

Shaping and Sharing Pacific Dynamism

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ABSTRACT: This article attempts to elucidate the underlying considerations and calculations of one of the major actors of the Pacific region, Japan, in shaping and sharing the much vaunted Pacific dynamism. Keeping in mind the enormous economic vigor accompanied by a measure of uncertainty in Pacific international relations, the article attempts to analyze from a Japanese perspective the current configuration of ideas and practices unfolding in the region. First, the major features of Pacific dynamism are delineated. Second, the superpowers' preoccupation with domestic difficulties are touched on as one of the major triggering mechanisms encouraging more regionalist forces throughout the world. Third, Japanese calculations surrounding Pacific dynamism are delineated, with major counteractions to Pacific dynamism by other major actors also taken into account.

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DYNAMISM—this is the best single word to characterize the evolution of the Pacific region over the past decade. Economic growth, trade expansion, and exchange-rate movements—the rise of most currencies in the Pacific region against the U.S. dollar—demonstrate the profound importance of the Pacific region in shaping global adjustments of international relations and the world economy.¹

Dynamism contains both positive and negative aspects.² Positively, it means vigor and aggressiveness. Negatively, it means uncertainty and unpredictability. Because Pacific dynamism brings increasing prosperity to the Pacific region and to the entire world with its vigorous growth and expansion, it is termed positive. From this side of the looking glass, forging economic interdependence with a prosperous economic region brings economic benefits. The dramatic expansion of the Japanese market and, to a lesser degree, the markets of South Korea and Taiwan promotes the absorption of manufactured goods from the rest of the world: Japan's share of manufactured goods in total imports for the period 1979-88 has increased from 26.0 percent to slightly higher than 48.0 percent.³

1. Colin I. Bradford and William H. Branson, eds., *Trade and Structural Change in Pacific Asia* (Chicago: University of Chicago Press, 1987); Peter Drysdale, *International Economic Pluralism: Economic Policy in East Asia and the Pacific* (New York: Columbia University Press, 1988).

2. Takashi Inoguchi, "The International Political Economy of the Pacific Dynamism," in *Japan's Growing External Assets: A Medium for Regional Growth?* ed. Susumu Awanohara (Hong Kong: Linnan College, Centre for Asian Pacific Studies, forthcoming).

3. Peter Drysdale and Ross Garnaut, "A Pacific Free Trade Area?" (Paper delivered at "More Free Trade Areas? Outlook for World Trade Policy," Conference of the Institute for International Economics, Washington, DC, 31 Oct.-1 Nov. 1988).

At the same time, the very vigor and aggressiveness of this economic activity has been helping to create uncertainty and unpredictability in the whole arena of trade and even sometimes in security arrangements. The awesome Pacific economic growth and trade expansion in manufactured goods for the last decade and, more recently, the staggering trade surplus and financial power of Japan, Taiwan, and Korea have been causing a variety of counteractions from various countries. Thus, from the other side of the looking glass, the rapid emergence of competitive economic actors has been enormously disruptive, forcing the rest of the world to counteract with other means. One strong piece of evidence is the surge of protectionism and regionalism throughout the world in the last couple of years. Other examples range from the inability of the Uruguay Round on the General Agreement on Tariffs and Trade to come to accord for midterm review in December 1988, to the open militancy of Americans against Pacific Asians and West Europeans using their unilateral interpretations of unfair trade practices, to the ratification by the Canadians of the U.S.-Canadian bilateral free-trade agreement in December 1988, and finally to the increased self-confidence of West Europeans in devising trade and investment rules of their own toward further European integration in 1992.

In the rest of this article, I shall first describe the three major features of Pacific Asian economic relations. Then I shall analyze how the somewhat weakened leadership of the two superpowers affects the course that Pacific dynamism will take. Third, I shall focus on the considerations and calculations of the Japanese in shaping and sharing Pacific dynamism and in adapting to the counteractions of the other major actors. I shall place the Japanese

conceptions of Pacific dynamism first in a historical perspective, second in relation to longer-term scenarios of Japan's place in the world, and third in the context of current policy alternatives.

