

# **Japan's Regional and Global Coalition Participation: Political and Economic Aspects**

**Frank Langdon**

**Institute of International Relations  
The University of British Columbia**

**Working Paper**

**No. 14**

**June 1997**

## About the Author

Frank Langdon (Ph.D. California-Berkeley) is emeritus professor of political science at the University of British Columbia. He has made his career in the Asia Pacific starting with service as a communications officer in the navy during the Pacific War serving in the Pacific. Afterward he taught in Korea, Japan, and Guam, as well as in Australia in what is now the undergraduate part of the Australian National University. Coming to the University of British Columbia he has taught courses on Japanese politics and international relations of Asia Pacific Countries. In recent years he has concentrated on both economic and defence relations of Japan, Canada and the US. Recent publications include "Canada's Goal in Asia Pacific," Pacific Review (vol.8, no.2, 1995) and Japan in the Posthegemonic World (Boulder: Lynne Reiner, 1993).

## Contents

I.	Japan's Foreign Economic Policy and Behaviour .....	1
II.	Impact of Japan's Ideas .....	2
III.	Japan in the APEC Coalition .....	5
IV.	Expanding Japan's Economic and Political Role .....	9
V.	Japan Versus an Anti-Western Coalition .....	11

## Abstract

Japan's behavior and participation in international groups and coalitions in the 1990s and beyond seems to be leading in the direction of greater harmony and strong support of peace and stability in the Asia Pacific region and even on a global scale, in contrast to the predictions of many of its critics. Reference here is to Japan's policies in the World Bank and the Asian Development Bank as well as the Asia Pacific Economic Cooperation forum and the meetings sponsored by the Association of Southeast Asian Nations (such as their Post Ministerial Conference and the Asia Europe Meeting). The domestic and financial difficulties of the 90s are driving Japan's society slowly and inexorably in a more open direction which will increase its ability to get along with its neighbors and advanced country partners as well. The frequent domestic political party changes seem to do little to disturb the basic political stability or the dominance of the old elites. Japan will not be a leader, but it will be a strong supporter of regional economic and political cooperation.

## **Titles in the Working Paper Series**

- No. 1 *The Security of Small States in Post-Cold War Europe: A New Research Agenda*, by Allen Sens, January 1994
- No. 2 *Perspectives on US-Japanese Political Economy: Making Sense of the Nichibei Economy*, by Tsuyoshi Kawasaki, April 1994
- No. 3 *The Geostrategic Foundations of Peace and Prosperity in the Western Pacific Region*, by Tsuyoshi Kawasaki, July 1994
- No. 4 *Hanging Out in Europe: Necessary or Discretionary?* by Allen Sens, August 1994
- No. 5 *Multilateralism: The Relevance of the Concept to Regional Conflict Management*, by Brian Job, October 1994
- No. 6 *Asia Pacific Arms Buildups Part One: Scope, Causes and Problems*, by Shannon Selin, November 1994
- No. 7 *Asia Pacific Arms Buildups Part Two: Prospects for Control*, by Shannon Selin, November 1994
- No. 8 *The Logic of Japanese Multilateralism for Asia Pacific Security*, by Tsuyoshi Kawasaki, December 1994
- No. 9 *New Powers, Old Patterns: Dangers of the Naval Buildup in the Asia Pacific Region*, by Michael Wallace and Charles Meconis, March 1995
- No. 10 *The Evolution of Cooperative Security: Canada and the Human Dimension of the CSCE, 1973-1994*, by Cathal J. Nolan, April 1995
- No. 11 *Chinese Naval Power and East Asian Security*, by Elizabeth Speed, August 1995
- No. 12 *Taiwan: Between Two Nationalisms*, by André Laliberté, January 1997
- No. 13 *Virtual Resources: International Relations Research on the Internet*, by Ronald Deibert, April 1997
- No. 14 *Japan's Regional and Global Coalition Participation: Political and Economic Aspects*, by Frank Langdon, June 1997

# I. Japan's Foreign Economic Policy and Behavior

An attempt is made in the short scope of this working paper to assess Japan's current and future behavior in combination or coalition with other countries in East Asian regional politics with some reference to the wider global level. What is striking about Japan's behavior is the extent to which it remains in close accord with the goals and approaches of the last fifty years despite the kaleidoscopic changes of domestic party politics and economic restructuring as well as changing regional and global conditions to which Japan is subjected in the nineties.

A basic foreign policy goal of Japan, if not *the* basic one, has been and is to ensure its own prosperity through Asia Pacific economic cooperation. Even Japan's defence arrangements with the United States, which aim at Japan's, Korea's, and Taiwan's protection as well as East Asian subregional stability (balance of power), also underwrite economic cooperation with the US which, in turn, has been a major source for Japan's own prosperity. It is even acknowledged in the wording of the current security treaty.<sup>1</sup>

With the increase in its economic strength and influence in the eighties, Japan's capacity and willingness to participate more in regional and global affairs has grown in the nineties. It now puts more policy emphasis on contribution to the international community as in the Asia Pacific Economic Cooperation (APEC) forum, the World Bank, or the Asian Development Bank.<sup>2</sup> In the nineties it shows a desire for a more assertive role in its bilateral relationship with the US and in international arenas such as the United Nations. For instance, Prime Minister Hashimoto has refused to agree to continuing a managed-trade approach by renewing the Japan-US semiconductor agreement which conflicted with international trade rules.<sup>3</sup> Greater recognition of Japan's contribution is also behind its wish for a permanent seat on the United Nations Security Council with the five nuclear powers although it is a non-nuclear-armed state.<sup>4</sup>

Despite desire for a more important international political role, Japan still places considerable priority on economic objectives, especially in a period of recession. So it is reluctant to take on new foreign political and security commitments which might make it more difficult to achieve economic goals. Preferring informal bilateral arrangements in trade and investment, Japan is often reluctant to take on multilateral responsibilities that limit its room to maneuver.<sup>5</sup>

---

<sup>1</sup>The second paragraph of the Treaty of Mutual Cooperation and Security contains the words "to encourage closer economic cooperation," an important addition for the Japanese made by the Kishi Cabinet to the earlier treaty. See Defense Agency, *Defense of Japan 1994* (Tokyo: Japan Times, 1995), Reference 9, p. 235. For Japanese text see Defence Agency, *Boei Hakusho, Heisei 6-nenban* (Defense of Japan 1994) (Tokyo: Foreign Ministry Printing Bureau, 1995), Materials No. 9, p. 284.

<sup>2</sup>The organizations or groups most frequently mentioned here (and their acronyms) are: ADB: Asian Development Bank, APEC: Asia Pacific Economic Cooperation forum, ASEAN: Association of Southeast Asian Nations, ASEM: Asia-Europe Meeting, EAEC: East Asian Economic Caucus, GATT: General Agreement on Tariffs and Trade, IBRD: World Bank or International Bank of Reconstruction and Development, and PMC: ASEAN Post-Ministerial Conference.

<sup>3</sup>*Daily Yomiuri*, "Hashimoto Rejects U.S. Request to Extend Chip Accord," April 5, 1996, p. 1. Eriko Wada, "Japan, U.S. at Loggerheads Again over Pact," April 11, 1996, p. 1. "U.S. Trade Report Targets Japan, China," April 3, 1996, p. 2. Yozo Matsuda, "Towareru Nichibei Kankei, Kurinton Daitoryo Rai-Nichi, "Keizai Reisei-naru Rongji Kano ni, Fukinko Shukusho, Masatsu Yawaragu (Japanese-American Relations Questioned: President Clinton Comes to Japan, Toward the Possibility of Calm Discussion of Economic Matters, Reducing Inequality, Harmonizing the Friction), *Yomiuri Shinbun*, April 12, 1996, p. 1.

<sup>4</sup>Masahiko Ishizuka, "Japan Seeks U.N. Role That Reflects Its Dues," *Nikkei Weekly*, March 11, 1996, p. 7. *Yomiuri Shinbun*, "Anpo-ri Kaikaku Mondai, Soki Ketsuron wa Konnan" (Problem of Security Council Reform, Timely Decision Difficult), April 4, 1996, p. 2.

