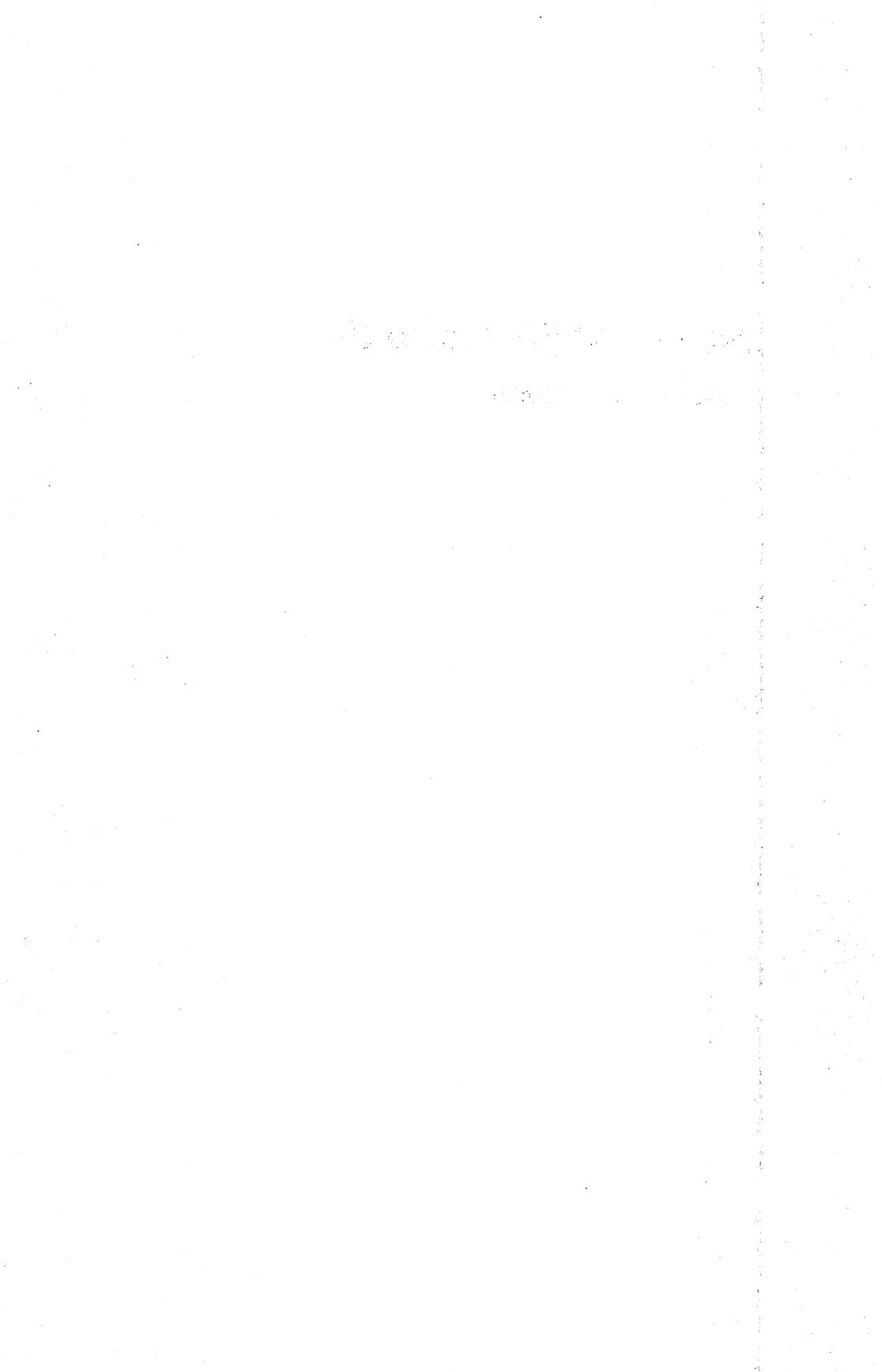


Japan, ASEAN, and the United States



Japan, ASEAN, and the United States

EDITED BY

Harry H. Kendall and Clara Joewono



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Introduction

HARRY H. KENDALL and CLARA JOEWONO

More than thirty ASEAN and American scholars met in Singapore June 11–16, 1989, to discuss the role Japan can be expected to play in the Pacific Asian region during the 1990s and the implications this will hold for the United States and ASEAN. Generally they agreed that Japan's regional economic role will become increasingly important, both as a supplier and as a growing market for regional producers, but that the United States will remain the dominant political and strategic power to which the ASEAN states look for leadership despite their differences with American trade and security policies.

The participants examined Japan's internal and external political and economic decision-making processes as well as the internal debate on defense policies. They also looked into the nature of the Japanese relationships with the two superpowers and with ASEAN, China, the newly industrializing economies (NIEs), and Indochina. Finally, they sought to determine the directions Japan might follow in its search for a global role.

The meeting was the fifth in a series of U.S.–ASEAN conferences organized by the Institute of East Asian Studies (IEAS) of the University of California at Berkeley in conjunction with the Centre for Strategic and International Studies of Jakarta (CSIS) and its sister institutes in each of the ASEAN countries. The Singapore Institute of International Affairs (SIIA) of the University of Singapore hosted the meeting, with SIIA director Lau Teik Soon and his deputy Chin Kin Wah serving as official hosts. Organizational responsibilities were borne jointly by Chin Kin Wah, Harry Kendall of IEAS Berkeley, and Clara Joewono of CSIS Jakarta. As in earlier conferences, participants included prominent scholars from the United States and from each of the ASEAN countries. American participation was made possible, in part, by grants from the Earhart Foundation of Ann Arbor, Michigan; the Chevron Corporation; and the Atlantic Richfield Company. ASEAN participation was assisted by a grant from The Asia Foundation of San Francisco and its field offices in Southeast Asia.

The U.S. delegation, led by IEAS Director Robert A. Scalapino, included

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both senior and junior Asia scholars as did the ASEAN delegation headed by Jusuf Wanandi, chairman, Supervisory Board of CSIS Jakarta. Japan was represented by Nogami Yoshiji, executive director of the Japan Institute of International Affairs (JIIA), Tokyo. A complete list of the participants appears in the final pages of this volume.

Begun in 1981, the biennial conferences are hosted alternately by the United States and the ASEAN institutes. The first four conferences were held, respectively, in Indonesia, the United States, Thailand, and Malaysia. The earlier conferences considered economic, political, and security issues in Southeast Asia; ASEAN security and economic development; the relations between ASEAN domestic and foreign policies in regional and global context; and the evolving U.S.–ASEAN relationship with China. The papers prepared for each of these conferences have been published by the Institute of East Asian Studies in its Research Papers and Policy Studies series.

The Singapore conference lasted three and a half days and was divided into nine separate sessions. The papers presented have been revised by the authors and are reproduced as chapters in this volume. This introductory essay summarizes the highlights of each presentation and the discussions that followed.

The Japanese Economy

Wong Chin Yeow of the Singapore Manufacturers' Association outlines microeconomic perspectives of Japan's economy in a chapter entitled "The Japanese Economy: Adjusting to New Realities." Akihiro Yoshikawa and Peter Kenevan of the Berkeley Roundtable on the International Economy (BRIE) focus on the macroeconomic aspects in an essay entitled "Globalization and Restructuring of the Japanese Economy."

Wong argues that growth in Japan's domestic demand and competition from the expanding Asian economies are forcing the Japanese economy to adjust to the changes in the International economic environment. Nevertheless, he says, Japan's ability to become, with the United States, an absorber for the products of Asian economies depends not only on the continued growth of domestic demand but also on access to the Japanese market, which still presents numerous invisible barriers to foreign firms seeking to enter it.

In discussing the internationalization of the Japanese economy, Yoshikawa and Kenevan concur with Wong on the importance of Japanese domestic demand absorbing the output of expanding Asian economies; however, they picture Japan as no longer just a regional economy but "an essentially hermetic system . . . forced to venture out and encircle the globe." Noting that the Japanese demonstrate great perseverance in mov-

ing the inside out but little taste for opening up and letting the outside in, they see Japan's most serious problem not in moving operations abroad, but in attempting to pluralize the Japanese system itself.

The discussion that followed focused on the increasingly global role of the Japanese economy, as contrasted with a strictly regional one, and on problems of technology transfer. JIIA's Nogami argued that a high percentage of Japanese technological expertise rests not with the huge corporations, such as automobile makers, that operate internationally, but with the subcontractors who produce the component parts, hence making more difficult technology transfer by Japanese conglomerates operating abroad.

Japan's Defense Policy: The Internal Debate

Elpidio R. Sta. Romana, University of the Philippines, presents Southeast Asian views of the Japanese internal defense debate in an essay entitled "Security, Politicians, and the Public in Japan." Norman D. Levin, the Rand Corporation, Santa Monica, presents American views.

Sta. Romana argues that political parties and politicians in Japan, especially the Liberal Democratic Party (LDP) and its members, have significantly increased their role vis-à-vis bureaucrats in Japan's defense policy making. He says that public opinion trends show that the Self-Defense Forces (SDF) have been accepted by the public over the last three decades and that the public is generally satisfied with the present security system and alliance with the United States. Sta. Romana concludes that rather than a rapid growth of Japanese military power, Southeast Asia will witness one that is slow, incremental, and nonthreatening.

In his essay Levin demonstrates that "the evolution of Japanese defense policies suggests an underlying continuity in Japan's basic approach to defense. Japan's relationship with the United States," he says "remains the central pillar of its defense and foreign policies; both Japanese elites and a substantial majority of the Japanese public favor a continuation of a defense posture based on the U.S.-Japan Security Treaty and would have Japanese military forces restricted to self-defense." At the same time, most Japanese acknowledge a relative decline in U.S. power and accordingly accept the need for some increase in Japan's own defense efforts and greater "burden sharing" with the United States. There is broad debate over what these efforts should consist of and how far they should go, but there is "general agreement on the need to move in this direction."

The discussion further emphasized Japanese satisfaction with past defense policies and the low risk, low cost foreign policy that has enabled them to concentrate on internal economic development and expansion. Little change was anticipated unless the United States should lose access to

its Philippine bases, but even should that happen the discussants expected that U.S.–Japan defense coordination would continue. An American participant observed that although the Japanese public is satisfied with the status quo and sees no need to change, there is a dilemma about their world image of being an economic superpower and a political midget that is not satisfying, and the quest for a political role is likely to go forward whatever the track. Just giving out Official Development Assistance (ODA) loans, he said, may lend itself to a nationalist backlash and present problems for both the United States and ASEAN.

Japan's Political Institutions and the Decision-making Process

T. J. Pempel of Cornell University, in his essay on Japan's political institutions, asserts that "on most issues in Japan today there is a constant struggle between numerous autonomous decision-making tendencies on the one hand and efforts to rein them in through centralized coordination on the other (with) the balance between coordination and its opposite . . . by no means even." He argues that contemporary Japanese decision making operates in three areas: the political context, the changing agenda for major policy makers, and recent changes in political institutions. These three dimensions, he says, provide the major influences likely to be operative in the near future. As a major industrial power, Japan is far more interested in the political changes in North America and Western Europe than it is in ASEAN. He notes that while ASEAN's percentage of total Japanese direct investment is dropping, Japan is looming larger and larger on the ASEAN horizon. He counsels ASEAN to somehow get itself on Japan's agenda in a more meaningful way. That agenda, he said, is not very clearly defined at present.

In the discussion participants were reminded that the events of 1974 during the visit of Prime Minister Kakuei Tanaka to Southeast Asia left Japanese political leaders highly sensitive about Japan's image in the region. For this reason a large percentage of Official Development Assistance is being channeled to ASEAN countries. A Thai commentator described the Japanese political scene as getting more and more democratized, with Diet opinions being more listened to and the role of the mass media as enormously increased, witness the Noburo Takeshita resignation. He said Thailand is very much on Japan's agenda, but that many national politicians are being bought up by Japan. Finally, an American discussant noted that as Japan reaches out to establish contacts, it seeks an Asian identity. He urged ASEAN not to underplay its hand; rather, he said, ASEAN should take advantage of its new leverage to extract greater concessions.

Japan and the United States: Cooperation and/or Competition

Maria Socorro Gochoco together with Ruperto Alonzo of the University of the Philippines, and Gerald Curtis of Columbia University, contribute chapters on the competitive and cooperative aspects of U.S.–Japan relations in the Pacific Asia region as they affect ASEAN.

Gochoco and Alonzo trace the possible implications of the changing environment in Japan–U.S. relations on the ASEAN economies in general and the Philippines economy in particular, especially in the area of Official Development Assistance. They cite, with substantiating data, the events reshaping these relations: the global recession of the 1980s, large trade imbalances, the rising tide of protectionism, the debt problem of many developing countries, U.S. budget deficits that have made it a debtor country, the impending completion of Europe’s economic integration, Japan’s enormous current and projected current account surpluses, and the strengthening of the yen.

While they see the path as pointing to the “inevitably increasing role” of Japan in the economic resurgence of the region, they argue that Japan advances its own economic interests by such actions as relocating in Southeast Asian countries, where costs are generally lower, and increasing ODA and investment flows to ASEAN and to the Philippines in particular. They see the overall relationship between Japan and ASEAN as differing from Japan’s bilateral relations with each ASEAN state in the areas of trade, direct foreign investment (DFI), and ODA. This may be due partly to the need to secure markets in North America because of the threat of protectionism and partly to problems in the disbursement of aid. They find no clear-cut rationale for the allocation of Japanese ODA; but they emphasize that ASEAN should not appeal for aid on moral grounds but should “seek to convince Japan that it is in the latter’s best interests to grant larger shares of aid, investments, and trade to ASEAN.”

The authors urge the United States and Japan to realize that “even in the area of economics much can be gained from cooperation. . . . Their strategic interests, such as maintenance of regional security and world peace, also call for cooperation and perhaps, in view of the internal difficulties of the United States, even a form of burden sharing whereby Japan will increasingly bear the costs.”

Gerald Curtis assesses U.S.–Japan relations and their current and potential impact on the interests of ASEAN. His essay focuses broadly on the U.S.–Japan relationship rather than on U.S.–Japan interactions in Southeast Asia alone. Developments in U.S.–Japan relations that have no direct relationship with ASEAN, he says, can, nonetheless, have far-reaching effects on the interests of the countries in that region. Given the

relative size of the economies and the power of the countries involved, Curtis says, ASEAN is going to be directly affected by U.S.–Japan bilateral relations without being able to exert much influence on that relationship. Should U.S.–Japan trade frictions stimulate stronger protectionist policies, the weaker countries in Asia with export-oriented growth strategies are likely to pay the highest price in terms of reduced export opportunities to the American market. Frustration with Japanese market access policies has created strong demand in Congress for policies of “reciprocity” that reverberate against other countries, as is the case with South Korea. Thus, the faster ASEAN countries industrialize, the faster will the United States make demands for reciprocity. In this context, Curtis says, the question of whether Japan will become a major importer of manufactured goods from ASEAN countries and relieve some of the pressure on the U.S. market takes on special importance. He notes some increase in Japanese industrial imports from ASEAN in recent years but says it is still uncertain whether this is due to structural change or to temporary market conditions.

Strategically, Curtis sees continued U.S. military and economic presence in Southeast Asia as desirable to provide a buffer between Japan and its neighbors and a balance for the Japanese economic presence there. He argues in favor of intense economic competition as being in ASEAN’s best interest and urges ASEAN to build “strong regional multilateral institutional arrangements” to constrain both U.S. and Japanese bilateral trade deals that weaken multilateral free trade.

Curtis foresees “very poor” prospects for major U.S. economic involvement in Indochina and urges U.S.–Japan burden sharing for that area, with perhaps Japan playing a lead role in conjunction with ASEAN.

Over the long run, Curtis concludes, “ASEAN’s future, both in economic and security terms, is intimately tied up with the future course of U.S.–Japan bilateral relations, and this depends heavily on economic and political developments within the United States itself.”

In the discussion a Southeast Asian participant said ASEAN policy makers would like Japan to play a role in policy decisions, but they want the Japanese to take ASEAN interests into consideration. Their ability to bring this about and make their interests known, he said, depends on the relationship among the six member countries. Factors to their advantage are the size of the ASEAN market and channels for communication both bilaterally and through ASEAN and other international organizations.

An American scholar affirmed the growing awareness of ASEAN as a unit in the world political economy. He urged ASEAN to become involved with the United States in pressuring Japan for openness and the U.S. Congress against protectionism. On this issue, another American scholar noted that while the United States has moved from overwhelmingly open toward

some protectionism, its trading partners have not moved to commensurate openness. He saw no genuine risk of U.S. isolationism, but rather a growing nationalism, which is a global phenomenon not absent from Asia.

On the security issue, a Southeast Asian, referring to the U.S.–Philippine discussions on the base issue, said Japan must assume greater regional defense responsibilities. He also called for public discussion to determine ASEAN's position on the nature of Japan's security role in Southeast Asia.

Japan, the USSR, and the PRC

Donald Zagoria of Hunter College and Harriman Institute analyzes bilateral relations among Japan, the USSR, and the PRC. He characterizes the 1989 Sino–Soviet summit as “the end of a long period of Sino–Soviet estrangement and the beginning of a new era of limited détente” with beneficial results on both sides, especially in the Vietnamese withdrawal from Cambodia. While communications between Japan and the USSR have improved significantly over the Brezhnev era, he says, there are numerous strategic and economic incentives on both sides for continued improvement. There are also difficult historical and strategic barriers, most notably the Northern Territories issue. The Soviets, he says, have little incentive to return the islands without obtaining some major concession in return; but the Japanese seem to believe Gorbachev needs Japan more than Japan needs the Soviet Union and that time is therefore on Tokyo's side. With respect to Sino–Japanese relations, he sees Japan and China as sharing “a large and growing economic stake in developing their mutual relations.” Zagoria concludes that one of the principal uncertainties affecting the future of major power relations in Asia is the stability and durability of the reform processes in Russia and China. Yet the “social self-emancipation” processes taking place in Eastern Europe, the Soviet Union, and China offer hope that the two large communist states may eventually be absorbed into a broader global community. He urged the West to search for a far-sighted strategy of promoting communist democratization.

In the discussion, ASEAN commentators expressed concern about deteriorating U.S.–China relations growing out of the Tiananmen massacre. While they supported the U.S. stand on the human rights issue they saw worsened Sino–American relations as harmful to ASEAN. The American participants were unable to reassure their ASEAN colleagues that the China upheaval is a passing phase. However, they asserted, Leninist societies must move toward openness and increased pluralism in the economic sector, and the PRC must return to this track if it wishes to achieve its goal of being a major state.

With respect to Japan, several ASEAN participants referred to the potential of Japanese investments in the Soviet Far East as a stimulus for

improved USSR–Japan relations. An American discussant held out the possibility of further Gorbachev initiatives in resolving the Northern Territories impasse. One ASEAN participant envisaged a dynamic balance between the great powers, making adjustments as they go along. As he put it, “ASEAN wants to see the great powers neither fighting nor making love. The reforms are uncertain. The ASEAN states should follow their own national interests.”

Japan and Southeast Asia

Kavi Chongkittavorn, regional news editor of the *Nation*, Bangkok, and Khatharya Um of the University of California at Berkeley contribute essays on Japan, ASEAN, and Indochina.

Kavi traces the development of Japan’s Indochina policy in the immediate post–Vietnam War period—when Japan was investing fourteen billion yen annually in economic assistance—through the Vietnamese invasion of Cambodia and the subsequent efforts by ASEAN and the United States to align Japanese policies with their own. He points out that Japan ended its official aid after the Cambodian invasion; but despite the international economic and political embargo against Vietnam, Japanese private companies continued their activities there until ASEAN and the United States persuaded the Japanese government to bring the trading companies into line. Kavi also describes how ASEAN’s hardline approach crippled Japan’s efforts, before the 1987 ASEAN summit meeting in Manila, to establish a role for itself in bringing about a Cambodian settlement. Since that time Japan has followed the U.S. pattern of allowing ASEAN to take the lead in Indochina. “As Japan’s second largest trading partner,” Kavi notes, “ASEAN is that country’s top priority in the region. In no way can the Indochinese market of 75 million be compared with that of the combined ASEAN nations which boast collectively one of the world’s fastest-growing economies and a population of 320 million. . . . Without a comprehensive political settlement as demanded by ASEAN there is no reason for Japan to adjust its position.”

Contrary to its attitude on Vietnam, ASEAN—notably Thailand—has welcomed Japanese assistance to Laos. On the other hand, Kavi predicts, trade with Cambodia will be marginal until peace is reached, but Japan will top the list of traders when the conflict ends. With respect to Burma, he says, in the absence of any firm ASEAN position toward the new regime Japanese policies have been bolder and more pragmatic. Tokyo can proceed independently without fear of antagonizing ASEAN and “Japanese businessmen have been pouring into Burma.”

In conclusion, Kavi counsels ASEAN to overcome its bitter memories of past Japanese militarism and to take a new look at Japan. Although ASEAN’s

attitude toward Japan has been and continues to be that “money talks,” he thinks Tokyo deserves a bigger role in the region, especially on issues where Japan can make a difference, and that ASEAN should be more accommodating to that country’s political role.

Khatharya Um’s chapter takes an in-depth look at Japan’s evolving relations with Southeast Asia, including both ASEAN and Indochina, and draws some political, economic, and security implications for the 1990s. She notes two fundamental factors that make Japan and Southeast Asia cooperation necessary. First, Southeast Asia dominates the most vital of Japan’s seagoing transportation and communication arteries. “Of Japan’s ‘floating pipeline’—one big tanker every fifty miles between the Middle East and Japan—75 percent of those supplying Japan’s energy needs pass through the Straits of Malacca, an average of twenty Japanese vessels per day.” Second is “the natural complementarity that exists essentially between a resource-poor Japan and the resource-abundant Southeast Asian states.” The latter, she recalls, was what drove the Japanese military to stake their claim in Southeast Asia in the 1930s and 1940s and currently motivates Japan’s economic efforts in the region.

Reviewing some of the factors affecting Japanese–ASEAN relations during the 1980s, Um asserts that despite vastly improved relations over the previous decade, Southeast Asian countries continue to perceive a “discrepancy between stated and actual responsibilities” in their joint partnership with Japanese firms. The ASEAN countries are frustrated with “Japan’s reluctance to impart its technology and know-how, or even to upgrade the level of technological sophistication presently available” to them.

With respect to Indochina, she sees Japan following a dual-track policy of “nurturing harmonious relations with ASEAN while resorting to its time-honored policy of using economic incentives to induce the Indochinese states, Vietnam especially, back into the fold.” Um describes in detail some of the many frustrations the Japanese have encountered in their dealings with Vietnam; but, she concedes, “with a measure of finesse, Japan may yet realize the dual policy objective of enhancing its international role as the mediator and facilitator of this regional cooperation and getting richer in the process.”

Um concludes that while Japan’s image in Southeast Asia has improved since the 1970s, much more needs to be done toward confidence building, and this should begin with widening the channels of communication. She counsels greater emphasis on cultural exchanges, the opening up of Japanese society and academic institutions to people from Southeast Asia, a shedding of Japanese contempt for third-country people, and less insularity in the Japanese world view.

The discussion focused on ASEAN's expectations of Japan. Speakers repeatedly emphasized the economic role as represented by the policies and practices of the ODA and the need for more liberal Japanese policies in technological transfer. There was a divergence of views on Japan's political role in regional conflict resolution, particularly in Cambodia and the Philippines, and more dialogue was called for. One speaker saw a greater Japanese economic role in Indochina as lessening Vietnam's dependency on the Soviet Union and Laos' dependency on Vietnam, but others expressed skepticism that Vietnam could be subverted by economics. There was general satisfaction with U.S.–Japanese cooperation in regional security, though one Southeast Asian speaker argued in favor of greater ASEAN involvement given the importance of security to the region. Several scholars bitterly criticized Japan's "ecological banditry" of Southeast Asian rain forests, but a Southeast Asian volunteered that "we helped them in the process."

In response to an American question about ASEAN's vision of the future of Southeast Asia and the role the United States might play, an ASEAN member replied that there are three Southeast Asias: Burma, Indochina, and ASEAN, but ASEAN generates 90 percent of the wealth. He said, in summary: The Vietnamese want to join ASEAN but Indochina should create its own organization. Southeast Asia needs a more open system with a healthy balance of legitimate interests, strategically secure from internal and external threat, and domestically at peace. The job is primarily Southeast Asian but others can help with economic development. Free and open trade with the U.S. and Japan are crucial to ASEAN; if they are suddenly closed the system would collapse. Japanese investment is also needed; however, the only way to prevent Japanese economic dominance is for others to become involved, particularly the United States, but also the European Community, Taiwan, and Korea.

Japan and the Newly Industrializing Economies

Hank Lim, National University of Singapore, and Kent Calder, Princeton University, contribute essays on Japan and the newly industrializing economies.

Lim predicts that the western Pacific will almost certainly be the growth center for the next phase of economic expansion in the Pacific Asian region with Japan as the economic locomotive followed by the Asian NIEs and reinforced by economic transformation in the ASEAN economies. He bases his economic prognosis on the dual hypotheses of the easing of the present economic friction between Japan and the United

States and the strengthening of Japan's role as "absorber" or market for manufactured exports of Asian NIEs and ASEAN economies.

Lim argues that the "flying geese" pattern, a mixture of vertical and horizontal, is the preferred multilateral structure for promoting economic interdependence in the Pacific region. This arrangement has Japan following the United States and the European Community and followed in turn by the Asian NIEs and ASEAN economies. Lim views the United States as no longer capable of increasingly absorbing the bulk of exports from the Asian NIEs, and he thinks it "absolutely imperative" that Japan open up its market for industrial exports from them and from the ASEAN countries. He calls for massive increases in Japanese foreign investment in the Asian NIEs and ASEAN as a means for facilitating a "harmonious multiphase dynamic growth in East Asia."

Calder devotes his essay to a study of the political economy of the rising interdependence between Japan and the newly industrializing economies of the Pacific Asian region. "For the past two decades and more," he writes, "the dominant reality of the Pacific political economy has been the unbalanced yet broadly symbiotic triangular economic and security relationship among Japan, the United States, and the four NIEs. Japan exported capital goods and components to the NIEs to aid in their industrialization, and both Japan and the NIEs shipped manufactured goods aggressively to the American market." The United States accepted this arrangement of supporting East Asian economies to reinforce their political stability and pro-U.S. orientation. But by the late 1980s the imbalances had become simply too large and intractable to be countenanced much longer. The U.S. response was the Omnibus Trade and Competitiveness Act of 1988 and the threatened invocation of its Super 301 provisions against selected Asian targets.

Calder reviews the rising economic pressures for intra-Asian interdependence, the emerging trade and investment patterns, and policy trends and then analyzes the political uncertainties involved. Of the latter he argues that political flux in the short run complicates the deepening of economic interdependence; but in the long run it opens the possibility of social realignments that may support broader economic integration.

In looking at prospects for the future, Calder sees the recent surge of intraindustry trade between Japan and the NIEs, particularly in electronics, as boding well for the long-run process of regional economic integration. He views the broadening of foreign investment by Taiwan and South Korea as reducing the fears of Japanese dominance by recipient nations, thus allowing a synergistic process of cross-investment to proceed without being impeded by nationalist fears of foreign dominance. Calder

likewise considers internationalization of the Japanese yen a positive force for economic integration. The key question for the immediate future of the East Asian regional political economy, he concludes, is how fully the increasingly fluid politics of major nations in the region will allow market forces to hold sway. In this context he urges the United States to avoid acting on the basis of narrow economic interests, which are declining in the region relative to those of other nations, and to maintain its long-held conception of the relationship between security and economic goals to affirm the broader notions of a Pacific community spanning both shores of the Pacific.

The discussion evoked considerable criticism of the “flying geese” pattern. An American participant called it “an outmoded concept” saying it had been around since the 1930s. A Southeast Asian economist said the concept had been developed by a Japanese economist who wanted Japan to be the lead goose, but that the United States does not subscribe to the idea. Another Southeast Asian accepted the idea of ASEAN economic expansion involved but not the discipline of staying in line. Lim defended the concept stating that it is not static, that there is movement both vertically and horizontally, and because of the varying size of the economies, some countries—for example, Indonesia—may shift places. But he won few converts.

There was general approval of the trend toward internationalization of the Japanese yen and the positive effect it will have on further regional economic integration. Several participants commended the increasing role of the NIEs in promoting integration. One economist noted that the NIEs, with a population of 90 million, are joining Japan as economic locomotives but cautioned that the extent of their contribution remains in doubt because their economies are so dependent on outside factors. An American participant argued that Asian integration is creating its own dynamics but that it is not analogous to the European Economic Community (EEC). He saw it as being stimulated by the rapid rising intraregional trade as well as by the increasing number and size of regional investments by the NIEs.

A Japanese participant remarked that the large increase in Japanese sales to Europe in effect makes the EEC a partner in the triangular relationship of the United States, ASEAN, and Japan. He also predicted that the United States, because of the need to repay its huge external debt, will again be a big exporter into the Japanese market.

Japan's Role in the Pacific-Asian Region: U.S.-ASEAN Perceptions

A. Hasnan Habib, former Indonesian ambassador to Thailand and the United States, and David Arase of Pomona University contribute chapters on ASEAN and American perceptions, respectively, of Japan's role in the Pacific Asian community.

Habib opens his essay with a series of questions concerning the role Japan should play in the region, questions, he says, that perplex the Japanese and are of equal concern to ASEAN and to the United States. Whatever the answer to these questions, Habib asserts, "Japan's destiny is tied to a large extent to that of the Asia-Pacific countries since virtually every one of these countries finds Japan either its first- or second-largest trading partner, foreign investor, and foreign aid donor."

Habib devotes the remainder of his essay to analyzing Japan's politico-security and politico-economic role in the Pacific Asian region. Of the former, he says the U.S.-Japan Security Treaty is "still the linchpin of U.S. Asia-Pacific policy, and Japan is still that country's single most valuable partner, at least for the foreseeable future." He summarizes the Japanese role in the politico-economic field as "trade, aid, investment, technical assistance, and regional cooperation." In concluding he states that the Japanese, despite "their massive international trade and increasing mobility, have difficulty breaking down barriers between themselves and the peoples of the rest of the world. Communication is their most serious problem and must be addressed seriously if they do not wish to be considered an 'international outsider.'" He acknowledges Japanese awareness of this weakness and quotes, as evidence, former Prime Minister Noboru Takeshita's enunciation of the three pillars of Japan's "International Cooperation Initiative" in a policy speech in Jakarta on May 5, 1989. These were the strengthening of cooperation to achieve peace, the expansion of Japan's Official Development Assistance, and the strengthening of international cultural exchange.

Arase's essay analyzes the changing matrix of international conflict and cooperation as the Cold War structure is dismantled, Japan's regional relations, and the growing U.S. pressure on Japan to assume greater security and economic burdens for the Pacific Asian region. "In sum," Arase states, "the U.S. stance toward the Asia-Pacific region will be determined more than ever by the success or failure of U.S.-Japan relations in the areas of security and trade." He describes in detail Japan's initiatives at the regional level, particularly the ODA program. Arase declares that Japan is using ODA as a tool in advancing a new set of strategic objectives that include a new effort to integrate the Pacific Asian region under

Japanese leadership. "This thinking," he continues "is implicit in the notion of the 'flying geese pattern of development'; the further notion of an 'Asian Brain' manipulating Japan's capital, technology, and trade to construct a regional division of labor tightly coordinated from Tokyo becomes quite explicit" in a major study by Japan's Economic Planning Agency. Detailed information on the three phases of the new aid plan is contained in a table from *Kaihatsu janaru* (Development Journal) incorporated in Arase's essay.

Arase thinks the United States and ASEAN have reasons to be happy with Japan's regional economic initiatives in the short term, but he notes that concerns about longer-term implications remain. These relate to the rise of exclusive economic regionalism and a breakdown in open global relations as a result of negative U.S. and European perceptions of Japanese economic practices.

Finally, Arase sees Japan as "plunged into a difficult period of rapid transition to a role of autonomous international responsibility and leadership. . . . As a major power in Asia Japan will be able to offer leadership, but it must first come to terms with its own past." He concludes that the United States and ASEAN have a collective responsibility to help Japan establish its role in the region but that it must be done fairly.

The discussion revealed a strong ASEAN desire for Japan to play a leading role in regional economic affairs but an ambivalence on what its security role should be. When pressed by American participants, the Southeast Asians admitted that there is no ASEAN consensus on the Japanese military role. As one scholar put it, ASEAN member countries are quite definite about things they don't want from Japan, but not on things they do. One called for an ASEAN security role in conjunction with the United States, but most agreed that the existing division of responsibility between the United States and Japan for Pacific Asian security seems to be the most acceptable. A Japanese participant remarked that in fact the U.S.–Japan security arrangement provides a defense deterrent against Soviet submarine forces, and that will not change. To this, an American scholar added that the security task of Japan for the foreseeable future relates to Northeast Asia and the USSR. From the point of view of Japanese self-interest, he said, projecting Japanese power beyond that periphery would exact enormous cost in terms of adverse reaction from China and the USSR without benefit to Japan and offering no protection for ASEAN. In effect, he concluded, there is no way for ASEAN to choose between the United States and Japan as its preferred power.

On the economic theme, an American discussant compared the Japanese concept of a horizontal division of labor to the Greater East Asia Co-prosperity Sphere, with Japan always the leader and perennial inferiority

for the NIE and ASEAN economies. He foretold strongly adverse effects on U.S.–Japan relations if this plan is continued to its ultimate goal. An Indonesian scholar found it “not possible to separate military and economic roles” for Japan since both are related to security. He termed it in the interest of Japan that ASEAN be strong and called for ASEAN pooling of regional resources to this end. A Malaysian scholar, responding to the question of what ASEAN wants for Japan, said Japan and the United States are crucial players in the daily lives of the Southeast Asian people for the long-term future. He called on ASEAN to seek means to keep the United States involved in Southeast Asia “for their interest and our interest” and to work toward integrating Japan into the world system.

Japan in Search of a Global Role

Steven Wong of the Institute of Strategic and International Studies, Kuala Lumpur, and Robert A. Scalapino of the Institute of East Asian Studies, University of California at Berkeley, contribute chapters on Japan’s search for a global role.

Wong devotes his chapter to the economic aspects of Japan’s global economic role and calls attention to the distributive problems confronting the advanced advantaged countries vis-à-vis the less advanced disadvantaged countries whose outlook he terms “bleak.” He suggests that Japan’s concept of its leadership role may differ widely from that of the disadvantaged, who would define Japan’s obligations as “engine of growth,” “benefactor,” and “financier.” Of the first, he says Japan has been pulled along by others for too long and “the time has come for it to take its turn at playing puller rather than pullee.” Of the benefactor role he sees a partial answer in Japan’s AID plan, announced in January 1987, to marry the ODA with outward flows of DFI. Of the financier role, he thinks Japanese DFI to the world to be “probably the safest way for it to exercise its economic power.” DFI, he says, has “built-in reciprocity elements that ensure both sides benefit” or can be regulated until it does. It can also mean “a closer interdependence between investing and receiving countries,” since “with more interdependence come more areas of common interests.” Wong offers no conclusions other than to question Japan’s capacity to carry out the search for its global role. He recognizes that Japan possesses some of the elements needed to help revitalize the world economic system, but says that although Japan’s “products are thoroughly globalized, the Japanese people themselves are not. Its political and social institutions are badly in need of reform to cope with the international challenges.”

Scalapino takes a broad approach to Japan’s international role, covering economic, political, and strategic relations. He calls Japan “unique among major states” in that its international role in recent decades has not been

commensurate with its sustained economic growth as contrasted with the United States and the Soviet Union, “whose international roles (and the costs attendant) have exceeded domestic development.” While the course chosen must be consonant with the Japanese citizenry and the needs of the international community, he continues, up to the present demands for Japan to assume an expanded international role have been largely external. “Only a minority of the Japanese people have seen any reason to alter policies that have afforded maximal benefits at minimal cost or risk.”

Scalapino distinguishes between two major types of Japanese economic internationalism. One is conducted by the private sector motivated by the search for profits and for stability of resources and markets. In this the government role is significant but peripheral. The other is conducted by the Japanese government’s ODA program—with significant benefits to Japanese private enterprise. While Japan has become the world’s largest donor of international economic assistance, recent polls indicate that some Japanese citizens are asking the same questions about foreign aid that have been raised by the American public.

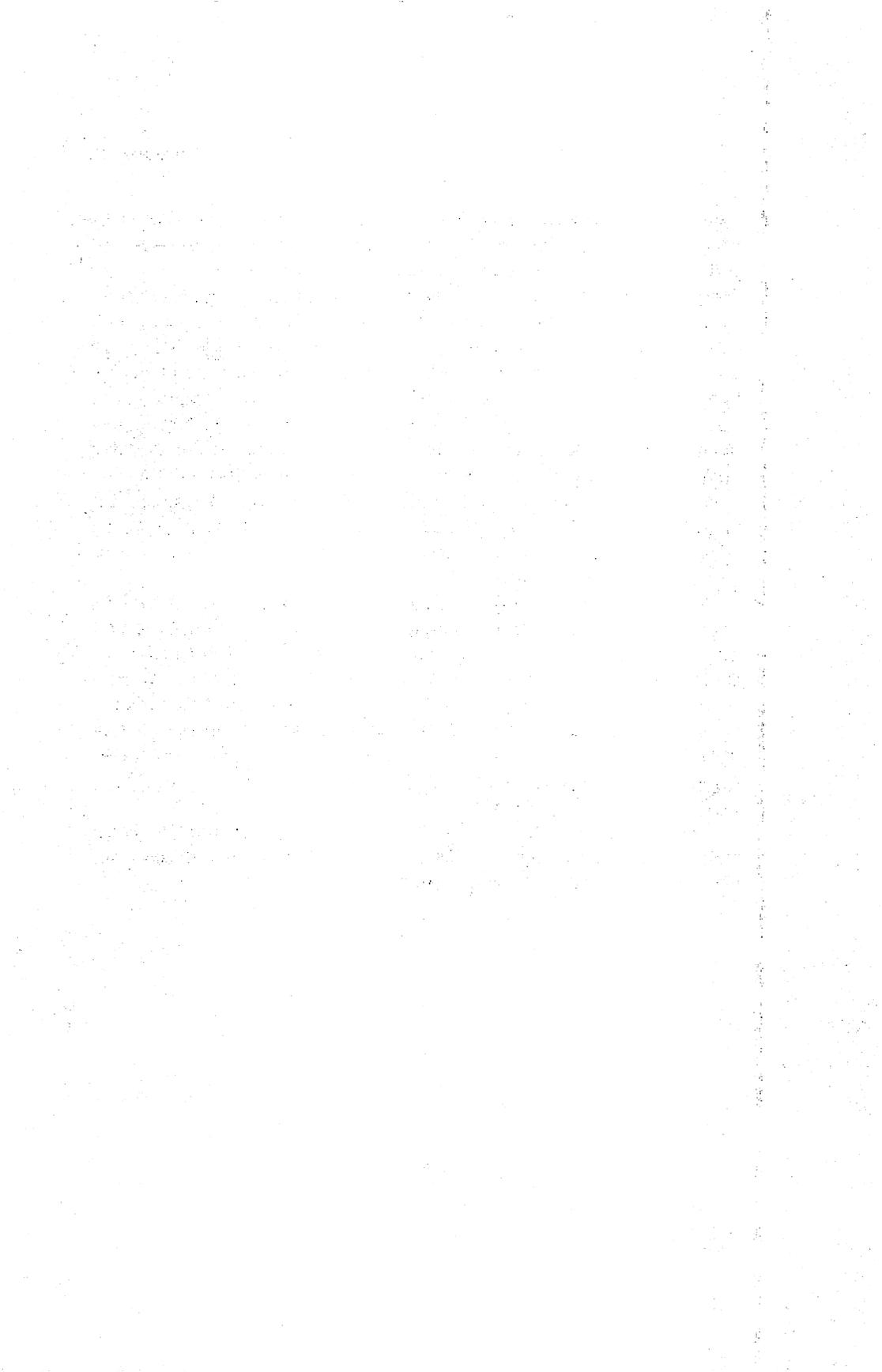
Japan, Scalapino writes, must deal simultaneously with three crucial relationships in the 1990s. Most important is its bilateral relationship with the United States “that is testing the requirements of interdependence quite as much . . . as the experiment in European integration.” Second in importance is that with Northeast Asia—the Soviet Union, Korea, China, and Taiwan—the subregion intimately related to Japan’s economy and security. Third is its global relations with two significant subsections, the advanced countries of Western Europe and portions of the non-West of greatest economic and/or strategic importance to Japan—the Middle East and Latin America. In these two areas Japanese decision-making power and institutional position at the global level bear scant relation to the performance expected of it. Given Japan’s global economic responsibilities, Scalapino sees Japan assuming an increasingly important role in international economic bodies such as the General Agreement on Tariffs and Trade, the Group of Seven (industrialized countries: the United States, the United Kingdom, Germany, France, Canada, and Italy) and others. “One trend is certain,” he concludes; “by virtue of its accomplishments of recent decades, Japan will play an increasingly important role both regionally and globally. . . . Japan is now called to display the vision and creativity internationally that it has shown at home.” He leaves to history the question of whether Japan’s “new generation of leaders destined to occupy center stage in Japan during the coming decade can effectively play the role assigned them.”

In the discussion an ASEAN scholar emphasized the necessity for improving the management of the U.S.–Japan relationship, particularly in

the economic sphere, which has the potential for creating dangerous frictions. He also criticized the ODA management as "very weak" and added that ODA has created an "uproar in Japan." An American discussant described "Byzantine domestic pressures" and constraints on the development of a global role for Japan. Lack of a real desire for a global role, which has been rather suddenly forced upon the Japanese people, is a major constraining factor. Nevertheless, he said, the constraints are changing. Japan's former low threat perception has been changed by Afghanistan and not ameliorated by Gorbachev's Vladivostok speech, so that there is now open discussion about defense issues. Other factors are the unstable political leadership, the continuing "small island mentality," and the "un-enlightened self-interest" which, though dissipating, still constrains shifts in foreign policy. The dissonance in the confused signal system, he concluded, results in the Japanese failing to get American signals and/or being unable to act on them.

In response to an American scholar's question as to why Gorbachev's Vladivostok speech had failed to make the profound impact on Asia that it had made in Europe, an ASEAN scholar responded that all regions of the area had suffered from communist insurgency, that the Northern Territories question is still an important factor, that the Soviet postwar containment policy has still not changed, and that there has still been no sign that the USSR is ready to participate economically in the region. Yet another ASEAN scholar emphasized Soviet support to the Vietnamese invasion of Cambodia as a major negative factor.

The discussion ended with general concurrence that the U.S.–Japan relationship is a basic element of Japan's global role and that both countries must share risks as well as responsibilities.



Part One
Japan's Economy

1. The Japanese Economy: Adjusting to New Realities

WONG CHIN YEOW

This chapter examines the adjustment process of the Japanese economy since the 1985 Plaza Accords in which the yen appreciated in relation to the other major currencies. Instead of focusing on the macroeconomic adjustment processes, the chapter examines the response of Japanese enterprises, both large and small. The author believes that such an approach is probably more useful in understanding the success of the Japanese economy in coping with the rising yen. Indeed, the Japanese experience offers interesting lessons to the ASEAN countries and newly industrializing economies (NIEs) that currently face pressures from the industrialized countries to appreciate their currencies. Finally, the chapter studies Japan's high-technology policies in facing the challenges of the twenty-first century.

Domestic Demand

Japan's huge trade surplus with the United States and Europe continues to create pressure to appreciate the Japanese yen. Its exports in third countries as well as sales in the domestic market are increasingly threatened by the Asian economies. Japan is also being pressured by foreign countries to open its market and make a fair contribution to the more balanced growth of the world economy appropriate to its economy size.

In light of these factors, the growth of domestic demand is probably one of the most important factors helping the Japanese economy adjust to the changes in the international economic environment. Net exports, however, are likely to impose a drag on the economy. Table 1 gives the contribution of various expenditures on real aggregate demand for 1987 and 1988. Domestic demand remained strong in 1988 thanks to the rise in consumption expenditure, and a surge in investment in plant and equipment contributed to a significant growth in the real national income. Net exports, on the other hand, pushed down the growth rate by 1.9 percent as imports, spurred by strong domestic demand, grew faster than exports.

Table 1
Contribution of Expenditure Components to Real GNP (percent)

	1987	1988
Domestic private demand	4.8	6.9
Consumption expenditure	2.4	2.8
Housing investment	1.1	0.8
Investment in plant and equipment	1.5	3.1
Inventory investment	-0.2	0.3
Government expenditure	0.3	0.6
Net exports	-0.6	-1.9
exports	0.7	1.4
imports	-1.3	-3.3
Real GNP	4.5	5.7

SOURCE: Economic Planning Agency, *System of National Accounts* (Tokyo, 1989).

Private Consumption Expenditure

Consumption expenditure accounted for about half the rate of GNP growth in 1987 and 1988, indicating the crucial role played by this factor in the economy. Consumption expenditure remains steady because of the increase in employee income, improvement in the employment situation, and higher consumer spending following the introduction of five-day work weeks in some industries. In turn, the robust expansion of the economy has been pushing up the growth of regular wages. A survey conducted by Nikkeiren, the Japanese Federation of Employers' Associations, found that December 1988 winter bonuses paid by the nation's principal companies posted an impressive gain of 6.77 percent over a year earlier, larger than the previous year's 3.1 percent growth. According to preliminary estimates, the rise in wages during the spring labor offensive was 5.11 percent, 0.73 percent higher than the increase in 1987 of 4.38 percent.¹ Unemployment has declined to 2.32 percent.

The Response of Japanese Corporations

The increase in the yen in relation to a number of major currencies, particularly the U.S. dollar, after the 1985 Plaza Accords forced Japanese companies to shift their corporate strategies and reposition themselves. Many Japanese companies appeared to respond in the following ways: (1) by stepping up capital investments as the key to their corporate survival;

¹International Bank of Japan, *IBJ Monthly Report: Economic and Industrial Trends in Japan*, May 1989, p. 5.

(2) by implementing cost reduction measures to regain export price competitiveness; (3) by developing new businesses; (4) by market diversification; and (5) by direct foreign investment.

Investment in Plant and Equipment

Instead of cutting back capital investment in anticipation of the reduction in sales and exports, major Japanese corporations stepped up their capital investment, which was perceived as the key to their corporate survival. The stepping up of capital investment also represents part of a deliberate business strategy aimed at restructuring the corporation brought about by the high yen. Such investment was targeted at shifting production from export to domestic demand, diversifying demand, competing with imports, and maintaining price competitiveness. More specifically, investment in electronics-related equipment gathered momentum, indicating the intensified efforts of manufacturing companies to tap diversifying demand, streamline operations, and promote higher value-added products. Japanese corporations are spending massively on research and development to shift into new product areas and to develop new research, new production and marketing processes, and new measures to reduce cost. They are being forced to develop their own technology, however, because they find it more difficult to import technology from abroad. The emphasis remains application technology.

This analysis suggests that Japanese corporations took a strategic view in coping with the changing business environment. It is likely that for these reasons capital investment will remain high, at least for the next few years, and will prompt a powerful expansion of capital spending.

Market Repositioning and Diversification

Japanese corporations also responded to the crisis by changing their marketing strategy. Since the end of 1987, export volume has shown a slight increase, primarily because of the export of machinery products. At the same time, there is an increasing diversification of the market, with growth in exports to the European Community, Southeast Asia, and the communist countries.

As mass production shifts to developing countries thanks to cheaper labor in the NIEs and other Asian countries, Japanese companies are preparing a new corporate strategy based on highly segmented "niche" markets, shorter product life cycles, and small-volume production runs. The emphasis is on flexible manufacturing systems, which enables them to change quickly the product mix, volume mix, and technology.

Cost Reduction Measures

To regain their price competitiveness, the Japanese corporations also engaged in a number of cost reduction measures. The stronger yen ensured that raw materials could now be imported at a lower cost. At the same time, there was a trend toward replacing expensive domestic intermediate products with less expensive imports. In addition, the investment in rationalization measures succeeded in reducing the cost of raw-material inputs per unit of output and considerable improvement in the efficiency of production processes, thereby lowering production costs further.

Globalization of Japanese Corporations

With severe pressures from abroad on Japan's trade practices and the formation of economic blocs, it is inevitable that Japanese companies must further develop their business strategies from a global perspective, deploying various stages of corporate activities from R&D and production to distribution, at the most suitable sites in the world. Globalization of the Japanese companies will inevitably be accompanied by direct foreign investment abroad.

In fiscal year 1987, Japanese companies invested a total of US\$33,364 million overseas, a 49.5 percent increase over the 1986 figure of US\$22,320 million. Slightly less than half the investment went to the United States. The cumulative total of approved and reported Japanese investments overseas since 1952 is US\$139,334 million. Investment by manufacturing companies in fiscal year 1987 rose by 105.8 percent over the previous year to reach US\$7,832 million. The three major industries receiving the most investments were electrical machinery, chemicals, and transport machinery.

From a global perspective, the factors determining the relocation of production facilities overseas form part of an overall business strategy. In the United States, such investments are made to maintain or increase their market share, cope with trade frictions, evade foreign exchange risk, and collect technology and market information. In the Asian NIEs, the main reasons are to maintain their competitiveness through lower labor cost and to expand sales to third markets.

Direct foreign investment abroad is also used by Japanese companies to facilitate reverse importation, that is, they are importing from their overseas production sites to serve the domestic market. It is likely that such reverse importation will remain the main form of import penetration by other countries in the short term as there are great difficulties in the importation of finished products into Japan arising from differences between Japan and other countries in industrial standards, quality requirements, changing market taste, and trade practices. There are also problems

in establishing marketing networks in Japan as well as providing proper supervision of spare parts and maintenance service.

Effects of the Adjustment Process

It appears that the steps taken by Japanese corporations have helped them regain their competitive edge. They have succeeded in building a structure of corporate profitability that enables them to generate stable profits even under lower sales growth by lowering the breakeven point of sales ratio,² which declined from 84.9 percent in 1986 to 78.6 percent in 1988.³ Table 2 reveals that the rationalization of the production process contributed to a large extent to lowering the breakeven point of sales.

Table 2
Factors Accounting for the Changes in Break-even Point Sales Ratio between 1986 and 1988 in the Manufacturing Sector

Total change	-6.3
Raw material cost	-8.7
Terms of trade	-2.0
Raw material input per unit of output	-6.7
Personnel cost	-3.4
Capital cost	-1.6
Others	+7.4

SOURCE: Sumitomo Bank, *Economic Survey*, April 1989.

Since the 1985 Plaza Accords, corporate earnings surged in 1988 after three years of generally lower profits because of the stronger yen. We must also consider the effect on the high yen on the import of finished goods instead of raw materials or semifinished goods. The consumption of raw material has also not increased as a result of the resource conservation effort, a shift in final demand away from resource-intensive sectors to high value-added service sectors. With the opening up of the agriculture market under U.S. pressure, however, there is likely to be an increase in agricultural import. The high yen has also restrained export growth. Corporations in Japan are shifting into high value-added products, offsetting decreases in exports caused by the increase local production in overseas sites and limitations imposed by quantity restrictions.

²Sumitomo Bank, *Economic Survey*, April 1989, p. 3.

³Ministry of Finance, *Quarterly Report on Corporate Business Statistics*; Bank of Japan, *Price Indexes Annual*.

Small- and Medium-Sized Businesses

The adjustment process for small- and medium-sized enterprises appears to have been more difficult. The steep appreciation of the yen in 1985 resulted in bankruptcies mainly among such business firms.⁴ At the same time, it is creating structural changes in the subcontracting system between parent companies and subcontracting firms. With the yen appreciation and intense competition from the newly industrializing economies, parent companies are relying less on the small- and medium-sized subcontracting firms. According to the "Survey of the Division of the Process of Production in the Manufacturing Industries" conducted by the Small and Medium Enterprises Agency in December 1987, the volume of orders received by small- and medium-sized subcontracting enterprises declined with the appreciation of the yen.

The increase in Japanese direct foreign investment overseas will add to the unfavorable effect on small and medium domestic subcontracting enterprises.⁵ The 1987 "Survey" by the Small and Medium Enterprises Agency showed that Japanese enterprises operating overseas will increase their procurement from local sources from 48 percent to 69 percent on the average in five years, thereby reducing their procurement of Japanese businesses from 45 percent to 26 percent. The response of small and medium enterprises to the changes is to diversify their business and the "diversification of parent companies." Some medium-sized enterprises will follow parent companies overseas to maintain the subcontracting relationship.

There has also been a change in relationship between parent and subcontracting firms: The better-managed companies are shifting to joint technical development with their parent companies. This trend indicates a change from a one-sided relationship with the parent company to a bilateral relationship on a parity level. Moreover, many of these enterprises are trying to develop new business areas through interfirm exchange, not with their parent companies, but with other firms in the same or other industries. Small- and medium-sized business have also received active official encouragement to shift into the service industry as a means of survival.

High Technology

Technological innovation is increasingly viewed by the Japanese as another key to improving the competitiveness of their industries and to

⁴Ministry of International Trade and Industry (MITI), *White Paper on Industrial Technology* (Tokyo, 1988), p. 24.

⁵*Ibid.*, p. 58.

further stimulating the domestic economy by creating demand for new products as well as investment in development, production, and distribution facilities. Such a move is also motivated by the fear of competition from the advanced industrialized countries, which are carrying out policies to increase their industries' competitiveness through technological innovation.

The Ministry of International Trade and Industry (MITI) in its 1988 *White Paper on Industrial Technology* recognized the need to initiate creative technological innovations that will generate many new technologies based on new scientific inventions and discoveries. MITI also acknowledged that Japan needs to make a stronger commitment and more extensive efforts in developing new technologies.

Basic research is also playing an important role in Japan in its quest for high technology, for the terms on which Japanese firms are able to secure foreign technologies appear to be turning unfavorable as foreign firms and governments become more aggressive in protecting their proprietary interests.⁶ With the elapsed time between discovery and application growing shorter and new discoveries leading to successive advances, it is also imperative for the Japanese to build a stronger groundwork for R&D.

The State of Japanese Technology, Research and Development

Japanese research and development activity after World War II can be divided into three stages: the importation of foreign technology; the application of and improvement on foreign technology; and technological development unique to Japan (i.e., high technology). Most of the earlier foreign technology was simply acquired at relatively low cost and transferred back to Japan, where it was adapted and improved. Currently, increasing emphasis on both basic and applied research has resulted in rising R&D expenditure in Japan.

The 1988 *White Paper on Science and Technology* published by the Science and Technology Agency maintains that Japan's basic research capability has improved progressively each year, although wide gaps still exist between Japan and the United States in certain fields. Based on a survey of researchers in the frontiers of science and technology in August 1988, it was found that in the areas of life sciences and marine/earth sciences, the United States commanded an overwhelming lead over Japan. In other areas, such as matters/materials and information/electronics sciences, Japanese research is on par with, or slightly ahead of, the United

⁶Thomas A. Pugel, ed., with Robert G. Hawkins, *Fragile Interdependence: Economic Issues in U.S.-Japanese Trade and Investment* (Lexington, Mass.: Lexington Books, 1986), p. 222.

States and Western Europe. On the whole, however, research standards in the United States remained overwhelmingly superior to those in Japan.

In terms of levels of technology and ability to apply this technology, the picture is slightly different. MITI's study of five-year changes in the level of Japanese technology and the ability of the Japanese to develop high-technology products compared with the United States shows the Japanese possessing comparable technology to the United States. Their ability to apply technology, however, is superior or equal to in almost every area.⁷

Areas of Research and Development

In terms of area of emphasis, the Japanese appear to be concentrating their efforts on a few key priority areas.

- New industrial materials in the areas of superconductors and molecular electronics, nonlinear optical electronic materials, advanced composite materials with extended environmental durability.
- Microelectronics and optoelectronics. The semiconductor industry is regarded as a key industry that supports all industries. Improvement here will result in high-speed, high-performance processing of information, large-capacity memories, improved man-machine interfaces, and the creation of networks.
- Audiovisual technology in the field of high-definition television and liquid crystal display.
- Information, communications, and software technology. ISDN computers and neurocomputers are regarded as key technologies that will help develop an information-intensive society and will form extensive markets in the future.
- New types of energy.
- Biotechnology.

Limitations of Japan's Research and Development Performance

Although the Japanese have identified certain areas for priority research, there appear to be certain sociopsychological and infrastructural impediments to their research and development performance. As discussed earlier, the Japanese can no longer rely on process innovation to help them achieve higher technology. Given that their technology is on par with levels in the rest of the world in most areas, future success depends on their ability to create innovations or new products rather than simply perfect existing products. It is in such areas that a number of limitations to Japan's future technological performance have been identified.

⁷MITI, *White Paper* (1988).

It has been argued that the United States will continue to lead Japan in basic research because the United States continues to spend far more on defense and military research. On the other hand, since most of the Japanese research is conducted in the private sector, the emphasis is on applied research or technology. This emphasis, however, is changing as MITI encourages more private-sector enterprises to concentrate on basic research. It is also important to note that Japanese research efforts tend to be more focused; they concentrate on those specific areas of technologies identified earlier that require fewer physical resources but more knowledge-intensive technology.

Another factor limiting Japan's technological performance is the increasingly hostile attitude toward Japan adopted by foreign governments and firms. The cost of acquiring foreign technology is also rising rapidly. If Japan is unable to acquire such technology, it will be forced to start from scratch and this will be costly.

It has also been argued that the Japanese education system, with its emphasis on uniformity and teamwork, is probably not suitable for promulgating creativity and innovation. Rather, it discourages and eliminates creative genius. Aggravating the problem is that the lifelong employment system in Japan discourages entrepreneurship. A change in the corporate environment, however, could mitigate this problem.

In addition to these factors, MITI has identified a number of others:

1. *Quality of research staff.* Although Japan has a large number of researchers, the proportion of those who hold doctorates or masters' degrees is small, and there are fewer science majors than engineering students.

2. *The research environment.* It is recognized that Japan needs to improve its research environment to make research organizations more creative and flexible.

3. *Research facilities.* Japan lags behind other advanced countries in establishing large-scale research facilities and upgrading databases, both of which are prerequisites for full-scale promotion of basic research.

To a certain extent, the Japanese are aware of some of the difficulties in developing basic research and the risk involved. For example, US\$146 million was spent on a nuclear-powered blast furnace and an undersea remote-controlled oil-drilling rig, with few commercial results. MITI was also responsible for a number of other expensive failures.⁸

MITI has identified the following policies the government must adopt to build up Japan's technological edge:

1. Assume a greater role in financing basic research and development.

⁸*Fortune*, 1989, pp. 68–71.

It will promote measures to strengthen R&D through its national research institutes.

2. Improve the human resource and research-supporting infrastructure by hiring and training R&D staff (training creative researchers, securing competent research assistants) and improve the research infrastructure (large-scale research facilities, databases, test and evaluation systems for supply of standardized materials, improvement of research industries).

3. Improve the system to promote collaboration among industry, universities, and government.

4. Provide opportunities for technology exchange.

Problems and Issues

Our discussion raises a number of implications and issues for ASEAN and the United States. One of the most crucial questions is whether Japan would be a powerful absorber, alongside the United States, for the products of the Asian economies. The answer to this question would depend on the growth of domestic demand in Japan and access to the Japanese market. In spite of recent efforts to open up the Japanese market, there still exists a large number of invisible barriers for foreign firms entering into the Japanese market.

A related issue is the ability of Japanese firms to adapt quickly enough to develop a nonexport-oriented engine of growth. Thus far, statistics indicate that Japanese firms have been fairly successful in adapting to the new situation. Companies are investing in flexible manufacturing systems to provide varieties of products in smaller lot sizes and to deliver them on shorter notice.

Thus far the Japanese trade balance with the United States and European Community remains in a healthy surplus in spite of the appreciation of the yen. The second question is thus: Will the surplus continue to increase trade friction and tension in the world community because of the balance of trade and payments problems it has created?

The final question is: Will Japan be able to develop technology for the twenty-first century and provide technology leadership for the rest of the world community? Equally important will be Japan's willingness to share such technology with the rest of the world.

2. Globalization and Restructuring of the Japanese Economy

AKIHIRO YOSHIKAWA with PETER KENEVAN

Japan's honeymoon with the world economy is finally over—and the marriage has just begun. The drastic revaluation of the yen since 1986 has given Japan good reason to reconsider its place within a global economic scheme. Once an upstart economic miracle, the nation is now a primary source of trade, aid, and investment. The magnitude of globalization required to integrate Japan into the world economy is staggering, but without it economic and political turmoil are virtually assured. Japan's internationalization will take place in a new age of East-West relations, and already the stage is being set for a new world order.

The Status of Japan's Economy

Growth

Japan's economy has shown strong and steady growth over the past several years, particularly in comparison with other mature economies. The high yen has ultimately had a net positive effect upon Japanese economic expansion, pushing the country's projected growth rate to 4.8 percent for 1988. What had originally been perceived as a harbinger of hard times has emerged, through increased domestic demand, foreign investment, and rationalization at home, as the primary factor in a snowballing of economic strength.

Although U.S. inflation and ballooning U.S. interest rates have momentarily and artificially inflated the dollar, the yen should eventually rise higher still. As it does, however, Japanese managers will continue to improve efficiency and cut costs. The breakeven dollar-yen exchange rate will fall in tandem, and manufacturers in Japan will remain strong and profitable.

Japan, then, is likely to have a mature economy sustainable at a high growth rate. Asia's phenomenal economic expansion will provide a context for Japanese growth as both productivity and markets develop quickly,

particularly in the newly industrializing economies (NIEs) and Southeast Asia. Asian growth rates have accelerated noticeably with the high yen, particularly in ASEAN, where the bulk of post-1986 Japanese Asian investment has been focused. The end of the world economic slump, and the boom that followed for the nations of Southeast Asia, has been driven, at least in part, by a “big bang” of investment and aid from Japan.

Trade

Japan's economic and political commitments in the 1980s have shifted gradually but noticeably away from the United States. This shift echoes a world trend in which the United States has seen a continued erosion in its postwar lion's share of world exports and imports. Where Japan's economy was once almost inextricably tied to that of the United States, the land of the rising sun has of late moved to a position greater autonomy.

Increasingly important markets in Europe and Asia, meanwhile, have developed a strong appetite for Japanese goods. Exports to the European continent have grown from 14.5 percent of Japan's total exports in 1985 to 20 percent in 1987.¹

With Japan's economic maturation, higher costs, and push toward cutting-edge technologies has come a recent influx of consumer appliances and other manufactured imports from the NIEs. Japanese technology and components have found their way into a wide range of consumer electronics products emerging from the “little dragons” of East Asia. Japanese consumers have accepted these low-cost alternatives to domestic gadgets in increasingly significant numbers. Specialty stores offering nothing but NIEs' products have appeared, suggesting that even the draconian Japanese distribution system may be willing to cooperate. Although these products are not yet fully accepted, even the quality-conscious Japanese consumer grudgingly admits to their quality.

Considerable jumps from year to year in the value of Japanese imports from the NIEs indicate the pace at which manufacturers in these countries are conquering a market share in Japan (see Table 1).

Intraenterprise trade, particularly as the high yen drives Japanese manufacturers offshore, plays an increasing role in Asia's regional economy. Reexports to Japan through the foreign divisions of multinational corporations (MNCs) are increasing quickly. High-tech producers of machine tools, semiconductors, and the like have shown an increasing tendency to do much of their parts production offshore. Some medium-size enterprises have virtually shifted to complete offshore production. Minebea (a precision bearing manufacturer) in Thailand is one outstand-

¹*Nippon, A Charted Survey of Japan* (Tokyo: Kokusei-sha, 1985–88).

Table 1
Japanese Imports from NIEs 1986–1987
 (U.S. \$millions)

Country of Origin	1986	1987	Percent Increase
South Korea	\$5,292	\$8,075	53
Taiwan	\$4,691	\$7,128	52
Hong Kong	\$1,073	\$1,561	45
Singapore	\$1,463	\$2,048	40

SOURCE: *Nippon, A Charted Survey of Japan* (Kokusei-sha, 1988).

ing example of this trend. A cyclical production process in Asia, in which major industrialists do much of their component manufacturing and assembly overseas, is inevitable, even for the corporate hermit-kings of Japan.

Domestic Demand

Domestic demand is a new factor in the powerful equation of Japanese economic growth. It had been latent through much of the postwar period but has emerged in full force with the advent of the high yen.

According to the government's economic outlook for fiscal 1988, the gross national product (GNP) of Japan will be ¥365,200 billion, 4.8 percent nominal economic growth and 3.8 percent real economic growth. These estimates are based upon the presumption that the exchange rate of the yen will be ¥133 vs. the dollar and the price of crude oil \$18.50 per barrel. The real growth rate of 3.8 percent is based upon the assumption that domestic demand will rise by 4.7 percent, while foreign demand (the country's surplus on current account obtained by deducting from its export import and other items) will suffer a 1 percent decline (fractions are adjusted for both figures). Thus, the outlook expects that the Japanese economy will depend heavily on domestic demand.²

The full ramifications of Japanese domestic demand have yet to become apparent. The phenomenon has been called everything from a panacea to a farce but seems too limited to be the former and too persistent to be the latter.

Even though it may be no wonder drug for the world economy, Japan's internal demand nevertheless seems poised to be the new driving force for Japanese growth. Within the Japanese press itself has come a gradual but noticeable shift of emphasis to the domestic market. The traditionally isolationist Japanese, faced with external pressure and criticism for their

²*Nippon, A Charted Survey of Japan* (Tokyo: Kokusei-sha, 1988), p. 48.

trade practices, have once again turned inward. Consumers at home will be required to pick up the slack left by a world market share being gnawed away by low-cost East Asian competitors and protectionist policies on the part of major markets.

Outside Japan, too, the daring and the fanciful see that country's burgeoning demand as the inchoate stirrings of a potential engine for world growth. Japan would be hard pressed to match the United States' achievement in consuming the world into the twenty-first century. It can, however, be expected to pick up some of the slack left when the United States finally reduces imports and gets serious about reducing its twin deficits. Japanese and U.S. policymakers have long touted Japan's domestic demand as one potential solution to the trade deficit.

Without expansion of the Japanese market for imports, in fact, the future of export-led growth as a development strategy will be questionable at best. The situation is slowly improving as the Japanese government moves to reform the inefficient distribution system so often faulted by frustrated importers. Consumers, too, are beginning, both consciously and inadvertently, to seek less inflationary purchasing channels: NIE stores, catalogues, television shopping, and the like.³

Encouraging signs have appeared that expansion of Japan's domestic demand is magnified in demand for imports. Although the Japanese economy grew by 4.7 percent in 1987, imports grew by 8.2 percent, suggesting a multiplier effect from growth to import growth.⁴

Import expansion will, however, have limits, and Japanese bureaucrats have a hair-trigger reflex for panicking and slamming the door in economic downturns. The new preeminence of Japan as an importer is a dynamic and potentially long-lasting condition, but in its initial stages it remains susceptible to world economic conditions, and a recession would cause a serious backlash.

The New Environment

High Yen

The Plaza Accords of 1986, which made official the drastic devaluation of the dollar, accelerated fundamental changes in the nature of the world economy. It had long been obvious that the dollar was overvalued, but the magnitude of skepticism about the U.S. economy that led to the dollar's plunge surprised even experts. Through a prolonged period of unrealistic

³See C. William Verity, "Piercing the Ultimate Trade Barrier," *Fortune*, December 19, 1988, pp. 183–184.

⁴Masahiko Ishizuka, ed., *Japan Economic Almanac 1988* (Tokyo: Nihon Keizai Shimbun, 1988), p. 23.

exchange rates, financial power had been allowed to accumulate excessively in Japan.

It would be unrealistic, however, to blame past growth in the U.S. trade deficit entirely upon an overvalued dollar, as systemic factors such as corporate structure, sluggish production growth in the United States, and industrial policy (or lack thereof) have played major roles as well. The high yen merely quantified what perceptive analysts had long known, that the world had a new industrial and financial superpower. The time had come to approach Japan as such, rather than in its familiar role as a cute but unthreatening “boy wonder” economy.

Japan is now crucial not only as a trade partner but as a donor and a lender as well. Through the caprices of exchange rate fluctuations alone, the nation has doubled its financial strength since 1986.

The issue of recycling Japan’s “export dollars” will dominate tomorrow’s financial and political headlines, much as the recycling of “petro-dollars” did in years past. Clearly, Japanese capital will dominate Pacific Rim and worldwide flows of foreign direct investment, loans, and official development assistance for years to come. Along with this financial dominance, the business and political clout of Japan will increase substantially.⁵

Japan must now adjust to the heavy responsibility of its primary role in the functioning of the international economy.

Decline of U.S. Dominance

The inevitable rise of Asian and European economic blocs has led to a gradual erosion of U.S. dominance in the world economy. The postwar industrial and financial weakness that pervaded Europe and East Asia was in fact a historical consequence of the destruction of war. Rebuilding and restructuring these economies led naturally to relative growth faster than that of the United States, and a net decline in the U.S. position was unavoidable.

With a more balanced international system and better integration of the developed economies of Europe and Asia with that of the United States has come a larger share of innovation in Japan and Europe. No longer content merely to “copy” the inventions of the Americans, Japanese and Europeans are increasingly claiming their own share of new patents.⁶

⁵Richard Drobnick, “America, Japan, and the Pacific Rim: Competition, Cooperation, and Conflict,” *Thai-American Business* (Bangkok: American Chamber of Commerce, September–October 1988), p. 48.

⁶H. Glismann and Ernst-Jürgen Horn, “Comparative Invention Performance of Major Industrial Countries: Patterns and Explanations,” *Management Science* (October 1988): 1169–1188.

Though protectionist policies on the part of some U.S. trading partners may have contributed to the shrinking of the innovation gap, European and Japanese movement toward parity is ultimately both natural and inevitable.

Japan, through its meteoric growth, has picked up much of America's lost share of world GNP and trade. Particularly in Asia, the world's most dynamic economic region, Japan has quietly supplanted the United States as the dominant external factor in growth. Japanese Official Development Assistance (ODA), too, has far surpassed the U.S. economic and military aid commitment in Asia. Japan presently supplies the region with approximately US\$7 billion per year to only \$500 million for the United States.

No trade, no aid, no recognition—the dogmatic U.S. policy approach to Indochina—has ultimately benefited Japanese corporate entrenchment vis-à-vis American competitors. American business and academia are replete with apostles of the Pacific Rim, but realistically the U.S. grip in the region is slipping. Ironically, where U.S. capital used to be essential in supporting the economies of Southeast Asia, Japanese money is now fundamental to the survival (albeit tenuous survival) of Latin America.

Economics have now asserted a role dominant to ideology in the global system. U.S. spiritual leadership, if still important, is now less paramount, giving way to a more pragmatic world in which nations are weighted by their economic influence. In this new paradigm U.S.–Soviet relations become almost obsolete. Further, American and Soviet attempts to relate to third countries through the looking glass of superpower confrontation have become increasingly farcical. Yet a preoccupation with what the Soviets are doing has traditionally superseded practical evaluations by U.S. policymakers of American industrial and financial power and prospects.

The Bush administration has shown sign of allotting more resources and priority to economic issues than previous administrations have. Trade is in the news constantly, and both Commerce's Robert Mossbacher and U.S. Trade Representative Carla Hills have the ear of the president. The United States may now be experiencing a gradual shift in concern from the problems of ideological confrontation to the problems of economic integration. Though it is still too early to tell, there are hopeful signs that the U.S. government has recognized, through the country's own weakness, that trade is a crucial issue in national security.

Limits of Export-Led Growth

The U.S. market has absorbed and continues to absorb a disproportionate volume of the world's exports. With U.S. indebtedness and increasing concern about industrial obsolescence, however, this trend cannot continue indefinitely. In fact, the United States must soon wean itself from cheap imports and embark on the painful process of shifting back to its

pre-1982 position as a net exporter.⁷ Though Japan can be expected to take more imports than it has, it remains unlikely that a successor will appear to repeat the record-breaking American purchasing spree that drove export-led economies through the 1980s.

Export-oriented economies will face increasing competition in high-volume markets in the future. With the credibility of export-led growth has come a string of new converts, hoping to follow in the tracks of the East Asian apostles. No one country in the future will be able to repeat the almost complete market domination achieved in some areas (consumer electronics) by the Japanese. Most new exporters are therefore hedging their bets by modifying the traditional model to suit their particular situations. Mature exporters like Japan (and the NIEs as well), meanwhile, are adjusting to a leveling off of export levels through domestic expansion and foreign direct investment (FDI).

The incipient development of North American, European, and Asian trade blocs is being watched with foreboding by exporters on all three continents. This trend toward protectionism is driving traditional exporters into a rush to cross-invest and host governments into fits of patriotic *Angst* over excessive foreign ownership. Trade wars dominate economic headlines, and the United States, the European Community (EC), and Japan already grumble and whine over a wide range of issues from biotech hormones to semiconductors. If trade wars ever break out in earnest, however, the first victims will be the smaller, peripheral exporters, who will be thoughtlessly kicked around by policies aimed at the giants behind them.⁸

The Globalization of Japanese Economy and Business

The United States

Japan's traditional response to heavy U.S. pressure to liberalize has been the opening of portions of certain targeted markets. This policy has been at best limited in effect, as powerful lobbies (i.e., agriculture, tobacco) routinely block access anyway. With the recent political shakeup at the top of the Japanese government, however, entrenched special interests may be

⁷See Martin Feldstein, "Correcting the Trade Deficit," *Foreign Affairs* (Spring 1987).

⁸This was illustrated when the U.S. government, angered at the Japanese for continuing to flood the U.S. market from overseas bases, slapped a 17 percent tariff on bearings from Minebea, Thailand (a Japanese company promoted by the Thai Board of Investment). The Thais were indignant, but the real squeals of protest came from Japan. The dispute was eventually resolved, but had it led to a serious trade war, with resulting market share loss and plant closures, the jobs lost would have been Thai.

weakened. This may signal an opportunity for astute U.S. negotiators to push new, more effective legislation.

Japan is also hurrying to balance trade distortions by encouraging recirculation of surplus capital through FDI. Here the Japanese kill two birds with one stone, as they are able to dodge protectionist feelings and import limits in the United States by producing within American borders. Japanese direct investment in the United States has grown quickly in the 1980s, from US\$2.7 billion in 1982 to US\$10.4 billion in 1986.⁹ Direct investment from Japan has been perceived as generally positive in the past, but its sheer magnitude, along with fears of repatriated profits, have made Americans increasingly ambiguous with time.

Nevertheless, U.S. states are slugging it out at trade fairs in Japan, competing for Japanese investment to revive their sluggish economies. The issue has raised some difficult questions of personnel and management policy in the United States, and accusations of racism, sexism, and a plethora of other cultural barriers remain to be addressed.

Japanese firms have also been quick to use mergers and acquisitions to promote smooth expansion into unknown markets and product areas. Buyouts (and buyins) have provided access to U.S. innovations in an increasingly competitive international environment. Instead of trying to buy technology from contentious U.S. companies, which is now a more difficult procedure than in the past, Japanese corporations in the future may buy the companies themselves. Particularly in high-technology fields, Japanese suitors are poised to gobble up promising U.S. firms. Table 2 is a list of major Japanese mergers and acquisitions (M&A) of U.S. companies.

The European Community

As European emphasis shifts from politics to economics and European technology surpasses that of the United States and Japan in several areas, Japanese investors are frantically investing to access European Community markets and technology. The European movement toward a unified EC in 1992 was in part a response to perceived disadvantage at the hands of a highly homogeneous, mercantilist "Japan, Inc." The various European governments have responded to Japanese trade and investment in different ways—England soliciting and France remaining rather aloof. The rush should peak within the next two years and level off, at least temporarily, as Japanese investors watch EC policy develop in the post-1992 era.

Japanese industrialists are under the impression that there will be some form of "fortress Europe," possibly one that would eventually include even the USSR, and are hurrying to invest before the walls go up. Japanese

⁹Japan Economic Almanac, 1985–88.

Table 2
Main Japanese Mergers and Acquisitions in the United States

Date	Japanese Firm	American Firm	(US\$1,000)
1984,1	Fuji Bank	Walter E. Heller	425,000
1984,3	Fujitsu	Amdahl	190,000 ^a
1984,8	Kawasaki Steel	Pacific Steel	110,000 ^b
1984,8	Nippon Kokan	National Steel	292,000 ^c
1984,3	Minebea	Universal Magnetics	5,000
1985,3	Minebea	New Hampshire Ballbearing	103,000
1985,11	Nippon Kokan	GE (Silicon Plant)	50,000
1986,4	Fujitsu	Imaging System	20,000
1986,8	Dainippon Ink	Sun Chemical	550,000

^aFujitsu increased its share to 49.5 percent from 19.5 percent.

^b25 percent.

^c50 percent.

policy-makers also dread that North America and the EC will reach an implicit understanding to undertake protectionist measures targeted at Japan. Europe, furthermore, does not have the United States' stifling budget deficit or trade deficit with Japan, and is consequently less cautious in embarking on policy measures of a confrontational nature toward its Northeast Asian trading partner.

Asia

The high yen has created a genuine need for offshore manufacturing by Japanese industrialists and has led Japan to see Asia as an economic unit of which it is an integral part. Traditional import substitution policies are no longer sufficient, and Southeast Asia in particular has benefited from a need to manufacture for export overseas. A shift in Japan's emphasis within Asia from mere market conquest to multinational manufacturing has led Japanese investors on an exodus from China to Southeast Asia. China is seen as a huge potential market but a clumsy place to produce, whereas Southeast Asia is an eventual market but, more important, an immediate production base. Japanese companies have generally been successful in a capital-and-technology-starved Southeast Asia, and Western doomsayers predicting catastrophe through racial and cultural incompatibility may be engaging in little more than wishful thinking.

Intraenterprise trade, in which a producer ships from country to country within the manufacturing process, has seen remarkable growth in Asia since 1986. Japan's Asian trading partners, traditionally suffering the ill effects of transfer pricing, are finally beginning to ship parts back to Japan for final assembly.

Japanese companies that invest elsewhere in Asia and ship parts and products throughout the region are driving the surge in trade, including exports to Japan. Trade within Asia is growing at a 30 percent annual clip, and Phisit Pakkesem, deputy secretary general of Thailand's National Economy and Social Development Board, predicts it will surpass the region's \$250 billion in two-way trade with the US by 1991. By 1995, he thinks, the US market will be marginal.¹⁰

As more and more Japanese manufacturing moves into the countries of Asia, so will their prestige increase in the home offices in Tokyo.

Developing Asian countries see their current trade imbalances with Japan as a matter of getting capital goods for production within their borders, and they predict a drastic realignment over the medium term. The leaders of these nations express more concern that they will be left out of the race to encourage Japanese investment than that they will initially run a trade deficit. Japanese investment is seen to ensure a commitment to long-term economic stability, and imbalances will be managed with financial help from Japan over the interim.

Problems of Globalization

Structural Adjustment

Major Japanese manufacturers have naturally been the first to move offshore in response to high costs at home. Their great financial strength and international supply and distribution networks, particularly for affiliates of trading companies, make the move a comparatively gentle transition. Japanese corporate structure, moreover, in which subcontracting is farmed out to independents outside the company, simplifies transplanting of the core industry.

Subcontractor Dilemma

Subcontractors left behind in Japan, however, are suddenly cut off from their livelihood under this scenario. The move overseas is often traumatic for these "little guys," requiring prohibitive expense and international sophistication. Major manufacturers are ambiguous, caught between loyalty to their old suppliers and the competitive need to find cheaper sources. Furthermore, multinationals must play to the sensibilities of their host governments, and the latter increasingly insist that subcontracting be allocated to domestic entrepreneurs. The commercial Darwinism of multinational business may give the Japan an edge in global competition, but it works against Japan's small businessmen who missed the boat.

¹⁰Yang and Gross, "Japan Builds a New Power Base," *Business Week*, April 10, 1989, p. 44.

The plight of domestic subcontractors in Japan promises to be a significant sociopolitical issue for the next decade. The move overseas is seen as inhumane on the part of industrialists and contributes to anti-big business and protectionist sentiment in Japan. Small and medium industry associations are already up in arms, and should this become a pet issue of the newly rejuvenated political opposition, Japan's liberal Democratic Party could be driven even further into chaos. The Japanese system of "lifetime employment" actually applies to only one-third of the workforce, and even though in good times the issue remains subdued, it may explode with the rush to manufacture offshore.

Protectionism in Japan

Protectionist sentiment is growing in Japan, primarily because of militancy on the part of medium and smaller industries hard hit by the high yen and open markets. "How do Japanese firms react when they start to lose market share to cheap Asian imports?" asks one observer. "Rather like Western ones. They shout 'dumping' and demand protection."¹¹ At present, the subcontractors have little leverage. Their collective voice is growing, however, and will be taken up by other segments of the Japanese population and by political interests as well.

External pressures to open markets and the move offshore will be blamed for unemployment and hardship at home, scapegoating foreigners for the difficulties of restructuring the Japanese economy. Constant U.S. pressure to open agricultural markets has brought wave after wave of opposition from Japan. "Consumer movements" protest that a bilateral conspiracy forces inferior goods and carcinogens on the unsuspecting Japanese housewife.

