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National Foreign Assessment Center

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# East Asia Review

6 February 1979

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*RP EAR 79-005*
*6 February 1979*

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# EAST ASIA REVIEW (U)

6 February 1979

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Tokyo remains interested in expanding its role in developing Micronesia, but continues to withhold the official large-scale economic involvement many islanders want pending the resolution of Micronesia's political status and in deference to US strategic interests. (C)

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Japan: Opposition Parties Inch Toward Moderate Stance (U)

Japan's two largest opposition parties--the Japan Socialist Party (JSP) and the Clean Government Party (CGP)--moved in the direction of more realistic and moderate policies during their annual party conventions last month. The impetus for change in both cases has come from the parties' recognition that voter attitudes have shifted toward more moderate views, and that they are focusing on bread-and-butter issues rather than ideological themes. Leaders of both the JSP and CGP realize, however, that they must win over many of their followers who remain committed to the ideology, goals, and principles of opposition politics. (C)

The JSP: Party Chairman Asukata made a personal effort during the JSP's convention to steer the Socialists in a more pragmatic direction. Asukata argued that if the party wanted to increase its political influence, it would have to abandon its self-appointed role as the vanguard of a Socialist revolution and become a mass political party. To this end, he called for the expansion of the party membership from 43,000 to 1 million. By opening up the party to persons, not necessarily inclined to join on ideological principles, Asukata almost certainly hopes to weaken the control of the JSP's powerful Marxist faction, the Socialism Association. Even with an all-out push to boost its membership, however, the JSP is likely to have problems in meeting its membership goal since the radicals in the party will almost certainly oppose the admission of new members without extensive ideological screening. (C)

In another step toward taking a more realistic stand, the party announced its new medium-term economic policy that calls for a gradual transition from a "big business" economy to welfare-oriented capitalism as the first phase in the transformation to a true socialist economy. In their new economic policy paper, the Socialist allow for higher taxes to meet the expenses of a

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welfare state and admit the necessity for maintaining high economic growth as well as the continuing development of nuclear energy. The JSP probably hopes that its new policy, which has drawn favorable commmentary from the media, will reassure businessmen that the Socialists can manage the economy in practice. They may also hope to attract disillusioned moderate opposition party supporters and perhaps even some conservatives who were previously repelled by the party's hardline Marxist economics. (C)

Asukata also encouraged the party to adopt more balanced views on foreign policy. He asserted that the JSP needed to establish a more independent foreign policy consistent with its stand of unarmed neutrality and called for expanding relations with the non-Communist states. This year, the JSP plans to dispatch official delegations to the United States and to Southeast Asian countries, with Asukata himself leading the delegation to the United States. If the trip does take place, Asukata will be the first incumbent JSP chairman to visit the United States. (C)

Despite Asukata's efforts to downplay ideological themes, recent public opinion polls indicate a continued decline in support for the party. The JSP is likely to remain the largest opposition party as well as the primary political connection for Sohyo, Japan's largest national labor federation. Even so, the Socialists remain outflanked on the right by the moderate opposition parties, which are clearly perceived as the leading partners for a coalition government with the conservatives should the Liberal Democratic Party (LDP) lose its majority rule. (C)

The CGP: The leadership of the CGP clearly signaled its intention to continue to move gradually toward policies permitting eventual participation in a coalition government with the LDP. CGP Chairman Takeiri, for example, urged the party to prepare for that possibility by avoiding "opposition for opposition's sake" in the Diet. In that regard, the CGP leadership also indicated that it would avoid stonewalling the budget during the current Diet session. (C)

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The party did not announce any changes in its views on defense or foreign policy. For his part, Takeiri called for continued discussion of five fundamental issues: the Self Defense Forces, the US-Japan Mutual Security Treaty, the funding of political parties, election reform, and nuclear energy policy. The CGP leadership will continue to move cautiously, especially regarding defense questions. An endorsement by the CGP secretary general last summer of a study of new emergency defense legislation raised a storm of protest from local CGP leaders, who argued that the move would weaken their ability to compete successfully in local elections by identifying the party too closely with the conservatives. Moreover, nearly half of the CGP central committee members are still opposed to changing the party's defense platform. (C)

While the CGP leadership is clearly thinking of a future coalition with the ruling Liberal Democratic Party, it has left the door open for cooperation with both the JSP and the moderate Democratic Socialist Party (DSP). For the second consecutive year, the CGP invited the DSP chairman to address its convention. 25X1

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The Spratly Islands: Rival Claimants (U)

