

Japan's Politics of Interdependence

THIS ARTICLE DESCRIBES AND ILLUSTRATES HOW JAPAN conceives the political meaning of many kinds of interdependence and uses this concept to advance what it considers to be its national interests and global interests without upsetting the balance of world interdependence. 'Interdependence' means the mutual vulnerability and sensitivity of all governing-cum-economic units in the world.¹ 'The politics of interdependence' means, then, how actors make strategic use of interdependence with enough self-restraint not to jeopardize the system of interdependence itself.² Thus 'Japan's politics of interdependence' means how Japan makes strategic use of interdependence guided by its own standards of conduct. In this sense, this article is an attempt to combine the following two intellectual traditions: the interdependence literature³ and the economic statecraft literature⁴ to define Japan's politics of

¹ Robert O. Keohane and Joseph S. Nye, Jr, *Power and Interdependence*, Boston, Mass., Little, Brown & Co., 1977.

² G. Ionescu, 'On the Development of both Democracy and Political Science under the Impact of Interdependence', paper presented at conference on 'Democracy and the Development of Political Science', Barcelona, 15–18 May 1990.

³ Richard Cooper, *The Economics of Interdependence*, New York, Free Press, 1968; Keohane and Nye, op. cit.; Peter Drysdale, *International Economic Pluralism: Economic Policy in East Asia and the Pacific*, Sydney, Allen & Unwin, 1988.

⁴ Jacob Viner, 'Power versus Plenty as Objectives of Foreign Policy in the Seventeenth and Eighteenth Centuries', *World Politics*, Vol. I, October 1948, pp.1–29; Stephen Krasner, *Defending the National Interest*, Princeton, Princeton University Press, 1976; Peter Katzenstein, *Between Power and Plenty*, Madison, University of Wisconsin Press, 1978; David Baldwin, *Economic Statecraft*, Princeton, Princeton University Press, 1985; Richard Rosecrance, *The Rise of the Trading State*, New York, Basic Books, 1987.

interdependence.⁵ First, I will summarize three principles of Japan's political conceptualization of interdependence. Then I will illustrate them by some recent examples. Thirdly, prospects for Japan's politics of interdependence will be briefly discussed along with some discussion on the lines of research to be further explored.

JAPAN'S POLITICS OF INTERDEPENDENCE

Internally generated strength as source of power. In order for interdependence to function without bringing about excessive vicissitudes in the system as a whole, each participating unit needs to be equipped with internally generated strength. Needless to say, not all the participating units enjoy sufficient internal strength. As interdependence requires all the constituting units to interact with each other with inevitable pressure toward intermittent structural adjustments, the ability of each participating unit to cope with structural adjustments must be central to any discussion on the politics of interdependence. Not only the external economic policy but also the *internal* economic policy must be taken into account in any discussion of the politics of interdependence.⁶ This principle is salient to Japan's politics of interdependence because of the country's history.

Looking back to Japan's national development, one cannot help but be impressed by how tenaciously Japan sought to

⁵ T. J. Pempel, 'Japanese Foreign Economic Policy', in Peter J. Katzenstein (ed.), *Between Power and Plenty*, op.cit.; Takashi Inoguchi, 'Japan's Images and Options: Not a Challenger, But a Supporter', *Journal of Japanese Studies*, Vol. 12, No. 1, Winter 1986, pp. 95–119; Takashi Inoguchi, 'Four Japanese Scenarios for the Future', *International Affairs*, Vol. 65, No. 1, Winter 1988–89, pp. 15–28; Takashi Inoguchi, 'Shaping and Sharing Pacific Dynamism', *Annals of the American Academy of Political and Social Sciences*, No. 505, September 1989, pp. 46–55; Takashi Inoguchi and Daniel I. Okimoto (eds), *The Political Economy of Japan, Vol. 2: The Changing International Context*, Stanford, Stanford University Press, 1988; William Nester, *Japan's Coming to Power over East Asia and the World*, London, Macmillan, 1989.

⁶ Peter Katzenstein, *Between Power and Plenty*, op. cit.; Peter Katzenstein, *Small States in World Markets: Industrial Policy in Europe*, Ithaca, Cornell University Press, 1985; Peter A. Gourevitch, *Politics at Hard Times: Comparative Responses to International Economic Crisis*, Ithaca, Cornell University Press, 1987. Ronald Rogowski, *Commerce and Coalitions: How Trade Affects Domestic Political Alignments*, Princeton, Princeton University Press, 1990.

overcome what it regarded as unequal treatment in the world.⁷ Two most visible and symbolic experiences were extraterritoriality and lack of tariff autonomy, which had been imposed on Japan in the mid-nineteenth century when it was forced to open the country after two-and-half centuries of self-imposed isolation from the rest of the world. It is not an exaggeration to say that one major driving force of nineteenth-century modernizing Japan was to become the master of its own people, territory, and economy. Having been forced by gunboats to conclude unequal treaties, Japan was eager to establish its self-reliance, political, economic and military. These efforts were to bear fruit gradually as its nation-building proceeded. Extraterritoriality was terminated toward the end of the nineteenth century. Tariff autonomy was recovered in the first decade of the twentieth century.