THREE MAJOR FEATURES OF PACIFIC DYNAMISM

In focusing on intra-Pacific economic interactions, three major features emerge: the flying-geese formation of economic growth, the enhancement of horizontal interactions within the Pacific Asia region, and strains between the Pacific Asia region and other parts of the world, particularly North America and Western Europe.

The flying-geese formation

The well-known phrase "flying-geese formation" was invented by Kaname Akamatsu to characterize the development pattern of East and Southeast Asia.⁴ Like flying geese forming a triangular pattern headed by their leader, Pacific Asian development is spearheaded by Japan, which is followed by the Asian newly industrializing countries (NICs), including South Korea, Taiwan, Hong Kong, Singapore, Malaysia, and Thailand, and now is followed increasingly by some other countries of the Association of Southeast Asian Nations (ASEAN) and, to a far lesser degree, China, Vietnam, North Korea, and the Soviet Union. Dynamism diffuses from Japan to Korea, Taiwan, Hong Kong, and Singapore, and further to Malaysia, Thailand, Indonesia, the Philippines, and Brunei as well as to China, Vietnam, North Korea, and the Soviet Union. Uneven development in Pacific Asia has forced coun-

tries to focus energy on those industrial sectors nascently competitive with the rest and to gain from exports in a gradual fashion when its own market is not sufficiently large. The open and large market of the United States and the U.S.-led free-trade regime has been indispensable to this pattern of economic development.

There are two other mechanisms in this development pattern: (1) the success of early starters in Pacific Asia has been emulated selectively to accelerate the latecomers' catch-up process; and (2) the gradually lost competitiveness of early starters in some sectors enables latecomers to rise through the former's shift of production site from home to the latter. Thus, for instance, some Japanese electronics firms used to produce goods in Taiwan and Korea when Japanese wages and other costs soared, but as Taiwanese and Korean costs steadily rose, they began to operate more in Thailand and the Philippines. UNIDEN, an electronics company based in Japan, is now in the process of shifting all its production sites from Taiwan and Hong Kong to the Philippines and China, thus diffusing economic benefits to the Philippines and China as well.⁵

Horizontal interactions enhanced

As Pacific dynamism has unfolded to the entire region, the intraregional interactions in Pacific Asia have increased dramatically. Foremost in importance among them is the increasingly horizontal relationship between Japan and the Asian NICs, as exemplified by the dramatic increase in Japan's importation of manufactured goods from Asian NICs and ASEAN

4. Kaname Akamatsu, *Sekai keizairon* [World Economics] (Tokyo: Kunimoto shobo, 1965).

5. *Nihon keizai shimbun*, 23 May 1988.

countries, registering around 50 percent per annum since 1985.⁶ There has also been a drastic decrease in exports from the Asian NICs of Korea, Taiwan, and Hong Kong to the United States as a proportion of their total exports, decreasing to one-third in 1988 from the level of one-half in 1985.⁷ Among the Asian NICs as well, the complex trade pattern has emerged so as to make each country a horizontal trade partner of the others; such a relationship obtains especially between Taiwan and Korea. Although the size of such trade has not become as large as that in the European Community, the direction of the movement has become unmistakably clear. Also not to be overlooked are the vigorous moves by the Asian NICs in trade with, direct investment in, and, more recently, economic aid to some ASEAN countries, China, North Korea, and Vietnam. For instance, Taiwan is now first in terms of direct investment flows in the Philippines, surpassing both Japan and the United States. These moves are positive, as they help shape the region with regional resources rather than relying too heavily on extraregional markets. They are positive also as they make the angle of the flying-geese formation less acute and more obtuse, helping to foster a sense of equality.

