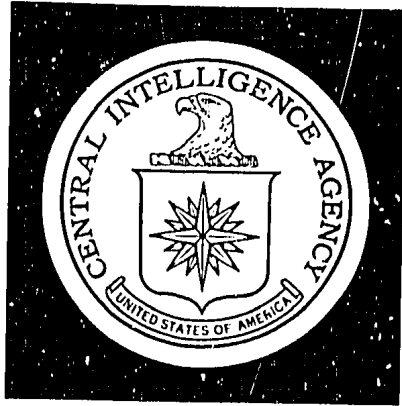


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OFFICE OF  
NATIONAL ESTIMATES

# MEMORANDUM

*Japan Between the Two Chinas*

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**Secret**

10 February 1971

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**CENTRAL INTELLIGENCE AGENCY**  
**OFFICE OF NATIONAL ESTIMATES**

10 February 1971

MEMORANDUM\*

SUBJECT: Japan Between the Two Chinas

NOTE

Japanese policy toward the two China's continues to be a delicate matter conditioned by a complex of domestic and external considerations pulling in different directions. The Japanese government is not eager to take any irrevocable steps to resolve ambiguities, and may not have to for some time to come. Nevertheless, a number of trends and contingencies -- not only involving Chinese UN representation -- will clearly call for readjustments in Japanese policy of one degree or another, sooner or later. These were discussed in NIE 41-70, "Japan in the 1970's: (25 June 1970), which remains a valid estimate. The following memorandum assesses the question in greater detail.

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\* This memorandum was prepared in the Office of National Estimates. It has been discussed with representatives of the DDP, OCI, OER, and the DDI Special Research staff who are in general agreement with it.

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1. The Japanese probably have talked more than anybody else about the necessity of "bringing China into the international community" -- and by implication at least, about the harm done by Washington's refusal to recognize Peking. But in fact Japan has skillfully exploited the status quo to establish positions of advantage in both Taiwan and mainland China. Recent moves by several governments to recognize Peking, and the simple majority in last autumn's General Assembly for giving China's UN seat to Peking, have been greeted with genuine enthusiasm by many Japanese. But this apparent trend, however welcome in theory, poses a delicate problem of adjustment for Tokyo which involves the timing and style as well as the substance of its China policy.

2. Japanese attitudes toward both the rival Chinas are founded on a complex mixture of sentimental ties, wishful thinking, and hard-headed calculations of practical interests. The mainland holds, as Japanese keep reminding each other, those 800 million potential customers. And it is the cultural motherland, now fallen on hard times. A compound of deference to their ancient heritage, and pride when comparing Japan's current strengths with China's weaknesses, makes the Japanese feel a sort of mission to interpret China and the West to each other -- establishing, in the process, something of a tutorial influence for themselves in

Peking. Other nations, in Asia and elsewhere, also like to talk of "building bridges" to China. But the Japanese feel that their cultural ties give them a special insight into the Chinese character.

3. In practical terms, the sheer size and weight -- and nuclear potential -- of China make it a central element in any calculation of Japanese interests. It is the likeliest source of foreign inspiration and support for radical Japanese elements, the only serious competitor for "leadership" in Asia, and potentially the most troublesome obstacle to peace and stability in the region. Not that the Japanese stand in awe of China; they do not. But as they prepare to join the game of balance-of-power politics in the uncertain Asian environment, the leadership in Tokyo is acutely aware of the necessity, at some point, of achieving a satisfactory relationship with Peking.

4. For the present generation of Japanese leaders the claims of the Nationalist Chinese government on Taiwan also are strong. They are grateful to Chiang Kai-shek for having facilitated the return of Japanese prisoners from China after World War II and for waiving postwar reparations claims against Japan. They further credit him with having helped to prevent Soviet

participation in the Allied Occupation, and with having argued against proposals to abolish the Japanese Imperial institution. The sense of loyalty and obligation which Japan's older generation of leaders seem to feel toward the Nationalist Chinese government is remarkably strong

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[redacted] On a more practical level, while Japanese businessmen may eye potential profits on the mainland, they already have developed a substantial economic stake on Nationalist-ruled Taiwan.