<sup>5</sup>Peter F. Cowhey, "Pacific Trade Relations after the Cold War: GATT, NAFTA, ASEAN, and APEC," in Peter Gourevitch, Takashi Inoguchi and Courtney Purrington, *United States-Japan Relations and International*

As the former enemy which once tried to create an East Asian economic bloc by military force, it has been careful to avoid any suspicion from its neighbors of seeking regional economic hegemony now. It has used reparations, trade, and aid to achieve reconciliation with Southeast Asia, but, in Northeast Asia with China and the two Koreas, it has been less successful. This is despite its ongoing program of giving large-scale official development assistance to China.

Lack of firm political leadership in domestic politics has also contributed to relatively passive foreign policy-making.<sup>6</sup> The painfully slow consensual decision-making by competing political and bureaucratic elites makes it difficult to take a lead in foreign affairs. The career bureaucrats of the economic and foreign ministry often dominate the process. In the case of APEC, it was the Ministry of International Trade and Industry (MITI) which initiated steps toward forming it, so the Foreign Ministry was rather hostile, at first in competition with MITI in managing Japan's participation.<sup>7</sup> On some foreign policy issues of importance to party members in the Diet and their key constituents, the members' views cannot be ignored completely. Of course, as in British or Canadian parliaments Diet members do not begin to influence policy as legislators do in the free-wheeling Congress in Washington.

But, some policy decisions by the foreign ministry have aroused ruling coalition parties to demand greater input.<sup>8</sup> For example, ruling party politicians objected to not being consulted on paying \$19 million for fuel oil going to North Korea when the US budget stalemate prevented payment by Washington. Also, Democratic Socialist Diet members, ever fearful of any new foreign defence cooperation with the US, objected strongly to a protocol agreed to by foreign ministry officials with the US on joint research for theatre missile defence, handled administratively by the foreign ministry without reference to Diet committees.

## II. Impact of Japan's Ideas

Japan's rapid postwar development has been an inspiration, even to those in the West hoping to learn the secret of Japan's success. South Korea and Taiwan similarly used government intervention in their economies.<sup>9</sup> Japan's successful approach in the immediate postwar period has been identified with its elite government bureaucrats' guidance of business to pick industrial winners, strengthen export competitiveness, and acquire advanced technology.<sup>10</sup> This attribution has to be tempered by acknowledging the unusually favorable international environment of the early postwar period as well as the contribution of the business leaders themselves.

Among the authoritarian East Asian states a strong government approach has considerable resonance. Overt government intervention was opposed by liberal free market ideologues in the US, Britain, Australia, and Canada particularly in the Thatcher-Reagan years. Japanese collectivistic

---

*Institutions, After the Cold War* (La Jolla: University of California, San Diego, Graduate School of International Relations and Pacific Studies, 1995), pp. 190-194.

<sup>6</sup>Hideo Sato writes, "...Japan finds it difficult to shed its so-called "insular mentality" and remains basically passive and reactive, not sufficiently willing to exercise international leadership responsibilities for the collective goods of the world." "Global Leadership Sharing: A Framework of Analysis," Paper presented at 37th Annual Convention of the International Studies Association, San Diego, 16-20 April 1996, p. 7.

<sup>7</sup>Yoichi Funabashi, *Asia Pacific Fusion, Japan's Role in APEC* (Washington, D.C.: Institute for International Economics, 1995), pp. 211-212.

<sup>8</sup>*Daily Yomiuri*, "Foreign Ministry Rapped over Disclosure," March 18, 1996, p. 2.

<sup>9</sup>Trevor Matthews and John Ravenhill, "Strategic Trade Policy: the Northeast Asian Experience," in *Business and Government in Industrialising Asia* (Ithaca: Cornell University Press, 1994), pp. 29-90.

<sup>10</sup>Chalmers Johnson, *Miti and the Japanese Miracle, The Growth of Industrial Policy, 1925-1975* (Stanford: Stanford University Press, 1982), Chapter 9, A Japanese Model?, pp. 305-324. "Political Institutions and Economic Performance: the Government-Business Relationship in Japan, South Korea and Taiwan," in Frederic Deyo, ed, *The Political Economy of New Asian Industrialism* (Ithaca: Cornell University Press, 1987).

economic behavior is closer to that of Western Europe but conflicts sharply with free market economics and the libertarian ideas popular in the Republican administrations in Washington. But, Japan has slowly yielded to much foreign, mainly American, pressure and considerable internal pressure to open up and liberalize its economy. Japan is sufficiently “open” so that its officials no longer have the comprehensive economic and financial controls they enjoyed just after the war. Despite differences in economic ideology which exist in the United States and Japan, they do not seem likely to result in a severe breakdown in cooperative relations between Japan and Western countries or some sort of economic or political warfare. The ideological issues and trade friction should continue to ease with both changes underway in Japan as well as the international economic environment. Japan’s broader culture does not seem so different from “Western” culture as to become part of a future clash of civilizations as feared by Samuel Huntington, who even has gone so far as to suggest Japan is a security threat to the US.<sup>11</sup> The Huntington thesis awakened a strong response in China where there is considerable support for the idea of incompatibility between Eastern and Western culture.<sup>12</sup>

It is probably not so surprising that South Korea and Taiwan were able to imitate important aspects of Japan’s own rapid development. When Japan departed from those two former colonies, it left relatively developed if poor societies with functioning infrastructures and educated populations. For several decades their authoritarian governments’ well-trained economic bureaucrats were able to plan and direct their development. They used what the World Bank calls the “basics,” such as stable macroeconomic policy, export competitiveness standards (the important free market aspect), encouragement of savings and investment, and protection of infant industries. The bureaucrats may have been at sufficient arms length to prevent cooption by rent-seeking clients. As the recent Japanese financial scandals show, due to the persistence of “administrative guidance,” bureaucrats in Japan’s finance ministry are anything but arms length with the securities firms and banks or credit agencies that they are supposed to be supervising and that involved trillions of imprudent yen loans.

Now, however, the three Northeast Asian states as well as the other East Asian ones are open enough to the global economy that such early government controlled programs would be difficult to put in place again. Still, most of the Southeast Asian states are apt to lack sufficiently strong governments to exert the needed controls or direction, the weakest in that regard being the Philippines. Yet, it has not prevented the present rapid economic growth without such government direction.

Nevertheless, the Japanese and East Asian clash of economic ideas with the West can be clearly seen in connection with the World Bank approach to developing countries. At the annual meeting of the World Bank and the International Monetary Fund in Bangkok in 1991, Yasushi Mieno, governor of the Bank of Japan, questioned the orthodoxy of World Bank opposition to government intervention. He referred to Asian experience to show the need for government action to complement the market mechanism in creating the kind of environment in which free markets can function effectively.<sup>13</sup> Following through on this, Japanese ministry of finance officials later criticized the World Bank for opposing the approach of the Japanese Overseas Economic Cooperation Fund aid to the Philippines. The Japanese aid fund emphasized growth by government-supported investment promotion such as subsidized

---

<sup>11</sup>Samuel P. Huntington, “The Clash of Civilizations?,” *Foreign Affairs*, Vol. 72, No. 3 (Summer 1993), pp. 27-28, p. 40. Huntington, *The Clash of Civilizations and the Remaking of the World Order* (New York: Simon & Schuster, 1997). Huntington, “The West: Unique, Not Universal,” *Foreign Affairs*, Vol. 75, No. 6 (November/December 1996). Richard Bernstein and Ross H. Munro, “The Coming Conflict with America,” *Foreign Affairs*, Vol. 76, No. 2 (March/April 1997), pp. 162-169. For views of Liu Jinghua, Wang Gungwu, Abdurrahman Wahid, and Huntington himself see *Far Eastern Economic Review*, “The Coming Battle,” Vol. 160, NO. 18 (May 1, 1997), 36-39.

<sup>12</sup>Wang Jisi, “The Role of the United States as a Global and Pacific Power: A View from China,” *The Pacific Review*, Vol. 10, No. 1 (1997), pp. 13-14.

<sup>13</sup>Susumu Awanohara, “The U.S. and Japan at the World Bank,” in Peter Gourevitch, Takashi Inoguchi, and Courtney Purrington, eds., *United States-Japan Relations and International Institutions, After the Cold War* (La Jolla: Graduate School of International Relations and Pacific Studies, University of California, San Diego, 1995), p. 168.

interest rates and caution in privatization.<sup>14</sup> At the World Bank the Japanese executive director urged publication of the study of South Korea, Indonesia, and India which viewed government intervention there favorably. However, the more free market-oriented American staff felt East Asian experience could not be applied elsewhere, especially in Africa where governments were inadequate to carry out such methods.

