
Japan's Images and Options: Not a Challenger, but a Supporter

Author(s): Inoguchi Takashi

Source: *The Journal of Japanese Studies*, Winter, 1986, Vol. 12, No. 1 (Winter, 1986), pp. 95-119

Published by: The Society for Japanese Studies

Stable URL: <https://www.jstor.org/stable/132448>

JSTOR is a not-for-profit service that helps scholars, researchers, and students discover, use, and build upon a wide range of content in a trusted digital archive. We use information technology and tools to increase productivity and facilitate new forms of scholarship. For more information about JSTOR, please contact support@jstor.org.

Your use of the JSTOR archive indicates your acceptance of the Terms & Conditions of Use, available at <https://about.jstor.org/terms>



is collaborating with JSTOR to digitize, preserve and extend access to *The Journal of Japanese Studies*

JSTOR

INOGUCHI TAKASHI

Japan's Images and Options: Not a Challenger, but a Supporter

Foreigners have viewed Japan in a variety of different ways at any given time in the past, and this complex image holds true even today. Japan is unusual in the variety of facets its image has. This article will examine some of the contrasting elements of this image, analyze changes Japan has made in security and economic policy in the past decade, and suggest some of Japan's options for the future.

While Japan is currently seen as a free rider or a parasitic dependent in terms of defense, it is also said that tomorrow Japanese militarism may well revive and threaten neighboring countries. Japan has the highest level of dependence in the world on oil shipped through the Persian Gulf and is criticized for making no effort to preserve the security of that region. Conversely, the possibility that Japan, an economic superpower, will become a military superpower before the twenty-first century and reemerge as a challenger to the United States, is a source of anxiety. As Maeda Toshikazu, the Ambassador to South Korea, said, "Both the defense free-rider view and the militarism revival view are wrong. But whether Japan makes efforts toward a defense buildup or not, it suffers criticism."¹

The predominant image of Japan's economy is that it is a free rider; that is, it takes but doesn't give. For example, although Japan's capital market is

A translation of "Keizai gijutsu taikoku no sentaku-shi," *Chūō Kōron*, October 1984, pp. 96–115. © by the author and *Chūō Kōron*.

1. *Nihon keizai shimbun*, June 20, 1984.

not easy for foreign banks and securities companies to penetrate, Japanese capital is very active in foreign markets. And although the amount of Japanese official development assistance is large, Japan's proportion of grants-in-aid compared to GNP is small. On the other hand, some see Japan as a challenger steadily conquering the world market by making full use of its state-led economic management, whether in technological innovation, industrial policy, or world marketing.

Between the extremes of Japan as free rider and challenger is Japan as a supporter, a viewpoint not frequently heard. This view argues that Japan should contribute to the strengthening of the peace now maintained under American leadership through the defense of sea lanes in the western Pacific and support of U.S. deployment of new anti-Soviet nuclear weapons in Western Europe. According to this view, Japan should support the United States, which is now facing economic problems of its own. This means that Japan must continue to make steady progress in the liberalization of both trade and capital markets, as well as taking an active part in making foreign aid and overseas direct investment, syndicated loans, Eurobond issues, and contributions to international organizations, using its high technology and excess capital. Many of these actions can be seen as supporting actions for allied nations with the goal of preserving and strengthening the international system led by the United States.

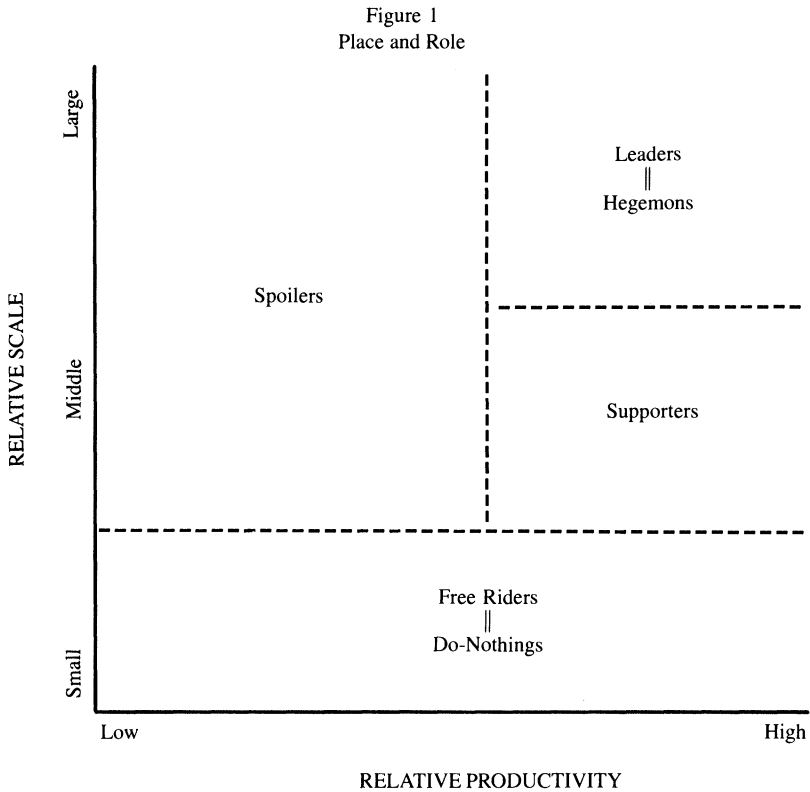
Despite the wide disparity of images in Japan, it is not unusual for them to coexist. These three images reflect the enigmatic reality Japan poses to the rest of the world and the vast range of options it can take within the international system. Japan has suddenly emerged as a superpower 40 years after its defeat and there is room for more serious contemplation of its role than has been previously undertaken.

Japan's Place and Role in the World

When discussing a country's foreign policy, it is common practice to relate its place and role in the world. For example, David Lake has used the concepts of relative size and relative productivity in dealing with America,² arguing that these factors in the economy largely shape a country's role in international society. In this study, I will consider the four types of roles shown in Figure 1: leaders, supporters, spoilers, and free riders.

Leaders have the greatest relative size and highest relative productivity. In order to manage the world economy and the international environment, leaders devise a variety of arrangements to suit their interests. While lead-

2. David A. Lake, "International Economic Structure and American Foreign Economic Policy, 1887-1934," *World Politics*, Vol. 35, No. 4 (July 1983), pp. 517-43.



Source: Based on David A. Lake's diagram in "International Economic Structure and American Foreign Economic Policy, 1887-1934," *World Politics*, Vol. 35, No. 4 (July 1983), p. 522.

ers bear responsibility for the principal costs of the system, these arrangements reflect choices to their benefit. For example, developing countries find that the IMF and the World Bank are essential international economic institutions for developing countries facing difficulties involving the international trade balance and development planning, but these same institutions also strongly reflect American power. NATO is a military treaty system joining North America and Western Europe but, by recently deploying new anti-Soviet nuclear weapons in Western Europe, it ultimately serves American interests. International leadership is not a pure public good; rather, it is a mix of public and private goods. The international rules and practices possess a certain inertia and continuity preventing leaders

from always realizing their own best interests because of the need to accommodate their followers.