More fundamentally, Japanese leaders developed their *idée fixe* in the nineteenth century to the effect that the world is a competitive place where, unless well guarded and well prepared to meet whatever challenges may come, one can be easily and mercilessly victimized. Such was the thought of many Japanese leaders when they saw the comparative development in the nineteenth century and into the twentieth century of Vietnam, Korea and China on the one hand and Japan on the other. In order not to succumb to the bitter fate of these three neighbours, Japan was to build and advance its own internally generated strength. The subsequent experiences in the twentieth century, especially during the war and thereafter, seemed only to reinforce Japanese belief in the need for building internal strength. Needless to say, in addition to the external stimuli from international relations and the world markets, a number of internal factors helped to sustain this developmental strategy in the long term. They are first, high educational standards and a highly trained labour force; secondly, a strong sense of nationalism and loyalty and devotion to one's organization, and thirdly, relatively strong egalitarianism and collectivism.

The need for internally generated strength as a precondition for healthy interdependence is recognised time and again whenever Japan experiences externally derived economic disturbances. The economic blockade of the 1930s and 1940s and the discrimination

⁷ W. G. Beaseley, 'The Foreign Threat and the Opening of the Ports' in Marius Jansen (ed.), *The Cambridge History of Japan, Vol. 5: The Nineteenth Century*, Cambridge, Cambridge University 1989, pp. 259–307; Akira Iriye, 'Japan's Drive to Great-power Status', *ibid.*, pp. 721–82.

against Japan until its accession to the GATT in 1955 are still well remembered. Also the US embargo on soya beans to Japan and the Arab embargo on petroleum in the early 1970s revived memories of such experiences.

Market forces take command. One's determination to be self-reliant is not necessarily the key to success, even when some internal factors help to sustain such a determination. The second principle of Japan's politics of interdependence is to let market forces take command. Unlike Mao Zedong, the Japanese have not allowed politics to take command in the long term because no political strategy can succeed against market forces. In other words, as long as interdependence is the system based on market forces, Japan should not swim against it in the longer term. It should swim in the same direction as the world market.⁸ In the shorter term Japan might be able to swim against it. Or it might be able to turn the tide of the world market somewhat in the shorter term. Yet Japan's politics of interdependence seems to rest in the belief that policies matter only at the margin — if it is a fairly wide one — and have temporary limited effectiveness. Rather more critical importance is attached to intelligence about and analysis of the world market at macro- and micro-levels and relating them to the policy action that should or should not be adopted. Here I am talking about both national policy-makers and business managers. Not only the latter but also the former are aware of the primordial importance of this principle in playing the politics of interdependence, whether they are interested in protecting domestic political coalition patterns by temporarily limiting market liberalization or making use of foreign pressure in precipitating domestic political realignment; or whether they are interested in enhancing Japan's freedom of movement by creating and making use of the web of interdependence with the rest of the world; or whether they are interested in not asserting themselves too much in their concern not to disturb and disrupt the otherwise well-functioning web of interdependence.⁹

This belief does not seem to have changed very much even since Japan became an economic superpower. Two things should be distinguished here. One is the small-country assumption

⁸ Richard Samuels, *The Business of the Japanese State*, Ithaca, Cornell University Press, 1987; Daniel I. Okimoto, *Between MITI and the Market: Japanese Industrial Policy for High Technology*, Stanford, Stanford University Press, 1988; David Friedman, *Misunderstood Miracle*, Ithaca, Cornell University Press, 1986.

⁹ R. Rogowski, *op. cit.*

whereby a small country benefits most when it acts according to the principle that its action does not have much effect on the rest of the world, whereas the action of the rest of the world makes an enormous difference to a small country. The other is the self-restraint on the part of a large country in not creating unnecessary disruptions to the web of interdependence by its own ill-conceived, often selfish and somewhat arbitrary policy. Even if Japan is a large country, it is also a country with a vested interest in the smooth functioning of the world economy as a whole, since its interests are so closely tied to the stability and prosperity of the world economic system. It is a country which is much more strongly constrained than some observers might expect by the apprehension that unless the web of interdependence is kept healthy and prosperous, Japan's future could become more uncertain and its position even untenable. That is why such words as caution, prudence and balance are more often heard from Japan than is normally expected of a large country with limited dependence on the rest of the world.