Japanese World Bank staff, some of whom were from the Japanese ministry of finance, felt that well-planned government intervention, which they considered essential to Japan's own success, should be applicable to other developing countries and play a bigger role in World Bank lending. Therefore, Japan financed the careful study comparing the actual methods followed in the developing East Asian economies, which was published in 1993 as *The East Asian Miracle*.<sup>15</sup> The report only grudgingly agreed with the Japanese that some government intervention could aid growth when a good supportive environment was present, saying "We conclude that promotion of specific industries generally did not work and therefore holds little promise for other developing economies. Directed credit has worked in certain situations but carries high risk. The export-push strategy has been by far the most successful of the three sets of policy intervention..."<sup>16</sup>

Japanese officials like those in other East Asian countries dislike the developed country insistence on applying non-economic conditions (conditionality) to economic aid and trade. Western governments frequently threaten to withhold planned development funds or burden trade with high tariffs or levies when the developing country will not or cannot protect human rights, enforce copyright laws, or do away with child labor. Nevertheless, as a developed democratic country, Japan too has in principle gingerly added human rights observance and responsible handling of weapons of mass destruction as conditions for its aid. In Burma it only provided new aid when the military junta released the democratic leader, Aung San Suu Chi. When China ignored its pleas to stop its resumption of nuclear weapons tests, Tokyo withheld a small portion of its grant aid to that country in August 1995.<sup>17</sup> Beijing leaders overreacted with outrage to the token sanction. Although some irate members of the Japanese Diet angrily called for significantly reducing Japan's huge development loans to China, foreign officials opposed damaging relations with China which they said would only isolate it and stimulate its nationalistic xenophobia even more.<sup>18</sup>

The one institution in which Japan has been dominant over the last thirty years is the Asian Development Bank (ADB), where it increasingly demonstrated its commitment to making significant contribution to the international community, an important foreign policy objective in the eighties and nineties. Japan's officials have naturally wanted more foreign consideration given to its views in proportion to its growing financial contributions to international organizations and development projects. Wan Ming's study of Japan's role in the bank shows strong internationally responsible leadership though the Japanese presidents, although it was initially oriented toward more tangible economic gains for Japan.<sup>19</sup> As Japan became more affluent and able to contribute more to bank funds, it did so and received less and less in return in terms of development projects for its firms or infrastructure loans to its chief Asian trading partners. It is striking that procurements for bank projects going to Japanese firms went from about 41.67% of bank loans in 1967-76, 23.65% in 1977-86, and 10.84% in 1987-93.<sup>20</sup> However, plenty of other governmental as well as private aid and guidance are available to Japanese doing business

---

<sup>14</sup>Japan, Overseas Economic Cooperation Fund, "Issues Related to the World Bank's Approach to Structural Adjustment: Proposed from a Major Partner," *Occasional Paper no 1*, October 1991, in Awanohara, *Ibid*.

<sup>15</sup>The World Bank, *The East Asian Miracle, Economic Growth and Public Policy* (New York: Oxford University Press, 1993).

<sup>16</sup>World Bank, *Miracle*, p. 354.

<sup>17</sup>Hijiri Inose, "Japan Takes Heat Over China Nuclear Testing," *Nikkei Weekly*, February 5, 1996, p. 1., 19.

<sup>18</sup>Shinya Watanabe and Masahiko Sasajima, "Nihon ni Myoshu Nashi Tai-Chu 'Kaku Gaiko'" (Japan's Crude 'Nuclear Foreign Policy' toward China), *Yomiuri Shinbun*, March 18, 1996., p. 3.

<sup>19</sup>Ming Wan, "Japan and the Asian Development Bank," *Pacific Affairs*, Vol. 68, No. 4 (Winter 1995-96), pp. 509-528.

<sup>20</sup>*Ibid*, p. 526.

in Asia such as JETRO, Export-Import Bank of Japan, Japan Finance Corporation for Small Business, Japan International Development Organization, and the Japan Asia Investment Company.

Japan was one of the initiators of proposals for an Asian regional development bank under Prime Minister Takeo Miki in the sixties. To avoid opposition from other countries fearful of Japanese domination, it waited patiently till other Asian countries took the initiative in supporting the forming of the Asian Development Bank. As in the development of APEC, Japan was not the originator in this regional project in which it had a big stake. But, it joined the other Asian states in persuading a reluctant United States to join. Washington did so when it saw its own strategic position in the region would be strengthened. Although Tokyo failed to get the bank headquartered in Japan instead of Manila, as the largest contributor and the one developed country in the region it has provided all the presidents of the bank as well as key administrative positions for its officials on leave of absence from the ministry of finance's international affairs division.

In the late eighties when Japan was the source of a huge outflow of capital from its "bubble economy" and the high yen was driving Japanese manufacturing industries out to produce in Asia, the bank helped with channeling capital for infrastructure projects desired by Asian countries as well as encouraging private Japanese investment there. That was when the Americans still favored stronger privatizing measures and support for free markets as seen above in the World Bank where Japanese officials were favoring more strategic use of government intervention in contrast to Washington. The ministry of finance also began to assign good English-speaking staff to the ADB who could deal more adequately with American board members in defending Japanese and Asian views.<sup>21</sup>

Although the Japanese presidents have taken a strong lead in the bank at times, they have generally been careful to avoid damaging conflict with the Americans even though Washington has contributed much less to the bank and is apt to be in arrears on promised payments. Although Japanese officials are willing to oppose the US in policy matters, they want to keep American engagement in the region and avoid adding bank disputes to Tokyo's trade disputes with the United States. In spite of dropping American financial contributions, the US keeps its voting rights on a par with Japan, arguing its political and military contribution to regional stability and peace should be counted.

Japan has won support from Asian members by its generous financial contributions and leadership in favor of regional growth and stability. The other Asian members have not formed any coalition within the bank against Japan's leadership. However, other Asian, American, and European members do not want Japan to dominate the bank. But, Japan's recent more conciliatory ADB leadership has even annoyed China and India by willingness under President Mitsuo Sato to increase loans for social purposes such as education, health, and environment instead of concentrating almost solely on infrastructure projects preferred by the poorer countries. Japan is being regionally responsible in the long-term interest of all members in being quite content to see additional funds go in concessional loans to recipients like Bangladesh and Pakistan.

In its participation in international organizations, Japanese officials demonstrate ideological and policy orientations which are not characteristically Asian or Western, nor are they so unique or abrasive as to divide East and West. On the contrary, Japan is making a regional contribution of considerable significance as well as serving its own economic interests in its long-term goal of keeping the two groups of countries working together to advance the regional economy as well as its own interests.

### **III. Japan in the APEC Coalition**

As an island nation with limited natural resources, Japan long developed as a trading nation dependent on raw materials imports and manufactured exports. In reviving this trade after 1945 a chief foreign policy objective became to mobilize the resources of the advanced developed countries behind

---

<sup>21</sup>*Ibid*, p. 522.



East Asian economic development to revive and extend its trade there. In the fifties, Japan was cut off by Cold War boycotts from trade with some important traditional markets like China. Therefore, Prime Minister Yoshida sought to obtain greater American financial backing for joint bilateral action in Southeast Asia development without much interest from Washington which thought Japan would be the chief beneficiary.

In the sixties Foreign Minister Takeo Miki sent an emissary around the other four developed Pacific countries to see if there would be backing for regional consultation in support of concerted trade and development cooperation. Several non-governmental international groups, which are still active, also began regular consultative meetings to foster economic cooperation (in which Japan was an enthusiastic participant). It was Japanese and Australian businessmen who started the Pacific Basin Economic Council (PEBEC) to discuss regional commercial policies and business relations and to advise governments. The most important one of the non-governmental groups is the Pacific Economic Cooperation Council (PECC) which includes businessmen, government officials acting in a private capacity, and academics. Initially, the Foreign Ministry preferred the PECC over APEC as the chief body to manage regional economic cooperation. There is a close liaison between PECC and APEC. The PECC, as a non-governmental agency, can often discuss delicate subjects that are difficult to deal with in APEC.

Both Japan and Australia feel relatively isolated from the wealthy and powerful Atlantic states. But, with closer integration of the West Europeans in the European Union and the conclusion of the Canada-US Free Trade Agreement, tighter trade blocs from which they were excluded were appearing in their major markets. Therefore, Bob Hawke, prime minister of Australia, proposed the first governmental Pacific economic grouping, the Asia Pacific Economic Cooperation (APEC) forum, on a visit to Seoul in 1989. Such a proposal suggested the beginning of a rival exclusive Asian (or Australasian) bloc in competition with the European Union and the US-Canada Free Trade duo.

