

"THE 4TH JAPANESE-AMERICAN ASSEMBLY"

Japan Society/Japan Center for International Exchange, Shimoda, 1-4/IX/1977

- (1) conference procedures and profile of participants
- (2) Summary of discussion
- (3) Conable, Barber B.: "Free trade under siege"
- (4) Glenn, John: "The role of the United States in East Asia: a legislative perspective"
- (5) Hanyu, Sanshichi: "New option for Japan's Asia policy"
- (6) Hosomi, Takashi: "Administration of the world economy and Japan"
- (7) Ingersoll, Robert S.: "Opening remarks"
- (8) Kato, Koichi: "Japan's role in East Asian stability"
- (9) Kawakami, Tamio: "Groping for Korean unification"
- (10) Kosaka, Tokusaburo: "The transformation in Japanese domestic politics and Japan-U.S. relations"
- (11) Ranis, Gustav: "Asian development and the United States"
- (12) Sawhill, John C.: "Some considerations for Japan and the U.S. in developing an energy strategy"
- (13) Solarz, Stephen J.: "Japan and the United States: security issues in the Far East"
- (14) Ushiba, Nobuhiko: "Opening remarks"
- (15) Watanabe, Ro: "A reformist vision of South East Asia policy"
- (16) Yano, Toru: "Toward a reorientation of Asian policy: the 'Fukuda Doctrine' and Japan-U.S. cooperation"

Conference Procedures

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Procedures

As stated in the schedule, the Japanese-American Assembly is divided into three plenary meetings and three concurrent sessions. In each concurrent session, discussions between Japanese and American groups consisting of approximately the same number of members will follow a single agenda to ensure that each group discusses the same subject at about the same time. Each concurrent session will be presided over by a chairman and a rapporteur. We should like to encourage you to review the background papers submitted by both American and Japanese members, which will be referred to in each session.

Because of our status as a private assembly, we do not have any plans to adopt a resolution at the end of the Conference. We do hope, however, to subsequently publish a summary of the discussions in order to contribute to the Assembly's overall objectives of deepening mutual understanding and developing more constructive dialogue on various issues in U.S.-Japan relations. The summary draft will be worked out by the Drafting Committee, consisting of the chairmen, rapporteurs and officers of the Assembly. The Drafting Committee assumes its task to be one of making a report which accurately reflects the general sense of the discussions while registering divergent views as much as is possible. The summary draft will be submitted to each participant on the morning of September 4th and presented for the delegates' review during the Concluding Plenary Meeting to be convened that same day.

Shimoda Memorandum

We are honored to have in attendance a considerable number of participants in the hope of receiving views from a variety of sectors both in Japan and the United States. We are afraid, however, that each participant will not have as

much time as desired for oral participation. Therefore, we encourage participants to submit written comments and questions on agenda items, background papers and discussions to the Assembly's secretariat at any time. These memoranda will be off-the-record and for use only in the Conference discussions. The secretariat, then, will be responsible for printing and circulating of these comments. Your cooperation in aiding the realization of more meaningful dialogue will be deeply appreciated.

Press Rules

Both domestic and foreign press have expressed a deep interest in the 4th Japanese American Assembly, and it expected that a number of reporters will be dispatched to cover the Conference. However, except for the opening portion of the First Plenary Meeting and meetings with guest speakers, discussion sessions are not open to the press. Instead, briefings will be given to the press corps after each session to enable them to follow the discussions taking place. No participants will be quoted by name and the press will report strictly on a basis of non-attribution. Members of the press have been asked to submit requests for interviews with participants to the press officer of the Assembly. Should you be approached directly for an interview, in order to avoid any confusion or possible embarrassment it is requested that you please refer the journalist concerned to the press officer.

Hotel

During the Assembly between September 1 and September 4, all the Assembly participants are the guests of the Japanese-American Assembly for all meals and lodging and for beverages during the social hours. We are obliged, however,

to request our guests to sign for food and beverages consumed outside those times and to charge telephone calls and laundry service to their room accounts. Statements for these expenses will be submitted to you by the evening of September 3. We would appreciate it if you would settle your account at the desk of the Japan Center for International Exchange in the lobby of the hotel before leaving.

We hope that your stay in Shimoda will be a pleasant one. If there is anything we can do for you, please do not hesitate to call on us.

The Fourth Japanese-American Assembly (Shimoda Conference)



AGENDA

GENERAL THEME: U.S.-JAPAN RELATIONS IN A NEW WORLD ORDER

1. FIRST PLENARY MEETING: United States and Japan in a Changing International Environment

(The major goal of the first plenary meeting will be to develop a broad understanding among all the participants of the nature and scope of the changes that have taken place in Japan-U.S. relations in recent years. We hope, further, to generate a general exchange of views among the participants concerning the major factors that can lead to tension or conflict between Japan and the United States, now and in the future, as well as the roles each country expects the other to play and the perspectives each has of its own role. Discussion to be initiated by remarks from Ambassadors Ingersoll and Ushiba.)

- A. What is the nature of changes in the international community, particularly as they pertain to U.S.-Japanese relations?
- B. How are the United States and Japan responding to these changes? Are there significant domestic constraint upon such response?
- C. What are the Japanese and American perceptions concerning each other's role in an era of transition?
- D. What are the long-range and short-range sources of possible conflicts and cooperation?
- E. Are the points for discussion listed below for subsequent sessions relevant? Any omissions? Any reorganization?

II. FIRST CONCURRENT SESSION: Security in Northeast Asia

(Of major concern here are the changing conditions for a stable and peaceful regional system for Asia as both the United States and Japan are engaged in essential redefinition of their respective World roles.)

- A. How should Japan and the United States be seeking to relate to the two mainland powers?
- B. What arrangements on the Korean peninsula hold the best promise for peaceful evolution? How can Japan and/or the United States best influence events there?
- C. What are the proper roles for Japan and the United States in East Asia generally and how should they conduct themselves?

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AGENDA (continued)

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III. SECOND CONCURRENT SESSION: Political and Economic Development in Southeast Asia

(In the post-Vietnam environment, Southeast Asia is now a backwater of great power diplomacy. Problems in the region will be more economic and political than strategic and military. Or will they?)

- A. What are the essential conditions for regional stability in Southeast Asia?
- B. What part are the ASEAN nations and Indochina likely to play and how are they likely to interact with each other?
- C. What roles are the four great powers (Japan, the United States, Peoples' Republic of China, and Soviet Union) likely to play in the region?
- D. How do the United States and Japan perceive each other in the political and economic development process in the region. Is there a cooperative role they can play?

IV. THIRD CONCURRENT SESSION: Japan, the United States and the World Economy

(Where do Japanese and American interests and policies diverge and converge in the management of an increasingly interdependent international economic system?)

- A. What are the most important international economic problems facing the two nations?
- B. Is the present policy of free international trade still valid? If not, what new policies are needed?
- C. How can the two nations singly or in cooperation best assure themselves of adequate supplies of energy and other raw materials at reasonable cost?
- D. What roles should Japan and the United States be expected to play generally in relation to the world development process, individually or in tandem?

V. SECOND PLENARY MEETING: U.S.-Japan Relations in a New World Order

(The second plenary meeting will be devoted to summing up the discussions held during the first plenary meeting and concurrent sessions which followed. Special attention will be given to articulating a common understanding of the future course of Japanese-American relations and areas of potential conflict. The session will conclude with an exchange of opinions regarding what forms of dialogue are best suited of finding solutions to those potential issues. Discussion to be initiated by the two moderators.)

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AGENDA (continued)

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- A. What are the implications of the preceding discussions for the relationship between Japan and the United States?
- B. What are the areas for constructive dialogue between Japan and the United States?
- C. What are the effective instruments for such dialogue?

VI. CONCLUDING PLENARY MEETING: Review of "Summary Report"

THE FOURTH JAPANESE-AMERICAN ASSEMBLY (SHIMODA CONFERENCE)

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AMERICAN PARTICIPANTS

Robert Ingersoll Co-Chairman of the Shimoda Conference
Deputy Chairman of the Board, University of Chicago
Former Deputy Secretary of State
Former U.S. Ambassador to Japan

David W. MacEachron Co-Director of the Shimoda Conference
Executive Director, Japan Society, Inc.

Morton I. Abramowitz Deputy Assistant Secretary for East Asian and
Pacific Affairs/Inter-American Affairs, Office
of the Assistant Secretary for International
Security Affairs, Department of Defense

Michael H. Armacost Senior Staff Member for East Asia, National
Security Council, The White House

Les Aspin U.S. House of Representatives (Democrat, Armed
Services Committee)

George Chaplin Editor-in-Chief, The Honolulu Advertiser
Former President, American Society of Newspaper
Editors

Barber B. Conable, Jr. U.S. House of Representatives (Republican, Ways
and Means Committee)

William Diebold, Jr. Senior Research Fellow, Council on Foreign
Relations

William D. Eberle President, U.S. Council of the International
Chamber of Commerce
Former President's Special Representative for
Trade Negotiations

John H. Glenn, Jr. U.S. Senate (Democrat, Foreign Relations Committee)
Chairman, Senate Subcommittee on East Asian and
Pacific Affairs

Carl J. Green Representative in Japan, The Ford Foundation

Charles B. Heck North American Secretary, The Trilateral Commission

Walter E. Hoadley Executive Vice President and Chief Economist,
Bank of America NT & SA

James D. Hodgson Former U.S. Ambassador to Japan
Former Secretary of Labor

Mike Mansfield U.S. Ambassador to Japan
Former U.S. Senator

Michael W. D. McMullen	Executive Assistant to the Chairman of the Board, The Coca-Cola Company
Herbert Passin	Professor of Sociology, Columbia University
Hugh T. Patrick	Professor of Far Eastern Economics, Yale University Director, Yale Economic Growth Center
William R. Pearce	Vice President, Cargill, Inc. Former President's Deputy Special Representative for Trade Negotiations
Russell A. Phillips, Jr.	Secretary, Rockefeller Brothers Fund
Nicholas Platt	Director for Japan, Office of Assistant Secretary for East Asia and Pacific Affairs, Department of State
Robert E. Pursley	Partner, J. H. Whitney & Co. Former Commander, U.S. Forces Japan and 5th Air Forces
Gustav Ranis	Professor of Economics, Yale University
John E. Rielly	President, Chicago Council on Foreign Relations
Thomas P. Rohlen	Associate Professor of Anthropology, University of California at Santa Cruz
Donald H. Rumsfeld	President, G. D. Searle & Co. Former Secretary of Defense Former Chief Assistant to President Ford
John C. Sawhill	President, New York University Former Administrator, Federal Energy Administration
J. Robert Schaetzle	Former U.S. Ambassador to the European Community
Isaac Shapiro	Partner, Milbank, Tweed, Hadley & McCloy Former President, Japan Society, Inc.
Howard Simons	Managing Editor, <u>The Washington Post</u>
Stephen J. Solarz	U.S. House of Representatives (Democrat, Inter- national Relations Committee)
Samuel S. Stratton	U.S. House of Representatives (Democrat, Armed Services Committee) Chairman, House Subcommittee on Investigations
John J. Strelau	Assistant Director, International Relations Program, Rockefeller Foundation
Peter C. White	President, The Southern Center for International Studies

THE FOURTH JAPANESE-AMERICAN ASSEMBLY (SHIMODA CONFERENCE)

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JAPANESE PARTICIPANTS

Nobuhiko Ushiba	Co-Chairman of the Shimoda Conference Advisor to the Minister for Foreign Affairs Former Japanese Ambassador to the United States
Tadashi Yamamoto	Co-Director of the Shimoda Conference Director, Japan Center for International Exchange
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Naohiro Amaya	Director-General, Basic Industries Bureau, Ministry of International Trade and Industry
Tasuku Asano	Professor of Political Science, International College of Commerce and Economics
Hideo Den	Member, House of Councillors (Japan Socialist Party)
Jun Eto	Professor of Comparative Literature and Culture, Tokyo Institute of Technology
Sanshichi Hanyu	Former Member, House of Councillors (Member, Japan Socialist Party)
Takashi Hosomi	Advisor, Industrial Bank of Japan Former Vice Minister of Finance for International Affairs
Akira Iriye	Professor of History, University of Chicago
Asahi Kameyama	Foreign Editor, Kyodo News Agency
Koichi Kato	Member, House of Representatives (Liberal Demo- cratic Party)
Seishi Kato	President, Toyota Motor Sales Company
Tamio Kawakami	Member, House of Representatives (Japan Socialist Party)
Hiroshi Kitamura	Deputy Director-General, American Affairs Bureau, Ministry of Foreign Affairs
Yotaro Kobayashi	Executive Vice President, Fuji Xerox Co., Ltd.
Yohei Kohno	Member, House of Representatives (President, New Liberal Club)
Akinobu Kojima	Director and Managing Editor, <u>The Nihon Keizai Shimbun (The Japan Economic Journal)</u>
Tokusaburo Kosaka	Member, House of Representatives (Liberal Demo- cratic Party)
Masao Kunihiro	Professor of Cultural Anthropology, International College of Commerce and Economics
Yukio Matsuyama	Senior Staff and Editorial Writer, <u>The Asahi Shimbun</u>

Isamu Miyazaki	Director-General, Coordination Bureau, Economic Planning Agency
Kiichi Miyazawa	Member, House of Representatives (Liberal Democratic Party)
Akio Morita	Chairman and Chief Executive Officer, Sony Corporation
Jiro Murase	Senior Partner, Wender, Murase and White
Kinhide Mushakoji	Vice Rector, United Nations University
Kazuji Nagasu	Governor of Kanagawa Prefecture
Yoshimi Nakagawa	Member, House of Representatives (Komeito)
Nobuyuki Nakahara	Managing Director, Toa Nenryo Kogyo, K.K.
Kazuo Nukazawa	Senior Assistant Director, International Economic Affairs, Federation of Economic Organizations
Akira Ogata	Chief News Commentator, Japan Broadcasting Corporation (NHK)
Takashi Oyamada	Managing Director, Japan Foundation
Hisashi Owada	Secretary to the Prime Minister
Kiichi Saeki	President, Nomura Research Institute
Takeo Sasagawa	Director, International Projects, <u>The Sankei Shimbun</u>
Hideo Sato	Assistant Professor of Political Science, Yale University
Masahide Shibusawa	Director, East-West Seminar
Ichiro Shioji	President, Confederation of the Japan Automobile Workers' Unions
Kenichi Ueda	Editorial Staff Writer, <u>The Mainichi Shimbun</u>
Jiro Ushio	President, Ushio Electric Inc.
Koji Watanabe	Director, First North American Division, American Affairs Bureau, Ministry of Foreign Affairs
Ro Watanabe	Member, House of Representatives (Democratic Socialist Party)
Toshio Yamazaki	Director-General, American Affairs Bureau, Ministry of Foreign Affairs
Toru Yano	Associate Professor of Political Science, Kyoto University
Shiro Yasuda	Foreign News Editor, <u>The Yomiuri Shimbun</u>
Takeshi Yasukawa	Counselor, Mitsui and Co. Former Japanese Ambassador to the United States

**The Fourth
Japanese - American Assembly
(Shimoda Conference)
September 1 — 4, 1977**

**Profile
of
Participants**

American Participants

ABRAMOWITZ, MORTON I.

Morton I. Abramowitz has been Deputy Assistant Secretary for East Asian and Pacific Affairs/Inter-American Affairs, Office of the Assistant Secretary for International Security Affairs, Department of Defense, since 1974. He received his B.A. from Stanford University and his M.A. from Harvard University, and was a Research Fellow at the Institute for Strategic Studies in London in 1971. Mr Abramowitz was with the State Department from 1960 to 1973, when he joined the Defense Department as Assistant to Secretary of Defense Schlesinger in 1973. His publications include Remaking U.S. China Policy.

ARMACOST, MICHAEL H.

Michael H. Armacost was appointed Senior Staff Member for East Asia, National Security Council, in January 1977. He was educated at Carleton College and the University of Bonn, and received his Ph. D. (International Relations) from Columbia University. Before he joined the State Department in 1969, he taught at Pomona College and International Christian University in Tokyo. Mr. Armacost was a member of the Policy Planning Staff of the State Department from 1969 to 1972, Special Assistant to the U.S. Ambassador to Japan from 1972 to 1974, and again a Member of the Policy Planning Staff from 1974 to 1977.

ASPIN, LES

Les Aspin is serving his fourth term as Congressman from Wisconsin. He serves on the House Armed Services Committee. He received his B.A. from Yale University, his M.A. from Oxford University,

Les Aspin (continued)

and his Ph. D. in economics from the Massachusetts Institute of Technology. He was on the staff of Senator Proxmire, and then became staff assistant to Walter Heller, the chairman of President Kennedy's Council of Economic Advisers. In 1966-68 Mr. Aspin was economic adviser to Secretary of Defense Robert McNamara.

CHAPLIN, GEORGE

George Chaplin is Editor-in-Chief of The Honolulu Advertiser. He has spent most of his career in journalism: Editor, Greenville (S.C.) Piedmont; Managing Editor, Camden (N.J. Courier-Post and San Diego Journal; Editor, New Orleans Item. He was recently President of the American Society of Newspaper Editors. Mr. Chaplin has received various awards, including two Overseas Press Club awards, and in 1969 he was a Pulitzer Prize juror. He is co-editor of Hawaii 2000, publication of the Hawaii Commission on the Year 2000, of which he was the Chairman.

CONABLE, BARBER B. JR.

Barber B. Conable, Jr. is serving his seventh term in Congress; he is a Republican from western New York. Prior to his election to Congress, he served two years as a State Senator in Albany. Congressman Conable is the ranking minority member of the Committee on Ways and Means, and is also a member of the Budget Committee and the Joint Committee on Internal Revenue Taxation. He was chairman of both the House Republican Policy Committee and the Research Committee and was a vice chairman of the Republican Platform Committee at the 1976 National Convention. Mr. Conable is a graduate

Barber B. Conable, Jr. (continued)

of Cornell Law School and was editor of the Cornell Law Quarterly.

DIEBOLD, WILLIAM JR.

William Diebold, Jr. is Senior Research Fellow at the Council on Foreign Relations in New York. A graduate of Swarthmore College, he did postgraduate work at Yale and the London School of Economics. He was with the State Department's Office of Strategic Services and the Division of Commercial Policy from 1940-47. His publications include The Schuman Plan: A Study in Economic Cooperation, 1950-59, and The United States and The Industrial World: American Foreign Economic Policy in the '70s. Mr. Diebold is currently working on a book on American foreign economic policy toward the Communist countries.

EBERLE, W. D.

W. D. Eberle is currently President of the U.S. Council of the International Chamber of Commerce. From 1971 to 1975, he was the President's Special Representative for Trade Negotiations, serving also as Executive Director of the Council on International Economic Policy beginning in 1974. While he was a business executive, he served in the Idaho House of Representatives as Majority Leader, Minority Leader, and Speaker. Mr. Eberle is a trustee of Stanford University, where he received his A.B. He also holds an M.B.A. from Harvard Business School and a LL. B. from Harvard Law School.

GLENN, JOHN H. JR.

John H. Glenn, Jr. was elected to the Senate from Ohio in 1974. He is Chairman of the Subcommittee

John H. Glenn, Jr. (continued)

on East Asian and Pacific Affairs, Committee on Foreign Relations, and also Chairman of Subcommittee on Energy, Nuclear Proliferation and Federal Services, Committee on Governmental Affairs. He served in NASA from 1959 to 1965 and was the first American to orbit the earth (Friendship 7, 1962). On retirement from NASA, Mr. Glenn entered business and was President of Royal Crown International from 1967 to 1969.

GREEN, CARL J.

Carl J. Green is East Asian Representative for the Ford Foundation. He received his A.B. in Far Eastern Languages at Harvard University in 1961, which he followed with studies at the University of Hong Kong where he obtained certification in the Chinese language. Awarded an LL. B. from Yale Law School he went into private practice upon graduation in 1965. He joined the Ford Foundation in 1973. Mr. Green is a member of the American Bar Association, Foreign Policy Association, and the American Society of International Law.

HECK, CHARLES B.

Charles B. Heck was recently appointed North American Secretary of the Trilateral Commission. Educated at Oberlin College and Yale University Graduate School, he worked at the Carnegie Endowment for International Peace before joining the Trilateral Commission Staff in 1974 as Assistant to the Director, Zbigniew Brzezinski. His publications include "Collective Arrangements for Managing Ocean Fisheries" (International Organization).

HOADLEY, WALTER E.

Walter E. Hoadley is Executive Vice President and Chief Economist of the Bank of America. He is a member of the bank's Managing Committee and directs

Walter E. Hoadley (continued)

its economic, policy research and marketing activities. Known globally as the "dean" of business economists, Mr. Hoadley forecasts not only the U.S. and world economic outlook but also the political and social climate for business and finance. Previously, he was chairman of the Federal Reserve Bank of Philadelphia and vice president of Armstrong Cork Company. He holds a Ph.D. in economics from the University of California at Berkeley. He is an adviser and consultant to numerous government agencies and business organizations, and has served on various Presidential advisory bodies on economic affairs.

HODGSON, JAMES D.

James D. Hodgson received his B.A. from the University of Minnesota and did graduate work there and at the University of California at Los Angeles, specializing in industrial relations. He was Vice President for Industrial Relations at Lockheed Aircraft when he was appointed Under Secretary of Labor in 1969. He was Secretary of Labor in 1970, and returned to Lockheed in 1973 as Senior Vice President. From 1974 to 1977 Mr. Hodgson served as U.S. Ambassador to Japan.

INGERSOLL, ROBERT S.

Robert S. Ingersoll was named Deputy Chairman of the Board of Trustees, University of Chicago, in 1976, following four years of service with the Department of State, first as U.S. Ambassador to Japan in 1972-73, then as Assistant Secretary for East Asian and Pacific Affairs in 1974 and as Deputy Secretary of State, 1974-76. He had spent some 35 years in industry and was Chairman of the Board and Chief Executive Officer of the Borg-Warner Cooperation in Chicago at the time of his appointment to Japan. Ambassador Ingersoll currently serves on the Executive Committee of the Trilateral Commission.

MAC EACHRON, DAVID W.

David W. MacEachron has been Executive Director of the Japan Society since 1974. He was with the Council on Foreign Relations for 12 years as Director of Programs, Associate Executive Director and Vice President. He is a graduate of Yale University and holds a Ph.D. from Harvard.

Earlier in his career, Mr. MacEachron was with the Ford Foundation, the Peace Corps, the Caltex Petroleum Corporation, the U.S. Council of the International Chamber of Commerce, and the Bureau of the Budget.

MC MULLEN, MICHAEL W.D.

Michael W.D. McMullen is presently Executive Assistant to the Chairman of the Board, The Coca-Cola Company. He received a B.A. in both commerce and art from Trinity College in Dublin. After working for The Procter & Gamble Company in England, he joined The Coca-Cola (Japan) Company Ltd. in Tokyo and was subsequently assigned to Coca-Cola (U.S.A.).

MANSFIELD, MIKE

Mike Mansfield, present United States Ambassador to Japan, served in the Senate from 1952 to 1976, and was Majority Leader from 1961. After receiving his M.A. from the University of Montana, he became Professor of Latin American and Far Eastern history there. He served in Congress for five terms before becoming a Senator. He was on the Foreign Relations Committee and Chairman of its Sub-committee on Far Eastern Affairs.

PASSIN, HERBERT

Herbert Passin received his M.A. in Anthropology from the University of Chicago, following which he taught at Northwestern University from 1941-42. During the occupation of Japan, he served as Chief, GHQ Public Opinion and Sociology Research Division, Civil Information and Education Section, SCAP in Tokyo. He taught

Herbert Passin (continued)

at the University of California, Berkeley in 1952 and also in that year did research in Japan on foreign education. He subsequently taught at Ohio State University. From 1954-57 he was based in Japan as the Far Eastern Representative of Encounter Magazine. Dr. Passin was resident in Paris from 1957 to 1959 where he was Director of the International Seminar Program of the Congress for Cultural Freedom after which he taught at the University of Washington. From 1962 he has been Professor of Sociology at Columbia University where he is now Chairman of the Sociology Department. Professor Passin has authored numerous publications in both English and Japanese.

PATRICK, HUGH T.

Hugh T. Patrick is Professor of Far Eastern Economics at Yale University and Director of the Yale Economic Growth Center. He is a graduate of the University of Michigan and received his Ph.D. from Yale. He is currently working on a research project on Japan's position in the world economy in the 1980's, Japanese-American economic relations and Japanese financial development. Professor Patrick has published a number of books and articles dealing with the Japanese and Asian economies. He is co-editor and co-author of Brookings' Asia's New Giant -- How the Japanese Economy Works and author of Japanese Industrialization and Its Social Consequences.

PEARCE, WILLIAM R.

William R. Pearce joined Cargill, Incorporated in 1952 following graduation from the University of Minnesota Law School. In 1963, he was elected Vice President and in 1974, Corporate Vice President. He served as a member of President Nixon's Commission on International Trade and Investment Policy. In 1971, Mr. Pearce was appointed Deputy Special Representative for Trade Negotiations and headed U.S. trade negotiating teams in Geneva.

William R. Pearce (continued)

He is a member of the Trilateral Commission and the Council on Foreign Relations and is a Trustee of the National Planning Association.

PHILLIPS, RUSSELL A. JR. Russell A. Phillips, Jr. received his LL.B. from Yale Law School and is Corporate Secretary of the Rockefeller Brothers Fund. From 1963 to 1966 he served in Africa as Legal Adviser to the Ministry of Finance, Northern Nigeria and as Assistant Commissioner of Income Tax (Legal) for East Africa (Kenya, Uganda and Tanzania). Mr. Phillips was Law Associate at Wilmer, Cutler & Pickering from 1966 to 1968.

PLATT, NICHOLAS Nicholas Platt assumed the post of Director for Japanese Affairs of the State Department after 3 years as Deputy Chief of the Political Section of the American Embassy in Tokyo where he was responsible for foreign policy matters. He joined the Foreign Service upon graduation from Johns Hopkins School for Advanced Studies. His undergraduate work was done at Harvard University. He was a political analyst at the American Consulate-General in Hong Kong from 1963-68. In 1971 he became Director of the Secretariat staff of the Executive Secretariat of the State Department, and in 1973 played a part in opening the U.S. Liaison Office in Peking where he was the First Chief of the Political Section.

PURSLEY, ROBERT E. Robert E. Pursley, Lieutenant General, U.S. Air Force (retired), is a partner in J.H. Whitney & Co. He received his education at the U.S. Military Academy at West Point and Harvard Graduate School of

Robert E. Pursley (continued)

Business. Between 1966 and 1972 he served as Military Assistant to the Secretaries of Defense McNamara, Clifford and Laird. Gen. Pursley was Commander, U.S. Forces Japan and 5th Air Force in 1972-74. He was with Insilco Corporation as Executive Vice President from 1974 to 1977, and is a member of the Council on Foreign Relations.

RANIS, GUSTAV

Gustav Ranis is Professor of Economics at Yale University. He holds a Ph.D. from Yale and was Director of the Yale Economic Growth Center from 1967 to 1975. Prior to his appointment to Yale, he was Assistant Administrator for Program and Policy, Agency for International Development, beginning in 1966. He has served as consultant to the Pearson Commission, the CED Sub-committee on Japan, The Ford Foundation, the U.S. Treasury, The Brookings Institution, etc. His numerous publications include Development of the Labor Surplus Economy: Theory and Policy; "Foreign Aid: Dead or Alive," The Yale Review; "Science, Technology and Development," National Academy of Sciences Bicentennial Symposium; "Development Theory at Three Quarters Century," Economic Development and Cultural Change.

RIELLY, JOHN E.

John E. Rielly is President of the Chicago Council on Foreign Relations. He received his Ph.D. in political science at Harvard University and taught there from 1958 to 1961. Before joining the Council, he served in the Department of State, was Foreign Policy Assistant to Senator and Vice President Humphrey, Consultant to The Ford Foundation, and a Senior Fellow at the Overseas Development Council. Among his publications are American Public Opinion on

John E. Rielly (continued)

U.S. Foreign Policy and Development Today: A
New Look at U.S. Relations with the Poor Countries.

ROHLEN, THOMAS P.

Thomas P. Rohlen is Associate Professor of Anthropology at the University of California at Santa Cruz. After graduating from Princeton University, he spent three years as a Foreign Service Officer (two years as Vice Consul in Osaka). He received his Ph.D. in anthropology in 1971 from the University of Pennsylvania. Professor Rohlen's research interests focus on contemporary Japanese society and he has published a book on Japanese business, For Harmony and Strength.

RUMSFELD, DONALD H.

Donald H. Rumsfeld served as Secretary of Defense from 1975 to January of 1977. He recently became President of G.D. Searle & Co. He was a member of the House of Representatives from 1963 to 1969, when he was appointed Director of the Office of Economic Opportunity. In 1971 he became Director of the Cost of Living Council. In 1973, he was appointed U.S. Ambassador to NATO. In August 1974, he headed the Transition Team for President Ford, and in September became the Chief Assistant to the President.

SAWHILL, JOHN C.

John C. Sawhill became President of New York University in 1975. After graduation from Princeton University, he joined Merrill Lynch, Pierce, Fenner & Smith in 1958. Two years later, he enrolled in New York University's Graduate School of Business Administration and earned a Ph.D. Before becoming Associate Director for Natural Resources, Energy and Science in the U.S. Office of Budget and Management in 1973, he was senior vice president of the Commercial Credit Company in

John C. Sawhill (continued)

Baltimore and a senior associate of McKinsey & Company. Dr. Sawhill was appointed Federal Energy Administrator in 1974, and was in charge of the development of "Project Independence." He is a member of the Trilateral Commission and is serving as principal Rapporteur of its energy task force.

SCHAETZEL, J. ROBERT

J. Robert Schaetzel, former U.S. Ambassador to the European Community (1966-72), is a writer, lecturer and business consultant. He studied at Pomona College and Harvard Graduate School. Ambassador Schaetzel served in the State Department from 1945 to 1972, and was Deputy Assistant Secretary for Atlantic Affairs before his appointment to the EC. He is Vice Chairman of the Atlantic Institute and a Board member of the Atlantic Council. In 1975-76 Mr. Schaetzel served as principal Rapporteur of the Trilateral Commission's task force on consultation. He is author of The Unhinged Alliance -- America and the European Community, and has written articles for Foreign Affairs, Foreign Policy, Fortune, etc.

SHAPIRO, ISAAC

Isaac Shapiro is a partner in the law firm of Milbank, Tweed, Hadley & McCloy. He was President of the Japan Society from 1970 until July of this year. Born and raised in Japan, Mr. Shapiro holds his L.L.B. from Columbia Law School (Editor, Columbia Law Review) and studied at the University of Paris' Institute of Comparative Law. Since 1956 he has been associated with Milbank, Tweed, specializing in antitrust law and international business transactions. Mr. Shapiro is a Commissioner of the Japan-U.S. Friendship Commission.

SIMONS, HOWARD

Howard Simons has been with The Washington Post since 1966, and its Managing Editor since 1971. He received his M.S. from Columbia School of Journalism and then majored in Russian studies at Georgetown University. In 1958-59, Mr. Simons was a Nieman Fellow at Harvard University. Before joining the Post, he was Science Editor of Science Service, speech-writer for Goerge B. Kristiakowsky, Presidential Science Adviser, and American Columnist for New Scientist, London.

SOLARZ, STEPHEN J.

Stephen J. Solarz is a second-term Congressman from Brooklyn. He serves on the House International Relations Committee (Sub-committee on Asian and Pacific Affairs) and the Post Office and Civil Service Committee. He received his M.A. from Columbia University and was a political science instructor at Brooklyn College. Congressman Solarz served in the New York State Assmebly for three terms before he was elected to Congress in 1974.

STRATTON, SAMUEL S.

Samuel S. Stratton in now serving his tenth term in Congress from upstate New York. He is a Democrat. He was first elected City Councilman in Schenectady in 1949, Mayor of Schenectady in 1955, and U.S. Representative in 1958. He is a member of the Armed Services Committee and chairman of its Investigations Subcommittee. Mr. Stratton was on the staff of General MacArthur and was in Japan after World War II. He was Deputy Secretary General of the Far Eastern Commission for two years, and retains his Japanese language ability.

STREMLAU, JOHN J.

John J. Strelau is Assistant Director of the International Relations Program at the Rockefeller Foundation. After

John J. Stremmlau (continued)

earning his Ph. D. at the Fletcher School of Law and Diplomacy, he lectured at Northeastern University, was Research Associate at the Nigerian Institute of International Affairs from 1969-72, and served as Consultant for the Ford Foundation on university staff development in Nigeria and Ghana in 1973. He was also a free-lance correspondent for the London Financial Times on African affairs. His major publication is International Politics of the Nigerian Civil War.

WHITE, PETER C.

Peter C. White is founder and President of the Southern Center for International Studies in Atlanta and was Executive Director of its predecessor, the Southern Council on International and Public Affairs from 1964 to 1977. Mr. White received his B.A. from Fordham University and attended the National War College. He is also an Associate of the Center for Strategic and International Studies of Georgetown University.

Japanese Participants

AMAYA, NAOHIRO

Naohiro Amaya has spent his entire career with the Ministry of International Trade and Industry. He joined MITI in 1948 after completing his education at the University of Tokyo's Faculty of Law. Among the various posts that Mr. Amaya has held are that of Consul at the Japanese Consulate-General in Sydney Australia and Director of the International Economic Affairs Division of the International Trade Policy Bureau. Prior to being named to his present post, he was Deputy Vice-Minister of International Trade and Industry. He is currently Director-General of the Basic Industries Bureau of MITI.

ASANO, TASUKU

Tasuku Asano is Professor of Political Science at the International College of Commerce and Economics. From 1966 to 1970 he taught at Niigata University where he was Assistant Professor of Political Science. Among his publications are "American Withdrawal from Asia", "Domestic Constraints on the American Foreign Policy" and the Japanese translation of The Best and the Brightest. He is concurrently a newscaster for a major television network.

DEN, HIDEO

Hideo Den was elected to his second term as a member of the House of Councillors from the national constituency in July of this year, when for the second time in as many elections he received the most votes of any candidate. Mr. Den serves on the Committees of the Budget and Foreign Affairs. In his capacity as member of the latter committee, he headed investigations into the Kim Dae-jung affair and Japanese-Korean relations. In light of his deep interest and experience in international affairs he was named Director of the International

Bureau of the Japan Socialist Party this year. Prior to his election he was employed by the Kyodo News Agency (1947-64) and by Tokyo Broadcasting System (1962-70) where he was a newscommentator. Mr. Den is a graduate of the University of Tokyo's Faculty of Economics.

ETO, JUN

Jun Eto is a graduate of Keio University's Faculty of Letters (1957) and has been both a Visiting Fellow and Visiting Lecturer at Princeton University (1962-63). He has taught at Tokyo University of Education and at Tokyo Institute of Technology. In 1973 he was named Professor of Comparative Literature and Culture at the latter school, a post which he currently holds. Professor Eto received his Doctorate in Literature from Keio University in 1974 and in 1976 was a recipient of the Japanese Academy of Arts' Prize for his various works. Among his publications are his Selected Works (1971), Soseki and His Times (1974), and the novel The Sea Comes Back, (1976).

HANYU, SANSHICHI

Sanshichi Hanyu retired from the House of Councillors in 1977 after some 30 years service as a representative from Nagano Prefecture. Mr. Hanyu began his public service in 1905 as a member of the Nagano Prefecture Assembly and entered the Upper House of the Diet in 1947. A member of the Japan Socialist Party, he served on numerous committees during his tenure including the Budget, Foreign Affairs, and Agriculture, Forestry and Fishery Committees, the latter of which he served as Chairman. He also was Chairman of the Socialist Caucus in the House of Councillors. Mr. Hanyu is the author of Japan's Postwar Diplomacy-A Minority Party Member's Recollections.

HOSŌMI, TAKASHI

Takashi Hosomi is Advisor to the Industrial Bank of Japan, Ltd. and has been Chairman of IBJ International, Ltd. since 1975. Following graduation in 1942 from Tokyo Imperial University's Faculty of Economics, he entered the Ministry of Finance. In 1969 he assumed the post of Director-General of the Tax Bureau. Named Vice Minister of Finance for International Affairs in 1971, Mr. Hosomi became Special Advisor to the Minister of Finance in 1972 at which post he served until his retirement from the Finance Ministry in 1974.

IRIYE, AKIRA

Akira Iriye is Professor of History at the University of Chicago. Since receiving his Ph.D. from Harvard University, he has taught Far Eastern History and Diplomatic History at various institutions including Harvard and the University of California. Professor Iriye has recently been elected President of the Society for Historians of American Foreign Relations. His numerous publications include: After Imperialism: The Search for a New Order in the Far East, 1921-1931; Across the Pacific; An Inner History of American-East Asian Relations; From Nationalism to Internationalism: American Foreign Policy to 1914.

KAMEYAMA, ASAHI

Asahi Kameyama is Foreign Editor of the Kyodo News Agency. In his years with Kyodo, Mr. Kameyama has been posted to a number of countries and served as a correspondent in Havana (1962), and as bureau chief in Seoul (1964) and Saigon (1966). He was named to his current post in 1975. He is the author of The Cuban Revolution and The War in Vietnam, (in Japanese).

KATO, KOICHI

Koichi Kato is a graduate of Tokyo University Faculty of Law. He was an officer of the Ministry of Foreign Affairs for nearly ten years, during which time he served as Vice-Consul at Hong Kong and was assigned to the China Division at the Ministry in Tokyo. Early in his foreign service career, he attended Harvard University where he received his M.A. in Chinese Studies. He was elected to the House of Representatives in 1972 from Yamagata Prefecture and was re-elected in 1976. He is known in the Diet as an expert on foreign policy and as a Sinologist. Mr. Kato is a member of the Agriculture and Fishery Committee as well as the Special Committee on Prices. He belongs to the Liberal Democratic Party.

KATO, SEISHI

Seishi Kato is President of the Toyota Motors Sales Company. He has been associated with the automotive industry for more than forty years, beginning with his employment with General Motors (Japan) which he joined after graduating from Kansai Gakuin University in 1930. He assisted in the organization of the Toyota Motor Company and after its establishment in 1937 he was eventually named to head the Planning and Research Department. He was transferred to the newly set-up Toyota Motor Sales Company in 1950 and in 1955 he was appointed Managing Director. He was successively Senior Managing Director and Executive Vice-President before assuming his present position. Mr. Kato is a Director of The Toyota Foundation and the Japan Automobile Federation and is on the Board of Directors of the Toyota Motor Sales Company.

KAWAKAMI, TAMIO

Tamio Kawakami is a member of the House of Representatives and a member of its Committee on Foreign Affairs. He is, as well, a Professor of Politics

and History in Tokai University's Department of Political Science and Economics. A graduate of the faculty of Western History of Tokyo University, he has been a lecturer at Aoyama Gakuin University, Tokyo Theological Academy, and Kwansai Gakuin University. He has been a member of the House of Representatives since 1967. Prior to his election he served as a lecturer at Columbia University on a Ford Foundation Grant from 1963-64. In 1974 he traveled to China as a member of the Japanese Diet's Sino-Japanese Friendship Club Delegation and in 1975 he was a member of the Japanese Socialist Party's delegation to the United States. His publications include Requirement for Contemporary Politicians and Politics and Personalities.

KITAMURA, HIROSHI

Hiroshi Kitamura was educated at the University of Tokyo's Faculty of Law and the Fletcher School of Law and Diplomacy, (M.A., 1952). Posted to India (1961) and England (1963), he was assigned to the Economic Bureau of the Ministry of Foreign Affairs in 1966. Mr. Kitamura continued his post-graduate studies with work at Harvard University's Center for International Affairs in 1970. In 1971 he was appointed Adviser and member of the Japanese delegation to the OECD. He became Private Secretary to the Prime Minister in 1974 and was named to his current post as the Deputy Director-General of the American Affairs Bureau in May of this year.

KOBAYASHI, YOTARO

Yotaro Kobayashi is Executive Vice President of Fuji Xerox Company, Ltd. Following graduation from Keio University, he obtained an M.A. from the Wharton School of Finance and Commerce of the University of Pennsylvania. In 1958 he joined

the Fuji Film Company, Ltd. After his assignment to Fuji Xerox in 1963 he was posted to London where he was a resident with Rank Xerox. Named a member of the Board of Directors of Fuji Xerox and Manager, Marketing Planning in 1968, he became a Director and Deputy General Manager of Marketing Operations in 1970. Mr. Kobayashi was Managing Director and General Manager, Marketing Operations from 1972 to 1976 at which time he assumed his present position. He is co-translator of Decision Making in Japanese Management and has contributed chapters and articles to various English and Japanese publications.

KOHNO, YOHEI

Yohei Kohno is in his third term as a member of the House of Representatives and is a founder and President of the New Liberal Club. He has served on various committees during his career in the Diet including the Finance Committee and the Subcommittee on the Preservation of Cultural Properties of which he was chairman. Mr. Kohno was Vice-Minister of Education. He is an alumnus of Waseda University's Faculty of Political Science and Economics (1953).

KOJIMA, AKINOBU

Akinobu Kojima is Director and Managing Editor of the Nihon Keizai Shimbun (Japanese Economic Journal), which he joined upon graduation from Waseda University in 1951. In the course of his career with the Japan Economic Journal he has been a correspondent in both New York City (1960) and Brussels (1963). Named Foreign Editor in 1966, he became Assistant Managing Editor in 1968 and Deputy Managing Editor in 1972. He assumed his present position as Managing Editor in 1975 and became Director in 1977. His publications include

American Economics and Knowledge of the European Community, (both in Japanese).

KOSAKA, TOKUSABURO

Tokusaburo Kosaka, a member of the Liberal Democratic Party and Chairman of its Public Relations Committee, has been a member of the House of Representatives since 1969 and is currently a member of the Committee on Social and Labour Affairs. He has also served as State Minister and Director-General of the Office of the Prime Minister and Director-General of the Okinawa Development Agency. A 1939 graduate of Tokyo Imperial University, he joined the Asahi Shimbun in April of that year. In 1949 he entered the Shin-Etsu Chemical Industries, Ltd. and in 1956 became its President before entering politics.

KUNIHIRO, MASAO

Masao Kunihiro is a Professor of Cultural Anthropology at the International College of Commerce and Economics. From 1966 to 1968 he was a legislative assistant to then Foreign Minister Takeo Miki. From 1974 to 1976 he was a personal assistant to then Prime Minister Miki and a Special Assistant to the Minister of Foreign Affairs. He also has lectured at Sophia University and Ochanomizu Women's College. He is in charge of the Japan Broadcasting Corporation's "Talk Show" on educational television. His publications include "U.S.-Japan Communications -- Dimensions of the Problem."

MATSUYAMA, YUKIO

Yukio Matsuyama is a senior staff and editorial writer for the Asahi Shimbun. An alumnus of Tokyo University's Faculty of Law (1953), he joined the Asahi Shimbun upon graduation. From 1964 he was to 1966 he was stationed as the Asahi's correspondent in Washington, D.C. New York City bureau

chief from 1971-74, he returned to Washington as his paper's chief correspondent there where he served until this year. His publications include Diagnosis of Japan and Advice to Pro-Americans and Anti-Americans.

MIYAZAKI, ISAMU

Isamu Miyazaki is Director-General of the Coordination Bureau of the Economic Planning Agency. Formerly, he was Director-General of the Research Bureau of the Economic Planning Agency. He is a graduate from Tokyo University's School of Economics (1947). Upon graduation, he joined the Economic Planning Board where he worked until 1961. From 1961 to 1963 he served in the United Nations. During 1974 to 1976, he was a Vice-Chairman of OECD's Economic Policy Committee, and since 1977 he has been Acting Chairman of the Interfutures Steering Committee of OECD. Among his publications are (in Japanese) Economic Planning, Economics of Disarmament and Economic Planning in Japan.

MIYAZAWA, KIICHI

Kiichi Miyazawa is a member of the House of Representatives and serves on the Committee of Foreign Affairs. He was Minister of Economic Planning for two terms: 1962-64 and 1966-68, Minister of International Trade and Industry (1970-71) and Minister of Foreign Affairs (1974-76). A graduate of Tokyo University's Faculty of Law (1941), Mr. Miyazawa served in the Ministry of Finance from 1942 to 1952, when he was elected to the House of Councillors where he served until 1962.

MORITA, AKIO

Akio Morita is Chairman and Chief Executive Officer of Sony Corporation. A graduate of Osaka University's Physics Department (1944), in 1946 he

founded Tokyo Tsushin Kogyo, K.K. with Mr. Masaru Ibuka which officially became the Sony Corporation in 1958. In 1959 he became its Executive Vice President and in 1971 President. Mr. Morita was named to his present position in 1976. He is a member of the Rockefeller University Council and the International Council of the Morgan Guaranty Trust Company of New York. Among his publications are Never Mind About Education Records, A New Merit System, and Yuuron (in collaboration with Mr. Konosuke Matsushita).

MURASE, JIRO

Jiro Murase is Senior Partner at the Law Firm of Wender, Murase & White in New York with affiliated offices in Washington, D.C., Tokyo, London, Saõ Paulo, Toronto, and Dusseldorf. He is Legal Counsel for approximately 200 leading U.S., European and Japanese multinational corporation engaged in international trade, banking, finance, manufacturing, shipping and other activities. Mr. Murase received his J.D. in 1958 from Georgetown University. He is a member of the U.S. State Department's Advisory Committee on Transnational Enterprises and International Investment.

MUSHAKOJI, KINHIDE

Kinhide Mushakoji is Vice Rector of the United Nations University, Tokyo. A graduate of Gakushuin University (1953), he subsequently studied at L'Institute d'Études Politiques de l'Université de Paris from 1956-58. In 1963 he was named an Assistant Professor at Gakushuin University. In 1965 he was a Visiting Scholar at Northwestern University. He joined the faculty of Sophia University in 1968 as a Professor, from 1969 to 1975 he served as the Director of that school's Institute of International Relations. Mr.

Mushakoji is a member of numerous associations, including the International Peace Research Association and the Trilateral Commission. His publications include International Politics and Japan and An Introduction to Peace Research.

NAGASU, KAZUJI

Kazuji Nagasu is Governor of Kanagawa Prefecture. He was formally a Professor in the Department of Economics at Yokohama National University. He has been affiliated with Tokyo University of Commerce, the Bank of Japan, and Mitsubishi Heavy Industries. His publications include Japanese Cooperation in Southeast Asia and New Economic Visions for Japan.

NAKAGAWA, YOSHIMI

Yoshimi Nakagawa is one of the youngest members of the Clean Government Party (Komeito). Before entering politics, he worked for Sumitomo Trading Company and was stationed in San Francisco for several years. After resigning from Sumitomo, he was a reporter with the World Tribune, the international newspaper of Soka Gakkai, until he was elected to the House of Representatives in 1969. Although he lost in the following election, he regained his Tokyo seat in the most recent election. In the House, he is a member of the Foreign Affairs Committee and the Special Committee on Prices.

NAKAHARA, NOBUYUKI

Nobuyuki Nakahara is Managing Director of Toa Nenryo, K.K. and concurrently a lecturer at both Keio and Sophia Universities in Tokyo. Following graduation from the University of Tokyo, he attended graduate school at Harvard University. In 1959 he joined his present firm. He is concurrently a trustee of the Japan Committee for Economic Development. Among Mr. Nakahara's

publications (in Japanese) are New Theory on Oil Economics and Systems Planning.

NUKAZAWA, KAZUO

Kazuo Nukazawa is presently Senior Assistant Director of International Economic Affairs at Keidanren (Federation of Economic Organizations). He graduated from Hitsotsubashi University (B.A. in Economics) in 1959 and joined Keidanren upon graduation. In 1964-65, he studied international economics in various European countries as a United Nations Fellow. Before he assumed his present post in 1971, Mr. Nukazawa spent three years as a consultant at the U.S.-Japan Trade Council in Washington, D.C.

OGATA, AKIRA

Akira Ogata is Chief News Commentator of the Nihon Hoso Kyokai (NHK - Japan Broadcasting Corporation). He graduated from Tokyo Imperial University's Faculty of Law in 1944 and joined NHK in 1946. In 1959 he was named Assistant Manager, Political, Economic News Division and was posted to Washington, D.C. as NHK's Chief Representative in July of that year. He assumed the post of Chief, Foreign News Division in 1962 and became Deputy Chief News Commentator in 1966. He was assigned to his present post in 1969.

OYAMADA, TAKASHI

Takashi Oyamada is Managing Director of the Japan Foundation. He received his law degree from the University of Tokyo in 1943 subsequent to which he entered the Ministry of Foreign Affairs. He worked in the International Organizations Division and Economics Affairs Bureau to which he was appointed Deputy Director-General in 1956. Mr. Oyamada served overseas in the New York Consulate and was a Counsellor to the Permanent Delegation

to the International Organizations in Geneva. In 1972 he became Japan's first ambassador to Bangladesh. He assumed his present position in 1975.

OWADA, HISASHI

Hisashi Owada was Director of the Treaties Division of Ministry of Foreign Affairs (1974-76) until he was appointed Secretary to the Prime Minister. He has been a lecturer on international organizations in the Department of International Relations at Tokyo University. Following graduation from Tokyo University in 1955, Mr. Owada spent 1955-59 conducting research at Cambridge University in England. After joining the Foreign Ministry in 1959, he held posts at the Japanese Embassy in Moscow and the Japanese Mission to the U.N. in New York. He also served as Secretary to the Foreign Minister (1971-72) and as Director of the U.N. Political Affairs Division, Ministry of Foreign Affairs (1972-74). His publications include What Future for the International Court of Justice?, Japanese Practice of International Law and The International Law of Treaties (forthcoming).

SAEKI, KIICHI

Kiichi Saeki graduated from Tokyo Imperial University's Faculty of Law in 1936. He was Chief of the First Planning Section of the Economic Council Agency from 1952 to 1953. From 1953 to 1963 he was associated with the National Defence College and was named its President in 1961. Since 1965 he has been President of the Nomura Research Institute. He is also a member of a number of Councils and Committees, including the Council of the International Institute for Strategic Studies and the Council for Science and

Technology of the Science and Technology Agency. He is the author of Security of Japan and Security of the Far East.

SASAGAWA, TAKEO

Takeo Sasagawa is currently Director, International Projects, for the Sankei Shinbun. A former political reporter, Mr. Sasagawa has been a roving correspondent both in Southeast Asia and in Europe. He has also been Chief of the paper's Washington bureau and a member of the editorial staff. He is currently a member of the Advisory Council to the Japan Foundation and was an Eisenhower Exchange Fellow in 1961.

SATO, HIDEO

Hideo Sato, Assistant Professor of Political Science at Yale University since 1976, is a specialist in Japanese politics and Pacific area affairs. He is a graduate of International Christian University and received his Ph.D. from the University of Chicago. Professor Sato has been a Research Fellow (1972-73), a Research Associate (1973-75), and a Guest Scholar (1975-76), for the Foreign Policy Studies Program at the Brookings Institution. He is co-author of Managing an Alliance: The Politics of United States-Japanese Relations and The Textile Wrangle: U.S.-Japanese Textile Negotiations of 1969-71.
(forthcoming)

SHIBUSAWA, MASAHIDE

Masahide Shibusawa is a graduate of the University of Tokyo's School of Agriculture. He entered the Toshoku Company, Ltd. in 1949 from which he resigned in 1957 to join MRA House of which he became Director in 1968. That same year he established the Language Institute of Japan and in 1971 he

began the East-West Seminar. He is currently Executive Director of both organizations. Mr. Shibusawa is the author of Bridge Across the Pacific - A Biography of Eiichi Shibusawa and editor of Southeast Asia Scrutinizes Japan (1977) and Southeast Asia Criticizes Japan (1973).

SHIOJI, ICHIRO

Ichiro Shioji is President of the Confederation of the Japan Automobile Workers' Unions (Jidosha-Soren). Educated at Meiji University from which he graduated in 1953, he joined the Nissan Motor Company in that same year. He obtained his M.B.A. in 1960 from the Harvard Business School and in 1961 was named head of the All Nissan Motor Workers' Union. Mr. Shioji was appointed a director of the International Labor Organization in 1969. In addition to his present position which he assumed in 1972, he has been Vice-President of the Japanese Confederation of Labor (Domei) since 1964 and Vice-President of the International Confederation of Free Trade Unions (ICFTU) since 1972.