The Japanese, in their unique way, will perceive Europe 1992 primarily as a threat to Japan (perhaps that is how it is intended), and domestic special interest groups will overreact. Just as the United States has been content to shift blame for its own industrial decline to Japan, so Japan will in turn externalize responsibility for the trauma of restructuring.

Opportunity for Foreign Subcontractors

Foreigners now have a second chance to establish a presence on the ground floor of the Japanese system. Japanese MNCs are in dire need of competent subcontractors in unfamiliar overseas environments, particularly in developing countries. In Thailand, one researcher notes, "the Japanese network . . . is still comparatively loose, with many companies struggling for survival (or being preyed upon by their opportunistic joint

¹¹"When Japan Is Threatened by Imports," *The Economist*, June 25, 1988, p. 69.

venture partners). In this fluid situation corporate Japan has relaxed its typical supplier networks, and will deal with anyone willing and able to supply efficiently and honestly."¹² Recipients of large amounts of Japanese investment often try to balance it with capital from other sources, providing an opportunity for third countries to penetrate the Japanese overseas network at the offshore supplier level.

Overseas Japanese industrialists realize that they are in a compromise situation. They feel their own vulnerability without the support networks to which they were accustomed in Japan and are consequently more approachable than their domestic colleagues. Though these investors used to be discounted as marginal and their overseas affiliates unimportant, they are quickly gaining stature vis-à-vis their home offices in Tokyo.

The Japanese system, then, is in the process of a quiet but thorough shakeup. For the first time there may be opportunities to internationalize it from without. Tightly packed Japanese corporate relations will experience a "big bang" as what was once dense geographical and psychological proximity is flung to the far reaches of the globe. Eventually the gaps will be filled and the corporate network will reform itself, but the window of opportunity for foreign entrants to the Japanese system should remain open for the duration of Japan's new wave of internationalization.

Kudo-ka (Hollowing Out)

Japan's policymakers have long feared the kind of industrial obsolescence (hollowing out) that plagues much of American industry. A repeat performance of U.S. manufacturing decline is unlikely in Japan, however. Government industrial policy and private sector long-range orientation seem destined to prevent much of the crisis faced by U.S. producers.

Japan's policy gurus realize that while old technologies must constantly be rejuvenated, this must be coincidental with movement into new areas of technology. The Ministry of International Trade and Industry (MITI) has "vision-setting" divisions to target future industries, and the private sector pushes the limits of technology in a struggle to survive cutthroat domestic competition. The U.S. government, by comparison, having long eschewed "industrial policy" as subversive behavior, is just beginning to try to grasp the "vision thing." Many key U.S. industries, meanwhile, were too long protected by implicit monopolies and have been unequal to the task of international competition.

Japan, in an effort to maintain an industrial base, will preserve mature technologies at home to the extent possible. Computerization and robotization in the pursuit of efficiency will ultimately change existing produc-

¹²Peter Kenevan, "Japanese Management Practices in Thailand," master's thesis, University of California, Berkeley, 1989, p. 46.

tion processes almost beyond recognition, however. Though rationalizing industries like steel, coal, and textiles, the Japanese bureaucracy realized that new, more efficient systems would have decreased employment potential. A conscious effort to restructure and move redundant personnel into industries of the future has ensued.¹³

New Technologies

Japan's technocrats have targeted a wide range of new technologies in which to concentrate the nation's research and development (R&D). As these technologies become commercialized, whole new sectors of industrialization and employment will arise to pick up the slack left by modernization of the old.

The government of Japan has specified three technologies as "Basic Technologies for Future Industries." They are: new materials, microelectronics, and biotechnology. The government has introduced various policies to promote these three areas.

In terms of market size for new technologies in the year 2000, MITI predicts ¥5,790 billion for new materials, ¥16,320 billion for next-generation microelectronics, and ¥660 billion for biotechnology. Each of these new technologies will in turn give rise to a wide field of industrial activity. Biotechnology, for instance, will affect industries such as food processing, chemical manufacture, and agriculture. Although they still lie in the distant future, development of biological applications in electronics such as the biochip may create another microelectronics revolution.

Synthesis of old and new technologies will provide another dynamic field of future commercial and industrial opportunity. The joining of the two requires that both the old and the new move forward to maximize potential. Often the economic and social impacts of new technologies will be realized more significantly when these are integrated with conventional technologies and experiences.

The creation of biotechnology-based drugs requires clinical and diagnostic experience. Traditional expertise in "old biotechnology"—for example, the knowledge of fermentation involved in manufacturing sake and soy sauce—may also be useful in manufacturing new pharmaceutical products. Similarly, in order to apply new biotechnology to agriculture, a fundamental and traditional understanding of plants and cultivation may be imperative.¹⁴

¹³See Ronald Dore, *Flexible Rigidities: Industrial Policy and Structural Adjustment in the Japanese Economy 1970–80* (Stanford, Calif.: Stanford University Press, 1986).

¹⁴Aki Yoshikawa, *The Japanese Challenge in Biotechnology: Industrial Policy*, BRIE (Berkeley Roundtable on the International Economy) Working Papers 29 (Berkeley: University of California, 1987).

Many conventional areas of expertise will be essential in utilizing biotechnology and in developing products based on it. In the process, biotechnology and engineering may meld to form a whole new industry. Policy measures may be introduced to promote integration of old and new technologies and encourage smooth transformation of existing companies.

Japan's fixation on industrial and commercial competitiveness is derived largely from that country's actual awareness of the abrupt reversal in America's fortunes as an industrial giant. Once again, Japan is likely to benefit from the U.S. experience, this time through America's role as a good bad example of the dangers of lax industrial planning.

How International?

Will Japanese business internationalize in any way but geographically? This is one of the questions likely to dominate news about Japan in the decade to come.

Tradition

Japanese business groups (*zaibatsu*, *keiretsu*, *kigyo shudan*) have traditionally been noted for their tight integration. They are notorious for excluding outsiders from contracts, even if this exclusion entails added costs on their part. What has historically been a strength, however, could soon become a weakness. The inflexibility of group obligation in a foreign environment can limit the Japanese investor's ability to respond to new conditions. Furthermore, clique-ish behavior aggravates host governments and has in the past led to serious expressions of anti-Japanese sentiment.

Japanese group structure has relaxed somewhat, but Japanese investors still huddle together when they feel exposed. The initiative to penetrate the Japanese system, and to coexist within it, will have to come largely from subcontractors and entrepreneurs in host countries. This will not be easy, even with the heightened receptivity of offshore Japanese enterprises, and host countries should be prepared to support the efforts of their subcontractors in any way possible.

Finance

Financial internationalization of Japanese corporations will be a long and painful process. Japanese investors originally avoided the administrative headaches of offshore joint ventures by finding subtle ways to control management without controlling ownership. Host country governments and businesspeople are getting wise to this strategy, however, and have begun imposing new parameters of their own to regain control. Japanese home offices have finally begun to concede, if ever so gingerly, to a larger degree of self-determination for their offshore affiliates. Even some of the

large Japanese trading companies have recently delegated responsibility for financial matters to their offices abroad.

Production

The offshore manufacturing process has grown in complexity as Japanese corporations have been forced to take it more seriously in the age of the high yen. Technology transfer is occurring much more quickly than in the past, and host countries are hard pressed to find enough local engineers to meet Japanese needs. Intraenterprise trade facilitates technological advancement throughout Asia, for holes in the offshore aspects of the production process can throw off the whole system.

Many Japanese consumer electronics makers (and soon automobile makers as well) now have complete offshore production facilities, even in developing countries. The fruits of the manufacturing process are expressed in tangible objects, easy for host governments to measure and evaluate. Consequently, Japanese investors must continually improve in this field to avoid criticism.

Personnel

It is in the esoteric area of personnel policy that offshore Japanese concerns are likely to face their most complex problems. Japanese investors seek to control management, which means controlling managers, which translates into maintaining an overwhelming majority of Japanese in positions of power within the company. Host governments, once they have succeeded in luring Japanese corporations to their countries, are then faced with the task of supporting local managers in their uphill struggle for positions of authority therein.¹⁵

Personnel structure has been one of the keys to Japanese corporate cohesion. Change in so fundamental an area, even if only reflective of an already altered corporate reality, faces entrenched opposition. The globalization of personnel structure is both the most contentious and the most important aspect of opening up the Japanese system. Only by allowing a real voice for local managers in offshore concerns can the Japanese system be truly internationalized.

Conclusion

Japan's industrial and financial primacy has been thrust upon the world abruptly and threateningly with the advent of the high yen. An essentially

¹⁵Positions of authority are not to be confused with titles of authority, something that the Japanese will confer with great pomp and abundance. The developing countries of Asia are replete with local chairmen, presidents, and other dignitaries of the corporate pantheon, who in reality do little more than smile for the brochure and lend a connection or two.

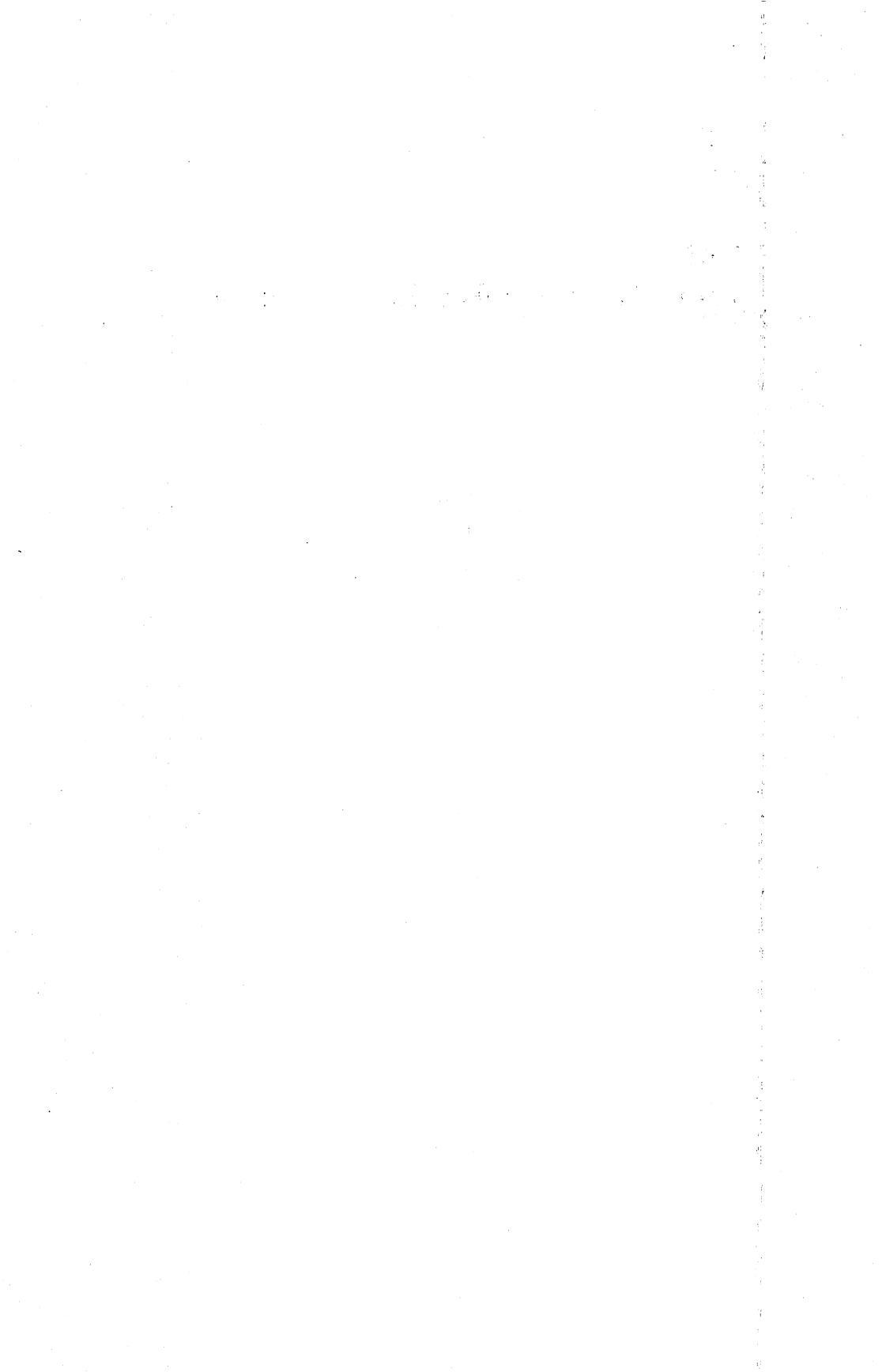
hermetic system has been forced to venture out and encircle the globe. Yet for all the difficulties that Japan's coming of age will entail, the picture is fundamentally brighter now than it was several years ago. The Japanese are realists, and they are cautiously but surely readjusting to their new global role, though this will take time as that role is still ambiguous.

Japan's old dilemma, an identity crisis between East and West, seems finally to have been resolved. Economic and political events of the past several years have confirmed Japan's role as the leader of Asia, but of an Asia striving to dominate the world economy.

The most serious potential problems of globalization occur not in the mechanics of moving Japanese operations abroad but in attempts to pluralize the system itself. The Japanese show great perseverance in moving the inside out, but they have little taste for opening up and letting the outside in. Still, there is growing realization that internationalization is a two-way street. With luck and effort, that slow process will stay one step ahead of the nationalistic pressures threatening international stability.

Part Two

Japan's Defense Policy: Internal Debate



3. Security, Politicians, and the Public in Japan

ELPIDIO R. STA. ROMANA

This chapter presents aspects of Japanese defense policy and orientation that may be relevant to ASEAN readers and ASEAN foreign policy orientation. Specifically, the chapter will (1) speculate on the political and strategic significance of ASEAN to Japanese security; (2) discuss some recent trends in Japan's defense policy thinking; (3) discuss the nature and sources of the perceptions of an ASEAN member, the Philippines, on Japanese defense policy; and last, (4) discuss Japanese public opinion on defense issues. Although the significance of public opinion on the provocative issue of Japanese defense is fairly self-evident, identifying the separate opinions of various groups requires some discussion of the paradigms of Japanese politics.

The nature of Philippine perceptions of Japanese defense policy will be treated here both as a product of domestic factors and as a peripheral offshoot of broader trends in Japanese politics. It is our hope, finally, that the chapter will contribute to a better understanding of the politics of Japanese defense policy and a manner of approaching it with less of the emotional dimension associated with a historical trauma of decades ago. Such an approach is only fitting at the close of the twentieth century.

ASEAN–Japan Political Relations

The significance of discussing Japanese defense policy among ASEAN members lies in encouraging an openness that can build more mature relations with that country in the future. This need is more urgent now, given the new status of Japan and the equally new economic status of most members of ASEAN. The recent emergence of Japan as a global power has renewed ASEAN interest on Japanese defense policy and has also reduced the emotional reactions and the taboo against open discussion that often shaded ASEAN views. The taboo against discussion has also weakened now in Japan. The more open debate on defense issues in Japan is the result of the widespread realization by ordinary Japanese that their country is

indeed a global power; it is, also, one of the legacies of the long premiership of Yasuhiro Nakasone.

Given present power relations in the Pacific, however, and the possibility of only gradual and incremental changes therein, including the reduction of United States military presence in the Philippines, the new openness does not necessarily signal any expected epochal changes in policy orientation and behavior either by Japan or by ASEAN members. To be metaphorical but accurate, a chasm yawns between the discussion of Japanese defense policy on the Japanese and ASEAN sides and any drastic changes in policies. The more immediate concern now for ASEAN members is to temper their future expectations of what Japan can do politically in the region and review old perceptions and apprehensions so that their foreign policy may be more attuned to present realities.

There is a fundamental ambiguity in ASEAN expectations regarding a Japanese political role in Southeast Asia and the Pacific. This ambiguity is embodied in the very asking of the question: What will Japan's political role be? This question seems to ignore the fact that Japan has always played an important strategic role in the Pacific. Its current role is to secure the northeast Pacific for the Western allies led by the United States. This is a sizable strategic role that Japan plays rather cheaply, for only a little over 1 percent of its GNP. Proportionately speaking, the area of the globe secured by Japan in relation to the cost Japan and the Allies incur has meant a considerable but often unrecognized reduction in the global cost of alliance-maintenance borne by the United States.

A more accurate question—What possible expanded role might Japan have beyond the northeast Pacific and into Southeast Asia?—requires some discussion of how politically and strategically significant ASEAN is to the Japanese defense posture. One way of ascertaining the relative significance of the Southeast Asian region to Japanese defense orientation is an analysis of the curriculum of the Defense College (Bōei Kenshū Jō), where senior officers of the Self-Defense Forces (SDF) undergo training for staff positions. The advanced education of SDF staff officers at the Defense College involves taking courses in seven major fields: basic security, economics, Japanese society, science, military strategy, international relations, and policy science. Specific subjects are offered under each course (e.g., under the basic security course fall subjects such as modern war, history of military thought, etc.), and under each subject are series of specific lectures (e.g., lectures devoted solely to the Korean War, the Falkland War, etc., under the subject heading “Modern War” in the basic security course).¹

¹Bōei Kenshū Jō [Defense College], *Karikyuramu* [Curriculum] (Tokyo: Boei Kenshu Jo, 1983, 1984, 1985, 1986, and 1987).

A survey of the curriculum for the Defense College's academic years 1982–83 to 1987–88 shows that lecture units devoted solely to ASEAN and/or Southeast Asia are offered as lecture units under the subject heading "China and the Asian Countries" in the international relations course. The international relations course averaged 183.8 units for the academic years 1982–83 to 1987–88. Lecture units devoted solely to ASEAN and/or Southeast Asia averaged only 2.4 units, or 1.3 percent of the total number of units in international relations for the whole five-year period. This lecture on ASEAN/Southeast Asia was offered only during four of the five academic years surveyed for this chapter; it was not offered for the academic year 1984–85. A general 6-unit lecture entitled "Asian Countries" was offered instead for that academic year. A 3-unit lecture on Indochina was offered twice for the academic years 1982–83 and 1987–88. If this is counted as part of the Southeast Asia lecture units, the average number of units on Southeast Asia would only be 3.3 percent of all units in international relations.

In contrast, lectures devoted solely to China in the international relations course accounted for an average of 13.2 units for the five-year period, or 7.2 percent of all units in international relations. The topic of the United States and Europe (United States foreign and defense policy included) accounted for an average of 25.4 units for the five academic years, or 13.8 percent of total units in international relations. Lecture units on the USSR and Eastern Europe averaged 21.4 units, or 11.6 percent of total units; the subject "Third World Problems" (also in international relations) accounted for an average of 16.2 units, or 8.9 percent of the total, of which about half was solely on the topic of the Middle East. The Korean peninsula had an average of eight units, or 4.4 percent of all units in international relations. The topic of ASEAN was not offered in any of the other six major courses either as a subject or as lecture units.

This description of the curriculum of Japan's Defense College illustrates the much less than pivotal political and strategic significance of ASEAN to Japan. Interest in the security of the sea lanes of communication as part of Japanese defense policy is distinct from the question of ASEAN's significance to Japanese strategy. The security of the sea lanes is primarily a bilateral issue between Japan and the United States (and possibly China), and not between Japan and other Asian countries. The immediate or gradual withdrawal of U.S. military bases from the Philippines may trigger a serious rethinking of the Japanese security role, but whatever new role Japan may have in this eventually will be negotiated with the United States and not with the Philippines or any ASEAN members. The Japanese interest in the retention of U.S. military bases in the Philippines parallels the U.S. interest. An added dimension in the Japanese interest, however, is that rethinking its defense posture in the light of a U.S. withdrawal from the

Philippines will unnecessarily complicate the still domestically explosive issue of defense policy for the Japanese government, especially in the budget allocation process for defense. It will also complicate whatever ongoing critical bilateral issues there may be at that time between the United States and Japan, since U.S. pressure on the defense field will increase and possibly be linked with other issues. Bureaucrats at Japan's Ministry of Foreign Affairs, incrementalist by orientation, would want to avoid these complications if possible.

The essential point here is that any stimuli on Japanese defense policy will come from U.S. action and not from any ASEAN initiative. The relative significance of ASEAN to the Japanese defense posture cannot be construed, either, from the fact that high-ranking Japanese officials periodically travel throughout Southeast Asia assuaging fears of "militarism." An area's strategic significance is to be found in a power that will assure allies that its military power is sufficient to stabilize the region; it is not to be found in assuring allies of the "weakness" of that military power. The alleged Japanese sensitivity to ASEAN fears of "militarism" amounts essentially to attempts by the Japanese government to placate mass media criticisms of its defense policy.

Moreover, there is little or no reason for Japan to project its military power beyond the northeast Pacific and into the ASEAN region. This scenario has no political constituency whatsoever in Japan. Neither is there a good economic reason (in terms of cost-benefit) to project military power into ASEAN, as vulgar materialist analysts suggest. If the natural resources and markets of ASEAN (comprising a little more than 10 percent of total foreign trade of Japan, Indonesian oil included) were that vital, then ASEAN would occupy a much larger role in Japanese strategic thinking—as would be manifested, for example, in the Defense College curriculum. This is clearly not the case. Nor is there any reason for Japan to discard its alliance with the United States. The present balance of power in the region does not require such an action. More important, this scenario has no political constituency in Japan, either. Furthermore, the Japanese alliance with the United States is precisely the one factor that limits the military strength of Japan in spite of the incremental growth of the SDF. At the same time—and this point is either often ignored or missed—a continued Japan–U.S. alliance also means that the United States serves as a political buffer between Japan and ASEAN, and between Japan and the northeast Asian countries. (It may also be relevant to add that for the whole postwar period Japanese analysts have viewed the Philippines as an indicator of trends in U.S. Asian policy.² This is rather ironic because the

²Akira Takahashi, "Nihon ni Okeru Firipin Kenkyū, 1888–1967" [Philippine Studies in Japan, 1888–1967], *Ajia Keizai* 10 (1969):96.

Philippine government has similarly viewed Japan as an indicator of U.S. Asian policy.) It is not to the interest of ASEAN to have an “independent and sovereign” Japan divorced from the United States. Given all these considerations, an expanded strategic and political role for Japan in the Pacific may essentially mean the continuing and more efficient security of the northeast Pacific.

In this context, the value for ASEAN's renewed interest in Japanese defense policy lies in the revision of foreign policy orientation (as distinct from behavior) and not necessarily in expectations of concrete strategic or tactical initiatives by either side. This orientation will keep ASEAN foreign policy more attuned and sensitive to regional developments, in keeping with the new status of some ASEAN members. Concretely, it entails enhancement of the foreign policy bureaucracies of ASEAN members in their evaluation of trends in Japanese defense policy and the many conflicting views on the topic in Japan. How to create order out of these many views on Japanese defense policy is the concern of the next section.

Japanese Politics in Recent Years

Virtually every Japanese politician (ruling party and opposition), bureaucrat, academic, journalist, or anyone interested in politics in Japan has an opinion about defense policy. To answer the question “Whose views are relevant?” it is necessary to interpret the complex Japanese political processes and place the defense issue in their context.

One interpretation of Japanese politics gaining acceptance in recent years holds that many of the bureaucratic dominance and “ruling triad” paradigms used to explain Japanese politics are overestimations of the roles the state bureaucracy and the private sector actually play in present-day Japanese politics. According to this view, the bureaucratic dominance and ruling triad paradigms understate the significance and even predominance of the role of politicians and political parties.³ The roles they have played in Japan's economic growth in the past, and play at present in policymaking, have received new emphasis in recent years. The Japanese political system is in fact much more pluralistic than many have interpreted it to be.⁴

The reasons for the growth in power of the political parties in general and the Liberal Democratic Party (LDP) in particular can be traced to the

³Michio Muramatsu, *Sengo Nihon no Kanryōsei* [The Postwar Japanese Bureaucracy] (Tokyo: Toyo Keizai Shimbun, 1985); see also his “Bureaucrats and Politicians in Policymaking: The Case of Japan,” with Ellis S. Krauss, *The American Political Science Review* 78 (1984): 126–146. See also John O. Haley, “Governance by Negotiations: A Reappraisal of Bureaucratic Power in Japan,” *The Journal of Japanese Studies*, 13 (1987): 343–358.

⁴Muramatsu, *Sengo Nihon no Kanryōsei*, pp. 26–34.

gradual strengthening of the Diet and the prime minister's office after the Occupation and the consolidation of conservative parties into one party (the LDP) in 1955. The long rule of the LDP and the growth within that party of the power of the Seichō Kai (Policy and Research Council or PARC), where most ministers are appointed, have increased the power of the ruling party in relation to the bureaucracy. A number of activist LDP members have also been appointed to head ministries who have asserted party leadership in their respective ministries.⁵

The more recent career patterns of bureaucrats is another factor that contributed to the growth of the LDP's power. Traditionally, a good number of bureaucrats either become politicians on retirement or in mid-career, or join big business on retirement (the so-called *amakudari*). These career patterns necessitate good relations with politicians and their friends in big business. Of these two possible career patterns, however, the former, joining politics, has become the more prominent trend. For example, of the 403 candidates that the LDP fielded in the Double Election of July 1986, more than 100 were former bureaucrats, many of them in their thirties. This figure was double that of the previous general election. Out of these more than 100 former bureaucrats, eighteen (ten in the Lower House and eight in the Upper House) won seats. These former bureaucrats see the *amakudari* path as narrowing since Japanese corporations have become powerful and no longer feel the need for former high government officials in their ranks. Some of these bureaucrats also see their own role in society narrowing as a result of the liberalization and deregulation of the Japanese economy. Still, some of these former bureaucrats are sons of former and present Diet members who were encouraged by their fathers to join the bureaucracy and then shift into politics as second-generation politicians in their families. The emergence of this career pattern increased the power of the Diet and LDP because bureaucrats aspiring to be politicians have to keep good relations with party members. Once in the party, these former bureaucrats have good chances of rising to party policy committees where their skills will be made use of, especially in drafting legislation. It is estimated that thanks to the input of the skills and expertise of former bureaucrats now in the Diet, 48 percent of all legislation now originates from the Diet itself. This is in contrast to approximately only 10 percent in the earlier decades after World War II.

Moreover, the bureaucracy's monopoly of information and technical expertise in society has been broken as politicians with long careers developed their own expertise and sources of information on issues and

⁵See Yung H. Park, *Bureaucrats and Ministers in Contemporary Japanese Government* (Berkeley: Institute of East Asian Studies, University of California, 1986), pp. 11–29.

policies. This has led to the emergence of the so-called *zoku giin* (literally, "Dietmen tribes") within the ruling party and in the Diet. These "tribes" are groupings of politicians or policy groups with expertise and/or vested interests in specific sectors and issues. There is, for example, a *Nōrin Zoku*, or "agriculture and forestry tribe." There is also a *Kokubō Zoku*, or "national defense tribe," to which we shall turn to later. The expertise and interest of "tribe members" give them a say on any policy decision in their field and/or constituency.⁶

Critics claim that the alleged emerging power of LDP politicians is exaggerated because most bureaucrats who enter politics came from smaller and less powerful ministries such as the Ministry of Transportation, the Ministry of Construction, and the Economic Planning Agency. They did not come from more powerful ministries such as the Ministry of Finance, the Ministry of International Trade and Industry, and the Ministry of Foreign Affairs. This claim is empirically valid. The relative or shared power of politicians, however, does not necessarily require that bureaucrats-turned-politicians come from the more powerful ministries. Such a trend would imply not more than relative power for politicians but the emasculation of the bureaucracy.

The ministry of origin of bureaucrats-turned-politicians is not the only basis for asserting that politicians have gained power relative to bureaucrats. In 1985, for example, Professor Michio Muramatsu of Kyoto University presented survey data⁷ on the perception of a sample of 251 elite bureaucrats and 101 Diet members (LDP and opposition) on the most influential policy-making group in Japan. Ten categories of political actors were ranked by the respondents into first, second, and third most influential in policy making. All categories of respondents (higher and middle bureaucrats, LDP and opposition Diet members) consistently ranked political parties as the most influential; bureaucrats followed as a close second. The methodologically convincing factor in Muramatsu's study was that opposition Diet members themselves, who have consistently and publicly criticized the LDP as a tool of big business, rated the political parties as most influential in decision making. (Big business was rated only a distant third.) "Political parties" inevitably means the LDP, although opposition parties also cooperate with the LDP on certain issues.

The political style of postwar Japanese prime ministers, who are either "maintenance oriented" (i.e., inclined to maintain organizations) or "purpose oriented" (i.e., goal achievers), has also contributed to the growth of

⁶See Takashi Inoguchi and Tomoaki Iwai, *Zoku Giin no Kenkyū* [Studies on Policy Group Diet Members] (Tokyo: Nihon Keizai Shimbun Sha, 1987).

⁷Muramatsu, *Sengo Nihon no Kanryōsei*, chap. 1.

the power of the LDP. The best example of the latter type is, of course, Yasuhiro Nakasone, who once described himself as a “presidential-type prime minister.” Others described his style as “top-down” leadership. The possible effect of this type of leadership on bureaucratic power was described by Muramatsu in 1987:

Nakasone does not rely on the bureaucracy to introduce comprehensive policies. [n.b.: In Muramatsu’s usage this term refers to principles and standards beyond the distribution and regulation of benefits that guide special interest politics.] Instead, he introduces them himself, using deliberative councils and his brain trust to realize his policies effectively; he tries to use the people’s support to minimize the influence of opposition parties and internal LDP actors. While reducing bureaucratic dependence, he has worked to create a dialogue with the people by frequently appearing on television and explaining policies in simple terms. At the same time, it seems that, realizing he cannot oppose the several political actors with only the support of the people, he has succeeded in forming an economically powerful alliance to control the bureaucracy and members of the LDP *zoku* and PARC subcommittees.⁸

A final factor that increased the power of politicians over bureaucrats is the increasing internationalization and liberalization of the Japanese economy. This economic expansion gave politicians a potential new constituency—the international business community.

All these trends, however, do not mean that the Japanese bureaucracy has become insignificant in Japanese politics. The bureaucracy, as mentioned earlier, still initiates about half of all legislation, its homogeneity as a social group is still intact, and its command of technical expertise and information is still formidable. Its higher ranks remain one of the most prestigious social groups in Japan. The bureaucracy is still credited as one of the builders and most skillful protectors of Japanese economic power at home and abroad. The thoroughness with which the Japanese bureaucracy enforces regulations and checks is still a wonder to behold.

What the trends do imply, however, is that given the newly appreciated role that politicians and political parties in fact play, a politically very sensitive issue such as defense policy will not be left to the bureaucracies traditionally associated with the issue, such as the Ministry of Finance, the Defense Agency and, occasionally, the Ministry of Transportation. As on many other issues, LDP Diet members will have a very important, if not the most important, say on defense policy. This is not an astounding conclu-

⁸Michio Muramatsu, “In Search of National Identity: The Politics and Policies of the Nakasone Administration,” *Journal of Japanese Studies* 13 (1987):307–342.

sion; it does, however, have serious implications, especially for ASEAN members, on productively approaching Japanese defense issues, namely, by seeking the views of LDP politicians in order to have a clearer idea of recent trends and dilemmas in Japanese defense policy.

This approach to trends and dilemmas in Japanese defense policy differs from that of Mike Mochizuki⁹ and Kenneth Pyle.¹⁰ Mochizuki's contribution is to signal outside Japan the complexity of views on defense held by academics, former bureaucrats, politicians, and commentators and the corresponding decline in influence of ideas on the subject held by pacifist-leftists or groups advocating unarmed neutrality in Japan. Mochizuki's categorization of the views on defense into the political realist, unarmed neutralist, Japanese Gaullist, and military realist is immensely interesting. Pyle, on the other hand, describes a social matrix of thought that could become the basis of rethinking a national identity and a global political role. The present chapter presents, rather, the narrower field of actors of LDP politicians, specifically some members of the "national defense tribe" of the LDP, to describe some trends and dilemmas in Japanese defense policy. And if politicians, one naturally has to touch on trends in public opinion to which the same politicians are sensitive to. This approach is not the futile search for the "essence of decision" or the bureaucratic politics of Japanese defense policy; rather, it is a directed approach to a better understanding of its dilemmas and prospects.

It may sound commonsensical to pay attention to what politicians say about policy. In examining the Japanese political process, however, where the bureaucracy has always been thought to play the dominant role, the newly appreciated power of politicians requires emphasis here. Old paradigms die hard. Furthermore, paying attention to what politicians say is not facile at all when one asks the questions "Which politicians?" and "Why these politicians?" The many varied opinions about Japanese defense signal to ASEAN members, particularly the Philippines (and possibly Thailand), the need to prioritize these opinions and be more focused in following Japanese political trends. This need is acute for two reasons. One is the poor state of research on Japanese politics in the Philippines. This is partly the direct result of the sad state of the Philippine foreign policy bureaucracy under both Ferdinand Marcos and Corazon Aquino. (Parenthetically, the same may be said for political and policy research in the

⁹Mike Mochizuki, "Japan's Search for Strategy," *International Security* 8 (1983–84): 153–179.

¹⁰Kenneth Pyle, "The Future of Japanese Nationality," *Journal of Japanese Studies* 8 (Summer 1982):223–264.

Philippines on other major powers in the Pacific.) Thus, whatever small effort that may be devoted to analyze Japanese policies, especially defense policy, must, from the beginning, be directed at the thinking of a specific and small powerful group and the constituencies of issues involved in Japanese defense policy.

The second reason is that the very nature and content of whatever has passed as analysis of Japanese defense policy in the media, academia, and foreign policy bureaucracy in the Philippines during the last two decades requires a genuine search for other sources of data. To these Philippine perceptions we now turn.

Philippine Perceptions of Japanese Defense Policy

The essence of Southeast Asian perception of Japan's defense policy often revolves around the image of "militarism." Even though this tendency is common knowledge, the intensity of these images in the Philippines is directly related to a certain trend in Japanese politics that emerged from the late 1960s, namely, the decline of pacifist and leftist thought in Japan. Much of the Philippine perception of Japanese defense policy has essentially meant the transfer of the pacifist-leftist arguments in Japan—or that group which Mochizuki called the "unarmed neutralists"—to some articulate sectors of Philippine society, where it mixed very well with the prolonged memories of the historical trauma of World War II. These same pacifist-leftist arguments are the legacies of the *minshu undō* (people's movement) of the 1960s in Japan then concerned with broad national issues, a movement that has long since degenerated into the *jūmin undō* (resident's movement), concerned with highly localized issues of the late 1970s and 1980s.

Pacifist-leftist arguments on Japanese security issues began to penetrate the Philippines at a time when the same persuasion was being displaced as a current in mainstream politics in Japan in the late 1960s. In the materials written in the Philippines on the topic of Japanese defense from the late 1960s to the early 1980s, the Japanese pacifist-leftist reasoning on Japanese defense policy began to appear around 1970.¹¹ These materials were occasionally supplemented by dispatches from the New

¹¹Examples of these writings are Hernando Abaya, "Japan's New Role in Asia: An Imperialist Collusion?" *Graphic*, July 29, 1970; A. B. Colayco, "Return of the Rising Sun," *Asia-Philippines Leader*, January 18, 1972; Raul S. Manglapus, *Japan in Southeast Asia: Collision Course* (USA: Carnegie Endowment for International Peace, 1976); Alejandro M. Fernandez, *The Philippines and the United States: The Forging of New Relations* (Quezon City: NSDB-UP Integrated Research Program, 1977); Renato Constantino, *The Second Invasion: Japan in the Philippines* (Manila, 1979); Merlin M. Magallona, *Warning: Japanese Militarism on the Rise*

China News Agency during the height of Maoism. The group in Japan through which these views were transmitted to the Philippines can roughly be traced to those associated with the Beheiren in the late 1960s and to the Pacific–Asia Resource Center (PARC) at present. The continuing impact in the Philippines of pacifist-leftist arguments regarding Japanese “militarism” is completely out of proportion to the minuscule influence of pacifist-leftist groups in Japan today. (It seems that the Philippines shares this experience with Thailand.) What is striking about these arguments is not that they are totally false and have no empirical basis, but that they are overly simplistic, conspiratorial, and alarmist. Reality then and now, inside and outside Japan, has been far more complex than they imply.

Based on the literature from 1970 to the early 1980s, the Philippine perception of Japanese defense centers on the “problem” of Japanese “militarism” or rearmament and its threat to Asia. From 1970, the common argument found among Filipino analysts is that Japanese militarism is “on the rise” because of the growth of Japan’s overseas interests, its alliance with the United States, its perception of the Soviet threat, and the rise of the Japanese “military-industrial complex.” In these studies Japanese military power is usually deduced from the size of the defense budget and the fact that the SDF’s budget is the seventh largest in the world and the third largest in Asia. It is also pointed out that the growth rate of Japanese military expenditure is higher than that of some NATO members and that Japan has regular defense buildup plans. Arguments on the symbolic 1 percent of the GNP limitation on defense expenditure are reiterated. These studies further assert that trends in the SDF arise from Japan’s security relations with the United States, which make Japan a “junior partner” of that country in Asia. The Japanese security interest in the Malacca and Lombok straits, prominent in the 1970s, was seen as evidence of Japanese interest in an expanded military role in Asia. The possibility of a nuclear Japan is also touched on as if it were an immediate alternative.

The transfer of these pacifist-leftist arguments on Japanese defense policy to the Philippines was the result of ideological affinity of groups in Japan with groups in the Philippine media, universities, and nongovernment organizations (NGOs). Other than the phenomenon of the “historical trauma,” the appeal of Japanese pacifist-leftist arguments in the Philippines can also be explained by the fact that quite a different set of symbols is attached by a Filipino audience to the arguments. This can be illustrated by

(Quezon City, 1982); and Eduardo C. Tadem, *The Japanese Presence in the Philippines: A Critical Re-assessment* (Manila: Third World Studies Center, University of the Philippines, January 1983).

using the well-known pacifist Yoshikazu Sakamoto's argument as an example. He once wrote, "The Japanese military has no independent strategy of its own. It can function only as part of the U.S. armed forces in East Asia. The closer the collaboration, the more dependent the Japanese military becomes on the United States."¹² This argument in itself ignores the profound complication of a possible polarization of Japanese society if the Japan–U.S. Security Treaty is abolished, which could lead to a real military buildup. Presented to a Filipino audience, an argument of this kind is interpreted as analogous to the Philippines' own emotional issue of being a host to U.S. military bases. Security relations with the United States are then connected with the overall problem of the Philippines' economic underdevelopment. Not only is this quite a different context from that of Japanese pacifist-leftists arguments, but by analogy the parochialism of Japanese nationalistic pacifist arguments is passed off to Filipinos as universalist ideology.

The simplistic and occasionally inaccurate views of Japanese pacifist-leftist groups have also penetrated the Philippine foreign policy bureaucracy analyses of Japanese defense policy. In 1975, for example, the Philippine Center for Advanced Studies (PCAS), a short-lived foreign policy think tank for the government, wrote the following analysis in a briefing paper for former President Ferdinand Marcos entitled *ASEAN II: Basic and Strategic White Paper*, dated September 18, 1975:

For the moment, Southeast Asia itself does not stand in the way of Japan's reinvigorated military machine; the danger will come if and when successful national liberation movements interdict the free flow of raw materials to Japan or nationalize standing Japanese assets. *Then extreme right elements are likely to step in and reimpose Japan's armed might over the region.* Since the fall of Vietnam, the U.S. defense secretary has stepped up criticisms of the "slowness" of Japanese military buildup—and the Japanese right wing is chafing under Tokyo government ratification of the nuclear non-proliferation treaty, which to their mind unduly restricts Japanese military strength. *Meanwhile, the Japanese arms industry is doing good business in Southeast Asia, whose armies supposedly prefer the smaller, lighter Japanese-made weapons.*¹³ [Emphasis added]

The inaccuracy here lies in the implied power of the "extreme right" in Japan and the assertion of Southeast Asian use of Japanese-made weapons. Indeed, anyone would be at a loss in identifying who or what the "extreme right elements" are in Japan. Furthermore, the export of weapons is

¹²Yoshikazu Sakamoto, "Major Power Relations in East Asia," *The Bulletin of Atomic Scientists*, February 1984.

¹³Philippine Center for Advanced Studies, University of the Philippines System, *ASEAN II: Basic and Strategic White Papers*, September 18, 1975, pp. 23–24.

prohibited in Japan. The Japanese arms industry is also probably the most inefficient in the world, thus making Japanese light infantry weapons the most expensive in the world. (See the later discussion in this chapter of the defense industry's economy of scale.)

The PCAS was replaced by the Presidential Center for Special Studies (PCSS) in 1977. In an undated PCSS paper entitled "The President's Visit to Japan: Briefing Papers," Japan was described as "quietly rearming"—as borne out, once again, by the growing defense budget and periodic defense buildup plans. The implied substantial Japanese military power was supported by evidence that were exact duplicate copies of pages from the Japanese Defense White Paper on Japanese armaments, military structure, organization, and statistics, with no attempt to connect them to wider trends in Japanese society and politics.¹⁴

Another PCSS briefing paper, prepared for former President Marcos during former Prime Minister Yasuhiro Nakasone's visit to the Philippines, restated the Asian fear of Japanese military power, especially after U.S. President Ronald Reagan began pressing Japan for an expanded role in the Pacific. Although it is true that there is such a trend in Asia, noteworthy in the paper is its conclusion: "that Japan and the U.S. are committed to protect each other in times of emergency and that Japan has appeared to be the greatest ally of the U.S. in the Pacific."¹⁵ The existence of a Japan–U.S. alliance is, of course, a fact, and one would have expected that something else more could have been said about the complexities of Japan–U.S. relations.

Japanese official pronouncements on national defense policy can also be interpreted in the Philippines in ways that parallel the appeal of the ideological arguments of the pacifist-leftist. For example, former Foreign Minister Shintaro Abe said in an official visit to Manila in early 1986 that Japan will never have a military role in Asia. Although his remark was quite straightforward as a statement of Japanese policy toward ASEAN, a Filipino audience equates "military role" with military bases, military aid, and arms supply similar or equal to the military role of the United States. The meaning a Filipino audience can attach to Abe's statement is quite different from what Abe probably had in mind, since a military role similar or equal to the American presence in the Philippines as conceived by Filipinos may be different from a strategic role which Japan might have. Japan will probably not have this kind of military role in Asia for a long time. Embassy

¹⁴Presidential Center for Special Studies, *The President's Visit to Japan: Briefing Papers*, undated.

¹⁵Presidential Center for Special Studies, *Briefing Papers: Prime Minister Nakasone's Visit to the Philippines*, undated.

officials in Manila are not helpful in clarifying matters, either. In October 1985, a Japanese diplomat in the Philippines publicly stated with a straight face that the phrase used by Nakasone in his famous “unsinkable aircraft carrier” speech was *ōkii fune* (big ship) instead of *fuchin kubō* (unsinkable aircraft carrier), the words Nakasone actually used.

Thus, for many among the articulate in the Philippines, Japanese defense policy, no matter how it is stated or what it really is, remains a specter that haunts Asia. It seems, however, that the anxiety over Japanese “militarism” is not shared by the Filipino public. This fact can be substantiated by the only opinion survey¹⁶ in the Philippines directly related to the public’s perception of external threat. In response to an open-ended question on which country is friendliest to the Philippines, 36 percent of a nationwide sample of approximately 2,000 respondents in 1986 considered Japan the second friendliest country to the Philippines. (The United States was considered as the friendliest, with a score of 73 percent nationwide. China was third, with 11 percent.) In Metro Manila, traditionally considered the only place in the country where foreign policy is debated, Japan also ranked as the second friendliest country, with a much higher score of 60 percent. (The United States remained the friendliest country to Filipinos in Metro Manila, with 83 percent; China was again third, with 17 percent.)

In response to a follow-up question in the 1986 survey on which country Filipino respondents regarded as a threat, the Soviet Union ranked first for both nationwide and Metro Manila samples, with a score of 32 percent and 51 percent, respectively. Ranked fifth most threatening country nationwide was Japan, but with only 5 percent of respondents considering it a threat. In Metro Manila, Japan, with a score of only 2 percent, ranked only tenth out of twelve countries listed as the most threatening country.

In more recent surveys in 1988 and 1989¹⁷ that asked 1,200 nationwide respondents whether they thought the Japanese government could be trusted (the actual Filipino term used was *pagtitiwala* and *kumpiyansa*, i.e., trust and confidence in the sense of not taking advantage), 17 percent in 1988 said they have great (*malaki*, literally “big”) confidence in the Japanese government. This percentage rose to 24 percent in 1989. For Metro Manila, 22 percent felt that the Japanese government was trustworthy in 1988; this percentage rose to 32 percent in 1989. Respondents who felt that their trust in the Japanese government might be great or small

¹⁶Ateneo-Social Weather Station, *Ateneo-Social Weather Station Public Opinion Reports*, October 1986.

¹⁷Social Weather Station, *Social Weather Report*, February 1989.

(i.e., the equivalent response for “Don’t Know”) numbered 29 percent nationwide in 1988, rising to 36 percent in 1989. In Metro Manila they were 25 percent in 1988, and 39 percent in 1989. As for respondents who had little trust and confidence in the Japanese government, the percentage was 52 percent nationwide in 1988; this figure declined to 39 percent in 1989. In Metro Manila the corresponding percentages of those who had little confidence on the Japanese government were 52 percent in 1988 and 28 percent in 1989.

Public opinion, of course, is not the only input in a country’s foreign policy orientation, and there are sociological reasons for the scores. But these figures definitely show a discrepancy between the articulate members of Philippine society (the media, academia, and government) and the broader Philippine public in their opinion of Japan as a whole. The views of the former group on Japanese defense policy are not part of popular culture.

Japan’s Defense Policy and the LDP

This perception of the Philippine media, academics, nongovernmental organizations (NGOs), and foreign policy bureaucracy naturally makes the ideological position of Japanese opposition parties and groups on defense policy appealing. In addition, and in spite of the perennial inability of the opposition to unseat the LDP despite the Takeshita-Uno debacles, many Filipinos tend to overestimate the political power of the opposition in Japan. This tendency will compound problems for the future Philippine foreign policy bureaucracy’s position on Japanese defense policy. It is more than just a matter of lack of information about Japanese politics. It can partly be explained, too, by the Philippine political culture of a certain type of liberal democracy and of the experience of the anti-Marcos opposition movement before 1986. These political culture experiences have conditioned many in the Philippines to constantly expect a rotation of opposition parties (especially the Japanese Socialist Party) with the LDP in the seat of power. In actual practice, the LDP has persistently ruled Japan for almost four decades and will do so for years to come, but this fact does not seem to inspire many Filipinos to think of a long-term continuity in Japanese policies. The other reason for the appeal of the opposition position on defense policy is the continuing exposure of many Filipinos to opposition thinking in Japan through the so-called “solidarity groups” and “people-to-people relations.” The end of these kinds of NGO ties do not seem to be in sight. It is therefore necessary to discuss how the opposition, especially the JSP, stands on the defense issue.

The JSP has already publicly accepted the legality of the SDF and the Japan–U.S. Security Treaty. A year after its disastrous setback in the Double

Election of July 1986, the JSP made public its rather peculiar position that although “it [the JSP] does not recognize the necessity [of the Japan–U.S. Security Treaty and of the SDF], it recognizes the fact of its existence.”¹⁸ This statement was interpreted by commentators as the JSP’s long-delayed acceptance of the legality of the SDF and the Japan–U.S. Security Treaty. The holdout was anachronistic. The JSP leader at that time also announced that even though the party would continue to support neutrality, non-alliance, and disarmament and oppose the abolition of the 1 percent of GNP limitation on defense spending, the party would accept the purely defensive goals of the SDF.¹⁹ This announcement means that opposition to the SDF and the present defense policy on the basis of neutrality and 1 percent of the GNP limitation to defense spending (the so-called 1% *kumi* or “1 percent framework”) will be less and less politically useful in the future. Moreover, members of the JSP will begin to reflect some “LDP thinking” on Japanese foreign and defense policy. In mid-1989, when the LDP was still reeling from the impact of a new tax law, scandals, and discouraging results of local elections, Takako Doi, the head of the JSP, visited U.S. Ambassador Michael Armacost and assured him that if ever she were to head a coalition, she would not radically alter Japan–U.S. relations.²⁰ This gesture by the JSP was motivated more by the desire to keep good relations with the U.S. government than by actual prospects of winning a majority in the Diet.

The lingering symbolic appeal of the 1 percent framework, which is perhaps the most politicized aspect of Japanese defense policy, can be misleading. The political use of this issue extends beyond the opposition parties in Japan and includes the media, members of the LDP government, and even foreign powers. Depending on how it is computed, Japanese defense expenditure was exceeding the 1 percent limit long before the limit was formally abolished for fiscal year 1987. The 1 percent framework is a symbol of pacifist sentiments in Japan, a sentiment that is mixed with a sense of nationalism based on a unique constitution and a self-image of, to borrow *Asahi Shimbun’s* phrase, “peace nation” (*heiwa kokka*). In a sense, it is a symbol of Japanese nationalism for most of the postwar period, like a cleaned, whitewashed reverse image of prewar Japanese nationalism. As a form of nationalism, it is intrinsically limited in its relevance but is presented as universalism by Japanese pacifists. Consequently, the 1 percent framework is naive and useless in the analysis of Japanese defense policy. It will have a lingering appeal and political utility for opposition

¹⁸“Shatō, Sonsai Yōnin Uchidasu” [Socialist Party Recognizes Existence], *Asahi Shimbun*, evening edition, August 20, 1987, p. 1.

¹⁹Ibid.

²⁰Barry Hillenbrand, “Prelude to the Showdown,” *Time*, July 17, 1989, p. 43.

parties, especially during the submission of budget proposals from various ministries every year.

The LDP government's use of the symbol is the reverse of how the critics and pacifists use it—that is, to “prove” Japan is not militarizing so long as defense expenditure is within the 1 percent framework. The chicken came home to roost many times for the LDP in its use of the symbol. After the 1 percent framework was abolished in fiscal year 1987, the then head of the Defense Agency announced on June 10, 1988, that although the defense budget for the first time exceeded 1 percent of the GNP limit in 1987, actual expenditure for that fiscal year was within the 1 percent limit because of the revaluation of the yen.²¹ There were no reported reactions from groups, domestic or foreign, who believed abolishing the 1 percent framework was a sign of “militarism.”

The use of the symbol of the 1 percent framework by major powers in the Pacific has also been clumsy. For example, in March 1988, Soviet Deputy Foreign Minister Igor Rogachev “warned” President Corazon Aquino and the Philippine media that Tokyo's increased military spending meant Japan was “slowly becoming a military power,” and he proceeded to compare Japan's military spending with that of NATO.²² A few months later, in an interview with the Kyodo News Service, Soviet Defense Minister Dimitri Yazov said that Japanese defense spending did not necessarily mean that Japan would become an aggressor nation.²³ The whole interview did not contain any negative comment on Japanese defense, including the SDF units stationed in Hokkaido. The Soviet use of the 1 percent framework is as crude as the American use of it. For the United States, especially members of the Congress, it is a gauge of how little Japan is sharing in the defense burdens of the Western alliance. Much to the irritation of the Japanese, figures higher than 1 percent are arbitrarily advanced as the minimum required for Japan not to take a “free ride” on the United States.

Views on Defense Policy in the LDP

Japan's foreign policy orientation is to contribute to international stability through its economic role as well as its role as aid donor, an orientation that to some extent is a response to American expectations. This orientation precludes a military role in world politics.²⁴ Japan's defense policy is

²¹“GNP 1% Kumi Uchi Ni” [Within the GNP 1%], *Asabi Shimbun*, evening edition, June 10, 1988, p. 1.

²²“Soviet Minister Expresses Concern About Japan's Increased Defense Spending,” *Japan Times*, March 30, 1988, p. 3.

²³“Soviet Official Unconcerned by Japanese Defense Spending,” *Japan Times*, July 6, 1988, p. 3.

²⁴Seizaburo Satō, “Ima Koso Nichibei Dōmei no Kyōka o” [The Present Need to Strengthen Japan—U.S. Alliance], *Koron* 103 (1988):110–119.

within the context of this broader policy orientation and is well within the scope of the Western alliance. Professor Seizaburo Satō of Tokyo University, a reliable indicator of LDP thinking among academics, wrote last year that the position of the so-called Japanese Gaullists advocating a rapid rise in the SDF's capability, which attracted much attention in the 1970s, cast no shadow on the orientation of Japanese foreign and defense policies. "In the apportionment of roles," he adds, "it can be said that the perception in the Japan–U.S. alliance is undoubtedly similar."²⁵

Within this broad framework of Japanese foreign and defense policy, however, are various views within the complex organization of the LDP, to which we now turn.

Very briefly, the structure of the LDP can be summarized as follows: Other than the prime minister, there are three other very important figures in the party. These three are called the *tō sanyaku*, or the party's "big three." They are the chief secretary (*kanjichō*), the head of the Policy and Research Council or PARC (*seicho kaichō*), and the general secretary (*sōmu kaichō*). (Organizationally, other major political parties also have their respective *tō sanyaku*.) Under the PARC are the various *bukai*, or section councils, coordinated by an overall chairman and vice chairman.²⁶ Each section council deals with a specific policy area (finance, agriculture, transportation, etc.) and is composed of LDP Dietmen with expertise and/or interest in those fields. Many LDP *zoku giin* or "Dietmen tribes" can be found in these section councils and in the Diet committees. There are about seventeen section councils in the LDP, and one of them, the Kokubō Bukai, concerns national defense. Last year, the chairman of the section council on national defense was sixty-five-year-old Hisao Horinouchi of the Lower House. He is a graduate of the wartime Naval Academy and former deputy minister of state for defense. The vice chairman was Morio Kimura, also of the lower house.

In the Diet itself, there is a special multiparty committee on security (Anzen Hoshō Tokubetsu Iinkai) composed of twenty-five members. (There are eight other special committees and sixteen regular committees in the Diet). During the 113th Diet in 1988, there were fifteen LDP members from the special committee on security, four from the JSP, and the rest from different opposition parties.

Membership in the LDP section council on national defense and the Diet's special committee on national defense is a good way of identifying the "national defense tribe." Within the group of *kokubō zoku*, there is also

²⁵Ibid., p. 116.

²⁶Seizaburo Satō and Tetsuhisa Matsuzaki, *Jimintō Seiken* [The LDP Regime] (Tokyo: Chuo Koron Sha, 1986), pp. 184–189.

a smaller group, the *ampo zoku* (AMPO tribe), composed of LDP members who believe in retaining the present Japan–U.S. Security Treaty as the basis of Japanese defense policy. Not all members of the “tribe,” however, are in these two groups. For example, the powerful Shin Kanemaru is considered a member of the “tribe” but is not an official member of either group.²⁷ The same is true of now-famous Masayuki Fujio, who was forced to resign from the cabinet in 1986 for his controversial statements about Japan’s role in wartime China. He is a member of the “tribe” but is not a member of the sectional council or of the committee.

An exhaustive survey of the views of the “national defense tribe” is beyond the scope of this chapter. What follows are representative positions that clarify and illustrate dimensions, trends, and dilemmas in Japanese defense policy.

Japanese foreign policy has often been criticized by Americans as insensitive to ideological and moral goals. American officials were appalled at continued Japanese patronage of Iranian oil at the height of the Iran hostage crisis a decade ago. More recently, the Japanese business-as-usual attitude in China after the Tiananmen massacre has added ammunition to these criticisms. The source of these differences is the weight morality plays in the conception of goals of foreign policy, and it undoubtedly weighs heavier in the American conception. Japan’s economic role in the world is definitely within the Western alliance’s strategic and ideological goals and is not divorced from the basic framework of East-West confrontation. Motoo Shiina, a former LDP Dietman and “tribe” member, reiterates this point in a recent comment on the Soviet Union:

I have often said this before. This country the Soviet Union is pitiful; as a great power it wants to be part of the world but it has nothing to give the world. It does not give aid to developing countries and is incapable of capital and technological export. . . . [It can only give the world “easing of tension”] but to do this it has to have tension first! While promoting tension, the Soviet Union also reduces tension. It can only continue in this contradiction.²⁸

There are also certain developments in the Western alliance Japan is not happy with that made the Western part of the alliance exuberant. One is the Intermediate Nuclear Forces (INF) Treaty. The treaty had no effect whatever on sea-borne intermediate-range nuclear weapons, which is one of Japan’s immediate strategic concerns. Neither did the goodwill the

²⁷Inoguchi and Iwai, *Zoku Giin no Kenkyū* [Studies on Policy Group Diet Members], p. 304.

²⁸“INF Zenpai Jōyaku Chōin Ato no Kokusai Jōsei to Nihon no Bōei” [The International Situation in the Post-INF Treaty and Japan’s Defense], *Jiyū Minsbu*, February 1988, p. 52.

treaty created among the Western members of the alliance reduce the Soviet intrusion into Japanese airspace. The post-INF era and the prospect of reducing the number of SS20s in Asia was seen by Shiina as simply giving the Soviet Union a new card against Japan, consequently complicating domestic political issues on defense for the LDP government. Though the INF Treaty may be beneficial psychologically to the Atlantic side of the alliance, it gives the Soviet Union a public relations edge against Japan by placing the Soviet Union in a position to issue a public call for the reduction of Japanese defense expenditure, a stop to Japanese participation in SDI, and other expansion plans for the SDF.²⁹ These are appealing to many domestic critics of Japanese defense policy, and the complications they could produce for the LDP government were not taken into consideration by the Western allies.

The intrinsic dilemma in Japanese defense policy, within the broad framework of contributing to peace through an economic role, is the difference between a truly peaceful contribution to world and regional stability and legitimate defense of Japan's worldwide interests, which may involve an extension of defense capability abroad, most probably in the Middle East. This issue came to the fore with the Persian Gulf crisis, when most members of the Western alliance sent ships to escort oil tankers in the Gulf. Japan did not send any naval vessels in spite of the fact that 60 percent of the tankers traversing the Persian Gulf were bound for Japan. Instead, Japan approached and offered aid to Oman, which is one of the Gulf states. The dilemma was acutely felt by some "tribe" members. Hisao Horinouchi made an analogy between the course of action Japan took and a burning apartment: The main gate of an apartment complex was burning and all the residents went out to help extinguish the fire. But Japan stayed indoors and said, "Let the strongest man solve the problem."³⁰

The possible dilemma of having to deploy forces abroad touches on almost all other issues confronting Japanese defense policy: the Peace Constitution, which may be interpreted as prohibiting such action; the very capability of the SDF, the hardware it has, and the quality of its personnel; highly sensitive public opinion; and the political problem of whether the leadership in Japan and the Ministry of Foreign Affairs is, collectively, politically capable of such a decision.

Shiina has pointed out that it is difficult to change the Japanese constitution to accommodate the American desire for greater Japanese defense capability, including deployment of vessels abroad. The essence of

²⁹Ibid., pp. 57–58.

³⁰"Kokusaika Jidai ni Okeru Nihon no Bōei Seisaku" [Japan's Defense Policy in the Era of Internationalization], *Jiyu* 340 (June 1988):23–24.

the psychological resistance to changing the constitution in response to U.S. pressure is that the Japanese, according to Shiina, view their constitution as U.S.-imposed; this being the case, the United States is obligated to remain strong. Thus, many Japanese ask why did the United States not remain strong for them.³¹ Realistically, however, it is recognized that there can no longer be any retreat to this psychology. Like Horinouchi, Shiina also made an analogy, this time to a baseball game: Japan is accustomed to having the ball fall on the right field; now the ball falls both on the center and left fields. Shiina is optimistic about improving the capability of the SDF. He said, "Hitherto, discussions on defense have been whether to keep the 1 percent framework or not. . . . When this has disappeared, we will talk about what is really necessary for defense."³²

Horinouchi further elaborates on the dilemma of having to defend Japan's interest abroad:

I always say that [the SDF is] only for defensive purposes. While this certainly is true, we have to think of how far self-defense goes. We cannot preempt if we know that there is an impending attack on us, and the law on the SDF does not provide for this. In self-defense we have to understand that up to a point offense is the best defense. It is not simply a problem of Japan's power not enabling it to attack first. We have to rethink these things.³³

In the context of the Persian Gulf crisis, Horinouchi pointed out that it is not a question of whom Japan sides with in the Iran–Iraq War, but a matter of safe conduct of Japanese ships. This is an action Japan may have to take, but it is also an action the constitution does not provide for. He added that Japan cannot go on cooperating with the United States in all global problems except on strategic problems.³⁴

According to Horinouchi, the constitutional limitation on the SDF may not necessarily be broken if Japan sends troops abroad under the auspices of a United Nations peacekeeping force. Horinouchi believes that the public will not be so strongly opposed to this course of action.³⁵ However, he cited two other domestic political considerations that would inhibit Japan from doing this. One of his great doubts is whether the *kachō* or division chiefs of the Ministry of Foreign Affairs would ever suggest such a

³¹"INF Zenpai Jōyaku. . ." [The International Situation in the Post-INF Treaty. . .], *Jiyu* (June 1988):63.

³²Ibid.

³³"Kokusaika Jidai ni Okeru. . ." [Japan's Defense Policy in the Era of . . .], p. 24.

³⁴Ibid.

³⁵Ibid.

course of action. The other problem is the political leadership in Japan itself, whom Horinouchi describes as “still a long way from sufficiently responding to the world.” These two political problems make Japan highly hesitant and indecisive in security matters. Horinouchi further adds that Japan cannot go on simply solving international problems with aid and more money. “Japan solves everything with money. . . . This idea that all we have to do is give money is a mistake.”³⁶

The capability of the SDF depends on the training of personnel and the hardware the SDF possesses. Concretely, this translates into a problem of whether to continue the import of hardware from the United States or expand domestic manufacture, either under license or independently. This issue confronting the SDF has recently surfaced with the famous FSX issue, but it was already encountered on a smaller scale in the desire of Japan to import the AEGIS system and the OTH radar. The limited size of the SDF and the prohibition on the export of military hardware necessarily limits the economy of scale of weapons producers in Japan. This makes the Japanese weapons industry one of the most inefficient in the world. It is said that a Japanese-made tank costs seven times the world price; a Japanese-made rifle costs three times the world market price. The issue of whether to import or manufacture domestically is related to the expansion of defense expenditure. Given the production structure of Japan, the domestic manufacture of military hardware is also closely related to the growth of certain undeveloped civilian industries in Japan, such as the aerospace industry, as well as to the problem of trade imbalance with the United States. Horinouchi summarizes the problem:

Right now the domestic manufacture [of hardware] through licensing agreement, and this being a factor in trade imbalance with the United States, is something I understand very well. . . . However, [if we stop domestic manufacture of hardware] and think of the problems of the Japanese defense industry and of maintenance, there won't be a true defensive capability [for the SDF]. We cannot ask and call on America for every repair.³⁷

Horinouchi, however, is not calling for total independence of the SDF from the United States but rather recognizes the importance of common hardware with the United States in view of a common strategy. The domestic problem with the Japanese defense industry is that it cannot achieve an economy of scale with the present level of manufacturing under its licensing agreement with the United States. This limitation consequently affects the capabilities of the SDF.

³⁶Ibid., p. 25.

³⁷Ibid., p. 12.

Directly addressing Asian anxieties about Japanese military power, Hisahiko Okazaki, not an LDP politician but a diplomat, said early in 1989 that it is difficult for Japan to take over the role of the United States in Asia.³⁸ Asian anxiety over Japanese military power in recent time has mainly been China's, not Southeast Asia's, criticisms of Japan's defense policy. Southeast Asians have not made any definite public statement on the issue, he claimed. He also added that when Americans talk of Asian anxiety about Japanese military power, they are actually referring to China's concerns.

In 1988, some voices have been heard in the U.S. Congress demanding that Japan, as part of burden sharing, should shoulder about half of what the United States spends in the upkeep of its military bases in the Philippines. Kazuo Tanigawa, a member of the Diet special committee on defense and former minister of state for defense, confirms that there has been unofficial talk to this effect. He asserts, however, that this expenditure would be difficult because of a strong demand to upgrade the living conditions of SDF personnel and their families in Japan itself.³⁹

Public Opinion on Defense and the SDF

All these views indicative of dilemmas and trends in the Japanese defense policy by no means imply a coming rapid or destabilizing transformation of Japan's defense posture and capability. Changes will probably be very slow, measured, and incremental. Though politicians may be influential and hold strong views, the fact remains that no Japanese politician, LDP or otherwise, ever ran on the issue of a strong defense force nor even made it part of his campaign platform. Public opinion will play a role in future changes in the orientation of Japanese defense policy because of the sensitivity of politicians to public opinion. The fact that public opinion is also constantly monitored both by the government and the media means that it affects changes in defense policy. Public opinion in Japan does have a certain strength in controlling the behavior of politicians when compared to public opinion in other countries. Masashi Nishihara writes:

All political leaders concerned about their electoral votes must be careful not to alienate strong pacifist groups around the country; these are exploited by the Socialist Party with a large degree of success. Some leading daily newspapers also exploit the pacifist sentiment. Because of Japan's consensus-oriented culture, the government party is reluctant to take confrontational postures on defense. The LDP leaders who feel that

³⁸"Nishigawa no Kōbō to Nihon no Yakuwari" [Western Defense and Japan's Role], *Kokubo* 38 (1989): 24–25.

³⁹"Nihon no Yakuwari—Bōei, Jiyūka" [Japan's Role: Defense, Liberalization], *Jiyū* 339 (1988):14.

Japan should quickly strengthen its defense capability must accommodate themselves to such a political reality. Thus Japanese leaders tend to follow public opinion rather than to lead it. They are responsive to public opinion rather than being responsible for it. In a Japanese-style democracy where consensus has paramount importance, perhaps there is political wisdom in not making clearcut decisions on defense issues, the responsibility of SDF officers, nuclear issues, and so on. To live in political ambiguity, including the constitutional ambiguity of the status of the SDF itself, is a generally accepted fact of life for many Japanese.⁴⁰

Public opinion on defense has changed in the last three decades. This section discusses Japanese public opinion on defense policy and the SDF using time series data gathered by the Office of the Cabinet Secretariat, Office of the Prime Minister (Sōrifu, Naikaku Sōri Daiji Kanbu, or Sōrifu).⁴¹ This survey has consistently been carried out every three years since 1959 with a nationwide sample of 3,000 individuals twenty years of age and above. The questions varied through the years and were concerned with the public image of, and knowledge about, the SDF and basic issues in Japan's defense system. A group of interrelated questions selected for discussion here cover the period 1961 to 1987 and concern what the respondents felt were: (1) the tasks of the SDF, (2) in what kind of task the SDF was *actually* useful, and (3) which task of the SDF the respondents felt should be strengthened in the future. Another group of questions to be examined here were the respondents' perceptions of: (1) the usefulness of the Japan–U.S. Security Treaty for the period 1978 to 1987, (2) how to best maintain Japan's security from 1969 to 1987, and finally, (3) external threat from 1969 to 1987.

Public perception of the SDF as mainly an instrument for external security (and not merely for domestic actions such as calamity duties, maintaining domestic peace, and aiding community projects) almost doubled from 1961 to the present, and in fact shows a rather steep increase through the years (from 34% in 1961 to 63.5% in 1987). The average for the whole period was 49.7 percent. Though the public acknowledges this to be the main task of the SDF, however, it does not actually see the SDF as having been *actually* useful as an instrument for external security. In 1961, only 2 percent of the respondents saw the SDF as being actually useful for external security; this figure grew to only 8 percent by 1987. (The average

⁴⁰Masashi Nishihara, "The Japanese Organization of Defense," in Martin Edmonds, ed., *Central Organization of Defense* (Boulder: Westview Press, 1985), p. 144.

⁴¹Information Office, Cabinet Secretariat, Office of the Prime Minister, *Jietai, Bōei Mondai ni Kansuru Yoron Chōsa* [Public Opinion Survey on the SDF and Defense Problem] (Tokyo: Naikaku Sori Daiji Kanbu, 1961, 1963, 1965, 1967, 1969, 1972, 1975, 1978, 1981, 1984, 1987).

for the period was 6.6%.) But from 1963 to 1987, the public gradually began to feel the need to strengthen the external security role of the SDF. In 1963, only 18 percent felt that the external security task of the SDF should be strengthened in the future; this percentage increased to 44 percent in 1984 and 38 percent in 1987. (The average for the period was 30.4%.)

In contrast to these trends, public perception that the task of the SDF was that of maintaining domestic peace remained stable with 17 percent in 1961, rising to 27 percent in 1965 and declining to 18.6 percent in 1987. (The average from 1961 to 1987 was 20.4%). Those who felt that the task of the SDF was mainly to perform calamity duties declined rather steeply from 27 percent in 1961 to 10.8 percent in 1987, averaging 16.8 percent for the period. In terms of *actual usefulness* of the SDF, the public still saw that the SDF was useful mainly in calamity duties (77% in 1987, almost the same as the 78% score in 1961, averaging 75.2% for the period). Only a small percentage of the respondents felt that the SDF was useful for external security (8% in 1987, up from 2% in 1961, averaging 6.6% for the period).

One conclusion that can be drawn from these data is that the Japanese public, in general, has begun to see external security as indeed a vital task of the SDF. "External security," however, was equivocally defined in the survey as "detering foreign invasion" (*gaikoku kara no shinryaku no yokusbi*) and is not to be equated with the public's acceptance of a direct foreign military role. The public's view is therefore rather narrow and nowhere near the usually accepted roles of military power associated with superpower status. What the data ultimately point to is that the Japanese public now accepts its SDF as a rightful instrument of a sovereign power and no more than that.

Turning now to aspects of Japanese external security as they directly relate with Japan's relations with the United States, in 1987 a total of 68.8 percent of the respondents in the same time series data felt that the Japan-U.S. Security Treaty was useful, slightly up from 65.6 percent in 1978. The average for this response from 1978 to 1987 was 67.9 percent. In contrast, only a total of 11.6 percent felt it was useless. In 1978, the percentage of those who felt the treaty was useless was 11.8 percent. (The average was 11.6% for the whole period.) Public opinion in effect supports the position of the *ampo zoku* in the LDP, who believe in keeping the security alliance with the United States.

This pronounced belief that the Japan-U.S. treaty is useful for Japan is further supported by responses to a question on how the respondents felt the security of Japan should be maintained. In 1987, 67.4 percent of the respondents found agreeable (*ima no genjō de yoi*) the present situation of an alliance system with the United States and the existence of the SDF. In

1969, the percentage for the same response was 40.9 percent. (The average from 1969 to 1987 was 56.9%.) The respondents categorically reject self-reliance in defense, with only 5.9 percent in 1987 favoring it. (The average for this response for the period 1969 to 1987 was 8.2%.) The public also rejects disarmament as a way of maintaining security with a score of only 8.7 percent in 1987, and an average of only 8.7 percent from 1969 to 1987. It must also be added that in 1969, 35.3 percent of the respondents were undecided on how to maintain Japanese security, or whether to choose self-reliance, accept the Japan–U.S. treaty and the SDF, or disarm. Those undecided declined to 18.3 percent by 1987. Considering that only the responses for finding the present situation as agreeable increased appreciably for the whole period, most of the undecided must have shifted to this choice.

Finally, from 1969 to 1987 a considerable number of Japanese, at times reaching a majority, felt that there is a danger of Japan's getting involved in a war. The reason most often cited for this danger is the general world situation, not necessarily alliance with the United States.

Conclusion

I have argued that political parties and politicians in Japan, especially the LDP and its members, have gained greater power than the bureaucracy in deciding policy. It is therefore beneficial to know the thinking of LDP politicians on Japan's defense issues, especially members of the *kokubō zoku*, or "national defense tribe." The thinking of these politicians can give us insights into some of the defense issues that confront Japan at home and abroad.

It has also been shown that Philippine perceptions of Japanese defense policy in the last two decades have been influenced not only by domestic factors in the Philippines but also by some trends in the mainstream of Japanese politics.

Finally, public opinion trends also show that the SDF has been accepted by the Japanese public over the last three decades and that the public is generally satisfied with the present security system and alliance with the United States. Southeast Asia will probably not witness a rapid growth of Japanese military power, but only a slow incremental growth that will basically be nonaggressive.

4. Japan's Defense Policy: The Internal Debate

NORMAN D. LEVIN

Defense has been a contentious issue in Japan throughout the postwar period. Debate over defense has accordingly been a constant characteristic of Japanese politics. In retrospect, however, the internal debate appears to have peaked at roughly ten-year intervals. Out of each peak came a set of governmental decisions or policies that dampened domestic debate and laid a course for the ensuing decade.

Trends in the international and domestic Japanese environments are increasingly raising questions about Japan's future orientation. Many observers are wondering whether Japan may be entering yet another phase in its debate cycle, from which might come significant departures in Japanese defense policies. This chapter summarizes the historical evolution of Japanese defense policies, analyzes the main issues involved in the internal debate, and assesses the prospects for Japan's defense policy over the first half of the 1990s.

Historical Evolution

The Japanese defense debate has reached something of a climax three times since Japan regained full independence in 1951. The first was in the late 1950s over revision of the 1951 U.S.–Japan Security Treaty. The roots of this debate go back to the Occupation period itself, when widespread antimilitary sentiment and popular reluctance to become involved in the East-West confrontation strengthened neutralist sentiment in general and opposition to a long-term, open-ended security arrangement with the United States in particular. As Japanese nationalism grew during the mid-1950s, public pressure mounted on the Japanese government to revise

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the “one-sided” and “unequal” treaty.¹ At the same time, Japanese leaders faced the need to respond to large-scale U.S. military withdrawals from Japan and related American pressures for greater Japanese rearmament efforts. Out of these circumstances—and the entanglement of the Security Treaty issue in the political question of Liberal Democratic Party (LDP) presidential succession—came the great security debate of the late 1950s, which culminated in massive student demonstrations, the cancelation of a state visit by U.S. President Dwight Eisenhower to Japan, and the fall of the Kishi government.

This debate produced two results with lasting import for Japan’s postwar defense policy. One was the adoption in May 1957 of the Basic Policy of National Defense. This document, designed as both the formal basis for a long-term defense buildup program and the prerequisite for U.S. agreement to Security Treaty revision, called for the “gradual” development of “effective” Japanese defense capability to prevent direct and indirect aggression; at the same time, it identified the U.S.–Japan Security Treaty as the “basis” for Japan’s external defense. The second result was revision of the Security Treaty itself in 1960, which modified the treaty’s more noxious (in terms of Japanese domestic politics) features while ensuring the U.S. commitment to defend Japan against foreign aggression.

The Basic Policy for National Defense and revised U.S.–Japan Security Treaty—together with the proscription against nuclear weapons (formally codified a few years later in the three Non-Nuclear Policies) and the ban on “war potential” embodied in the Japanese constitution itself—completed the basic security framework for Japan’s postwar defense. This framework enabled Japan to begin a long-term rearmament effort while requiring that this effort be “gradual,” “in accord with national capability and the domestic situation,” and “within the limits necessary for self-defense.” The framework also facilitated the withdrawal of U.S. ground forces from Japan and the formal assumption by the Japanese of responsibility for their own defense while guaranteeing in practice continued heavy reliance on the United States for Japan’s external security.

By the late 1960s, international and domestic trends eroded Japanese confidence in such continued heavy reliance on the United States. Chief among the international trends were the relative decline of U.S. military superiority over the Soviet Union, reflected in the Soviet attainment of

¹The treaty was felt to be “one-sided” because it gave the United States the right to station troops in Japan but did not contain any explicit U.S. obligation to come to Japan’s defense. Other major objections included the absence of any time limit to the treaty and the ability of the United States to use its Japan-based troops outside Japan without consulting the Japanese ahead of time. The best account remains George Packard, *Protest in Tokyo* (Princeton, N.J.: Princeton University Press, 1966).

rough nuclear parity, and the perceived decline in U.S. interest in Asia, symbolized by the “Nixon Doctrine” of July 1969 and made concrete by subsequent U.S. force reductions in Japan, South Korea, and Southeast Asia. Major bilateral and domestic trends included the prospective return of Okinawa to Japan, which carried with it the perceived requirement for greater Japanese self-defense responsibility; the ending of the fixed, ten-year period for the Security Treaty and the advent of a situation under which the treaty could be abrogated by either side with only one year’s notice; and the growth of Japan into a major economic power. These trends called into question both the willingness and ability of the United States to aid Japan effectively in the event of external aggression. They also set off the second debate, mainly over Japan’s own defense efforts.

Part of the debate revolved around the effort by then Defense Agency Director-General Yasuhiro Nakasone to revise the 1957 Basic Policy of National Defense. Nakasone sought to substitute for the provision describing the U.S.–Japan Security Treaty as the “basis” of Japan’s defense some statement heightening Japan’s own “autonomous” defense responsibility. The bulk of the debate, however, centered on Japan’s Fourth Defense Buildup Plan, which Japanese defense leaders sought to use to significantly expand Japan’s defense roles and enhance its defense capabilities.² Intense Asian criticisms of these efforts and charges of “reviving Japanese militarism” inflamed the internal debate, while new international trends soon after the Fourth Defense Plan was announced in April 1971—including the surprise announcement in July 1971 of U.S. President Richard Nixon’s trip to China, the first Strategic Arms Limitation Talks agreement (SALT I) in May 1972, and the development of détente between the two superpowers—heightened domestic opposition to expanded Japanese defense efforts and intensified calls for a “brake” on Japan’s defense buildup.

In response, the Japanese government seriously cut back the Fourth Defense Plan and made it a simple continuation of the Third Plan in both form and substance. The experience with the Fourth Defense Plan, however, left the government at a dead end concerning its future defense buildup. In an effort to depoliticize the defense issue and generate greater public support for continued military improvements, government leaders developed a new concept in the early 1970s to serve as the basis for Japan’s future defense buildup: “basic defense capability.” After several years’ political lag, this concept was formally adopted as government policy in 1976 in the National Defense Program Outline.

The National Defense Program Outline (NDPO) was designed to

²For more details, see my paper, *Japan's Changing Defense Posture*, N-2739-OSD (Rand Corporation, June 1988), pp. 4–7, from which this section is distilled.

define the “minimum level of defense forces” necessary for Japan in “peacetime.” In military terms, its key component was the removal of estimates of potential enemy capabilities as the basis for calculating Japan’s defense requirements. Instead, the NDPO argued that international conditions precluded any large-scale aggression against Japan. For this reason, Japan could make do with a “standard defense force” or “basic defense capability” that would be sufficient to deal with “limited and small-scale aggression.” This force was to be balanced between front-line equipment and rear support and was capable of being rapidly expanded in an emergency. Should such an “emergency” situation develop, Japan would seek to prevent the aggressor from accomplishing his objective and, by keeping up a resistance, buy time for the situation to be resolved through outside intervention.

The formal adoption of a buildup program placing explicit quantitative limits on Japanese force levels, together with a series of other steps reaffirming the basic security framework established over the course of the 1950s,³ helped dampen Asian criticisms of Japan’s defense efforts. It also helped lower the decibel level of public debate within Japan and create a more conducive atmosphere for realistic treatment of defense issues.

By the late 1970s and early 1980s, however, this minimalist orientation was increasingly challenged by a further series of international developments. These included the U.S. defeat in Vietnam; U.S. President Jimmy Carter’s abortive plan to withdraw all U.S. combat forces from Korea; growing instability in the Mideast and the adoption by the United States of a naval “swing strategy”; the extraordinary Soviet military buildup in the Far East, including the deployment of SS-20 intermediate-range missiles and Soviet militarization of Japan’s “northern territories”; and increased Soviet adventurism globally, culminating in the invasion of Afghanistan in 1979. At the same time, successive oil crises, rising protectionist sentiment in the West, and deepening economic interdependence globally had heightened public anxieties concerning Japan’s *economic* security. Together, these developments precipitated the third peak in Japan’s defense debate, this one over the adequacy of Japan’s broad defense posture.

Unquestionably, Japanese leaders regarded these trends as adverse.⁴

³The government, for example, reaffirmed the Three Non-Nuclear Principles and other proscriptions against “offensive” weapons, conscription, and the dispatch of Japanese troops overseas. It also strengthened the standing ban on arms exports and set a formal ceiling on defense expenditures of 1 percent of Japan’s GNP.

⁴The 1981 defense white paper, for example, acknowledged that “a tendency undesirable to the West seems to be growing in the military power balance between the United States and the Soviet Union” and concluded that “Japan must exert further defense effort . . . as well as efforts for making the Japan–U.S. security arrangements more effective.” Defense Agency, *Defense of Japan 1981*, pp. 111–112.

They continued to be faced, however, with serious financial constraints, recruitment limitation, and political opposition to expanded military efforts. For these reasons the government did not formally revise its basic defense policies. Instead, Japanese leaders put forth two new concepts that enabled them to make adjustments to these policies while maintaining the existing security framework. These were “comprehensive security” and Japan’s role as a “member of the West.”

