

CHINA TRADE EMBARGO AND AMERICA'S
ALLIANCE MANAGEMENT IN THE 1950s
—THE JAPANESE CASE*—

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Abstract

In the early 1950s the United States government pursued conflicting policies with regard to Japan. While anxious to see a post-occupation Japan become economically self-supporting, Washington initiated a rigid trade restriction policy against mainland China after China's military intervention in the Korean War, and forced Japan to observe a China embargo list which was stricter than that for the other European allies. Since mainland China was Japan's traditional market and source of raw materials, this policy created serious frictions between Japan and the United States. This article describes the following—utilizing United States government documents:

- (1) During and after the Allied occupation of Japan, the United States wished to see Japan become a loyal western ally with a healthy, self-sustaining economy;
- (2) When Japan expressed its desire to take part in the COCOM, the United States tried to create a separate organization for Far Eastern trade—chiefly out of its desire to maintain the existing stricter controls on China than on the European Soviet Bloc. The major advocates of this hard-line policy within the United States government were the military and the Commerce Department;
- (3) When this attempt failed, the United States government obtained a promise from the Japanese government—in the form of a secret bilateral agreement—to maintain stricter controls on Chinese trade than the other COCOM countries except the United States and Canada;
- (4) This created a dilemma for top Washington officials who were deeply concerned with the economic condition in Japan and with the mounting pressure within Japan for relaxed trade with China;
- (5) Great Britain and France also pressed on Washington for freer East-West trade;
- (6) After twenty months of negotiations between Japan and the United

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States, Washington officials finally decided in early 1954 to nullify the bilateral agreement with Japan, and accord Japan an equal status with the European CO-COM countries in terms of China trade control.

I. *Introduction*

The United States pursued with firm determination a policy of strict trade restrictions against the Communist bloc countries during the Cold War years. This policy which required cooperation from America's allies, however, produced open frictions with them, thus straining the western alliance system. The most publicized incident was the natural gas pipeline episode in the early Reagan years.

This article focuses on America's trade embargo policy toward China in the 1950s and its effect on its allies—especially Japan. The United States policy had certainly a coercive aspect. But, with a close examination of the policy formulation processes within the top Washington officials, we find that the policy was in no way the result of a consensus view of the officials. Furthermore, with the passage of time, the United States was forced to make a retreat from its original strict position, and allowed the allies to moderate the scope of restrictions. It turned out that the American allies' economic self-interest was too great to be compromised to Washington's desire, and also that their perceptions of China as a threat were somewhat different from those of the United States. In the final analysis, this is a study of tension between America's desire of maintaining good relations with its allies on the one hand, and its intention to fight a frantic politico-economic warfare against the Communist countries on the other hand.

II. *Japan's Desire to Participate in COCOM*

On May 30, 1952 Japan first expressed its desire to participate in the COCOM (the Coordinating Committee).¹ It is not clear when the Japanese government had become aware of the existence of this international organization which had been veiled in complete secrecy since its formation in November 1949.

There were probably at least two motivations behind Tokyo's move. First, Japan which experienced for the first time in its long history defeat and occupation at the hands of the western powers, wanted to recover some degree of national standing by way of entering the agreement which was organized by the OEEC countries.² By joining it Japan would lose nothing: it had to cooperate with the United States anyway if it wanted to remain in the western camp. Second, the Japanese government believed, though wrongly, that entry into the agreement would automatically place Japan's level of trade restrictions on an equal footing with those of the OEEC countries. During the last phase of the Occupation period the Allied occupation authority in Tokyo, commonly referred to as the GHQ, required the

¹ Memorandum for Secretary of Defense (July 31, 1952), RG 330, CD 092 (Far East) 1952, National Archives, Washington, D.C.

² Hope to Perkins (June 3, 1952), FW 400.949/5-2852, NA; Young to Allison (July 8, 1952), 400.949/7-852, NA.

Japanese to observe the stricter embargo list than the western countries excepting the United States which imposed on itself a very tough embargo policy against the Communist countries.