UEDA, KENICHI

Kenichi Ueda is a member of the Editorial Staff of the Mainichi Shimbun. He graduated from Waseda University's Faculty of Politics and Economics in 1952 whereupon he joined the Mainichi Shimbun. In 1968 he was named Chief of the Washington bureau and Chief of the paper's political section in 1971. He assumed his present position in 1972. Mr. Ueda is also a lecturer at Tokyo University's Institute of Journalism and a newscaster for the Tokyo Broadcasting System.

USHIBA, NOBUHIKO

Nobuhiko Ushiba entered the Ministry of Foreign Affairs upon graduation from Tokyo University in 1932. He has served as head of the Foreign

Ministry's Economic section, as Ambassador to Canada, and as Deputy Minister for Foreign Affairs. In 1967 he was named Japanese Ambassador to the United States. In that capacity he participated in negotiations of critical importance to U.S.-Japanese relations, including those on textiles, the reversion of Okinawa, and trade imbalances. Since his retirement as Ambassador in 1973 he has served as an advisor to the Minister for Foreign Affairs on international conferences of major import as well as chairing the committee which prepared for President Ford's visit to Japan. Mr. Ushiba serves as Deputy Chairman of the Trilateral Commission.

USHIO, JIRO

Jiro Ushio is President of Ushio Electric, Inc. and the Institute for Social Engineering. A 1953 graduate of Tokyo University's Faculty of Law, he continued his studies at the University of California at Berkeley from 1954 to 1955. From 1953-58 he was affiliated with the Bank of Tokyo. In 1963 he joined the Ushio Industrial Company where he worked until he became President of Ushio Electric in 1964. Mr. Ushio is a member of numerous councils and committees including the Ministry of Education's Consultation Council on Higher Education and the Japan Electric Lamp Manufacturer's Association of which he is Director. He is also a Trustee of the Japan Committee for Economic Development.

WATANABE, KOJI

Koji Watanabe conducted his graduate studies at Princeton University's Woodrow Wilson School of Public and International Affairs following his entry into the Ministry of Foreign Affairs in 1956. Counsellor and member of the Japan

delegation to the OECD in 1965, Mr. Watanabe was named Deputy Director of the China Division of the Asian Affairs Bureau in 1968. He was a Fellow at the Center for International Affairs of Harvard University in 1970 following which he served as Counsellor at the Japanese Embassy in Saigon. He was appointed to his present position as Director, First North American Division in 1976. He is a University of Tokyo graduate.

WATANABE, RŌ

Rō Watanabe followed his studies at the University of Tokyo with graduate work at Harvard University. As a member of the Socialist Party he served as Director of the International Bureau and participated in the formation of the Democratic Socialist Party in 1959. Since that time he has been actively involved in party affairs as Deputy Director of the International Bureau. He was elected to the House of Representatives from Shizuoka in 1976. He serves on the Foreign Affairs Committee. From 1969 to 1974 he was a lecturer at Tokai University; in 1974 he was named Professor at that school. His publications include studies on nationalism and a text on socialism.

YAMAMOTO, TADASHI

Tadashi Yamamoto graduated from St. Norbert College in 1960 and obtained an M.B.A. from Marquette University in 1962. From 1962 to 1969 he was Special Assistant to the President of Shin-Etsu Chemical Industries, Ltd. He was Executive Secretary for both the Japan Council for International Understanding and the Association of International Education from 1964 to 1969. In 1969 he founded the Japan Center for International Exchange and is currently its Director. He is also the President and Chairman of the Board of the Japan

Center for International Exchange, Inc. (U.S.A.). Mr. Yamamoto serves as Japanese Secretary of the Trilateral Commission and is publisher of The Japan Interpreter and "Education in World Perspective" ("Kokunai Kyoiku").

YAMAZAKI, TOSHIO

Toshio Yamazaki is Director-General of the American Affairs Bureau of the Ministry of Foreign Affairs. He entered the Foreign Ministry after graduating from the University of Tokyo's Faculty of Law in 1946. In 1955 he was posted as Second Secretary of the Japanese Embassy in London and in 1962 was named Director, British Commonwealth Division, European Affairs Bureau. He became a Counsellor of the Japanese Mission to the United Nations in 1964 following which he assumed the post of Deputy Director of the Treaties Bureau. Mr. Yamazaki served as Minister of the Japanese Embassy in Washington from 1971 to 1974 when he assumed his present position.

YANO, TORU

Toru Yano is Associate Professor of Political Science at Kyoto University's Center for South-east Asian Studies. A graduate of that university's Faculty of Law (1959), he received a Ph.D. in jurisprudence from Kyoto University in 1967. From 1968 to 1969 he was a Visiting Associate Professor of International Relations at George Washington University. In 1968 he joined the faculty of Hiroshima University as Associate Professor of Japanese Diplomacy, a post he held until 1972 at which time he moved to Kyoto University. He is a member of a number of academic and cultural organizations as well as various governmental advisory committees. He is the author of numerous publications among which are Contemporary Political

History of Thailand and Burma, and Japan's Commitment with Southeast Asia in Historical Perspective.

YASUDA, SHIRO

Shiro Yasuda is the Foreign News Editor of the Yomiuri Shimbun. A graduate of Tokyo University of Foreign Languages' Russian faculty, (1947), he joined the Jiji Press in April of that year. In 1955 he began his association with the Foreign News department of the Yomiuri Newspaper and since 1974 has been editor of that department.

YASUKAWA, TAKESHI

Takeshi Yasukawa graduated from the Faculty of Law of Tokyo Imperial University in 1939 following which he joined the Ministry of Foreign Affairs. In 1953 he became head of the Ministry's Security Section and was named Counselor to the Washington Embassy in 1957. He served as Director-General of the American Affairs Bureau from 1965 to 1967, when he was posted as Ambassador to the Philippines. Deputy Vice-Minister from 1970 to 1973, he was appointed Ambassador to the United States in 1973 where he served until his retirement in 1976 at which time he became a counselor to the firm of Mitsui and Company.

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THE FOURTH JAPANESE-AMERICAN ASSEMBLY (SHIMODA CONFERENCE)

September 1 - 4, 1977

SUMMARY OF DISCUSSION

Since the Third Japanese-American Assembly met five years ago far-reaching changes have occurred in the world, in the immediate environment of the U.S.-Japanese relationship, and in each country. American disengagement from Vietnam, the Carter administration's plan to reduce American ground troops in South Korea, the increase in the relative size of the Japanese economy despite the setbacks of the oil crisis, the trade deficits accumulated in the oil importing countries, the assertiveness on the part of the third world, inflation, recession and accompanying unemployment are some of the manifestations of the short and long-range changes confronting us. While the fact of change is obvious its implication for the character of the emerging new world system and for the roles our two countries can and should play are far from clear.

In recent years our relationship has matured considerably allowing for greater realism and more candor in discussion. In most instances we have resolved problems to our mutual satisfaction, yet the transformations now occurring before our eyes are profound and leave little room for complacency. Concerned citizens in Japan and the United States have begun to experience a great deal of uncertainty in defining their respective roles in a rapidly changing world.

Reflecting this uncertainty and yet also illustrating our strong sense of friendship and mutual interest, these discussions were conducted at a higher level of frankness, soul searching and readiness for mutual education than has occurred in the preceding three Shimoda meetings.

What follows is the summary of our discussion.

This is a summary of the principal topics discussed during the conference together with the main lines of opinion which were expressed. It does not necessarily reflect the views of any individual participant.

NORTHEAST ASIAN SECURITY

Our very lively discussion on the general problem of East Asian security did not divide along national lines. They centered largely on the Korean peninsula, but also included the relationship of both countries with the People's Republic of China, the Sino-Soviet dispute and other matters.

1. It was said by some that the planned withdrawal of U.S. ground forces from the Republic of Korea reflects the American disinclination to become involved in another land war in Asia and questions arose as to how this proposed move is related to the overall character of American policy in the region. That the withdrawal plan is neither inflexible nor indicative of serious change in American policy toward the Far East in general was underlined persistently throughout the discussions.

Despite the sense of undiminished American commitment to the maintenance of peace and stability in the area, serious questions remained. Many expressed a desire for greater clarity in U.S. policy and deeper consultation in the process of policy formulation to avoid future "shocks". The U.S. "human rights" policy arose as one illustration of the need for greater clarity.

It was pointed out that while the number of U.S. ground troops was destined to decline, U.S. economic involvement in the Republic of Korea was increasing and this was given as one illustration of the fact that the withdrawal should be viewed as representing a shift only in the relative importance of the military aspects of the overall U.S.-R.O.K. relationship. It was also emphasized that flexibility of response and potential for bargaining should be retained in the withdrawal plans to meet various eventualities. While many felt that the possibility of aggression on the part of the Democratic People's Republic could not be discounted several participants pointed to evidence that the North Korean leadership may be undergoing a significant change of posture, one more favorable to discussions with the United States. Most participants felt the United States should remain open to the possibility of discussions as long as such discussions do not imply any derogation of the legitimacy of the Republic of Korea.

2. On the question of the two countries' relationship with the People's Republic of China there was much positive encouragement for the further

development of ties, primarily economic, with that country, although it was recognized that there might be difficulties. It was felt that many areas for cooperation were possible even short of full recognition by the United States.

3. The Sino-Soviet conflict was seen as fundamentally bilateral in nature and while of critical import to the character of relations in the region not something amenable to much third party influence.

4. The Soviet naval build-up in the area was pointed out and some urged the Japanese to adopt a more serious defensive stance in response.

5. All of our discussions asked in effect: how should the United States and Japan define their bilateral relationship now that America's military presence in Asia is changing? The participants believed it was essential to reaffirm the need for close cooperation between the U.S. and Japan. It was pointed out, however, that Japan is a major power which should undertake its own initiatives to contribute to Asian peace and stability. Such initiatives, of course, would not take the form of military involvement but rather of strengthening its economic ties with the countries of Asia and opening wider relations with the communist countries. Above all, the participants agreed that it was essential for the U.S. and Japanese governments to articulate more clearly their visions for a new stable order in Asia.

POLITICAL AND ECONOMIC DEVELOPMENT IN SOUTHEAST ASIA

1. Underlying the discussion was a consensus that problems in Southeast Asia today are more economic and political in nature than strategic and military. Security of the region will be affected more by indigenous development and degree of stability than by the actions of outside powers. Many participants emphasized that North-South considerations in this region should take precedence over East-West confrontation. It was observed that American priorities in Asia have altered and that there is a growing Japanese awareness of the need to play a meaningful role as manifested by the recent Fukuda trip.

2. In the view typically expressed by Japanese participants, essential conditions for regional stability of Southeast Asia include: (a) peaceful co-existence between ASEAN and Indochina, (b) encouragement of ASEAN aspirations to make their region a "zone of peace, freedom and neutrality," and (c) greater Japanese economic cooperation with the entire region, tempered, however, by a cautious attempt to avoid a Japanese "over-presence".

3. With regard to the first condition, early normalization of relations with Vietnam by the United States was urged by Japanese participants. Some American participants, however, pointed to the difficulty and/or lack of enthusiasm for such normalization as long as Vietnam attaches special conditions. While Japanese initiative in this area was generally welcomed, views differed as to the effectiveness of such political-diplomatic action for regional stability.

4. The need was felt unanimously for keeping ASEAN free of outside intervention or hegemonic domination by any great power, though the term "neutrality" should not be strictly construed. In this connection, some argued that the continuation of American military presence is required precisely for this reason. The Japanese participants emphasized the importance of ASEAN as a meaningful mechanism for regional stability.

5. The question of "over-presence" was complex and multi-faceted. By and large, the Japanese participants were sensitive about Japanese "over-presence" for the following reasons: (a) Japan sees Southeast Asia as a particular manifestation of the broader relationship between North and South. The adjustment of her role as a global economic power with her limited regional role as a political power is difficult. (b) An increase of Southeast Asian dependence upon Japan could turn the region into a Japanese "hinterland", an undesirable development. (c) Anything approaching Japanese economic dominance would deprive the region of flexibility in its external economic relations. It is, therefore, highly desirable that the United States maintain an active economic and political interest in the region.

6. Some American participants felt, however, that such a degree of sensitivity was unnecessary; it could appear as an excuse for Japan to evade responsibility in the region. Global interests do not preclude Japan from having a special interest in the region. In this connection the American participants welcomed the ideas expressed in the Fukuda doctrine.

7. The coordinated involvement of Japan, the United States and other interested parties in Southeast Asian development through a number of special funds or international institutions was discussed, as a way to contribute to development and to avoid a Japanese "over-presence".

JAPAN, THE UNITED STATES AND THE WORLD ECONOMY

1. In economic issues, the desirability of cooperation between the two countries was taken for granted. The question was how to define problems clearly and then see what should be done about them. On a large number of questions the differences of view did not follow national lines but there was a fair amount of difference in emphasis on the importance of some issues and a strong tendency to urge people of the other country to make greater efforts to solve commonly recognized problems.

2. In discussing the exchange rate or the yen the conference focused on the underlying difficulties of determining how the two countries, along with other strong economies, should share the payments deficits that are inevitable for the oil-consuming countries as long as the oil-producing countries have major surpluses. No one doubted that for the foreseeable future exchange rates should be kept flexible. The basic problem is how floating should be managed. It was pointed out that little will be achieved if Japanese prices do not reflect movements in the exchange rates.

3. Growing American oil imports caused considerable distress to the Japanese participants and to Americans as well. A good deal of doubt was expressed that present U.S. energy proposals would produce adequate results. In both countries, it was felt, the long-run energy problem was not being taken seriously enough by the public or the governments. To help meet these urgent needs, joint basic research on alternative energy sources and cooperative development of coal and other fuels were given strong support. The importance of the development of nuclear energy was stressed and the Tokai agreement

was welcomed as a temporary resolution for a troublesome problem that will require further close cooperation and understanding between the two countries.

4. The competition for raw materials may well give rise to considerable friction between Japan and the United States, so it seems well to start exploring ways of cooperating. In the process it may prove possible to find arrangements that reconcile the interests of producing and consuming countries and private investors at a time when traditional arrangements are coming into question.

5. Regarding trade, familiar views were exchanged about the American pressure for Japanese export restraints and the long-standing American complaints about the difficulties of access to the Japanese market. On both sides there were people who shared the view of the critics and recognized the value of imports to consumers and their nation's economy generally. Several suggestions were made for consultative arrangements to help avoid unnecessary confrontation; for example, an early warning system might involve not only both governments but business and labor groups as well. Another need is for agreement on the facts about trade disputes.

6. While short-run bilateral solutions to urgent problems are required, the need was stressed to find longer-run solutions through the development of new rules and consultative arrangements either on a broad multilateral basis as in GATT or in the OECD where Western European countries and Australia can be drawn in. Taxes, subsidies, non-tariff barriers, safeguards and related matters are all inadequately dealt with by existing arrangements and need attention if trade liberalization is not to be undermined. It was agreed that prompt and substantial conclusions from the Tokyo Round of the Geneva trade negotiations are of the highest interest to both countries since they stand to lose heavily if there is a collapse of the understandings on which open trading arrangements depend.

7. For both countries there are substantial difficulties ahead in adapting their economies to the increased flow of manufactured goods from developing countries that is to be expected over the next few decades. The key to this process is the fostering of technological change and innovation and a good rate of growth but there may well have to be new programs to help shift resources to new activities as older industries become obsolete.

It was suggested that serious consideration be given to establishing an internationally agreed adjustment mechanism.

8. The conference recognized the interests of both Japan and the United States in the development of poor countries throughout the world. Trade, investment and commodity policies are important to this process but so is aid. Opinions differed as to the usefulness and political feasibility of new approaches to aid that are being stressed in the United States and the World Bank but there was general agreement on the need to increase aid, perhaps especially through regional banks.

9. Slower rates of growth will exacerbate many problems but the world has to adopt itself to them. Nevertheless, strong efforts have to be made to overcome stagflation with its accompanying waste of resources. Part of the problem is the uncertainty that inhibits businessmen so that investment lags and long-term commitments are not entered into. No statement or single stroke of policy can change this but persistence in a combination of constructive measures may do the job.

10. A number of participants put major emphasis on the fact that, important as they are, Japanese-American problems have to be dealt with as part of the remaking of the international economic system. For the results to be both beneficial and long-lasting there will have to be sustained attention on the part of major economic powers to fashioning and continuing the operation of new arrangements for a wide range of issues including money, food, energy, the oceans, trade, investment, and development finance. That Japan, the United States and Western Europe all have central parts to play is beyond doubt. What is not so clear is what each partner should do. A recurrent theme in the Shimoda Conference was the Japanese insistence that Japan was not as strong or as ready for leadership as many Americans thought.

CONCLUSION

The United States and Japan are the two largest industrial democracies in the world. In the past many of the problems they faced in common could be dealt with on a bilateral basis. Today this is no longer the case. While bilateral problems still remain

many problems will have to be solved in larger multilateral contexts.

But this does not mean that the bilateral relationship is no longer important. On the contrary, the continuation and strengthening of the special relationship between the two countries has become all the more important. Because of their great weight, the United States and Japan have a special obligation to contribute their economic, intellectual, scientific, and moral resources fully to the solution of world problems. This requires bilateral cooperation and coordination within the multilateral forums in which they take part.

In order to fulfill their new obligations, new forms of dialogue and new instruments of cooperation will have to be devised. Nor can the dialogue be left to government alone. Much more participation will be required from all levels of the two societies — business, labor, politics, journalism, intellectual life.

We are going to have to learn much more from and about each other than it sufficed us to know in the past. This requires that the dialogue be more focused on multilateral as well as bilateral policy issues, and this process will require a more sophisticated and mutually agreed-upon data base than we are accustomed to.

We are confident that the two countries have the vitality and talent not only to solve the specific bilateral problems that lie between them but to make a major contribution to the solution of world problems. The special relationship is more important than ever before.

This summary of discussion was drafted by a committee consisting of the following persons:

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The Fourth Japanese-American Assembly (Shimoda Conference)
September 1-4, 1977
Background Papers

FREE TRADE UNDER SIEGE

by
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Free Trade Under Siege

Introduction

There is a certain irony to my participation in this conference. My first visit to Japan was in 1971. At that time there was legislation before the Congress which would have done some damage to the free trade system. My long belief in and support of free and open trade compelled me to travel to Japan to convey to members of the Diet my concern that existing Japanese trade policies were working to fan the flame of protectionist pressures supporting that legislation. With my participation in this conference, I find myself, again, travelling to Japan bearing the message about the rise of protectionism in the United States and the role Japan's trade policy is playing in it.

The discussion which follows is an effort to give some perspective on the resurgence of these protectionist pressures. The point of view, as it was in 1971, is from that of a Member of the Congress of the United States and a long time advocate of a free and open trading system. It is important to emphasize this support of the free trade philosophy as the discussion below may, at times, appear alarmist or antagonist. But since we are all in this together, I assume we share a deep interest in the United States continuing its traditional role as a leading proponent of trade liberalization.

The fact of the re-awakening and growth of protectionist forces in this country is undeniable and cannot be overstated. They do, indeed, pose a considerable threat. Fortunately, however, these pressures are still susceptible to containment, if not reversal. But it must be understood by our major developed trading partners that the key to containment of this threat, for the most part, lies outside the United States. Herein, then, is the message of this paper: The growth of protectionist sentiment in the United States is closely associated with the policies and practices of our major trading partners that have had, of late, an unacceptable disruptive impact on the American economy. This impact

is perceived intuitively by the American public as well as being demonstrable on an objective basis. The containment of the resulting protectionist pressures, therefore, is very much dependent upon what course these policies and practices take in the future.

The structure of the discussion to follow is straight-forward. First is a general treatment of the nature of the attack upon free trade, next is a discussion on the perceptions of the American public with respect to import competition. Third is a treatment of the causes of the growth of protectionism and, finally, are recommendations for relief from this pressure.

The free trade environment and the threat of protectionism

Since Ricardo and his fellow economic "classicalists" in the late Eighteenth and early Nineteenth Centuries, it has been well understood, though not always followed, that a system of commercial intercourse should seek efficiency over the long term rather than the short term accumulation of wealth. Commercial relations among nations undertaken without impediment afford to all an increase in the public welfare greater than that which would have been imposed. This is true in at least two theoretical respects: It allows countries to acquire indirectly what they could not efficiently produce themselves or otherwise acquire by direct means. And, by each country limiting production to what it most efficiently produces, costs of production can be minimized, levels of production maximized, and price reduced to its lowest practical level. Thus, in general, the unencumbered flow of trade has a stimulating and broadening effect on domestic economic systems as well as on the general welfare.

Since the Reciprocal Trade Agreements Act of 1934, United States trade policy has been based on this view. It was not until 1947, however, that the prevailing system of individual bilateral, liberalized trade arrangements expanded into a multilateral system. The birth of the GATT marked the insti-

tutionalization of free trade philosophy as a fundamental precept in the trade relations among the major trading countries. Through successive efforts over the years, the contracting parties to the GATT have undertaken further to liberalize trade practices in an effort to approach the best practicable approximation of the classicalists' free trade model, as refined over the years.

We supported such an effort in 1963, and despite the gathering clouds we are committed to carrying through the current negotiations in Geneva. Yet, undesirably, there have been American and European rumbles of growing impatience with the trade liberalizing Geneva efforts. There is even a growing resistance to many trade liberalizing features which have already been achieved. In the United States, considerable pressure is being marshalled to oppose further growth of textile imports. Similar efforts have been made and continue with regard to, among others, shoes, televisions, steel, honey and sugar. In Europe even greater pressure is being exerted against textile imports. Imports in other sectors are being controlled, for example, ball bearings, foreign automobiles, televisions, and steel. Indeed, recent reports indicate increasing pressure in the European Commission itself to retreat somewhat on the Community's embrace of free trade as the model for the trading system.

These cries for protection come both from domestic producers seeking increased protection for their domestic markets and from labor seeking more protection for their jobs. Every month some new campaign gets underway in some additional sector of the American economy. In recent weeks the microwave oven industry and the motorcycle industries have joined the chorus. The automobile industry is standing in the wings.

Owing to sheer size, high elasticity of demand for imports and our traditional leadership role, it is without dispute that ripples in the American market can create waves in the international trading system. Thus, it only fol-

lows that the growing pressure for protection in the United States is a matter of great concern not only to us but to the world trading community. Although the major causes are not especially difficult to identify, what seems to have evaded many is an understanding of the dynamics underlying the resurgence. This must be understood by our developed trading partners if we are to reverse the tide and restore a receptive environment in the United States within which the free trade philosophy can thrive and further liberalization efforts can succeed.

There are objective causes for this growth of American protectionism, but the subjective content is even higher. It is becoming a routine matter to hear my colleagues both on and off the floor of the House of Representatives refer with concern to the import threatened state of American industry and American labor. Virtually without exception these concerns are linked to the perception that American industry and labor are being victimized by a massive onslaught of foreign imports. This view of a substantial number of Members of Congress is only an echo of the growing shouts from their business and private constituents. Such a perception of the state of American industry and the character of foreign competition is significant in several respects.

First, in a representative democracy and market economy such as ours, it is largely perception, however intuitive and subjective it may be, that influences behavior and structures opinion. Clearly, a governmental free trade policy cannot long survive in an atmosphere in which a siege mentality exists with respect to imports. Second, these perceptions are not born of a sense that American industry and labor are suffering from their own inadequacies. To the contrary, the view is widely held that American industry and the American worker in a fair competitive environment could well hold their own. But therein lies the rub. The perceived problem is that foreign producers and even foreign

governments employ predatory practices, set artificially low prices and use other devices unfairly to undermine markets for American products both at home and abroad.

Third, almost without exception in this connection, Japan is perceived as the leading antagonist. Of late, the list of the sectors complaining of serious harm from precipitous flows of low cost Japanese imports has been growing. With that growth, perceptions of the onslaught become entrenched, further pressure for protection rises and Japan becomes more firmly the primary focal point of hostility. And finally, irrespective of whether objective information supports the intuitive sense of the rectitude of the American competitive posture and the perniciousness of the foreign, the fact remains that the sentiment is being increasingly expressed with increasing intensity. It is fast becoming a proposition the truth of which is proven by its repeated assertion.

Of course, if these perceptions existed in clear contrast to objective data, one would not need to be overly concerned with their impact on trade policy and on the survivability of the free trade doctrine. But recent trade data is not all that reassuring to the alarmists. While American imports over the past year have grown by approximately 30%, our exports have only enjoyed about a 7% growth. Indeed, our overall trade balance for this year could well exceed a deficit of \$25 billion.

Regarding the view that Japan is the primary source of the import onslaught, trade data can be used to support the popular impression. The American trade deficit with Japan last year was \$6.8 billion, 47% of our total deficit. This year the deficit is likely to exceed \$10 billion out of a total deficit of \$25 billion. In 1976 imports from Japan grew by 38%, faster than from any other area. With respect to particular sectors the figures are even more difficult to explain to the alarmists. Japanese exports of new passenger cars to the

United States increased 74% in 1976. Exports of color televisions were up by 173%, black and white televisions by 136%. Exports of steel to the United States increased by about 30%.

Market penetration has grown with equal rapidity. Market penetration (by volume) of Japanese color televisions was approximately 15.4% in 1975 and reached approximately 40% in 1976. In 1974, imports of Japanese steel represented 39% of all imported steel. In 1976 it was 58% and in the first quarter of this year it was 57%. Overall the United States imported 13.4% of its steel requirement in the first quarter of the year, thus, over half came from Japan. Of passenger automobiles sold in 1973, Japanese cars held 6.5% of the U.S. market (by volume). In 1976 their share had risen to 9.5%.

Japan's performance with respect to the rest of the developed world is not substantially different. Its trade surplus for 1976 was approximately \$2.5 billion, and the Finance Ministry recently reported the trade surplus for the first six months of this year to be a record \$6.6 billion riding atop a 22% increase in exports over the same period last year. Much of this surplus, particularly that part relating to trade with developed countries, results from an interesting structural feature. Japanese imports tend to be overwhelmingly agricultural commodities and raw materials primarily from LDC's and OPEC countries. At the same time, Japan has the lowest percapita imports of manufactured goods of any major developed country. The combination of these two structural features substantially accounts for the consistent and large traditional surpluses Japan has with its developed trading partners.

The point here is that the intuitive perceptions of the American public regarding the disrupting effects of rising imports, alone, is troublesome to the conduct of a liberal trade policy. Yet, when trade data can be marshalled which supports this prevailing wisdom, the potential for resistance to liberal trade policies is magnified considerably. Because Japanese imports occur in

highly visible sectors of the American economy, Japan attracts particular critical attention and becomes the chief subject of the resisting forces.

This litany of gloomy trade statistics is not meant to suggest that Japan and its trade policy are the only causes of the re-awakening of the forces of protection in the United States. Indeed, despite the fact that the Japanese recovery, insofar as trade matters are concerned, has been dramatic over the past year and a half. Despite the fact that it has been stronger by far than any other developed country with the exception, perhaps, of West Germany. And although this disproportionately strong recovery has caused some difficulty in Japan's trade relations with its developed trading partners, to single out Japan as the source of all evil is, indeed, to oversimplify the complexity of the problem facing trade liberalization.

It is without question that a system of smooth, unencumbered trade is as much, if not more so, in the interest of Japan as it is in the interest of the United States and the other developed countries. It is inconceivable, therefore, that Japanese trade policy has been formulated to frighten its developed trading partners. What is more likely is that Japan continues to underestimate its own status and importance in the trading world. In formulating trade strategies, it continues to underrate the impact of its aggressive and effective tactics on trading partners. It would seem that Japan has become a significant trade power not yet fully appreciative of the strength of its emergence.

The Causes of Protectionist Resurgence

Identifying, then, what does account for the re-awakening of the forces of protection in the United States, identifying what lies at the heart of the prevailing perceptions about imports becomes essential if the trend is to be reversed and further liberalization to succeed. There is a tendency for free trade ideologues as well as our trading partners to point the accusatory finger

in this regard to the Trade Act of 1974. At the time of its passage, the Trade Act was identified by some as the greatest triumph of protectionism since Smoot-Hawley. The prophets of doom quickly predicted a surge of anti-liberal trade actions under the Trade Act which would significantly change American trade law and policy, and, thereby, reverse the long and hard efforts to liberalize world trading practices.

One could argue that the predictions of the Trade Act's detractors have come to pass. Since its signing into law on January 3, 1975, over 150 actions have been brought by concerned and affected groups. Of those, 27 complaints have been filed under Section 201, the "escape clause", alleging that increased imports have caused or threatened serious injury to American industry. Another 19 complaints have been brought under section 341 (regarding Section 337 of the Tariff Act of 1930) alleging unfair trade practices against like or competitive American products. Section 301 actions seeking relief from unfair trade practices by foreign governments have numbered 12.

Plainly, the expanded opportunities for invoking protective measures against competition from imports have not been ignored by the import impacted community. But to infer from this heavy use of the various relief provisions available that the 1974 Trade Act percolates or facilitates protectionist pressures is to misread the role played by the Trade Act in the formulation and execution of American trade policy.

The 1974 Trade Act represents a difficult and delicate effort to balance the interests of two antithetical communities. Considering the difficult economic period during which this legislation was vigorously debated, the extent of its balance is remarkable indeed. While it clearly expands and institutionalizes access to administrative procedures that can render American markets significantly out of reach, the Act also offers effective relief for those suffering legitimate

injury by unfair trade activity. For practical purposes, previous law created demands for rigid legislated (as opposed to flexible administrative) remedies by frustrating businesses with legitimate trade grievances. Also, the new Act grants broad authority to the President to undertake agreements substantially liberalizing the international trading system and thereby serving to reduce the need for resort to relief actions.

Furthermore, the Trade Act greatly enlarges the role of government in providing assistance to labor, industries, and communities that have suffered from import competition. In this light, then, this measure should not be characterized as providing a forum for protectionist advocacy, or for facilitating incitement of protectionist sentiment. In allowing for expanded but structured opportunities for redressing import related injuries, this balanced provision seeks to sublimate the forces of retrenchment. It redirects efforts away from solicitation of rigid and retrogressive legislation and, instead, channels energies to disciplined and sober advocacy, itself becoming part of the final policy determination on the matter.

Moreover, the relief, assistance, and negotiation provisions of the 1974 Trade Act have been successful in venting and diffusing what could otherwise have been very destructive protectionist pressures. Note, for example, the solutions reached in the heated matters involving shoes, sugar, mushrooms, and televisions in contrast to what might have happened absent the provisions and structure of the Trade Act. Further, the Act has served as a valued and rational early warning system for the trade policy community. On balance, then, the 1974 Trade Act has introduced into American trade policy-making flexibility where rigidity threatened, rationality where irrationality existed and broad based considerations where myopia was once the order of the day.

If not the Trade Act, what then is the objective source underlying the growing protectionist pressure in the United States? Without question, both here and in Europe, the starting point for this most recent rise in protectionist

sentiment is the quadrupling of oil prices since 1974 and the consequent world wide recession. The impact of these events on domestic economies continues to plague us. But although the sluggish recovery makes fertile ground for protectionism's growth, the events of 1974 and 1975 are only catalysts. Had certain other forces not been at work or if they did not now continue to operate, the progress of world-wide recovery would perhaps not be so sluggish. Indeed, had the trading system been operating effectively the depth of the recession itself might not have been so low, production not so depressed, unemployment not so high, and protectionism not in such ascendancy.

The events of 1974-75 aggravated and exposed existing but heretofore unacknowledged weaknesses in the trading system which have made us less able to cope with the strain generated by the precipitous rise in oil prices and the equally abrupt changes in the movement of capital. These systematic weaknesses generally fall into two categories: international structural problems and chronic problems of practice.

International Structural Problems

The structural problems aggravated and exposed by the recession, from the trade perspective of the United States, involve two elements: the differences which exist between the American tax structure and the structures of our developed trading partners as well as the different treatment given different systems under international trading rules. Specifically, in view of the GATT treatment accorded some tax systems, the differences that exist among the various systems can, in an aggravated environment, have an important impact on trade.

In brief, under the GATT, indirect taxes, such as sales and value added taxes, can be adjusted at the border on the destination principle. Under this principle, goods are taxed only where they are consumed. The impact on trade is clear. Indirect taxes are levied on imports and rebated on exports. On the

other hand, direct taxes, such as property and income taxes (corporate and individual), cannot be adjusted at the border because of the origin principle. This principle places a tax on goods on a basis of where they are produced. Thus, direct taxes are neither applied to imports nor rebated upon export.

What is plain from the operation of existing rules, is that domestic tax systems relying upon indirect taxation enjoy a considerable advantage in international trade (assuming relatively equal competitive positions) over those systems relying largely upon direct taxation. In those times when the indirect tax system and direct tax system had different effects on prices, the different treatment accorded the systems at the border had a negligible impact on trade flows. But today it is widely recognized that the difference in effect on price between direct and indirect systems is largely conceptual.

Thus, in those sectors where price and quality competition is keen or where circumstances place a premium on export volume, the marginal advantage enjoyed at the border by a product from an indirect tax system can often result in a significant influence on trade flows. In theory, the operation of free floating exchange rates will ultimately balance whatever advantages might be enjoyed. But the operation, or lack of operation, of the free float is, itself, a systemic problem making a major contribution to protectionist pressures.

The United States tax system relies heavily on direct taxes for revenue. Insofar as impact on trade is concerned, particularly heavy reliance is placed upon corporate taxes and property taxes. In contrast, both of our major developed trading partners either in whole or in certain key sectors heavily rely upon indirect taxes. One need only look at the Zenith and U.S. Steel cases to appreciate the impact of this divergent treatment of taxes on the forces of protection in the United States. This sentiment is strong not only in the private sector. Notwithstanding protestations of the Administration on the matter of the Zenith case, there is substantial support in the Congress for the Customs Court ruling, now narrowly reversed on appeal. Eventually Congress may have to

resolve the matter should the Administration lose the battle in the Supreme Court.

But the border tax adjustment matter is not the only trade related problem area associated with the differences that exist among the various domestic tax systems. The conflict over deferral practices and the acceptance or rejection of the territoriality concept can have grave trade related consequences. The battle raging now in the GATT Council over the special panel reports on DISC and the tax practices of France, Belgium and the Netherlands speaks rather clearly to what is at stake in this matter with respect to trade. Again, the point to be made is that in times such as these, in highly competitive markets, within highly competitive sectors, the marginal advantage gained by virtue of domestic tax policies is having increasing important consequences on trade flows, which in turn serves to fan anti-trade liberalizing sentiments.

Chronic Problems of Practice

The chronic problems highlighted by recent events which are considered here are neither new nor complex. But in these already difficult times their impact on protectionist pressures in the United States is great.

Of immediate concern in this connection, as has already been mentioned, is the continuing and growing trade deficit with Japan. But what is of concern here is not so much the abundance of Japanese goods entering the American market; rather, it is the relative dearth of American goods entering the Japanese market. Greater access for American products to the Japanese market could go a long way in deflating perceptions of unfairness, reducing the dramatic deficit and, thereby, diffusing the growing focus of protectionist sentiments on Japan and Japanese products.

Despite considerable progress by Japan over the past several years to reduce its barriers to imports, a number of problematic obstacles to market entry for American products still remain. The obstacles exist in the form of both tariff

and non-tariff barriers. Regarding tariffs, in November of 1972 and again in April 1973 Japan undertook unilateral tariff reductions of twenty percent on selected items. The result of these reductions, in general, was to render Japan's duties on raw materials and essential agricultural products such as soybeans and feedgrains very small or zero, while rendering duties on manufactured goods, processed foods, meat, and fresh fruits and vegetables relatively high if not, in some cases, virtually prohibitive.

Treatment of American photographic film is a case in point. During the immediate post war period, the Japanese film industry was an infant, struggling one. Accordingly, it, along with many other such industries, enjoyed considerable non-tariff, capital investment and tariff protection. Over the years, however, as all industries began to grow, these protections were gradually reduced. Quantitative restrictions on imports of film were eliminated in 1970. In May of 1976, the film industry became the last industry to undergo capital investment liberalization in compliance with Japan's OECD obligations.

As for tariffs, the reduction of obstacles to trade has not been as satisfactory. The Kennedy Round left Japanese photographic tariffs unchanged. Since that time tariffs on color film have been unilaterally reduced from 40% to 16% in four steps. But, despite the fact that the industry has grown 40% in the last five years, plans even faster future growth, and has marketed a high speed color film representing a major technological break-through tariffs on imports still remain at 16%. Considering, alone, that the Japanese film industry is the second strongest in the world, a close second at that, this tariff level is rather high. Though lower than the bound figure, this tariff level is even high by Japanese standards and is over three times the comparable American tariff. Indeed, it is the highest such tariff of all industrialized countries. The comfortable protection this high tariff affords the Japanese film industry accounts for its considerable film trade surplus with the United States. This surplus will continue to grow.

Regarding non-tariff barriers, substantial progress by Japan in recent years to reduce import restrictions has still left a number of barriers of concern to American exporters. The administration of Japanese automotive environmental and safety standards, for example, causes considerable delays in the approval of sales of American automobiles. These delays sometimes extend for six months after the introduction of a new model. This is of significance as approval for entry generally occurs at the time of introduction when maximum sales potential exists. Japanese automobile manufacturers are subject to the same restrictions but are able to bring their product to market on time because relevant information is available to them and unavailable to importers.

Government procurement practices provide another example of difficult non-tariff barriers to the Japanese market. The Japanese government frequently relies on unpublished internal regulations to favor the purchase of domestic over foreign goods. Procurements are generally made on the basis of private negotiations involving no competition or, as 90% of Japanese government procurement is made, on the basis of bids made by selected suppliers. Foreign suppliers are rarely invited to submit bids.

Although Japan was singled out here as an example of how tariff and non-tariff measures act as barriers to U.S. trade and, thus, foster retaliatory attitudes with respect to access to the American market, much the same can be said about trade practices of the European Community. Of particular importance in the tariffs area is the variable levy exacted on agricultural imports. This system works considerable hardship on the marketing of imports of American agricultural products in the European Community. It is virtually impossible to know price levels in advance, and such a levy operates specifically to negate the qualitative and price competitive advantages enjoyed by American products. Regarding non-tariff barriers, European Community and member states procurement practices are, in effect, not unlike Japan's. Quantitative restrictions and licensing practices are further non-tariff barrier problems.

A second chronic problem in the existing trading system which has been exacerbated by the recent recession and which has a measurable effect on protectionist pressures in the United States is the matter of the "re-flation" of economies and revaluation of currencies. In order for the trading system to reapproach equilibrium and to restore stability to weaker economies, surplus nations need to stimulate their economies. Such stimulation, in turn, expands domestic demand which reduces the pressure to export and, as well, fosters consumption of imports. Both West Germany and Japan, the two developed countries with the largest trade surpluses, have been reluctant to make this contribution to restoration of equilibrium in the trading system. Both countries have also been reluctant to revalue their currencies. Revaluation would accelerate the restoration of equilibrium which is normally accomplished by the market through adjustment of exchange rates to the surpluses and deficits in trade accounts. By failing to take these rather simple steps West Germany and Japan prolong systemic disequilibrium, extend the considerable American trade deficit (which is serving to fuel other economies that have not been as successful in their recovery) and raise protectionist pressures.

A final chronic problem is the sluggish pace of the multi-lateral trade negotiations. The point to be made here is uncomplicated. Trade liberalization efforts in Geneva offer the promise of expanded trade opportunities to important sectors in the American economy. The longer the negotiations are delayed the more impatient the American trade community becomes with the oneness of existing trade practices and the more fertile the environment for protectionist influence becomes.

Remedies

The remedy for the very troublesome problem of protectionism in the United States seems as predictable as the underlying causes of its resurgence. A proper, long term prescription benefiting the entire trading system has at least five essential features.

a. Fundamental to the long term containment of the forces of protection is a timely and substantial conclusion to the multi-lateral negotiations. As a minimum, the final package should include: Significant harmonization and reduction of tariffs; Significant reduction of non-tariff barriers to include meaningful guidelines on subsidies/countervailing duties, government procurement, safeguards, and quantitative restrictions. Also, there must, of course, be significant improvements in the terms under which agricultural trade will be conducted.

b. There should be a timely and substantial effort by Japan to reduce its trade surplus with the United States (and, for that matter, the European Community), if stability across the system is to be attained.

c. There should be continued reductions in both tariff and non-tariff measures as barriers to the access of manufactured products to the Japanese market independent of efforts at the MTN.

d. There must be a timely and significant stimulation of the West German and Japanese economies which is directed at import expansion. As well, both countries should undertake a revaluation of their respective currencies.

e. There should be a multi-lateral conference of OECD nations to explore and attempt to reconcile the distortion of trade flows caused by the differing domestic tax practices and the different treatment they are accorded under prevailing international rules.

With these actions, the siege in the United States upon free trade and trade liberalization can be repelled, the trading system can return to fluidity and the welfare of the world economic community can return to growth. Without these or equivalent actions there is certain to be a return of the chaos in the world trade system characteristic of the pre-GATT period. Unfortunately, the choice in this matter is largely not the United States' to make.

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The Role of the United States in East Asia:
A Legislative Perspective

by
Senator John Glenn

In the nearly two centuries since Americans first ventured to East Asia and Japan, our interests have become economically and politically intertwined. Yet, despite these close relationships, problems do arise, and perhaps more importantly, opportunities are missed.

This Conference to address both problems and opportunities is held at an opportune time and at a particularly appropriate place -- Shimoda. Just 124 years ago, Commodore Perry came to Japan with the objective of opening diplomatic and trade relationships. The limited treaty resulting from that visit permitted the first American diplomatic representation in Japan, a Consulate at this very spot.

Too often we do not fully understand one another, but fortunately we persist in trying and these meetings attest to those efforts.

As a personal note, although I sit as a member of the Foreign Relations Committee of the United States Senate and am Chairman of the Subcommittee on East Asian and Pacific Affairs, I speak today not as a representative of the Administration, the Senate, nor the Foreign Relations Committee, but as an individual with concerns and hopes for the future regarding our mutual interests.

U.S. Checks
and Balances

To put the following remarks in perspective, I would point out an often misunderstood facet of our American democratic system; the checks and balances between the Executive and Legislative branches of government. While the President speaks with authority as the leader in foreign policy, that

leadership is balanced with the check of Congressional, particularly Senate, approval on major issues.

This can be particularly disconcerting to others, for these counter-balancing responsibilities and approvals can sometimes give the impression that American foreign policy leadership speaks with the voice of an "uncertain trumpet," at best.

Despite this "uncertain trumpet," there is an even more fundamental factor that will determine long-term U.S. foreign policy; namely, the views of the American people, and it is abundantly clear to me that the overwhelming majority of Americans and their representatives in Congress strongly support the continuation of U.S. interests and concerns in East Asia, and with Japan in particular.

Post WWII
Policy

Our policy established at the end of World War II was not to further crush, not to humiliate, not to exploit, but rather to start the long process of building political and economic ties which would contribute to peaceful development. Japan stands today as eloquent testimony to the wisdom of that decision and to the strength of the Japanese people, as one of the strongest economic powers in the world, literally developed in the unbelievably short span of the last three decades. To somehow pull back now from such a success story is not realistic.

Changing
Relation-
ship

Relationships, however, are not static. They change and develop as events transpire. But despite the end of the war in Indochina, the dramatic opening of China, and other necessary shifts in U.S. policy toward former adversaries in the region, U.S. determination to maintain close and

cordial political and economic ties with Japan and other nations in East Asia has not been diminished.

U.S. Intent Recent actions of the United States prompted concern and misunderstanding over what many of our friends around the Asian periphery saw as signs of a U.S. recession. This is not, of course, the first time in recent years that important U.S. policy moves have appeared to others less than well coordinated and have led to an adverse reaction by Asian friends.

But such interpretations are deceptive. Our primary objective remains the stability and prosperity of the East Asian region. Many Asian states have long looked to the United States as a prime supporter of their economic and strategic interests and a leader in Pacific affairs. Continued American presence is vital and I am confident:

- the United States is and will remain an important source of economic and military cooperation;
- the United States is and will remain a major market for raw materials and manufactured goods produced by these states and a major source of private capital investment;
- the United States is and will remain committed to balancing other major powers in the area-- the Soviet Union and China.

U.S. Pre-
occupation
at Home

It is no secret that in the recent past the United States has had problems at home. We had Watergate, an economic recession, an energy crisis, and the 1976 Presidential election, all following the collapse of the U.S.-supported

governments in Indochina in 1975. U.S. friends in East Asia and Japan became deeply concerned over what they perceived as an increasing loss of interest by the United States in Asian affairs and a shift in the balance of power in the region.

Adding to Asian worries were calls by many U.S. political leaders for reductions in the number and size of U.S. forces in Asia. At the same time, increasing numbers of U.S. leaders were criticizing the growing volume of imported manufactured goods entering the United States from the nations of East Asia and were calling for restrictive tariffs and other measures to protect U.S. industries. There was also mounting criticism in the United States regarding the status of human rights in several East Asian countries closely aligned with the United States.

Some Asian concerns are understandable, but if we are to take a realistic approach to changing world situations, other concerns are not justified. For instance, I know of no one in the United States who prefers that our military forces remain spread around the world as a "police force" in perpetuity, even though we very properly maintained many of our worldwide military alignments during the post World War II stabilizing period. The size and disposition of those forces obviously will and should change as nations are able to assume larger roles of responsibility. As another example, it is realistic to assume that as productive capacity grows and international commerce increases, agreements on trade must be forthcoming.

Specific
East Asian
Concerns
Regarding
U.S. Ac-
tions

But there are other more immediate East Asian concerns. While it was understandable that a new U.S. President wished to move forcefully and rapidly, new policy initiatives in many instances did not succeed in reassuring the nations of East and Southeast Asia. With the obvious advantage of perfect hindsight, it would undoubtedly have been advisable to more positively establish very broad understanding of U.S. overall commitment and general policy in the region before proceeding with individual initiatives.

A succession of East Asian Ambassadors have come to my office in recent months expressing their doubts and uncertainties regarding American actions and policies. I believe that if this Conference and other exchanges are less than candid and forthright in addressing these concerns, we will limit the good which can accrue from these meetings.

Let me be more specific and share with you some of their views, comments, and questions:

--"The United States seems to be far more concerned about improving relations with Hanoi, Peking, and even Pyongyang than in strengthening relationships with long-standing friends."

--"Would our expressed concerns about Human Rights seriously alter our relationship with such places as South Korea, the Philippines or Indonesia?"

--"In light of Soviet moves into the Indian Ocean, how can we even consider "complete demilitarization" of the Indian Ocean?"

- "Why are we not more concerned about movement of Soviet fishing fleets into the southwest Pacific and even Soviet airbase negotiations in that area?"
- "Were press reports true, although later denied, that the United States would really consider closing its naval and air bases in the Philippines in light of increased lease payment demands?"
- "Did the proposed cutoff of the last year's military assistance funds to Indonesia and Thailand, even though it did not pass in the Senate, indicate a lessening commitment?"
- "Did the sudden trade sanctions against import of Japanese television sets indicate a changing trade relationship?"
- "Will changes in our nuclear policies affect Japan's critical energy needs?"
- "What will be our relationship with Taiwan in the future? Can that long-standing relationship be changed without reduction in confidence in American commitments? Will we sell arms to Taiwan?"
- "Does our reduction of troops in Korea, even on a five-year basis, indicate reduced commitment to the East Asian overall balance of power? How long will our air and naval forces remain?"

That is sufficient to give you the general tenor.

With Vietnam experience a recent memory, it is easy to understand why serious questions are raised in the minds of East Asian leaders. I would add that no one item on the above list seemed to be singularly critical in the minds of those

to whom I talked, but taken together they form a pattern most disturbing to those in leadership positions. As expressed to me bluntly by one Ambassador,

"Can we still rely on the United States? We feel inundated by a tidal wave of change. What does it all mean? We don't know why you are doing what you are doing."

While I could reassure him of my confidence in American long-term commitment, specific answers to the many questions are not easy to answer either singly or as a whole.

Current U.S. However, I am happy to say that in recent months U.S.
Actions
Reassuring leaders have taken greater pains to reassure our Asian allies and have managed to establish a better consultative framework in our Asian policy. Thus, the United States has recently worked hard to underline its continuing defense commitment to South Korea. Most notably, when Defense Secretary Brown met with South Korean President Park on 25 July, he gave the South Korean leader a personal letter from President Carter which reaffirmed the "firm and undiminished" U.S. commitment to support the South Korean government and advised that "neither North Korea nor any other nation should have any doubt about the continuing strength of this commitment."

The Brown mission subsequently announced that the bulk of American combat troops in Korea would not be withdrawn until 1981-82 and that the Administration had pledged -- subject to Congressional approval -- to provide the South Koreans with an estimated \$2 billion in military sales and credits, as U.S. troop strength is reduced. He also spelled out in more detail the continuing commitment of U.S. air and

naval forces which will remain indefinitely. These are precisely the type of positive signals needed for reassurance.

Elsewhere, the Administration substantially altered its position on demilitarization of the Indian Ocean. During talks with Australian Prime Minister Frazer in June, President Carter dropped his earlier call for "complete demilitarization" and endorsed the view that the United States should maintain a strategic balance in the area. He also assured Frazer that the United States will remain "a major power in Asia and the Pacific and would maintain a strong security position in the region."

Regarding the issue of U.S. security assistance to Asian friends, the Congress was not swayed by the arguments that there should be major cuts in the Administration's proposals for military aid in the area. Prior to final committee action, Military Assistance Funds for Indonesia and Thailand were restored, and that position was sustained by the full Senate.

At the same time prominent U.S. spokesmen -- notably Secretary Vance in a major address on Asian policy on 29 June -- have expressed a deeper realization of the difficulties some Asian states have in conforming to western standards of human rights. Thus, Vance expressed understanding that some Asian traditions -- unlike the traditions of the West -- stress the rights and welfare of the group over those of the individual and emphasize the fulfillment of basic human economic need over political rights.

Finally, the Administration and Congress have reassured Asian friends regarding U.S. trade policies by working well together to avoid protective tariffs or other harsh measures which would close U.S. markets to Asian goods and seriously disrupt our joint economic welfare. Thus, the Administration strongly reaffirmed the U.S. commitment to policies of free trade during President Carter's meeting with Japanese Prime Minister Fukuda at the London summit meeting in May. It subsequently negotiated compromise agreements with Japan, Taiwan and South Korea which established voluntary restrictions on the number of color television sets and shoes entering the United States from East Asia.

This spirit of cooperative friendship will also be evident, I believe, when the Association of Southeast Asia (ASEAN) officials meet, formally for the first time with the United States, to discuss opportunities as well as problems the ASEAN nations may have with current U.S. trade policies.

The above are but a few examples of other continuing assurances that will go a long way in restoring any erosion of confidence that may have occurred in the recent past.

Japanese-
-U.S. Re-
-lationship

Apart from those general East Asian views, let us turn to specific Japanese-American relationships. Our ties are firmly and properly grounded in the self-interests of both nations and are essential to global stability.

The consultative mechanisms between our two countries are extensive but must be even further strengthened if misunderstandings in the future are to be avoided. No government

likes surprises. Decisions made abroad with little or no prior consultation which drastically affect that nation's future naturally evoke a negative reaction as a defense to gain time for adequate analysis of new proposals.

The "Nixon shocks," for instance, arose in part because some American politicians believed the Japanese were unwilling to recognize legitimate American grievances. However, these feelings dissipated following the Tanaka visit of August 1973, when the final communiqué expressed a willingness to share a more equal and reciprocal relationship. In 1975, Japan for the first time participated as an equal with the major western powers in an economic summit.

My point is that our commitment to Asia is permanent, but must be based on mutual understanding. Determined diplomatic efforts to resolve problems, as in the case of Okinawa, are necessary.