*Strains and stresses with
other major partners*

Pacific Asia must cope with the increasing salience of stresses and strains in its relationship with North America and Western Europe. In terms of saving rate, growth rate, trade surplus, and financing power, Japan and the Asian NICs are clearly one

of the destabilizing forces in the world economy just as the United States and debt-ridden middle-income countries are at the other extreme. Pacific Asia has thus become party to trade frictions. As the United States increasingly resorts to what is called aggressive bilateral peacekeeping in trade,⁸ frustrated as it has been with the General Agreement on Tariffs and Trade's multilateralist experiences for promoting market liberalization, these stresses and strains are most likely to continue to exist. Not only the issue of trade surplus but also all sorts of other issues characterize the rapidly intertwining economic partnership between Pacific Asia on one hand and North America and Western Europe on the other. They include intellectual property, direct investment codes, service trade, agricultural subsidies, exchange-rate regulation, nontariff barriers, industrial targeting, specific reciprocity, inward-looking regionalism, and bloc formation through bilateralism.

Three features are important when we look into the considerations and calculations of Japan concerning Pacific dynamism. First, the still-unfolding pattern of uneven development in Pacific Asia means that Pacific Asia continues to have enormous room for activating and intensifying regional economic activities within itself. In other words, much remains to be exploited in Pacific Asia to keep its dynamism moving forward. Second, the increasing intraregional transactions, when

6. Drysdale and Garnaut, "Pacific Free Trade Area?"

7. *Nihon keizai shimbun*, 22 Nov. 1988.

8. Robert Baldwin and J. David Richardson, "Recent U.S. Trade Policy and Its Global Implications," in *Trade and Structural Change*, ed. Bradford and Branson, pp. 121-55. See also Paula Stern and Paul A. London, "A Reaffirmation of U.S. Trade Policy," *Washington Quarterly*, 11(4):55-71 (Autumn 1988); Stephen Krasner, "Trade Conflicts and the Common Defense," *Political Science Quarterly*, 101(5):787-806 (1986).

accompanied by the relative weakening of superpower dominance and confrontation, mean the potential divergence among Pacific Asians on how to give order to a still-fluid Pacific dynamism. In other words, given the increasing prospect for the Americans to preoccupy themselves with the less than enlightened long-term globalist viewpoint, Pacific Asians might find it somewhat more difficult to organize themselves while coping with counteractions from the rest of the world to the very Pacific dynamism it has been creating.

JAPANESE CALCULATIONS:
LOOKING BACKWARD

To examine Japanese calculations, it is necessary first to point out that Japan lives in Pacific Asia with bilateral Japanese-U.S. ties in economic, technological, and security arenas kept perhaps incredibly high. A defeated nation with a developing-country status, Japan since 1945 has had to rely almost entirely on the generally favorable international environment that the victory of the Allied powers, especially the United States, brought about. The most important elements of this environment were the security umbrella and the free-trade regime. Bilateral interdependence has been further enhanced as Japan has moved up from a developing country to a country whose gross national product is more than one-half that of the United States and whose per capita income has surpassed that of the United States. Two major factors have contributed to this outcome.⁹

9. Takashi Inoguchi, "The Ideas and Structures of Foreign Policy: Looking Ahead with Caution," in *The Political Economy of Japan*, vol. 2, *The Changing International Context*, ed. Takashi Inoguchi and Daniel I. Okimoto (Stanford, CA: Stanford University Press, 1988), pp. 23-62, 490-500.

*Japanese shyness on
security matters*

The first factor is that by defeat and occupation—and by instinctive habit and cunning calculation—Japan has been accustomed to being shy about security and military matters since 1945. Japan's Self-Defense Forces (SDF) have been built primarily to satisfy the needs of the United States, first as an occupying power and later as an ally. They are not primarily for the defense of Japan but more intended to enhance the U.S. military forces confronting the Communist bloc. Even now the primary task of the Japanese SDF is to assist the U.S. armed forces in the Far East and the Pacific to meet emergencies in the Pacific and around the globe. One telling fact is that the U.S. forces in Japan are not in a position to help the Japanese land SDF on Hokkaido. Rather, they adopt a forward strategy whereby they would attack the Soviet forces deep in Soviet territories and territorial waters, with Japanese land SDF remaining vulnerable to attacking Soviet forces. Only after such an attack could the U.S. forces start their counterattack. The Japanese maritime SDF are not equipped to make amphibious operations on Hokkaido under heavy Soviet onslaught. Both the command structure and the force structure of the Japanese SDF clearly demonstrate that they exist as one component—indispensable to be sure—of the U.S. international security network.

