

THE IMPACT OF THE NIXON SHOCK ON JAPANESE
FOREIGN POLICY TOWARD CHINA
AND JAPANESE ECONOMIC POLICY

by

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PREFACE

In October 1970, President Richard M. Nixon and Japanese Prime Minister Eisaku Sato had agreed specifically to keep in close communication and consultation concerning their policies vis-a-vis the People's Republic of China (P.R.C.).

In June 1971, Secretary of State, William P. Rogers reaffirmed this agreement to Foreign Minister Aichi Kiichi. Immediately after the celebrated "ping-pong diplomacy" and one month prior to Nixon's announcement of a major foreign policy initiative, the U.S. Ambassador to Japan, Armin H. Meyer reassured Sato that the United States would not move towards recognition of P.R.C. without prior consultation with Japan. And yet, on July 15, 1971, President Nixon, without prior consultation with Japan, announced that he would visit the capital of the People's Republic of China. Again without communicating with the Japanese government, President Nixon, on August 15, 1971, announced certain economic policies which were aimed directly at Japan. Such moves by President Nixon temporarily plunged the Japanese economy and politics into chaos. The Japanese people were suddenly seized with a sense of frustration and loss of direction. These two main changes of United States foreign policy came to be known as the "Nixon Shock."

In this thesis, I shall investigate the impact of the Nixon Shock on the U.S. - Japanese relations since July 1971.

The reason why this topic is chosen is because of the fact that there is no serious study on this subject.

This study consists of four parts. The goal of the first part is to examine and analyze U.S. foreign policies towards Japan since the end of the World War II and until the "Nixon Shock." I identify three phases in this time period.

The second part of the thesis deals with changes in the relations between the U.S. and P.R.C. and the consequences of such a sudden reversal of Washington's policy vis-a-vis the P.R.C.

The third part deals with the changes in U.S. international economic policy which were initiated on August 15, 1971. Here the origin of the economic problems which the United States faced at that time will also be examined.

This will be followed by an attempt at exploring the causes and effects of such a dramatic change of economic policy.

My objective in the last part is to examine the impact of the "Nixon Shock" on Japanese economic policies and Japanese - Chinese relations. And as a Japanese student who has completed his higher education in the United States, I am deeply interested in the promotion of friendly relations between the United States and Japan and I shall attempt to draw certain lessons and conclusions from the study of the impact of the "Nixon Shock" on the future of the relations between the United States and Japan.

CHAPTER I

INTRODUCTION

The evolution of American policy toward Japan until the "Nixon Shock" falls mainly into three periods. The first of these, from 1945 to 1951, was a period in which the United States tried to restructure Japan politically under its occupation. The second period, from the San Francisco peace conference to the revision of the "Mutual Security Treaty" in 1960, was a period of "Cold War" in East - West relations during which the United States tries to convert Japan into a strong bastion of the Western alliance in Asia. In the third period, from the early 1960's to the "Nixon Shock" in 1971, during which clashes of interests between the United States and Japan which were primarily due to the Japanese economic miracle, tended to create rivalry between the two friendly countries.

The Political Restructuring of Japan During the American Occupation: 1945 - 1951

The Pacific War had come to an end in an abrupt manner because of the fact that two atomic bombs were dropped: one over Hiroshima on August 6, 1945, and the other over Nagasaki on August 9, 1945. It may be said that the "atomic bombs made the unwilling Japanese war leaders accept the terms of the Potsdam Declaration." The Potsdam Proclamation, which the three powers, China, the United Kingdom, and the

United States issued on July 26, 1945, and which subsequently was adhered to by the Soviet Union, referred to the Cairo statement and specified the limitation of postwar Japan to the islands of Honshu, Hokkaido, Kyushu, and Shikoku (Reischauer, 1965, p. 236).

General Douglas MacArthur, Supreme Commander for the Allied Powers, landed at Atsugi Air Base on August 30, 1945. Three days later he supervised the formal acceptance of Japan's unconditional surrender on board the USS MISSOURI in the port of Yokohama, and from then until April, 1951 his powerful, if eccentric, personality was to dominate the developments of Japanese political life. Theoretically, the general directions of policy for Japan were formulated by a Far Eastern Commission, representing eleven Allied nations, and conveyed via MacArthur's Tokyo headquarters to a reconstituted Japanese government headed by the emperor's cousin, Prince Higashi-Kuni. In practice, Japanese people understood that their future would be determined by the stream of directives which were to be issued from the Supreme Commander's office overlooking the Imperial Palace, an office which became universally and simply known as GHQ (Suzuki, 1985, p. 193). While the British government had sent an Australian contingent to serve under MacArthur in Japan, the defeat of Japan had been almost the complete work of the armed forces of the United States. The Chinese were too busily involved in their own civil war and did not

exhibit much interest in the occupation of Japan. The Soviet Union, on the other hand, demanded a separate zone of occupation and, when this was refused, declined to put its troops under an American commander. Thus, the occupation was almost entirely an American show and was regarded as such by the Japanese (Reischauer, 1977, p. 104). The fundamental objectives of U.S. policy in post-surrender Japan were:

- A) To insure that Japan will not again become a menace to the United States or to the peace and security of the world.
- B) To bring about the eventual establishment of a peaceful and responsible government which will respect the right of other states and will support the objectives of the United States as reflected in the ideas and principles of the Charter of the United Nations.
(Ward, 1975, pp. 29-30)

The United States occupation forces instituted three programs to achieve these objectives: demilitarization, democratization, and economic growth.

The first and most basic objective of the American occupation was the demilitarization of Japan, since Japanese military expansionism was viewed at the time as the one over-riding problem in East Asia. Japan was flooded with occupation troops and was shorn of all its conquests. War criminals were ordered arrested and tried; military societies were dissolved; all military drill was abolished; thousands of leaders identified with the prewar and war regimes were barred from holding office; war production was prohibited;

Japan's gold and silver assets were seized; all exports and imports were forbidden without authorization; the largest banks and all those which had been financing war production and colonization were closed (Carleton, 1967, p. 141). Also demilitarization was expressed in Article 9 of the Japanese constitution. This provision was reminiscent of the Kellogg - Briand Pact of 1928 as well as the Spanish (1931) and Filipino (1935) constitutions. While Prime Minister Kijuro Shidehara may have initiated Article 9, the ideal for an unarmed, neutral, and pacifist Japan coincided with MacArthur's design to make Japan "the Switzerland of the Pacific." Interestingly enough, Article 9 also reflected a strong antiwar sentiment that came to prevail among the Japanese people (Whitney, 1956, pp. 257-262). Unique among the constitutions of the world, the Article 9 of the Japanese Constitution rejected military force as an instrument of national policy. The article states: Aspiring sincerely to an international peace based on justice and order, the Japanese people forever renounce war as a sovereign right of the nation and the threat or use of force as means of settling international disputes. In order to accomplish the aim of the preceding paragraph, land, sea, and air forces, as well as other war potential, will never be maintained. The right of belligerency of the state will not be recognized by people (Ministry of Justice, Tokyo, 1985).

Democratization of the Japanese polity was as successful as demilitarization. Democratization strategies embraced universal suffrage and free election, constitutional revision, bureaucratic reorganization, and local self-government (Rouyama, 1977, p. 82-83). The new constitution is created a constitutional monarchy based on British system of government. The legislature, called the Diet, was to play the dominant role in the government. The majority party in the Diet was to select the prime minister, and he and his cabinet were to be responsible to the Diet. The constitution further provided for an independent judiciary and guarantees of civil rights (Goldstein, 1984, p. 70). A fundamental question was what to do with the Emperor? Was he not the very center of the old order which had produced an imperialistic Japan? On September 27, 1945, less than one month after General Douglas MacArthur's historic arrival at Atsugi, the Emperor made a visit to the Allied headquarters. The Emperor himself made his famous declaration to deny his own "divinity" on January 1, 1946. In it, he disavowed any claim to divine origin and stated:

The ties between us and our people have always stood upon mutual trust and affection. They do not depend upon mere legends and myths. They are not predicted on the false conception that the Emperor is divine and that the Japanese people are superior to other races and fated to rule the world. (Suzuki, 1984, pp. 197-198)

This declaration was quietly accepted by the people, who had seen in newspapers a photograph of the Emperor

standing with General Douglas MacArthur (Rouyama, 1977, pp. 52-53).

Under the Marshall Plan financial trade imbalances were reduced by way of direct economic aid. During the period from September 1945 through June 1948, the nonmilitary economic aid used to provide food, fuel, medicine, and so on, reached nearly \$1 billion and showed every indication of climbing higher (Schaller, 1985, p. 82). (See Table 1 below)

Table 1

Japan's Foreign Income from U.S. Aid and
Special Procurement: 1945-1956
(in million dollars)

Year	Aid	Procurement	Value of Imports
Sept. 1945-			
Dec. 1946	193	---	306
1947	404	---	526
1948	461	---	684
1949	535	---	905
1950	361	149	974
1951	164	592	1,995
1952	---	824	2,028
1953	---	809	2,410
1954	---	596	2,399
1955	---	557	2,471
1956	---	595	3,230

Source: Ministry of Finance and Economic Planning Board
Taken from G.C. Allen.
Japan's Economic Recovery. p. 203.

General Douglas MacArthur was early disposed to arrive at a settlement with the Japanese that would quickly bring the Japanese back into the international mainstream, to get them trading again, and to take some of the wraps off of the Japanese economy (which was entirely too dependent on that of the United States), and generally to minimize reparations and economic restrictions. In the General's view, at first, such measures would be difficult for the Japanese, but they would have the longer-run beneficial effect of restoring Japanese pride and self-sufficiency in a more positive setting (Fredrick, 1963, pp. 56-62). The State Department's Policy Planning Chief, George F. Kennan, flew to Tokyo in February, 1948 for a series of important conversations with MacArthur, which resulted in the former's being convinced of the potent strategic value of the Okinawa island as a base complex to permit reduction in the American presence in the large Japanese islands (Kennan, 1967, pp. 391-393).