And what of our Japanese-American military relationship? Critics in the United States habitually talk of the "free ride" or "free umbrella" provided Japan by the United States, and it is no small item. When we are running sizeable trade deficits and Japan has a current account surplus, it is difficult to understand why Japan cannot increase its defense efforts in cooperation with the United States. Certainly the present U.S. Administration and a majority in Congress recognize and appreciate the domestic constraints on major expansion of Japanese military forces. However, to ensure qualitative sufficiency for Japanese self-defense forces, continuation of improvements should be made in such things as anti-submarine

warfare equipment, fighter, and patrol aircraft, all of which may require far less strict adherence to the artificially selected 1% GNP "barrier" now used as a limit for defense budgeting. As a comparison, NATO countries average over 4.5% of defense expenditures. In time of need, less than an adequate defense force will be a poor bargain, whatever the percent of GNP.

What of the economic relationship between our two countries? This is an area of both opportunities and problems which Ambassador Mansfield recently addressed in considerable detail and which will be the subject of much of our other meeting time here at Shimoda.

The complications of further negotiations are indicated by the necessity of maintaining an economic system geared to exports which has led to a possible \$7 billion current account surplus this year. Without further cooperative efforts to reduce that surplus, domestic politics are bound to hamper our trade relationship. Added to that is the concern over how, and to what degree, direct investment between our two nations will be permitted to dominate particular product lines, with the obvious impact on employment. Reciprocity must exist or protectionism will arise.

There are no easy solutions, particularly so when non-agricultural American exports may sometimes suffer less from tariffs or quotas than from non-tariff, cultural barriers that are harder to penetrate -- a marketing problem, in other words.

Japan's
International
Role

On a larger scale than just Japanese-U.S. economic relationships, however, Japan is in a position to play a major and constructive role in grappling with the problems of a new economic order. Japan has the potential for being a pivotal nation in devising a new creative economic diplomacy emphasizing cooperation and peace.

Prime Minister Fukuda's recent meetings with ASEAN leaders and the pledge of substantial aid and assistance now known as the "Fukuda doctrine," is a highly commendable example of Japan's ability to contribute markedly to regional stability.

As another example, the newly-established \$20 million "special assistance for the expansion of food production fund" will help others in the region to cope with a pressing problem.

But a word of caution is necessary. As this audience knows, other Asian states are keenly conscious of Japan's economic presence. Again, I would be less than candid and forthright before such a group as this if I did not say that many of the other East Asian nations have memories that have lingered too long of past Japanese militarism. While they have no fears today in a military sense, they express concern about the economic domination that might result from over-rapid Japanese expansion in the Asian area, expansion which could overpower their own economic improvement efforts. In other words Japanese aid and economic help cannot be "excessive" or dominating.

Since economic development, like self-government, cannot be exported, the infusion of capital and knowledge

can best be used to supplement indigenous efforts, assuming there is to be a harmonious relationship.

Japanese national interests and an expanded international role do come together in the economic sphere. Increased foreign aid, less tied to export commodities, and private investment for development can help other nations to meet their goals and insure a more stable international system.

Economic power alone, however, is insufficient. Political muscle must accompany economics for major impact on global developments. For example, an activist Japan that mediates between the socialist and non-communist states of the region as the Prime Minister suggested to ASEAN leaders, would help stabilize the international environment and also produce a greater sense of national identity. Japan has a historically unique opportunity. Never before has a rich and powerful nation chosen to exert itself in the international system through solely political and economic alignments. Japan now has that opportunity.

Most
Importantly -
Energy

Perhaps I have saved the largest and most underlying problem of all for last mention. What of energy?

Last fall, I flew over the Strait of Hormuz, the few-hundred-yards-wide outlet from the Persian Gulf and was told that, while 18% of America's total oil comes through that Strait, some 70% of Western Europe's oil, and an astounding 85% of total Japanese oil supply passes through those narrow waters. For industrial Japan to be so dependent on that small, far-away piece of geography certainly emphasizes the magnitude of the problem and the importance of international relationships in an ever-increasingly

interdependent world. Because of Japan's resource dependency -- 99.7% of oil is imported -- her interests in energy security are paramount.

Since this too will be the subject of other more detailed discussion, I will not elaborate further, except to say that, in particular we are resolved to finding a mutually agreeable practical solution to the nuclear fuel reprocessing issue. Certainly our atomic weapons non-proliferation objectives are not directed against Japan. I would hope that the unique Japanese experience would encourage Japan to assist us in trying to stem the proliferation of nuclear weapons. Likewise we must, and will I am sure, resolve our differences so Japan can become more self-sufficient in the energy field through proper use of nuclear power.

This is a field in which I have been particularly active and have authorized several pieces of legislation dealing with nuclear matters. As a passing comment, I would add that I am firmly convinced we must also have some supplies of nuclear fuel internationally administered, and independent of national politics. I have introduced legislation to establish such an International Nuclear Fuel Authority.

"New Era"

We are, I believe, entering into a "new era" of Japanese-American relations, a time of more equality, a time of more partnership, but still an era with so many as-yet unanswered questions. What will be the Japanese role in international politics? Will it center only on trade? Is Japan the Pacific bulwark of a Western economic and strategic system or is it primarily an Asian power,

uniquely non-militaristic, that is also the principle economic power in the region? The answer, of course, is both, but then we must logically ask whether Japanese interest can be secured by passive diplomacy, or must a more active role be forthcoming? Thus, what is the yet-to-be defined role of Japan in Asia and the international system?

In February 1973, the Secretary-General of the LDP cited the lack of a permanent seat on the UN Security Council as evidence of the lack of a Japanese role commensurate with her power. Ambassador Mansfield, while in the Senate, urged such a shift. I was pleased to see President Carter reaffirm that objective when Prime Minister Fukuda met with him earlier this year. The rapid rise, fall and rebirth of modern Japan attests to the skill and character of the Japanese people and these talents certainly deserve a wider international forum.

"Asian Axis" The importance of Japan in this international forum can hardly be over-estimated. Within easy distance on each side of what I would term an "Asian Axis" from Tokyo to Canberra lies one-third of the world's population and untold resources yet to be developed. What happens along that Axis in the next few years will play a very major role, perhaps even a predominant role, in global developments for generations to come.

As we look ahead, we must continually consider and evaluate not only the above, but myriad other issues with continual, close consultation. Taking a Legislative branch

viewpoint from Washington, I see no lessening of our continuing commitment to work together with you and other East Asian nations. America is not in retreat -- far from it. That our cooperative efforts can succeed in the world-wide arena of competing ideologies is a foregone conclusion to me.

"Wave of the
Future"

What is the "wave of the future?" Is it the super-socialistic approach, lesser brands of communism or free enterprise? We need only look to recent history for the answer.

At no place nor time in history has there ever been recorded such rapid advance in the status and general welfare of hundreds of millions of people as has occurred in those nations which following World War II developed along "free enterprise" lines. When we contrast the economic development of Japan, Germany, South Korea and Taiwan with what has happened under the deadening influence of the socialist states, the answer emerges with startling clarity. The systems of freedom under which we live are certainly far from perfect and we must work continually to make them better, but they certainly speak directly to age-old hopes for freedom, for dignity, for fair-play, for the right to determine ones one place in a society, a nation, and the world, which are to me the "wave of the future."

Our challenge is to work together as partners in this framework of freedom toward a better, a more stable, and a peaceful world. It will require our best efforts.

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The Fourth Japanese-American Assembly (Shimoda Conference)
September 1-4, 1977
Background Papers

NEW OPTION
FOR
JAPAN'S ASIA POLICY

by

Sanshichi Hanyu

NEW OPTIONS FOR JAPAN'S ASIA POLICY

I

Future generations will probably look back upon the decade between the mid-sixties and the present as a time comparable to the Second World War for the dynamic, far-reaching changes that took place in international relations and in the underlying values. It was a decade of political "diastrophism" -- the onset of a cycle of high tension and relaxation, during which the process of crumbling and new formation was set in motion. The U.S.-Japan relationship did not escape the shock waves, regardless of the stability and development promised by the security treaty. A number of unsettling developments combined to make new arrangements in U.S.-Japan relations absolutely necessary. They include the rising anti-Vietnam war movement, reversion of Okinawa, the automatic extension of the security treaty in 1970, tough textile negotiations, the "Nixon shocks"; and trade imbalances, along with other problems between the two countries suggest that relations today have entered a completely new phase.

Even more dramatic change has taken place in the Asian situation. Improving relations between the U.S. and China, peace in Vietnam and establishment of socialist governments in the countries of Indochina demanded not only the United States but the Soviet Union also -- now a great power in Asia -- to seek new ways to handle a new situation in the region. Calling for independence and self-help, the peoples of Southeast Asia and the Indian subcontinent are reexamining relations with the great powers and groping for a multifaceted security framework which provides for both bilateral and multilateral security arrangements. The emergence of Japan as a great economic power and growing participation by China in many phases of world affairs gave

the other Asian countries a freer hand in their choice of action, albeit a more complex situation.

During this time Japanese were so busy recovering from the larger problems posed by the Nixon shocks that they failed to see that changes in China, Vietnam, Korea and Southeast Asia were structural. Even if they were aware of it, Japanese were unable to understand what other Asians have learned from this decade of transformation, and proof of that can be found in several crucial international issues: negotiations with China over the treaty of friendship are stalemated, despite the good beginning made by Japan; relations with South Korea have sacrificed adequate attention to the North and are now in a critical condition; Japan has not developed relations with the three countries of Indochina beyond a titular diplomatic relationship; finally, the Association of Southeast Asian Nations (ASEAN) is basically skeptical of Japan's motives in its sudden, recent overtures to the region.

In calling for a fundamental shift in the orientation of Japanese foreign policy, the Japan Socialist party (JSP) once pointed out three good opportunities for change. They are the reestablishment of relations with China, the end of the Vietnam War, and the oil crisis. Instead of "beating a dead horse," I would like to propose a fourth opportunity -- the inevitable change that will come to the Korean peninsula, the site of the strongest tensions in Asia today.

II

More than anyone else, the South Korean Park administration itself benefits by claiming that the powder keg of Asia after the Vietnam War is the

Korean peninsula. Considering North Korea in the international environment and the state of its economy, it is clear that the "threat from North" is a fabrication invented by a group which only gains from crying "wolf."

Some take the threat seriously, pointing out the Panmunjom incident of August 1976 and other friction over the military demarcation line between the South and North. But if one thinks about the original cause of such troubles and the processes through which they were settled, they become evidence contravening the seriousness of the threat from North.

The decision by the Carter administration to gradually reduce U.S. groundtroops in South Korea is sound. Carter is fully aware of the possibility that border incidents at the military demarcation line will continue, but I think it is wise to withdraw U.S. troops as planned. Two major objections have been raised, however. One is based on the belief that the threat from the North is real, the other on fear that the withdrawal of U.S. troops will strengthen the repressive, undemocratic policies of the Park government.

The fear of greater repression within South Korea is justified by the way the Park government took advantage of the Vietnam War and the postwar situation as rationales for its democratic domestic parties. Nevertheless, to oppose withdrawal of U.S. troops on that basis is to see South Korean democratization in a narrow sense. The Carter administration should not stop with a phase-out of American military presence, but should also apply moral diplomacy -- the human rights aspect -- in carrying out policy toward South Korea. Seeing the decision to withdraw as an opportunity, I believe the Carter administration bears a moral responsibility to restore democratic rights to the South Korean people, including unconditional release of Kim Dae-jung and other political prisoners.

Democratization of South Korea and reunification of the North and South

are inseparable issues, as is very clear from the domestic policy carried out by the Park government since the North-South Korean joint communiqué of 4 July 1972. It is self-evident that the presence of foreign troops is basically incompatible with a voluntary and peaceful unification program. It seems to me that the United States, South Korea and Japan, insisting on "North-South dialogue" as the prior condition for unification, are becoming even more uncompromising than North Korea, which holds to its stand that the democratization of South Korea is the necessary precondition.

The U.S. and Japan might be wiser to emphasize the necessity for guaranteeing dialogue between North and South Korea, rather than security after unification. As a first step toward that end, the two countries must establish direct contact with North Korea. Doubts or apprehension about contacts with the North can be dispersed by full consultation beforehand with the South Korean government. Today, when both the Soviet Union and China refuse to participate in any negotiations over Korean unification, and South Korea turns a deaf ear to demands from the North for democratization of the South, contact with North Korea by the Carter administration is the most realistic approach toward "North-South dialogue."

III

The area most affected by the victory of North Vietnam and the subsequent socialization of the Indochinese countries is Southeast Asia. ASEAN was formed at the time of escalating military interference in Vietnam by the U.S., which had already started bombing North Vietnam. At first, this regional organization had a relatively strong military coloring with

anti-communist goals. Later it tended toward neutralism, and today it has become an independent cooperative association with its perspective centered on Indochina. The transformation of ASEAN is a stark reflection of change in the relations between Asia and the great powers, including the United States.

It is widely known that Japan's sudden approach to ASEAN is being conducted with encouragement from the United States and agreement that is apparent in the content of the U.S.-Japan joint statement of March 1977. This probably reflects what the U.S. has learned from the experience of Vietnam.

Japan's foreign policy has always made political balance a secondary concern to the economy, and economic balance is pushed aside when political tasks demand attention. These defects in Japan's foreign policy haunt the prime minister's recent visit to the ASEAN countries, conducted in a jubilant atmosphere of a "New Age for Japan and ASEAN" and a generous commitment from Japan of 400,000 million yen in economic aid. Relations between Japan and ASEAN contain not only elements of the North-South issue but the East-West question as well. But the recent approach to ASEAN has made it clear that Japan regards economic cooperation with Asian nations in the context of "security and freedom," which strongly suggests greater concern for East-West than North-South problems in Japanese thinking. That is supported by consideration of the influence of Japan's moves toward ASEAN upon conflicts between the ASEAN and the the socialist Indochinese countries, which criticize ASEAN as an anti-communist organization. The Japanese government should not have neglected two factors, at least. One is that none of the governments of the ASEAN countries have stable foundations; they tend to be increasingly authoritarian under a cloak of democracy. The other factor is the crucial

situation the Indochinese states, particularly Vietnam and Laos, now face: their unceasing criticism of ASEAN stems precisely from the fact that they are in the process of pulling themselves out of the communist bloc. The Japanese government, which regards itself as an equal partner of ASEAN and also as a great power, must realize that what is required of a great power is not hasty compliance with the wishes of ASEAN, but a perspective broad enough to build long-term, positive relations with ASEAN, and a policy that will help ASEAN develop into a body whose members all aim at peace, security and prosperity.

IV

It was the Sino-Soviet conflict that enabled the United States to embark upon massive military intervention in Vietnam. It was also the Sino-Soviet conflict that brought ignominious defeat to the United States. We are beginning to understand the importance of that fact more and more. A protracted Sino-Soviet rift pushing Asian socialist countries toward independence rather than dividing among themselves. This forces China and the U.S.S.R. to be cautious in taking any stance toward the countries of Asia. They are more prudent about dealing with or generating change in the political and military power balance in Asia than in other parts of the world. Thus, the Soviet Union and China are constantly preparing for change in the power balance, and that is also the reason their Asian policy focuses more heavily on strengthening their own military power than on military aid and cooperation. It is highly improbable that either one will do anything to seriously upset the power balance in Asia. The

so-called southern advance of the Soviet navy is being made more for political than military reasons. The area where the Soviet Union most seeks an effective military presence is its long national border with China running from the Pacific coast to Central Asia. Even then, the central aim of the Soviet Union is to create a credible deterrent against China, and the same is true for China.

The power balance in Asia between the Soviet Union and China will not change in the foreseeable future. The U.S. and China have paved the way for normalization and the questions remaining between them all revolve around domestic arrangements. As far as the U.S. and the Soviet Union are concerned, if any trouble occurs between them, it will arise outside Asia. The Soviet Union apparently wants to avoid conflict with the U.S. at least in Asia. However, if the U.S. and China try to push Japan into joining them in establishing a dominating presence over the Soviet Union, the power balance in Asia will wobble, or break.

Japan's relations with China and the Soviet Union will continue to be influenced by Sino-Soviet relations but remain basically as they are today. Sooner or later a friendship treaty will be concluded between Japan and China, which will include a hegemony clause worded as a general principle. As for the northern territorial dispute between Japan and the Soviet Union, Habomai and Shikotan may be returned to Japan, but the status of the other two islands, Kunashiri and Etorofu, will remain unsettled. This issue will remain pending; it will be a major question for Japan -- not a big factor in relations between the two countries. The question will not have decisive influence on other areas in Soviet-Japanese relations. Japan has actually widened its diplomatic options regarding China and the Soviet Union by strengthening relations with ASEAN, and as a result, the course

of relations between Japan and the Soviet Union and between Japan and China will most likely be more peaceful.

V

I conclude that for the foreseeable future there will not be any senseless, direct attack upon Japan by any single Asian country, including the Soviet Union and China. The function of the U.S. troops stationed in Japan in accordance with the U.S.-Japan security treaty is not only to ward off a potential direct attack on Japan, but also to prevent the expansion of communism or totalitarianism. Those aims, however, are losing their meaning. Without the political function of the security treaty, neither the Japanese nor U.S. government can assign active significance to the presence of U.S. troops in Japan. It seems the only reason the two countries persist in keeping U.S. troops in Japan is the fear that reduction or withdrawal might destroy the power balance in Asia.

The question that must be posed is what the U.S. would do if a conflict arose between Asian countries or between government and anti-government forces in any one nation. If domestic trouble occurs in one Asian nation, the possibility exists that the U.S. might move to help the anti-revolutionary side, its bitter experience in Indochina notwithstanding.

I do not believe the U.S. will take such a step, but to remove even the slightest possibility of American intervention, the U.S. must help eliminate or improve conditions conducive to internal struggle within each Asian nation or to military clash between Asian countries.

One important task for the U.S. in that respect is to stabilize the livelihood of the Asian peoples through economic and technological cooperation.

It is from this viewpoint that I see the benefit in a gradual reduction of U.S. forces in Japan, including Okinawa, leading ultimately to a complete withdrawal. U.S.-Japan relations would also benefit by replacement of the security treaty with a "U.S.-Japan friendship treaty" to deepen amicable ties between the two peoples. That is also the conclusion the JSP has reached in this "transformation decade."

The friendship treaty should ^{not} simply represent abrogation of the reciprocal arrangements now in force by the security treaty, nor should it center only ^{on} questions pending between the two countries, for then it would be a dead treaty. The two Pacific neighbors must pledge renunciation of war and aggression, make steady efforts to develop friendly relations based on mutual understanding, and support social progress and permanent peace throughout the world. This general principle should be the basis of the friendship treaty, and to realize that principle it should then make provision for exchange and development in all fields, including politics, economy, culture, science and technology.

VI

Regardless of the regional characteristics of Asia and particular state-to-state relations, the foremost fear shared by virtually everyone is proliferation and build-up of nuclear weapons. The U.S. and the Soviet Union bear greatest responsibility for this threatening reality that affects

the entire human race. The horizontal and vertical proliferation and progressive increment of nuclear weapons, which we see today, are part and parcel of the development of the Strategic Arms Limitations Talks between the U.S. and the Soviet Union. Every round of the SALT negotiations has only further proved that the nuclear policies of the two powers have consistently been based on balanced expansion.

It may be optimistic to think that detente between the U.S. and the U.S.S.R. can weather a temporary reduction in nuclear power by either one of the two countries, but I strongly wish that one will be sagacious enough to break the cycle of balanced expansion of nuclear arms and set out to achieve a balanced reduction, in defiance of a temporary military imbalance. If this can be done, and it is urgent, it will provide a chance for the U.S. to divert its huge war production into other channels and the Soviet Union will have a chance to reduce its steadily rising production of armaments and prove that it is truly working for peaceful co-existence as it claims.

What is important here is that if the U.S. tries to elicit even token cooperation from Japan in American nuclear strategy, it will lose the trust and understanding of the Japanese people, regardless of the Japanese government position. The Japanese people are the only people in the world who have experienced nuclear holocaust, and that searing experience brought forth unanimous nationwide consensus on the three principles of rejecting possession, production or placement of nuclear weapons on Japanese territory. Thirty-two years have passed since the holocaust, and Japanese are still "allergic" to anything related to nuclear energy. To some, the Japanese attitude is sentimental and naive, but most Japanese would reject this criticism, calling it downright dangerous thinking.

We demand that the U.S. remove all nuclear weapons from its bases in South Korea, the Japanese mainland and Okinawa; that is the only way to show respect for the feelings of the Japanese people, and the indispensable first step in the denuclearization of Northeast Asia. I was impressed by the pledge by President Carter in his inaugural address to eradicate nuclear weapons. Mr. Carter's pledge supports our wish for a peaceful world where nuclear deterrence is not necessary, and we hope to see that pledge carried out in future SALT negotiations and in policy implementation in Northeast Asia.

VII

The last decade has brought about great change in Japanese domestic politics as well. Absolute majority rule by the conservative Liberal Democratic party was shaken by a strong tendency toward multiparty rule that began in the early 1970s, and now, having only marginal superiority, the LDP is about to lose its dominance over the reformist parties. Japanese voters chose a multiparty parliament in the last several elections, in which the LDP advocated political stability and maintenance of the status quo, and the JSP, the leading opposition party, stressed change from conservative to reformist political dominance. I see this choice as an honest reply from the people to the JSP, for its failure to offer them enough, if any, alternative political plans to deal with the changes that have taken place in the last ten years.

The multiparty trend is synonymous, at least concurrent, with the spreading tendency away from committed support for any particular party, as the results of the 10 July Upper House election showed so clearly.

Now, if any party wants to regain popular trust, it must achieve a national consensus through dialogue in regard to the future of this country.

The JSP has proposed that the course most likely to draw national consensus should be based on the Japanese Constitution. Our Constitution, in which Japan renounces war and possession of military power as a means of settling disputes, has withstood a history of thirty-two years since its promulgation, which strongly suggests that to this nation, so poor in resources, there^{is} little that is more important than a peaceful and stable international environment. Today the role of military power in international security relationships is becoming more and more limited. But in Japan, now an economic great power, the efforts to raise the nation to a military great power are as strong as anytime in the past thirty years. The pressure for increased military capability, including nuclear weapons, as a means to build political influence concomitant with economic great power status is becoming particularly conspicuous as the gap between the Constitutional ban on military capacity and the real capability of the Self Defense Forces widens.

To me, complete demilitarization and nonaligned neutrality, which are firmly grounded in the Japanese Constitution, are crucial issues from now on, and I urge the Japanese to create a strong national consensus supporting these goals and forge thereby a directed course for the future.

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Background Papers

ADMINISTRATION OF THE WORLD ECONOMY AND JAPAN

by
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ADMINISTRATION OF THE WORLD ECONOMY AND JAPAN

I. World Economic Issues

The Unfolding Drama

The drama of world economic development in the thirty-odd years since World War II has played in three acts. The first act portrayed recovery from wartime destruction. The United States emerged virtually unscathed from the fires of war to command the economically dominant position as producer and supplier for the world. Trade surpluses accumulated by the United States were channeled back to deficit countries in the form of payments, aid and investment. As always, however, the most serious problem in managing the world economy was the shortage of dollars.

The U.S. dollar as an international currency was backed completely by gold. Since the dollar was as "good as gold," all national currencies were pegged to it, and all national economic policies were formulated in the context of compulsory adjustment to the dollar-gold standard. That unipolar mechanism in the world economy centering on the U.S. dollar lasted throughout the fifties, providing a stable basis for recovery and growth. That "Pax Americana" was an enormous boon to countries with strong growth potential like Japan, for it contributed to holding down inflation, encouraged savings, and helped expand exports and raise domestic investment.

The curtain had risen on the second act before the world was quite aware of what was happening. The relative superiority commanded by the United States in production and supply had slowly declined, but no corresponding adjustments had been made in the role assigned the U.S. and the dollar in administering the world economy. This inconsistency was exacerbated in the sixties with the increasing seriousness of the North-South problem and the Vietnam War.

When the link between the dollar and gold was officially severed in 1971 and the system of fixed exchange rates was also officially brought to an end in early 1973, people finally began to realize that what they were watching was no longer the first act but the second. Their awakening actually came a good ten years after the fact. The period from the sixties through the early seventies was spent, so to speak, groping about for an understanding of the plot informing the second act. Unfortunately, it was never revealed. Everyone recognized that some sort of multipolar structure would have to follow collapse of the unipolar system centering on the dollar. With the benefit of hindsight, however, we can see now that in searching for a "new multipolar structure" we were too taken with an inflationary approach that placed altogether too much emphasis on the advanced industrial nations. The first conference of the Group of Ten finance ministers was held in 1962, when the excessive burden placed on the United States and the U.S. dollar was noticed. That conference was the natural first step toward a multipolar mechanism and the Group of Ten was to play the stellar role in the second act.

The Group's weakness, however, was its inability to move beyond the outmoded plot of the first act according to which the maintenance of equilibrium among the advanced industrial nations was a necessary and sufficient condition for equilibrium in the world economy. In 1972, when the Bretton Woods system collapsed in fact as well as in name, the search for a new international monetary system led to the formation of the Committee of Twenty, which included less industrialized nations as well. The Committee published its conclusions in 1974 as "Outline of International Monetary / ^{Reform,} but here again, the basic tendency was to emphasize equilibrium only among the advanced industrial nations. Most people overlooked the fact that the international economic order within which

a monetary system must function had changed fundamentally in the preceding twenty years.

The blow dealt advanced industrial nations by OPEC's precipitous, unilateral increase of oil prices at the end of 1973 constituted severe retaliation for past negligence. Absolutely no efforts had been made in the course of the international monetary adjustment process that followed the summer 1971 "Nixon shocks" to seriously consider the interests of developing nations, including the oil producers. Moreover, in fear of the deflationary impact of monetary adjustment, the advanced industrialized nations gave first priority to domestic employment and exported inflation. It was such factors that triggered the oil crisis.

Wounds Inflicted by the Oil Crisis

With the above events we entered Act Three, and the "oil shock" provided a curtain-raiser much more dramatic and disorderly than that which belatedly had brought in Act Two. The oil crisis brought a sudden shift in the international capital flow, with the oil-producing nations registering enormous surpluses, and importing nations experiencing equally dramatic deficits. That turn was so extraordinary that the 1972 OPEC current account surplus of \$700 million jumped to \$3,500 million in 1973, then soared to \$59,500 million in 1974. The initial shock was so extensive that price forecasts and estimates of OPEC surpluses were extremely erratic, ranging from highly optimistic to very pessimistic. The vast majority though, foretold doomsday, when the oil-importing nations would be hounded by deflationary pressure beyond all possibility of adjustment, the OPEC countries would continue to amass enormous surpluses, and would furthermore be unable to reflux those profits smoothly. By 1975, however, predictions became more optimistic.

Now the oil-importing countries were thought to be gradually adjusting to the new price system, the OPEC nations to be increasing their import demand, and accordingly the OPEC current account surplus was not anticipated to be as great as once was thought. Concerning the reflux of oil money, too, it was believed that the stable flow was broadening and the attitude of the OPEC nations showed definite signs of maturity.

Yet, I cannot/^{but}believe that such optimism is premature. When the outlook for development by the oil importing nations of alternative sources of energy, and forecasts concerning the probable increases to be expected in the oil producers' absorptive capacity are taken into consideration, one can only conclude that a large OPEC current account surplus will last for a long time. As a result, the OPEC nations will amass enormous financial assets. It is possible that those assets will be held in a stable manner, but it is conceivable that under some unforeseeable circumstances they could become a source of disorder. In that sense, gradually increasing pressure toward instability in the international monetary situation is probably unavoidable. Moreover, the continuation of large-scale deficits on the part of the oil-importing nations is enough to cause continuous leaks in effective demand with the deflationary gap constricting economic growth.

As is already becoming clear, under such circumstances, large differences in economic performance open up among oil-importing nations, including both advanced industrial countries and developing nations which are not oil producers, leading to a pronounced polarization between "strong countries" and "weak" ones. The latter will be forced to adopt retrenchment policies to improve their balance of payments position, but limits will be imposed by domestic issues such as unemployment. In addition, "weak" and "strong" will find themselves in conflict over how

to distribute financial burdens, and the danger of protectionism will loom large. Probably the most serious scars left by the oil crisis are the perpetual nightmares that experience will inflict on the economies of oil-importing nations.

Two lessons of the oil crisis were that import prices for oil are very inelastic, and that the initiative in price and supply determination lies almost entirely with the OPEC nations. Just how far the OPEC countries will be able to go on arbitrarily manipulating price and supply in the future is an open question. Even if OPEC were to continue efforts to maintain a reasonable stance, when domestic political conditions in those countries are considered, along with tensions between Arab and Israel, and U.S.-U.S.S.R. confrontation in the Middle East, no one is able to say with confidence that there will be no further dramatic changes in oil price and supply.

It is no doubt true that only our own naiveté can explain why such concerns were not voiced before 1973. At any rate, fear of a renewed outbreak of panic and, more fundamentally, apprehension that resources are inadequate to provide the energy necessary for world economic development, acts as a fatal depressant on business psychology in the oil-importing nations, particularly those like Japan with a high degree of dependence on imported oil. One of the main reasons Japan has not yet completely recovered from the recession of two years ago is that managers have insufficient confidence in the future to make the required capital outlays. Business psychology itself has undergone profound "structural change.

Overcoming the Malaise :

The major problem now facing the world economy is still the scars

of disequilibrium left by the oil crisis. Realistically speaking, they cannot be cleared up entirely in the near future. That being the case, we have no alternative but to continue trying to steer the world economy safely while remaining mindful of the dangers.

First, we must strengthen our efforts to reduce the deficits of the oil-importing nations by improving OPEC's absorptive capacity while at the same time expanding the export capability of oil-importing nations vis-à-vis OPEC. Assuming that it is unrealistic to expect that efforts to develop alternative sources of energy will bear fruit in the near future, constraints on oil consumption must be made as tight as possible, particularly in countries that are large importers. The degree of success experienced by the United States in such efforts will have an important influence on the situation in the rest of the world. Since deficits on the part of oil importers will remain nonetheless, realistic and durable measures are essential in order to bear the financial burden.

In the first place, imbalances among oil-importing nations must be reduced to the lowest possible level. For that purpose international consultations are called for to harmonize economic policies. Secondly, financial facilities will have to be made available for nations facing balance of payments difficulties, and efforts must be continued to facilitate the recycling of oil money. Third and most important is the difficult task of restoring the hope and confidence in the future of business executives and workers in the oil-importing nations. No instant remedy is available for that purpose, but readily apparent is the need for a firm policy stance by governments of the importing nations. It hardly need be pointed out that the posture of the United States government in this regard is extremely influential. In order to bring the world through this period of instability, the United States will

have to display a firm and credible position not only in its economic and energy policies but in diplomatic and military affairs as well.

II. Japan's Resource Strategy and Trade Relations with Industrial Countries

The Resources Problem

Little need be said about Japan's lack of resources. In 1976, Japan imported 100 percent of its crude oil, iron ore, cotton, wool, bauxite and gum rubber; 77 percent of its coal, and 97 percent of its copper ore. If trade were completely cut off, the 110 million people on this group of small Pacific islands would perish in a very short period of time. Japan is probably the only major nation in the world for which this tragic prospect has a certain touch of reality. As a result of this acute vulnerability in the realms of raw materials, energy and food resources, Japan has the least economic security of any major nation.

According to forecasts of long-term technological progress, we should not completely reject the possibility of some epoch-making alternative appearing in such fields as nuclear power and the use of sea water. For the foreseeable future, however, we will have to continue relying on traditional sources of raw materials and energy. Moreover, we have become increasingly aware that the supply of those traditional resources are limited. We must conclude that Japan's economic vulnerability may increase for some time to come and certainly will not decline. That being the case, Japan must devote highest priority to even partial alleviation of that vulnerability by striving to secure a stable supply of raw materials and energy through economical, and

peaceful means. Efforts which Japan can and should make in that direction are:

First, cooperate in maintaining a stable, peaceful international economic order, and diversify import sources. It is primarily by virtue of the maintenance for more than thirty years of a stable and peaceful international economic framework that Japan, despite its vulnerability, has risen to a position of economic strength second only to the United States in the Free World. A peaceful framework has been particularly essential to Japan because of its relative lack of the diplomatic and military pressure other states are able to bring to bear in achieving their objectives. Also, by participating actively in such international forums as the multi-lateral trade negotiations, Japan must devote its utmost efforts to the maintenance and enhancement of the principle of free trade. Japan's sources of raw materials and energy resources span the world. If we were to select those areas with which particularly close relations are most essential, however, they would certainly be Pacific rim nations such as the United States, Canada, Australia, New Zealand and Indonesia, as well as the Middle East, and certain Latin American nations. It is necessary for Japan to avoid hostile feelings on the part of any nation, and to expand a diverse web of interdependent relationships throughout the world.

Secondly, Japan must promote financial and technical cooperation with nations able to supply resources. Developing nations in possession of resources, particularly oil, are not satisfied with just selling their raw materials as primary products. They demand greater value added and seek to industrialize. In the future, great care will be necessary to avoid giving the impression that "the advanced industrial nations are exploiting primary-product supplier countries." Japan must provide them with direct aid in terms of both technology and capital, thereby raising their productivity and earnings ratios. Moreover, by promoting processing

facilities in producer countries, Japan can help them retain value added earnings and in that manner provide them with direct and indirect aid toward the goal of industrialization. Such a process will burden Japan with higher manufacturing costs, but it is a price we must pay as a vulnerable industrial economy. On the other hand, such a policy will increase mutual dependence, and thereby help in securing a stable supply of resources.

Thirdly, increase long-term contracts for a stable supply of resources and augment reserves. In concluding long-term contracts with the resource-producing nations, Japan will have to consider responding favorably to resource countries' demands for ^{export} income compensation. We must not forget that stability does not come cheaply.

At the same time, in order to augment its bargaining power, Japan should increase to the maximum possible extent its reserves of major raw material and energy sources. Such stockpiles mean added costs, but just as in the case of oil reserves, it is a necessary expense for resource-poor economies.

Efforts such as the above will not in themselves assure Japan's access to all the resources it needs. As already noted, Japan will always live with a certain degree of economic vulnerability, and as its economy, and the world's, expand, that vulnerability will increase. It is also true, however, that as its dependence on imports of energy sources, raw materials and food expand in volume, Japan's position as a major buyer contributing to the expansion of the world economy will be strengthened.

In 1975, Japanese imports accounted for 45 percent of total world trade in iron ore, 12 percent of that for grain, 48 percent for lumber and 18 percent for crude oil. When imports assume these proportions, their

weight vis-à-vis income and employment in supplier nations is so tremendous that it cannot be ignored. Rather than begging, Japan is actually guaranteeing a large portion of the exporting countries' income and employment.

The Japanese resource problem requires delicate handling. It encompasses weaknesses as well as strengths on Japan's part, and inevitably involves non-economic factors. Necessary above all else are a relationship of interdependence with resource-producing nations and the rationality on both sides to recognize that fact.

Trade Relations with Advanced Countries

In the absence of raw materials, Japan is destined to be a processing and trading nation. Because of its geographical identity as an island country, and the historical fact that Japan industrialized in relative isolation from the major industrial centers of the world in an attempt to catch up with them, it has always embraced a strong instinct of self-preservation. That instinct has been manifested in a desire to be self-sufficient in all manufactured products, making Japan fundamentally different from the nations which developed in the European or North American industrial center. Hence, horizontal international specialization comes less naturally to Japan than other industrialized nations.

Japan's industrial and trade structure, with the emphasis on processing, makes unavoidable an unfavorable trade balance with the raw material and energy resource producing nations and a favorable balance with all the others, including of course, the advanced industrialized nations. Moreover, since Japan's economic structure dictates large deficits in trade-related service transactions, it must have a correspondingly high surplus in trade transactions. In view of the above factors, it seems that the Japanese economy has an inherent propensity toward friction with advanced industrialized nations. A country which

rejects horizontal international specialization and amasses large trade surpluses can hardly be considered a desirable trading partner from the viewpoint of an industrialized nation.

When Japan's share of the world export market was minimal, this situation was tolerable. But in 1976, Japan accounted for 13 percent of total world exports of manufactured products. Obviously, we can no longer ask for indulgence on the basis of geographical or historical circumstances. That fact is illustrated by recent trade friction with the United States and the European Community.

Japan wants to maintain a certain level of surplus in its trade with nations such as the advanced industrial group. As long as Japanese exports are high in quality, competitively priced goods, they will contribute to holding down inflation in the importing nation and benefit consumers. Nevertheless, we always must bear in mind the possibility of Japanese exports falling victim to a witch hunt at a time of bankruptcies and unemployment. If Japan intends to continue a trade surplus with the industrialized nations while creating minimum friction, there are several needs which have to be met simultaneously.

In the realm of imports, we must embark on programs to promote horizontal international specialization in manufactured goods and liberalization of agricultural product imports with full realization that such a course of action will cause long and agonizing changes in economic and social structure. If Japan is to hold aloft the banner of free trade, it naturally must open its own doors to trade, not just to the advanced industrialized nations but to the semi-industrialized such as South Korea and Hong Kong. Here, too, adjustment assistance is indispensable. We must pursue a domestic economic policy aimed at stable expansion of import demand. Also, in order to facilitate penetration

of Japanese markets by foreign goods, efforts to remove non-tariff barriers to trade must continue.

Turning to exports, in order to avoid monopolization by Japanese goods of too large a market share in any given importing nation as a result of precipitous increases in exports, there will have to be an effective program of monitoring and control. We should also expand the level of direct investment in the industrialized nations by constructing more plants and facilities there. That will be welcomed as a contribution to employment as well as a stimulus to the local economy as procurers of parts and other goods.

Direct investment in manufacturing requires large capital outlays, and in many instances production in a foreign nation means higher costs and lower quality. Thus as long as export is possible, there are few incentives inciting export industries to produce in foreign nations. Nevertheless, exporters will have to understand that, from a long-range perspective, direct investment is the inevitable choice.

There are two facts of trade relations with the advanced industrial nations which, if they are recognized, serve the interests of all. The first is that international maintenance of a free-trade principle is a matter of life and death for Japan, and Japan should take the lead in championing that principle. Fortunately for Japan, the United States and West Germany still strongly advocate the preservation of free trade, and other nations are not to the point of totally deserting that principle. The second fact is that Japan must develop an open economic system whereby the entire world is the stockholder and the customer of Japan, Inc. Both these facts will take time to assert themselves. Haste produces only friction.

III. A Stable Monetary System

The Need for a Flexible Structure

Two things are demanded of any monetary system: that it work, and that it be stable. In that sense, as long as it is viable, few would contest the desirability of a system of fixed exchange rates. As noted above, Japan's postwar economic development depended heavily on the maintenance for twenty-two years of the fixed exchange rate of ¥360 to the dollar.

The problem is that we now lack the objective conditions which would allow a fixed exchange rate system to be viable. After the collapse of the unipolar international mechanism centering on the United States and the dollar, no assets existed which would work as a stable standard of value. In addition, there was no way to rectify fundamental disequilibrium on a worldwide scale fomented by the oil crisis.

In such conditions, a system of fixed exchange rates is unviable in any form. With the world economy in such a state of flux, the monetary system must be flexible as well. The new International Monetary Fund agreement, which is now in the process of ratification by member nations, will leave the choice of an exchange rate system up to each nation. This can be said to be little more than a confirmation of existing conditions, but under the circumstances, it is the most realistic approach.

When we cast our eyes back over the tumultuous change that has beset international finance after the oil crisis, it is plain that the system of floating rates was the only practical alternative. As long as large-scale disequilibrium remains, this is the only international monetary system that can function without collapsing. Further, as long as there

is no prospect of fundamental change in the present situation of instability, the float will have to continue.

The Float and Issues for the Future

On the other hand, the float has not functioned in a totally satisfactory manner. Even if we look just at the OECD nations, it is evident that rate fluctuations under the float have not functioned to adjust imbalances in international accounts. Even so, because of the floating rates, a significant number of nations are now determined to rectify their balance of payments problems through domestic economic policy.

Thus, even though continuing the float is the most realistic alternative, we cannot expect the float alone to redress balance of payments problems. It is necessary above all for the major nations, particularly the key currency countries, to conduct economic policy in a disciplined and prudent manner. In that connection, policy coordination among the major nations is more important than ever. The new IMF agreement provides for IMF surveillance of exchange-rate policy, and this process too functions as an important link in international policy coordination. One practical problem ^{is that} under present conditions policy makers cannot choose between adjustment and finance. Adequate financing facilities must be provided. Nevertheless, it should be made clear that they are always subject to an element of conditionality, whereby financing functions only as a support mechanism for the ultimate purpose of promoting adjustment.

When OPEC amasses a large volume of financial assets, stability in key currencies is crucially important. Present circumstances demand, on the one hand, a system which is not fixed but elastic. Those circumstances also mean, however, that such elasticity not be without guiding principles.

If wild fluctuations in key currencies were to cause a general loss of confidence in financial assets held in those currencies, it is not difficult to imagine what disruption would result. In that sense, for the dollar, the yen and the mark to be stable themselves, and to also maintain a stable interrelationship, are the elements of the best monetary system we can expect under the circumstances. They are also absolutely essential.

IV. Japanese Conceptions of and Role in Economic Assistance

Japan's foreign aid began in the form of reparations to those Asian nations which suffered at Japanese hands during the second world war. It was considered primarily a vital link in export promotion policy. Reparations would help increase the purchasing power of the recipient nations, which would in turn enable these developing countries to import Japanese products. Thus, aid was perceived as a means of expanding Japan's overseas markets. Such a conception of foreign aid was perhaps a natural one from the point of view of Japan, which had just lost all of its reliable markets abroad and for which exporting was the only way for survival. Consequently, however, the deferred payment loan became the most dominant form of Japanese aid, and in providing official development assistance (ODA) it was often made mandatory that the aid be tied to the export of Japanese products.

It must be admitted that in carrying out its aid programs, Japan gave little heed to the needs of the recipients. No one would expect a car buyer purchasing on installment to express his thanks to the dealer, and likewise, the recipient nations have been little appreciative of this type of aid. The opposite has been the general rule; Japanese aid has usually been the cause for smoldering resentment.

Not until Japanese products gained a high degree of competitive strength and began to create demand for themselves, did our concept of aid move on a higher plane. It was no longer crucial to regard foreign aid as a support for the export drive. Japanese became aware of the global implications of their country's industrial development and began to see economic assistance in such a broad context.

Aid now means for Japan a method of contributing to a stronger, more stable framework for world economics and politics. In concrete terms, it is hoped that aid will help Japan obtain energy and raw materials and heighten the levels of its economic security. An aid program with these goals will no longer be geared toward promoting Japanese exports, but toward helping the recipient nation to develop itself.

Although such a forward-looking stance is fast becoming part of the attitude toward aid, the programs themselves still retain many drawbacks. First is the lack of efficiency due largely to the complexity of administrative mechanisms for handling aid. The Economic Planning Agency, the Ministry of Foreign Affairs, the Ministry of Finance, and the Ministry of International Trade and Industry jointly administer aid programs, which often give rise to competition over authority, great amounts of red tape and a slow process of decision-making. These ministers also tend to intervene excessively in the affairs of those institutions responsible for executing aid programs such as the Economic Cooperation Fund, the Import-Export Bank and the Japan International Cooperation Agency. These tendencies are detrimental to appropriate timing and judgments in the process of identifying, screening and making decisions on aid projects. They account for inefficiency and ineffectiveness in the aid programs. In order to overcome this deficiency, authority for planning and disbursement should be integrated under the aegis of a Ministry of

Economic Assistance.

The second problem is the lack of revenue sources due to fiscal stringency. Although Japan's defense expenditure is small, its government spending plays a major role in the national economy. With the rapid increases in recent years of expenses for what has become a sanctuary, welfare, it will be exceedingly difficult for the Japanese government to find financial sources for economic assistance.

With the recent visit by Prime Minister Fukuda to the ASEAN nations, Japan will have to adopt a much more forward-looking stance in its aid to Southeast Asia. Because of the failure of Japanese colonialism and other bitter war-related experiences in Southeast Asia, Japan seems reluctant to adopt any clearly defined principle in dealing with the region. When Japanese rid themselves of the thinking that an aid recipient nation is merely a market for goods, and when they become aware that the objective of aid has to be the building of a stable economic and political system in the recipient nation, Japanese assistance will embark on a period of epoch-making progress. Such a development would be the realization of what Prime Minister Fukuda has called "heart-to-heart communication" with Southeast Asia. It has taken a long time for Japan to arrive at this stage. Other nations get infuriated over the sluggishness of Japanese decision-making, but the correct course has finally been set.

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The Fourth Japanese-American Assembly (Shimoda Conference)
Text of Speech
September 1, 1977

Opening Remarks

by

Robert S. Ingersoll

Co-Chairman of the Shimoda Conference

My first task, a most pleasant one, is to express appreciation to our Japanese hosts and particularly the Japan Center for International Exchange, for bringing us all here together for this important conference. It is a particular pleasure for me to share the chairman's duties with my old friend Ambassador Ushiba. We have a rare opportunity in this conference. We have assembled from the two countries delegations that are notable both for their quality as well as their diversity. Old friendships can be renewed and new friendships made. We have the chance for frank and informal conversation on key issues which is not easy in more formal and official meetings.

The conference also offers us the opportunity to think more broadly about our mutual concerns and in longer run terms than many of us normally have a chance to do. We have, therefore, the chance to make a constructive contribution to the state of relations between our two countries and thereby to the strength of world order.

In my brief opening remarks I would like to touch on five considerations which I hope we will keep in mind during our deliberations.

First, like Ambassador Ushiba I am struck by the rapid evolution of Japan-U.S. relations, particularly so on re-reading the speeches by Secretary of State Kissinger to the Japan Society in June 1975 and the speech to the Society by Secretary of Treasury Blumenthal in May 1977. The Kissinger speech was liberally sprinkled with statements on the solid relationship which had developed between Japan and the United States.

Relations between them, he said, "have never been better in thirty years." Or again, "Our relations with Europe and Japan are equally vital..." and "For us, Japan is ... a permanent friend -- a partner in building a world of progress." This speech could be regarded as the definitive statement on behalf of the U.S. Government that Japan is firmly within the circle of America's closest allies. Blumenthal's speech two years later was completely different. No longer was there a need to dwell on the close ties between our two countries; this was taken for granted. Instead the Secretary in speaking about development needs began immediately by saying that the United States and Japan "share a major responsibility for responding to the developing countries." The speech was a call for Japan to join the U.S. in shouldering the burdens which wealth brings. The bluntness of the speech was a reflection of the degree of closeness which has become an established fact. The summit meetings at Rambouillet, San Juan, and last spring in London further underlined Japan's position as a leader in world economic councils. I would also add that the intensity of bilateral consultation is extraordinary. The Secretaries of State, Defense, Treasury and Commerce and the Chairman of the Joint Chiefs of Staff will have all been in Japan within a short period. The Prime Minister and other senior officials have just been in Washington. Important sub-Cabinet meetings will also shortly be held between our two countries.

My second point follows inevitably from the first. For our own sakes and for the sake of all nations Japan and the

United States must have broadly consistent views of how they want to see the world organized and managed. These two giant economies are so large in relation to the rest of the world that any serious disharmony between them could produce disastrous results for all. Although our combined populations amount to less than 8 per cent of the world's total population, together we account for more than half of all non-communist production and over one-fourth of all non-communist trade. Furthermore, we are the world's two largest industrialized democracies and share a commitment to the pluralist, open society. Japan and the U.S. are likewise the two greatest national pools of capital and technology. We also have within our borders the largest collections of scientists, engineers, technicians, and literate publics. We are the world's two greatest synthesizers drawing inspiration, ideas and culture from Asia, Europe, and indeed the whole world.

If these two nations cannot work together to help maintain world order, then it is hard to see how any of the problems we face -- such as development, trade, resource pressures, and peace -- can be solved.

We are all aware that many of our problems are now multilateral, and institutions in which Japan and the United States are members such as the OECD and the Trilateral Commission reflect this. However, these institutions cannot replace the need for close and cordial relations between Japan and the United States. In fact, these multilateral institutions would face grave difficulties if Japan and the United States were not in

reasonable harmony on most issues.

Security in Asia, particularly Northeast Asia, is a sensitive question, but it illustrates vividly the need for our mutual understanding. American forces will continue to provide the shield for allied and friendly nations regardless of the gradual withdrawal of ground forces from South Korea. The inevitable changes in the disposition of American forces to meet changing circumstances need to be discussed with Japan and other allies most carefully. In return Japan and other allies need to recognize that U.S. public opinion will not indefinitely support the use of U.S. forces for the defense of this region or any region if the American public believes that the presence of those forces is no longer desired. It is also a fact of life that American public support for foreign commitments is affected by behavior which grossly violates basic democratic principles. It is of great importance that Japan and the United States harmonize approaches to the People's Republic of China and the Soviet Union as we each seek for more stable relations with them.

My third and fourth considerations may sound like the antithesis of the first and second. Because Japan and the United States are open, market-oriented societies, our businessmen are always competing with each other and amongst themselves. The vigor of our two economies has produced between us the largest volume of trade between any pair of transoceanic trade partners in the world. Inevitably there are frictions such as those in color television and steel. We will be discussing these in the course of the next three days. We must perform the difficult

feat of competing vigorously within a framework which all recognize as fair and equitable. We must carry on this competition in ways which do not jeopardize our close political cooperation. Under our systems, governments cannot prevent private firms from doing anything they wish so long as their behavior is legal. Our systems require, therefore, widespread understanding and restraint among business and labor leaders.

More generally, both nations as democracies face the difficult task of conducting foreign policy with active public involvement. Both governments must depend on publics that are educated about the needs of foreign policy and neither can for long successfully carry forward policy which is not solidly based on public acceptance. This is, of course, a familiar point but it is worth reminding ourselves from time to time that we and only a few other countries seek to conduct our affairs in this difficult way because of our faith that this path holds the best hope for our own happiness and that of mankind. Private consultations such as these Shimoda conferences and the other discussions between our two countries which go on through many private channels are essential. They help to create the informed and educated publics needed for a democratic foreign policy. They provide the foundation for effective inter-governmental relations.

My fourth point is that there are fundamental differences between Japan and the United States which inevitably produce different perceptions of specific problems. It is to be expected that the United States with its substantial domestic supplies

of oil, coal and uranium will look at the energy problem differently than does Japan. The slowness with which the U.S. is moving to conserve energy, for example, is partially a result of widely held views in the United States that energy is and will remain in ample supply. There is no such misapprehension in Japan, I am sure. There are profound differences in the structure of Japanese and American society which is reflected in the way the two economies function. To take a mundane but highly important example, the Japanese economy works in a way which permits firms to operate with much higher ratios of loan to equity capital. This together with lifetime employment pattern gives Japanese firms a strong incentive to keep production high so long as marginal costs are barely being met. Export pricing and aggressive marketing may be the way Japanese firms seek to keep up production levels. Americans and other competing producers may feel victimized as a result. The first step toward finding an accommodation is to recognize that these problems are based on differences in our systems and not ill-will or bad faith.

Japanese and American historical experience and geography also contribute to differences in viewpoint. We cannot change these fundamental influences, but as we recognize their existence and their influence on our own and each other's policies, we have made real progress in the continuing work of bringing our policies into harmony. Our different viewpoints can become a source of strength if we use them wisely to give ourselves deeper understanding of our separate societies and economies.

Finally, we must not forget in our needs to discuss

immediate and urgent problems how rapidly some of these problems can alter. Within eighteen months after the great battle over textiles in 1971, Japan and the United States were working in closest harmony in international negotiations on textiles. All of you from your own experience can supply examples of problems which seemed desperate until they suddenly disappeared. By contrast there are problems which we know will be with us indefinitely such as the development needs of the world's poorer nations, the source and cost of energy in the future, the threatening population and food growth trends and the associated risk that man's actions may be steadily enlarging the world's deserts through poor land management. The Prime Minister's recent travels to the ASEAN countries underlines Japan's commitment to aiding the poorer countries. This is a particularly hopeful area for collaboration between our two countries. We will need to consult ever more closely to make sure that our efforts on these and other fundamental questions are mutually re-enforcing.