Hawke's initial omission of the two East Pacific developed states, the United States and Canada, was deliberate since Australia, the leader of the Cairns Group of agricultural producers in the GATT world trade negotiations, was angered by the rich countries' huge unfairly competitive farm subsidies. Both the Canadian and American foreign ministers, with trade at the top of their agendas, objected strongly to their exclusion even though they had not included Australia and Japan in their own economic group. Japanese trade officials, who were in touch with Australian colleagues behind the scenes, argued in favor of including the two North American countries which were important markets for both of them.<sup>22</sup> Thus, Hawke included them together with the other Pacific developed states Australia, New Zealand, and Japan in the first meeting in Canberra along with South Korea and ASEAN states. At first, the Southeast Asians were hesitant to join a new group including the US which might overwhelm their own ASEAN group. But, the new Asia Pacific Economic Cooperation (APEC) combination was intended to be an informal consensual coalition, not a highly structured group, so there is still no word like "council," "organization," "conference," or "league" in the name.<sup>23</sup> It now has a more complex structure as it holds numerous regular and irregular meetings of high and middle level officials. It has added a secretariat in Singapore and has a number of on-going committees and workshops.

When China, Taiwan, and Hong Kong joined APEC all together in 1991, APEC became the only intergovernmental group which included both China and Taiwan. Taiwan goes under the name of "Chinese Taipei" in APEC. The eighteen-member trans-Pacific organization now includes Chile, Mexico, and Papua-New Guinea.<sup>24</sup>

APEC took on much added importance when President Clinton inaugurated a summit of Asia Pacific heads of government at the regular annual meeting of APEC foreign and trade ministers in Seattle.

---

<sup>22</sup>Hiroshi Nakamae, "MITI Claims Main Behind-the-Scenes Role in Group's Founding," *Nikkei Weekly*, November 15, 1993, pp. 1, 23. *Japan Times*, "Hawke Proposes Creating Pacific Economic League," November 9, 1989, p.1.

<sup>23</sup>Gareth Evans, previously the Australian foreign minister, said it was four adjectives in search of a noun.

<sup>24</sup>Vietnam, the newest member of ASEAN, has not yet joined APEC since there is a moratorium on new members in force. Other applicants to APEC are India, Pakistan, Russia, Peru, Panama, and Colombia.

Conspicuous by his absence was Prime Minister of Malaysia, Mahathir Mohammed, although he sent lesser officials to the Seattle meeting (actually both a foreign ministers' meeting and a separate heads of government meeting). He was displeased with the US because he had been advocating a separate informal economic coalition of the East Asian states to be called "The East Asian Economic Caucus," to work out common Asian positions prior to dealing with the non-Asia Pacific and European countries (the "West"). This was opposed by the United States, which feared such a division of the Pacific states might turn into an anti-Western coalition. Therefore, both Japan and South Korea in particular have continued to be reluctant to possibly prejudice their economic and security ties to the US by agreeing to join the Mahathir-proposed group.

The media discovered the importance of the APEC group when President Clinton presided over the first-ever summit of heads of government of the Pacific countries. The second APEC summit (of presidents and prime ministers) of 1994 in Bogor Indonesia racked up what seemed to be an astonishing achievement when the leaders agreed to "complete" freeing of trade and investment in 2010 by the developed members and in 2020 by the others, an extremely ambitious goal. Indonesian President Suharto deserves credit for the success in getting the Asian members to agree. The operating principle is to be comprehensive liberalization "without exception." Even the somewhat mollified Mahathir, who was present at this second summit, went along with the decision although he continues to emphasize the voluntary nature of when and how to comply with the unlimited trade and investment liberalization goal. It is far from certain that it can even be approached by the agreed time limits. The coalition depends on consensus in its decisions and each member proceeds at its own pace in complying with them by what is euphemistically called "concerted unilateralism."

Japan, as the second largest world economy and largest creditor nation, was an essential APEC participant and, as usual, had been cooperating without taking a conspicuous role. But, as host of the Osaka summit of 1995, its officials were responsible for insuring the meeting in Japan was a success. They faced the formidable task of getting agreement on an Action Plan to credibly try to reach the ambitious liberalization goals of 2010 and 2020. It not only had the task of gaining agreement on the Action Agenda, in advance if possible, but it also had to compromise divisive issues. One was the conflict over the APEC's nature as a loose consensual group and another was the vexing problem of demands to make agricultural products an exception to complete liberalization. Embarrassingly enough, Japan's own officials were expected to gain an explicit exception to the liberalization principle for its rice farmers who in 1994 had almost induced the Japanese government to wreck the world trade negotiations over the issue.

The non-Asian developed countries wanted APEC to tackle liberalization more like previous world trade negotiations with clear-cut agreements and strict implementation and compliance, as achieved in the new World Trade Organization.<sup>25</sup> But the Asians, including Japan, preferred a flexible consensual approach with essentially voluntary implementation permitting the developed states maximum leeway -- the concerted unilateralism. The non-Asian members, such as the US, Canada, and Australia, are skeptical that such an approach will actually achieve significant liberalization. Therefore, they were surprised when China announced at Osaka that it would sharply cut tariffs by 30% to apply to 4,000 items by April 1996.<sup>26</sup> This off-the-cuff Chinese decision was actually implemented as promised five months later. The Action Plan, shepherded through by Japan, spells out other specific items -- there called, "facilitation" -- for government action which should bring significant economic gains and were to be finalized at the Manila meeting in 1996. They include things like an effective dispute settlement

---

<sup>25</sup>Robert Gilpin, "APEC in a New International Order," *NBR Analysis*, Vol. 6, No. 5 (December 1995), p. 18-19.

<sup>26</sup>*Financial Post* (Toronto), "China Cuts Tariffs to Boost Bid for WTO Entry," December 29, 1995, p. 6. Xiaohua Zhu, "Double Standards for China," *Far Eastern Economic Review*, Vol. 158, No. 49 (December 7, 1995), p. 44. The International Institute for Strategic Studies, *Strategic Survey, 1995-1996* (Oxford University Press: London, 1996), p. 174. At an average tariff of 36% China was more than twice as high as the average of all developing countries at 15%. Its pirated software sales were 98% of total such sales compared to 77%, the average for developing states.

mechanism, simpler and more convenient visas for businesspersons, and reduction of unnecessary national regulations which hamper business. These can be carried out by any government and moves, or failure to move, in that direction will soon be evidence of the effectiveness or ineffectiveness of APEC. Indonesia's rank discrimination against Japanese and other foreign automobile firms in favor of a new Indonesian-South Korean auto manufacturing firm in 1996 is a blow to APEC goals so proudly proclaimed by President Suharto in 1994 at Bogar.

Japan's strategy toward Southeast Asia from long before APEC was to avoid any suggestion that the big powers would force an unwelcome economic agenda on the weaker states so that Australia's role as initiator of APEC had been especially welcome. The ASEAN preference for flexible consensus also nicely dovetailed with Japan's preference to keep its economic commitments to a minimum and its implementation of agreements flexible. It also resembles its domestic economic policy approach where informal bureaucratic "administrative guidance" can be as important as formal laws and regulations. But, currently, administrative guidance is under severe strain in Japan. To mention only two instances, it can be seen in irresponsible exercise, or non-exercise, of finance ministry supervision in the colossal housing loan company failures and the Daiwa Bank scandal at its American branches.

At the July and September 1995 senior officers' preparatory meetings for the Osaka APEC summit, Japan had at first presented the Action Plan with exception from liberalization for agricultural imports with support from South Korea and China. Not only the US, Canada, and Australia but the ASEAN countries rejected it in favor of comprehensive liberalization without exception.<sup>27</sup>

Ryutaro Hashimoto, now prime minister, was then minister of trade and industry. He said, "The principle of comprehensiveness should be basically upheld while its enforcement should be flexible with consideration given to the sensitive areas of each APEC member."<sup>28</sup> He said further, "But, that does not mean allowing each APEC member an exceptional trade area to be exempt from the APEC accords." Significantly, he emphasized, "APEC is not an organ for setting rigid rules via negotiations but an organ to be run on consensus." He also differed with Prime Minister Murayama who promised the Diet that Japan would exclude agriculture from comprehensive liberalization.