What made, then, the United States and the other western countries to seriously consider Japan's participation in the COCOM? One thing was the fact that Japan was finally regaining the national sovereignty after almost six years of Allied Occupation (and it did on April 28, 1952). But what can be considered a catalytic event was an international economic conference in Moscow held in early April that year—which the western governments regarded as a part of Soviets' "Peace Offensive." As many as 471 people from 47 countries—including 13 American businessmen—attended the conference. What was shocking, especially to the Tokyo government, was the fact that three Japanese Parliamentarians traveled to Moscow, and that on their way home they stopped in Beijing, China and signed a trade agreement with the Chinese on June 1—without a prior consultation with the Japanese government officials. It took place exactly at the time when an economic recession began to be feared in Japan due to the end of the "Special Procurement" in Korea.³

III. *Sino-Japanese Trade and Washington's Attitude*

The high expectations that the Japanese held of the China market did not die with their surrender to the Allied Powers at the end of the war. They never forgot that in the second half of the 1930s Japan's trade with China (including the area that was commonly referred to as Manchuria) had hit the highest mark in the prewar record—comprising one third of Japan's total external trade. It is natural, therefore, for the Japanese to dream of reviving trade with China. The China trade fever heightened at least twice in the postwar era: in 1949 when Japan slipped into a deep depression after the government had adopted the "Dodge line" stringency plan, and again in 1952 when the consequence of the end of the Korean "Special Procurement" was feared by Japanese businesses.

Washington's attitude in late 1949 was basically to encourage the Japanese to trade with the newly-established government in China. The rationale behind it was that if Japan was forced to abide by a strict anti-Chinese trade restriction policy, Japan would become a heavy burden on American tax-payers almost on a permanent basis. This, however, did not mean that Washington whole-heartedly supported the expansion of Sino-Japanese trade: it did not want Japan to become too dependent on the Chinese market, thus providing Beijing with a political leverage vis-a-vis Japan. On balance, Washington preferred Japan's economic autonomy to America's perpetual economic aid to Japan. This attitude was abundantly clear in the papers of the National Security Council (NSC41, NSC41/1, and NSC48/1). This policy line was the reflection of the attitude of the Department of State, but not necessarily those of the Joint Chiefs of Staff, the Central Intelligence Agency, and the Munitions Board.⁴

³ Intelligence Report (Department of State), no. 5941, (June 30, 1952) "Pei-Ping 'Trade Agreement' and Its Impact in Japan," NA.

⁴ NSC 41, "U.S. Policy Regarding Trade with China" (February 28, 1949), NA; NSC 41/1, "U.S. Policy Regarding Trade with China" (November 7, 1949), NA; NSC 48/1, "The Position of the U.S. with Respect to Asia" (December 23, 1949), NA.

As evident in NSC 48/1 (December 1949), Washington's basic policy toward China was a "wedge" policy, a policy to drive a wedge between the Soviet Union and China.⁵ Although the recognition of the Ho Chi-minh government in Hanoi, Vietnam, the signing of the Sino-Soviet Friendship Treaty, the assaults by the Communist Chinese on the American legations in China, and finally the outbreak of the Korean War came one after another in rapid succession, the "wedge" policy toward China pursued by the Truman administration was to be followed basically by the Eisenhower administration which came into office in January 1953.

The outbreak of war in the Korean peninsula in June 1950, however, finally forced the United States government to abandon the policy of encouraging the Japanese to trade with China.

IV. *A Secret Japan-United States Agreement*

At the heel of the Moscow Conference, the "Consultative Group" meeting of the COCOM was held on June 26, 1952, for the purpose of assessing the effect of the Moscow Conference. At this meeting, the question of Japan's participation in the COCOM was also discussed. This question illuminated the division of views within the western allies as well as within the Washington bureaucracy.

While Britain, along with France and Canada, supported Japan's entry, the United States was quite reluctant. In general, Washington wanted to see Japan become a member of various international organizations. But, as far as the COCOM were concerned, it was reluctant on the two grounds: (1) the COCOM countries were practically identical with the NATO countries except for the occupied western zone of Germany, and the United States did not want to see its function weakened as a result of Japan's entry into the COCOM; (2) the United States military establishment wished to impose a harsher restriction in the Far East, especially on China, than in Europe.⁶

On the other hand, Britain, fearful of potential Japanese competition in the Asian trade, wanted to see Japan contained in the overall COCOM framework. It also argued that it is well-nigh impossible to separate Asian trade from European trade completely.⁷

A five-nation conference was held in Washington for six days between late July and early August in 1952 for the purpose of discussing two issues: Japan's participation in the COCOM and the creation of a sub-organization designed for consulting about trade restrictions against China. The offshoot of that conference was the creation of the China Committee (CHINCOM) which was to be subordinated to the COCOM. The United States government, especially the Department of Defense, anxious to see a completely independent organization for Asian trade restrictions with its headquarters in Tokyo, suffered a set-

⁵ NSC 48/1, "The Position of the U.S. with Respect to Asia" (December 23, 1949), NA.