If this fourth Shimoda Conference is to be a memorable one we need to keep a balance in our discussions between talking about those immediate questions which tend to occupy us because decisions are pressing, and the more fundamental trends.

In conclusion then after making these five points I only wish to urge you all to speak with candor about the major subjects we will be discussing. We have excellent papers before us and distinguished speakers who will be making addresses to us. Among us we represent most of the diverse elements of our two countries and each of us has a significant capacity to

influence opinion and decisions in his respective country. We will make best use of these resources and our own time spent here if we share our thoughts fully and frankly with each other. Candor and forthrightness will help us more quickly to understand one another and thereby speed the process of finding that common ground on the issues where it is imperative that our two nations stand together. Through good fortune and our strong efforts these two countries have gained a great share of the world's wealth and with it power. Much depends on how wisely we use this power. This conference gives us the chance to help our countries make even better use of this opportunity.

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Background Papers

JAPAN'S ROLE IN EAST ASIAN STABILITY

by

Koichi Kato

House of Representatives

JAPAN'S ROLE IN EAST ASIAN STABILITY

So much has been written and so many excellent proposals have been made on the subject of Japan's role in East Asian stability that I feel somewhat awkward to add one more paper to the already rich body of literature. Having been a foreign service officer for a number of years until I was elected to the Diet in 1972, however, I would like to think that I am qualified to present my own perspective on the topic. My present position as Representative has allowed me to make first-hand observations of and gain insight into popular attitudes and responses to foreign affairs. Although the opinions of average citizens, my constituents included, often lack sophistication, they are honest and of course, very important. To be viable at all, Japan's foreign policy must have their support, while serving the basic security needs of the country. It is from such a vantage point that I would like to discuss the future course of our foreign policy, especially as it relates to East Asia.

I will first outline certain conditions which must be regarded as givens in the conduct of Japan's foreign relations. A priori acceptance of these conditions will help make the discussion more fruitful. I will then try to evaluate past diplomatic efforts by focussing primarily on relations with the United States, the Soviet Union and China. I will also discuss the implications of recent domestic political changes for the future conduct of Japanese foreign policy. I believe such analyses are basic to any examination of the Japanese role in East Asian stability, which is the final but main topic of this paper. To prevent the discussion from becoming unnecessarily abstract, it will be confined to the next three or four years, that is, until the beginning of the eighties.

I

What are the conditions and tendencies in international environment surrounding Japan which may be regarded as a priori in the conduct of Japanese foreign policy between now and 1980? First, the Soviet-American relationship, the major factor defining the overall framework of international relations, will continue more or less as it is now, despite inevitable ups and downs. Neither of those powers desires a resurgence of cold-war hostility. The gradual attainment of a high degree of advancement and differentiation in Soviet industrial structure and the potentially adamant demands of the Soviet people for higher living standards, contribute to this continuity. Such internal factors make it difficult for the Soviet Union to sustain a protracted arms race with the United States. The United States would also prefer to avoid arms competition at a time when the so-called Bretton Woods system, the postwar economic framework which has enabled the advanced democracies to maintain prosperity, is facing a time of trial.

Secondly, considering factors that have defined the East Asian situation since the sixties, it appears to me that the Sino-Soviet dispute will continue. Both sides are of course well aware of the great interest with which Japan and the United States watch their conflict, and for that reason they may very well make some overt gestures toward conciliation. On the other hand, distrust between Peking and Moscow is already deeply rooted, and even if it could be overcome, neither power seems to sustain internal conditions which would cause it to favor a policy of reconciliation. If any reservations are necessary at all with regard to this judgment, they have to do with the future policy of the U.S. toward the Soviet Union and China, and particularly how that policy will develop within Asia.

Thirdly, while it is still impossible to view China's domestic affairs as stable, that instability is not expected to have any bearing on China's fundamental foreign policy line. It is true that many of China's domestic power struggles have involved disputes over the line that should be adopted in regard to diplomatic issues, but there seems to be a consensus among Chinese leaders in support of the anti-Soviet tone of recent Chinese foreign policy. In that connection, however, we must continue to pay close attention to the degree of stability manifested by the new Hua Kuo-feng regime.

Fourth is the high degree of Soviet interest in Asian affairs. Before 1980, however, the Soviet Union will probably make no unilateral move to disrupt existing power relationships in the region. The manner in which Soviet naval power is expanded in the Far East and the movements of ground forces along the Sino-Soviet border will bear careful watching, but barring any unforeseen circumstance, the Soviet Union will not consider any action that would agitate either the United States or China. My basic premise, then, is that as far as three of the above factors are concerned -- Chinese policy, Soviet policy, and the Sino-Soviet dispute-- no autonomous moves will be initiated by either party to bring about fundamental change in the existing situation. If, in fact, such moves do take place, it will be the result of causes external to the Sino-Soviet system itself, which force the Chinese or Soviet leaders to act. The most important of such active external factors is the Asian policy of the United States. Japan's Asian policy is comparatively limited in that sense, but there is room for Japan to function in certain prescribed ways.

II

How should we evaluate Japan's past diplomatic efforts? What salient features of recent developments in domestic politics relate to the conduct of foreign policy? It goes without saying that Japan-U.S. relations are the most important factor to be considered in any examination of Japanese diplomacy. At the same time, the realities of Japan's diplomacy toward China and the Soviet Union also provide suitable material for an assessment of postwar Japanese foreign policy. Before addressing the above question, however, I should like to take this opportunity to relate my personal impressions of recent American policy toward Asia.

Frankly, I have difficulty grasping the true intentions of American policy. In particular, I wonder how Asia figures in American policy toward the Soviet Union, or more correctly, if it has figured at all. This question becomes even more vexing by my personal impression that such policy events as President Nixon's visit to China, the pullout from Indochina and the recently announced staged withdrawal of ground forces from South Korea have been heavily motivated by domestic considerations. I am certain of the sincerity with which the United States, particularly the Carter administration, pursues relations with Japan. But what does United States expect of Japan? To what extent do American leaders realize the impact in Japan of even the slightest change in U.S. policy toward Asia? What role does the United States assign to Japan in its Asian policy? I myself cannot respond with confidence to these questions, and I wonder if any of the other participants in this conference can assist me.

Such doubts are harbored by the Japanese people as a whole, who consider themselves America's foremost ally in Asia, and even by people like myself whose party, the Liberal Democratic Party, espouses as the central tenet of its foreign policy the maintenance and promotion of amicable

relations between our two countries. One can certainly imagine the degree of skepticism that infects America's other allies in Asia. And with how much less certainty must those potential adversaries of the U.S., the Soviet Union and, to a lesser degree, China, be forced to make their policy judgments? Such unpredictability is a potential source of crisis.

To return to an assessment of past Japanese diplomacy, it should be reiterated at the outset that the primary objective of that policy has been the maintenance and enhancement of cooperative and friendly relations with the United States. The vast majority of Japanese, with the exception of a small segment of the opposition parties, are fully aware that their present level of prosperity would have been impossible without a close relationship with the United States. The chief factor in that prosperity has been the maintenance by the United States of its commitments to Japan under the Japan-U.S. security treaty. An increasing number of Japanese realize how fortunate they are to have been able, under American military protection, to devote their entire energy to economic recovery and growth. I believe that evaluation to be completely correct. It would be impossible to contemplate postwar Japanese foreign relations without considering the role played by the United States. It is true that Japan's relations with the Soviet Union and China have generally been considered the antithesis of Japan-U.S. relations, and it should not be forgotten that the mending of ties with those two socialist nations occurred only with popular skepticism concerning Japan's America-centered diplomacy. It is no accident that the restoration of diplomatic relations with the Soviet Union in 1956 was carried out by Ichirō Hatoyama and Ichirō Kōno, two men who had long been rivals of the U.S.-oriented Shigeru Yoshida.

More recently, the reaction, or more precisely, the unease, of the people and the LDP when the United States began a dialogue with China without prior consultation with Japan, was a factor behind the normalization of Japan's own relations with China in 1972.

When relations were established with the Soviet Union, and later normalized with China, there were moves in Japan to reexamine the conduct of Japan-U.S. relations based on the security treaty. Nonetheless, they were not enough to change the basic direction of Japanese policy. Surely that is symbolic of an overall situation in which even policy toward China and the Soviet Union was always conceived within the framework of an emphasis on relations with the United States.

In Japan-Soviet Union relations, it is noteworthy that the Soviet Union has yet to abandon its consistent hostility toward the Japan-U.S. security treaty, even though the emphasis on it has altered with time. Japanese policy toward the Soviet Union, however, has always been clear. Although return of the northern territories has always been the main objective of Japanese diplomacy vis-à-vis the Soviet Union, Japan has consistently resisted any attempt by the Soviet Union to bring the issue of the security treaty into those negotiations.

From another point of view, a hostile relationship with a military superpower like the Soviet Union would be too great a burden for Japan. It therefore takes great pains to ensure a neighborly relationship. Until recently, the Soviet Union opened its fishing grounds to the Japanese, for whom fish constitutes the major source of animal protein. An additional incentive has been the vast resources of Siberia which are very attractive to a nation like Japan which has little or no sources of raw materials of its own. The Soviet Union is a nation Japan cannot afford to ignore.

There are many reasons why more active development of relations with the Soviet Union is desirable, but we have always acted cautiously. In the coldwar era, American pressure was a factor. During the seventies, we had to be careful not to stimulate an adverse reaction from China. In addition, however, we cannot ignore Japan's own tendency to be very circumspect in relations with its neighboring superpower. Many Japanese still brood over the final days of World War II when Stalin unilaterally abrogated his treaty with Japan and declared war. Adding fuel to Japanese suspicion are postwar Soviet policies and actions such as continual and high-pressure harassment year after year of fishing operations in the northern Pacific. The cumulative impact of these incidents has been very great. I trust I am not alone in believing that, although we are very interested in the natural resources of Siberia, we are inhibited from crossing the line to conclusive negotiations by psychological defenses against becoming involved in another problem as agonizing as fishing has been. It would probably have been impossible for Japan to maintain its stance with regard to the Soviet Union in the absence of a U.S. security commitment and popular confidence in U.S. policy.

Let us turn now to Japan-China relations. Japanese emotions with regard to China are very complex. On one hand are feelings of reverence (or awe mixed with fear) toward the nation which is the birthplace of so much Japanese culture. This aspect of Japanese sentiments also includes guilt and a need for atonement arising from Japan's invasion of that country. On the other hand is a wave of contempt for the Chinese people, whose country has been so late in modernizing. Together, those feelings add up to a high degree of familiarity, encompassing both respect and disdain.

As with the Soviet Union during the coldwar era, Japan's relations with China could not escape the influence of U.S.-Soviet confrontation. However, an important change in the international environment, the worsening of relations between the two major communist powers, removed many obstacles to the normalization of relations with China. Of course, just as Japan started to improve relations it faced a knotty Taiwan problem, and the "Nixon shock" of U.S.-China rapprochement was necessary to get Japan past that barrier. Nevertheless, it should be pointed out that as far as the Japanese motivation was concerned, the basic obstacles working against a normalization of relations with the Soviet Union were not present with China.

In addition to the above factors, China's policy toward Japan during the past few years was fundamentally favorable to the improvement of Sino-Japanese relations. More precisely, the foreign policy of the Liberal Democratic party government was in effect affirmed by the change in China's stance toward Japan. An extreme example is the Chinese evaluation of the security treaty as a positive element in the stability of Asian international relations. As Chinese leaders have stated on numerous occasions, relations with the United States are more important for Japan than relations with China. Imagine what it would have been like had China held fast to its earlier refusal to recognize the fundamental role of U.S.-Japan relations. Under such circumstances, the normalization of relations with China might not have taken place in 1972. There has always been strong Japanese emphasis on potential economic relations with China and this will continue as a factor for improvement in all aspects of the relationship. I am, however, hesitant about putting too much weight on economic relations as the fundamental factor in China policy.

In this connection, it is notable that some believe Japan's relations with China to be completely problem free. In my view, there is every possibility of problems occurring. The most important factor is that a relationship of mutual trust has not yet been established, as symbolized in the problem of the "hegemony clause" in the proposed peace treaty with Japan. That problem was provoked by differing Japanese and Chinese perceptions and policies toward the Soviet Union, but there were other, more important factors involved.

First, China considers relations with Japan to have started with the joint communique of 1972, and insists that conclusion of a treaty of peace and amity must be the next step in developing that relationship. Japan, however, is not ready to progress further with China out of consideration for Soviet relations. On the contrary, Japan now would prefer to retreat from the position established in 1972. The Chinese must be wondering where they stand in Japanese policy. The Japanese, for their part, feel China to be insufficiently sympathetic with regard to those circumstances enumerated above which make it difficult to sacrifice relations with the Soviet Union. Also, in view of major turnabouts executed in Chinese policy toward Japan since 1970, the Japanese are apprehensive that a further change could take place at any time. Japanese negotiators worry that if an ill-defined concept like hegemony is included in a treaty now, it could be used to Japan's disadvantage in the future.

Other elements of instability in the Japan-China relationship are the issue of the Senkaku islands and the different styles of defense policy pursued by the two nations. We also cannot be optimistic about differences in approach to the Taiwan issue. Hence, while our expectations must not be too high concerning Japan-China relations, they are at least more manageable than the problems with the Soviet Union. As

long as the security treaty is operative, and the United States has the ability and the will under that treaty to put the brakes on any unbridled Japanese military expansion, China will perceive no threat to its security arising from Japan. Moreover, it could be hard to imagine any basic change in relations of friendship and cooperation between the U.S. and Japan based on the security treaty, as long as the LDP controls a majority in the Diet.

No doubt there are those in Japan who would take issue with the above conclusions, particularly regarding the influence on foreign policy of the slim parliamentary majority held by the conservatives. In reference to the domestic situation, the LDP was just able to hold on to its majority in the recent House of Councilors election and there is little reason for optimism when looking to the future. The situation is such that it is difficult to expect the party to maintain a stable majority from the next general election forward. There already exists a ~~de~~ facto conservative-progressive coalition in the parliament and we are going to have to start planning for a future coalition government. It is interesting to note that nationalistic sentiment has risen precipitously in Japan recently, and it is the opposition parties, more than the LDP, that are trying to align themselves with that new force. A primary factor behind the emotional upsurge was the wave of national indignation engendered by the high-pressure tactics used by the Soviet Union in the Japan-Soviet fishing negotiations. Also, we should not ignore the fact that as the day of coalition government approaches, the opposition parties are seeking to find in nationalism a basis for the formation of a coalition with the LDP. It is certainly conceivable that this increased nationalism will give rise to forces calling for re-examination of past foreign policy with its basis in friendly relations with the United States.

Of course, the opposition parties by and large have no quarrel with emphasis on Japan-U.S. amity and cooperation, and they are well aware that Japan cannot become a global power. However, it appears that support for an autonomous Japanese role in Asian international society is growing stronger. Also, while it will most likely not affect U.S.-Japan security treaty there is an unavoidable possibility that public opinion will demand a revision of the U.S. forces status agreements. If the United States especially, again embarks on actions in East Asian relations without consulting Japan beforehand, new tension could infect Japan-U.S. relations. What is more likely, it seems to me, is that the growth of nationalism will bring changes in Japanese foreign policy toward the Soviet Union, China, Korea or Southeast Asia. If the Soviet Union continues to place restrictions on Japanese fishing in the Northern Pacific, there is a possibility that demands for a revision of relations with that country will grow stronger, with a concomitant growth of support for closer relations with China.

What I should like to stress, however, is that the near-parity between conservative and reformist forces in domestic politics could exert an increasing influence on our foreign policy. Whether we like it or not, we must keep that factor constantly in mind as we deliberate on directions for Japan's foreign policy.

III

In view of the above, I shall briefly offer my own views concerning objectives for Japanese policy in East Asia. In that connection, we must touch on the problem of what framework for international relations will best contribute to stability in the entire region, and how Japan should orient its relations with each of the nations in East Asia.

The U.S. and Soviet deterrents in East Asia will most likely remain effective. Under such conditions, the role Japanese diplomacy can play in the maintenance of stability in the region is not necessarily inconsequential. Insofar as not only the U.S. and Japan, but also China, are anxious to maintain the status quo in Asian relations, it seems to me that the pursuit of deeper mutual understanding among those three nations with regard to East Asian affairs would be highly significant. For that reason alone, I believe Japan should take on a more active role. Such an endeavor is not only important for the stability of relations among these nations themselves, but in dealing with problems related to regional stability such as the Korean problem, the Taiwan problem and the situation in Southeast Asia.

Turning to the Korean problem, it is unlikely that any simple answer will be found. There is no sign of an immediate shift in American and Japanese support for the Republic of Korea, or in Chinese support for North Korea. More important than that division, however, is the common desire on the part of the U.S., Japan and China to maintain the status quo on the peninsula. China is not wholly content with the North Korean policy of maintaining equidistant relationships with Peking and Moscow, but from the Chinese standpoint it is certainly preferable to a one-sided North Korean turn toward Moscow. Furthermore, China realizes its own inability to provide all the aid necessary to bring North Korea out of its economic difficulties. That means there is more of an opening now than ever before for the United States and Japan to join China in a cooperative effort. As far as Washington is concerned, any overtures to the Pyongyang government "over the head" of Seoul would be fraught with problems, so here also, is an opportunity for trilateral cooperation among the United States, China and Japan. On the negative side as well

from Japan's point of view (and America's as well), it is undesirable for South Korea to maintain such large military forces that they might upset the power balance on the peninsula; China, too, finds that the controls exerted on South Korea by Japan and the United States help prevent North Korea from leaning too far toward the Soviet Union.

The Taiwan problem is more complex. While Japan wants the United States to maintain its present China policy, it naturally has no desire to sacrifice its own relations with China. Washington wants relations with Peking normalized, but also must consider whether it is worthwhile to go ahead at the expense of relations with Taipei, and what impact the abrogation of its defense commitments to the Taiwan government might have on its credibility in the eyes of other countries. The United States and Japan are both concerned about preserving economic interests in Taiwan. At least on the surface, China adheres to the standpoint that the Taiwan issue is an internal matter, but is not so stubborn as to force an immediate solution to the issue at the cost of Sino-American relations. China also has to consider any negative effects that its handling of the issue might have on relations with Japan. Further, even if China were successful in forcing concessions from the United States and Japan concerning Taiwan, it would have to face the possibility of a desperate Taipei government seeking to save itself by inviting in the Soviet Union. From China's viewpoint, an American presence in Taiwan is "less worse." Hence China, the United States and Japan are very delicately positioned with respect to the Taiwan issue, and there is every reason to believe that better coordination among them would contribute to East Asian stability.

I am confident that enhanced mutual understanding among China, Japan and the United States would be highly significant with regard to stability in the region and I believe that Japan should make more active

diplomatic efforts in that direction. No doubt some will say that such efforts would be a ready target for severe criticism by the Soviet Union and therefore demand great caution. In my view, that is not the most promising approach.

In the first place, as against the cautious view that relations with the Soviet Union would be radically worsened, I believe there is little hope that Japanese fishing rights in the North Pacific will ever be recovered. Therefore, rather than pursuing a lost cause, Japan should recover its independent diplomatic stance vis-à-vis Moscow by devising an effective program to compensate fishermen for the loss of their livelihood and accepting its ill fortunes with dignity.

Secondly, one hears the argument that for Japan to become involved in the Sino-Soviet conflict would be a destabilizing factor in its security. On the other hand, we should remember that as long as the Japan-U.S. security treaty is fully operative, and Japan is securely under the U.S. nuclear umbrella, there is little likelihood of the Soviet Union making any careless moves.

Thirdly, the advantages such diplomatic efforts would entail in terms of increased ability to accurately predict China's action would more than offset any disadvantage that would arise from Soviet threats, which would most likely be limited to a propaganda war.

Fourthly, in view of rising Japanese feelings as noted above, a policy of maintaining a completely equal diplomatic distance from the Soviet Union and China will soon seem incongruous. Also, in terms of East Asian stability, it is only natural that Japan should give the higher priority to strengthening relationships with China as another Asian nation that such a diplomacy would contribute immensely to the establishment of a relationship of mutual trust between Japan and China, should be readily recognizable.

It would also make it possible to find mutually acceptable solutions to the outstanding issues in that relationship.

Next, let us discuss ways in which Japan can improve relations with individual nations. I have already covered the Soviet Union from that viewpoint. Turning to China, in addition to taking the above diplomatic moves, at least a treaty of peace and amity should be considered as soon as possible. What conceivable benefit is there in further delaying such a treaty? It is next to impossible to imagine the Soviet Union responding to postponement with a modification of its Japan policy. Conversely, if we are concerned about destabilizing factors, we must take into account the good possibility that further delay might have a serious impact on Japan-China relations.

In framing policy for the Korean peninsula, heightened nationalist feelings in Japan cannot be ignored. Not only would it be constitutionally impossible for Japan to acquire a military capability placing it on a par with the Soviet Union and China, ^{but} there appears to be a national consensus behind the view that such a course would also be undesirable as a policy option. I stand with the rest of my countrymen in that view. But if there were a military threat from the Korean peninsula, the Japanese public might respond very differently. Japan's relations with the Republic of Korea, for example, particularly with regard to the Takeshima Island issue, could become very tense if handled badly. Thus, with respect to Korea policy, Japan should not only strive for a better exchange of views with the United States and China, but also must be careful to avoid a threat to its own security in promoting understanding with South Korea. If a certain degree of harmony is not maintained, public opinion might demand a Japanese military force capable of standing up to South Korea.

So far, I have not touched on Southeast Asia. That is because I do not believe the region has a direct bearing on Japanese security. On the other hand, the Southeast Asian area is economically important to Japan and accordingly their security is of great interest as well. Therefore, I entirely agree that Japan should search out ways to make a contribution. The recent government approach to the Association of Southeast Asian Nations (ASEAN) is most welcome and should be even more actively pursued in the future. The ASEAN states expect a lot from Japan and in order to keep those hopes from becoming too high, the Japanese government will have to give a clear outline of what it can and cannot do. At the same time, we must reconsider the significant role that expanded cooperation with those nations can play in the preservation of stability in the entire East Asian region and make the maximum possible efforts as part of our development assistance program. Policy toward the Indochinese nations is also important, but I do not believe it should be a major focus of attention.

Finally, I should like to say a word or two about the possibility of Japan-American cooperation in Asia. As I stated at the outset, American policy is the most dynamic factor in the determination of Asian international relations. Although I have treated the Sino-Soviet conflict as a given condition, I would not reject out of hand the possibility that, depending upon the course of American world strategy, the Soviet Union and China might put aside conflict and move toward a ^{new}renewal of solidarity.

I have also premised the above remarks with respect to Japan's policy toward East Asia on the assumption that we will always be able to gain the understanding of the U.S. for our foreign policy efforts. As I noted, however, American policy in Asia is by no means always clear, to me, at any rate. Insofar as the peace and security of East Asia is important,

in principle, to both Japan and the United States, we share a common perception. But when it comes to particular policy problems, one wonders how much Japan and the United States have really tried to understand each other. In contrast to the immediate postwar era, Japan's burgeoning economic power has contributed to the emergence of a number of new elements which make it no longer possible to mechanically apply outmoded formulas. In the new situation, it would be highly unrealistic to expect our two nations to share identical interests in all fields of Asian policy. The rise of a new nationalism in Japan, and the American moves to revise Asian policy are only two of the new ingredients that complicate the situation.

The need for Japan and the U.S. to seek mutual adjustments on policy and a continuing exchange of views in the interest of peace and security in East Asia has grown much more urgent. In that sense, the objectives of this forum answer the need of the times. We cannot abandon the realm of international affairs to the policy-oriented efforts of government authorities. Increasingly, it is frank and intimate exchanges such as this conference which will make the greatest contribution to long-term cooperation between our two nations.

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The Fourth Japanese-American Assembly (Shimoda Conference)
September 1-4, 1977
Background Papers

GROPING FOR KOREAN UNIFICATION

by

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Member, House of Representatives

GROPING FOR KOREAN UNIFICATION

Since the Vietnam War was brought to an end, the focal point of Asian politics has been the Korean peninsula. Centering on that peninsula, North-east Asia is now entering a new era of uncertainty.

It is just ten years since the first Shimoda Conference was convened, and when I look back over that period, what stands out in my mind are the important changes that took place in the Asian situation in and around September 1969, when I had the pleasure of attending the second of these conferences. Let us review the events of that year. President Richard Nixon was inaugurated in January, and in August, right before the conference, he visited Rumania. The cessation of the American bombing of North Vietnam was announced on October 31 of the previous year, and in March of 1969 the expanded Vietnam peace conferences began. In China, the Great Proletarian Cultural Revolution was winding down, while Sino-Soviet relations worsened suddenly with the occurrence of the Damanski Island incident on the border dividing those two countries. The Pueblo Incident had taken place in January of the previous year and tension was rising between North and South Korea.

At that time very few foresaw with certainty the dramatic contacts that would take place two years later between the US and China. Nevertheless, the atmosphere at the 1969 conference was such that harsh denunciations of China on the part of participants decreased, and a change was evident even compared to six months before. It is indicative that the Second Shimoda Conference adopted a statement calling for the reinstatement of China as a member of international society. Personally, I remember getting the distinct impression in the course of a discussion with Donald Rumsfeld that President Nixon would seek to open the door to China by visiting Rumania -- a country unique among Eastern European nations in its maintenance of cordial relations with both China and Western Europe. Later in relating my impressions of the conference in the Japanese magazine Ekonomisuto [The Economist], I noted

that Sino-American contact would probably occur before most people expected.

At any rate, 1969 marked the beginning of a reduction of tensions in Asia. It was followed in the Korean milieu by the withdrawal of 20,000 American troops from South Korea in 1970, the first Red Cross preliminary conferences between North and South Korea on 20 September 1971, and the publication of 4 July 1972 of the joint communique calling for the independent, peaceful unification of Korea. Furthermore, on 15 July 1971 Secretary of State Kissinger's visit to China was announced as an accomplished fact, and it was also made known that President Nixon himself would make such a visit. The following year, the president's visit resulted in Sino-American concord as announced in the Shanghai Communique. In a very positive sense, these events led to the end of the Vietnam War in 1975, followed by Vietnamese unification in 1976. The entry of Vietnam into the United Nations this fall will bring this series of events to its natural conclusion.

As the above survey indicates, the course of events in Asia over the past ten years has been heavily influenced by a turnabout in American policy. That turnabout was effected through what has become known as Nixon-Kissinger diplomacy, a policy approach that emphasized four points: the consolidation of detente with the Soviet Union and China; the cessation of American over-involvement in Asia; preventative measures in areas of potential conflict (such as the Middle East and Africa); and radical measures to halt the deterioration of American economic power.

The end of the Vietnam War meant, first of all, the completion of nationalistic struggles for independence in post-World War II Asia. Secondly, it also indicated an end, for the time being, of hostilities in Southeast Asia. With that, the danger that another quagmire like the Vietnam War would again break out diminished. As for the US, it could now turn back to become absorbed in domestic issues, away from both war and social disorder; it also succeeded in improving Sino-American relations. Of course the problem

remains for the ASEAN states of how to relate to the three nations of Indochina under their new governments. The issue of how the US and Vietnam as former enemies, could normalize relations was left pending as well. The latter is a problem for Japan too, as a former collaborator with the US in waging the Vietnam War. On the whole, however, there is room to be optimistic about problems left in the wake of the Vietnam War.

Unfortunately, however, we cannot be so optimistic about the Korean peninsula. On the contrary, there is ample reason to be seriously concerned. I say this because there are forces which do not welcome and even fear the changes that are now taking place in Northeast Asia. These forces tend to equate change with crisis, hence they may very well fail to cope effectively with those changes.

In many ways the situation on the Korean peninsula in the seventies has moved in a direction contrary to that experienced by Asia as a whole. Although he endorsed the North-South joint communique of 4 July 1972, in October of the same year President Park Chung-hee of South Korea instituted an emergency system of martial law, further consolidating the yushin (Revitalization) system and hardening presidential rule. His government has continued to justify such actions as the 8 August 1973 kidnapping in Tokyo of Kim Dae-jung, and the series of emergency presidential measures which since January 1974 have been directed against those Koreans who seek a restoration of democracy, saying they are necessary in the face of the "threat from the north." The result of such heavy-handed measures, however, can only be the further broadening of a subterranean swell of political discontent, which in turn exacerbates the overall instability of the Park regime.

The advent of the Carter administration in the US has dealt a severe shock to the South Korean government. Not only has President Carter oriented his diplomacy around the problem of human rights, and in that connection called for democratization and an end to oppression in South Korea, but he has also taken steps to carry out with some modification his election promise

to withdraw American troops from the Korean peninsula. It is as yet unclear what are the ultimate objectives of the Carter administration's policy toward South Korea, or how far it is designed to go. In other words, will it be considered sufficient merely to put pressure on the Park regime in order to force an end to violation of human rights, or is present American policy toward South Korea a signal that the US is considering direct talks with North Korea, i.e. the Democratic People's Republic of Korea? President Carter has announced that he will withdraw 6,000 soldiers in 1978 and the rest in a period of four or five years, hence he is already looking ahead to his second term. It appears to me that Mr. Carter will probably fulfill his commitments with regard to withdrawal, despite constraints imposed by public opinion, congressional moves, and reactions from both South Korea and Japan, (i.e., the LDP government).

During the second Japan Socialist Party (JSP) mission to the US which took place in 1975 -- the first in eighteen years -- JSP representatives engaged in a series of animated talks with American government, congressional, opinion, and academic leaders on subjects including post-Vietnam Asia, particularly the Korean situation, the concept of establishing a nuclear-weapon-free zone centering on the Japanese archipelago, abrogation of the Japan-US security treaty and its replacement with a treaty of friendship, and other JSP proposals. At that time, Assistant Undersecretary of State Habib, the man in charge of American policy toward Korea, summarized that policy for us in the following four principles: 1) prevent the outbreak of another war; 2) observe all commitments to South Korea, 3) support the communique of 4 July 1972, and 4) hold to the formula of cross recognition. The JSP delegation completely agreed with points 1) and 3) of that official American policy. We could not accept 2) and 4), however. The former further increases tension between north and south; the latter involved the danger of freezing partition, and moreover is unacceptable to one of the principal parties, the Democratic People's Republic of Korea. In the course of our debate it

became clear that the assumptions behind our respective positions varied widely, with the American side believing the partition to be desirable as a means of containing communist expansion, while the JSP representatives held to the position that self-determination and national unification are the just and appropriate desires of the Korean people, and are also desirable from the viewpoint of stability in Northeast Asia. Our meeting was concluded on a humorous note with the mutual recognition that we had done very well to agree on two out of four points, and a promise to meet again in the future. The substantive differences, however, remained.

Mr. Habib, who was Department of State spokesman for both the Nixon and Ford administrations, has been promoted to more illustrious heights by President Carter. That raises the question of how President Carter's Korea policy differs from that of his predecessors. On the surface, the policy of the Carter administration is an extension of the Nixon Doctrine, and there has been no clear indication of a change in the four principles outlined by Mr. Habib. On the other hand, it seems to me that rather than setting certain conditions, such as cross recognition, and then compromising in accord with concessions offered by the other side, President Carter is offering North Korea a signal that he wants to talk directly. That is the method used by the Nixon-Kissinger team from 1969 to 1972. We also should be aware of the possible significance of the parallel trips by US Secretary of State Vance to China and Yugoslav President Tito to Moscow, Peking and Pyongyang began on the eve of this conference. President Tito may be playing the same role in fostering contact between the US and North Korea that Rumanian President Ceausescu performed vis-a-vis the US-China breakthrough.

How are the major actors on the Korean peninsula reacting to the Carter administration? As is to be expected, Park has made no secret of his disenchantment with President Carter's policy of military withdrawal from Korea, and South Korea demands that the US observe its aid commitments are gaining strength. The Japanese government, too, has indirectly made known its displeasure with Carter's policy by noting coolly that it is a bilateral

issue between the US and South Korea, and therefore Japan is in no position to comment.

Chairman Kim Il-sung of the Democratic People's Republic of Korea recently met a party led by the Editorial Bureau Chief of Yomiuri Shinbun. During their conversation, Kim said, with regard to President Carter's policies of withdrawal of American troops from South Korea, diplomacy geared to human rights, and removal of restrictions with regard to travel by Americans to the DPRK, that "they can be viewed as indicating goodwill toward my country." While warning that Carter's continued action in a manner contradictory to his campaign promise is a source of concern, Kim said "We are not making any statements critical of the Carter administration. We should reserve judgment for a while longer." (23 April) In July, Kim maintained what appears to be a favorable attitude in his exclusive interview with Japan Broadcasting Association (NHK)'s chief commentator Akira Ogata. It seems that Chairman Kim sees more potential in the Carter administration than some leaders of leftwing movements in Japan, who have resolutely maintained their skepticism.

The DPRK star has risen in international politics during the seventies, with ninety-one countries now giving it their official recognition. Also, passage of a United Nations resolution supporting the North Korean position in 1975 (along with one supporting South Korea), and the recognition of the DPRK as a participant at the Non-aligned Nations Foreign Ministerial Conference the same year in Peru, indicate that its status is also on the rise among Third World countries. As a result, North Korea has gained confidence in external affairs. The economic situation of that country is marred by some bad trade debts and a number of matters which must be cleared up in the course of bilateral relationships, but these difficulties do not seem to be reflected in domestic political instability. Chairman Kim believes that, overall, world trends are working in favor of his countrymen.

Taking a look at North Korean policy alternatives, it seems that in

the long term the political, economic, and military moves of South Korea, that is, the Republic of Korea, are very important factors. In the short run, however, the nature of those alternatives depend heavily on what the US does. In terms of international politics one can conceive of a number of possibilities, but an appeal to war would appear at the present time to be out of the question. Also, in light of the intricate Sino-Soviet dispute it would seem impractical for North Korea to lean in the direction of either of these neighbor countries even when bolstered by the support of Third World countries. Rather, the most likely possibility would seem to be a strategic turnabout toward more flexible relationships with the US and/or Japan. In that case, the order of precedence would most likely be rapprochement with the US first, then Japan, followed finally by a softened stance toward South Korea.

In his conversations with the Editorial Bureau Chief of Yomiuri Shinbun and the chief commentator of NHK, Chairman Kim consistently expressed a desire for direct negotiations with the US. At the 34th UN General Assembly, DPRK delegation chief Ree Chong-mok proposed in a speech to the First Committee on 21 October 1975 that, "Following the conclusion of a peace treaty between the actual parties to the ceasefire agreement, that is, the US and the Democratic People's Republic of Korea, and the withdrawal of American troops pursuant to that treaty, problems posed by the maintenance of peace in Korea should be solved at a North-South military council convened for that purpose." [Retranslated from Japanese] In rejecting the North-South treaty of nonaggression proposed by the Republic of Korea, he said that such a measure is designed not to achieve unification but to legalize the existing partition of the country.

With regard to Japan, in the above-mentioned discussion with the Yomiuri editorial bureau chief and his party, Kim said, "What we want from the Japanese government is only that it refrain from any actions that would obstruct the unification of Korea.... Even if that is all the Japanese government does, we will consider it ample evidence of goodwill." His comment

suggests that he does not consider negotiations with Japan as a possible means of achieving a breakthrough.

It has been emphasized from the outset of the Carter administration that the sort of secret negotiations and direct contacts with communist nations over the heads of allied nations which took place during the days of Kissinger diplomacy under the Nixon administration will no longer be contemplated. In fact, we got the impression that the extreme care and discretion with which both the US and North Korea handled the helicopter incident earlier this year in the vicinity of the 38th parallel resulted from anxiety over the possibility of a repeat of the Pueblo incident, and that it was primarily that possibility that led them both to seek talks in an atmosphere of conciliation. At least it appears certain that neither side wishes to disrupt that faint hint of conciliation.

Three divided nations were left in the wake of World War II, Germany, Vietnam and Korea. Since that time, Germany and Vietnam have reached a modus vivendi through completely different processes. In the case of Germany, political conflict was moved toward solution through the political development of West Germany's Ostpolitik; in Vietnam military conflict was resolved with the military victory of the North. Judging from the historical background, it appears that the Korean case will differ from both. In order to explore the prospects for Korean unification, it is necessary to locate those points on which all concerned governments agree.

At the present time there are about a million troops in the vicinity of the 38th parallel, and their existence alone constitutes cause for tension on the Korean peninsula. The southern troops, numbering 570,000 exceed the 490,000 of the north, but when it comes to reserve forces, the northern Worker-Farmer Red Guard force of 1,800,000 vastly outnumber the 400,000 maintained by the south, (see Shunkichi Murase, "Nanboku Chōsen no gunji tairitsu" [North-South Military Confrontation in Korea], Sekai, September, 1977). The population of the South is 34,600,000 and that of the North

16,280,000; together, they total 50,860,000. It is clear when these figures are juxtaposed against those above that the burden of military competition is overbearing. Above all, it is the desire of not only the two Korean governments, but of the US, China, Soviet Union and Japan as well, that the outbreak of another war be avoided. In that common concern alone there is a basis for talks.

Nevertheless, while at first glance the so-called cross-recognition formula proposed by former Secretary of State Kissinger (whereby Japan and the US would recognize North Korea while the Soviet Union and China would recognize the South) appears reasonable, it is actually the source of contention. As long as North Korea is opposed to it, the Soviet Union and China will remain opposed. Therefore, it is not a useful device. Cross-recognition is opposed by North Koreans because in their view the South Korean government is against the unification of Korea and supports the continued division of the Korean people. Therefore, recognition of such a government can serve as the foundation only for an external freezing of the status quo of two Koreas, not for unification.

The same applies to the formula proposed by Japan whereby North and South Korea would simultaneously become UN members. North Korea rejects it on the grounds that it would rigidify partition. How about the idea of first joining the UN and waiting for unification to come about gradually in that context? It is opposed for the same reason. Some argue that Korea and Germany are both divided countries, and in Germany's case both sides joined the UN together, so Korea should be able to do the same. In response to that view, North Korea protests that the case of Germany, whose historical and political background is quite different, cannot mechanically be applied to the policy decision facing Korea. In the German experience there was complete agreement between the parties, and joint entry to the UN was proposed on that basis. In the Korean case no such agreement exists, therefore it is a mistake to propose joint entry as a serious alternative. (26 September 1973 DPRK government memorandum)

The one set of principles which all parties involved in the Korean problem, including the two principals, agree upon, was enunciated in the joint communique of 4 July 1972: independent unification on the initiative of the Koreans themselves, peaceful unification, and national solidarity. Kim Il-sung made a special point of explaining them to the Yomiuri shinbun party, and they are also made clear in the book by President Park's secretary in charge of political affairs, Lew Hyuck-in, entitled Kankoku wa nani o mezasu ka [What is the Republic of Korea Aiming at?] published in Japanese translation by Simul Press, 1976.

The difference is that South Korea emphasizes "peace first, then unification", holding that a nonaggression pact should be concluded between North and South in order to secure peace on the peninsula, and then both sides should open their doors to multi-dimensional interchange and dialogue, leading to unification through free elections. The DPRK proposes that a peace treaty be concluded between the DPRK and the US, thereby averting the danger of a new war; after US troops are withdrawn from South Korea, the military confrontation between north and south can be dissolved, and military forces of both north and south reduced to 100,000 each or less; the initial form of government for the unified nation is to be a federal republic. The withdrawal of American troops is an important point in the eyes of North Korea. Official North Korean documents are consistent in their opposition to any proposals which arise out of policies hostile to North Korea, but in an atmosphere of mutual trust a flexible, no less principled, response would be fully possible. In that sense, it would be desirable for Japan and the US to abandon a position based on the "threat from the north", and rather than trying to contain North Korea, make an effort to induce that country to become a full-fledged member of international society. To that end, it is probably necessary that the United States enter unconditionally into contact with North Korea. Once the ice is broken, concrete programs can begin.

By 1977 the framework of coldwar alliances in Northeast Asia already

changed markedly, and may be in the process of dissolution. The now-in-operative Sino-Soviet Friendship Treaty is one example. An important impact on that framework has been exerted by Sino-American rapprochement. Nevertheless, the treaty structure surrounding the Korean peninsula is still firmly in place. North Korea is party to mutual aid treaties with the Soviet Union and China, and South Korea figures prominently in both a United States-Republic of Korea treaty and the US-Japan security treaty. Japan is tied into a trilateral US-South Korea-Japan defense network through both of the above treaties involving South Korea. Significantly, the American 314th Air Wing stationed in Korea belongs to the Fifth Air Force headquartered at Yokota Air Force Base near Tokyo, and is also tied directly to Kadena Air Force Base in Okinawa. While it is not a defense treaty, Japan and South Korea are also linked in a very close political and economic relationship through the Japan-Republic of Korea Basic Treaty.

The dense web of treaties centering on the Korean peninsula constricts the freedom of both the Soviet Union and China, on the one hand, and the US and Japan, on the other, to change their policy with regard to that area. In that context, the withdrawal of US forces by the Carter administration is creating quite a stir. On the Korean peninsula, a deep-seated atmosphere of mutual distrust left over from the Korean War impedes the pace of problem-solving. By the same token, fear of a renewed outbreak of war constrains the movements and policies of not only North and South Korea, but the other involved parties as well. There is little doubt in my mind that China and the Soviet Union also would view any prospect of war on the Korean peninsula with great apprehension.

It has gotten to the point where defense commitments to South Korea are a millstone around the neck of America. It appears that with the gradual withdrawal of US forces, American intervention on the Korean peninsula will become a matter for careful deliberation rather than an automatic response as it has been in the past. By pursuing contacts with North Korea, and at the same time focusing on problems of human rights and democratization in

relations with South Korea, the US seems to be seeking a reduction of tensions on the peninsula and the stabilization of South Korean politics.

Japan's relations with South Korea were normalized in 1965 with conclusion of the Basic Treaty. In its establishment of relations only with the South, however, and complete exclusion of North Korea, this instrument was actually designed to bolster the relative position of the Republic of Korea. Indeed, the latter sought to make of it a solid "alliance of destiny." In view of the fact that 1965 was the year bombing of North Vietnam began, and the war heated to fever pitch, it is not surprising to find that the treaty between Japan and South Korea reflects Vietnam-war priorities.

The Japan-Republic of Korea Basic Treaty should have been a voluntary effort on the part of the Japanese to settle historical accounts with the Korean people. Having once colonized the entire Korean peninsula, Japan now had an opportunity to establish a new foundation for relations between two independent nations based on equality, trust and mutual respect. Unfortunately, under the circumstances, that opportunity was wasted. Not only was it rendered totally inadequate by its neglect of North Korea, but it failed for that very reason to provide a sound basis even for Japan-South Korean amity.

The actual effect of the treaty was to facilitate the collusion of South Korean and Japanese elites in governmental and capitalist circles, and to assign to South Korea the functions of serving militarily as a breakwater and economically as an export, labor-force and capital market for Japan. Relations became so cozy politically that instead of taking a resolute stance in the Kim Dae-jung case, such as the West Germans did in similar circumstances, the Japanese government contented itself with incomplete investigations of the Tokyo KCIA kidnapping and left the facts of the matter vague.

Symbolic of this pattern of relations between Japan and Korea is the passage in the 1969 Sato-Nixon joint communique that reads, "the security

of the Republic of Korea is essential to Japan's own security." Known as the "Korea clause," this has been included in one form or another in the joint communiqués issued by a whole succession of Japanese prime ministers and American presidents, and has served as the foundation of policy toward the ROK for a number of foreign ministers.

One exception to the rule was a statement in the Diet by Foreign Minister Takeo Kimura in 1974 to the effect that the Korea clause in the 1969 Satō-Nixon communiqué should be taken to mean that "the security and peace of the entire Korean peninsula is essential to Japan's own security," rather than just the security of the Republic of Korea. His statement drew a heated reaction from the South Korean government and Japanese advocates for that government, and when Kimura left his foreign ministerial post a short time after, it was widely interpreted as a direct consequence of his indiscretion. Since that time, Japan's Korea policy has been a hasty retreat from the Kimura statement. Nevertheless, Japan's ability to adapt to the new situation in Northeast Asia will depend heavily upon whether Kimura's understanding of the clause can be reinstated as a basis for policy formulation.

Nineteen seventy-seven has been the year of 200-mile exclusive fishing zones; and on 1 August North Korea followed the US and the Soviet Union in establishing such a zone. Japan, however, has no channel through which to ascertain the intentions of the North Korean government in that regard, and therefore can provide no protection for Japanese fishermen. Although the Japanese government has engaged actively in fishery negotiations with the US and the Soviet Union, it has not even tried to make formal contact with DPRK for fear of "impairing the position of the Republic of Korea."

Since 1965 Japan has been committed to South Korea politically, and economic involvement has been extremely close, to the point where the shadow of prewar days still lingers over relations between the two nations. As a result, Japan is in danger of being left in the lurch by the Carter

administration's new policy initiatives.

The 1973 Kim Dae-jung incident was extremely unfortunate, but it is ironical that it catapulted to fame a former presidential candidate who had been completely unknown in Japan, and heightened concern in Japan for the fate of South Korean democratic forces. Many Japanese now think of Japan-South Korean relations not only in terms of intergovernmental transactions, but in a broader perspective that includes an awareness of the existence of anti-government forces.

Following the North-South joint communique issued on 4 July 1972, the Park regime proceeded to expand armaments and further oppress democratic forces in South Korea in order to oppose the North, and also adopted an economic growth policy designed to cultivate economic power surpassing that of its northern rival. While it continues to harbor grave contradictions, that policy of economic growth has produced some results; it has also enabled President Park to cultivate a group of technocrats. As pointed out in the 1 March 1976 "Declaration on the Restoration of Democracy," which might be called the manifesto of democratic forces in South Korea, it is nonetheless true that economic power is not all there is to national strength -- the foundation of national health is a "vigorous democracy."

Another indicator of the future course of Northeast Asia will be the manner in which the Park regime responds to the new policies of the Carter administration. Will President Park react to the troop withdrawals by opting directly for arms expansion, including development of an independent South Korean nuclear capability, and will oppression of democratic forces become more thorough? Or will he realize the futility and meaninglessness of resisting Mr. Carter's policy, and wisely opt for gradual concession in the face of demands for democratization.

It is also important to watch the degree to which democratic forces in South Korea will grow in the future. Will they have the wisdom to avoid repeating the failure of democracy that occurred after Syngman Rhee was over-

thrown in 1960? What sort of principles and symbols (e.g. the March 1 Incident in 1919 that provided the starting point for the Korean Independence Movement) do they have at their disposal to deploy in the event of peaceful unification with the North? (In the case of DPRK, the heroic anti-Japanese guerrilla fight led by Kim Il-sung will be the symbol.) How can they achieve unification in a manner that transcends differences in social system? These are important matters from the viewpoint of North Korea as well.

No doubt the road to Korean unification will be long and strewn with obstacles. Will it follow the pattern set by Vietnam? Highly unlikely. The German solution then? Or will a Korean path to unification be invented? The answer depends more than anything else on the wisdom and dedication of the Korean people, and of political leaders in both North and South. It will also, however, depend importantly on the actions of the four countries involved intimately in the Korean issue: the US, China, the Soviet Union and Japan. Japan must abandon as rapidly as possible its policy of total commitment to one side and efforts to bolster it against the other. We must become fully conscious of the existence right next door of a nation of 50 million people, and learn to interact with that entire nation on the basis of equality and goodwill. At the very least, we must avoid retracing the steps of the past by forming an "alliance of destiny" with the Park regime.

The year 1980 will mark the end of the thirty-year term of the Sino-Soviet Friendship Treaty, and is also the year when the ^{revised} Japan-US security treaty will have been in force for twenty years. President Carter's withdrawal of US troops from the Korean peninsula is due for completion in 1982. Mr. Carter is also propounding a policy of withdrawal of nuclear weapons from Korea, so if Japan holds fast to the three non-nuclear principles, we will have an opportunity to actually realize the ideal of a nuclear-weapon-free zone in Northeast Asia, including both Korea and the Japanese islands. Naturally, the Pentagon and the Japanese Defense Agency can be expected to drag their feet but for our part we must exert every possible effort to carry that ideal through to completion.

In ratifying the Nuclear Nonproliferation Treaty in 1976, the Japanese Diet adopted a special resolution demanding that the government make an international effort for the establishment of a nuclear-weapon-free zone centering on Japan. We must persevere through any and all difficulties to extend such a zone from Japan and Korea throughout the Asian and Pacific region, bringing it up in the United Nations, and contributing in any way possible to a relaxation of tensions throughout the world.

A resolution was adopted at the second Shimoda Conference to the effect that China should again be allowed full participation in international society, and that such a development would be desirable for both Japan and the United States. Having weathered the storms of change which have swept the international scene in the eight years since then, it is clear now that our resolution was correct. I hope this conference will make a resolution on North-east Asia which will be similarly prophetic.

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The Fourth Japanese-American Assembly (Shimoda Conference)
September 1-4, 1977
Background Papers

THE TRANSFORMATION IN JAPANESE DOMESTIC POLITICS
AND
JAPAN-U.S. RELATIONS

by
Tokusaburo Kosaka
Member, House of Representatives

THE TRANSFORMATION IN JAPANESE DOMESTIC POLITICS AND JAPAN-U.S. RELATIONS

The Changing Pattern of Politics

In attempting to assess the outlook for Japan-U.S. relations, it is essential that we address changes that are underway in the domestic political arena, their probable meaning, and where they are likely to lead in the future. The general election for the House of Representatives of last December and this year's July House of Councilors election have brought the number of seats held by the ruling Liberal Democratic party (LDP) down very close to the level of opposition strength. Along with this new neck-and-neck race between government party and opposition, we are faced with a burgeoning trend toward further party fragmentation which reflects the increasing diversity of national values. The major effect of these developments has been to completely destroy the pattern of politics that has obtained ever since 1955 when the merger of the two conservative parties, and of the left and right socialist parties, created a situation in which politics was carried on by two major parties under an absolute LDP majority.

The recent transformation of the political landscape has shifted emphasis in the governmental system as a whole from administrative to legislative functions, thereby creating a situation that is beyond the experience of Japan's politicians and government bureaucrats. In that sense, it is possible to see Japanese politics as having entered upon an entirely new era. One can only wonder if the political system will be able to maintain its usual degree of stability under these new conditions. Indeed, it is open to question whether the configuration that is now taking shape will become firmly established as a new pattern of politics, or whether further change is in the offing. If the latter is the case, what sort of change can be expected to occur? What will the transformation in political structure mean for the policy decision-making process? Can Japanese democracy function properly and continue to

mature under those conditions? Finally, what are the domestic and international factors that could radically alter overall trends?

It is apparent to me that any attempt to outline the future of Japan-U.S. relations presupposes an understanding of these fundamental issues of domestic political change. In this paper I will touch upon such issues, from the perspective of one personally involved in the world of politics, attempting to place them in the context of political developments since the first Japanese-American Assembly (Shimoda Conference) was convened over ten years ago. Ultimately, I will be concerned with the sort of political foundation upon which a true Japan-U.S. partnership can be founded.

The Era of Absolute LDP Majorities

In 1968, the year after the first Shimoda Conference, Japan's GNP topped that of West Germany and we assumed the role of a major economic power second only to the U.S. in the Free World. That year has a symbolic significance with regard to the transformation we are now witnessing in domestic Japanese politics.

As you are well aware, Japan adopted a new Constitution following defeat in World War II, and in Article Nine of that document renounced one element of national sovereignty, the prerogative of resorting to war as a means of settling international disputes. In seeking, nevertheless, to maintain democratic government and an economic system based on free enterprise, we set out on a historically unprecedented experiment. Of course right after the war no one predicted that in the short span of thirty-odd years Japan would become the third-ranking industrial power in the world. International developments, however, created conditions very favorable to Japan's development.

The Japan-U.S. security treaty, concluded in a progressively frigid cold war atmosphere, not only guaranteed the security of an unarmed Japan and its surrounding region, but freed Japanese from the burden of making complex choices on the rough-and-tumble stage of world politics. Moreover, with

abundant supplies of low-priced oil and other resources from abroad, in an international system of free trade supported by the IMF and GATT, Japan was able to throw the full energies of its people into the task of economic development.