Recent military buildup

The steady Japanese military buildup over the last decade now gives Japan number-three status after the Soviet Union and the United States in terms of military expenditure. It is clear that Japan spends enormously for defense, but much of the

expenditure goes to personnel, while the bulk of nonpersonnel expenditure goes to the purchase of some of the most sophisticated and thus most expensive weapons from the United States. This pattern of Japanese military buildup has been reinforced by the more recent criticism from abroad that Japan is a free rider of the Western alliance and that Japan should contribute more to the collective defense by shouldering more of the security role. The Japanese government has to cope with three things at the same time: (1) strong pacifism at the grass roots; (2) the still intermittently expressed reminder from abroad of the Japanese psychological debt of the last war; and (3) criticism of being a free rider in the Western alliance. The result has been this peculiar pattern of Japanese defense buildup.

Evidence of Japanese determination to meet its own defense needs can be seen in at least two areas: the resolve to manufacture its next fighter support FSXs in collaboration with the United States, yet with much more local content than its counterpart likes to think, and by its vigorous emphasis on the forthcoming midterm defense estimate on the need for land-based equipment with highly sophisticated weapons allowing for the disabling of attacking forces before they reach Japanese land.¹⁰ These developments exemplify some of the Japanese adjustments to a changed international environment. At the same time, it remains impossible to think of the Japanese SDF without the U.S. component. The

Japanese constitutional prohibition, the near insanity of hollowing out the alliance with the United States, and the long-distance, fast-moving nature of military technology all inhibit any solitary view of national security in any strict sense of the word.

*Unprecedented Japanese-U.S.
economic interdependence*

The second factor in the bilateral interdependence is that the economic interdependence with the United States is perhaps unprecedented in human history. Not only trade with and investment in each country by the other but also a huge amount of Japanese purchasing of U.S. Treasury bonds and an inestimable amount of financial trading now take place across the Pacific. The two largest and most vigorous economies of the world have every reason to increase their economic transactions with each other. Furthermore, the not-so-strange coincidence of Japanese weakness in security and American relative weakness in economic matters has reinforced Japanese economic dependence on American economic health and wealth with an astonishing speed and magnitude. To save the U.S. dollar from falling so rapidly, Japan has been intermittently spending an enormous amount of money through monetary intervention. To liberate themselves from protectionist measures, many Japanese firms have made direct investment in the United States—no other country has so vigorously invested in the United States. The more money Japan places in the form of U.S. dollars for whatever reasons, the more interdependent Japan and the United States become and the more difficult it is for them to disentangle themselves from the higher risk of losing an incredible value of their dollar assets overnight, given the

10. For FSXs, see *Asahi shimbun*, 4 June 1988; *Nihon keizai shimbun*, 26 Dec. 1988. See also Takashi Inoguchi, "Trade, Technology and Security: Implications for East Asia and the West," *Adelphi Papers*, 218:39-55 (1987). For the midterm task estimate, see *Yomiuri shimbun*, 11 May 1988; Japan Defense Agency, *White Paper on Defense 1988* (Tokyo: Government Printing Office, 1988).

somewhat shaky shape of the deficit-ridden U.S. economy.

Lax U.S. economic management

To many Japanese the problem is that the United States does not seem to manage its economy as they would like it to do. The major points of the Japanese message are the need for a drastic reduction of various expenditures including defense, the introduction of a major tax increase, the restraint of consumption through recessionary macroeconomic management, and improvement in business management and labor relations.