Supporters are somewhat smaller than leaders in terms of relative size, but they are almost the same as leaders in relative productivity. They support and conform to the international rules and practices built by the leaders, and although they pay certain limited expenses they are usually rather important countries. Supporters are sometimes called “junior partners.” What must be noted here is that supporters are not blind followers. In cases where the cost of conforming to a leader’s expectations is too high, a supporter—possessing the ability to champion its own specific interests—will disregard the interests of the leader. The alliance between a leader and its supporters often has characteristics that can best be described as “dreaming different dreams in the same bed.” It is not unusual to have discord among the members of an alliance.

The third category is spoilers, whose relative size is much the same as leaders but who are in most cases inferior to leaders and supporters in terms of relative productivity. Spoilers sabotage the international rules and practices and attempt to break them down. Normally, however, spoilers don’t attempt total destruction of the system; those categorically opposed to the system are called challengers.

Distinguishing between supporters and spoilers is not always easy. When a supporter becomes non-conforming and asserts its own interests vis-a-vis the leader, its actions can easily change into those of a spoiler. Americans thought DeGaulle a spoiler for his withdrawal of France from NATO, and an increasing number of Americans think the same of Japan today because of its economic advances. Michel Jobert, former foreign trade minister of socialist France, categorized the U.S.S.R. and Japan as spoilers by saying that the world would be much happier without the military menace of the U.S.S.R. and the economic threat of Japan.³ On this level, then, the Soviet Union and Japan are in the same category.

Free riders, the fourth category, are small in relative size; their relative productivity can be on par with leaders and supporters, or it can be low like that of spoilers. For example, almost all of the developing countries receiving the benefits of the preferential tariff rates provided within the structure of GATT may be called free riders.⁴

Which category best describes Japan? In terms of relative size, there are a variety of indicators.⁵ For example, in looking at the comparative

3. Kumon Shumpei, “Administrative Reform Requires New National Goals,” *Economic Eye*, Vol. III, No. 3 (1982), pp. 4–7.

4. *Nihon keizai shimbun*, December 26, 1982.

5. OECD, *National Accounts, Vol. I: Main Aggregates* (Paris: OECD, 1984). IMF, *International Financial Statistical Yearbook, 1983* (Washington, D.C.: IMF, 1983).

populations of Japan, the United States, and Europe (EEC), we find a ratio of 1:2:2.5. A comparison of GNPs shows a ratio of 1:3:2. A comparison of exports for Japan and the United States shows a ratio of 1:1.6, and for imports 1:2.

Relative productivity is more difficult to measure. Let me present data from a recent MITI White Paper on labor productivity measured in terms of value added.⁶ Looking only at the manufacturing sector, the ratio of this productivity between Japan and the United States is 85:100. However, in the three sectors of steel, electronics, and automobiles, Japan's productivity is higher. In recent years, the productivity of a number of sectors in Japan has increased, although in agriculture, the defense industry, and the service sector, Japan's value-added labor productivity still trails that of the United States. Within the industrial sector, however, Japan today has achieved a level of productivity rivaling West Germany, Canada, France, the Netherlands, Norway, and Sweden, bringing Japan close to the role of Lake's supporter category.

Due to the levels of its economic scale and productivity, Japan has come to support and facilitate international economic activity. Here I would like to indicate more concretely how Japan, whose interests are generally met by these activities, contributes to international society. In terms of officially provided development assistance, in 1982 Japan was number four in the world with \$3 billion, ranking behind the United States at \$8.2 billion, France at \$4 billion, and West Germany at \$3.2 billion.⁷ In addition to aid to neighboring countries in East and Southeast Asia and to those countries that supply natural resources, Japan has also increased aid to countries strategically important to the United States (Pakistan, Egypt, Turkey, Saudi Arabia, and pro-U.S. Central American countries). Whereas U.S. aid supports basic needs (hygiene, agriculture, education) and provides weapons, Japan's aid emphasizes socio-economic infrastructure and basic industries (such as textiles, steel, petrochemicals, and electricity).

In terms of the amount of funds disbursed to international agencies, Japan ranks number two among members of the World Bank and is on a par with the United States in the Asia Development Bank. Furthermore, Japan supports, in low profile, bank operations aimed at the healthy development of countries that have borrowed money and received aid.

In the category of outstanding net external assets, at the end of 1983 Japan was second at \$37.2 billion, behind the United States with \$135 billion.⁸ Japanese syndicated loans and direct foreign investment have in-

6. Tsūsanshō, *Tsūshō hakusho* (Tokyo: Tsūshō sangyō chōsakai, 1983).

7. Gaimushō, *Sekai no ugoki*, No. 398 (1983).

8. *Nihon keizai shimbun*, May 30, 1984.

creased dramatically during the 1980s. Japan's syndicated loans, which reached \$32.1 billion in 1982,⁹ have three characteristics which are appropriate to its role of supporter. First, compared to U.S. and OPEC loans, the interest rates on Japanese loans are lower and the maturity longer. Second, Japanese banks frequently make syndicated loans with U.S. banks and often become lead banks or co-lead banks. In 1983, the Bank of Tokyo ranked number seven in the world as a lead bank; for sovereign debtors (i.e., nations) it held second place; for supranational debtors (i.e., international agencies), it was first. Third, along with the United States, Japan helps with operations to reschedule debts for many developing nations. Japan's direct foreign investment has grown dramatically. In 1982 it reached \$29 billion, fourth in the world.¹⁰ Also noteworthy is the overall Japanese willingness to accept minority ownership, thus befitting Japan's role as supporter.

In the trade sphere, Japan is steadily proceeding with liberalization based on the agreement of the Tokyo round of GATT; for manufactured goods, Japan has a lower average tariff rate than the United States or Western Europe. Similarly, in terms of the number of markets affected by non-tariff barriers, Japan is lowest at 7 per cent, compared to the United States and Italy at 34 per cent, France at 32 per cent, Britain at 22 per cent, West Germany at 20 per cent, and Canada at 10 per cent.¹¹ Even agricultural products have been liberalized somewhat under external pressure. Japan has been trying to advance free trade with the United States by scheduling a new round of talks while avoiding the withdrawal of Western Europe from those talks. This also corresponds well to Japan's role as supporter. Japan's financial system left behind the systemic inertia of the 1920s' bank crisis and the securities panic of the mid-1960s. But by the mid-1980s, Japan has joined international trends of financial liberalization that date from the mid-1970s. The 1984 agreement reached by the Japan-U.S. Yen-Dollar Committee was a big step in that direction.