From the Meiji Restoration in 1868 onward, Japan's national goal and the central theme of its policy of modernization had been the drive to catch up with and surpass the advanced nations of the West. In the 1960s that tradition again emerged in the extremely down-to-earth policy objectives of Prime Minister Hayato Ikeda's "income doubling plan," and the achievement of rapid economic growth became an established national goal and purpose in and of itself.

Against that background, 1955 was to become an extremely important turning point in postwar political history, for in that year the two conservative parties, Liberal and Democratic, joined to form the LDP and the right- and left-wing Parties merged to form the Japan Socialist party (JSP). The relative strength of the two new parties stood in the House of Representatives at 299 seats for the LDP and 120 for the JSP, and in the House of Councilors at 120 for the conservatives and 68 for the socialists. This configuration inaugurated the era of a two-party politics, with the LDP retaining an absolute majority. That fundamental pattern of political confrontation survived for more than twenty years, until very recently. In labor relations the year 1955 also saw the beginnings of the spring Wage Offensive as an annual procedure for determining wage levels.

The efficiency of the policy decision-making process and system of income distribution that arose from these new developments, and the broad national consensus they reflected, made possible a form of teamwork among the political, bureaucratic and industrial realms. That cooperation was expressed in a rate of economic growth that during the decade of the sixties averaged 11.1 percent. As a result, as I noted above, in 1966 Japan's Gross National Product surpassed that of West Germany to become the second highest in the Free World. It is very important to note that, even in comparison to other advanced nations, the fruits of that rapid development have been equitably distributed across

all strata of society. According to a comparative study of income distribution among OECD member nations published last year by that organization, Japan ranked first as the country whose income is distributed the most equitably, followed by Australia and Sweden in that order. (Figure 1) The report based its findings on declared cash income after taxes, dividing each nation's households into income brackets of ten percent each. A comparison of the bottommost two brackets across all twelve member nations reveals that the percentage of total income possessed by members of these two groups is highest in Japan, with 3.0 percent for the lowest and 4.9 percent for the next. The average figures for all member nations were 2.1 percent and 3.8 percent respectively.

Underlying that high degree of equity in income distribution are the factors of worker bargaining strength, which has resulted from the spring offensive as already mentioned, and also a special account for the management of staple foodstuffs through which farmer incomes are maintained at levels approximating those of industrial workers. At any rate, it is possible to assert that by and large as a result of these circumstances the Japanese people began to believe firmly that Japan's economic growth and the free economic system upon which it is based were directly related to welfare expansion and improvements in their own income. They also took a great deal of pride in Japan's achievement of the second highest GNP in the Free World, and embraced new hopes for the future of their free and open society. It was this broad, positive consensus among the Japanese people that permitted the Liberal Democratic party to hold an absolute majority in the Diet, and provide a degree of continuity in government unprecedented among democratic nations.

The Response and Role of the Opposition

The reaction of the JSP and the Japan Communist party (JCP) to LDP policy was "symmetrically" contrary. Whereas the LDP took Western Europe and the U.S. as models, and pursued radical reform in a very practical manner, the opposition parties tended to take the socialist nations as their model and criticized

the LDP's policy of modernization from the standpoint of idealism. In the realm of security policy, particularly, as against the government's stand based on the Japan-U.S. security treaty and reliance on the American nuclear umbrella, the opposition espoused a policy of unarmed neutrality and reliance for security on the "justice and faith of the peace-loving peoples of the world," as it is put in the Preamble of the Constitution. In 1960, part of the right wing of the JSP broke away to form the Democratic Socialist party (DSP), and in 1964 the Kōmei party was formed under the aegis of the Soka Gakkai, a religious organization. These new minority parties also oriented their policies around opposition to the LDP and the U.S.

To simplify greatly, the focal points of contention between conservatives and progressives during that era were the LDP policies of modernization and support for the Japan-U.S. security treaty. In that regard, the opposition parties represented the views of those who were ideologically dissatisfied with the LDP, and looked out for the interests of labor unions and other **interest** groups. They also established channels for interchange with socialist countries and functioned to check the excesses of LDP policy.

The opposition parties and progressive forces were aided greatly during that period by the American policy of full-scale intervention in Vietnam. The contention of these forces, that the U.S. with its enormous military strength was waging a "dirty war" in order to deprive the Vietnamese people of the right to self-determination, was found by the Japanese people to be quite convincing under the circumstances. It was further argued that the Japan-U.S. security treaty was functioning as a treaty of military alliance vis-à-vis the war in Vietnam, thereby aggravating tensions in the Far East. Such propaganda was a persistent thorn in the side of the LDP, for which that treaty constituted a fundamental framework for carrying on Japan-U.S. relations.

In about the mid-sixties, however, just as the fruits of rapid economic growth were spreading among the Japanese people, the Soviet Union and China, which had been constant and bitter critics of the treaty up to that time, began

to change their views. They began to value the treaty as a means of maintaining the status quo, and subsequently refrained from frontal attacks. Also, considerable confusion occurred in the socialist world, including rebellion in Czechoslovakia, the Sino-Soviet dispute and the Great Proletarian Cultural Revolution. These events, along with stagnation in socialist economies, highlighted the advantages of a free economic system in contrast to the all too apparent disadvantages of socialist political systems. With these developments, the critique offered by the opposition parties lost credibility.

System Change and Political Multipolarization

The seventies brought to the surface some great changes that during the sixties had remained in a latent undercurrent. The first of these was the appearance of a new international environment symbolized by the so-called Nixon shocks of 1971 and the oil shock of 1973. The Nixon shocks enlightened Japan to the relative reduction that had taken place in the formerly preponderant economic and military power of the U.S. It also brought home the necessity that Japan, which had formerly moved internationally under the umbrella of the Japan-U.S. security treaty and American world strategy, would now in the context of an international society characterized by mutual interdependence have to indicate autonomously to other nations what role it intended to play. Relations with the U.S. were to be exceptional no longer. The message of the oil shock was that Japan's energy problems would become very serious as early as the mid-1980s. The condition that had supported Japan's rapid growth from the Ikeda era forward, of "unlimited, cheap resources" was forever a thing of the past.

Also newly apparent in the seventies was the fundamental social change that had taken place in Japanese society as a result of accelerated economic growth. In the twenty-year period between 1955 and 1975, fully one-third of the Japanese population, numbering 37 million people, left rural areas and moved to the heavily urbanized Pacific coast of Honshu island. The effect

of this migration was to dissolve the rural society which had served both as the power base of the LDP and the foundation of a truly "Japanese" social order. Not only was there now a general sense of transiency, but the heavy influx of population to the cities touched off an urban nightmare stemming from inadequate development of transportation, housing, running water, and other public facilities.

Also, not only did development of the heavy chemical sectors of industry cause environment pollution, but consumer prices soared, principally for goods and services provided by the agricultural and small and medium-sized enterprise sectors where productivity is low. Runaway inflation, which reached an extreme following the oil shock, fostered an anti-corporation mood and lent fuel to residents' and consumers' movements which demand the rectifications of social injustice.

To the changes in climate of opinion formented by the above transformations must be added the metamorphosis in attitudes brought about by the across-the-board wage hikes achieved through spring wage offensives. Sociologists tell us that a diversification of values occurs once the \$1,500 level is crossed in per capita real national income. This benchmark was passed in Japan between 1969 and 1970, and sure enough, the tendency of values to shift away from economics grew markedly.

Hence, all in all, the national consensus formed around the drive for rapid economic growth may be said to have quickly disintegrated in the wake of several developments: Japan's goal of economic growth had been reached in the form of the second highest GNP in the Free World; the international environment had changed; and a metamorphosis had occurred in national values as a result of wholesale domestic social change.

The oil shock in particular may be said to have profoundly shaken the people's hard-won sense of satisfaction with life. According to a "Survey on Living Conditions" carried out by the Prime Minister's Office, the percentage of those expressing satisfaction with their lives, which before the oil shock had advanced to about 60 percent, fell after that event by January 1974 to 54

percent; by November of that year it was down to 50 percent. From the opposite perspective, whereas 37 percent expressed dissatisfaction before the shock, that figure became 45 percent in January 1974 and 48 percent by November.

(Figure 2) In other words, it had gotten so that those who were dissatisfied were roughly equal to those expressing satisfaction. The impact of this rising discontent appeared in concentrated form in the results of the 1974 House of Councilors election, which saw LDP support ebb to the point where the number of its seats was almost matched by the opposition. It also revealed the further acceleration of a trend toward a multi-party system, and a precipitous expansion in the number of voters who refused to support any party at all.

The Rise of the New Middle Class and Conservatism

As a result of the oil shock, Japan's real economic growth in 1974 stood at a minus 0.3 percent, the first time growth fell into the red since the widespread confusion of the immediate postwar years. The shock was gradually overcome in 1975, with a growth of 3.4 percent, and 1976 with a level of 5.8 percent. If we look at consumer prices and unemployment levels during that period of recovery, we find that prices leaped 21.4 percent in 1974, were down to 10.4 percent in 1975, and by 1976 had leveled off at a rate of increase of 9.4 percent; unemployment, on the other hand, despite slight percentage increases, was kept by Japanese labor management practices to a real-number level of only slightly more than a million individuals, a level that is unusually low for an advanced economy. (Figure 3)

Hence Japan was largely able to overcome the oil shock without transferring very much of the burden onto the population, but the secrets of that success were deficit financing by the government and lower profit growth rates for private enterprise. The government's reliance on public bonds in proportion to its general accounts budget was 11.3 percent in 1974; by 1975 it had risen to 26.3 percent, and in 1976 it was up to 29.9 percent. Also, it is noteworthy that the rate of increase in business profits on an all-industry basis fell from

60.9 percent in 1973 to 2.9 percent in 1974, and from there to minus 28.8 percent in 1975. (Figure 4) What this means is that Japan tided over the oil shock by putting the government in the red and lowering corporate profits, thus avoiding any substantial harm to the average citizen.

As a result, the degree of satisfaction with living standards touched on above, which had fallen to 50 percent right after the oil shock in 1974, by 1975 was back up to 60 percent; the degree of dissatisfaction, too, had been up to 48 percent, but by 1975 it was back down to 38 percent. Hence, both dimensions had largely recovered their former level. This means that Japan's success in weathering the oil shock restored the people's confidence in the security of their own livelihood and restored social stability. In order to correctly understand this strong resiliency, it is necessary to explore Japanese attitudes toward life in general.

According to figures on class identification collected by the Prime Minister's Office, in 1958 those who placed their own living standard in the "middle of the middle" comprised only 38 percent of the population. From then on, however, it increased steadily with the continuous expansion of the rapid economic growth process, until in 1973 it had reached 61 percent. When this category is linked up with those who put themselves in "upper middle" and "lower middle," altogether these indicators of middle-class identification in 1970 included virtually 90 percent of the population. (Figure 5)

While the members of this large group do not usually have great assets in the context of a corporate society, they receive an income sufficient to guarantee their basic life needs. That being the case, they are for the time being satisfied with the status quo, and anxious to preserve their vested interests. Indeed, their basic characteristic is an instinct of self-preservation, what might be called conservatism. On the other hand, the perceived interests of this huge, self-defined middle class are far from uniform. This vast stratum harbors the grounds for a wide-ranging conflict, among them a variety of value orientations, splits between urban and rural, between one industry

and another, and so on. Moreover, according to specialists, they generally fall into one of two types with regard to political action, those who are conscious of their own individual needs and desires but who find their meaning in life while trying to come actively to grips with broader problems on a regional or national scale, and those who focus inward on their own little world.

There can be little doubt that this vast middle class that encompasses 90 percent of the population holds the key to the future of Japanese politics. One source of information on the future attitudes of this group toward politics is a survey of the youth of Tokyo and Yokohama carried out by the Japan Broadcasting Association (NHK) in November of last year. When its results are compared with those of the same survey taken four years earlier, it is interesting that in the lowest age group, 18 to 22, the percentage who say they "support conservative government" rose from 38 percent four years before to 49 percent last year; by the same token, those claiming to "support progressive government" fell from 47 percent to 38 percent. (Figure 6) This is the first survey to indicate that conservative support exceeds that of the progressives. It is particularly striking that the survey was carried out in the midst of the Lockheed scandal among the most fully urbanized segment of the population. Hence it indicates the degree of conservatism latent within that age group.

Nevertheless, it is unfortunate that the LDP has thus far been unable to offer this segment of the population adequate meaning and life goals, and therefore has been unsuccessful in earning their full support. That is one reason why the recent elections created such a delicate balance between the LDP and the opposition parties.

The Age of LDP-Opposition Parity

The circumstances enumerated above were very clearly reflected in the 1976 general election. Brightly etched across the political horizon of 1976 was the Lockheed scandal, an incident parallel in impact to the American Watergate scandal. It was held up to the people as evidence of the corruption that

infested the LDP, the party which had held the reins of government for the past twenty years, and invited a bitter reaction. Inside the LDP, it touched off a furious debate over party reform, and a serious sense of crisis. One result was the New Liberal Club's decision to bolt the party.

The outcome of the 1976 general election, carried out in an atmosphere totally dominated by the pall of Lockheed, certainly did bring a resounding defeat to the LDP, the number of its seats/^{decreasing} to twenty-two less than it had garnered the election before. At the same time, however, the Japan Communist party -- the LDP's principal accuser during the Lockheed incident -- also unexpectedly went down to crushing defeat, and the JSP had indifferent success. It is eminently noteworthy that the most striking success was achieved by the New Liberal Club, with 17 seats, and the so-called "middle-of-the-road" parties, the Kōmei and the Democratic Socialists. (Figure 7)

The people definitely willed that the LDP and the opposition should be brought to parity in that election, but by giving support to the New Liberal Club which is an offshoot of the LDP, and to the Komei party and the DSP, they indicated their preference for gradual moderate reform. What is at work here, it seems, is the desire of the new middle class to preserve its vested interests.

Following the election, the government of Takeo Miki gave way to one led by Takeo Fukuda, and Japan turned to grapple anew with a wide range of difficult domestic and international problems. In the first place, amidst an environment in which the worldwide structural depression that had reached its nadir during the oil crisis continued to be serious, and limitations on energy resources became ever more apparent, the nations of the world were becoming increasingly exasperated at the illusiveness of economic recovery. Pressure on Japan was intense to take the lead as an "engine country" in order to pull the world out of the economic doldrums, and the likelihood has increased that protectionist trade measures will be adopted.

Secondly, in the context of an international trend toward the establishment of exclusive fishing rights over contiguous waters to a distance of two hundred

nautical miles, there was a particularly strong reaction on the part of domestic public opinion against the tough Soviet stand in the Japan-Soviet Fishing Negotiations. As a result, tension between the two nations rose.

Thirdly, in connection with efforts to prevent the spread of nuclear weapons, the Carter administration called a halt to Japanese reprocessing of nuclear fuel. This was a bitter pill for Japan to swallow from the perspective of promoting the peaceful uses of nuclear energy and securing future energy resources, and it introduced a note of disharmony to Japan-U.S. relations.

According to a survey conducted in 1977 by NHK, 40.7 percent of Japanese feel that Japan should take steps to obtain resources while considering the position of other countries, even if it means bearing a fairly heavy cost; fully 32.5 percent ^(believed) that Japan should reduce living standards in order to proceed in the direction of self-sufficiency. Those who in one way or another felt insecure about Japan's future resources totaled to 84.8 percent.

Hence the Japanese people headed into the July 1977 House of Councilors election strongly at odds with the superpowers, the Soviet Union and the United States, over problems such as energy and food that are directly related to their livelihood, and while they were basically satisfied with their lives, they harbored a sense of uneasiness about the future. The focal point of the election was the question of whether or not the opposition parties would garner more seats than the LDP .

As a result of the election, however, the LDP largely maintained the status quo, the JSP stagnated and the JCP went down to stunning defeat. The Kōmei and Democratic Socialist parties continued their modest gains, and while the New Liberal Club fought a good fight the other new political forces were soundly beaten. (Figure 8)

While the LDP and opposition forces ended neck and neck, it is important that an overall reversal was averted, while the Kōmei and Democratic Socialist parties made gains. These facts indicate that the Japanese people are not in favor of radical political change, and in the midst of rigorous pressures,

both domestically and internationally, they are strongly oriented toward political stability. Moreover, the defeat of the JCP and the indifferent showing of the JSP indicates that their policies are unconvincing in light of the people's demand for maintenance of their present standard of living.

Be that as it may, it is evident that in both recent elections the people have demonstrated their will in a sound manner. Whereas in the general election of 1976 they admonished the LDP to purge itself of political corruption, this time they demanded that both government and opposition parties unite to come to grips with the serious situation Japan faces domestically and in its foreign relations.

The Elements of Stability and Instability

Having brought ourselves politically up to date, the question that remains is whether Japanese politics will follow the road of stability or degenerate into instability. As noted above, a reversal of strength between the LDP and opposition was avoided in the recent House of Councilors election, but the difference between the LDP and the opposition was whittled down to a mere two seats. As a result, out of a total of sixteen standing committees, the LDP has been able to maintain secure control over only two, the Steering Committee and the Budget Committee.

According to established criteria, a situation of virtual parity between the ruling and opposition parties in both houses of the Diet is extremely unstable with regard to policy execution. The more than twenty-year life of the LDP-ruled "1955 framework" has deprived our political and administrative leaders of the experience of dealing with such major difficulties in legislative steering. Hence just the adjustment problems alone are serious. In a broader sense, however, it is clear that the pattern of politics that has become customary over the years, whereby the government, based on an absolute LDP majority, has exercised its exclusive legislative prerogatives in presenting and managing legislation, has come to an end. At the same time, on the opposition

side, the customary gap between what the opposition parties can get away with saying and what they are actually able to carry out has been largely closed, and from now on they will increasingly be forced by the people to take direct responsibility in the policy decision-making process. They will have no choice but to move toward a more realistic policy stance. Obviously, the entire pattern of political confrontation between conservative and progressive forces that has characterized postwar politics has collapsed, in terms of both public opinion and the actual power balance in the Diet.

To put that another way, Japanese politics over the past twenty-odd years has been carried on under basically administrative leadership -- the government bureaucracy has taken the lead in policy formation while the LDP has followed along. From now on, however, the focal point of government is shifting from administrative to legislative functions, that is, from the bureaucracy to the Diet. It is no longer adequate for bureaucrats to consult only the LDP. They must now seek to forge a broad consensus behind policy proposals, turning their sights toward opposition views as well. The LDP, too, is no longer able to proceed unilaterally as the government party. It must now place major emphasis on coordinating policy with not only administrative offices but the opposition parties as well.

In my judgment, changes that are taking place in the modus operandi of politics are actually desirable from the viewpoint of Japanese democratic development. The emergence of a multiparty system has reflected a diversification of values in the nation as a whole, and the equalization of strength between the LDP and opposition is one result of that development. The practice of formulating policy objectives in the rarefied heights of government and officialdom and then passing them down for implementation will probably not be acceptable much longer. Increasingly, goals will have to be set and achieved with the participation of broad strata of the population through nationwide debate. Also, Japan must now seek out, from a long-range perspective, a role in international society that expresses the independent will of the Japanese

people, and then work to fulfill the expectations attached to that role. It is incumbent upon a nation without military power to expand economic aid and cooperation extended to developing countries and contribute actively to the formation of a new order in international society. A national consensus will be indispensable in these endeavors. Indeed, all of the serious problems facing Japanese government, such as energy, require for their solution the broad agreement of the people. It is true that new political circumstances have detracted from the autonomous leadership that the LDP has been able to exercise as the government party, but they have also provided that party with an opportunity to cooperate with the other parties in the Diet in such a way that its own credibility is enhanced. Furthermore, it is evident that the people seek participation, and demand an open political system where that is possible. This requires a change in approach to political management on the part of all parties, including the LDP, and politicians themselves; it also will provide the circumstances under which such a change can take place.

The first step toward a new approach must be to dismantle the entrenched structure of confrontation between government party and opposition. Beyond that, efforts must be intensified to discover a policy consensus that will turn the political system toward stability. As a prerequisite to that effort, I think it is necessary for both the LDP and the opposition to recognize the fundamental national consensus that has existed throughout the thirty years of postwar history. That consensus has had three aspects: the preservation of parliamentary democracy, maintenance of a free enterprise system premised on market economics, and thorough pacifism premised on the Japan-U.S. security treaty. The degree of agreement on these three points among the LDP and opposition parties is now broader in scope than ever before, and that increases the possibility of broad-based concurrence among the various parties on the concrete policy issues now confronting the nation. If an atmosphere of reconciliation takes root, there is no doubt that the LDP will establish a new custom of prior solicitation of opinions from the opposition even with regard to such matters

as budget compilation and important foreign affairs issues which the government has heretofore decided unilaterally. With that, Japanese democracy will have reached a new level of maturity.

Let us take a closer look at how existing political parties and the relations among them may be expected to change in the near future. Beginning with the LDP, a vigorous effort as self-rectification aiming ultimately at fundamental party reform was stimulated by the bitter public outcry over the corruption revealed during the Lockheed scandal. At its April 1977 Extraordinary Party Convention the LDP decided to proceed toward implementation of an overall policy including dissolution of the factions which are considered to be hotbeds of corruption, revision of the rules governing election of the party president in such a way that all party members can participate, modernization of party organization and public information procedures, and other measures designed to make a clean and open party. Factions in the traditional sense of the word no longer exist in the LDP. In their place, a number of policy research groups are becoming active. The latter have emerged to supplement the LDP's Policy Affairs Research Council, whose major function has traditionally been the ratification of policy proposals drafted by the various governmental ministries. These groups seek to respond to the pluralization of values in the nation as a whole, and they are intended to strengthen the party's ability to deliberate on policy in conformity with the plethora of demands increasingly leveled by the citizenry. By holding policy discussions in a public forum, and opening up the policy decision-making process to the people, these research and discussion groups can play an extremely important role in eradicating the popular impression that politics is inevitably carried on in closed, "smoke-filled rooms." Also, in order to correct what is known as "money-power politics" (kinken seiji), it is essential that the party clearly demonstrate its integrity by publicly revealing the private assets of politicians who hold important government posts and by dispelling suspicions concerning the realities of Japan-Republic of Korea relations. At any rate, the most urgent business

facing the LDP is the need for reform and rejuvenation, to restore the party's vigor and open its affairs to the public.

In addition, the party must be willing and able to execute a drastic policy revision in order to appeal to the "new middle class," which now included upwards of ninety percent of the population. One bit of evidence that this is already under way is the serious consideration being devoted to a policy of "taking care of those who work hard and live honest lives."

Turning to the JSP, the executive council, including Chairman Tomomi Narita, has decided to resign over the election debacle, and it appears that the party will soon have a new leadership for the first time in eight years. Nevertheless, the confrontation between the Socialist Association faction, [Shakaishugi Kyōkai], which professes Marxism, and the anti-Socialist Association faction, which is anti-Marxist, is as serious as ever, although the JSP's major support organization, the Sōhyō Labor federation, is attempting to play a mediating role, and it does not appear that real unity is in the offing. It is far more likely that a split is on the way. There is no way of knowing when that will occur, but most informed observers feel that the present situation cannot last indefinitely. What is most important, however, is that a movement promoting dissociation from Marxism is gaining strength within the largest opposition party, and its impact on JSP domestic and foreign affairs policy will bear careful attention.

At the same time, the possibility is increasing that movements on the part of the Kōmei and Democratic Socialist parties will have an important influence on the course of Japanese politics. Both are oriented toward the "middle of the road," and in policy they are not far apart. They are in the process, it seems, of negotiating over the possibility of taking joint action in the Diet. In that regard, it seems to me that recent developments suggesting the adoption by both parties of an extremely liberal stand on the Japan-U.S. security treaty are highly significant.

As far as the New Liberal Club, which made rapid gains in last year's election, is concerned, its policy is not yet entirely clear, but judging from

its origins I do not think it will differ markedly from the LDP. There is some possibility that it will fall in step with the Kōmei and Democratic Socialist parties. What with the LDP's efforts to reform itself and broaden the basis of policy formation plus the realism with regard to policy and tendency toward mutual cooperation displayed by the opposition, particularly the middle-of-the-road parties, there would seem to be increasing scope for consensus between the government and the opposition.

In the course of the Eightieth Ordinary Session of the Diet which was held following the general election last year that brought the opposition parties almost up to parity with the LDP, the government achieved the passage into law of 85.5 percent of the seventy-six policy proposals it introduced. The secret of that success was a turn from confrontation to cooperation on the part of both opposition parties and LDP, making possible the revision of a number of important bills, including the unusual case of a budget revision occasioned by additional ¥300 billion tax reductions. Twenty-one, or 32 percent, of the 65 bills passed were revised, and when this is compared to the ten percent revision rate during the 1970 Diet session the change is readily apparent. It is particularly noteworthy that, outside the normal channels for legislation handling, which center on the Diet Policy Committee, meetings have taken place between LDP and opposition party members responsible for policy for the purpose of making adjustments in the content of important bills on tax reductions, the anti-monopoly law, territorial waters, and so on. It is dangerous to generalize regarding Japan's political future on the basis of these examples, but they at least indicate the possibility of achieving political stability with the LDP acting as coordinator, even under conditions in which the opposition is roughly equal in power to the government party, or if the LDP should lose its majority.

It would seem that even if the future should bring thorough-going realignment among the various parties, the people could never support a government that passed too far beyond the bounds of the three points of consensus mentioned above. A certain transitional confusion is unavoidable as a result of the lack

of experience on the part of both LDP and opposition parties, but even in the medium term I am confident that Japanese politics will move down the road to stability and maturity.

On the other hand, it goes without saying that political stability is not determined by domestic factors alone. International conditions have a powerful impact on any country and especially on Japan. Today, particularly, as worldwide interdependence increases, changes in the international environment will immediately affect Japan's domestic political stability. Potential cases that come readily to mind are, first, a rapid deterioration in trade and international economic relations. **Secondly**, there could be a rise in the **price of energy resources** on which Japan vitally depends or a partial or complete cutback in Japanese imports. It should be stressed that events impairing Japan's economic stability are directly related to destabilization of domestic politics. Third is the dissolution of the power balance in Northeast Asia, with the concomitant development of a situation in which Japan's security is directly threatened.

In the next section, I will touch on these factors, in relation to Japan's new political situation, in a discussion of Japan-U.S. relations and Japan's role in the world.

Domestic Political Change and Japan-U.S. Relations

First, let us consider how Japan's new political situation can be expected to affect Japan-U.S. relations. In the past, those relations on the Japanese side have been dominated by the LDP, particularly by the government leadership. As we noted above, even though the administrative bureaucracy retains the initiative, the transformation of the whole pattern of politics has meant that the active cooperation of legislative organs is now essential to the governmental process. In my view, in order to broaden the scope of Japan-U.S. amity and cooperation, and guarantee stability in the relationship, it is necessary and fully possible for the opposition parties to play a role, particularly

the Kōmei and Democratic Socialist parties, and the New Liberal Club. These so-called middle-of-the-road parties are in favor of preserving and developing Japanese-American harmony and cooperation, and there are signs of similar sentiments in the right wing of the JSP as well. Such feelings augur well for the maintenance of continuity and consistency in Japanese foreign policy, particularly vis-à-vis the U.S. In order to further develop the Japan-U.S. relationship, it is necessary to increase mutual understanding among legislative leaders from both sides of the Pacific, and in that sense I think the present Shimoda Conference and exchanges among parliamentarians are just as important as government-level conferences.

In the thirty years since the war, the U.S. has been the most important foreign nation from Japan's point of view, in terms of both of security and economics. That importance is unlikely to decrease in the future. As Japan's economic influence expands, President Carter's policy of emphasis on trilateral relations among the U.S., Western Europe and Japan takes on added significance and persuasiveness, and it is becoming increasingly desirable for Japan to play an important role in the formation of a new international order. On the other hand, it seems to me that Japan-U.S. relations are now entering a period of trial.

One general problem that seems to cast a shadow over attempts to expand mutual understanding and friendly cooperation between Japan and the U.S. is that of trade. There is no guarantee that the textile issue of 1969 and early 1970 will not reappear in different form. Rapid increases in Japanese steel exports have already raised the hackles of American protectionists, and there is now the possibility that this will become a political issue. A look at overall Japan-U.S. trade figures confirms the urgency of some sort of solution to this issue. At the end of the first half of this year Japan had a favorable trade balance with the U.S. of \$2,330,000,000 while the U.S. was running a current-account deficit of more than \$10,000,000,000 as interdependence on Japan-U.S. economic relations has increased, so has friction and conflict.

How can friction and conflict be minimized? If relations between these two countries, which together account for 40 percent of the Free World's GNP, and whose trade totals \$26,000,000,000, were to worsen, it is impossible to predict the extent of the impact this would have on the world. In this day and age, when interdependence among all countries is increasing, it is more essential than ever that in the interests of world stability and development, our two nations seek harmony and self-restraint in their economic relations. Moreover, it is clear that a solution to the problem of trade imbalance between the U.S. and Japan that is found through purely bilateral negotiations may lead to reductions of overall world totals; therefore, such an approach should be avoided. It would be most desirable for Japan-U.S. difficulties to be dealt with in the context of an acceleration of world trade as a whole.

By expanding domestic demand, through a large-scale supplementary budget and a combination of other measures, Japan is now striving to achieve without relying on exports the 6.7 percent rate of growth the world expects. That growth-rate goal is the highest of any advanced nation. For countries with a payments surplus to expand domestic demand and reduce their surpluses through increased imports, and for deficit countries to expand exports for the opposite effect, is an extremely important element in the achievement of an overall multilateral balance in world trade. Japan's exports, which last year totalled \$67,200,000,000, are only 7.4 percent of the world's total. It is a far smaller figure than that of the U.S., of course, and even than West Germany's \$102,000,000,000. The problem for Japan, however, is rapid increases in exports of certain products to particular regions. For example, Japan's exports to the advanced nations last year increased 34.8 percent over the previous year's and as part of that increase Japan sold nearly 2.5 times as many color television sets to the U.S. as the year before. When this happens, movements to impose import restrictions inevitably arise in the recipient country. Japan must increase domestic demand and expand imports while taking care not to allow an export drive. At the same time, in order to avoid the sort of friction that

arose over the color television sets, it is particularly important to keep track of our country's share of each local market for particular products, the rate of increase in exports to these markets, employment situations in each country, and so on, thereby insuring orderly exporting. It is often pointed out that Japan imports a smaller volume of manufactured goods than other advanced countries because of the nature of its industrial structure, and the peculiar configuration of its distribution system, but improvements also are going to be necessary in this regard. Part of the reason has to do with the need to help developing countries, particularly those without oil, to expand exports of their products, and in this regard plans are progressing to establish in Tokyo a "Center for Expanding Imports of Manufactured Products" with funds provided by both private and government sources, including the Ministry of International Trade and Industry and the large trading firms. Trading firms themselves are beginning to turn from an overall orientation toward exports to a more balanced approach. Hence, we have reason to hope that the situation will be rectified. Moreover, as part of efforts to liberalize and expand the domestic market Japan must continue to do everything possible to relax restrictive measures against imports in areas such as agricultural products, where Japan is criticized abroad for maintaining non-tariff barriers to trade.

Not only is the maintenance and development of a framework of free trade in the common interest of Japan and the U.S., but it is also an indispensable element in the expansion of the world economy. For that reason, it is increasingly important for Japan and the U.S. to eliminate obstacles to free trade as they continue their close cooperation.

A consensus on the Japan's role and responsibility in the world economy and on the resultant constraints on the Japanese economy is in the process of forming, not only in industrial circles but among citizens at large. The complete fulfillment of that responsibility inevitably involves the reform of certain aspects of industrial structure, however, and will therefore require effective political leadership and a considerable period of time.

The recent shifts in exchange rates in favor of the Japanese yen has already dealt a serious blow to several industries, including textiles, with 1.8 million workers. Just revising^{the} industrial structure in such a way that it can cope with the efforts of a strong yen will take a good deal of time. Also, while it is desirable to revise Japan's import-export structure in such a way as to help achieve horizontal specialization in production among the nations of the world, it is impossible to ignore the plight of some 9 million workers in the mining, shipbuilding, machine, agricultural and fisheries industries. If policies are not backed by thorough spade-work and broad agreement, they are bound to lead to widespread social disorder. Therefore, they must be moved ahead carefully and gradually under skilled political leadership.

In that sense, with regard to complex issues such as these, the new pattern of politics emerging in Japan should not necessarily have a negative effect on the process of consensus-building. Alone, the LDP has insufficient persuasive power among the people. But if those parties that represent a broader cross-section of the population, including labor unions, were to take policy decision-making responsibility, that persuasive power could be greatly enhanced. In that regard, however, it is important above all that change not take place in the form of a response to sudden external pressures. Constant communication and understanding in Japan-U.S. relations is essential in order to avoid that eventuality.

In addition to the above, the issue that really means life or death for the Japanese economy is energy. The question of whether or not Japan can continue to secure a stable supply of energy, particularly oil, has an important bearing on domestic political stability. Japan presently depends upon oil for 73 percent of its energy needs, and virtually all of that is imported from abroad. Japanese government and industry are now carrying out a full-scale examination of ways to conserve energy and develop energy substitutes in order ultimately to reduce reliance on oil and of course nuclear energy figures importantly in that effort.

According to preliminary calculations, if we assume that the real growth

rate in GNP now and 1985 will be 7 percent per year, and labor productivity will rise at the rate of 6 percent, the projected number of unemployed in 1985 comes out to only 800,000; should the growth rate fall to 4 percent, however, with an annual productivity growth of 6 percent, that figure rises to 12,000,000 individuals, or a 20 percent unemployment rate. Even if productivity were to expand at only 5 percent, there will be 8 million, or 14 percent unemployed. That being the case, it is clear that a rate of growth of at least 6 percent per year is an indispensable element in Japanese social stability. It appears that Japan must maintain a quite high rate of real growth not only to serve as an "engine country" in the achievement of a worldwide trade balance, but also in order to preserve domestic stability.

By 1985, to maintain that rate of growth will require the equivalent in energy of 700 million kiloliters of oil. If we project on the basis of present conditions, Japan would have to rely on oil for up to 400 million kiloliters worth of that energy. The dilemma, however, is that in the future era of limited resources, that sort of reliance on oil will be impossible. In that case, Japan will have no choice but to reform its heavily oil-dependent industrial structure in order to conserve energy, while relying upon the development of nuclear power and other alternative energy sources. In that sense, too, the reprocessing halt was a shock not only to Japanese industry but to the general public. Japan has ratified the Nuclear Non-proliferation Treaty, (NPT), and public opinion polls show that the Japanese people would never support a decision to build nuclear weapons and march down the road to becoming a military power. Further, it goes without saying that nuclear reprocessing is provided for in the Japan-U.S. Nuclear Energy Agreement which is in force between our two governments, and Japan has developed medium-and long-range plans for energy supply on the basis of that agreement. Japan as a non-nuclear weapon state is already among those discriminated against within the NPT framework; a further distinction with regard to peaceful use of nuclear energy is unacceptable. When it is realized that reprocessing is allowed on the part of those non-nuclear

weapon states who are members of the European Atomic Energy Community, (EURATOM), one cannot avoid a sense that Japan is being doubly discriminated against. The reason the Japanese people acceded to the NPT is that they understood it to be a step toward nuclear disarmament and useful in constructing a basis for promoting the peaceful use of nuclear energy. Against that background, it must be said that the American policy not only contradicts the spirit of the treaty, but is also extremely prejudicial. Therefore, it seems to me that in the interests of stability in Japan-U.S. relations, the U.S. should seriously reevaluate the Japanese position on the peaceful uses of nuclear energy and take immediate steps to rectify the situation.

Another problem cropping up in the near future of that of fishing. Compared to the Soviet Union, the U.S. is presently displaying a high degree of goodwill toward Japan, and should be given full credit for that. Nevertheless, it must be said that it was very careless of the U.S. as a major world power to allow the Congress to establish a two-hundred mile exclusive fishing zone, very quickly initiating a worldwide trend in that direction, even before the development of an international law of the sea. Not only did that action render substantially meaningless all attempts to engage in fair and impartial discussion at the International Law of the Sea Conference, but insofar as it extended resource nationalism into the open sea, which has always been free to all, this action will have lasting negative consequences. It is true that within the framework of the new order, fishing quotas were established this year to the satisfaction of both sides, so no damage was done to Japan-U.S. relations. Beginning next year, however, quotas will be set by American coastal fishing committees, and there is every possibility that selfish provincial interests will prevail. In view of the fact that the role of fish as a protein source in the Japanese diet is the equivalent to that of beef for Americans, and a large number of people depend for their employment on the fishing industry, we would appreciate a little more understanding from the American side on this issue. Be that as it may, however, from a long-range perspective it is advisable for

both Japan and the United States to cooperate in an effort to avoid making political issues out of economic ones. That is particularly true insofar as economics is the very basis of domestic political stability in Japan.

While the above economic issues are of great importance, they are not the whole story. No treatment of the prospects for Japan-U.S. relations would be complete without taking mutual security into consideration. It is clear that President Carter's policy is one of gradual military withdrawal. Particularly with regard to the maintenance of peace in Northeast Asia, such a withdrawal presents problems that are extremely perplexing and unpredictable. It is certainly true that, as U.S. Secretary of State Cyrus Vance has pointed out, a graduated withdrawal has been made possible by the remarkable economic development and military expansion achieved by the Republic of Korea. Nevertheless, the recognition as expressed in the Satō-Nixon communique and more recently elsewhere that "the security of the Republic of Korea is essential to Japan's own security" is still operative, and nothing about the situation has changed to alter its applicability.

Of course the withdrawal of American forces from South Korea is fundamentally a bilateral matter to be worked out between those two nations, but in my view the U.S. should more carefully evaluate that matter with regard to its pace and ramifications, in order not to upset the balance of power in Northeast Asia. In addition, I think we have gotten to the point where Japan can play a role in making sure that North Korea does not make a miscalculation injurious to peace on the Korean peninsula. Economic relations have already been established between Japan and North Korea on a private basis, and exchanges by Diet members from the LDP and the opposition parties, among newspaper reporters, and so on, have developed quite well. On the other hand, Japan maintains extremely intimate political and economic relations with the Republic of Korea. It seems to me that for the U.S. and Japan to work through Japan's position vis-à-vis both Koreas, and cooperate in formulating policy in the non-military realm to insure the peace and stability of the Korean peninsula would form a

useful adjunct to American military withdrawal.

Japan should respond to the situation created by the gradual American pullback, by developing its basic defensive strength. Particularly in preparation for the era of 200-mile fishing zones, Japan must increase its anti-submarine and anti-aircraft capabilities centering on the Japan Sea, and build a Self-Defense Forces structure that could actually function effectively if an incident should occur. It is possible to see a broad national consensus already forming in support of such a program. According to a poll taken by NHK in June of this year, 31 percent of the people support a policy in "increasing defense power in a manner consistent with Japan's overall national strength while maintaining the Japan-U.S. security treaty." This option drew a higher percentage of respondents than any other alternative. Moreover, those who selected this response were not only LDP supporters, but included a considerable number whose sympathies lie generally with the opposition parties. If we include those who opted for autonomous defense combined with a policy of neutrality, or of self-defense in normal times with reliance on the U.S. in grave emergencies, it is clear that nearly 70 percent of the citizenry supports and expansion of the Self-Defense Forces, while only 9.3 percent supports unarmed neutrality. In my view, Japan should continue to increase its basic defense capability while furthering Japan-U.S. cooperation by shouldering a greater share of the maintenance costs of American bases.

Also important from the viewpoint of preserving peace in Northeast Asia are Japan's relations with China and the Soviet Union. The American military and political withdrawal from Asia leaves Japan face to face with these two great powers, and as an unarmed country it would be extremely unwise to become involved in a confrontation with either one. We are called upon to exercise not a simplistic form of "equidistant diplomacy" but rather an intelligent autonomous policy of balanced relations. The escalation into a serious political controversy of the so-called "hegemony clause" in the Japan-China Treaty of Peace and Amity must be seen in that context. There is quite a difference between the Japanese and American standpoints on that issue, even though it

touches on the very foundations of the Japan-U.S. security treaty. Japan as an unarmed country has no choice but to get maximum mileage out of its economic power. We must cooperate with the Soviet Union in the development of Siberia and at the same time make an all-out effort to help stabilize the living conditions of the Chinese people, thereby increasing the degree of dependence of both those nations on the Japanese economy. In other words, Japan must engage in a diplomacy that carefully encourages these countries to rely on economic cooperation with Japan, and not to feel threatened by us in any way. As noted above, we must strive to build a framework of peace in northeast Asia centering on the Korean peninsula, and stubbornly maintain it. It appears to us that efforts to realize a peaceful, multilateral balance in Northeast Asia through economic means would in the long run be consistent with U.S. interests. At any rate, the most important thing is to avoid disrupting the balance in northeast Asia and do our best to maintain the status quo.

In late August, Secretary of State Vance went to China to draw up a new blueprint for U.S.-China relations. It is difficult to predict the sort of relationship which the U.S. and China will settle on as a result of that visit, but I hope from the viewpoint of Asian stability nothing is done to damage substantively the status quo of Taiwan.

As the international situation becomes more fluid, it is eminently desirable that ever-stronger efforts be made to forge harmonious ties of cooperation between Japan and those countries with similar economic and political systems, such as the U.S. and the nations of Western Europe. The time is approaching when Japan can play an important role in that regard. For that very reason, in our bilateral relationship we must strive to minimize friction arising from misunderstandings and prejudice.

That is not a simple task, and an edifice of perfect harmony cannot be built in a day. We have maintained a relationship of friendly cooperation for the past thirty years, however, and undoubtedly the strong desire to further enhance that relationship abounds on both sides of the Pacific. As Japan's pattern

of politics now goes through a period of flux, we must preserve those sentiments and flexibly continue to translate them into action in a changing environment.

FIGURE 1

OECD

Distribution of Income After Taxes by Income Bracket (percentage)

		I	II	III	IV	V	VI	VII	VIII	IX	X
Australia	(1966-67)	2.1	4.5	6.2	7.3	8.3	9.5	10.0	12.5	15.1	23.7
Canada	(1969)	1.5	3.5	5.1	6.7	8.2	9.7	11.2	13.1	15.9	25.1
France	(1970)	1.4	2.9	4.2	5.6	7.4	8.9	9.7	13.0	16.5	30.4
W. Germany	(1973)	2.8	3.7	4.6	5.7	6.8	8.2	9.8	12.1	15.8	30.3
Italy	(1969)	1.7	3.4	4.7	5.8	7.0	9.2	9.8	11.9	15.6	30.9
Japan	(1969)	3.0	4.9	6.1	7.0	7.9	8.9	9.9	11.3	13.8	27.2
Netherlands	(1967)	2.6	3.9	5.2	6.4	7.6	8.8	10.3	12.4	15.2	27.7
Norway	(1970)	2.3	4.0	5.6	7.3	8.6	10.2	11.7	13.0	15.1	22.2
Spain	(1973-74)	2.1	3.9	5.3	6.5	7.8	9.1	10.6	12.5	15.6	26.7
Sweden	(1972)	2.2	4.4	5.9	7.2	8.5	10.0	11.5	13.5	15.7	21.3
England	(1973)	2.5	3.8	5.5	7.1	8.5	9.9	11.1	12.8	15.2	23.5
U.S.A.	(1972)	1.5	3.0	4.5	6.2	7.8	9.5	11.3	13.4	16.3	26.6
Average		2.1	3.8	5.2	6.6	7.9	9.5	10.7	12.6	15.5	26.3

FIGURE 3

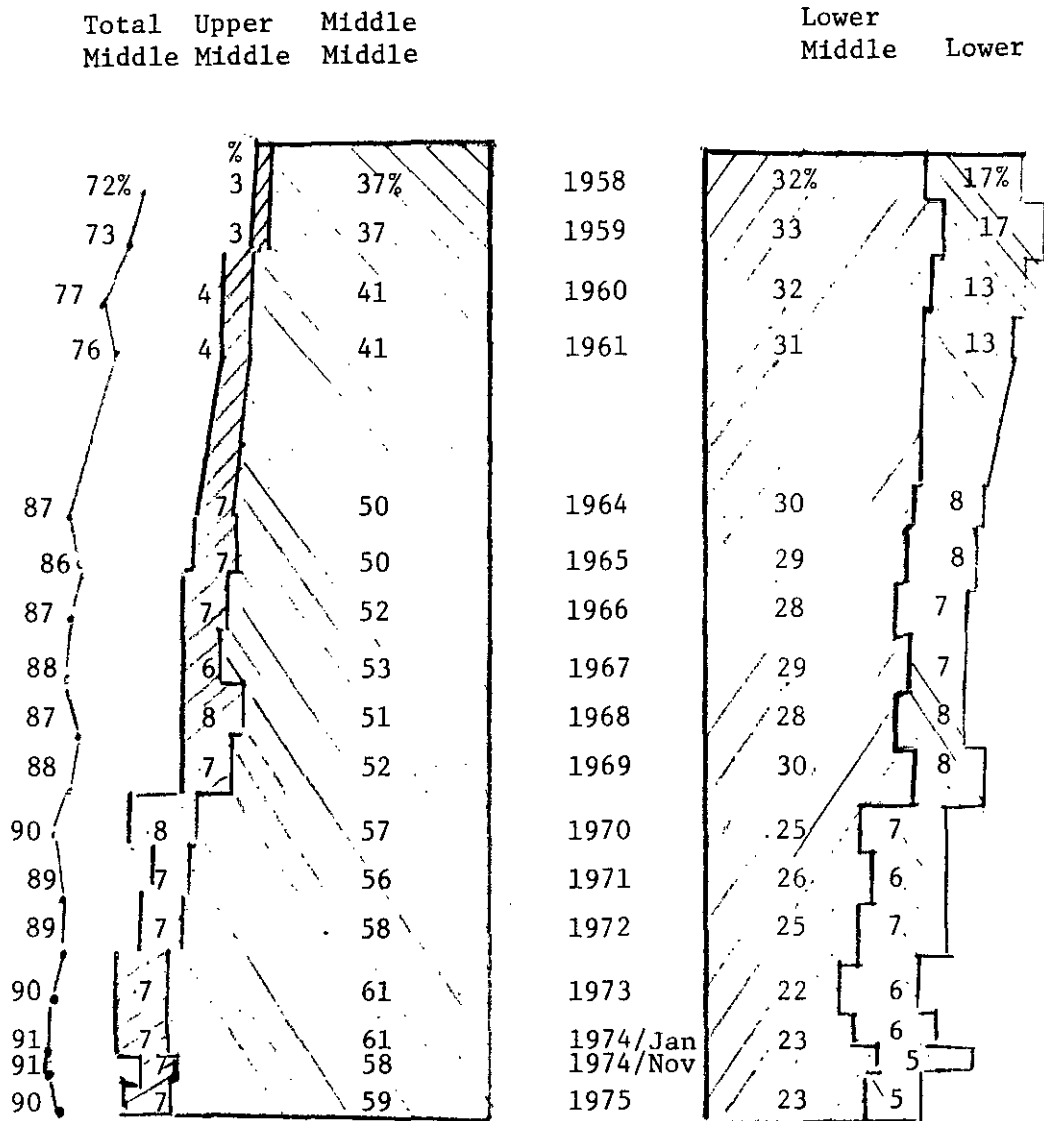
	1973	1974	1975	1976
Economic Growth Rate (in Real Terms)	6.4%	0.3%	3.4%	5.8%
Consumer Prices	16.1%	21.8%	10.4%	9.4%
Unemployment Rate	1.5%	1.9%	2.0%	

FIGURE 4

	1973	1974	1975	1976
Bond Reliance/ General Accounts Budget	11.9%	11.3%	26.3%	29.9%
Rate of Increase of Corporate Profits	60.9%	2.9%	-28.8%	

FIGURE 5

Class Identification



No survey 1962-63

1958-61

How well off is your household as against the nation as a whole?

1964-75

How would you rate your standard of living from the viewpoint of society?

The "upper" category was 0% 1958-61 and 1% in 1964

FIGURE 6

NHK SURVEY	1976		1972
	Age 18 - 22	23 - 27	18 - 22
Conservative government must continue	8%	8%	7%
It would be better if a conservative government were to continue	41%	37%	31%
It would be better if a progressive government were to be formed and continue in power	29%	30%	32%
A progressive government must be formed and continue in power	8%	13%	15%

FIGURE 7

1976 House of Representatives Election Results

	Post-Election Seats	Previous Election
LDP	249	271
JSP	123	118
JCP	17	38
Kōmei	55	29
DSP	29	19
NLC	17	0
Ind.	21	16

FIGURE 8

Results of 1977 House of Councilors Elections
(as of end July 1977)

	Present Strength	Post-Election Strength
LDP	124	126
JSP	56	61
Kōmei	28	24
JCP	16	20
DSP	11	10
NLC	4	1
Niin Club	4	4
Independent	8	3
Vacancies	3	3

NLC - New Liberal Club
 SCL - Socialist Citizen's League
 PLL - Progressive Liberal League
 JWP - Japan Woman's Party

FIGURE 9

NHK SURVEY

Questions	Total	Respondents' Party Affiliation										Other Groups	No Party	DK No Answer
		LDP	JSP	Komei	JCP	DSP	NLC	SCL	PLL	JWP				
Total	2644	1149	468	145	105	125	55	8	4	3	3	429	98	
1. Maintain the U.S.-Japan security treaty and increase self-defense power in proportion to Japan's national strength	11.1	42.8	18.2	20.0	13.8	30.2	37.3	32.5	25.0	33.3	0.0	24.2	15.3	
2. Revise the U.S.-Japan security treaty, get rid of American bases and forces stationed in Japan, and create a system whereby Japan can defend itself in normal circumstances	25.7	26.1	31.4	26.2	39.3	41.1	22.2	12.5	25.0	13.3	33.3	20.0	9.2	
3. Abrogate the U.S.-Japan security treaty and plan a system of armed self-defense combined with neutrality	11.4	6.3	17.1	15.5	28.5	10.9	12.2	25.0	25.0	0.0	11.3	12.1	8.2	
4. Abrogate the U.S.-Japan security treaty and institute unarmed neutrality	9.3	4.5	13.5	13.8	30.3	7.8	15.2	25.0	0.0	0.0	33.3	10.5	8.1	
5. Other (be specific)	0.2	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	1.0	
6. DK, no answer	22.3	20.4	19.2	24.1	8.3	9.3	8.1	0.0	25.0	33.3	0.0	12.9	60.2	

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Background Papers

ASIAN DEVELOPMENT AND THE UNITED STATES

by

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Section I: Introduction

This paper attempts, first, to assess current trends in political and economic development in East and Southeast Asia; second it inquires into the U.S. interest in the area; and third into the likely willingness and capacity of the U.S. to be influential, given these trends and interests. It may be noted that this order is somewhat unusual, basically because of the need to emphasize at the outset that the influence of any outside power, using whatever instruments at its command, is bound to be a limited one, at best. Moreover, we can't have too many reminders that without a real understanding of what is happening within the countries of the region, any analysis focussing mainly on their interrelations with the hegemonic rich is bound to be beside the point. If all that is clearly understood, it is nevertheless true that the postures taken by the U.S. and the potential for actions by the U.S. can continue to be of substantial importance in the region, if largely in a catalytic and supportive fashion, in relation to domestic actions taken by individual countries, or groups of countries.

Regions and countries are forever at some cross-roads. But there can be little doubt that this Conference is meeting at a time of more than usual uncertainty concerning both the definition of political and economic development objectives, and the capacity to address them, on the part of the developing countries of the region. This relates in part to the profound upheaval caused by the drastic change in oil and fertilizer prices, plus subsequent global inflation and recession,

in part to the local repercussions of the global North-South confrontation, and in part to the growing political difficulty confronting many countries who might want to sweep the "growth for whom" questions under the carpet.