In September the Japanese foreign minister, Hitoshi Ashida, a member of the coalition government that replaced Shigeru Yoshida's first cabinet in April, offered the first really specific official Japanese proposals for aligning Tokyo with the United States following whatever settlement could be arranged, and making tentative proposals for a "limited constabulary lightly armed to guarantee internal order with the Americans providing the heavy defenses against outside attack." (Weinstein, 1971, p. 66)

John Foster Dulles became a consultant to the State Department in March of 1950. Secretary of State Dean

Acheson assigned to him the task of drafting a "Peace Treaty" with Japan, which had been floundering in the Department of state for over three years (Guhin, 1972, p. 57). Dulles tried to impress on the Japanese prime minister the need for Japanese efforts to rearm itself defensively in exchange for an American pledge to cooperate with Japan in its defense and suggesting that the process of making peace with Japan should finish as soon as possible (Rouyama, 1970, pp. 127-129). In the direct conversations with the Japanese, early in 1951, it became clear that the position of the Yoshida government had changed sharply in favor of having American troops stationed in Japan for the future. In June 1951, Dulles and British Foreign Secretary Herbert Morrison found a compromise formula whereby both agreed that the United States, as the host country, would invite neither Taipei nor Peking to the San Francisco peace conference. Further, they maintained that "Japan's future attitude toward China must necessarily be for determination by Japan itself in the exercise of the sovereignty and independent status contemplated by the treaty" (Lee, 1976, p. 103).

Prime Minister Yoshida truly believed that he was doing the best he could for Japanese independence. There was heated popular debate over whether a forthcoming peace treaty should be a partial or comprehensive one. A partial one would be signed by only those former enemies of Japan

that were friendly with the United States: a comprehensive one would include all former enemies, including Stalin and Mao. Prime Minister Yoshida openly disliked the Soviet Union and advocated an exclusive alliance with the United States (Nishi, 1982, pp. 295-296). That same afternoon, he signed a bilateral, mutual security treaty secretly negotiated with the United States.

At the San Francisco peace conference in September 1951, Secretary of State Acheson rejected Soviet Deputy Foreign Minister Andrei Gromyko's move to invite a delegation from the P.R.C. On the morning of September 8, Prime Minister Yoshida signed the peace treaty with the United States and 47 other countries, but not with Soviet Union, Poland, and Czechoslovakia (Reischauer, 1957, pp. 363-380).

The security treaty granted the United States the right to retain its armed forces and military bases in and about Japan, with Washington assuming a de facto responsibility to protect Japan against external armed attack as well as internal riots and disturbances. Of particular regional importance was Article 1, which stated:

Japan grants, and the United States of America accepts, the right to dispose United States land, air and sea forces in and about Japan. Such forces may be utilized to contribute to the maintenance of international peace and security in the Far East and to the security of Japan against armed attack from without, including assistance given at the express request of the Japanese government to put down large-scale internal riots and

disturbances in Japan, caused through instigation or intervention by an outside power or powers.¹

On April 18, 1952, Japan regained its formal independence from the occupation authorities, but Japan remained tied in with the U.S. quest to contain and isolate the international communist movement. The United States - Japanese security treaty stipulated Japan's unilateral and unconditional dependency upon U.S. military protection.

Japan and the Beginning of the American
Military Alliance System in Asia:
1951 - 1960

The peace and security treaties between the United States and Japan came into effect on 28 April 1952. Approval of the documents in the U.S. Senate had been enthusiastic, although the hearings and questioning of the executive branch agencies and John Foster Dulles in particular had been more probing than anticipated (Cohen, 1954, pp. 148-205). One of the principal compromises made in the peace document was Article III, which promised Japanese cooperation with American arrangements to place Okinawa Islands under UN trustship with the United States as sole administering authority. What was not stated in the article, but widely recognized by parties both friendly and unfriendly to the treaty, was that in fact there was very little likelihood that the United States would exercise its

1

See Japanese Peace Treaty in American Journal of International Law 46 (1952), pp. 71-76.

option to make Okinawa a strategic trustship, preferring to leave residual sovereignty of the archipelago with Japan (Passin, 1975, p. 36). Rouyama maintains:

Once Japan was granted the sort of complete independence envisioned in the peace treaty preparations, Japan's political system would be more or less free to evolve in the direction in which social forces let it evolve, even if some of these forces were bolstered from the outside to favor orthodox procapitalist and pro-western political leaders. It was therefore conceivable that at some future date a coalition or even a completely socialist or communist government in Tokyo might want to disavow close cooperation with the Americans and ask them to fold up their bases and go home. (1977, p. 156)

On June 21, 1951, a U.S. News & World Report article was headlined, "Okinawa Base to Dominate Asia," and the summary lead paragraph noted frankly that:

Air dominance over Asia is the U.S. goal on Okinawa. The rundown outpost is to become the mightiest base in the Pacific. Its B-29's are bombing Korea now. Before long it will be able to handle B-36's. Okinawa's planes can cover much of Siberia..... U.S. aim now is to convert the former Japanese island into a stationary "aircraft carrier" from which U.S. bombers can dominate every Asiatic port from Vladivostock and Port Arthur to Singapore. (U.S. News & World Report, June 21, 1951, p. 25-26)

On January 7, 1954, President Dwight D. Eisenhower reaffirmed the American intention to remain in Okinawa in his State of the Union message when he said: "We shall maintain indefinitely our bases in Okinawa. American freedom is threatened so long as the world communist conspiracy exists in its present scope, power and hostility." (New York Times Jan. 8, 1954, p. 1)

The other articles of the security treaty later drew severe criticism, even among Prime Minister Yoshida's colleagues and successors, as patently unequal to Japan. First, United States forces could be used not only to defend Japan from outside attack, but to "contribute to the maintenance of peace and security in the Far East" (Korea, Taiwan, the off-shore islands); and to put down domestic revolt if so requested by the Japanese government. The treaty forbade Japan to grant similar rights to any third power without United States consent. Finally, the treaty was to continue until both signatories thought that alternative arrangements (UN forces, Japanese rearmament, or a Pacific Pact) could safely replace United States bases (Mendel, 1961, p.96). In August 1955, the United States began to bring in Japan medium range ballistic missiles (MRBMs) capable of carrying atomic warheads. Information about whether these rockets actually were fitted with nuclear devices was kept classified, but the mystery about the matter created a small furor in the Japanese newspapers and from the platforms of leftist party speakers (Rouyama, 1977, pp. 162-163). Thompson states the following:

After consultations with the Pentagon, the Japanese government much chagrined at having underestimated, if not discounted, the extent of the country's continuing 'nuclear allergy' managed to work out a compromise in which the United States would pledge not to arm its inplace missiles with atomic warheads unless consultations with Tokyo brought a mutual

agreement to do so in response to a specific crisis (1982, p. 47).

At a summit meeting between President Eisenhower and Prime Minister Nobusuke Kishi in Washington in 1957, possible approaches to revising American security arrangements were discussed and Prime Minister Kishi's preference of negotiating a completely new treaty and steering it through the Diet and Congress was agreed upon.

In January 1960, after long and difficult negotiations, the United States and Japan signed the revised security treaty in Washington. The treaty itself scored significant gains for the Japanese in its mutuality of commitment without forcing them to broaden their area of responsibility beyond Japan's borders. The "prior consultation" clause that Japan had long sought was an integral feature of the Secretary of State, Christian Herter's diplomatic note accompanying the document as follows:

Major changes in the deployment into Japan of United States armed forces, major changes in the equipment, and the use of facilities and areas in Japan as bases for military combat operations to be undertaken from Japan other than those conducted under Article V (in response to an attack against Japan) of the said Treaty, shall be the subjects of prior consultation with the Government of Japan.
(Weinstein, 1971, p. 98)

The agreement, in short, contained a significant provision concerning Japan's status as the equal of the United States. Although the Okinawa question had been brushed aside and

reduced to a statement in the agreed minutes asserting Japanese concern for the islands and reasserting the principle of residual sovereignty, most of the other "Tokyo desiderata" concerning its status of equality had been met (Rouyama, 1977, pp. 295-297). There was considerable opposition to any document that appeared to draw the United States and Japan together at the same time that it was enhancing Japan's role in the military partnership especially on the part of the opposition parties in the Japanese legislature. The massive demonstrations in June 1960 against the revised security treaty did not prevent its ratification. However, they did force the government to cancel President Eisenhower's scheduled state visit to Tokyo (Mendel, 1961, p. 95). As a result of this loss of face, Prime Minister Kishi resigned on June 21, and the new leadership of Hayato Ikeda gained seats in the November 1960 parliamentary elections.

Developments During 1961 - 1972

Hayato Ikeda and John Fitzgerald Kennedy took office in July 1960 and January 1961 respectively. The Japanese were on a substantial economic breakthrough, the beginning of the income-doubling decade and 10 percent annual growth. The country would actually experience a near - tripling of gross national product from 1961 (\$54 billion) to 1968 (\$134

billion) and a decline in the percentage of that income going for national defense budgets in six out of the eight years. Japan also achieved real gains in international prestige following its remarkable economic recovery and the its UN membership (Masamura, 1985, pp. 148-152).

As for America a leadership the responsibilities faced by the Kennedy administrations were vastly greater. The United States was, for better or worse, intimately involved in unfolding foreign policy crisis situations in Cuba, Laos, Vietnam, and Berlin. The Communist Chinese had been threatening the Nationalist-held islands of Quemoy and Matsu. South Korea had experienced a military coup which ended a twelve-year old regime and the situation there was highly uncertain. The Soviet Union had launched a campaign to counter U.S. and West European influence in the young states of the Middle East and Africa (Lafeber, 1980, pp. 4-11).