With the world's highest savings rate and many internationally competitive manufactured goods, Japan has become a creditor nation. Japanese banks, more directly than in the past, lend large amounts of capital through the Eurodollar market by such means as acquiring a large foreign investment portfolio and greater earnings for Japanese direct foreign investments.

9. *Euromoney*, May 1980, pp. 64–65; April 1983, pp. 24–25; and October 1983, pp. 166–82.

10. *Nihon keizai shinbun*, March 14, 1984.

11. William Cline, "Reciprocity": A New Approach to Trade Policy?" in Cline, ed., *Trade Policy in the 1980s* (Cambridge, Mass.: MIT Press for the Institute for International Economics, 1984).

In the sphere of national security, Japanese military spending has increased an average of 7.7 per cent annually over the past five years, reaching in 1982 an annual total of approximately \$10 billion (1 per cent of GNP).¹² Obviously, U.S. military spending is higher at \$300 billion (10 per cent of GNP), but neither does Japan compare with countries in the 3–7 per cent range such as West Germany, France, and Britain. Japan's total military spending in the past 20 years was \$77 billion, similar to that of Italy.¹³ In the same period, the responsibilities and roles Japan shares with the United States have grown dramatically. For example, Japan is responsible for American base expenses in Japan, information-gathering in the neighboring maritime area, Japanese-American cooperation in the event of blockade of the straits of Sōya, Tsugaru, and Tsushima, and joint military maneuvers in the western Pacific. In politics, in 1983 Japan strongly supported U.S. placement of new nuclear weapons in Western Europe in response to the placement of new Soviet weapons. In 1981, issues between Japan and South Korea were resolved before Prime Minister Nakasone's trip to America, and Japan attempted to mediate in the Iran-Iraq War. At the Western Summit in 1984, Prime Minister Nakasone urged President Reagan to initiate Soviet-American talks. These actions indicate Japan's role as a supporter.

Japan can be seen in each of the roles of free rider, supporter, and challenger. What has brought about these three images, and how do they co-exist? There are other factors, but the primary two are Japan's rapid growth and America's reassertion of hegemony.

First, Japan's relatively high growth rate is likely to continue in the foreseeable future. Japanese growth and change have been so rapid that many in the world have difficulty perceiving what is indeed occurring. This is not always the case, but there are many who have outdated perceptions of Japan. Evidence of this is the pattern of "at first deny, then copy" Japan's achievements.¹⁴ The memories those with such lagging perceptions have of Japan—free rider, dependent, or do-nothing—will die hard. At the same time, Japan's growth has been so rapid that some prematurely and mistakenly believe that in technology, industry, finance, and all other areas, Japan will eventually surpass foreign nations. Because there are people who believe this, a few are beginning to say that sooner or later Japan's true militaristic identity will show itself.

12. Gaimushō, *Sekai no ugoki*, No. 398.

13. Ruth L. Sivard, *World Military and Social Expenditures, 1983* (Washington, D.C.: World Priorities, 1983).

14. Norman MacRae, "Health Care International," *Economist*, April 28, 1984, pp. 13–17.

Second, the United States is trying to reassert its world leadership, despite the fact that it is faced with numerous unsolved problems, both domestic and international, and that it is still mired in frustration. To accomplish this, the United States is attempting to strengthen support for its policies from its allies. It is increasing pressure on its allies who are not bearing, in the U.S.'s judgment, a sufficient burden for the alliance. This often takes the form of venting domestic anger against an ally who seems to be managing its affairs rather well. This kind of U.S. policy sees Japan playing the cunning role of free rider, fostering the vague unease among some Americans that, at any moment, Japan will try to become a challenger. At the same time, this has made many Japanese feel that the United States is applying unfair pressure on Japan.

Objectively speaking, these two major factors help make Japan an even better supporter but, at the same time, they cause Japan to be strongly perceived as a free rider and a challenger. Setting aside these three images of Japan, let us here take up the U.S. transition in its international role.

Since the end of the nineteenth century, U.S. economic foreign policy has moved very slowly in the direction of free trade.¹⁵ Between 1873 and 1945, but especially during World War I, the U.S. trade share increased rapidly. Prior to the end of World War I, the United States developed rapidly as Britain's "junior partner"; U.S. figures for world trade shares were at much the same level as Britain's by the end of World War I. With the development of automation, U.S. productivity increased dramatically in the 1920s. The United States played the role of supporter in the recovery of post-World-War-I Europe. Yet between World War I and the 1930s, America's uncertain role (represented by its non-participation in the League of Nations) indicated that the nation had two roles, supporter and free rider. However, in the interwar period the United States reversed its junior partner status with Britain. The final stage in that role reversal came when U.S. military forces were dispatched to Europe. American entry into World War II was long delayed but it became possible suddenly because challengers—Germany and Japan—took actions to force U.S. entry. While playing the role of follower to leader Britain and other allied countries, the United States also played a large role in the undermining of Britain's systemic and geographical prerogatives, under the banner of anti-colonialism and free trade. This made the United States and Britain strange bedfellows, or as one scholar put it, they were "allies of a kind."¹⁶

15. Lake, "International Economic Structures."

16. Christopher Thorne, *Allies of a Kind: The United States, Britain and the War Against Japan, 1941–1945* (Oxford: Oxford University Press, 1978).

This American role reversal warrants a closer look. It has taken the United States three-quarters of a century to climb from free rider, to supporter, and then to leader. In the process of moving from free rider to supporter, the United States was criticized in the late nineteenth century for sometimes having disregarded the practices and standards of international trade, and it was censured as a free rider for being a predatory late-developing nation. Even in the first part of the twentieth century, the United States was criticized by Britain and other European countries as an undependable, irresponsible free rider. To quote Neville Chamberlain, "It is best and safest to count on nothing from the Americans but words."¹⁷ Thus there is more than just a little irony in the "admonitory" U.S. statements and actions that sometimes paint Japan as a free rider or challenger.

The U.S.'s transition from supporter to leader came about through a mix of mutual cooperation and competition with the leader Britain. What must be pointed out here is that leaders and hegemony usually come from the ranks of supporters rather than challengers.¹⁸ In other words, junior partners emerge as new hegemony from the cooperation/competition with the old hegemon. Looking at leadership transitions since the Portuguese hegemony in the sixteenth century, we see this pattern repeated again and again. It was not the country that challenged Portugal—Spain—which emerged as victor at the end of the seventeenth century, but, rather, it was Holland. The Dutch took up where Portugal left off in that they fought Spain, acquired independence, and inherited Portugal's world trade. In the eighteenth century the country that achieved hegemony was not France (which challenged Holland); rather, it was Britain, which fought France alongside Holland. The country that achieved hegemony in the twentieth century was not Germany, which challenged Britain both in 1914 and 1939, but the United States, which fought alongside Britain. As the example of Britain and the United States before 1945 shows, an old hegemon and a junior partner can become "allies of a kind." Whether this same pattern will be repeated in the future is a difficult problem since it largely depends on the international balance of power and particular circumstances. However, because of the very high costs of competition between leader and challenger, it is difficult for a challenger to become a new hegemon.