Both concepts had been around a long time. Their salience in policy terms, however, dates to the latter 1970s and early 1980s. “Comprehensive security,” subsuming both military and nonmilitary threats as well as efforts to maintain the international order, was championed in a spate of government-inspired advisory group reports between 1977 and 1984.⁵ Japan’s role as a “member of the West” formally dates to the spring of 1980, when Prime Minister Masayoshi Ohira told President Carter that problems such as Iran and Afghanistan “are problems of world order” and pledged Japan’s close cooperation in building “credible alliance relations.”⁶ Both concepts involved an increasingly global perspective on security issues, a strong desire for regular consultations with the United States and other Western nations, and heightened Japanese activism—including greater Japanese support for the concept of “burden sharing.”

Based on these two concepts, Japan began to modify its defense posture in four main areas. First, Japan began to make greater efforts to improve its indigenous defense capabilities. Recognizing the gap between even the modest targets set up in the National Defense Program Outline and Japan’s existing military capabilities, the government began to devote increased resources to defense. Real increases in Japanese defense spending since the early 1980s, for example, have averaged over 5 percent annually. Today, total Japanese defense spending is on the order of US \$30 billion. Drawing on the NDPO’s allowance for “qualitative” improvements, Japan has used these increased resources to develop a small but high-quality self-defense capacity that includes sophisticated air defense fighters, advanced missiles, and high-technology early warning systems.

It is important not to exaggerate these capabilities. The Japanese Self-

⁵These include those of the Nomura Research Institute in December 1977, the Comprehensive National Security Study Group in July 1980, and the Peace Problem Research Council in December 1984. For details on the reports of these groups and a useful summary of the role of the “comprehensive security” concept in Japanese security policies, see Tetsuya Umemoto, “Comprehensive Security and the Evolution of the Japanese Security Posture” in Robert A. Scalapino et al., eds., *Asian Security Issues: Regional and Global* (Berkeley: Institute of East Asian Studies, University of California, 1988), pp. 28–49. Also see Robert Barnett, *Beyond War—Japan's Concept of Comprehensive National Security* (New York: Pergamon-Brassey, 1984).

⁶*Yomiuri Shinbun*, May 2, 1980.

Defense Forces continue to be plagued by both quantitative limitations and operational constraints. Inadequate logistics, vulnerable communication and air defense facilities, and legal or administrative obstacles to effective military operations seriously affect the SDF's readiness and sustainability and hamper the fulfillment of even the NDPO's modest objectives. The frequent depictions of Japanese military "power" as "ranking third" in the world, based on simple comparisons of military spending in absolute dollars, are doubly misleading: They do not take into account the rapid appreciation of the yen over the past several years, which has made increased Japanese defense spending appear even more dramatic; and they ignore the disproportionately large share of Japanese defense spending that, in the absence of conscription, goes simply to pay for and support Japan's military volunteers.

In the final analysis, military power is determined not by military spending per se but by military capabilities. Japanese efforts over the past decade, by this measure, should be placed in some perspective. They have provided Japan greater sustainability and reach and have strengthened its ability, particularly in the area of air defense and antisubmarine warfare, to defend itself against small-scale acts of aggression. They have not provided Japan the capability for projecting power overseas or for assuming by itself a "regional" defense responsibility.

Second, Japan has somewhat broadened its defense strategies. The formal point of departure for this effort was Japanese acceptance in 1981 of responsibility for the defense of its sea lanes west of Guam and north of the Philippines—that is, to a distance of 1,000 nautical miles. The dramatic qualitative improvements in Soviet military capabilities in the Far East, however, and technological advances such as the Soviet deployment of long-range standoff missiles, were also important contributing factors. In response, Japan began to push out the perimeters of Japanese air and naval responsibilities, with the objective of repelling any Soviet attack as far away from Japan's shores as possible and defending Japan's sea lines of communication.

This movement toward a strategy of offshore air and sea lane defense represents a modest but significant departure from Japan's longstanding orientation of defense "at the water's edge." The actions sanctioned by the Japanese government over the last several years under this strategy include acting to close the straits around Japan at U.S. request when Japan is under attack and defending U.S. warships even if they are "on the high seas."⁷ The development of this strategy has given new importance to the issues of

⁷Masashi Nishihara, "Prospects for Japan's Defense Strength and International Security Role" in Douglas Stuart, ed., *Security within the Pacific Rim* (Gower, 1987), pp. 42–43.

intelligence, communication, and command and control and has encouraged Japan to give relatively greater priority to the development of the Air and Maritime Self-Defense Forces.

Third, Japan has significantly expanded its military interactions with the United States. This expansion dates to the end of 1978, when both countries approved the Guidelines on U.S.–Japan Defense Cooperation. These guidelines were designed to provide a basis for expanded bilateral cooperation in three areas: deterring aggression against Japan; responding to potential and actual attacks on Japan; and dealing with broader threats in the Far East that have implications for Japanese security. Based on these guidelines, Japan has taken part in a number of joint operational studies while dramatically expanding its participation in joint military exercises and training. Other actions taken by Japan to strengthen U.S.–Japan military ties include: increased Japanese financial support for the U.S. military presence in Japan; steps to facilitate the operation of U.S. military forces in the Far East and beyond, such as providing home-porting facilities to the U.S. *Midway* and agreeing to the deployment of U.S. F-16s to Misawa; and the agreement to allow the transfer of military and dual-use technology to the United States.

Finally, Japan has begun to develop a more active set of policies internationally. In line with the concepts of “comprehensive security” and Japan’s role as a “member of the West,” Japan has supported the Western allies over the past decade on the full range of political issues. It has endorsed Allied statements on arms control and terrorism. And it has significantly increased its foreign economic assistance, to the point where Japan has or will soon become the world’s largest donor of official development assistance. An increasing portion of this assistance has gone to countries, such as Egypt, Turkey, and Pakistan, that are strategically important to the West. In the process, Japan may have passed through something of a watershed: Although the U.S.–Japan security alliance has always been a political and economic as well as military arrangement, it was only at the beginning of the 1980s that Japan began acting on the basis of these broader components of national security.

Seen in these terms, Japan’s defense policy over the past decade or so shows elements of both change and continuity. A fundamental, underlying continuity can be seen in Japan’s basic defense posture. The Japanese continue, for example, to maintain the security framework developed in the 1950s, including the constitutional renunciation of war “as a sovereign right of the nation” and the ban on the possession of “war potential,” the Basic Policy of National Defense, the U.S.–Japan Security Treaty, and the proscriptions against nuclear weapons and arms exports. In addition, Japan continues to restrict its efforts to the strict defense of Japanese

territory and surrounding areas. What Japan has done is to expand its definition of self-defense responsibilities while increasing its support of U.S. defense activities as a member of the Western community.

The Internal Debate

The same trends that have induced modifications in Japan's overall defense posture over the past decade or so have also had consequences for the internal debate. First and foremost, they have thrown doubt on the postwar Japanese tendency to rely almost exclusively on the United States for Japan's external security. Increasingly, the debate has had to include the question of credibility, in terms of both the willingness and ability of the United States to protect Japanese security interests, and has had to explore the ramifications for Japan of the increased uncertainty.

Second, the trends have helped alter Japan's definition of external threat. The Japanese sense of threat, always minimal by Western standards, was muted further by the global dominance of the United States in the first twenty-five years of the postwar period. With the growth of Soviet military power, the relative decline of the United States, and the rise of economic security as a focus of Japanese concern in the 1970s, the nature of potential threats became both more direct and multifaceted. At precisely the same time, the traditional means for dealing with these threats diminished in utility. The result has been a new perception in Japanese defense discussions of Japan's security vulnerability.

Third, domestic and international changes have diminished the salience of the Security Treaty issue. As the question gradually changed from whether or not the United States would "drag" Japan into war against its wishes to how to keep the United States committed to and involved in Japan's defense, the debate has had to make room for such considerations.

Finally, the trends have made Japanese defense discussions somewhat more concrete and substantive. As the general sense of threat increased and economic issues became linked to questions of security, the defense debate lost some of its abstract quality. This has been facilitated by changes in the positions of the major opposition parties, with the Japan Socialist Party, the Democratic Socialist Party, and the Komeito all adopting more moderate positions on security issues over the past ten to twelve years. As a result, defense discussions have demonstrated what the Japanese are fond of calling increased "realism."

In the process, the defense debate in Japan has come to embody a larger number of issues, covering a greater breadth of concern, than in any previous period. Whereas for years the debate focused heavily on the constitutionality of the Self-Defense Forces and the pros and cons of the Security Treaty, now a whole range of issues is being discussed, including a

number of issues long regarded as taboo. Debates at Diet sessions over the last two years involved at least twelve major issues, ranging from the effect of nuclear arms control agreements to how Japan plans to protect itself from long-range missile attacks. At the most general level, however, five broad types or categories of issues can be identified.

First are those dealing essentially with constitutional issues. This is an old category. Included are questions pertaining to the constitutionality of nuclear weapons or conscription, for example, and whether the participation of Japanese forces in international peacekeeping efforts would violate the "constitutional" prohibition against sending troops overseas. Two issues in this general category have recently received renewed attention: whether those weapons systems the SDF plan to procure violate the constitutional ban on the maintenance of "war potential" and whether Japanese measures to improve interactions with the United States violate the restriction against participation in "collective" defense.

On the war potential issue the position of the government has been consistent since the mid-1950s. Defining "war potential" as military power beyond the "minimum necessary for self-defense" and insisting that "self-defense" is inherently constitutional, the government has judged all weapons possessed by the Self-Defense Forces to be within the strictures of the constitution. Under this interpretation Japanese leaders have held that even nuclear weapons, if they were clearly "defensive" in nature, would in principle be constitutional. The government has acknowledged, however, that Japan's accession to the Nuclear Non-Proliferation Treaty made their manufacture illegal, while it has upheld as a governmental policy the Three Non-Nuclear Principles banning the possession, manufacture, or introduction of such weapons into Japan. It has also abjured the possession of "offensive" weapons such as large aircraft carriers, intercontinental ballistic missiles, and long-range bombers. Whether smaller, "defensive" carriers for antisubmarine warfare are allowable is one of the issues currently being debated.

The debate over alleged Japanese participation in "collective" defense is similarly linked to the government's fundamental interpretation of the constitution as limiting Japanese military efforts exclusively to "self"-defense measures. So central has this interpretation been to Japan's basic defense policies that there is no provision in the U.S.-Japan Security Treaty, despite the insertion of the word "mutual" in the title of the treaty when it was revised in 1960, that obligates Japan to come to America's assistance in the event of an attack on the United States. The new salience of this issue stems partly from the expansion of U.S.-Japan military interactions over the past decade, which has resulted from the efforts of both countries to ensure effective operational capabilities to cope with situations laid out in

the 1978 defense cooperation "Guidelines." It also stems partly from the offensively oriented American military strategy in the Far East, which has stimulated latent Japanese fears of being "dragged into" an unwanted conflict. By broadening the range of constitutionally permissible SDF actions, such as sanctioning steps by the Self-Defense Forces to close the straits around Japan to the Soviet fleet in the event of an emergency situation and to help defend U.S. warships even if Japan itself is not under attack, Japanese leaders have exacerbated these anxieties and heightened criticism of the government's policies as exceeding the realm of "self"-defense.

Much of the debate over these kinds of "constitutional" issues reflects longstanding efforts by the opposition to attack and weaken the government. What is new about this sort of debate is threefold: the relative decreasing frequency of such opposition attacks on constitutional grounds; the declining rate of success when such attacks are attempted; and the occasional ability of the government to turn the tables on the opposition and use such attacks to its own advantage.

A second general category of issues concerns the relationship between the military and the other components of national security. Events over the last two decades have sensitized Japan to a series of potential dangers: cutoffs in the flow of oil; denials of access to fishing areas; and disruptions of sea lanes threatening Japan's food supplies. Global economic interdependence has driven home the potential costs to Japan of instability in distant but critical parts of the world.

In general, the tendency in Japan has been to minimize the utility of force in regard to such issues and to emphasize the roles of diplomacy or economic assistance. Increasingly, however, some military component has come to be accepted. The concept of "comprehensive security" itself has helped facilitate this process. It is one thing to argue that security is far more than merely defense. It is another thing to argue that a truly "comprehensive" security policy ought not to *include* defense. This distinction has generated debate in the last several years on a range of new issues. Illustrative examples include whether Japan should institute a "comprehensive security cost" on the order of 3 percent of the gross national product (GNP), pulling together expenditures for "economic security" items (e.g., food and resource stockpiling, energy research, etc.), Official Development Assistance (ODA), and military defense; what role the Self-Defense Forces should play in responding to natural disasters; and whether Japan should agree to expanded military operations, such as sending minesweepers to the Persian Gulf, when important Japanese interests are endangered.

A third category involves those issues dealing with Japan's indigenous

defense capabilities. This is the set of issues most widely debated in Japan. For discussion purposes, the category might be divided into three subsets of issues: (1) What is the nature of the threat facing Japan and how should this threat be evaluated? (2) What should the strategies, missions, and roles be for the Self-Defense Forces in dealing with these threats? (3) What capabilities are required in order to fulfill these missions?

Threat definitions vary widely in Japan, ranging from those who perceive adverse trends and serious long-term dangers to those who see virtually no threat at all. As mentioned early, some Japanese see the greatest danger as involvement in a war as a result of Japan's alliance with the United States. In policy terms, however, the debate appears to involve two main groupings: those who believe that international conditions and the absence of any intention on the part of potential enemies to attack Japan limit the threats to Japan and buy time for Japan to build up a "basic defense capability" and those who see the growth of Soviet military capabilities in the Far East and trends in the superpower balance of power as constituting serious dangers requiring a more rapid and extensive indigenous buildup. At issue is not merely differing threat perceptions but the manner in which threat is to be calculated.⁸

As a general statement, threat perceptions at the public level in Japan have risen noticeably since the mid-1970s. These perceptions, moreover, appear more resistant to change than those in the United States. This is not only because of the historical animosity between Japan and the Soviet Union and Moscow's continued occupation of Japan's "northern territories." It is also because most Japanese sense the growing strategic importance of the northwest Pacific to the Soviet Union and see minimal prospects, despite the dramatic Soviet initiatives elsewhere, for major changes in the USSR's basic policies in that region. This perception has facilitated the efforts of both groupings described here to improve Japanese military capabilities.

⁸Japanese military leaders object to the use of assumptions about international developments and the intentions of neighboring nations as the basis for estimating Japan's needs at least as much as they object to the relatively low threat assessment resulting from such a process. They argue that threats can only be assessed based on calculations of the military capabilities of potential enemies. See, for example, "Tenki ni tatsu boei no arikata" [The National Defense], *Kokubo*, February 1976, pp. 8–63. Among more extended treatments, see in particular Hidejiro Kotani, *Boei noo Jitai: Boeicho no Biggu 4 to no Taidan* [The Reality of Defense: Conversations with the Defense Agency's Big 4] (Nihon Kyobunsha, 1972); Oriento Shobo Henshubu, *Nihon no Boei Senryaku* [Japan's Defense Strategy] (Oriento Shobo, 1977); Oriento Shobo Henshubu, *Jieitai Tatakawaba* [Were the Self-Defense Forces to Fight] (Oriento Shobo, 1976); Hideo Otake, [Japan's Defense and Domestic Policies] *Nihon no Boei to Kokunai Seiji* [Japan's Defense and Domestic Policies] (Mitsui Shobo, 1983); and Asao Mihara, *Nihon no Boei: Kore de Yoika* [Japan's Defense: Is this Enough?] (Jiyusha, 1985).

The question of strategies, missions, and roles for the Self-Defense Forces poses a relatively new set of issues. In much of the past the debate was over the SDF's *existence*. Today, the existence of the Self-Defense Forces themselves is generally accepted, and the question has increasingly turned to how they should be used and managed. Three issues have dominated recent debate in this area.

One concerns Japan's broad strategy of *senshu boei* ("exclusively defensive defense"). Although SDF leaders and other Japanese military specialists have always questioned the rationality of such a strategy, technological developments and the growth of Soviet long-range, power-projection capabilities have heightened their criticisms and generated debate in defense circles over the desirability of a more "offensive" orientation. Another issue pertains to Japan's 1,000-mile sea lane defense commitment. Many critics question the feasibility of such a defense responsibility, given Japan's long sea lanes and limited capabilities (major deficiencies include radar coverage, sea replenishment capabilities, and ability to support operations at sea); others go further and challenge the *desirability* of such a role, given (allegedly) the more "direct" threat in the north and Asian sensitivities to the expansion of Japanese naval responsibilities. A third contentious issue concerns the role of air defense at sea. Many Japanese criticize this role, because of its emphasis on securing the straits around Japan and protecting U.S. vessels that might be involved in offensive operations against the Soviet Union, as provocative and likely to involve Japan in an unwanted conflict because of its ties to the United States.

The final subset of issues in the general category of Japan's indigenous defense capabilities concerns the nature and extent of Japan's long-term defense buildup. Here the situation is somewhat ambiguous. On one hand, the Japanese government has achieved considerably greater consensus on the scope of Japan's defense buildup through its promulgation of the National Defense Program Outline and associated policies in 1976. This consensus is reflected in public opinion polls, which show popular support for maintaining the present level of defense capabilities under the U.S.–Japan Security Treaty to have risen from 40 percent in 1969 and 1972 to over 65 percent in the 1980s.⁹ On the other hand, there is continuing debate over both the target and desirable level for Japan's defense buildup.

⁹The figures were 65 percent in 1981, 69 percent in 1984, and 67 percent in 1987. At the same time, the percentage of those who are satisfied with the present level of spending on defense has risen from 38 percent in 1969 to 58 percent in 1987. These polls on the Self-Defense Forces and problems of defense are conducted every three years by the Prime Minister's office. For the latest one, from which these figures are taken, see *Seiron Chosa* [Public Opinion], August 1988, p. 13.

Views on these issues cover a wide spectrum, ranging from those who would like to see a fully “independent” Japan to those who favor some form of “unarmed neutrality.”¹⁰ The policy relevant debate, however, appears to be between those who support the “basic defense capability” concept embodied in the NDPO and those who call for a more expanded Japanese capability.

Both of these groups agree on the need to strengthen Japanese capabilities within the context of the U.S.–Japan Security Treaty system. The debate between them revolves around other issues: whether, as mentioned earlier, Japan’s defense buildup should be predicated on assumptions about the international situation or on the military capabilities of potential aggressors; whether the ability to cope with “limited and small-scale aggression,” which the NDPO defines as the formal target of Japan’s defense buildup, is an appropriate or even meaningful objective; whether it is desirable to base Japan’s national security, as the NDPO does, on the ability to “rapidly expand” Japanese defense capabilities in the event of an emergency, given the inherent ambiguities of “emergency” situations and the long lead time required to develop major weapons with which to respond; whether the growth of Soviet military power and the expansion of Japan’s self-defense responsibilities require modification of the quantitative restrictions placed on the Self-Defense Forces by the NDPO; and whether the NDPO itself should be revised in light of changes in the international and regional conditions since it was written.

A fourth general category embraces those issues dealing with Japan’s military interactions with the United States or, as former Prime Minister Nakasone put it when he served as Defense Agency Director-General in the early 1970s, the question of “how to shake hands” with America. Public opinion polls document the general popular acceptance of the Security Treaty. Roughly 70 percent of those surveyed have found the treaty to be either “useful” or “rather useful” over the last decade. Along with this general acceptance has come a change in the internal debate. Whereas

¹⁰There are many ways to analyze Japan’s defense debate and to categorize the schools of thinking. One writer has identified four main groupings: progressive, liberal-realist, mercantilist, and new nationalist. Another also sees four groups but defines them as political realists, unarmed neutralists, Japanese Gaulists, and military realists. Still another sees five groupings: realists, diplomats, conservatives, nuclear advocates, and strategists. This chapter tries to cut across such categorizations and define the debate in policy-relevant terms. For the efforts just mentioned, see Kenneth Pyle, “The Future of Japanese Nationality: An Essay in Contemporary History,” *Journal of Japanese Studies* 8, 2 (1982); Mike Mochizuki, “Japan’s Search for Strategy,” *International Security* 8, 3 (Winter 1983/84); and Tetsuya Kataoka and Ramon Myers, *Defending an Economic Superpower—Reassessing the U.S.–Japan Security Alliance* (Boulder, Colo: Westview Press, 1989), respectively.

discussions centered on the *desirability* of the Security Treaty in the 1950s and 1960s, debate now tends to focus on its *application*.

This altered focus has raised a host of new issues: What would the nature of Japanese participation be in joint planning and training activities? To what extent should Japan participate in joint operations? What attitude should Japan take toward the exchange of intelligence, the sharing of military technology, and the joint development of conventional weapons? What weight should it give to interoperability versus domestic arms production? How much and what kind of support should Japan provide for the U.S. military presence? To what extent should Japan integrate itself more broadly in the U.S. regional strategy? These are complex issues with no easy answers. As we have seen in the case of the FSX, Japan's next-term fighter plane, they can inflame opinion on both sides of the Pacific. What is significant is that they are finally being debated.

A final category includes those issues that, for lack of a better term, might be labeled "how to deal with defense." Included here are recent debates over improving civilian control, strengthening administrative organizations responsible for handling crisis situations, establishing a secrecy law governing classified documents, creating a unified command system and strengthening the basis for conducting integrated operations, and raising the status of Defense Agency personnel. To an outside observer, "civilian control" appears pretty well established in Japan in peacetime. The problem may be what happens in a crisis situation. Few procedures appear to have been worked out to guarantee an effective chain of command, although the government has created a new National Security Council in an effort to strengthen its ability to respond to terrorist attacks and other "emergency" situations and has established a Defense Review and Reform Committee to review problems of operational management. The enactment of legislation facilitating SDF operations in an emergency is one of the longstanding issues currently being actively debated.

Recent Trends and Future Prospects

This brief summary of the evolution of Japanese defense policies and analysis of the internal debate suggests an underlying continuity in Japan's basic approach to defense. Japan's relationship with the United States remains the central pillar of its defense and foreign policies; both Japanese elites and a substantial majority of the Japanese public favor a continuation of a defense posture based on the U.S.–Japan Security Treaty and Japanese military forces restricted to self-defense. At the same time, most Japanese acknowledge a relative decline in U.S. power and accordingly accept the need for some increase in Japan's own defense efforts and greater "burden

sharing" with the United States. There is broad debate over what these efforts should consist of and how far they should go. But there is general agreement on the need to move in this direction.

Given a choice, the Japanese overwhelmingly favor focusing any increased Japanese responsibilities in areas such as economic assistance. Strong political opposition remains to any major increase in Japan's defense capabilities or expansion of its security responsibilities. There is very little evidence of any reconsideration in the short term of either Japan's commitment to its security alliance with the United States or the other components (article 9 of the constitution, the Basic Policy of National Defense, the Three Non-Nuclear Policies, the ban on conscription, etc.) of its basic defense policies.

A number of recent trends, however, suggest the need for caution in assessing the prospects for the future. These trends relate not to the frictions in U.S.–Japan relations per se, although these frictions have their own cumulative importance, but to indications of potentially significant changes in more underlying attitudes.

One cause for concern is the increasingly negative view that many Japanese are coming to have of the United States. This perception results partly from the domestic difficulties in the United States and what Japanese see as the continuing inability of the U.S. to get its economic house in order. It also stems from the growing feeling that the United States is unfairly "picking on" Japan for its hard-earned success rather than confronting America's own difficulties. Even if Japan opened all its markets completely, the Japanese argue, the bilateral trade deficit would improve only marginally. U.S. attempts to improve its trade position and strengthen American competitiveness through such measures as the "Super 301" provisions of the Omnibus Trade Act are widely seen in Japan as reflecting a "unilateralism" unbecoming of a great nation.

This increasingly negative image is reinforced by the current debate in the United States over the "decline of America." Stimulated by Paul Kennedy's widely read thesis on how empires decline and growing congressional concern with American competitiveness, Americans have entered a period of national introspection and self-doubt. The Japanese appear far less taken by the notion of a historic "U.S. decline" than do many of their American counterparts, although they do, as mentioned above, see a *relative* U.S. decline in certain areas. Together with the objective U.S. budgetary difficulties, however, this internal American debate is beginning to raise questions in Japan about the prospects for U.S. leadership in general and for the U.S. presence in the Pacific in particular. In the process, new uncertainties are being expressed about the wisdom of continuing to

adhere to a deterrent posture vis-à-vis the Soviet Union and whether maintenance of the U.S.–Japan Security Treaty system, however desirable, will be possible over the long term.

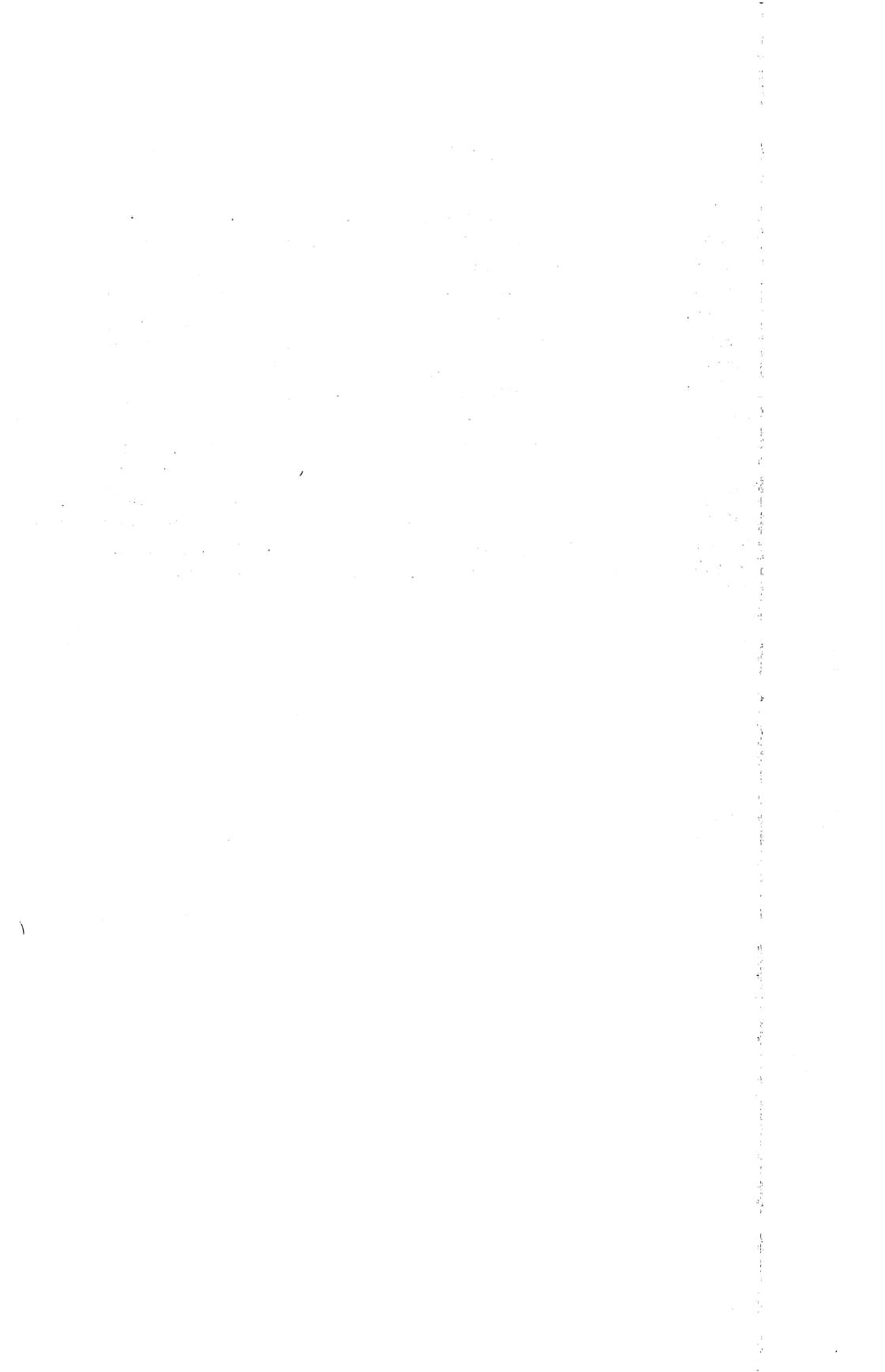
Most important, perhaps, is the mutual suspicion creeping into U.S.–Japan relations. As borne out by public opinion polls as well as a spate of recent journal articles and editorials, Americans are increasingly coming to see Japanese as opportunists, if not cheaters, and are raising questions about Japan's "trustworthiness." A surprising number of Americans now regard Japan as posing a greater "threat" to the United States than the Soviet Union does. This perception has already affected American handling of important bilateral issues, as we have seen in the U.S. rejection of the proposed sale of Fairchild to Fujitsu and in its handling of the AEGIS (sophisticated equipment for the maritime Self-Defense Forces) and FSX (Japan's next-term advanced fighter plane) issues. On the Japanese side, there is a growing questioning of U.S. motives. The new U.S. willingness to link economic and security issues, for example, is seen in some quarters as designed to restrain Japanese development. Demands for greater burden sharing, such as the request that Japan buy F-16s off the shelf for its next-term fighter, are viewed as aimed less at strengthening Japanese military capabilities than at improving the U.S. trade deficit. The U.S. handling of the FSX issue was particularly corrosive in this regard because it corroborated an emerging Japanese view of the United States as an unreliable security partner.

These attitudinal changes have an insidious effect. They come at a time, moreover, of considerable fluidity in the international and domestic environments. Continued changes in Soviet foreign policies could diminish support within Japan for increased self-defense efforts and expanded U.S.–Japan defense cooperation. Significant drawdowns in U.S. Pacific forces for budgetary or other reasons, particularly if coupled with the return of an aggressive Soviet government or the establishment of a hostile regime in Beijing, could bolster support for a more "independent" Japanese posture. Governmental and generational changes in Japan could weaken internationalist sentiment and undermine Japan's new willingness to actively identify itself with the West. Leadership weakness in both Japan and the United States could make it difficult to mobilize domestic support for policy changes necessary to maintain a healthy bilateral relationship, with leaders on both sides of the Pacific pandering to domestic interests and exporting unpopular political choices. Over the longer term, such developments could corrode U.S.–Japan relations and precipitate a reevaluation of Japanese security policies.

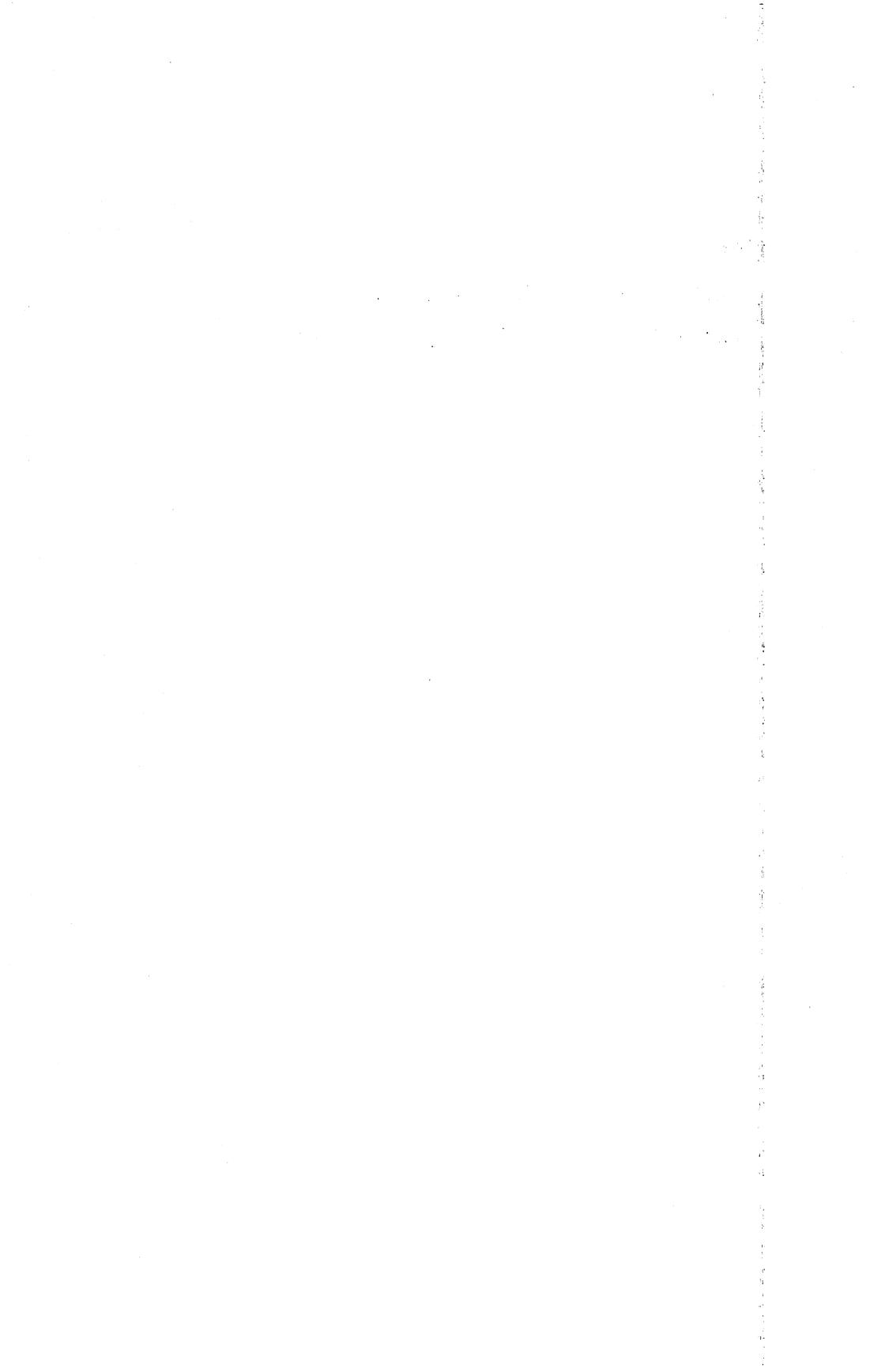
Among many factors likely to influence Japan's future course, the role of the United States and the evolution of U.S.–Japan relations will be central. If

the U.S. remains a credible security partner and the competitive components of the U.S.–Japan relationship are successfully managed, then the prospects are for a basic continuity over the next five to ten years in Japanese defense policies. This would involve continued qualitative improvements in Japan's military capabilities, in a buildup oriented solely toward the defense of Japan and surrounding areas and carried out within the context of the U.S.–Japan security system. It also would involve further integration of Japanese military efforts with those of the United States, as well as increased Japanese "burden-sharing" efforts.

A good basis has already been built for further movement in this direction. Japan's geostrategic isolation, the likelihood of a continuing Soviet threat, and Asian sensitivities to any major Japanese rearmament effort all bolster the prospects for such an evolution. If U.S.–Japan relations are not successfully managed, however, we could see over the course of the next decade a Japan that adopts a different kind of defense posture.



Part Three
Japan's Political Institutions
and the Decision-Making Process



5. Japan's Political Institutions and the Decision-Making Process

T. J. PEMPEL

Analyzing Japanese institutions and decision making requires us to confront the constant tension among the infinity of variables that makes every instance of decision making a unique experience and to search for patterns and commonalities that allow us to generalize meaningfully about such uniquenesses. This tension is as inevitable in Japan as it is elsewhere, as can be seen in the difficulties in resolving the plethora of case studies that have emerged on Japanese decisions with the equally numerous broad-scale generalizations that circulate about “Japanese-style decision making.”¹

This chapter attempts to straddle these two extremes by examining several middle-level propositions about Japanese institutions and decision making. Generally true and typically important, they are neither so broad as to render each decision excessively similar, nor so specific as to make each case unique. In seeking to strike this balance between the general and the particular, the chapter also attempts to attain some contemporaneity. Rather than examining Japanese decisions and policymaking over a broad period such as the forty-odd years since the end of World War II, I will highlight several more recent trends and tendencies that distinguish

¹Among the more compelling case studies, one should note those in Ellis Krauss et al., eds., *Conflict in Japan* (Honolulu: University of Hawaii Press, 1984); Nakano Minoru, ed., *Nihongata Seisaku Kettei no Henyō* [The Changing Character of Japanese-style Policy Making] (Tokyo: Tōyō Keizai Shimbunsha, 1986); Hideo Ōtake, ed., *Nihon Seiji no Shoten* [Problems in Japanese Politics] (Tokyo: Sanichi Shobō, 1984); and T. J. Pempel, ed., *Policy-making in Contemporary Japan* (Ithaca, N.Y.: Cornell University Press, 1977), among others. On Japanese-style decision making see Tsuji Kiyooki, “Nihon ni okeru Seisaku Kettei Katei” [The Policymaking Process in Japan], in *Shinpan Nihon Kanryōsei no Kenkyū* [Studies in Japanese Bureaucracy—Revised] (Tokyo: Tōkyō Daigaku Shuppankai, 1969); Nakane Chie, *Japanese Society* (Berkeley and Los Angeles: University of California Press, 1979); more sweeping generalizations focusing on Japanese uniqueness are the mark of the so-called Nihonjin ron school of analysis, which Karel von Wolferen recently described as viewing Japanese decision making as “warm, wet and illogical.” *The Enigma of Japanese Power* (New York: Knopf, 1989):264–267.

decision making in the late 1980s and early 1990s from the more well-studied patterns of earlier time periods.²

The broad conclusion that emerges from this analysis is that Japanese political institutions and decision making can best be understood as being simultaneously buffered by centrifugal and centripetal forces. On most issues in Japan today there is a constant struggle between numerous autonomous decision-making tendencies on one hand and efforts to rein them in through centralized coordination on the other. The balance between coordination and its opposite is by no means an even one; at present, the pressures toward multiple independent and often conflictual decisions seem far stronger than those toward coordination. Yet enough powerful forces exist in both directions that the dynamic between them promises to be the most important phenomenon worth monitoring in the future.

In analyzing recent trends, I will also argue that contemporary Japanese decision-making patterns and the tensions between harmonization and dissonance have evolved as the confluence of changes in three areas: the political *context* in which Japanese politics now operate; the changing *agenda* for Japan's major policymakers; and the changes in political *institutions* that have occurred in recent years.³ These three dimensions of change, I will argue, provide the major influences over the evolving *processes* and patterns of recent Japanese decision making and are likely to be operative into the near future. These are the areas to which outside actors must pay the closest attention if they wish to influence, participate in, or simply command a clear view of the processes of contemporary Japanese decision making.

The Changing Context of Japanese Decision Making

Contemporary Japanese decision making has been profoundly influenced by several important changes in the international and domestic political contexts within which it occurs. Today's decision makers operate in an environment unlike that of two or more decades ago. As a consequence, their goals, resources, and interactions are significantly different as well.

²Much of my thinking on these earlier problems can be found in T. J. Pempel, *Patterns of Japanese Policymaking* (Boulder, Colo.: Westview Press, 1978), and T. J. Pempel, ed., *Policymaking in Contemporary Japan* (Ithaca, N.Y.: Cornell University Press, 1977). This chapter also draws on several conclusions reached more recently in T. J. Pempel, "The Unbundling of Japan, Inc.: The Changing Dynamics of Japanese Policy Formation," *Journal of Japanese Studies* 13, 2 (1987):271–306.

³This framework draws heavily on that developed in conjunction with Douglas Ashford and Peter Katzenstein in our joint series, *Policy and Politics in Industrialized Societies* (Philadelphia: Temple University Press, 1980–1989).

Five major changes in the international arena and two in the domestic arena are particularly worthy of note. Although individually few of them are particularly surprising, their cumulative impact has been to reshape in fundamental ways the institutions and character of much of Japanese decision making.

The international context of the early 1990s finds Japan an overwhelmingly stronger national actor than it was in the past. In terms of impact on Japanese decision making, this is perhaps the most influential single change in the international arena within which Japan operates. Most of this newfound strength is a direct consequence of Japan's relative and steady improvement in economic power since the end of World War II, and even more so since the breakdown of the Bretton Woods international monetary system in 1971 and the OPEC oil price quadrupling in 1973 and the subsequent price rises in 1979. Whereas other countries suffered through the constraints of stagflation or else accepted the cruel tradeoff of massive unemployment, Japan successfully navigated its way to the industrial world's most successful mix of low unemployment, low inflation, and high growth.⁴

The impact of this trend has been accelerated and given nuance by several other major changes in the international arena. Among the most notable is the warming of the Cold War, with the result that international economic issues have come to challenge strategic issues as the prevailing currency of world power and prestige. This shift in emphasis made Japan's prowess even more significant than it might have been had military capabilities remained the keystone to world power.⁵ Japan's increased economic muscle is congruent as well with still a third broad international

⁴See, for example, the data in Goran Therborn, *Why Some Peoples Are More Unemployed than Others* (London: Vesco, 1986); T. J. Pempel, "Japan's Creative Conservatism: Continuity Under Challenge," in Francis Castles, ed., *Comparative History of Public Policy* (London: Polity, 1989), pp. 149–191; Manfred G. Schmidt, "The Welfare State and the Economy in Periods of Economic Crisis: A Comparative Study of Twenty-Three OECD Nations," *European Journal of Political Research* 2:1–26; Nakano Minoru, "Kōdō Seichō 'Igo' no Seisaku Katei" [The Policy Process Since High Economic Growth], in Nakano Minoru, ed., *Nihongata Seisaku Kettei no Henyō* (Tokyo: Tōyō Keizai Shimbunsha, 1986), pp. 1–11.

⁵This is not to deny the relevance of military, defense, and security matters. But clearly it is surrogate wars among client states that mark most security conflicts among the major powers. Meanwhile, recent concern by the Soviet Union's leadership to focus on internal economic reforms (*perestroika*) over military spending; the economic and political reforms of former Warsaw Pact countries; and the decade-long efforts by the Communist leadership in China to concentrate on domestic economic reform all suggest important moves in this direction. So, too, does the increased reluctance within most Western European countries (with the major exception of Britain) to expand spending for NATO-related military activities. One very tangible indication of how these changing perceptions have affected opinion within the United States is the fact that a recent public opinion poll revealed that

trend, namely, the relative “decline” in U.S. hegemony and the consequent reluctance of American political leaders to continue their previous underwriting, for strategic reasons, of the major costs of maintaining the key, but economically costly, instruments of the postwar international economic system.⁶ The U.S. decline has been vastly overdrawn by many, but there can be no question that relative to other countries, the United States is no longer as uniquely powerful as it was two or three decades ago. Japan’s economic strength contributes to, and plays a major part in, still a fourth broad international trend, namely, the emergence of the Pacific powers. Japan’s economic success coupled with that of South Korea, Taiwan, Hong Kong, Singapore, and more recently Thailand, Malaysia, and Indonesia has given rise to sweeping expectations about Asian economic dynamism, the importance of the Pacific Basin, an “emerging Pacific century” and the like.

Finally, and perhaps less widely recognized and analyzed than the previous points, still a fifth international trend must be noted, namely, the worldwide tendency toward managed trade. The presumptions of a free trade regime predicated on the General Agreement on Tariffs and Trade (GATT) have given way in numerous industrial sectors to the development of fixed market shares. From textiles and timber, to steel, to automobiles, and to semiconductors, Japan has had to learn new rules of export and increasingly of import.⁷

Most of these trends make Japan a more important and invigorated player in a variety of international arenas. As the country with the second largest gross national product (GNP), the second largest share of manufactured exports, a massive foreign reserve, a strong currency, and so forth, Japan has been put in a curiously ambivalent position. On one hand, its economic strength gives the government new-found resources with which to exert influence in the international arena, to deal with domestic demands, and to ward off many of the less wanted consequences of international economic fluctuations. Unquestionably, Japan today is much more influential in international organizations such as the United Nations, the G-5 (the Group of Five [major industrialized countries]), i.e., the United

more Americans believed that Japanese economic prowess was a greater threat to U.S. interests than Soviet military power. On the general subject of territorial versus economic might, see Richard Rosecrance, *The Rise of the Trading State* (New York: Basic Books, 1986).

⁶The first major indicator of this reluctance was Richard Nixon’s willingness to scrap the Bretton Woods monetary system. It has been continued with the increased trade protectionism and the growth of managed trade, American reluctance to transfer potentially civilian-related military technologies, governmental reluctance to continue prior economic support for international organizations such as UNESCO and the United Nations, and so forth. Instead there has been an increased focus within the United States on its own economic agenda and on the demands that allies increase their “burden-sharing” activities.

⁷The managed trade agreements involving Japan and the advanced industrial states in the former sectors are well known. As just one example of the increasingly important ways in

States, Great Britain, West Germany, France, and Japan), the International Monetary Fund (IMF), the Asian Development Bank (ADB), and the General Agreement on Tariffs and Trade (GATT) than was the case two decades ago. As but one simple manifestation of Japan's new power, in 1984 it requested and ultimately was granted a position as the second most powerful shareholder in the World Bank—ahead of Britain, France, and West Germany.

Japan's new economic strength, however, contains within itself the seeds of a corresponding weakness: Japan can no longer so easily avoid demands that it use its new wealth and economic prowess in less self-centered ways. Greater power brings greater expectations. Whether in the form of increased pressures from the United States or Western Europe for Japan to "open its markets," "revalue its currency," or "liberalize its distribution system," or from less developed countries to "offer more favorable trade conditions," "play a more active role in foreign aid," or "solve the world debt crisis," Japan's new wealth makes it a visible target for a host of demands from other governments. No longer can the Japan of the 1990s mouth convincingly the cliché of the 1960s: "We are a poor country devoid of natural resources that must trade to survive." Nor does its political counterpart carry much weight today: "Be nice to us conservatives or you'll have nothing but a bunch of communists and socialists to deal with!"

Thus, the counterpart to Japan's success in gaining increased influence in the World Bank, for example, came in the inability to resist drastic liberalization of its own domestic financial system, including yen liberalization, liberalization of the Euroyen bond market, and liberalization of long-term Euroyen loans, largely in response to foreign pressures.⁸

which Japan is managing trade with less developed countries, however, the former entered into a so-called voluntary export with South Korea in knitwear in which the latter agreed to restrict the growth in its exports to Japan to no more than 1 percent per year. In return, Japanese knitwear manufacturers dropped an antidumping suit against their South Korean competitors (*Far Eastern Economic Review*, April 13, 1989, p. 67). It would be an interesting question beyond the scope of this chapter to explore the extent to which this trend exacerbates or mitigates Japan's centrifugal policy-making tendencies. Japanese oligopolies would seem better able to deal with such a phenomenon than would truly competitive industries; on the other hand, when managed trade is demanded it is rarely by Japan, and as such offers an external shock that often catalyzes the tendency within Japan to protect existing positions of power.

⁸On this liberalization, see James Horne, *Japan's Financial Markets* (Sydney: George Allen and Unwin, 1985); Lewis Pauley, *Opening Financial Markets: Banking Politics in the Pacific Rim* (Ithaca, N.Y.: Cornell University Press, 1987); Frances McCall Rosenbluth, *Financial Politics in Contemporary Japan* (Ithaca, N.Y.: Cornell University Press, 1989); Yoichi Shinkai, "The Internationalization of Finance in Japan," in Takashi Inoguchi and Daniel I. Okimoto, eds., *The Political Economy of Japan*, vol. 2, *The Changing International Context* (Stanford, Calif.: Stanford University Press, 1988), pp. 249–271.

Japan's new economic strength also raises great anxieties among many countries. This is especially true among Japan's Asian neighbors, who seem uniformly to advocate greater and more favorable economic linkages with Japan while at the same time remaining highly sensitive to the potentially negative strategic and military implications of Japan's new strength. This is especially true in their demands for economic aid. But as Franklin Weinstein put the dilemma, "Whatever the Japanese do, they will be criticized. . . . [I]f they give more aid, [they] will be seen as bent on domination; if they decline to do so, they will be viewed as stingy."⁹

Japan thus finds itself under palpably stern criticisms from many Asian leaders for actions relevant primarily at the symbolic level, such as visits by government leaders to Yasukuni Shrine or the inclusion of Shinto rites in the Emperor's funeral, or for the relatively minor historical fictionalization of Japan's imperialist period that are systematically carried out by the Ministry of Education.

This same mixed trend influences many of Japan's companies. Typically, most have become far more international in their abilities to raise capital as well as in their manufacturing, sourcing, and sales. Many are clearly entering the ranks of the true multinationals, increasingly independent of their home government. In numerous instances they are also more cosmopolitan in their middle-level, if not senior, management staff. They are also enjoying far greater international economic successes than previously. At the same time, they are also confronting greater criticism and heightened demands, both from governments and from their competitors. This includes host country demands for more local content in manufacturing operations, more managerial training of local employees, and greater sensitivity to regional political and economic needs on everything from ethnic politics to sexual equality. It results, too, in demands for linkages between private business success and official Japanese governmental performance.¹⁰ It has also come recently to include home country demands for a code of business behavior abroad, and a demand by home country politicians for increased contributions from Japan-based businesses that have enjoyed greater overseas successes.

⁹"ASEAN and Japan," in Karl D. Jackson and M. Hadi Soesastro, eds., *ASEAN Security and Economic Development* (Berkeley: Institute of East Asian Studies, University of California, 1984), p. 174. This point was earlier made and substantiated in Franklin B. Weinstein, "Japan and Southeast Asia," in Robert A. Scalapino and Jusuf Wanandi, eds., *Economic, Political, and Security Issues in Southeast Asia in the 1980s* (Berkeley: Institute of East Asian Studies, University of California, 1982).

¹⁰Witness only the ability of Arab countries to link oil sales to changes in Japanese governmental policies toward Israel, and the ability of these countries to insist on Japanese company boycotts of sales to Israel in exchange for favorable treatment in the Arab countries. Yoshi Tsurumi, "Japan," *Daedalus* 104 (Fall 1975).

The economic successes of Japan as measured in comparative and international terms have their domestic counterpart in the tremendous political entrenchment of the Liberal Democratic Party. This is not at all unrelated to the macro-level economic success of the national economy and is perhaps the single most important domestic factor influencing contemporary decision making. Foredoomed by the media to an ever-dwindling margin of electoral victory in the mid-1970s, in part as a result of the massive public policy challenges that confronted the party in economics, social welfare, and the environment, the LDP had managed by 1980 to arrest its longstanding electoral decline and to reconstitute its political appeals.¹¹ Thus, despite the LDP's vast troubles as a consequence of the Recruit scandal, the philandering of ex-prime minister Uno, and the introduction of an unpopular sales tax, the party still won a handy victory in the 1990 elections. The result is that by the early 1990s it had become a political party unlikely to be toppled by any foreseeable political combinations in the near future.

The opposition political parties, of course, continue to play some role in defining outer boundaries to the politically acceptable and in proposing actions that might eventually be taken by the government. But there is little question of their exercising the levels of ideological and policy-making influence that they exerted from the mid-1950s into the mid- to late 1970s. Recent efforts by the Japan Socialist Party to modernize itself structurally and ideologically can most charitably be labeled too little, too late. It is hard not to conclude that the JSP and the other opposition parties have settled comfortably into roles as marginal niche parties, appealing to highly particularistic constituencies that are themselves unlikely ever to represent a majority of Japan's electorate, and from which they are unlikely to extricate themselves in the near future. Hence, LDP control over the organs of governance seems an inexorable conclusion for the present and at least the short- to medium-term future.¹² This is now a domestic given in Japanese politics that has also had a profound effect on public policy-making and decision making.

Partly in relation to the increased strength of the LDP and the success of

¹¹See Takashi Inoguchi, "Conservative Resurgence Under Recession," in T. J. Pempel, ed., *Uncommon Democracies: The One Party Dominant Regimes* (Ithaca, N.Y.: Cornell University Press, 1989); Satō Seizaburo and Matsuzaki Tetsuhisa, *Jimintō Seiken* [LDP Power] (Tokyo: Chūō Kōronsha, 1986); Gerald L. Curtis, *The Japanese Way of Politics* (New York: Columbia University Press, 1988), chap. 2.

¹²One of the more telling indications of how the opposition parties have accommodated themselves to LDP hegemony, or perhaps better, how LDP hegemony has allowed it to subsume the opposition parties, lies in the Recruit scandal. That the scandal involved so many parliamentarians from the Democratic Socialist Party (DSP) and the Clean Government Party (CGP) as well as even one or two from the Japan Socialist Party (JSP) suggests that little

Japan's economy, and partly as a result of numerous independent trends, Japan's citizenry has become far more diffuse in its interests and in its political demands than was the case with its parents' generation. This, too, is a major domestic trend with important consequences for decision making.

The broad-scale urbanization of Japan and the wide permeation of the national economic successes have given rise to what Murakami has called "Japan's New Middle Mass."¹³ The cumulative result has been to reduce the appeal of many older political associations and slogans. Consumerism places increased demands on Japan's political leaders for tangible economic benefits in the here and now.¹⁴ Environmental concerns, an aging population, working mothers, educational quality, housing demands, and a host of other issues have all attracted their own particular and particularistic constituencies. A "new nationalism" also pervades much of the citizenry. Never terribly well informed about Japan's military past and the fears it still engenders in neighboring states; frustrated by increased foreign demands on Japan; self-confident that Japan's past economic success is the result of citizen diligence mixed perhaps with a bit of innate superiority, this new self-confident nationalism also confronts Japan's leaders with new types of issues to address.

Some of these trends would seem to press Japan toward a greater ability to act with a singleminded coordination both at home and abroad. To some extent this is true, but the opposite trends seem to be far stronger. Just as Japan's very strength has given rise to new and more varied demands from abroad, so its economic well-being makes for greater and more diffuse demands at home. Macro-level economic growth and security from foreign attack are no longer sufficient to ensure continued popular support for today's politicians. Nor does it satisfy Japan's international allies; indeed, quite the contrary: Japan's achievement of peace and prosperity leads to

remains of the once allegedly sharp divisions between the LDP and its supporters, and the opposition parties and its supporters.

¹³Murakami Yasusuke, *Shinchūkan Taishū no Jidai* [The Period of the New Middle Mass] (Tokyo: Chūō Kōronsha, 1984). A summary of Murakami's argument in English can be found in his "The Age of New Middle Mass Politics: The Case of Japan," *Journal of Japanese Studies* 8, 1 (1982):29–72.

¹⁴In addition to the demands on the public treasury in the form of public works, tax benefits, and the like, the demands can be quite personal. Recent journal articles have suggested, for example, that LDP politicians need to spend about US\$1 million annually even in nonelection years just to pay off staff and constituent sweeteners. Members of parliament attend an average of 6.6 weddings and 26.5 funerals each per month. They are expected to bring a gift of ¥10,000 to each funeral and ¥20,000–30,000 to each wedding. For a three-week period every December, a politician has to attend or be represented at thirty parties a day, to most of which he must chip in between ¥5,000 and ¥10,000. *The Economist*, April 29, 1989, p. 13.

ever greater demands on the Japanese system to do more. Thus today's Japanese leaders confront a far greater diversity of organized interests, far more pluralism in the number and kinds of demands placed on them, and far greater stridency in the demand that those leaders respond quickly and favorably to them all.¹⁵

In these many ways, conditions confronting Japanese policymakers and the institutions of Japanese decision making are no longer similar to those of an earlier era. As such, they place very different constraints and rather different demands on the Japanese political system. Most particularly, they force a reconceptualization of the main issues on the national political agenda.

A Changing Agenda for Decisions

One of the main reasons why Japanese decisions often look so disjointed today, and why the decision-making process often looks so disconnected, is that Japan's political leadership (and its mass public) lacks a comprehensive and agreed-upon vision of where the country is going and how it is to get there. Long-time students of Japan can probably count dozens if not hundreds of occasions when analysts have declared Japan to be at some historical crossroads or another. The path Japan chooses from here, the pundits then argued, will represent a major deviation from the past and will be of monumental significance for the future. Indeed, Japan has probably passed enough such crossroads that its trading companies could profitably begin to export Japan's surplus crossroads. Despite the dangers of contributing further to the crossroads' proliferation, it is difficult to ignore the fact that Japanese leaders and institutions are uniformly searching for a "new role for Japan." From the end of World War II until sometime in the very early 1970s, the overarching political agenda of most actors in Japan's conservative camp centered on two principles: high economic growth and alliance with the United States, a Japanese version of "peace and prosperity." Notwithstanding variations in the degree of their commitment, most government officials and large numbers of their most important conservative supporters were in substantial agreement that these two

¹⁵This trend was most importantly noted by Ellis Krauss and Michio Muramatsu, "Bureaucrats and Politicians in Policymaking: The Case of Japan," *American Political Science Review* 78, 1 (March 1984):126–146. It is pursued in their piece "The Conservative Party Line and the Development of Patterned Pluralism," in Kozo Yamamura and Yasukichi Yasumba, eds., *The Political Economy of Japan*, vol. 1: *The Domestic Transformation* (Stanford, Calif.: Stanford University Press, 1987), pp. 516–554. It has since become a mainstay argument for those who argue that Japan is becoming more pluralistic, both socially and politically. Among the best of the empirically based arguments is that of Muramatsu et al., *Sengo Nihon no Atsuryoku Dantai* [Pressure Groups in Postwar Japan] (Tokyo: Tōyō Keizai Shimposha, 1986).

goals should be the pillars of Japanese public policy.¹⁶ To this extent, Japan's leaders shared a consensus on broad-scale national objectives. These goals also won widespread popular support. For any issue to gain a good deal of official attention and popular support during this period, it was vital that it be accommodated to one or both of those two overarching goals. Such agreement in turn gave a good deal of coherence and internal compatibility to Japanese policymaking.¹⁷ Indeed, the agenda itself eventually came to win widespread support even among many of its original opponents.¹⁸

Things had changed significantly by the early 1970s. The consensual agenda of "peace and prosperity," once achieved, lost its previous ability to suppress or dissipate debate on other emerging issues. As close security ties to the United States became second nature, bilateral economic tensions between the two countries flared up. Newly enriched Japanese citizens came to question the value of growth for its own sake and to concern themselves with environmental problems and quality-of-life issues.

Yet as high growth shifted to lower growth there was a greater strain on government budgets, making it less easy to "do everything," leading eventually to even more intense political conflicts and a high reliance on deficit financing. Even with deficit financing, budget choices became more controversial, and the government's once powerful tools of economic management and export enhancement proved less adaptable to the newer tasks of domestic stimulation and import enhancement.

That discontinuity continues today, although many in Japan are searching feverishly for some acceptable new role around which a national consensus could be formed. This collective search was given some stimulation by Prime Minister Takeo Fukuda's articulation of the Fukuda Doctrine in 1977 and by Prime Minister Masoyoshi Ohira's call for Japan to pursue a policy of "comprehensive security." Former Prime Minister Yasuhiro Nakasone, following on these initiatives, attempted, shortly after taking office, to address the "unknown challenges of the twenty-first century," citing Japan's need to become a sophisticated "information

¹⁶These principles are often referred to as the Yoshida Doctrine or the Yoshida Line. See Kenneth B. Pyle, "In Pursuit of a Grand Design: Nakasone Betwixt the Past and the Future," *Journal of Japanese Studies* 13, 2 (Summer 1987):243-270.

¹⁷This point is developed at length in Pempel, "The Unbundling of Japan, Inc.," pp. 275-279.

¹⁸Thus, the constitution, which was a source of major division, has become publicly and politically beyond major question. So, for the most part, have Japan's Self-Defense Forces and the Security Treaty with the United States. This is certainly true at the level of the mass public. But even the JSP today declares the Self-Defense Forces to be "constitutional, though illegal," a major deviation from previously unalterable opposition.

society.”¹⁹ He went further than Fukuda or Ohira on security matters, attempting to shift direction substantially and calling for Japan to act more autonomously and explicitly in external security matters and international dispute resolution.²⁰ He also went further than any of his predecessors in attempting to convince his countrymen that Japan should reject the constraints of article 9 of the constitution, the Three Non-Nuclear Principles, the postwar legacy of pacifism and other such “artificial” constraints on “realism” and carve out for itself a more active and positive role in international affairs.

Yet even as some accord emerges on the desirability of a new role for Japan, there is by no means widespread agreement, even among conservative circles, that Japan should pursue the course proposed by Nakasone. Surely some widespread support exists for the Nakasone vision in the corridors of the Self-Defense Forces, the headquarters of Japan's major military manufacturers, and even in some quarters of the Ministry of Foreign Affairs (not to mention many in the U.S. government). Some would go even further and exercise “Japan's nuclear option.”²¹

But others are arguing for a strategy that is more explicitly based on economics—one that would be devoted predominantly to resolving the world debt crisis or to using extensive foreign aid to relieve the more politically destabilizing economic conditions in less developed countries. Still others would vary this orientation to concentrate on Japan's role as a “technological superpower.”²²

The unresolved debate about Japan's as yet undetermined future role has had an impact on Japan's decision making in at least two major ways. First, the absence of broad agreement about what Japan as a nation should do with its power and economic resources reinforces the many other pressures toward fissiparous policy formation. Consequently, various sub-issues are pursued in isolation from one another as the unconcretized goals of “internationalization” or “liberalization” or “social welfare” take on multiple concrete and conflicting meanings.

¹⁹See Kenneth B. Pyle, “Japan, the World, and the Twenty-first Century,” in Inoguchi and Okimoto, eds., *Political Economy of Japan*, p. 448.

²⁰One can cite Japan's efforts to aid in resolving the Iran–Iraq War, its efforts to represent the ASEAN position on Cambodia/Kampuchea in the United Nations, its boycott of the Olympics to protest the Soviet invasion of Afghanistan, the US\$4 billion aid package to South Korea, and the like as examples of this new-found willingness to act positively in international affairs.

²¹See Shimizu Ikutaro, *Nippon yo, Kokka Tare: Kaku no Sentaku* [Japan! Become a State! There is no Choice!] (Tokyo: Bungei Shunjū, 1980), pp. 86–91.

²²An important assessment of the competing images of Japan's future role is offered in Pyle, “Japan, the World, and the Twenty-first Century.”

As a consequence, numerous politicians, government agencies, and interest associations interact on specific proposals in a variety of areas with little sense of how they are connected, if at all. This phenomenon strengthens the tendencies noted in the preceding section toward social and political pluralism.

The second way in which the absence of agreed-on national goals influences Japanese decision making is that virtually any political claim by any group can be justified as legitimately linked to the carving out of the future role for Japan most advocated by that group. More concretely, when Japan's political leaders announced that Japan should become "more international," virtually every government agency from the Ministry of Agriculture to the Japan Foundation laid claim to new budgetary and personnel resources in an effort to create or beef up their "international" capabilities. Much the same occurred when the country confronted the crisis of the "greying of Japan," when biotechnology became the national buzzword and computerization grew widespread.²³ (Note that such an embrace of goals comes only to the extent that it *advances* the specific interests of the group or agency involved. When "privatization" was the buzzword during the debates on administrative reform, no government agency with which I am familiar willingly shucked its associated public corporations or surrendered its bureaucratic turf to the private sector. Nor did the commitment to internationalization result in any significant liberalization of Japan's regulations against according citizenship to foreigners born in Japan or in any opening to Southeast Asian refugees. Nor did it prevent a purge of foreign scholars at Tsukuba University, originally designed to be a waystation of the new internationalism.²⁴)

Institutions: The More Things Change . . .

Japan's political institutions have been far slower to undergo change than either the context or the agenda of politics. Japan's political structures of the late 1980s do not look terribly different from those of the late 1950s. Many are certainly somewhat more complex as a result of new organizations and institutions that have sprung up to deal with new policy problems. Moreover, the institutional balance of power has shifted in

²³This came about as a result of a change in the National Government Organization Law that allowed virtually all agencies to add staff to carry out the new internationalization. See Ōkurasho Insatsukyoku, *Hōrei Zensho 12* [Collection of Laws], vol. 58 (1984), pp. 12–58, as noted in Haruhiro Fukui, "Too Many Captains in Japan's Internationalization: Travails at the Foreign Ministry," *Journal of Japanese Studies* 13, 2 (Summer 1987):363.

²⁴Thus, in the mid-1980s, in Japan's 95 national universities there were only thirteen full-time foreign faculty members.

important ways, typically as established institutions have gained new political resources or else have seen their powers severely eroded.

Yet in surprising contrast to the explosion in the size of national governments worldwide, Japan's has remained remarkably small, aided in part by the recent actions of the Second Administrative Reform Commission (Rincho) and also by the privatization of Japan's telecommunications, airlines, and railroad systems. Japan's bureaucratic organization and diminutive size are one of the more striking continuities in that country's political institutions. Yet the once vaunted ability of the Japanese bureaucracy to run the country with minimal interference is subject to more questioning.

Two factors seem particularly important in this regard. First, many of the tools of various bureaucratic agencies are no longer quite so effective in the current environment as they once were. This is particularly true in the area of finance and economics, where the Ministry of Finance's (MOF) control over the exchange rate of the yen and the Ministry of International Trade and Industry's (MITI) control over the access of private companies to foreign exchange played major roles in the government's ability to exert important leverage over national economic policy. The internationalization of capital movements has made these powers all but irrelevant. Furthermore, the pressures for economic liberalization have reduced the powers of the Ministry of Agriculture, Forestry and Fisheries (MAFF) to underwrite the national price of rice, or to restrict imports of beef, citrus, and tobacco. Similarly, the Ministry of Construction has found itself having to deal with bids on government projects by non-Japanese companies, and the Justice Ministry has found it impossible to keep foreign lawyers from practicing and is under increased pressures to liberalize conditions for foreign workers to enter the country. Conversely, the economic weight of the postal savings system and the importance of telecommunications have lifted the influence of the Ministry of Posts and Telecommunications (MPT).

Japan's parliament has not changed substantially, although its ability to ensure the rapid and unobstructed passage of bills has varied greatly with time. The great difficulties the government had with the Diet during the period of relative equality between itself and the opposition during the mid- to late 1970s has ended, and for most of the 1980s the Diet has not been a major impediment to government actions.²⁵ This will change now that the opposition has a majority in the Upper House. In a similar way, the abilities of local governments and the courts to serve as counterweights to

²⁵Data on the passage rates of government bills and on amendments can be found in Asano Ichiro, *Kokkai Jiten* [Diet Handbook] (Tokyo: Yūhikako, 1988), pp. 372–380.

rule from Tokyo has diminished as LDP rule has been consolidated both in Tokyo and in the regions, and as environmental cases have ceased to be the province of the court system.

Though bureaucratic and governmental structures have remained largely the same, there has been a massive increase in the number of organized interest groups and associations since the mid-1970s.²⁶ As with the balance of power among government agencies, certain bodies, such as Nokyo (the Japan Federation of Agricultural Cooperatives) or the Japan Medical Association, can no longer claim the automatic allegiances and allies they once took for granted. Others, including many professional associations and welfare-related groups, have sprung up from nowhere. But within such ebbs and flows what is most striking is the simple increase in the number and perceived influence of Japan's private-sector associations. Similarly striking is the extent to which interest groups of all functional types have learned to accommodate themselves to working with the Liberal Democratic Party and to existing bureaucratic agencies.²⁷

One of the major organizations that would appear on the surface to be a counterexample to that accommodative posture would be the newly formed labor federation, Rengo. Begun in 1987 and reorganized in 1989, Rengo has subsumed most other major labor federations and offered a slate of anti-LDP candidates in the last Upper House election. The latter served to unify the electoral strategies of the currently disjointed opposition parties. It worked in 1989 but was not followed in the 1990 elections. This is not the place for a detailed discussion of Rengo. Suffice it to say that even though Rengo maintains close ties to the organized labor movement which has traditionally been antigovernmental, and to the opposition parties, it is hardly an organization committed to radical change. Rather, Rengo is heavily weighted to favor unionists in Japan's export-oriented manufacturing sectors and is strongly committed to a brand of economic unionism calculated not to let wages drift so high as to cause Japanese products to lose their international competitiveness. Indeed, Rengo officials currently meet on a semimonthly basis with their counterparts in the Japan Federation of Employers' Associations (Nikkeiren) to settle wage disputes within precisely that context.²⁸

The interactions of Japan's many new groups with government agen-

²⁶See Muramatsu et al., *Sengo Nihon no Atsuryoku Dantai*, pp. 43–44; 80–85.

²⁷Muramatsu et al., *Sengo Nihon no Atsuryoku Dantai*; Krauss and Muramatsu, "Patterned Pluralism" and "Interest Groups in a One Party Dominant State," in Pempel, *Uncommon Democracies*. See also Tsujinaka Yutaka, *Rieki Shudan* [Pressure Groups] (Tokyo: Toyo Daigaku Shuppankai, 1988), pp. 126–134.

²⁸"Can Pay, Will Pay," *Far Eastern Economic Review*, April 13, 1989, p. 44.

cies has been facilitated by the 200-odd governmental advisory groups (*shingikai*) that exist in part to provide advice on the numerous new policy problems that these agencies have had to confront.²⁹ Most of the *shingikai*, however, are linked to a single government ministry or agency. Yet many of Japan's most pressing policy questions themselves are no longer susceptible to easy pigeonholing as the responsibility of some single agency. Telecommunications involves both the MPT and MITI, and even the Ministry of Education has a stake insofar as computers are widely used in classrooms. Housing policy involves not simply Construction but also Forestry and MITI. As noted, foreign affairs has become a subject on which most agencies, not just the Ministry of Foreign Affairs, can stake some claims to an interest. Thus, the advisory committee system does little to resolve battles between agencies; in many cases it exacerbates them.

The tensions toward "turf battles" within the bureaucracy might well seem amenable to greater resolution as a result of the strength of the LDP. Indeed, there is strong evidence to suggest that in the well-analyzed balance between politicians and bureaucrats, the former are indeed exerting far greater weight than they did a decade or two ago.³⁰ Furthermore, the LDP's long-term hegemony has strengthened the party as a whole, and it no longer fully fits the cynical description as "neither liberal, democratic, nor a party." As Curtis has noted, the party is no longer simply an agglomeration of factions but "a much more complex, differentiated institution which has clear rules regulating the recruitment of leaders and which plays varied and important roles in making public policy. It has also developed a relationship with the bureaucracy that has become increasingly close."³¹

²⁹It is worth noting that the number of advisory groups has diminished somewhat in recent years, offering the possibility of more coordination and less diffusion in policy formation. In 1965 the number was 277; in 1971 it was down to 235; and in 1984 it was 214. Shinoda Toru, "Danjo Koyō Kikai Kintōhō o meguru Ishi Kettei" [Opinion Formation Regarding the Law on the Equalization of Male-Female Employment Opportunities] in Nagano, *Nibongata Seisaku Kettei no Kenyō*, p. 80.

³⁰This is certainly the theme of Satō and Matsuzaki, *Jimintō Seiken*, and also the works of Krauss and Muramatsu cited in note 15. See also Inoguchi Takashi, *Gendai Nihon Seiji Keizai no Kōzu: Seifu to Shijō* [The Structure of Contemporary Japanese Political Economy: Government and Market] (Tokyo: Tōyō Keizai Shimbunsha, 1984); *Leviathan*, vol. 1 (1987); Haruhiro Fukui, "The Liberal Democratic Party Revisited: Continuity and Change in the Party Structure and Performance," *Journal of Japanese Studies* 10, 2 (Summer 1984), inter alia.

³¹Curtis, *Japanese Way of Politics*, p. 116. As just one indication of how close that relationship between the LDP and the bureaucracy has become, it is worth noting that a number of senior bureaucrats, once presumed to be the "Mr. Clean's" of Japanese government, have been implicated as having received bribes from Recruit. See *Far Eastern Economic Review*, December 15, 1988, pp. 35–36.

Yet the key point to remember about the LDP is that it is still a political party designed to elect candidates, not to run the government. As a consequence, its central organizational concerns are electoral, and the policy links to the bureaucracy are most typically designed to ensure that public policies are responsive to the party's electoral concerns. As a tangible manifestation of this fact of life, consider simply the phenomenon of *zoku* (tribes or policy groups) or *giin renmei* (Dietmen's leagues) within the party. *Zokugiin* (policy experts within the LDP), we are told, through their increased familiarity with the technical details of public problems and policy proposals, provide a political check over bureaucratic agencies. No doubt they do. But the kinds of checks they provide, though possibly making policy more politically responsible than was the case when most conservative politicians had far less technical expertise, also reinforce the tendency toward turf battles and the insularity of bureaucratic agencies from one another. This certainly has been true of *zoku* efforts to protect various segments of agriculture, fishing, coal mining, and small distribution networks from liberalization pressures. It is also true that many of the ex-bureaucrats now entering the LDP come from highly politicized and specialized agencies such as Home Affairs, Construction, and Police, and less so far from general agencies such as MOF and MFA that were once the prime producers of senior LDP officials.³² Thus, the party politicians that today exert such influence over decision making act principally as individuals or as representatives of specific functional interests, rarely as representatives of the party as a whole.

Within the LDP, the Seichokai (Policy Affairs Research Council) attempts to serve a coordinating role that would reduce the particularities of such "turf battles." Yet the Seichokai is really a body representing the diverse interests on any issue rather than a group or body above those particularities, such as the Big Three or the Big Four, which once resolved particularly contentious issues within the party.³³

There have been a number of efforts to control such innate centrifugal tendencies through the creation of new political institutions in government as well. On trade-related issues, for example, the Cabinet Secretariat established an office of trade ombudsman to examine any claims of bureaucratic interference with "free trade." MIPRO (Manufacturers' Imports Promotion Organization) has been created to encourage the promo-

³²T. J. Pempel, "Uneasy Towards Autonomy: Parliament and Parliamentarians in Japan," in Ezra Suleiman, ed., *Parliaments and Parliamentarians in Democratic Politics* (New York: Holmes and Meier, 1986), pp. 142–144.

³³Haruhiro Fukui, "The Policy Research Council of Japan's Liberal Democratic Party: Policy Making Role and Practice," *Asian Thought and Society* 11, 34 (March 1987):5–6.

tion of imports as part of Japan's internationalization. Former Prime Minister Nakasone also attempted to beef up the coordinating capabilities of the Prime Minister's Office.³⁴ He followed a rather different method of seeking consensus, namely, the use of ad hoc or private advisory groups to the Prime Minister. With shadings of difference, one can note recent examples in the two commissions on administrative reform, and the Peace Problem Study Group or the so-called Maekawa committee. Whether or not such efforts will survive the personality of Nakasone, however, is sure to remain an open question.

The dominant motif in contemporary Japanese decision making is therefore the struggle between fragmentation and coordination. Most typically, the key battle lines on important issues involve one or more government agencies and their allies—interest group, politicians' group(s), and often foreigners—against other agencies and their corresponding allies. Although many political institutions have the potential to serve as coordinative or unifying decision-making bodies, the present evidence indicates that the centripetal powers held by Japan's many pockets of power remain difficult to overcome.

Processes in Japanese Decision Making

When one examines the actual processes of Japanese decision making, this tension between coordination and conflict, and more especially the difficulties in resolving the fissiparous tendencies of Japanese politics, is readily apparent. But the processes of Japanese decision making have changed in at least one important way, namely, the increased ability of foreign actors—governments, groups, and individuals—to insert themselves into what might otherwise appear to be a domestic political process. This has contributed even more to the fragmentation of the decision-making processes.³⁵

This has certainly been the case on most issues of trade liberalization, with MAFF, Nokyō, and a large number of LDP politicians in opposition to counterforces typically organized around MITI, Keidenren, MFA, and many U.S. and European multinationals. Pharmaceuticals saw a similar coalition for liberalization, heavily weighted toward foreigners, lined up against MHW and JMA. On the green card issue, over taxing interest payments on postal savings, the MOF stood virtually alone in calling for such taxation while MPT, many consumers groups, and numerous LDP officials were vehemently opposed.

³⁴Satō and Matsuzaki, *Jimintō Seiken*, pp. 158–162.

³⁵This point is developed at greater length in Pempel, "The Unbundling of Japan, Inc.," pp. 291–294.

On the FSX issue, many in the Japanese government (especially MITI and SDF) and industry would have preferred a totally indigenous production line. MOF and MFA originally held out for the most economical arrangement, namely the counterstrategy of buying U.S. fighters “off the shelf.” Once the “defense” issue became blurred with the “trade imbalance” issue, however, and the FSX took hold as a notion, one could identify even more complex lines that pitted various segments of the U.S. policy network (especially the Pentagon and the Executive Office), plus MITI and SDF, against the U.S. Commerce Department, many in Congress, and many in the Japanese aerospace industry who would have preferred not to share any production with the United States.³⁶

The number of recent cases could be multiplied, and surely the specific lines of division would be different, but it is almost certainly the case that most would reveal far more agency-to-agency division, far more splits among politicians, and far more cross-cutting alliances (many of them including foreign actors) than they would show agency agreement, (even semi-) unified political leadership, and national-level coordination. The pulls in the latter direction undoubtedly exist, but they would appear at present to be far weaker than those in the opposite direction.

As a consequence, issue-specific “turf battles” and conflicts of authority are likely to remain a part of near-term Japanese policymaking whether bureaucrats or politicians hold sway, unless far stronger coordination mechanisms can be created and, more important, institutionalized. And this effort in turn is not likely to happen so long as there is little agreement on a collective national agenda for the country and its policies as a whole.

Implications for ASEAN

This is not the place for a detailed treatment of Japan’s relations with ASEAN. Other chapters in this volume address the problem more centrally. But two or three brief thoughts may be worth consideration.

One of the first comments that must be made is that for ASEAN to ensure itself a relevant place in the Japanese future, it must be on Japan’s agenda in some meaningful way. And at present that agenda is not very clearly defined. As a major industrial power, Japan will clearly be far more interested in, and far more open to, the political changes that occur in North America and Western Europe. Difficult as it may be to accept, the ASEAN nations do not currently rate a place at the top, or even in the top

³⁶An excellent analysis of this problem is found in Richard J. Samuels and Benjamin C. Whipple, “Defense Production and Industrial Development: The Case of Japanese Aircraft,” in Chalmers Johnson, Laura Tyson, and John Zysman, *The Secret of Japanese Productivity* (Cambridge: Ballinger, 1989), pp. 275–318.

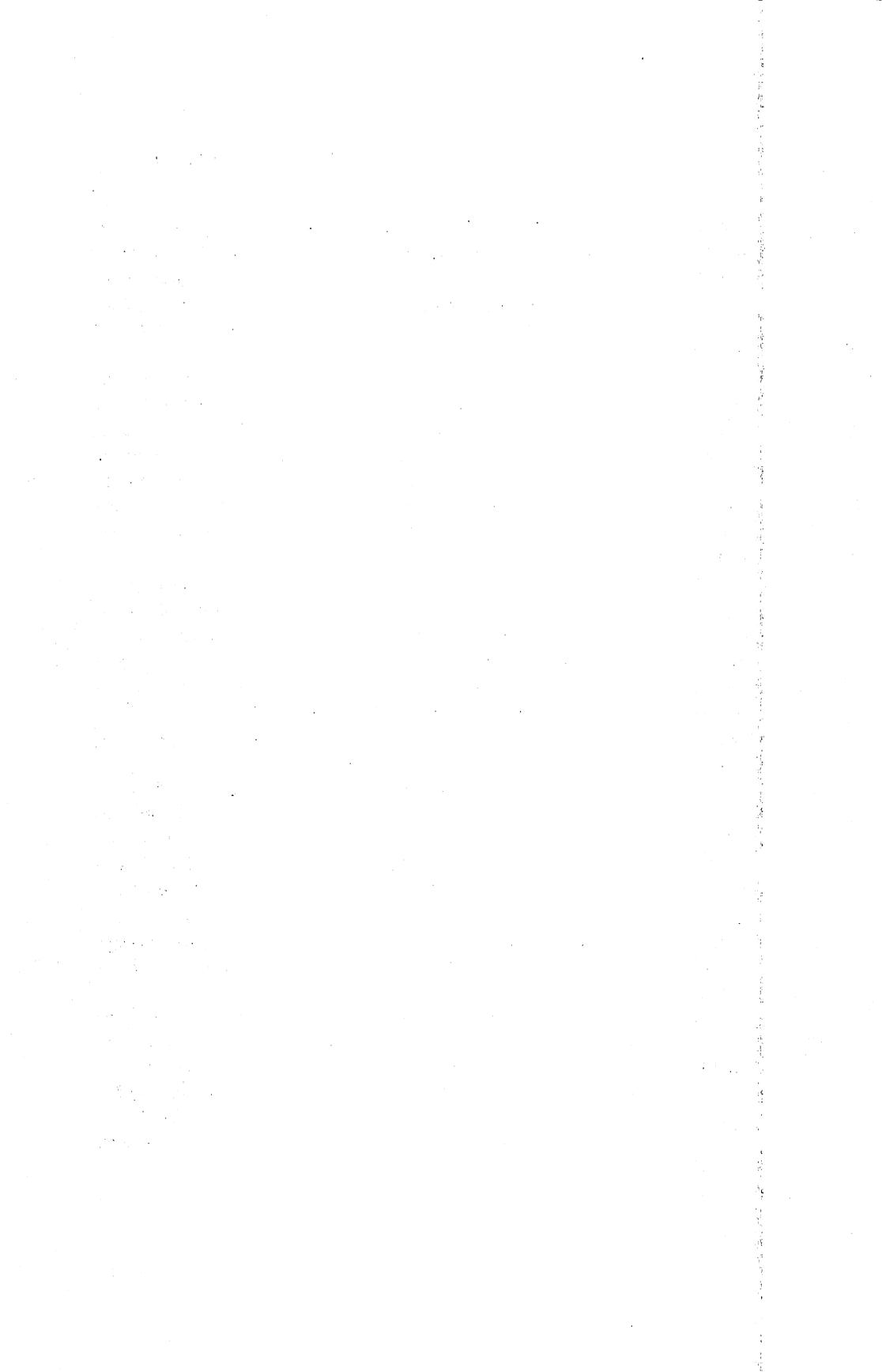
three or four items, in the as yet inchoate Japanese political agenda. Given the economic relationship between the two, that is not likely to change easily. Japanese direct investment in ASEAN is dropping as a percent of total Japanese investment; the same is happening in trade. Thus as Japan looms larger and larger on the ASEAN horizon, the reverse is true for ASEAN in relation to Japan.