Since Japan is now in a position to affect the economy of the rest of the world not inconsiderably,¹⁰ such a statement might provoke scepticism. Yet the second principle of Japan's politics of interdependence is not to exaggerate the power of policy on the world market. Its policy efforts at generating and sustaining its own internal strength are, however, somewhat different. This is why some see Japan's politics of interdependence as aiming primarily to generate competitive strength.¹¹ Yet one should not be misled by that notion into the belief that Japan's politics of interdependence always prescribes swimming against comparative advantage. Rather, the picture that emerges from a meticulous statistical analysis of comparative advantage and structural adaptation¹² points to the conclusion that Japan swims with comparative advantage. To transform comparative disadvantage into competitive advantage needs a whole range of good intelligence

¹⁰ T. Inoguchi, 'Trade, Technology and Security' and 'Four Japanese Scenarios for the Future', *op. cit.*

¹¹ John Zysman, *Governments, Markets, and Growth*, Ithaca, Cornell University Press, 1983; John Zysman and Stephen Cohen, *Manufacturing Matters: The Myth of the Post-Industrial Economy*, New York, Basic Books, 1987; Chalmers Johnson et al., *Politics and Productivity: How Japan's Development Strategy Works*, Cambridge, Mass., Ballinger, 1989.

¹² Gary Saxonhouse, 'The Micro- and Macro-economics of Foreign Sales to Japan' in William Cline (ed.), *Trade Policy for the 1980s*, Cambridge, Mass., MIT Press, 1988, pp. 157-93; Gary Saxonhouse, 'Comparative Advantage, Structural Adaptation and Japanese Performance', in Inoguchi and Okimoto (eds), *op. cit.*

about markets, overall national welfare assessment of the industrial sector concerned, and administrative capability to execute policies with continuity and improvised adaptability.¹³

Government as provider of information and incentives to private actors. The government plays certain important roles. The third principle of Japan's politics of interdependence is the government's role in providing information and incentives to private actors. After all, the most the government can hope for vis-à-vis private actors is to guide them by providing them with good economic and policy intelligence and by motivating them to act in the way the government wishes by persuading them that they would benefit from so doing in the long run.¹⁴ Needless to say, the government may at times have a number of administrative and non-administrative tools at its command. But its continuous effectiveness is not just dependent on the government's overall power of regulation, permission, and subsidies. It is also critically dependent on the right advice on market direction and policy relevance by means of incentives. For instance, if the government wants private actors to place more direct investment in a particular area or country where risks are generally considered to be high, the government might, for instance, legislate a policy package to which risk-absorbing insurance schemes are attached, and offer firms free access to a host of local investment-related data.

As interdependence relies so much on private actors playing the game according to their imperatives on profits, market shares and employment, the government must come up with the schemes to orchestrate private actors' efforts so as to satisfy them and also achieve the general policy goals of the government. That is why the third principle is of crucial importance. Interdependence deals not so much with high politics where the government is its own formulator and implementor of policy action, as with low politics where private actors are their own helmsmen. This partly explains why the politics of interdependence tends to be reactive rather than proactive in many cases, since the government often

¹³ Chalmers Johnson, *MITI and the Miracle of Japan*, Stanford, Stanford University Press, 1983; Yasukichi Yasuba and Kozo Yamamura (eds), *The Political Economy of Japan, Vol. 1: The Domestic Transformation*, Stanford, Stanford University Press, 1987; Chalmers Johnson et al., op. cit.

¹⁴ Chalmers Johnson, op. cit.; Chalmers Johnson et al., op. cit.; Richard Samuels, op. cit.; Daniel I. Okimoto, 'Political Inclusivity', in T. Inoguchi and D. I. Okimoto (eds), *The Political Economy of Japan Vol. 2: The Changing International Context*, Stanford, Stanford University Press, 1988, pp. 305-44.

has to consult private actors and, no less important, to watch and assess the direction of market forces before it makes its decision. Since Japan's foreign policy is concerned with low politics or the politics of interdependence to an unusually high degree, Japan is often characterized as the reactive state.¹⁵ Needless to say, in addition to this may be cited such factors as Japan's low-profile diplomatic tradition throughout most of the postwar years and the slow-moving formation of a consensus at home.

In spite of such a policy, the government can blunder at times. Some commentators even assert that the government's failure to act as a credible scheme-provider has in fact contributed to the better-functioning of market forces.¹⁶ After all, no government is infallible or of boundless foresight. Yet, one must also add that the Japanese government has often behaved more decisively and effectively vis-à-vis private actors than some other governments.

THREE EXAMPLES

The three basic principles guiding Japan's politics of interdependence are revealed in some recent examples.

China. Japan's suspension of its official development assistance to China shortly after the Tiananmen Square massacre of protesters in June 1989 is understood better in the light of the gradually deepening economic interdependence between the two countries since the conclusion of the Peace and Friendship Treaty in 1978.¹⁷ Both sides have every reason to enhance economic ties. First, China has a legitimate claim on Japan to receive every possible kind of help in its ambitious modernization programme in the light of Japan's historical debt to China. China has reinforced its argument by abandoning its claim for war

¹⁵ Kent Calder, 'Japanese Foreign Economic Formation: Explaining the Reactive State', *World Politics*, Vol. XL, No. 4, July 1988, pp. 517–41; Kent Calder, *Crisis and Compensation: Public Policy and Political Stability in Japan, 1949–1986*, Princeton, Princeton University Press, 1989.

¹⁶ Richard Samuels, op. cit.; David Friedman, op. cit.