Above we have looked at Japan's place and role in the world. In the next

17. Keith Feiling, *The Life of Neville Chamberlain* (London: Macmillan, 1946, quoted by Bradford A. Lee, *Britain and the Sino-Japanese War: A Study in the Dilemmas of British Decline* (Stanford: Stanford University Press, 1973), p. 54.

18. Inoguchi Takashi and Inoguchi Kuniko, "Dai-ichiji taisen ni itaru Amerika," in Okazaki Hisahiko *et al.*, eds., *"Amerika no seiki" no seisui* (Tokyo: Nihon Keizai Shimbunsha, 1984).

two sections we will look at Japan's economic and security policies where substantial revision shows that Japan has changed from a free rider to a supporter.

Japan's Foreign Economic Policy

The Japanese economy has undergone rapid change in the past decade, but before examining the nature of this change, I would like to touch on two fundamental developments in the international economic environment. One is financial liberalization, connected with a flexible exchange rate system; the other is protectionism, connected with trade liberalization.

In 1971, the world trade regime supported by the dollar collapsed because the United States, which had created and maintained the system, suddenly abandoned it.¹⁹ It became impossible to maintain a system based on gold to dollar conversion. To maintain the U.S. dollar as essentially the preeminent means of international exchange entailed two major difficulties. One was the high value of the dollar, which had resulted under the fixed exchange rate regime, causing the U.S. to suffer an increasing trade deficit. The other was that a large capital outflow from the United States occurred, spearheaded by multinational enterprises, causing a reduction in investment at home. This latter development was significant in that it became an important reason for the declining competitiveness of the U.S. domestic manufacturing industries.

The flexible exchange rate system has been in operation since 1973, but as a system it has not been completely trouble free, as indicated by the large shifts in exchange rates that have tended to result in reducing the likelihood of the U.S.'s economic ability to regain its former level of performance. The overvaluation of the U.S. dollar has created serious problems in the past several years in connection with the shifts in the exchange rate. The United States adopted a high interest policy to reduce domestic inflation and to defend the value of the dollar; however, this combination—high interest rates and the high value of the dollar—caused an acceleration in capital inflow to the United States, thus making it a debtor nation by the end of 1984. America's long history as a creditor nation began in 1914 with the outbreak of World War I, when it changed overnight to a creditor nation. Now, seventy years later, it has again become a debtor nation. Once interest rates are lowered to facilitate economic recovery, foreign capital—previously flowing into the United States—may flow out, and the possibility that the dollar could suffer a severe plunge has become very real.

19. Ronald McKinnon, *An International Standard of Monetary Stabilization* (Cambridge, Mass.: MIT Press for the Institute of International Economics, 1984).

Moreover, Japan is being pressured to open its financial and capital markets. The flexible exchange rate system greatly encouraged the short-term movement of capital and even Japan has not remained impervious to this. Because of the domestic demand saturation in Japan and the large excess amount of capital, Japanese banks, securities houses, and enterprises have begun to aim at foreign opportunities in the form of syndicated loans, issuance of bonds in the Euro-capital market, and direct foreign investment. Overall, the level of Japan's economic dependence on overseas natural resources and international trade and finance increased even more in the 1970s and 1980s.

The second change in the international environment is creeping protectionism coupled with trade liberalization.²⁰ The beginning of the world recession in 1974 also encouraged the rise of several countries which had not previously been major forces in world trade or production, namely, Japan and the newly industrializing countries (NICs). While the international competitiveness of the manufacturing sectors in the major manufacturing countries of Western Europe and North America has suffered a relative decline, the market share of these new countries in the old manufacturing countries has definitely expanded. The industries that have particularly felt the impact of this advance have been textiles, shipbuilding, steel, automobiles, and electronic products. Industrial adjustment has been slow, encountering great resistance, and because of social and political inflexibility these industries cannot be phased out in steps. As a result, creeping protectionism has expanded in the old manufacturing nations. By the late 1970s and early 1980s, one-third of U.S. manufacturing sectors were covered by overt non-tariff barriers. At times, visible protection is imposed, as when Japanese producers of video tape recorders were forced to use costly facilities at Poitiers to inspect VTRs imported from Japan to France. At other times, an importing nation can demand a multilateral agreement from an exporter to reduce exports or adopt "voluntary export control." Such agreements have been demanded of both the textile industries of NICs and the Japanese automobile industry. Some estimate that if the strongest possible protectionist measures were adopted around the world, then exports from Japan would decline about 10 per cent.

A different perspective toward this problem is how it affects the long-standing members of GATT who maintain the same kind of economic structure and are accustomed to coping with economic problems in the old, familiar way. The threat of protectionism has been used by the older advanced countries to get the newer countries to better "behave" themselves.

20. See Cline, "Reciprocity."

Since the 1979 Tokyo round of GATT, we have seen on one hand a free trade chorus and, on the other, delayed implementation of agreements and creeping protectionism making use of non-tariff barriers.

The two fundamental assumptions of the Japanese economy in the 1960s were turned upside-down in the 1970s. First was the “small country” assumption, the idea that a small economy exerts little influence on other economies. In fact, the opposite is true. Second is the “closed economy” assumption. This is the case when an economy is insulated from those of other nations because effective barriers are in place at its boundaries.

The small country assumption has already been discarded. The rapid expansion of the Japanese economy has exerted major influence on the world economy as well as Japan’s neighboring countries. Many countries of the western Pacific are strongly affected by the U.S. and Japanese economies. The production and trade of NICs in the Far East have been to a large degree dependent on Japanese investment and capital goods. And for more than half of the countries in the western Pacific, Japan is either the largest trading partner or the largest provider of assistance.

In the world view, more important is the fact that U.S. dependence on trade has increased, and U.S. trade dependence on Japan is significant. Between 1970 and 1980, the ratio of U.S. trade to GNP almost doubled, jumping from 4.4 per cent to 8.4 per cent.²¹ It was no longer tenable to retreat into the idea of “Fortress America” as it was in the early 1970s when the U.S. departed from the Bretton Woods regime and entertained the idea of energy self-sufficiency. This is to say that because of increased trade and other economic interdependence, it is no longer possible to adopt extreme protectionism. Moreover, since 1977, more than half of America’s maritime trade has been across the Pacific, not the Atlantic.

Not only in terms of trade, but in finance too Japan is no longer a small country. From 1981 to 1983 Japanese foreign direct investment tripled.²² A large portion of this increase was invested in advanced countries, the United States being the largest recipient. Moreover, Japan’s syndicated loans and Eurobond issues have been rapidly expanding since the early and mid-1980s respectively.²³

Thus the closed economy assumption is also unsustainable. In order to understand how Japan headed steadily toward an open economy in the 1970s, it is necessary to look at the basic characteristics of the pre-1973 Japanese economy. An important feature was the compartmentalization of

21. *Economic Report of the President* (Washington, D.C.: Government Printing Office, February 19, 1984), pp. 220, 338.