Recent oil discoveries off the coast of the Philippine island of Palawan and the deterioration of Sino-Vietnamese relations have again focused attention on the conflicting claims of sovereignty over the Spratly Islands--an archipelago of more than a hundred islands scattered over an area of 180,000 square kilometers west of Palawan. China, Vietnam, Taiwan, and the Philippines each claim sovereignty over them and all but China have a permanent military presence in the area. While China has never occupied any of the Spratlys, Vietnam has occupied six of them, the Philippines seven, and Taiwan one. (U)

The Philippine claim implicitly includes the entire Spratly archipelago, but since 1974 Manila has differentiated between the area it calls Kalayaan or Freedomland--an ill-defined group of islands and reefs in the northeastern Spratlys--and the rest of the islands. The seven islands that the Philippines currently occupies are within the so-called Kalayaan group. Manila asserts that the Philippines acquired the islands after Japan renounced its title to the Spratlys in 1951. (U)

The Philippines is the only claimant to attempt to exploit the potentially valuable oil deposits in the region. Although it granted oil drilling concessions in the early 1970s to foreign companies, exploration in the contested waters near Reed Bank did not begin until after the March 1976 discovery northwest of Palawan. Despite strong protests from Beijing, Hanoi and Taipei, a Swedish-led consortium of oil companies that included the American Oil Company (AMOCO)--a subsidiary of Standard Oil Company of Indiana--began drilling operations 50 miles south of Reed Bank. After having drilled three exploratory wells--one discovered oil condensates and natural gas but two proved dry--the consortium halted its activities in 1977. (C)

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The Philippines' rising oil import bill and Manila's desire to reduce its total dependence on foreign oil have stimulated efforts to search for oil in the South China Sea. In early December 1978, the Philippine Bureau of Energy Development announced that "considerable amounts of oil and natural gas" have been discovered 25 miles off the northwestern coast of Palawan--beyond the 12-mile limit of the Philippines' territorial waters. The oil strike--the third commercial find since 1976--fueled speculation that the area around the Spratly Islands is rich in oil and natural gas. 25X1

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Although Manila claims that it has tacit assurance from Beijing that China will not interfere with Philippine oil exploration initiatives, the Chinese periodically take formal note of such activity to restate their longstanding claims to the South China Sea islands. Manila's announced oil strike in early December may have been partly responsible for China's public reiteration of its claims to the Spratly Islands on 22 December. The Chinese Foreign Ministry statement not only opposed "any foreign country's invasion or occupation of any of the Spratly Islands" but also warned that "any developmental activities" in the area would constitute an encroachment on Chinese territorial sovereignty. The



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statement was also clearly directed at Vietnam and as such was part of the broader Sino-Vietnamese confrontation. (C)

China's claims to the Spratly Islands are motivated by multiple interests. Most importantly, Beijing views the contest for the Spratly Islands as part of the Sino-Vietnamese conflict. China also sees the waters surrounding the Spratlys as potentially rich oil-producing areas which could contribute to the financing of Chinese economic modernization. Furthermore, naval and air bases on the islands would enhance China's naval capabilities in the region. Although Beijing may be determined to assert its jurisdictional claims over the Spratlys vis-a-vis Hanoi--by force if necessary--it is constrained by the need to avoid provoking Manila and Taipei in order to cultivate a good image with ASEAN and with Washington during the postnormalization transition. If armed conflict erupted over the islands, however, the limited capabilities of the Chinese Navy at this time and the geographic distance of the Spratlys would place China at a disadvantage. The continued growth and modernization of the Chinese Navy will, however, enhance China's ability to project its power in the South China Sea in the longer term. (C)

The Vietnamese have also protested Philippine occupation of some of the Spratlys and offshore oil drilling operations in the surrounding waters. Vietnam's response on 30 December to China's reiteration of its claims also served to remind Manila of Vietnam's interests. Vietnam's aspiration to be a regional power and its rivalry for influence with China have made Hanoi persistently press its claim to the Spratlys. The potentially valuable petroleum and natural gas resources in the area also could help finance Vietnam's economic modernization. Vietnam recently signed agreements with firms from West Germany, Canada, Italy, and Norway to begin exploratory oil drilling off the southern coast of Vietnam, underscoring its intent to develop offshore oil in the South China Sea. (C)

Control over the Spratly archipelago would also enhance the defensive and offensive capabilities of the Vietnamese Navy. Vietnam already occupies six of the islands and has built an airfield on one of them. It

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has also reportedly acquired two Soviet frigates and is upgrading frigates captured from the United States during the Vietnam war. These improvements enhance Vietnam's ability to back up its territorial claims to the Spratlys vis-a-vis China or the Philippines. (C)