At the same time, the U.S. interest in the area and our willingness to use whatever instruments are available to pursue those interests appear less certain than at any time since World War II. In spite of recent reassurances by Secretary Vance that the U.S. "is and will remain an Asian and Pacific power" and that "it will continue its key role in contributing to peace and stability in the area" --followed by similar, appropriately more military presence-tinged comments by Secretary Brown, there are those, in Japan and in the LDC's of the region, who are uncomfortable and nervous about U.S. reliability and intentions. Japanese statesmen are complaining about the "inscrutable West". There are those who see a return to the traditional primacy of European concerns or, at least, as Reischauer put it, of a concern with the fate of rich democracies over that of poor developing countries.¹ After all, much has happened in recent years to shake the comfortable assumptions of the first post-war quarter century. It is not frequent that a major hegemonic power has been given as bloody a nose as the U.S. received in Vietnam, and the marked turning inward of the U.S., if not all the way to Fortress America, at least to intermediate positions, has not been lost on anyone. Such very current events as the Korean troop withdrawal decision and the impending discussions concerning the longer term arrangements with respect to China and Taiwan only illustrate the point. The "bottom line" on human rights in the area remains unclear and, while the new Administration in Washington clearly has a different style favored by many, it is the anticipation of more (this

¹In "Back to Normalcy", Foreign Policy, February, 1975.

time Carter) shocks which is the current pervasive reality in the area. Such critical uncertainties must be viewed as a backdrop of our attempt, on the one hand, to assess the present in the light of the experience of the recent past and, on the other, to analyze what a mutually beneficial set of arrangements, in the future, might look like.

Section II: The Setting: Past and Prospective

It will be hard for us to understand where we are and where we should be heading without some minimal agreement as to where we have been. With respect to the developing countries in the region, the beginning of understanding of what recent history tells us, I believe, is a reasonable grasp of the diversity of the countries of South and East Asia. While a full typological approach with respect to their political and economic development is beyond us, certainly on this occasion, one should note that there exist at least four major categories which need to be differentiated. First, there is the mixed economy group which has experienced unusually rapid economic growth, in excess of 10% annually during the last decade, combined with good distributional outcomes, i.e., Taiwan, South Korea, Hong Kong and Singapore, all culturally related to each other as well as to China and Japan historically. Second, there is the group of countries which also has experienced growth at a respectable rate, i.e., better than 6% annually, but whose internal equity problems are more serious and have worsened over time rather than improved. This includes certainly the Philippines and Indonesia, and probably Thailand and Malaysia. Third, there is a smaller group--mainly made up of Burma--of virtually stagnant mixed economies; fourth, there are the communist countries in the region including

Vietnam, Laos and Cambodia, as well as North Korea. Finally, of course, there is Mainland China, which is sui generis.

We really have little to say here about the performance of Hong Kong and Singapore, the laissez faire atypical city states, or about the Indo-China countries, too recently affected by war. Burma represents an interesting case of equitably shared stagnation under self-imposed virtual autarky. We know relatively little about Mainland China, and less about North Korea, but one has the impression, certainly with respect to China, of a large if not always terribly well coordinated development effort which has brought steady growth combined with a good measure of egalitarianism. The big question is the extent to which moral incentives can be preserved as the engine of progress in the longer run and in the absence of credible enemies on various fronts. But all that is too big a question to be addressed here.

For our present pragmatic purposes the interesting categories are clearly groups one and two, mixed developing economy types which, both seeking to initiate industrialization via import substitution, nevertheless experienced a very different pattern of development. South Korea and Taiwan, the Type I countries, found themselves with a very poor natural resources base initially and moved rather quickly from a land and raw material exports fuelled pattern of industrialization in the '50s to labor intensive production and exports in the '60s and early '70s. In the process the rural sector was fully mobilized, with agricultural surpluses playing their crucial historical role--as in Meiji Japan. The name of the game was industrialization but relatively decentralized and avoiding some of the extreme distortions in output mix and technology choice often so typical of the consumer goods import

substitution era. Once entrepreneurial capacity in these industries had been sufficiently sharpened energies could turn outward as domestic markets were gradually exhausted. This dictated the need for accommodating shifts of policies away from import substitution and toward export orientation in the area of labor intensive industrial products--mostly consumer goods. Necessity was, indeed, continuously, the mother of invention in these highly successful development situations. Not only did industrial and overall growth assume remarkably rapid proportions by any international standard, but we all know about the explosion of industrial exports, at rates of 30% to 40% a year which has astounded the experts. Taiwan's exports today are more than 90% non-agricultural (from a mere 10% in the '50s) and are up to 50% of the GNP (from 15% in the '50s). What is perhaps less well known is that this very rapid growth and structural change pattern was accompanied by an unusually favorable performance with respect to both the level and changes over time in the distribution of income. While we can't go into this in any detail here, the avoidance of a conflict between equity and rapid growth was in large part due to the initially rural orientation of the development effort, both in terms of how (via chemical/fertilizer type of technology change) agricultural productivity increase was generated, what secondary (high value and labor intensive) agricultural products were encouraged and what industrial activity (increasingly competitive and export oriented) was encouraged.

The Type II countries, Indonesia, Malaysia, the Philippines and Thailand, have also experienced what may well be called a respectable growth rate, 6% or above a year, by any international LDC standard. However, blessed as they have been by a good natural resources base, these countries have persisted with raw material exports fueled industrialization, moving from

consumer goods to intermediate and capital goods import substitution and thus avoiding the need for any major policy changes.¹ However, while growth rates could thus be maintained, both the level and the direction of change in equity compare very unfavorably with those in our first group. Unemployment has been growing, income distribution indices have worsened, even as overall growth rates have been maintained. Output mixes and technologies have tended to be more capital intensive even as unemployment and underemployment rates have mounted.

With respect to recent political developments in the region one can only comment that there has been a clear trend toward increasing authoritarianism and a predisposition towards single party coalitions. This trend seems to be almost independent of the extent of commitment to continued direct state intervention--more typical of Type II countries--or indirect interventions via the use of the market mechanism--as in Type I countries--and perhaps underlines the fact that some degree of authoritarianism may be inherent in transitional societies.² At best, it may indicate that it takes time for functioning democratic institutions of an indigenous character to be established.

Perhaps the most important phenomenon of all in the region has been the increasing power of nationalism which exhibits itself in part in the resolute rejection of hegemonic intervention, whether East or West, and in part in a certain deliberateness and caution concerning regional arrangements requiring mutual give and take, as in ASEAN and other regional organizations.

¹Malaysia started her import substitution phase much later and with less enthusiasm but we will not persist with the differentiation here.

²Nor do we wish to imply that the same box fits them all in terms of the extent of permissible dissent, freedom of the press and other indices of pluralism.

President Marcos' effort to strike a new deal on U.S. bases in the Philippines while seeking strengthened ties with China has its equivalent in Vietnam's apparent determination to shape a foreign policy independent of Chinese influence, while seeking an accommodation with (and aid from) the U.S. With the possible exception of Cambodia, such nationalism has been associated with the ascendancy of pragmatism and diplomatic "cool" over doctrinaire positions and messianic fervor.

During the '50s and '60s the U.S. was, of course, heavily involved in Asia in a number of ways. Our major, transcendental, motivation in those days was clearly strategic and political in character, the Asian expression of a global anti-communist containment policy. The objectives of security and stability in the area were addressed mainly with foreign assistance instruments, both military and economic, tied in with defensive alliances. Table 1 indicates the mix and trend in the United States foreign assistance package during the '60s and '70s. Economic assistance and P.L. 480 food aid was provided in substantial quantities, but it was always clear that the basic motivation was to shore up economies in terms of enhancing the indigenous capacity to resist both foreign and domestic threats. Econometric analysis undertaken to determine what variables affected the inter-country allocations of U.S. aid during this period clearly indicates the existence of a very large bonus for being located on the periphery of the Communist bloc.

This is not to say that major long term developmental successes were not scored during this period. In fact, it was during the early '60s that both South Korea and Taiwan shifted from a domestic market oriented import substitution strategy to a more liberal, export oriented type of

economic growth path, with foreign aid making a major timely contribution in easing the always considerable pains of policy transitions. U.S. program lending, for example, was crucial to the adoption of the famous Nineteen Points during the 1961-63 Taiwan reform period, just as budget support had been of vital importance in overcoming the initial inflationary threat in the early '50s. But it is also fair to say that if we look at the total picture of U.S. foreign assistance efforts in East and Southeast Asia over the decade the preponderant motivation was clearly security and stability related. Certainly, when selling the program annually to the U.S. Congress economic development as such was strictly a secondary objective in this region, viewed as one major means of strengthening economies in their struggle against possible foreign invasion and/or internal subversion. Military assistance addressed the same objective directly.

In addition to the deployment of official development assistance, mostly bilateral, other dimensions of economic interaction between the United States and Asia were gaining importance during this period, especially in the later half of the 60's. These included an increasing volume of exports from the countries in the region to the United States, on the one hand, (see Table 2) and the increasing relative importance of private investment flows into the area, on the other (see Table 3).

Turning, first, to trade, the increase in U.S.-Asian interchange has, of course, been most pronounced in the developing countries of Type I which, as we noted, shifted towards an export oriented growth path in the early '60s. The '70-'75 export boom in the Type II countries is attributable largely to oil and other specific raw material booms. It is also the Type I countries which received an increasing proportion of direct U.S. foreign investment, seeking to participate in the growing industrial

Table 1

U.S. AID EXPENDITURES IN EAST ASIA 1960, 1970, and 1975 (in millions of dollars)

	FY1960						FY1970						FY1975 (estimated)			
	TOTAL	of which:					TOTAL	of which:					TOTAL	Economic Aid	P.L.480	Military
		Economic Aid	Defense Support	Development Loans	P.L.480	Military		Economic Aid	Supporting Assistance	Development Loans	P.L.480	Military				
Indonesia	22.4	10.5	-	2.6	12.0	-	210.8	34.7	-	19.3	169.9	6.1	124.1	44.1	54.9	25.1
Malaysia	0.2	-	-	-	0.2	-	12.7	-	-	-	12.5	0.2	5.3	-	0.3	5.0
Philippines	37.1	18.0	15.0	-	4.8	14.3	141.1	9.6	0.6	5.2	105.5	26.0	87.3	45.3	10.9	31.0
Thailand	42.2	23.0	18.5	-	0.06	19.2	131.7	30.7	21.4	0.3	4.2	96.8	63.1	9.1	-	54.0
Taiwan	249.3	109.3	68.0	38.9	12.6	127.4	220.2	1.6	-	1.6	88.3	130.4	74.3	-	-	74.3
South Korea	395.4	201.8	194.3	1.1	12.4	181.1	764.0	62.4	20.1	37.5	314.8	386.7	253.3	20.3	82.6	150.3
Singapore	-	-	-	-	-	-	2.2	-	-	-	2.2	-	0.01	-	-	0.01
Burma	1.1	1.1	-	-	0.07	-	7.4	1.8	1.1	-	5.5	0.1	0.6	0.6	-	-
Cambodia	25.4	22.5	20.0	-	-	2.9	8.8	0.04	-	-	0.1	8.6	412.4	98.0	47.4	267.0
Laos	55.5	42.1	40.8	-	-	13.4	126.3	48.3	39.9	0.01	3.9	74.2	60.1	27.0	3.2	29.9
Vietnam	251.8	169.9	156.0	9.7	12.3	69.6	2035.3	315.6	311.1	-	27.1	1692.6	1107.6	261.1	18.9	827.6
11-Country Total	1080.5	598.2	512.5	52.3	54.4	427.9	3660.4	504.7	394.1	63.9	734.0	2421.7	2188.1	505.6	218.2	1464.3

Sources: U.S. Aid Operations Report, various issues; U.S. Statistical Abstract, various issues; Senate Hearings Before the Committee on Appropriations, Foreign Assistance and Related Program Appropriations FY 1977 94th Congress, Second Session; and, U.S. Aid, U.S. Overseas Loans and Grants and Assistance from International Organizations, 1973.

Table 2

EXPORT PERFORMANCE

To	LUMPED INDONESIA, MALAYSIA, PHILIPPINES AND THAILAND (in millions of \$)				LUMPED SOUTH KOREA AND TAIWAN (in millions of \$)			
	1960	Inter-period Annual Growth rate	1970	Inter-period Annual Growth rate	1960	Inter-period Annual Growth rate	1970	Inter-period Annual Growth rate
WORLD	2737.1		4547.9		196.5		2828.7	
		5.1%		24.4%		26.7%		25.3%
EAST ASIA (excluding Japan)	741.6		1086.3		54.2		407.3	
% of total	27.1%		23.9%		27.6%		14.4%	
		3.8%		19.3%		20.2%		24.5%
INDUSTRIAL COUNTRIES	1647.5		3005.9		119.5		2144.9	
% of total	60.2%		66.1%		60.8%		75.8%	
		6.0%		25.4%		28.9%		23.9%
U.S.	618.9		892.1		22.6		1260.6	
% of total	22.6%		19.6%		11.5%		44.6%	
		3.7%		27.2%		40.2%		19.2%
JAPAN	356.8		1360.6		82.0		478.7	
% of total	13.0%		29.9%		41.7%		16.9%	
		13.4%		26.0%		17.6%		27.8%
REST OF WORLD	348.0		455.7		22.6		276.5	
% of total	12.7%		10.0%		11.5%		9.8%	
		2.7%		28.4%		25.0%		34.5%

Source: IMF, Direction of Trade, Various Annuals

Source: Direction of Trade, Various Annuals

export orientation, both with respect to labor intensive consumer goods and the international subcontracting of intermediate labor-intensive processes via the so-called "export platforms" of South Korea and Taiwan. The phenomenal success of these export performances was based in large part on the increasingly competitive environment which permitted low wage labor to be combined with rapidly maturing entrepreneurial capacities, enhanced by the inflow of private capital from the U.S. Increased trade relations, some intra-firm and some at arms' length, between the United States and the countries of the region, followed.

What then have been the tendencies in more recent years with respect to the U.S. presence in Asia--tendencies which are likely to continue to be of relevance in the years ahead? Clearly, there has been a diminution of U.S. willingness to participate in the form of large scale bilateral aid operations. First military, then economic, assistance has come under increasing pressure, with the U.S. regional as well as its global commitment steadily eroding, certainly in real terms. Secondly, there has been an increased tendency towards a multilateralization of the (reduced) volume of foreign assistance, either via the World Bank/IDA family, the use of regional banks or the U.N. Thirdly, it has increasingly become donor policy to provide heavily concessional aid only to the poorest countries and/or the poorest people in poor countries. These recent "new directions" in U.S. aid policy have more or less eliminated many countries in the region from anything but PL480 (food) assistance. On the other hand, since all but Indo-China and Burma may be counted among the middle class of developing countries, the relative role of trade and private capital movements in

Table 3

U.S. DIRECT FOREIGN INVESTMENT

Book Value, in Billions of Dollars

	1950	1960	1970
World	11.8	31.9	78.1
Developed	5.9	18.4	53.1
Percent of Total	50%	58%	68%
Developing	5.9	13.5	25.0
Percent of Total	50%	42%	32%
Latin America	4.6	10.0	14.7
Percent of Total	39%	31%	19%
Southeast Asia	0.2	0.6	2.0
Percent of Total	2%	2%	3%
Africa and Middle East	1.0	2.0	5.1
Percent of Total	8%	6%	7%

Source: T. W. Allen, Direct Investment of U.S. Enterprises in Southeast Asia, Economic Cooperation Centre for the Asian and Pacific Region, Study 2 (Bangkok, 1973).

Table 4

FOREIGN DEBT OF SELECTED ASIAN COUNTRIES
(in millions of \$)

	1970	1976
SOUTH KOREA	1,675	6,728
TAIWAN	609	1,600
INDONESIA	2,914	10,396
MALAYSIA	364	1,126
PHILIPPINES	646*	5,554
THAILAND	322	825

*Does not include publicly guaranteed private debts.

Source: World Debt Tables, IBRD

the region has continued to increase. Most of the countries seem to be in a position to satisfy the demands of the U.S. for either industrial consumer goods (Type I) or raw materials (Type II). Most are generally considered credit-worthy, their relative stability and lower level confrontationism has led to an increase at the margin, relative to Latin America, in U.S. direct investment, with limited access for some to even portfolio investments and bank credits. For a summary of their substantial increase in foreign debt in recent years, see Table 4. Whether this is healthy or unhealthy, depends on the nature and dependability of the export performance.

In summary, by the mid '70s, the landscape shows a group of developing countries with fairly high levels of per capita income and fairly good growth rates but very different levels of success in participating in the world economy in a sustained fashion and in solving their domestic distribution problems. They are unified by their determination to find their own national path to a better life, while rejecting interference both from political dissenters at home and, increasingly, the superpowers abroad. On the other hand, we find the United States viewed as increasingly uncertain as to the nature of its future role in Asia yet on the whole conscious of the fact that a retreat into Fortress America is neither desirable nor feasible in an increasingly interdependent world.

Section III: Prospective Interests and Actions

All this brings us to one of the central questions before the Shimoda Conference i.e., what should be the U.S. interest and posture in Asia in the years ahead--based on the events of the recent past and the realities of the current country situations in the region.

Utilizing the typology advanced earlier, we would expect the

Type I countries, i.e., South Korea, Taiwan, Singapore and Hong Kong, to continue to experience a rapid pattern of growth; having solved their labor surplus problem and growing at rates in excess of 10% for more than a decade, they can be expected to move increasingly in the direction of more skill, technology and capital intensive production and export patterns and to be in a position, for all practical purposes, to join the ranks of the developed countries. Needless to add, such a prediction is based on the assumption of no major upheavals on the political front, especially with regard to South Korea and Taiwan. In any case, this first group has demonstrated in the course of the recent post-OPEC global inflation and recession crisis--deepened by greater protectionism among the rich--that "development" is but another word for the ability to "ride with the punches" and be able to adjust flexibly to sudden shocks. Though growth rates may be interrupted, even turning temporarily negative, as was the case in Taiwan, these countries have demonstrated that they are capable of overcoming increased "voluntary" and "involuntary" trade restrictions, in addition to the oil crisis, plus global inflation cum recession, just as Japan has. This does not mean that their future success is guaranteed--that the adjustments are painless--or that continued effort won't be required. What it does mean is the avoidance of currently threatened further restrictions in the United States and other import markets as well as the maintenance of the flow of foreign private investment.

Turning to the Type II countries, i.e., the Philippines, Thailand,

Indonesia and Malaysia, the existing tension between growth and distribution is likely to intensify as long as they maintain their present narrow growth path. With nature having been relatively kind to them, this group is really not "up against it" and can be expected (as they have up to now) to try to continue to postpone the day of reckoning by maintaining their traditional exports fuelled industrial pattern. Given their import substitution policy syndrome, they are likely to continue to find it difficult to mobilize their rural sectors by increasing the productivity of food producing agriculture, while absorbing their unemployed and underemployed labor force both in rural industry, directed to the domestic market, and in labor-intensive industrial exports. As long as the growth path remains highly centralized and narrow, focussing mainly on the urban industrial sector, especially in such countries as the Philippines, Thailand and Indonesia--perhaps to a lesser extent in Malaysia--there are likely to be serious problems with respect to the employment and equity dimensions of growth. The pronouncedly dualistic features of these systems moving deeper into costly secondary import substitution can be expected to produce more rather than less tension and unrest. The fact is that such an outcome is, of course, by no means inevitable and that one or more of the Type II countries in the region can, with the proper changes in policy, step into the shoes of the Type I countries whose very success finally led them into unskilled labor shortages and declining international competitiveness in labor intensive commodities.

What is required is not all that painful--not even to the vested

interests themselves in the longer run: a more decentralized public sector, creating overheads in relation to the generation of a broader, more participatory, pattern of growth, greater emphasis on primary and secondary food crops, rather than excessive importance attached to cash crop exports, in agriculture; the kind of balanced domestic growth which includes substantial emphasis on the labor intensive production of appropriate goods for domestic rural markets; and greater "openness" with respect to exchange rate, tariff and interest rate policies permitting much greater participation in the international markets for industrial goods. All of this, of course, does not mean rejection of the comparative advantage in natural resources that some of these countries now have, Indonesia's oil being only a case in point. What is required instead is a realization that such natural resources fuel can and should be utilized to ease the pains of transition to a greater utilization, with time, of their underutilized human resources.

Policy changes of this kind, while reformist and not radical, do require the persuasion of the vested interest groups presently benefiting from the policies of government intervention which provide them with hothouse temperatures and windfall profits. It cannot be assumed that the ruling elites of Asia are committed to a more equitable growth path. Therefore, such persuasion must in part be based on the fact that continuation of the present path is untenable for economic as well as political reasons. But it also requires some assurance that, if a new domestic economic order is, in fact, to be achieved, the international setting for such a development will be minimally receptive, i.e., that one can count on not having import doors slammed in one's face or capital inflows dry up at critical junctures.

The really poor countries of East and South-East Asia are, with the exception of Burma, now in the Communist orbit. Nevertheless as any comparison of recent development in Mainland China and Taiwan, for example, would illustrate the basic problems of a poor labor surplus economy are not so very different regardless of the institutional cum organizational tools employed to solve them under a variety of social systems. While the Mainland given its size, can be expected to focus much more inward for some time to come, both Chinas had to find a way to mobilize their human resources, especially in the rural areas, which is the only way to avoid a conflict between growth and distribution objectives. Burma, on the one hand, and most of the Indo-China countries, on the other, are still at an earlier stage of development i.e., requiring a good deal of technical assistance and infrastructural investments much of which can be provided by both bilateral and multilateral aid from abroad. The poorer countries of the region are not yet in a position to be major participants in international trade or, realistically, recipients of large inflows of private foreign capital.

Given this, necessarily rough sketch of the country by country or, at least, type by type situation in the Asian countries we are concerned with, let us now proceed to the central matters before us, i.e. what are the conditions for regional stability in Asia, what is the appropriate U.S. interest, and what is the U.S. capacity to serve this interest.

Regional stability will, as I have already indicated, depend in large measure on the extent to which the countries in the region

will be able to solve their domestic development problem in the years ahead. This will always be at least 90% within their own hands. Much depends on the ability, especially within the Type II countries, to forge progressive coalitions for the accommodation of the required economic policy change. Just as landlords were, in an earlier day, persuaded of the merits of exchanging landed for industrial interests, industrialists can be persuaded that export-oriented large volume-based profits can be superior to domestic market-oriented high margin-based windfalls. Workers can similarly be persuaded that working family incomes will be better off if a larger proportion of its members are employed more hours per week rather than if wages for the head of the family rise prior to the exhaustion of the labor surplus.

The best guarantee for stability thus is success in the national development effort, plus continued rejection of intervention by the major outside powers, China, the Soviet Union and the United States. With respect to the first, the major powers can be helpful in terms of their trade, investment and aid policies combined in different proportions for different groups of developing countries in the region. Most important for the middle class countries we are dealing with here is some assurance that there will be no backsliding on the part of the developed countries concerning the liberal trade and investment policies so fervently espoused as a matter of principle. With respect to the second, nationalism, even within the Communist orbit, is likely to be the best guarantor, along with the continued schism between China and the Soviet Union. Both can be pulled into

an increasing trade and (where appropriate) donor relationship with countries in the region without posing a threat to their independence.

Focussing next on the particular U.S. interest, it seems clear that the task before us is to convince Asian leaders--having thoroughly persuaded ourselves--that we have a global interest in development, which has its important manifestation in the region, even as we withdraw from our role as global policeman. The real danger being perceived by both the developing countries of Asia, as well as Japan, is that having been burnt in our costly effort at containment, we will withdraw to a position of general "benign neglect" with respect to Asia, while expending whatever meager LDC-related energy and resources we can muster on our traditional Latin American "sphere of influence." Just as it is important, I believe, for Japan to be viewed as concerned with development on a global basis i.e., not only in Asia or where important raw materials are located, but also in Africa and Latin America, it is important for the U.S. to be viewed as wanting to be associated with this important historical process wherever it is occurring.

What does this mean in terms of the U.S. posture in Asia, given the situation of the countries in the region and given the local representation of global discussions on North-South relations, whether coached in terms of the recognition of mutual interdependence or the need for a new international economic order?

In my own view, it means that the U.S. must cease pyramiding its grab-bag of motives for being helpful in the developing world, moving from security and stability to the purchase of bases to the assurance

of markets and raw material sources, and an interest in economic development. We have traditionally been ashamed of admitting of some basic humanitarian impulse in wanting to be associated with the process of economic and social transition. Admittedly, our interest goes beyond that. It is an interest based on long term stability in the developing world, the recognition of an interdependence which surely has its commercial, raw material access, as well as political stability--even nuclear proliferation related--implications as we look ahead. But also admittedly there exists no tested positive relationship between satisfactory development performance and the absence of instability in the short run. All we can say is that successful development is very likely to telescope the period of instability as countries try to reach economic maturity--and that failure does breed frustration and instability in all runs. We should clearly own up to our inability--and unwillingness--to try to orchestrate or manipulate human progress in any particular direction which is helpful to U.S. policy in the short run. There is, moreover, nothing to be ashamed of in simply wanting to be associated with the process of transition to economic maturity. There is surely much to be gained by lowering our voices, ceasing to oversell and being more candid with ourselves and our friends concerning our limited power to really shape events.

If this is to be the posture towards which we are moving in the Asian region, massive transfers of concessional resources are not likely to be required. What is required instead is a posture of not benign neglect, but of, a sometimes somewhat passive, interest

in helping, when and if we are asked. As recent research of the Overseas Development Council has demonstrated, Main Street America is far ahead of its politicians in the recognition that basic humanitarian and development objectives are legitimate reasons for incurring overseas expenditures in the face of large domestic needs. At the same time there has been a growing reluctance to accept the perennial exaggerated claims as to the multiple purposes served and achievements made under our foreign assistance programs. In our region, LDC Types III and possibly IV could thus be the beneficiaries of modest concessional aid programs, hopefully multi-year in both authorization and appropriation and conceived not as a political tool to "show the flag" and maintain country aid levels, but as a multi-year response if and when countries approach us with multi-year programs which we consider sensible. In my own view, such use of foreign assistance should be extended as well, if on a temporary basis, to some of the middle income Type II countries in the region if and when such assistance is clearly associated with an indigenous determination to persuade the system to shift gears on the income distribution/growth trade-off front over a three or four year period. In other words, the U.S. aid posture should be essentially passive, but responsive, including at the point where the pains of transition may require some ballooning of concessional capital transfers.

Such an aid effort, mainly responsive to LDC initiatives, would, of course, constitute a U.S. response within the context of a multi-lateral framework in which other bilateral donors, as well as the World Bank and the U.N. family, would play their proper roles. While this

is not the place to stray into a discussion of ideal future foreign aid configurations, all the above is consistent with the notion that the bilateral programs of the U.S. and the multilateral efforts of IDA should be directed increasingly towards the poorer countries, and only occasionally towards the alleviation of the lot of the poor within middle income countries if the donor community is convinced of the integrity of the largely domestic effort required to achieve that purpose. Initially rather small but, once the program shows its effectiveness, substantially larger amounts of relatively "clean" (development-oriented) water could be deployed in this fashion. Meeting the .7% of GNP aid target, to which Japan is more committed than the U.S. is, in that context, much less important than the credibility of what we are trying to achieve and the posture we are willing to assume.

As we have already pointed out, for most countries in the region the openness of international markets is more relevant than public capital transfers. For the Type I countries, this is a requirement of continued growth within an interdependent international economy. For the Type II countries, the prospects of a lessening rather than increasing protectionism in the advanced countries is an important part of the setting required to convince them to make the necessary changes from inward looking import substituting policies to outward looking market oriented types of postures. The argument most frequently encountered in Indonesia, the Philippines, Thailand and Malaysia (if to a lesser extent) as an obstacle to the possible

restructuring of their economies is that the success of the Type I countries cannot be imitated on a large scale, partly because of an actual or prospective increase in protectionism abroad and partly because the world just could not absorb such a large volume of labor intensive industrial goods even in the absence of advanced country protectionism.

The objective response to this kind of concern is, I believe, in four parts. First, the march of a dynamic comparative advantage means that some will move out, as labor shortage is achieved, as others move in--witness the Japan/Taiwan/Korea sequence. Second, as Taiwan's and South Korea's past experience has amply demonstrated, the increased flexibility which comes with a larger role for the market within an indirectly controlled economy, permits the system to respond effectively even to the threat of increased tariffs and/or more likely, to quotas and "voluntary" market restrictions. Third, this realization does not in any way weaken the argument that the advanced countries, Japan and the U.S., as well as the European countries, have an obligation to continue the liberalizing trend which has been part and parcel of the international economic structure since World War II, rather than give in to the currently strong and rising pressures for a reversal. An effective, well thought through and possibly multilateralized (as to rules and financing) adjustment assistance program in the rich countries would, I believe, constitute a most effective companion to any necessarily modest future foreign assistance programs. Such "foreign assistance" spent at home might even be included in future aid appropriations. An effective way of moving in this general direction within the global North-South

negotiations context, might well be successful negotiations within a global GATT-like framework rather than additional pressure for LDC preferences the benefits of which have generally been much less than meets the eye.

Fourth, developing countries, including those in Asia, are well advised to consider not just the export of traditional commodities to traditional trading partners but also the possibility of a substantial increase in two kinds of production; that of appropriate goods for internal markets and that of both traditional and nontraditional goods as exports to each other. The trade of the countries in the region with each other is still at a very low 25% of the total (see Table 2). If the countries in the region were to liberalize with respect to each other, perhaps via initial half-way houses of an ASEAN Common Market variety, the possibility for exchanging such commodities with each other are indeed very substantial. Mutual economic benefits are also likely to be of great political benefit in terms of the strengthening of interdependence within the region. Just as "real peace" in the Middle East connotes trade between Israel and her Arab neighbors the expansion of interregional trade to include Vietnam and North Korea will be an important stabilizing factor politically in Asia. Outside powers such as the United States and Japan could be very helpful in easing moves that the countries in the region might want to make directly or via expanded ASEAN or other common market groupings through the provision of liberalization funds either via the World Bank group or a restructured Asian Development Bank. The argument that the Type II countries in the region are too similar in structure to permit a

substantial growth of trade falls by the wayside when we recognize the great diversity of quality characteristics within any particular SITC category of manufactured goods, such as textiles or shoes. In the context of each of the countries in the region, but especially the Type II countries, growing rapidly as a consequence of liberalization, they could become major customers at the margin for each other's goods.

As international trade theory tells us and as we observe from the pattern already established in the region, the most labor intensive goods are likely to be exported to the advanced countries where their comparative advantage is highest and required to overcome the large transport costs. U.S. leadership on behalf of a resumption of our own domestic growth and the rejection of protectionism is perhaps the most important single contribution we can make to stability and development in the area. The same, of course, holds for Japan-- except more so, give Japan's embarrassingly large and growing export surplus.

Let me now briefly turn to the important, always highly charged, subject of foreign investment and the multi-national corporation. The issue of the contribution of multinationals, positive or negative, to growth, distribution and other societal objectives in the developing world is one of the more controversial in the literature, with one of the highest heat-to-light ratios. Conclusions reach from those who believe that any foreign corporate presence ipso facto entails the loss of independence to those who view such activity as a simple augmentation of all the "good things" at the disposal of the developing

society i.e., capital, management, entrepreneurship and technology. The problem is that the contribution of the multi-national corporation cannot really be assessed independently of time and place; nor can it be viewed as a monolithic organizational concept instead of as a very heterogeneous set of packages and organizational forms ranging from wholly owned subsidiaries through joint ventures to licensing and management contracts. In the Asian region, for example, the Type I countries already have a very substantial domestic entrepreneurial capacity, which means that the multi-national presence is likely to increasingly take the form of management contracts, licensing arrangements, etc. while in the Type II countries, the transition from wholly owned subsidiaries to joint ventures would seem to be very much tied in with a gradual opening up of the economy to trade and the indigenization of the entrepreneurial contribution.

In other words, there are very few situations within the region, with the exception of the Indochina countries and Burma, where the contribution to the brute act of savings, of getting things done, of managing a relatively new type of activity, as provided by the wholly owned subsidiary form of multinational activity, is still the dominant requirement. As a society shifts from the forced march pattern of import substitution to the more ballet type advance of export orientation along comparative advantage lines, joint ventures become increasingly more important relative to wholly owned subsidiaries. It should be noted that the style of the Japanese multi-nationals in the Asian area is, from the beginning, more joint venture-oriented and

more conducive to export orientation than the U.S. style which is largely focussed on the domestic market via wholly owned subsidiaries, see Tables 5a, 5b. It is also true that the Japanese trading company pattern makes it easier to reach out to the medium and small scale industries within the developing country whose activation and mobilization is, as seen above, so important to a reduction and, possibly, elimination of the conflict between growth and income distribution objectives. Once, with time, the appropriateness of technology and output mixes in penetrating international markets becomes more important within a particular society the potential combination of an international company's global scan of markets and technology with the growing domestic expertise based on the specificity of the local resource endowment and institutional factors can become increasingly important.

For U.S. private investment in the region to make its full contribution to development, while, at the same time, necessarily also serving the primary interest of the investor, increased flexibility on this and other fronts will be required if the current trend towards confrontation is to be reversed. Unbundling of the multi-faceted multi-national corporation's package and a more explicit set of examination and information systems as to just what is being transferred and what is being paid for at each stage of the development process will become increasingly important. Flexibility in terms of "fade out" and divestiture agreements which take into account the changing contribution of local and foreign capital, technology, management and entrepreneurial resources would tend to provide more

realistic settings for a mutually beneficially, interdependent set of relations in the future. The often-used screening of foreign investments should include unbundling and full disclosure procedures permitting LDCs to do comparative shopping instead of the "all or nothing" acceptance or rejection so frequently the case. Some of the admitted excesses of the MNC, ranging from transfer pricing, to the payment of unduly high wages, to the inappropriateness of imported technology, to the underutilization of patents and the overutilization of domestic credit markets and export prohibition clauses, are not unrelated to the policy environment existing in many of the countries of the region. Many of these "crimes" are based on insufficient competitive pressure, either with other MNC's or with host country industry. Foreign investors can be most effective if forced to put their energies into building the famous "better mousetraps", to give up the "quiet life" of satisficing behavior patterns as the policy regime is shifted to a more competitive market-oriented one. International evidence from the export processing zones of Korea, Taiwan, as well as other parts of the developing world, indicates that multi-nationals are quite capable of coming up with appropriate technology and output mixes when there exist such pressures to "scratch around". Where, as in the Type II countries, the "quiet life" is the norm for large corporations we can also expect multi-nationals to behave differently.

The U.S. can make an effort to facilitate the evolution to a

Table 5a
ACCUMULATED U.S. AND JAPANESE
DIRECT INVESTMENTS IN ASIA 1971
(in millions of dollars)

Host Country	United States 1971	Japan 1971
Taiwan	133	85
Hong Kong	286	139
Indonesia	512	241
South Korea	277	33
Malaysia Singapore	307	50 33
Philippines	719	74
Thailand	124	91
Others	691	33
Total	3049	779

Table 5b
OWNERSHIP OF OVERSEAS SUBSIDIARIES BY
NATIONALITY OF LARGE PARENT FIRMS
AS OF JANUARY 1, 1971

Parent's Nationality	Parent's Ownership Percentage					Total
	95-100	94-51	50	49-26	25-5	
France	38	23	9	18	12	100
West Germany	56	22	9	10	5	100
Sweden	80	9	4	5	3	100
Canada	68	12	7	10	3	100
Japan	27	8	7	25	33	100
United States*	71	20		9		100

Source: Y. Tsurumi, "The Multinational Spread of Japanese Firms and Asian Neighbor Reactions," in The Multinational Corporation and Social Change, D. Apter and L. Goodman editors, Praeger, 1976.

*The U.S. data were as of January 1, 1968.

Source: Same as Table 5a.

mutually more beneficial relationship and one less fraught with the fictions and frictions of the past. Most important, perhaps, is an effort to move away from the image of a knee-jerk reaction in favor of our multi-national citizens abroad--right or wrong. Hickenlooper and Gonzales amendments, even if not always zealously administered by the executive branch, are viewed as only slightly modernized versions of old fashioned gun boat diplomacy, and equally ineffective. The extensions abroad of domestic antitrust, Trading with the Enemy legislation and other forms of attempted extraterritoriality represent similarly ineffective and highly offensive instruments. Likewise, there would seem to be little reason to continue to provide U.S. foreign investors automatically with taxpayer subsidized risk guarantees via OPIC, thus implying the blessings of the U.S. government without some effort to reassure ourselves that no unfair trade practices, exclusive market arrangements, export prohibition clauses or other objectionable procedures are being contemplated--in addition to the purely financial flow criteria now being utilized.

Especially for the middle class of developing countries in the Asian region, whether of Type I or Type II, the flow of international capital, moving gradually from direct investment to portfolio and bond markets, should play an important contributing role to sustained development in the future. Since interdependence connotes a measure of symmetry, the rich countries should also be willing to consider liberalizing their current tight restrictions against the flow of unskilled labor from the Asian developing countries i.e., beyond

today's tightly circumscribed temporary agreements. The serious political obstacles to any such move are recognized, but the logic is nevertheless loud and clear.

In short, the U.S. needs to reassure others that it wants to be associated with the process of Asian economic development, which will be going on in any case, in a constructive, responsible and overall sustained fashion. This, in the aftermath of Vietnam, will do more than anything else to convince jittery governments as well as ordinary citizens in the region that we are there to stay, in a steady and low key fashion--rather than either pulling out or acting in an off again-on-again pattern, scrambling for special deals and favors here and there as the opportunity and opportunism warrant.

As far as Japan is concerned, the advice is not, of course, very different. Interdependence for her is not just a polite code word but a fact of life. This, however, should not find its expression in aid programs too closely related to the ebb and tide of actual or prospective raw material shortages, or in longer term income and trade policies which appear to respond to yesterday's shorter term crises. Most of all, to the extent that the rich countries' posture on liberalism or restrictionism with respect to trade is of one piece, the interdependence between increasing trade surpluses in Japan, increasing U.S. deficits and the accumulation of debt in the non-OPEC Third World must be recognized.

Japan's ideal future role in the region, as viewed from the U.S. perspective, should indeed be one of an Asian policy which is part and

parcel of a global posture rather than something of a special game played in her own backyard. This, of course, does not mean that Japan may not have an especially significant contribution to make to the developing countries of Asia since both her technology and demand patterns are closer to their factor endowments and market conditions than those of anyone else. But it means a bolder broader view of the national interest in the North-South context . As in the gradual abandonment of the U.S. "special relationship" with Latin America it means a relatively greater realization of Japan's rights and responsibilities as a major power.

In summary, the U.S. and Japan both still have to convince others, and each other, that they understand interdependence as a longer term "spaceship earth" proposition rather than as the short term self interest euphemism for the assurance of access to scarce raw materials, or military bases, or votes in the United Nations. Once the two major industrial powers operating in Asia have this basic understanding in common--leaving, of course, room for all kinds of natural differences in interpretation and specific action--we will have relatively little to fear either from the growth of nationalist rivalries within the area, or from Communist expansionism into it. China and the Soviet Union may well continue to give low level support to governments and insurgent movements--just as we would not expect the U.S. to curtail all military and "political aid" in the area. But, if we both put our big chips, visibly, where they count--on long term development objectives of the countries in the region--shared by non-Communist and Communist

countries alike, Asia-Communism should instill us with even less fear than Euro-Communism. The current trend toward a more pragmatic business-like attitude in virtually all of the Communist countries in Asia, including Mainland China, should be reassuring on that score. We agree with the New York Times¹ that "the more ... Vietnam and the two smaller communist powers behave as states among Southeast Asian states, rather than as the seats of victorious revolutionary movements, the greater the prospects for peace and stability in the region". An even greater contribution would be made to the same end if the U.S. and Japan decided to behave consistently as the two richest advanced countries on a fully inter-dependent globe.

¹editorial, July 25, 1977.

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SOME CONSIDERATIONS FOR
JAPAN AND THE U.S.
IN DEVELOPING AN ENERGY STRATEGY

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SOME CONSIDERATIONS FOR JAPAN AND
THE U.S. IN DEVELOPING AN ENERGY STRATEGY

Background

The world economy suffered a severe shock following the rapid escalation of oil prices in the wake of the 1973 Arab oil embargo. Some of the industrial nations--and particularly the U.S., Japan, and West Germany, the so-called engines of the world economy--were able to withstand these shocks and, after temporary recessions, resume economic growth at near historic rates while containing inflation at moderate levels. On the other hand, many of the OECD countries have been unable to return to satisfactory economic growth rates, and the non-oil producing LDC's have experienced a mounting burden of external debt and in some cases an actual decline in real per capita net income.

That these changes occurred in the aftermath of a four-fold increase in the world price of oil is not surprising. What is surprising, however, is that so little has been done to find solutions to the energy problem. This inactivity has led some observers to ask whether "modern industrialized governments have the political will to face the truth and to

act" and whether "these governments have the strength to avoid unilateral and nationalistic action and work together in international forums for the common interest"¹

It would be a mistake to conclude that nothing has happened to improve the energy position of the non-OPEC world since 1973. Oil and gas production has expanded in the North Sea and promises to add about 3.5 million barrels of oil per day to OECD Europe production by 1980. North Slope production began flowing through the Alaskan pipeline in June and will add about 1.2 million barrels per day to U.S. production by 1979 and possibly as early as late 1978. U.S. coal production has expanded marginally and plans are underway to step up the pace of that expansion; European and Japanese nuclear programs are proceeding--albeit more slowly than previously forecast--and some countries have begun serious efforts to implement energy conservation programs, although unfortunately the U.S. (the world's largest energy wastrel) is a laggard in this regard. Moreover, the International Energy Agency is now in place and an Agreement on an International Energy Program has been signed by 16 OECD countries. And, while the IEA probably falls far short of former Secretary of State Kissinger's claim that it is "one of the great success stories of the last decade-and-a-half,"

¹Trilateral Commission, Energy: A Strategy for International Action, 1974, p. 10.

it is having some success in coordinating the development of individual country policies for handling emergency shortages. For example, it is encouraging to note that the U.S. has finally--after considerable delay--enacted an oil storage program and appears now to be moving ahead with accelerated implementation plans.

Yet in spite of these positive signs, for the most part, the response to higher oil prices and rising imports has been weak and inadequate. Governments, by and large, have not shown that they understand the magnitude of the problem or have defined--with any degree of clarity--how they intend to deal with it. And, this failure to move forcefully--either at a national or a multinational level--has been disappointing. Thus, the call for the development of a common energy strategy and rough national production goals has largely gone unheeded. Few coordinated efforts have been made to achieve the energy conservation goals which were set forth by the IEA, and only limited progress has been made in developing the international financial mechanisms which could ease the financial strains caused by higher oil prices. At the same time, relations between consuming and producing countries continue to be strained as was evident as negotiations broke down at the recent CIEC meetings, and the Arab-Israeli conflict remains unresolved and could escalate in the aftermath of the latest Israeli elections. Such a turn of events would have profound impacts on consumer-producer relations.

The results of this inaction have been predictable. Oil prices have continued to escalate and did so again in July when Saudi Arabia and Abu Dhabi matched the 10 percent increase put into effect by the other OPEC nations earlier in the year, and the debt burden on the consuming nations-- particularly the non-oil producing LDC's, as well as such developed countries as Spain, Portugal, Greece, and Italy-- is becoming less manageable. The need for an international financial mechanism to provide some type of financing vehicle to meet the current account deficits of the developing nations, until more permanent international monetary system reforms can be put in place, is becoming increasingly clear.

On this latter point, the evidence is mounting. While it is true, as shown in Table 1, that the current account deficits of the non-oil producing LDC's are expected to decline from the \$28.7 billion peak of 1975 to about \$17 billion this year, these deficits will continue at historically high levels into the foreseeable future. And, equally disturbing, the deficits of the LDC's with the lowest per capita incomes are expected to increase. Private financial institutions now hold over \$35 billion of LDC long-term debt--up from \$13 billion in 1973; and banks hold \$76 billion of total debt--up from \$33 billion in 1973. Given this rate of increase in LDC borrowing from the private sector, it is difficult to see how the private banking system can continue

Table 1

WORLD DISTRIBUTION OF CURRENT ACCOUNTS
(billions of dollars)

	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975E</u>	<u>1976E</u>	<u>1977P</u>	<u>1978P</u>
Oil exporting countries (1)	.5	2.5	2.6	4.8	62.8	31.7	36.7	33.3	25.1
Seven major industrial countries (2)	6.2	7.8	-.1	-.7	-22.6	5.9	-9.6	-14.6	-8.8
Other developed countries (3)	-3.4	-2.8	3.2	4.1	-7.6	-6.9	-9.2	-5.2	-2.5
Semi-industrial Mediterranean countries (4)	-1.3	-.2	1.0	.4	-8.8	-10.4	-7.8	-5.7	-3.8
Non-oil LDC's (5)	-6.5	-9.0	-6.6	-5.5	-20.6	-28.7	-17.9	-17.0	-17.3
High income	-3.0	-4.5	-3.9	-3.7	-15.2	-16.8	-11.8	-8.9	-8.7
Medium income	-1.5	-2.1	-.9	.4	-2.6	-6.9	-5.4	-4.8	-4.4
Low income	-2.0	-2.4	-1.8	-2.2	-2.8	-5.0	-.7	-3.3	-4.2
Communist countries (6)	-3.0	-3.0	-3.0	-4.0	-5.0	-11.0	-10.4	-9.3	-8.6
Other countries and residual (7)	7.5	4.7	2.9	.9	1.8	19.4	18.2	18.5	15.9

E - Estimates; P - Projected.

¹Consists of OPEC plus Trinidad and Tobago.

²Consists of the United States, Japan, Canada, the United Kingdom, Germany, France, and Italy.

³Consists of South Africa and the smaller OECD countries with the exception of Spain, Greece, Portugal, and Turkey.

⁴Consists of Greece, Israel, Portugal, Spain, Turkey, Yugoslavia, and Malta.

⁵The three subgroups of non-oil LDC's are based on whether 1973 per capita income was \$400 or more; \$201-399; or less than \$200.

⁶Convertible currency trade of COMECON countries (excluding Cuba) and the People's Republic of China.

⁷Includes a statistical discrepancy arising from differences in countries' timing, coverage, classification, and valuation of transactions and possibly from biases introduced in projecting the various regions' current account balances.

Source: Citibank estimates.

to handle the future LDC debt requirements without some support from governments and multilateral agencies such as the IMF.²

Current Outlook for World Oil Supplies

Recently, a number of major studies have been published which reemphasize the seriousness of the energy problem by presenting a series of world oil supply and demand forecasts based on alternative assumptions about economic growth and the forcefulness of government action.³ The conclusion in each case is the same--there will be major supply shortages, leading to sharp and unmanageable oil price increases, unless governments act quickly to reverse existing production and consumption trends. Taking their cue from these forecasts of sharply rising prices, leading spokesmen from the world financial community have expressed growing concern about the

²As A. W. Clausen, President of BankAmerica Corporation, pointed out in a recent talk in Tokyo, ". . . the current debt servicing problems of the higher income non-oil LDC's won't disappear even though the volume of world trade recovers from the 1974-1975 recession . . . Governments of the industrialized countries--and this includes both Japan and the United States--should provide increased financial support to multilateral financial institutions including the World Bank Group, IMF, and regional development banks. These financial institutions have the ability--and for a number of LDC's, the sole ability--to provide long-term credit so that these countries can refinance their debt and bring it to manageable proportions."

³World Energy Outlook, OECD, Paris, 1977; The International Energy Situation: Outlook to 1985, U.S. Central Intelligence Agency, 1977; Energy: Global Prospects 1985-2000, Workshop on Alternative Energy Strategies, Massachusetts Institute of Technology, 1977.

ability of the private banking system to finance mounting oil deficits and called for strengthening the IMF and, specifically, for activating the so-called \$25 billion financial safety net proposal first put forward by Henry Kissinger. In the U.S., the President has called the quest for a solution to the energy problem, "the moral equivalent of war," and gave it a priority second only to maintaining peace.

In April of this year, the U.S. government announced a major new energy initiative designed to reverse the trend of rising U.S. oil imports. The Carter Administration's National Energy Plan proposes a complex regulatory scheme under which some additional incentives would be provided to domestic oil and gas producers in the form of higher (although still regulated) prices. These price incentives are intended to lead to increased U.S. oil production (including natural gas liquids) from the current level of 9.7 to 10.6 million barrels per day in 1985; and while achieving this gain (which will require a high exploratory rate and a better than average success rate) will be difficult, it is within the range of forecasts made by various industry economists and others. It is worth noting, however, that such a production level implies that over one-half of U.S. domestic oil production in 1990 will have to come from reserves yet to be discovered.

The National Energy Plan establishes a specific target for imports (including natural gas liquids) of almost 7

million barrels per day, or slightly less than the 7.3 million barrels per day that the U.S. imported in 1976, and substantially less than the 11.5 million barrels per day of imports which the U.S. government projects would occur in the absence of the plan. The government acknowledges that the achievement of these goals is only possible through major improvements in conservation and an unprecedented increase in coal production from the 1976 level of 665 million tons to 1 billion tons by 1985. The magnitude of this increase can be appreciated by comparing it with U.S. coal production since 1971, which has grown at an annual average increment of about 22 million tons. To achieve the 1985 goal, the average annual increase in production will have to increase to 42 million tons.⁴

⁴For the most part, the U.S. National Energy Plan fails to address the environmental issues raised by the higher coal and liquid hydrocarbon production targets. For example, according to the Congressional Research Service, with the projected increased use of coal, annual amounts of nitrogen oxides produced are predicted to reach nearly 28 million tons or about 6 million tons more than today's level, even with the application of the best available control technology to all new sources. While it is true that the fluidized-bed method of burning coal is a promising way of reducing nitrogen oxide emission, only small units are commercially available at present, and there is little prospect for their commercial use in electrical generation by 1985. Furthermore, according to a report delivered to the United States National Academy of Sciences in late July by a panel studying the atmospheric effects of burning fossil fuels, the longer run outlook for coal is questionable. No technology now known can eliminate carbon dioxide, the main combustion product of coal. Yet, the report anticipates a 25 percent increase in atmospheric

Most analyses of the Carter plan have concluded that it is overly optimistic about the ability of the U.S. government to implement the mix of tax, price, and environmental policies necessary to achieve the supply increase and demand growth reduction targets implicit in the 1985 import goals. This conclusion was made independently by two major congressional agencies--the Congressional Budget Office and the Office of Technology Assessment--in reports issued over the summer, and it tends to be supported by congressional action and debate on the program thus far. Furthermore, the OECD's recently completed World Energy Outlook shows U.S. oil imports in 1985 at a minimum of 3 million barrels per day above the goals of President Carter's plan and possibly even greater depending upon the assumptions made about GNP growth and the implementation schedule for conservation policy initiatives. At the same time, total OECD demand for imports is estimated at 24.4 to 38.8 million barrels per day based on alternative growth scenarios.⁵ According to the

carbon dioxide over national levels by the end of this century and a doubling in the next, assuming current population and energy consumption trends. If this happens, the "greenhouse effect" of carbon dioxide interfering with infrared radiation into space would warm the earth by about 11 degrees Fahrenheit by the latter part of the twenty-second century. The consequences of such a change could include radical disruption of agriculture and a melting and breakup of polar icecaps with a 20-foot rise in sea level and widespread flooding.

⁵ Since the OECD forecast was published last spring, most analysts have increased the 1985 OECD Europe import requirements by a minimum of 2 million barrels per day to compensate for the slower than anticipated buildup in nuclear power capacity.

OECD analysis, four scenarios are possible:

- o With continuing consumption and production trends and the maintenance of existing energy policies, the net OECD imports would be about 35 million barrels per day by 1985, assuming GNP growth in OECD European countries of 4.1 to 4.3 percent.
- o On the basis of slower GNP growth of 3.6 to 3.8 percent, OECD import needs would be 31.9 million barrels per day.
- o With faster GNP growth of 4.6 to 4.8 percent, OECD import requirements would jump to 38.8 million barrels per day.
- o And, in the Accelerated Policy case--in which maximum conservation is achieved, indigenous oil is developed rapidly, and all alternative fuels expand significantly-- OECD import needs fall to 24.4 million barrels per day.

These projections can be compared with the production and export capacity of the OPEC countries outside of Saudi Arabia shown in Table 2.