The deadlock over an agricultural exception at the Osaka APEC was passed from the senior officials over to the ministers. Both Japanese foreign and trade ministries' officials had already argued with agriculture colleagues that APEC had no enforceable legally binding rules like the World Trade Organization which had succeeded in subjecting Japan to a limited opening to rice imports and tariffication after the year 2000. Therefore, it was not necessary to spell out an agricultural exception to protect farmers. In the end, the demand for an exception was dropped by Japan so there was no mention in the Osaka Action Plan of any exception to comprehensive liberalization. The principle was thus preserved intact as the Western members wished. Only a week before the Osaka meeting, Malaysian Prime Minister Mahathir also showed stronger support for APEC when he said, "There will be progress (on the farm trade issue at Osaka), I'm quite sure. We are all slowly opening up, even in the areas where before we were reluctant to open up, and as time passes you can expect relaxation of all these protective stands that governments have to make because of their own domestic constituencies."<sup>29</sup>

Japan as host was also being pressed by Taiwan to invite President Lee Teng Hui to the Osaka meeting. In a personal meeting in China, Chairman Jang Zemin tried to extract a promise from Prime Minister Murayama that he would not invite Lee who was trying to raise the international status of Taiwan by attending. Japan's insistent urging to Taipei officials to follow precedent to send a lesser official finally prevailed with a reluctant Lee when he realized the Japanese would not relent and risk China's withdrawal from APEC.

Japan gained considerable credit for its role as the host country most responsible for the success of the meeting even though in early preparations it had been hesitant and ineffective. Japan's mediation

---

<sup>27</sup>*Daily Yomiuri*, "Japan Eyes Loopholes in APEC Free Trade," September 9, 1995, p. 8. *Nikkei Weekly*, "Japan Risks Damage in Long Run By Sticking to Demand for Rice Exemption," October 23, 1995, p. 6.

<sup>28</sup>Masaichi Nosaka, "U.S. Against Any Exception to APEC Free-Trade Plan," *Daily Yomiuri*, October 4, 1995, p. 8.

<sup>29</sup>*Daily Yomiuri*, "Malaysia Won't Be Held to Deadlines," November 14, 1995, p.6.

achieved agreement to the Action Plan which appeared to move the APEC coalition much closer to a concrete program of liberalization and, perhaps more important, greater mutual toleration of East-West differences over the nature of the APEC, but above all, it kept the US, China, and Japan cooperating economically and politically with each other as well as the lesser countries in an effective trans-Pacific coalition. The hopes of the Osaka meeting were considerably dampened by the timid offers in connection with the Action Plan at the next meeting in Manila in 1996. As Takashi Inoguchi commented, "The action plans presented at the Manila meeting revealed generally negative attitudes about market liberalization among the developing countries -- a reflection of slowing economic growth in the Asia Pacific region. One cannot but register a measure of concern over the setback."<sup>30</sup>

#### IV. Expanding Japan's Economic and Political Role

When Prime Minister Fukuda visited Southeast Asia in 1977 and offered substantial new economic aid to the states of the Association of Southeast Asian Nations (ASEAN), the offer was welcomed. The United States had only recently abandoned Vietnam and the security threat from the communist states was still considerable as when Vietnam invaded Cambodia. The Japanese strategy of using aid and trade to strengthen and stabilize the non-communist and more market-oriented regimes not only built greater acceptance of Japan's increased economic presence but served regional security needs as well. At that time ASEAN's largest export market was the US, but its largest source of imports was Japan followed by the US so it was dependent economically on both the two chief Pacific economic powers.

The ASEAN group started a regular dialogue program of bilateral consultations in 1977 with Japan and the US as well as the other developed Pacific countries, Australia, Canada, and New Zealand in order to maintain their economic and political support and also to favorably influence their policies toward Southeast Asia.<sup>31</sup> They were quite successful in gaining the developed states' cooperation. South Korea and the European Union were soon added as dialogue partners. In 1979 ASEAN began an annual multilateral conference with the foreign ministers of its dialogue partners called the ASEAN post-ministerial conference (PMC). All the foreign ministers met together just after the ASEAN foreign ministers held their own annual meeting. In the late eighties, with the economic opening up of the communist states to more market-oriented policies of trade and investment as Cold War barriers disappeared, ASEAN added Russia, China, Vietnam, Laos, Cambodia as guests or observers to the discussions surrounding the annual PMCs. ASEAN thus extended its economic and political strategy to include other Pacific states important to it. The ASEAN post-ministerial conference has become an annual Pacific multilateral regional forum of foreign ministers of large and small states, as well as developed and developing states which resembles APEC but is hosted by the ASEAN states which control the agenda. Japan puts considerable importance on its participation in this forum the membership of which is actually more inclusive than APEC. At the 1993 PMC Japan's foreign minister, Kabun Muto, said that Japan would play a mediator's role to represent the ASEAN position when it spoke as an equal with China and the United States on both economic and political issues.<sup>32</sup>

---

<sup>30</sup>Takashi Inoguchi, "APEC Summit Shows Group's Limitations," *Nikkei Weekly*, December 9, 1996, p. 6. *Far Eastern Economic Review*, "Promises, Promises, Liberalization of APEC Summit is Heavily Hedged," Vol. 159, No. 49 (December 5, 1996), p. 18. "The trade barriers APEC was designed to lift are still in place...Indeed, APEC continues to disappoint those who hoped the world's most dynamic economies would act collectively and decisively to stimulate global trade liberalization."

<sup>31</sup>Seiji Kaya, Kernial S. Sandhu, Michael Plummer, Narongchai Akrasanee, *ASEAN-US Initiative, Assessment and Recommendations for Improved Economic Relations* (Singapore: Institute of Southeast Asian Studies and the East-West Center, 1989), p. 4.

<sup>32</sup>Takayuki Tanaka, "Muto Outlines Japan's Asia Role," *Daily Yomiuri*, July 27, 1993, p. 1.

The ASEAN states have further consolidated their membership and regional consultations in the mid-nineties. The hope expressed by Fukuda in 1977 for reconciliation between ASEAN and the threatening communist states has been realized with entry of Vietnam into full membership of ASEAN in 1995 and the remainder of Southeast Asian states to soon follow. In 1996 India was added as a dialogue partner. The heads of the Southeast Asian states outside of ASEAN, that is Burma, Laos, and Cambodia were invited to ASEAN's own summit of heads of government in Bangkok in December 1995 where they were encouraged to join as soon as possible.

The non-major power ASEAN states have also tried a striking new tack to globalize their multilateral diplomacy by inaugurating a summit of East Asian and European Union heads of government and foreign ministers, the Asia-Europe Meeting (ASEM). Its first gathering in Bangkok in March 1996 resembled APEC summits on which it is modeled but includes only the seven ASEAN states plus China, Japan, and South Korea interfacing with the fifteen states in the European Union. To insure that the European heads would agree to attend, the Southeast Asians billed it as a economic/political/ security summit, not just an economic one like APEC. The East Asians' chief economic motive is greater entry for their exports to Europe and more European investment in their countries while Europe wants a more lucrative share in Asian growth. But, Europe is not prepared to give any special entry to its market to the Asians.

When Malaysia's Mahathir called for lower European tariffs and fewer anti-dumping actions against their Asian trade, Renato Ruggiero, Director General of the World Trade Organization, joined him in urging Europe to open its markets and thus to reciprocate the opening of their markets under APEC liberalization. The American ambassador to the Organization of Economic Cooperation and Development in Paris added that the US would welcome European liberalization in response to Asian liberalization. However, Sir Leon Brittan, the European trade commissioner responded rather churlishly saying, "We are not going to be persuaded into doing what we don't want to do by Dr. Mahathir or anyone else."<sup>33</sup>

In contrast to ASEM, APEC is based on "open regionalism" by which any trade or investment liberalization measure is automatically granted to all other trading partners including Europeans, but the European Union jealously guards its rich internal market as can be seen in Brittan's dog-in-the-manger attitude, and has only cautiously responded to the ASEAN overtures in the ASEM. ASEAN PMCs and ASEM might appear to balance the major external ASEAN partners of Europe against their North American and South Pacific partners in APEC as Mahathir proposed with his East Asian caucus. But now, Europe has only vestigial political and military responsibilities in East Asia so it does not loom as important a partner as Japan and the US in East Asia.