1962 to 1964 were not crucial years for Japanese - American relations; both parties were preoccupied with other affairs; the Japanese accented the building of their economy and the expansion of their connections to Okinawa whenever and however possible. The United States was involved in domestic turmoil related to civil rights and a presidential assassination. And in foreign affairs the United States was confronted with the traumatic Cuban missile crisis, deepening preoccupation with Vietnam, and assorted international

issues like the nuclear test ban treaty (Lafeber, 1981, pp. 4-11).

A top priority item on most Japanese prime ministers' agendas had been a summit conference with the American President to discuss priority issues. For Prime Minister Eisaku Sato, such a conference was mandatory, and the primary order of business was Okinawa (Watanabe, 1985, pp. 182-184). Sato had chosen to make Okinawa a strong personal issue in his campaigning, and when he replaced the ailing Hayato Ikeda in November of 1964, he had to deliver on that position. The meeting with Lyndon B. Johnson in January 1965 produced disappointing results on the matter because the U.S. military was increasingly enmeshed in Vietnam War strategy and convinced of the strategic irreplacability of the Okinawa. Sato returned to Japan empty-handed (New York Times, 14 January, 1965, p. 5).

For months, Ambassador Edwin O. Reischauer had been warning of the increasingly toxic effect that the anomaly of American political control of Japanese soil would have on an alliance nearly twenty years after the end of active hostilities (Reischauer, 1965, p. 238). Although the military successfully resisted State Department arguments that studies should be made of the necessity of maintaining U.S. political control of Okinawa for the security of the military bases there, it was nevertheless agreed by early 1966 that a study group, to be called the Far East Interdepartmental

Regional Group's (IRG's) Okinawa Working group headed by the Japan country director of the State Department, would function to monitor the strength of the reversion movement in Japan and Okinawa and determine the significance of that movement for the alliance and the overall U.S. strategic position (Lawrence, 1970, p. 237).

There had been a quiet sigh of relief in the Japanese camp over the result of the November 1967 summit between President Johnson and Prime Minister Sato. Early in that month, a news story appeared in U.S. News & World Report telling of Pentagon plans for a possible pull-back from bases in Japan and Okinawa in favor of more secure and less politically vulnerable ones in the Mariaona Islands (Guam, Saipan, and so on), where the existing American facilities would be dramatically and expansively upgraded to compensate for loses further west in the Pacific (U.S. News & World Report, 7 August, 1967. pp. 52-54).

In 1968, as with so many trends in Americans foreign policy - related politics, this was the year of pressures for change and redirection. President Johnson withdrew himself from contention for reelection to free himself to deal with North Vietnam without personal election year constraints, and to secure a place for himself as a peacemaker, (Watanabe, 1986 pp. 129-131). On the issue of Okinawa, Asahi Weekly (September 6, 1968) reported that:

It was the scene of mounting demonstrations and adverse press coverage of the unfortunate biproducts of the Vietnam - related increase in military activity: B-52 bombers for use in Indochina were stationed in Okinawa and making some bombing runs from Okinawa; there was a crash of one bomber near the great Kadena air force base outside Naha; the U.S. military stored toxic gas on the islands, and so forth.

Okinawa was a major unresolved issue in the U.S. - Japanese relations. Richard Nixon's election in November 1968 raised some questions in Japanese minds about the time-table for reversion of Okinawa. The new administration, with option seeking approach to foreign policy problems initiated by the Kissinger National Security Council staff in the spring of 1969, did undertake a comprehensive review of the Okinawa question as a high priority agenda item. It rather quickly concluded that a date and conditions for Okinawa reversion should be settled for the fall summit conference between Sato and Nixon (Olson, 1975, pp. 65-66). Secretary of State William Rogers would negotiate with Japanese Foreign Minister Aichi Kiichi "on the basic terms for reversion and the surrounding policy pronouncement to be embodied in the communique, with the president and prime minister doing the fine tuning and settling the nuclear question at the November meeting" (Kissinger, 1979, pp. 327-328). The U.S. government leaders emphasized the vital, strategic interdependence between the United States, Japan and Washington decided to retain U.S. military bases in Japan proper and in post-reversion Okinawa for U.S. regional strategic interests.

Finally, Sato had been able to get a reasonably firm commitment on Okinawa at the November 1969 summit conference with reversion virtually guaranteed for 1972. Nixon and Sato agreed that administrative rights over Okinawa should revert to Japan and that technical discussions would begin with the aim of completing the turnover by 1972. (The deadline was met; Okinawa was officially turned over to Japan on May 15, 1972.) The use of the bases for conventional conflict was dealt with when both sides expressed agreement that reversion should take place "without detriment to the security of the Far East" and therefore "should not hinder the effective discharge of the international obligations assumed by the United States for the defense of countries in the Far East ² including Japan." The final communique of Sato's visit noted President Nixon's pledge to recognize with respect to Okinawa, in other words, Okinawa would be as "nuclear-free" as the rest of Japan, but without prejudice to the possibilities of joint consultation in emergencies as provided in the Security Treaty.

Meanwhile other aspects of the new Nixon foreign policy were surfacing, and these were to have profound implications for Tokyo. Rouyama states as following:

At the core of the new direction was the statement by the president on Guam in June of 1969, which was promptly labeled the "Nixon Doctrine."

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See Okinawa Settlement in Sengo-Shi (History of Japan after the WWII) 1984, pp. 367-368.

At its heart, the new line stressed greater regional self-defense and self-development with more of a background role for the United States, albeit coupled with a firm restatement of America's commitment to help her allies against any attacker. The doctrine was, in its original revision, a statement of Asian policy, but later it was broadened to apply to global relations generally. It was understandably closely tied to the Republican policy of "Vietnamizing" the war, promoting Saigon to accelerate its self-defense efforts as America withdrew troops, pumped in massive amounts of additional capital assistance, and prayed. (1977, pp. 170-172)

The message for Japan in all this was that the United States, echoing the preoccupation of another of its Republican Statesmen, Dulles, would expect Japan to take greater responsibilities in the Far East, more responsibility for its own defense, and an even more prominent role in the economic development of the region (Yomiuri Shinbun, 27 July, 1969, P. 15).

CHAPTER II
DRAMATIC CHANGE IN THE UNITED STATES -
CHINESE RELATIONS: CHINA-SHOCK
OF JULY 19, 1971

According to a study of Chinese American relations, "China has long held a fascination for Americans." The author argues that being home of one-fourth of the human race, China used to be viewed by many "as a land of brightly colored silks, exotic spices and teas, and intricately woven rugs" but now something happened to China (Goldstein, 1984, p. 28). At the end of World War II, the United States hoped that a strong, unified and democratic China might arise, and keep the peace in the Far East. However, in spite of this hope, because of internal conflicts and contradictions China had been disintegrating long before the war was over (Chan, 1980, p. 20). In July 1921, a small group of Chinese intellectuals formed the Chinese Communist Party. Among those present was the son of a small farmer; the young man's name was Mao Tse-Tung. For a time the Communists cooperated with the ruling Nationalist Party of Chiang Kai-Shek against the foreigners. In 1927, however, Chiang feared that the Communists, whose followers had radically increased in numbers, represented a challenge to his own authority, and he turned against them (Rouyama, 1977, pp. 180-181). In view of the split between the Nationalist and the Communists, the

American policy was designed to help bring about cooperation between the two factions and to set a coalition government with the Nationalists in majority. Such a coalition was considered by the U.S. necessary for its national interest.

In 1946, General George C. Marshall attempted to prevent the renewal of civil war in China and to arrange a compromise political settlement between the Nationalists and Communists, because the United States could not tolerate "a divided China" or the "resumption of Russian power in Manchuria" (Schaller, 1979, p. 112). However his efforts failed. Marshall's initial discussions with the two warring groups disclosed very little room for compromise. Schaller explains the main reason as the following: The Communists insisted on maintaining their separate army; Chiang declared that the Communists must be disarmed (1979, p. 113).

Following that failure and the outbreak of renewed Nationalist - Communist military conflict, "the Chinese Communists in 1948-1949 lined up unequivocally with the Soviet - led Socialist camp, joining what was asserted to be a world wide struggle against the imperialist camp" (Barnett, 1970, p. 6). Mao believed the revolution must grow in the countryside. He advocated an alternative strategy based on mobilizing an independent peasant army attracted by a revolutionary land policy.

On April 2, 1948, the U.S. Congress authorized \$338 million in economic aid for China, with \$125 million added to

the bill for the Chinese government to use as it saw necessary, which presumably meant for military purposes. The total amount authorized thus was \$463 million (Etzold, 1978, pp. 119-120). However, such help did not hold back the Communists from over-powering the Nationalists. During the civil war the Communist continued to press two great struggles at the same time: the first against the Kuomintang, the second against the social structure of the Chinese village.

As they had begun to do behind Japanese lines, Communist organizers infiltrated villages and aroused the fury of the poor peasant against the rich, the debtor against the user, the exploited against the exploiter. (Sheffer, 1979, p. 115)

This campaign of land and social reform not only created a mass base of rural support for the Communists but served as their recruiting headquarters for new troops. By 1948, in Manchuria and on the north China plain, the military initiative passed to the revolutionary armies. Nationalist garrisons, deserted and isolated, began to fade away and surrender. On October 1, 1949, the Communists' People's Republic of China was formally inaugurated in Peking. Goldstein states the following:

At the time of the Chinese Communist victory, American foreign policy was in a troubled state. We have seen how the wartime alliance with the Soviet Union disintegrated. Now China had joined the Soviets, creating a massive, powerful Communist machine that threatened to engulf all of Eurasia. Already, Vietnamese Communists led by Ho Chi Minh were waging a struggle against the reimplosion of French Control in Indochina. The future stability of Japan was far from certain. In Europe the "Iron Curtain" had descended. (1984, pp. 30-31)

The Korean War brought about a fundamental change in the U.S. policy vis-a-vis China. The Democratic administration had decided to make no serious effort to prevent the predicted Communist take over of Taiwan; but one of the first moves made by President Henry S. Truman after the June 25, 1950, North Korea attack upon South Korea, was the decision of June 27 to dispatch the Seventh Fleet to neutralize the Taiwan Strait (Bueler, 1971, p. 10).