5. The island of Taiwan itself has a special place in Japanese affections and interests. It was Japan's oldest pre-war colony -- a prize of the Sino-Japanese War in 1895 -- and the Japanese are gratified by signs that the native Taiwanese, unlike the populations of their other Asian domains, may actually have preferred the Japanese to their current rulers. Moreover, conventional wisdom holds that Taiwan lies athwart Japan's economic lifeline to Southeast Asia and the oilfields of the Middle East. Some younger Japanese question this: other routes could be found to the Middle East, albeit at some cost and inconvenience, and Southeast Asia as a whole is far less important to Japan's economy than the more developed Pacific states. At the same time, however, with

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the reversion of the Ryukyu chain to Japanese control in 1972, Taiwan will be on Japan's doorstep. Japanese leaders certainly do not want to see it in hostile hands. They would prefer not to see it reunited with mainland China under any circumstances -- although of course to admit as much would damage their relations with both Taipei and Peking. Clearly, a strong motive behind Japan's continuing interest in the future of Taiwan is to further its development independent of the mainland. There is even some evidence of Japanese interest in various so-called "Free Taiwan" movements, presumably as a potential channel for Japanese influence in the event that native Taiwanese find the strength to challenge Nationalist rule of the island.

6. Given the unyielding hostility of the rival Chinese governments to each other, Japan's interests in both, and its contradictory stake in Taiwan itself, it clearly has been to Tokyo's advantage to avoid too much logical tidyness in its China policies. Successive postwar governments of Japan have affirmed officially that "China is one", and that its only recognizable government is in Taipei. They carefully stipulated, however, that the Japan-(Nationalist) China peace treaty of 1951 should apply only to those areas actually under control of the Nationalist government -- i.e., Taiwan and the offshore islands. Since

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1951, Tokyo and Taipei have developed all the relations which might be expected of close friends and allies: numerous and close official exchanges and consultations; Japanese support for the Nationalists' United Nations role; and finally, in the Sato-Nixon communique of November 1969 on Okinawan reversion, a Japanese acknowledgement of interest in the security of Taiwan. In the process, unusually strong personal and ideological affinities have developed between Japanese and Nationalist Chinese leaders.

7. The most easily measurable ties between the two countries are economic, and these are strong indeed. Japanese exports to Taiwan grew from \$75 million in 1959 to about \$680 million in 1970, when they represented nearly half of all Taiwan's imports. Total trade between the two in 1970 was worth an estimated \$925 million. (Japan's exports to mainland China in 1970 were worth \$571.7 million, of a total trade valued at over \$825 million.) Even in those pre-Cultural Revolution years when Japan's total trade with the mainland was greater than that with Taiwan, Japan's trade surpluses -- and hence its foreign exchange earnings -- were larger with Taiwan. Consumers on Taiwan have become habituated to Japanese goods over the years and certainly the market

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there is more stable, less plagued by politically-inspired fluctuations, than that on the mainland.

8. Even more important to many influential Japanese than an opportunity to sell their products on Taiwan is their considerable capital investment in the island's industry. As labor costs in Japan have risen, export-oriented industries have entered into licensing arrangements on Taiwan to take advantage of its still-plentiful supply of cheap labor. In recent years a substantial part of the capital -- as well as technical and marketing expertise -- important to the development of Taiwan's textile, electronics, household appliance, rubber, and plastics industries have come from Japan. Japanese trading firms also are firmly entrenched on Taiwan, handling over half the island's exports to the rest of the world.

9. Still, the Japanese have very nearly managed to have it both ways. Under the rubric of the "separation of politics and economics", they have staked out a trade position on the Chinese mainland far larger than any other power. Japan's great opportunity in the China trade came with the deterioration of Sino-Soviet relations which allowed Japan, by 1965, to replace the USSR as China's chief trading partner. After a falling off

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during China's Cultural Revolution, trade between the two once more is expanding.