Europe's interest in greater entry to Asian economies will be served by APEC's liberalization. Actually, its political involvement in Asia is in decline with the reversion of Hong Kong and Macao to China. Portugal is still not reconciled to Indonesian seizure of East Timor as was quite clear in the meeting of Prime Minister Antonio Guterres and President Suharto at the summit in Bangkok.<sup>34</sup> France still has Pacific island territories where it tests its nuclear weapons and has some military forces in the region. Consequently, President Jacques Chirac would like to join the ASEAN Regional Forum for regional consultation on security, a forum which meets annually at the same time and place as the PMCs. Britain has a very small security role in the Five-Power Arrangement with Malaysia, Singapore, Australia, and New Zealand. It will be difficult for ASEM and its accompanying activities to equal or compete with APEC unless it can offer real economic gains. But, it does symbolize the dramatic change where the former European colonial powers now deal with Asia on a more equal basis. It also gives the smaller East Asian states more international prestige and an opportunity to represent their interests in a direct way to Europe's top leaders. It meets again in Britain in 1998 and South Korea in 2000.

---

<sup>33</sup>Alan Friedman, "Asian Leaders Press Europeans to Open Markets," *The Globe and Mail* (Toronto), March 6, 1996, p. A15. Reprinted from the International Herald Tribune in Paris,.

<sup>34</sup>Michael Vatikiotis, John McBeth, "No Deal, Jakarta Rebuffs Lisbon's Initiative on Timor," *Far Eastern Economic Review*, Vol. 159, No. 12 (March 21, 1996), p. 21.

As Japan is the only Asian power with global interests, which now include politics and security as well as economics, it was to the former that Prime Minister Hashimoto addressed himself at the first Asia-Europe Meeting in Bangkok in 1996. He represented Asia as well as speaking for his American ally in doing so. He pushed aside Japan's usual misgivings about the anti-American and anti-Western proclivities of Mahathir. The prime minister not only attended the Asia-Europe Meeting but also sent his foreign and finance ministers to the preliminary meetings proposed by Mahathir. The countries at those preliminary meetings were identical to those proposed by Mahathir for an East Asian Economic Caucus. This was done even though only six months earlier Japan's foreign minister, Ichiro Kono, clearly and publicly rejected participation in the EAEC. To clarify Japan's position, Hashimoto reiterated the primacy of Japan's security cooperation with the US in its regional foreign policy, and, hence, the primacy of Japan's cooperation with it. At the same time, he indicated desire for close cooperation with the Southeast Asian countries and East Asia in dealing with Europe or America.

Hashimoto indicated that Japanese participation in both APEC and ASEM was to link or bridge Asia and Europe to gain maximal support for economic development of the East Asian states and, thus, to maintain the regional security and stability needed for that development.<sup>35</sup> Hashimoto pointed out that Asia (mainly Japan) was contributing to finance the rebuilding and stabilizing of Bosnia in Europe and urged Europe in turn to reciprocate by continuing to help fund the Korean Energy Development Corporation (KEDO) for the sake of nuclear non-proliferation in North Korea and global as well as regional security. He also called for Asia-Europe cooperation in pushing the stalled reforms of the United Nations as well as in quickly signing the Comprehensive Test Ban Treaty. At Bangkok, Hashimoto's speech was also intended for American ears in advance of the Japan visit by President Clinton to show continued strong Japanese support to reaffirming their joint security relationship which was done in April of 1996 despite considerable disquiet in Beijing.

Thus, Japan is slowly expanding its own low-key regional and global role but in a conciliatory manner designed to keep both Asia and the West cooperating with it and each other.

## V. Japan Versus an Anti-Western Coalition

In the late eighties, when Japan's trade competitiveness and financial expansion abroad was at its height, it gave rise to considerable debate among foreign officials, businessmen, and academics as to whether Japan was becoming a political as well as an economic giant both globally and regionally. Its investment and trade with Asia was already expanding more rapidly as were imports from new branch plants in Asia. The question was even asked if Japan would become a hegemonic power like the United States was at the height of its power. But, this speculation has dissipated with Japan's recession since 1992, some slowing of its investment in East Asia, and its continued low key role in foreign affairs. In the mid-nineties, there are even advocates in the Japanese business community of modeling Japan's economy more on that of the US which had regained much of its former competitiveness as Japan was mired in recession. After four years of almost no growth and increased unemployment, Japan's economic impact on the other Asian countries has grown more slowly, but their growth has continued at a hectic pace even without such strong Japanese stimulation.

An important economic and political change is occurring with the growth of the East Asian countries other than Japan when that growth has taken off so spectacularly. They are becoming more economically integrated with each other and generating much of their own capital for expansion. They

---

<sup>35</sup>Kaku Ishizuka, "Nihon ga Ajia-Oshu Hashiwatashi, Hashimoto Shusho, ASEM de Kyocho, Anpo de tai-Bei Hairyo mo" (Japan an Asia-Europe Bridge, Prime Minister Hashimoto's Emphasis at ASEM, Also Concern toward America over Security), *Yomiuri Shinbun*, March 4, 1996, p. 3. Ishizuka, "Kyu-Yugo Fukko, KEDO Shien, Ajia-Oshu Kyoryoku Hitsuyo, ASEM de Hashimoto Shusho Hatsugen" (Rebuilding Former Yugoslavia, Aid to KEDO, Asia-Europe Cooperation Necessary, Prime Minister Hashimoto Talk at ASEM), March 2, 1996, p. 2.

are no longer quite so dependent on Japan, the United States, and Europe for trade and investment. Trade and investment among themselves continues to expand. The biggest investors are now the Newly Industrializing Economies (NIEs): Taiwan, Hong Kong, South Korea, and Singapore. From 1990 to 1995, cumulative investment in ASEAN from the NIEs was \$37.7 billion, from Japan \$25.1 billion, and from the US \$14.6 billion.<sup>36</sup> In 1994 the biggest investors in China were the NIEs at \$33.9 billion in actually-used foreign direct investment (not just intended) of which \$20.3 billion or 59.9% came from Hong Kong and Macao. Of the \$33.9 billion total, Taiwan provided \$3.4 billion or 10.0%, Japan and US together were only \$4.6 billion or 13.4%.

The international political self-assertion of ASEAN and the drive toward greater international recognition in Taiwan are strengthened by this growing economic independence. It also suggests Japan's relative influence in the region may encounter more competition from native Asian entrepreneurs as well as Western multinational enterprises. Japan's multinationals and their Japanese suppliers are continuing their expansion of investment in East Asian production and Asian marketing as well as trade, often with strong linkups with local producers. Despite the popularity of the academic analysis of the importance of pervasive networking by overseas Chinese entrepreneurs throughout East Asia, it seems doubtful that Chinese business networks will equal the deep roots and extensive development of the Japanese keiretsu ties in the region. Japan may even be exciting some new academic fear of "keiretsu-ization" of Asian manufacturing industries.<sup>37</sup> Japanese government officials often provide support and guidance not only to local industries but to local governments in Southeast Asia as in auto manufacturing in Malaysia.<sup>38</sup>

Japan and America's positive influence in East Asia depend a great deal on their actual, not just asserted, cooperation with each other and with other major powers. Regional peace and stability clearly gain from it. In security it has been strongly reaffirmed by President Clinton's visit in 1996 as both countries struggle to reduce the strong opposition in Okinawa to the heavy burden of the American forces garrisoned there. But, in trade, the governmental friction between the US and Japan continues, as it does with China and even with Canada as American officials press for one major concession after another with constant threats of severe trade sanctions such as huge punitive duties blocking access to the US market.

Objectively, the economic justification for the friction with Japan may be declining on a long term basis. However, the way Japan is held by threats and sanctions to ideal Western standards of behavior may be more due to myths, fear and prejudice than economic behavior. Japan's long-term yeoman role as the leading purchasers of American and Canadian government bonds, and particularly of the US Treasury certificates, which helps prop up their economies, keep their governments solvent, and interest rates down, continues to go unremarked and unnoticed. But, American competitiveness has greatly increased while that of Japan has been badly hit by the high yen and high domestic costs. In 1995, Japanese auto exports, a perennial cause of friction, were the lowest since 1975 when they dropped by 31.7% from the year before.<sup>39</sup> These rather dramatic changes in the balance of trade greatly decreased friction with the United States as American exports to Japan also increased. Most of Japan's exports were languishing due to the extraordinarily high value of the yen. Auto exports to Japan from North America also picked up. But, they are still very small because the Big Three American auto producers, at long last, are only now introducing models actually built to suit Japanese consumers. But, the yen reversed course again to lose 50% of its value to the dollar from April 1996 to April 1997, with the resulting sharp improvement in Japan's trade competitiveness and a beginning of reversal of the trade balance back to a surplus, thus increasing the likelihood of new trade conflict with the United States.<sup>40</sup> The American Automobile Manufacturers Association were already pressuring the Clinton Administration in February

---

<sup>36</sup>Toshio Watanabe, "East Asia Surges in Spite of Japan," *Nikkei Weekly*, April 15, 1996, p. 6.