Some serious Japanese have begun to think about some drastic unilateral measures to discipline the somewhat lax Americans to tighten their economic management. One such move would be raising Japanese interest rates to combat quickening global inflation, which would then set off a managed decline in the dollar and U.S. bond and stock prices, forcing the United States to cut its deficit. A more moderate step would have the United States issue bonds denominated in foreign currencies. With, for instance, yen-denominated bonds, the U.S. government could not reduce its financial burden of debt simply by printing additional money.¹¹

JAPANESE CALCULATIONS:
LOOKING FORWARD

It is useful to recall what kind of calculation was made by Prime Minister Yasuhiro Nakasone during his tenure of 1982-87 when his policies of economic liberalization and alliance partnership were forcefully executed.¹² First, he cor-

rectly foresaw the beneficial aspects of American Japan bashing with respect to market liberalization and privatization of government-regulated sectors. Not only would economic liberalization help Japan to avert criticism from the United States and others against Japan's alleged protectionism, mercantilism, and free riding, but it also would help raise Japanese competitiveness. Second, his pro-U.S. defense efforts would help Japan to skirt criticism from the United States and others for being a free rider and also set the physical and organizational foundation on which to build stronger Japanese SDF while avoiding suspicion and criticism. As someone who had prepared 32 notebooks filled with what he would do as prime minister prior to his ascension to power, Nakasone was clear about his long-cherished nationalistic goals: more economic competitiveness and stronger SDF.

Needless to say, no fundamental reversal of power between Japan and the United States has taken place during or since Nakasone's tenure despite his success in enhancing Japan's economic and military power. But the continuing economic difficulties of the United States and the steady movement toward a U.S.-Soviet détente, along with the rise of Pacific Asia with Japan as its core driving force, have posed Japanese leaders one question: what direction should Japan take?

*Japan's scenarios for
the future*

This is not an easy question to answer, and it has led Japanese leaders to think about Pacific dynamism much more seriously than before. To answer the question, Japanese leaders have to solve a complex set of equations involving at least three major variables: (1) economic and techno-

11. *International Herald Tribune*, 23 Dec. 1988.

12. Takashi Inoguchi, "The Legacy of a Weathercock Prime Minister," *Japan Quarterly*, 34(4):367-70 (Oct.-Dec. 1987).

logical dynamism of major countries, especially Japan and the United States; (2) prospects for the dominant military technology or the possibility of nullification of nuclear arsenals either through the U.S.-Soviet détente or through revolutionary breakthrough similar to the Strategic Defense Initiative; and (3) the debt of history as a constraining factor.¹³ These are key variables in their design of future scenarios. Very briefly, they envision four major scenarios of the future in which these variables play key roles: Pax Americana phase 2, bigemony, Pax Consortis, and Pax Nipponica.

Pax Americana phase 2 is a scenario of revival of American power, if in a somewhat reduced form, helped importantly by Japan's economic power. Bigemony is the condominium of the world by the United States and Japan in both economic and security arenas. Pax Consortis envisages the loosely and flexibly aligned sets of major countries concerned in major issue areas where no one is predominant. Pax Nipponica is a world where Japan enjoys a preeminent economic position with nuclear arsenals somehow nullified. My overall scenario is that in the intermediate term of a quarter century, Pax Americana phase 2 and bigemony are feasible whereas in the longer term of half a century, Pax Consortis and Pax Nipponica may become more feasible. Economic and technological dynamism is very important in differentiating Pax Americana phase 2 and Pax Nipponica. Nullification of nuclear arsenals is crucial in making feasible both Pax Consortis and Pax Nipponica because without it the two superpowers cannot remain the formidable actors. The debt of history may be crucial in differentiating

13. Takashi Inoguchi, "Four Japanese Scenarios for the Future," *International Affairs*, 65(1) (Winter 1988-89).

Pax Americana phase 2 and bigemony since only without it can Japan become a full-fledged global military power along with the United States.

JAPANESE CALCULATIONS:
CURRENT POLICY
ALTERNATIVES

Along with these kinds of long-term scenario, there are short-term policy-oriented calculations. More concretely, two major dimensions that discriminate the four major foreign policy orientations are (1) favoring alliance with the United States versus opposing alliance with the United States and (2) trilateralism versus Asianism.¹⁴ The first concerns how closely Japan should align its positions with the United States while the second concerns how much weight Japan should give to Pacific Asia. In other words, the first has to do with the distance Japan should take from the United States while the second has to do with the interest Japan should give to Western Europe, one of the three pillars of industrialized regions.