10. The composition of Japan's exports to China is more important than their total value. Japan is China's best source of capital goods -- steel and other metal products, machinery and instruments, transportation equipment -- which are important for themselves and for the Japanese technological expertise which comes with them. For instance: between late 1964 and mid-1968, about 25 large electronics manufacturing plants in China were constructed and equipped by Japan -- in flagrant violation of CoCom restrictions on sale of strategic goods to China and to the great benefit of China's micro-electronic components industry. Japan also is an important source for the chemical fertilizers necessary to China's agricultural development. As with Taiwan, the trade is of greater importance to the Chinese than to Japan -- the mainland accounts for only 2% of Japan's total foreign trade. But in 1970, China became the largest foreign buyer of Japanese machine tools. It is the second largest export market for Japanese iron and steel products, and buys about half the total output of Japan's fertilizer industry. Japanese exports to China during the first half of 1970 were two and one-half

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times the comparable figure for 1969 -- exciting Japanese visions of a "mammoth Chinese market" in which Japan had to maintain its "traditional share".

11. Japan's trade with China is handled either through "friendly firms" -- companies which eschew all dealings with Taiwan and formally subscribe to Peking's international line -- or through a channel known as the "Memorandum Trade Agreement".

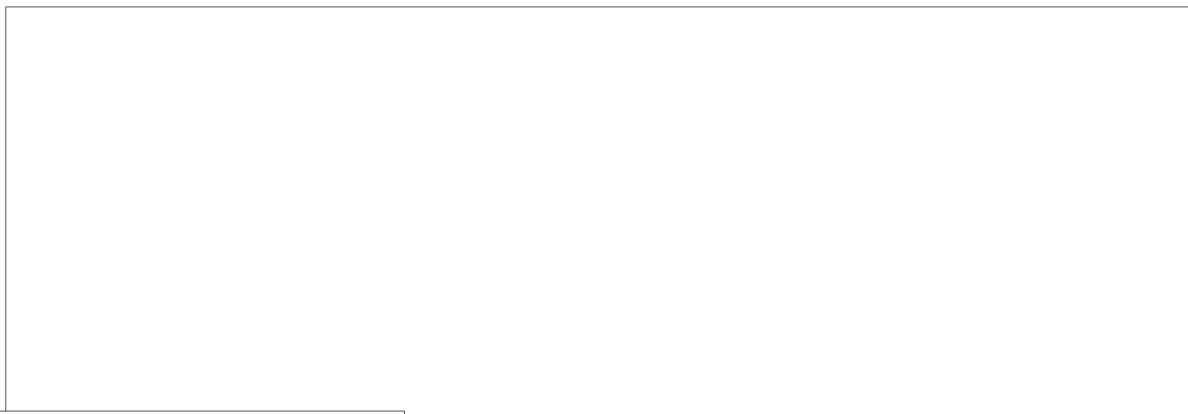
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It is renegotiated annually, much like the trade protocols China makes with the governments with which it does have diplomatic relations. Japanese delegates to these negotiations, with the acquiescence of their government, periodically denounce the fundamentals of Japan's foreign policy (i.e., its relations with the US and Taiwan) and then proceed to arrange the next year's contracts which will be parcelled out back in Japan among loyal government supporters. Only about 10% of Japan's trade with China is handled in this semi-official manner. But Memorandum

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Trade offices in Peking and Tokyo provide a cover for representation in each other's capitals with such trappings of official missions as national flags and diplomatic passports. The head of Japan's Memorandum Trade operations is a virtual minister within the LDP for Sino-Japanese relations. The existence of such a mechanism within the party could one day facilitate the required changes in Japan's formal policy toward Peking.

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Peking directs trade to the "friendly firms" when it wants to show particular displeasure with Tokyo, then switches it to the Memorandum Trade channel to signal a desire for improved official relations. And whenever a contract is given to a West European country which does recognize the Peking government, the Chinese tantalize the Japanese with assertions that the business could have been Japan's if only diplomatic relations had existed.

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13. But most of the difficulties in doing business with China are caused by China's own economic and political problems, and probably would exist whatever the state of diplomatic relations. It is doubtful whether Japanese recognition of Peking would make a significant difference in the growth of trade between the two. China's domestic scarcities, both in terms of export availabilities and foreign exchange reserves, imply that the Chinese market for foreign goods will grow only gradually. And China already has demonstrated interest in getting the most for its money when it does buy abroad, by buying the best quality goods at the lowest possible prices. High shipping costs from West Europe to Asia give Japan an important edge in the Chinese market, whatever the state of diplomatic relations.