¹⁷ Chalmers Johnson, 'Sino-Japanese Relations, 1972–1985', in Herbert Ellison (ed.), *The Sino-Soviet Conflict and the Pacific Quadrille*, Boulder, Colorado, Westview Press, 1987, pp. 57–73; Tomoyuki Kojima, *Kawariyuku Chugoku no seiji shakai* (The Changing Political Society in China), Tokyo, Seri shobo, 1989; Gerald Segal and Akihiko Tanaka (eds), *China's Reforms in Crisis*, London, Royal Institute of International Affairs, 1990; Allen Whiting, *China Eyes at Japan*, Berkeley, University of California Press, 1989.

indemnities from Japan. China believes it deserves the best treatment from Japan of all the countries in the world because of the debt of history.¹⁸ Secondly, Japan wants to see a stable and friendly China. Japan's help in China's modernization is expected to have some effect in that respect. Given the difficulties Japan has vis-à-vis the United States (because of increasing competition) and the Soviet Union (because of territories and general relationship), China's stability and friendship are deemed essential for Japan to navigate the sea of rapid change toward the twenty-first century. Thirdly, Japan's private sector wants to see China develop as a good market in the long term. The myth of the China market has been held by many Westerners and Japanese for centuries. The Japanese are no exception to this. Although their initial optimism was shattered very fast by 1980–81, when China's economic trouble forced it to terminate many projects with foreign participation abruptly, Japanese private sectors have been alert to economic intelligence in the hope that one day China will become a good market as a result of the gradually permeating Pacific dynamism¹⁹ in which China's coastal provinces are increasingly sharing.²⁰

Fourthly, China's modernization needs Japan's economic, technological and financial help. What China needs for successful modernization includes many things in which Japan can be of help.²¹ 1) Japan is China's number one trade partner. Japan's export of machinery and other intermediate products is essential to Chinese manufacturing firms. The proportion of China's import of these goods from Japan has been very high. China's exports to Japan are essential for China to accumulate foreign reserves. Its exports consist largely of petroleum and its products and more recently of light manufactured products. 2) Japan's large-scale yen loan packages are indispensable to the Chinese government to consolidate its investments in economic

¹⁸ Laura Newby, *Sino-Japanese Relations: China's Perspectives*, London, Royal Institute of International Affairs, 1988; T. Inoguchi, 'Four Japanese Scenarios for the Future', op. cit.; Wu Xuewen (ed.), *Shizilikou de Riben* (Japan at the Crossroads), Beijing, Shishi chupanshe, 1988.

¹⁹ T. Inoguchi, 'Shaping and Sharing Pacific Dynamism', op. cit.

²⁰ Ezra Vogel, *One Step Ahead in China: Guangdong Under Reform*, Cambridge, Mass., Harvard University Press, 1989.

²¹ JETRO (Japan External Trade Organization), *Chogoku: Jiang Zemin taise iko go no seiji keizai* (China: Its Political Economy since the Transition to the Jiang Zemin Regime), Tokyo, JETRO, 1990.

and social infrastructures. The third package to be completed for the period between 1990 and 1995 is one of those which were suspended in 1989. In that year, the Chinese central government revenue was dependent on foreign loans by four per cent. More than two-thirds of these were from Japan.²² With these suspended and with much tax revenue going to local government and local firms rather than to the central government because of its decentralization-oriented reform policy, the central government had a hard time. 3) Japan's direct investment and associated technology transfer is essential to China's development. Japan's direct investment has been somewhat cautious in general compared to its trade relationship and its official development assistance. Japanese business firms are deterred by inadequacies in the business climate in terms of energy supply, transportation, communication, supply of parts, regulation of domestic sales of products, difficulty of changing profits into foreign currencies, and difficulty of hiring people according to the preferences of Japanese management leaders. Thus Japan's direct investment in China accounts for only around one per cent of total Japanese direct investment throughout the rest of the world. Yet Japan's direct investment in China has been second for many years after Hong Kong's. More recently, because of Japan's economic sanctions and because of Taiwan's assiduously pursued economic interactions with China, Taiwan's direct investment in China has been increasing very fast.

Given the background to Japan's post-Tiananmen China policy, its course is easy to understand. First, Japan does not want to alienate or isolate China from the rest of the world including Japan itself. Thus Japan's protest to the Chinese government was strong but brief and carefully phrased, somewhat different in tone from those of most Western governments. Secondly, Japan demonstrated its policy not to support any governments which were too oppressive or aggressive in part to dispel the oft-held image of Japan as doing business as usual and in part to show its strong commitment to such values as freedom and democracy in common with other industrial democracies. For example, Japan suspended its ODA to Vietnam in 1979 shortly after Vietnam's aggression in Cambodia; this suspension has continued to the present except for humanitarian aids. Furthermore, Japan is not unaware of the danger of disagreement with Western countries on

²² *ibid.*

China, which is widely thought to have been one of the major causes of war in the 1940s.

