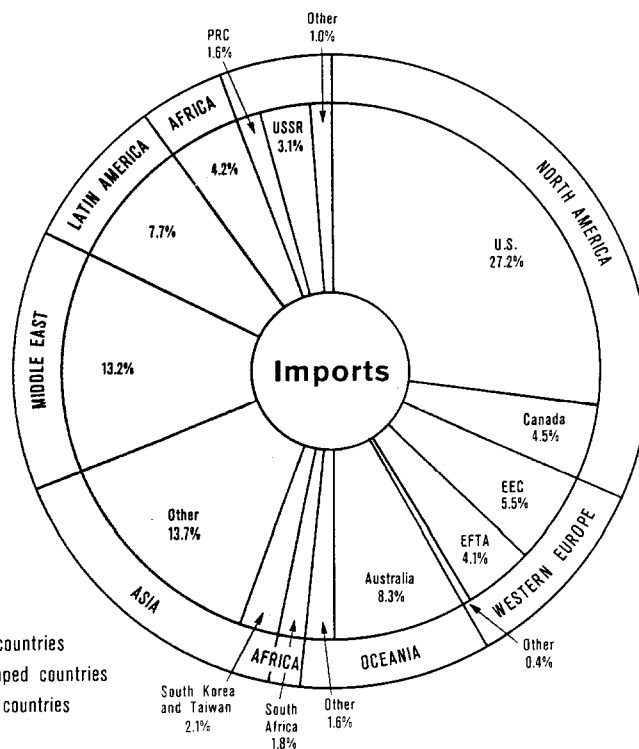
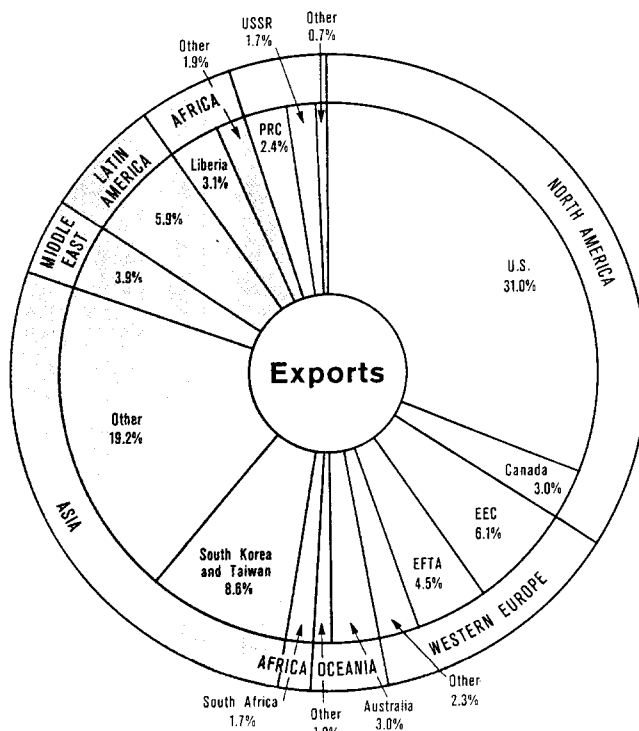
cult for them to adjust to a more inward looking economic growth process. Japanese economic institutions, moreover, are adapted to rapid economic growth and lack some of the built-in cushions and stabilizers that take the sharpness out of recessions in other countries. Japanese industry depends overwhelmingly on bank borrowing to finance its growth; its internal savings as well as its profit margins are relatively small. Japanese firms thus can not rest on their laurels; they have to continue expanding rapidly in order to survive. In the past even moderate slowdowns—to five percent or so—caused numerous bankruptcies of smaller firms. The government has been and continues determined to bail out major firms from such contingencies. Nonetheless, should a major and prolonged economic recession develop, the Japanese might be hard put to cope with it without severe political and social strains.

28. Despite resistance, Japan's economy is likely to become more internationalized, rather than more "independent," as the decade goes on. But its strength, influence, and impact upon the international economic complex will continue to grow. For instance, Japan already leads the world in shipbuilding and many consumer electronic products and in the mid-1970s probably will surpass the US in steel production. It also has reached the point of sizeable trade and payments surpluses which are likely to continue for some time. Thus Japan's international economic policies will have an important bearing on the international economic climate.