<sup>37</sup>Kozo Yamamura and Walter Hatch, "A Looming Entry Barrier: Japan's Production Networks in Asia," *NBR Analysis* (National Bureau of Asian Research, Seattle), Vol. 8, No. 1 (February 1997), p. 13. Also, *Asia in Japanese Embrace: Building a Regional Production Alliance* (Cambridge: Cambridge University Press, 1996).

<sup>38</sup>Yamamura and Hatch, "A Looming Entry Barrier," pp. 20 ff.

<sup>39</sup>*Daily Yomiuri*, "Auto Exports Lowest in 20 Years," April 26, 1996, p. 14.

<sup>40</sup>David P. Hamilton, "Japan's Trade Surplus Rises," *Globe and Mail*, March 18, 1997, p. B8.

1997 for action against Japan over the danger to the US of the yen's rise making Japanese cars more competitive.<sup>41</sup> Nevertheless, the US was continuing to enjoy the lion's share of world exports at 13.2% followed by Germany with 8.8% and Japan with 6.7%.<sup>42</sup> To spread some of America's economic prosperity to Japan and Europe by more favorable exchange rates might even improve the market for American auto makers which are still some of the largest and most successful enterprises in the world.

In Western countries there is a persistent undercurrent of fear and suspicion of East Asian states' growing strength and importance. The myth that Japan and other Asian states are in some ineradicable cultural way unable or unwilling to deal in good faith, threatens not only good relations between Japan and the US but jeopardizes America, Europe, and Asia working together successfully. Japan may appear unique to a very unique United States, but it is not very different from Western European countries or even Canada in major political and economic institutions and behavior. For example, Japan is much more like Canada and Europe in its political system and its handling of welfare and macroeconomic policy. The persistence of much foreign criticism of Japan's malevolent difference from other liberal capitalist economies has been ideological or else based on conditions which are less and less relevant. But, some leading analysts continue to insist that Japan and other Asian economies play by different and unfair rules.<sup>43</sup> Some even propose using strict industry-by-industry reciprocity to gain an exclusive guaranteed share of the Japanese market on pain of exclusion from a similar share of the American market, steps that would fatally damage the last fifty years of world trade liberalization.

In 1996, the long-running dispute over the US-Japan semiconductor agreement, guaranteeing a 20% share of the Japanese market to American producers, was resolved by agreeing not to renew it.<sup>44</sup> Even though American sales in Japan long exceeded the 20% goal, Washington officials had till then insisted on continuing the agreement to give an exclusive share in the Japanese market on pain of punitive sanctions. But, with the greatly increased competitiveness of America's industry, its main chip producers and computer makers are again an important segment of the Japanese market. Moreover, they have linked up for joint production with Japan's producers, making the dispute increasingly irrelevant. America's support of trade more open to all partners so consistently sought at APEC under the slogan of "liberalization without exception" would have been undermined by demanding exclusive exception for the US in the microchip market. Former senator Dole's condemnation of President Clinton for not obtaining Prime Minister Hashimoto's capitulation to continue an exclusive guaranteed share of Japan's semiconductor market is an indication of how strong protectionist views had become in Washington.<sup>45</sup> The semiconductor agreement was a form of managed trade which is contrary to international rules and has been criticized by both the European Union and by Canada. It is, therefore, heartening that the Clinton Administration agreed with Japan's proposals to multilateralize the newly agreed-upon industry advisory councils by opening them to foreign governments and companies and has finally dropped coercive methods and demands for exclusive guaranteed access to the Japanese market. But, it continues to be difficult for the Clinton Administration to carry on America's long global leadership for freer trade in the World Trade Organization or on a regional basis in APEC under the constant pressure of senators and congressmen bent on special favors for American producers. As the United States' largest trading partner, Canada faces this type of American protectionist pressure constantly without letup. As an interesting contrast to Japan, Canada is free of much of the American fear and prejudice expressed toward Japan because of its smaller economy and cultural similarity but still experiences endless trade

---

<sup>41</sup>Terence Corcoran, "Detroit vs. the U.S. Dollar," *The Globe and Mail* (Toronto), April 22, 1979, p. B2. The head of the American Automobile Manufacturers Association complained that the rising dollar gave Japanese auto producers a "\$3000 to \$4000 a vehicle" price advantage hurting the American makers, the same complaint they made years earlier

<sup>42</sup>Peter Morton, "Canada Wins IMF Voter of Confidence," *The Financial Post* (Toronto), April 24, 1997, p. 8. As reported in the annual International Monetary Fund review of the economies of twenty-eight countries.

<sup>43</sup>Robert Gilpin, "Apec in a New International Order," *NBR Analysis*, Vol. 6, No. 5 (December 1995), pp. 14, 19.

<sup>44</sup>Masato Ishizawa, "Japan, U.S.: Chip Accord Opens New Era," *Nikkei Weekly*, August 5, 1996, p. 4.

<sup>45</sup>Jeremy L. Milk, "Dole: Clinton's Trade Policy on Japan Failed," *Daily Yomiuri*, May 1, 1996, p. 8.



harassment too. However, due to the importance of its trade, it is a member of the frequent meeting of the “quad” of finance ministers of Japan, US, European Union, and Canada.

Despite the continuation of this kind of trade friction it seems increasingly unlikely that there will be anything like a Western capitalist coalition versus an Asian economic coalition. If there were such a confrontation, it looks unlikely that it would be led by Japan even if Japan were to suddenly begin to adopt uncharacteristically strong and internationally divisive foreign policy initiatives.

At long last, Japan in 1997 seems to be gravitating toward some serious deregulation so fervently wished by those apprehensive about the long stagnation in the economy. Tokyo’s protected and overregulated financial market is being increasingly deserted by foreign security traders preferring those of Hong Kong and Singapore as foreign listings on the Tokyo Stock Exchange have fallen by two-thirds. Its heavily indebted financial system is haltingly beginning to restructure and open up finally under the Hashimoto Cabinet. In the powerful finance ministry the conservatism of the budget and tax bureaus seems to be giving way to a desire of the international finance bureau and other bureaus to deregulate and make the sector more competitive and open, as Japan prepares for the “big bang” financial reforms urged by Prime Minister Hashimoto. The ministry in 1996 permitted the first postwar failure of a large commercial bank, the Hanwa Bank, to move the sector closer to liquidating its huge burden of non-performing loans. In 1997 the Nippon Credit Bank is being restructured with a partial merger with Bankers Trust of New York, an unprecedented foreign entry into the Japanese banking sector to accelerate its competitiveness and openness.<sup>46</sup> The first postwar failure of a Japanese insurance company, Nissan Mutual Life, has been permitted although the ministry still administratively guides the stronger institutions to continue bailing out the weaker ones.<sup>47</sup> After two of scandals in the nineties, Nomura Securities has taken on a new dynamic management team.<sup>48</sup> Despite strong friends in the Liberal Democratic Party the ministry itself may not escape at least some shakeup as major new legislation is due to be put in place by 1998, particularly in supervising securities and banking. In housing and telecommunications, two economic sectors where substantial deregulation has actually occurred, there has been a mini-boom which shows what needs to be done in the many inefficient sectors.