As just one possible example of how this effect could be relevant, consider the fact that Japan's participation in the Group of Five will undoubtedly mean that the exchange rate of the yen will be fixed by Japan through the Bank of Japan, partly as a result of negotiations with the other members of that body. But a fluctuating yen can have major impact on the exports or imports of ASEAN countries, even though those countries played no role in the bargaining nor probably even in the major calculations of the bargainers.

Japan's commitment to liberalization and internationalization holds some promise, but it would be well to remember that even as Japan is committed in the abstract to marketplace economics and to letting sunset industries die—all of which would hold out the promise of easier access to the Japanese market for producers in the nations of Southeast Asia—in reality, Japan's politics are chock full of potential petty barriers to such internationalization and liberalization, as everyone from exporters of European skis to Thai chicken wings can attest.

In addition, the observations on the complex institutional and decision-making processes in Japan should serve as a flag of caution to anyone who feels he is dealing with an entity called "Japan," either for an organization, a nation-state, or ASEAN as a whole. As this chapter has attempted to suggest, it is very difficult for there to be an unchallenged "Japanese position" on most matters of import. Internal divisions and a plurality of power make it very important for any outside actor to consider the domestic implications of either demands made toward Japan or promises given by Japan.

The converse, however, is also important. To lose is not necessarily to lose permanently. With so many centers of potential leverage inside the Japanese system, and with foreign actors increasingly able to play very real roles in the development of allies within that system, the opportunities for the politically astute would seem almost infinite. If "it ain't over 'til the fat lady sings," it might be well to remember that Japan has a few political fat ladies.



Part Four
Japan and the United States:
Cooperation and/or Competition

6. Cooperation and Competition Between Japan and the United States: Possible Impacts on the ASEAN Region

MARIA SOCORRO H. GOCHOCO and
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The common strategic interests that Japan and the United States share, especially in the Asia–Pacific region, often prod the two countries to take a cooperative stance in dealing with the different countries in the region, especially when it comes to Official Development Assistance (ODA). A prime example is the lead taken by these two countries in the matter of the proposed Multilateral Assistance Plan (MAP) for the Philippines. At the same time, however, one cannot help perceiving a sense of competition (or even conflict) between the two countries in their trade and investment relations with each other.

This ambivalence between cooperation for strategic reasons and competition for economic reasons has become increasingly obvious, especially in the mid-1980s. During this period, despite the U.S. economy's recovery and curbing of strong inflationary pressures, its budgetary deficit remained huge and kept the U.S. dollar overvalued so that its trade deficit, especially with Japan, continued to grow. This imbalance prompted bilateral negotiations in which then Prime Minister Yasuhiro Nakasone appealed to the Japanese people to increase their consumption of imports from the United States at the same time that a substantial appreciation of the Japanese yen vis-à-vis the U.S. dollar was worked out. Similar pressure was put on the newly industrializing economies (NIEs), with which the U.S. trade deficit was also growing substantially. These developments were viewed positively at the time by many ASEAN countries as a step not only toward the opening up of the huge Japanese domestic market for their exports, but also toward possibly inching into the NIEs' market share in U.S. imports, especially in light manufactures.

The currency realignments and “moral suasion” may indeed have helped reduce the U.S. trade deficit somewhat, but it has remained high in

absolute magnitude. This is especially true of the deficit with Japan, which in 1988 accounted for more than 40 percent of the total U.S. trade shortfall. The appreciation of the Japanese yen has also triggered an increase in the flow of Japanese tourists and equity capital to the United States, making the Japanese presence more visible to the average American than previously. Thus, protectionist sentiments in the United States appear to have been rekindled once more, culminating in the inclusion of Japan in the list of countries (together with Brazil and India) that are officially deemed systematically to restrict American access to their markets. The so-called "Super 301" provision, though not in itself setting sanctions on the listed countries, is nevertheless feared by many as capable of triggering a trade war that could contract world trade and cause a global recession, and some U.S. policymakers are wary of its possible consequences.

The ASEAN bloc, of course, views these developments with much concern, for relations with both Japan and the United States play a significant role in each ASEAN country's economic structure—whether in the area of trade, investment, financial capital flows, or official development assistance. This chapter will examine the possible implications of the seeming dichotomy in strategic and economic interests between Japan and the United States on the ASEAN economies in general and the Philippine economy in particular.

ASEAN Economic Relations with Japan and the United States: An Overview

During their meeting in Manila in December 1987, the ASEAN heads of state took cognizance of developments in the world economy that could adversely affect the prospects for growth and development in developing countries, including the ASEAN countries. These developments include the general slowdown in the world economy, the rising tide of protectionism in world markets, large trade imbalances, the massive foreign debts of less developed countries (LDCs), exchange rate instability, and the increased inflows of foreign investment and financial capital into the developed countries. The annual growth in world trade has been falling, from 5 percent between 1971 and 1980 to 2.8 percent between 1981 and 1985. The United States has a large trade deficit that it is trying to alleviate by expanding exports and reducing import growth, both of which will hurt developing countries' exports. The European market is expected to be more inward looking as Europe becomes a fully integrated economic area by 1992, although this remains to be seen.

On the positive side, the strengthening of the Japanese yen meant that the Japanese could buy more from and invest more abroad, some of which

would no doubt spill over to developing countries. The Japanese yen has gotten weaker compared with the U.S. dollar since the ASEAN summit meeting with the result that the expectations on this front have been somewhat dampened, especially for those countries like the Philippines that have been pegging their currencies to the U.S. dollar.

Nevertheless, another positive development from the point of view of developing countries is the fact that the United States suspended the Generalized System of Preferences (GSP) for imports from Hong Kong, Taiwan, Singapore, and South Korea; starting in 1989, these countries' exports will be subjected to higher tariffs and more limited quotas. This action could translate into increased access to the U.S. market by other developing countries. To the degree that the U.S. move is part of its strategy of limiting its overall import growth, however, it may still handicap other developing countries like the Philippines in the U.S. market.

Various reasons have been put forward to explain why Japan will increasingly play the major role and will consider increasing trade, aid, and investment to developing countries, such as the Philippines, as being in its best interests. It must be emphasized that there are many aspects to the concept "national interest," and material profits are only one of them. First is the fact that Japan has had unprecedented current account surpluses in recent years and is expected to continue to do so in the coming years. Japan needs to recycle these surpluses in the same manner that the recycling of petrodollars allowed many ASEAN countries to grow and expand their trade with Japan in the 1970s. If Japan recycles its surpluses to developing countries, it will not only be beneficial to the recipient countries but will also further enhance Japan's role as a political and economic world power and perhaps blunt some of the criticism Japan receives for having trade imbalances in its favor compared with countries like the United States.

Second, since Japan does not have a large defense budget relative to its GNP, it is getting pressure from the United States to share in the costs of maintaining regional and world peace. Japan can advance its security interests by trying to promote peace and stability in the region through sharing some of its economic wealth. The Philippines, which hosts the U.S. military facilities, contributes directly to the security and economic well-being of Japan, the Pacific region, and the rest of the world. The United States ships responsible for protecting oil tankers in the Gulf, on which Japan and the rest of the West are so heavily dependent for their oil needs, are serviced by the U.S. military facilities in the Philippines. It is no wonder, then, that Japan, South Korea, and the other ASEAN countries see that it is in their interest that these facilities remain in the Philippines. Giving aid to

the Philippines in exchange for the U.S. bases may be a cheaper alternative than increasing Japanese defense expenditures beyond the defense expenditure limit of 1 percent of Japan's GNP. There are those who believe that the United States will try to persuade Japan to hasten its participation in a mini-Marshall Plan for the Philippines in an effort to keep its military facilities in the Philippines.

Third, though Japan was able to maneuver itself successfully through the two oil crises, in part by relying on some ASEAN countries for its energy needs, there are always pressures on costs of production to rise. An important element of cost saving in production is access to cheap resources and the shifting of labor-intensive production processes to countries with a large supply of cheap and skilled labor (Phongpaichit, 1988). The appreciation of the yen since September 1985 has reduced the competitiveness of industries in Japan and has induced them to relocate abroad.

The remainder of this chapter will review trade and investment relations and ODA programs of Japan and the United States with the ASEAN countries in the hope of adding historical perspective to the analysis of the implications of cooperation and/or competition between the two countries. The discussion of trade relations and ODA will dwell more on Japan than on the United States, partly in recognition of the historical importance of such relations, the dominant role that Japan may be expected to play in the future of the ASEAN economies, and the theme of this volume itself, focusing on the Japanese role in the Asia-Pacific region. It will attempt to relate certain developments in the world economy that have a bearing on these issues. Finally, some tentative conclusions will be drawn.

Trends in the ASEAN Trade Structure¹

General Trade Patterns

ASEAN exports to Japan grew substantially during the 1970s, at an average rate of 28 percent per year. The share of ASEAN countries in the total imports of Japan increased from 10 percent in 1970 to 15 percent in 1980. For the first half of the 1980s, however, Japan's imports from ASEAN as well as from the rest of the world showed a decline; by 1985, the dollar value (in nominal terms) of Japan's imports from the region was only 86 percent of its 1980 value of US \$21 billion. Nevertheless, with Japan's imports from the rest of the world declining as well, the ASEAN region's relative share dropped only slightly, to 14 percent of Japan's total imports.

¹This section draws on Alonzo 1987.

A basically similar pattern may be observed of Japan's exports to ASEAN. Between 1970 and 1975, ASEAN imports from Japan grew at 27 percent per year, declining to 17 percent per year between 1975 and 1980. After a peak of US \$15 billion was reached in 1981, Japan's exports to ASEAN began to fall in absolute terms even as its total world exports recovered in 1984 and 1985. Thus, by 1985, the share of the region in Japan's total exports was only 6 percent down from the 10 percent level experienced in the early 1980s. ASEAN has maintained a trade surplus with Japan throughout these periods, in contrast to Japan's tremendous surplus with the rest of the world. From Japan's point of view, therefore, ASEAN has been more important as a source of its imports than as a destination for its exports.

The overall trade picture, however, does not reflect differences in trends experienced by the individual member countries. In the 1980s, Indonesia and Malaysia, as major sources of raw materials and fuel, accumulated huge surpluses, whereas Singapore and Thailand ran huge deficits. The pattern for the Philippines has been mixed, with the relatively small deficits of 1981 through 1983 turning into small surpluses in 1984 and 1985. But these surpluses were mainly the result of a contraction in the economy, which reduced imports more than it reduced exports. The Philippine balance of trade with Japan became negative again by 1987 as the economy began to bounce back from its recession, with imports growing more than exports. Neither imports nor exports, however, managed to reach their 1983 levels with Japan or their 1984 levels with the United States.

The pattern that emerges from the nature and composition of ASEAN-Japan trade is that of a diversification of the exports and imports of Japan within the ASEAN market, with the changing roles of the different member countries in their trade relationships with the trading partner. The expansion of Japan's trade with ASEAN in the 1970s was accompanied by a similar expansion with less developed countries. The share of exports to LDCs in total Japan exports rose from 41 percent to 46 percent between 1970 and 1980, as Japan's industrial structure became more competitive with the industrialized countries and more complementary to the developing countries (Kakazu 1982).

This complementarity, however, was not fully exploited in the first half of the 1980s, when Japan's imports began to decline. Even as the ASEAN countries' exports continued to grow (although at slower rates), this period saw a declining share of Japan in total exports of the region (Table 1). For the Philippines, Singapore, and Thailand, the United States has become the dominant export destination by 1984, perhaps with the stimulation brought about by an overvalued dollar. Japan nevertheless

Table 1
Percent Share of Major Trading Partners in ASEAN Countries' Trade,
1975, 1980, and 1984

	Imports			Exports		
	1975	1980	1984 ^a	1975	1980	1984 ^a
Indonesia						
Japan	31.0	31.5	23.8	43.9	49.3	47.3
United States	14.0	13.0	18.4	26.2	19.6	20.6
EEC	19.7	13.4	14.9	5.7	6.4	4.7
Singapore	7.2	8.6	12.9	8.9	11.3	9.7
Malaysia						
Japan	20.1	23.0	25.4	14.5	22.8	19.7
United States	10.7	15.0	16.1	16.1	16.3	13.2
EEC	20.4	15.5	14.1	23.3	15.2	14.6
Singapore	8.5	11.7	13.9	20.3	19.1	22.5
Philippines^b						
Japan	27.9	19.9	13.6	37.4	26.6	19.4
United States	22.2	23.6	27.4	29.8	27.5	38.0
EEC	12.5	10.6	10.8	16.0	18.5	13.4
Saudi Arabia	10.3	10.0	6.9			
Singapore				1.4	1.9	6.0
Singapore						
Japan	16.9	17.8	18.2	8.7	8.1	9.3
United States	15.7	14.1	14.6	13.9	12.7	20.1
EEC	13.0	10.8	10.0	14.0	12.3	9.7
Malaysia	11.6	13.9	15.0	17.2	15.0	16.1
Thailand^b						
Japan	31.5	20.7	26.9	27.8	15.1	13.0
United States	14.4	16.6	13.4	10.6	12.7	17.2
EEC	17.1	12.8	12.1	16.1	25.8	20.5
Saudi Arabia	9.0	9.0	8.5			
Singapore	2.0	2.0	7.9	9.1	7.7	8.4

^aFigures for Malaysia are for 1983.

^bFor the Philippines, Singapore is not a major importer and Saudi Arabia is not a major exporter. For Thailand, Saudi Arabia is not a major exporter.

SOURCE: United Nations, *Yearbook of International Trade Statistics*, 1984.

remained the major source of imports for the region, for the ASEAN member countries continued to rely on the industrialized economies for their intermediate and capital goods requirements.

Commodity Composition of ASEAN Trade

The commodity composition of ASEAN–Japan trade shows the exchange of resource-based exports from developing countries for the industrial products of the developed country. More than 80 percent of ASEAN imports from Japan are heavy industrial goods. Between 1975 and 1982, the share of machinery in total imports from Japan expanded from 44 percent to 55 percent for Indonesia, from 52 percent to 62 percent for Malaysia, and from 52 percent to 59 percent for Singapore. Meanwhile, the bulk of ASEAN exports to Japan are in the form of foodstuffs (for Thailand), raw materials (for Malaysia and the Philippines), and mineral fuels (for Indonesia and Singapore). There has been some increase in the export of processed goods from the Philippines and Thailand; with a low base to start from, however, the share of processed goods in total exports to Japan remains low.

The highly concentrated nature of member-country exports to Japan is seen in more detailed commodity breakdowns. Oil-based and liquefied natural gas constitute more than half of the exports of Indonesia, Malaysia, and Singapore to Japan. Exports of the Philippines and Thailand are more diversified, but Philippine bananas (with a 20 percent share) and Thai natural rubber (with a 27 percent share) still stand out. ASEAN has strategic importance for Japan in certain commodities because the region provides a huge share of the latter's imports of certain raw materials (71 percent of liquefied natural gas, 67 percent of natural rubber, 61 percent of unwrought tin) and certain foodstuffs (83 percent of bananas, 40 percent of fowls) (Yamazawa and Adachi 1986).

Implications of Changes in Japan–U.S. Relations on ASEAN

Any changes in the economic relationship between Japan and the United States are of course likely to impinge on the ASEAN economies' trade relations with these two countries. Accurate estimates of the magnitude of these changes in the future performance of the individual ASEAN economies are not easy to trace, but broad macroeconomic directions are clear: If a trade war ensued between Japan and the United States, the economic slowdown in the two economies would generally lead to a contraction of their imports from their trading partners and a consequent decline in output and employment for these partners. The problem lies in estimating the probable quantitative dimensions of these macroeconomic effects.

A 1976 study by the Ministry of International Trade and Industry (MITI), cited by Kakazu (1982), estimates these effects to be substantial, for the import elasticities of demand by these two countries for the

individual ASEAN countries' products and the corresponding trade multipliers for ASEAN country exports are relatively high. Given the trade and domestic output structure in 1975, Indonesia would be the ASEAN country most adversely affected by a Japan slowdown and Singapore would be the least affected. The effects, of course, cut both ways, with positive developments in the Japanese economy benefiting Indonesia the most and Singapore the least.

The ASEAN countries, therefore, clearly have a stake in the continued cooperation between Japan and the United States, for they cannot expect much to gain by way of trade diversion in the event of increased trade conflict between the two. If at all, perhaps only Singapore would benefit from any reduction in trade between Japan and the United States, for its exports tend to be more competitive with the commodities that the two (Japan and the U.S.) trade with each other. At the same time, the ASEAN countries should sustain their efforts in diversifying their trade across more partners as a way of spreading their risks in the event of a contraction in the economies of their two major trading partners. Both Japan and the United States, of course, have more to lose with soured trade relations between them, but there is no guarantee that bilateral negotiations will necessarily end up for the common good.

Foreign Direct Investments in ASEAN²

The Nature of Investment Flows

Foreign direct investment (FDI) consists of new equity capital, reinvested earnings, net borrowing from a parent company or its affiliates, and the transfer of technology and managerial and marketing skills. From the point of view of developing countries, several advantages of direct investment over borrowing to achieve growth may be identified (Michalopoulos 1985). First, equity financing requires payments only when the investment earns a profit, whereas debt requires payment irrespective of the economic conditions of developing countries. Second, payments to foreign direct investors are under the purview of the host country, whereas debt-servicing requirements, being dependent on interest rates set in world financial markets, are not as easily controlled by developing countries. Third, only a portion of the profits from direct investment are repatriated because most are reinvested in the host country, whereas the principal and interest servicing on debt have to be paid. Between 1973 and 1982, for example, an average of about 56 percent of earnings by U.S. company affiliates in developing countries were reinvested (International Monetary

²This section draws heavily on Gochoco 1988 and 1989.

Fund 1985). Finally, direct investment allows the matching of the maturity structures of the earnings from an investment and the repayment of capital used to finance it, with little effect on the short-term financing problems of developing countries.

Trends and Patterns of U.S. FDI in ASEAN

The basic features of U.S. FDI in ASEAN countries are its concentration in large-scale, import-oriented, natural resource-based projects such as FDI in petroleum in Indonesia, and its emphasis on labor-intensive industries operating either for export or for import-substitution such as FDI in some manufacturing industries (Suriyamongkol, 1987).

Total U.S. FDI in ASEAN, excluding Brunei, amounted to US\$9.84 billion in 1986, representing only 3.7 percent of total U.S. FDI worldwide. This figure represents a very slight increase from 3.5 percent of total U.S. FDI worldwide in 1982. In 1987, U.S. FDI in ASEAN increased slightly from the 1986 figure to \$10.05 billion. Among the ASEAN countries, Thailand registered an impressive increase of 22.3 percent in U.S. FDI growth between 1986 and 1987, almost at par with that of South Korea, although between 1985 and 1986 U.S. FDI growth in Thailand actually fell. Malaysia also posted an increase in the rate of growth of U.S. FDI in 1986–1987 compared with 1985–1986, whereas Indonesia, the Philippines, and Singapore had smaller rates of growth of U.S. FDI in 1986–1987 compared with those in 1985–1986.

The sectoral composition of FDI differs in each of the ASEAN countries. In Singapore, most of the new FDIs have been in high-tech industries such as computers. In Indonesia, about 60 percent of FDI is in the petroleum industry, followed by textiles and leather products. Similarly, in Malaysia, FDI is concentrated in food, textiles, and electronics. For the Philippines, the areas for FDI are food, chemicals, paper, metal, and mining. For Thailand, FDI is divided almost equally among services, manufacturing, and mining and construction.³

Table 2 shows that petroleum investments in Indonesia and the manufacturing of electronic equipment and banking particularly in Singapore were significant sources of U.S. income from FDI in 1985. Table 3 shows that U.S. FDI in the Philippines and Thailand was apparently concentrated in import-substituting industries, as shown by the low ratio of exports to total sales of U.S. affiliates. The exception to this rule is Singapore. In terms of employment, U.S. FDI in the Philippines accounted for the largest, at 1.04 million workers employed in 1982.

³See U.S. Department of Commerce, *Survey of Current Business* (Washington, D.C.: Government Printing Office), annual issues.

Table 2
U.S. Investment in ASEAN Countries, Investment Income Abroad
(in US\$ millions)

Sector/Industry	Indonesia	Malaysia	Philippines	Singapore	Thailand
Petroleum	1,394	... ^a	-18	-40	92
Manufacturing:	— ^b	356	22
Food & Kindred	2	—	-44	-2	—
Chemicals & Allied products	5	3	26	...	3
Metals (primary & fabricated)	-1	...	1	-2	—
Machinery, except electrical	—	1	0	53	5
Electric and electronic eqpt.	-2	19	8	155	13
Transportation equipment	0	0	0
Others	-4	...	8	—	2
Wholesale trade	8	23	...	12	7
Banking	3	14	33	79	1
Finance (except banking, insurance, real estate)	5	1	5	1	-1
Services	-1	3	-4	2	2
Other industries	-2	6	...	2	10
Total	1,407	333	95	413	134

^a... = data suppressed to avoid disclosure of individual companies.

^b— = less than \$500,000.

SOURCE: U.S. Department of Commerce, *Survey of Current Business* 66, as cited in Suriyamangkol 1987, p. 140.

To summarize, the share of U.S. FDI going to ASEAN remains small and is a relatively insignificant component of total flows to ASEAN. U.S. FDI in ASEAN is concentrated in large-scale, import-oriented, natural resource-based industries that sometimes come into conflict with national policies of ASEAN countries, such as the development of small- and medium-scale industries that are labor intensive. This practice not only contributes to the lack of complementarity between the U.S. and ASEAN, it also tends to intensify the competition within ASEAN. The only country in ASEAN where employment generated by U.S. FDI is high is the Philippines, but even this figure is small from a national standpoint. Though U.S. FDI worldwide has shifted away from extractive industries into manufacturing, the largest amount of U.S. FDI in ASEAN is in the petroleum industry, with manufacturing running only second. Private flows are predominant in high-income countries like Singapore.

Table 3
Selected Data on U.S. Investment in ASEAN, 1982
 (in US\$ millions)

Host Country	Total Assets	Number of Employees (1,000)	Total Sales (Goods and Services)		Ratio of Exports to Total Sales ^a	U.S. Exports Shipped to Affiliates	U.S. Imports Shipped by Affiliates
			Total	Net Income			
Indonesia	6,990	52.7	12,543	2,037	0.661	395	2,097
Malaysia	3,333	60.8	4,319	379	0.473	977	1,142
Philippines	3,566	104.7	3,596	24	0.160	313	305
Singapore	6,251	46.1	14,114	543	0.820	956	1,334
Thailand	1,431	29.4	2,590	15	0.212	299	66
Total	21,571	293.7	37,162	2,998		2,940	4,944

^aIncludes sales to the United States as well as to other countries.

SOURCE: U.S. Department of Commerce, *1982 Benchmark Survey of U.S. Direct Investment*, as cited in Suriyamongkol 1987, p. 138.

Japan's Direct Investments in ASEAN

Following the appreciation of the yen since 1985, Japan has emerged as a major supplier of equity capital in the Asia–Pacific region (Rana 1988). Aside from the strengthening of the yen, the increase in financial flows in the form of equity capital can be traced to world developments such as the increase in real interest rates in the 1980s as the OPEC oil glut reduced OPEC's surplus, which made borrowing from commercial banks expensive, and more open international capital markets, which have made financial flows from private sources easier. In Japan's case, there was a substantial liberalization of controls on capital outflows. The rising yen and real wage increases also make Japanese industries less competitive and provide an impetus for Japanese firms to relocate abroad. At the same time, some Asian countries have adopted a more liberal attitude toward foreign investments.

It is worth noting that Japan's relative share of FDI in the Asia–Pacific region has been declining. From March 1975 to May 1987, the share of Japanese FDI going to North America almost doubled. In the mid-1970s, ASEAN had a 20 percent share of total Japanese investments, but this fell to less than 4 percent in 1986 (Lim 1988). The reason often cited is that the Japanese domestic market as well as markets in Asia became saturated in the 1980s, meaning that the limits to the size of the domestic markets were reached. Japan began to depend increasingly on its export markets in the European Community (EC) and the United States. At the same time, in order to counter the rising tide of protectionism, Japan is using direct investments in these countries to secure its markets. It is apparent,

therefore, that Japan is acting on the basis of its own interests, which encourages a larger share of FDI to other regions besides ASEAN.

As far as ASEAN is concerned, Japanese investments in the 1980s increased in Malaysia, Singapore, and Thailand and fell in the Philippines and Indonesia. In addition to Japan's desire to secure its markets abroad, Japanese investments went to North America instead of ASEAN between 1982 and 1985, for all the ASEAN countries' growth rates declined. It is apparent, therefore, that not all the ASEAN countries were able to capitalize on the increase in Japanese investments arising primarily from the strengthening of the yen.

There has been a change in the composition of Japanese FDI. Traditionally, manufacturing was the preferred area. Currently, investments in commercial and service industries, such as finance, insurance, and transportation, have become important. The share of investment going to labor-intensive industries has decreased, however. This change tends to impart a bias against ASEAN and developing countries that have surplus labor. For the Philippines and Indonesia, mining and manufacturing continue to be the primary areas of investment. The United States remains the largest foreign investor in the Philippines, although Taiwan has also become an important investor.

ASEAN's biggest loser in Japanese investments has been the Philippines. Between 1982 and 1986, the Philippines experienced political instability, negative growth, double-digit inflation, and the worst export growth performance in ASEAN. Japanese Ministry of Finance data show that Japanese investments in the Philippines (in both equity and extension of branches) hit an all-time low of US\$21 million in 1986 (Lim 1988). However, recent data from the Central Bank on registered equity investments (excluding extension of branches) show an increase in Japanese investments from US\$371.62 million in 1986 to US\$395.97 million in 1988. In terms of Board of Investments (BOI)-approved equity inflows, Japanese investments increased 329 percent between 1987 and 1988. The level of investments represented by this is second only to that of Taiwan, which had the largest amount of BOI-approved equity investments in the same period.

Determinants of Foreign Investment Flows

The amount of FDI flows from developed into developing countries, which declined in the 1970s, increased in the 1980s. One reason often cited is the following: In the 1970s, commercial loans were readily available to developing countries and real interest rates were low, even negative. This situation encouraged borrowing by developing countries rather than their attempting to attract FDI flows. At the same time, the

OPEC countries, to which most of world savings accrued in the 1970s, did not undertake direct investment in developing countries and opted to acquire equity in already existing entities in developed countries. The funds were placed in commercial banks, which recycled them. In the 1980s, bank borrowing has become expensive. Real interest rates increased as the OPEC surplus was dissipated and commercial banks had no more of the earlier surplus to recycle. Many developing countries that had borrowed heavily in the 1970s found themselves saddled with debts and unable to borrow as easily in the 1980s. Though the ability to borrow may offset FDI flows to some extent, the relationship is not always inverse. As mentioned earlier, the countries with large debts also tended to have large amounts of FDI. This positive correlation between the amounts of external debt and FDI may arise because some of the indebted countries have allowed their creditors to convert debts into equity in host countries.

The kind of capital inflows, whether official or private, seems to be dependent on the income of the recipient country. Official flows tend to dominate in countries that are least attractive to private investors, such as the Philippines in the late 1970s and early 1980s. On the other hand, private capital inflows are predominant in high-income countries like Hong Kong and Singapore. Though income may be important in determining the nature of the capital inflow, it is less so in determining the share of FDI accruing to a country. Indonesia, for example, is the poorest country in ASEAN, yet its share of FDI is high. In addition to the policies of host countries, other factors presumably explain the amount of FDI in a country. In the case of Indonesia as well as Malaysia, the abundance of petroleum and other natural resources is important. The size of the domestic market in Indonesia, the Philippines, and Thailand, and the favorable conditions for marketing in countries like Singapore, Hong Kong, and South Korea, are also presumably important in explaining the amount of FDI in a country (Rana 1988).

As mentioned earlier, the policies of developing countries toward FDI are important elements in determining not only the amounts but also the areas of FDI. As governments increased control of natural resources though nationalization of foreign-owned assets or restrictions on the entry of foreign capital into certain sectors, FDI in the extractive industries fell. The strict control of ownership also probably explains why there has traditionally not been much FDI in agriculture. The fact that U.S. FDI in ASEAN, particularly Indonesia, is largest in the petroleum industry largely reflects the technological advantage of the United States in such industries rather than the lack of strict control of ownership by host countries. FDI in manufacturing could have increased partly in response to trade restrictions that were part of the earlier national policies of import substitution,

as in Hong Kong, South Korea, and Singapore, and to serve domestic markets (IMF 1985). Perhaps the increase in investment in the service sector is also a response to these kinds of national policies.

It has also been argued that U.S. FDI not only tends to locate in import-substituting, high-tech industries, but is also frequently undertaken by large multinational corporations (MNCs) whose domestic structure is oligopolistic (Hill and Johns 1985). As such, U.S. FDI allegedly complements the strategies of MNCs rather than the industrial structures of the ASEAN countries (Suriyamongkol 1987). These strategies include raw material extraction for export, high-tech, and highly capital-intensive requirements. Furthermore, these strategies force the ASEAN countries to compete against each other.

Pangestu (1987) uses an investment-intensity index approach to show that the high intensity of investment flows between Japan and ASEAN is caused by high complementarity in industrial structures, and high country bias. For the United States and ASEAN, despite average levels of overall complementarity, the intensity of investment flows is low. Country bias factors, mostly geographical proximity, are lacking in the U.S.–ASEAN relationship, whereas this is not so between Japan and ASEAN. Given the high intensity of investment flows from Japan to ASEAN, a tightening in American openness to Japanese investment is then likely to divert the Japanese funds to the ASEAN countries. The issue, however, is how the ASEAN countries will share the inflow among themselves.

Official Development Assistance to the Region⁴

The Distribution, Composition, and Terms of ODA

Trends and patterns of Japanese Official Development Assistance to developing countries have changed between the 1960s and the 1980s. Whereas in the 1960s Japan was only a minor ODA contributor, between 1976 and 1986 Japan's ODA increased fivefold and was second only to the U.S. in volume in 1986 (Pante 1988). In 1986, Japan's ODA stood at US\$5.63 billion, a 48.4 percent increase over the level in 1985. A major reason for this large increase in 1986 was the sizeable appreciation of the yen starting in September 1985. Between 1983 and 1987, Japan's ODA budget grew by an average of 8.3 percent per year, whereas the general budget account only grew by 1.7 percent annually. However, Japan still lags behind other development assistance countries (DACs) in terms of the proportion of

⁴This section draws on Gochoco 1989.

GNP allotted to ODA and in terms of ODA per capita. Japan is ranked only fourteenth relative to other DACs.

The share of Japanese ODA going to ASEAN countries, however, declined from 31.3 percent in 1985 to 23.8 percent in 1986, even though the actual amounts to ASEAN increased from US\$800 million in 1985 to US\$914 million in 1986. Japan's aid to other regions increased at a much greater rate than that to ASEAN. Compared with 1980, the amount of ODA going to ASEAN to 1985 did not increase substantially because of a large drop in ODA disbursements to Indonesia. A large reduction in net disbursements to Malaysia also took place between 1985 and 1986. At the same time, there was a rapid expansion in aid disbursements to the Philippines between 1982 and 1986.

Among the ASEAN countries, ODA as a percentage of GNP is highest for the Philippines, at 1.5 percent. With the exception of Indonesia and Singapore, more than half of all the ODA received by ASEAN countries came from Japan. At 68.5 percent, Thailand has the highest proportion of Japanese ODA. Another notable development is the emergence of China as the largest single recipient of bilateral aid since 1982, probably reflecting Japan's interest in China as a potential source of raw materials and, more important, as a market for Japanese goods. About 13 percent of total Japanese bilateral aid went to China in 1986.

It is not clear, however, if Japan is favoring China at the expense of ASEAN because of numerous problems in disbursements. Meanwhile, the ranking of countries receiving bilateral aid from Japan has changed, with the Philippines occupying second place in 1986.

In terms of the composition of ODA to ASEAN, the grant component has more than doubled compared with the loan component in the period 1982 to 1986. The grant-loan mix for ASEAN is about 42 percent grants and 58 percent loans (Pante 1988). On the other hand, the grant-loan mix in the case of Africa is about 66 percent grants and 34 percent loans and likewise favors grants in the case of Central and South America. Overall, the grant element of Japan's ODA stood at 73.6 percent in 1984–1985, an improvement over that in 1970–1971. This was, however, below the average of 90.3 percent for DAC countries in 1984–1985. In 1985, only Japan did not meet the concessionality target among DAC countries.

Individually, there is a wide variety of grant-loan mixes among the ASEAN countries. In 1986, Indonesia had the most favorable grant-loan mix (68.3 percent grants), followed by Thailand (48.3 percent grants), the Philippines (18.4 percent grants), and Malaysia (15.4 percent grants). It is not clear how Japan decides on the grant-loan mix. Indonesia enjoys the most favorable grant-loan mix perhaps because it has the lowest per capita

GNP in the region. It is not clear, however, why Thailand has a better grant-loan mix than the Philippines since the latter has a lower per capita GNP. In fact, it has been noted that there seems to be a negative association between per capita assistance and per capita income (Alonzo, 1987). On the other hand, Thailand has become something of a "front-line state." Japanese investments have been flowing into Thailand particularly in the period 1982 to 1985, which were years of political and economic decline in the Philippines. That Malaysia has a grant-loan mix not too different from that for the Philippines is also hard to explain, since Malaysia's GNP is more than double that of the Philippines. Also, though China received the largest share of bilateral ODA, most of this (82.5 percent) was in the form of loans. Perhaps the grant-loan mix reflects historical factors that do not change much.

The terms of ODA loans from Japan, including interest rates, length of maturity, and grace periods, tend to be less generous than those of other DAC countries (Pante 1988). In 1985, for example, the interest rate on Japanese ODA loans was the highest (3.7 percent) among DAC countries. In terms of length of maturity, Japanese ODA loans ranked sixth at 27.7 years compared with 35.6 years for the United States. Japan, however, had the fourth longest grace period of 8.8 years among the DAC countries.

Since 1978, Japan has pursued a policy of untying ODA loans. Untied assistance in Japan's bilateral loans reached 61 percent in 1985, whereas that portion for the U.S. and France was 14 percent and 39 percent, respectively. The proportion of tied grant aid is high, however (an estimated 55 percent in 1983). Though Japan has pursued a general policy of untying loans, there is a feeling among some countries that the manner in which projects are developed and funded still favors Japanese suppliers.

Recent Developments in Economic Cooperation

Perhaps the most notable development in Japan's assistance to ASEAN is the establishment of an ASEAN-Japan Development Fund (AJDF). This fund is a financial cooperation scheme designed by the government of Japan to encourage the development of the private sector of ASEAN member countries and the promotion of intraregional economic cooperation within ASEAN. As part of Japan's recycling of its surpluses, no less than US\$2 billion of untied financial resources will be made available to ASEAN countries under this arrangement over a three-year period. Two-thirds of the loans under AJDF will be sourced from the Overseas Economic Cooperation Fund (OECF) and the rest will come from the Japan Export-Import Bank. AJDF's main focus will be the private sector. Private ventures and government-related entities can potentially be funded; only government or government-related institutions, however, may be direct bor-

rowers. Private financial institutions and other private entities may be direct borrowers only under Category B or under existing Ex-Im Bank schemes.

To promote direct overseas investment from Japan to ASEAN, the ASEAN–Japan Investment Fund has also been established, funded by both private and official sources. The Japan–ASEAN Investment Company (JAIC) will manage the fund and participate in equity in ASEAN countries. The equity participation, however, is seen as temporary in the sense that when the enterprises have achieved steady growth, equity held by the JAIC will be sold in ASEAN stock markets or by other means in ASEAN. In the case of equity investment as well as two-step and three-step loans, there will be no counterpart funding required of ASEAN countries.

Japan has also promised to undertake efforts to promote market access for ASEAN products into Japanese markets through institutions such as the ASEAN Promotion Center and the Japan External Trade Organization (JETRO).

During the Experts' Meeting on ASEAN–Japan Cooperation, held in Tokyo from November 30 to December 1, 1987, several aspects of concessionality were discussed and agreed to. These included the following: (1) procurement under OECF and Ex-Im Bank loans would be fully untied; (2) there would be flexibility on mark-up and spread for two-step loans; (3) there would be no requirement for counterpart funding by either government or financial institutions for two-step loans; (4) Japan would try to enhance ASEAN's access to its domestic market; and (5) Japan would seek the promotion and transfer of technology through institutions such as the JAIC.

The feeling persists among ASEAN members, however, that Japan is not being concessional enough and could be more so. There were several unresolved issues: (1) Japan's reluctance to be concessional on interest rates on OECF loans, which, as discussed earlier, are generally higher than interest rates on loans from other DAC countries; (2) its reluctance to lengthen the maturity and grace periods for these loans; (3) its reluctance to waive the requirement of government guarantee on OECF loans (it is only willing to do so for Ex-Im Bank loans on a case-by-case basis); (4) the absence of a commitment on the currency mix for OECF loans; (5) Japan's hesitance to undertake direct equity investment in projects or financial institutions. The participation of Japan in direct equity investments is limited to its 100 percent ownership of the Japan–ASEAN Investment Corporation.

The problem with denominating OECF loans in yen is that the servicing burden of the borrower increases each time the yen appreciates. The latter is a very real possibility despite the current strengthening of the dollar,

since all the available projections indicate that Japan will continue to experience surpluses in its current account in the coming years. At the same time, there are no contingency funds to help borrowers against such effects of currency appreciation.

In short, a number of areas exist where Japan could be more concessional so that its assistance to ASEAN would yield the most benefits to ASEAN. This view had been expressed not only by ASEAN and individual ASEAN countries, but also by some sectors in Japan. The Keidanren, for example, points out that fund-raising costs for OECF loans tend to be high because they are partly financed through the Japanese government's general account as well as by funds made available through the fiscal investment and loan program. The Keidanren proposes that budgetary allocations from the general account be increased and that the OECF issue foreign bonds to finance aid projects denominated in foreign currencies.

What are the prospects for Japan's raising its ODA:GNP ratio to a level commensurate with its status as an economic power? Japan's medium-term target, set in 1985, states that the volume of ODA is targeted to increase to more than US\$40 billion during 1986–1992 and to double the ODA amount in 1995. If this is achieved, Japan's ODA:GNP ratio would reach 0.42 percent in 1992. For this to happen, ODA would have to grow by 10.5 percent annually. Since there was a 48.4 percent growth rate of ODA in 1986, ODA would only have to grow by 8 percent per year for the targets to be met. The target may even be overshoot, depending on what happens to the yen. It has been estimated that Japan will post a current account surplus of US\$60 billion to US\$80 billion a year between 1988 and 1992. On the other hand, it has been pointed out that most of the surplus capital in Japan is held by private sector, but the problem is not insurmountable if Japan decides to take the lead in a mini–Marshall Plan.

The Multilateral Assistance Initiative for the Philippines

The Multilateral Assistance Initiative for the Philippines is an example of a situation in which cooperative rather than competitive arrangements between Japan and the United States would benefit the aid-receiving country. This so-called mini–Marshall Plan is an arrangement whereby US\$8–\$10 billion would be made available to the Philippines in the form of grants and concessional loans over a five- to ten-year period. Japan is to be the primary source of the funds; other developed countries will provide additional funds. Though it is clear that the Philippine government, particularly the president and the chief debt negotiators, have pinned their hopes on the mini–Marshall Plan, there exists a degree of skepticism about the “additionality” in the plan. Some donor countries, for example, have already stated that aid previously earmarked as part of their bilateral

assistance to the Philippines will simply be coursed through the plan. From the Philippine perspective, it may also be more difficult to obtain the best terms from donor countries if all sign at a single pledging session. It is unclear, at this point, why Japan has not yet taken the lead in a mini-Marshall Plan for the Philippines. One reason is perhaps the fact that although the Philippine government has identified certain structural reforms as necessary for the economy to sustain growth, not all the necessary changes involve budgetary support. It is equally important to build the necessary institutions to sustain democracy and economic growth.

Because this is so, it is not immediately apparent that more financial aid from Japan, unless it helps in the rebuilding of institutions, will be all that useful. The bigger question in all this is the interplay between Japan and the United States, and specifically the role of the military bases in that interplay which has a bearing on the Philippines. It is unclear whether the United States is pressuring Japan to hold off on the mini-Marshall Plan, just as the United States itself is doing, unless a commitment on the bases beyond 1991 is given by the Philippines, something which Japan also wants. The reasons for Japan's wanting the bases to remain in the Philippines are economic and political in nature. Other Asian countries likewise do not want Japan to assume a more militaristic stance, such as raising its defense expenditures, because they fear a return of a new militarized and rich Japan. These statements are highly speculative and perhaps better dealt with by political scientists. Nonetheless, it is curious to note that for all the rhetoric about a mini-Marshall Plan, the Philippines has received nothing thus far, not even more decent treatment from its foreign creditors for having thrown out a dictator, displaying willingness to pay its debts, and paying its dues through severe belt-tightening measures. At the same time, the Philippines has not committed to granting an extension of stay of the military bases beyond 1991.

Conclusion

This chapter has been an attempt to trace out the possible implications of the changing environment in Japan-U.S. relations on the ASEAN economies in general and the Philippines economy in particular (especially in the area of official development assistance). The global recession of the 1980s, large trade imbalances, the rising tide of protectionism, the debt problem of many developing countries, the large budget deficits of the United States that have made it a debtor country, the impending completion of Europe's economic integration, Japan's enormous current and projected current account surpluses, and the strengthening of the yen are events that have started to reshape the relationships among the United States, Japan, and the ASEAN countries, including the Philippines.

At the very least, the path seems to point to the inevitably increasing role of Japan in the economic resurgence of the region. In so doing, Japan can advance its own economic interests by, for example, relocating in ASEAN, where costs are generally lower; can increase ODA and investment flows to ASEAN, and to the Philippines in particular, to recycle its product—possibly to prod the latter to extend the lease on the military facilities beyond 1991. The overall relationship between Japan and ASEAN, however, differs from the bilateral relations between Japan and each ASEAN state in the areas of trade, FDI, and ODA.

Without denying the increasingly significant contribution of Japan to ASEAN economic growth, it is apparent, however, that compared with the other regions ASEAN has not been the highest recipient of capital flows in the forms of ODAs, loans, and investments. Part of the reason for this state of affairs is the need to secure markets for Japan's exports in North America, where the rising tide of protectionism threatens Japan's exports. Another reason may be the existence of problems in the disbursement of aid. There seems to be no clear-cut rationale to explain the criteria for the amounts of Japanese ODA that a country receives. Yet it bears emphasizing that Japan should not necessarily be appealed to on moral grounds; rather, ASEAN can only seek to convince Japan that it is in the latter's best interests to grant larger shares of aid, investments, and trade to ASEAN. Indeed, the United States and Japan have often displayed competition, even friction, in their dealings, a fact that may engender competition/cooperation among ASEAN states as well.

Both the United States and Japan must also realize that even in the area of economics much can be gained from cooperation. Certainly, both the United States and Japan would lose if a trade war ensued. So would the rest of the world, including ASEAN. Isolationism and protectionism can benefit no one. Their strategic interests, such as maintenance of regional security and world peace, also call for cooperation and perhaps, in view of the internal difficulties of the United States, even a form of burden sharing whereby Japan will increasingly bear the costs.

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7. America's Evolving Relationship with Japan and Its Implications for ASEAN

GERALD L. CURTIS

This chapter offers an assessment of U.S.–Japan relations and their current and potential impact on the interests of ASEAN. The analysis focuses broadly on the U.S.–Japan relationship rather than on U.S.–Japan interactions in Southeast Asia alone. It does so because developments in U.S.–Japan relations that have no direct relationship with ASEAN can have far-reaching effects nonetheless on the interests of the countries in that region. Decisions taken in the context of bilateral U.S.–Japan relations, for example, whether in the areas of trade, defense, or “burden sharing,” often have major spillover effects on third countries, and nowhere more pronounced than in East and Southeast Asia. Moreover, since the U.S.–Japan relationship is a crucial element in the management of the international economic system, the policies these two countries pursue in regard to global economic issues have a profound impact on all other nations, including of course the countries in ASEAN. It is important to recognize the significance of these global and bilateral issues and trends in order to comprehend the evolving triangular relationship among the United States, Japan, and ASEAN.

The chapter is divided into four sections. The first section, a summary review of the evolution of the bilateral relationship between the United States and Japan since the conclusion of World War II, highlights structural changes in the relationship that are challenging some of the most basic assumptions on which U.S. policy toward Japan in the years following World War II were based. The second section assesses the current state of the relationship, and the third deals with burden-sharing issues as they relate to defense and Official Development Assistance (ODA). The fourth section, finally, focuses on the U.S.–Japan–ASEAN triangular relationship in its economic and political security dimensions.

The Decline of the Magnanimous Hegemon

With an initial postsurrender objective of ensuring that Japan would not again become a threat to world peace, the United States pursued a two-pronged policy aimed at Japan's demilitarization and democratization. With the outbreak of the Cold War, however, and well before the decade of the 1940s had ended, the emphasis in United States policy toward Japan shifted to securing Japan's participation in America's system of alliances to contain the Soviet Union. Support for Japan's economic reconstruction and for its democratization, and even the acceptance of a minimal Japanese military security role, were part and parcel of a strategy designed to ensure that Japan would be a politically stable and economically strong ally in the struggle against Soviet communism.

American strategy was not static. It assumed that as Japan grew in economic strength, and as social and political stability increased, that country would play an increasingly larger role in self-defense, reduce government controls over the economy, and take on burden-sharing roles to contribute to the economic development of other noncommunist countries in its part of the world. But the strategy was premised on the indefinite continuation of what is now the fashion to call American hegemony, namely, the overwhelming economic and military power of the United States and its overarching role in maintaining the international economic and political/security system.

Within this context of American global strategy, postwar American policy toward Japan was based on a number of fundamental assumptions about American national interests. Three in particular stand out in importance, and together they provided a framework within which the United States was able to order priorities and determine tactics in its dealings with Japan across a broad array of issue areas. The fact that not one of these assumptions remains entirely valid today is a mark of how fundamentally the U.S.–Japan relationship has changed.

The first and most important assumption was that it was in the U.S. interest to help Japan rebuild and strengthen its economy and that an effective way to do this was to help Japan secure access to markets for its exports. The United States not only opened its own markets to Japanese goods but lent its power as well to prying open markets in Europe and elsewhere to Japanese products. Although the General Agreement on Tariffs and Trade (GATT) system was premised on the idea of reciprocal free trade, the United States pursued for a long time what amounted to a unilateral free trade policy toward Japan, permitting Japanese products access to the American market while not protesting heavily protectionist restrictions on imports into Japan. The United States saw few costs and

enormous benefits in such magnanimous policies, which had the effect, after all, of creating a strong Japanese ally.

Americans did not begin to question the wisdom of this policy until the 1960s and did not frontally challenge it until much more recently. Indeed, John Foster Dulles and other architects of postwar American policy toward Japan were convinced that Japan could not produce products that the United States or other advanced countries would want to buy. They believed that Japan's major export markets would lie in Asia, where Japan could sell the kinds of low value-added and low-quality export items for which it had become famous before the war in exchange for access to the region's primary commodities.

Other Asian countries were more apprehensive of Japan's potential economic resurgence. European countries also worried about Japanese competition, with many of them invoking their rights under Article 35 of the GATT to continue to restrict Japanese imports after Japan joined the GATT in 1955. But the United States championed Japan's economic recovery and used its dominant power in the international economic system to help Japan secure the opportunities for the export growth it needed to pay for its burgeoning requirements for raw materials and other imports.

Needless to say, American policy to encourage and support the growth of Japanese export markets was a smashing success. As these exports began to compete directly with American products and as the Japanese economy grew in strength, however, the economic policies of the early postwar years gave way to demands on Japan to shoulder more of the burdens of maintaining the free trade regime. These demands escalated sharply in the 1980s, when the macroeconomic policies pursued by the Reagan administration resulted not only in the exacerbation of the bilateral trade deficit with Japan but in a massive global deficit as well. The result has been a mounting chorus of demands in this decade that Japan "do something" to reduce the bilateral imbalance along with a range of new American protectionist measures.

America's relative overall economic decline and the dramatic rise of Japan to economic great power status signaled the end of United States global economic dominance and precipitated the erosion of American political support for the kinds of magnanimous policies that formerly served its hegemonic interests. American public opinion today increasingly views Japan's economic power as a threat rather than an asset to U.S. interests. According to one widely cited recent poll, for example, a majority of Americans consider Japanese economic competition a greater threat to the United States than Soviet military power.¹ Nothing better

¹See the Daniel Yankelovich Group, "Americans Talk Security," *National Survey*, no. 8 (1988).

exemplifies the shift away from hegemonic magnanimity and toward demands for equality than the 1988 Omnibus Trade and Competitiveness Act and its "Super 301" provision for retaliation against countries that do not provide what the U.S. government judges to be fair access to their markets.

A second strategic assumption embraced by key postwar U.S. policy-makers was that paramount importance needed to be accorded to maintenance of the U.S.–Japan political security relationship and that other objectives of American policy toward Japan were to be subordinated to that goal. One consequence of such thinking was to contain American demands for greater Japanese military efforts. Although the United States complained of Japan's security "free ride," it also was aware that insistence on considerably greater Japanese military efforts would create enormously difficult domestic political problems in Japan. Japan in the 1950s had a powerful political opposition whose public support was in large part based on its opposition to the U.S.–Japan Security Treaty and support for unarmed neutrality.

Concern with maintaining the political relationship also resulted in restraints on the vigor with which the U.S. government pursued negotiations over economic and trade differences with Japan. For a long time it was unwilling to permit dissatisfaction with Japanese trade practices to threaten the smooth functioning of the political relationship. There was little thought in any case that Japan's protectionist measures adversely affected American interests to a significant degree. Indeed, for years they were believed to be necessary to insulate Japan from outside competition while it got its economy back on its feet and thus became a stronger and more effective ally.

Today, of course, Japan's trade policies and the structure of its economy have become the most divisive issues in the U.S.–Japan relationship. A policy of benign neglect in relation to Japanese trade barriers has been replaced by demands not only that they be removed but that their removal produce results. Thus the growing popularity of proposals for sector-specific "results-oriented" trade negotiations, which amount to a demand that Japan guarantee American companies specified market shares, and for a more fully managed trade regime under which the United States would decide what size imbalance in bilateral trade with Japan would be tolerable and Japan would manage its trade, either by cutting exports or increasing imports, to reduce its surplus to this level.

The vestiges of a policy that sought to keep economic controversies from damaging political relations, which was so prominent in the heyday of American hegemony, remain evident in the United States today. The National Security Council defines "security" in a narrow political/military

sense; televised debates between U.S. presidential candidates over foreign policy bring up missile throw weights but not currency exchange rates; military production agreements such as the recent FSX accord with Japan are negotiated with scant attention to trade and economic implications and with only peripheral participation at best of economic agencies like the Department of Commerce and the U.S. Trade Representative (USTR) in the negotiations. The contrast with Japan could not be sharper. There economic issues dominate discussions of international relations, Ministry of International Trade and Industry (MITI) bureaucrats are deeply involved in military procurement decisions, and there is a pervasive sense that the nation's security is intimately tied up with its international economic policies.

The belief that disagreements over trade issues should not be permitted to affect adversely the United States' political relationship with Japan also explains the enthusiasm in some circles for a U.S.–Japan free trade agreement. The argument is that such an agreement would get trade disputes off the agenda of day-to-day relations and out of the newspapers, thus permitting the two governments to focus on more important issues and preventing trade frictions from eroding the strength of the political relationship. Similarly, some of the proposals for managed trade also have been motivated by concerns that acrimony over bilateral trade issues were exacting too high a political cost. However, negotiating trade disputes one by one in a fairly highly charged political atmosphere, though it does not fit the strategic assumptions of postwar U.S. policy toward Japan, has become an inescapable feature of the political relationship between the two countries.

The third assumption underlying American postwar policy toward Japan was the expectation that, as it recovered its economic strength, Japan would engage in more “burden sharing.” John Foster Dulles, when he was Secretary of State, and even earlier when he was negotiating the peace and security treaties with Japan on behalf of President Truman, never tired of berating Japan for taking a free ride on defense. His successors also pressed Japan to do more to contribute to its own defense. As Japan grew economically, the United States also urged it to spend more on economic aid to Southeast Asia and to normalize relations with, and extend large amounts of aid to, South Korea.

But burden sharing in postwar American policy had a particular meaning that was bounded by assumptions of continuing American hegemony. Burden sharing meant sharing America's burdens, not sharing the responsibilities for determining what those burdens should be or how they should be parceled out. The American desire to see more Japanese burden sharing is greater today than ever before. Because of the shift in the relative

power of the two countries, however, it is not surprising that Japan should want to share not only "burdens" but the decision-making power to determine what burdens are to be shared, and how. It is significant that the expression "burden sharing" in Japanese is most often rendered as "responsibility sharing" (*sekinin buntan*) or "role sharing" (*yakuwari buntan*). The linguistic differences reflect an important distinction in what each country means by burden sharing. This difference so far has not become much of an issue in the relationship between the two countries because Japan's reluctance to incur new burdens has inhibited its demands for more power. But over time Japan's burdens will become more substantial, and as they do its demand for a greater say in determining them is bound to increase.

Increased Japanese burden sharing also is going to affect the relative power and influence of the United States and Japan in third countries. Burden sharing in the form of Japan's ascendance to the position of the world's largest donor of official development assistance, for example, invariably means an expansion of Japanese influence in the countries it is helping. When Americans urged Japan thirty or more years ago to take on larger international burdens, they did not contemplate that this action would result in a relative decline of American influence. And it is not clear that many Americans recognize this implication of a greater Japanese burden-sharing role today.

Discussions of burden sharing in both the United States and Japan these days tend to emphasize the role Japan can play in carrying economic burdens while the United States continues to shoulder most of the politico-security responsibilities. Economic burdens, however, invariably bring tangible economic benefits, whereas political and security ones impose immediately visible economic costs. Therefore, a division of labor between the United States and Japan that gives the United States the role of maintaining global stability and Japan the opportunity to focus its attention and resources on participating in the economic development of the third world is bound over the long run to be politically unsustainable in the United States. Urging Japan to play a substantially greater role in sharing political and security burdens as well as economic ones, however, raises difficult questions about Japanese military spending and the role of its armed forces. These questions involve issues of the role of military force in Japanese foreign policy that are politically controversial both in Japan and abroad.

Finding ways to implement burden sharing, in other words, is more difficult and vexing than the current popularity of the expression might lead one to expect. It involves a Japanese willingness to accept some of the responsibilities of global leadership, including the willingness to take

positions on controversial issues and to adopt policies that may be unpopular domestically. It also involves an American willingness to consult with Japan on a wide range of issues, including those that lie outside the direct bilateral relationship, and the creation of a system for sharing responsibilities for the formulation as well as the implementation of policy. This adjustment is difficult for both countries; it is particularly painful for the United States, which, after all, has to accept a somewhat diminished role for itself as Japanese influence in world affairs increases.

Such adjustments eventually will have to be made, however, since current policy rests on assumptions about U.S. and Japanese power and the structure of the world's political economy that are no longer adequate. Japanese economic capabilities have developed to a point that was unimaginable to the policymakers who formulated American policy in the 1940s and 1950s. And even though the United States remains the most powerful country in the world and is almost certain to retain that position for many years to come, its decline in economic power relative to Japan invariably changes the basic dynamics of the bilateral relationship. The most immediate consequence has been the escalating trade frictions and political tensions of the past decade.

The Current State of U.S.–Japan Relations

Depending on the angle of vision one chooses, the U.S.–Japan relationship can appear to be the strongest and most beneficial of all our external relationships or the most troubled. Predictions by well-informed observers that a Japanese desire to challenge American preeminence will lead to an inevitable collision vie with forecasts by equally prominent analysts of a growing integration of the *nichibei* (Japan–America) economy and an evolving role for Japan as a major supporter of American hegemony.

The contradictions, inconsistencies, and paradoxical qualities of American reactions to Japan's emergence as a global economic power are evident everywhere. In the United States today a Japan boom exists side by side with Japan bashing. Americans who express support for restrictions on Japanese imports are the same ones who spend their money on Japanese consumer goods. American congressmen issue calls for restrictions on Japanese investment in the United States while more than forty state governments have established representative offices in Tokyo precisely to attract such investment. Americans complain of Japan's "closed" markets while we sell more goods to Japan than to any other country except Canada. The U.S. government complains about the slow consensus-building decision-making process in the Japanese government and the consequent failure to take initiatives, but then gets upset when Japan does take

an initiative, as it did at the 1988 Toronto summit on the issue of Third World debt.

The contrasting perspectives illustrated by these examples are the product of the momentous changes in the domestic political economies of both countries as well as in the global financial, trade, and security regimes that have structured international relations in the post-World War II world. U.S.-Japan relations are undergoing a kind of structural change as Japan becomes vastly more powerful than it was in the past and more powerful relative to the U.S. than before. This fact is bound to create tensions even as it draws the economies of the two countries more closely together.

Furthermore, although America's global interests and general foreign policy goals earlier in the postwar period impacted heavily on its relations with Japan, the bilateral relationship with Japan was not a major factor affecting the functioning of the international system. Today, however, the U.S.-Japan relationship has burst its bilateral seams. To capture the significance of this change, one has only to remember that for many years a fairly well-coordinated Japan policy was run out of the "Japan Desk" in the State Department and contrast that with the multiplicity of actors and the absence of coordinating mechanisms for making policy today.

Adjusting to the new "globality" of the U.S.-Japan relationship is not easy for either the United States or Japan. It is complicated by the fact that not only do bilateral U.S.-Japan issues impinge on the interests of other countries, but that the coordination—or lack of coordination—of U.S. and Japanese economic policies, ranging from domestic fiscal and monetary policies to exchange rates and multilateral trade negotiations, has become a key factor in the management of the international economic system.

The United States and Japan have made some progress in dealing jointly with global economic issues—in managing exchange rates, in coordinating policies in the Uruguay Round, in formulating the American proposal to deal with Latin American debt that was announced by Treasury Secretary Nicholas Brady in March 1989. But there also is considerable U.S. resistance to accept fully the implications of Japan's emergence as a global economic power, as reflected in its apparent reluctance to give greater voting power to Japan in the International Monetary Fund (IMF) and the World Bank.

Japan, for its part, is torn between the desire to exercise greater political clout in world affairs and to obtain greater prestige on one hand and, on the other, the desire to avoid controversial policies that would get it into political trouble at home or abroad. It has liberalized its trade policies under enormous pressure from the United States, but the grudging quality

of these “concessions” has only intensified American anger at what is widely perceived to be a desire to retain an outdated, mercantilist policy.

The result has been a large and growing gap between Japanese thinking about Japan’s role in the world and perceptions of that role among important elite groups in the United States and elsewhere outside Japan. The American mass media has taken to offering its readers a steady diet of articles on the “Japanese challenge.” Any number of recent popular accounts of Japan raise the specter of Japan’s buying out America and stress the need for special measures to deal with this challenge and maintain the world economic order.

In Japan, however, the view continues to grow stronger that Japan cannot challenge American global leadership and has nothing to gain from trying to do so. The dominant view in Japan is that the most rational foreign policy for the nation to pursue is one that seeks to reinforce rather than challenge American hegemony. As a consequence, the idea of a *pax Japonica* that was bandied about earlier in this decade has far less support in Japan now than before.

But what Japanese see as efforts to draw ever tighter the bonds that tie Japan to the United States are perceived by many in the United States as a frontal attack on American predominance. The realization that the United States needs Japanese capital to help fuel its economy, that it depends on Japanese markets for exports, and that it needs Japanese political support and military alliance to pursue many of its foreign policy objectives has brought home to many Americans for the first time the element of mutuality implicit in the notion of interdependence. Until recently, the United States has been accustomed to being depended on; it now has to face up to its growing dependence on others, and on Japan in particular.

Even if Japan seeks to pursue a policy of reinforcing American hegemony—of being the banker to American power, if you will—the question remains whether such a policy is feasible over the long run. If it is possible, it will only be because both countries accept the need to institutionalize power-sharing arrangements and structure their relationship around the three factors of globality, interdependence, and competition that have now become the central elements in the U.S.–Japan relationship.

Defense and Aid

Much of the issue of burden sharing in U.S.–Japan relations revolves around defense and aid. These are matters that impinge quite directly on ASEAN interests. There is not the space here to explore each of them in great detail, but some salient points deserve mention.

Japanese defense spending has been increasing throughout the decade at an annual rate in excess of 5 percent and has brought Japan to an annual

defense budget of some US\$30 billion at current exchange rates. Although this figure accounts for only 1 percent of gross national product (GNP)² it ranks Japan as the third largest military spender in absolute dollar terms after the United States and the Soviet Union.

The 1 percent ceiling on defense spending has been removed, but there is little likelihood that a considerably larger share of GNP will be given to defense, in the near- to mid-term future at least. The significance of the 1 percent figure has changed: It is now as much a floor under defense spending as a ceiling over it. It has become so widely taken for granted in Japan that 1 percent of GNP will go to defense that the government has little trouble getting its defense budget through the Diet as long as it hovers around the 1 percent mark.

There is still strong public opposition to Japan's becoming a military superpower, or even a regional military power, and overwhelming support for the status quo. But the "status quo," Japanese style, means support for annual increases in defense spending higher than for any NATO country. As long as the Japanese government does not try to move its military policies beyond the current definition of self-defense and keeps its defense spending around 1 percent of GNP, the defense issue is unlikely to become an important vehicle, as it used to be, for opposition party attacks on the Liberal Democratic Party (LDP).

But the situation is quite different in the United States. Despite the advances made by Japan in strengthening its self-defense capabilities and despite general Pentagon satisfaction with Japanese policy, Japanese defense spending and military policies have become increasingly controversial issues in the United States. The reasons for American irritation are evident enough. Under current exchange rates, Japan has pulled slightly ahead of the United States in per capita GNP. In the United States, however, defense spending per capita in 1987 was \$1,155, whereas in Japan it was only US\$173. (The figure for West Germany, in contrast, was US\$453.) At nearly 6 percent of GNP, American defense spending last year was about US\$300 billion. At 1 percent of GNP, Japanese defense spending was US\$30 billion.

Frustrations with these asymmetries get vented in congressional resolutions demanding that Japan spend more on defense, but American politicians well informed on Japanese defense issues recognize the problems involved in pressing Japan to spend very much more than it is now spending. Recently a number of members of Congress journeyed to Tokyo demanding that Japan spend 3 percent of GNP on defense, only to come

²When calculated according to the NATO formula, which includes military pensions, the figure is about US\$40 billion or roughly 1.3 percent of GNP.

back better briefed and better informed and saying that perhaps it would be better to put the extra money into ODA.

The military issues likely to be central in the U.S.–Japan relationship during the last decade of this century will more probably involve defense technology and the American military presence in Northeast and Southeast Asia than Japanese defense spending as such. In the past few years defense technology has produced serious political problems in a number of cases. One was the abortive effort by Fujitsu to buy the Fairchild Semiconductor Company. In this case the joint opposition of the Department of Commerce and the Pentagon to Japanese acquisition of a company involved in defense-related work forced Fujitsu to back off. The second was the Toshiba incident, in which Congress imposed sanctions on Toshiba for the sale by one of its subsidiary companies of milling equipment used to produce quiet submarine propellers to the Soviet Union in violation of Coordinating Committee on Export Controls (COCOM) rules.

The third case was the FSX. Here the Japanese negotiated a deal with the Reagan administration to coproduce a new-generation fighter support aircraft on the body of McDonald Douglas's F-16, only to find the Bush administration, under intense pressure from Congress and from members of the cabinet, insisting on renegotiating its terms. It is a nasty incident that Japanese see as a case of American betrayal of an agreement negotiated in good faith and that Americans see as Japan sticking the proverbial camel's nose under the tent of American aviation technology.

The FSX affair is a watershed incident that has led the United States to consider seriously the need for a Japanese-style "comprehensive security" approach that takes into consideration technological and trade dimensions of military security issues. The United States needs to come up with a coherent, coordinated policy for dealing with such technology-related issues, to be sure. But initiating this policy change by demanding alterations in the FSX accord was hardly the best way to do it. The costs of the FSX wrangle in terms of American credibility and long-term U.S.–Japan defense production relations far outweighs the commercial benefits that will be derived from strongarming Japan into making changes in the agreement.

Another issue in the U.S.–Japan military relationship involves the American troop presence in the Philippines, in South Korea, and in Japan itself. President Reagan entered office declaring the Soviet Union an evil empire, only to announce all but an end to the cold war when he left. Within an eight-year period American military spending did a complete flip-flop, with heavy infusions of new funds in the first half of the Reagan era followed by cuts in real spending in the last years of his administration. Growing consensus on the need to make deep cuts in the budget deficit

combined with the growing popularity of the view that the Soviet military threat has lessened are bound to create strong pressures for further cuts in the defense budget.

It is not possible to predict with any confidence what these pressures will do to American policy on forward deployments in Asia. It is not inconceivable, however, that sometime in the next decade the United States will have no bases in the Philippines, that it will have withdrawn its troops from South Korea, and that it will have reduced its presence in Japan as well. It is difficult to anticipate what impact such developments would have on Japanese military policy or on the region as a whole, but they almost certainly would be destabilizing. After all, Japanese defense policy makes sense, both militarily and politically, only in the context of the U.S.–Japan alliance and an American military presence in the region. It makes no sense, for example, to defend sea lanes out to 1,000 miles from Japanese shores if there are not American ships to pick up responsibilities for protecting shipping beyond the 1,000-mile limit. Once major changes in American deployments in the region are projected, the rationale for Japanese policy begins to unravel.

Clearly, Japan wants the American presence to continue. The debate in Japan during the past decade over whether Japan should depend on military alliance with the United States or opt for a kind of Gaullist policy has given way to a broad-based elite consensus on the desirability of tying Japanese military policy and strategy ever more closely to the United States. American moves to withdraw from Asia, particularly a withdrawal from South Korea that did not have the support of that country's government, would undo this consensus, especially if it is accompanied by the kind of American "techno-nationalism" that surfaced in the FSX incident.

The issue of withdrawal of American forces from Japan itself hinges entirely on the larger issue of American military policy in Asia, since little of the U.S. force structure in Japan is intended for the purpose of defending Japan. Naval facilities there are for the purpose of facilitating Seventh Fleet activities in the region, and bases in Okinawa, which account for 60 percent of American forces in Japan, are for the purpose of providing force projection capabilities into Korea and other parts of Asia. Furthermore, U.S. forces that are intended specifically for the defense of Japan possess the offensive attack capabilities that Japanese forces do not have. Their withdrawal would raise serious questions about Japanese military strategy and about American intentions.

If the United States decides to reduce its defense budget by cutting down on overseas deployments, the deepest cuts will have to be made in Western Europe, not in Asia. The American defense contribution to the defense of Western Europe is estimated to consume about US\$170 billion

of the US\$300 billion U.S. defense budget, whereas Asia takes about US\$40 billion. Withdrawing or substantially reducing the American military presence in Asia would be a relatively high-risk policy that would result in little cost saving. But that is not to say that this policy will not find strong proponents in Congress and in the Bush administration.

Let me now turn to Japan's official development assistance policies as they relate to U.S.–Japan relations. Japanese ODA spending has become a major issue in the U.S.–Japan dialogue over burden sharing. Although Americans are divided and ambivalent about the issue of increased Japanese defense spending, there is apparently wide support in the United States for Japan's spending 2 or 3 percent of GNP on ODA. The U.S. Senate passed a resolution in 1987 calling on Japan to increase its ODA to 3 percent of GNP, and several officials in the Reagan administration called on Japan to increase its aid "dramatically."

The chances that Japan will respond to these entreaties are nil. According to Ministry of Finance (MOF) figures, in order to increase its ODA even to 0.36 percent of GNP (from the current 0.30 figure) by 1992, Japan would need to increase aid spending in the budget by an average of 14.5 percent per annum, which the MOF regards as totally beyond consideration.³ The much-touted commitment of the Japanese government to spend \$50 billion on ODA over the five-year period 1987–1992, in fact, represents a victory for the MOF, which looked askance at rapid increases in ODA budget expenditures. It was a defeat for the Foreign Ministry, which wanted the government to peg ODA spending at a higher GNP figure that would have required higher annual budget increases to reach.

It sounds little short of blasphemous to question the desirability of ever-higher amounts of official development assistance, but dramatic increases in Japanese aid are not an unalloyed blessing. There is, for one thing, the question of the absorptive capacity of recipient governments of this largess. The Philippines is a good example. At the end of 1987, US\$2.2 billion of a total of US\$2.7 billion in overall aid commitments to the Philippines was unspent, including more than half of Japan's US\$734 million share of this total. If Japan were to accept proposals that it increase its ODA to, say, 2 percent of GNP, and if it were to leave its geographical distribution of aid as it is today, then the Philippines would have received in 1987 US\$4.4 billion, over one and a half times the amount of aid from all bilateral and multilateral sources, and over half the size of the 1988 Philippines government expenditure budget. It is at least questionable whether such an infusion of funds would be entirely to the good. The

³*Asahi Shinbun*, May 30, 1988.

dangers are real that it would make worse already serious problems of corruption, put enormous strain on public finance to maintain all the projects Japanese aid would have developed, raise new concerns about Japanese "neocolonialism," and leave untouched the problems of land reform and institutional changes and foreign debt that are at the heart of the Philippine development problem.

There is also the issue of aid perceived as a vehicle for increasing Japanese influence in recipient countries. Many Americans accept as unavoidable Japanese predominant economic influence in Asia (where Japan gives nearly US\$7 billion in ODA, compared to roughly \$500 million for the United States), but it is another matter when ODA is seen as spearheading Japanese influence elsewhere. The United States has encouraged Japan to extend strategic aid to Jamaica, Central America, Mexico, Turkey, and elsewhere, but the intent has been to have Japan shore up American interests, not challenge them. As long as Japanese aid is relatively modest in these countries and closely coordinated with American policy, no problem arises. But if Japan were to spend US\$100 billion on ODA (which is about what 3 percent of the Japanese GNP amounts to), it does not take much imagination to anticipate American members of Congress deriding Japanese efforts to use economic aid to "invade" America's own backyard in Latin America, for example, and to take export markets away from American companies. Some far-sighted people in Tokyo have been proposing approaches that would tie Japanese assistance to Latin America to the purchase of *American* capital equipment, but so far this suggestion has not led to any specific programs.

That the dangers of "ODA frictions" between the United States and Japan are not entirely fanciful was brought home by a report submitted to Congress by the Bush administration in April 1989 claiming that American industry is losing exports approaching US\$1 billion a year because foreign governments are increasingly using foreign aid as a means to expand their own exports. The report, which was mandated by the 1988 Omnibus trade bill, cited as an example the inability of an American company to match the foreign aid credit package offered by Japan in conjunction with a bid by the Nippon Electric Corporation for a US\$100 million contract for digital switching equipment for Jordan in 1985.

The newspaper story about this report also indicated the lack of any clear administration strategy or coordinated effort to deal with this kind of issue. It noted that the report was delayed by fierce bureaucratic wrangling and that some of its conclusions were toned down by the Office of Management and Budget and by the State Department. Apparently the budget office fretted about demands for increased spending to counter the foreign subsidies, and the State Department "feared that Congress might

divert the \$15 billion a year [*sic*] American foreign aid program to export-support activities, instead of using it to support broad foreign policy objectives.”⁴

The purpose in raising questions about ODA spending is not to argue that Japan should not spend more money on helping other countries develop their economies. Japan could and should spend more money than it is spending now to aid Third World development. The question is how to spend more money effectively. There are limits to the utility of traditional ODA approaches, especially the project-oriented, Japanese equipment-tied approach that has characterized Japanese policy. More innovative approaches are inhibited, however, by bureaucratic inertia in Japan and by an American reluctance to give Japan more power in major international organizations.

Nonetheless, many Japanese leaders believe that Japanese capital can be used in more innovative ways to assist developing countries and are beginning to feel their way toward a greater leadership role in this area. The Miyazawa initiative on Third World debt is an important landmark. Even though it failed to get the support of the Reagan administration, its essential elements were included in the Brady Plan. It is no coincidence that Treasury Secretary Brady, in announcing his plan, took note of the importance of Japan in making the plan work.

It is an illusion to think any longer that American pressure is responsible for increases in Japanese aid spending. Japan sees its national interests being served by its aid policies, and it is doubtful that the ODA budget would decrease were American members of Congress not to breathe another word about Japanese aid spending. Nor is it likely that congressional resolutions and other pressure tactics would convince the Japanese government to spend more than the US\$50 billion over five years that it has committed itself to spend. Thus a lot of what Americans think is effective “pressure” amounts to very little in terms of policy consequences.

In terms of U.S. policy toward Japan, the United States might do well to take a hint from its recent experience with defense relations with Japan and adopt a roles and missions approach to ODA issues. ODA is an area where some institutional innovation in the bilateral U.S.–Japan relationship is desirable. In the case of defense, a high-level consultative committee arrangement was concluded to facilitate the roles and missions discussion. A similar committee devoted to working out ODA cooperation might also be useful. It is possible that Japan might take over some of the costs of American ODA programs, by employing American personnel, for example.

⁴See Clyde H. Farnsworth, “\$1 Billion Annual Export Loss Seen,” *New York Times*, April 21, 1989, p. D9.

This is not an entirely farfetched idea, given the shortage of Japanese human resources for ODA programs.

Closer coordination and cooperation might also involve the United States in ODA activities where it otherwise would be inclined to leave the field almost entirely to the Japanese in the name of burden sharing. A case in point is Vietnam and Cambodia. There is a lot to be said for having the United States involved in economic assistance programs to these countries once a peace settlement is agreed on. But under current thinking, the United States is likely to give these responsibilities to the Japanese and forgo the opportunities to forge new relationships with these countries that ODA activities help make possible. Agreement on roles and missions, moreover, is an effective way to overcome the MOF's budgetary stringency, since the issue of how much to spend becomes one of following through on governmental commitments.

The United States, Japan, and ASEAN

What conclusions can we draw about the implications for ASEAN of the developments in U.S.–Japan bilateral relations discussed here? Given the relative size of the economies and the power of the countries involved, ASEAN is going to be directly affected by U.S.–Japan bilateral relations without being able to exert much influence on that relationship. Should frustration and anger with Japanese trade practices continue to grow in the U.S. Congress and stimulate stronger protectionist policies—an all too likely possibility—it is the weaker countries in Asia that pursue export-oriented growth strategies that are likely to pay the highest price in terms of reduced export opportunities in the American market.

Even in the absence of direct efforts to restrict access to American markets, frustration with Japanese market access policies has created strong support in the Congress for policies of “reciprocity” that are especially troublesome for other Asian countries. Japan was able to schedule its market liberalization over a period of nearly two decades; other countries in Asia are not going to be afforded that luxury as Americans demand reciprocal access to markets. This dynamic is currently playing itself out most fully in South Korea, but the quicker the countries of Southeast Asia industrialize, the faster will the United States make demands for reciprocity. Thus one can anticipate heightened American criticism of the trade policies of Southeast Asian nations as the wave of rapid industrialization sweeps across East and Southeast Asia.

It is in this context that the question of whether Japan will become a major importer of manufactured goods from ASEAN (and elsewhere) and relieve some of the pressures on the U.S. market takes on particular importance. The share of imports to total consumption of manufactured

goods is considerably lower in Japan than in other advanced economies, but recent trade data reflect a substantial increase in Japanese manufactured imports. Japan's total imports in 1987, for example, were up 18.3 percent over the previous year, but the import of manufactured goods went up 25 percent. Imports of manufactured goods from Asia increased by 61.1 percent (following on a 37.6 percent increase the previous year). Imports of manufactured goods from Asian newly industrializing economies (NIEs) were 17.6 percent of all imports in 1987.

As a share of total imports, manufactured goods averaged around 20 percent at the beginning of this decade and were only 30 percent in 1985. But as a result of Japanese investments in overseas manufacturing plants for exports back to Japan, Japanese domestic demand-led growth policies, and yen appreciation, manufactured imports after 1986 have experienced strong growth, accounting for 44.1 percent of total imports in 1987 (and 57 percent of the total increase in imports that year) and 49.5 percent in 1988.

An important question is whether these recent trade statistics represent the kind of structural change in the Japanese economy that would lead to continued increases in Japanese imports of manufactured goods and a higher component of horizontal trade in the structure of its trade relations with ASEAN. Even with the recent increase in ASEAN's manufactured exports to Japan, manufactures made up only 16.8 percent of Japanese imports from ASEAN in 1987. Since the recent increases in manufactured imports have been brought about by strong growth rates stimulated by domestic demand, it is not clear what would happen to these imports were the Japanese economy to slow down substantially and total demand for manufactured goods decline. Surely domestic producers would press hard to retain market share in a smaller market and to drive out foreign competitors.

On the other hand, yen appreciation has made foreign goods price competitive, and it is driving Japanese companies to invest more money in plants abroad to take advantage of lower labor costs for the export of products back to Japan. The reduction of tariff and nontariff barriers and the adoption of various import promotion measures have also opened Japanese markets that were not opened before and that cannot easily be closed again. Furthermore, Japanese consumers have become more aware of the price differentials between domestic and foreign products and more demanding of access to inexpensive foreign-made goods.

In terms of the triangular trade relationship among ASEAN, the United States, and Japan, clearly the worst possible scenario is one in which Japan continues to provide most of the capital and technology ASEAN needs for its industrialization while the United States absorbs the bulk of the exports

of ASEAN manufactured goods and Japan remains primarily an importer of raw materials and energy. This division of labor between the United States and Japan is politically untenable in the United States and would make protectionist pressures there grow ever stronger.

The growth of American protectionism should be of concern to ASEAN not only because it will limit export opportunities, but also because of its implications for American security policy. The growth of protectionist sentiment in the United States amid charges that other countries, particularly Japan and the rapidly growing countries in Asia, are engaging in unfair trade practices will create inexorable pressures for a reduction of political commitments to the region.

The U.S. military presence in the region has served a number of purposes, not the least of which has been to act as a buffer between Japan and its neighbors. None of Japan's bilateral relationships, with South Korea or China or the countries of Southeast Asia, could have taken the shape they have assumed were there not a U.S.–Japan alliance and a U.S., rather than a Japanese, military presence in the region. A change in that pattern of relationships would have destabilizing effects throughout the region.

For ASEAN a critical strategic objective, I would suppose, is to keep the United States active in the region, politically and economically, if for no other reason than to balance to some degree the Japanese presence there. Japan also views a continued American presence as desirable. Contrary to a view that commands some popularity in the United States, Japan's interest in regionalism has waned as it has become a global economic power. To the extent that Japanese contemplate a Japan-led regional bloc, it is in terms of a reaction to those regional arrangements being created elsewhere.

The global and nonregional nature of Japan's economic involvement is evident in both trade and investment. Whereas Japanese trade is of immense importance to each of the countries in ASEAN, the reverse is not the case.

In terms of direct investment as well as trade, what characterizes Japan is its globalization, not its concentration in Asia. As of March 31, 1988, Japanese foreign investment in Asia, South America, and Europe was almost equal in amount. The region that draws the highest amount of Japanese investment is North America. In fiscal 1986 this came to US\$10.4 billion, a 90 percent increase over the previous year, which corresponds to the total of Japan's direct overseas investments in fiscal year 1984. Second highest was Oceania, with an 89 percent increase, followed by Europe with a 79.7 percent increase. Investments in Central and South America went up by 81.2 percent and in Asia by 62.2 percent.⁵

⁵*Japan Economic Almanac* 1988, p. 41.

Yet for Southeast Asia, Japanese investment is increasingly important as American investment sags. In Thailand, for example, Japanese direct investment catapulted from US\$50 million in 1986 and US\$150 million in 1987 to US\$360 million in the first quarter of 1988 alone. By contrast, American investment in all ASEAN countries combined increased by only 4 percent between 1985 and 1987. In the most rapidly growing country in ASEAN, Thailand, the United States this past year was only the fourth largest investor, lagging behind Japan, Taiwan, and South Korea.

In trade and investment activities, the U.S.–Japan relationship in Southeast Asia that would best serve ASEAN interests is one of intense competition. Trade and investment are not zero-sum games; everyone can gain by Japanese and American activity in the region. But here again the issue is not ASEAN policy, nor even Japanese policy, but American competitiveness, about which ASEAN can do little.