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Japan: Exports and Imports 1969



- Developed countries
- Less developed countries
- Communist countries

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Social Issues

29. As Japan goes on getting richer, the deficiencies in its social infrastructure become more glaring. This could become the LDP's greatest pitfall. The growing cities get most publicity, and do indeed badly need more houses, hospitals, schools, sewage facilities, and some easing of the appalling traffic congestion and air pollution. But the politically powerful rural areas also need better water supply and roads and more modern farm equipment. And local government authorities are demanding more of the money and authority now jealously guarded by Tokyo so they can cope with specific local problems. These needs have been neglected as most available money was plowed back into industrial growth. Now, Japanese attitudes clearly are changing. While top LDP spokesmen during the last election campaign were pointing with pride to Sato's success in the Okinawa negotiations with Washington, local candidates and the voters were talking about housing and roads and pollution and prices. Sato made these subjects the core of his policy address to the new Diet in February.

30. Japan clearly has the money to deal with these problems, and the Establishment is at least talking about their urgency. Perhaps more important, Japanese traditions of collective action and tight social organization would make a concerted national effort more feasible than in countries more given to individualism and separation of powers. More important even than money may be the time needed to develop new programs. Thus the government's effort almost certainly will not entirely keep up with the public's hopes. If it should fall too far behind, it would hand the opposition the best possible issue on which to mount a major challenge. But we think it more likely that the government will be able to exploit its efforts along these lines as a major source of national pride, a demonstration of LDP responsibility, and grounds for satisfaction with continued LDP rule.

31. The decade will also see further transformation of Japan from a nation of rural-agricultural roots to one permeated by the urban-industrial outlook characteristic of the West. The postwar period of strong official encouragement and support to the family-sized farm unit is approaching its end. It is foundering on costly rice production subsidies, easy availability of urban employment for farm youth, the insatiable demand for residential and industrial acreage, and a growing understanding of the need to rationalize an inefficient sector of the national economy. The LDP appreciates the problem but is caught between its dependence on the declining rural vote and a need to find more funds to meet the challenge of the cities and so ensure support from the increasingly powerful complex of interests centered there. The issue of reapportionment of Diet seats to reflect the realities of population distribution encompasses most facets of this sensitive rural-urban issue.

III. JAPAN'S WORLD ROLE

32. Virtually all discussions of Japan include some reference to reviving "nationalism," but the Japanese themselves are not sure just what this term involves. It appears to combine a reassertion of overt national pride at home

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with a compulsive desire to make the rest of the world notice, appreciate, and respect the Japanese nation and its works. It includes strong if ill-defined longings for a major Japanese voice in world councils and, to the extent feasible, a powerful position in bilateral dealings with other nations. But the practical consequences of such urgings are far from clear. At the very least, Japanese desire for praise and international status will grow. For many, this need is satisfied by such things as the homage Western journals pay to Japan's economic accomplishments. A successful space program or a well-publicized attack on environmental problems could also provide outlets for "nationalist" emotions.

33. The Japanese also place great importance on recently acquired membership in the Eighteen Nation Disarmament Conference and the International Monetary Fund Board of Directors. Japan particularly desires to enhance its role in the UN, which it perceives to be well suited to Japanese aspirations for a big power role without military commitments. Government officials talk of "semipermanent" Security Council membership, perhaps on a rotational basis, or even of permanent membership without a veto power. Either step would doubtless be seen by the Japanese as an interim measure toward eventual full Security Council membership. The Japanese public sees these aspirations as a natural and desirable consequence of Japan's postwar revival. Opposition by foreign powers, particularly the US, could very well be taken as a national affront.