14. There is no reason to believe that Japan's economic activity has won it any measureable political advantage in China. Indeed, the opposite may be more true: that at least some Japanese have been persuaded that China's economic potential is sufficiently attractive to justify meeting Peking's political conditions for formal diplomatic ties. But at the very least, with Moscow and Washington frozen out of Chinese affairs, Tokyo has been able to reason that it was gaining something of a head

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start in economic influence and personal contacts, without jeopardizing its profitable business with Taiwan.

The Changing Problem

15. For a variety of reasons, however, the Japanese government is under new pressures for change in its China policy. A desire to complete Japan's post-war rehabilitation by coming to terms with the mainland always has been strong among the Japanese public. So long as the Cultural Revolution had China in such turmoil, it was relatively easy to argue that nothing sensible could be done. Peking's more moderate behavior of late has undercut that argument. The international trend which Canada and Italy apparently started toward recognizing Peking has added to the pressure of Japanese public opinion for recognition and also has the leadership worried that others are getting ahead of them in relations with Japan's most important neighbor.

16. Finally, the China issue has become something of a touchstone of US-Japanese relations. Those who have advocated closer relations with Peking have traditionally been those who chafe at Japan's post-war "subservience" to the United States.

Now that Japanese of all political persuasions are talking about a world role commensurate with Japan's economic strengths, the government is very much on the defensive to demonstrate its independence of the US in handling a problem so important to Japan as relations with China. The government itself, convinced that Washington is looking for its own way to deal with China, certainly cannot afford to seem to be following in the American wake.

17. But the Japanese are acutely aware that their recognition of China will be of far greater moment than recognition by a Belgium or an Italy. Japan and the United States are the remaining holdouts who really matter to Peking; recognition by them would place the final seal of legitimacy on the Peking regime and pave the way for a new kind of Chinese role in international affairs. Tokyo will not lightly play this trump card. Moreover, Japan's problems in actually negotiating the establishment of relations with China would be of far greater magnitude than those of just about any other country. The future of US bases in Japan, Japan's ties with Taiwan, possible Chinese claims for World War II reparations, the rival claims of Peking and Taipei to those putative East China Sea oil resources also

claimed by Japan -- all these issues could cause negotiations to drag on for years after a Japanese decision in principle to recognize Peking.

#### The Domestic Political Environment

18. One advantage the present Japanese leadership has is its relative freedom to orchestrate a China policy, within the limits described above. Public opinion polls indicate that 70% of the Japanese electorate favors recognition of Peking, and a newly-formed pro-China Dietman's League claims a majority of Diet members among its ranks. Nonetheless, there is no effective political focus for this sentiment. The Japanese Communist Party broke with Peking over the JCP's refusal to take sides in the Sino-Soviet quarrel; now the JCP assiduously is demonstrating its freedom from any foreign influence and its devotion to legal processes. Some Japanese Socialists are willing enough to do China's work in Japan, but the JSP is too weak, divided, and discredited to be effective in pressing the issue. The militantly Buddhist and nationalistic Komeito has called for more distance from Washington and closer relations with Peking; but its leaders now seem bent on competing with the LDP for the allegiance of more "conservative" Japanese voters, and admiration for China is being

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muted. On this as on so many issues in Japanese politics, none of the opposition parties nor any likely combination among them offers a serious challenge to the ruling Liberal Democrats.

19. There are ambitious men within the LDP who are looking for a way to exploit the China issue. All Sato's "rivals" for party leadership -- the men who would like to contest the Prime Ministership when he leaves office rather than let Sato will it to another of the old guard -- have declared themselves in favor of faster movement toward recognition of China. Even they, however, carefully avoid detailing their own scenarios for establishing relations. Persistent disloyalty to the government's position could damage a man's standing within the LDP, which is where power is won in Japanese politics. Thus the party hopefuls who would like to challenge Sato over China can at present do little more than remain alert to public sentiment and profit from any slip he may make in handling the issue.

What are Japan's Options?