22. *Nihon keizai shimbun*, May 30, 1984.

23. *Nihon keizai shimbun*, April 7, 1984.

competition.²⁴ Because of the necessity for a high level of investment capital to meet the needs of enterprises, and because the Japanese economy was essentially closed, financial authorities effectively regulated the flow of capital to targeted enterprises through commercial banks, using administrative and financial guidance. Savings were largely based on quasi-governmental financial institutions such as postal savings. As a result, the financial market was highly regulated while the product market was freely competitive. Thus, competition within sectors was extremely strong while the entire domestic market was compartmentalized. For this reason, the Japanese economy appeared to function with a strange mixture of effective state-led management and fierce competition within the domestic market.

After the first oil crisis, however, the flow of capital was reversed. Instead of capital moving from the public sector to the private, the sale of government bonds moved a large volume of capital from the private to the public sector. The government, because of the extraordinary expenditure pattern born in the rapid growth period, became overburdened and issued large amounts of national bonds, requesting the private sector (securities houses and banks) to absorb them. This reversal in the flow of capital undermined what had formerly been one of the structural supports that gave the public sector the control of the private sector. Because of its high net savings rate of 20 per cent, Japan was able to absorb government bonds without causing the extremely high inflation which took place in America, but high net savings also served to strengthen greatly the private sector's relative independence of the government. Internationally, short-term capital movements became one of the most important characteristics of international transactions in the flexible exchange rate system, and this has become the basis for strengthening the worldwide current of liberalization and internationalization of finance. Nor could Japan swim against the current. This internationalization trend has prompted the erosion of Japan's previous domestic financial methods.

This trend has also resulted, in part, in the rapid expansion of Japan's economy and the high level of its performance. Rapid growth in terms of GNP, gross fixed capital formation, imports and exports, and foreign currency reserves has made it difficult for the Japanese economy to isolate itself from foreign influence. Japan's economic success caused increasing criticism and the demand that its product and capital markets be liberalized so that Japan would protect those markets no more than other countries do.

24. Yasusuke Murakami, "Toward a Sociopolitical Explanation of Japan's Economic Performance," in Kozo Yamamura, ed., *Policy and Trade Issues of the Japanese Economy* (Seattle: University of Washington Press, 1982).

With large trade surpluses and growing market shares in many foreign countries, it was no longer possible for Japan to fight the tide of liberalization.

After the first oil crisis, Japan's good economic performance raised the value of the yen. Indeed, the value doubled between 1971 and 1978. The decline in the value of the yen occurred from late 1979 because of a high U.S. interest policy and increased tension between the United States and the Soviet Union (an actual war, of course, or even the possibility of any kind of war, would reduce the value of the yen) and this trend appeared to continue after 1984 because of Japan's capital liberalization. But there is little doubt that as long as Japanese economic performance remains good, demand for the yen as an international currency will increase. This means that the time has passed when the Japanese economy could be carefully managed and insulated from external disturbances.

When the domestic demand for manufactured goods is saturated, trade friction will rise, and direct foreign investment will increase. When the domestic bond market is finally saturated, then enterprises will draft foreign bonds and Euro-bonds. Conversely, foreign enterprises will probably draft yen-denominated bonds in Japan. If net savings stay at their current high rate, then with the increase in Japan's surplus capital will come growth in syndicated loans.

Japan's finance, production, and sales horizons have expanded and enterprises have come to depend more heavily than before on foreign markets. Moreover, these foreign markets do not necessarily witness the fierce competition seen in Japanese markets. Consequently, there will be a long-term decline in improvements in technology, production, and sales unless the following conditions do not come about: first, a rapid and complete liberalization of the domestic financial and capital markets, and second, the constant improvement of the industrial structure by technological innovation under which Japan must not become satisfied with producing and selling in foreign markets outdated products that will not sell in the domestic market.

America's experience between the 1950s and 1970s is extremely suggestive on these points. Bewitched by opportunities in foreign countries, American enterprises rapidly became multinational. However, the capital outflow from American banks, which had been lending to multinational companies, became impermissible by the mid-1960s because of trade balance considerations. The Eurodollar market was no longer under U.S. control, developing as an "offshore" market, and capital outflow steadily continued. The American market was not yet fully liberalized and thus capital outflows continued further when, in 1971, the fixed exchange rate system with dollar/gold convertibility was finally abandoned. The large capital

outflow from the 1950s to the 1970s contributed in no small way to America's failing economy and industries.

In short, Japan's characteristics as a small country and a closed economy have been almost completely discarded in the past ten years. It has been a major process: the transition to a flexible exchange rate system (1973), the GATT Tokyo Round Agreement (1979), and the agreement to liberalize Japan's finance and capital markets (1984). And today, Japan's economy is not only extremely large but is also rapidly liberalizing. Second only to the United States, Japan's economic size and productivity will perforce place Japan in the role of supporter. Japan has eschewed the notion that it alone can prosper.

Japan's Security Policy

Japan's security environment has not changed as dramatically as its economic environment. However, two changes are important: the intensifying tension between the United States and the Soviet Union, and America's growing pressure on its allies.

Relations between the United States and the Soviet Union have shifted from detente to tension.²⁵ This shift, since the high point of detente in the early to mid-1970s, has been the most important change in Japan's security environment. Since Japan is under America's security umbrella, such changes have an immediate impact on Japan.

At issue is the fundamentally different meaning of detente for the United States and the Soviet Union which makes the two sides perceive the events of the 1970s in very different ways. The United States understood detente to mean the mutual restraint of excessive military buildup, but Americans perceive the reality of detente as unfavorably asymmetric. According to Secretary of Defense Harold Brown's testimony to Congress: "We build, they build. We cut, they build."²⁶ Detente for the Soviet Union meant American self-restraint in strengthening its nuclear superiority. It is perfectly understandable that the Soviet Union should think that the United States, mired in the post-Vietnam syndrome and in a recession following the first oil crisis, had no choice but to agree to detente and restrain its military buildup. Similarly, the United States viewed detente as the restraint of Soviet expansionism, whereas since the Soviet Union believed the "correlation of forces" was favorable to the "progressive forces" of the world,

25. Fred Halliday, *The Making of the Second Cold War* (London: Verso Press, 1983).

26. Quoted in Samuel Huntington, "Renewed Hostility," in Joseph S. Nye, Jr., ed., *The Making of America's Soviet Policy* (New Haven: Yale University Press, 1984), pp. 265–88.

it saw American acquiescence to detente as U.S. self-restraint from actively interfering in Third World revolutions or liberation movements.