34. Opinion also is united on the need to continue to increase Japan's share of world trade. For the next several years at least, "foreign policy" still will be primarily a matter of economic relations. Japan will continue its search for diversified and reliable sources of raw materials, for expanded markets for its industrial goods, and for opportunities to establish export-oriented plants in nearby countries with an abundance of cheaper labor. Government circles recognize the importance of foreign aid in promoting Japan's commercial interests abroad.² Arguments for more aid will also be supported by the country's large foreign exchange reserves, and the government's resulting desire to fend off international pressure for revaluation of the yen. As a consequence of its extensive aid, Japan is likely to play a major role in organizing multilateral aid consortia over the decade.

35. Beyond these activities, most Japanese probably do not have any very clear concepts about Japan's role in the world. The majority of voters are much more interested in seeing urban traffic unclogged or farms modernized. Even many of the businessmen most active in foreign countries are eager to avoid the sort of political involvement which might offend, and thus damage trade with, anybody. But finding a suitable "world role" has become an important goal for some leaders of the Japanese Establishment, and is an area of potential disagreement and friction among them.

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²In 1969, Japan probably reached second place among developed countries in terms of total financial outflows to underdeveloped countries with a total approaching \$1.3 billion. However, only \$436 million of this was official aid, while private aid flows (export financing and overseas investment) was estimated at \$800 million.

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The Pacific Power Balance

36. Japan's search for its place in the world will evolve against a background of the balance among the 4 great Pacific powers—the US, USSR, China, and Japan itself. The present equilibrium is highly favorable to Japan. The antagonism and military standoff among the 3 other powers gives Japan great freedom to pursue its own interests without immediate worries about its security. Moreover Japan, as the least ideologically committed of the 4, can expect each of the other 3 in some way to bid for its favors as the decade goes on. The reverse of this picture could of course also be true: a major shift in the behavior of one or more of the others, and especially a collapse of the balance among them, could leave Japan the most exposed and vulnerable of the world's major powers. In the immediately following paragraphs, we assume the following continuity in Japan's Asian environment: that the Sino-Soviet split will endure, and that the US, while less visible militarily, will remain a factor in Asia. (Section V discusses the implications of certain contingencies which might alter this framework.)

37. *The US.* Japan's closest ties—economic, political, and military—are of course with the US and likely to remain so. Economic links, more than anything else, cement this relationship. The Japanese economy is heavily dependent on the US, to which it now sends about 31 percent of its exports. Moreover, during the 1960s the composition of these exports shifted from light manufactures to the more sophisticated industrial products on which Japan's further economic growth depends. There is no apparent alternative market for these Japanese exports, especially so long as the European Community maintains import restrictions on Japanese goods. In addition, Japan depends on the US for some 27 percent of its total imports, including a growing supply of raw materials, and advanced production and scientific equipment not readily available elsewhere. These economic links are of course supplemented by Japan's reliance on the US for military protection, and by the advantages of having American approval and international sponsorship.

38. This very history of quasi-dependence on US goodwill and diplomatic effort, however, is a potential source of weakness in the US-Japanese relationship. For an increasing number of Japanese, an essential component of their nation's "great power" status will be its ability to stake out and defend political and economic positions independent of the US and at times in conflict with it. For these Japanese, the issues may go beyond specific measurements of gain and loss to encompass delicate questions of "face" in the international community. This does not mean that a major breakdown of US-Japanese relations is likely to occur on such issues as Japanese textile exports to the US. But it does forecast a diminished willingness in Japan to bow to US pressures on this and other important controversies. Economic conflicts are virtually inevitable over the decade, as US businessmen try to open Japan to foreign goods and capital, and at the same time to restrict Japanese imports into the US. Competition for third country markets could also become acrimonious, and differences could arise over trade and credit policies toward China. Such issues are likely to be

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a much greater source of friction between the two governments than the much publicized matter of US military bases in Japan. Nevertheless, we expect that for Japan the areas of mutual benefit in its relationships with the US will continue greatly to outweigh the areas of conflict.

39. *China.* China looms large in any calculation about Japan's role in Asia. It is potentially both the most tempting Asian market for Japanese goods and Japan's greatest rival for influence in East Asia. In time, Japan might also come to see China as a military threat, although there is little concern on this score at present. The Japanese hope that if they keep from provoking Peking and expand economic and eventually political links they will somehow help to draw China into a more moderate course in its international relationships, meanwhile increasing Japan's role in its economy and leverage on its politics. They probably also see China's present hostility to the US and USSR as a special opportunity to improve Japanese influence in Peking. There is very little Japan can do to advance its aims so long as the Chinese leadership remains so hostile to its "bridge-building" efforts. But it will persevere.