20. Some China experts in the Japanese Foreign Office are eager to move decisively toward normalizing relations with China, even at considerable sacrifice of Japan's ties with Taiwan. Prime

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Minister Sato, however, and the mainstream of LDP leadership, are far from ready for precipitous moves. Nearing retirement (probably in 1972), and with an impressive list of accomplishments to his credit, Sato seems especially reluctant to tackle a potentially divisive problem which could serve simply to undo his reputation and record.

21. And indeed, drastic measures are not yet necessary. There are smaller steps Tokyo can take to demonstrate flexibility and progress, steps which also can serve to sound out Peking's responses. The head of a newly-formed pro-China Dietmen's League (LDP elder and former Foreign Minister Fujiyama) will visit China this month for political soundings which will be concurrent with this year's Memorandum Trade negotiations. Tokyo is trying to get Ambassadorial talks going with the Chinese, perhaps in a West European capital. The Japanese Consul in Hong Kong reportedly has won Foreign Office approval to try to get himself invited to Peking to make his own soundings as well as to argue for the ambassadorial talks. The Foreign Office is trying to arrange confidential meetings between its China Section officials and Chinese newsmen in Tokyo. And various ambitious Japanese, such as trade union leaders and opposition party notables, are

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trying to get to China to put themselves in the vanguard of efforts to sound out Peking. We expect some of these attempts to be successful. While demonstrating closer Sino-Japanese contacts and temporarily taking the heat off the government, such contacts also are likely to fuel desires for even more movement on the China problem.

22. Aside from looking for ways to talk to the Chinese, the most likely step for the government to take is on credits for sales to China. Prime Minister Sato long has held that the "Yoshida letter" (in which the former Japanese Prime Minister promised Chiang Kai-shek that no long-term government credits would be granted for sales to China) was a merely personal undertaking and not binding on the present Japanese government. So far, however, the government's "case-by-case review" of each application for credits always has resulted in a refusal. Powerful Japanese business interests, backed by the export-conscious Ministry of International Trade and Industry, have been pressing for a change in this policy. When Sato feels some visible government action is required to appease "pro-China" feeling in Japan, and especially if Japanese exports should appear to be sagging, approving government-backed credits for an important sale would be a relatively non-controversial step to take.

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23. Talks and credits are only nibbling at the edges of the problem, however. The next major test for Japan's China policy is likely to come in connection with next autumn's United Nation's General Assembly. Japanese officials have told the US that, if only for domestic political reasons, they will not be among the sponsors of an Important Question\* resolution on China if they do not expect it to pass. They have suggested too that if Japan does not sponsor the resolution, it will abstain from voting on it. And they always have maintained that once Peking is admitted to the UN, Japan will feel under strong moral compulsion to recognize it.

24. Tokyo is, however, considering various other formulas which might have a better chance than the Important Question tactic of holding the line in the United Nations for another year or so. They are interested in suggestions to begin by

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\* The UN General Assembly first votes on whether a resolution to seat Peking should be an "Important Question" and so require a two-thirds majority for passage, and then on the substantive resolution itself. Last autumn, when a simple majority of UN members voted for Peking's entry, prior passage of the Important Question resolution kept Peking out.

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bringing Peking into the UN's specialized agencies (where West Germany and South Korea already are represented); or a package deal whereby rival claimants to power in all four of the world's divided states (Germany, Vietnam, Korea, and China) would be seated in the UN, with no prejudice to the ultimate claims of any; or seats for two "governments" of one China; or -- doubtless the real Japanese preference -- separate UN membership for separate states of China and Taiwan. In considering these and other suggestions, Tokyo is concerned to sponsor only those proposals which have a good chance of success. Japan's UN ambitions, mainly its desire for a permanent Security Council seat, make it eager to be with the Assembly majority. There is no desire to champion a lost cause.

25. The problem with all proposals to have both Peking and Taipei in the UN is that neither at present would agree. Tokyo, along with Taipei's other friends, will use whatever time is left to try to reconcile the Nationalist government to acceptance of eventual defeat, at least for its claim to be the sole legal government of China. The Japanese doubtless are wondering what solace they could offer Taipei to mitigate its hostile reaction to Tokyo's defection. We do not believe that

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Japan would contemplate any new or meaningful commitment to Taiwan's security; it will continue to leave this in US hands. Japan probably would offer economic bait, in the form of attractive developmental credits. But Tokyo cannot feel at all confident that Chiang Kai-shek, whose voice would be pre-eminent, would not sacrifice Taiwan's basic economic interests over this important matter of principle. For their part, the Japanese probably hope that it will be possible to delay decisive action on the China problem until Chiang leaves power. They would not feel troubled by the same sense of obligation to his successors. And they would hope that a post-Chiang government would be more attuned to economic concerns, and possibly amenable to the idea of "two Chinas".