On November 11, 1950, a People's Daily article was headlined, "Smash the Enemy's Slanders, Deceits, and Threats," and one paragraph noted the following:

In an attempt to dupe the Chinese people, the enemy says that the US will not invade China, but will stop at a proper limit. This is intended to convince the Chinese people that the American invasion of Korea can be ignored. But if we use our memories, we can recall that in the bloody history of imperialist aggression against China during the past 100 years, there has been no limit. There is absolutely no stopping at a proper limit, unless we check them with force and compel them to stop.
(MacFarquhar, 1972, pp. 85-86)

The participation of the Communist Chinese forces in the Korean War brought about a fundamental change in the policy of the U.S. toward Communist regime in mainland China. That participation led to direct hostilities between the U.S. and Communist China. The U.S. - Communist Chinese hostility continued throughout the "Cold War" period of 1950 to 1972.

On February 1, 1951, the General Assembly of the United Nations adopted a resolution condemning the P.R.C. as the

aggressor against South Korea. The Eisenhower Administration's uncompromising and hostile policy laid the foundation for the next two decades of American foreign policies towards China. The defense of Nationalist Taiwan had become an American priority in the last two and half year of Truman's Administration, and it had served as a direct reaction to the new East - West polarization caused by the Korean War. The Eisenhower Administration, on the other hand, converted such an expedient action into a solid principle of the U.S. foreign policy which survived through the Kennedy, Johnson and partial by the Nixon administrations (Bueler, 1971, p. 41). In President Eisenhower's opinion, the security of Taiwan was important to the safety of the "Free World" and the security of Taiwan depended on the morale of Chiang's armies. According to one observer: "In order to boost that moral, it was considered necessary to support Chiang's objective of returning to the mainland" (Etzold, 1978, p. 146).

Both Eisenhower and his Secretary of State John Foster Dulles thought that the Communists rule on the mainland was only temporary. In his speech in San Francisco in 1957, Dulles stated that "international Communism's rule of strict conformity is, in China as elsewhere, a passing and not a perpetual phase." (Department of State Bulletin, July 15, 1957, p. 95) By this time the U.S. had extended the "Containment" policy to include East Asia. By signing mutual

defense treaties with Japan, South Korea, Taiwan and the establishment of the SEATO Pact, the United States hoped that Communist China might be isolated and could hopefully do no harm to the free world.

The Kennedy Administration, which was inaugurated on January 20, 1961 inherited a firmly established policy towards Communist China and Taiwan. Although President John F. Kennedy never chose to alter fundamentally that policy, he did question a major assumption on which the Eisenhower's China policy was based. That is, he did not believe that Communist China was a "passing phase" as John F. Dulles did. He believed that Communist China was here to stay and that the U.S. should do something about it. However, Kennedy refused to withdraw U.S. support from the government of Republic of China, not only as the government of Taiwan, but also as the legitimate government of all China. Bueler maintains that Kennedy thought that the continued support for the Nationalist regime was still in the U.S.A's interest (Bueler, 1971, pp. 54-55).

The assumptions underlying the Johnson administration's policy toward China and Taiwan were essentially the same as those of the Kennedy administration. Johnson appeared to operate on the assumption that Peking was here to stay, but held that the United States should give full support to the government of Taiwan (Sutter, 1978, p. 64).

During the late 1960's, there were two developments of major importance which somewhat arrested the unqualified support of Taiwan by the United States. One was the Vietnam War, and the other was the ideological split between the Soviet Union and Communist China. Goldstein states the following:

The widening chasm between the two Communist giants provided an opening for American foreign policy, if only the United States could place relations with China on a friendlier footing. During the 1960's, just when Sino-Soviet relations were turning uglier, the Cultural Revolution in China and the Vietnam War blocked any efforts to make American ties with Beijing more amicable. Toward the end of that decade, however, both of these impediments began to recede, making an improvement in Sino-American relations possible (1984, p. 38).

On January 1969, Richard M. Nixon announced that he expected to see the end of "Cold War" and the beginning of "detente" between East and West.

Sino-Japanese Relations Since 1951

The Chinese Civil War was halted in 1949 with the establishment of one government in Mainland China, and another government under the Chinese Nationalists on the island of Taiwan. At the time of the San Francisco peace conference in 1951, the United Kingdom had recognized the People's Republic of China as the Government of China while the United States recognized the Chinese Nationalists. However, both countries had agreed that Japan could decide for itself with which government it would want to make peace. Neither

of the Chinese government were invited to the San Francisco Conference (Lee, 1976, p. 103). The Japanese Peace Treaty of September 5, 1851; contained in Article 2(b) a Japanese renunciation of "all right, title and claim" to Taiwan. But no clue was given as to the new holder of that title.³

However, when the Japanese peace treaty was due to be ratified by the U.S. Senate, John Foster Dulles, who had been the Chief person responsible for the negotiation of the treaty, visited Japan, and explained that a majority of senators threatened not to ratify the treaty unless Japan chose to make peace with the Chinese Nationalist government on Taiwan (Okabe, 1982, p. 99).

It seems that Japan was obliged to sign a separate peace treaty with Taiwan on 18 April 1952. It goes without saying that "The Japan - Taiwan treaty gave Japan a stake in the preservation of the Taiwan regime which was a challenge to the status of the mainland government," because Japan was also responsible for defense of the Nationalists through its willingness to allow the use of its bases by American forces for this purpose (Mendel, 1961, p. 96). However, Japan seemed to have followed a "Two-China" policy. Its policy of conducting official relations with Taiwan and trade relations with Peking. This policy came to be called the policy of "separation of politics and economics."

3

See Japanese Peace Treaty in American Journal or International Law, 46 (1952) pp. 71-76.

Watanabe argues:

The separation of politics and economics had the advantage of enabling Japan to cooperate with the pro-Taiwan policy of the United States while carrying on increasingly intimate relations at every level of the official one with China. Despite China's seeming isolation, Japan was gradually to develop more extensive commercial and cultural relations with China than it had with any other country. (1985, p. 80)

It will be recalled that as the cold war in the 1950's intensified the North Atlantic allies instituted an embargo on strategic goods to the Communist-bloc countries. Later additional goods were placed on embargo for China in an effort to isolate it. "Even the modest revival of traditional trade in raw materials from China, such as soybeans, coal, and salt, was cut back with the consequence that Japan came to rely upon the U.S. for these products" (Mendel, 1961, p. 17). Meanwhile, the Communist Chinese in their public pronouncements started to treat Japan as an enemy.

After Prime Minister Nobusuke Kishi was forced out of office by the national convulsions over the revision of the Security Treaty with the United States, the next Prime Minister Hayato Ikeda, proposed a new policy which called for a positive attitude towards relations with the People's Republic of China. The government had indicated its readiness in principle to authorize deferred payments through the Export-Import Bank for the sale of steel and fertilizers to mainland China. "In August 1963 it approved a five-year

deferred payment plan whereby the Kurashiki Rayon Company would sell a vinylon plant to China" (Mendel, 1961, p. 22).

Eisaku Sato, Kishi's younger brother, became Premier on 9 November 1964. In the first half of 1965 Peking canceled a whole series of contracts with Japanese firms, because what it called the Japanese government's unfriendly attitude and because Japan allowed the Kuomintang to interfere with Sino-Japanese trade (Watanabe, 1984, p. 81).

Wakaizumi describes Japan's postwar diplomacy as follows:

As if in compliance with this art, Japan's post-war diplomacy has always been passive, and has seldom played a positive role on its own in the arena of international politics. This was the result of Japan's loss of self-confidence through her defeat in World War II, and in a sense was inevitable and even natural. Even her policy toward China was no exception to the passive character of Japan's diplomacy. Japan was the last of America's major allies to part from the United States on the question of Taiwan and China, having followed the U.S. policy ever since the war (1973, pp. 310-311).

In January 1969, President Nixon promised at his first inauguration to enter an "era of negotiation" and to seek "a world in which no people, great or small, will live in angry isolation." (Public Papers of President of the U.S. 1971. pp. 1-4) Nixon recalled later "when I spoke those lines, I had the People's Republic of China very much in mind" (Public Papers of President of the U.S. 1971, p. 221). Less than two weeks after Nixon's inauguration, the new president instructed the National Security Council under

Kissinger's leadership to undertake a comprehensive review U.S. China policy (Nixon, 1978, p. 545).

Nixon's unanticipated announcement of Kissinger's trip and of his own planned visit to China shocked and embarrassed Japan, even though Japan was not a primary factor in U.S. detente with China. Ironically, only hours before Nixon's televised announcement on the evening of July 15, 1971, Japanese Prime Minister Eisaku Sato had begun discussion with his cabinet on the draft of a speech to the National Diet.