40. Japan's efforts to improve relations with China probably will include—fairly early in the decade—willingness to extend long-term credits for Chinese purchases of Japanese capital goods, and somewhat later, offers of diplomatic recognition based on a formula that provides tacit acceptance by Peking of continued Japanese relations with Taiwan. How fast to move in this direction will be one of the livelier issues of Japanese politics. Japan is not likely to be seriously deterred from overtures to China because of the anguish these might cause in Taiwan or the US. But the chief importance of China in Japanese thinking may be negative, by making Japan wary of doing anything in the rest of Asia which might provoke China today, lest it diminish Japan's chances for improved relations in the future.

41. *The Soviet Union.* We do not foresee the development of anything resembling a close political relationship between Japan and the Soviet Union in the 1970s. The Japanese have long distrusted Russian ambitions in Asia, and now would be especially cautious about closer ties with the USSR which might antagonize China. The Soviets, for their part, clearly have mixed feelings about their relations with Japan. They routinely denounce Japan as a staging base for "capitalist" influence, and of course for the US military, in Asia. But they may be coming to wonder whether Japan's influence in Asia, and even its military tie with the US, might be a useful counterforce to China. Japanese-Soviet relations are likely to continue erratic during the decade, with the Japanese suspicious but always eager to repond to Moscow's friendlier moods. As a general rule, the more antagonistic the Sino-Soviet relationship, the more incentive the Soviets have to encourage reasonably friendly relations with Japan. But prospects are not good for a formal change in relations, e.g., a peace treaty to conclude World War II, unless Moscow should find compelling reason to return the southern Kuril Islands and neighboring islets taken from Japan at the end of the war. This now appears unlikely.

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42. In the economic sphere, there are things the Soviets and Japanese want from each other. Chiefly, Moscow wants Japanese money and technical expertise for the economic development of eastern Siberia and the Soviet Far East, and the Japanese are interested in that region's industrial raw materials. There will be progress along these lines, but it will be slowed by the Soviet tendency to demand more capital and easier terms than the Japanese wish to offer. Moreover, this development is not of first importance to either country. Japan can for the most part find more attractive sources of raw material supply, and the Soviets give relatively low priority to the development of their eastern lands.

The "Developed" World

43. Thus Japan has an "umbrella" of the Pacific power balance, as well as of its military alliance with the US, under which to pursue its international ambitions. One immediate question about those ambitions is what part of the world Japan belongs in. Its leaders often like to identify with the industrialized powers of the West—reflecting both justifiable pride in Japan's economic achievements and corresponding arrogance toward their nearer neighbors. This emotional attraction accords with Japan's economic interests, which are focused especially on the sophisticated markets and vast raw material sources of the US, Canada, Australia, and New Zealand. In political and strategic terms, Japanese leaders like to think of an informal community of these developed *Pacific Basin* nations—a grouping of rich and politically stable states connected by safe lines of air and sea communication. The Japanese and Australians, for instance, share major areas of mutual interest: Australia's continued economic growth is largely tied to Japanese purchase of its raw materials; and despite quite different policies, the two share basic goals with respect to Asian security problems. Much of Japan's diplomatic activity over the decade will be devoted to strengthening ties with the Pacific Basin states, perhaps extending to some sort of formalized political grouping among them.

44. The Japanese also look to the nations of *Western Europe*, measuring with pride Japan's greater economic gains and with some sensitivity its lower standard of living. They hope to increase sales of Japanese products in Europe's affluent societies, which in addition to the economic advantages would help decrease Japan's reliance on American markets. Recently the EEC countries have also shown increasing interest in broadening trade with Japan.³ Wider economic relations in turn would facilitate closer political relations between Japan and Western Europe. Japan might in some circumstances seek help from France for its nuclear program, e.g., in acquiring unsafeguarded uranium or even in developing a missile guidance system. And the Japanese probably also feel a common interest with the West Germans on nuclear matters, especially in interpreting the restrictions placed on both by the Nuclear Non-Proliferation Treaty.