On an international regional level, Japan’s economic position as the largest economy in Asia is being eroded by the growth of the Chinese economy. Japan is still the world’s largest source of investment capital and Japan remains the world’s third largest trading country. But, China will soon be a larger economy than Japan and the Japan-China trade may soon surpass the Japan-US trading link. Such future change may reverse the century of superiority with which Japan has lorded it over China, a future in which China may become again the dominant regional power and possibly even a superpower rival of the US.<sup>49</sup>

Currently, the would-be architect of an East Asian anti-Western coalition is not Japanese, nor is he Chinese. He is Malaysian Prime Minister Mahathir Mohammed. His concept of an East Asian caucus is a potential anti-Western coalition based on Asian resentment of Western countries’ arbitrary domination of world affairs and especially because the East Asians, as they see it, are “unfairly” singled out for sanctions by the West. In the case of human rights sanctions, Western countries are far from consistent in applying them. Western hypocrisy in tolerating them in the case of certain friendly regimes is epitomized by the contrast between the sanctions on China for the 1989 Tien An Men massacre and the complete ignoring of the 1981 Kwangju massacre in South Korea, an ally of the US.<sup>50</sup> In addition, the

---

<sup>46</sup>Melvin Goo, “Bank Bailout Redeemed by How It Differs,” *Nikkei Weekly*, April 21, 1997, p. 6. “Nippon Credit-Bankers Trust Pact Gives Needed Nudge to Tokyo Market,” editorial.

<sup>47</sup>*Financial Post* (Toronto), “Japan’s Nissan Mutual Life Goes Under,” April 26, 1997, p. 20. Masato Ishizawa, “Insurers Struggle to Break Standoff,” *Nikkei Weekly*, April 21, 1997, p. 12.

<sup>48</sup>Gillian Tett, “Nomura Grapples with Corporate Clash,” *Financial Post*, April 26, 1997, p. 20.

<sup>49</sup>Tony Walker, “China-Japan Trade Tie Could Surpass U.S.-Japan Link,” *Financial Post* (Toronto), April 6, 1996, p. 18. Reprinted from the *Financial Times* in London.

<sup>50</sup>The depth of anti-American sentiment among Chinese intellectuals can be gauged by the 1996 book, *Zhongguo Keyi Shuo Bu* (The China that Can Say ‘No’). Wang, “The Role of the United States as a Global and Pacific Power,” *The Pacific Review*, Vol. 10, No. 1 (1997), pp. 13-14 p. 18, footnote 47. The book is much more critical

Asians such as Mahathir of Malaysia or Lee Kwan Yew of Singapore point out that Western sanctions would have the effect of protecting Western industries and workers against Asian competition as well as worsening the position of many child workers in Asia.<sup>51</sup> For an anti-Western coalition to succeed it needs the important participation of Japan. On the other hand, Malaysia as well as many other Asian states are still sufficiently reliant on the West to be reluctant to seriously alienate it. Although Japan's imports from Asian neighbors have increased enormously, it cannot yet take the place of America and Europe as the major export market for Asia. Furthermore, the West is a continuing important source of technology and popular cultural imports. Mahathir's neighbors are too canny to seriously risk their ties with America at present, especially when it serves as a useful regional counterweight to security risks from China or North Korea.

As long as APEC seems to be accomplishing something and Malaysia's neighbors want to cooperate with it, it will be probably be difficult for the Mahathir concept to become the focus of East Asian influence or an anti-Western coalition. APEC is important precisely because it contains the participation of US and Japan as well as China and Taiwan. Mahathir is now more cooperative toward APEC but has accomplished some East Asian solidarity in East Asian-European Union (ASEM) Meetings. The special ministerial meetings proposed by Mahathir and held before the ASEM meeting corresponded to separate East Asian caucusing to work out a common East Asian position. Malaysia has high hopes that the Asia-Europe meetings will greatly strengthen ASEAN's regional and global influence.<sup>52</sup>

If Japan were to caucus with the other East Asians in connection with APEC, Japan would undoubtedly exercise a moderating influence there in mitigating and mediating the strains between Asian and Western members. It is the role that Japan likes best, as we have seen in Osaka where Japan had the strong motive of keeping both East and West cooperating despite the restiveness of Taiwan.

Perhaps, one should ask if economic friction with the United States and Europe could divide Japan from the West. But, it would have to be strong enough friction to damage the Japanese defence cooperation which keeps the United States tied to Japan for the sake of its military bases and strong influence in East Asia. Europe has a small and even declining political presence there unless the ASEM meetings and on-going projects can increase it through economic means. But, as indicated above, current changes in Japan's international economic relations lead in the direction of greater compatibility of Japan's trade and financial relations with the US and with Europe, not to increasing friction. Deregulation is permitting increased domestic competition and entry for foreign firms in Japan's economy as in the housing market and consumer retailing. Opening up of the financial sector may eventually enable Tokyo to rival New York and London and win back the business being lost to Hong Kong and Singapore. Permitting some banks to fail and letting some parent banks escape responsibility for all the debts of associated institutions (ending the convoy system) is an indication of the prime minister's winning finance ministry support for finally dealing with insolvent institutions and strengthening others. Increased local Japanese auto production in the US, Canada, Europe, and even in Asia reduces the incentive to export so much of that major export where it is the source of friction. The favorable exchange rates encouraging exports in 1996 probably will not continue. Such a trend would probably persuade the Japanese government to continue its present low key interregional bridging role but on a basis of more consultation with Tokyo and acceptance of greater Japanese influence in global and regional multilateral decision-making for Japan.

---

than that of Mahathir Mohamad and Ishihara Shintaro in 1994, *'No' to Ieru Ajia*, Tai-O-Bei e no Hosaku/Kaado (The Asia that Can Say 'No', The Card/Policy Against Europe and America) or Ishihara's and Akio Morita's 1989 book, *'No' to Ieru Nihon*, Shin-Nichi-Bei Kankei no Hosaku/kaado (The Japan that Can Say 'No,' The New Japanese-American Relations Card/Policy).

<sup>51</sup>Gordon Fairclough, "Child Labor, It Isn't Black and White," *Far Eastern Economic Review*, Vol. 159, No. 10 (March 7, 1996), pp. 54-57.

<sup>52</sup>Noordin Sopiee, "Bei-nuki Sekai no Shuppatsu" (The Start of a World without the US), *Yomiuri Shinbun*, April 14, 1996, pp. 1,2.

In the post-Cold War decade of the nineties neither the US or Japan has demonstrated strong or consistent leadership, but, where they have taken constructive steps in trade and finance, they have served both their own, regional, and global interests. The US has continued to play the role of chief mediator in Europe and the Middle East in security problems and did provide essential support for the successful conclusion of the World Trade Organization and the North American Free Trade Agreement. But, in the world trade negotiations, Japan, though deplorably protectionist on rice, did compromise and support the world trade negotiations, just as it did in Osaka at the APEC meeting. China too made concessions by announcing substantial tariff reductions on 5000 imports at APEC and put them in effect in April 1996 to help its bid to enter the WTO. However, this has not mollified the United States determination to stop the large Chinese producers of pirated CDs and other American "intellectual" property. Clinton's inauguration of the APEC summits was quite a contribution to regional economic integration which has turned APEC into the leading Asia-Pacific regional organization. The Clinton Administration's strong support of its security relations with Japan and South Korea is a stabilizing regional influence as was its naval presence during the Taiwan Straits confrontation of early 1996.

The decade of the nineties and beginning of the twenty-first century in the Pacific may not fit anyone's predicted patterns for the future. But, American influence continues and Japan's economic and financial expansion has slowed in contrast to general expectations. Japan's symbiotic relationship with the US continues by which it underwrites a leading political and military role for the US in the region and also globally, in which it can also enjoy peace and prosperity without the heavy responsibilities and costs of the US. It will not be surprising if Japan's domestic consensus continues to favor its present or somewhat moderately enhanced international role. A major advantage for the Americans is that it prevents Japan from again becoming a powerful and possibly unfriendly rival of the United States once more and enables the US to continue playing a leading role in an increasingly important East Asia. Japan has the economic assets and technical capabilities to do much more. It is only going through temporary economic difficulties with significant restructuring which will probably make it stronger and more liberal than in the past as well as more open to its partners. The current Japanese domestic political and social changes are apt to be small but cumulatively large and leading in a more open direction, which is unlikely to disturb the basic conservative character of the country.

Thus, in contrast to the 1890s, the 1990s trend of economic and political change in and around Japan is toward more harmonious relations between Japan and its Asian neighbors regionally and also with its Western partners in the Pacific and Europe. This is not to ignore the serious military security issues in East Asia which could conceivably upset this rosy prediction. The sort of cultural or nationalistic antagonism building up between the US and China is especially worrisome. Within Japan there is strong domestic consensus supporting Japan's present relationship with the United States and its conciliatory and intermediary role in integrating Asia and the Pacific, East and West. But, it will not be a leader in creating or directing international coalitions. Rather, it will be a strong supporting role in keeping together and strengthening the coalition of regional powers which is already functioning around it, but largely initiated by others.