Apart from differences in perceptions, growing tensions have also been prodded by domestic developments in both countries. We can point to the appearance of extreme conservative groups of various types in the United States and to the growing non-revolutionary, stagnant conservatism of the late Brezhnev and post-Brezhnev years in the Soviet Union.

The 1970s saw the reopening of military tensions and of a large-scale arms race between the two countries. It was also a time of more frequent tensions and conflicts within each camp. In the East, there was the strike and martial law in Poland, the anti-government guerrilla war in Afghanistan, and China's invasion of Vietnam. In the West, problems included the increasing deviation of some Western allies in the direction of what the U.S. government fears might evolve to "Finlandization"²⁷ and Japan's economic undermining of the U.S. effort to reassert hegemony and advance its reindustrialization program.

Following the retreat from detente, the United States is now more strongly coordinating policy with its allies. Exaggerating the military threat of the Soviet Union, the United States is also attempting to more strongly align its allies under its schemes in order to restrengthen its own hegemony. The effort the United States is making to reassert its hegemony is focused on three areas, namely, arms, communications, and international finance. The United States of late has especially stressed to its allies its dominance over them in nuclear capability more than it ever has since 1945. America's primary concerns are to see that Europeans are not lured by "Finlandization" or "Euro-neutralism" and that Europeans and Japanese, without regard for the second cold war, do not go about "business as usual" with the Soviet bloc.

As a result, Japanese security policy has been adjusted to fit a different international context. Like the small-country assumption in the economic field, the free-rider assumption of Japan in terms of security has also been rendered obsolete. Despite Japan's rather large economy, however, this assumption of Japan as a free rider was adhered to until the late 1970s. In addition, Japan has been overly conspicuous due to the rapid progress in its high technology industries, from communications to electronics. Japan's economic growth has not been so great, however, as to allow the nation to strike out on its own and "go it alone." Almost no one in the Japanese government was impressed by what Mao Tse-tung did in 1957 or what Charles de Gaulle did in 1964. Rather, it seems that most thoughtful mem-

27. Inoguchi Takashi, *Kokusai seiji keizai no kōzu* (Tokyo: Yuhikaku, 1982), pp. 91–101.

bers of the Japanese government see Japan's prudent option in the foreseeable future as continuing to be America's junior partner, that is, to be a second-class nation. This is not fundamentally different from the relationship the American government demanded of Japan just before Pearl Harbor. It seems more than chance that the "Japan bashing" line has overt racist overtones for Americans, evoking the memory of Pearl Harbor. To avoid overreacting on this point, Japanese should understand that demands of various social organizations and interest groups in the United States are articulated directly at the national political level, often armed with a kind of pseudo-logic geared to facile appeals to their clients. As a supporter, then, Japan's course is thus to contribute to U.S. policy as much as possible with its abundant economic resources.

One method by which Japan can perform its role of supporter is to stress the multidimensional quality of national security, adopting former Prime Minister Ohira's idea of "comprehensive security."²⁸ Concealed in this idea is the hope that Japan's contributions to international economic betterment such as foreign aid, debt rescheduling, and contributions to international agencies will be considered supportive of American policy.

Prime Minister Ohira considered cooperative policy with the United States, embodied in the phrase "a member of the Western bloc," to be a matter of vital importance to Japan. The sudden change in tone in the 1979 Defense White Paper reflected a reaction to American policy changes in the latter part of the Carter Administration. With its policy adjustments, the Suzuki government chalked up a record of "two steps forward, one step backward." In a joint Japanese-American communique in 1981, the term "alliance" (*dōmei*) was used, and because of the domestic backlash, the government then had to redefine the meaning of alliance to suit its domestic audience. The Nakasone government supported the Reagan Administration's opposition to the Soviet Union. The biggest break with the past has been the strong support for America's placement of new, anti-Soviet nuclear weapons in Western Europe and the linkage of Japan's security with that of Europe and, in turn, global security. Prime Minister Nakasone's support for strengthening Japan's military forces, technological cooperation in military matters, and joint military exercises can thus be seen as a continuation of the Suzuki and Ohira policies.

Second, in Japan's role as supporter, the assumption of an "Island of Peace" is no longer tenable. This assumption, based on the "historical lessons" of the 1930s and 1940s, stands as an emotional issue for many

28. Ohira sōri no seisaku kenkyūkai hōkokusho, *Sōgō anzen hoshō senryaku* (Tokyo: Ōkurashō, 1980).

Japanese. It says that Japan alone is unarmed, Japan alone has no intention to aggrandize territory militarily, and that foreign countries will thus respect Japan's sovereignty. It may also be called "pacifism in one country." Consequently, policy based on this assumption urges restraint from actions that would lead Japan in the direction of a possible military confrontation. Nor has the great appeal of pacifism for Japan's populace since 1945 necessarily receded.

There are three aspects to what may be termed "pacifism in one country." First, isolationism assumes that if Japan does not rearm itself or participate in military actions, then peace will prevail; second, unilateralism assumes that if Japan singlehandedly pursues the course of peace, as stated in Article Nine of the Constitution, then Japan will reap the benefits; and third, free-riderism offers the ironic situation that even though Japan stands under the American security umbrella, it is ambivalent whether to even acknowledge that reality. Japanese worry that the presence of American military bases (either nuclear or non-nuclear) in Japan will invite or induce an attack against Japan by a third country. On this score, the growing number of Soviet military activities since the mid-1970s near Japan and throughout the globe have produced intense discomfort in the Japanese government, which had barely adopted defense plans based on the premise of detente.

In addition, American pressure aimed at increasing Japan's military responsibility has caused the Japanese government to be more aware than ever of Japanese-American security ties. The perception of Japan's fragility and the high costs that would follow a break in Japanese-American security ties provides a powerful incentive for the government to accommodate American pressure and demands. Without this, one cannot understand fully the Japanese government's alignment with the United States in the past several years on such issues as defense cooperation, liberalization of trade, and financial and capital market liberalization. The Japanese government has cautiously acted to accept those demands and, at the same time, paid careful attention to avoid inciting domestic grassroots pacifism. Judging from the government's assessment of the benefits and costs of alignment, the costs of acceptance in economic terms are acceptable, but the psychological costs of getting the Japanese people to "understand" are still very high. The key words that have characterized the Japanese-American security relationship, such as "a member of the Western bloc" (Ohira), "an allied country" (Suzuki), and "unsinkable aircraft carrier" (Nakasone), indicate the government's efforts to gradually intensify the closeness of that relationship. The policy of security alignment has resulted sometimes in a "two steps forward, one step backward" quality, while indicating the difficulties the Japanese government faces even now in order to accommodate those who advocate "one-country pacifism." Japanese know that the Ameri-

can government all too calmly considers the possibility of jointly fighting wars, while the Japanese government, albeit a bit frightened, has basically supported up to now the course of the American government.