³ During the past decade, West Europe accounted for only about a constant 10 percent of Japan's total trade while Japan had less than 2 percent of West Europe's trade, although this latter figure doubled over the decade.

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East Asia

45. While the developed world may be more attractive to Japan, Japan clearly comes first in the economic calculations of its non-Communist Asian neighbors. It has overtaken the US as the chief trading partner of almost every country in East Asia, and is the prime market for the raw materials which are virtually all that many of these countries have to sell. South Korea and Taiwan have in some respects become extensions of the Japanese economy, as Japanese firms have moved into both in order to take advantage of lower labor costs. Elsewhere in East Asia, Malaysia, Singapore, Hong Kong, or Thailand might also be attractive sites for Japanese investment in labor intensive industries along the pattern of South Korea and Taiwan. Otherwise, Japan is chiefly interested in those states with abundant raw materials and reasonably stable political life. Thus Indonesia, Malaysia, and Thailand, in particular, are targets for Japanese investment in extractive industries. Indochina, on the other hand, will be of relatively little economic interest until postwar reconstruction begins.

46. However aloof Japan might like to remain from the political troubles of its Asian neighbors, its economic role does in fact carry with it an implicit entanglement. Most Japanese, especially among the younger generation, appear indifferent to anti-Communist appeals; but they do want Asia to be sufficiently stable for Japanese to go on doing profitable business there. The issue in Japanese minds is what role Japan ought to play in bolstering Asian security. Their instinctive response is in economic terms. The region will continue to get the bulk of Japan's foreign aid. This still will be primarily aimed at advancing Japanese commercial enterprise; but as the decade goes on Tokyo may be more willing to use aid money for promoting overall political stability and general economic growth. Japan already has taken the major role in the Asian Development Bank, and sponsored regional meetings on such subjects as agricultural development and Indonesia's debt. The Japanese may view themselves as a kind of middleman between the developed states and their more backward Asian brothers. Particularly in the UN, they may try to be East Asia's spokesman to the West.

47. *The Special Cases of South Korea and Taiwan.* South Korea and Taiwan are special cases for Japan, by virtue of their strategic location in Northeast Asia, Japan's heavy investment in their economies, and historical ties with both. In both cases, government exchanges will grow in matters of intelligence and internal security. The Japanese count on continued US guarantees to both countries, however, and hope not to have to do much more about the security of either neighbor. The Japanese public does not share its leaders' sense of involvement in the fate of either country, and any projected "military adventure" abroad would be a divisive issue even within the leadership. We do not believe that Japan would involve itself in the defense of Taiwan in any foreseeable circumstances if only from fear of conflict with Peking.

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48. South Korea is a less clearcut case. But so long as the US commitment there seems dependable Japan is unlikely to play more than a marginal military

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role in its defense, as a base for US operations, and if necessary as a guardian of the sea lanes between Japan and the peninsula. The Japanese are generally optimistic about prospects for avoiding conflict in Korea. And they see a unique role for themselves: to improve their own relations with North Korea and so help "civilize" it; and to work for a North-South modus vivendi, thus defusing the threat of war before the US loses interest in South Korea's fate. If, however, there should be a renewed threat to South Korea from the North which Washington seemed unlikely to meet resolutely, Japanese politics would be strained by the question of Japan's role in the struggle and especially of whether to send troops to defend the South. Some government leaders probably would want to intervene, but it is doubtful that they could create a national consensus in favor of action. Many Japanese, especially the younger ones, see little compelling national interest in the preservation of a non-Communist South Korea and feel no threat to Japan from North Korea.