Thirdly, Japan is apparently conscious of the effect of sanctions on the Chinese government. This is where Japan's politics of interdependence comes in. As mentioned earlier, Japan's suspension of government loans has hit China's central government very severely. It is easy to understand that Chinese planners had immense difficulties with the national budget. With renewed economic tightening and replanning some areas of the economy, the central government has been trying to overcome its difficulties. Yet Prime Minister Li Peng could not help but express his complaint during autumn 1989 to one Japanese business delegation to the effect that while Western countries criticized China harshly on the Tiananmen incident but carried on business as usual, the Japanese government criticized China less harshly but Japanese business had dwindled significantly. Li Peng pleaded that 100 million people should not be starved by continuing the suspension.²³ Japan seems to be aware of its stronger position vis-à-vis China since the Tiananmen Square incident. The Japanese posture had been somewhat defensive until then because of its debt of history. China on the other hand was somewhat more active, exploiting the Japanese debt of history, in eliciting more aid, trade and technology and even leading one deputy foreign minister to resign for his comment on Deng Xiaoping, who was said to be 'above the clouds'. The meaning was taken by Deng as alluding to his old age and his inability to keep up with current affairs.²⁴ Although there is no sign that the debt of history issue has subsided since June 1989, Japan seems to have increased its bargaining position vis-à-vis China on the basis of China's dependence on Japan's help. The result is an ironical twist of historical forces working between the two: namely, Japan's past misconduct creating its debt of history to China, which in turn led China to exploit it to its own advantage especially for its modernization efforts, which in turn has created the strong web of interdependence and has led China to curtail somewhat its erstwhile much harsher criticism of Japan's debt of history.

At the Western summit in Houston in July 1990, the Japanese government announced its plan to resume its ODA to China despite some opposition to it among the participants. A number

²³ T. Kojima, *op. cit.*

²⁴ *ibid.*

of factors led to the decision. First, Japan does not want to see China suffer from long-term isolation and instability. Secondly, the United States has been ameliorating its policy toward China to a certain extent as exemplified by its decision on the one-year extension of the most favoured nation clause to China. The departure of Fang Lizhi and his wife, dissidents who sought asylum at the US Embassy at Peking after 4 June 1989, first to the United Kingdom and then perhaps to the United States with a pledge to the Chinese government not to get involved in politics, is a further example. Thirdly, Japan seems to recognise that the prolongation of sanctions is harmful to the healthy interdependence of the two countries. If Japan is seen as exploiting China's vulnerability, then this will reinforce Japan's negative image as a ruthless exploiter of economic weakness. That would not be advantageous to Japan in the long term.

These results should not all be attributed to the skilful economic statecraft of the Japanese government in an era of interdependence. But three principles should be identified. First, the Japanese belief in the need for self-strengthening is exemplified in a preponderance of loans over grants. In their view, giving grants in too large an amount spoils recipients.²⁵ If they cannot manage loan repayments by industrializing the economy rapidly and thus generating enough surplus through self-discipline, then self-strengthening will not be achieved. Secondly, the Japanese government's belief in market forces seems vindicated by increasing economic interdependence created by mutual needs and the historical legacy, creating what appears to be a basis for peaceful and stable relations. Thus the Japanese government does not try to swim against the current of the world market. Even if China believes that China should receive the largest share of Japanese direct investment, the Japanese government leaves business decisions largely to the private sector. Thirdly, the Japanese government is adept at using incentives to the private sector in the form of creating the markets for financing and manufacturing firms through official development assistance. It can also bring about a more favourable environment for the private sector's direct investment by concluding the investment protection agreement with the Chinese government. By such an agreement what is called the 'national treatment' of Japanese direct investment is guaranteed.

²⁵ Saburo Okita, *Japan in the World Economy of the 1980s*, Tokyo, University of Tokyo Press, 1989.

The United States. Japan and the United States, the two largest economies in the world, have built an unprecedented degree of interdependence. Yet their interdependence has been beset by many problems.²⁶ One of the perennial issues impeding further consolidation of their interdependence is trade, and there are other economic issues too. The Structural Impediments Initiative (SII) Talks between Japan and the United States resulted in an accord in June 1990 designed to rectify those trade barriers which are alleged to hinder foreign products and firms from penetrating the Japanese markets. The accord obliges Japan to do a number of things, which include: 1) gearing up public works expenditure over the next decade; 2) moderating a number of regulations on setting up big stores; 3) enhancing implementation of the Anti-Monopoly Law. They are considered by the United States government as positive both in terms of accelerating Japan's market liberalization and as a means of reducing US trade deficits vis-à-vis Japan. The questions arise why the US government acted as if it were a Japanese opposition party with consumer-oriented policy preferences trying to press the Japanese government to remedy more vigorously some deficiencies in Japanese market liberalization, and why the Japanese government allowed the US government to engage in what might otherwise be considered as interference in domestic affairs.