⁶ Memorandum for Secretary of Defense (July 31, 1952), *op. cit.*; Hope to Perkins (June 3, 1953), *op. cit.*; Young to Allison (July 8, 1952), 400/949/7-852, NA.

⁷ Gifford (London) to Department of State (July 4, 1952), 400.949/7-452, NA.

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The United States Department of Defense, however, insisted on Japan's continued adherence to stricter trade controls, as had been imposed by the Occupation authority in Tokyo. A series of secret talks ensued in Washington during that summer. The talks were primarily conducted between Ryuji Takeuchi, Chargé d'Affaire at the Japanese Embassy in Washington, joined by the Japanese government officials who flew from Tokyo, and Harold Linder, Deputy Assistant Secretary of State for economic affairs. A bilateral agreement, titled "Understanding for Trade Controls Against Communist China," was initialled on September 5, 1952. This agreement, completely hidden from the public eyes, forced the Japanese government to adhere to the stricter trade controls than any other countries—except for the United States, Canada, Korea, and Taiwan.⁹ This agreement was to continue to be effective until March 1954, as we shall see later.

V. *Eisenhower's View of Sino-Japanese Trade*

Immediately after the inauguration of President Eisenhower the National Security Council began discussing how Washington's basic China policy ought to be. And the Council confirmed it as Washington's ultimate goal to see an "independent, stable, and autonomous non-communist government" be established in China. However, the NSC was ambiguous about how to achieve it. There could be two roads to a desirable China: the new regime in China might be alienated from the Soviet Union; or it could be brought down by Chiang Kai-shek's force in Taiwan or other remaining anti-communist forces in mainland China. It is contradictory to support Chiang on the one hand, and to attempt to attract Mao Tse-tung away from Moscow. The NSC staff, nevertheless, pointed out similarities between Mao of China and Tito of Yugoslavia, and held to the hope that Mao might some day change his policy in a direction favorable to Washington.¹⁰

By late 1953 the NSC reached a pessimistic conclusion that there would be no Titoism in China—based on the CIA report that there were no fundamental change in Sino-Soviet relations even after Stalin died in March that year.¹¹

The end of the following year saw a tension in the Taiwan Straits. The Mao government, after almost five years of existence, appeared quite stable. In the eyes of Washington officials it was no longer reasonable to keep expecting Mao's downfall, and yet they kept asking themselves a very troubling question: whether the United States should "live with it [Mao's government]" or "bring it down."¹²

⁸ Embassy (Tokyo) to Department of State (August 8, 1952), 794.00(W)/8-852, NA; [McClurkin to Allison (July 21, 1952), 400.949/7-2152, NA; Memorandum by Young (August 4, 1952), United States Department of State, *Foreign Relations of the United States 1952-1954*, Vol. XIV, part 2 (Washington, D.C.: United States Government Printing Office, 1983), p. 1293.

⁹ Memorandum by McClurkin to Drumright (April 14, 1954), *FR*, 1952-54, XIV-2, p. 1643; Dulles to Certain Diplomatic Posts (September 19, 1952), *FR*, 1952-54, XIV-2, p. 1332; Memorandum by Jonson to Dulles (August 27, 1953), *FR*, 1952-54, XIV-2, p. 1488.

¹⁰ Study prepared by the Staff of NSC (April 6, 1953), *FR*, 1952-54, XIV-1, pp. 175-79.

¹¹ Memorandum of Discussion at the 169th Meeting of NSC (November 5, 1953), *FR*, 1952-54, XIV-1, pp. 265-66.

¹² Memorandum of Discussion at the 193rd Meeting of NSC (April 13, 1954), *FR*, 1952-54, XIV-1, p. 412; Memorandum by JCS to Secretary of Defense (November 3, 1953), *FR*, 1952-54, XIV-1, p. 260.