The prime minister had removed the customary reference to Japan's cooperation with Taipei and Seoul and inserted a policy statement endorsing 'friendly relations' with Japan's neighbors, meaning the P.R.C. As a result of disagreements within the cabinet, Sato dropped the proposed statement and restored the reference to Taipei and Seoul. While this discussion was underway, Secretary of State William P. Rogers, who had not been privy to the details of the Nixon - Kissinger negotiations with China, tried to deliver to Japanese Ambassador Nobuhiko Ushida notification of Nixon's scheduled announcement, Ushida could not be reached then. When, finally, Ushiba received Roger's notification and conveyed it to Deputy Foreign Vice Minister Takeshi Yasukawa in Tokyo, Sato's Cabinet meeting was about to adjourn. This was a few minutes before Japanese national television flashed an Associated Press bulletin on Nixon's statement. (Nagano, 1975, pp. 4-5)

The Nixon Shock produced deep feelings of diplomatic betrayal among Sato and his associates because Washington had violated its repeated commitment to prior consultation with Japan regarding the Chinese question. In October 1970,

Nixon and Sato had specifically agreed to keep in close communication and consultation on China. Immediately after the celebrated "ping-pong diplomacy" and one month prior to Nixon's announcement, ambassador Armin Meyer reassured Sato that the United States would not move toward recognition of China without prior consultation with Japan (Today's Japanese foreign policy, 1971, pp. 410-412). It was indeed painful for Sato, who seemed to have lost face in the eyes of people. Speaking to the National Diet the day after Nixon's announcement Sato gracefully welcomed Nixon's planned visit to China and he declared:

It is most important for our country to maintain and promote friendly and amicable relations with the Republic of Korea, the Republic of China, and other neighboring countries. In particular, the China problem is one of the biggest issues facing our country's diplomacy in the 1970's. Recently, exchanges between Japan and China have also shown signs of becoming more active; it is strongly hoped that in the future these will developed into intergovernmental talk. (Masamura, 1985, p. 370)

Henry A. Kissinger states as the following in his monumental work called The White House Years:

I believe in retrospect that we could have chosen a more sensitive method of informing the Japanese even though Meyer's considerations precluded earlier consultation. It would have surely been more courteous and thoughtful, for example, to send one of my associates from the Peking trip to Tokyo to brief Sato a few hours before the official announcement. This would have combined secrecy with a demonstration of special consideration for a good and decent friend. In the pressure of events the thought occurred to no one; it was a serious error in manners. The accusation of "mistreating our allies" was picked up by many

critics whose devotion to our military alliances and conservative allies had previously been well hidden. But even with the perspective of nearly a decade I do not know how the fundamental secrecy could have been avoided. The delicacy of the event and the uniqueness of the opportunity made it essential that the United States be in control of the context of its presentation. (1979, p. 762)

In the autumn of 1971, during a session of the General Assembly of the United Nations, Japan would not co-sponsor the resolution designating the issue of Chinese representation as an important question requiring a two-thirds majority of the members present and voting - a procedural device by which Peking had been prevented from occupying China's seat (Mendel, 1978. p. 26).

The China shock became one of the reasons why Prime Minister Sato stepped down. A younger and more aggressive successor, Kakuei Tanaka, who would be less solicitous toward his American partner and one who could pursue a new foreign policy toward mainland China, was chosen by the majority party in the Japanese parliament.

CHAPTER III
THE DRASTIC CHANGE IN THE UNITED STATES
ECONOMIC POLICY: ECONOMIC
SHOCK OF AUGUST 15, 1971

The United States played a key part in the formation of both GATT and the IMF. These international organizations were created against a background of that bitter experience of the economic crisis of the 1930's which led eventually to World War II. In those days, most industrial nations, faced with economic competition, utilized devaluation of their currencies as the ultimate weapon to promote exports. They also took steps to reduce imports by raising tariffs and by applying quantitative restrictions on imports. On the other hand, Germany, Italy and Japan, where the basis of capitalism was weak, chose to resort to armed force to grab markets and raw materials. In the end, they all found themselves in a war.

Since World War II, the international economy has revolved around the IMF and GATT. The former secured the exchange of various currencies through the "adjustable peg" exchange rate system based on the dollar as the key currency. The latter promoted free trade by as far as possible reducing tariffs and quantitative restrictions (Kaji, 1972. p. 269). It is quite obvious that in the immediate postwar

period these two organizations functioned against the background of the economic power of the United States.

In 1945, financial experts from Allied countries met at Bretton Woods in New Hampshire to work out a new international monetary system. This was to be recognized as the so-called Bretton Woods system, of which the International Monetary Fund and the World Bank were to constitute its nucleus. The IMF adopted a system of fixed exchange rates restricting movements up or down within a limit of one percent, and changes in rates of exchange could not easily be made without the permission of the IMF. Also the IMF system was based on a gold - dollar standard reflecting the United State's ability at any time to convert dollars, the key currency, in gold at a fixed rate of \$35 to the troy ounce of gold (Obata, 1972, pp. 20-21).

Postwar world economy in an era of "Pax Americana" was originally based on three objectives. In the first place, over half of the world's industrial productivity was concentrated in the United States. In the second place, over 70 percent of the world's monetary gold supply was concentrated in the United States. In the third place, atomic weapons were a monopoly of the United States. Concentration of goods, money and power in one country formed the three material conditions, which according to Kaji, were the objective basis of American - dominated postwar world structure (1972, p. 268).

In absolute terms, America's economic power was very great; but viewed relatively, the American economic power was less than what it seems to be. Most symbolic of this weakness is the decline in the value of the dollar. Japanese economist Obata explains as follows:

The dollar is not just the currency of the United States; it is also, by virtue of the decisions of the International Monetary Fund, the key international currency. This status reflected the dollar's erstwhile convertibility into gold. The slogan "dollar are gold" was at that time true. By 1949, the United States held 70 percent of the world's gold bullion, worth roughly \$24,500 million. Ten years later, in 1959, U.S. gold reserves had dropped below the \$20,000 million mark and the dollar consequently lost its reputation for security since America no longer held sufficient gold to be able, on demand, to convert into gold all the dollar's in international circulation. Ten years later, in 1969, the gold reserves of the United States had sunk to a mere \$10,000 million and the "dollar crisis" became inevitable. Over a period of twenty years the United States had halved its holdings of gold, while Japan's reserves of gold and dollars approached the level of those of the United States and the reserves of West Germany became larger than America's. (1972, p. 20)

With the outbreak of the Korean War in 1950, the dollar shortage gradually eased and from 1958 on, the United States entered a period of continuing crisis over its balance of payments. Each successive change of government, from Eisenhower to Kennedy and then to Johnson, tried harder and harder to defend the dollar. The measures adopted under President Kennedy had some modest effect but the situation changed drastically in 1965 when, under President Johnson, the Vietnam War was extended, bombing of the North began and massive ground reinforcements were sent to South Vietnam.

Miyoshi argues that:

Since 1965, although America rejoiced domestically in the longest boom in history, the advancing inflation and the rapid emergence of a productivity - gap between American industry and, for example, that of Japan, have gradually pushed the United States into major international difficulties over balance of payments. (1972, p. 31)
(See Table 2 below)

Table 2

Japan's Balance of International Payments, 1961 - 1972
(in millions of dollars)

Year	Exports	Imports	Trade Balance	Payments Balance
1961	4,149	4,707	-558	-982
1962	4,861	4,460	401	-48
1963	5,391	5,557	-166	-780
1964	6,704	6,327	377	-480
1965	8,332	6,431	1,901	932
1966	9,641	7,366	2,275	1,254
1967	10,231	9,071	1,160	-190
1968	12,751	10,222	2,529	1,048
1969	15,679	11,980	3,699	2,119
1970	18,969	15,006	3,963	1,970
1971	23,566	15,779	7,787	5,797
1972	30,160	21,188	8,972	6,660

Source: Asahi Nenkan 1971, p. 377

The impact of low-cost Japanese textiles on the U.S. market had been a source of minor friction even before the

Pacific War. It arose again in the early fifties when the Japanese textile industry, having recovered from its wartime devastation with the help of American financial and technical aid, began to make substantial sales in the United States (Destler, 1976, p. 36). During the same period, the United States also pressed Japan to limit exports in a number of other product lines. But the general thrust of U.S. policy was to encourage Japanese economic expansion. Sato explains the following:

The predominant official American view was that a full-employment economy in Japan depended on trade and that Japanese democracy, in turn, depended on a healthy economy. It was also important that Western markets be open to Japanese trade so that Japan would not have to turn toward the communist countries. (1976, p. 37)

Taking full advantage of postwar economic opportunities, Japan expanded her production and trade remarkably in the fifties, and even more rapidly in the sixties. (See Table 3 on page 39)

Japanese exports exceeded imports for the first time in 1965, symbolizing this major change in postwar economic history.

The U.S. response to imbalance of trade on a policy level was the so-called "Nixon Shock" forcing both yen revaluation and a simultaneous devaluation of the dollar, a net 17% appreciation of the yen. U.S. authorities hoped that this revaluation would slow the growth of Japanese

Table 3

Japanese Imports

	1955 US \$ mil	1960 US \$ mil	1965 US \$ mil	1970 US \$ mil	1975 US \$ mil
TOTAL					
Commodity Composition	2,471	4,491	8,169	18,881	57,863
Food	625	548	1,470	2,547	8,814
Textile	--	--	--	--	--
Materials	586	762	847	963	1,524
Metal Ores	186	673	1,019	2,696	4,416
Raw Materials	491	774	1,354	3,017	5,718
Mineral Fuels	289	742	1,626	3,905	25,640
Chemicals	112	265	408	1,000	2,057
Machinery	132	435	760	2,298	4,286
Other	50	293	684	2,427	5,404
By Origin					
Asia	902	1,367	2,731	5,553	28,345
Europe	177	488	1,002	2,555	5,778
North America	1,022	1,923	3,040	6,886	14,929
United States	774	1,554	2,366	5,560	11,608
South America	104	145	391	976	1,701
Africa	63	164	353	1,099	2,320
Oceania	203	404	654	1,812	4,788
Communist Bloc	89	125	524	887	3,006
Southeast Asia	663	915	1,406	3,013	10,586
Middle East	189	449	1,112	2,337	16,447

Source: Bank of Japan Statistics Department, Economic Statistics Annual, Bureau of Statistics. Office of the Prime Minister, Japan Statistical Yearbook.

exports to the United States through the price mechanism (Shiels, 1984, p. 91).