One thing ASEAN can do in this context, however, is to put its energies behind efforts to build strong regional multilateral institutional arrangements that encompass both the United States and Japan. Such institutions, at both the private and governmental levels, can provide a number of important functions. They can help constrain the propensity of the United States and Japan to forge bilateral trade deals that inevitably come at the expense of other countries and that weaken the multilateral free trade regime. They can provide a mechanism to help Japanese internationalists counter the domestic pressures resisting market liberalization. They can keep the United States involved, interested, and informed about the region and help create networks of personal relationships among private and governmental leaders in the region. And they give ASEAN countries and other participants the opportunity to form ad hoc alliances with Japan to fight American protectionism and with the United States to press Japan to open up its markets further in areas of particular relevance to them. In order to accomplish these objectives, of course, these regional organizations have to include the United States, not exclude it as some recent proposals seem to have suggested.

If the U.S.–Japan economic relationship in ASEAN is, and properly should be, characterized primarily by competition, the question remains whether there is a role for U.S.–Japan cooperation on political and security issues in the region. In some respects such cooperation is already well advanced. Japan has taken the major responsibility for official development assistance to the region and pursues policies toward the countries there that are parallel and complementary to those pursued by the United States.

Furthermore, Southeast Asia is emerging as an arena for Japan to flex its political muscles as it searches for a way to assume greater political responsibilities in world affairs without developing concomitant military

capabilities. It is centrally engaged in a multilateral aid initiative to the Philippines. For a decade now, beginning with the Ohira administration's unsuccessful effort in 1979 to "moderate Vietnam's foreign policy" in the words of then Foreign Minister Sunao Sonoda, the Japanese government has been searching for a constructive role to play in Indochina. For the past several years it has reiterated its willingness to contribute to paying for an international presence to supervise elections and help move forward the peace process in the event of a Cambodian settlement. It also has held out the carrot of large amounts of economic assistance and private investment to Vietnam. With a Cambodian settlement and Vietnam's shift to a more open economic policy, the chances for a fairly high-profile Japanese role in Indochina in the coming years are considerable.

This prospect apparently evokes ambivalent feelings among the countries in the region. There is no question that Japanese financial support for a Cambodian settlement would be helpful and that Japan's policy of moving along a parallel track with ASEAN in developing its policies toward Vietnam and Cambodia gives added strength to the ASEAN position. On the other hand, there apparently is uneasiness about the extent of Japanese economic power that will come to bear on the Indochinese situation. According to one Thai intellectual in a position to know, the Thai prime minister delivered a letter to President Bush at the funeral for Emperor Hirohito urging the United States to be involved economically in turning Indochina from "a battlefield to a marketplace." And visitors to Hanoi report an interest there in finding ways to develop economic ties with the United States and other Western countries in part to avoid becoming overly dependent on Japan.

But the prospect for a major U.S. economic involvement in Indochina is very poor. For the United States, Indochina is a rather ideal place for U.S.–Japan burden sharing. Because there are no major policy differences between the United States and Japan over Indochina, and because the domestic political situation in the United States renders unrealistic any proposal for major American economic involvement in Vietnam for several years to come, a strong case can be made that Japan should play a lead role in the area.

The issue of American involvement, it seems to me, is not one of how much the United States will directly involve itself in supporting a settlement in Indochina, but whether or not it actively opposes the settlement that is agreed upon there. The presence of Pol Pot forces in a coalition government in particular, or the domination of a coalition by the Vietnam-backed Hun Sen forces, can easily provoke a strong negative reaction in the United States and increase pressures to oppose a settlement on these terms. Since Japan is likely to go along with ASEAN in developing its

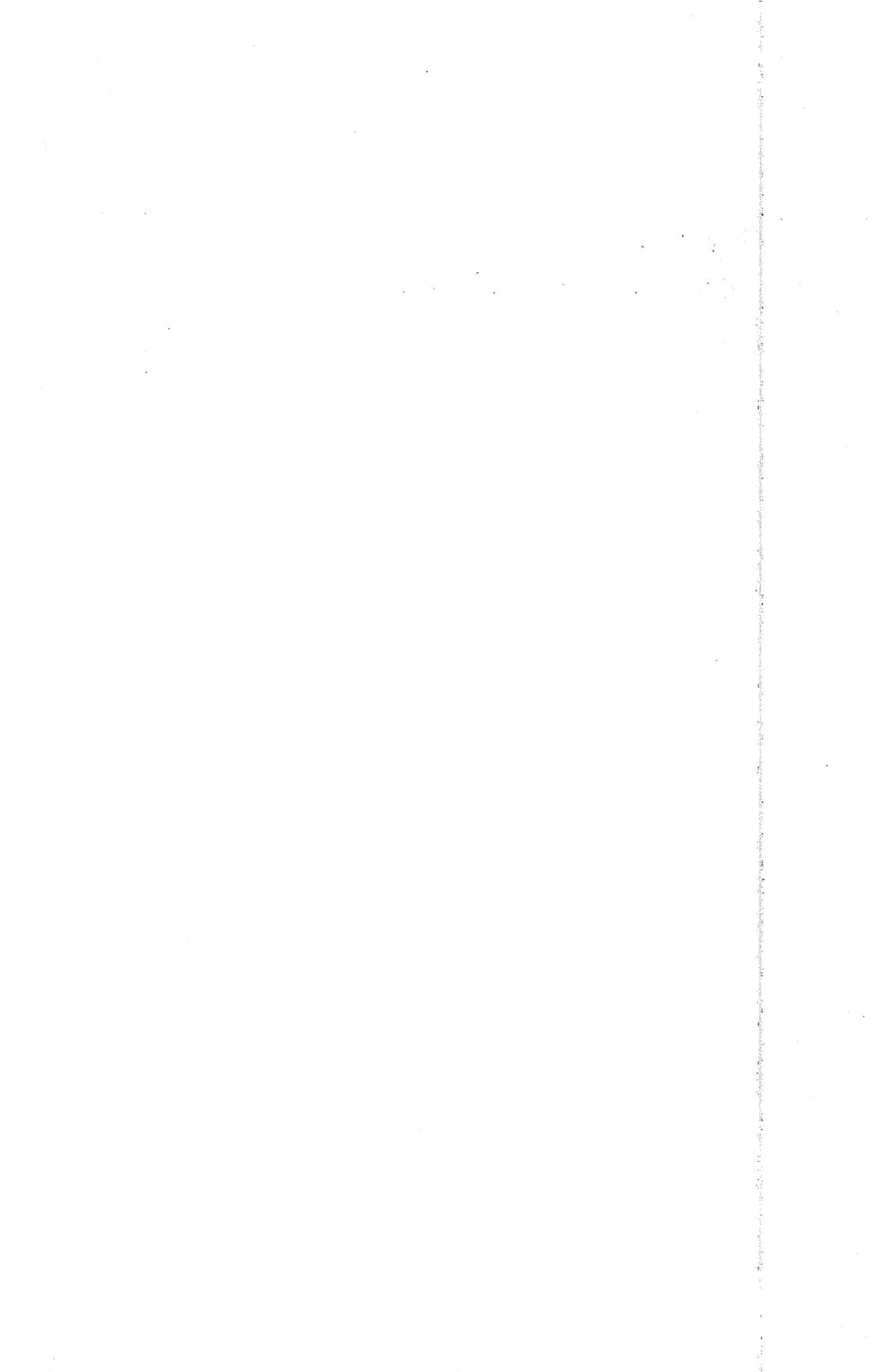
position on Indochina, it is not inconceivable that differences over Indochina policy could become an issue in U.S.–Japan relations, with the United States accusing Japan of being indifferent to human rights in what will be said to be its unprincipled quest for economic gain.

Having said all of this, I believe it is important to keep the Japanese role in Indochina and in Southeast Asia in perspective. A more active Japanese political role in the region is to be expected, given the enormous Japanese economic involvement there. But Japan is certain to continue to pursue a cautious, fairly low-posture political role in the region for several years at least. It has little to gain from trying to exert its influence there more aggressively and there are no strong domestic political pressures within Japan to do so.

Over a somewhat longer time horizon, however, the question of Japanese involvement in the region hinges on whether or not the United States remains an active presence there politically and economically. The big “if” is not Japanese policy but American intentions. Whether the dimension be competition or cooperation, the key to the future of U.S.–Japan relations is the degree to which the countries engage each other, bilaterally and in international and multilateral settings. Needless to say, ASEAN’s future, both in economic and security terms, is intimately tied up with the future course of U.S.–Japan bilateral relations, and this depends heavily on economic and political developments within the United States itself.

All these issues in turn are embedded in the question of whether international regimes that were created at a time of American dominance and maintained in the context of American hegemony can be sustained through a period of relative American decline and the economic ascendancy of Japan. Most specifically, a critical issue is whether major trading countries—and Japan in particular—will agree to share the costs of maintaining a relatively open, multilateral free trade system or whether the system will degenerate into a number of competing regional blocs. The implications of this choice are not simply trade related or limited to the economy alone. As suggested earlier, an American retreat from the multilateral free trading system that it championed in the past will inevitably produce a retreat from internationalism more generally. Such a development would have enormous and, as far as I can see, entirely adverse consequences for the interests of the countries in ASEAN.

Part Five
Japan, the USSR, and the PRC



8. Japan, the USSR, and the PRC

DONALD S. ZAGORIA

Before considering the factors that are likely to shape Japan's bilateral relations with the USSR and China, I want to look briefly at the global and regional strategic environment. This environment, which is changing rapidly as we approach the 1990s, is bound to influence the relations among all the major powers.

The Global and Regional Strategic Environment

First, the entire pattern of security relations in the postwar era is changing as a result of Gorbachev's reforms and the collapse of communism in Central Europe. In Poland, Hungary, East Germany, and Czechoslovakia, there is movement toward multiparty systems, free elections, and market economies. And in Bulgaria and Romania, new reformist leaders pledged to greater pluralism are now in power. It will be difficult, if not impossible, for Gorbachev or any subsequent Soviet leader to reverse this historic process of democratization in Eastern Europe without risking massive bloodshed. In sum, the Soviet empire in Eastern Europe is coming to an end.

Second, the Soviet Union itself is facing an extraordinary political and socioeconomic crisis at home. The supply system has broken down, and food shortages are the worst they have been in thirty years. There is an enormous budget deficit. The value of the ruble has plummeted. Ethnic and national tensions are growing. Miners and railway workers are increasingly resorting to strikes. In many of the non-Russian republics, the Soviet Communist Party has lost effective control to a variety of National Fronts. High-ranking Soviet economic officials are now warning that without radical and painful reforms of the economy—including freeing and raising prices, accepting some unemployment, privatizing inefficient factories, selling shares in industry, and creating a stock market—the economy may sink into chaos.

In an effort to reduce its budget deficit and to increase production of

consumer goods, the Soviet leadership is now engaged in cutting defense expenditures as well as investment in energy and other capital goods. Moscow has already announced its intention to cut 14 percent from its defense budget over the next three years and 500,000 troops from its armed forces.

The cut in the Soviet defense budget, the appearance of noncommunist governments in Eastern Europe, and the general perception of a much reduced Soviet military threat is leading to a new *détente* between the Soviet Union and the United States and to a corresponding cut in the American defense budget. The U.S. Defense Secretary, Richard Cheney, has announced his intention to reduce the U.S. defense budget by US\$180 billion over the next three years.

Provided Gorbachev remains in power over the next few years and the reforms in the Soviet Union continue, the new *détente* between the two superpowers is likely to outlast the shortlived *détente* of the 1970s. The superpowers will remain strategic and geopolitical rivals, but both now have a strong interest in cutting defense expenditures, easing regional tensions, increasing trade and contacts, reaching agreements on conventional and nuclear arms control and, generally, introducing greater stability into their relationship. A Strategic Arms Reduction Treaty (START) agreement cutting strategic arms and an agreement reducing conventional forces in Europe are both likely to be signed within the foreseeable future. Meanwhile, Soviet–U.S. economic relations are also picking up, and it seems likely that the United States will soon ease a variety of trade restrictions on the Soviet Union in an effort to stimulate that trade. In sum, the two superpowers are more “in synch” with each other now than at any previous time in post–World War II history.

Another new feature of international relations is the easing of tensions not just between the Soviet Union and the United States but between the other major powers in Asia as well. The recent visits of Soviet President Mikhail Gorbachev to China and of Chinese Prime Minister Li Peng to Moscow signal the end of a long period of Sino–Soviet estrangement and the beginning of a new era of *détente*. Although the two communist giants will remain wary of each other’s long-range goals and intentions, both now have a strong interest in reducing the costs of confrontation, in increasing trade, in maximizing their leverage on the Western powers, and in developing a more stable relationship. Gorbachev has promised to cut some twelve divisions from the Soviet forces on the Chinese border and to withdraw all of the Soviet troops in Mongolia. The Chinese, for their part, have already cut 1 million men from their armed forces. As a result, neither Moscow nor Peking now sees the other as an imminent threat.

Soviet–Japanese relations are also showing some signs of improvement.

Ministerial and vice ministerial contacts have been restored after an absence of about a decade; trade in 1988 reached a new high of close to US\$6 billion; tourism and cultural exchanges are growing; and Gorbachev is scheduled to visit Japan in 1991. Although the territorial dispute over the four northern islands off Hokkaido remains a serious obstacle to any substantial warming of Soviet–Japanese relations, some compromise solution to this issue may yet be found. Even Chinese–Indian relations are improving after a visit by Indian Prime Minister Rajiv Gandhi to Beijing, the first such visit by an Indian leader since the 1950s.

The easing of tensions among the major powers in Asia is to a considerable degree responsible for the improved outlook in many of the regional conflicts. Vietnam, under pressure from Moscow, has withdrawn most of its forces from Cambodia, and although the civil war among the various Cambodian factions continues to rage, the prospects for a political settlement of the Cambodian conflict are better now than they have been since the conflict began. North Korea, one of the last bastions of Stalinism in the communist world, is facing pressure from both its Soviet and Chinese allies to adopt a more moderate line toward South Korea, and some modest dialogue has begun between the two Koreas.

Another prominent trend in contemporary international relations is that both Moscow and Beijing are increasingly preoccupied with internal reforms that are needed to breathe new life into their economies. Both countries will need to modify their centrally planned economic systems and gradually introduce market forces, competition, and price reforms while opening the door to foreign investment. Because this transition is bound to involve considerable cost and sacrifice, and because it will be resisted by the *apparatchiki* who benefit from the existing system, it could take years to complete. But so long as Russia and China are preoccupied with this internal reform process, both countries will want stable relations with the Western powers, nations that are in a position to supply them with large amounts of capital, trade, and technology.

The purge of Zhao Ziyang and the conservative crackdown in China following the Tiananmen massacres last June have been followed by the naming of a new successor to Deng Xiaoping—the sixty-three-year-old Jiang Zemin from Shanghai. It remains unclear at this point whether, after the passing of the eighty-five-year-old Deng, Jiang will be able to consolidate his power position. But Jiang and the other conservative leaders in China have signaled a strong interest in maintaining their open door policy to the West. China has no real alternative to Western trade, credits, technology, and markets, if it intends to modernize.

Another important trend in the Asian environment is the substantial change in Soviet policy in the region. The Soviets have withdrawn from

Afghanistan, normalized relations with China, cut back their ground forces in Siberia, agreed to dismantle their SS-20 intermediate-range nuclear weapons, made a variety of efforts to improve diplomatic and economic relations with virtually all of the Asian countries; sought to join regional economic organizations such as the Pacific Economic Cooperation Conference (PECC) and the Asian Development Bank, passed a joint venture law to encourage foreign investment in Siberia, and tabled a variety of arms control proposals.

To be sure, there is no euphoria about the Soviets in most Asian countries, and certainly not in Japan, where the historical legacy of conflict and mutual suspicion remains strong. But the Soviet image in the region is changing and there is now hope, inspired by domestic and foreign policy changes in the USSR, that the Soviets may begin to play a more constructive role in the Pacific.

Finally, it seems clear that the global system of international relations is entering a period of transition. The beginning of the end of the Cold War in Europe, the appearance of noncommunist governments in Eastern Europe, the collapse of the Berlin Wall and drawing closer together of the two Germanies all suggest that the security system in Europe will need to be redesigned during the 1990s. The refashioning of this security system in Europe will sooner or later also lead to the need for rethinking the security system in Asia.

Japan—USSR Relations

Let me now turn to examine some of the salient issues in Japan's relations with the USSR. Since Gorbachev came to power in 1985, there has been a modest improvement in Soviet relations with Japan but no substantial breakthrough. There are now institutionalized channels of communication that were missing during much of the Brezhnev era. In addition, a number of agreements have been signed on such relatively minor issues as taxes, trade payments, fishing, and cultural exchanges. Trade has grown, albeit from rather low levels, and a few Japanese companies have signed or are exploring joint venture agreements with the Soviet Union.

There are a number of reasons why both Moscow and Tokyo will want to continue improving their bilateral relations in the coming years. On the Soviet side, Gorbachev has attached a high priority to overcoming years of economic and technological stagnation and to developing the Soviet Far East. Japan would be the ideal partner for such an enterprise. Moreover, good relations with Japan could assist Soviet efforts to join Asian economic organizations such as the PECC and the Asian Development Bank. Moscow wants to plug the stagnant Soviet economy into the dynamic Pacific economic grid. But to do this, the Soviets need Japanese goodwill.

There are strategic as well as economic incentives for the Soviets to improve relations with their Japanese neighbors. Japan in recent years has become a much firmer ally of the United States by participating in joint exercises, cooperating in SDI research, contributing development assistance to geopolitically threatened countries such as the Philippines, and so on. Moreover, Japan is becoming a major power in its own right. It is already the second greatest industrial power in the world, and its military budget is the third largest. The Soviets are, therefore, aware the Japan is destined to play a much greater role in both the Asian and the global balance of power in the next century and that they can no longer afford either to ignore such a power or to treat it with disdain. Although the Soviets are probably ambivalent about the U.S.–Japanese alliance, some Soviet specialists on Japan are now arguing publicly that it is not in Moscow's long-range interest to see breakup of that alliance and the emergence of an autonomous and nuclear-armed Japan. Still, the Russians probably would like to see a weakening of the U.S.–Japan alliance and almost certainly they want a slowdown in Japan's military spending. By presenting a more benign image and improving relations with Japan, Moscow could hope to achieve these goals.

Finally, Japan plays an important role in Moscow's diplomatic and political calculations. As part of its efforts to gain full-fledged recognition as a Pacific power, the Soviet Union has succeeded in easing tensions with the United States and in normalizing relations with China. It has also improved relations with most of the other Asian countries. But Moscow cannot complete its political breakthrough in Asia without a substantial improvement in relations with Japan.

Japan, for its part, also has some reasons to want to improve relations with the USSR. First, there are a number of economic incentives. A growing number of American, European, and South Korean companies in industries ranging from accounting and hotels to copiers and computer software are rushing to invest in the Soviet Union and other Eastern European nations in order to take advantage of recent changes in economic policies. In the Soviet Union alone, close to 200 companies from Europe and the United States have formed joint ventures to obtain a foothold in that huge market of 280 million people. Even though many corporate executives acknowledge that there are great difficulties involved in doing business in the USSR, they are willing to accept the risk for the chance of obtaining a big payoff if the Soviet economy begins to take off. PlanEcon, a consulting group in Washington, says that by the end of 1989 about 650 joint venture agreements will be signed with the Soviet Union alone, more than triple the number signed at the end of 1988. Especially at a time when Tokyo's economic relations with Europe and the United States are coming under

pressure as a result of growing protectionist sentiment in the U.S. Congress and the prospect of a united Europe by 1992, Japanese companies will not want to be left out of the Soviet and Eastern European market.

Politically, too, Japan must now feel some pressure to improve relations with the Soviet Union. Now that Sino-Soviet relations have been normalized and there has been an easing of superpower competition, Tokyo does not want to be left as "odd man out" in the Pacific quadrille.

Finally, achieving a breakthrough in relations with the USSR is the last postwar foreign policy issue to be settled in Japan. The failure to conclude a peace treaty with the Soviet Union following World War II remains an extremely abnormal and painful situation. It poses a challenge for any Japanese prime minister, particularly at a time when the Soviet Union is displaying much greater flexibility toward Japan than at any time in the recent past. The Japanese are bound to want to test the waters in the coming months and years to see if they can entice Gorbachev into making concessions on the territorial issue that has long prevented the signing of a treaty.

But if the motives for improving relations are substantial, obstacles to any breakthrough are also large. First and foremost is the longstanding dispute over the four islands north of Hokkaido. For the Soviet Union, these islands are of considerable military importance. They straddle the passage between the Sea of Okhotsk and the Pacific Ocean and are extremely valuable for the Soviet navy, which hides many of its missile-firing submarines in the Sea of Okhotsk. Control of the disputed islands allows the Soviets to monitor the entrances and exits to that strategically vital body of water. Without such control, Soviet submarines would have to operate in the open waters of the Pacific, where the American navy would pose a much greater threat. Also, the Soviet leaders have to worry about the possible military use that could be made of the islands if they were returned to Japan. American or Japanese antisubmarine warfare (ASW) equipment stationed on these islands could pose a serious threat to the Soviet submarines in surrounding waters.

Then, too, the Soviets fear that returning the islands to Japan might establish a precedent for other countries from which the Russians took territory during World War II to make their own territorial demands on the USSR, thus opening a Pandora's box of irredentist aspirations at a time when ethnic tensions over territorial boundaries are already on the rise inside the Soviet Union and threatening to erupt in Eastern Europe.

Finally, the Soviets have little incentive to return the islands without obtaining some major concession in return. The Japanese, on the other hand, seem to believe that Gorbachev needs Japan more than Japan needs the Soviet Union and that time is therefore on Tokyo's side.

In a recent high-level encounter between officials of the two countries,

a meeting between Gorbachev and Foreign Minister Sosuke Uno in May 1988, Gorbachev chided Japan for its willingness to put territorial disputes with China and South Korea on the back burner while insisting on immediate resolution of the dispute with the Soviet Union. Why, asked Gorbachev, did Japan take a harder-line approach on territorial issues with the Soviet Union? Uno responded that Tokyo had no intention of abandoning its territorial claims, and he insisted that Japan's claims to the Soviet-occupied territories were "totally different" in nature from Japan's territorial disputes with China and South Korea. He told Gorbachev that the American return of Okinawa in 1972 should be the precedent for the return to Japan of the four islands. Uno pointed out that the United States returned Okinawa to Japan despite the islands' strategic significance and the blood shed to capture it during World War II.

This recent exchange between the two countries suggests that they still remain far apart on the territorial issue. Nevertheless, a compromise solution to the problem may yet be worked out. Given the audacity of some of his other domestic and foreign policy initiatives, Gorbachev may yet come up with a bold initiative on the islands. Moscow might offer to return the two smaller islands and to demilitarize the two larger ones. Gorbachev might also tie the return of the disputed islands to some plan for demilitarization of Northeast Asia, thus throwing the United States and Japan on the defensive.

Still, it is unlikely, even if there is a territorial settlement, that Soviet-Japanese relations will improve dramatically. In the economic arena, even though Japan's trade with the Soviet Union has grown in the past year to close to US\$6 billion, that total still represents a minuscule portion of Japan's total trade. Moreover, Japanese enthusiasm for getting involved in large-scale Siberian development projects has largely evaporated because, since the 1970s, Japan has established a more fuel-efficient production method for its industries while greatly diversifying its sources of oil supply. At a time of plentiful oil and relatively low energy prices, the Japanese have lost much of the appetite they once had to explore Siberian coal and gas reserves. Of the few hundred joint ventures that the Soviets have signed recently, Japan's share is still meager.

Also, the revolution in container-type maritime transportation, the growing use of air freight for high-tech exports, and other factors have substantially reduced the economic advantages of geographical proximity. It may now be cheaper to bring some merchandise from Africa or Latin America than to drag it across Siberian permafrost. Moreover, Japanese companies are still wary of the difficult business environment in the Soviet Union, including much red tape, problems in repatriating profits, inadequate infrastructure, and the like.

Also, and most important, there is a substantial legacy of mistrust

between the two countries that is likely to inhibit any major warming of relations. The two countries have been at odds for most of this century. They have fought four times, the last time in 1945 when the Red Army entered Manchuria in the final weeks of World War II. The Japanese still regard this as a “stab in the back” that violated the Soviet–Japanese neutrality treaty of 1941. Moreover, the Soviets kept over half a million Japanese prisoners in the Soviet gulag, and many of them never returned home. As a result, Japanese public opinion polls regularly show that the Soviet Union is the least liked and most distrusted of all foreign countries. Dislike and distrust of the Soviet Union is also deeply rooted within the Japanese elite. As a result, perhaps more than any other country in the Western alliance, the Japanese are the most cautious about the changes in the Soviet Union under Gorbachev. Finally, the Soviet Union has not as yet reduced its military forces in the Far Eastern Military District facing Japan. Rather, Moscow’s military reductions in Siberia have been confined to the forces facing China.

In sum, Soviet–Japanese relations are likely to see a modest but limited improvement in the near future. The most difficult variable to predict is the degree of flexibility that Gorbachev will show on the territorial issue.

Japan–PRC Relations

Let me turn now to try to assess the factors that influence Japan’s relations with China. I see three factors that are likely to determine the future of these relations—strategic, economic, and domestic politics inside China. For both China and Japan, there are strong strategic and economic incentives for continuing to strengthen their bilateral relations, a process that has been evolving steadily since the 1970s. For Japan as well as for the United States, improvement in relations with China has produced highly beneficial changes in the strategic environment. The Nixon–Kissinger breakthrough with China helped reduce the U.S. military burden in the Pacific, enabled Japan to normalize its relations with China, and helped contain Soviet power in the Pacific. Japan, China, and the United States all share a common interest in balancing Soviet military power in Asia, and this common interest will remain so long as the USSR sits at the heart of the Eurasian continent, maintains the largest land army on it, modernizes its growing Pacific fleet, and maintains military ties with a number of key allies and client states in the region.

Japan and China also share a large and growing stake in developing their economic relations. The Japanese fear of political instability in China after the Tiananmen massacres may have cooled Japanese ardor for investing in China in the short run. And Japan, along with the United States and Europe, has curtailed official aid to China since the Tiananmen crackdown.

But over the longer run, economic relations between the two countries are likely to grow. Trade between the two countries reached a record of more than US\$19 billion in 1988, and for the first time in many years China did not run a deficit. For Japan, China has now become a significant trading partner. Prior to Tiananmen, China's willingness to accept 100 percent foreign-owned joint ventures was increasing China's attractiveness to Japanese manufacturers. Also prior to Tiananmen, China announced that it was going to create special export processing zones in five coastal zones that would allow Japanese companies to operate as freely as in similar zones in the Asian newly industrializing countries (NICs). Finally, another incentive to Japanese manufacturers should be the investment protection pact signed by outgoing Japanese Prime Minister Norobu Takeshita when he visited Beijing in August 1988. This pact could pave the way for expanded Japanese investment in China once political stability is assured.

For China, too, there are strong economic incentives for maintaining stable relations with Japan. Japan is China's largest foreign trade partner, excluding Hong Kong, and it has become an indispensable market for China's growing exports. In recent years, some 25 percent of China's textiles, 17 percent of China's crude oil and oil products, and a growing amount of China's machinery exports and metal ducts are going to Japan. Prior to Tiananmen China was also the largest recipient of Japan's overseas development assistance, and Takeshita promised an additional US\$6 billion loan package for agricultural, power, communications, and transportation projects when he visited China in August 1988. This loan package has been suspended since the crackdown; but Beijing was, in April 1990, urging Japan to resume the official package, and the Japanese are considering this request. Japan's past investment in China—about US\$2 billion in 1987—is exceeded only by the United States and Hong Kong. In sum, continuing economic cooperation with Japan is indispensable to the success of China's reforms and open door policies.

To be sure, the Sino-Japanese relationship is not free of problems. Differences have arisen in the past over trade imbalances, the slow pace of Japanese investment in China, China's fears of rising Japanese nationalism and militarism, and China's suspicions about Japan's aspirations regarding Taiwan. Some Chinese are also concerned that an erosion of U.S. influence in the Pacific, if it were to be combined with growing Japanese military power, could eventually lead Japan to become a threatening force in the region.

On the Japanese side, there are concerns over the poor quality of China's business environment, excessive red tape, the difficulty of obtaining high quality labor, and similar problems. There have also been continuing doubts about China's political stability, doubts that will almost

certainly grow as a result of the violent repression of the pro-democracy movement and the signs of political instability at the top of the Chinese leadership. Most important, the Japanese went along with other Western governments in suspending official aid to China after Tiananmen, and it is not yet clear whether Japan will resume this aid package in the near future.

Still, the two sides have successfully managed their relationship over the past two decades in the face of many serious challenges. China does not want a serious deterioration of its relations with either Japan or the United States. And the Japanese have gone out of their way since Tiananmen to warn the United States and other Western powers not to isolate China.

Directions for the Future

This brief review suggests that one of the principal uncertainties affecting the future of major-power relations in Asia is the stability and durability of the reform process in Russia and China. There are three potential scenarios for the future. First, despite recent difficulties, the reform process could continue slowly, incrementally, and relatively peacefully in both countries. There would be temporary setbacks and short-lived periods of repression. But the general direction of reform and openness to the outside world would remain.

Second, there could be a sharp reversal of the reform process in both Russia and China. Conservative anti-Western leaders could come to power, and they would be determined to arrest the liberalization process.

Third, there could be a sharp reversal of the reform process in one of the communist countries while it continued in the other.

Obviously, the first scenario would be the most benign for Chinese and Soviet relations with the West. The second would have the most harmful impact on those relations. The impact of the third would be complex. For example, even if China's relations with the West continue to deteriorate as a result of the repression inside China, Gorbachev will still want to develop stable relations with the West, and he will hesitate to do anything that might jeopardize those relations.

According to Zbigniew Brzezinski, there are two fundamental long-range alternatives for the Soviet Union and China in the wake of communism's "grand failure."¹ The first possibility is that these communist systems will evolve into increasingly pluralistic societies with mixed state and private economic sectors. The second possibility is that they will stagnate under largely existing institutional arrangements while those in power tinker at the margins but preserve dictatorial power through a

¹Zbigniew Brzezinski, *The Grand Failure: The Birth and Death of Communism in the Twentieth Century* (New York: Charles Scribners, 1989).

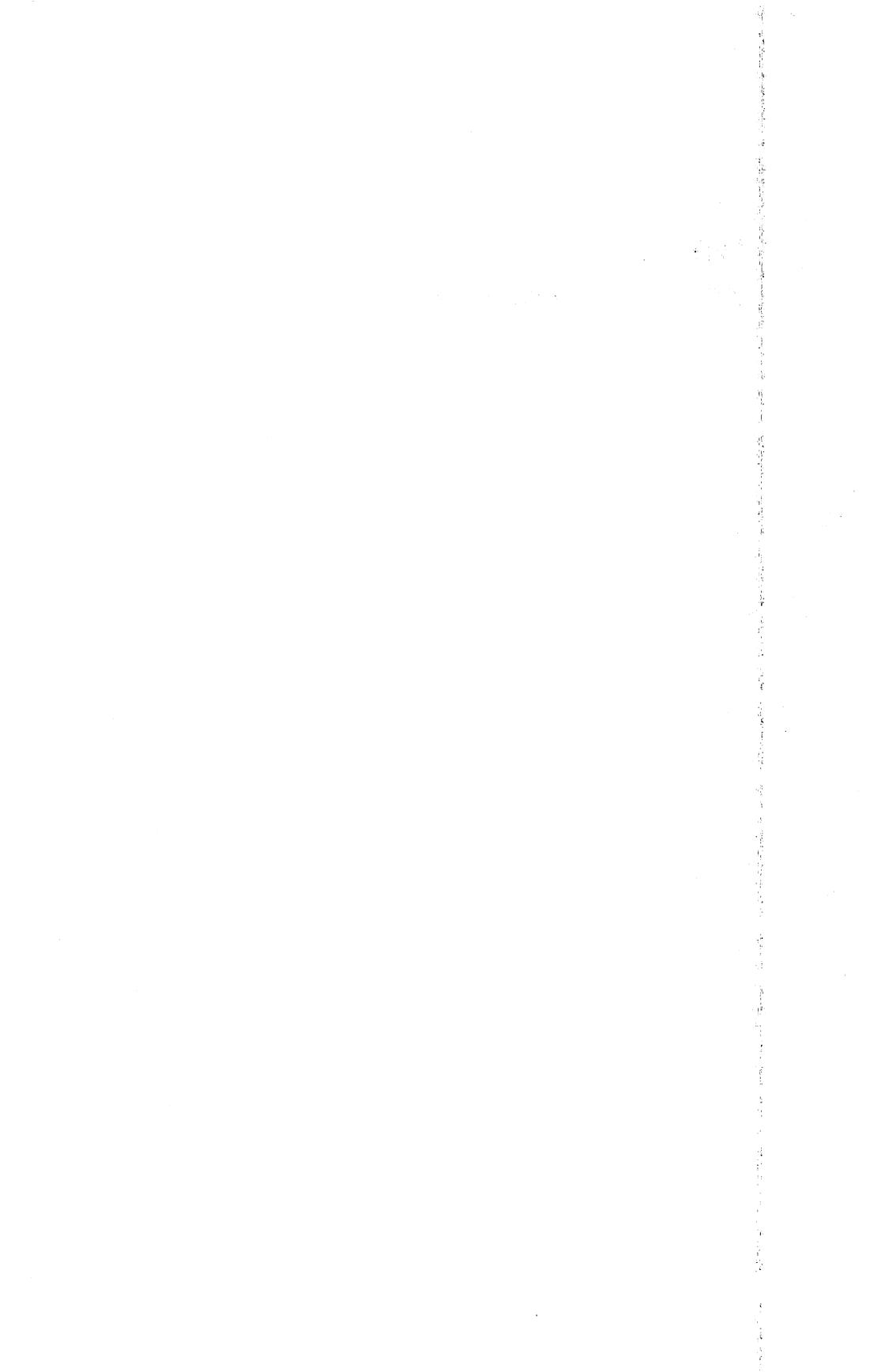
military-police coalition that increasingly relies on appeals to nationalism as the main source of political legitimacy. In either case, the process may be evolutionary or it may involve some violent upheavals. So far, Brzezinski argues, the historical record does not offer much encouragement for the first alternative.

Still, as Brzezinski himself concludes, it would be wrong to exclude altogether the possibility of a postcommunist transition in the more democratic direction and market-based economic systems. And in the Soviet Union there is emerging a "civil society" that coexists with, but is no longer dominated by, the political system. Independent groups are already springing up in many communist states, including the Soviet Union and China, and these groups are exploiting new technical means for the dissemination of mass information and the articulation of alternative political views.

If this process continues, the two large communist states may yet become more pluralistic and be absorbed into a broader global community. While hedging its bets on such a benign outcome and preserving an appropriate degree of caution, the West should also be searching for a far-sighted strategy of promoting communist democratization and integration into the Western community.

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Part Six
Japan and Southeast Asia



9. Japan and Southeast Asia: Searching for Acceptable Roles

KAVI CHONGKITTAVORN

Mystery surrounded Japanese Prime Minister Noboru Takeshita's tour of the member countries of the Association of Southeast Asian Nations (ASEAN) in May 1989—a few weeks before he resigned from his premiership. No one seemed sure why he came. But as good recipients of Japanese aid, ASEAN leaders greeted the lame-duck leader and gave him a welcome warmer than any he could expect at home. While in Bangkok, Takeshita wanted to see both Nguyen Co Thach, the Vietnamese deputy premier and foreign minister, and Cambodian resistance leader Prince Norodom Sihanouk. The meetings failed, somehow, to take place. Takeshita's Thai hosts were reluctant to help.

This incident epitomized the scope and the limits of Japan's role in Southeast Asia. Takeshita's trip allowed him to reaffirm the “continuity and consistency” of Tokyo's ASEAN policy, but Takeshita had also hoped to convey to Indochina a Japanese scheme to revitalize the war-torn region after the settlement of the Cambodia conflict. Thailand, under versatile Prime Minister Chatichai Choonhavan, did not want Tokyo's effort to eclipse its own Indochina initiative.

Throughout the latter half of the 1980s, Japan has advanced a range of political initiatives on the conflicts in this region, notably the war in Cambodia. But its role as a “peacemaker” or a “mediator” has not been accepted by ASEAN—rather, it has been rejected, ironically, in the region where Japanese economic influence is greatest. In consequence, Japan has had to be content with continuing its low-profile diplomacy toward Southeast Asia. For one thing, Japan does not want to be seen as the country obstructing regional attempts, especially those made by ASEAN, to settle regional problems.

Nonetheless, economic dynamism in ASEAN and rapid political changes in the situations in Indochina and Burma have recently prompted Japan to respond. Tokyo has been forced to fine-tune its foreign policy to the new realities in Southeast Asia. Given Japan's cautious diplomacy, Tokyo's moves

in the near term are likely to be less dramatic. Japan's basic attitude toward ASEAN and Indochina will probably remain unchanged, at least until the peaceful settlement of the Cambodian problem. In the long term, however, it could result in policy adjustments and bolder overtures, with or without ASEAN's acquiescence.

This chapter will examine Japan's dilemma in its relations with ASEAN and Indochinese countries over the Cambodian conflict. Japan's policy towards Burma, following that country's bloody coup in September of 1988, will also be discussed.

Japan's Dilemma over the Cambodian Conflict

After Vietnam's invasion and subsequent occupation of Cambodia in December 1978, Japan halted an annual 14 billion yen economic assistance program to Vietnam. Since then, Japan has endorsed ASEAN's Cambodian policy and voted for the ASEAN-sponsored resolution, tabled at the United Nations annually since 1979, calling for Vietnam to withdraw all its troops from Cambodia.

In siding with ASEAN on this issue, Japan lost some of its own flexibility and diplomatic initiative by placing itself squarely in the U.S.–ASEAN–China camp. Japan has been unable to take initiatives of its own other than to offer its services to facilitate the implementation of a peace accord and to assist in the postsettlement economic reconstruction of Vietnam, Laos, and Cambodia.¹ Tokyo had stood firm that Japanese aid would not resume until a Vietnamese withdrawal was complete and a peaceful solution achieved in Cambodia.

In a major policy speech at Jakarta on May 5, 1989, Takeshita reiterated Japan's readiness to provide necessary economic assistance to Indochina, namely Vietnam and Cambodia, after "the comprehensive settlement of Cambodia." In fact, Japan's latest position on Cambodia has hardened. Japan has made it clear that a partial solution to the conflict would be unacceptable.

Vietnam's protracted occupation of Cambodia affected a previous Japanese policy of bridge-building between ASEAN and Indochina, one of the main pillars of the Fukuda Doctrine to "support ASEAN."² Despite

¹Muthiah Alagappa, *Japan's Political and Security Role in the Asia-Pacific* (Kuala Lumpur: Institute of Strategic and International Studies, 1988), p. 28.

²Sueo Sudo, "Japan–ASEAN Relations: New Dimensions in Japanese Foreign Policy," *Asian Survey*, May 5, 1988, p. 14. Detailed discussions on Japan–ASEAN relations can also be found in "From Fukuda to Takeshita: A Decade of Japan–ASEAN Relations," *Contemporary South-east Asia* 10, 2 (September 1988).

Japan's full endorsement of ASEAN's Cambodian position, in the latter half of the 1980s Tokyo began to search for a tangible political role in the resolution of the Cambodian peace process.

Before the third ASEAN summit in Manila at the end of 1987, Japan had initiated its own brand of "tea party" to allow the four warring Cambodian factions to meet informally with other concerned parties, such as ASEAN, the United States, the Soviet Union, and China, among others. The idea was quickly quashed by ASEAN foreign policymakers, however, after a short round of informal discussions.³ ASEAN countries were apprehensive of this plan, and their leaders considered it both premature and capable of derailing an effort by Indonesia, acting as an ASEAN interlocutor, to bring together the Cambodian groups. Then Indonesian Foreign Minister Mochtar Kusumaatmadja tried to convince the factions concerned to attend the informal gathering to discuss how to end the Cambodian conflict. Mochtar's idea was later transformed into a format known as the Jakarta Informal Meeting (JIM) framework.

ASEAN's cool response to Japan's political overtures on Cambodia was the consequence, in part, of an earlier incident—Japan's languid response to ASEAN's protest in May 1987 of a plan by a Japanese trading firm, Nissho Iwai, to extend long-term credit and other economic aid to Vietnam.

The incident brought about the first divergence of views between Japan and ASEAN. ASEAN countries deemed such economic assistance inappropriate, fearing that an improved Vietnamese economy would produce a stronger Vietnamese grip on Cambodia. In addition, extensive assistance and trade ties could jeopardize future ASEAN policies toward Cambodia as ASEAN and other Western countries continue to try to bleed Vietnam economically. Undoubtedly, both Washington and Beijing supported ASEAN's move.⁴

The protest came after repeated warnings from Thailand. Initially, Japan did not pay much attention to a complaint from Thai Deputy Foreign Minister Prapas Limpabandhu, made during a visit to Tokyo in late March 1987. Japan's immediate response was typical: The proposed economic aid was a private initiative, it said, over which the government had no control.

Japanese diplomats based in Bangkok pointed out that private companies' assistance was aimed at recovering old debt, estimated around ¥600 million, from Vietnam. At the same time, a U.S. assessment pointed to

³Masaru Maruyama, "Nihon, Dokuji No Pati An" [Japan: One-party plan], *Yomiuri Shimbun*, December 14, 1987, p. 7, in a dispatch from Manila, The Philippines.

⁴Kavi Chongkittavorn, "ASEAN, Japan Differ on Issue of Aid to Hanoi," *The Nation*, May 6, 1987, p. 2.

a different conclusion. A conservative think tank, the Heritage Foundation, alleged that Japan had pushed ahead in private trade with Vietnam in defiance of international efforts to maintain an economic and political embargo “so long as it remains a Soviet proxy in Southeast Asia.”⁵

Caught unprepared, Japan was greatly embarrassed by a subsequent joint protest from ASEAN. An earlier protest, with stronger wording, was lodged with the Soviet Union, urging Moscow to sever military aid to Vietnam.⁶ The Japanese Foreign Ministry moved quickly to contain the damage in its ties with ASEAN by calling for full cooperation from Japanese private companies involved in Vietnam. Kimio Fujita, director general of the Foreign Ministry’s Asian Affairs bureau, told ASEAN ambassadors that Japan had warned its firms to avoid dealings with Vietnam that were likely to cause misunderstanding and urged them to avoid below-board dealings.⁷ As a result, major trading companies slowed trade activities and others canceled some of their future projects. Nissho Iwai opted for a complete withdrawal from Hanoi.⁸ The volume of trade between Japan and Vietnam in 1987 and 1988 was lower than the average annual trading volume of US\$250 million for this decade.

Japan’s eagerness to comply had its roots in the diplomacy practiced by its former prime minister, Yasuhiro Nakasone. The year 1987 may be viewed as a landmark for Japan’s diplomacy in Southeast Asia, as far as the Cambodian problem was concerned. New initiatives were put to the test. At the close of Nakasone’s tenure, his successor, Noboru Takeshita, continued similar political efforts, hoping to contribute positively to the dialogue between ASEAN and Indochina. Though years of stalemate among the warring Cambodian factions made an early and quick peaceful settlement impossible, continued conflict in the region was viewed as detrimental to Japan’s long-term interests. More important, the deadlock impeded, and still impedes, trade relations between Japan and Indochina and has delayed potential Japanese investment in the region—and all this despite Japan’s unique trading relationship with the Vietnamese.

Before the Vietnamese invasion of Cambodia, Japan enjoyed healthy economic relations with the Indochinese countries. But the Cambodian conflict and the subsequent ASEAN political and economic boycott against Vietnam have disrupted these trade links. Japanese participation in the boycott thus became a yardstick of Japan’s sincerity in its support of ASEAN. As a result, Japan’s initiative on Cambodia was crippled pre-

⁵*The Nation*, August 3, 1987, p. 4.

⁶The first joint ASEAN protest was lodged against the Soviet Union in May 1985.

⁷*The Nation*, May 26, 1987, p. 4.

⁸Alliance France Presse (AFP) reported from Hanoi, May 28, 1987.

maturely by ASEAN's hard-line approach and by a difference in perceptions of the Japanese role. The first ASEAN protest appears to have had a far-reaching psychological effect on Japan's political maneuvering on Cambodia; Japan's confidence, in fact, may have been shattered. (Japan was the main target, even though other countries had continued to provide assistance; South Korea, for example, gave Vietnam a 720-day credit following ASEAN's protest to Japan.⁹) Evidently, ASEAN has also used this bargaining chip efficiently and has kept at bay the Japanese eagerness to trade with Vietnam.

As this back-and-forthing continued, France and Australia resumed their economic assistance. In December 1981, France provided a loan of 200 million francs to Vietnam. Australia severed its aid package to Vietnam in December 1978, but in March 1983 Prime Minister Bob Hawke's Labour Party government advocated fresh aid to Vietnam, despite strong disapproval from ASEAN and China. Finland and Sweden also provided humanitarian aid.¹⁰

A few months after the ASEAN protest, Japan increased its nonmilitary support to the noncommunist Cambodian resistance groups, particularly to the faction led by Prince Norodom Sihanouk, and unwaveringly endorsed the ASEAN stands. Japan's support of Sihanouk as a sole and legitimate leader of Cambodia preceded an official visit to Japan by Sihanouk in August of 1988. During the prince's visit, Japan pledged to train personnel from Sihanouk's faction in technical fields. At a June summit meeting in Toronto, Takeshita, speaking for Sihanouk, called on Western industrialized countries to speed the peace process in Cambodia.

In July 1989, at the post-ASEAN foreign ministerial meeting in Bangkok, Japanese Foreign Minister Sosuke Uno proposed that Japan finance the international peacekeeping force's operation and dispatch a civilian team to supervise the peace process in Cambodia after a complete withdrawal of Vietnamese troops.

Japan carved out two fresh ideas during Takeshita's ASEAN tour. First, Japan proposed the formation of a framework for the mobilization of international cooperation to assist Cambodia effectively. Second, Japan would help the Cambodian displaced persons, estimated at 300,000, along the Thai-Cambodian border to return home. Japan would further assist "in every way possible to allow them to participate in the rebuilding of their country." Japanese officials said Japan would be willing to provide financial

⁹*Far Eastern Economic Review (FEER)*, July 23, 1987, p. 29.

¹⁰Juichi Inada, "Japan's Aid Freeze to Vietnam: Diplomatic Implications for Normalization," paper presented at a conference on "Vietnam Today: Assessing the New Trends," September 1-3, 1989, p. 24.

support for Cambodian displaced persons who decide to return home voluntarily. Over the past decade, Tokyo has donated at least US \$60 million in humanitarian aid to the Indochinese people and settled a total of 5,900 Cambodians in Japan.¹¹

As Japan's second largest trading partner, ASEAN is the country's top priority in the region. In no way can the Indochinese market of 75 million people be compared with that of the combined ASEAN nations, which boast collectively one of the world's fastest-growing economies and a population of 320 million. Tokyo is not likely to challenge ASEAN's approach on the Cambodian issue. Japan's economic interest in ASEAN far outweighed its political ambition. Without doubt, Japan did not dare risk its ties with ASEAN in exchange for a more flexible approach to Indochina. In a way, Japan's hard-line approach to the conflict in Cambodia, shaped and reinforced by ASEAN economic dynamism, was pressed by ASEAN—and became an irritant in Japan's relations with Indochinese countries. Time and again, Vietnamese and Cambodian leaders have openly criticized Japan in international forums for its narrow views on Cambodia. Vietnam's Nguyen Co Thach was blunt when he condemned Japan as an "economic beast" and stressed that Japan had no role in the Cambodian problem unless Tokyo changed its current approach.¹²

Japan is likely to maintain its present inertia on the Cambodian question. Without a comprehensive political settlement as demanded by ASEAN, there is no reason for Japan to adjust its position. Even with a new prime minister in Takeshita's place, Japan's Cambodian policy will not undergo any change. The prospects for more dynamic policies from the new leadership in Japan are slim.

Several Western countries—among them Canada, Australia, the United States, West Germany, and France—have increased their contacts, some more discreetly than others, to establish footholds in Vietnam. Australia has already set up two satellite stations, in Hanoi and Ho Chi Minh. The United States and Canada are also vying for the construction of satellite telecommunication networks to tap a potential market; some 1.3 million Vietnamese refugees have been resettled in North America. Of the estimated US \$450 million invested in Vietnam as of March 1989, not a single major project had been begun by Japanese investors. India, France, and Britain topped the list of foreign investors, with joint ventures in the offshore oil and gas enterprises.¹³ South Korea and Taiwan have so far invested mainly in small-scale joint ventures.¹⁴

¹¹A press release of the Foreign Ministry, May 25, 1989, Bangkok.

¹²AFP reported from Hanoi, May 17, 1989.

¹³*FEER*, April 27, p. 69.

¹⁴*The Nation*, May 28, 1989, p. 23.

The ongoing flurry of diplomatic activity between Indochina and Western countries may seem to put Japan at a great disadvantage. However, discussions with the Japanese business community and diplomats in Bangkok reveal Japanese confidence in its approach and its economic ties with Vietnam. Some argue that the future vitality of the Indochinese economy depends largely on the participation of Japanese capital and technologies, both currently based in ASEAN countries.¹⁵

However, given the recent changes in the international environment, both globally and regionally—notably, the ripple effect caused by Thailand's new Indochina policy under Prime Minister Chatichai Choonhavan—Japan is at present searching for options. Both semiofficial and official delegates have crisscrossed Vietnam and Laos to pave the way for future official relations. Private ties have already been firmly established in all three Indochinese countries. Such policy options will become more visible and tangible as soon as there is a peace agreement in Cambodia.

Japan's Ties with Laos and Cambodia

Japanese–Laotian relations are unique. Laos has been the only Indochinese country to receive generous economic aid from Japan throughout the Cambodian conflict. Japan's assistance to Laos has been consistent and noncontroversial.

As one of the world's poorest nations, Laos subsists on its basic agricultural products. Japan's assistance has focused on industrialization, improvement of human resources, and skilled technicians. Of late, government-to-government contacts between the two countries have increased and become firmly established. Laotian ministers have made frequent visits to Japan and have openly admired Japan's economic success. Laotian leaders have also adopted a campaign of "learning from Japan's economic miracle," similar to Malaysia's "Look East" policy to develop its backward economy.

In 1988, Japan provided more than ¥400 million in economic assistance to Laos. Part of the official Japanese aid included books on Japan's economic miracle and business management. Last year, Tokyo dispatched two economists to give a series of lectures to Laotian middle-level and junior-ranking officials on techniques of Japanese management and economic development.¹⁶

Japan's principal exports to Laos are automobiles and machinery; it

¹⁵Comments made by Akira Koyama, president of the Japanese Chamber of Commerce, in a seminar on "Indochina: From War Zone to Trade Zone," April 28, 1989, Bangkok, as well as comments by other Japanese businessmen and diplomats.

¹⁶From an interview with a Japanese Foreign Ministry official in Tokyo, March 25, 1988, during the first official visit by Laotian Foreign Minister Phoune Sipaseuth to Japan.

imports timber and other natural raw materials. Last year, Laos imported US\$15 million worth of Japan's products and exported an estimated US\$3 million worth of goods to Japan.

Judging by the consistency of its approach during the past decade, Japan's policy toward Laos demonstrated its determination to do whatever it can to improve the livelihood of the Laotian people. But that does not mean Japan's approach to Laos was devoid of strategic considerations. Japanese Foreign Ministry officials in Tokyo expressed hope that Japan's aid would lessen Laos' dependence on the Soviet Union and Vietnam and would distance Laos from the Soviet bloc in the long run. They agreed that a neutral and stable Laos could serve as a buffer between Thailand and Vietnam. During the height of the 1987–88 Thai–Lao conflict over a disputed border area at Ban Romklao, Phitsanulok Province, Japan remained neutral. When Laotian Foreign Minister Phoune Sipaseuth visited Tokyo in March of last year, Japan called on Thailand and Laos to patch up their relations.

Japan's assistance to Laos has drawn the blessings of ASEAN countries, particularly Thailand—the only country that has extensive relations with Laos. ASEAN has never criticized Japan for aiding Laos even though it would have been irked by any Japanese move to start or resume a dialogue with other Indochinese countries.

With peace in Cambodia close at hand, more Japanese businessmen, mainly those based in Bangkok, have visited Cambodia. Early in 1989, Japan's Okada Logging Co. became the first foreign company to operate a sawmill on the outskirts of Phnom Penh. The sawmill is now producing about 3,500 million cubic tons monthly.¹⁷ Other elements of the Japanese presence include a relief agency, the Japanese Volunteer Cooperation Agency, and the omnipresent Japanese tourists, who have flocked to Phnom Penh in recent years and toured the Angkor Wat in Siem Reap. In the first nine months of last year, 273 Japanese tourists visited Cambodia, the second largest group after the Italians.¹⁸ Phnom Penh officials predicted that the number of Japanese tourists would quadruple once an air link between Bangkok and Siem Reap is established.¹⁹

Until a comprehensive political settlement is reached in Cambodia, Japan's trade links with that country will be marginal, restricted to buying logs, iron scraps, and rare jungle products. Other countries such as

¹⁷*FEER*, January 12, 1989, p. 16.

¹⁸Sarpordamean Kampuchea (Kampuchean News Agency) (SPK), Phnom Penh, January 7, 1989, p. 1.

¹⁹Comment made by Chum Bunrong, Director of Information Department, Foreign Ministry, State of Cambodia, during a visit to Thailand on May 5–7, 1989.

Thailand, Singapore, Taiwan, and South Korea will continue to benefit from the absence of a bona fide Japanese challenge. When the conflict ends, however, Japan is likely to top the list of major traders and investors in Cambodia, especially in the logging and fishery sectors. Thai–Japanese joint venture companies based in Bangkok are even now zeroing in on Cambodia's abundant natural resources.

Japan and Burma

As the biggest aid donor to Burma, Japan has played an important role in voicing concerns and calling on the Burmese government, under the military leadership of General Saw Muang, to implement a series of measures for further democratization there.

Before the student uprising against former strongman Ne Win in 1988, few details about Japanese–Burmese ties were known to outsiders because of the nature of Burmese isolation and Japan's discreet assistance policy. But the student-led popular uprising last year and their struggle for wider political participation and economic reforms highlighted the role of Japan in Burma.

Despite Japan's decision to stop providing economic assistance immediately following the violent military takeover in September 1988, after both Ne Win and his replacement Sein Lwin had stepped down in rapid succession, on February 17, 1989, Japan backtracked on its earlier pledge and surprisingly gave *de facto* recognition to the military government in Rangoon. Tokyo's justification was that the new regime was in effective control of the country and that it was observing international laws. Furthermore, Burma had pledged to hold general elections, tentatively scheduled for May 1990. Based on this assessment, Japan partially resumed its financial aid to Burma and made good on a ¥9.1 billion grant as well as the ¥12.5 billion it had earlier promised Rangoon in development assistance.

Japan gave ¥9.5 billion (US\$75 million) to Burma in grants during the fiscal year ending March 31, 1988, plus a further 3.7 billion yen (US\$29 million). The United States, Britain, West Germany, and Australia, in contrast, suspended aid to Burma to demonstrate their disapproval of the killings of students in Rangoon during the uprising.

Japan's recognition of the Rangoon regime resulted from a combination of several factors besides strictly economic ones. Domestic pressures, mainly from private companies engaged in aid programs in Burma and from the powerful war veterans associations, which have close links with the Burmese regime, were behind Tokyo's decision.²⁰ Japanese diplomats

²⁰*FEER*, March 16, 1989, p. 21.

in Bangkok also attributed Japan's shift to Bangkok's strong support for the Saw Muang regime.²¹

Shortly after the Saw Muang regime took over in September 1989, Thailand became the first country to send a high-level delegation to Burma. But it was the visit of Commander-in-Chief Gen. Chavalit Yongchaiyudh that demonstrated Thailand's strong support for the new military regime in Burma and served as a catalyst for subsequent visits by other senior Thai officials. In the first months of 1989, virtually all senior officials from the army and various ministries dealing with Thai-Burmese affairs have visited Burma. Chavalit's visit to Burma in December 1988 followed hot on the heels after an attempt by the Foreign Ministry to send Deputy Foreign Minister Prapas Limpabandhu there failed because of strong public protest that prompted Prime Minister Chatichai Choonhaven to stop Prapas's visit. Ironic as it may seem, Chavalit had gone at Chatichai's behest to discuss outstanding bilateral issues including the problem of ethnic minorities fighting for autonomy from Rangoon, the return of Burmese students fleeing persecution at home, log imports to Thailand, and security along their common border.

Unlike Indochinese policies, Japan's position on Burma has been bold and pragmatic. Its recognition of the Burmese regime and the resumption of aid ran counter to the current effort by Western countries to block assistance to the Saw Maung regime because of its poor human rights record. Going it alone, Japan reasoned that even though the current Burmese regime has not been very democratic, it deserves some kind of support so that the Burmese government can put its house in order. Most important, in Japan's view, the regime was not installed by outside forces but was a product of political turmoil within the country.

In the absence of any ASEAN objection to its diplomatic shift toward the new regime in Burma, Tokyo can proceed independently without fear of antagonizing ASEAN. In addition to Thailand, Singapore and Malaysia quickly recognized the Rangoon regime. Presently ASEAN and Japan are attempting to maintain the current status quo of their ties with Burma, hoping that the process of democratization will gradually take place there. It is not at all surprising, then, that ASEAN, Japan, and other non-Western countries, despite continuous outcries from Burmese students and opposition parties seeking international attention to human rights abuses in Burma, have treated the crisis and the massacre of civilian demonstrators in Burma as Rangoon's internal business that should be left to the Burmese people to handle.

In the near future, Japan's support of Burma will be fully restored,

²¹*The Nation*, March 13, 1989, p. 2.

pending the progress made on the pledged election in 1990 as well as other measures to democratize the country. Given Japan's and ASEAN's support, Burma can move forward in its economic development. Burmese military leaders have been able to solidify their power within the country. With the assurance from the Thai army that it will not retaliate should the Burmese troops cross over the Thai border, in early 1989, Burmese government forces launched a determined offensive against minority rebels, mainly the Karens, along the Thai–Burmese border. By late May, almost all major Karen strongholds had been overrun. Japan's and ASEAN's support has also minimized the repercussions resulting from further economic boycott by the West.

Meanwhile, Japanese businessmen, alone among their rivals from South Korea and Australia, have poured into Burma. A Japanese company, Taiyo Gyogyo, recently signed a contract to fish in Burmese waters on a trial basis. Several Thai companies have cut deals with Burma to import timber, marine (shrimp, fish, squid), and jungle (spices, rare animals, wildflowers) products.

Searching for Japan's Acceptable Role

Japan's intention to play a more forceful role in the politics of Southeast Asia can be clearly seen in its various approaches to regional problems such as the Cambodian conflict and the Burmese crisis as well as in its policy toward Indochina.

What all this means is that after years of taking a wait-and-see attitude, Japan has decided that its economic clout should be accompanied by a greater political role in the region. But judging from ASEAN's attitude toward Japan in past years, Japan's maverick initiative will not work without support from ASEAN, whose fears partly stem from pockets of concern about a possible resurgence of Japanese militarism through its increased political role. As a result, divergent ASEAN perceptions have restricted Japan's would-be political maneuvering. The way ASEAN and Japan deal with the Cambodian problem is a case in point. Although discussions about an appropriate Japanese role are popular among ASEAN policymakers and academics, there has been no consensus.

This ambiguous attitude toward Japan can harm the interests of ASEAN in the long term. Given the appreciation of the yen and the recent increase in Japan's defense budget, it is obvious that Japan's defence expansion will continue despite ASEAN's fears. If the latest report by the Rand Corporation is any indication, Japan will become a military power by 2020. According to the Rand report, "Japan's defense spending, even if it remains a very small part of Japan's expanding GNP, will approach the spending levels of each of our principal West European allies." The report added that

by 1990, Japan's military spending would be more than 60 percent as large as the combined military spending of the United Kingdom, West Germany, and France, and by 2000 the Japanese figure would be nearly 70 percent of their combined military spending.²²

With this inevitable scenario in mind, it would be wise for ASEAN to begin discussions and find a consensus on what Japan can and cannot do in terms of political and security matters. ASEAN should not feel inhibited in its discussions with Japan. The region will be best served if Japan's future posture is the outcome of close consultations between ASEAN and Japan rather than a unilateral effort—or, as it has always been until the present, part of the Japan–U.S. Security Treaty. So far, ASEAN has customarily accepted Japan's defense posture in the context of this longstanding security arrangement. The continued U.S. pressure on Japan to shoulder a greater security role in the region has definite implications for the security picture of Southeast Asia.

In fact, it is about time for ASEAN to take a new look at Japan. As in the past, Japan's role has been largely a case of "money talking," but Tokyo deserves a bigger role in the region, especially on issues where Japan can make a difference. While bitter memories of past Japanese military adventurism will not die, they should not obstruct ASEAN's vision of new options. For years, ASEAN has exploited Japan's past mistakes for its own benefit. The beginning of the Heisei Era symbolizes a new Japan that should augur well with ASEAN since the new emperor, Akihito, does not share his father's stigma of military extremism.

In more than one way, Japan's new dynamism comes at a time when rapid changes in superpower configuration in Asia are taking place. New developments in mainland Southeast Asia have contributed to these changes. Prominent among them are the Sino-Soviet rapprochement and normalization, the recent improvement in Japan–Soviet relations, relaxed tensions in the Korean peninsula as well as the desire for countries in the region to create a new economic grouping.

In areas as far away as the Middle East and East Europe, Japan has been successful in keeping a high profile aiding the potentially explosive region increase its political stability. In Southeast Asia, where Japan's economic interest and influence are greatest, ASEAN should be more accommodating to Japan's political role. From this point on, what Japan says and does eventually will be a major determinant in the political landscape of the region.

²²U.S. Information Service, wireless text, May 16, 1989.

10. Southeast Asia and Japan: Political, Economic, and Security Implications for the 1990s

KHATHARYA UM

As we approach the year 2000, it is our hope that Japan will initiate changes in its policies that will effectively bring about an enhanced political, socio-cultural role in not only the Southeast Asian region but also in the global context. . . . Our expectation is that Japan will conduct itself with the kind of sensitivity that it has shown since the end of the [second world] war.¹

The shifting dynamics of the global economy have generated both challenges and opportunities for the countries of Southeast Asia. In this context, the most pressing challenge facing Japan in its relations with the Southeast Asian countries lies in that country's willingness and ability to undertake the various adjustments so essential to the promotion of greater interdependence and general well-being. Although cooperation may be the prevailing theme of the era, however, cautious enthusiasm such as that accompanying the proposed concept of a Pacific Forum attests to the problems that continue to plague Japan's relations with its Southeast Asian neighbors. Concerns for regional security and stability have become especially magnified in recent years by the shift in power dynamics within the region, with calls for an expanded role of Japan not only in Asia and the Pacific but in the global context as well. As with any regional entity whose continued viability, peace, and stability depend on a balance of power, the Southeast Asian attitude toward Japan is an extension of that ambivalence directed, to some extent, toward all emerging powers, external or regional. Changes—however positive—will inevitably be received with caution.

¹Mahathir Mohammed, "Japan Told to Set Up 'Buy-Back' Scheme," *Malaysian Digest* (January 1988), p. 6.

Factors of Complementarity

At the foundation of Japan's relations with Southeast Asia factors of geography stand as an irrefutable reality. Kamil Dato, Malaysia's ambassador to Japan, captured the essence of this interrelationship in his 1988 Independence Day address: "Coming as we do from the same region and situated as we are in strategic corners of that region, the inevitability of contacts cannot be avoided. Indeed, relations between the two countries became a natural development."² To Japan, geostrategically vulnerable because of its dependency on secured sea access, Southeast Asia dominates the most vital of its seagoing transportation and communication arteries. Of Japan's "floating pipeline"—one big tanker every 50 miles between the Middle East and Japan—75 percent of those supplying Japan's energy needs pass through the Straits of Malacca, an average of twenty Japanese vessels per day.³ Such strategic vulnerability is not lost on either those possessing the inherent advantages nor those seeking to possess them—and, least of all, Japan. In all, it makes Japan a force in the Asian-Pacific region that cannot be overlooked by its southern neighbors in their efforts to maneuver themselves amid the currents of big-power influence.

Geographical proximity is further reinforced by the natural complementarity that exists essentially between a resource-poor Japan and the resource-abundant Southeast Asian states. Accounting for 85 percent of world production of natural rubber, the ASEAN countries alone have emerged as the world's suppliers not only of rubber, but also of palm and coconut oil. Two-thirds of the world's tin and copra currently comes from Southeast Asia along with three-fifths of its copper supply.⁴ In addition, Southeast Asia is also a major producer and exporter of oil, natural gas, rice, and timber along with a cornucopia of other strategic commodities. Much of these commodities remain untapped, especially in Indochina, where war, revolution, and occupation have repressed any real process of economic development. Thus, in this relentless competition for scarce resources, Southeast Asia as a region has much that many would covet. However, from this potential source of greatness insecurity also sprouts, for in relations among states such inherent wealth is not necessarily a sheath of security, and such complementarity is no guarantee of harmonious coexistence. It was, after all, Southeast Asia's natural resources that drove the Japanese to stake their claim forcefully in the region during the

²Dato Kamil, "Malaysia Celebrates 31st Anniversary of Independence," *Japan Times*, August 31, 1988.

³Matsukane Hisatomo, "The Philippines and Security of South China Sea: Centering on Japan's Position," unpublished ms, Indochina Archive, Berkeley, Calif.

⁴"Poor ASEAN Meets Rich Japan," *The Economist*, March 26, 1988.

1930s and 1940s. In the immediate postwar years, the continued importance of Southeast Asia to Japan's national interests was upheld as early as 1953 by then Prime Minister Shigeru Yoshida, who wrote:

I do not think it necessary to dwell upon the importance of Southeast Asia as we cannot count on much trade with China. . . . The government desires to extend every possible cooperation . . . in order thus to advance further the relations of reciprocal benefit and common prosperity.⁵

To a Japan then struggling to revive itself Southeast Asia was an indispensable source of raw materials and markets, and a course was charted to "win by diplomacy after losing in war."⁶ "Economic diplomacy" thus became the governing principle behind Japan's renewed commitment to the region, a strategy that was to be fueled by new exigencies in the 1970s and 1980s. An intensified program of economic assistance paved the way for the subsequent promotion of trade and economic cooperation in the region. By the early 1970s, Japan had become a leading donor, in some instances even displacing the United States of its primacy. The first oil crisis further impressed on Japan the indispensability of ASEAN as a source of vital energy needs.

Japan-ASEAN relations were bolstered, moreover, by the perception of many Southeast Asian states that, in the long run, economic development was a surer defense against communist impingement than self-defeating militarization—a perception that was to be driven home pointedly by the victory of the communist revolution that befell Indochina in 1975. Butter, as Tunku Abdul Raman of Malaysia had argued, was after all better than guns. In the Southeast Asian industrialization drive, Japan presented itself as a source as viable as the United States in the provision of technology and capital goods, further reinforcing the interdependence.

In the decades of the 1970s and 1980s, such dialogues as the Second ASEAN Summit Meeting in 1977 and the Second Japan-ASEAN Economic Ministers' Meeting in 1985 exemplified both sides' continued interest in cultivating this interrelationship. In what later came to be known as the Fukuda Doctrine, Japan laid out the framework for future relations with Southeast Asia with expressed commitment to the promotion of mutual confidence and trust based on "heart-to-heart" understanding between the countries and reiterated adherence to the principle of nonmilitarization. This commitment was reaffirmed at the 1987 summit in Manila in the form of US\$2 billion in development aid.

⁵Chulacheeb Chinwanno, "Japan as a Regional Power," *Indonesian Quarterly* [henceforth cited as *IQ*] 15, 3:120-129.

⁶Donald Hellmann, "Japanese Foreign Policy: Passivity, Prosperity, Nationalism and the Elusion of Leadership," unpublished ms, 1986, Indochina Archive, Berkeley, Calif.

This tightening interdependence that saw a magnification of trade and investment ties also brought Japan's growing economic dominance in the region. Despite efforts at regional diversification, Japan continued to control a significant portion of trade from the ASEAN countries. In addition to natural complementarity, certain country-specific policies, such as the counterpurchase clause instituted by Indonesia in 1982, provided a competitive edge to Japanese companies over others seeking export markets in Southeast Asia. Between 1970 and 1980, the growth rate of ASEAN exports to Japan stood at 28 percent per year. ASEAN's share of Japan's total imports, however, has shown a less dramatic increase, though it remains Japan's second largest trading partner.⁷

In addition, Japan–ASEAN relations have also been strengthened by the exponential infusion of Japanese capital from the 1970s to the early 1980s. In 1982, Japan's cumulative investment in the ASEAN countries, deemed a favored site second only to the United States, stood at US\$7 billion, accounting for one-third of the annual total foreign investment in the region. By 1988, Japan had become the primary foreign investor in Indonesia, Malaysia, and Thailand, while attaining the position of the second largest investor in the Philippines and Singapore, upstaged only by the United States.

A Decade of Change

Thus, in the postwar years, economic interdependence has been mutually sustaining for Japan and its Southeast Asian partners. The latter's resources and markets have contributed significantly to Japan's economic rebirth, whereas Japanese aid, investment, and demands for Southeast Asian resources have in turn been vital to the economic prosperity of ASEAN. The continued viability of this interrelationship, however, depends on the resilience of the concerned parties in responding to present and future challenges. The decade of the 1980s has witnessed many shifts in the global realm, with rippling ramifications at the regional and national levels. The recession of the early 1980s generated an overall contraction in world trade. With declining demand leading to excess stockpiles and consequent price depression, the ASEAN countries were once again confronted with their own continued vulnerability in commodity trading. Reduction in trade volume with Japan was further accelerated by declining resource intensity in the growth of the Japanese economy. The decline in oil prices put a particular strain on Japan's relations with the oil-exporting countries—such as Indonesia, which registered a 24 percent decline in export from

⁷Karl Jackson and M. Hadi Soesastro, *ASEAN Security and Economic Development* (Berkeley: Institute of East Asian Studies, 1984), p. 13.

1984 to 1985—where the divergence of interest grew markedly wider.

As commodity prices fell, there was also a lessening of investment incentives in resource sectors. In addition to market losses and declining trade and investment impetus, spiraling interest rates of the 1980s further crippled economies, such as that of the Philippines, that were largely dependent on the backing of foreign loans and are now tottering under the debt burdens. In the case of Malaysia, for example, the rising yen has increased the country's debt by 80 percent in ringgit terms.⁸ In January 1987, Indonesia's special envoy, Widjojo Nitisastro, met with then Foreign Minister Sosuke Uno in search of some relief for Indonesia's swelling US\$43.6 billion debt. *Endaka* (strong yen) has also made continued dependence upon Japanese heavy industrial and technological imports a costly endeavor, further accentuating the asymmetry in trade relations. It was feared that uncurbed appreciation may also nullify Japan's soft loans. ASEAN's position has been that, if it is unable to bridle the yen's appreciation, Japan needs to reexamine the terms and conditions of the loans and undertake measures that, as Dr. Mahathir puts it, "will balance the actual money [we] borrow and the money we give back."⁹ A proposal has already been advanced to introduce a yen-based Asian monetary system.¹⁰ Japanese monetary authorities have expressed concern about the prematurity of this initiative.

Against the discouraging tableau of the early 1980s, the economic horizon of 1987 did reflect more optimistic prospects. Despite the adverse effects, *endaka* did generate some positive yields. The high yen has given a more competitive price edge to exports from developing countries over goods produced in Japan, thereby stimulating a reduction in the asymmetrical import arrangements, especially between the ASEAN countries and Japan. Malaysia recorded a 25 percent increase in trade with Japan in 1987 over the preceding year. Malaysian exports to Japan also climbed to US\$4.7 billion, amounting to a 24 percent increase for the same year.¹¹ Customs reports for South and Southeast Asia substantiated this notable increase in Japan's imports. The gain is most marked in third markets, where the high yen has rendered Japanese labor-intensive and low-technology exports uncompetitive vis-à-vis the developing countries.

⁸Jusuf Wanandi and Kumao Kaneko, "Toward a Closer ASEAN-Japan Partnership," *Proceedings of the Japan-ASEAN Conference*, 1987, organized by the Japan Institute of International Affairs.

⁹"ASEAN to Call on Japan to Lessen Impact of Yen Rise," *Japan Times*, June 27, 1988.

¹⁰The concept was sounded by the Mitsui Bank, Ltd. and Karl Otto Poehl, president of the West German Bundesbank, in February 1988. *Japan Times*, February 6 and March 25, 1988.

¹¹*Malaysian Digest*, January 1988.

By extension, as labor cost rises, production at home loses the competitive edge; investment opportunities in Japan thus appear less attractive. Consequently, there was mounting interest in deploying the manufacturing of low value-added products overseas, thereby accounting for the growth in Japanese foreign direct investment. A 1987 regional breakdown of foreign investment statistics showed an overall increase from 10 to 19 percent for the Asian share of the total Japanese investment, with an approximate increase of 9 to 12 percent for each country.¹² With the revitalization of the newly industrializing economies (NIEs), the Southeast Asian countries can enjoy greater diversification of trade and investment partners and a lessening of dependence on Japan, thereby promoting greater interdependence in the Asian–Pacific region.

Although some countries may benefit greatly from this augmentation of foreign investment, an Asian Development Bank projection remains gravely pessimistic that it can offset the trade balance in Southeast Asia.¹³ For this reason ASEAN has made concerted appeals to the Japanese government to “recycle” its trade surplus in the augmentation of both grants and loans—that is, on easier terms, or preferably untied—and by providing incentives to private interests to “redirect” the flow of capital toward the developing countries. In the past Japanese assistance has been criticized for its conditional nature because it was frequently tied to the requisite of purchases. Direct investment is especially encouraged for small- to medium-sized firms.

Thus, despite recent improvements, some structural problems need to be redressed. The magnitude of the trade volume cannot obscure the asymmetry in trade relations that persists. Japan continues to value ASEAN more as an export outlet than as an import source. Composition of trade also differs as imports from Japan consist predominantly of heavy industrial goods whereas ASEAN exports remain largely foodstuffs, raw material, and mineral fuels. In 1985, oil-based and liquid natural gas exports constituted more than 50 percent of Indonesian, Malaysian, and Singaporean exports to Japan.¹⁴ Consequently, Japanese investments in non-manufacturing sectors continue to exceed those in the manufacturing industries. In the early 1980s, the mining industry absorbed approximately 60 percent of Japan’s total investment in Indonesia and 40 percent of its

¹²Miyoehei Shinohara, “High Yen Speeds Dawn of ‘Asia–Pacific Era,’” *Japan Economic Journal*, May 28, 1988.

¹³“Japanese Foreign Direct Investment,” *World Executive Digest* (September 1988), p. 34.

¹⁴Rupert P. Alonzo, “Japan’s Economic Impact on ASEAN Countries,” *IQ* 15, 3:137.

investment in the Philippines.¹⁵ In energy-rich Indonesia especially, the bulk of Japanese investment remains concentrated in gas and oil extraction to meet the needs of Japan's industrial backbone, with the remaining share targeted for the penetration of Indonesia's market. It is noteworthy that US\$2 billion of Japan's investment in Indonesia during 1981 was allocated solely to two projects. Japan's successful US\$1 billion bid for an oil refinery project and its submission in 1984 of a US\$200 billion bid for an Indonesian geothermal project are indicative of Japanese interests in extending its investment dominance into the processing sector.

For ASEAN, however, a more pressing focus of concern lies in the persistence of overall discouraging trends in trade and investment relations with Japan. The 1987 UNCTAD report continued to reflect a certain pessimism regarding the long-term prospects for commodity prices. Despite the subsequent expansion of Japan's total global trade, the total trade volume with ASEAN in 1985 registered a stagnation level or, in some cases, even a decline. ASEAN's share of Japan's overseas direct investment also failed to maintain a direct proportion to the recent exponential growth of the latter's overall annual overseas investment. This decline, in relative terms, was largely attributable to the hardening protectionist stand of the industrialized countries—namely, the United States, the European Community, and several of the newly industrializing economies that command the greater share of Japan's export markets. Securing access to these essential markets thus gained accentuated emphasis within Japan's trade policy agenda, and direct investment was diverted to circumvent the protective barriers to these markets.

The fear that these trends would combine to create negative feedback and further aggravate the failing economic vitality of the region generated a wave of concern in the ASEAN countries. The response of Malaysia's prime minister, Dr. Mahathir Mohammed, to Japan's US\$2 billion goodwill token underlined ASEAN's unabated trepidation for its own potential displacement: "Much as we appreciate Japan's contribution, we are concerned that more aid, more Japanese investments are shifting away from this region to the United States, the European Community (EC), and China."¹⁶ Although ASEAN has denied any perception of threat emanating from such a relationship, it is apparent that the recent Sino-Japanese economic courtship, with its future military and strategic implications, is

¹⁵C.Y. Ng, R. Hirono, and N. Akrasanee, *Industrial Restructuring and Adjustment for ASEAN—Japan Investment and Trade Expansion—An Overview* (Singapore: Institute of Southeast Asian Studies, 1987), p. 32.

¹⁶*Ibid.*

perturbing to ASEAN. The ASEAN countries have come to view China—with its immense market, geographical proximity, competitive labor pool and, until recently, increasingly “open” economic approach—as an emergent rival for attracting trade and investments from the industrialized countries, most notably Japan. Japan’s investment in China in 1987 jumped from 1 to 7 percent,¹⁷ reinforced by Japan’s commitment to raise designated loans to US\$6 billion by 1995. This worrisome investment prospect was compounded by a declining share of Japan’s Official Development Assistance (ODA). Despite the overall increase, ASEAN remained wary that, even though Japan’s role in the regional and global arenas may have grown, its focus may shift elsewhere. The ASEAN countries have thus repeatedly expressed their hopes that Japan will encourage investment in Southeast Asia through offshore relocation of its industries. With the rattled confidence of the international community, the recent turmoil in China can be looked on by ASEAN with a modicum of relief.

Within this issue agenda, securing commodity price stabilization is of pressing importance to ASEAN. Declining oil prices and the quest for assurance of continued channels for energy export were primary concerns on the agenda for Takeshita and Indonesia’s envoy Ginanjar Kartasasmo during the latter’s visit to Japan in September 1987. In addition, securing market access for both primary and manufactured goods in this atmosphere of pervading protectionism now leads the Southeast Asian agenda of discussion with Japan. Some ASEAN countries have reached a level of development in which they can set their sights on the transition from a primary-oriented development strategy to an industry-oriented one. Although this “graduation” remains for the future, countries such as Malaysia and Thailand have already undertaken initiatives to hasten the eventuality. Malaysia’s “Look East” campaign and the Industrial Master Plan have laid the foundation for this upward push, with apparently favorable results. In August 1988, Malaysia reported that the manufacturing sector had surpassed, for the first time, the performance of the agricultural sector.¹⁸ Semiconductors, rather than crude oil, led Malaysia’s top export items in 1986, making it the third largest producer of semiconductor components. As such, processed and semiprocessed products will constitute an essential component of Malaysia’s overall exports, and the securing of ready outlets will be fundamental to the continued growth of the industry.

Whereas Japan may be quick to decry the mounting protectionism of

¹⁷Shinohara, “High Yen,” p. 3.

¹⁸Kamil, “Malaysia Celebrates,” p. 1.

Western countries, it has been subjected in turn to repeated urgings from its ASEAN trading partners to dismantle its own protectionist barriers and to stimulate domestic aggregate demands for foreign imports. The ability of the exporting countries to maximize their newly acquired edge continues to be hampered by the seeming “insensitivity” of the Japanese demand for price changes—a resistance that largely reflects the intense competition from domestic producers in Japan, especially the steel and petrochemical industries. With the growing inability of the United States and the EC to continue acting as the main absorbers of Asian exports, Japan has been increasingly exhorted to make its due contribution as a global power to the maintenance of more equitable relationships and overall economic growth. Reactions from ASEAN countries at the summit of 1987 clearly indicated their recognition that foreign direct investment and concessionary loans cannot compensate for market losses. Masao Fujioka of the Asian Development Bank puts it quite succinctly: “Countries in Asia like to borrow from Japan with the hope that someday they can repay the debts with strengthened economies. They don’t like to just borrow and again borrow for the sake of repaying debts to Japan.”¹⁹ Given that, as of 1987, only 27 percent of ASEAN exports to Japan fall under the Generalized System of Preferences (GSP) of the General Agreement on Tariffs and Trade (GATT), ASEAN has been pressuring for the expansion of such coverage and for the augmentation of quota ceilings. In the area of manufactured goods especially, there is much room for Japanese initiatives since, at present, Japan imports only 5 percent of its intermediate goods requirement.²⁰

Aside from more easily detectable protectionist measures, ASEAN exporters are also faced with other impediments, such as cultural biases in purchasing behavior and complicated import procedures. Japan has been asked to simplify these procedures. Moreover, Southeast Asian countries continue to protest being used by Japan simply as an export base. An admonition to “foreign investors”²¹ against this kind of strategy, emanating from the Bank of Thailand, was clearly directed to Japan, which accounts for 69.4 percent of Thailand’s total foreign investment. Nissan, with its connection to Siam Motors, has announced its plan to supply the markets

¹⁹Elisabeth Rubinien, “Tokyo Works Toward Broader Aid Policy,” *Asian Wall Street Journal*, December 14, 1987, p. 1.