Such an ambiguous attitude toward China on the part of Washington officials naturally led to an ambiguous attitude about what methods ought to be adopted. What goal did the United States wish to achieve through trade embargo against China? Was it simply to punish China or to attract China away from the Soviet Union and into the American orbit? In the latter case, how effective was the trade embargo as a means to achieve it? There was no clear answer. It was only clear to Americans that the trade embargo would increase China's dependence on the Soviet Union. But no one could tell whether China's increased dependence on the Soviets would work favorably for the United States objective. The Soviet Union could not bear the burden of assisting China anymore at some point and throw the burden away—that was a scenario the United States wanted to believe.¹³ It was like the argument, described in Aesop's Fables, as to which—the Sun or the north wind—could make a traveller take off his overcoat.

Eisenhower was personally skeptical about the effectiveness of the trade embargo against the Communist countries. At an NSC meeting held in March 1953, he emphatically stated that if trade embargoes were to bring about economic stagnation in the west, the west would lose the "cold war"—with the attendant isolation of the United States. His argument was a reflection of his tendency to think of the Cold War primarily in terms of economic, political, and psychological warfare, as opposed to a pure military confrontation. At the NSC meetings he reiterated his position, but such flexible view as his was a minority view, or almost a cry in the wilderness, within the administration.¹⁴

In regard to Japan, Eisenhower's flexible thinking was more obvious. At an NSC meeting held on April 8, 1953, he spoke in favor of permitting Japan a certain degree of trade with China. Senior members at the NSC, such as George Humphrey and John Foster Dulles, were in basic agreement with the President that Germany and Japan should be assisted by the United States in restoring their position in international society and in recovering their economies to strong enough a level to support their own populations—without American help. However, most other NSC members were fearful lest Japan's increasing dependence on mainland China would provide China with an "awful weapon to be used" against Japan in the future. The intended purpose of the April 8 meeting was to discuss whether the revision of the basic policy document on Japan (NSC 125/4 (March 30, 1950)) was needed. The meeting decided to revise the document, and the new policy paper, NSC 125/5, was later approved. The new paper concluded that in the long run Japan's economic viability had a crucial importance to the security of the United States, but that it would be very difficult.

Washington wanted to assist Japan in its economic recovery, but it was unwilling to take many cheap goods from Japan, to provide economic assistance, or to allow Japan to be fully engaged in China trade. In the 1950's United States Congress was filled with pro-

¹³ *FR*, 1952-54, XIV-1, pp. 533-35, 699-700, 971-72; Special Estimate (SE-37, March 9, 1953), *FR*, 1952-54, XIV-1, p. 149; Memorandum of Conversation by Dulles (December 22, 1954), *FR*, 1952-54, XIV-1, p. 1048.

¹⁴ Memorandum of Discussion at the 137th Meeting of NSC (March 18, 1953), *FR*, 1952-54, I-2, pp. 940-41; Memorandum of Discussion at the 174th Meeting of NSC (December 10, 1953), *FR*, 1952-54, V-2, p. 1847.

¹⁵ Memorandum of Discussion at the 139th Meeting of NSC (April 9, 1953), *FR*, 1952-54, XIV-2, pp. 1406-08; NSC 125/5, "United States Objectives and Courses of Action With Respect to Japan" (April 28, 1953), *FR*, 1952-54, XIV-2, pp. 1412-15, 1450, fn. 7, 1451, fn. 9.

tectionists, fiscal conservatives, and isolationists. This was precisely Washington's dilemma. What Washington was able to find as a way out of this difficulty was the development of markets in South and Southeast Asia for Japanese exported goods, and support for Japan's entry into the GATT. No one believed, however, that this was sufficient for realizing Washington's purpose.

VI. *The Allies' Pressure on Washington*

The pressure to ease trade restrictions came from Britain and France. In principle, Britain supported America's trade embargo policy, but it wanted more flexibility in its implementation. In Britain, pressure for easing restrictions mounted as the economy of Hong Kong slowed down during 1952.¹⁶ As the Eisenhower administration replaced the Truman administration in Washington, and the possibility of the Korean armistice became greater, many Britons thought that the scope of the China list would be narrowed to the level of the COCOM list.¹⁷

The United States government, on the other hand, was in no mood of responding to the Allies' wishes. At the Trilateral Foreign Ministers' meeting held in Washington in July 1953, Dulles pointed out to his British and French counterparts China's continuing assistance to Ho Chi-minh in Indochina, and requested them to maintain the existing level of the China embargo. The Foreign Ministers of Britain and France complied.¹⁸

With a scheduled Bermuda Summit meeting in mind, the United States government confirmed again the necessity of continuing the existing trade embargo against China.