On August 15, 1971, the day of President Nixon's announcement of emergency economic policies which shook the world, Japan was celebrating the twenty-sixth anniversary of the end of the war. President Nixon's emergency economic policies fall under three main headings:

1. Counter - unemployment measures aimed at increasing employment opportunities by stimulating business activity through tax reductions. In detail they are as follows:
 - a) Tax concessions for new plant investment in industrial facilities (10 percent in the first year and 5 percent thereafter).
 - b) Abolition of the automobile tax (7 percent to take effect immediately).
 - c) Advancing reductions in personal income tax by one year (to take effect beginning January 1, 1972).
2. Counter - inflationary measures.
 - a) A 90 day freeze of wages and prices
 - b) Establishment of a Cost-of-Living Council to consider wages and prices after the end of the freeze.
 - c) Reduction of Federal expenditures.
3. Measures to defend the dollar.
 - a) A 10 percent import surcharge
 - b) Suspension of convertibility of dollar into gold.

(A Report To The Congress by Richard Nixon February 9, 1972. pp. 60-75).

The United States acted unilaterally without consultation, without calling a special meeting of the International Monetary Fund (IMF) to explain its moves, without using the multilateral machinery which had been painstakingly developed since Bretton Woods. British economist Harald B. Malmgren explains three basic objectives of the "New Economic Policy":

First, to ease the short-term American payments crisis that had been developing over the previous few months; second, to turn back the U.S. balance-of-payments deficits which had persisted for so many years; and third, to give the United States leverage to bring about a change in the international economic system and in the policies of other countries. (July 1971, p. 503)

The new American trade and economic policies which can be classified into eight main categories, six of which (dealing with income policies) are of a primarily domestic character and therefore irrelevant to the international question. The remaining two items, the "temporary" suspension of the convertibility of the dollar and the imposition of a provisional 10 percent import surcharge, raise major problems for Japan; because according to Obata, though both are superficially nondiscriminatory, both are in fact aimed principally at Japan (1972, p. 25). A leading Japanese economist, Miyoshi reports the following:

American newspaper reports focused on the counter-unemployment and counter-inflationary measures which have the greatest domestic effect; while Japanese newspaper reports focused on the defense of the dollar which has its greatest effect overseas. (1971, p. 28)

Actually some Japanese economists had anticipated and already stated that the United States would eventually have to institute major changes and that Japan would have to readjust the course of her economy including the yen rate. Japanese economist Nagasu saw such a crisis as a golden opportunity for the sort of realignment of the Japanese economy (1972, p. 141).

On the other hand the reaction of a significant number of Japanese economists to the Nixon speech was one of shock, confusion and uncertainty. "There was a torrent of dollar selling on the Tokyo foreign exchange market. Trading companies and banks read the suspension of convertibility as a clear forewarning that the dollar would float and then be devalued so everyone began to sell dollars and buy yen" (Nakamura, 1980, p. 106).

The Tokyo Stock Market was also hit by panic. Miyoshi explains as following:

It was just after 10 a.m. on August 16 that the significance of the Nixon speech registered on Kabutocho (Tokyo's Wall Street), and at that instant the palm of every operator on the floor of the exchange turned outward in the conventional sign for selling. On that day the Tokyo average stock prices showed the greatest crash in history in notable contrast to the New York stock market which, reacting favorably to the Nixon measures, showed its greatest record rise. The subsequent slump on the Tokyo stock market has been of quite a different order to that preceding August 15, 1971. (1971, pp. 28-29)

Japan's foreign trade sector was particularly hard hit. Because of the confusion in the foreign exchange market,

Japanese foreign trade banks failed to purchase export bills smoothly and for a time foreign trade settlements were partially interrupted. A particularly painful blow has been sustained by such medium and small businesses which produced largely for the American market: metal flatware, textiles, toys, ceramics, tiles, light machinery, canned foods, wire products and rolled copper goods. Firms specializing in these kinds of export goods have had so sharp a drop in orders that many were expected to go out of business (Watanabe, 1984, pp. 148-150).

Of course the effect on business activity as a whole was also great. The Japanese economy had begun to settle down about autumn 1970 and the outlook for recovery was just beginning when Nixon delivered his August speech. As a result of that American action, economic recovery was stopped and recession was expected to continue for another year or so. The business forecasts which were published by the Research Institute of National Economy were the most optimistic in that they predicted that the recession would be extended by no more than six months and that business activity would begin to turn up in about middle of 1972. The most pessimistic forecast was that of the Mitsubishi Research Institute which predicted long-term business stagnation extending for a total of two and a half years up to about March 1973 (Nakamura, 1983, pp. 218-220). A leading

American political scientist and scholar, Zbigniew Brezinski had this to say:

A progressive deterioration in the American-Japanese relationship could also, eventually, create a crisis. Such a lingering crisis is certainly more probable; indeed, it could be argued that we are already experiencing a crisis involving basically the economic issue. The economic issue has already surfaced and both sides are, at least, aware of it. The Japanese business community has finally come to realize that the deliberate U.S. policy favoring Japanese recovery after World War II cannot be maintained in a setting of greater economic symmetry. (Jan. 1972, p. 273)

President Nixon's statement on United States foreign economic policy made on 15 August, which included among others the immediate introduction of a temporary import surcharge and the suspension of dollar - gold convertibility, marks the beginning of a new era in international economic relations.

The shock, which Japanese business sustained as a result of the emergency American economic measures, has had other important repercussions. There was also "great spiritual disillusionment at the sight of the United States," which had given leadership to the world's economy since World War II. According to Kaji, the United States by such unilateral act broke its own international undertakings and resigned its position of leadership (Kaji, 1972, p. 268). Everyone agreed that Tokyo was the major international target of this "new economic policy" and it generated alarm

among Japanese political, business and financial leaders.

Isaiah observes:

The Nixon Shock of 1971 are example of the exercise of U.S. initiatives which were deeply resented in Japan, more for their unilateral character than for their substance. At the same time, the international economic policies of Japan and the European Community have been viewed by the United States as reflecting parochial conceptions of self-interest, ill befitting major economic powers which by now should be assuming substantial responsibility for world economic order. (1975, p. 9)

CHAPTER IV

CONCLUSIONS

The Nixon Shock and the Japanese Foreign Policy Toward China

When in July 1972, Kakuei Tanaka succeeded Sato and Masayoshi Ohira became foreign minister, the new Japanese cabinet pledged to attach top priority to the issue of Tokyo - Peking diplomatic normalization. At the new prime ministers first press conference, Tanaka reaffirmed this pledge, which was promptly welcomed by Premier Chou En-Lai (Fukui, 1977, p. 60). It is likely that Chou viewed the governmental transition from Sato to Tanaka as a great opportunity for opening direct communications with the Japanese government, especially before Tanaka hardened his position on Taiwan or the Soviet Union sabotaged negotiations between Peking and Tokyo. According to a political observer, Tanaka intended to settle the chronic Chinese problem, the normalization of Sino-Japanese relations, in his characteristic straightforward style. Watanabe explains it in these words: "Unlike the processes of accommodation between Washington and Peking, both Tanaka and Chou deemphasized the role of their respective governmental bureaucracies and relied heavily on a few private individuals for direct communications and mediation" (1986, p. 133).

On account of the Sato Government's "One China" policy, Japan's recognition of the government of the P.R.C. was already a foregone conclusion (Peking Review, Feb. 28, 1972, pp. 4-5). The question now was how to translate this policy into concrete action. The Japanese Ministry of Foreign Affairs maintained the following:

1. The state of war between Japan and China ended with the signing of the Japan - Republic of China peace treaty. Hence it is unnecessary for Japan to sign a new treaty with the government in Peking. Rather, the Peking government should take over the peace treaty with Taiwan in 1952.
2. Japan, which has abandoned Taiwan, is not in a position to say anything about the final territorial status of Taiwan, but the Chinese assertion that Taiwan is a part of Chinese territory is "understandable."
3. The government of the P.R.C. is the "legitimate government" of China, but the Ministry would not say that it is the "only" legitimate government. (Asahi News, July 14, 1972, p. 1)

In line with this position, Tanaka set out to tackle the problem simultaneously by way of: 1) establishing a line of communications with Premier Chou En-Lai so that a summit meeting could be arranged to discuss the issues; 2) consulting with President Nixon for his understanding of the Japanese position; 3) assuring the Taipei government of Japan's continued cooperation with it.

To accomplish the first task, Tanaka sent a message to his Chinese counterpart through Socialist leader and Dietman Kozo Sasaki in mid-July, expressing his desire for a summit meeting (Asahi News, July 18, 1972, p. 1). On the

Chinese side, a fortnight before the Japan's general elections, the P.R.C. sent a ranking official, Hsaiso Hsiang-Chien, to head the Tokyo liaison office of the China - Japan Memorandum Trade Office for the first time since the Cultural Revolution (Asahi News, July 4, 1972, p. 13). This was directly followed by a statement by Premier Chou welcoming Tanaka's China policy.

Tanaka's second task was to meet with President Nixon. Early in August 1971, when the United States had decided to sponsor the "dual representation" formula on the China question in the United Nations, Tanaka commented, "This is good news. Now everything is easier for Japan" (Asahi News, Aug. 19, 1971, p. 14). After assuming power in July 1972, Tanaka's Foreign Minister, Ohira explained Japan's China policy in relation to the United States by saying that "Japan would proceed with normalization of Sino-Japanese relations at its own discretion while keeping the United States appropriately informed" (Asahi News, July 9, 1972, p. 4).