Except in the Accelerated Policy case, the 1985 net OECD import requirements are well above current and projected capacity of OPEC. Furthermore, once the exporting capacity of these countries is reduced by 3.5 million barrels per day to account for local consumption and by a further 0.8 million

TABLE 2
 OPEC PRODUCTION CAPACITY PROJECTIONS
 (excluding Saudi Arabia)
 (in million barrels per day)

	<u>March 1977</u>	<u>1980</u>	<u>1985</u>
Algeria	1.0	1.0	0.9-1.1
Ecuador	0.2	0.2	0.2
Galon	0.2	0.2	0.2
Indonesia	1.7	1.9- 2.1	1.6- 2.1
Iran	6.7	6.5	5.5- 6.1
Iraq	3.0	4.5	5.0- 6.0
Kuwait	3.5	3.0	3.0
Libya	2.5	2.5	2.0- 2.5
Nigeria	2.3	2.3	2.0- 3.0
Qatar	0.7	0.6	0.5
UAR	2.4	2.5- 3.2	3.0- 3.5
Venezuela	<u>2.5</u>	<u>2.2- 2.4</u>	<u>2.2</u>
Total	26.8	27.6-28.3	27.5-29.4

Source: U.S. Central Intelligence Agency

barrels per day to reflect Kuwait's self-imposed limit, the pivotal role of Saudi Arabia becomes even more apparent. For, between the non-Saudi production capacity of 23 million barrels per day and OECD import needs in a moderate growth scenario, there is a difference of about 12 million barrels per day which is about the current production capacity of Saudi Arabia.

The critical question, then, which must be answered in order to project future oil supply and demand levels, is the extent to which the Saudis will be willing to continue to maintain production above the 8.5 million barrels per day level they previously set as an upward limit in an effort to ease the upward pressure on price. It is known that within the Saudi government there is strong opposition to raising production further because of the lack of need for current revenues and the feeling that high production rates only exacerbate the strong inflationary pressures currently prevailing within the country. At the same time, there is a recognition on the part of many Saudi leaders that they are ultimately dependent on the West to provide an economic climate, in which their surplus funds can be invested safely, and a political climate, in which progress towards a Middle East settlement can be achieved. For this reason, the Saudis have generally acted as a moderating force in OPEC price negotiations with the recent attempt to hold the 1977 crude oil price increase to 10 percent, only the latest in a series of similar moves since 1973. Yet, it is difficult to

envision a policy of continued unrestrained increases in production without definite indications on the part of the governments in the industrialized countries that this claim on Saudi resources will be limited in time. And, in the short run, obviously, the progress (or lack thereof) in resolving the Arab-Israeli conflict will have an important impact on the Saudis' commitment to current high levels of production.

Some of the other recent world oil supply-demand analyses have reached conclusions which are in the same range as those of the OECD secretariat. One study, however, conducted by the U.S. Central Intelligence Agency, has made a decidedly more pessimistic forecast. The CIA projection, shown in Table 3, estimates required 1985 OPEC production of between 47 and 51 million barrels per day. In effect, that means that Saudi production would have to rise to 24 to 28 million barrels per day which would, at current prices, push Saudi annual revenues to more than \$100 billion--or about ten times the value of all of Saudi Arabia's current imports.

The principal discrepancy between the OECD and the CIA forecasts is the CIA's estimate that the Soviet Union will shift from a net exporter of nearly 1 million barrels per day now to a net importer of 3.5 to 4.5 million barrels per day by 1985. The other major difference is the buildup in the consumption of non-OPEC developing nations. Both analyses, however, point to the large and growing role that

TABLE 3

OECD IMPORTS*
(in million barrels per day)

	<u>1976</u>	<u>1985 (CIA)</u>	<u>1985 (OECD)</u>
United States	7.0	11.2-15.6	9.7
Western Europe	12.7	10.8-14.2	14.7
Japan	5.2	8.0- 8.7	8.7
Canada	0.4	1.4- 2.2	1.1
Other developed	0.7	1.5	2.0
Non-OPEC developing	3.0	3.0- 4.0	- 0.8
Communist	- 1.1	3.5- 4.5	- 0.8
Other	0.9	0.0	0.6
OPEC domestic consumption	2.1	3.5- 4.5	3.5- 4.5
Required OPEC production	30.9	46.7-51.2	38.6-39.6

*(-) indicates exports

Source: U.S. Central Intelligence Agency.

the U.S. and Japan play as major consumers (and importers) of petroleum supplies. Whereas these two countries today account for slightly less than 40 percent of OPEC exports, this figure could grow to almost 50 percent in the CIA "worst case" scenario. Thus, it is clear that with U.S. and Japanese imports accounting for an increasingly larger proportion of required OPEC production, the commitment of these two nations to expand domestic supplies and curtail demand growth will be critical to the success of any program designed to moderate the upward pressure on world energy prices.⁶

The recently published report of the Workshop on Alternative Energy Strategies tends to support the more pessimistic conclusions of the CIA study.⁷ This report, which focuses more on the 1985-2000 period than on the period up to 1985, concludes that available supplies of oil will fail to meet increasing demands well before the year 2000, most probably between 1985 and 1995, even if energy prices rise 50 percent above current levels in real terms.⁸ Additional constraints

⁶Recent analyses by the Japanese Institute of Energy Economics are not encouraging in this regard. Projections of nuclear power capacity have been cut back from 40 million kilowatts to 26-to-33 million kilowatts with a resultant increase in the demand for imported oil.

⁷Energy: Global Prospects 1985-2000, A Report of the Workshop on Alternative Energy Strategies.

⁸The specific year in which shortages occur depends upon assumptions about economic growth, energy price, the strength of government policies in pursuing alternative strategies, OPEC production limits, etc.

on oil production, such as environmental restrictions in the U.S. and the reluctance of the Saudis and certain other exporting nations to expand capacity, could hasten this shortage and thereby reduce the time available for action on alternatives. The WAES report, like those of the OECD and the CIA, underscores the important position of Saudi Arabia, the U.S., and Japan in the world supply-demand picture, and cites "the critical interdependence of nations in the energy field" as requiring "an unprecedented degree of international collaboration in the future" as well as "the will to mobilize finance, labor, research and ingenuity with a common purpose never before attained in time of peace." The authors point out that, "failure to recognize the importance and validity of these findings and to take appropriate and timely action" could create major political and social difficulties that could cause energy to become a focus for "confrontation and conflict."

Implications of World Oil Outlook

Considering the seriousness of the coming supply-demand imbalance documented in the three reports cited in the previous section and the failure to date of governments to take sustained action to deal with these forecast shortages, it is appropriate for the Shimoda Conference to consider some of the issues raised by the world energy situation since Japan and the U.S. have such an important stake in the outcome. The objective for both nations is to avoid the kind

of sharp energy price rise which might lead to a serious worldwide recession and increased unemployment in the industrialized world and have very severe impacts on the economies of the developing countries. The problem is not so much the level of prices as the rapidity and size of the change which might occur, for as the WAES report points out, "in itself, a high-cost energy world could be as prosperous and appropriate for economic growth as a low-cost energy economy; it is the rapid transition that leads to the problems."

One difficulty in getting governments to act in time to anticipate the problem and provide for an orderly transition to higher energy prices is the long lead time required to expand supplies. The record of the past half-century suggests, for example, that it is becoming increasingly more difficult and expensive to find and produce oil and gas supplies. More than 35 years elapsed between the discoveries of the East Texas field and the next major find in the United States, Prudhoe Bay on the North Slope of Alaska. And, the lead times in bringing new production onto line are lengthening. Prudhoe Bay was discovered in 1968 and output will not start until 1977. In a more accessible place like the Gulf of Mexico, it will be at least five years between the discovery of the most recent major find--Shell's Cognac Field--and the start of production in 1980.

These lead times are not confined to North America. The North Sea and the Middle East have experienced similar five-to-ten-year lead times and the frontier areas even longer. Coal mines take four to eight years to bring into production; nuclear power, six to ten years in Europe and Japan, and ten to twelve years in the United States. Thus, an electric utility which wants to have a major new plant on line and smoothly operating in 1990 must make the decision to proceed with the project within the next several months.

Given the existence of these lead times, it is important for governments in the highly industrialized countries (and particularly the U.S. and Japan) to take steps to control energy growth, expand supplies from alternative sources, and develop indigenous resources of oil and gas well in advance of an actual supply-demand imbalance occurring. Otherwise, when the "crunch" comes, there is little that can be done short of curtailing economic growth to prevent the rising demand for oil supplies from pushing prices rapidly upwards. Yet, many of the actions which are required to bring supply and demand into better balance necessitate changes in consumer lifestyles and living habits, which are difficult for politicians to take as long as the general public remains unaware of the seriousness of the problem. Clearly, that is the case today in the U.S. where a recent survey found that 50 percent of the American public did not realize that the U.S. was importing petroleum.

In the current situation, it is likely that world oil supplies will remain in rough balance at current prices at least until the early 1980's, unless Saudi Arabia decides to cut production sharply. The most probable scenario is that North Slope oil will add 1.2 million barrels per day to U.S. production in 1978-1979, and the North Sea will add 3.5 million barrels per day to Western Europe production by 1980. These additions should be adequate to meet rising demand and offset declining production from older fields, with the net result that the call on OPEC oil for the next five years will remain relatively stable.

Sometime in the 1982-1984 period, virtually all of the OPEC producers except Saudi Arabia will be producing at capacity, and the world will have to look to the Saudis to provide the incremental supplies. The remaining OPEC members--faced with these production limitations--will press even harder than they are today for price increases, since higher prices will be their only avenue for increased revenues. With OPEC oil today priced well below the price of alternative fuels, it is entirely possible that prices in the 1982-1984 period could rise rapidly and still be below the price of most alternatives. For example, an annual increase in real prices of 5 percent plus an additional increment for inflation would not be out of line with the supply-demand scenarios presented earlier. Of course, it is possible that such an increase will not occur, but for that to happen, one or more of the following would appear to be necessary:

- o An extended period of slow economic growth or recession in the industrialized countries.
- o Unprecedented success of conservation programs throughout the world and particularly in the United States.
- o A series of major new discoveries in the 10-billion-barrel-or-over recoverable reserves category.
- o A willingness on the part of Saudi Arabia to expand production to 20-to-25 million barrels per day and thereby accommodate vast excess reserves of cash.

The first alternative is obviously highly undesirable and could result in serious social unrest; the probability of the second is highly unlikely in view of the unwillingness, so far at least, for most Americans to accept the reality of the energy problem; and the chances of the third occurring seems somewhat remote when one considers that only 19 such fields have been discovered in the last 100 years. About 60 percent of the world's oil reserves outside of the Communist Bloc is concentrated in the Middle East. Most of the remaining possible regions that might yield such results have been evaluated by sophisticated seismic techniques or exploratory wells, with no evidence of another Middle East yet found. Thus, it is clear that there is a need for a broad and well-coordinated strategy among the industrialized countries to accelerate efforts to expand indigenous supplies, curtail

demand, and take the diplomatic initiatives to ensure that the Saudis continue their moderate stance on oil prices by increasing production as appropriate.

Some Considerations for Japan and the U.S.

Japan and the U.S., industrialized and heavily dependent on imported energy, have as their principal energy objective the acquisition and maintenance at reasonable prices of adequate and secure supplies of energy resources to meet the economic and social goals of each individual country while maintaining some flexibility to act independently in world affairs. This broad energy objective might be further refined to include the following sub-objectives:

- o To maintain sufficient supplies of imported energy to meet the expectations of rising standards of living on the part of the people in each country.
- o To secure these supplies of imported energy--oil, natural gas, uranium, and coal (Japan)--in a manner which reduces the risk of disruption to the extent possible and ensures that the economic impact of any politically motivated supply interruptions which might occur is minimized.
- o To secure energy at prices which permit orderly and sustained economic growth and minimize the risk of severe economic recession.

- o To develop alternative sources of energy in sufficient quantities so that there can be an orderly transition to the period when liquid hydrocarbons are no longer readily available as an energy source.

It is obvious from the analysis in the preceding section that self-sufficiency in energy is largely irrelevant for either country or, for that matter, for any of the OECD nations except possibly Norway. Policy options, therefore, to achieve these energy objectives fall into two general categories:

- o National programs designed to reduce domestic vulnerability to the vagaries of overdependence on uncertain foreign supplies. Such programs would include conservation, enhanced domestic production, emergency storage, research and development of alternative sources, etc.
- o International initiatives designed to create an environment favorable to supply security and reasonably stable energy prices. These initiatives might include multinational consultations, cooperative emergency sharing programs, mechanisms for financing energy-induced balance of payments deficits, multinational energy research and development projects, etc.

A global energy strategy must incorporate a mix of both national programs and international initiatives, and recognize both the short- and long-range implications of the current oil supply-demand situation.

- o Short-range. There is every reason to believe-- based on the analysis presented earlier--that the world will face an oil crunch in the early 1980's, and in the absence of major policy changes, the resultant oil price increase could be sufficient to undermine seriously the political and economic systems of some industrialized countries and a number of the non-oil producing LDC's.
- o Long-range. Even if the oil importing nations "manage" the oil crunch of the mid-1980's, a major effort will be required to shift the world's economies away from oil and gas to other energy resources.

Towards a Japanese-American Energy Policy

During the past several weeks, the Japanese yen has strengthened against the U.S. dollar to a point where it is now approaching the peak level it reached in the year before the 1973 oil crisis. To many observers, this situation is difficult to understand since it seems contrary to what might have been expected when OPEC oil prices were quadrupled and commodity prices elsewhere in the world soared to levels not seen since the Korean War. Japan, almost entirely dependent

on external sources for a variety of critical natural resources, might have been expected to suffer by the dramatic shift in the terms of trade against the manufactured goods which it exports and in favor of natural resources which it must import. Yet today, the yen is among the world's strongest currencies. Far from suffering the five or ten year balance of payments deficits which were envisaged in 1974, Japan has returned to balance of payments surpluses which have persisted despite the appreciation of the yen from 310 to the dollar to about 265 to the dollar. How is such a paradox to be explained, and what are the implications for Japanese-American energy policy?

The explanation is relatively straightforward. The balance of payments is fundamentally a monetary problem, not a problem of resources. Given the fact that Japanese monetary authorities have taken a relatively more conservative stance since 1973 than other monetary authorities, it follows that consumer spending, investment spending, additions to inventories, and growth in government expenditures have been lower in Japan than an easier, more expansionary policy would have allowed. And, while it may be premature to judge the future by extrapolating some recent fragmentary indications of a downturn in the month-to-month rise in Japanese consumer prices, the evidence of the longer-term relation between commodity and wholesale prices, on the one hand, and consumer prices, on the other, is at least consistent with the view that the outlook for inflation in Japan over the next few months

is for a definite slowing down. A rather dramatic illustration of this is the fact that one major Japanese company is now doing its 1978-1979 forecasting on the basis of an exchange rate of 250 yen to the dollar.

Obviously, these economic factors have placed some severe strains on Japanese-American relationships. The U.S. government has called on the Japanese to reflate their economy in an effort to further stimulate imports and help the U.S., as well as certain European countries (Spain, Greece, Portugal, Turkey, and the Scandinavian countries), and a number of the non-oil producing LDC's shoulder the roughly \$40 billion in surplus income that the richest OPEC nations are collecting over and beyond what they are able to spend on imports. The hope is that by expanding internal demand, and in the process increasing imports, Japan (along with West Germany, the Netherlands, and Switzerland) will fuel economic expansion in the remainder of the world and provide the deficit nations with the foreign exchange needed to pay for oil imports. Many Japanese have objected to this scenario and argued that excessive stimulation of Japan's economy would aggravate worldwide inflationary pressures and lead, in the end, to a further slowdown in world economic growth.

Unfortunately, these economic differences are dominating the Japanese-American dialogue and tend to obscure debate on some of the more pressing energy matters facing the two

countries. Therefore, in view of the critical nature of the energy situation, it is essential that the Shimoda Conference attempt to reach some conclusions on an appropriate economic policy for the two countries. One possible area for compromise might be for Japan to assume a larger role in expanding the resources of the IMF by \$10 to \$15 billion. In this way, Japan could shoulder a greater share of the burden of funding the "oil deficits" without necessarily upsetting an orderly growth of its economy.

On the narrower question of a Japanese-American energy strategy, it is important that the discussion begin with a recognition of the key roles that both countries play as major oil importers. As indicated earlier, it is vital for the two nations to pursue policies designed to limit imports--through policies designed to curtail demand and step up domestic production.⁹ Of immediate concern on the supply side of this equation is the role of nuclear energy and coal in each country, and for Japan particularly, nuclear energy. Unlike the U.S., Japan depends almost solely on imports for natural uranium, but if spent fuel can be reprocessed to create plutonium, the effectiveness of uranium as an energy

⁹ It is probably true that Japan--which consumes less than one-third the energy per capita as the U.S.--does not have the same capability for reducing energy demand growth as the U.S. It was for this reason that the 1974 Trilateral Commission Task Force on Energy called for an annual energy demand growth rate in Japan (4 percent), which was twice as large as the target for the U.S. (2 percent).

source is increased several fold so that the Japanese have tended to view plutonium as a "semi-domestic" energy source.¹⁰

Japanese government officials and industrialists have expressed growing concern over the Carter nuclear initiatives. They fear that any limitations on the development of spent fuel reprocessing facilities or the breeder reactor will worsen Japan's already high dependence on foreign oil, and assert that, in 1974, the U.S. government encouraged Japanese reprocessing and use of plutonium in return for extending uranium enrichment services to Japan. Further, they argue that for the U.S. to withhold consent for the Japanese to reprocess spent fuel domestically or to commission overseas agencies to do it for them--a consent which they are required to obtain under the U.S.-Japan Atomic Power Energy Cooperation Agreement--is a violation of the spirit of the nuclear non-proliferation treaty.

The U.S. initiative is designed to reduce the motivation of nations to acquire nuclear weapons as well as their technical ability to do so. The IAEA safeguard system has been successful in the case of the current generation of nuclear reactors in that it provides a warning signal sufficiently far in advance so that diplomacy can work in the event of deliberate diversion. But, as the U.S. representatives

¹⁰This point was clearly made in an address by Mr. Toshiwo Doko, President of Japan Federation of Economic Organizations, at a Japan Society dinner on June 13, 1977.

pointed out at the International Conference on Nuclear Power and Its Fuel Cycle at Salzburg, "for certain facilities such as reprocessing, a safeguards system, even if technically perfect, does not prevent the spread of direct weapons-usable material that results from normal operations. . . . our present dilemma is how to cope with developments in commercial nuclear energy which threaten to empty safeguards of their central political meaning."¹¹ In response to this dilemma, the U.S. has taken a number of domestic and international initiatives including a decision to defer domestically, and not to export, commercial reprocessing facilities. And, to alleviate the concern of other countries for the security of their fuel supplies, the U.S. government has made a commitment to expand enrichment capacity and re-open its order books. Concurrently, President Carter has called for all interested countries to join with the U.S. in an International Nuclear Fuel Cycle Evaluation Program (INFCEP) to examine current problems associated with the fuel cycle, such as reliable fuel supply and means of storing spent fuel, as well as studying alternative future fuel cycles, including future generations of reactors and institutional arrangements for reducing proliferation risks.

¹¹ Statement by Joseph S. Nye, Deputy to the Under Secretary of State for Security Assistance, Science and Technology at the International Conference on Nuclear Power and Its Fuel Cycle, Salzburg, Austria, May 2, 1977.

Clearly, nuclear policy is emerging as a major point of contention between the U.S. and Japan, and it is equally clear that both countries must move forward with aggressive nuclear power programs if we are to avoid the oil crunch scenario described earlier. The Shimoda Conference must, therefore, consider the merits of each country's position and attempt to reach a common understanding upon which future policy can be based. Questions which might be addressed include--Should Japan be encouraged to participate meaningfully in the INFCEP? Should the U.S., on the other hand, modify its position and encourage the Japanese to proceed with breeder and reprocessing technologies even as the INFCEP is conducting its studies? What modifications might be made in the U.S. policy which would make it more acceptable to Japan without enhancing the risks of weapons proliferation?

The Shimoda Conference may also want to deal with some of the issues surrounding U.S. coal exports to Japan. Both countries have embarked on programs to make greater use of steam coal under industrial and power plant boilers. For Japan, where current annual coal production of about 20 million tons has reached the limits of known reserves, the policy will necessitate a sharp increase in steam coal imports from a negligible 0.5 million tons in 1975 to between 6 to 16 million tons by 1985 and perhaps as much as 40 million tons by 1990.¹² Since the U.S. is seen as one of

¹²Japanese Institute of Energy Economics forecast.

the primary suppliers of Japanese coal, it is important to begin developing long-term agreements under which the Japanese can have assured access to western U.S. coal at competitive prices and perhaps participate in the development of these resources. At the same time, both the U.S. and Japan currently lack the facilities to convert coal to cleaner burning gas and liquids--facilities which will be necessary if coal is to replace imported oil in any major way over the next 25 years. It would seem appropriate, therefore, for the two countries to develop joint research and development programs for coal conversion technology and perhaps participate in one or more jointly funded demonstration plants. Over time, these research efforts--if successful--could be broadened to include other technologies, such as solar energy, where the Japanese Project Sunshine is currently moving ahead rapidly. It would be appropriate for the Shimoda Conference to consider under what circumstances it might be appropriate to encourage joint Japanese-American research on energy technologies.

Beyond these strictly national programs, both Japan and the U.S. have an important stake in continuing the North-South dialogue with the objective of ensuring the economic stability of the LDC's and particularly those without oil or other exportable natural resources. The dismal end to the North-South Conference in Paris has left the world still searching for a successful formula for bringing rich and poor nations together at the negotiating table, in the quest for a new international

economic order. The Paris Conference was the third major international negotiating session in barely over a year to achieve much less than the developed countries had originally hoped for--the others being last May's UNCTAD Meeting in Nairobi and the abortive Common Fund negotiating conference in Geneva in March.

There were some positive achievements which came out of the 27-nation Paris Conference on International Economic Cooperation. The eight industrialized participants pledged themselves to increase financial and technical aid; a joint text was agreed on a new Common Fund to stabilize commodity prices; and the Western nations agreed to subscribe to a \$1 billion special fund to help the poorest LDC's. But, no progress was made with the pressing problem of debt relief, and the West failed to receive an agreement to continuing consultations on energy.

The dialogue will, of course, continue in the multitude of international organizations dealing with economic matters, but neither side finds that mode of operation totally satisfactory. The West hesitates to conduct serious negotiations in bodies like the United Nations or UNCTAD, where the developing countries are in the vast majority. The developing nations, on the other hand, are critical of organizations like the GATT, the IMF, and the World Bank, which they say are dominated by the rich Western nations and can never be expected to take the poorer countries' interests into account.

It is for these reasons that attention is now increasingly being focused on what is known as "restructuring" the United Nations to turn it into an effective negotiating body on economic issues. Starting on September 13, there is to be a special four-day final session of last year's United Nations General Assembly, which recessed in December, to review the results of the Paris Conference. The debate will then be continued in the new session which starts on September 20.

The more crucial test of North-South relations will be the resumed November negotiating conference in Geneva on the Common Fund to stabilize commodity prices, which the developing countries continue to regard as the key symbol of the West's willingness to reform the world economic system in their favor. Since the outcome of that conference is obviously so important to future North-South relationships, it might be well for the Shimoda Conference to consider whether it is possible for Japan and the U.S. to agree on a common position towards both the developing nations and towards OPEC in advance of future negotiating sessions. For example, could the two countries agree on a strategy whereby OPEC would be encouraged to raise prices in relatively manageable annual increments rather than run the risk of sharp and economically damaging increases in the early 1980's? Should Japan encourage the U.S. to continue to strengthen its "special relationship" with Saudi Arabia as a means of assuring access for both countries to increased quantities of Saudi crude? If

these and other questions can be resolved and the key elements of such a Japanese-American position developed, as well as a better understanding between leaders in the two nations on nuclear and coal policies, the fourth Shimoda Conference could mark another milestone in strengthening Japan-U.S. relations and in the emergence of Japan as an increasingly important factor in multinational negotiating forums.

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Background Papers

JAPAN AND THE UNITED STATES:
SECURITY ISSUES IN THE FAR EAST

by
Stephen J. Solarz
U.S. House of Representatives

The United States and Japan both have a significant stake in the preservation of peace throughout the Far East.

For Tokyo, the outbreak of war in the Western Pacific would endanger its economy and threaten its tranquility.

For Washington, an armed conflict in East Asia would result in economic uncertainty and political turmoil.

The United States is, after all, a Pacific power -- and it is likely to remain so for as long as it holds a place of pre-eminence in the family of nations.

Since the end of World War II, it has twice shed the blood of the best and the bravest of its younger generation in Asia. The graves of over 100,000 American boys provide mute but moving testimony to the intense interest of the United States in the maintenance of a balance of power in East Asia.

One of our states lies deep in the Pacific Ocean. One of our trust territories is located even further west than Hawaii.

Asia accounts for more than one quarter of our foreign trade and the jobs and livelihood of millions of Americans are dependent on the free flow of goods and services across the vast expanse of the Pacific Ocean.

Seven Far Eastern nations -- Japan, South Korea, Taiwan, The Phillipines, Thailand, Australia, and New Zealand -- are the beneficiaries of our contractual defense commitments.

Through history, tradition, economic advantage, and military necessity, we are bound, inevitably and inextricably, to the future of our Asian allies. The reformulation of American foreign policy in the post-Vietnam period notwithstanding, an American withdrawal from its Asian associations would be unthinkable. A contraction of our commitments -- yes. But a repudiation of our obligations -- no.

The American relationship with Japan is both the touchstone and the cornerstone of our foreign policy in the Far East. The rise of Japan from the ashes of war, to the ranks of the world's great industrial powers, is a tribute to the industriousness and ingenuity of the Japanese people. With the third largest Gross National Product of any nation in the world, Japan is involved in two-way trade with the United States in excess of \$25 billion a year. The United States is Japan's largest trading partner and Japan, after only Canada, is the largest trading partner of the United States.

At the heart of this particularly productive relationship -- which has meant so much to the economies of both our countries -- is the Mutual Security Treaty. First signed in 1951, it has been a major factor in the establishment of a great power equilibrium in the Far East. By enabling Japan to concentrate its resources on development rather than defense it has facilitated one of the great economic success stories of our times. By bringing Japan under the defense umbrella of the United States, it has enabled the West to balance the growing industrial and military power of the East. By justifying the continuing Japanese determination to

remain a lightly armed, non-nuclear power, it has brought a measure of calm and confidence to the populous and politically significant states of Southeast Asia, that might otherwise have felt threatened by a resurgence of Japanese militarism. And, perhaps most significantly of all, it has provided an example to the world of how to achieve industrial progress without military might.

For all these reasons, the care and maintenance of the American-Japanese relationship must necessarily be one of the cardinal objectives of our foreign policy. If Japan were to lose faith in the credibility of the American commitment, it would have potentially catastrophic consequences, not only for the relationship between our two countries, but for the entire international balance of power as well.

It is, of course, possible that in the wake of such a development Japan might opt for a policy of neutrality. Instead of a mutual defense pact with one great power, it might conclude that its interests were better served by non-aggression pacts with all of the great powers.

But given the economic progress they have already made, and the military potential which their industrial base makes possible, it is doubtful that Japan would be comfortable with such an arrangement. Confronted by countries whose ideological interests and economic aspirations may come in conflict with their own, it seems much more likely that Japan, under such circumstances, would choose to be in a position to defend itself instead of having to rely on the good-will and good-intentions of its neighbors.

The chances are, therefore, that if Japan lost faith in the value of the Mutual Security Treaty, it would decide to re-arm as rapidly as possible. Since the end of World War II, and the decision of Japan to rely on the United States for its own security, it has spent on the average of less than one percent of its GNP on defense. The United States, by comparison, has spent around six percent of its GNP on defense each year and the Soviet Union, according to the best estimates we have, has been devoting between twelve and fourteen percent of its GNP to defense(as well.) There is, therefore, ample room for a substantial increase in defense spending by Japan -- if it should decide to forego the advantages of the Mutual Security Treaty. And given the advanced industrial base from which it would begin, it would not take long for Japan to become one of the major military powers in the world. If Japan does decide to re-arm, the possibility cannot be precluded that it would decide to develop a nuclear capacity as well. Informed sources have estimated that Japan is producing enough plutonium to manufacture about two hundred atom bombs a year. Clearly, the obstacles in the path of a Japanese decision to go nuclear are primarily political rather than technical.

While Japanese rearmament may seem more like a hypothetical horror than a realistic political possibility, it is not a development that can be completely discounted -- particularly if Japan were to lose faith in the efficacy of its existing arrangement with the United States. And it is precisely for this reason that it may be worthwhile to briefly examine the likely consequences of such a development.

At the very least it would create consternation on the part of those Southeast Asian and Western Pacific countries whose memories of World War II have left them with a residual fear of Japanese militarism. But it would undoubtedly also be a cause for concern on the part of both the Chinese and the Russians, who would see in Japanese rearmament a potential threat to their own security. The increase in tensions which a massive military build-up by Japan would inevitably produce would have an enormously destabilizing impact on the existing great power equilibrium in the Western Pacific. Both the People's Republic of China and the Soviet Union would probably feel compelled to increase their own defense spending in order to deal with the military challenge of a rearmed Japan. And this, in turn, would necessarily obligate the United States to spend more on defense as well. Should Japan also decide to go nuclear -- a possibility that, in the context of rearmament, cannot be precluded -- these problems would assume an especially dangerous dimension. Indeed, if Japan ever joins the nuclear club, it would pretty much mean we had lost our last chance, if not to put the nuclear genie back into the atomic bottle, at least to prevent the proliferation of such weapons into the hands of all sorts of states that do not now possess them.

Since no one can predict with certainty the internal impact of a decision to re-arm on Japan, one cannot preclude the possibility that it would facilitate a fundamental change in the political orientation of the Japanese people. In these terms, it is not inconceivable, although it is admittedly unlikely, that Japan might decide, at some future date, to make common cause with the People's

Republic of China and/or the Soviet Union. Needless to say, were the population of China and/or the military might of Russia harnessed to the industrial power of Japan, it would have the most profound consequences for the international balance of power.

I do not mean to suggest that any, let alone all, of these various possibilities are likely to take place. But stranger things, after all, have happened in the checkered history of mankind. Who, for instance, would have predicted thirty years ago that the two great Communist powers, joined as they were in revolutionary solidarity, would one day be each other's most bitter enemy. Yet they are illustrative of the potentially destabilizing developments that could take place if Japan were to come to the conclusion that it could no longer rely on the American defense commitment.

It is in these terms that the continuing debate over "burden sharing" must be evaluated. From time to time complaints have been heard in the U.S. about the alleged failure of Japan to assume its fair share of the cost for its own defense. The enormous growth of the Japanese economy, these critics contend, has made it possible for Japan to spend substantially more on its military establishment without in any way endangering its economic viability. Considerations of equity, as well as a backlog of unmet social and economic needs in the United States, have also been cited as arguments in favor of greater military spending by Japan. There is, after all, not a single developed country in the world today, and few developing ones, which spend a smaller percentage of their GNP on defense than Japan. And if there is a will to do more for their own defense the Japanese

can surely find a way to do it.

Such an argument, however fiscally attractive it may be to Americans bent on balancing the budget, must ultimately be considered a classic example of a policy that is economically wise but strategically foolish. Given all of the potential problems that might result from a Japanese decision to become a major military power, it seems clear that our mutual interests are far better served by a continued Japanese reliance on the United States for its own defense. A little rearmament could very easily end up like a little pregnancy: getting larger and larger until it bore little resemblance to what it looked like when it first began. Indeed, from a political point of view, the forces that would have to be mobilized to justify a substantially greater expenditure on defense, are primarily the same factions that would be behind a Japanese determination, should that day ever come, to join the ranks of the world's major military powers. Consequently, instead of urging Japan to assume a larger share of the defense burden, we should be encouraging those elements within Japan that are committed to a defense policy based on the concept of Japan as a lightly armed, non-nuclear power, relying on the Mutual Security Treaty with the United States for the protection of its most-vital interests.

If the Mutual Security Treaty between the United States and Japan is an essential ingredient in the maintenance of the existing equilibrium in the Western Pacific, then the credibility of the American commitment is the key factor in determining the viability of the current arrangement. For more than twenty-five years, despite an occasionally divisive domestic debate, the majority

of the Japanese people, and certainly the ruling Liberal Democratic Party, have been willing to rely on the American military umbrella for their own defense.

With the collapse of the American sponsored effort in Indo-China, however, new doubts have been raised about the value and viability of America's commitment to its Asian allies. And President Carter's announced intention to gradually withdraw all American ground forces from South Korea over the next four to five years has served, among other things, to focus additional attention on the nature and extent of the U.S. role in the Far East.

To the extent that Tokyo has traditionally considered the security of South Korea as essential to the security of Japan such a policy is, quite understandably, a matter of grave and serious concern. North Korea is, after all, one of the most rigid and repressive regimes in the world today. Under the complete control of its President, Kim Il Sung, it remains dedicated in word as well as deed to the reunification of the Korean Peninsula under Communist control. Based on his history, his ideology, his personality, and his politics, it seems fair to say that reunification remains Kim's major personal and political priority. He tried once before to achieve his ambitions through the force of arms and failed. But there are few who doubt that Kim would be prepared to attempt another attack if he thought he could succeed.

The possibility of another war in Korea is not as remote as some might think. From the perspective of Pyongyang there would appear to be few, if any, alternative methods of achieving the much sought after objectives of reunification. Neither the Chinese

nor the Russians, on whom North Korea would have to depend for logistical assistance and diplomatic support, in anything other than a very brief conflict, appear to have much of an interest in the outbreak of another war on the Korean Peninsula. From their point of view, such a conflict would be dangerously destabilizing. For the Russians, it would threaten the whole policy of detente. For the Chinese, it would probably bring a halt to the process of normalization which began with the Shanghai communique. It could even, for both of them, end up in a catastrophic conflict with the West. It seems safe to say, therefore, that to the extent they exert any influence over the unpredictable and uncontrollable Kim, the Russians and Chinese would undoubtedly try to dissuade him from attempting to achieve by war what he could not accomplish through peace.

Yet for all of Kim's dependence on them, the fact remains that their revolutionary Communist credentials are somewhat dependent on him. The very existence of the Sino-Soviet split, which in some respects has been an essential element in the maintenance of a balance of power between East and West, has in other respects given Communist countries like North Korea a measure of political flexibility they otherwise would not have had. If war did break out on the Korean Peninsula, however much they wished it hadn't, both the People's Republic of China and the Soviet Union would undoubtedly feel compelled, given the ideological and political competition between them, to support North Korea anyway. The fear of losing favor with Pyongyang would probably prevail in the calculations of both Moscow and Peking over their fear of alienating

the West. And Kim Il Sung, who is very much aware of these elemental political constraints, is thus more or less free to pursue whatever course of action he thinks is in his own best interest.

It is precisely for this reason that the maintenance of a balance of power in Korea is so important. Let the North develop a decided and demonstrable military superiority over the South and there is a reasonably good chance that Kim, especially if he thought the United States was not prepared to come to the defense of Seoul, would conclude the time had come to strike again.

The outbreak of another war on the Korean Peninsula would, in and of itself, be a cause of great concern to Japan. It would be a source of divisiveness among the 600,000 Koreans in Japan whose loyalties would be divided between those who hoped for a victory by the North and those who wish for a triumph by the South. Assuming the United States sought to utilize its base facilities in Japan in order to provide South Korea with the air support and logistical assistance it needed in order to repel the invasion, the Japanese themselves would become politically polarized between those who supported the American commitment and those who opposed it.

But should Pyongyang prevail, and Seoul suffer a defeat, the consequences would be even worse. For, in the process of permitting the forceful reunification of the Korean Peninsula, we would have facilitated the transformation, from the perspective of Japan, of a political problem into a military threat. Whether, in fact, a unified Korea under Communist control would pose a serious military challenge to Japan, it would certainly be perceived as posing

such a threat by the Japanese. Certainly, were we to stand by while the North overran the South, or even seized Seoul, despite our Mutual Defense Treaty with them, it would raise the gravest doubts in Japan about the value of their mutual security treaty with us. The collapse of resistance in the South, coupled with a failure on the part of the United States to prevent it would produce a major debate within Japan about the best course of action for them to follow, probably resulting in a decision to re-arm, with many of the attendant consequences previously described.

It is, therefore, perfectly understandable why Japan should be skeptical, to put it mildly, about the decision on the part of the Carter Administration to begin the process of withdrawing all American ground forces from South Korea. No one can doubt that the presence of the Second Division has contributed to the deterrent value of the American commitment to South Korea. And legitimate questions have been raised about the extent to which the withdrawal of these forces may ultimately lead to the outbreak of the very war they are there to prevent.

It seems to me, however, that there are a number of sound and substantial reasons why the plan and process initiated by President Carter, if properly carried out, can contribute to a shoring up of the American commitment to South Korea. Paradoxical as it may seem, by making it appear less likely that American boys will once again become involved in a ground war on the Asian mainland, it is more likely that we will be able to muster the broad-based political support back home which will be necessary if we are going

SOUTH KOREA

Population: 34,610,000

Military Service: Army and Marines $2\frac{1}{2}$ years, Navy and Air Force 3 years.

Total armed forces: 595,000

Estimated GNP 1975: \$18.4 bn

Defense expenditure 1976: 726 bn won (\$1,500 m). \$1=484 (1976), 491 won (1975).

Army: 520,000. 18 infantry divisions.
2 armoured brigades.
2 infantry brigades.
5 airborne brigades.
2 air defence brigades.
7 tank battalions.
30 artillery battalions.
1 SSM battalion with Honest John
2 SAM battalions with HAWK and Nike Hercules.
840 M-47/-48 med tks; 500 M-113/-577 APC; 2,000
105mm, 155mm, 175mm and 8-in guns/how;
107mm mor; 57mm, 75mm, 106mm RCL; Honest
John SSM; 48 HAWK, 45 Nike Hercules SAM.
RESERVES: 1,000,000.

Navy: 25,000. 7 destroyers (Gearing-, Sumner-, Fletcher-classes).
9 destroyer escorts (6 escort transports).
14 coastal escorts.
44 patrol boats (under 100 tons).
12 coastal minesweepers.
18 landing ships (8 LST, 10 med).
70 amphibious craft.
(120 Harpoon SSM on order.)
RESERVES: 33,000.

Marines: 20,000. 1 division.
RESERVES: 60,000.

Air Force: 30,000. 204 combat aircraft.
10 FB sqns: 4 with 72 F-4D/E; 2 with 50 F-86;
4 with 70 F-5A/E.
1 recce sqn with 12 RF-5A.
44 transports, incl 20 C-46, 12 C-54, 12 C-123.
Trainers incl 20 T-28D, 30 T-33A, 20 T-41D, 20 F-5B.
6 UH-19, 5 UH-1D, 2 Bell 212 hel.
(18 F-4E, 60 F-5E/F on order.)
RESERVES: 55,000.

Para-Military Forces: A local defence militia, 750,000 Homeland Defence
Reserve Force.

As anyone who has studied the military significance of an order of battle well knows, statistics alone do not tell the whole story. And there are, to be sure, a number of factors in the equation which militate in favor of the South rather than the North. Many of the planes available to Pyongyang, for example, are more or less outdated, and of those which aren't, a substantial number are designed for home defense instead of ground support. Assuming that it was the North which went on the offensive, the South would have the benefits of being on the defensive. And since there are only two established invasion routes on the road to Seoul, they would also enjoy the additional advantage of having prepared in advance for such an attack. Perhaps most importantly, however, the South not only has almost 100,000 more men under arms than the North, but many of its soldiers are battle-hardened veterans of the war in Vietnam, giving them a distinct advantage in combat experience.

On balance, however, it appears as if the North does have substantial superiority over the South in the critical categories of air, armor, and artillery. In recent months the estimates of the number of tanks and artillery pieces in the North Korean inventory have been substantially upgraded. And most military analysts would agree that the North has a significant edge over the South in terms of the amount of fire power available to both sides.

The reason for this indigenous imbalance basically has to do with the fact that, over the course of the last decade and more, the North has devoted a much larger share of its GNP to military expenditures than the South. Between 1963 and 1972, for example,

Pyongyang spent approximately fourteen percent of its GNP on defense, while Seoul utilized only four percent of its resources for such purposes. Since that time, I am informed, the figures have remained comparably disproportionate although the absolute amounts have somewhat changed. Supposedly secure under the protection of the American Defense umbrella, which made up for the developing disparity in the indigenous balance of power, the government in Seoul obviously chose to concentrate on development rather than defense. Such a policy, to be sure, required the Republic of Korea to pay a military price. But it also provided a significant economic payoff. Bouncing back from the internal and international recession produced by the four-fold increase in the price of oil in 1973, South Korea experienced a phenomenal 16% rate of growth in 1976 and projects a 12% growth rate for 1977. Clearly, however great the existing military imbalance may be, South Korea has the industrial potential and financial capacity to make it up.

Time, in these terms, is very much on the side of the South rather than the North. The plain and persuasive fact is that there is no reason in principle why South Korea shouldn't be able to ultimately defend itself. Indeed, President Park acknowledged as much himself when he said, in August of 1975, that in five years there would no longer be a need for the active assistance of American ground forces. A quick look at the underlying demographic and economic realities of the Korean Peninsula should make it clear that the South has a much stronger human and financial foundation than the North. At 34 million, the population of South Korea is more

than twice as large as the population of 16 million in North Korea. And the Gross National Product of South Korea, which reached a level of 18.7 billion in 1975, is also slightly more than twice the size of the GNP in North Korea, which was only 9 billion in that same year.

Following the fall of the Thieu Regime in Vietnam, and the Lon Nol Government in Cambodia, the government of South Korea decided to finally utilize its underlying economic strength for the purpose of strengthening its capacity to defend itself. In cooperation with the United States, South Korea embarked on an ambitious force improvement program, designed to bring it up to par militarily with North Korea, which should take five years to complete and should cost somewhere in the vicinity of five billion dollars. Approximately half of the necessary funds for this modernization program will come from a twenty percent surcharge levied by Seoul on existing taxes which is supposed to generate about \$500,000,000 in new revenues a year. The remainder is expected to come in the form of foreign military grants and credits from the United States. By the time it is finished, we will have given the South Koreans almost a thousand more tanks, tripled their inventory of Tow Anti-tank Missiles, and bolstered their over-all fire power with several hundred new artillery pieces.

Indeed, the United States has made it clear that the withdrawal of American ground forces from South Korea which, in any case, will not be completed until 1982, is dependent on the development of an indigenous balance of power on the Korean Peninsula.

Should there be a dramatic change in the situation -- such as a massive military build-up by Pyongyang or the introduction of Russian or Chinese troops into North Korea -- the policy would no doubt be adjusted to take into account the new circumstances. In the interim, President Carter has emphasized that our obligations under the Mutual Defense Treaty with South Korea remain intact. American air and naval forces, the President has pointed out, will stay in South Korea even after the Second Division has been completely removed, not only to provide ROK forces with the kind of close air support and naval protection they would need in time of war, but also as an earnest of American intentions in this regard. By keeping a residual force in South Korea we should be able to implicitly enhance the value of the American deterrent. At the same time, the remaining air and naval units would provide a continuing incentive to Peking, Moscow, and Pyongyang, to reach a peaceful agreement with Seoul designed to normalize the situation on the Peninsula, if they want American forces completely removed from Korea.

The withdrawal of the Second Division should not, given these considerations, significantly impair the credibility of the American commitment to come to the defense of South Korea in the event it is again attacked by North Korea. Concerned primarily with the possibility of a surprise attack, and a sudden North Korean seizure of Seoul (which is, after all, only twenty-five miles from the DMZ), the Republic of Korea has concentrated virtually all of its eighteen divisions between the 38th parallel and its capital city. One American division, however well armed it may be, does not add significantly to the ability of South Korea to thwart such an attack.

The forces on which South Korea would have to rely in such an eventuality would primarily be their own. Under these circumstances, the Second Division would help, but it is doubtful it would make the difference. Its value, therefore, is more symbolic than substantive -- yet, were we not to withdraw our ground forces, the erosion of public support for our Korean commitment would significantly outweigh the marginal advantages of keeping the Second Division where it is, in terms of the plausibility of the American deterrent.

President Carter's policy of gradually phasing out our infantry presence in South Korea should thus be seen as an exercise in both prudence and preparedness. By recognizing the realities of our political problems back home it is designed to make more durable the nature of our commitments abroad. And by making the withdrawal of the Second Division implicitly contingent upon the completion of the force improvement program it will ultimately strengthen the capacity of South Korea to defend itself in the future.

What are the political problems which would be created by a decision to keep American ground forces in South Korea? For one thing, given the location of the Second Division it would almost automatically be involved in hostilities should a surprise attack be launched while it is still on the front line north of Seoul. Under such circumstances, we would either have to commit it to combat or withdraw it from the fighting. The former, particularly if it included heavy casualties and a need for American reinforcements, would create a major political controversy in the United States. For

better or worse, the memories of our involvement in Vietnam are too compelling to sustain such an undertaking for long. Yet withdrawal, particularly if it occurred under fire, would be demeaning to us and demoralizing to the South Koreans. And if another war does break out in Korea, our objective should be to shore up rather than undermine, the determination of the South Koreans to resist.

But above and beyond the complications that would be created were the Second Division to get involved in the fighting, there are two fundamental factors which politically militate against a continued commitment of American ground forces to the defense of South Korea. The first is that there is no reason the Republic of Korea, given the demographic and development disparities between the South and the North, shouldn't be able effectively to defend itself. The second has to do with the repressive character of the Park Regime, which, in the process of stamping out democracy and dissent in South Korea, has fueled the flames of opposition in the United States. One of the reasons the United States is so strongly committed to the defense of Japan is because the Japanese Government has embraced the principles and practices of democracy on which our own country is based. In South Korea, on the other hand, the establishment of martial law, the promulgation of emergency decrees, the imprisonment of political opponents, and the creation of a vast authoritarian apparatus, has gone a long way toward totally alienating significant segments of American opinion. Indeed, under existing circumstances, if the security of South Korea wasn't so important to Japan, it would be the basic nature of our commitment, rather than the presence of our ground forces, which would be the major subject of contention.

If either of these two fundamental facts -- the ability of South Korea in principle to defend itself and the increasingly repressive character of the Park Regime -- were different our policy would quite possibly not have developed in the way it did. If the South Koreans really weren't in a position, upon completion of the force improvement program, to deter and defeat another attack by the North, we would probably have had to increase rather than reduce the American ground presence in South Korea. And if South Korea had maintained the substance and symbolism of democracy, it would have been much easier to mobilize broad-based American support for the presence of our ground forces north of Seoul. Particularly after Vietnam, the American people are much more determined to defend democracies than dictatorships. And the nature of our continuing commitment to Israel, in spite of the strategic attractions of a closer relationship with the Arabs, persuasively illuminates the relevance of such political and philosophical considerations in the formulation of American public opinion.

The suppression of democracy in South Korea has posed a potential threat, not only to the long-term viability of the American commitment, but to the continued determination of the South Korean people to staunchly resist the threat of an invasion from the North. At the moment, President Park appears to enjoy the support of the great majority of his people. But significant sectors of South Korean society have already been alienated by the increasingly repressive character of his regime. Like a dry rot, disenchantment and dissatisfaction may spread, ultimately undermining the continued willingness of the South Korean people to support their own government. In these terms, the relaxation of restrictions and the re-

establishment of democracy, would go a long way toward enabling President Park, not only to improve relations with the United States, but to secure the continued loyalty of his own people as well.

A number of those who are unhappy with President Carter's policy of gradually withdrawing the Second Division, have pointed to the apparent inconsistency between our determination to keep a substantial military presence in Western Europe, and our resolve to remove our ground forces from South Korea. Our NATO allies, after all, enjoy the same collective demographic and economic advantages in relation to the Warsaw Pact that South Korea enjoys in comparison to North Korea.

Seemingly similar as these two situations may be, however, there are still some fundamental differences between them. Compared to the political disunity of Western Europe, South Korea is a model of social stability and ideological cohesion. Given the nature of the fragmented jurisdiction and domestic divisions of our NATO allies, their ability to act in unison, thereby deriving the full military advantage of their economic and population potential, is virtually nil. In this sense, the presence of American ground forces in Western Europe, which constitutes a tangible manifestation of our commitment to the survival and security of NATO, provides the political glue which holds the alliance together. The fact is that were we to withdraw from Western Europe, NATO would probably cease to exist as a viable military entity.

In South Korea, on the other hand, we confront not a con-

glomeration of countries, each with its own attitudes and adversaries, but a united nation, firmly determined to defeat any attempt on the part of Pyongyang to reunify Korea through war. Memories of the slaughter and devastation which they suffered at the hands of the North in the 1950's have hardened their resolve to resist another attack against them. It is, in these terms, interesting to note that almost all of the dissident elements in South Korea, however much they may abhor Park Chung Hee, are even more opposed to Kim Il Sung. If another war did break out it would not be possible for South Korea to keep fighting for more than a very brief period of time without logistical assistance from the United States. But unlike our NATO allies, whose ability and willingness to resist the encroachments of Communism, at least from a political point of view, would be significantly impaired by a unilateral withdrawal of American ground forces from Western Europe, there is little doubt that the South Koreans would fight, and fight hard, as long as they had the ability and ammunition to do so, even without the physical presence of American troops by their side. But perhaps the most salient, and certainly the most significant, difference between these two situations, has to do with the fact that there are 341,000 Soviet troops in Eastern Europe, while there are neither any Russian nor Chinese divisions in North Korea. If there were, the need for the countervailing presence of American troops in South Korea might well be as great as the need for American ground forces in Western Europe. Under such conditions, the present policy would have to be reconsidered, and most likely altered, to meet the changing circumstances.

Next to Korea, probably the most important issue confronting the United States in the Western Pacific, is the future of Taiwan. On the **one** hand, our global interests, no less than the cause of international tranquility, ultimately require the normalization of our relationship with the People's Republic of China. On the other hand, our historic obligation to Taiwan requires us to prevent the PRC from resolving the differences between them by force.

The relationship between Washington and Peking is clearly one of the long-term keys to the establishment of a lasting peace in Asia and elsewhere around the world. As the Shanghai communique points out, all Chinese, whether they reside on the Island or the Mainland, contend that there is but one China and only one rightful government of China. Legal and political fictions aside, it is obvious that the locus of power over the destiny of the Chinese nation lies in Peking rather than Taipei. And there is a diplomatic anomaly inherent in the fact that we recognize the ROC, rather than the PRC, as the official government of China.

Yet Peking has said, over and over again, that the precondition for normalization is a willingness on the part of Washington to sever diplomatic relations and abrogate the mutual security treaty with Taiwan. In the long run, the United States will have to recognize the realities of the situation and adjust its relationship with Taipei in such a way as to make possible a more productive partnership with Peking. In the short run, however, I believe it would be a diplomatic error and a moral mistake if we were to repudiate our obligations to the 17,000,000 Taiwanese who,

whatever the democratic deficiencies of their particular political system, are infinitely freer than their 900 million compatriots on the mainland.

There are, to be sure, substantial and significant advantages in normalizing our relationship with the PRC. To the extent that the Sino-Soviet split has fragmented the forces of Communism it has been, from the perspective of the West, a highly desirable development. A rapprochement between Peking and Moscow, while not very likely, would still be a severe strategic setback. And to the extent the normalization of relations between the United States and the People's Republic of China, on terms acceptable to Peking, remains one of the major irritants in the relationship between Washington and Peking, it would presumably make the Chinese more resistant to the blandishments of the Russians. At the same time that the establishment of formal diplomatic relations between Washington and Peking would make the PRC less likely to move back into the embrace of the USSR, it would also pave the way for a much closer and cooperative relationship between the United States and China on a whole host of other important international issues. From the future of Korea to the autonomy of Africa, a better understanding between us would facilitate the effort to achieve peaceful and productive solutions to all sorts of serious political problems.