²⁰Kamal Salim Fuchen-Lo and Yoichi Nakamura, “Structural Interdependency and the Outlook for the Asia–Pacific Economy to the Year 2000,” Tokyo Conference on Global Adjustment and the Future of Asian–Pacific Economy, May 8–13, 1988.

²¹Shigeo Shimada, “Thai Official Warns Foreign Investors Against Exploiting Nation’s Economy,” *Japan Times*, September 10, 1987.

of Taiwan, Malaysia, Bangladesh, and Pakistan.²² In the interest of equity, ASEAN has called on Japan to refrain from exporting Japanese-produced goods “with locally furnished finishing touches,” which further cut into ASEAN’s allotted GSP quota into these third markets. Given present conditions, Japan can no longer remain a capital and technology supplier and capitalize on such export bases; it must also be an importer of these products. Appeals have been made for Japan to initiate “buy-back” arrangements of products manufactured by Japanese firms in Southeast Asia—an initiative deemed to be Japan’s “most important contribution” to the realization of the objectives of the Asian–Japan Development Fund.²³

The added impetus of some ASEAN nations toward greater industry orientation has also intensified the call for accelerated technology transfer. Beyond the rhetoric and statements of intent, Southeast Asian countries continue to perceive a discrepancy between stated and actual responsibilities in their joint partnership with Japanese firms and have registered frustration with Japan’s reluctance to impart its technology and know-how, or even to upgrade the level of technological sophistication presently available to the ASEAN countries. As in the case of Malaysia, despite increased investment Japanese companies are less willing than the Americans to move beyond labor-intensive production.²⁴ Continued growth in the Pacific region, it is argued, can come about only through the appropriate designation of a division of labor among the regional actors. Japan must acknowledge its contributory role in this process. This concern applies to military technology as well. Beginning with the 1983 policy revision on military technology transfer to the United States, ASEAN is also looking to the possibility that this policy revision will be extended to its members as well. This issue will be especially salient if a scenario emerges in which greater sharing of burden is expected of all regional actors in maintaining the security of the sea lanes.

Responding to Challenges

Within the scope of this issue, some aspects have seen recent improvement. In a 1987 bid to regain its competitive power, Japanese investment showed a marked shift from the advanced countries and the NIEs to the ASEAN countries as Japanese capital heatedly pursued cheap labor.²⁵ The Wall Street slump of October 1987 seemed to have reinforced this capital outflow from the United States, though Japanese firms surveyed cited

²²*Bulletin of Concerned Asian Scholars* [henceforth cited as *BOCAS*] 20, 4:42.

²³*Malaysian Digest* (January 1988):6.

²⁴*BOCAS* 20, 4:51.

²⁵*Ibid.*

cheap labor as the primary factor for the shift to Southeast Asia,²⁶ with Thailand deemed the most favored site. Pioneer and Minebea have moved their main production bases for export from Singapore, where the average yearly wage in 1986 was US\$300, to Thailand, where the comparable rate for the same year averaged US\$75.²⁷ Other companies such as Toshiba and Sharp are relocating their production centers outside Japan. Matsushita is transferring its air conditioner production control to Malaysia,²⁸ with projections that the entire production from its ¥37 million factory, the second in Malaysia, with a capacity of 500,000 units, will be exported mainly to Japan. Likewise, Hitachi is making preparations to relocate 30 percent of its world-wide air-conditioning production to Malaysia by 1994.²⁹ In Indonesia, foreign investment from 1986 to 1987 has increased fourfold, of which 55 percent is in new projects.

Japan has responded to the effects of *endaka* on accrued Japanese loans with initiatives to lower interest rates, though the results may yet be canceled out by a continued rise of the yen. It has also launched a new US\$30 billion program to attract private funds to developing nations, with US\$2 billion earmarked for ASEAN. It is especially significant that the US\$2 billion in assistance will be completely "untied," excluding even the usual condition that project feasibility be conducted by Japanese engineers.³⁰ To further combat criticisms that Japan's aid packages are too limited in their size and altruism, Japan has announced its determination to advance by two years the targeted date for its disbursement of US\$7.6 billion in aid.³¹ With a disbursement of US\$5.6 billion in 1986, Japan has already attained the status of the second largest donor in the world. Moreover, the Ministry of International Trade and Industry (MITI) has devised a plan to resume the underwriting of loan insurance for exports and investment in some developing countries. An initiative was also undertaken to raise import ceilings on sixty mining and industrial products under the GSP for 1988.³² In its new comprehensive aid policy, the ministry emphasized technological guidance to export industries in various Asian countries, whereas the *Economic Planning Agency Report* of 1987 stressed the need for Japan to provide the developing countries of Asia with reasonable

²⁶"Attractive Labor Factors Behind Shift of Japanese Companies to ASEAN Nations," *Japan Times*, March 18, 1988, p. 3.

²⁷BOCAS 20, 4:42.

²⁸BOCAS 20, 4:52.

²⁹*AsiaWeek*, September 1, 1989, p. 61.

³⁰Rubenfien, "Broader Aid Policy," p. 1.

³¹*Ibid.*

³²Wanandi and Kaneko, "Toward a Closer ASEAN-Japan Partnership," p. 30.

market accessibility. The long-term results of these initiatives in alleviating some asymmetry in the relationship remain to be fully played out. On the issue of market access and technology transfer, the changes are inevitably incremental.

Japan: The Quest for an International Role

Whereas much of this improvement in trade and investment between Japan and the Southeast Asian countries has been motivated by shifting dynamics of the global economy, an added impetus has come from Japan's own quest for an improved international image and an expanded political role that would be commensurate with its economic status in the international realm. The call for the increased "internationalization" of Japan echoes even more resoundingly on the heels of Japan's emergence as the largest creditor nation, as the United States continues to be plagued by an unremitting trade deficit. Quite obviously, if only in economic terms, America's longtime protégé has outgrown it; and it is only logical that Japan be increasingly called on to assume some of the responsibilities that heretofore have been shouldered by the United States. America's exit from Indochina left a discernible vacuum in Southeast Asia. With the intensification of the conflict between the Indochinese states and the growing Soviet presence in the region, Japan came to be regarded as a possible counterbalance in the Sino-Soviet struggle for regional influence. After four decades of being nurtured through political and security concerns, Japan has finally seen the twilight of an era when "economic diplomacy" proved sufficient to meet its needs. Many have now come to question whether the doctrinal tenets of political noninvolvement still apply in this context of altered exigencies. This recognition of the intertwining relationship between continued maintenance of overall regional peace and stability and the well-being of Japan was echoed in an Economic Council report: "Japan must live together with the world in tackling every problem because our economic development cannot be achieved without sustained and stable growth of the world economy. . . . Worldwide peace is essential to Japan's economic development."³³ In this context, economics remains an essential pillar of Japan's "comprehensive security" though economic imperatives are now but partial objectives.

Indochina: A Dual-Track Diplomacy

Within this premise, Japan views the protracted conflict in Indochina as posing a grave potential threat to regional stability. A divided Southeast

³³"New Economic Plan Should Focus on Defense," *Japan Times*, January 23, 1988.

Asia can only be detrimental to the economic and political development of the region. The fear shared by Japan and ASEAN alike of local conflicts escalating into involvement by the major powers has further crystallized this concern. Japan's initial reaction has been to devise a two-prong policy of nurturing harmonious relations with ASEAN while resorting to its time-honored policy of using economic incentives to induce the Indochinese states, Vietnam especially, back into the fold. Japan's perception of itself as a mediator between Vietnam and ASEAN was clearly articulated in the Fukuda Doctrine. It is, in essence, a policy to which Japan has consistently adhered despite the modicum of variations in its willingness to defer to ASEAN policy considerations.

To a large extent, Japan's position on Vietnam reflects a reassessment in Japanese foreign policy thinking of its role in international diplomacy. To a Japan smarting over the United States' failure to inform, much less consult, it on normalization talks with China in 1972—a Japan coming to feel the need to chart a path of greater independence—the rapid denouement of the war in Indochina yielded the perfect venue. Much to the chagrin of the United States, Japan began negotiating with North Vietnam while the war continued and accelerated unofficial contacts initiated in 1971. Although diplomatic relations between Japan and North Vietnam were established in 1973, the exchange of embassies was still hindered by the inability to resolve the issue of additional reparations demanded by the North Vietnamese. Bilateral relations were also marred by a reciprocal Japanese demand that North Vietnam should assume payment for a ¥16.2 billion loan that had been made to the Saigon government. Agreement was finally reached for the sum total of ¥13.5 billion to be provided between 1975 and 1976 for construction projects and equipment, coincidentally corresponding with the amount given in reparation to South Vietnam. Japan also conceded to a deferred loan repayment, an additional ¥4 billion grant and a ¥10 billion reconstruction loan at 2.75 percent interest over thirty years. Amid American protests that such gestures might send the wrong signal and further undercut the South Vietnamese war efforts, Japan insisted on granting refugee aid relief even to those in communist-controlled areas, bypassing the Saigon government by disbursement through the Red Cross and conceding to the United States only in its assurance that the aid would be for nonmilitary purposes. Combined, these initiatives reinforced Japan's declared dedication to "international cooperation regardless of differences in political systems," defending its continued aid policy to Vietnam after 1975 with a pronouncement that "no matter what form or ideology is adopted . . . as long as it works to upgrade national self-determination and the living standard of the people and correction of the imbalance between the rich and the poor, we would like to maintain

friendly relations and provide as much assistance as we can.”³⁴ At the eleventh hour of the war, Japan exercised a *coup de grace* by announcing its preparedness to recognize the Provisional Government of Vietnam on April 4, 1975.

The fluid context of the immediate postwar years reinforced these diplomatic ventures. America was still somewhat dazed by the experience of defeat, whereas the neighboring countries of ASEAN were ambivalent in their reactions—anticipatory, on one hand, of the prospect of regional self-determination, but trepidatious nonetheless about their own political fate. As other nations were still testing the diplomatic waters, Japan’s economic overtures were timely in making the best of opportunities. As the interrelationship among and between the Indochinese and external players grew more complex, the realignment of power became more certain. The atmosphere of fluidity that had heretofore allowed Japan some measure of maneuverability in Indochina was no longer present, and Japanese diplomacy was once again limited by the realism of regional politics and security interests—interests that could not be accommodated through economics alone.

The same basic policy position was extended to all of communist Indochina—though unlike Vietnam, Laos and Cambodia presented scenarios that were, and continued to be, far less complex. Relations with Laos remained consistent from the time of the Souvanna Phouma government. Continued aid to Laos after 1975, on the other hand, did not meet with the same resistance because it was largely devoid of the complicating political implications that the occupation of Kampuchea posed for Vietnam’s external relations. In 1983, Japan granted another ¥700 million of assistance to Laos for the construction of a pharmaceutical development center, bringing the total aid level to ¥7 billion and making Laos the largest recipient in Indochina.

In the case of Cambodia, as with Vietnam, the issue of loans previously made to the defunct republican government presented an obstacle in the normalization of relations with the communist regime. Nonetheless, Japan’s dilemma was subsequently resolved by the autarkic posture of Democratic Kampuchea. The self-imposed diplomatic isolation of Pol Pot’s Cambodia also undercut any possibility of an intervening role for outsiders, save China. In sum, Japan never had to face the dilemma of having to choose friends, at least not until the overthrow of the Pol Pot regime in 1978. By then, other factors had emerged to nullify some of the choices.

³⁴Quoted in Juichi Inada, “Japan’s Aid Freeze to Vietnam: Diplomatic Implications for Normalization,” paper presented at International Conference on Vietnam Today: Assessing the New Trends, September 1–3, 1988, Bangkok, Thailand.

Although other factors have clearly intervened either to facilitate or to undermine Japan's relations with Laos and Cambodia, Japan manifested a marked assiduity in its pursuit of Vietnam. The tantalizing economic potential—including oil prospects—represents only a partial inducement. The geostrategic position of Vietnam is moreover of fundamental importance; both the southern and northern ports of that country line the waterways through which Japanese tankers have to travel. Of equal significance, however, is the reality of Vietnam's military potential and its willingness and desire to keep China in check. Combined, they are trumps setting Vietnam apart from the other countries of Indochina. Therein lies the tenacity behind Japan's determination to cultivate relations with Vietnam, even against the harshest criticism.

Seeing the potential, Japan has proclaimed Vietnam the “‘nucleus’ of its Indochinese economic cooperation policy.” One of the milestones of this cooperation was the Mekong River Project, urged on by Vietnam's plan to explore for possible oil fields in the delta and in the North Vietnamese continental shelf. Initiatives were also taken to negotiate for the purchase of Vietnamese coal, a process that was facilitated by the long-standing ties with North Vietnam during the Vietnam War. As a prospective outlet for the slumping industry, Vietnam's purchase of Japanese steel was facilitated by an extension of a US\$32.5 million loan,³⁵ with an additional loan of US\$42.1 million in 1978 despite its inability to meet the required purchase quota. This early groundwork was to provide Japan with an edge when other nations, even those highly critical of Japan's solicitous behavior, attempted subsequently to get on the bandwagon for profit-seeking ventures.

Bilateral relations between the two countries have certainly not been without problems, even at the incipient stage. After the war, a hairline rift revealed itself as early as 1976 when Vietnam began to cast a suspicious eye at Japanese efforts to strengthen ties and finally seal a peace treaty with its traditional nemesis—China. On Japan's part, initial hopes that Vietnam, after three decades of struggle against imperialism, would dedicate itself to the pursuits of nonalignment and internal development were stymied by the latter's obvious gravitation toward the Soviet Union—Japan's long-standing antagonist.

In light of this development, Japan recognizes even more clearly that its relationship with ASEAN—in both economic and strategic terms—is indispensable. This relationship has long been mutually beneficial, and its indispensability has been subsequently reinforced by the communization of Indochina. As the polarization increased between ASEAN and the

³⁵Archival document, Indochina Archives, Berkeley, Calif.

communist Indochinese states, Japan found itself caught in the middle and the target of criticism from both sides. ASEAN member states took a negative view of Japan's insistence on maintaining communication channels with Vietnam, through the outpouring of aid until 1978 and through the private sectors thereafter. On the other hand, Vietnam, paranoid about a perceived anticommunist alliance, found its latent suspicion of Japanese opportunism and malintent confirmed. Despite Japan's concerted effort to straddle the diplomatic fence with high-level visits and exchanges, Hanoi's perception of being ostracized was undoubtedly accentuated by Prime Minister Takeo Fukuda's participation in a postsummit meeting with ASEAN members and his postconference visits to each of the ASEAN countries, all sealed with impressive promises of aid. Nonetheless, at least until Vietnam's invasion of Cambodia, the voices within the Japanese government calling for continued dialogue and rapprochement with Vietnam appeared temporarily vindicated as a politically besieged Vietnam began courting ASEAN and the United States. To assuage Japan's fear, Foreign Minister Pham Hien visited Tokyo in 1978 and brought reassurances that Vietnam's entry into COMECON was devoid of military implications and that Vietnam did not intend to invade Kampuchea. This, ironically, came in the face of the signing of the Friendship and Mutual Security Treaty between the Soviet Union and Vietnam, which upheld a clause for joint action in the case of attack on either party. A mere two weeks later, Vietnamese tanks crossed the border into Kampuchea.

Despite repeated threats of aid suspension, Japan nonetheless did not revise its policy until the conflict in Indochina had reached critical heights and the Soviet threat loomed ever larger not only in the region but also elsewhere. In the aftermath of the Soviet invasion and occupation of Afghanistan and the hostage situation in Iran, Japan was subjected to increased pressure, especially from the United States, to act more discernibly as a "member of the West." Japan had intermittently admonished Vietnam that provision of aid would become highly problematic should the latter's foreign policy increasingly antagonize ASEAN. The Afghani and Soviet naval presence in Cam Ranh Bay, along with the latter's projected air power in the region, had rendered the idea of Japan's bolstering a Soviet protégé even more unpalatable to the United States and its ASEAN allies. Regular Soviet port visits into Haiphong and Danang and the dispatching of the *Minsk* into the Far Eastern service made it no longer possible for Japan to deny, especially to itself, the military and strategic implications of the Soviet-Vietnamese alliance. Through its foothold in Indochina, the Soviet Union had acquired not only its first warm water port in Cam Ranh Bay but also access to four naval bases and seven air bases.³⁶ By May 1979, Japan

³⁶Hisatomo, "Philippines and Security of South China Sea."

also had to contend with reports that an outpost had been established at Cam Ranh Bay to monitor electronically all shipping activities passing through the South China Sea. For a geographically vulnerable Japan dependent on the Mideast and Southeast Asia for its oil supply, the bases in Vietnam, with their commanding access to the Pacific Ocean and the Indian Ocean as well as their position on one of the most crucial of "choke points" along the sea lanes, are too strategically situated to be in the hands of an adversary. The experience in the Russo-Japanese war of 1905 has already attested to the importance of Cam Ranh Bay to Japan's strategic calculation. The bay had served as a point of convergence for a meeting by two separate Russian fleets, and it continues to be the most suitable port of transit for major Soviet vessels of the Pacific Fleet brought in from Europe.³⁷

Vietnam's flagrant renegeing on the assurances extended to Tokyo in 1978 did much to undermine Japan's trust in Vietnamese sincerity and confidence in its own ability to promote regional cooperation single-handedly. These new developments forced a tilt in Japan's dual-track diplomacy—a concession to self-restraint brought about, in part, by deference to the vocalized concerns of its allies and, equally, by self-interest. In January 1980, Japan finally declared a postponement of the promised aid for 1979 "until the Afghan issue is solved." The initial context of this decision reflected more of an American and, to a lesser extent, Japanese distress over Soviet actions than a genuine change of heart about Vietnam.

Vietnam's attack on Thai territory in June 1980 further undermined the continued ability of Japan to ignore ASEAN concern about the Vietnamese threat. As perception converged on the growing threat of the Soviet-Vietnamese alliance, Japan began to intensify its support for ASEAN. Suzuki's first prime ministerial visits overseas after taking office in 1981 were made to the ASEAN countries, accompanied by an unprecedented assurance that Japanese official aid to Vietnam would not be unfrozen until "a peaceful solution is achieved in Cambodia" and that any action undertaken by Japan in this regard would be conducted only after prior consultation with ASEAN. In the recent assessment of possible renewed loans to Vietnam by the International Monetary Fund, Japan joined the United States in boycotting any such decision and has reiterated that Japanese aid will not be renewed until a comprehensive solution has been reached on the Cambodia problem. In addition, Japan also channeled to Thailand ¥700 million of developmental aid and ¥300 million for refugee relief. Tokyo also championed the call for an international conference and the establishment of a neutral government in Cambodia, with a

³⁷Ibid.

commitment of “financial, material, and human resources” to facilitate the process. Tokyo even offered physical space for a peace mission. Japan has also expressed readiness to extend the necessary financial assistance to make feasible the idea of a peacekeeping force and commitment for reconstruction aid to all the Indochinese countries in the event of peace. In the search for a useful role in the peace settlement, ideas have even been advanced that Japanese computers be used for the tabulation of votes in the eventuality of an election in Cambodia.³⁸

Japan’s hardening stand on the Indochina issue reached new heights under the Nakasone administration. The push for a stronger defense posture and a more aggressive foreign policy thrust impressed both friends and foes alike. To Vietnam, these developments appeared to confirm its initial fears of encirclement, especially in light of the warming triangular relations among China, Japan, and the United States. *Glasnost* and the recent Sino–Soviet cordiality undoubtedly are not lost on Vietnam. There have been suggestions that Vietnam may be looking to Japan to facilitate its dialogue attempts with China.

Despite demonstrated willingness to curtail its economic diplomacy vis-à-vis Vietnam and its expressed interest in seeing a resolution to the protracted conflict in Indochina, Japan did not sever its ties with Vietnam. In circumventing the moratorium on assistance to Vietnam, private ventures and humanitarian aid—for flood, typhoons, epidemics, and ¥28.57 million in medical equipment for a hospital in Ho Chi Minh City—were convenient conduits of exchanges. Japan’s determination to cultivate this venue was attested to by its readiness to override the disapproval of the United States and ASEAN in its relief commitment to an aggressing Vietnam, a commitment that contrasts paradoxically to its policy of seeking ASEAN’s approval for aid to occupied Cambodia and Laos. Continuing dialogues have also been facilitated by regular annual official visits. The way to these dialogues was paved by the meeting between Vietnam’s Nguyen Co Thach and Japan’s Foreign Minister Abe during the ESCAP conference in Tokyo in October 1984, the highest level since 1978. In addition, front companies and triangular business linkages that have forged Japanese relations with North Vietnam since 1954 enabled continued economic interactions with Vietnam despite sanctions against official aid. Through these “unofficial” networks, Japanese economic interests were poised to resume their efforts to penetrate Vietnam economically.

As Vietnam proceeded with its own internal political tug-of-war between conservative and reformist forces, many were quick to perceive signals of imminent liberalization in the political ascent of Nguyen Van

³⁸Hann So, “Elections in Cambodia,” *Khmer Conscience* (San Jose), March 1988.

Linh. Vietnam was, in addition, actively courting this perception with its declared plans for economic reforms, complete with initiatives to elicit joint ventures and the establishment of foreign-owned subsidiaries.³⁹ As in the early 1970s, there was ready response from Japanese enterprises acting in concert with the banks. In an effort to promote trade, Vietnam's US \$160 million debt was rescheduled. Another loan of ¥1.2 million was also extended to promote sericulture, with repayment to be made in the form of the sale of silk to the VELK Company. Trade between the two countries amounted to ¥46,000 million in 1987. Preliminaries were also reached for a joint project between the Tokyo Sogo Bank and the Bank of Foreign Trade in Vietnam;⁴⁰ operations are also expected to include assistance in technology transfer. There was even talk of a trade center amid the rush to negotiate for office buildings to house Japanese firms.⁴¹ The most controversial of all initiatives, however, was the attempt by Nissho Iwai to enter into a consignment contract for the production of oil in the Mekong Delta in 1986. In May 1987, Vietnam reported the sale of its first crude oil exports to two Japanese firms, Nissho Iwai and C. Itoh. Despite the heated controversy surrounding the Nissho attempt, Honda Motors embarked on a venture in 1987 to assemble minimotorbikes in Ho Chi Minh City.⁴² As with the rest of Southeast Asia, it is not merely the size and number of accrued contracts that attest to Japanese economic dominance but the pervasiveness of their local presence. Japanese cars and motorcycles are flooding the streets of Vietnam; radios, televisions, and a cornucopia of other basic consumer products fill the market stalls and shop windows,⁴³ reinforcing the perception in Vietnam and elsewhere of the omnipresence of Japanese economic dominance.

Japan's overenthusiastic reaction was not well received by the ASEAN nations, whose ambassadors joined in a formal protest to the Foreign Ministry in Tokyo, reasserting that "such trade cooperation and technology transfer will help rebuild the Vietnamese economy and draw out the Vietnamese invasion of Cambodia by the Vietnamese army."⁴⁴ Japan's solicitous behavior toward Vietnam was seen as further undermining that already fragile basis of solidarity against Vietnam's belligerence. The

³⁹Yutaki Aramaki, "Vietnam to Further Promote Trade with Japan," *Mainichi Shimbun*, April 30, 1987, p. 7.

⁴⁰*Kyodo Times*, June 25, 1987.

⁴¹Foreign Broadcast Information Service (FBIS), *Daily Report—East Asia*, "Hanoi Offices for Ten Japanese Firms Approved," May 21, 1987, p. 8.

⁴²FBIS, June 15, 1987, p. n2.

⁴³FBIS, January 12, 1986, p. k5.

⁴⁴Quoted in Inada, "Japan's Aid Freeze," p. 23.

cohesiveness of the collective depends largely on the willingness of each part to forgo individualist interests and quest for gains. As such, Japanese expression of greater policy independence drove a wedge into the collective efforts to isolate Vietnam economically, thereby allowing for a diffusion of the desired effects. Although Japan has responded to all these charges with an assertion that “it would neither discourage nor promote private trade with Vietnam,” the cancellation of Nissho Iwai and Honda initiatives demonstrates Japan’s recognition of the limits of its independent path.

Japan’s earlier policy of weaning Vietnam away from the Soviet Union economically was not successful, and it remains unlikely that Vietnam will forgo completely its security considerations for material promises. Meanwhile, with economic conduits in and out of Japan, Hanoi can afford to put up with the recriminations against its aggressive tendencies. Moreover, with Japan’s unrelenting economic drive, others, significantly among the ASEAN countries, are finding it even harder to resist the tantalizing prospect of subordinating political principles and longer-term security considerations to a more immediately yielding economic self-interest. It is increasingly less clear, at this point, whether the objections of some ASEAN countries concern Japan’s doing business or simply Japan’s doing business independently.

Although continuing to deplore the “exploitative nature of the Japanese,”⁴⁵ countries such as Thailand are eyeing Vietnam’s markets. Indonesia has already moved to consolidate trade ties with Vietnam that had reached US\$50 million annually and was preparing to enter a joint venture with none other than Nissho Iwai to capitalize upon the opportunities.⁴⁶ By 1988, Singapore had joined Japan in the rank of Vietnam’s largest nonsocialist trading partner. Feeling the competitive pressure from Japan and Singapore, Thailand has already accelerated its economic thrust into Indochina in efforts to exploit the market and resources that are perceptibly being monopolized by the latter. In keeping with the Chatichai advocacy of turning Indochina “from a battlefield into a marketplace,” Thai political and economic interests are receptive to the Chaovalit vision of the reemerging *souvanaphum* (the fabled “golden era”) in Southeast Asia. As the envisioned “generator” of this new regional dynamic, Thailand will act as the “strategic” window through which capital and technology can be charted toward the reconstruction of Indochina. Already this dual-track diplomacy has seen to the continuous prospering of border trade between Cambodia and Thailand. With an estimated trade volume of US\$11.56

⁴⁵*Far Eastern Economic Review*, February 23, 1989, p. 12.

⁴⁶“Hanoi Gets Two For One,” *AsiaWeek*, June 28, 1987.

million per month going through Koh Kong, 50 percent of the products sold in Cambodia are made in Thailand. Cambodia's natural resources, such as timber, are now fueling Thailand's resource-intensive industries, thus compensating for the supply shortages emanating from recent Thai conservationist policies. Moreover, though ASEAN oil-exporting countries may be wary of the potential threat of competition as they monitor with interest the development of Hanoi's oil industry, others are already capitalizing on this new source. An agreement was reached in September 1989 for the Thai purchase of crude oil from Vietnam. Reportedly, four Japanese companies are also seeking to negotiate with Vietsopetro for a pipeline construction contract.⁴⁷

Thus, the same basic guidelines apparently continue to steer Japan's assessment of Vietnam throughout the pre- and post-1978 period. Foreign Minister Sunao Sonoda's writings in 1980 showed little deviation from the utterances of the immediate postwar years. Sonoda wrote: "If the purpose were to urge Vietnam to exercise self-restraint, I thought that saying what should be said through this channel of communication would have a better long-term effect than temporarily cutting off economic assistance. . . . I thought that it was not a good policy in the long run to force Vietnam into complete reliance on the Soviet Union and that is what I still think."⁴⁸ Although some shifts can be discerned, varying with each administration, Japan's overall policy thrust remains largely consistent; the shifts were more reflective of external influences and alterations in the international realm than of perceptual changes in regard to overall Japanese national interests. Already, ASEAN's criticism has been muted by solicitations of Vietnam from some of that organization's member states. With a measure of finesse, Japan may yet realize the dual policy objective of enhancing its international role as the mediator and facilitator of regional cooperation and getting richer in the process. This probable success, however, would not be without some political cost. Japan may succeed in becoming a world contender, but it most likely will not be well liked or well trusted—though arguably such assets may not be essential in the conduct of international affairs. They would, nonetheless, be important if Japan wishes to move away from that image of the "economic animal." Japan's inherent advantage, at least in the economic realm, has been its ability to project future gains, even at the cost of forgoing short-term gratification. In the aftermath of Vietnam's official withdrawal in September 1988, there are good reasons to presume that Indochina will become less and less an area

⁴⁷*New York Times*, May 23, 1987, p. 9.

⁴⁸Quoted in Inada, "Japan's Aid Freeze," p. 19.

of divergent interests. Many are now assessing their own seeming disadvantages from having long subordinated economic opportunities for political consideration. In the event that all political constraints are removed, "the Japanese," it is widely contended, "have a firm foot in the door. They've set themselves up in the Vietnamese market and are here for the future."⁴⁹

Conclusion

From Afghanistan to the Middle East, Indochina, and even the seemingly impenetrable Burma, Japan has etched its diplomatic and political presence. Anxious to play the role of the peace promoter, Japan has sent both personnel and money to the United Nations peacekeeping operations in Iran and Afghanistan. It has endorsed a massive aid plan for the Philippines. It has championed the cause of the NIEs against the growing protectionism of the industrialized countries, manifested its own willingness to redress some of the grievances in its economic relations with the developing countries of Southeast Asia, and has been equally ardent in its support of ASEAN's peaceseeing efforts in Indochina.

Overall, it appears that a more assertive Japan has risen to the challenge of the present international system, albeit in an evolutionary process that, as Singaporean Ambassador Tommy Koh puts it, is "cautiously, prudently" forged. Southeast Asia in the coming decade will witness many shifts in power relations at both the global and regional levels. The economic challenges posed by unrelenting protectionist trends in the Western bloc will compel a reassessment of existing arrangements. The growing Taiwanese and South Korean economic profile in the region will also provide new alternatives.

New security concerns are also present. The uncertainty of the bases in the Philippines and, ultimately, the security of the South China Sea will remain fundamental concerns, especially for Japan. As the region can afford neither the hegemony of a single power nor the absence of any intermediating capability, any alteration in the balance of power will inevitably generate concerns. To ASEAN, Japan's new assertiveness is both welcomed and feared. Japan's enhanced international profile had been assiduously courted and realized, though some uncertainty remains over the implications of such assertiveness. Although Japan has displayed due sensitivity in deferring in principle to the political legitimacy of ASEAN, as is evident by its position on the proposed Pacific Forum, there is mounting concern that a future assessment of its defense role and perimeters might yet project the Japanese power presence into Southeast Asian waters. On

⁴⁹Laurent Maillard, "AFP Notes 'Flourishing' Trade with Japan," *FBIS*, December 1, 1986, p. 5.

the positive side, ASEAN's bargaining leverage will be fortified by the continued saliency of its combined economic and strategic importance.

As with any evolving relationship, all concerned parties need to redefine the guiding principles that have been long mutually sustaining, but are perhaps outdated by arising exigencies, and to adjust themselves to new arrangements. In this context, the Southeast Asian countries, especially ASEAN members, whose economies are so interwoven with that of their northern neighbor, need to confront the reality of an expanded Japanese profile in the region—a profile certainly valued, if not desired. Protestations against “soft imperialism” aside, there is no denial that Japan is the prime mover of economic dynamics in the region, though certain negative consequences of this relationship nonetheless exist. As Likhit Dhiravegin argues, the question is no longer whether or not to deal with Japan but how best to deal with it.⁵⁰ The challenge is thus to distinguish real grievances and concerns, of which there are not a few, from those that may be founded on improbabilities or reflective of frustration rooted outside the issue.

For its part, Japan needs to recognize the existence of real focal points of contention in its relations with the Southeast Asian countries as a launching point of better future relations. The forces of history, as well as how Japan is presently dealing with them, work negatively against it. Memories of World War II remain vivid for those countries that were victimized by Japanese occupation. Although such factors need not be a continued impediment to future cooperation, actions such as Japan's repeated attempts to revise historical accounts of the war serve only to perpetuate, if not refuel, resentment; if any real catharsis is to take place, it can only come from the victims. Japanese nationalism is undoubtedly vitalized by its undeniable economic might. But nationalism needs neither to be militant nor aggressive against others. The real indices of threat, therefore, are to be found less in Japan's military buildup than in the intention and national mood that accompany such efforts; the problem lies not in militarization but in virulent nationalism.

Although the prospect of a militarily strengthened Japan poses no less a concern for the regional states of Southeast Asia, the U.S.—Japan Security Alliance, with the accompanying constitutional corollary, remains a viable constraint against Japanese remilitarization efforts. The real challenge will come if and when mounting Japanese nationalism asserts itself in declared independence from the United States. The success of the Japanese economic thrust into Southeast Asia is a proven testament of a more assured

⁵⁰Likhit Dhiravegin, “Japan as a Factor in Thai–American Relations,” unpublished ms, Indochina Archives, Berkeley, Calif.

instrument of dominance than military power. Japan's attempt to exorcise the haunting memories of World War II, however, may serve in the long run to do away with that important psychological restraint on successive generations, thereby adding to the risk of future follies. The recent plan to alter the national school curriculum—the first such alteration in twelve years—in order to bring it “more in line with Japan's new position of influence in the world” can only needlessly foster concern among its Southeast Asian neighbors about Japan's genuine intentions. Regardless of how vehement Japanese denial of any interest in remilitarization may be and no matter how arduously Japan argues that such civic measures would in turn promote internationalism, such an initiative will inevitably be interpreted by Southeast Asians as a worrisome trend toward Japanese nationalist revivalism. Cosmopolitanism can be better achieved through the strengthening of cultural exchanges and the opening up of Japanese society and academic institutions to people from Southeast Asia.

Confidence building must begin with this widening of channels of communication. Such measures as the Japan–ASEAN Comprehensive Exchange Programme and the proposed budget increase “to balance economic advances with cultural advances” should be commended, and they will most likely receive added emphasis as Japan intensifies its internationalization efforts. So far, Japan's image in Southeast Asia has improved since the darker days of the anti-Japanese demonstrations of the 1970s. Japan should therefore be poised and ready to capitalize on existing areas of receptivity.

Despite the harshest criticisms—much of which stem from frustrated attempts at a more equitable economic relationship rather than cultural or historical adversity—most of the Southeast Asian countries still look upon Japan as a source of inspiration. Such campaigns as “Look East” and “Learn from Japan” reflect the continued Southeast Asian perception that Japan has much to impart to those seeking to follow its path of achievements. Emulation does not necessarily rest in the economic realm; Japanese societal mores such as the inculcation of the value of national consensus bear much application for the pluralistic societies of Southeast Asia. To avoid the appearance of a “catch-22,” this process of exchange can be conducted only in a spirit devoid of any feelings of superiority or condescension. Even within Japanese academic circles it has been explicitly recognized that Japan needs to discard its contempt for the “third country people” and to be less insular in its world view.⁵¹

Though the initial impetus may have been external, Japan's successful

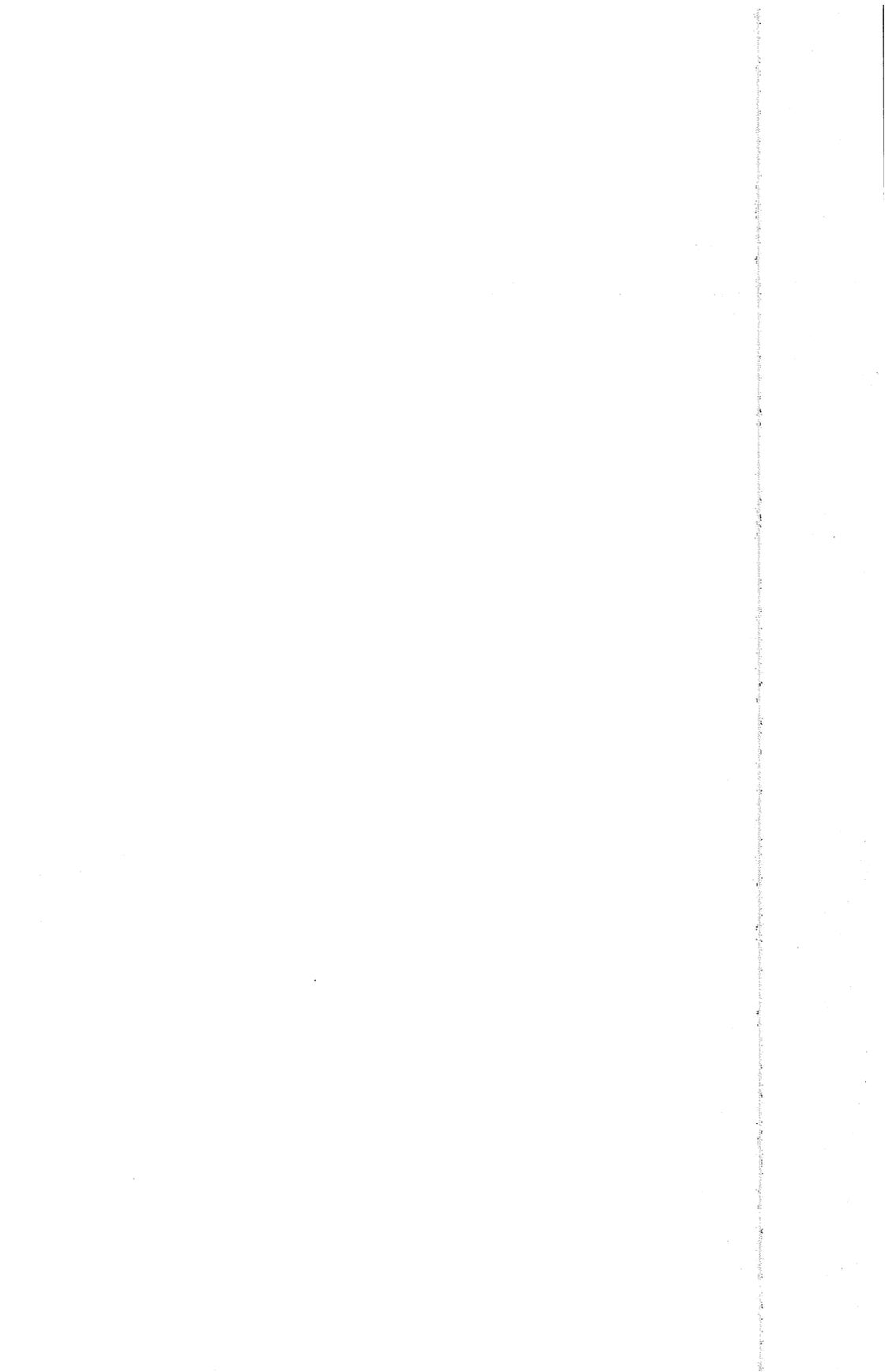
⁵¹Yoshi Tsurumi, *The Japanese Are Coming, Multinational Interaction of Immigration and Politics* (Cambridge, Mass.: Ballinger, 1976).

transition from “economic diplomacy” to “creative diplomacy” depends largely on its own self-perception and analysis. Much of the caution and trepidation manifested by Japan comes from that country’s seeming uneasiness with its own aggrandizement. Takeshi Kuichi of Japan’s Long-Term Credit Bank made the following observation: “Japan has thought of itself as a small country and the idea of leading the world or exerting some influence didn’t come up until quite recently.”⁵² This perception of a Japan that may be structurally and philosophically ill prepared to live up to its new, enhanced image lies at the basis of concern of some ASEAN countries. After all, Japan is now at a critical juncture in its political history. What the foreign policy implications would be in the event of a victory by the Japan Socialist Party, with its internationalist ideology, are yet to be assessed. In all, in this context of altered circumstances Japan needs to define its own new role and direction, its capabilities and limitations, if the era of “creative diplomacy” is to entail more than just innovative ways of applying old guidelines. It was, after all, the image of herself in the Sacred Mirror that lured Amaterasu, the Sun Goddess, away from the caves in which she had hidden in fear of the Storm God. The importance of introspection remains an essential tenet in Japanese philosophy. Therein lies Japan’s inspiration in the quest for greater international involvement, for the wisdom of the Sacred Mirror of Japan echoes the ancient truth that “to know others, you must first know yourself.”⁵³

⁵²Rubenfien, “Broader Aid Policy,” p. 1.

⁵³Robert Newman, *The Japanese: People of the Three Treasures* (New York: Atheneum, 1964), p. 90.

Part Seven
Japan and the NIEs



11. Japan and the Asian Newly Industrializing Economies

HANK LIM

It seems certain that the economic growth center of the next phase of economic expansion in the Asia-Pacific region will take place in the western Pacific. Specifically, Japan, having the highest economic growth and lowest inflation rate among the Pacific developed countries (see tables 1 and 2), will be the economic locomotive, followed by the Asian newly industrializing economies (NIEs) South Korea, Taiwan, Hong Kong, and Singapore, and reinforced by successive economic transformation in the ASEAN economies. This economic prognosis is based on the dual hypotheses of easing the present economic friction between Japan and the United States and of strengthening Japan's role as "absorber" or market provision for manufactured exports of Asian NIEs and ASEAN economies.

In the past, Japan acted from the supply side as an efficient supplier of capital goods to the western Pacific peripheral and Southeast Asian countries in their industrialization and export promotion. Increasingly, Japan should make further efforts to act as an absorber of the manufactured exports of these countries and to increase investment and economic cooperation with the Asian NIEs and ASEAN countries. Through such efforts, the economic dynamism of the Asia-Pacific economies can be generated to the point where Japan and the Asian NIEs could play a more positive role in vitalizing the long-term expansion of the world economy. The increase in Japanese import from this region is expected to work toward correcting the trade imbalance between these countries and the United States through increasing their import from the latter. As intra-industry relations or horizontal division of labor between Japan and the Asian NIEs develop, Japan's economic frontier lies in establishing closer ties with the peripheral dynamic western Pacific economies.

The sharp appreciation of the Japanese yen since September 1985 has nearly doubled Japan's GNP in dollar terms. In per capita income and in tangible fixed assets, Japan has now surpassed the United States. Japan is also the world's largest net creditor nation; reflecting this fact, Japanese

Table 1
1989–90 Forecast of Real Economic Growth and
Increase of Consumer Prices of Fourteen Economies (percent)

	Real GDP/GNP			Change CPI		
	1988	1989	1990	1988	1989	1990
Australia	3.0	3.5	3.3	7.2	6.4	5.0
Canada	4.5	3.2	2.6	4.1	4.5	4.6
China	11.2	9.5	10.5	18.5	13.0	12.0
Hong Kong	8.1	6.1	5.5	7.6	7.5	7.5
Indonesia	4.7	5.4	5.1	8.9	less	less
Japan	5.7	5.2	3.6	0.5	1.4	2.3
Korea	11.0	7.6	6.7	7.1	5.5	5.5
Malaysia	7.9	6.9	6.1	3.5	4.1	4.8
New Zealand	0.4	3.0	1.9	5.1	5.0	4.5
Philippines	6.9	5.8	5.9	8.9	5.6	1.6
Singapore	11.0	7.0	6.5	1.6	2.5	3.5
Taiwan	7.1	6.5	5.9	1.4	2.7	2.1
Thailand	11.0	8.5	7.0	3.8	4.5	5.0
United States	3.9	2.5	1.9	4.1	5.5	6.0
Average of all countries	6.9	5.8	5.1	5.9	5.6	5.5
Average, excluding U.S. and Japan	7.3	6.1	5.5	6.5	6.1	5.8

SOURCE: U.S. National Committee for Pacific Economic Cooperation, *Pacific Economic Outlook 1989–1990*, April 1989.

institutions have come collectively to be a dominant player in the world financial market. Similarly, impressive data has revealed the strength of the Asian NIEs (ANIEs). By 1985, for example, their respective manufacturing sectors accounted for 24–36 percent of the ANIEs' domestic outputs, substantially higher than the average for developed economies. The combined exports of the ANIEs jumped from 1.6 percent of total world exports in 1965 to 6.5 percent in 1986. On the import side, the ANIEs' share grew from 2.1 percent to 5.6 percent of world imports during the same period.

With diverse stages of economic development in the western Pacific region, the horizontal division of labor so far has not been the pattern of growth in this region. The "flying geese" pattern represents a vertical relationship, but one in which there is competition as well as complementarity and which is more dynamic than a typical vertical division of labor. In this vertical relationship, Japan follows the United States and Western Europe and tries to catch up, in stages, in the production of nondurable

Table 2
 1989–90 Forecast of Export and Import Growth of
 Fourteen Economies (percent)

	Export Growth			Import Growth		
	1988	1989	1990	1988	1989	1990
Australia	2.5	9.0	5.0	16.9	9.0	4.5
Canada	8.9	1.1	3.7	12.5	5.5	2.8
China	20.8	8.0	8.0	28.0	7.5	7.5
Hong Kong	26.3	24.0	20.0	26.6	25.0	22.0
Indonesia	6.1	5.0	2.4	3.1	9.7	2.4
Japan	4.3	6.7	3.7	17.4	13.4	9.8
Korea	11.3	8.4	6.0	13.0	16.0	14.3
Malaysia	17.0	13.2	11.2	21.3	16.2	15.8
New Zealand	3.5	3.0	3.0	-7.5	3.5	2.5
Philippines	12.7	11.1	9.3	34.2	10.5	7.6
Singapore	32.0	12.0	11.0	30.0	11.5	11.0
Taiwan	4.9	6.2	5.8	19.5	10.6	10.1
Thailand	34.8	21.8	13.9	37.0	24.7	11.3
United States	18.1	9.2	7.7	8.6	6.7	1.8
Average of all countries	14.5	9.9	7.9	18.6	12.1	8.8
Average, excluding U.S. and Japan	15.1	10.2	8.3	19.6	12.5	9.3

SOURCE: U.S. National Committee for Pacific Economic Cooperation, *Pacific Economic Outlook 1989–1990*, April 1989.

consumer goods, then consumer durables, and eventually capital goods. At each stage, Japan starts production for the domestic market, increasingly replaces these imports, and eventually moves on to exports. Each stage thus creates new imports of raw materials and more advanced capital goods as well as the exports of the goods now being produced domestically. The ANIEs likewise follow Japan, whereas the ASEAN economies follow the ANIEs. The distinctive feature of this flying geese pattern of development is that the vertical relationships are never rigid or permanent. In a more recent version, Professor Toshio Watanabe has identified a “multilayered chase process” in which the ANIEs chase Japan and the ASEAN economies chase the ANIEs. It is asserted that the gaps between Japan and the ANIEs and between the ANIEs and ASEAN are being progressively narrowed so that the three groups are now linked in one continuous order.

Economic Interdependence Between Japan and the Asian Newly Industrializing Economies

Trade and investment patterns between Japan and the ANIEs have changed dramatically since September 1985. Because of the rapid appreciation of the yen, low value-added Japanese industries have become uncompetitive, resulting in a large outflow of these industries to the ANIEs and to some ASEAN states, particularly Thailand and Malaysia. In turn, the ANIEs also are forced to restructure their economies and move their labor-intensive and low value-added industries to Thailand, Malaysia, and other ASEAN countries.

In the past, the ANIEs were able to gain development momentum by exporting low value-added consumer products and investing in machinery and intermediate goods from Japan to upgrade their exports. The next round would start with the ANIEs exporting higher-graded products and importing still more advanced Japanese equipment and inputs. The Japan–ANIEs trade pattern is not self-perpetuating. The ANIEs are now able to produce by themselves many of the hitherto imported capital and intermediate goods.

In 1986, Japanese direct foreign investment or DFI (on approval basis) jumped more than 80 percent, the bulk of it going to the United States and the ANIEs. Japanese investment in South Korea and Taiwan in 1986 increased 117 and 74 percent, respectively, over the previous year, and Japan became the biggest investor on a cumulative basis in all the ANIEs and ASEAN countries except the Philippines. The trend has continued in 1987 and 1988, only with ASEAN making the greatest gains. The number of Japanese manufacturing investments in ASEAN has grown steadily over the past several years, surpassing that in the ANIEs by the first half of 1988. The number of such investments in the ANIEs peaked during the first half of 1987.

Several distinctive characteristics emerged in the current Japanese investment boom compared to previous peaks during 1972–73 and 1978–81. First, the concentration of investment in the United States and East Asia, already evident in the past, is more marked this time. Second, this time Japanese investors are either procuring more parts, components, and other inputs locally, or bringing along the inputs from Japan to invest in the host country for local production. Third, related to the second point, more medium- and small-scale Japanese companies are investing abroad, which will presumably result in more broadly based industrialization and greater overall value-added in the host countries. Finally, whereas many Japanese investors in the past set up operations aimed at local markets (under

heavily protected import substitution policies), now there is more emphasis on exporting, not just to the United States but to Japan itself. Thus, recent Japanese investment trends could enhance the export competitiveness of the ANIEs and the ASEAN countries through direct foreign investment and joint venture with local businesses.

Also contributing to the emergence of this dynamic regional division of labor is the supporting role of the ANIEs as the big investors in ASEAN. For example, Taiwan's investment in ASEAN doubled from 1986 to 1987. In the first half of 1988, the Thai Board of Investment approved 186 investment projects involving Taiwan as against 171 from Japan. Taiwan has become the biggest investor in the Philippines (during the first quarter of 1988) and number two in Malaysia (1987). Investment flow from South Korea to ASEAN is also on the rise.

Changes in external and internal economic environments have forced Japan to depend less on exports and more on the domestic market for growth. It is moving production facilities offshore and importing more. On the other hand, the ANIEs have had success in reducing dependence on imports from Japan and exports to the United States. Toward that objective, South Korea has dramatically improved relations with China, and Taiwan, too, is drawing closer to mainland China. A complex pattern of intra- and interindustry trade and investment interdependence is emerging in East Asia.

In the electronic, automotive, textiles, and research and development network systems, reciprocal networks for interchanging spare parts, components, and finished items are progressing rapidly. Effective horizontal assignment of work between Japan and the ANIEs is also developing. For example, in recent years Japan has been exporting high-quality yarn and textiles as raw materials for higher value-added textile items to the ANIEs, which in turn, after further processing, export the finished products to the United States, Japan, and other markets. Japan imports of textile products have increased by 51.7 percent in 1988 over 1987 of which 63 percent was imported from South Korea, Taiwan, and Hong Kong.

In addition to the vigorous intra- and interindustry movements of materials and products through overseas production and international procurement of raw materials, the Japanese (and the United States as well) have strengthened their Asia-Pacific strategies through effective research and development activity focused on products and technology compatible with local markets. Japan's R&D Asia-Pacific centers are Hong Kong and Singapore. In addition to these activities, Singapore's Operational Headquarters (OHQ) system, under which an Asian regional headquarters can be established, started operation in 1986. This is the system introduced by the Singapore government to attract multinational corporations to site

their total business activity in Singapore. Sony Corporation and a dozen other Japanese and U.S. companies have been granted OHQ qualifications so far.

The economic interdependence of Japan and the ANIEs can thus be seen as a manifestation of dynamic interregional industrial linkages through international trade in parts and intermediate products within individual industrial sectors. Japanese industrial activity enhances the industrial development of the ANIEs, and vice versa.

It is a well-known fact that Japanese industry has so far maintained a closed and integral structure. Because of this structure, expansion of production activity in Japan has contributed to increased purchases from domestic source for parts, intermediate products, and capital goods and has promoted very few imports. The income elasticity of Japanese exports in the early 1980s stood at 2.2, whereas that for imports stood at a mere 0.7. These parameters make strong contrast with those for the United States and German industrial structures. The closed nature of Japanese industry has resulted in structural imbalance in that country's external trade.

The emerging intraindustry division of labor with the ANIEs would give an impetus whereby Japanese industrial structure would be modified to be compatible with other major industrial economies. With industrial restructuring because of yen appreciation, Japanese industries, particularly automobiles and electric and electronic goods, are actively engaged in importing parts and intermediate goods and outsourcing through foreign investment in the ANIEs and, to a much lesser extent, in ASEAN.

In the western Asia-Pacific region, a pattern of multiple chase process is in effect. Japan is chased by the ANIEs and, in turn, the ANIEs are chased by the ASEAN countries. In this process, the competitive edge of the ANIEs has been weakened for low value-added products whereas that of high value-added products has gradually strengthened. In a similar vein, the ASEAN countries have gained competitiveness in low value-added products, thereby chasing the ANIEs. This dynamic process has created competitive and yet complementing trade relations among Japan, the ANIEs, and ASEAN. In this context, the ANIEs are expected to recognize their role as absorbers by liberalizing import and adjusting exchange rates, thereby providing room for growth for latecomers such as ASEAN and China. In so doing, the ANIEs could become a dynamic growth axis in East Asia comparable to Japan.

Conclusion

The much-heralded prospect of rapid economic growth in the Asia-Pacific region hinges, among other factors, on harmonious economic interdependence between Japan and the Asian newly industrializing economies of

South Korea, Taiwan, Hong Kong, and Singapore. Because of the large appreciation of the Japanese yen, industrial restructuring is a necessity for Japan if it is to be competitive in the world market. At the same time, because of its massive external trade deficit, the United States is no longer capable of increasingly absorbing the bulk of exports of the ANIEs. It is therefore absolutely imperative that Japan open up its market for industrial exports from the ANIEs and the ASEAN countries. Massive increases in Japanese foreign investment to the ANIEs and to ASEAN along with the opening of Japanese markets would facilitate a harmonious multichase dynamic growth in East Asia.

Specifically, the emergence of the ANIEs provides a broader framework for easing U.S.–Japan economic problems, another dynamic economic growth axis, and increased opportunity for horizontal international division of labor in the western Pacific region. The absence of such competition and complementarity between Japan and the ANIEs would have far-reaching economic implications for the prospects of rapid economic growth in the Pacific basin countries.

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12. Japan and the NIEs: The Political Economy of Rising Interdependence

KENT E. CALDER

Twenty-five years ago, Norman Macrae of *The Economist* was just beginning to invite observers of the global development process to “Consider Japan,”¹ a nation in whose economy remarkably few had previously had much confidence.² By the early 1980s, analysts were gradually extending their optimism regarding East Asian development to the neo-Confucian “Gang of Four.”³ Within the past three years, optimism about East Asian development has broadened still further, inspired by the double-digit economic performances of several “southern tier” members of ASEAN.⁴ Thus the “Gang”—South Korea, Taiwan, Hong Kong, and Singapore—long considered the frontier of East Asian economic advance, might increasingly be considered the “old newly industrializing economies.”⁵

Like Japan before them, the “old NIEs” have moved, with the partial exception of Singapore, to what for them is a relatively sedate growth

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¹Norman Macrae, “Consider Japan,” *The Economist*, September 1 and 8, 1962.

²For details on this pervasive early scepticism, see Chalmers Johnson, *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925–1975* (Stanford: Stanford University Press, 1982), p. 3; and Kent E. Calder, *Crisis and Compensation: Public Policy Political Stability in Japan, 1949–1986* (Princeton: Princeton University Press, 1986), chap. 2.

³Roderick MacFarquhar, “The Post-Confucian Challenge,” *The Economist*, February 9, 1980; and Roy Hofheinz, Jr., and Kent E. Calder, *The Eastasia Edge* (New York: Basic Books, 1982).

⁴In 1988, for example, the Thai economy grew by 10.7 percent, Malaysia by 9.7 percent, and Singapore by 11.0 percent, in real terms. See *Nomura Investment Review* (March 1989):4.

⁵The term “newly industrializing economies” (NIEs) is becoming increasingly standard when referring to South Korea, Taiwan, Hong Kong, and Singapore. Taiwan is generally agreed to be part of China, with Hong Kong to be formally returned to China in 1997, so the previously used term “newly industrializing countries” seems less appropriate.

track. Average GNP for these four NIEs slowed to 6.8 percent in 1989, compared with 9.6 percent in 1988 and 11.9 percent in 1987.⁶ Behind this slowdown have been rapidly spiraling trade surpluses in all four economies since the mid-1980s, a transition from debtor to substantial creditor on current account, and a rising presence for the four in international finance. Many of the four currencies have been appreciating; exports in marginally competitive sectors have stagnated, local industries have moved offshore through direct investment in lower-wage countries such as Thailand, and domestic unemployment and labor unrest have begun to rise.

The dislocations of old age have hit some of the NIEs harder than others. Taiwan, with a current-account surplus peaking at almost US\$1,000 per person in 1987 (in a nation with an average per capita income of US\$4,573) and with over US\$76 billion in foreign exchange reserves, not surprisingly underwent the sharpest currency appreciation, with the value of the local New Taiwan dollar (NT\$) rising more than 40 percent during the 1985–1988 period. South Korea's won, by contrast, rose only 16 percent against the dollar during the first two and a half years after the Plaza Accords, or roughly one-sixth as much as the Japanese yen.⁷ The Hong Kong currency remained pegged against the U.S. dollar, and the Singapore dollar likewise remained quite stable⁸ (although both entrepôt economies faced uncertainties outside the foreign exchange area).

The Broader Trans-Pacific Context

The prospective relationship between Japan and the NIEs in the 1990s cannot be understood without considering the broader context of trans-Pacific relations, especially East Asia's links to the United States. For the past two decades and more, the dominant reality of the Pacific political economy has been the unbalanced yet broadly symbiotic triangular economic and security relationship among Japan, the United States, and the four NIEs.⁹ Japan exported capital goods and components to the NIEs to aid in their industrialization, and both Japan and the NIEs shipped manufactured goods aggressively to the American market. The main

⁶Nomura *Investment Review* (March 1989):4.

⁷Nomura *Investment Review* (March 1988):5.

⁸The Singapore dollar has been pegged against a basket of currencies in which the U.S. dollar constitutes by far the largest element.

⁹For details on the prevailing structure see, for example, Staffan Burenstam Linder, *The Pacific Century* (Stanford, Calif.: Stanford University Press, 1986); Chae-Jin Lee and Hideo Satō, *U.S. Policy Toward Japan and Korea: A Changing Influence Relationship* (New York: Praeger Special Studies, 1982); and Lawrence B. Krause and Suelo Sekiguchi, eds., *Economic Interaction in the Pacific Basin* (Washington, D.C.: The Brookings Institution, 1980).

economic function of the United States in the triangle was to serve as a market, and thus to reinforce the political stability and pro-U.S. orientation of East Asian nations, by supporting their economies. The relationship of Japan to the NIEs, exacerbated by wartime memories and periodic economic conflict, was distant and anemic in political terms; it was also much less important economically for all parties concerned than ties to the United States.

Despite its growing economic disequilibria, the trans-Pacific triangle functioned smoothly as long as the United States remained indifferent to, and capable of sustaining, the rising trade deficits that made it such an important engine of growth to the East Asian exporting nations. As is indicated in Table 1, both Japan and the NIEs grew sharply more dependent on the U.S. market during the first half of the 1980s thanks to massive increases in U.S.-bound exports. Only heavy transfusions of foreign capital, together with structural changes in U.S. politics, allowed this change to proceed without serious interruption. But by the mid-1980s the sheer magnitude of U.S. global current account deficits, coupled with their heavy concentration in trade with Japan and the NIEs, called the long-run viability of the existing trans-Pacific triangle into question. In 1987, for example, Japan ran a US\$87 billion current account surplus, with its trade surplus against the United States generating 63 percent of this amount. The four NIEs together accrued a joint surplus of US\$30.5 billion, flowing largely from trade with the United States as well,¹⁰ thus sharply aggravating the overall U.S. trade problem. The 1988 U.S. trade deficit reached \$140 billion, of which Japan and the NICs accounted for US\$85 billion, or 61 percent of the total. Were this sort of imbalance to continue in the United States for only five years, by 1993 the American trade deficit would reach 25 percent of U.S. GNP, or more than the total of all manufacturing in the United States. And the bulk of the deficit would be contracted with East Asian economic partners involved in the trans-Pacific triangle.

The American political system over the past two decades has become remarkably resistant to protectionist pressures, reacting much more mildly to the huge trade imbalances of the late 1980s than it had two decades earlier to the much smaller deficits of the stormy "Nixon Shock" period (1970–1971).¹¹ But by the late 1980s a broad popular perception was emerging in the United States that the imbalances were simply too large and intractable to be countenanced much longer. The Omnibus

¹⁰*Nomura Investment Review* (March 1989):4.

¹¹For details on the protectionism-inhibiting structural transformation in U.S. interest-group configurations during the 1970–1985 period, see Kent E. Calder, "The Emerging Politics of the Trans-Pacific Economy," *World Policy Journal* (Fall 1985):595–623.

Table 1
The Trans-Pacific Trade Triangle

	Percent Share of Total Exports				
	1980	1985	1986	1987	1988
Asian NIEs					
To United States	24.8	34.8	—	—	—
To Japan	10.1	10.0	—	—	—
Japan					
To United States	24.2	37.2	38.5	36.5	33.8
To NIEs	14.8	12.8	14.4	17.2	18.8
United States					
To Japan	9.2	10.3	11.9	11.2	11.7
To NIEs	6.5	7.7	8.1	9.3	10.8

SOURCE: Official statistics, presented in *Nomura Investment Review* (May 1989):5.

Trade and Competitiveness Act of 1988, and the threatened invocation of its "Super 301" provisions against selected East Asian targets in May 1989, was further evidence that traditional trading patterns in the trans-Pacific triangle were growing politically as well as economically unsustainable, despite a structural transformation in U.S. domestic politics that had delayed for many years the onset of serious confrontation.

Rising Economic Pressures for Intra-Asian Interdependence

The dynamic factor propelling a transformation in Pacific economic relationships since late 1985 has been the sharp realignment of exchange rates, particularly between the dollar and the yen. Between September 1985 and December 1987, the yen more than doubled in value against the dollar, from around ¥250–\$1.00 to just over ¥120–\$1.00. The New Taiwan dollar simultaneously rose around 40 percent against the U.S. currency, whereas the South Korean won rose about 16 percent and the Singapore dollar by a much smaller amount.¹² Hong Kong currency, as previously noted, remained fixed against the U.S. dollar, resulting in an effective 50 percent devaluation against the yen and significant, although less pronounced, depreciation also against currencies of the North Asian NIEs.

Exchange rate realignments have provoked a shift in import pressures from the American to the Japanese market, with the markets of the two

¹²*Nomura Investment Review* (March 1988):5.

North Asian NIEs, Taiwan and South Korea, becoming increasingly attractive to foreign exporters as well. The NIEs produce mainly manufactured goods, many of them concentrated in the electronics and machinery areas that are likewise a focal point, in slightly different product segments, of Japanese competitive strength. Thus, exchange rate shifts have tended to promote the emergence of intrasectoral trade within East Asia, a process with long antecedents in the history of trans-Atlantic and intra-European economic integration, but heretofore quite unusual in East Asia. Exchange rate shifts have also prompted an accelerating surge of outbound investment from nations with appreciating currencies in North Asia, such as Japan, Taiwan, and South Korea, toward the "southern tier" nations of ASEAN, such as Singapore, Malaysia, and Thailand.

Tendencies toward intra-Asian economic integration, it should be noted, have a profoundly important organizational dimension. Japanese general trading companies, with versatile capacities in the import, export, direct investment, and financial areas, have had long experience and institutional prominence in trade, investment, and technology transfer relationships among Japan, Taiwan, and South Korea from colonial days; these relationships have allowed the trading companies to handle profitably and facilitate deepening intraregional economic linkages within East Asia. Since the late 1970s, several large Japanese retail chains, such as Daimaru, Sōgō, and Hankyū, have also diversified into international distribution and sales throughout East Asia. Their domestic expansion within Japan was blocked by the Large-Scale Retail Store Law of 1974, and the strong yen has made both offshore transactions with Japanese tourists and captive imports back into Japan from the NIEs and the ASEAN Four (Malaysia, Thailand, Indonesia, and the Philippines) quite lucrative. South Korean general trading companies and the smaller family-owned trading networks of many overseas Chinese have also helped to establish a strong organizational foundation for rapidly expanding intraregional trade and investment within East Asia.

Emerging Trade Patterns

The heritage of the postwar trans-Pacific triangle, as suggested, is a set of Japanese trading relationships with the NIEs that are far less intense than the trade ties which those nations, or indeed Japan, share with the United States. As indicated in Table 2, every one of the NIEs, even in the late 1980s, did more trade with the United States than with Japan; indeed, no nation did more than one-quarter of its total trade with Japan. South Korea and Taiwan, not surprisingly, had more intense trade relationships with their neighbor Japan than did the two southern NIEs, with Korea's trade ties to Japan being somewhat more intense relative to its links with the United

Table 2
Japan and the Asian NIEs in Comparative Perspective

Country	Gross National Product Aggregate	Per Capita	Population (1988)	Area (000 sq km)	Current Account (U.S.\$b, 1987)	Foreign Exchange Reserves (US\$b)		Percent Trade with U.S.	
						Japan	U.S.		
Japan	2,546	20,833	123	378	87.0	90	—	30	
South Korea	121	2,826	43	99	9.9	12	25	31	
Taiwan	91	4,573	20	36	17.7	76	21	35	
Hong Kong	47	8,292	6	1	3.0	12	12	18	
Singapore	19	7,325	3	1	0.5	16	15	19	

SOURCE: Far Eastern Economic Review, *Asia Yearbook 1989*, pp. 6-9.

States than was true in the case of Taiwan. All of the NIEs suffered sharply unbalanced trading relationships with Japan, with their aggregate US\$24.8 billion trade deficit with Japan in 1988 comprising 21.5 percent of Japan's total global surplus.¹³

At the margin, there appears to be a definite intensification under way in trade relationships between Japan and the NIEs, with the balance shifting slightly in favor of the NIEs as the evolution of the share of Japanese exports taken by the four old NIEs rose by nearly half from 1985 to 1988 to nearly 19 percent of Japan's total exports (see Table 3). But the NIEs' share in Japanese imports also rose rapidly, from 7.6 to 13.3 percent of total Japanese imports, in what represented a particularly sharp departure from patterns of the past. The increase in South Korean and Taiwanese exports to Japan was especially sharp; by 1988, these two countries jointly provided nearly one-ninth of all Japanese imports, or nearly double their share of only three years previously.

From the perspective of the NIEs as well, dependence on the Japanese market has begun to rise since the Plaza Accords. Throughout the first half of the 1980s, for example, the share of South Korean exports flowing to the United States steadily rose, from 26.3 percent in 1980 to a high of 40 percent in 1986, whereas that of exports to Japan in total South Korean exports steadily declined.¹⁴ During 1987–1988, however, that trend began to clearly reverse itself, with South Korean reliance on the Japanese market rising from 15.6 percent of total Korean exports in 1986 to 20 percent only two years later.¹⁵ A parallel pattern can be seen in the other NIEs as well. Overall, South Korean, Taiwanese, Hong Kong, and Singapore exports to Japan rose in 1987 by 52.6, 52, 45.4, and 39.9 percent, respectively,¹⁶ rates much more rapid than the overall growth of each nation's foreign trade. For the four Asian NIEs as a group, the share of total exports going to Japan rose from 10 percent in 1985 to 12.5 percent in 1988, as indicated in Table 1.

The recent inroads of exports from the NIEs to Japan have, as suggested in Table 4, been concentrated in the electronics and textile sectors. Textiles have long been a consistent, mainstay export from the NIEs to Japan, but electronics exports are a more complex phenomenon. Although intraindustry electronics trade within East Asia dates from the late 1960s, it

¹³Ministry of International Trade and Industry, *Tsūshō Hakusho: Kakuron* [White Paper on International Trade: Appendix], 1989 ed. (Tokyo: Ōkurashō Insatsu Kyoku, 1989), pp. 279–310.

¹⁴*Nomura Investment Review* (May 1988):5.

¹⁵MITI, *Tsūshō Hakusho: Kakuron*, 1989 ed., p. 285.

¹⁶JETRO (Japan External Trade Organization), *White Paper on International Trade*, 1988 ed., pp. 195–208.

Table 3
Japan's Intensifying Trade Relations with the Asian NIEs

	Share of Japanese Exports		Share of Japanese Imports	
	1985	1988	1985	1988
South Korea	4.0	5.8	3.2	6.3
Taiwan	2.9	5.4	2.6	4.7
Hong Kong	3.7	4.4	0.6	1.1
Singapore	2.2	3.1	1.2	1.2
Totals	12.8	18.7	7.6	13.3

SOURCE: Ministry of International Trade and Industry (MITI), *Tsūshō Hakusho: Kakuron* [White Paper on International Trade: appendix], various issues.

dropped sharply during the 1975–1985 decade, due to production automation and regional-development incentives within Japan coupled with a strengthening of U.S.–Japan trade ties.¹⁷ But imports of color televisions, videocassette recorders, electric fans, hand-held calculators, and electronic components into Japan from the NIEs have risen sharply in the past two years,¹⁸ in a development that seems to represent an intensified revival of intraindustry trade on Western patterns across East Asia. In all, Japan imported US\$2.7 billion in electrical machinery from the four East Asian NIEs in 1988, up 57 percent from the previous year, after a 65 percent increase in 1987.¹⁹ The growth rate for electronics exports from the NIEs to Japan in 1988 was four times that of Japanese electronics exports to the NIEs, albeit from a much smaller base;²⁰ it seems clear that a synergistic trade relationship in electronics between Japan and the East Asian NIEs is emerging, and enhancing the industrial competitiveness of all the nations concerned. This intra-Asian electronics trade relationship, indeed, is becoming central to the evolution of the global electronics industry, as well over 40 percent of global electronics and electronic machinery production is now concentrated in Japan and the NIEs.²¹

¹⁷On the specific shifts in intraindustry trade patterns, see Economic Planning Agency, *Keizai Hakusho* [Economic White Paper], 1988 ed., pp. 113–115.

¹⁸*Japan Economic Journal*, March 12, 1988.

¹⁹MITI, *Tsūshō Hakusho: Kakuron*, 1989 ed., pp. 279–310. Japan also exported US\$14.95 billion in electrical machinery in 1988 to the NIEs, up only 13.2 percent from 1987.

²⁰*Ibid.*

²¹This combined share rose from 10.6 percent in 1965 and 18.7 percent in 1975 to 40.5 percent in 1984, according to U.N. trade statistics. See Watanabe Toshio, *Nishi Taiheiyō no Jidai* [The Era of the Western Pacific] (Tokyo: Bungei Shunjū Sha, 1989), p. 109.

Table 4
Major Rapidly Rising Exports from the Asian NIEs to Japan

Country	Major Rising Exports ^a	Share of Total National Exports to Japan (percent)		Value of Japanese Imports, 1988 (US\$million)	Rate of Increase in Japanese Imports, by Commodity, 1987-1988 (highest to lowest, in percent)
		1987	1988		
South Korea	1. Iron and steel	10.0	12.1	\$1,427	76.9
	2. Electrical machinery	9.5	10.5	1,243	62.8
	3. Textile products	26.5	27.5	3,245	51.8
Singapore	1. Electrical machinery	8.5	13.0	303	74.4
	2. General machinery	4.9	6.9	160	60.2
	3. Chemicals	14.3	15.6	363	24.0
Hong Kong	1. Electrical machinery	4.7	6.3	132	78.6
	2. Jewelry	7.8	8.8	185	51.7
	3. Watches	6.5	6.9	143	43.3
Taiwan	1. Metal products	4.4	6.5	571	82.6
	2. General machinery	4.0	5.2	455	60.9
	3. Electrical machinery	9.9	11.7	1,025	44.7

^aMajor rising exports^b are all export categories that constitute 5 percent of total national exports to Japan or higher, which also rose more rapidly in 1988 than the average for all exports to Japan in 1988.

SOURCE: Japan External Trade Organization (JETRO), *White Paper on International Trade*, 1988 edition, pp. 195-209; and MITI, *Tsuisshō Hakuisho: Kakuron* [White Paper on International Trade: detailed tables], 1989 ed., pp. 279-310.

Emerging Investment Patterns

Japan has been a capital-exporting nation for most of the past two decades and had a stock of US\$139.3 billion in direct investment overseas as of March 1988.²² Of this total, just over 8 percent was invested in the four East Asian NIEs, making Japan's investment ties with the NIEs somewhat less intense than its trade ties. The basic profile of Japanese direct investment in the four NIEs is presented in Table 5.

As the table clearly shows, the heart of Japan's investment commitment in the NIEs is Hong Kong; the Crown Colony holds not only the largest cumulative share of total investment but also enjoys the highest rate of growth in new investment by a substantial margin. This heavy investment in Hong Kong, which has accelerated sharply since conclusion of the 1983 Anglo-Chinese agreement on the reversion of Hong Kong to China, appears intended to provide infrastructure for Japan's expanding trade and investment relationships with China; significantly, Japanese investment in China itself rose 442 percent in 1987 to \$1.072 billion. Clearly Japan has a strong stake in the political stability of both China and Hong Kong.

The other NIE into which Japanese investment has recently been flowing at an unusual pace is Singapore. As is suggested in Table 5, the flow of this investment grew in 1986–1987 by well over 60 percent. A substantial share of existing Japanese investment in Singapore represents, as in Hong Kong, infrastructure for broader commercial and financial operations, but new investment is concentrated in industrial facilities. NEC and several other large Japanese electronics manufacturers have, for example, set up plants in Singapore, moving offshore in an attempt to offset the inexorably rising value of the yen.

Japanese investment in South Korea and Taiwan has been growing significantly less rapidly than elsewhere in the region, and there are major instances of Japanese firms closing up shop and moving elsewhere, particularly to the southern tier ASEAN Four nations.²³ One of the major problems is labor costs; as indicated in Table 6, U.S. dollar-denominated labor costs in these two nations during 1984–1988 rose at roughly double the rates in the two southern tier NIEs. Much, but not all, of this differential flowed from revaluation of the won and the NT dollar, first against U.S. currency and then even against the yen; labor activism since the mid-1987 lifting of martial law in Taiwan and the parallel post-1987 movement toward democratization in South Korea have also helped force labor costs upward.

²²Keizai Koho Center, *Japan 1989: An International Comparison*, p. 57.

²³See, for example, Fukagawa Yukiko, "Ajia no Dinamizumu o Torikumu Nihon: Nihon ASEAN NICs no Shin Sangyō Chizu" [Japan Grasping Asian Dynamism: The New Industrial Map of Japan/ASEAN/NICs], *Ekonomisuto*, July 4, 1988.

Table 5
Japanese Direct Investment in the East Asian NIEs (1987)

Country	Global Share (percent)	1987 Amount (flow basis) (US\$billions)	1986–1987 Rate of Increase ^a (percent)	Cumulative Total (FY 1951–1987) (US\$billions)
Hong Kong	3.2	1.027	113.5	4.505
South Korea	2.0	.647	48.4	2.765
Singapore	2.2	.494	63.6	3.065
Taiwan	1.0	.367	26.1	1.419

^aThe global 1986–1987 rate of increase in the flow of Japanese direct foreign investment outward from Japan was 49.5 percent; Japanese investment in the United States rose by 44.7 percent. The share of total Japanese foreign investment located in the U.S. at the end of 1987 was 36.0 percent.

SOURCE: Ministry of Finance.

Table 6
Explosion of Labor Costs in the East Asian NIEs

Country	Average Monthly Industrial Wage		Percent Increase
	1984	1988	1984–1988
South Korea	US\$302	US\$633	110
Taiwan	325	598	84
Hong Kong	363	544	50
Singapore	416	547	32

SOURCE: *Business Week*, May 15, 1989.

Policy Trends

In the context of the broader global tendency toward emerging regional trading blocs, epitomized by the European Community's 1992 proposal and the U.S.–Canadian accord of 1988, Japan and the NIEs, together with other surrounding nations, are faced with a dilemma: Should they move toward intensified regional ties that might accelerate the overall global trend toward exclusive regional blocks, or should they gamble on the uncertain prognosis for a truly global free trade area? In the face of this quandary, the nations of the region seem to be taking a hesitant course of least resistance. On the other hand, they are participating actively in the Uruguay Round of trade negotiations, in whose success, as highly competitive major trading nations, they have a stake. At the same time, however, they are extending special preferences to one another, holding frequent

economically linked diplomatic consultations and introducing the same patchwork of bilateral arrangements that has begun to plague trade relationships among the other major industrialized nations.

Divergent U.S. and Japanese approaches to the Generalized System of Preferences (GSP) under the General Agreement on Tariffs and Trade (GATT) since early 1988 illustrate the emerging Japanese policy cooperation with the NIEs. In January 1988, the United States announced that, beginning in early 1989, it would remove these four economies from its list of developing nations eligible for duty-free exports to the U.S., while leaving such industrializing Latin American countries as Mexico and Brazil on its preferential list. Japan countered this American move by emphasizing that it would *not* "graduate" the East Asian NIEs from its GSP system.²⁴ In fiscal 1986, these countries received over US\$3.5 billion in Japanese GSP benefits, or 51.7 percent of the total extended globally by Japan to exports of the developing nations. Forty-nine percent of Singapore exports to Japan received GSP preference, as well as 30 percent of South Korean, 29 percent of Taiwanese, and 10 percent of Hong Kong exports, respectively.²⁵

The NIEs have also begun making case-by-case accommodations to Japanese domestic trade adjustment difficulties, in a fashion strikingly reminiscent of previous bilateral East Asian dealings with the United States.²⁶ In protracted negotiations during 1988 and early 1989, for example, South Korea agreed to impose a voluntary quota on exports of knitted goods to Japan in response to complaints of a Japanese knitting industry badly hit by rising Korean imports.²⁷ In view of recent exchange rate realignments and the sudden pressures for transformation in industrial structure that they impose, as well as political fluidity enhancing the influence of powerful domestic pressure groups, industry-specific trade restrictions, either formal or informal, may become increasingly common within East Asia, with the NIEs themselves also pressing other nations for export restraint.

A range of important policy issues looms on the horizon for Japan and the NIEs in their mutual relationship, with their resolution providing a litmus test of the commitment of these nations to a broader multilateral

²⁴*Japan Economic Journal*, February 20, 1988.

²⁵*Ibid.* South Korea, Taiwan, Singapore, and Hong Kong were the first, second, fifth, and thirteenth largest recipients, respectively, of Japanese GSP benefits in fiscal 1986.

²⁶On the earlier trans-Pacific patterns see, for example, David B. Yoffie, *Power and Protectionism: Strategies of the Newly Industrializing Countries* (New York: Columbia University Press, 1983).

²⁷For details, see Barbara Wanner, "Japan's Relations with the Koreans," *JEI Report*, July 7, 1989, pp. 6-7.

trading system as opposed to narrower regionalist agreements. Most important, perhaps, is the question of regional macroeconomic coordination and a working framework for achieving it. Since the economies of Japan and the NIEs are, generally speaking, the largest, the most highly developed, and the most highly integrated in the region except for the huge but almost autarkic Chinese economy, they find the need for macroeconomic coordination particularly pressing. A broad variety of frameworks for coordination, some involving the United States and some not, has been proposed, but the overall profile of emerging regional coordination institutions remains somewhat uncertain.

Throughout much of their struggle for economic development, Japan and the NIEs have been chronically labor short, compensating for this lack of manpower with a rate of automation unusual elsewhere in the industrialized world and with an artificially low wage structure sustained by workforce docility. With currency revaluation and rising labor militance since 1985, this equation is changing throughout the region, putting labor-related issues on the common policy agenda for the first time in twenty-five years.²⁸ Japan now has roughly 900,000 guest workers and Taiwan 300,000.²⁹ The issues are whether Japan and the NIEs should draw workforce from one another more freely and what their position might be toward expanded labor imports from elsewhere.

Japan and the NIEs share the distinction of being major trade-surplus nations; Japan and Taiwan are likewise the first and third largest creditor nations in the world, whereas South Korea is also moving toward major creditor standing, as Table 2 suggests. Among them, these three nations alone have well over US\$175 billion in official foreign exchange reserves, more than four times those of the United States and 40 percent of the global total. These realities both intensify their interest in global as well as regional macroeconomic coordination in order to preserve the stability of their huge and growing assets and also give them a strong common interest in future configurations of the international financial system and its major capital markets.

The financial interests of Japan and the NIEs are not entirely congruent with one another. As creditors, they each have natural advantages in developing local capital markets; as strategically oriented, often *dirigiste*

²⁸As Ishida Hirohide points out, labor-intensive Japanese industrial sectors, such as textile, raised the issue of importing guest workers during the early 1960s, but soon dropped the issue. See Ishida Hirohide, *Watakushi no Seikai Shōwa Shi* [My History of the Shōwa Political World] (Tokyo: Tōyō Keizai Shinpō Sha, 1986).

²⁹On foreign guest workers in Japan, see Mainichi Shimbun Tokyo Honsha Shakai Bu, ed., *Jipangu* (Tokyo: Mainichi Shimbun Sha, 1989).

developmental states, except for Hong Kong, they also have naturally tried to exploit this competitive advantage as their creditor status has emerged over the last few years. The combination of natural rivalry for funds among capital markets in the region, largely concentrated in Japan and the NIEs, and the common interest of investors everywhere in a stable, uniform regulatory framework in international finance, will most likely push issues of financial regulation, including associated tax policy questions, increasingly onto regional policy agendas in East Asia as the pace of economic integration within the region intensifies.

Political Uncertainties

As the economies of East Asia come into increasingly intimate relationship with one another, policy coordination across a broadening range of policy sectors becomes increasingly crucial, as has been suggested. Yet policies, whatever broader international consequences they may have, are the product of national political systems. After a long period of political stability that provided a fundamental, too often unappreciated basis for the spectacular East Asian growth of the past four decades,³⁰ the political systems of all five nations under consideration here are in the midst of epochal change. Such change has potentially major consequences for the course of their future economic relationships with one another. My general argument is that political flux in the short run complicates the deepening of economic interdependence; in the long run, however, it opens the possibility of social realignments that may support broader economic integration.