Taiwan also claims that Spratly Islands and its growing oil consumption has prompted it to pay increased attention to the possibility of developing offshore oil and natural gas in both the East China and South China Seas. Taiwan's distance from the Spratly Islands and its small Navy would, however, make it difficult for Taipei to support its claims to the Islands militarily. (C)

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Japan and Micronesia: The Waiting Game (U)

Despite the considerable interest of Micronesia's leaders in Japanese aid and Japan's economic involvement in the area, officials in Tokyo remain reluctant to take such steps until the status of the Trust Territories and the direction of US policy toward the islands are resolved. Tokyo is willing to entertain the idea of future aid, trade and investment in the region, but the Japanese are likely to explore the possibilities in the area carefully, and deflect direct Micronesian initiatives. They are also leery of renewed Micronesian interest in war claims, an issue they would rather avoid. (C)

The Japanese have emphasized that their economic involvement in Micronesia will be coordinated with the United States, and that Tokyo will confine itself to such limited projects as the technical assistance and cooperation it is now providing for the development of fishing in Palau and rice cultivation in Ponape. As a modest indication of Japanese interest in and planning for the post-trusteeship period, Tokyo has allotted funds in the next fiscal year budget for the stationing of a consular officer in Saipan. (C)

Japan has been sensitive to US strategic interests in Micronesia and careful not to interfere with US plans to develop a close post-trusteeship political relationship with the islands. Indeed, Tokyo regards the political stability of a US-backed Micronesia as directly supportive of Japanese strategic and economic interests in the area. (C)

From Tokyo's perspective, there are also other obstacles to direct official Japanese economic involvement. For example, the Micronesians apparently expect Japan to treat their islands as a lesser developed country (LDC). Tokyo is reluctant to give Micronesia LDC status, since under Japanese terms of aid Micronesia's annual per capita income--about $850--makes the islands ineligible to receive benefits and grants. Micronesia's status is

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further complicated by its existing relationship to a developed country, the United States. Because of that connection the Micronesians must meet three basic Japanese criteria to receive direct Japanese Government aid:

-- The islands must be scheduled for independence; the United States is seeking independence for the Trust Territory in a "free association" status by 1981.

-- The people of the area must request aid.

-- The responsible government must approve such aid. (C)

There are several other factors that have inclined the Japanese to wait. Most obviously, after 1981 the Micronesians will have full authority in foreign affairs--except for matters of defense and US strategic concerns--and, therefore, will be able to negotiate bilateral economic issues on their own. Japan hopes that this will mean the elimination of many of the obstacles private foreign investors now encounter in the area. Tokyo presumably also expects to be in a more advantageous bargaining position to deal with these problems. These include the difficulty in obtaining business permits; the prohibition against foreign ownership of land (although this has often been circumvented by Japanese using Micronesians as "fronts"); the uncertainty about political stability; and the lack of clearly defined laws, especially those pertaining to investment. (C)

The Japanese are primarily interested in developing Micronesian fisheries, tourism, and civil aviation, all sectors producing goods and services that can be profitably marketed in Japan. The Japanese also remain interested in developing Palau as a large port for the transshipment and storage of oil--a central terminal storage (CTS) facility--despite the growth of subsidized home island oil storage. Although the current Iranian oil cutback may stimulate renewed interest in foreign CTS sites, it seems likely that the expense of constructing the Palauan CTS--perhaps as much as a billion dollars--together wth slack home demand for oil and feasible storage alternatives in Japan will keep the Palau option dormant. (C)

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Despite the generally good prospects for Japan's long-term economic involvement in Micronesia, Tokyo faces a thorny problem over Micronesia's war claims. Although Japan has legally fulfilled all of its monetary obligations to Micronesia stemming from damages incurred during World War II, the islanders have sought further reparations. Tokyo obviously wants to avoid encouraging any other would-be supplicants in the area, and evidently expects the issue to fade. Some Micronesian officials on Palau have shown a willingness to set aside their war claims in the hope of obtaining Japanese economic assistance. Tokyo probably expects other islanders to follow suit and, when the time is ripe, will almost certainly be willing to enlarge its aid package in return for Micronesia's renunciation of outstanding claims. (C)

Over the longer term, Japanese interest in the region is certain to grow. Indeed, nostalgia stemming from the prewar period when Japan governed and developed Micronesia as a League of Nations Mandate remains a factor in Tokyo's perspective. That interest, combined with a more favorable investment climate and a clearer political organization following the termination of the trusteeship are certain to prompt the Japanese to expand their economic presence in the area. 25X1

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