26. The problem, however, will in some ways become more difficult the longer Japan does manage to delay. Recent indications that there may be sizable oil deposits in the East China Sea present a case in point. Some of the area concerned is claimed by both Peking and Taipei as being part of China's continental shelf, while the Japanese view this sector as theirs by virtue of its proximity to the Senkaku island group which Japan expects to take over in 1972 as part of the Ryukyu settlement. To further complicate matters, both Peking and Taipei

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have at times -- and with increased frequency since the discovery of putative oil resources in 1968 -- laid claim to the Senkakus. At the moment, attempts are being made to arrange a joint venture by Japanese, Nationalist Chinese, and South Koreans to cooperate in exploiting the resources. If these business negotiations bear fruit, a new mutuality of interest could develop between Tokyo and Taipei which would further complicate Japan's dealings with Peking. Japan will have to do a very fine balancing act if it is to avoid serious disputes with its friends in Taipei and Seoul over these resources, and avoid foreclosing options in its relations with Peking, and protect its own interest in whatever oil is there.

#### Outside Influences

27. The behavior of China will have great influence on the pace of Japanese moves. Peking could reverse the existing trend altogether, just as the excesses of the Cultural Revolution took Tokyo off the hook when Japanese public opinion was previously most agitated about China, shortly after DeGaulle recognized Peking in 1964. Or Peking could badly overplay its hand: if it should make modifications on Tokyo's security arrangements with Washington a condition of diplomatic relations, the

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Japanese government almost certainly would refuse. At the moment, Peking has convinced Japanese officials of its desire to be reasonable. There are various steps Peking could take, at very little cost to itself, which might greatly increase popular pressures within Japan. If they proved accommodating in this year's Memorandum Trade negotiations, or agreed to some form of official talks, or ceased anti-Japanese polemics altogether, the Sato government would be deprived of some arguments for going slow.

28. The Soviets must be worried by the prospect of Chinese rapprochement with Japan (even more so, with Japan and the US). But Moscow has very few cards to play to keep the Japanese, at least, from such moves. The Japanese always have deemed the Chinese more congenial, less dangerous, and more important to Japan, than Russia. There are potential economic opportunities for Japan in the Soviet Far East, but these seem less attractive to the Japanese than opportunities they believe exist in China -- and anyway the Japanese do not feel confronted by an "either/or" choice between the two. Even if the Soviets were willing to return the Northern Territories taken from Japan at the end of World War II -- an extreme action which we do not expect -- the

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Japanese would not see this as a reason for refraining from dealings with Peking. In sum, the Japanese can hope to be courted by both their great Asian neighbors, without having to choose between the two.

29. Tokyo is quite eager to have its China policy "influenced" by Washington, in the sense of staying reasonably in step on the issue. Japanese leaders sympathize with Washington's problems in the Peking/Taipei tangle, and indeed feel some of the same difficulties themselves. They probably hope Washington will take the lead in bringing the Nationalists around. Certainly they want all the information they can get on Washington's China-thinking before planning their own steps. Of course if US-Japanese relations should deteriorate over some other issue, Tokyo would see less reason to accommodate Washington on the China problem. But as they now calculate their interests, the United States is by far the most important power to Japan; Tokyo does not want a falling out over China.

30. In sum, Japan's dilemma is this: it would rather not jeopardize its relations with Taiwan by undercutting the latter's international position, but it cannot let the problem of Taiwan be resolved entirely by others, with Japan bringing up the rear.

It would like to stay just far enough ahead of the US to avoid being tagged as its follower, but not so far as to be exposed to the full force of Taipei's wrath nor to get itself in actual opposition to Washington. Thus the timing and style of Japan's moves with respect to the China question will be a matter of extraordinary delicacy.