Therefore, British Prime Minister Churchill's proposal at Bermuda in early December surprised no one. He characterized trade as a weapon to penetrate the iron curtain. He also believed that China trade would ease Britain's economic difficulties which it was currently experiencing.¹⁹ At a personal level Eisenhower must have felt the same way as Churchill because "trade is a weapon at diplomats' disposal" was exactly the words Eisenhower would have liked to say. As a matter of fact, in an early November NSC meeting Eisenhower stressed that the resumption of trade between Japan and China would reduce China's dependency on the Soviet Union and Japan's dependency on United States Treasury. And when Secretary of Defense Wilson expressed his concern that the resumption of the bilateral trade might lead to Japan's rapprochement with China, the President disagreed. Again at an NSC meeting held immediately after the Bermuda Summit, Eisenhower emphatically pointed out to the need for a more selective and flexible application of the embargo policy.

¹⁶ *FR*, 1952-54, V-1, p. 133, fn. 5.

¹⁷ *FR*, 1952-54, XIV-1, pp. 204-05; Aldrich to Department of State (July 7, 1953), *FR*, 1952-54, V-2, p. 1597; *FR*, 1952-54, I-2, pp. 938-39.

¹⁸ *FR*, 1952-54, XIV-1, pp. 204-05; Truloch Minutes (July 15, 1953), *FR*, 1952-54, V-2, pp. 1656-57; *FR*, 1952-54, I-2, pp. 993-94.

¹⁹ Memorandum of Conversation by Dulles (December 4, 1953), *FR* 1952-54, V-2, p. 1740; Memorandum of Discussion at the 174th Meeting of NSC (December 10, 1953), *FR*, 1952-54, V-2, p. 1847.

VII. *A Move toward Reductions in the List*

By that time, however, a trend toward easing restrictions was clearly noticeable. On March 11, 1954 the NSC made an important decision in regard to Japan. When Undersecretary of State Walter Bedell Smith submitted a proposal to the NSC for gradual reduction of Japan's China list to the level of the COCOM list, it was approved. This decision was officially relayed to Tokyo on April 8. This simply meant that Japan was finally relieved of its obligation to observe a stricter China list than the other COCOM countries. It came two years after the San Francisco Peace Treaty had become effective and Japan had regained its national sovereignty, and 20 months after the secret bilateral agreement had been signed. Tokyo had so far tried to demonstrate its loyalty as a member of the western alliance, while paying a greater cost as far as China trade was concerned.

In the same year pressure from Britain to ease the COCOM restriction were mounting, and in that summer a substantial reduction in the COCOM list was realized. This action, however, created a new problem—the so-called “China differential,” a gap discriminating against China trade. This placed Japan again in an unfavorable position since geographically it was far away from Europe and much closer to China: hence Japan's gain would be minimal.

In 1957 another move was initiated by London and other European governments to eliminate the “China differential.” In the midst of such a move, United States President Eisenhower reiterated his view at one of the press conferences in April: he expressed his support for the attempts by such economically hard-pressed allies like Britain and Japan to expand trade with China. He reasoned that nations' economic welfare was as much important to their national security as military power. In the meantime the COCOM meetings at Paris hit a deadlock on the question of the “China differential.” At the end of May Britain made a unilateral announcement of its intention to eliminate the “China differential.” The other European countries soon followed its suit. The Japanese government under the leadership of Prime Minister Nobusuke Kishi did not follow suit right away. Kishi's visit to Washington was scheduled, and he adopted a tactic to hide behind Britain's independent move for fear that Japan would hurt the feeling of Washington if it would do so. After Kishi returned home, Tokyo announced that it would follow Britain's suit. And finally in August did the United States government state its approval of the moves made by its allies, while determined to observe unilaterally much stricter China embargo policy itself.

VIII. *Some Observations*

It cannot be determined how effective trade sanctions were generally, and China trade embargo was in particular. We observed a confusion not only among the western allies but also within the Washington bureaucracy as to the scope, effectiveness, and idea of trade embargo, especially when it came to China. President Eisenhower held a minority opinion; but he never forcefully tried to make his subordinates to accept his view. Washington's

dilemma was most clearly illustrated in the case of Japan: the former wished to see the latter's economic viability, while fearful of the possibility of closer ties to be forged between the two Asian countries. The dilemma was never resolved, and a fear of a closer ties between the two Asian countries continued to haunt Washington officials in the years to come.

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