First, the United States has long demanded more vigorous market liberalization by Japan,²⁷ which has been liberalizing its markets quite steadily, especially since the publication of the Maekawa Report in 1986. For the past four years Japan's imports have doubled in total volume partly because of renewed liberalization. Yet the US trade deficit vis-à-vis Japan has not changed much, although Japan's trade surplus has been dwindling very steadily — almost down to half of the previous year's level in winter 1990. Yet, not seeing any tangible reduction of its own trade deficit vis-à-vis Japan, the United States wanted

²⁶ Takashi Inoguchi, 'Japan's Images and Options: Not a Challenger, But a Supporter' *Journal of Japanese Studies*, Vol. 12, No. 1, Winter 1986, pp. 95–119; T. Inoguchi, 'Trade, Technology and Security', op. cit.; T. Inoguchi, 'Four Japanese Scenarios for the Future', op. cit.; T. Inoguchi, 'Nichi-Bei kankei no rinen to kozo' (The Ideas and Structures of Japan-US Relations), *Leviathan: The Japanese Journal of Political Science*, No. 5, Autumn 1989, pp. 7–39; Inoguchi and Okimoto, op. cit.

²⁷ Edward Lincoln, *Japan: Facing Economic Maturity*, Washington, D.C., Brookings Institution, 1989; Edward Lincoln, *Unequal Trade*, Washington, D.C., Brookings Institution, 1990.

to remedy further some alleged non-tariff barriers since most tariff barriers for manufactured and other products have been removed, making Japan the most thoroughly liberalized of all OECD countries. Since the US government faces a Congress very critical of its handling of trade deficit issues vis-à-vis Japan, it is thus forced to act vigorously in this respect while not jeopardizing overall the friendship between the two countries.

Secondly, the Japanese government wants to accommodate the US government's demands on structural impediments as much as possible since Japan needs the continuing friendship with the United States.²⁸ Yet the domestic opposition to those demands abound, especially within the government itself. Those ministries with vested interests in regulation of stores and monopoly on budgeting have resisted hard. Those private sectors most likely to be damaged if such demands are to be fully implemented have resisted no less vigorously. Thus prior to the SII spring talks of 1990, much had to be done in terms of 'massaging' the domestic resistance. The very 'backward' opposition of ministries had to be softened by a series of actions such as meetings and telephone calls on the part of high-ranking politicians including Prime Minister Toshiki Kaifu, President George Bush, Noboru Takeshita, a former prime minister, and Shin Kanemaru, former vice-president of the Liberal Democratic Party. They were concerned about a possible adverse effect on Japan-US relations by accommodating US demands only grudgingly and too late. The concern was shared by three actors in Japan: Prime Minister Kaifu whose power base was so weak that he had to rely more on the support of public opinion and diplomatic saliency; the Takeshita faction, the largest faction within the governing party, which has had to act behind prime ministers who are from very minor factions (it has held the prime ministership only twice between 1972 and 1990 — from 1972–74 and from 1987–89 — while between 1955 and 1972 the largest faction produced most prime ministers except for one month in 1958);²⁹ and the Ministry of Foreign Affairs, whose power base is weak at home and which has to rely on the prime minister's authority to win over domestic agencies.³⁰

²⁸ T. Inoguchi, 'Four Japanese Scenarios for the Future', *op. cit.*

²⁹ T. Inoguchi, 'The Emergence of the Predominant Faction: Domestic Changes and their Security Implications', paper presented at conference on 'Beyond the Cold War in the Pacific', San Diego, California, 7–9 June 1990.

³⁰ T. Inoguchi, 'Nichi-Bei kankei no rinen to kozo', *op. cit.*; D. I. Okimoto, 'Political Inclusivity', *op. cit.*

Both the US and Japanese governments, especially the Foreign Ministry and the State Department, were very eager to keep things moving forward, because of strong opposition at home to what are considered to be humiliatingly conciliatory gestures to the adversary. After all, both Japan-bashers and US-bashers represent an important fraction of the strong opposition to these two governments. However, these two governments believe that the robust interdependent relationship of the two countries is to be one of the cornerstones in managing the world economy and that most other matters have lower priority.

Japan's politics of interdependence is applied to Japan-US relations most saliently. First, Japan wants to rely on internally generated strength, departing from its overdependence on the United States, which was deemed to be excessive especially during the decade beginning in the mid-1970s. The most dramatic realisation toward that goal was a steady increase of domestic demand in total GNP. Export dependency has been on the steady decline for the latter half of the 1980s, while for the decade between the mid-1970s and the mid-1980s the figure was unusually high even in comparison with those figures in the 1950s and 1960s. The higher petroleum prices and the tighter fiscal policy during the decade made Japan's reliance on exports extraordinary and extreme. Yet what is becoming increasingly clear is that with the steady expansion of domestic demand, Japan's dependence on imports has been decreasing very steadily (6.3 per cent of GNP). What is worthy of note is that the comparable figure for the US is 9.4 per cent and that the US's dependence on the rest of the world has been on the steady rise. In other words, if the import/GNP ratio be taken as the indicator which allows one to count the US as a continental economy, then Japan is a quasi-continental economy. The expansion of domestic demand has been achieved in part because Japan wanted to rely less on exports and less on the United States in order to make Japan-US interdependence more balanced and healthy.