Buffeted by winds of democratization and generational leadership change, the governments of all five (except Hong Kong, a special colonial case) are unusually vulnerable in the short run to domestic interest-group pressure, which complicates the shift from the trans-Pacific triangle patterns of reliance on the U.S. market to a more regionally self-contained pattern. Japan, South Korea, Taiwan, and Singapore all suffered for years from chronic balance of payments problems; their underlying interest group structures, in which powerful and parochial domestic business and often agriculture interests have often secured institutionally protected special treatment, often tend to discourage imports in apparently mercantilistic fashion. The rise of opposition parties and labor unions is having mixed but broadly parallel effects. Still, all five systems have powerful, future-oriented elite bureaucracies that should help to ease at least the

³⁰On the domestic political underpinnings of high postwar growth in East Asia, see Hofheinz and Calder, *Eastasia Edge*, particularly pp. 15–83.

macroeconomic policy coordination processes as broader regional frameworks for coordination come to be established. For the longer run, prospects for political environments supportive of economic interdependence are enhanced by the growing cosmopolitanism of business interests as offshore investment uses and by the growing scale and influence of high-scale distributors and consumer groups, both industrial and individual.³¹

The forces of political change in East Asia have manifested themselves most clearly in South Korea, particularly since the presidential election campaign of 1987. Although Roh Tae Woo ultimately succeeded his Korean Military Academy classmate, longtime President Chun Doo Hwan, Roh did so through a competitive democratic election unprecedented since the early 1970s. Following the April 1988 national assembly elections, Roh's ruling Democratic Justice Party also found itself with only 125 of 299 seats, the first time that a South Korean leader had failed to hold a legislative majority.

In the new, more pluralistic political environment in Korea, mass interest group demands have become more insistent—and apparently more readily addressed by government.³² In 1987, a wave of 3,000 strikes rolled across that nation following the announcement of expanded democratic freedoms, leading to double-digit pay raises in both 1987 and 1988.³³ Government-controlled rice prices rose 14 percent each year, with direct national assembly involvement generating upward pressure.³⁴ Further labor turbulence and pressure for wage increases broke out in early 1989, intensifying economic pressures toward the accelerated withdrawal of labor-intensive foreign investment from South Korea that had been set in motion by the rising strength of the won and earlier unrest.³⁵ Interest-group demands, given enhanced leverage by the atmosphere of political uncertainty, also appear to be complicating short-run Korean government efforts at trade liberalization, as the logic of this chapter would suggest.

Taiwan has experienced a milder version of South Korea's complex, interrelated economic and political turbulence, especially since the death of President Chiang Ching-kuo in January 1988. Chiang was succeeded smoothly by Lee Tung-hui, of Taiwanese rather than mainland origin, a

³¹The probable economic consequences of rising labor union influence are prospectively more mixed but should at least help further the process of agricultural liberalization across the region.

³²This pattern, of course, follows that of Japanese public policy in periods of political flux. See Calder, *Crisis and Compensation*, esp. pp. 467–470.

³³Far Eastern Economic Review, *Asia Yearbook 1989*, p. 156.

³⁴*Business Week*, May 15, 1989.

³⁵*Ibid.*

development that has reawakened some degree of elite rivalry between mainlanders and Taiwanese, especially with the share of Taiwanese on the Kuomintang central committee also rising from 20 to 45 percent at the July 1988 National Congress.³⁶ With the high value of the NT dollar forcing structural adjustment, the pace of labor unrest has quickened together with other interest group pressures on government encouraged by the democratization process. On May 20, 1988, riots in Taipeh, flowing from demonstrations that originated as a peaceful request by farmers for expanded government rice purchases, broadened into the largest and most intense civil violence in Taiwan since the 1947 massacre of Taiwanese by mainland troops.³⁷ Political uncertainty appears to be intensifying pressures for wage increases and thus helping to accelerate inflation, although protectionist effects on trade policy are not as yet evident.³⁸

Recent political uncertainties in Hong Kong and Singapore have been dominated by the shadow of developments in China. Reexports to and from China represent 50 percent of Hong Kong's total foreign trade,³⁹ and likewise formed the most dynamic aspect of Singapore's economic growth on the eve of the Tiananmen incident.⁴⁰ Hong Kong, of course, will be reverting to Chinese rule in 1997, and the uncertain, step-by-step informal process of transition has already begun. During 1987–1988, 35,000 to 50,000 Hong Kong residents annually were leaving for more politically predictable environments, with roughly 750,000, or around 15 percent of the population, expected to have left by the time of Hong Kong's return to Chinese rule.⁴¹ This process could be accelerated by recent political turmoil within China, including the bloody suppression of student protesters in Beijing by the People's Liberation Army (PLA) in early June 1989. Singapore's problems of domestic political transition are far less serious than Hong Kong's, but they are nevertheless not negligible. In Singapore, it was announced during September 1988 that Lee Kuan Yew, who had led the country since independence, would step down as prime minister by 1990 yet remain in government, introducing some degree of uncertainty about the transition.⁴²

Among the most crucial uncertainties for the future of the East Asian

³⁶Far Eastern Economic Review, *Asia Yearbook 1989*, p. 232.

³⁷*Ibid.*, p. 231.

³⁸To the contrary, Taiwan has continued a steady broad-based process of tariff reduction and other forms of trade liberalization. See *New York Times*, July 17, 1989.

³⁹Nomura Research Institute, *NRI Quarterly Economic Review* (August 1989):27.

⁴⁰Singapore's re-exports to and from China grew 108 percent in 1988. See *ibid.*, p. 29.

⁴¹*Ibid.*, pp. 117–118.

⁴²*Ibid.*, p. 212.

region are those in Japan, not least due to its overwhelming economic scale. With the atrophy of the traditional Socialist opposition and the growing weakness of antimainstream factions within the ruling Liberal Democratic Party, such as those of Miki/Komoto and Fukuda/Abe during the early 1980s, the position of the mainstream LDP leadership appeared to be fundamentally stable in terms of standard criteria for evaluating Japanese politics. But these equations were sharply upset by the Recruit scandal, which touched virtually all the prevailing mainstream conservative leadership, by the abrupt resignations of both Noboru Takeshita and Sosuke Uno as prime minister, and by continuing popular resentment at the inequities of a current Japanese political system that has imposed tax increases and other burdens on the general public while offering special benefits to a few politicians. This resentment manifested itself clearly in a string of LDP electoral defeats during 1989, culminating in the disastrous July 1989 Upper House election, where the LDP lost majority control of a Diet chamber for the first time since its foundation in 1955. Even though LDP control of the Lower House was reaffirmed in general elections in 1990, divided control between the Diet chambers continued to complicate Japanese policymaking.

There are deepening political divisions within Japan between “market-oriented” and “compensation-oriented” approaches to domestic policymaking;⁴³ these have been intensified by the sharp yen revaluation and the emerging prospect of inexpensive consumer imports into Japan. In the long run, internal fissures within the LDP may well interact with a weakening big business sector interest in categorical support for LDP political unity⁴⁴ to generate a split in the ruling Liberal Democratic Party, or at least a major reorientation in both domestic and foreign policies. The current political turmoil in Japan, given its anticompensation cast, may thus help accelerate the process of economic liberalization, particularly given the increasing strength of transnational interest groups and multinational corporations in Japanese politics.⁴⁵ Such developments bode well in the long run for expanded Japanese domestic political acceptance of

⁴³See, for example, Hirose Michisada, “Rieki Haibun System wa Henka shita ka?” [Has the Resource Allocation System Changed?], *Seikai* 448 (March 1983):105–113.

⁴⁴Contrast this to the strong business support of the 1950s and the 1960s for the LDP, presented in Calder, *Crisis and Compensation*, pp. 42–54 and 71–126.

⁴⁵On the rising importance of transnational coalitions in Japanese policymaking, see, for example, Kusano Atsushi, *Nichibei Orange Kōshō* [Japan–U.S. Orange Negotiations] (Tokyo: Nihon Keizai Shimbun Sha, 1983); Funabashi Pōichi, *Nichibei Keizai Masatsu* [Japan–U.S. Economic Conflict] (Tokyo: Iwanami Shinsho, 1987); and T. J. Pempel, “The Unbundling of ‘Japan, Inc.’” in Kenneth B. Pyle, ed., *The Trade Crisis: How Will Japan Respond?* (Seattle, Wash.: The Society for Japanese Studies, 1987), pp. 117–152.

regional economic integration, as does the noticeable Japanese mass media shift toward more favorable presentation of the NIEs and the ASEAN Four.⁴⁶ But the process of securing broad Japanese popular support for economic integration in labor-intensive sectors such as distribution, food processing, and metal fabrication could well be a long and tortuous one, due to the high level of employment involved.⁴⁷ As in the newly industrializing nations of East Asia, the increasingly salient political role of organized labor within the broader context of political fluidity and change suggests some political limits to full economic integration of the labor-intensive sectors of the major East Asian political economies.

Prospects for the Future: Toward an East Asian Economic Community?

Economic union, it is crucial to remember, must have both an economic rationale and a political plausibility; weakness on both counts has persistently plagued many regional common markets of the developing world throughout their existence.⁴⁸ Japan and the East Asian NIEs, of course, are not likely to be the sole participants in an East Asian regional integration scheme, but, given the sophistication and dynamism of their economies, they would inevitably be the heart thereof. Thus it seems appropriate to conclude a discussion of relationships between Japan and the NIEs by considering what the patterns of emerging interdependence and conflict outlined here, especially the pervasive new political fluidity of the late 1980s, imply for the broader long-run prospects for regional integration in East Asia.

On the economic side, one crucial precondition for the emergence of a viable economic union is a high intensity of economic transactions within the area subject to the union. In 1988, internal trade within the European Economic Community was roughly 70 percent of the trade of the member

⁴⁶See, for example, "Ajia no Seiki: Nihon no Yakuwari" [The Asian Century: Japan's Role], *Tōyō Keizai*, November 17, 1986; "Kan Tai no Saiyakushin de Nihon o Fukumu Shin Keizaiken Kessei e" [Toward the Formation of a New Economic Area including Japan, under the Onslaught of Taiwan and South Korea], *Tōyō Keizai*, January 3, 1987; and NHK, *Sekai no Naka no Nihon: Ajia kara no Chosen* [Japan in the World: The Challenge from Asia] (Tokyo: NHK, 1988).

⁴⁷In 1985, for example, the food-processing industry in Japan employed over 60 percent more workers than the auto industry. See Ministry of Labor, ed., *Rōdō Hakusho* [Labor Handbook], 1988 ed. (Tokyo: Nihon Rōdō Kyōkai, 1988), reference page 119.

⁴⁸For a survey of Third World economic integration efforts beyond East Asia, see Joseph S. Nye, *Peace in Parts: Integration and Conflict in Regional Organization* (Boston: Little, Brown, 1971); Joseph S. Nye, *International Regionalism* (Boston: Little, Brown, 1968); and Joseph S. Nye, *Pan-Africanism and East African Integration* (Cambridge, Mass.: Harvard University Press, 1965).

nations; that within North America came to around 45 percent of total foreign trade by the nations of that region. In the wake of the recent intensification of regional trade since 1985, internal trade within East Asia now constitutes roughly 40 percent of its members' trade, thus approaching levels in North America.⁴⁹ Trade between Japan and the four NIEs has been intensifying rapidly, as has been noted. In addition, mutual trade among the four NIEs has been rising sharply since 1986. In 1987, such trade among the NIEs rose 45 percent to over US\$16 billion.⁵⁰

Especially important, from the perspective of long-run East Asian economic integration, has been the recent surge of regional intraindustry trade, particularly in electronics. Until the mid-1980s, such intraindustry trade was highly uncommon among the nations of the region, although it has long been the mainstay of economic relationships in the Western industrialized world. Today the NIEs, as has been noted, export over US\$2.7 billion annually in electronic machinery to Japan, in a flow growing much more rapidly than the reverse outflows from Japan. This development bodes well for the long-run process of economic integration in the region.

The recent intensification of intraindustry trade between Japan and the NIEs is intimately related to the rapid increase in foreign investment across the region—not only by Japan, but by the other capital-surplus NIEs as well. Until 1985, the economies of both Japan and the NIEs were all essentially oriented toward exports from a domestic production base, but that pattern has begun to shift rapidly, especially in electronics and such precision machinery sectors as watches and cameras. This internationalization of production has come about primarily because Japanese firms have been shifting production to the NIEs, first to Taiwan and South Korea and more recently to Singapore.

With the revaluation of the NT dollar and the won during 1987–1989, Taiwanese and South Korean investment elsewhere in East Asia has also been increasing rapidly, although mainly in the ASEAN Four nations (Indonesia, Malaysia, Thailand, and the Philippines) rather than in the NIEs. In 1988, for example, Taiwanese investment in both the Philippines and Indonesia was greater than that of either the United States or Japan, and rising sharply; in both Malaysia and Thailand, Taiwanese investment was second only to that of Japan, pushing the United States into third place.⁵¹ Korean investment has also been heavy throughout ASEAN. With this

⁴⁹See International Monetary Fund, *Direction of Trade Statistics*.

⁵⁰Ibid.

⁵¹MITI, *Tsūshō Hakusho: Sōron* [White Paper on International Trade: General Outline], p. 278.

broadening in the provenance of foreign investment—parallel to historical patterns in Western Europe, where Britain, France, Italy, West Germany, and other nations have all become major foreign investors—the fears of recipient nations of Japanese dominance are reduced, allowing a synergistic process of cross-investment to proceed still further without being impeded by nationalist fears of foreign dominance.

Industrial East Asia, as currently configured, has geographical barriers to economic integration more pronounced than those in Western Europe, with the major economic centers, Japan and the four NIEs, separated physically from one another by much greater distance than is true in Europe. But the infrastructure for intense commercial interaction by sea and air is excellent, with the NIEs possessing four of the largest six container ports in the world, including Hong Kong, the largest.⁵² (Only Rotterdam and New York, of the top six world container ports, are not located in the region.) And a geographically compact locus for regional integration exists along the littoral of the East China Sea within a radius of 1,000 miles from Shanghai, should prospective political obstacles be overcome. Major industrial centers of mainland China, Taiwan, South Korea, and Japan all fall within this radius.

In the financial sphere, economic integration in East Asia is being aided by the internationalization of the Japanese yen, which seems destined to become the key currency of the region. The rapid expansion and liberalization of the Tokyo capital market since the early 1980s, aided by the strength of the yen, Japan's low interest rates, its capital-surplus position, and the growing willingness of the Ministry of Finance in Tokyo to countenance broader global use of Japan's currency, have all accelerated this development. Expanded regional use of the yen will give increased stability to regional trade transactions, even if broader global exchange rates remain volatile.

Industrial East Asia at the dawn of the 1990s thus finds itself economically at a crucial point of transition. The rising industrial and commercial competitiveness of the NIEs during the 1980s has created an increasingly multipolar regional economy, which is more than a Japanese "co-prosperity sphere." Cross-trade and investment among the NIEs and the ASEAN Four, fueled by both currency realignments and technological synergy, has been stimulating qualitatively more complex and potentially more sustained forces for economic integration than was the case in 1980 or even in 1985.

Whatever the configuration of economic forces, economic integration

⁵²Kazuo Fujii, "Changes, Prospects, and Investment in the West Pacific Region," *Tokyo Financial Review* 14, 3 (March 1989):23.

cannot succeed in any part of the world without conducive underlying political circumstances. It was no accident, in this regard, that the 1957 Treaty of Rome, which set Europe initially on its path toward integration, was signed by six Christian Democratic governments obsessed with the prospect of Communist inroads should economic growth on the European continent remain static. The decisions to proceed further, toward total European economic union by 1992, were likewise made primarily by conservative, market-oriented governments responsive to pressure from dynamic multinational corporations based in the European Community.

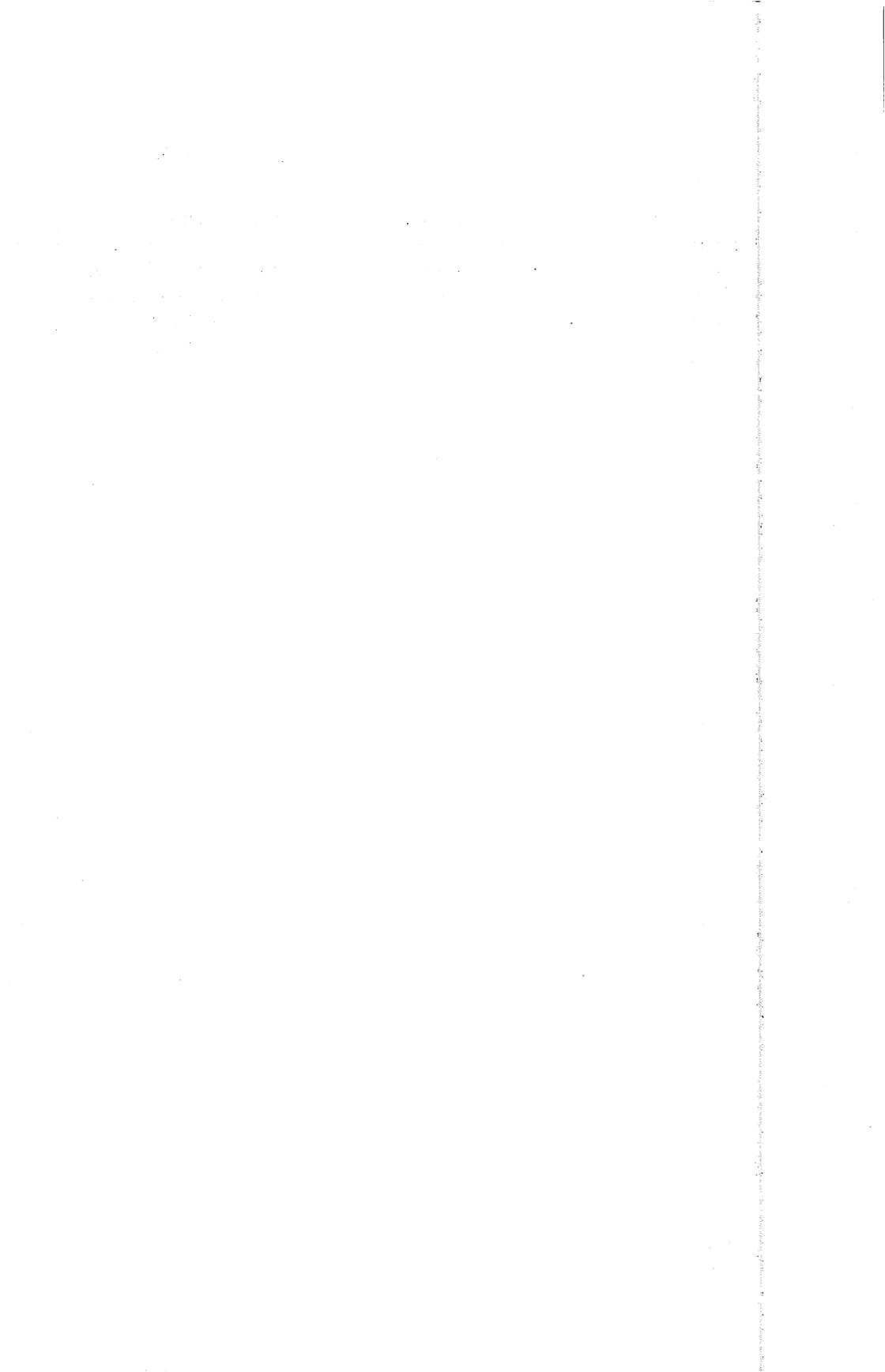
The key question for the immediate future of the East Asian regional political economy is how fully the increasingly fluid politics of major nations in the region will allow ever more insistent market forces to hold sway. East Asia has always been more politically heterogeneous than postwar Europe and has not experienced the same sort of pervasive, commonly perceived external threat that galvanized the European Christian Democratic parties of the 1950s and their technocratic allies toward common support for transnational economic union. During the late 1980s, East Asia has also been in a process of historic political flux that reduces the short-run prospect of full economic union, particularly in labor-intensive industrial sectors. But it is experiencing the economic transformations in important areas, such as electronics, that could ultimately generate a form of economic union—albeit probably a limited, sector-specific union—should an external catalyst for such economic integration emerge.

It is here that the position of the United States, in the context of the current atmosphere of political flux in East Asia, is a key player. As intra-East Asian economic transactions intensify and those involving the United States lessen in importance, direct American incentives to maintain a stable security environment in the Western Pacific, to the extent that it retains its traditional national security objectives, thus decline. The United States confronts an intensifying economics versus security dilemma in the Western Pacific. But should the United States act on the basis of narrow economic interests alone and repudiate its long-held conception of both security goals and their relationship to a market-oriented trade regime, it would stir a common backlash in Japan, the NIEs, and other nations of the Western Pacific. Such a backlash would help give cohesion to internal pressures within East Asia for an exclusionist Western Pacific regional economy that could potentially be far more dynamic than the regional associations emerging in either Western Europe or North America,⁵³ if less

⁵³Nomura Research Institute, for example, estimates that a Western Pacific regional economy consisting of Japan, the East Asian NIEs, the ASEAN Four, China, and Australia would have a GNP of US\$6.3 trillion in the year 2000, compared to US\$7.2 trillion for North America and

stable politically as a result of both domestic tensions and delicate relations among Japan and its neighbors. But with an affirmation of broader notions of a Pacific Community spanning both shores of the Pacific, the United States can preempt the emergence of such an exclusionist East Asian regional grouping while encouraging the dynamism of East Asian nations within a broader, more politically stable multilateral context.

US\$6 trillion for the European Community. The Western Pacific would also be the fastest growing of these three areas. See *Nomura Investment Review*, May 1989, p. 5.



Part Eight

**U.S.–ASEAN Perceptions of Japan’s Role
in the Asian–Pacific Region**



13. Japan's Role in the Asia–Pacific Region: An ASEAN Perception

A. HASNAN HABIB

The post–World War II years have witnessed a truly remarkable phenomenon, namely, the rise of a nation from defeat and ruins to economic superpower, and an Asian nation at that. Japan has become the economic success story of the century, a story of continuous economic growth. Yet Japan is still surging forward, exploiting the world's resources, producing and selling to the world in the single-minded pursuit of profit and evergrowing GNP.

Many foresee that Japan will become a twenty-first-century economic and financial superpower surpassing all other industrial nations, including the United States. Of the world's ten largest banks, nine are Japanese; based on size of deposit, no U.S. bank makes the top twenty-five. Japanese households save an average of 17 percent to 19 percent of their annual income, whereas American households save less than 5 percent.¹ The United States has become the largest debtor country; the Japanese, the largest creditor nation. It is estimated that the American external debt balance will expand from US\$400 billion at the end of 1987 to US\$800 billion by the end of this decade, whereas Japan's external credit balance will grow from US\$240 billion in 1987 to \$400 billion by the early 1990s. In 1989, Japan also surpassed the United States as the world's largest foreign aid donor.

Since the end of World War II, Japan has been the fastest-growing global economic power, evidence of its superb economic management, national discipline, work ethic, and strong commitment to economic growth, its one single national goal. The economy grew at an annual rate of 4.3 percent from 1965 to 1986, higher than the 2.3 percent average for all the industrial countries of the world. But at the same time it has also been the most insular, isolated from foreign economic penetration.

¹R. Taggart Murphy, "Power Without Purpose: The Crisis of Japan's Global Financial Dominance," *Harvard Business Review*, March–April 1989.

Japan's vast economic strength, organizational skills, superior technology, expanding global economic and financial interests, and rising international standing on one hand, and its increasing dependence on natural resources and markets on the other, raise many questions about this country's international and regional role. Can the world's largest creditor continue to enjoy a "free ride" at the expense of the world's largest debtor? How and what should be its share of the cost of defending the "free world"? Does it aspire to become a great military power? Since it has become an economic superpower, shouldn't Japan play a concomitant role in other fields? How will Japan's relationship develop with the United States as well as with the other countries in the region? Does "burden sharing," insisted on by the United States, imply division of responsibility as well as joint decision making?

These questions have been incessantly written about, debated, and discussed at numerous seminars and conferences, including the Fifth ASEAN-U.S. Conference. For many Japanese they have been perplexing, especially now that the big changes taking place in the last three or four years require adjustments by all nations, particularly the major powers.

Japan's destiny is tied to a large extent to that of the Asia-Pacific countries. Virtually every one of these countries finds Japan either its first or second largest trading partner, foreign investor, and foreign aid donor. Japanese trade, investment, aid, and technology have largely been the region's engine of economic dynamism.

Despite its title, this chapter is not an attempt at assigning nor prescribing what Japan's role in the Asia-Pacific region should be. That should be determined largely by the Japanese people themselves. In this increasingly interdependent world, however, no nation can set a course in foreign affairs in a vacuum. All nations, regardless of size, strength, and power, are now exposed to many forces and processes, often beyond their control. Decisions on economic, political, and security policies taken in one country will also affect other countries, since all national boundaries have become permeable to their transnational impact.

Notwithstanding its mission to depict "an ASEAN" perception, this chapter presents essentially "one" Indonesian view. I hope, however, that it will generate some useful discussion in forming a more complete picture of the ASEAN countries' perception of Japan's presence in this region. Although the changes that have taken place in the world, and in this region, have been comprehensive and wide ranging, the focus here is on the "politico-security" and "politico-economic" aspects of Japan's role, with a view to understanding its feasibility, possibilities, limitations, and constraints.

It is obvious that in the highly complex, sophisticated, and fast-

changing contemporary world, the politico-security dimension cannot be separated from the politico-economic one. Both are interrelated, interacting, and interdependent, and they need to be addressed by governments in an integrated way.

The Current Situation

Politico-Security Conditions

The Intermediate Nuclear Forces (INF) Treaty concluded at the end of 1987 marked the dawn of a new era in superpower relations. Confrontation has given way to dialogue and negotiation. Though this development will have a benign influence on the global politico-military scene, at the same time it will make that same scene more fluid, and therefore more uncertain. But fluidity itself does not necessarily lead to instability, so long as it is not blocked by hasty, rash, thoughtless, and excessive measures.

In the context of this changed situation both superpowers are in the process of readjusting their priorities and strategies relative to each other and to other emerging powers in the world. This readjustment will lead to a further reduction of their role and influence in an increasingly multipolar world. Bilateral, regional, and multilateral interactions will become the pattern of international relationships, rendering "bloc power politics" increasingly ineffective. The international system will be much more complex and potentially unstable unless all countries, particularly the major ones, firmly commit themselves to international cooperation.

The warming trend in superpower relations has created a climate conducive to major power accommodation, which has indeed been taking place. All major powers have shown a common interest in solving or abating regional conflicts, such as those in the Persian Gulf, Western Sahara, Namibia, Afghanistan, Kampuchea, the Middle East, the Korean peninsula, Central America, and so on.

In Asia and the Pacific the politico-security situation has also changed since Gorbachev began his peace offensive in the region. His landmark Vladivostok speech in July 1986 was followed by a number of concrete steps, such as pulling out an army division from Mongolia, the scrapping of 436 missiles (including the SS-20) from their Asian bases as part of the INF Treaty, cutting back naval activities beyond Soviet territorial waters, beginning the phased withdrawal of all Soviet troops from Afghanistan, applying pressure on Hanoi to speed up the solution of the Kampuchean problem, and so on. His second major speech, delivered in Krasnoyarsk in September of the next year, contained more specific proposals, packaged in a "seven-point peace plan."

Gorbachev's peace offensive gained a momentum that culminated in

the Beijing summit on May 16, 1989. The summit marked the normalization of Sino–Soviet relations after a rift of thirty years and changed the triangular strategic Moscow–Beijing–Washington relationship. Gorbachev used the occasion to announce that out of the 200,000 soldiers to be pulled out from Soviet Asia by the end of 1990, 120,000 men were troops stationed in the Soviet Far East. These cuts would remove twelve divisions of ground forces, disband eleven air force regiments, and take sixteen warships from the Soviet Pacific fleet, a cut of some 25 percent of the total Soviet forces in the region.²

The normalization of Sino–Soviet relations will greatly influence the course of events in the entire Asia–Pacific region, transforming its politico-security landscape. Normalization signaled the reduction of Sino–Soviet mutual distrust and suspicion and at the same time marked the beginning of confidence building, which would clearly benefit the whole region.

China will be able to concentrate its resources and energies on its Four Modernizations programs emphasizing economic development without the heavy burden of having to constantly watch its 7,500-kilometer-long border with the Soviet Union. This was a great relief because the Soviet Union was and is the biggest potential security threat to the PRC.

For Moscow, normalization offers the much-sought-after opportunity to participate in the economic dynamism of the region. Although most Soviet territory is in Asia, which makes it an Asian country, it has not been treated like one. Better relations with China, one of the world's major powers despite relative backwardness, will facilitate Soviet access to the region.

Sino–Soviet normalization will also have a positive impact on the peaceful settlement of various problems in the region, such as the almost four-decade-long Korean conflict, the return of Hong Kong to Beijing's sovereignty in 1997, the unification of Taiwan with mainland China, the superpower bases in Southeast Asia, the Kampuchean problem, the claims and counterclaims in the South China Sea, and so on. But the most serious problem appears to be untouched by all these developments. That is the Japan–Soviet dispute over the northern territories, potentially the biggest threat to stability in Northeast Asia. The Japanese government will most likely continue to press for the return of these territories. But this outcome could only become possible if the Soviet Union were to conclude that Japan's military ties with the United States had weakened and that Soviet–Japan relations could counteract Japan–China relations. The issue of the northern territories is difficult, linked as it is with Japan–U.S., Japan–China, and Japan–Soviet relations; it is the biggest problem in the quadrangular

²*Far Eastern Economic Review* [hereafter *FEER*], May 25, 1989, p. 13.

Tokyo–Washington–Beijing–Moscow relationship and the focus of attention in Northeast Asia, followed only by the Korean peninsula. Because of this dispute, the Soviet Union is the only country with which Japan has no peace treaty.

This relatively benign politico-security picture was suddenly marred at one stroke by the weekend massacre in Tiananmen Square on June 4, 1989, which claimed thousands of dead and wounded among the unarmed students and their supporters, an act that shocked the civilized world. Most Western countries reacted strongly to the violent military crackdown, the strongest protest so far coming from U.S. President George Bush, who suspended government sales and commercial military exports to China and said that U.S.–China relations would be reviewed; from Australia; and from the United Kingdom. Meanwhile Taiwan put its armed forces on alert.

The chaotic situation following in the wake of the outrageous act perpetrated by the People's Liberation Army has spread to other major cities, causing disarray in the Communist Party leadership. To worsen things, the government seemed to have stopped functioning, at least temporarily. Clashes between army units were reported making the situation more ominous still. There is fear of the outbreak of civil war. Thousands of foreigners left the country in anticipation of the worsening situation. Many foreign embassies, including the U.S. and the Japanese, advised their nationals to get out of China and evacuated the dependents of the embassy staff. The socio-political dynamics unleashed by Deng's very reform programs appeared to be getting out of hand, and China might return once again into chaos and turbulence reminiscent of the Cultural Revolution of the 1960s.

History has shown that a divided and weak China had always been a source of instability in Asia. All regions bordering China will feel its direct impact: Northeast Asia, Southeast Asia, and South Asia. Therefore, prudence on the part of foreign countries in reacting to the "Chinese crisis" is called for.

Politico-Economic Situation

International trade and investment flows have shifted to the Pacific during the last decade. The year 1984 saw trans-Pacific trade for the first time exceeding trans-Atlantic trade, and since then it has continued to grow. Of the US \$1.9 trillion total world trade that year, trans-Pacific trade accounted for 11.2 percent, whereas trade across the Atlantic amounted to 10.8 percent. This increase gave rise to the prediction that the twenty-first century would become the "Era of the Pacific."

Indeed, since the end of the Vietnam War the economic growth of this region has been phenomenal, making it the most economically dynamic

region in the world. A high proportion of the GNP of the region's countries depends on trade, which is increasingly outward looking. Its strategic disposition is open, rather than driven by groupings or blocs. These elements of dynamism, openness, plus the great diversity of the region make pragmatism one of its characteristics. The desire for growth and prosperity is the driving and motivating force.

A remarkable recent development in the Asia-Pacific region is the emergence of the newly industrialized economies (NIEs), namely, the Republic of Korea, Taiwan, Hong Kong, and Singapore, with Thailand and Malaysia following not too far behind. All these nations, except Malaysia, are oil importers that were severely hit by the two oil shocks of the 1970s. But in the end they made a remarkable recovery, though with a higher external liability than before. This shows a high degree of resiliency and flexibility in these nations that greatly facilitated adjustments and restructuring of their economies.

Japan has also successfully withstood the two oil shocks plus the yen appreciation. Moreover, instead of incurring a growing external debt, it has become the world's financial superpower and largest credit country. Because of the steep yen appreciation since 1985, Japan's overseas investment, especially in the ASEAN countries, has grown rapidly. Its import of manufactured products has also increased steeply, with ASEAN exports to Japan growing the highest. Japan has shown a remarkable resiliency and flexibility and has restructured its economy. It is now said to be capable of growing on the basis of an expanding domestic demand.

All these developments have pushed intraregional trade and investment within East Asia and established strong multilateral ties among the East Asian countries. Moreover, trade and investment relations with the United States and the European Community have also grown substantially. As a result, these nations' economies have also become integrated with the world economy.

This expanding development has occurred in stark contrast to the economic stagnation of the region's socialist states—the Soviet Union, China, North Korea, the three Indochinese states, and Burma—a fact that has moved these countries to restructure their economies toward a more open and market-oriented system, improve diplomatic relations, and increase economic intercourse with the nonsocialist East Asian nations. This trend of development augurs well for the future of the region.

But the bright picture is clouded by the trade dispute between the two most economically powerful countries in the region, namely Japan and the United States. The basic problem is both countries' persistent and huge trade imbalances. How the two countries will solve their dispute and how fast they will restructure their economies will greatly impact not only the countries in Asia and the Pacific but the world at large.

The Role of Japan

In the Politico-Security Field

Security has always been the most important and controversial issue for Japan. Since the American Occupation of Japan following its capitulation that ended the Pacific sector of World War II, Japan has faithfully pursued every policy defined by the United States, especially during the Occupation period that lasted until 1951.

The vast American Occupation apparatus was preoccupied with the attainment of two objectives: demilitarization and democratization of Japan. To accomplish these objectives, revision of the 1889 Constitution was required.³ The new Constitution of Japan, promulgated on November 3, 1946, contained the controversial article 9 that since then has severely restricted Japan's defense posture.⁴ The article renounces war arising not only from the right of belligerence but also from the right of self-defense, and hence the right to maintain military forces. It was a document unique in its kind in the world, and its tenets soon began to erode as the Cold War began to engulf the region.

The Korean War, which broke out in June 1950 and which compelled General MacArthur to commit American troops stationed in Japan to Korea, required greater burden sharing from Japan than previously in maintaining domestic order and stability. In July 1950, a 75,000-strong "National Police Reserve" was created by order of General MacArthur as a supplement to local and provincial police forces and, without being explicitly designated as such, as the nucleus of a future military force.⁵

The American containment policy against communist China in the Asia-Pacific region after the Korean war was developed and secured through bilateral and multilateral security treaties, including the "Treaty of Security between Japan and the United States of America of 1951," which was later superseded by the "Treaty of Mutual Cooperation and Security between Japan and the United States of America of 1960," still known as the "Security Treaty." Whereas the scope of the 1951 treaty was limited to only the military dimension of security, the 1960 treaty broadened it to also

³See John K. Emmerson, *Arms, Yen and Power: The Japanese Dilemma* (Tokyo: Charles E. Tuttle Company, 1972), pp. 37-40.

⁴*Ibid.*, pp. 40-53. Article 9 reads: "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 a 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 belligerence of the state will not be recognized."

⁵*Ibid.*, p. 55.

include political and economic cooperation⁶ and served as the legal basis for the creation of Japan's Self-Defense Forces (SDF) in 1954. The preamble to its operating articles, which recognizes Japan's inherent right of individual or collective self-defense, provoked immediate controversy and drew charges of conflict with article 9 of the "Peace Constitution." Article V of the Treaty clearly states the U.S. obligation to defend Japan against armed attacks.⁷

Since the Occupation period Japan has been intimately involved in the evolving American politico-military policies, and the government, based on the 1960 Security Treaty, has come to give a more flexible interpretation of article 9 of the "Peace Constitution." Japan has maintained that article 9 permits the right of self-defense and that the self-defense forces now in existence are constitutional, a view now strongly supported by the majority of the people. But Japan has also maintained that it is unconstitutional to join a regional security pact with military obligations or dispatch armed forces outside the country without amending the constitution. Amending the constitution, however, would spark bitter controversy since the "no-war clause" is still supported by the great majority of the Japanese people.

It can be concluded that the U.S.–Japan Security Treaty is still of crucial importance for both countries. It is still the linchpin of U.S. Asia–Pacific policy, and Japan is still that country's single most valuable partner, at least for the foreseeable future, for the following reasons: First, it prevents Japan from becoming a military power as this would cause great concern among the countries in the region and might trigger an arms race there; memories of Japan's war atrocities have not disappeared. Second, Japan has become a great financial power, investing in the United States and covering much of the U.S. government's debt. And third, despite frequent economic controversies and frictions, which lately have become very sharp indeed, Japanese–American business relations provide technology, markets, talent, supplies, and other essential elements to both nations' companies.⁸

⁶Takuya Kubo, "Reevaluation of Japan-United Security Treaty," undated paper.

⁷Article V of the "Treaty of Mutual Cooperation and Security between Japan and the United States of America" reads: "Each Party recognizes that an armed attack against either Party in the territories under the administration of Japan would be dangerous to its own peace and safety and declares that it would act to meet the common danger in accordance with its constitutional provisions and processes. Any such armed attack and all measures taken as a result thereof shall be immediately reported to the Security Council of the United Nations in accordance with the provisions of Article 51 of the Charter. Such measures shall be terminated when the Security Council has taken the measures necessary to restore and maintain international peace and security."

⁸James Fallows, "Containing Japan," *Atlantic*, May 1989.

For its part, Japan would feel more comfortable with a United States that is strong, stable, and still the indisputable number-one superpower. Although there have been calls for an indigenous Japanese strategy independent of the United States, Japan cannot and most likely will not distance itself from the United States because of its long history of cooperation, the continued validity of the Japanese–American mutual security treaty, and the benefits Japan derives from cooperation in the economic, industrial and technological fields.

Nor does Japan want to remilitarize and become a military power. Japan is aware that it cannot become one, because its land space is extremely small and therefore vulnerable to nuclear attack. Japan also lacks natural resources and must rely on others. Its emergence as a military power would pose a potential threat to suppliers and undermine the basis of its own economy and security, which is economic interdependence. Japan's twentieth-century history in Asia implies that it will be much better accepted as an economic power and cultural force than as a major military power. Without actually becoming a military power, the world knows, Japan could, if necessary, effect a rapid and substantial military buildup because of its great economic, financial, and technological strengths.

Thus Japan's concept of security has broadened over time, evolving within, and based on, the framework of article 9 of the Constitution and the U.S.–Japan Security Treaty; the creation of the Self-Defense Forces in 1954; the resumption of "normal" relations with the U.S.S.R. in 1956; the enunciation of the Three No-Nuclear Policies (no production, possession, or introduction of weapons); the normalization of relations with the PRC in 1972; and its other experiences mentioned previously. The basic foundation and precondition of Japan's security is economic interdependence, which is popularly known as the concept of "Comprehensive National Security." Economic interdependence is also seen as Japan's greatest contribution to the security of other countries in the region.⁹

Based on this concept, Japan's threat perceptions differ from Washington's. Among dangers that most alarm Tokyo are fear of losing access to overseas sources of food and energy; fear that Washington may be indifferent to Japan's need for vital imports and its need for access to the American and other markets; fear of loss of acceptability as an active partner in the economic growth of Southeast Asia; fear of a breakdown of the international system; and fear of surges of great disorder anywhere.¹⁰

But there can be no doubt that as Japan's stake in trade and investment

⁹See Robert W. Barnett, "Beyond War: Japan's Concept of Comprehensive National Security" (New York: Pergamon-Brassey, 1984), pp. 8–10.

¹⁰*Ibid.*

in the region grows, especially in Southeast Asia, and as the United States continues to show relative economic and financial decline because of its "strategic overstretch," the pressure on Japan for burden sharing will go on.

So far, Japan has been most forthcoming on U.S. pressures for burden sharing. Although its defense budget has passed the "1 percent of GNP" barrier only slightly, it is now third largest in the world, after the United States and the U.S.S.R. (Most of its growth is attributable to a burgeoning GNP.) It pays about US \$2.5 billion, or 40 percent, of the costs of maintaining the 55,000-strong U.S. military personnel in Japan, and it has twice as many destroyers as the U.S. Seventh Fleet. But Tokyo is showing increasing resentment at the American attempt to tell Japan how to spend its money and at the constant harping on the need to share the burden of policies determined by the United States.¹¹

So even though it is taking on more of the U.S. burden, Japan will maintain the American alliance and will still depend on the treaty guarantee as a deterrent and a last resort. Former Prime Minister Yasuhiro Nakasone, when he was Director General of Defense, stated positively that Japan would assume responsibility for the defense of sea routes in "nearby waters," but that any guarding of sea lanes in the vicinity of the Malacca Straits would be completely outside Japan's purview and out of the question for the Japanese Maritime Self-Defense Forces.¹²

That was a wise move, because any increased military role of Japan in the present situation, where the emphasis is on disarmament and cooperation, is bound to be counterproductive for Japan itself, the United States, and the entire region. No Asian country has a quarrel with a militarily strong Japan to protect itself, but there are strong feelings against a Japan powerful enough to threaten others. How best to achieve the right balance depends on the consensus reached between Japan and its friends in the region, and this would require good and open communication and consultation.

In the Politico-Economic Field

In spite of long economic intercourse, many Southeast Asians still have mixed feelings about Japanese trade and aid. These feelings are a contradictory mixture of admiration and disapproval, expectation and frustration, desire and suspicion, anxiety and irritation.

Until the mid-1970s, the general feeling was one of anxiety over Japanese exploitation and domination. Southeast Asians resented exces-

¹¹Nayan Chanda, "The Stumbling Block," *FEER*, March 30, 1989.

¹²Emmerson, "Arms, Yen and Power," p. 307.

sive Japanese economic influence and rebelled against the latter's high-handed methods, arrogance, and failure to understand and respect the customs and traditions of local peoples. They perceived the Japanese as exploiting natural resources in their own selfish interest, and Japanese aid as a means of primarily benefiting Japan itself, not the developing countries. They found the Japanese aloof, clannish, mysterious, and too omnipresent. They saw Japanese tourists arrive in their own Japan Air Line plane, get in their Japanese bus, go to their Japanese hotel, eat at their Japanese restaurant, enjoy themselves at a Japanese-owned night club, then get back to their plane and return to Japan. They could not see what in all that benefited Southeast Asians.

This perception, unfortunately for the Japanese, is not confined to Southeast Asians. It is also shared by Europeans and Americans, Japan's closest allies and partners. They see Japan as a selfish nation who only thinks of its own interests, unwilling to restrain the one-sided and destructive expansion of its economic power.¹³ A recent U.S. poll showed that more Americans regard Japan as a threat than the Soviet Union. Although Japan has become a financial superpower, it is perceived as continuing using its financial strength to further Japanese interests, which are not necessarily the same as the world's, especially given Japan's seeming compulsion to dominate every important value-added industry. Lacking the ideology, Japan will not sacrifice its own interests for the interests of the global financial system.¹⁴ The basic elements of Japanese politics are money and economic growth, which must continue to be pushed ahead even in a world economy troubled with severe imbalances.

In short, Southeast Asians' image of the Japanese could be described as one of "the ugly Japanese." We might recall the widespread riots in Bangkok and Jakarta in 1974 during former Prime Minister Tanaka's visit to those cities. But over time there has been a gradual change for the better, thanks to the Japanese government's efforts to improve Japan's image abroad through various programs, such as the "Youth Ship Program" and the "Friendship Program for the 21st Century." These programs lie in the cultural domain and are very important to cultivate mutual understanding of and respect for culture, habits, customs—all prerequisites for promoting friendship, trust, and confidence between ASEAN countries and Japan, if regional cooperation is to function at all.

The Japanese role in the politico-economic field can be summarized as: trade, aid, investment, technical assistance, and regional cooperation.

Asian economies, notably Northeast and Southeast Asian ones, depend

¹³See Fallows, "Containing Japan."

¹⁴See Murphy, "Power Without Purpose."

heavily on trade. As mentioned earlier, Japan is either the largest or the second largest trading partner of these countries. The old pattern of Japan's importing only raw materials from the developing countries and exporting finished products has gradually given way to a new pattern. The developing nations, especially the NIEs, are now also exporting finished products to Japan, albeit still of somewhat lower technology. Multilateral trade of products of the same species but with different features in design, quality, and price is rapidly growing in the region, not only between Japan and the rest of the Asian countries but also between the NIEs and developing economies in the region, particularly between the NIEs, which include Singapore, and ASEAN countries. Electronic products are one example, along with color television sets and VCRs, radios, and radio cassette players.

This multilateral trade has been made possible by the expanding industrial capacity of these countries through the acceptance of foreign investment—particularly from Japan because of the steep appreciation of the yen—and promotion of export-oriented industrialization. The result of this changing pattern is the emergence of regional interdependence. And this is precisely where Japan can also play an important role, namely, to further stimulate regional trade by providing greater opportunities for the developing countries in the region to export their manufactured products to Japan, and also by promoting investments in the region, particularly in export-oriented sectors.

In 1968, the Japanese aid program for the first time exceeded US\$1 billion and Japan moved to fourth place among aid-giving countries after the United States, France, and West Germany. About one decade later, the Japanese government has set its Fourth Medium-Term Target for Official Development Assistance (ODA), under which Japan aims to provide more than US\$50 billion over a five-year period and at the same time improve the quality of its aid.

Japanese aid has been much criticized because so much of it has been "private based," as contrasted with direct government-appropriated funds. A recent review of Japan's aid by the Organization for Economic Cooperation and Development (OECD) has concluded that terms to the poorest countries remain hard, and that Japan has failed to comply with the OECD's Development Assistance Committee (DAC) recommendation on the financial terms of assistance. The committee has "urged the Japanese authorities to continue to improve the financial terms of their aid to the least-developed and other low-income developing countries by expanding their grant aid and by further softening loan terms."¹⁵

¹⁵*FEER*, March 9, 1989, p. 78.

Indeed, even though Japan is now the world's largest aid-donor country, it ranks lowest among the eighteen-member OECD's DAC in terms of the percentage of grants in its total aid. Another complaint frequently aired is that a high proportion of Japanese aid is formally or informally "tied," so that it comes back as purchase orders for Japanese equipment or contracts for Japanese construction firms. But this issue has been dealt with; now nearly two-thirds of Japan's ODA loan commitments are no longer tied to the purchase of equipment from Japanese suppliers. Too much bureaucracy is another criticism leveled at the Japanese government's handling of its aid programs: not less than sixteen ministries and agencies are involved in the administration of Japanese economic cooperation.

All these criticisms justify the previously mentioned perception that Japan's primary objective is self-interest. The Ministry of International Trade and Industry (MITI), for example, listed as the objectives of Japan's aid: first, to secure access to essential resources; second, to increase exports and strengthen the international base of Japan's economy; and (only) third, to fulfill Japan's obligation as the only advanced nation in Asia.

The rectification of all these and other shortcomings of Japan's economic cooperation—such as technical assistance, which has been a very minor element of it—should be high on Japan's agenda, and indeed the Keidanren and the government are paying serious attention to these issues. For the aid programs to be more beneficial, Japan's aid regime should be able to respond to the diversified needs of the developing countries more efficiently.

Investment is a function of growth, and the rapid growth of the region's countries is testimony of that truth. Japanese direct investment showed an upward trend in the early 1980s and reached US\$33.4 billion in 1987, making the aggregate for 1981–1987 a total of US\$139.3 billion. In terms of regional distribution, North America accounted for almost 40 percent; followed by Asia, 19.1 percent; Latin America, 18.1 percent; Europe, 15.1 percent; Oceania (including Australia), 4.8 percent; Africa, 2.8 percent; the Middle East, 2.2 percent; and India, 0.1 percent.¹⁶ The majority of investments in manufacturing were in Asia (65% in 1986) and a smaller number of cases in North America (27%) and Europe (7%). Investment in mining remained at a low level after reaching a peak in 1981, whereas approximately two-thirds of investments in commerce and the service sector, including finance, insurance, and real estate business, went to North America and Europe; 20–25 percent to Latin America; and 7–12 percent to Asia.

¹⁶See Gorota Kume, "Japanese Direct Investment: Recent Trends and Policies," Research Institute of Overseas Investment, the Export-Import Bank of Japan, November 25, 1988.

This upward trend is expected to continue, setting new records in the next couple of years. There have also been changes in quality while “new moves” are underway. First, export-oriented investments have increased. Most assemblymakers have established large-sized factories in ASEAN countries in order to export relatively low-grade home electric appliances to third countries and Japan; some countries began or expanded automobile export, mainly to North America. Second, manufacturing investment in parts and materials has accelerated. Small- and medium-sized firms as well as big companies expanded overseas production to meet the increased and upgraded needs of their clients in host countries. Third, new investments have spread from traditionally labor-intensive sectors to technology and information-intensive areas and other service sectors. Establishment of technical centers, laboratories, component centers, industrial estates, consulting firms are examples of this trend. Fourth, expansion of the domestic market has attracted domestic demand-based industries, such as department houses and supermarkets.¹⁷

The prospect for the future is bright, with North America receiving 42.7 percent of Japanese direct investment; Asian NIEs, 24.2 percent; ASEAN, 17.7 percent; Europe, 5.8 percent; Africa, 3.3 percent; other Asian countries, 2.5 percent; Latin America, 2 percent; Oceania, 1.3 percent; and other European countries (Eastern Europe), 0.5 percent.

A final role in the politico-economic field that Japan is expected to play is one of stimulating regional cooperation. Beginning with the Colombo Plan, Japan has participated in virtually all multilateral groupings organized for economic development in Asia. Japan supports the principle of regionalism, not one based on exclusivism or protectionism but open and part of the global economy. But as the developing countries and NIEs continue to grow stronger and economic dealings intensify, problems and frictions will arise. This is natural, since frictions and problems exist only between countries with an intensive and extensive set of overlapping interests and relationships.

Taiwan and Korea, for example, have become great partners, as well as rivals of Japan. South Korea's export surge has made Japanese business increasingly nervous, prompting trade disputes and slowing technology transfer. What has happened between the United States and Japan has already started to happen between Japan and Korea, with the big difference that in the latter's case it is Korea that has a trade deficit. Sound and healthy regional cooperation could prevent the countries of the region from resorting to unfair and unhealthy competition and practices.

¹⁷Ibid.

Conclusion

As may have become clear, the Japanese are still looked on as an insular people who, in spite of their massive international trade and increasing mobility, have difficulty breaking down barriers between themselves and peoples of the rest of the world. Communication is their most serious problem and must be addressed seriously if they do not wish to be considered an "international outsider." Japan knows that as it continues to grow stronger, accumulating huge surpluses and expanding its economic and financial influence, but without becoming "internationalized" at the same time, it will incur international wrath. The internationalization of Japan has been an issue since the early 1970s.

This chapter has dwelled on Japan's role in Asia and the Pacific, focusing on the politico-security and politico-economic fields. The essence of this role can be found in former Prime Minister Noboru Takeshita's "International Cooperation Initiative," as Japan's contribution to the world and the Asia-Pacific region. In his policy speech in Jakarta on May 5, 1989, Takeshita explained the three pillars of the initiative as follows:

The first pillar is the strengthening of cooperation to achieve peace. In keeping with Japan's Peace Constitution, we are firmly resolved not to become a military power such as might threaten our neighbors and are determined to do everything possible to use our abilities in cooperating for peace. From this perspective, Japan will undertake positive diplomatic initiative aimed at conflict resolution. Specifically, this means enhancing the level of our cooperation for achieving and maintaining world peace, including dispatching experts and other personnel to trouble spots and providing financial assistance for peace-keeping efforts.

Second is the expansion of Japan's Official Development Assistance [ODA]. ODA is one of the areas where the world expects Japan to contribute most, and Japan has responded to these expectations by formulating a series of four medium-term targets for ODA enhancement and stepped-up support for the developing countries. I am determined to continue this effort, providing more and better ODA in the service of world peace and prosperity.

And third is the strengthening of international cultural exchange. Cultural exchange in the broadest sense is the foundation enabling people to transcend the value and systemic differences separating them and to achieve true mutual respect and understanding as human beings. At the same time, the stimulation of accompanying full-hearted exchanges among diverse cultures generates new vitality for the progress of the international community as a whole.

14. U.S. and ASEAN Perceptions of Japan's Role in the Asian–Pacific Region

DAVID ARASE

The past few years have produced key structural changes affecting Japan's international role. It has become the world's largest capital exporter as the United States has passed into net debtor status for the first time since 1914; Western Europe is moving toward full economic integration; the Soviet Union under Gorbachev is attempting to end the Cold War with the West; and China and the Soviet Union are embarked on a new period of normalized relations.

Japan's relative power measured in terms of wealth, technology, and military effort is at an all-time high, and its scope for independent initiative is widening as Cold War rigidities soften. It has emerged as the world's single largest exporter of capital and high-tech goods and as a leader in technological development. Further, a new generation of assertive and self-confident Japanese leaders is now entering senior decision-making positions.

As Japan exercises greater choice and assumes greater responsibility, it will create an independent political identity for itself. Today Japan claims to speak for Asia at Western summits and wants to be treated with new respect in key bilateral relations. As indicated by Prime Minister Noboru Takeshita during his visit to the United States in February 1989, Japan now expects prior consultation before the United States takes any major foreign initiatives. Regarding the Soviet Union, Japan's uncompromising stand in the northern islands dispute puts it increasingly out of step with the Western allies. In view of these developments, it is more important than ever to understand Japan's present and future role in the Asian–Pacific region.

Japan's International Context

The Changing Matrix of International Conflict and Cooperation

As the relative decline of the superpowers and the process of dismantling the Cold War structure continue, the Western allies will have to change their basic orientations if they are to handle their bilateral relations successfully. Forty-five years of peace have brought Europe and Japan to parity with, if not superiority to, the United States in certain key respects. If we consider the European Economic Community (EC) as a unit, it ranks above the United States in both population and wealth, whereas Japan exceeds the United States in terms of per capital GNP. By current fiscal or trade criteria, the United States is worse off than its allies; in terms of technological potential, however, no significant differences exist between the three economies. In contrast, according to any economic measure the Soviet Union ranks below any one of the three Western actors.

Thus, there is a growing American perception that it is absurd for the deficit-ridden United States to pay for the security of allies who are economically better off than either of the "superpowers." As the threat from the communist world diminishes, the old politico-strategic basis of broad alliance cooperation weakens.

This does not mean, however, that the rising tension and conflict among the Western allies will assume Cold War dimensions. The conflicts are the product of deepening cooperation and, if properly managed, are neither zero-sum nor security threatening for the actors involved. Nonetheless, the creation of a new basis for cooperation in the post-Cold War period will be the major challenge for the West.

Japanese Relations with the Regional Powers

Broadly speaking, the interaction of U.S., Soviet, Japanese, and Chinese diplomacy will determine the outlook for this region. Because all four actors share the political will to settle regional conflicts and avoid the creation of new tensions, there are fewer risks of major power conflict and an increased potential for greater integration of Asia's socialist economies into the region's dynamic free market economy.

The Soviet Union is attempting to reduce its reliance on the military instrument and to establish economic and political access to the nations of the Asian-Pacific region, especially China. Aside from the normalization of relations with China, this policy has involved Soviet efforts to use "national reconciliation" in Afghanistan, Cambodia, and the Korean peninsula to create whole new networks of political and business contacts in the Asian-Pacific region. The Soviet Union is not neglecting Japan, but lack of

settlement of the northern territories question hinders improved political relations between the two countries.

The rationale behind this Soviet strategy of tension reduction and political normalization is to reduce its need for military spending, gain influence among the region's smaller powers, and enlist the resources of its Asian neighbors in the development of the Soviet Far East. Development of this region is a necessary first step toward integrating the Soviet Union into the dynamic economy of the Asian–Pacific region. Active Soviet diplomacy in Northeast and Southeast Asia, as well as Soviet overtures toward the Asian Development Bank (ADB) and the Pacific Economic Cooperation Conference (PECC), promises greater political and economic engagement in the Asian–Pacific region by the Soviets.

Japan's response to Soviet initiatives has been cautious if not negative. The key to Soviet–Japanese relations is the northern territories issue, and here Japan is taking an uncompromising position. Japan wants the Soviet Union to give an official, unconditional return of these disputed islands to Japanese administrative control and legal sovereignty before it will sign a peace treaty.

It is not difficult to understand why Japan is unlikely to deviate from this stance. In the first place, there is a strong case to be made for Japan's legal sovereignty over the disputed territories as established by prewar bilateral treaties and the absence of a postwar agreement clearly transferring sovereignty to the Soviet Union. Behind the legal merits of the case are the accumulated hostilities and resentments of over a century of troubled relations.

Second, Japan expects the Soviets to treat it with at least the same respect and consideration given to China. The rationale behind this attitude is complex, but it has to do with Japan's new position of economic leadership in Asia. Japan also has the ability to withhold capital, trade, and technology the Soviets need to develop and upgrade their economy, especially in the Soviet Far East; and Japan has a growing potential to obstruct Soviet ambitions to gain influence in the region, for example, by blocking Soviet entry into PECC or the ADB. As the Soviets reduce their emphasis on the military instrument and move their diplomacy into economic dimensions, they will be entering an area where the Japanese enjoy great advantages in both resources and expertise.

Third, the net risks and costs of normalizing relations with the Soviets are great. Even if Japan wins a total concession from the Soviets on the northern territories issue, Japan has little interest in developing the Soviet Far East if this means greater Soviet access and influence in the region. This would not only complicate Japan's regional leadership plans but could add tension to already strained U.S.–Japanese relations. A Soviet–Japanese

peace treaty could not only undermine domestic political support for the U.S.–Japan Security Treaty but also would reduce popular support for Japan's growing military and military-industrial development efforts.

To compensate for these risks and costs, the Soviets have little to offer Japan in the way of attractive trade or investment opportunities. The energy and natural resources the Soviets can offer are less important to Japan's GNP growth in the age of "softonomics," that is, knowledge-based wealth production. For these reasons, Japan expects the Soviets to pay its price for normal relations and increased economic cooperation.

It is ironic that as China achieved stable external relations symbolized by Gorbachev's historic visit to Beijing in mid-May 1989, the country was plunged into domestic turmoil that seems to have affected its prospects for political stability and continued economic reform. Nonetheless, it is unlikely that China will return to the blind ideological fervor of the days of the Cultural Revolution and the Gang of Four, nor is it likely that China's present stance toward the Asian–Pacific economy and the rest of the world will be fundamentally altered.

In this regard, it is important to note that Japan is gaining greater influence and leverage over China. In the economic retrenchment program begun in late 1988, expensive Japanese projects were not cancelled as they had been in China's other major economic retrenchments of 1979 and 1981. Japan's Official Development Assistance (ODA) program in China, which is in the neighborhood of US\$1 billion a year, has created a wide network of contacts at all levels of the Chinese government. Japanese ODA funds are counted by the Chinese government as planned revenue in the annual budget. Normal commercial relations with Japan are also becoming more important as economic reform proceeds. In other words, Japan is in a position to exercise an increasing amount of subtle influence and leverage over Chinese economic policymaking. Accordingly, it can play an important role in keeping China on the path of reform and peaceful cooperation with the rest of the world.

The direction of U.S. engagement is also uncertain. In the coming years, the United States will seek to adjust its security and economic relations in the region, especially those with Japan. The problem is that the United States may mistake its interest in adjusting relations in the Asian–Pacific region for a need to reduce its ties with the region.

At a time of fiscal stringency, the economic and political costs of maintaining present U.S. security commitments stretching from the Persian Gulf to the Korean peninsula are high, but the benefits directly accruing to the United States seem less clear. The United States, therefore, has chosen to ask Japan to assume more of the security burden in the Asian–Pacific region for several reasons: (1) Japan is looking for a new

regional and global role; (2) Japan can afford to contribute more to regional security; (3) Japan, the wealthy but vulnerable island economy, benefits the most from present political, economic, and security arrangements; and (4) within the framework of the U.S.–Japan Security Treaty, Japan can be trusted to carry out coordinated regional roles and missions without raising undue fears among its neighbors.

In the area of economics, the United States will be tempted to cut imports from the Asian–Pacific region if it cannot significantly increase exports there. At present, even after a 50 percent devaluation of the dollar against the yen, the U.S. trade deficit with Japan has held steady at roughly US\$50 billion. It is an unfortunate political fact that the bilateral U.S.–Japan imbalance puts the entire region in the target sights of an increasingly protectionist Congress wielding the new “Super 301” retaliatory trade sanction clause of the Omnibus Trade and Competitiveness Act passed in 1988.

Finally, as a matter of overall global orientation, the United States will be distracted by the tangled web of changing European relations in which vital U.S. interests are deeply involved. In addition, increasing U.S.–Soviet cooperation as well as enduring domestic social and economic problems will engage U.S. political debate, thus increasing the possibility that attention to the Asian–Pacific region may become less of a U.S. priority, despite the obvious interest the United States has in remaining economically and politically engaged in the region. In sum, the U.S. stance toward the Asian–Pacific region will be determined more than ever by the success or failure of U.S.–Japan relations in the areas of security and trade.

The Post–Cold War International System

More than just the parallel relative decline of U.S. and Soviet power seems to be driving change in international relations. Besides changing objective power relations, there seem to be other factors affecting contemporary international relations. Taken together, they suggest that the containment of conflict and the institutionalization of cooperation are now on the international agenda.

First, the socialist world has realized that autarkic Stalinist- or Maoist-style socialism is an evolutionary dead end. The communist parties of both the Soviet Union and China have embarked on a strategy of economic reform and integration with the West to achieve security and legitimacy. This strategy is unlikely to provide the basis for continued ideological and military struggle against the West. On the contrary, it is likely to promote ideological depolarization if *perestroika* and the student democracy movement in China are any indication of the future.

The second factor is the rise of economics to the realm of "high politics." This can be attributed to several lessons taught by recent historical experience. First, nuclear weapons teach those who possess them that the resort to war against another nuclear power cannot be justified by any rational standard. Next, the lessons of military intervention in Vietnam and Afghanistan, or proxy wars as in Cambodia or Angola, are that externally imposed military solutions to local national struggles bring neither political stability to a nation nor lasting geostrategic gains to the intervening superpower. In addition, as illustrated by the oil shocks and the debt crisis, it is clear that the fates of the developed and developing worlds are inextricably linked through their economic relations. Finally, in the information age national wealth and security are no longer directly proportional to the land, population, or natural resources secured by military force. Rather, wealth and security are now increasingly a function of the technological capabilities that a nation possesses, along with its access to an open global economy. With sufficient ingenuity, a modestly armed nation could get rich by making beach sand into silicon chips. This is the greatest contemporary significance of Japan's example to the world.

The third factor shaping the new international agenda is the view that in some ultimate sense the security of all nations is threatened by an emerging class of ecological problems. As our scientific understanding of the effects of overpopulation, the depletion of natural resources, or the so-called global warming trend is advanced, a different kind of threat is confronting national decision makers. Such threat can only be met through cooperation; unilateral efforts against such threat are pointless.

Japan's Recent Initiatives

Japan is seeking to make greater contributions at the global level by reducing its trade surpluses, increasing its ODA, and raising its defense spending beyond the 1 percent barrier. As the world's largest capital exporter, Japan is playing a helpful role in managing the debt crisis. In April 1989, Treasury Secretary Brady in congressional testimony praised Japan's pledge of US\$4.5 billion in loans to debtor countries through Japan's Export-Import Bank. Japan is also increasing contributions to international organizations such as the World Bank, the International Monetary Fund (IMF), and the United Nations and desires a larger role in their management. Finally, it is pledging personnel and funds for disaster relief and the peaceful settlement of regional conflicts.

At the regional level, Japan is displaying greater initiative. Under Japanese stewardship in the 1986–1988 period, the Pacific Economic Cooperation Conference was developed into a more effective forum for informal consultations among public and private sector decision-making

elites from the various member countries and areas. Japan is also strengthening its administrative role in the Asian Development Bank and is hosting numerous regional symposia and conferences.

Japan is making efforts to help the members of ASEAN institutionalize their cooperative efforts through such means as the Japan–ASEAN Fund. It is also helping the region's developing countries maintain political stability by increasing special disbursements of ODA funds, starting with the case of the untied US\$900 million Ex-Im Bank loan to Indonesia in 1987 and Japan's backing of the Philippine Aid Plan. Japan is also trying to meet the needs of the Pacific island states, as evidenced by the Kuranari Doctrine. And Japan used pledges of aid to promote the withdrawal of Vietnamese troops from Cambodia, national reconciliation between the warring Khmer factions, and the management of the continuing refugee problem.

The “Flying Geese” Regional Division of Labor

Perhaps the most serious sustained initiative at the regional level involves the integrated use of ODA, trade, and investment to structure the Asian economy through the so-called New Asian Industrial Development (AID) Plan. It is this plan that underlies the Asian–Pacific economic cooperation pact promoted by Ministry of International Trade and Industry minister Muraoka's visit to ASEAN member countries in early 1989 and that will support an Asian–Pacific economic cooperation agreement being drafted by MITI under an order issued by Prime Minister Takeshita on March 22, 1989.¹

According to this new policy objective, Japan will import lower value-added goods (preferably manufactured by Japanese overseas subsidiaries or joint ventures), but Japan will continue to nurture the export of sophisticated goods and services. Thus, the “new horizontal division of labor” that Japan wishes to promote in Asia still has a strong vertical component. Despite the use of the term “horizontal division of labor,” the two-way trade of goods within a tariff classification is not Japan's primary policy objective. The term “flying geese pattern of development” used by some Japanese economic policy experts is a more appropriate label for this concept, which has Japan supplying capital, capital goods, technology, and advanced consumer goods to an Asian economic subsystem from which Japan draws energy, resources, food, and lower-grade manufactures.²

¹“MITI Is Asked to Draft Asia–Pacific Treaty,” *Japan Times Weekly* 8 (April 1989), p. 11.

²Saburo Okita, “The Outlook for Pacific Cooperation and the Role of Japan,” *Japan Review of International Affairs* 1, 1 (Spring/Summer 1987):2–16.

Japan's ODA

When Japan was seeking to settle reparations claims in the mid- to late 1950s, it was struggling to upgrade its industrial structure, build up export markets, and develop new low-cost and stable energy and raw materials supplies to feed Japan's growing industries. Accordingly, Japan tailored its reparations policy to contribute to these ends and then channeled its voluntary bilateral ODA programs through the same administrative system.

Given Japan's emphasis on building international industrial competitiveness, four ministries came to coordinate the decision-making process. These four are MITI; the Ministry of Finance (MOF); the Economic Planning Agency (EPA); and the Ministry of Foreign Affairs (MFA). Together they form the *yon shocho* ("four ministries and agencies") that today guide Japan's ODA.

This administrative system allows Japan's economic planners to influence or channel the deployment of Japanese economic resources in an ongoing, flexible fashion according to changing circumstances and national priorities. In order to generate many requests of the desired type, the Japanese government encouraged Japanese businessmen from priority industrial sectors to travel to recipient countries and stimulate ODA project requests. The MFA transmits official requests back to Tokyo, where the bureaucracy reviews the requests on a case-by-case basis, selecting only those that contribute to their strategic goals.

Since the administrative arm of the Japanese government controls policymaking, it has been difficult to disentangle policymaking from implementation. To confuse matters further, there is no Diet legislation establishing a basic ODA policy or administrative system. In the absence of formal policy guidelines, each bureaucratic action both defines and implements policy. This does not mean, however, that a basic policy is lacking. A pro-growth consensus among the bureaucracy, the ruling Liberal Democratic Party (LDP), and the large-scale corporate sector supports this system.

Under the Yoshida Doctrine,³ Japan's ODA was used to develop new resource supplies and to open new developing country markets. But as Japan seeks to create a political identity for itself, Japan is using ODA to construct a new political role. The new element in ODA policy is the use of a growing ODA budget to create a higher political profile and a new foreign policy instrument meant to give it more influence in multilateral fora and

³See Kenneth B. Pyle, "Japan, the World, and the Twenty-First Century," in T. Inoguchi and D. I. Okimoto, eds., *The Political Economy of Japan*, vol. 2: *The Changing International Context* (Stanford, Calif.: Stanford University Press, 1988) for a recent discussion of the Yoshida Doctrine in Japanese postwar diplomacy.

in developing country bilateral relations. Japan's ODA also continues to aid Japan's international economic strategy. Japan's ODA is being used to restructure Japan's economy and guide Japan's capital surplus toward the Asian developing countries, where Japan hopes to construct a new "horizontal division of labor." Since 1987, Japan has been seeking to coordinate ODA, trade, and FDI to construct a regional economy managed from Tokyo.

The New AID Plan

The New AID Plan was the product of deliberations begun by MITI in the summer of 1986, and the existence of the new policy line was announced by MITI Minister Tamura in Bangkok in January 1987. In essence, the policy objective is to mate Japan's capital surplus with that country's strength as an exporter of whole plants and capital goods to transplant into ASEAN those Japanese manufacturers threatened by the yen's appreciation. Unlike the ODA doubling plans or the recycling plans, this plan contains no specific targets or timetables. Yet it is more significant than the other plans because it has recast Japan's ODA strategy and points to the deliberate construction of an economic sphere in the Asian-Pacific region.

An official of the Japan External Trade Organization (JETRO) offers a succinct explanation of how the New AID Plan differs from the traditional type of *keizai kyoryoku* (economic cooperation):⁴

In the area of Japan's economic cooperation up to now, aid for infrastructure and humanitarian objectives such as telecommunications equipment, dam construction, and hospital construction was the core, but the New AID Plan is cooperation directly in the area of industry, and this is what is "new" about this plan. Moreover, this cooperation is not just up to the government, but hopes for direct investment by Japanese firms. This, too, is a new type of private-public cooperation activity.⁵

In other words, ODA would not change its traditional geographical orientation toward Asia but would seek to construct a more active regional economy by transplanting Japan's low-technology and labor-intensive manufacturing to Southeast Asia and then importing part of the new overseas production. This is different from the old ODA policy because the

⁴*Keizai kyoryoku* literally means "economic cooperation," but among Japanese policy-makers the term signifies an integrated approach to Japan's relations with the developing world guided by Japan's economic and political objectives. This definition is established by such documents as the yearly MITI White Paper on Economic Cooperation, the Economic Planning Agency's five-year plans, and the MFA's Blue Book.

⁵"Nyu eido puran tte, nani?" [What Is the New AID Plan?], *JETRO Sensaa* (November 1987):91.

new one attempts to structure production and trade within the Asian–Pacific region according to a grander conception of Japan's regional and global economic role.

This plan is not antimarket since the impact of rising anti-Japanese protectionism in Europe and the United States along with the yen's appreciation, Japan's capital surplus, and soaring land prices in Japan are pushing Japanese production overseas. The New AID Plan provides public resources to move firms to low-wage Asian countries, and a share of investment that would have gone to the United States or Europe is diverted to low-wage Asian countries, where their production for the U.S., European, and Japanese markets may continue. It reduces the private sector's adjustment costs and risks, thereby inducing private actors to serve public policy. To succeed in this plan, the Japanese government must allow into Japan more imports of low-end manufactured goods, especially from the ASEAN countries, and it is currently in the process of "liberalizing" access in this area.

The new trade dynamic will strengthen intraregional trade (the "horizontal division of labor") and will create an economic zone dominated by Japanese firms and their local joint ventures, with overall coordination coming from Tokyo. As this zone is built up, the MFA can point to how Japan is "liberalizing" access to its market, although this may be done selectively through administratively determined criteria.⁶

An important new element in this approach is the devaluation of the traditional request-based system in favor of official Japanese initiative in selecting projects. A MITI official put the difference this way: "The New AID Plan does not take the single-request/single-task approach used up to now; rather, it is various tasks used comprehensively and is based on Japanese initiative to promote economic cooperation in a planned fashion"⁷ (see Table 1).

One key element of this plan is the deliberate placement of JICA experts in recipient governments to guide their development plans. A

⁶The 1988 MITI White Paper noted that Japan's new role is to promote the horizontal division of labor in Asia and to reduce Asia's dependence on the U.S. market. In 1987 the Asian newly industrializing economies (NIEs) absorbed more Japanese exports (21.6%, or a 5.1% share increase over 1986), whereas the United States absorbed fewer Japanese exports (36.5%, down 2.0% in share total from 1986). Japanese imports from the Asian NIEs increased 26.3 percent over 1986, and Japanese imports of manufactures from ASEAN increased 48 percent. But imports from the United States rose only 8.4 percent—despite the yen's appreciation. Administrative measures under the new policy guidelines probably account for much of the changing Japanese trade orientation, especially on the import side.

⁷"New AID Plan no jigyo to kyoryoku naiyo" [The activities and cooperation under the New AID Plan], *Kaibatsu Janaru* (July 1987):33.

Table 1
The Three Phases of the New AID Plan

I. Preparation of infrastructure for export industries

- A. Cooperation (yen loans) to prepare an infrastructure base, i.e., industrial estates, ports, airports, railways, roads, telecommunications, etc.
- B. Cooperation (project-style technical cooperation) in preparation of related facilities such as trade training centers, export inspection centers, and product and technical development centers.

II. Comprehensive technical cooperation for developing export industries

- A. Human development cooperation through dispatch of experts and receipt of trainees in production technology, management techniques, product development, etc.
 - 1. Trade and industry promotion center activities: Japan External Trade Organization (JETRO)
 - 2. Dispatch of experts:
 - a. Japan Overseas Development Corporation (JODC)^a
 - b. Japan International Cooperation Agency (JICA)
 - c. ASEAN trade and tourism centers
 - 3. Receipt of trainees:
 - a. Association for Overseas Technical Scholarships (AOTS)^b
 - b. ASEAN centers, etc.
 - 4. Development surveys:
 - a. JICA
 - b. Engineering Consultants Firms Association (ECFA)^c
 - c. Japan Plant Exporters Association^d
 - 5. Project-type technical cooperation: JICA
- B. Marketing cooperating such as market surveys, marketing promotion, distribution improvements, etc.
 - 1. Developing country trade and industry promotion center activities (JETRO)
 - 2. ASEAN center activities
 - 3. Japan–China Trade Expansion Council

III. Finance and investment for developing export industries

- A. Creation of a special investment system for favored firms such as two-step loans or two-step investment targeted at promising industrial sectors (OECF and others under consideration)
- B. Matchmaking in investments, joint ventures, technology tie-ups
 - 1. Asian Industrialization Project (JETRO)
 - 2. Small and mid-sized enterprise overseas investment promotion activities (Japan Chamber of Commerce and Industry)^e
 - 3. Overseas investment advising (Small and Mid-sized Enterprise Agency)^f

4. PAC Consulting (JICA)
5. ASEAN Center activities

C. Priority consideration for investment financing (Ex-Im Bank, JODC)

^aJODC is a quasipublic corporation under MITI guidance that subsidizes foreign direct investments (FDI) by Japanese manufacturers

^bAOTS is a quasipublic corporation under MITI guidance that aids Japan's FDI in developing countries by training developing country personnel at the investing firm in Japan.

^cECFA is an industry association whose ODA project-identification activities are subsidized by MITI.

^dAlso known as the Japan Consulting Institute (JCI), this association of whole plant exporters engages in activities similar to those of ECFA.

^eThe JCCI is increasingly active in pushing FDI by Japan's smaller subcontracting industries.

^fThis agency is administered by MITI and works with JCCI, JETRO, and the Ex-Im Bank to promote FDI by the smaller industrial firms threatened by the yen appreciation.

SOURCE: *Kaibatsu Janaru* [Development Journal] (July 1988), pp. 55–56.

MITI division director explained that in the Malaysian and Thai governments, “agencies are doing their work [according to a development plan], but Japanese experts enter and give advice on the basis of the recipient side’s request. Since their side is making industrial policy, one cannot say that Japan is pushing ideas on them. Japan is offering experience, and the other side makes the choices.”⁸ Another element is the formation of joint Japanese-recipient “steering committees” to map out a comprehensive national industrialization plan using Japanese FDI. The MFA is formally responsible for handling the policy dialogue.

The New AID Plan is an outgrowth of Japan’s old ODA policy. It is still premised on close collaboration between Japanese public and private sectors. And the sending of Japanese factories to low-wage Asia still promotes exports of Japanese plant and equipment linked to the setting up of overseas production. Japanese exports to ASEAN increased by one-quarter in the 1986–1987 period, and most of this increase was in capital goods and machinery parts.⁹

Unlike the old-style economic cooperation, however, the new approach to managing economic relations with the developing world combines private capital flows, trade, and ODA according to a concept called *san’mi-ittai*, or “three parts–one body,” signifying the planned, integrated deployment of Japanese government and private sector resources in developing countries. The Japanese government and private sector are to collaborate in the three areas of trade, investment, and aid in order to

⁸*Kaibatsu Janaru* (July 1987), p. 32.

⁹*ASEAN–Japan Statistical Handbook* (Tokyo: ASEAN Centre, 1988).

create a unified, synergistic dynamic. Ideally, their combined efforts will advance their respective interests and contribute to Japan's national interest. In the Asian–Pacific region these efforts aim to penetrate selected areas of each national economy from which Japanese firms can continue exporting to the United States and Europe as well as to Japan—with the added bonus of GSP treatment.

Because enough of Japan's huge capital surplus is expected to flow into the Asian–Pacific region so that ASEAN's industrial capacity will be doubled within the next several years, Japan's potential for success cannot be dismissed. Nonetheless, the attempt to create this kind of Japanese-dominated regional order is a high-risk strategy for Japan, the unidimensional economic power. Even the attempt to implement it will provoke countermeasures by, and deeper conflicts with, precisely those nations with which Japan must improve relations. These nations include not only the United States and China, but also the members of ASEAN whose cooperation Japan would like most.

A New Stage in Regional Economic Cooperation

The New AID Plan was the leading edge of a broader change in Japanese economic cooperation. As explained by Masaaki Nangaku, Director-General of MITI's Economic Cooperation Department: "With regard to how our economic cooperation should be in the future, the White Paper calls for promoting a 'three ranks—one body' type of comprehensive economic cooperation comprised of ODA, direct investment, and imports to promote the industrialization of the developing countries. This is based on the same kind of thinking as the so-called New AID Plan that MITI has been promoting."¹⁰

The 1988 *White Paper on International Trade* also reflected that changed orientation in international economic policy. For the first time the MITI white paper called on Japan to recycle its surpluses to the Asian developing countries, open its markets to Asian exports, extend more aid and technical cooperation to Asian neighbors, and make stronger efforts to transfer management resources to them.¹¹

Lest it be thought that this policy is bruited only by MITI and its affiliates, we should note that the new thinking is expressed in all major policy documents on economic cooperation starting from 1988. For example, in the official English-language press release drafted by MFA

¹⁰"Keizai Kyoryoku," *Tsusan Janaru* (May 1988):15–16.

¹¹"Tsusan Hakusho: Ajia kyoryoku zenmen ni" [MITI White Paper: Asian cooperation is first priority], *Asahi Shimbun* (evening edition), June 7, 1988; *Japan Times*, "MITI White Paper Calls for International Policy Coordination," June 8, 1988.

announcing the Fourth ODA Plan (which promises US\$50 billion in ODA over the 1988–1992 period) the Japanese government promises that:

Technical cooperation will be greatly enhanced. . . . The Government of Japan . . . will strengthen its implementation system in such ways as expansion of personnel, fostering of country experts, deepening of regional studies, strengthening of project finding and formulation, intensification of evaluation activities, and utilization of consultants. Coordination with private-sector activities will also be strengthened.¹²

The policy principles of the New AID Plan are also at the core of chapter 5 (“Reducing the External Imbalances and Contributing to a Better World”) in the five-year economic plan entitled *Sekai to tomo ni ikiru Nihon* (Japan living with the world) released by EPA in May 1988. The importance of these five-year plans lies in the fact that they lay out the basic consensus within the Japanese government on future tasks and policies.

The new five-year plan calls for the construction of an international division of labor through more imports, more FDI, and more ODA. With regard to ODA, this five-year economic plan takes up discussion of economic cooperation issues in unprecedented detail and registers the new direction in Japan’s *keizai kyoryoku*. The section dealing specifically with economic cooperation states Japan will make country-by-country aid plans, will help developing countries draw up their own development strategies, and will invite Korea and Taiwan to help implement Japanese ODA programs. In particular, Japan pledges that “comprehensive economic cooperation (three ranks—one body style of economic cooperation) will be promoted linking and integrating assistance, investment, and trade.”¹³

From this discussion, we see that the significance of Japan’s ODA cannot be understood by looking only at money figures. Japan is using ODA as a tool in advancing a new set of strategic objectives that include a new effort to integrate the Asian–Pacific region under Japanese leadership. This thinking is implicit in the notion of the “flying geese pattern of development,” and the further notion of an “Asian Brain” manipulating Japan’s capital, technology, and trade to construct a regional division of labor tightly coordinated from Tokyo becomes quite explicit in a major EPA policy study.¹⁴

¹²MFA, “The Fourth Medium-Term Target of the Japanese Government on Official Development Assistance (ODA),” June 14, 1988.