49. *Southeast Asia.* The Japanese also are testing the waters for what political role they might play in Southeast Asia. They will increasingly want to be included in Asian talking groups, e.g., a conference on Cambodia or expanded Vietnamese peace talks. They probably would join, and gradually play an important role in, any UN or other international peace-keeping activity in Southeast Asia arising out of the Indochina war. Japan will try, however, to keep all its Southeast Asian activities multilateral and non-military. It wants to avoid alarming its neighbors about its own ambitions in the area, but even more it wants to avoid direct responsibility for any other country's troubles or in any two countries' quarrel. Clearly, one motive for Japan's growing emphasis on regional forums is its desire to avoid bilateral responsibility and to keep pressure on the US, Australia, and New Zealand for continued involvement in Southeast Asia's problems.

The Role of the Military

50. The greatest uncertainty in Japan's groping for a "world role" is how the military might contribute to it. The Japanese Establishment is agreed that some modest increase in military forces is desirable, if only for reasons of self-respect and national prestige. This argument is reinforced by a desire to become more obviously independent of the US, and perhaps by the hope of some that a larger Japanese military would enhance Tokyo's position with respect to the US, USSR, and China. There are powerful domestic interests which have a personal stake in going further still. Some important Japanese industrialists, with an eye on possible government contracts, are far ahead of the politicians in pressing for stronger military forces. And some ambitious Liberal Democrats, most notably Defense Director Nakasone, may try to play upon the growing desire for prestige and profits by very ambiguous statements about Japan's military future. If the 1970s should see a contest between the LDP and Komeito as to which is more "patriotic", this too could fuel the desire for a large military establishment.

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51. There is a potent school of thought, probably comprising a majority at present, who think quite differently. These men question the traditional coupling of "great power status" with strong military forces, especially in Japan's position as a recognized giant among its weaker neighbors. They argue that Japan's economic relations and political influence in East Asia would be damaged if it acquired the military trappings of great power status. They also question just whom Japan should arm against. Few Japanese currently perceive a military threat to their own lands. And there is widespread aversion to being drawn into Washington's conflicts with Asian communism. Any potential threat to Japan in the future would certainly come from a nuclear power, against whom "conventional self-sufficiency" would be of little use unless backed by nuclear weapons. And the sort of token nuclear force which some Japanese might desire as a status symbol would be bitterly divisive at home and damage the image Japan is so assiduously promoting abroad, without really achieving strategic independence from Washington. If this line of reasoning prevails, the Japanese just might be the first major nation to ask: "military power—for what?". These and other arguments against a massive military buildup will find considerable sympathy among the Japanese public, which is by no means cured of its "nuclear allergy", which is still apprehensive about militarism, and which moreover is reluctant either to pay for or enlist in a large defense establishment.

52. Given anything like the present international circumstances, Japan's course among these conflicting pulls almost certainly will be a compromise which avoids foreclosure of any option for future decision. Ambitious politicians will look for ways to exploit the issue, but none will want to expose himself to attack by getting too far ahead of the consensus. And consensus will be slower in coming as the decisions become more difficult.

53. *The Military Buildup.* The Fourth Defense Plan, now being drafted to cover the years 1972-1976, will be based on the assumption that the US-Japanese Security Treaty will remain in effect. The Treaty may be "reinterpreted" to meet changing circumstances, but the government will want to avoid a more formal change which would require Diet or Congressional approval. The Defense Plan is expected to provide for a slow and orderly augmentation of the Self-Defense Forces, with emphasis being placed on qualitative improvement through equipment modernization and new procurement. First priority is to be given to improving the navy and air force; there also is to be some improvement in the ground forces mobility and capability for joint operations. By 1980, the defense budget could go to as much as 2 percent of the GNP⁴—still relatively small proportionally but enough to give Japan the world's 4th or 5th largest defense budget. Recruiting, however, will continue to be a problem, partly because of Japan's growing labor shortage. It is highly unlikely that Japan's Conscription will be amended or reinterpreted to allow conscription.

⁴ It is now .79 percent compared to US 9.5 percent, and about 5 percent in the UK, West Germany, and France.

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54. The defense related industries are likely to grow proportionately more than defense forces in the coming years. A major effort will be made to produce most military equipment at home. High on the military-industrial shopping list are research and development contracts, as well as production orders, for such advanced items as antisubmarine detection and landbased radar systems, a variety of electronic equipment, a wide range of ships and aircraft, and rockets and antimissile missiles. There also will be pressure on the government to allow Japanese industry to produce such things as bombers, "non-nuclear" ballistic missiles, and antiballistic missiles, and to ease restrictions on foreign sales of military equipment. All this would put Japan in a position to reduce its own purchase of US military goods and might eventually add an important line of exports, thus bringing Japan into competition with the US for sales to third countries.