It is difficult to say how far the Japanese government will follow this policy of alignment. When we look carefully at the hopes and expectations of the American government for Japan's Self-Defense Forces, it is obvious that the current level of Japan's military capacity is extremely limited. But since Soviet nuclear weapons (especially mid-range) have not yet been fixed primarily on Japan in large numbers, the difficult decision as to what kind of long-term defense posture to develop in relation to the Japan-American alliance is not imminent. In short, the two major assumptions that have controlled Japan's security policy until recently are in the process of being revised in the direction of strengthening Japan's role as a supporter, a response initiated by changes in the international environment and changes in American policy.

Japan's Options

The rapid changes Japan has experienced in the past ten years have created a complicated web of images. On one hand, there is an image of a strong economy, adaptable industrial production, and impressive technological innovation. Juxtaposed to this is the contrasting image of political and military passivity. Sometimes the very image of Japan's economic strength and efficiency is uneasily compared to Japan's image as a potential challenger in military and economic matters. In between lies the image of healthy economic growth and political resilience, both contributing to global welfare. Underlying these contrasting images are the increasingly wide number of options envisaged, albeit vaguely, for Japan in the future.

Policy options in the economic sphere can be fundamentally divided into trilateralism and regionalism. These options will be influenced by the degree of protectionism that may develop in Western Europe and North America and the degree of economic development in the western Pacific region. If protectionism, such as that which has developed in Europe during the past ten years, continues, and if the GATT multinational free trade system breaks down, then Japan will have no choice but to search for and open new markets. Furthermore, should American protectionism develop in the same direction and should America attempt and succeed in bilateral free trade with various countries, such as Canada and Israel, then Japan's policy options will strongly lean toward regionalism. Economic development in the western Pacific region is still insufficient to fill the vacuum that would be created by the "loss" of North America and Western Europe. Although the growth rate in the western Pacific region is very high, the

level of development of each country is still much lower than Japan's. Even if income levels do rise, the Japanese government will hesitate to independently adopt policies of regionalism given the lack of a geoeconomic land mass core sufficient to support such a scheme. While the western Pacific alignment puts emphasis on Southeast Asia, Northeast Asian regionalism includes Japan, the Korean peninsula, China, the Soviet Union, and Outer Mongolia. The economic dynamism of the Japanese and South Korean economies may well make for a close economic relationship with neighboring socialist countries. Looking at recent trends, we can surmise much of what the future holds in store for Northeast Asian economic relations. But there are many difficulties in increasing dependence on socialist countries for trade, natural resources, and investment, and the Japanese government has largely avoided this alignment.

Despite the two major changes in assumptions, for the foreseeable future there will be no fundamental change in course. That is, basic trilateralism will continue to provide the core of Japanese economic interactions with the rest of the world with the regional components, both Southeast and Northeast Asia, acquiring more weight than they now have but never surpassing that of the trilateral components in the foreseeable future, namely, the remainder of the 1980s. At the same time, Japan's global interests in terms of natural resources and foodstuffs will increase. Fortunately, Japan does not have exclusive economic interests either with Southeast or Northeast Asia. First, only the United States has the influence to force a balance of military, political, and economic power in the region. Second, in looking at an array of aspects such as economic interests, we see that the United States, Japan, and the somewhat reduced EEC all co-exist in the region, while South Korea, Taiwan, and Australia have recently made economic advances in the same region. Thus, we see little possibility that Japan will assume a position of independent, economic superiority in the region.

Continuation of the Japan-U.S. security relationship and disengagement constitute Japan's basic security policy options. Shaping Japan's policies are the Japanese government's assessment of the Japan-U.S. security relationship and the geopolitical conditions constraining Japan's options. The reasons why the Japan-U.S. security relationship is continuing at present need not be repeated here. Japan's involvement, however, in anti-Soviet actions initiated and led by the United States has become much greater. If Japan clearly becomes a primary target for nuclear or non-nuclear attack by Soviet Far Eastern forces, or if it comes to be widely thought that American troops would not be committed on a large scale in such circumstances, then the Japanese government would have to reconsider the desirability of the Japan-U.S. security relationship. Looked at in

the light of the recent Western European experience when new nuclear weapons were placed there, questions are more than likely to arise on how the Japan-U.S. alliance is to cope with Soviet power.

There are several formulas for possible disengagement from the Japan-U.S. security relationship. There is the example of France, which maintains a close economic and security relationship with America, even while possessing nuclear weapons. This relationship is close, to the extent that it has been said that France is America's best ally. Then there is India, which has taken a position of non-alignment; as a result, in the past ten years world leaders have visited India more often than Japan.

Recently, the idea that Japan should arm itself with nuclear weapons has been broached. This option, however, will entail high costs in order to overcome both foreign and domestic opposition. The most important aspect of this is the American reaction should Japan arm itself with nuclear weapons. Would the United States look on as a spectator if the Japanese government took the policy step of becoming more than a second-class power?

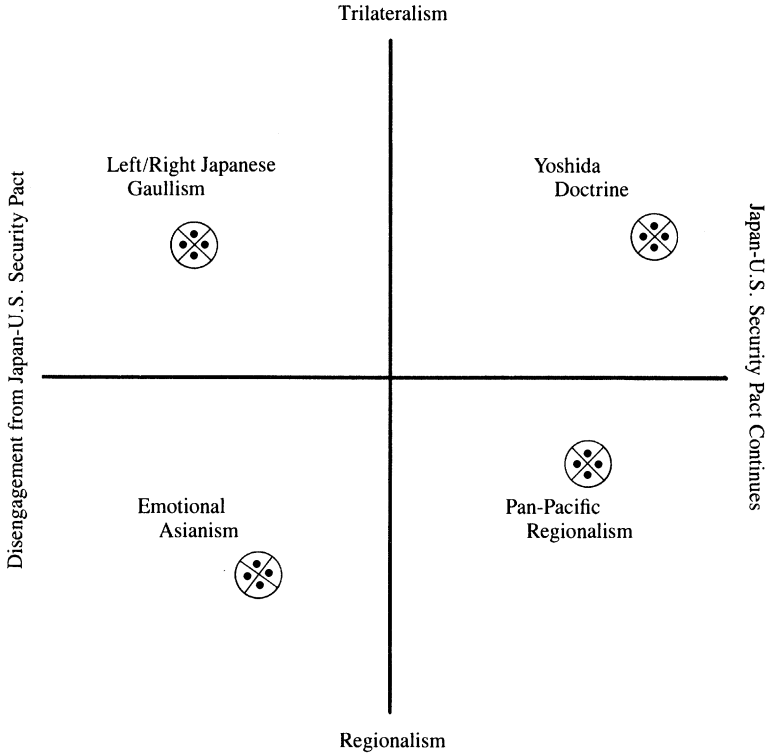
Finally, there is the remotest possibility that, while not possessing nuclear weapons of its own, Japan will carry out a technological miracle and build anti-nuclear weapons which will render nuclear weapons obsolete.