¹³Keizai Kikakucho, *Sekai to tomo ni ikiru Nihon: Keizai un'ei 5 ka nen keikaku* [Japan living with the world: the five-year economic plan] (Tokyo: May 1988), p. 26.

¹⁴Nihon Sogo Kenkyujo, *Kokusai keizai knakyo gekibenka ni okeru sogo-teki keizai kyoryoku suishin chosa hokokusho—Ajia nettowaku no kochiku ni mukete* [A study on

New Directions in Japanese Security Policy

Japan faces a delicate task in the area of security. Japan today must do more—without doing too much—for its own security. Japan is increasing its responsibility for its own territorial defense within the framework of the U.S.–Japan Security Treaty, and last year it broke the 1 percent of gross national product (GNP) barrier in defense spending. This 1 percent ceiling finds its origin in a pledge given by Prime Minister Takeo Miki in 1976 as a political expediency to gain passage of a new National Defense Program Outline in that year. This outline, which still forms the foundation for Japan's security policy, calls for qualitative improvements in weaponry and organization sufficient to temporarily withstand a limited Soviet invasion threat.

In drafting a new National Defense Program Outline for the 1990s, Japan shows some signs of desiring greater military capabilities and a more autonomous security posture. In this regard one could point to Prime Minister Norobu Takeshita's speech of March 21, 1988, at the Japanese Defense Academy, in which he called for a defensive capability proportionate to Japan's economic power. It is also interesting to note that the FY 1988 budget drafted by the Ministry of Finance originally called for just under 1 percent of GNP for defense spending, but this figure was boosted over the 1 percent mark after review by the Cabinet, indicating political will to sustain higher defense spending. There is also talk of adding aircraft carriers to Japan's navy, and Japan's recent effort to develop independently a new-generation fighter plane, the so-called FSX, seems to indicate a desire to create a state-of-the-art military-industrial base.

In view of Japan's desire to create a more independent political identity, these are understandable signs, but they are a cause for concern since expert opinion in the United States now believes Japan's current military capabilities are adequate. Japan's military spending already ranks third in the world, and by the end of the current defense plan it will have enough air and naval forces to meet any likely local security contingency. At the same time, the Soviet Union seems to be less threatening; moreover, the Soviet threat is effectively neutralized by existing U.S. and Japanese military deployments. These factors raise the question of Japanese intentions. In the absence of an adequate explanation by Japan, a marked Japanese military buildup would introduce a new element of tension in the region.

Even more unsettling would be signs of trouble in U.S.–Japan security

the promotion of comprehensive economic cooperation within an international economy undergoing upheaval—Toward the construction of an Asian network] (Tokyo: Economic Planning Agency, March 1988).

relations. The danger of Japan's going too far in its military buildup is illustrated by the controversy over the new-generation FSX fighter plane. Not content with continued reliance on U.S. weapons makers and worried over Japan's long-term security prospects, Japan wishes to create state-of-the-art weapons. But Japanese moves to create a military-industrial base superior to that of the Soviet Union and rivaling that of the U.S. cannot fail to have far-reaching implications. Paradoxically, as Japan builds up its autonomous military capabilities in an effort to increase its security, it undermines the basis of the security relationship with the United States.

It is interesting to note certain signs that even the Soviet Union, which heretofore has worked to undermine U.S.–Japan security cooperation, today may be changing its mind. An article by Alexie Bogatyrov and Mikhail Nosov in the May 1, 1989, issue of the Soviet magazine *New Times* called for official approval of the U.S.–Japan Security Treaty as well as termination of “demonstrative patrols” and a withdrawal of forces from around Japan.

U.S. and ASEAN Perceptions of Japan's Role in the Asian–Pacific Region

Japan's Economic Role

In the short term, the U.S. and ASEAN have reasons to be happy with Japan's regional economic initiatives, but concerns about the longer-term implications of Japan's present direction still remain.

The prosperity and stability of the ASEAN countries require Japan to do what it is currently doing. In a speech delivered at the First Japan–ASEAN Conference held in Tokyo, January 29–31, 1987, Indonesian Foreign Minister Mochtar Kusuma-Atmadja suggested ways in which Japan and ASEAN could usefully interact. He stated that “an enlightened policy of economic assistance and cooperation through trade with the ASEAN countries provides Japan with an opportunity to play a constructive role in enhancing political stability in Southeast Asia through means that are essentially nonpolitical.”¹⁵ He then voiced concern over deteriorating Japan–ASEAN trade and direct investment relations recorded in the 1980–1985 period and mentioned the possible use of ASEAN as a funding window for its members' restructuring efforts.

It is important to note that on all these points Japan has given a positive response. Japan has made active efforts to increase Japan's ODA, trade, and FDI links with ASEAN and others in the region; and the US \$2 billion Japan–

¹⁵Mochtar Kusuma-Atmadja, “Peace, Stability, and Prosperity in Southeast Asia: An Indonesian View,” *The Japan Review* 1, 1 (Spring/Summer 1987):19.

ASEAN Fund formalized at the ASEAN Summit in December 1987 supports ASEAN's continued development. It is clear that the ASEAN countries appreciate the rapid increase of exports to Japan and the inflow of Japanese technical assistance, official capital, and private direct investment that is accompanying the integration of the regional economy under Japanese leadership.

Although Japan's serious longer-term intentions are still unclear, possible implications of Japan's initiatives may be suggested. The open international economy on which the Asian–Pacific region depends is threatened by the rise of exclusive economic regionalism. The situation would be even more serious if Japan were perceived to be acting to worsen the trade imbalance between the West and the Asian–Pacific region as a whole. Recognition of this threat is evident in the keynote address by L. B. Moerdani at the Second Japan–ASEAN Conference held in Bali, March 20–21, 1989, in which he voiced ASEAN's concern about the flight from global multilateralism and the desire to work with Japan to restore an open, stable, and peaceful global environment.

The breakdown in open global economic relations is in part the result of negative U.S. and European perceptions of Japanese economic practices. As Narongchai Akrasanee and Suthiphand Chirathivat noted about Japan's persistent trade surpluses with the United States and the European Community, "the impact of such a huge imbalance not only represents the subject of concerns voiced to Japan, but also equally to the rest of the world. It implies that Japan with an excessiveness in international transactions assumes certain responsibilities of resuming a balance."¹⁶ If, as a matter of policy, Japan refuses to buy more from the West—even as Japan makes the Asian–Pacific region into a new export base for Japanese firms to substitute for direct exports from Japan—then others will have little reason to sustain commitments to the present system of open global economic relations when there is little mutual benefit.

Japan's Political and Security Roles

Last year Muthiah Alagappa made the following observation: "With the passage of time and the resurgence of Japanese nationalism, and with increasing friction in Japan–U.S. relations, the idea of an independent role will gain ground, but there are insuperable difficulties such as the nuclear

¹⁶Narongchai Akrasanee and Suthiphand Chirathivat, "Trade Issues among ASEAN, Asian NICs, and Japan," paper presented at the Tokyo Conference in Global Adjustment and the Future of Asian–Pacific Economy, May 11–13, 1988, Tokyo, p. 10.

threshold and the American market."¹⁷ This observation remains valid, as does the inherent paradox: How can Japan assume an independent political identity while being constrained by its economic and security dependence on the United States? The implied solution is to reduce the dependence, but this can only go so far before it becomes counterproductive for Japan and its neighbors. In view of the trend of events and Japan's enduring interests, the most plausible answer to Japan's need for an independent political role would be for it to lead in the area of deepening cooperation.

Both the United States and ASEAN can find agreement that, in view of recent developments, Japan's present military capabilities are sufficient to meet any likely contingency. For this reason, observers will begin to question the need for a continued buildup in Japanese military capabilities. Indeed, any further military development could be cause for concern, and efforts to engage Japan in discussions of its future intentions in this area might be prudent in order to avoid any potential misunderstandings.

Nonetheless, Japan has legitimate security interests and a larger role to play in regional security affairs. With regard to adjusting relations with the United States in this area, Japan could address the burden-sharing problem by giving more funds to defray the costs of maintaining U.S. forces in Japan. At present, Japan pays approximately 40 percent of the cost of U.S. forces stationed in Japan, and this figure could be increased.

If Japan is concerned about the security of its sea lanes through Southeast Asia, it could engage in some kind of formal or informal role-sharing arrangement with the ASEAN countries and the United States in order to meet its own interests and the concerns of these strategic partners. As for regional burden sharing, at a recent conference Lau Teik Soon suggested that it may be useful for ASEAN to increase its military cooperation, and for ASEAN, South Korea, and Japan to work out some kind of loose security arrangement with the United States.¹⁸

Security in the region, however, is not just an issue of military budgets and force balances. Japan has the opportunity to play a regional political role that will have an important bearing on the regional economic and security environment. The United States, Japan, and ASEAN share the

¹⁷Muthiah Alagappa, "Japan's Political Role in the Asia-Pacific Region," paper presented at the Japan Institute for International Affairs (JIIA) conference, *Pacific Century: Problems and Prospects*, March 3-4, 1988, p. 39.

¹⁸Lau Teik Soon, "The New Strategic Environment in the Asia-Pacific Region: ASEAN Perspectives and EEC Role," paper presented at the Joint Convention of the British International Studies Association and the International Studies Association, London, March 28-April 1, 1989.

perception that stable economic growth is an important factor in maintaining security and political stability in the region. For this reason, Japan's ability to provide a market for Asian exports as well as to send aid and investments to the Philippines and other troubled countries in the region will be increasingly important. In addition, Japanese efforts to enhance the strength of ASEAN through economic and political cooperation in their many areas of mutual interest would be beneficial for the region's stability.

ASEAN and the United States recognize that Japan can play a positive role in providing incentives to settle regional conflicts. In the Cambodian conflict, Japan has promised money and personnel. In the Korean peninsula, Japan is attempting to increase contacts with North Korea in order to break down its isolation and promote a resumed dialogue between North and South Korea. Finally, in potential trouble spots such as the Taiwan Straits or the South China Sea, Japan could encourage restraint by involved parties and could take positive steps such as promoting joint development schemes as a regional peace and security measure.

With regard to the broad issue of integrating the region's socialist countries into normal relations with the region, Japan can make a significant contribution. Japan could take steps to end the dangerous isolation of North Korea by canceling that country's small outstanding debt and promising economic cooperation as tensions on the peninsula ease. Japan also could facilitate reduced tensions by improving relations with the Soviet Union in step with the rest of the world. In this regard, it should be possible over time to work out a face-saving formula for the return of the northern territories. With this obstacle out of the way, and depending on Soviet and Chinese attitudes, it might be possible to put regional arms control on the agenda.

With regard to China, as its major provider of capital, technology, and expertise Japan will play an important role in keeping the PRC on the path of stable economic reform and political development. Finally, with regard to Vietnam, as suggested by J. Soedjati Djiwandono, Japan could work in cooperation with ASEAN and other powers to bring it into peaceful relations with its neighbors after its withdrawal of forces from Cambodia.¹⁹

Japan's greatest challenge may be that of handling increasingly troubled relations with the United States. Jusuf Wanandi recently stated, "Japan's principal political and diplomatic task is to stabilize its relations with the U.S., because this is the most important relationship in the Asian-Pacific region as it provides the foundation for regional peace and stability.

¹⁹J. Soedjati Djiwandono, "Great Power Relations in the Asia-Pacific Region," paper presented at the JIIA conference, *Pacific Century: Problems and Prospects*, March 3-4, 1988, Tokyo, p. 25.

The main problem here is how to bring together these two great and advanced nations that have such great differences in values and culture."²⁰ The question is whether Japan can move quickly enough toward internationalization and a meeting of minds with the United States over mutually compatible roles in the emerging post-Cold War order.

Changing U.S. Perceptions of Japan

U.S. perceptions of Japan are changing in reaction to new international objectives and priorities. The U.S. dilemma is that it wishes to maintain an open, liberal international system, but it needs to rectify intolerable imbalances in trade and security ties with Japan. Because relations have been chronically difficult to manage, Japan is being perceived as a potentially threatening economic power. In this transition period U.S. policy toward Japan will be contradictory and confused at times, but there is increasing recognition that relations with Japan will have to be handled more systematically and with greater coordination at the working level.

Although progress in adjusting relations is being made, the process is contentious and at times rancorous, especially over the key issue of Japan's market liberalization. Japan views this adjustment process as yielding unilateral concessions to U.S. pressure, whereas the United States views the process as Japan's fulfillment of leadership obligations that have been avoided for too long. Japan feels resentment that the United States makes unilateral demands; and the United States is unhappy that Japan expects rewards for "buying into" a liberal economic and political order that has served Japan so well. A similar problem arises when Japan insists that only the United States can lead in global political and economic issues but demands that the United States treat it as an equal partner. Japan trades on its non-superpower status to avoid certain responsibilities but demands equality in issues affecting Japan's interests.

From the U.S. point of view, Japan is not providing the liberal market access expected of a new pillar in the open international political economy. Other nations similarly placed might be expected to advocate a policy of free trade and to lead the world toward liberalization by example. But Japan continues to obstruct and deflect efforts to gain liberal market access in areas that are inconvenient for it.

The U.S. expected the devalued dollar to rectify the trade deficit with Japan, but no significant change has occurred. In 1987, U.S. exports to Japan increased only 8 percent in yen terms, despite expectations generated by the 50 percent adjustment in the dollar-yen exchange rate.

²⁰Jusuf Wanandi, "Japan's International and Regional Role: An Indonesian Perception," *The Indonesian Quarterly* 16, 3.

As the result of two decades of serious trade friction with Japan, there is a growing U.S. perception that Japan is incapable of understanding or implementing true market liberalization.²¹ Moves to increase imports come only under concerted external pressure and criticism, and as explained by Clyde Prestowitz in his influential book *Trading Places* (1988), only too often Japanese responses to foreign demands for liberalization affect superficial, formal barriers and leave intact a maze of informal administrative and private-sector controls and quid pro quos that leave the substance of a trade conflict unchanged.

The most recent example of this is the case of a U.S. maker of radio telephones who was promised market access only after official U.S. pressure. First, the firm was barred from the most important markets in Japan, the Kanto and Kansai urban areas, and then it was told it could not be allocated radio frequencies in the remaining areas where it was allowed to offer services. Such practices prompted Peter Drucker to apply three years ago the term "adversarial trade" to Japanese economic policies.²² James Fallows, writing more recently in *The Atlantic*, called for a "containment" policy vis-à-vis Japan.²³ Indeed, the desire to gain leverage over Japan is one important factor behind the EC's economic integration plans and the creation of the new "Super 301" clause of the U.S. Omnibus Trade and Competitiveness Act of 1988.

Because of these changing U.S. perceptions of Japan, it is no coincidence that Japan is one of the first countries placed in May 1989 on a list of countries subject to retaliatory, discriminatory tariffs if identified trade barriers are not successfully negotiated within eighteen months. In the case of Japan, the identified trade items were supercomputers, satellites, and lumber products. Japan's immediate response was to refuse to negotiate, and the future holds the prospect of yet another round of acrimonious trade conflict.

Not just trade, but also aggressive Japanese investment and lobbying activities in the United States are coloring American perceptions of Japan. In 1988, Japan's direct investment in the United States was US\$15.09 billion, making it the largest investor in the United States for the first time, a newsworthy fact that attracts popular attention. And at the time when Congress was deliberating trade sanctions against Japan for the Toshiba affair, it was being reported that the Japanese were spending millions of dollars on Washington lobbyists to buy influence over the U.S. government.

²¹Leon Hollerman, *Japan Disincorporated: The Economic Liberalization Process* (Stanford, Calif.: Hoover Institution Press, 1988).

²²*Wall Street Journal*, April 1, 1986, p. 32.

²³James Fallows, "Containing Japan," *The Atlantic*, May 1989, pp. 40-54.

Japan is now being perceived as the new competitive challenge for the United States—not just among the elite, but also among the general population.

U.S. perceptions of Japan have been basically sympathetic and friendly, but the situation could change in future. Aside from the regular stream of complaints about Japanese trade and investment practices, in 1986 public attention was drawn to Prime Minister Nakasone's remark that blacks and Puerto Ricans reduced the intelligence level of the U.S. In 1987, the Toshiba sale of precision milling machines to the Soviet navy struck a nerve, as did news about an anti-Semitic book by author Masami Uno that became a bestseller in Japan. In 1988, remarks by senior LDP leader Michio Watanabe to the effect that American blacks were all financially irresponsible, and by Cabinet Minister Seisuke Okuno that Japan before World War II was not engaged in aggression in China or Korea but was endeavoring to save Asia from the white races, caught popular attention. And today, after the Recruit scandal exposed widespread corruption involving almost the entire LDP leadership as well as senior bureaucrats and business leaders, the American public is puzzled by the fact that there is not likely to be any fundamental change in leadership or policies. Thus, the perception is spreading that Japan may not be as democratic as many Americans have been taught to believe.

Impediments to Japan's Internationalization

More Japanese voices are pleading today for a reorientation of Japan's outlook and behavior. The Japanese economist Iwao Nakatani notes:

Self-centered behavior no longer makes sense. No matter how just its claims that, for example, Japanese tariffs are the lowest among the OECD [Organization for Economic Cooperation and Development] nations, there is no hiding the fact that, in overall perspective, institutional and other non-tariff rigidities do more to close Japan to foreign goods than relatively formal regulations do to open it to foreign goods. . . . By intentionally averting its eyes from its obligation to assume "the responsibilities of a major economic power," Japan is making every effort to protect the advantages it already enjoys.²⁴

Former MITI Vice Minister Naohiro Amaya has made the same point:

Unfortunately, it is my impression that most Japanese are confused about whether to travel the path of the "merchant nation" or that of the "noblesse nation." They do not know which to choose because they have not

²⁴Iwao Nakatani, "Japan's Choices: Toward a World Role," *Look Japan*, January 1988, pp. 11–13.

reflected clearly and calmly enough on their deepest values and feelings. We now face an identity crisis of monumental proportions, and we must make a choice that we will not regret later.²⁵

A senior staff writer and longtime overseas correspondent for the *Nihon Keizai Shimbun* has noted only half-jokingly, "These days the Japanese are wont to behave almost as if they were natives of a different planet bombarding the earth with products in some kind of space war."²⁶ And Ken'ichi Ohmae has written, "If we persist in our ignorance of our transformation from a have-not to a rich nation and fail to escape from our postwar poor-boy mentality, we will be shunned by other nations, who will belong to a new interdependent order."²⁷

Although an awareness of the need for change in Japanese attitudes and behavior is present, there are strong political and institutional interests preventing a timely adjustment. The obstructive role of *zoku* (vested interest syndicates) composed of private-sector, bureaucratic, and LDP interests sharing jurisdiction over a policy area is often commented on. Underlying this, however, is the broad interest of the developmentally oriented Japanese bureaucracy in maintaining its traditional power and status in the face of adverse trends.

Now that it is fully mature, the Japanese private sector is becoming increasingly restive under the intrusive "guidance" of the Japanese bureaucracy. To preserve its traditional power and authority, the bureaucracy is making itself useful to the private sector. On one hand, it is protecting its private-sector clients from foreign competition at home, and on the other hand, through such means as ODA, it is guiding and promoting the expansion of overseas business activity. This arrangement benefits the private sector, preserves bureaucratic power, and fits traditional Japanese attitudes of economic nationalism. But foreign demands to liberalize the Japanese economy mean the dismantling of this system of intrusive bureaucratic power. Therefore, "liberalization" in the Western sense violates the interests and traditions of the Japanese bureaucracy.

Aside from these institutional rigidities, certain attitudinal and cultural factors hinder prospects for Japanese international political leadership. With the rise of Japan's economic status has come a new kind of assertiveness that blends national pride with arrogance and insensitivity toward the outside world. The previously cited examples of offensive remarks made

²⁵Naohiro Amaya, "Deciding Who We Are," *PHP Intersect* 4, 1 (January 1988), pp. 8–10.

²⁶Miyachi Soshichi, "The Dangerous Tide of 'Soap Nationalism,'" *Japan Echo*, Spring 1987, pp. 51–54.

²⁷Ken'ichi Ohmae, *Beyond National Borders: Reflections on Japan and the World* (Tokyo: Kodansha, 1987), p. 121.

by senior LDP leaders are examples of this, as is the recent case of a Japanese history textbook that passed the screening of the Ministry of Education but was successfully censored by younger conservative LDP Dietmen of the Association of Comrades to Discuss the Nation's Basic Issues led by a relatively young Dietman, Shizuka Kamei.²⁸ This second-year high school textbook quoted a Malaysian describing Japanese war atrocities, a passage that was cut out after the LDP's Education Affairs Committee filed a protest with the Ministry of Education. The publisher then "voluntarily" replaced the section in question with a story similar to George Bernard Shaw's play *Pygmalion*.

If Japan's exclusivity and sense of uniqueness prevent it from coming to terms with its history of imperialism and militarism, these traits also hinder its diplomacy. Public opinion polls show that most Japanese do not mind spending money on refugees, but they do not want them in Japanese society. Nor do Japanese wish unskilled foreign workers to come to Japan despite an impending labor shortage. And in the midst of emotional negotiations over U.S. beef imports to Japan, a senior Japanese official visiting Washington stated that Japan did not need to buy or eat as much beef as Americans because Japanese have longer intestines—a factually incorrect statement indicative of the problems Japan has in shedding a peculiar world view.²⁹

Japan's Contributions to the Post-Cold War Period

Japan's optimal international role will be determined by how its relative strengths and weaknesses fit into the emerging pattern of international relations. Broadly speaking, Japan's long-term interest will be to cooperate in the construction of a balanced multilateral system of political and economic relations that will contribute to three overall objectives.

First, the new system must introduce a new element of cooperation by promoting the integration of socialist countries into normal global political and economic relations. In this regard, Japan could cooperate with the noncommunist world to create incentives for the socialist world to stay on the path of reform and peaceful development. These incentives will be affected by security and political issues in cases where formal or informal cooperation with other market-oriented countries could shape the choices facing the leaders of the socialist countries.

Second, the post-Cold War system must have ways of handling the increasing level of economic conflict among the Western allies. Such

²⁸"War Atrocities by Japanese Deleted from Once Approved Textbook," *Japan Times Weekly*, overseas ed., no. 42, October 22, 1988, p. 7.

²⁹"Notebook: Japan's Intestinal Fortitude," *The New Republic* 13 (February 1989):8.

conflict is the by-product of increasing economic integration, and the problem is that unless this conflict is successfully managed, the process of global economic integration could be reversed, with negative ramifications that are difficult to foresee. Therefore, Japan has the responsibility to play a positive role in removing the causes of such conflict where possible. In particular, Japan's actions in trade have consequences on U.S. and European behavior, and a positive effort by Japan to adjust trade relations with the United States and Europe will help not only Japan but all those dependent on open global economic relations and secure sea lanes stretching from the Persian Gulf to the Panama Canal.

Third, the new order must give greater recognition to the need for international cooperation to address the problems of development in the Third World as well as newer ecological threats to security. Here Japan is already taking such positive steps as increasing both its ODA and its contributions to various international organizations.

The roles that Japan should avoid are those that go against the need for vigorous support of open global political and economic relations. Any attempt by Japan to create international order out of step with global trends in international relations would impose great costs on itself and its neighbors. For example, Japanese moves to create a self-sufficient and autonomous security role would be potentially destabilizing because the requisite ability to project military force would introduce a new threat to Japan's large and small neighbors. The resulting tensions would create conditions harmful to Japan's interests by seriously affecting its economic relations, and Japan could find itself politically isolated and less secure than if it had limited itself to a more modest role.

Another danger would be if Japan consciously sought to lead an exclusive sphere in the Asian-Pacific region. Whether guided by the concept of pan-Asianism or that of an economic division of labor planned and coordinated from Tokyo, the implied effort to exclude U.S. or European interests and create a pyramidlike political or economic order would increase conflict and could push the world toward exclusive regional blocs. Such a course of events for Japan and those identified with Japan's interests hardly shows great promise.

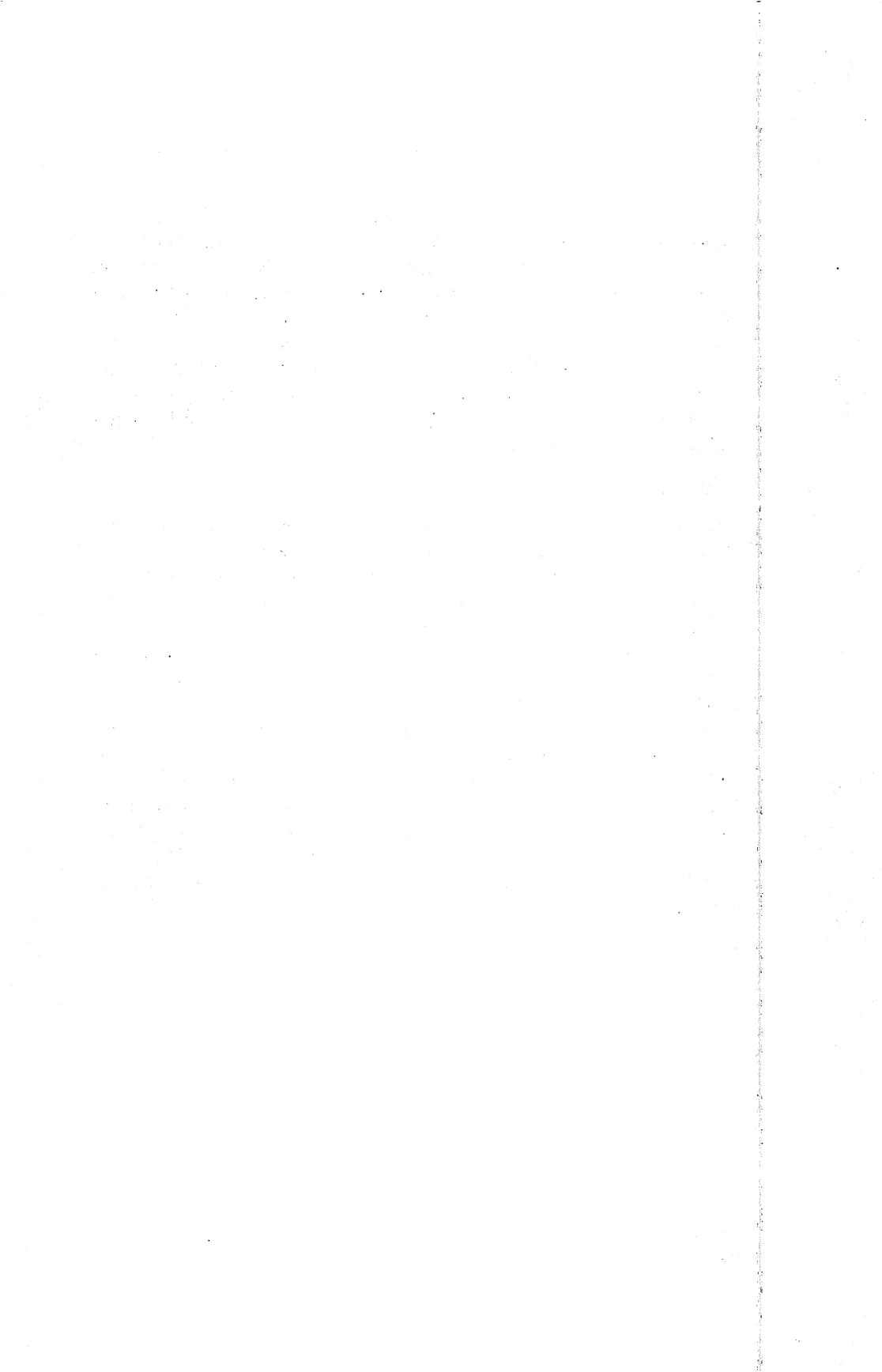
In the post-Cold War period, Japan's true interest is to give priority to global cooperative relations in order to create the best conditions for regional economic growth and political stability. In a sense, the best thing Japan could do is to work at bringing its standard of living in line with its GNP figures. This would turn Japan's energies away from the old growth-oriented, mercantilist policy line that complicates global and regional relations and would turn Japan into a growth pole for the rest of the world by absorbing more imports.

Domestic considerations also argue for this policy line. There is a new assertiveness among urban blue- and white-collar workers, signified by the formation in 1987 of the Rengo (Japanese Private Sector Trade Union Confederation), which represents 5.5 million workers and constitutes a bold effort to construct a national labor center in order to press for a better quality of life. Even among the elite there are complaints that Japan is a country where wealth is not allowed to benefit a person's lifestyle so long as that person remains inside Japan.³⁰ These popular frustrations complicate the current need to shift the LDP's electoral base to these urban blue- and white-collar constituencies.

Conclusion

There are deep and complex changes at work within Japan and in the world at large. Although their interaction is impossible to foretell, clearly Japan is now plunged into a difficult period of rapid transition to a role of autonomous international responsibility and leadership. As one power within a multipolar system, Japan's interest will be to seek a stable alliance partner to guarantee security for itself and stability for the region as a whole. Japan will have an interest in building a system of broad global cooperation to address emerging issues of regional conflicts, arms control, and economic development. Finally, as a major power in Asia, Japan will be able to offer leadership, but it must first come to terms with its own past, and it must recognize that no one power in a region as large and diverse as Asia will be able to establish political and economic leadership in an exclusive sense. The issue today is whether Japan can find the political leadership and vision to work in these directions. Japan's friends and neighbors have an interest in helping Japan find a constructive regional and global leadership role.

³⁰Kuniko Inoguchi, "Prosperity Without the Amenities," *Journal of Japanese Studies* 13:1 (Winter 1987).



Part Nine
Japan in Search of a Global Role



15. Japan in Search of a Global Economic Role: Realism vs. Regimeism

STEVEN C. M. WONG

The Backdrop: The Problem of Distribution

The constituents of the global economy are feeling jittery. The engines of growth have not exactly disengaged or entered reverse, but mounting signs of structural stress are evident. Perhaps nowhere is this stress more evident than in the economic inequalities that presently exist among nations.

Separating the world into *advanced* and *less advanced* countries is insufficient as a distinction. The dichotomy between *advantaged* and *disadvantaged* countries must now also be superimposed. Advanced countries wield the power to produce; the disadvantaged wield merely the will to produce. The differences between those that produce and those that consume are so skewed that the measures to correct the huge resulting imbalances can only be framed in polite terms such as “structural adjustment” or such euphemisms as “crowbars.”

Because the stakes of human wealth and happiness are so high, some confrontation and conflict between and among nations must be expected. Conflict, however, has a strange way of getting out of hand. In an interdependent world it is not necessary to be reckless to precipitate a crisis. Small errors accumulate. Catastrophism—the doctrine that explains major changes in terms of sudden, violent upheavals rather than a gradual process—provides an equally likely model.

Advantaged countries on the shores of the Pacific continue to enjoy rising standards of living, but problems of *oversavings* and *overconsumption* are unknown elsewhere in the world. The disadvantaged in sub-Saharan Africa and Latin America languish in a persisting spiral of debt, inflation, and poverty unmatched since the Great Depression.

The distribution problems of advanced disadvantaged countries are relative, but those of less advanced disadvantaged countries are absolute.

At stake are human life and health. Having no means to exit the international economy, no voice in international affairs, and no means to be loyal to an effective grouping of countries,¹ their prospects are very bleak. Economic reforms offer a solution, but starting points often determine outcomes. Reform of crumbling structures is simply not feasible.

Little wonder, then, that the global economy is jittery, for there is just cause. An uncommon level of cooperation is needed to construct a system of global economic interactions that is open, stable and, most important, equitable. Distributive justice, however, is not one of the great hallmarks of the present international economic order. Many would argue that, despite the existing international regimes, nations are more likely to behave as if "there [were] no moral rules regarding the structure and conduct of economic relations between states."²

It is a matter of common sense that if a game is perceived as unfair, there will be few players. Those stupid enough to play can expect to be thoroughly exploited. Trends toward increasing bilateralism and regionalism suggest that this is already happening. The very fact that the General Agreement on Tariffs and Trade (GATT) has not collapsed may prove that the will to cooperate does survive. But progress has been meager and there are more trade fights outside Geneva than in it. This kind of conflict does not generate a great deal of confidence that positive change will result. Likewise, the International Monetary Fund's (IMF) restrictions on new lending to debtor nations seems too centered on lenders' principal rather than borrowers' crises. Debt forgiveness is now accepted, but the hemorrhage of capital to advantaged nations remains unstopped.

Keohane strongly argues the case for international regimes as "less constraining on the autonomy of weak states than politically feasible alternatives which would presumably involve bilateral bargaining on the basis of power rather than of general rules."³ He also states that "a collapse of international regimes, imperfect as they are, would reduce overall welfare without benefitting the worst-off members of these societies."⁴ On these two points he is probably right. Bhagwati and Irwin use the metaphor of having to pedal a stationary bicycle faster just to stop from falling off to describe the GATT rounds.⁵

¹A. O. Hirschman, *Exit, Voice, and Loyalty: Responses to Declines in Firms, Organizations, and States* (Cambridge, Mass.: Harvard University Press, 1970).

²C. R. Beitz, *Political Theory and International Relations* (Princeton, N.J.: Princeton University Press, 1979), pp. 65–66.

³R. O. Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy* (Princeton, N.J.: Princeton University Press, 1984), p. 248.

⁴*Ibid.*, p. 252.

⁵J. Bhagwati and D. A. Irwin, "The Return of the Reciprocitarians: U.S. Trade Policy Today," *World Economy* 10:2 (June 1987).

The trouble with Keohane's proposition is simply this: Given the dimensions of the wealth polarization problem, where will the impetus for positive change come from? When will regimes actually start to provide the public goods needed to close the income gap between advantaged and disadvantaged nations? More to the point, who can serve this function? When only one country is dominant, there is no difficulty in identifying who can best furnish the rules of international behavior and best provide the leadership to resolve distributional issues. Problems do arise, however, when no one single power can be identified. The United States is the world's largest economy, but its grip on world output and trade is weakening. Japan's rising economic stature, on the other hand, places it in a unique position to fill that role.

Enter Japan

The key to cooperation is whether Japan can agree with other constituents in the world economic system about what the terms "leadership" and "burden sharing" mean. Unfortunately, the concept of "leadership," as applied to Japan, is semantically rather rich. The basis for much of what has been written about Japan's global responsibilities emanates from an assumption that economic interdependence creates shared interests. This can probably be termed the *cosmopolitan view* principally because if one were to adopt a statist's realist view there would be precious little to say. In effect, what cosmopolitanists argue is that Japan would be exercising leadership if it did what individual constituents wanted it to, namely, averaging out and redistributing wealth. Then, with the relative disparities out of the way, the problems of the world economy would resolve themselves.

Among other things, three ways in which Japan's obligations as a leader have been defined—by the disadvantaged—are as engine of growth, benefactor, and financier. Here I will make a brief attempt to evaluate these three roles.

Engine of growth

Importing more goods for consumption than exported is one sure way to dissipate wealth. More than one country in the world will testify to this fact. In an unfortunate age when bilateral trade balances make trade policy, Japan has responded by importing more from other countries. Old habits, however, die hard. Export growth, after a short fall, rose again despite attempts to manipulate exchange rates and using "crowbars." To the utter chagrin of indebted consumer countries, Japan's trade surplus has shown remarkable resilience (see Table 1) and some impolitic Japanese have begun to speak of their country's "supercompetitiveness."

Japan is rightfully accused of having been for too long a passenger on a

Table 1
Japanese Trade
(in US\$billions)

	Exports	Percent change	Imports	Percent change	Trade Surplus
1985	175.69	—	129.54	—	46.15
1986	209.15	19.0	126.41	-2.4	82.74
1987	229.22	9.6	149.52	18.3	79.70
1988	264.41	15.4	187.50	25.4	76.91
1989 ^a	298.19	12.8	219.79	17.2	78.40
1990 ^a	322.83	8.3	242.82	10.5	80.01
Growth 1985-90	12.90		13.40		11.60

^aProjected.

SOURCE: Kansai Economic Research Center.

train pulled along by others. It has exploited policy asymmetries in the past, and now the time has come for it to take its turn at playing puller rather than pullee.

Bilateral trade surpluses, however, are not and never have been evidence of a lack of leadership or desire to share burdens per se. What is at issue, rather, are the steel-and-concrete industries of consumer countries that, afflicted by imports, seek government protection to prevent losses and try to shift adjustment costs to exporters. "Shifting" has become the semantic equal of "sharing."

In times past, trade imbalances were viewed as the cost of maintaining an open, multilateral regime that served the national interests of Western powers. Today, Japan's economic dominance means that though it should take its turn at the wheel, it should also, at least partially, be able to dictate the direction in which it wants to go. The same rule of "national interests through open, multilateral regimes" must apply to Japan also if it is expected to cooperate fully.

Instead, what is being asked of Japan is an averaging out that must be difficult for any country to stomach, with or without foresight and with or without strong altruistic motives. Understandably, though, some countries have very powerful incentives to reduce imbalances with Japan on a bilateral basis. But the advantaged and disadvantaged nations should work together to correct these imbalances, and in a way that does not infringe legitimate national interests.

Benefactor

Another way to deplete wealth is to give it away or lend it at attractive rates. Here Japan has risen to the call of leadership. Japan regards its Official Development Assistance (ODA) program as one of its most important responsibilities in the world system. In relation to its size, Japan is the largest ODA donor in the world.

As a unilateral instrument, however, ODA has become a natural target for criticism. What disadvantaged countries want from this gift horse—and trenchantly criticize if they do not get it—is for Japan to undertake qualitative change in the forms and effectiveness of ODA. They want effective technology transfer in high value-added manufacturing. They want more technical assistance in research and development so that they can develop technologies of their own. They want Japanese ODA to support their private sector by absorbing the risks of private transactions between the two parties. And they want “softer” terms on the bilateral loans they take from Japan.

On a more aggregate level, it is now internationally accepted that only massive nondebt-creating flows can bring relief to debt-stricken countries and reduce the imbalance between the absolutely advantaged and disadvantaged countries. Yet about 45 percent of new ODA between 1985 and 1987 was in the form of bilateral loan aid, primarily directed towards the healthy, vibrant Asian economies. So one has a basis to ask if Japan’s motives in granting its ODA are pristine. The answer seems at least partially contained in the Japanese AID Plan announced in January 1987. The policy objective of the AID Plan was, in essence, to marry Japan’s ODA with its outward flows of direct foreign investment (DFI). In transplanting its low-tech, labor-intensive manufacturing industries to Southeast Asia, Japan in effect chose to import from its own firms rather than those of other countries. ODA does serve Japan’s national interests in more than one way, therefore.

Financier

Compared with the previous two roles, Japanese DFI to the world is probably the safest way for it to exercise its economic power. DFI has built-in reciprocity elements that ensure that both sides benefit or else regulate the DFI until it does. Greater cross-border investments also eventually mean a closer interdependence between investing and receiving countries. With more interdependence comes more areas of common interests.

A number of problems can arise with DFI. Anything as rapid or as startling as Japan’s increased participation in sovereign states must be expected to create some problems—if nothing more, then just social and psychological dissonance. Rapid DFI can, in some instances, also have

some sizeable macroeconomic side effects, such as pushing up a receiving country's exchange rate and temporarily destabilizing its balance of payments. DFI can also cause structural dislocations by creating labor and raw material shortages, thus pressuring prices upwards.

Support for the Realist View:

The Asian Brain

An interesting report commissioned by Japan's Ministry of Trade and Industry (MITI) was issued in March 1988. Entitled *Promoting Comprehensive Economic Cooperation in an International Economic Environment Undergoing Upheaval: Toward the Construction of an Asian Network*, it has not, to my knowledge, been accepted as government policy. It is nonetheless instructive to see in this report some of the integrated, statist-type policy thinking that goes on behind the scenes and that may sometimes end up in Japanese policy discussions.

Asian Network emphasizes an important shift in some Japanese thinking about the world political economy. Much of the previous work on ODA considered the latter strictly in terms of a bilateral issue. *Asian Network*, however, articulates a bold strategy to embrace Japan, the Asian newly industrialized economies (NIEs), and ASEAN into a coordinated, three ranks—one body concept. In essence, the report's goal is to integrate Japanese ODA, DFI, and trade. To implement this vision, it proposes constructing an adjustment coordinating mechanism called the "Asian Brain." The Asian Brain would control the type and flows of Japanese DFI to the Asian NIEs and ASEAN. In so doing, such a mechanism would determine who produced what within the Asian-wide system. Asia's industrial structure would be planned from Tokyo, and free-trade agreements among the three tiers would reinforce the industrial structure.

Furthermore, according to this report, ODA is also to be regulated by the Asian Brain, acting as a tool to facilitate a kind of Asian industrial policy. *Asian Network* envisages that any three countries planning to implement a Japanese ODA project would be coordinated because carrying them out jointly made a great deal of sense. The report also notes that even though Japan may supply all the ODA financing, South Korea and Taiwan should be used as rerouting points for ODA so that the "overpresence" problems of Japanese bilateral ODA would not appear. The report states: "With a view toward setting up this gigantic economic cooperation with an appropriate role in international society, Japan's exhibition of leadership in creating the 'Asian Brain' would be a great contribution with respect not only to the Asian region but also to international society as a whole."

One may or may not take the "Asian Brain" proposal seriously. If one did, there might be two ways to judge it. One way would be to argue that it provides support for thinking that Japan wishes to manage its economic

contributions in such a way as to create well-defined geographic spheres of interest—a remake of the infamous “Greater East Asian Co-Prosperty Sphere” concept. Another way is this: Although it is politically explosive, the Asian Brain represents an ingenious scheme that rolls Japan’s three leadership roles neatly into one tightly knit whole. Certainly it appears to be an idea with merit that could be implemented to a substantial degree whether or not any country in the other two tiers agreed, so long as they maintained liberal economic policies. Equally, as an economically rational proposal, it may well be that some Asian countries could actually want, secretly, to see the Asian Brain proposal realized, provided it was domestically acceptable and implemented on the basis of partnership, equality, and reciprocity.

Nonconclusions

This chapter offers no conclusions. It does raise a number of questions, however, and to the extent these questions generate discussion, its purpose will have been served.

Either as a result of previous arguments or else simply as an assumption, let us say that Japan’s search for a global economic role began from the position of “a state of nature that knows no restraints other than those of the changing necessities of the game and the shallow conveniences the players impose.”⁶ How will it then proceed? Much may depend on Japan’s capacity to carry out the search for its global role. Economically, it certainly has some of the necessary elements to change—and if not change then revitalize, and if not revitalize, then strongly support—the world economic system. It is important, however, to recognize the downside of this global role.

Japan’s export superpowers are widely admired, but though it is an undefeatable (and indefatigable) producer, its puny appetite for imports makes it vulnerable to consumer countries’ action. Japan’s amassed foreign reserves are the envy of the world, but its domestic quality of life is poor relative to other advantaged countries. Despite its technological wizardry, many Japanese products and services are priced at some multiples of border prices, making not a few wonder where all the efficiency comes from and goes. Significant for a country whose products are thoroughly globalized, the Japanese people themselves are not. Its political and social institutions are badly in need of reform to cope with the international challenges. These are some of the obstacles that Japan needs to overcome in assuming its new role.

⁶S. Hoffman, *Contemporary Theory in International Relations* (Englewood Cliffs, N.J.: Prentice-Hall, 1960).

16. Japan in Its International Role

ROBERT A. SCALAPINO

Every major state confronts an overarching challenge as the twentieth century draws to a close. An accommodation must be made in both domestic and foreign policies to the accelerating technological-informational revolution. At the very time when a profound restructuring of national economies is required, equally basic changes in foreign policies must be undertaken, changes paying homage to the new nature of power, to the shifting priorities in assigning national resources, and to the increasing fusion between each nation's domestic and foreign policies. National sovereignty, so recently achieved in many cases, is now being forced to share authority with emerging regional and global institutions, formal and informal. At least equally important, a rising portion of each nation's authority is being eroded by the dynamic actions of market forces whose activities cross ideological and political boundaries with ever greater ease, frequently operating beyond the control of all governments. Private forces now make decisions of great political and strategic consequence based largely if not solely on economic considerations, in the process often challenging decisions being made by governments based on a more complex set of criteria.

If Japan is unique among the major states, it is because that country's international role in recent decades has not been commensurate with its sustained economic growth. Japan stands in striking contrast to those states—notably the United States and the Soviet Union—whose international roles (and the costs attendant) have exceeded domestic development. Hence, the adjustment required of Japan is different in its direction. Yet the course chosen must be consonant with the desires of the citizenry at home as well as with needs (and sensitivities) of the international community. Up to the present time, the demands on Japan to assume an expanded international role have been largely external. Only a minority of the Japanese people have seen any reason to alter policies that afforded maximal benefits at minimal cost or risk.

In the years ahead, moreover, the demands for the application of Japan's

resources at home is likely to grow. The rapid aging of the Japanese population will necessitate much greater outlays for social services as well as requiring continuous structural adjustments in the economy. An ever-larger number of citizens will demand improvements in the quality of life, reflective of Japan's advanced stage of development. Issues ranging from those of higher education, land costs, and government subsidization of the backward sectors of the economy to those pertaining to congestion and the environment will steadily increase in importance.

A new politics will accompany these demands, the only uncertainties being timing and extent of change. Observers of the Japanese political scene, both foreign and domestic, have constantly pointed out the obstacles to political change: the entrenched old order resting on a tightly connected tripod of conservative politicians, the bureaucracy, and the powerful lobbies, namely, agriculture and business; the segmented, conflictual nature of decision making at the national level; and a political culture exclusive, groupistic, and conservative in bent. These conditions exist and, in greater or lesser degree, they will impose restraints on change. Yet other conditions may now be observed. Special interests are proliferating. The media are emerging as an increasingly independent force. Professional politicians, aware of these developments, are paying heightened attention to new categories of constituents. Subservience to the bureaucracy is lessening, even if dependence remains high. Through a growing number of attached specialists, the Diet—and perhaps more important, the Liberal Democratic Party—is developing an independent “expertise.” A new generation of politicians will soon make their debut in roles of national leadership, accentuating these trends.¹ Moreover, events like the Recruit scandal have added to the impetus for change coming from systemic developments. Thus, it is likely that political instability will increase in Japan in the era ahead, although in comparative terms this nation will probably fare better than others, especially the Leninist states. The February 1990 election serves to exemplify these facts. While the Liberal Democratic Party held its majority by a slightly reduced margin, the Japan Socialist Party gained a significant number of seats. Moreover, the current prime minister, Toshiki Kaifu, lacks control over his party and is in this sense weak despite his rising support among the electorate.

In this setting and given current international trends, what role is Japan going to play in the international stage? One hears little talk at present of a *pax Japonica*, and with good reason. Whatever may happen, Japan is most

¹A recent admirable interpretive survey of Japanese politics is Gerald Curtis, *The Japanese Way of Politics* (New York: Columbia University Press, 1988).

unlikely to follow Great Britain and the United States in establishing a dominant global position. Japan's power, though real, is unidimensional. No one can doubt that its economic influence on other nations and regions is increasingly substantial and carries with it political and strategic overtones. Yet when economic power stands largely by itself, it is vulnerable. Protectionism, nationalization, debt repudiation, and other retaliatory measures can stem from an aroused nationalist reaction to deep economic penetration from outside. And to influence the policies of others through economic leverage is not to control them. Indeed, there is an irony in the fact that when economic involvement reaches a certain point, Japan becomes hostage to the policies of other nations—policies over which it has real, but limited, influence.

One must distinguish the two major types of Japanese economic internationalism unfolding at present. The international activities of the Japanese private sector are motivated by the search for profits and for stability of resources and markets. The much-vaunted "hollowing out" of industries—both Japanese and American—has been exaggerated. Recent technological advances are making possible the rehabilitation of key industries at home that were once thought hopelessly antiquated. Nevertheless, the search for cheaper labor, a shelter against protectionism, access to new technologies in advanced nations, and a host of other considerations continue to drive Japanese private investment abroad. One result is the oft-noted trend from a vertical toward a horizontal distribution of labor on the international stage. The role of the Japanese government in this accelerating trend, while not insignificant, is peripheral. Through such measures as investment risk insurance it can encourage private operations in hazardous settings. More important, by involving the private sector in the identification and planning of Official Development Assistance (ODA) projects, it can and does provide a major advantage to Japanese firms. But the fact that massive private investment, a sizable portion of it in real property, is flowing to the United States relates primarily to the opportunities for profit perceived and the desire for a cushion against import restraints, decisions made by the private sector essentially without governmental influence. Similar or different considerations drive investment in such diverse nations as Thailand and Mexico.

Japanese ODA, on the other hand, involves more complex motivations, although, as just noted, it has been more closely connected with market advantage to the Japanese private sector than is often acknowledged. This is true of untied as well as tied assistance and provides the basis for rising complaints from recipients. The pattern was shaped from the very early post-1945 period, when reparations to other Asian nations were parlayed into a foothold for Japanese industry, and it has continued through the

successive stages of ODA growth. At the same time, the sources to which aid has flowed and the changing nature and conditions of that aid indicate political and strategic as well as economic considerations at work. Approximately two-thirds of Japanese ODA goes to Asia, with the major recipients being China, the ASEAN members, and Burma.² It scarcely needs to be emphasized that in East Asia Japan's economic, political, and strategic interests converge. The fact that Africa receives some 11 percent of Japanese aid, however, making it the region obtaining the second largest share, speaks to humanitarian considerations.³

Japan is now committed to economic diplomacy on an expanded scale. By 1987 it was contributing assistance to some 134 countries, and by 1988 its budgetary allocation had passed US\$10 billion, making it the largest aid donor in the world.⁴ Though the increases in dollar terms have been spectacular in recent years, however, much of this increase is a result of the rapid appreciation of the yen. In real terms, aid increase was around 3 percent in 1986, and in that year Japan's ODA ratio to GNP stood at 0.29 percent, causing it to rank fourteenth of the eighteen Development Assistance Committee members.⁵ In the years since 1986, however, significant ODA increases have taken place, and there can be no doubt that, barring some catastrophe to the world economy, Japanese economic assistance will continue to be a major international factor. Active Japanese participation in debt recycling discussions and its very considerable contributions to multilateral aid institutions such as the World Bank, the Asian Development Bank, and the International Monetary Fund are additional testimony to this fact.

It might be noted, however, that recent polls indicate that some Japanese citizens have the same questions about foreign aid that have been raised by the American public. Is assistance being effectively used? Indeed, does external aid support or deter domestic restructuring efforts? Should not the government direct greater attention to social services at home? Does such activity actually improve Japan's image?

Nevertheless, economic commitment signals the basic thrust of Japanese internationalism at present. Yet several critical questions arise. At the

²For a breakdown of Japanese ODA as of 1987, see Eileen M. Doherty, "Japan's Foreign Aid Policy: 1987 Update," in *Japan—Exploring New Paths*, ed. Jon K. T. Choy (Japan Economic Institute, 1988), p. 109.

³*Ibid.*, p. 110.

⁴For a brief discussion of recent trends in Japanese ODA and policy recommendations by a distinguished group of senior Japanese, see Japan Forum on International Relations, "Long-Term Political Vision for Stabilization and Cooperation in Northeast Asia," March 1989.

⁵Doherty, "Japan's Foreign Aid Policy," p. 107.

broadest level, will economic diplomacy suffice? Can Japan satisfy itself and others by placing its overwhelming emphasis on economic internationalism, consciously relegating other aspects of foreign policy to subordinate positions? If not, what modifications or developments are likely in Japan's global role in the years ahead? And with relation to its economic policies, are those now in effect appropriate and sufficient for the future?

It is my view that Japan must deal simultaneously with three crucial relationships in the 1990s, acknowledging that each has its special requirements. These are its bilateral relations with the United States, its relations with the subregion of Northeast Asia, and its global relations. Moreover, if Japan's global role is to evolve in a manner satisfactory to the Japanese people, compatible with the interests of others, and contributory to global stability and development, these three relationships must be integrated.

The first vital component of Japanese foreign policy, now and for the foreseeable future, is its bilateral relationship with the United States. This is a relation for which there is no substitute and one that is testing the requirements of interdependence quite as much, albeit in a different manner, as the experiment in European integration. And although this relation is bilateral at its core, through it Japan is joined both with its immediate region more firmly and with all advanced industrial nations via organizations like the General Agreement on Tariffs and Trade (GATT), the Group of Seven, and other agencies spawning international negotiations on a wide range of economic matters from currency adjustments to debt recycling. Thus, it is a relationship that is at once bilateral, regional, and global in its connotations.

The Japanese relationship with the United States is grounded in a combination of economic interdependence and strategic dependence, and despite recurrent waves of acrimony, its *raison d'être* is as strong today as at any time in the past. Both nations need each other, and their mutual cooperation is perhaps the most critical single factor in determining the shape of the future economic order as well as the overall global balance. It is encouraging to note that despite various recent strains, nearly three-fourths of the Japanese people continue to have a friendly feeling for the United States and approximately two-thirds of the American people admire Japan, although a growing number of the latter are concerned about Japan's economic challenge.⁶

⁶See the latest Japanese poll, taken in October 1988 by the Prime Minister's Office, reported in FBIS-EAS, April 4, 1989, pp. 9–10. A *Time*-CNN poll, May 4, 1989, indicated that 76 percent of the American people saw Japanese global trade as a threat to the U.S. economy, 65 percent believed that Japan was unfairly restricting the sale of U.S. products in Japan, and 61 percent believed that Washington should restrict the sale of Japanese products in the United States (34 percent disagreed). See *Time*, June 5, 1989.

The key problems can be simply stated, but their implications and ramifications—hence possible “solutions”—are far more complex. In reality, Japan’s largest “aid program” is directed toward the United States, although it is almost wholly private in nature. By purchasing U.S. securities Japan enables the United States to live beyond its means, and by making investments it stimulates the American economy as well as alleviating to some extent the threat of import restrictions. Yet the psychological as well as economic costs of this “assistance” are rising. The growing American perception is that Japanese investment, combined with its massive trade surplus, threatens to bring the United States too extensively under Japanese control. The fact that Great Britain has larger investments in the United States (at least for the present), and that foreign investment is not (yet) an alarming percentage of total investment is often overlooked. The rapidity of Japanese investment, however, as in the case of Japanese saturation of the market in key fields, combined with the new visibility of such investment in American landmarks and sensitive fields like the media, deeply worries a rising proportion of the American public and, perhaps more significantly, important segments of the political, business, and academic elites.⁷

Debates are now under way over such critical issues as whether, on balance, Japanese investment advances or retards U.S. technological development, whether the behavior of Japanese multinationals differs from that of other multinationals, and most important, whether the trends are in the direction of redressing the massive imbalance between the “relatively open American economy” and the “relatively closed Japanese economy.” The seriousness of these problems is underlined by the fact that a significant number of reputable Americans from various categories are drawing negative conclusions on each of these queries. One argument is that because they are inclined to take the acquired technology home, developing it there, and because they are increasingly purchasing small and medium plants (the historic sources of new technology), Japanese investors gain appreciably more than do Americans from technology transfer.⁸ It is also asserted that because of substantial cultural differences and other factors, including managerial styles, access to top positions in Japanese multinationals is denied foreigners. Most damaging is the widespread belief that despite the removal of formal barriers and the widely

⁷For a recently published work containing American views from various perspectives, see Kozo Yamamura, ed., *Japanese Investment in the United States: Should We Be Concerned?* (Society for Japanese Studies, 1989).

⁸See John Zysman, “Contribution or Crisis: Japanese Foreign Direct Investment in the United States,” in Yamamura, *Japanese Investment in the U.S.*, pp. 97–110, and Lawrence B. Krause, “Japanese Investment in the United States,” *ibid.*, pp. 111–118.

proclaimed liberalization of the financial structure, Japan only opens those sectors of its economy that have already established a position of supremacy—namely, those sectors where opening does not matter.⁹ In such vital fields as supercomputers, Japan makes certain that U.S. access to its market is restricted, it is asserted.

These issues, it might be noted, burn most brightly in Japanese–American relations, but they exist in various degrees and forms in all countries with which Japan is economically involved. It is easy, of course, to assert that they stem from defects or mistakes on both sides, or that at root they relate to differences of culture and stage of development, with basic policies flowing from these differences. This rationalization provides no answer, however, to the growing number of Americans who demand greater reciprocity or “a level playing field,” nor to the increasing number of Japanese who talk angrily about Japan being made a scapegoat for American deficiencies.

Pressure on the U.S. administration from Congress to take stern action to remedy grievances via the application of the so-called “Super 301” has reached new heights. In May 1989, Japan was designated an unfair trading partner in accordance with the provisions of the 1988 Trade Act, and that act mandates trade sanctions should negotiations aimed at lowering Japanese trade barriers fail. Certain Japanese officials in turn have vowed that Japan will not be forced into negotiations with a gun pointed at its head. Yet clearly the old pattern of mounting pressure, begrudging concession, and renewed pressure continues to typify U.S.–Japan economic relations. Meanwhile, the nature of negotiations has changed over time, from tariff reform to nontariff barriers and now to structural impediments, signaling the degree to which the full range of the domestic policies of the two nations—and even their respective cultures—require examination.

One theory holds that there is powerfully little that the two governments can do to remedy the situation since control over their private sectors’ actions and policies is limited and the decision-making process within government is subject to innumerable jurisdictional and policy conflicts.¹⁰ Granting complications related to these factors, such a thesis is a gross exaggeration. From tax decisions to macroeconomic policies, governments provide incentives and deterrents relating to a wide range of economic activities: savings, consumption, research, domestic and foreign

⁹Zysman, “Contribution or Crisis,” p. 105.

¹⁰The most forceful argument to this effect has been that of Karel Van Wolferen. See his article, “The Japan Problem,” *Foreign Affairs* 65, 4:288–305, and an expanded book-length version, *The Enigma of Japanese Power: People and Politics in a Stateless Nation* (New York: Knopf, 1989).

investment, managerial priorities, and labor productivity. In this sense, every nation, whether consciously or unconsciously, has an industrial policy. Naturally, from a combination of policy and social forces, there emerges an "economic culture" with its own elements of uniqueness, but in this respect, as in others, cultures can and do change—depending on the pressures that operate upon them.

A powerful factor currently deterring change in Japanese–American economic relations is the continued good health of both economies. Defying most experts, the U.S. economy recently entered its ninth year of growth, although by mid-1990, storm clouds were on the economic horizon. Meanwhile, the Japanese economy continues to grow at a faster pace than that of any other advanced industrial nation,¹¹ despite some signs of problems, reflected in the major stock market decline in 1990 and bloated land prices.

When economic conditions in a democratic society are favorable, changes—especially those that may involve sacrifices—are easily deferred. In democracies, leaders who enforce painful measures or who argue for deferred gratification are not rewarded, whatever the long-term benefits of their proposals. Put differently, those who act before the level of crisis is sufficiently high to provide for a new consensus usually lose. Freedom over time spawns the type of materialist culture that demands instant gratification.

Nevertheless, the future health of the economic relationship between Japan and the United States demands changes from current patterns and policies. Developments are needed on three interrelated fronts: cooperative or joint decision-making mechanisms; corrective national policies by both states; and more rapid adjustments in their respective private sectors. Some of these moves can be stimulated immediately by creative actions. Others will await additional pressure, either from the course of events or from the further buildup of political forces too powerful to be ignored.

It is tempting to argue that Japanese–American economic issues should be wholly encompassed in a multilateral framework such as the GATT. A logical case for such a move can be made, and it cannot be denied that all bilateral arrangements run the risk of either retarding or violating GATT efforts. Yet from a political standpoint, it is unrealistic to assume that the pace of multilateralism is such as to meet the political (and economic) demands of this period. For better or worse, bilateralism has not been

¹¹For a recent comprehensive study see Kent E. Calder, *Crisis and Compensation—Public Policy and Political Stability in Japan, 1949–1986* (Princeton, N.J.: Princeton University Press, 1988). See also the insightful work of T. J. Pempel, *Policy and Politics in Japan* (Philadelphia: Temple University Press, 1982).

rendered obsolete. Hence, a dual track will continue to be pursued, with an effort to contain if not to resolve the contradictions involved.

It should now be clear that U.S.–Japan economic relations are a part of a much broader global issue that will affect virtually all nations in the years ahead. A nationalist reaction to the surging force of economic internationalism is unfolding throughout the world. As noted earlier, national sovereignty is being challenged by the accelerating force of interdependence. In addition, profound changes are taking place within each nation's private economy in terms of what is "indigenous" or locally controlled and what is "foreign" or subject to international influences or regulations. It would be surprising, indeed, if both emotional and reasoned responses were not forthcoming to such developments, not dissimilar to those associated with an earlier era of Western and Japanese imperialism. The interaction between nationalism and internationalism on many fronts will constitute one of the great dramas of the coming decades. The Japanese–American relation is one important part of that drama.

Can greater Japanese influence on the American economy be balanced by continuing American influence on the strategic and political issues of vital significance to Japan? The simple answer to this question is "no," although a more adequate response requires the introduction of various complexities and nuances. At a much earlier point, some Japanese leaders hoped to establish a basic division of labor between Japan and the United States whereby Japan would concentrate on enhancing regional-global stability and security through economic commitments to developing or threatened nations and the United States would continue to provide the military shield. In essence, this was the purpose behind the concept of "comprehensive security," a term coined in the 1970s. An added element was Japan's increased willingness to strengthen its basic defense requirements.

Fundamentally, this doctrine is still in place. In its budgets of recent years, the Japanese government has provided for significant increases in only two categories: economic assistance and military defense. In connection with the latter program, the charter was first set forth in 1976, when a National Defense Program Outline indicated that the goal was that of meeting "small-scale and limited" aggression, with an emphasis on modernized conventional weaponry and improved coordination. It has always been assumed that Japan would depend on the United States for defense against any large-scale attack, nuclear or conventional.¹²

Under U.S. insistence at the beginning of the Reagan administration that

¹²See the Japan Forum recommendations cited in note 4 for a succinct summary of current issues and policies pertaining to Japanese defense.

Japan take on additional defense responsibilities, the Japanese government announced that it would undertake air and sea surveillance, in the latter case 1,000 nautical miles to the south and east. In the 1981 Midterm Defense Program, moreover, emphasis was placed on expanded air defense, antisubmarine capability, and offshore defense. Increasingly, air and sea defense was stressed rather than an augmentation of Japan's ground forces. In the 1985 Midterm Program these trends were continued, and in the program planned to begin in 1991 such modern weaponry as the multiple-launch rocket system, AEGIS ships, AWACs, tankers for in-flight refueling, and over-the-horizon radar are planned.¹³

Japan's defense expenditures are currently estimated to be the third highest in the world, next to those of the United States and the USSR. Included are commitments amounting to approximately 40 percent of the costs of U.S. military personnel and installations in Japan. Some estimates are that Japan's Self-Defense Forces at present stand between sixth and eighth in effectiveness, measured against other nations' military structures. Whether such comparisons are meaningful can be debated. Certainly, given the alternatives, it is very difficult to get top caliber personnel to join the Self-Defense Forces at present. In any case, two important facts should be noted. First, the SDF are almost wholly defensive in nature. They possess no long-range missiles, heavy bombers, or aircraft carriers (although baby aircraft carriers are being considered). Second, in comparison with the military forces of neighboring countries—even those of North and South Korea—the Japanese force is quantitatively very small, whatever its qualitative strengths. Certainly, it is no match for the Soviet Union, still the presumed greatest threat.

Certain U.S. congressional critics of Japan's current part in "burden sharing" have demanded that Japanese budgetary appropriations be raised from 1 percent of GNP to 2 or even 3 percent. Even these critics, however, have been vague about what Japan should do with such expenditures. They do not want Japan to have nuclear weapons nor to play the role of preeminent military power in the Pacific-Asian region. Meanwhile, an ever-higher level of coordination between U.S. and Japanese forces has been achieved, extending not merely to joint exercises and joint planning, but to weapon coordination. In the defense sphere, in contrast to economic matters, Japan-U.S. relations have never been more satisfactory, although the FSX controversy points to the inseparable relation between security and economic issues.

The direction of Japan's future strategic role is closely connected with these factors. The fears of a resurgent Japanese "militarism" have been

¹³*Ibid.*, p. 19.

frequently voiced not only by the Soviet Union and China, but also by the members of ASEAN. Such concerns rest partly on history and the thesis that great economic powers inevitably become major military powers. In this case, however, a resort to history may be misleading. The Asia of the 1990s is not the Asia of the 1930s. There is no vacuum of power on the continent, no physical Japanese empire to defend nor Western imperialism to overthrow. Japan's military vulnerability, given its population concentration and geopolitical position, is high, especially with respect to large continental states like the USSR and China. Moreover, Japanese leaders are highly cognizant of the apprehensions of other Asians about Japanese militarism, and with its high stakes in economic interaction with this region Japan is most unlikely to jeopardize relations by developing an offensive military capability. Finally, the Japanese people themselves continue to register strong opposition to any such course, a fact that has impressed itself even on Japan's "hawks."

Only a combination of a greatly increased perception of threat, presumably from the Soviet Union, and a precipitous strategic withdrawal of the United States from the region could force an agonizing reappraisal in Japan—one that would probably split the Japanese between two positions: augmented military activities and neutralist-pacifist policies. But neither of these two developments seems probable. The United States will almost certainly engage in some drawdown of its Asian as well as its European military forces, but hopefully this will be done in accordance with threat reductions and after thorough consultation with allies. Meanwhile, given its internal problems, the Soviet Union appears far less threatening, a fact likely to have an important impact on Japan's security needs, if present conditions continue. More logical in terms of the forces that drive it, Japan might at some point enter the international arms market, and this could provoke serious new issues. However, current circumstances, domestic and international, strongly favor a Japanese defense program subordinate to, and increasingly integrated with, that of the United States, hence insulated against heightened fears by other Asians and the reluctance of the Japanese public to take major risks in the regional arena. At the same time, Japan's military capacities will not be negligible, and these capacities can figure in regional bargaining.

Finally, the political ties between Japan and the United States have been exceptionally close in recent decades despite occasional shocks such as the lack of consultation over the China policy in the Nixon-Kissinger era. On some issues, notably those relating to the Middle East, there has been a continuous difference in view and policy. But this divergence has not been allowed to be obtrusive in the overall pattern of relations, and in the 1990 Gulf crisis, Japan was aligned solidly with others against Iraq despite the

domestic controversy engendered over the proposed use of Self-Defense Forces in noncombatant roles in the Gulf area.

Once again, a broad trend is under way that will affect Japan–U.S. relations over time. In general, the nature of alliances is changing, with increasing elements of flexibility and independence for all parties concerned. The trend is from alliance to alignment. One can thus expect a rising number of political initiatives from Japan, not necessarily and not usually in opposition to American positions, but reflective of the different vantage points of the two nations. On balance, however, such a development should complement rather than disrupt the relationship, enabling complex issues to be approached from different, but not incompatible, perspectives.

It has been the burden of this analysis to assert that despite the problems attendant to it, the Japan–U.S. relationship will continue to remain critical to both societies, cemented by the twin factors of economic interdependence and strategic dependence.¹⁴ In its evolution, however, the broad movement will continue to be that from patron-client relations to partnership, with recurrent contentions over the vital question of what responsibilities—and rights—attend partnership. Japan's drive will be to play a greater role in the decision-making process involving its interests while keeping the obligations attendant to its new status limited, at a minimum, acceptable to its public and susceptible to being defended as in the national interest.

The relation with the United States will continue to constitute the hard core of Japanese foreign policy. This core is surrounded by concentric circles of increasingly more extensive but shallower reach. The most important relationship for Japan next to that with the United States is Northeast Asia, the subregion that is intimately related to Japan's economy and security. Here an economic network has emerged with Japan at its center, a network leaping over ideological and political barriers. Only with the Soviet Union and North Korea do political constraints play some role, and even with respect to these countries, though caution figures into Japanese governmental policies, it has scant significance insofar as the private sector is concerned. Only hard economic facts serve as a brake. With respect to North Korea, moreover, the Takeshita government signaled clearly in early 1989 that it was prepared to begin a process of increased cross-contacts, a course given substance by the signals from the DPRK in mid-1990 that it was prepared to negotiate a new relationship with its most publicized bete noire. Of course, this did not violate

¹⁴For several recent materials on U.S.–Japan relations with a variety of recommendations, see Francis McNeil and Seizaburo Sato, editors of a conference report, *The Future of U.S.–Japan*

prevailing U.S. sentiments, was strongly urged by China, and was not publicly opposed by the South Korean government, which is pursuing its own *Nordpolitik* policies. The Soviet Union presents a more difficult issue for Japan. On Tokyo's side, the firm commitment to insistence on the return of the four northern islands stands, although increasingly, there are signs that some compromise might be acceptable. However, the private sector doubts that large-scale development of Siberia is imminent. Despite the overall détente atmosphere, moreover, Japanese authorities note the continued advance of Soviet military power in Northeast Asia, largely through a modernization program earlier in the pipeline. Beyond this, the long history of Japanese–Russian rivalry and hostility continues to cast a shadow over this bilateral relation.

On the Soviet side, the Asian priority has been strongly weighted toward China, with signal progress having been made. The specter of Sino–Soviet normalization does not worry Tokyo unduly; there is confidence that relations between the Chinese and Russians are most unlikely to go beyond a wary normalcy. Consequently, Japan has not previously placed a high priority on bidding for Moscow's favor. However, the winds of change are now growing stronger. Although top Soviet priorities are certain to rest with the West (Europe and the United States) for both economic and strategic reasons, a reduction of tension with Japan could be very helpful. It would enable further military reductions in the region and might induce Japanese economic assistance to the European as well as the Asian sectors of the USSR. Tokyo has already signaled its willingness to become more involved economically in Eastern Europe. Further, whereas in the past Japan has shown some lack of interest in improving relations with the USSR, in an era of global détente and in light of the dramatic events taking place in the USSR it is unlikely to want to be left behind. Shintaro Abe's visit with Mikhail Gorbachev in Moscow in early 1990 signals the new Japanese mood. The sticking point remains the northern territories, but fresh initiatives on this issue are certain before General Secretary Gorbachev's scheduled visit to Japan in 1991, with only their dimensions unclear.

Toward the other Leninist states of Northeast Asia, Japan has shown growing flexibility. Its policy toward China is characterized by an economic outreach program, albeit one in which trade plays a more prominent role than investment or technology transfer. Japan's China policy is premised on the thesis that a stable, developing China is in its interest—a

Relations; School of Advanced International Studies, *The United States and Japan in 1988—A Time of Transition* (Washington, D.C.: SAIS, 1988); and Pacific Forum, *Recommendations for U.S. Japan Relations* (Honolulu, 1988).

position identical to that of the United States.¹⁵ Both nations are thus likely to hope for renewed political as well as economic reforms. Yet the Japanese government places less emphasis on human rights issues than Washington does. Basically, Japanese policy encourages its private sector to expand foreign operations by providing loans, insurance, and other enticements to stimulate such activities.

Japan expects to be the principal engine pulling the Chinese industrial revolution forward. At the same time, most Japanese leaders want China to make progress *slowly*. In addition to the concern about a boomerang effect from a rapid upgrading of Chinese industry, there has been a latent worry about the possibility that a powerful Chinese nationalism could be harnessed to rapidly growing military and economic capacities. For the near term at least, however, an opposite concern may take priority. It is China's weaknesses—both economic and political—that currently trouble Japanese policymakers. Within the Japanese private sector as well, deep doubts exist about Chinese economic policies as they are presently constructed. Hence, even before the recent troubles, the drive for trade far exceeded interest in joint ventures or technology transfer, much to the annoyance of the Chinese.

Nor is the Japanese government prepared to move away from what is in fact a de facto One China—One Taiwan policy. This situation, together with what the Chinese regard as evidence of a Japanese desire to engage in historical revisionism pertaining to the 1930s, causes them to keep up a drumbeat of criticism over Japanese "militarism" even as they cultivate Japanese aid. Tourism is welcomed for its economic value, but the Chinese seem inclined to place certain limits on cultural relations, preferring slow growth on this front.

With the Mongolian People's Republic Japan maintains a low-profile presence, yet one that shows a capacity of being upgraded via much-needed economic assistance. The MPR, in company with Gorbachev's Soviet Union, has signaled its interest in economic reform, including a turning out to the market economies. Japan is ready, as the recent loan offer to the MPR indicates.

Meanwhile, with the Japan Socialist Party serving initially as intermediary, the Japanese government is now moving toward cross-contacts with North Korea, as noted, even though Pyongyang's propaganda machine continues to churn out generally hostile reports on the Japanese conservatives. Tokyo estimates that with the dramatic shift in Soviet policies,

¹⁵A very interesting Japanese perspective on China's Asian Policies and Sino-Japanese relations is Tatsumi Okabe, "China's Asian Policy: Chance or Challenge," *Japan Review of International Affairs*, Spring/Summer 1987.

including Moscow's establishment of diplomatic relations with South Korea, Kim Il Sung himself has been persuaded that the North has no choice except to alter its policies. Even earlier, a debate was under way in top DPRK policymaking circles over such issues as economic programs, contacts with "capitalist" states, and policies toward South Korea.

At the same time, Tokyo's relations with Seoul, centering on economic ties, have become ever more vital. The ROK today is an integral part of a complex division of labor that in the first instance binds South Korea, Japan, and the United States together. Serious political obstacles still exist to expanding this relationship in the political and strategic spheres, but cautious steps in these directions have been taken. Similarly, Japan maintains close economic and cultural ties with Taipei, increasingly confident that as the Taiwanese come into greater political authority, relations with the government will be more friendly, not merely the product of necessity. Japan possesses a generally favorable image with the older generation of Taiwanese. Tokyo also believes that reunification is a distant prospect despite—or perhaps because of—the growing economic and cultural contacts between Taiwan and the mainland.

What is the future of regionalism in Northeast Asia, and will Japan find its central international role in its immediate environs? The correct answer to these questions is certain to partake of a goodly measure of complexity. Japan will progressively increase its economic reach through Northeast Asia, and this expansion will have cultural, political, and even strategic implications. In these terms, a soft regionalism is gradually emerging in this area with the promise that developments will serve to alleviate old tensions, albeit possibly create some new ones. There is a good prospect that as the Leninist states are drawn into the orbit of the market economies, despite periodic fluctuations and retreats greater political openness within them will ensue over time, and though that development will probably increase domestic political instability, it will also advance international communications across a broad cultural and political front. Political convergence in any full sense is highly unrealistic, but the Asian Leninist states will increasingly take on the attributes of the authoritarian-pluralist model earlier epitomized by South Korea and Taiwan. This development in turn will make possible a broader set of relations with states like Japan. The era of the autarkic polity, like that of the autarkic economy, is coming to a close.

At the same time, there is no chance that the type of regional experiment unfolding within the European Economic Community will occur in the foreseeable future. Within Northeast Asia, the stages of both economic and political development vary greatly, affecting the contemporary cultures of the diverse states located here. Moreover, though geography brings them together, history as well as developmental factors keep them

apart. There are also major inequities of power, however power is measured. Consequently, virtually every state, including Japan itself, will desire and need extensive contacts outside the region. In this respect the United States, as well as the Soviet Union, remains a vital key to the future.

In a broader sense, moreover, Northeast Asia is intimately related to the region of which it is a part, especially in economic terms. The entire Pacific-Asian nations are under way in the form of the Asian-Pacific policies and goals. Reflective of its rapidly expanding economic role throughout Asia, there has been talk of Japan's "regional hegemony," the coming of an era defined by some as the realization of Japan's earlier aspirations for a Greater East Asia Co-Prosperity Sphere. Here it is essential to distinguish between the future and the past, avoiding parallels that have some validity but are basically misleading. Japan is obviously destined to play a leading role throughout Asia, serving as an agent of change. Indeed, it is legitimate to describe Japan as a far more revolutionary force throughout this vast region than such self-defined revolutionaries as the communists. The Japanese developmental model has had a strong impact, even on those nations whose culture and environmental conditions make adaptation very difficult. In addition, when a Thai farmer drives home in a Toyota truck after having used fertilizer on his plot produced by a joint venture and turns on his Hitachi TV, the deep penetration of Japan into Thai life, a penetration serving to change Thai culture, is graphically displayed.

At the same time, Pan-Asianism in any exclusive form is passé, as noted earlier. Important connections with the West and with other parts of the developing world are now indispensable for the states of this region. In addition, Japan must not only combat a recent historical legacy but also a political culture based more on hierarchy than equality that is deeply inward looking. The cultivation of genuinely international attitudes to accompany international policies will require more than a few years and the passing of more than one Japanese generation.

Thus, the building of Pacific-Asian regionalism must be a collective venture, with the prior importance of subregional groups likely to be as significant for other nations as for Japan itself. This is not to say that organizations like the Asian Development Bank or the Pacific Economic Cooperation Conference (PECC) will be unimportant, or that Japan will not play an increasing part in their activities. Already, preliminary moves for the establishment of a vehicle enabling a regular dialogue among Pacific-Asian nations are under way in the form of the Asian-Pacific Economic Conference (APEC). The thickening of ties among and between the Pacific-Asian states, a process that I have elsewhere referred to as that of "Asianization," cannot be halted or slowed. In this process, moreover, Japan will be a principal catalyst and leader.

It is conventional to speak of great regional blocs, thus to add a Japan-

led East Asia to a Canada—U.S. (possibly Mexico) North American bloc and the European Community. There are signal differences among these so-called “blocs,” however, and those pertaining to Asia are of kind as well as of degree. The porousness of Asia—its susceptibility to the influence of external forces as well as the major differences of size, culture, polity, and economic structure defy the hegemony of a single state. For example, however important its impact upon China may be, Japan can never dominate or even guide this massive society. Nor is the degree of integration contemplated in West Europe feasible in the case of China and Japan. Indeed, it is still unclear whether China can integrate itself. Finally, whatever its critical ties to the North American continent, the United States cannot be omitted from Pacific Basin organizational efforts and the decisions that flow from them. Nor will a revitalized Europe be unimportant to the Pacific—Asian area.

In sum, the gigantic tasks of Asian modernization (as the latter term is understood in the late twentieth century) will require extensive cooperation, an intricate set of institutions—local, national, and supranational—drawn from various models but always strongly conditioned by indigenous conditions, and a security as well as economic and political framework that permits priorities to accord with developmental needs.

Finally, the outer circle with which Japanese foreign policy must contend is global in nature, with two significant subsections, namely, the advanced bloc of West European nations and the portions of the non-West of greatest economic and/or strategic importance to Japan, notably, the Middle East and Latin America. The great anomaly here is that Japan's current decision-making power and institutional position at the global level bear scant relation to the performance expected of it. If Japan is to accept and fulfill a greater responsibility for the coming international order, this situation must be remedied. Given Japan's necessary role in Latin American debt restructuring, alterations in the European socialist economies, and improved economic relations among the advanced industrial economies, it is a supreme anomaly, for example, that this nation is not a permanent member of the U.N. Security Council. In any case, Japan's role in the GATT, the Group of Seven, and other international bodies is certain to grow.

The principal tasks ahead are reasonably clear. As interactions and the institutions accompanying them intensify at the regional level, ways must be found to prevent regionalism from becoming exclusivist, recreating past obstacles to international intercourse existing at the national level. This challenge represents a new phase of the ongoing contest between nationalism and internationalism.

At the same time, in a second contest between stability and develop-

ment, encouragement in a variety of ways must be rendered to the forces struggling for political openness while we also accept the fact that progress cannot be achieved under anarchic conditions and that parliamentarism like other political systems has its rules.

Finally, security strategies, both as they relate to such technical matters as weaponry and deployments and as they pertain to the broader question of what constitutes power in our times, must be constantly scrutinized and revised in accordance with the awesome changes taking place.

In a period of great domestic change as well as major alterations in their foreign relations, the nations of the world face two risks. One is *pre-maturism*—moves that predate the condition that will give them validity, hence actions that may retard the very alterations that they are intended to serve. The other is *tailism*—allowing the optimal time for change to pass, thereby missing the point at which alterations can have the maximum effect in encouraging constructive, continuous advances in the direction desired. No less than other major states, Japan is subject to these challenges.

One trend is certain. By virtue of its accomplishments of recent decades, Japan will play an increasingly important role both regionally and globally. Aligned with the United States, *primus inter pares* in the economic structure of the Pacific-Asian region, and basically at peace with itself, Japan is now called on to display the vision and creativity internationally that it has shown at home. Can the new generation of leaders destined to occupy center stage in Japan in the course of the coming decade play the role effectively that history has assigned them?

The first part of the book deals with the early years of the Republic, from the signing of the Constitution in 1787 to the end of the War of 1812. It covers the presidencies of George Washington, John Adams, and James Madison, and the development of the federal government and the states.

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The sixth part of the book deals with the period from 1900 to 1918, including the presidencies of William McKinley, Theodore Roosevelt, Woodrow Wilson, and Woodrow Wilson. It covers the Progressive Era, the Spanish-American War, and the beginning of World War I.

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