55. We do not, however, expect a dramatic change in the role of the forces Japan will be building during the 1970s. The navy and air force will extend their area of operations, partly as a result of responsibilities assumed with the reversion of Okinawa, and eventually will come to accept a greater share of responsibility for defense of Japan's vital lines of communications. The decade will probably also see routine Japanese naval cruises in the Straits of Malacca and perhaps in the Indian and South Pacific Oceans. But it is unlikely that Japan will want to station any forces abroad or to accept foreign military commitments—certainly not bilateral ones. At most, Japan might contribute some civilian police and security officers to an international truce-keeping force for Vietnam or possibly some UN operation further afield.

56. We are less certain about Japan's military nuclear future. Some in the Establishment see a national nuclear capability as a natural component of Japan's "big power" status. A far greater number of Japanese still are appalled by the very idea. And most probably are sincerely troubled at the prospect of having to choose between continued and obvious reliance on the US, and the economic and political costs to Japan of acquiring its own nuclear weapons. The policies of other nations will be important. Japan's nuclear temptations will be stronger if several others, especially another Asian, should acquire a capability. And Japan's eventual decision will be profoundly affected by US and Chinese postures, or what the Japanese think them to be. An antiballistic missile system would be especially relevant for Japan if it felt exposed to a hostile China and uncertain about the US. If Japan wanted to acquire a nuclear antiballistic missile it would have to denounce the Nuclear Non-Proliferation Treaty (which it has signed but not yet ratified); but this probably would not of itself be a major obstacle.

57. On balance, we think that unless the Japanese come to feel some fairly imminent threat *to themselves* for which US protection is deemed *probable*, the restraints will outweigh the temptations at least for some years. *APPROVED FOR RELEASE*
DATE: NOV 2000 It is hard to see how, outside from entering a foreign war, acquiring nuclear weapons would be the most controversial step any Japanese government could take and the one which would make it most vulnerable to political criticism, especially from within leadership circles and from its Asian neighbors.

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58. Japan certainly will want to keep its nuclear option open, through development both of peaceful uses of nuclear energy and of a sophisticated space program. Japan is in a position, if it chose to ignore safeguards on fissionable materials presently on hand, to produce a nuclear device some two to four years after deciding to do so. Another year or two would be required before operational nuclear weapons would be available. One probable motive for Japan's commercial space program is to develop the capability for a medium- or long-range missile. A strategic missile development program based on existing technology and launch vehicles would take a minimum of three to five years to complete. As technology and hardware which the US has agreed to supply is exploited, the development time probably will be reduced by a year or so.

59. *US Bases.* Japan's efforts to build up its conventional military forces will reinforce already growing desires for reduction of the US bases in Japan and Okinawa. Defense Agency Director Nakasone has made public suggestions for joint US-Japanese use of US bases and for the eventual return of all US facilities to Japan's Self-Defense Force or to the public for non-military use; the Japanese especially want to reclaim land now used by US forces around crowded urban areas. While it is possible that there could be a snowballing of opinion against the US bases at some point in the decade, it seems more likely that the Japanese will press for gradual transitional arrangements with joint use leading eventually to complete Japanese assumption of control. During the 1970s, Tokyo may want to reduce the US base structure to little more than the naval bases at Sasebo and Yokosuka, the Misawa airbase in northern Honshu, and a few major air and logistics installations on Okinawa, all of which can be considered important for the protection of Japan and its security interests in Northeast Asia; even in these instances, the Japanese probably will press for the formal transfer of the bases to their control. Although tacitly accepting considerable US freedom of action in use of such bases, the Japanese will clearly interpret their right of "prior consultation" over the deployment of US forces from Japan as a veto power. But so long as Japan is ultimately dependent on US military protection, it probably will want to keep some US bases in order to facilitate and give credibility to that protection. And, in the interests of regional security, it will not want to dilute too obviously the US deterrent to Chinese or North Korean aggression on the mainland.