In August, Ohira explained to Dr. Henry A. Kissinger that the improvement of Japan's relations with P.R.C. would not impair its security treaty with the United States (Watanabe, 1986, p. 93). Tanaka met Nixon in Honolulu on August 31 and September 1, 1972, and both found themselves in agreement that the President's recent visit to the P.R.C. was a significant step forward. "In this context they shared

the hope that the forthcoming visit of Tanaka to the P.R.C. would also serve further the trend for the relaxation of tension in Asia" (Mendel, 1978, p. 162).

Tanaka's last effort was to seek an understanding from Taiwan. However Taiwan used every means available to prevent Japan from achieving a reapprochment with the P.R.C. In the economic area, Taiwan adopted or proposed to adopt, a series of retaliatory and what it called, "self-defense" measures. First, Japanese government's offers to help build the Taiwan economy were rejected, which among other things, included a \$40 million nuclear power plant and a \$17 million express highway. Second, a ceiling was imposed on imports from Japan: anything that exceeded \$20,000 in value had to henceforth be imported from America or Europe instead of Japan. Third, as a matter of policy, development of the steel, machinery, petroleum, and chemical industries, which had relied heavily on their Japanese counterparts were to be made locally to the extent possible; and the entrepreneurs were to be encouraged to establish direct marketing contacts overseas instead of contracting with the Japanese businessmen as their intermediaries (Mendel, 1978, pp. 65-67).

On September 17, Etsusaburo Shiina, Vice President of the Liberal Democratic Party, arrived in Taipei with a personal letter from Tanaka to President Chiang Kai-Shek. During his two-days stay in Taipei, Shiina explained to many civic and government leaders that after breaking diplomatic

relations with the Nationalist government, Japan would like to continue existing cultural and economic ties with Taiwan.

On this issue Rouyana writes:

Shiina did not get to see the ailing President but had a serious interview with Premier Chiang Ching-Kuo. According to the latter, Shiina asked: What would the Republic of China ask of Japan? And what would the Premier expect of the Japanese government? To the first question Chiang replied that his government did not have any other demand than that the Japanese government stop "betraying its friends." To the second the Premier said that he had no other hope than that Japan would save itself from being communized" Then Chiang warned Shiina that since all relations between Japan and Taiwan were based on the 1952 peace treaty, the Japanese government would be held fully responsible for any consequence arising from its abrogation of the treaty and Japan's reapprochement with the P.R.C. would be tantamount to "making yourselves our enemy again." (1977, pp. 88-89)

The Shiina mission was not a success, but it did complete the last preparation for Tanaka's historic journey to Peking.

Normalization of Relations

Prime Minister Tanaka went to Peking on 25 September 1972 and four days later, on 29 September, the Chou-Tanaka communique announced to the world that Japan had established diplomatic relations with the People's Republic of China (see Appendix A). The communique stated that Japan fully understood and respected the position that Taiwan is an inalienable part of the territory of the People's Republic of China. Japan reaffirmed its adherence to Article (8) of the Potsdam Proclamation, which had referred to the Cairo

Declaration with its specific intention of restoring Formosa to China (Mendel, 1976, pp. 64-65). The Cairo Declaration concerned the Republic of China, but in the communique of 1972, the Japanese side stated that it "proceeds from the stand of fully understanding the three principles for the restoration of diplomatic relations put forward by the Government of the People's Republic of China."

According to political observers the Japanese position was sufficiently vague in the text of the communique as to leave open Japan's options over Taiwan. For instance Saito observes:

One may point to the use of the words 'understand' and 'respect' rather than 'accept' or 'agree' with reference to the Chinese position. Hence, the Japanese made no categoric commitment either over Taiwan. Secondly there is only one specific mention of Taiwan in the whole text. Finally, there is no specific mention of the Japan - Republic of China Treaty, nor of the need to abrogate it.
(Saito, 1973, p. 38)

Ever since the date of the Chou-Tanaka communique, the Japanese government has scrupulously avoided any formal and precise declaration concerning its relationship with Taiwan. Its basic attitude was explained by Mr. Ohira on 30 September 1972, mentioning question about the future relations of Japan with Taiwan. He said "We hope to continue economic and cultural relations with Taiwan. But that will depend on how Taiwan reacted to Japan's new relations with China. So we have to wait and see" (Asahi News, 30 September 1972,

p. 2). Also he stated three points in Japan Times on 30 September 1972.

- 1) the 1952 treaty between Japan and the Republic of China had lost its raison d'etre and was terminated;
- 2) Japan would have to close its embassy in Taipei;
- 3) since Japan had accepted the Cairo and Potsdam Declarations, it was natural for Japan to consider Taiwan as part of China's territory.
(Japan Times, 30 Sep. 1972, p. 4)

Japan recognized the P.R.C. as the sole legal government of China. Although Japan suspended diplomatic relations with Taiwan and unilaterally abrogated the Tokyo - Taipei Peace Treaty of 1952.

The termination of Japan's peace treaty with Taiwan resulted in the severance of diplomatic relations. However it did not disrupt their cultural and economic ties. In fact, despite the diplomatic turmoil and the avowed policy of the Taipei authorities to restrict commercial dealings with the Japanese Taiwan's imports (\$1.091 million) exceed export (\$420 million) by \$671 million (Japan Economic Review, March 15, 1973, p. 9). The two-way trade between Japan and Taiwan in 1972 reached a new record high of \$1.511 million, nearly 50 percent more than the previous year.

With Taiwan becoming the third largest purchaser of Japanese products after the United States (\$8.856 million) and Canada (\$1.105 million), the need to find substitute for diplomatic and consular missions increased proportionately.

The formula that was readily available to Japan and Taiwan was the "reverse separation of politics and economics." This meant the replacement of the Nationalist embassy in Tokyo by an Association of East Asia Relations and that of the Japanese embassy in Taipei by a Japan Inter-change Association (Watanabe, 1986, p. 124).

Japan's continued close relationship with Taiwan inevitably impeded the progress of its normalization process with P.R.C. Be that as it may Watanabe suggests that:

The course of Japanese policy towards China since 1972 has shown that the issues which played such an important partin the bilateral relationship were by no means eliminated by the normalization of relations. Trade grew in importance, with oil as new factor in it, but it acquired some independence of the political issues. The influence of Taiwan remained a factor in domestic politics but it was no longer the chief obstacle to the development of political relations with China. (1986, p. 82)

The Chou-Tanaka communique referred, of course, to matters other than the status of Taiwan. China would certainly have benefited from an influx of Japanese technology and capital goods. It would have meant an opportunity to expand the Chinese economy with the support of Japanese government money.

It seems likely that the normalization of diplomatic relations between Japan and China was more than a new and an important step in their postwar relations. It also reflected a fundamental shift in Asia's regional order. Because of the fact that Japan had taken a step ahead of the United

States, it was more than a simple extension of United States-Chinese detente. The Japanese government, which was headed by Tanaka, intended to go beyond the policy constraints of the peace settlement of San Francisco and to take an influential position in East Asian affairs. Tanaka was anxious to make Japan as an active participant, rather than a passive object, of the balance-of-power game as played by Nixon and Chou.

Although the Japanese government was not seeking to weaken Japan's vital security linkage with the United States, it had learned an important lesson from the Nixon Shock and that was the necessity to reduce U.S. patronage over Japanese diplomacy. Tokyo's success in negotiating diplomatic normalization with China was instructive also for the U.S.: the so called "Japanese Style" which allowed the continuity of non-diplomatic relations between Tokyo and Taipei, has had some applicability to the U.S. - Taipei relations. But it goes without saying that unlike Japan, the United States has had a security commitment to Taiwan and had assumed global as well as regional responsibilities. This is probably why it took six more years for the United States to restore full diplomatic relations with China.

The Impact of the Nixon Shock on the Japanese Economic Policy

During the 1950's and early 1960's, the Japanese government and industry supported the U.S. foreign economic

policy of "free trade for the free world" because such a policy was generally beneficial to the Japanese. The United States provide a relatively open market for Japanese products but at the same time allowed Japan to deviate from the free-trade principle to a large extent. Therefore, when the United States asked the Japanese to restrain certain exports, such as textiles, Tokyo rather willingly agreed to voluntary export control. However, the situation changed gradually. As U.S. economic problems increased, Washington become more demanding for a direct control on Japanese economic policy. The rapid advance of Japan in international trade and the imbalances in her accounts provoked strong criticism from the United States. In 1971, Japan's surplus on her trade with the United States reached 3.2 billion dollars, much larger than the total American trade deficit for that year (Allen, 1981, p. 165). The response of the Americans was to introduce restrictions on imports from Japan, and in August 1971, they let the exchange value of their currency slide from 360 yen to the dollar to 308 yen to the dollar.

In this analysis, the researcher shall investigate the impact of Nixon shock of August 15, 1971 on the Japanese economic policy. The purpose of this analysis is to determine to what extent, if any, the Nixon's new international economic policy was directly instrumental in bringing about changes in the Japanese economic policy.