Secondly, Japan wants to swim with world market forces. Since market liberalization has been the major current of the world economy, this is understandable. Besides, Japan has every reason to do so for internal reasons as well, since a highly regulated economy does not fit the status of a most advanced country. Japan's market-conforming behaviour is very clear when one looks at structural adjustments since 1973. The first oil crisis hit Japan hard. Against all the prophets of that time at home and abroad, pointing to the imminent collapse of the Japanese

economy without its own internal petroleum supply, Japan emerged strong by 1975 by remarkably trimming energy consumption in manufacturing and transportation. What was called the 'high yen revolution' during the first Reagan presidency, whereby the deliberately cheaper dollar policy was pursued by the United States, made many Japanese apprehensive about whether manufacturing firms could cope with the high yen exchange rate when the world economy was in deep recession and the Japanese economy was more dependent than usual on exports. Yet not only Japanese firms achieved an enormous degree of efficiency in terms of trimming all kinds of costs but the Japanese economy as a whole also completed structural adjustments fairly smoothly. Amidst the booming of domestic demand during the latter half of the 1980s and into the 1990s, came the demand for restructuring economic and social institutions in the form of sector-specific talks and talks about structural impediments initiatives. These forces have been acting as an impetus for Japan to re-examine those somewhat outmoded and yet politically retained institutions, especially in conjunction with the efforts at political reforms including the electoral system and party funding. It looks as if the SII talks will have some beneficial results for Japanese consumers to a certain extent, while their effects on US trade deficits will remain a moot question.

The point here is that Japan swims with the tide, not against it. By so doing Japan has been able to adapt, on the whole quite adroitly, to the dauntingly rapid structural changes in the world markets. Although the Japanese government has often been described as 'the reactive state' in foreign economic policy formation,³¹ it is often vindicated since the government has to consult private actors who must take all responsibility for their decisions by themselves, irrespective of the government's wishes and requests. Thus even though the Japanese government at times seems slow in making its foreign economic policy decisions, the Japanese economy as a whole has been most successful in swimming with the tide of the world market, because private business firms have been assiduous in assessing the markets and making their decisions. The politics of interdependence seems to rest more on balance and caution in market behaviour than on thrust and boldness in political leadership.

³¹ K. Calder, *op. cit.*

Thirdly, the Japanese government has been relatively skilful in using its own power to influence private actors in the direction in which it likes to see them move. Thus, when foreign criticism of Japanese export-led growth and Japanese trade surplus mounted during the late 1970s and mid-1980s, the Japanese government got ready to import more from abroad through what might be called suggestive administrative guidance. It was active in doing this by providing information on products and suggesting some targets, related to the percentage of imports over all the parts they use in manufacturing, to be achieved by each firm. Although it is not quite clear whether the increase in Japanese imports has been achieved largely on account of the government's exhortation of private actors, the government does play a positive role in this way. The amount of imports doubled between 1985 and 1989. With the rise of the Japanese yen vis-à-vis the US dollar, its own domestic demand increased its weight very steadily. Furthermore, the Japanese government showed its benign neglect of the steeply rising price of land in Tokyo, thus helping many land-holding firms to get an immense amount of profit and thus enhance their financial position globally. The capital surplus thus accumulated and the high exchange rate of the Japanese yen, in addition to the need to allay foreign criticism of the accumulating trade surplus, have encouraged many Japanese firms to place a large amount of capital in foreign direct and portfolio investment, especially in the United States. Furthermore, Japanese institutional investors have found it profitable to purchase Treasury bonds, thus enhancing the US government's dependence on Japan and partially offsetting Japan's over-reliance on the United States in trade, technology and security.³² At the same time, the Japanese government and firms tried hard to diversify their export markets throughout the world. Japanese trade, aid, investment and financial networks have helped other Pacific Asian economies to grow and the balance has shifted accordingly in favour of Pacific Asia.³³ The Japanese government has been trying hard to encourage firms to move into the European Economic Community before a higher wall is built toward 1992.³⁴

³² T. Inoguchi, 'Trade, Technology and Security', *op. cit.*

³³ T. Inoguchi, 'Shaping and Sharing Pacific Dynamism', *op. cit.*

³⁴ T. Inoguchi, 'Japanese Responses to Europe 1992: Implications for the United States', paper presented to conference on Europe 1992, Washington, D.C., 4–6 October 1989.

Eastern Europe. In January 1990 Prime Minister Toshiki Kaifu visited two East European capitals, Warsaw and Budapest, pledging Japan's loan package to Eastern Europe which has been trying to replace its old command economies by more market-oriented economies. The package is an ingenious one in a number of senses.³⁵ First, Japan wants to increase its say in European affairs. In an era of global interdependence Japan, having economic stakes in virtually every corner of the world, cannot afford to sacrifice global interests in favour of geographically narrow regional interests. No regionalist orientation would work. Japan's globalist orientation could not possibly leave Europe untouched by Japan. Japan's aid to Eastern Europe would help it to trade with Europe more vigorously. It is important especially in light of the still pervasive image of Japan as a selfish free rider and in view of the dictum, 'a friend in need is a friend indeed'.