IV. UNSETTLING CONTINGENCIES

60. The government's ability to follow the cautious, option-holding course we have outlined depends not only on its own efforts but also on the international environment in which it will be operating, and especially on the behavior of the three major powers—the Soviet Union, China, and the US—against whom Japan measures its interests. If, to take the most extreme case, the USSR and China should patch up their differences and seem genuinely threatening toward Japan, and if at the same time the US should be going through a spell of post-Vietnam isolationism, the Japanese probably would feel forced to change course. The government would have to either mount a politically difficult and costly

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independent military effort, including the production of nuclear weapons, or try to reach accommodation with the threatening power(s). Whether it could establish some kind of consensus in favor of either course, or would have to face a bitterly divisive polarization of the nation, is difficult to predict and would of course depend on the circumstances in which the threat arose.

61. Much of course depends on the future of Sino-Soviet relations, and whether Japan can continue to expect each of the rival Communist giants to be at least friendly enough to want to keep Tokyo from the arms of the other. The *Soviet Union* has the greatest capacity to threaten Japan, and is the power which has historically most worried the Japanese. But most Japanese expect the USSR to remain essentially a conservative force during the 1970s, guarding the status quo at home and in what is left of its satellites. *China* is a much more doubtful factor in Japan's long-run calculations. All Japan's Asian policies, as well as its defense thinking, largely hinge on whether the Japanese continue to see China more as a source of potential opportunity than as a threat.

62. The central factor in Japanese strategic calculations, however, will continue to be the US. So long as the Japanese believe they can depend on Washington's protection, they are unlikely to be panicked into abrupt departures in their own defense policy. As we have noted above, large US forces in Japan will not be necessary to make the alliance seem valid, but neither will US forces in Japan alone be entirely sufficient; some important Japanese would be seriously alarmed by the spectacle of an "abandoned" and threatened South Korea. By contrast, further escalation of the fighting in Indochina could revive Japanese fears that their military ties with Washington might somehow draw them into conflict with China.

V. IN SUM . . .

63. Japan, then, is embarked on a self-conscious search for its "rightful place" in the world. But barring some fairly dramatic change in the international environment its progress will be cautious, as the government carefully feels out what the traffic will bear at home and abroad. It will have to maneuver among the competing claims of domestic needs and international ambitions, to balance aspirations for political status and influence against fears of being drawn into other people's problems or hurting trade.

64. As Japan goes on getting richer, its citizens will become even more self-confident in pursuing their economic interests abroad. By the end of the decade, Japan will be more nearly an equal in its economic relations with the US; is likely to be the dominant external factor in the economic life of non-Communist Asia, and the largest external economic influence in China, Australia, and New Zealand; and in all likelihood, will be the greatest single economic power in the world. The US even in such traditional American preserves as Latin America will be somewhat more careful about political than economic assertiveness. While increasingly eager to assume a major role in multilateral forums, it will continue wary of bilateral commitments, particularly any requiring a military contribution.

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65. There will inevitably be disagreements with the US on many issues. Japan will be too assertive economically to suit American businessmen, and less willing to take a security role than Washington might wish. It will continue to expect US nuclear protection as a matter of America's own interest, without being willing to do much in return. And it will be increasingly sensitive to Japanese interests in international negotiations over, for instance, nuclear power. Nevertheless, the essential ties with the US will endure, based on economic interdependence and mutual interest in the stability of East Asia—a community from which Japan cannot withdraw. But Japanese awareness of their reliance on these ties will itself add to their desire to *appear* independent of the US, especially in Asian policies. Probably more important than any specific change in Japan's world role will be the change in Japanese attitudes. Especially in military matters and in relations with the US, pragmatism will prevail over sentiment in Japanese thinking. One of Japan's chief goals in the 1970s, a motive force behind the search for diversified resources and markets, the development of Japanese technology, the buildup of military potential, and the groping for a political voice, will be to increase Japan's ability to act independently of—or in certain circumstances in conflict with—the US.

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