U.S. President Nixon's announcement of his new Economic Program in August of 1971 was aimed at restraining the inflation which was gradually becoming serious and checking the sudden increase of the U.S. balance of payments deficits, which had begun growing since beginning of that year. (See Table 4 below)

Table 4
United States Trade with Japan

	Total U.S. Exports	Exports to Japan	Total U.S. Imports	Imports from Japan	Foreign Trade Balance	Trade Balance with Japan
1967	31,011	2,700	26,727	3,049	4,287	-349
68	34,092	2,954	32,845	4,133	1,247	-1,179
69	37,289	3,490	35,742	5,017	1,547	-1,527
70	42,729	4,652	39,638	6,015	3,091	-1,363
71	43,606	4,055	45,189	7,617	-1,583	-3,562
72	49,214	4,963	55,170	9,115	-5,956	-4,152
73	70,859	8,313	68,915	9,573	1,944	-1,260
74	97,908	10,679	100,248	12,929	-2,340	-2,250
75	107,592	9,563	96,576	11,242	11,016	-1,679
76	115,156	10,144	121,009	15,923	-5,853	-5,779
77	121,150	10,529	147,685	18,550	-26,535	-8,021
78	143,575	12,885	171,978	24,458	-28,403	-11,573
79	181,637	17,579	206,327	26,243	-24,690	-8,664

Source: U.S. import and export data from U.S. Dept. of Commerce from IMF Directors of Int'l Trade

Along with measures such as ending the dollar's convertibility to gold, a wage and price freeze, and inducing demand via tax reductions, an import surcharge was also announced at that time, with the clearly expressed intention of attempting to check exports from Japan.

Japan thus said "farewell" to the 360 yen rate which had been maintained for 22 years since April of 1949. Japan's international competitiveness had grown dramatically during that time. Table 5 below shows Japan's export prices.

Table 5

International Comparison of Unit
Value of Exports

							(1963 = 100)
	Japan	U.S.A.	Western Europe	Industrial Countries	Developing Countries	Free World	
1951	134	93	101	100	128	108	
55	103	95	95	96	111	100	
60	107	99	97	98	103	100	
65	98	104	104	103	103	103	
67	100	110	105	105	103	105	
70	111	114	112	114	109	112	
72	158	121	130	130	126	128	
73	165	201	223	219	233	240	
74	162	218	243	237	404	260	

Source: Calculated from Bank of Japan International Comparative Statistics Focusing on Japan

Japan's export prices had dropped continuously from 1951 to 1965; by contrast, West European prices, for this period had been fairly steady, and in America they were on a rising trend. During all this time, the 360 yen rate had been left undisturbed. In the latter half of the 1960's, Japan's unit export prices rose in about the same way as in other countries. However, as we can see after the Nixon Shock, Japan's unit export prices rose dramatically because the exchange rate became 308 yen which increased price of exporting goods. However, in 1972, Japanese imports from the United States were \$5.5 billion as against exports to the United States of \$9.1 billion. This surplus was about \$1 billion more than in 1971. That this occurred despite the exchange rate adjustment of the Smithsonian Conference led some to doubt the general effectiveness of exchange rate adjustments in correcting trade imbalances. Even after the Nixon shock, Japan kept a huge trading surplus against the United States. Because policies of export promotion have made a positive and more contribution to Japan's market power. As of February 1972, Japanese government export-promotion programs included two categories: (1) export-related tax incentives and (2) export financing and export insurance facilities. Hollerman explains in the following:

Among the tax incentives, accelerated depreciation, taken in the form of a reserve for special depreciation on machinery used for export production, was abolished as of March 31, 1972. A tax-free reserve for overseas market development and a tax

deduction on foreign currency earned by the export of technical services, likewise scheduled to be revised or abolished, were extended for an additional three years after April 1972. In the second major category of government export-promotion programs, special facilities are provided by the Bank of Japan for short-term pre-export and post-export financing, as well as a foreign-exchange loan-fund system. Medium- and long-term financing facilities for plant exports are provided by the Japan Export-Import Bank. In June 1972, plans were completed for the inauguration of an exchange-risk insurance program to supplement the export insurance system is already in effect. The new program originated in the aftermath of the international monetary crisis that erupted in August 1971. As a counter-measure to external monetary instability, Japanese foreign exchange controls were defensively tightened. The controls prevented Japanese exporters for protecting themselves by hedging on long-term dollar contacts. Accordingly, the foreign exchange insurance program contemplated giving Japanese exporters coverage against the risk of foreign-exchange fluctuations free of charge for an initial two-year period. (1975, p. 180)

Table 6 on page 60 shows changes in Japanese foreign investments from 1967 to 1978.

Table 6

Value of Japan's Direct
Foreign Investment
(millions US \$)

Fiscal Year	Annual Investment	Cumulative Total
1967	275	1,451
68	557	2,008
69	665	2,673
70	904	3,577
71	858	4,435
72	2,338	6,773
73	3,494	10,267
74	2,396	12,663
75	3,280	15,943
76	3,462	19,405
77	2,806	22,211
78	4,598	26,809

Source: Ministry of Finance Economic Statistical Annual

It is clear after the Nixon shock Japanese direct foreign investment increased rapidly. Because increased investment in the production of Japanese products in the United States helped offset the decrease in exports and defuse friction with the United States. With regard to automobiles, U.S. government officials and labor leaders have encouraged Japanese investment in the United States as a way to solve the unemployment problem in the U.S. domestic

industry. However, Japan's investment in the United States is still small compared with that of other advanced industrialized countries. In fact, Japan ranks only sixth in order of the dollar value of investment in the United States is shown below in Table 7.

Table 7

1978 Foreign Direct Investment
in the United States

Country	Millions of Dollars	Percent of Total
Netherlands	9,767	23.9
United Kingdom	7,370	18.1
Canada	6,166	15.1
W. Germany	3,191	7.8
Switzerland	2,844	7.0
Japan	2,688	6.6
France	1,939	4.7
All Countries	40,831	100.0

Source: John Oliver Wilson "Japanese Investment in the United States" July, 1980. p. 4

Why has Japan accumulated such a large favorable trade balance with the United States even after the Nixon Shock? One of the reasons is the decline in the U.S. competitive position. And some critics insisted that Japan must be resorting to 'unfair' trade practices, such as dumping and export subsidies, or argued that Japan benefited from stiff

import barriers, while the United States kept its market open. While it is true that Japan has had high import barriers, which the United States tolerated on largely foreign policy grounds, most of these barriers have been lowered substantially.

The other reason is trade structure. Lacking natural resources, Japan depends heavily on imports in meeting domestic demand for minerals, fuels, and important agricultural products such as wheat, soybeans, and corn. In order to earn the foreign exchange necessary to import these materials, Japan has to export manufactured products, but while the United States also has manufactures to export, the Japanese market is highly competitive except for agricultural and primary goods. Consequently, major Japanese exports to the United States consist of manufactured products that are largely high technology whereas a large portion of U.S. exports to Japan include agricultural products and raw materials. This is particularly true in recent years.

According to my analysis, it seemed likely there was some changing of Japanese economic policy after the day of President Nixon's announcement of emergency economic measures which shook Japan. For instance, they were to increase foreign investment and lower tariffs. However, these did not solve any economic friction between the two nations. In the future, Japan must make every effort to avoid international friction in the export field, and to

achieve that objective, over-all realignment of Japanese economic policy is essential.

Up to now, Japanese economic policy has placed emphasis on strengthening the international competitiveness of industry to catch up with the economic and technical levels of the West. Now that Japan boasts the second greatest GNP in the world, the emphasis must be changed from industry first to international cooperation especially with the United States. Because Japan is basically more vulnerable than the United States, insofar as the former depends heavily on U.S. markets and U.S. agricultural and raw materials, while the United States could produce practically all the products currently imported from Japan, even if the results might be less efficient.

Japan can use her economic power base in a better way. Rather than to present a selfish image to the world, Japan can become the champion of a more equitable world order. Japanese interests as a highly vulnerable economic power lies in the creation and maintenance of a world environment which guarantees free access to raw materials and the stability of economic relations.

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APPENDIX

JOINT STATEMENT OF THE GOVERNMENT OF THE PEOPLE'S REPUBLIC OF CHINA AND THE GOVERNMENT OF JAPAN

- 1) The abnormal state of affairs which has hitherto existed between the People's Republic of China and Japan is declared terminated on the date of publication of this statement.
- 2) The government of Japan recognizes the Government of the People's Republic of China as the sole legal government of China.
- 3) The Government of the People's Republic of China reaffirms that Taiwan is an inalienable part of the territory of the People's Republic of China. The Government of Japan fully understands and respects this stand of the Government of China and adheres to its stand of complying with Article 8 of the Potsdam Proclamation.
- 4) The Government of the People's Republic of China and the government of Japan have decided upon the establishment of diplomatic relations as from September 29, 1972. The two Governments have decided to adopt all necessary measures for the establishment and performance of functions of embassies in each other's capitals in accordance with international law and practice and exchange ambassadors as speedily as possible.
- 5) The Government of the People's Republic of China declares that in the interest of the friendship between the people's of China and Japan, it renounces its demand for war indemnities from Japan.
- 6) The Government of the People's Republic of China and the Government of Japan agree to establish durable relations of peace and friendship between the two countries on the basis of the principles of mutual respect for sovereignty and territorial integrity, mutual nonaggression, non-interference in each other's internal affairs, equality and mutual benefit and peaceful coexistence. In keeping with the foregoing principles and the principles of the United Nations Charter, the Governments of the two countries affirm that in their mutual relations, all disputes

shall be settled by peaceful means without resorting to the use or threat of force.

- 7) The normalization of relations between China and Japan is not directed against third countries. Neither of the two countries should seek hegemony in the Asia - Pacific region and each country is opposed to efforts by any other country or group of countries to establish such hegemony.
- 8) To consolidate and develop the peaceful and friendly relations between the two countries, the Government of the People's Republic of China and the Government of Japan to hold negotiations aimed at the conclusion of a treaty of peace and friendship.
- 9) In order to further develop the relations between the two countries and broaden the exchange of visits the Government of the People's Republic of China and the Government of Japan agree to hold negotiations aimed at the conclusion of agreements on trade, navigation, aviation, fishery, etc, in accordance with the needs and taking into consideration the existing non-governmental agreements.

Source: Peking Review Vol. 15, No. 40, 6 Oct., 1972.
pp. 12-13.

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