Four policy alternatives

In the space created by these two dimensions, there are four quadrants that represent major policy alternatives currently discussed in Japan: (1) the northeastern quadrant represents the thinking that emphasizes the bigemonic integration with the United States and the disinclination to institute some form of Pacific Asian community; (2) the northwestern quadrant represents the inclination to take distance from the United States in security affairs but to enhance the basic trilateral economic rela-

14. Takashi Inoguchi, "Japan's Images and Options: Not a Challenger, but a Supporter," *Journal of Japanese Studies*, 12(1):95-119 (Winter 1986); idem, "Ideas and Structures of Foreign Policy."

tions; (3) the southeastern quadrant represents the policy line of retaining and even enhancing the security ties with the United States while in economic matters Pacific Asia is given much more stress than Western Europe or sometimes even North America; and (4) the southwestern quadrant represents the thinking that belittles the Japanese-U.S. alliance and upgrades the economic ties with Pacific Asia. The northeastern quadrant is sometimes called the bigemonic scenario whereas the northwestern is often called the Gaullist scenario. The southeastern scenario is sometimes called the Pax Americana phase 2 scenario while the southwestern scenario is called the Pacific Asian scenario. If the Gaullist scenario is remolded in a cooperative and conciliatory spirit, it becomes more compatible with Pax Consortis, whereas if the Pacific Asian scenario becomes globalized, then it becomes more compatible with Pax Nipponica.

Two major policy agendas

These issues in Japanese thinking about Pacific dynamism can be grouped into two basic dimensions: (1) how to maintain and enhance the friendship with the United States without being wholly subjected to what Japanese see as the somewhat aggressive, irresponsible, or erratic policy lines of the United States both in security and in economics; and (2) how to foster the good, neighborly relationship with Pacific Asia in light of its continuous dynamism and the uncertainty associated with world economic health.

Japan is somewhat uneasy about the economic difficulties of the United States and what it sees as lax economic management; Japan is similarly uneasy about the prospect of the U.S.-Soviet détente and its ramifications for the Japanese-U.S. secu-

rity treaty and Japan's anti-Soviet defense buildup — and the possible emergence of a quadrangular balance-of-power situation in the north Pacific. In relation to the weakened leadership of the United States, Japan is concerned about the prospect of the possibility of Japan's further involvement in international peacekeeping operations, whether along with the United Nations peacekeeping forces or with the United States armed forces or independently. On protectionism, Japan is concerned about what it sees as the abuse of unilateralism, such as the unfair-trader charge based on clause 301 of the Trade Act, and the frequent resort to bilateralism, taking advantage of its own security hegemony over allies, as is sometimes suspected of the U.S. proposal for a bilateral free-trade agreement. Japan is concerned also about the possibilities of inward-looking regionalism and malign protectionism in Western Europe and, to a lesser extent, in North America — and Japan is increasingly convinced of the need to enhance the regional basis on which it may be able to absorb or mitigate some negative consequences of inward-looking regionalism and malign protectionism that might get momentum in other regions of the world. On Pacific Asia, Japan is concerned about the negative feeling occasionally expressed there about Japan's debt to the region and about the constraints these feelings create for Japan's attempt to enhance what it terms regional cooperation in Pacific Asia.

The basic problem confronting Japan is the paradox of dynamism. Namely, the very dynamism that Japan and Pacific Asia now demonstrate helps to create the kind of uncertainty and unpredictability of the world economy and international relations that may undermine the very foundation of the prosperity that Japan and Pacific Asia now enjoy. Pacific dynamism invites coun-

teractions from major actors: U.S. bilateralism, Europe's regionalism, and the superpowers' détente, all intended either to enable self-restructuring and acquire competitiveness or to bring in self-closure and rest in benign protectionism — or both. To

see the outcome of these complex Pacific interactions now unfolding, one needs to wait.

This article has had the modest purpose of explicating Japanese calculations concerning Pacific dynamism.