In Figure 2, Japan's options are laid out using the two coordinates of prosperity and security. Prosperity, or the economic relationship, has trilateralism and regionalism on its axis; security, or the defense relationship, has the Japan-U.S. security relationship and disengagement on its axis. Each quadrant contains a current option or idea: in the upper right is the Yoshida Doctrine; in the lower right is Pan-Pacific Regionalism; in the upper left is extreme left- and right-wing Japanese Gaullism; and in the lower left is an emotional Asianism.

The policies of the Japanese government have shifted in recent years. After the initial heavy reliance on Japan-U.S. security ties immediately after independence in 1952, policy shifted in the 1970s to include an emphasis on trilateralism, on one hand, and the display of Pan-Pacific regionalism on the other. In the 1980s, elements of Japanese Gaullism were quietly added to efforts at strengthening Japanese defense. While it has not necessarily shown up in government policy, the emotional Asianism shared by many people has on certain occasions been manifested in emotional disputes with Americans and Europeans.

Japan is clearly being forced to move away from its former roles of free rider and do-nothing and assume the role of supporter. In other words, the former shibboleths of "prosperity for one country" and "pacifism for one country" are under pressure to change. The supporter must be mindful of two considerations in performing its role. On the one hand, supporters are

Figure 2
Japan's Options



sometimes required to prove their intent by sacrificing for the sake of the “common cause,” but on the other hand, it is necessary to maintain distance from the hegemon’s “arbitrary and dangerous judgments and actions.” A supporter differs from a free rider in having wide options and great power, meaning that the supporter’s choice of option affects global welfare as well as its own. Consequently, it becomes necessary to more carefully consider the benefits and costs of those options.

Looking at the major axes of trilateralism/regionalism and Japan-U.S. security/disengagement, it is apparent that Japan must distance itself from the behavior patterns of the free rider in order to perform the role of supporter. Thus, what is needed is for Japan to adopt a positive policy of contribution as a long-term strategy and to carry it out steadily and prudently.

Further liberalization of the Japanese economy is one measure which

would alleviate tension with trade partners (more effort should be made to achieve this goal). Other measures which could be considered include: active economic cooperation with developing economies, cooperation with advanced countries in various ways to promote industries, and financial cooperation with both developing and developed nations. Nakajima Masaki's idea of a "Global Infrastructure Fund" runs along these same lines. To achieve the latter goal is for Japan to act as a large creditor nation and to be such, Japan must be aware of the dangers and risks involved.

The important thing is to articulate the argument that economic, industrial, and financial cooperation would contribute not just to the narrow national interests of Japan, but to global interests as well. Japanese policy has to take on a new spirit; it must extricate itself from the kind of passive, totally self-absorbed policy that mechanically correlates government development assistance or grants-in-aid to GNP, and then expects a direct return on that investment, yen for yen.

One of the goals of a security policy is to encourage a prudent peaceful cooperation that will produce a global nation with the best interests of the entire world in mind, a nation that has not engaged in war for 40 years. Here, peaceful cooperation refers to, in addition to defense assistance connected with the U.S.-Japan Security Treaty, truce enforcement conducted as part of the actions of the United Nations, supervision of elections, assistance to people in distress, and the shipment of emergency foodstuffs. Foreign Minister Abe's recent proposal for dealing with the Cambodian problem contains the gist of these goals. Peaceful cooperation holds the potential to sweep away the insularity of "pacifism for one country," allowing Japan to play the role of supporter without necessarily having to run at the United States' pace.

To borrow the words of Amaya Naohiro, pacifism on a national basis is analogous to defending protectionism in the economic sphere.²⁹ In the economic arena, to argue for free trade, which means prosperity to the world as a whole, and similarly to argue in the field of security for pacifism for one country, which is "security protectionism," is to invite the charge of engaging in double-talk and supporting neither free trade nor pacifism.

What I propose is the establishment of two new agencies designed to implement these policies. They would be called the Economic Cooperation Agency and the Peace Cooperation Agency. In order to implement the policy outlined above and make it effective, it may be necessary to clarify or reorganize the connections between various organizations; for example, in the Economic Cooperation Agency, there would be MITI, the Foreign Min-

29. Amaya Naohiro's speech at the Kyoto Forum, Fifteenth Meeting, May 27, 1984.

istry, the Economic Planning Agency, the Japan International Cooperation Agency, the Overseas Economic Cooperations Fund, the Japan Export-Import Bank, the Bank of Tokyo, and the Bank of Japan. In the Peace Cooperation Agency, there would be the Foreign Ministry, the Defense Agency, the Ministry of Health and Welfare, the Ministry of Justice, and the Japan Red Cross.

Staff and support for these two new agencies could be flexibly drawn from existing bureaus, agencies, and ministries, as well as from the private sector, in light of necessary requirements specific to each contingency. This kind of institutional reform alone, however, will not have that great an impact. In the context of recent history, decisive change will be realized only by translating Japan's hoped-for role into concrete actions. What Japan needs to do now is not to continue the tired reliance on the power of money and numbers, or a passive foreign policy, but to make a new policy initiative with new ideas and a new spirit that will realize these goals. If my proposal for an Economic Cooperation Agency and a Peace Cooperation Agency results in a set of new policy initiatives, then the purpose of this essay will have been served.

Conclusion: America and Japan

The hidden agenda in Japan's policy discussion for the past ten years has been "Is American hegemony over?" Although American hegemony has somewhat diminished, it will continue in the 1980s. Policies that depend on the Japan-U.S. security arrangement and trilateralism will continue, even while new elements are added to the situational changes. In speaking of the decline of the Roman Empire, Edward Gibbon wryly noted, "This intolerable situation lasted for about three hundred years."³⁰ Pax Americana will probably do likewise. American hegemony will be likely to guarantee international political and economic stability in the short run, but in the long term it does not permit such optimism. How America deals with its mounting economic problems in the next year or two will tell us a great deal about the stability of the post-1990 world.

The relative decline of America's hegemony has expanded Japan's options. The inevitable long-term instability of the international political and economic scene makes it necessary for Japan to develop a long-range strategy. These two reasons make Japan's attempt to select its options increas-

30. Quoted in Pierre Hassner, "Recurrent Stresses, Resilient Stresses," in Robert Tucker and Linda Wrigley, eds., *The Atlantic Alliance and its Critics* (New York: Praeger, 1983), pp. 61-94.

ingly more difficult. How is Japan going to play a role as a supporting actor? What Japan must be is a supporting actor who, without being dominated by the lead actor, can show his own true qualities in such a way as to not only assist the lead actor but to make the whole production a better one. The purpose of this essay has been to clarify the larger context of Japan's current options and to add concrete proposals so that Japan can perform its role.

UNIVERSITY OF TOKYO