Eastern Europe is facing all kinds of economic shortage. Japan's economic vigour and its anti-Russian (anti-Soviet) and non-colonial past in the region seem to make Japan a very popular nation in some of the East European countries. For instance, in Poland Japan is ranked at the top of all nations in the world in terms of its favourable image.³⁶ Western Europe is preoccupied with its own affairs, looking towards 1992 and further and is not particularly well-endowed financially especially as a reunifying Germany is preoccupied with its own financial problems. The newly-created European Development Bank is said to be thinking about Japanese contributions, if not its voice or vote. The United States has been concerned about its trade and government deficits which are of monstrous proportions.

Secondly, Japan's economic presence might make it easier for Japan to improve its relations with a further integrated European Community toward 1992. When Eastern European countries want to strengthen their ties with the European Community and when East Germany becomes a member of the Community, it might turn out to be a very good strategy. Thirdly, enhanced ties with East European countries might lead the Soviet Union by example to developing closer economic ties with Japan. Japanese assistance in Eastern Europe seems to be reducing the Soviet suspicion of Japan. As a matter of fact, the Soviet Union has been moving in the direction of receiving economic assistance

³⁵ T. Inoguchi, *ibid.*

³⁶ *Nihon keizai shimbun*, evening edition, 16 November 1989. The Polish State News Agency reported on the results of the opinion poll conducted in November 1989.

from European countries and suggesting to Japan the kind of scheme that was applied to China in 1978, namely, the extension of large-scale economic assistance and participation in order not to further destabilize the country. The Western summit at Houston in July 1990 has made it clear that continental Europeans are eager to assist the Soviet Union financially and otherwise whereas others, namely, Japan, the United States, the United Kingdom and Canada offer what is called 'intellectual and technical assistance' to it, but not financial aid. Fourthly, Japanese economic participation in Eastern European countries will help to moderate German economic predominance in the region. Already the Japanese are the second largest lender to Eastern Europe, after West Germany.

One of the advantages of this loan package is that the government pledges to insure companies against loss incurred by venturing into the region, but unless firms move into the region, either with direct investment or loans, no great expenditure is necessary. The government seems to foresee that Japanese firms will not go there in large numbers anyway, given the extraordinary range of difficulties in restructuring the economies.³⁷ It also squares with the Japanese belief that not much trust can be placed in the effectiveness of grants in generating sustained economic development. According to that belief, local economies should be able to produce more surplus than just sufficient to continue to service debts. Thus the design of the package is such as to make it largely dependent on market forces functioning in the local economies as well as in the Japanese economy. Yet the pledging of the loan package is not only a political plus to Japan. But also in the longer term it is beyond doubt that some Japanese business firms will find and develop their business there. Given the small size of GNP in the region, any Japanese economic participation even of small size by Japanese standards will make a fairly large impact on the local economies.

CONCLUSION

This article has argued that the three principles guiding Japan's politics of interdependence are: the Japanese willingness to rely on internally generated strength which is of historical

³⁷ *Asahi shimbun*, morning edition, 14 July 1990.

origin; the Japanese belief in market forces determining a large percentage of the outcome of interdependence and thus not exaggerating the power of policy in altering market forces, which can come only via internally generated strength; and the Japanese government's skill in motivating private actors to move in the direction the government prefers by giving information and incentives to them. The three principles have been illustrated if very briefly by the three examples: China, the United States and Eastern Europe. My discussion on the three principles seems to suggest that in order better to understand Japan's politics of interdependence, at least three kinds of literature have to be further examined. First is the history of economic thought governing Japanese industrialization and modernization. Japan's economic experiences seem to provide a good example of the indigenous developmental model, or an antidote to the dependency model.³⁸ The second is the theory and practice of interdependence. The strategic aspect of interdependence especially must be further explored.³⁹ The third is the theory and practice of public policy or government-business relationship.⁴⁰

Then, what are the prospects for Japan's politics of interdependence? In order to see them better, it will be useful to examine the prospect for each of the three guiding principles, if briefly. First, Japan's preference for relying on internal strength will become more salient as its own economic strength increases. Secondly, Japan's adroit use of market forces by swimming with the current will not change much unless Japan overestimates its own political power. Thirdly, the Japanese government's ability to influence private actors at home will decline somewhat as the private sectors become increasingly stronger vis-à-vis the government. To sum up, Japan's politics of interdependence will not change very much in the 1990s. But the combination of growing economic strength, its possibly already developing hubris, and its declining grip on the private sector may augur ill for its successful performance into the 1990s and beyond.

³⁸ Manfred Bienefeld and Martin Godfrey (eds), *The Struggle for Development*, New York, Wiley, 1982.

³⁹ Koichi Hamada, *The Political Economy of International Monetary Interdependence*, Cambridge, Mass., MIT Press, 1985.

⁴⁰ Chalmers Johnson, 'Political Institutions and Economic Performance: The Government-Business Relations in Japan, South Korea and Taiwan', in Frederic Deyo (ed.), *The Political Economy of the New Asian Industrialism*, Ithaca, Cornell University Press, 1986, pp. 136-64.