And yet the advantages of normalization can easily be exaggerated. The ideological and territorial differences between the People's Republic of China and the Soviet Union seem so severe that it is exceedingly unlikely there will be a rapprochement between them in the foreseeable future. In this sense, a failure on the part of Washington to "normalize" relations with Peking, may con-

stitute an impediment to better bilateral relations between the U.S. and the PRC, but it is unlikely to lead to better relations between the Chinese and Russians. The key to the long-term relationship between Moscow and Peking lies in their ability to resolve the differences between them rather than their differences with us.

In any case, it seems safe to say that the People's Republic of China is much more concerned, at the present time, about the threat it perceives from its neighbor to the North, then about the failure of the United States to explicitly recognize its historic title to Taiwan. I strongly suspect, for example, that the PRC would be much more pleased by a decision on the part of the U.S. to substantially strengthen its NATO forces, thereby countering the Soviet build-up in Eastern Europe, and relieving Russian pressure on the northern front, than they would by the rupture of our relationship with Taiwan. In these terms, the People's Republic of China seems more concerned about our resolve to resist the Russians than our desire to please Peking. While "the enemy of my enemy is my friend" may not be a proverb which is Chinese in origin, it certainly seems to be the fundamental basis for the relationship which has developed over the last several years between Washington and Peking.

Looked at primarily from the perspective of our bilateral relationship with the People's Republic of China, normalization would seem to be a very attractive alternative indeed. But viewed in the context of our broader international interests, and our obligations to Taiwan, the preconditions set forth by Peking would require us to pay too heavy a political price to justify.

Particularly at a time when we are in the process of withdrawing our ground forces from South Korea, the unilateral abrogation of our mutual security treaty with Taiwan would raise additional doubts in Tokyo about the credibility of the American commitment to Japan. Given the critical importance of our relationship with Japan, for all the reasons previously described, this is the last thing we should want to do.

Those who favor "normalization," even on terms advanced by Peking, argue that if Japan could do it, so can the United States. Indeed, they will say, the "Japanese solution" of severing diplomatic relations but maintaining trade and other ties to Taiwan, is the way in which to do it. The problem with this proposal, however, is that the two situations are not analagous. Japan could afford to sever diplomatic relations, yet continue to get the benefit of a commercial connection with Taipei, primarily because of the fact that the Mutual Security Treaty between the United States and Taiwan remained intact. If the United States chose to resolve the problem in the same way as Japan, the Mutual Security Treaty with Taiwan would have to be scrapped, and the deterrent value of our defense commitment to Taipei would be significantly diminished.

This is not to suggest that the day after the Mutual Security Treaty was abrogated the PRC would launch an invasion of the ROC. It is no secret that, even were Peking so inclined, which is itself doubtful, it lacks the amphibious capacity to do so. Military analysts estimate that it would take sixty Chinese divisions to mount an effective invasion against Taiwan. Right now, the People's

Republic of China has an amphibious ability to transport only two of them across the ninety mile straits separating the mainland from the island. While some scenarios for an invasion of Taiwan envisioned an armada of junks descending on the island this would seem to be a most unlikely possibility. The success of such an effort would depend entirely on the ability of the PRC to achieve total air superiority over the Taiwan straits. While the number of planes in the possession of Peking vastly outnumbers the total in Taiwan they are not considered much of a match for the more modern fighters available to Taipei. Unless they were prepared to totally denude their northern defenses, and throw almost every available plane into the fray, the chances are that Peking would not be able to achieve the kind of air superiority which such a phantasmagoric invasion would require.

The real problem, therefore, is not so much the threat of an invasion as the possibility of a blockade. The People's Republic of China, while not a major naval power, does have around a hundred submarines, giving it the capacity to interdict shipping to and from Taiwan. If the United States, following the abrogation of the Mutual Security Treaty, chose not to run such a blockade, it is doubtful that the commercial ships of any other nation would be prepared to run it either. And Taiwan, as an island outpost dependent on foreign trade for its economic survival, would in short order be brought to its political knees.

It doesn't necessarily follow from this analysis that the PRC would attempt to establish such a blockade even if the Seventh Fleet were withdrawn from the Taiwan Straits. Neither can one automatically assume that the United States, even if it

abrogated the Mutual Security Treaty, would idly stand by while Peking attempted to economically strangle Taiwan, but it is precisely because we can't be sure what would happen, if we severed diplomatic relations and abrogated the Mutual Security Treaty with Taiwan, that the adoption of such a policy would be fraught with peril.

Where does this leave us in terms of our relationship with the People's Republic of China? Clearly it would be in our interest to proceed with the process of "normalization." But just as it would be desirable to have formal diplomatic relations with Peking it would be undesirable to completely sever our relations with Taiwan. What we need is a formula which will satisfy the desire of Peking for the formal recognition of its exclusive title to Taiwan while at the same time satisfying our very legitimate concern over the need for a peaceful rather than a forceful solution to the problem of reunification. In the short run, it is not at all clear that such a formula can be devised. Peking has vigorously contended that the decision as to how and when it will "liberate" Taiwan is an internal matter which will brook no interference from abroad. The United States, through the Shanghai Communique, has committed itself to the principle of one China thereby diplomatically precluding the possibility of a German solution to the Chinese problem. How the circle will eventually be squared no one can say, but the fate of millions of people and the future of our relationship with the most populous country in the world may depend upon it.

Let us, by all means, persevere in the effort to find a solution to this vexing political problem. But let us not, in the process, undermine the credibility of our commitments or betray the morality of our obligations.

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The Fourth Japanese-American Assembly (Shimoda Conference)
Text of Speech
September 1, 1977

Opening Remarks

by

Nobuhiko Ushiba

Co-Chairman of the Shimoda Conference

It is a great honour for me to share the Chair of this conference with my old friend Ambassador Ingersoll.

First of all I would like to extend a hearty welcome to all the Japanese and American friends gathered here; in particular to the American friends who have come all the way from various parts of the U.S. to participate in this conference.

It was exactly ten years ago when the First Shimoda Conference was held. Five years have elapsed since the third and the last conference. The records of the three Shimoda conferences reveal most vividly the state of the U.S.-Japan relationship at that time. As to the significance of this fourth conference I have indeed very little to add to Ambassador Ingersoll's speech. I hope it will give us all a good opportunity for a frank exchange of views.

Undoubtedly, the third Shimoda Conference was prompted by the communication-gap between the two countries, which was most fortuitously revealed by the so-called "Nixon-shocks" of 1971. That gap may still be unfilled; nevertheless, the visit of President Ford to Japan in 1974 and the Emperor's visit to the U.S. in 1975 combined, among other things, to produce a feeling of euphoria between between the countries for a "no-event" period in U.S.-Japanese relations.

In the meantime, however, the international circumstances surrounding the U.S. and Japan have changed greatly. The biggest event was, to my mind, the quadrupling of oil prices in 1974 following the Middle-East War. The world economy is still suffering from the trilemma of, namely, inflation,

unemployment and

unemployment, and adverse international balance of payments caused by this event. It was then discovered that, in order to cope with the situation, coordination of economic policies of the advanced countries was above all necessary, and everybody started talking about the interdependence of nations. So far three Summit Conference have been held. President Carter proposed that the U.S., Japan and Germany should play the role of engines to lead the world economic recovery.

In spite of these efforts, the world economy is still in the doldrums. In particular, because of the social pressure caused by unemployment, strong trends of protectionism are observed in many countries. Even among advanced countries belonging to the OECD or the European Community, the bi-polarization between economically strong and weak is apparent. Of the three engine countries, only the U.S. is showing signs of strong economic growth.

Following the oil crisis the demand of LDCs for a new economic order has been particularly vociferous in the past two years, supported by the OPEC countries. The tone of the dialogue between them and the advanced countries of the world has become recently more reasonable and realistic. North-South relations however are beset with many almost unsolvable problems and will continue to remain a destabilizing factor.

The East-West problem, of which the U.S.-Soviet relationship is the key, seems to have entered a new phase after the emergence of the Carter administration. "Detente", discarded by President Ford, has been salvaged by President Carter.

Mr. Brezhnev

Mr. Brezhnev enthusiastically agrees. The Soviet armament, however, is growing relentlessly, and its containment by successful SALT II negotiations is strongly hoped for. The human rights diplomacy of President Carter has confused and angered the U.S.S.R. How will it affect the possibility of the negotiation's success?

Another important problem is energy. Particularly as far as oil supply is concerned, we must expect great difficulty as soon as the early 1980s. But every government is finding it difficult to raise enough public concern about this problem, because we now see a temporary glut of oil. The coordination of energy policy among consumer countries is progressing only slowly, because domestic availability of energy resources is so different from one country to the other. Nuclear power generation is bogged down everywhere due to environmental difficulties and the dangers of nuclear weapons proliferation. At any rate, we shall never be able to return to an era with cheap and abundant energy.

In Asia, after the U.S. withdrawal from Vietnam, that country was unified under the Communist regime, and together with Laos and Cambodia the whole of Indochina has become communist. At that time there was great anxiety among the nations of the region that the U.S. might turn her back on Asia. That anxiety was mostly overcome by the proclamation of the New Pacific Doctrine of Peace by President Ford at the end of 1975, and Asia has since been on the way to stability, albeit a fragile one.

ASEAN, composed of five free countries of Southeast Asia,
has been

has been gradually emerging as a viable regional group, although its unifying forces are still weak. President Carter soon after inauguration decided to withdraw U.S. ground forces from Korea in 4 to 5 years, and the U.S. and Republic of Korea are now locked in negotiations about its schedule and related matters. Is there no danger that the equilibrium of the Korean Peninsula, or indeed the stability of Asia, would be upset by such a U.S. withdrawal? This is a question many Asians are now asking.

Continental China after the death of Mao Tse-Tung seems to be pursuing a more moderate course, as evidenced by the recent revival of Teng Hsiao-Ping. The 11th Communist Party Congress was held, consolidating the position of Chairman Hua. To strengthen and modernize the armament against the U.S.S.R. and at the same time to satisfy the peoples' rising expectations of a better life would be a highly difficult task for any country, particularly for China with a population of 900 million. On the other hand, the U.S.S.R., while maintaining major army and air force garrisons on the Chinese border, has strengthened her naval power to such an extent as to threaten our sea communications in an emergency. The Soviets' adoption of a 200 mile fishery zone has made Japan's fishery negotiations with them even more acrimonious and difficult than before. The antagonism between China and the U.S.S.R. is continuing relentlessly.

As to the domestic political situations in the U.S. and Japan, a great number of changes have taken place. In the U.S. it is the emergence of President Carter. The U.S. has now shaken

now shaken off the traumas of Vietnam and Watergate and regained the initiative in international politics as the natural leader of the free world, although the President cannot always have his own way against the Congress. (But this is not an exceptional situation.) In Japan the LDP is still in power after 30 years of continuous rule but their majority in both Houses is now paper-thin. This situation makes it imperative for the government to consult the opposition parties more than before. It must be pointed out however that the Japanese conservative forces as a whole have not lost their vote-getting ability and therefore our present domestic situation is different from that of France or Italy.

These changing circumstances, international and national, have inevitably affected the U.S.-Japanese relationship. Now we must, in dealing with our bilateral problems, always consider the international implications. Many international problems can only be coped with by intensifying our bilateral cooperation.

Most remarkably the importance of the trilateral cooperation between the U.S. and Japan and Western Europe is now clearly recognized. In this context, Japan is endeavouring to strengthen her link with Europe, aided by the U.S.

Some problems, which were considered before as U.S.-Japanese bilateral problems, are now treated as predominantly global issues. The trade and payments imbalance between us is a case in point.

Trade, energy, North-South relations — these, too, are
all problems

all problems of a global nature, although with heavy bilateral implications.

However, the present world has by far not reached a stage where these problems can be discussed and solved in big international conferences. A good example is the UN Conference on the Law of the Sea. It has deteriorated to a complete mess after adopting a mistakenly over-ambitious goal to solve all international problems concerning the sea in a single package. In the meantime the idea for a 200-mile fishery or economic zone proposed and then tabled by certain LDCs was picked up by the U.S. Congress out of all context and voted into law. Canada, the EC and the U.S.S.R. have followed suit. The result was that among many issues under discussion this one was made an international rule, its content being left to the discretion of the countries adopting it. The biggest sufferer was naturally Japan.

The Japanese balance of payments surplus is now an urgent global problem, and it is agreed that the best way to reduce it will be the expansion of the Japanese domestic economy with the resultant increase in global imports. Practically, however, the U.S. and some LDCs are the only countries from which Japan can increase imports substantially, while Europe will enjoy only indirect benefits. Thus although the problem is considered global, the solution can be found in U.S.-Japanese bilateral cooperation.

One of the most important aims of our cooperation in a

global context

global context should be the establishment of fair and equitable international rules. The U.S. and Japan have successfully cooperated in refurbishing the world monetary system. The immediate problem now is doubtlessly the Tokyo Round of the GATT negotiations going on in Geneva. We must also join forces with Europe in working toward their successful conclusion next year. The North-South problem must be alleviated as well, and it is welcome that the Carter administration is much more flexible than its predecessors in listening to legitimate complaints of LDCs. In these endeavours, we should always adhere to the principles of free trade and market economy. We must reject protectionism by all means, in whatever guise it may be presented. The New Economic Order is unacceptable insofar as it totally disregards the market economy principle. Our cooperation in security and defense matters is a more complex issue because of the assymetry of the capabilities between the U.S. and Japan. Mr. Fukuda during his visit to the ASEAN countries and Burma made a statement clearly defining the Japanese policy regarding national security as well as world peace, namely, that Japan would never become again a military power but would serve world peace by using our economic capabilities, particularly by offering economic cooperation and assistance to LDCs. This idea was enthusiastically received by ASEAN leaders. We have helped the ROK in her economic development, and are now, in turn, increasing our contributions to the nation-building of the ASEAN countries. We must of course strengthen our national defense to

defense to meet the minimum strategic requirements within the context of the U.S.-Japanese cooperation under the Security Treaty. A national consensus therefore is being progressively built up.

The attitude of Japanese people towards the national security issue is changing. There is no longer a strong political opposition to the Security Treaty with the U.S. After difficult fishery negotiations with the U.S.S.R. the Japanese people recognize much more clearly than before that the Soviet threat is not confined to Europe and that detente, in order to be effective, must be universal. The security and stability of Northeast as well as Southeast Asia is now a major concern for us. The concern with the U.S. withdrawal from Korea, and the national endorsement of Mr. Fukuda's visit to ASEAN — these are all signs, among others, of the growing security-consciousness of our people.

Asia is another important area where the U.S. and Japan must cooperate. The Asia policy of the Carter administration has been made clearer by Secretary Vance's speech at the end of June and his visit to China a few days ago. I have mentioned before some anxieties felt by Asian countries as to the current U.S. plan for withdrawal from Korea. How the U.S. will deal with Taiwan as she proceeds to normalize relations with Peking is also a problem, in Asian eyes, and has great bearing on the credibility of U.S. commitments.

The relation between ASEAN and Indochina will have a decisive influence on the stability of Southeast Asia. Japan is determined

is determined to help these two groups establish peaceful political and economic relations. It is our hope that Japan and the U.S. can cooperate closely in this endeavour.

For all these purposes, close and real consultations between us are necessary in order to bring about more stability in Southeast as well as Southeast Asia.

Another important issue between us is the energy problem, which has two aspects: the stabilization of oil supply and the peaceful use of nuclear energy. They are, of course, global problems, but the fundamentally different positions of the U. S. and Japan as to energy make them, directly and indirectly, urgent bilateral issues.

That the supply of oil in the world will become tight in the 1980s is undeniable. The U.S. is the first, and Japan the second largest, importer of oil; therefore, whether these two countries can decrease their dependency on oil imports is a vital question for the future world oil supply. U.S. per capita energy consumption is now about 3 times as much as that of Japan. Japan hopes that the energy policy of President Carter will be reasonably successful, and we are determined on our part to take decisive measures for oil conservation and research and development for alternative energy sources.

President Carter's policy on the recycling of spent nuclear fuel has made a strong impact not only on Japan but on the whole world. It goes without saying that Japan absolutely endorses the prevention of nuclear weapon proliferation. Japan is a party to

party to the NPT and is assured of non-discriminatory rights for the peaceful use of nuclear energy. Industrial use of the fast breeder reactor based on the plutonium cycle is indispensable for Japan in establishing our future energy policy, as Japan has practically no domestic energy resources. Former U.S. administrations recognized this and encouraged Japan to pursue that course.

About this problem we expect detailed discussions within this conference. I would like to emphasize at this time, however, that Japan is not seeking for herself an exemption from the general rule. Japan knows well that this problem can only be solved within the framework of international cooperation and, particular, by minimizing the danger of nuclear proliferation. Japan is ready to make useful contributions for this purpose. At the same time, I must add that Japan cannot wait indefinitely in view of the fast approaching energy crisis.

This concludes my opening remarks, and now we invite all of you to speak with candor on the first item of our agenda: "Changing World Environment and U.S.-Japanese Relations."

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(15)

A REFORMIST VISION
OF
SOUTHEAST ASIA POLICY

by

Ro Watanabe
House of Representatives

A REFORMIST VISION OF SOUTHEAST ASIA POLICY

Prologue -- Debate on an Atami Streetcorner

The Japanese newspapers featured bold headlines of Prime Minister Fukuda's visit to the Association of South East Asian Nations (ASEAN) summit meeting. The papers reported that he was welcomed warmly in Southeast Asia, and that he had offered 1.4 billion dollars in aid. One newspaper claimed that "Cooperative relations between Southeast Asia and Japan are now entering a completely new phase."

The same day I read this, I overheard several retail store owners engaged in lively debate, as I strolled through a shopping arcade in Atami, a hot-spring resort in my constituency. One said, "With this recession continuing, the number of visitors to Atami has plummeted. My shop is about to go broke. Instead of giving all those billions of dollars to some foreign country, they ought to give that aid to us, the ones who really need it." "Now come on," said another, "it won't do to be so narrow minded. You see, giving the Southeast Asian countries a billion dollars now helps them to develop so that some day their purchasing power will increase to \$2 billion. That's in Japan's favor, and that's what the Liberal Democratic Party says is going to happen. Mark my words, there are prosperous times ahead for Japan."

Newspaper reporters generally pay little attention to conversations such as this. They are too busy covering the political conferences and high-sounding government announcements, to listen to what the man on the street has to say. Journalists seem to operate in another dimension, where understanding of "Southeast Asia" is associated with well-intentioned

slogans like "cooperation" and "solidarity." As a member of one of the opposition left-wing parties, when I heard this conversation between the shopkeepers, a light went on in my head, for I realized that both of them were wrong. But, if called upon to show where they were wrong, or to produce a logic that would persuade them of their error, I was unnerved to realize that I could not articulate a single concrete argument.

But why should I be so unnerved? It must be connected to concerns which have been with me since I became involved in Southeast Asia-related issues in my youth. One of these concerns is that the opposition has failed miserably to come up with a viable shadow policy concerning Southeast Asia.

What Southeast Asia Means to Me

In 1953 I was in Rangoon, Burma. At twenty-seven I had been sent to Rangoon by the Japan Socialist party (JSP) to work on the staff of the Secretariat for the newly formed Asian Socialist Conference (ASC). I spent the following two years headquartered in Rangoon travelling in all of the countries of the region as an advisor to movements for national independence and economic development. World War II was over, and the nations of Asia, Africa and Latin America had either achieved independence or were embroiled in nationalist movements for independence.

The ASC was established partly with the support of the democratic socialist parties of Europe, particularly the British Labour Party, for Great Britain had been involved in Asia for a long time. The countries that participated in the inaugural meeting were Burma, India, Indonesia, Israel, Malay, Lebanon, Ceylon, Nepal, Pakistan and Japan. As nations still under colonial rule or newly liberated, emerging countries, all of

them were burning with ardor and ambition. The rupture in the JSP between left and right wings was at its height, but the delegation at the conference worked in unison. (It was not until late 1959 that the Democratic Socialist party (DSP) was formed by Suehiro Nishio, its first chairman, and his associates who bolted from the Japan Socialist party.)

As I mixed with the leaders of these various Southeast Asian national movements, I must frankly confess that I constantly faced an inevitable dilemma. It was that there was always an unsurmountable bottleneck when it came to the question of how to relate Japan to Southeast Asian nations and their aspirations. The problem stemmed from the attitude of the Japanese, for whom that region always held great fascination, but remained something in another world. The reaction of Japanese to the kind of work I was doing was usually, "Sounds like a lot of hard work, but what is the purpose of it all?" The same held true for the leftwing in Japan which was giving almost all its attention to the domestic power struggle and appeared little concerned with what was going on in Southeast Asia. I have always been vexed by the questions, "Do our 'progressive' parties have any serious concern for Southeast Asia? Does the region come into their picture of Japan's future at all?" These questions still have to be answered and are what I shall address myself to in this paper.

Let me return to my original subject, the ASC, for which I devoted several productive years in my youth. The ASC was organized at the height of the cold war by Asian political parties committed to moderate, non-communistic socialism. Through its institutional framework, Asian leaders debated questions of whether a socialism based on democracy, freedom and nationalism could serve as the guiding ideology for national

independence movements, and how democratic socialism could be instrumental in the nation-building and economic development of those which have achieved their political independence.

Through the American-devised and funded Marshall Plan, Europe was making rapid strides in rehabilitating itself in the aftermath of war. On the Asian scene, however, the Kuomintang was defeated at the hands of the Communists despite massive American support, and driven out of the Chinese mainland. In 1950 the Korean War broke out, bringing the United States into full involvement in Asia. Because it came into being just at such a critical juncture, the ASC was the focus of much expectation and attention from the emerging nations and the Third World as well as the developed Western countries.

Asia's leaders were groping for a way to assure political and economic autonomy and develop without adopting a communist system or falling prey to American influence. They envisaged a system of mutual economic assistance encompassing all nations of Southeast Asia. Politically they would pursue a policy of nonalignment and seek to bring together a third force of nations. This concept proved an inspiration to many Asians, among both the intelligentsia and a broad segment of the people, and moved them to action.

Eventually, however, the ASC was dismantled before it ever realized these goals. After the 1957 Katmandu Conference, all official activities of the organization were terminated. With the October 1958 military coup in Burma, the Burmese Socialist Party, ASC's leading force, was outlawed. In December 1960, conflict between King Mahendra and the cabinet led to the suppression of the Nepali Congress Party led by Koirala, and in Indonesia Sukarno prohibited the socialist party from carrying on any political activities. Thus most members of ASC were either outlawed or not permitted

to function. Even where repression is not the rule and political freedom is guaranteed, democratic socialist parties have somehow lost momentum, and remain out of power to this day. This is the case with the JSP and the DSP in Japan, one of the few nations in Asia where political freedom exists. Many countries in the region are still in the grips of an authoritarian regime.

At the end of the sixties, a movement began calling for a new regional organization of democratic socialist parties. The Asia and Pacific Socialist Organization (APSO) was formed in 1972 and held its inaugural meeting in Singapore. Members who had not participated in the original ASC included the People's Action party of Singapore and the Labour parties from Australia and New Zealand. Also present were the Indian Socialist party, the Israeli Labour party, the Malaysian Democratic Action party, the Korea United Socialist party, and Japan's JSP and DSP. APSO was chartered as a regional association of political parties devoted to democratic socialism. An organization rejecting communism, APSO seeks affiliation with the Socialist International. Unfortunately, the organization has not met again since its inception, although plans are now underway for a convention late this year or early next year. While we may still look forward to a revitalized APSO, I have grown increasingly pessimistic about the future of democratic socialism in Asia.

I realized that this may seem a rather curious statement for the vice-chairman of this organization to make, (the APSO chairman was the late Norman Kirk, former prime minister of New Zealand), but it is based on many years of personal involvement and experience.

So much for a sketch of my personal involvement with Southeast Asia. Nine months ago, in December 1976, I was elected to the Lower

House for the first time, after working on the staff of the JSP secretariat and then as International Secretary of the DSP for fifteen years. In Japan people often say that you cannot get votes for what you do in foreign affairs. Perhaps that is one reason for my belated debut as a Diet member. Now everyone tells me that if I am really serious about getting re-elected, I should not get involved in international affairs. The message here is, of course, that a Dietman should instead devote his time to working for the benefit of his constituency. Such hard realities of politics notwithstanding, I chose, with no hesitation whatsoever, the Foreign Affairs Committee as the base of my activities in the Lower House.

One thing I have learned in my limited experience with the committee: Asian problems rarely come up in national politics. The greatest attention is reserved for the United States, particularly issues of trade and security. The list has grown somewhat larger in recent months, to include greater notice of the question of energy; relations with the Soviet Union, particularly concerning the northern territories, fishing rights, and economic cooperation; with China, most notably on the hegemony clause in the proposed peace treaty; and with the European Community, primarily concerning trade. Except for policy related to the Korean peninsula, there is no heated controversy over Asia between the government and opposition parties.

When I heard that Southeast Asia would be one of the main themes at the fourth Shimoda Conference, and when I was asked to present my views on that region, I had to do some hard thinking about whether Japan really has, or has ever had, a policy toward Southeast Asia. If, as I indicated above, the region is virtually outside the purview of the House Foreign Affairs Committee, who else in the national legislature can possibly be concerned about Southeast Asia? The situation is truly

appalling; the apathy is past the critical point. I will not place the responsibility for this serious negligence solely on the government and the LDP, for the opposition parties, including my own party, must also accept the blame for their lack of interest and policy toward that part of the world.

As a Japanese politician seriously concerned about the situation, I would like to discuss the following questions. What does Southeast Asia mean to Japan? What does Japan mean to Southeast Asia? What can Japan do in, and for, Southeast Asia? What roles do the opposition parties have to play in improving Japan's policy vis-à-vis Southeast Asia? On the basis of these discussions, I would like to consider how best Japan and the United States can cooperate in the execution of a viable Southeast Asia policy.

I should add here that I do not intend to present in this paper a scholarly analysis of the Southeast Asian situation. As a Japanese politician long associated with people in other parts of Asia, I want to express my candid views on what the Japanese people should do to better understand, and cooperate with, the peoples of the region. Let me also make clear that I am a DSP member of the Diet, elected from the eastern part of Shizuoka prefecture which includes Shimoda, but the statements I make here are entirely personal, not the official views of my party.

What Southeast Asia Means to Japan

I would like to examine how modern Japanese relate themselves to Southeast Asia and what significance the region holds today in their minds.

Tenshin Okakura was a man who left his imprint on the pages of history; a brilliant man active during Japan's Meiji period from the end of the nineteenth to the beginning of the twentieth century. He was

appointed curator of Oriental art at the Boston Museum of Fine Arts in 1904. There he rose to worldwide renown as an art critic. His book, Ideals of the East, exerted considerable influence on Japan's prewar Asia policy. Although not directly responsible, his notion of "Asia is one" provided the ideological foundation for Japanese militarism in its march through Korea, Manchuria, China and Southeast Asia. Okakura's ideas contributed to what became known as the Greater East Asian Co-prosperity concept.

In prewar Japan, the relationship with East and Southeast Asia was that of ruler and ruled. Japanese in other parts of Asia did not think of themselves as being in independent, foreign nations, but in a Japanese dependency or colony. I was raised in a Peking also under Japanese control. I spent my early years in a place where Chinese spoke Japanese and worked for Japanese. After World War II, Japanese colonialism ended. With United States aid, a decimated Japan headed back on the road to recovery to the tune of the slogan "Catch up with Europe." A popular injunction was "learn from foreign countries," but for us that meant the United States and Europe, the advanced industrial nations. For a long time after the war, Southeast Asia receded to the fringes of popular awareness. Meanwhile a powerful nation took Japan's place in Southeast Asia: the United States. There is little need here to go into the reasons and motives for American presence in Southeast Asia, but that turned Japanese attention again to the region.

Less than a quarter of a century after military defeat, Japan, again riding the crest of rapid economic growth, sought to do business in Southeast Asia. In the absence of a clearly formulated government policy for the region, Japanese corporations made steady economic advances. No matter where you go now in Southeast Asia, the signs of Japanese business

are plainly visible. So great a presence that it has even been said that several of the Southeast Asian nations would not even have an economy without Japanese presence and investment. This rapid, ubiquitous incursion is a major reason for the anti-Japanese movement in the five ASEAN nations, a movement condemning the Japanese "overpresence." A capitalist country like Japan cannot sit back while its industries are being boycotted, so it has sent what it calls aid, which actually is an attempt to buy off or pacify the Southeast Asians so that Japan Incorporated can conduct business as usual. I will say more about this aid later; suffice it to say at this point that as far as Japan is concerned, Southeast Asia represents essentially a site of Japanese industrial expansion, a market for Japanese goods, and a recipient region of Japanese aid.

Prior to his recent trip to Burma and the ASEAN nations, Prime Minister Fukuda stated that the visit had little to do with "money or goods. What we seek is increased mutual understanding through heart-to-heart communication." This is an approach indeed designed to appeal to the emotions, yet the prime minister might be interested to know that the peoples he has visited were far more concerned about the money and the goods than about heart-to-heart understanding.

Like the government and the intellectuals, most Japanese have their eyes glued to what goes on in the United States and Europe. They esteem highly the history, culture and people of the West, but the number who believe there is anything to be learned from Southeast Asia is miniscule.

Here, where surplus dollars have recently accumulated, foreign travel has seen an unprecedented boom. The number of Japanese going abroad last year reached a record 2,850,000, and the largest portion, 630,000 visited somewhere in Southeast Asia. With all those people enjoying the opportunity

to witness actual conditions and lifestyles in other countries, one might expect some new attitudes and understanding towards the region to emerge, yet it is gloomy indeed, to find that the old-fashioned prejudices linger on. The vast majority of Japanese continue to look to the United States and Europe as the places they want to know more about, and have far less interest in Southeast Asia. This attitude is likely to continue for some time.

Such is the situation, though there has never been a time when mutual understanding and cooperation between Japan and Southeast Asia was in greater need. The day seems remote when the government, opposition parties, businessmen and the general populace will acquire any awareness or understanding of Asian problems. Probably most shocking of all is that the mass media, whose job it is to help shape public opinion, is equally guilty of this narrow vision.

What Japan Means to Southeast Asia

The attitude that "Asia is one," is still part of the popular intellectual baggage. Even now Japanese steadfastly refuse to rid themselves of the preposterous notion that Southeast Asia is a single entity. In history, culture, and life-style, each of these nations is unique, each likewise containing a diversity of value systems and world views. Multi-ethnic societies such as Singapore, the Philippines and Malaysia experience various problems, and Japanese, who enjoy a more or less ethnically homogenous society, should be aware that these societies are quite different from their own. We must be mindful that different criteria should be used to judge each country and each people. Needless to say, attitudes of people in Southeast Asia vis-a-vis Japan differ from nation to nation and generation to generation. This is what experience, sometimes quite painful, has taught me.

Opinions of Japan differ according to whether or not the nation

experienced Japanese colonial rule. When I was in areas which had, I was made aware that many could not forgive Japan's imperialism. A relatively mild remark would be: "I know you're not responsible, but there are things Japan did to us during the war that I'll never forget." I also met another type, persons who had been educated in Japan before 1945 and are now in their forties or fifties, often in some position of leadership: "I admire Japan, your country has done exactly what I hoped it would. Despite defeat, it has sprung back to make a complete recovery so that it now numbers among the great industrial nations of the world. The Japanese devotion to the work ethic is something we in Southeast Asia would do well to learn." Somewhere in the conversation would be the emphatic insistence that Japan be the model for nation-building.

I also met members of the government elite in Indonesia, the Philippines and Malaysia, people who had studied in the United States and who were not as enthusiastic about Japanese economic growth as the Japan-trained group. Although they assert the need for cooperation with Japan, I sensed that they prefer to maintain a certain distance and a more level-headed approach in contact with this country.

Students I met in Singapore and Thailand were very displeased with the way Japanese corporations and Japanese citizens, including tourists, behave in their countries. For a good sample of the opinion of youth toward Japan one need only recall the anti-Japanese riots and demonstrations against Prime Minister Tanaka's 1974 visit to the ASEAN nations. Observing the attitudes and opinions of Southeast Asians concerning Japan can only convince us that a tremendous gap separates us.

Whereas Southeast Asia has just begun to industrialize, emerging from an agrarian economy, Japan has completed its industrialization and is now plagued by the problems of pollution and environmental destruction. Various

rates of national development, not to mention diversity of value orientation, make for few points in common. Differences are extreme; part of the reason being an inadequacy of communication between Japan and Southeast Asia, perhaps even more serious than that between the United States and Japan. Between Japanese and the ordinary man in Southeast Asian nations the gap is much greater, since there is almost no opportunity for the two sides to communicate with each other.

Aid Without a Philosophy

In many instances the conversants in the dialogue with Japan are an elite educated in the United States who envision modernization of their nations along European or American lines. Just as the Japanese government's policy toward Southeast Asia does not have full domestic support, neither do the Southeast Asian nations reflect the will or interest of their populace in their dealings with Japan.

Southeast Asian leaders are sensitive about the overpresence of Japanese industry and goods, but their need for economic relations with Japan is nevertheless pressing. Though awareness of Southeast Asia is inadequate from the highest levels of government down to the ordinary citizen in Japan, the evidence is that the region will loom even larger in importance for Japan in the coming years than it ever has in the past. The aid Japan provides Southeast Asia in the future must have the support of the Japanese people and must be truly beneficial in raising the standard of living of the people in the recipient country.

Any nation with major social or economic inequities is potentially unstable or prone to crisis. The same may be said for the relationship between nations. A world with great differences and inequalities among nations is likewise potentially strife-ridden. I believe that real peace

in Asia depends on the success of efforts to correct these disparities; stability in Asia will further the cause of world peace.

Aid to any region must be granted on much broader criteria than whether or not it will help Japan obtain markets and resources. The largest portion of Japanese assistance goes to Southeast Asia and although the government claims its aid program has been directed primarily toward that region, there is a strong impression that the aid policy is make-shift and situational in nature. Certainly the aid program has no philosophical base which answers the questions: Why offer aid? Why is cooperation necessary? On his trip, during which Prime Minister Fukuda pledged \$1.4 billion in assistance, he suggested that "With this we may escape international censure." But I find it decidedly curious that international opinion should be the sole determinant of how Japan conducts its aid program. It behooves the opposition parties, government and the LDP to do some serious thinking about the basic premises of policy vis-a-vis Southeast Asia.

Before Prime Minister Fukuda visited the U.S., all opposition leaders were invited for consultation and advice on the conduct of policy concerning the United States. Meetings like this are becoming established procedure prior to any major move in relation to the U.S. But before the recent trip to the ASEAN summit meeting and the Southeast Asian nations, no such consultations were held. On the other hand, even if there had been, it is doubtful that anything productive would have emerged since the opinions of the opposition concerning Southeast Asia are so unsubstantial that no alternatives would have been forthcoming. What opposition shadow policy does exist is obvious, but as far as foreign relations are concerned, almost all attention is devoted to diplomacy with the United States, particularly the issue of the security treaty. If there is a nascent policy

for Southeast Asia, it is purely incidental.

The opposition, the government and the LDP have recently begun to pool their forces in support of the aid slogans: "Augment official assistance rather than private loans," or "Raise government aid to 0.7 percent of GNP" (the present rate is 0.24 percent). This is all well and good except that this new approach was initiated on questionable grounds, of all things, the pretexts that, "The EC countries are criticizing us," or that "the recipient nations are antagonistic to Japan."

The opposition has a tendency to use a fixed set of political formulas and slogans in attacking government policy. It is usually to insist that aid policy is too much devoted to the pursuit of corporate profits or that official assistance is far too low. One thing that always bothers me about Japanese political parties is the extreme difference between what they say and what they really mean. The opposition claim that the government should increase official assistance is just a pretense, obscuring the fact that both the government and the opposition are playing the same tune. But isn't the real reason for following this particular line to avoid embarrassing Japan in the eyes of the world? If you will permit me for a slight, but only slight, overstatement, Japanese political parties are one and all essentially isolationist. They are all protectionist at heart. The reason protectionism still prevails is that political parties advocate only those programs which will ingratiate them with the people, avoiding carefully anything that might be unpopular. It is the popular opinion that giving a billion and a half dollars of the Japanese taxpayer's money to some other country in aid is unnecessary, particularly in view of the present domestic recession. Not one political party seems to have the strength of conviction to educate or persuade this silent majority in the wisest course of action. Even those

who call themselves progressives are often the most vehement advocates of an excessively protectionist trade program.

I remember well during the sixties when there was a great deal of international pressure on Japan to liberalize its imports. The leftwing parties were even more vocal than the conservatives in opposing additions to the list of items to be liberalized, fearing some industries would collapse and the ranks of the unemployed would grow. Today's talk of more aid and cooperation for ASEAN to help modernize those nations has prompted worries among the workers that their jobs are at stake. I also doubt that parties of the left possess any more powerful logic with which to persuade the people that that aid is a necessity, despite its potential disadvantages for them.

Prerequisite to a viable reformist policy toward Southeast Asia are the following:

- 1) Modernization of Southeast Asia will force Japan's industrial structure to undergo drastic change. Realizing that such a change is inevitable, the opposition must formulate a policy persuasive to both labor and business.
- 2) In any cooperation program with the ASEAN countries, greater emphasis must be given to trade than to assistance, encouraging those nations to develop through their own efforts. As Japan imports more from them, it must absorb shocks detrimental to agriculture and certain industries. To that end, preparations must be made for reshuffling the labor force and industrial facilities into other sectors.

Proposals for Opposition Action

The outline for future relations between Japan and Southeast Asia cannot

be premised on present conditions in those countries. Rather, it must be figured in terms of the ultimate level of development, which may be achieved rather quickly as Southeast Asian nations have a good deal of national resilience and a fairly high level of modernization. Far from pastoral or agricultural nations, nationalists in Southeast Asia aim to build modern industrial states, whether it be after the Western European, the Chinese or the Soviet model. Competition and friction with the advanced industrial nations will be unavoidable, just as it was in the experience of Japan and the United States, Japan and the EC, and Japan and the Republic of Korea. Japanese must prepare themselves for the eventual decline or destruction of various industries, the most obvious example being textiles, which may occur as Southeast Asia industrializes. We must also anticipate major social changes. For example we will have to lift restrictions on imports of rice from Thailand, Burma and Vietnam whose cost is one tenth that of domestically produced rice, thus dealing a fatal blow to rice growers here.

Near Shimoda is one of the world's largest producing areas of the mikan or mandarin orange. When Japanese started to eat oranges and grape-fruit from California, farmers in this area were forced to cut down their mikan trees. One can easily imagine a similar situation occurring in connection with Southeast Asia. Southeast Asia must be considered in a context, not just of changes in trade structure, but of evolving shifts of popular taste and life-style. For example, a postwar generation raised on bread made from wheat flour imported from the United States and Canada eat little rice. In an effort to reverse this trend the Agricultural Cooperatives are conducting a campaign that promises women beauty if they eat rice. Apparently their efforts are not being taken very seriously.

The importance Japan accords Southeast Asia will greatly determine the nature of enormous social change and social, economic and cultural

conditions must be rendered capable of accommodating this change. In this endeavor we urgently need a political leadership competent to lead such change. Any social reform is bound to face opposition by certain interest groups; in the extreme, such reforms could even invite a strong nationalistic outburst. Political parties have not yet mastered the means of persuading people of the necessity for reform, and have consistently shown a tendency to submit to the forces of nationalist reaction.

One trap in particular awaits leftwing reform parties: to counter the conservative logic that aid to Southeast Asia will enhance those countries' power to purchase Japanese goods, the left has neither the ability nor the informational ammunition to counter the government logic and convince the people with their own aid philosophy.

Here, I would like to present several proposals for adoption by reformist parties.

- 1) Appeal to the people with an idealistic philosophy of aid, even if it may seem at first ineffectual. Try to convince them of the necessity for assistance to Southeast Asia in terms of the idea of "a global welfare society" or a universal application of the "welfare society in one country" concept.
- 2) While trying to urge improvements in the government's development assistance programs and economic cooperation through the private sector, the opposition parties should cultivate their own channels of aid activity. For example, they can encourage labor unions and other non-governmental organizations (NGO) to participate actively in cultural exchange and technical assistance programs for Southeast Asia. They may send young workers and engineers as volunteers for technical assistance, organize youth exchange programs and sponsor a variety of educational activities. The

reform parties should be ready to raise funds for these programs from among the working masses, but they should also demand that at least one percent of ^{the}GNP be earmarked for foreign assistance in the government budget, and that half of that amount be appropriate for use by NGO channels.

- 3) On the basis of the aid philosophy and policy outlined above, the reform parties should push forward with preparations for projected changes in the industrial structure and society at large. For example, the opposition can propose official designation of those industries which will be most heavily affected by the changing industrial structure and push for a system whereby their transformation can be smoothly effected. It will be also necessary to provide a better, more expanded system of financial assistance and job training for workers in those industries.
- 4) The opposition parties will have to produce blueprints for security problems arising in Southeast Asia, the gist of which might be:
 - a) To maintain the security of Southeast Asia, it will be necessary to ensure the continued military presence of U.S. forces in Asia based on treaty commitments between the U.S. on the one hand, and ASEAN, Japan, South Korea and Taiwan on the other.
 - b) Japan's role in Asia will be limited to non-military areas. Rather than a military commitment, economic cooperation of the type outlined in this paper must be provided.
 - c) Japan must extend economic assistance and cooperation while maintaining a friendly relationship with the Communist powers

in Indochina, China, North Korea and the Soviet Union.

- d) Japan's military power will be restricted exclusively to defense, and its extent will be determined by the practice of expending not more than 1 percent of the GNP for equipping this force. (As we embark upon the era of the 200-mile limit for exploitation of the seas, it will be necessary to bolster our naval forces in the near future and strengthen our anti-submarine capability.)

If a consensus can be effectively created by the reformist parties, or all of the current minority parties, on the basis of these proposals, it will be possible for a new government to support a forward-looking policy vis-à-vis Southeast Asia. And I believe it will be possible even should the "reversal of conservative and reformist power" or the "reversal of minority and majority party power" predicted by political analysts, occur in the not too distant future.

This is my pious hope. I wonder if it is too much to ask.

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TOWARD A REORIENTATION OF ASIAN POLICY:
THE "FUKUDA DOCTRINE" AND JAPAN-U.S. COOPERATION

by

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Manila was the last stop on Prime Minister Takeo Fukuda's tour of Southeast Asia, and it was there on 17 August that he delivered his noteworthy speech on Japan's policy toward that region. Japanese news media have billed the event as an epoch-making unveiling of what they call the "Fukuda Doctrine," finding deep significance in the very fact that such a speech was made. While I would not go so far as to call the contents of the Manila address a "doctrine," it is certainly the first time since World War II that a Japanese prime minister has made such a systematic presentation of views on relations with Southeast Asia.

The main points of the speech were as follows: 1) Japan is committed to peace and the role of an economic power; it will not become a military power. 2) As "an especially close friend" of ASEAN [Association of Southeast Asian Nations], Japan will cooperate in efforts to strengthen the solidarity of that organization. 3) Japan will emphasize "heart to heart" contacts, building stronger ties as an equal partner not only economically, but in the social, political, and cultural realms as well. 4) Japan will forge particularly close economic and trade relations with the countries of Southeast Asia, continue to deal with them in the context of the world economy. 5) Japan also will attempt to foster relations based on mutual understanding with the nations of Indochina. Prime Minister Fukuda phrased these points as the "pillars" of Japan's Southeast Asian policy.

No doubt the real intentions behind the prime minister's speech will be interpreted variously as time goes on, but my immediate impression is that his approach came out of a compromise between an aggressive Japanese stance advocating active, full-scale involvement in Southeast Asia, and a passive view similar to the Meiji period "dissociation from Asia" thesis, which holds that Japan must avoid deep involvement in that region. Be that as it may, the very

fact that Japan should publicly announce any sort of a "doctrine" at all on this subject is fraught with significance.

A broad historical background underlies these events; the force of its logic has pushed Japan into the center-stage of Asian regional politics, irrespective of the will of the Japanese people. We did not actively seek out Japan's expanding role. In our view, Japan's present position is the inevitable consequence of history.

My objective will be to explore, from the present vantage point immediately following announcement of the "Fukuda Doctrine," the dimensions of several problems, including: In what manner does Japan intend to become involved in Asia in the future? What specific role will Japan seek to play? And, in that connection, what sort of cooperation will be expected from the United States? I am certainly in no position to represent the way of thinking of the Japanese, but in writing this paper I will do my best to convey, for better or for worse, the views typical of my countrymen.

A New Era for Southeast Asia

The Indochina War ended in April 1975. That event concluded a protracted and unhappy historical sequence, and at the same time inaugurated a new "season of diplomacy" in Asia. As the international environment surrounding Japan continues to change rapidly, partially as a result of Japan's own diplomatic participation, it is necessary to reconsider what sort of international order, or disorder, is in the process of construction.

We must begin by assessing the historical significance of the Indochina War for "post-Indochina" Asia. The conflict may in some sense now be relegated to the past. On the other hand, as an international drama that brought into play such tremendous forces and had such a disruptive effect on the Asian regional order, its full historical significance can be judged only over a period of time, as the Asian situation continues to change in the aftermath.

At the present time, it seems to me that the legacy left by the Indochina

War in the course of its twenty to thirty years of development, and especially the active intervention in that conflict by the U.S., can be considered under the following headings. First, as a result of its failure in the Vietnam War, the U.S. was forced to review its policy in Southeast Asia, and Asia as a whole; this, in turn, resulted in the decision to carry out a full-scale withdrawal from the Asian continent. In light of the spectacular degree of military and political involvement since the 1940s and its ideological justifications, that was indeed an epoch-making policy change.

Since that time, the U.S. has changed to a rational policy of "selective response" in Asia, emphasizing relationships with certain key states that are deemed to have "centrality." As noted below, for example, in his December 1975 visit to Asia, President Ford selectively chose to stop only in the Philippines and Indonesia. American policy will probably continue to develop within the framework of the principle of "selective response," but the standards according to which that selectivity is exercised will only become evident over a period of time.

Secondly, the Vietnam War was historically significant in the dual nature of its impact on China. Extremely prominent among the goals projected for the Vietnam War by the U.S. was the containment of China as the epicenter of communism in Asia. Inasmuch as now, after the war, Vietnam and Laos have remained free of Chinese influence, and the Indochinese peninsula as a whole bears few marks of Chinese domination, in effect the American policy of containment may be said to have been successful. On the other hand, we must face the stern reality that the voice of China in international affairs has been strengthened considerably by virtue of the twenty-year American involvement in Vietnam. The recent overtures of the U.S. toward reconciliation with China bear witness to that fact. Through the Indochina conflict, which bore all the markings of a typical people's liberation war, the shadow of China hovered much larger over Southeast Asia. In that sense, for China, the Indochina War may be said to have had a dual impact.

Thirdly, the war was responsible for granting an important role in Southeast Asian international relations to the Soviet Union, a nation which traditionally has had little interest in the region. It was the August 1964 Tonkin Gulf incident that provided an opportunity for the Soviet Union to actively intervene in the Vietnam War. Soviet aid to North Vietnam expanded exponentially in the year or two following Premier Kosygin's February 1965 visit to Hanoi. From 1969 onward, the Soviet Union's call for an "Asian Collective Security System" and the continuation of a bitter Sino-Soviet dispute contributed further weight to its position in Southeast Asian politics.

Fourth is the unfortunate fact that, despite thirty years of international conflict, no nucleus for the formation of a stable and lasting order in Southeast Asia emerged, nor did a stable international system take shape. Despite a long war and the determined intervention of several great powers, Southeast Asian peace must still be kept within an unstable "balance of power" by multiple, competing forces.

The fifth element of significance is that, as a result of the war, the center of gravity of Southeast Asia has shifted from the continent to the peninsular and island nations. As the latter nations have taken on new importance, the international status of the continental countries has fallen proportionately. That is another way of saying that the relative weight of ASEAN, including Indonesia, Malaysia, the Philippines and Singapore, has increased. In effect, as I will explore in detail below, it appears possible that the future Southeast Asian order will be preserved by means of a balance between the ASEAN nations and Indochina. It is also possible that the continental location of Thailand, the only ASEAN nation so situated, will constitute a destabilizing factor.

Sixth, and finally, it is possible to identify two aspects of the war legacy that point in a more optimistic direction. In the first place, Indochina is now for the first time under the stable control of legitimate authorities, and so the possibility that the Indochinese situation may

again touch off international tension on a global scale has faded. Also, American intervention prevented the Indochina War from spreading throughout the region, thereby providing other nations with the temporal, spiritual and economic leeway they needed to begin modernizing. Despite the radical reshuffling of spheres of influence in Indochina, neighboring countries experienced only a temporary shock from which they bounced back psychologically in a comparatively short period of time. If we carry to its logical conclusion what appears to be a mutually reinforcing interaction between the two tendencies, the Southeast Asian region emerges not as a disorderly dispersion of several small states, but as a combination of two loosely organized regional blocs.

When the significance of the Indochina War is seen in terms of the above historical trends, it becomes clear not only that its overall impact on the Asian international order was inestimably great, but also that its actual consequences were quite unexpected in view of what the U.S. believed to be at stake in that conflict. The Vietnam War can be regarded either as a totally wasteful detour in post-World War II history, or as one route to the formation of a desirable order. On balance, however, what is most tragic about the Indochina War is that so few of the necessary conditions for a stable international order in Southeast Asia were provided as a result of all that agony.

It is necessary to point out something else in that regard, however, and that is the ironic possibility that the "loss" of Vietnam may have had more historical significance for Japan than for the U.S. That is to say, no matter how affirmative an attitude the U.S. might display toward nationalism in China and Southeast Asia, America remains essentially passive with regard to the maintenance of order in Asia. Japan, on the other hand, with its important interests in the region, has been driven into taking on major responsibility in the construction of a new order. Moreover, there is a good possibility that the U.S. may decide to assign Japan a central role in its new Asian strategy. I will discuss that possibility in the next section.

As these developments have transpired on the great-power level, the countries of Southeast Asia have been thrown into a new situation psychologically and are earnestly groping for a new status quo. It is in those circumstances that the Southeast Asian problem continues to be important.

In Indochina, the union of North and South Vietnam took place at a faster pace than had been expected. A political conference between representatives of North and South was held in Saigon in November 1975, and by the time the February 1976 ASEAN summit conference took place, the line at the 17th parallel was already being erased. On 25 April, joint elections were held, and in June the first unified parliament convened. As Hanoi became the "capital" for South Vietnam as well, arrangements for unification of Vietnam were largely complete. In Laos and Cambodia, too, liberation governments were striving through various difficulties to bring their countries under control, and were making concrete gains toward that end. Indochina now had reached the stage of a loosely united socialist bloc of nations. The tragedy of divided peoples had ended, and a determined search for indigenous forms of socialism based on agriculture had begun.

Steady efforts to adjust to new realities are also underway in the region encompassed by ASEAN. The various ASEAN states are developing a new awareness of the problems they face with at least three different emphases, depending upon each particular situation. These include moves away from reliance upon one particular power for security guarantees, and a shift from exclusive reliance on military might to a more flexible approach to security, as well as cementing a multilateral framework of regionalism transcending bilateral diplomacy.

Let us briefly examine these trends more closely. Following Malaysia's 1974 example, the Philippines and Thailand established diplomatic ties with China in June and July of 1975, respectively, and in the process, they by and large accepted the treaty provision advanced by China opposing the exercise of hegemony by any power in Asia. Rather than what is usually thought of as "leaning toward China," however, these actions constituted no more than a natural

movement away from the past . tendency to rely exclusively on relations with the U.S. The Philippines carried that tendency one step further by establishing relations with the Soviet Union following a visit to Moscow by President Marcos in May of 1976.

Thailand entered into negotiations with the U.S. in order to secure administrative control over American military bases, and after brushing aside American resistance, especially with regard to the intelligence collection base at Ramasoon, the Thais succeeded in securing whay they have long dreamed of, the virtually complete reversion of U.S. bases. This, too, was from the Thai viewpoint an integral part of efforts to divest themselves of outdated coldwar-type arrangements.

Finally, as I will explain in more detail below, the attempts to forge a stronger and more viable organization which began in ASEAN in response to the rapid turnabout in the Indochinese situation constitute another important aspect of the adjustment on the part of these countries to new realities.

Altogether, these trends indicate a vigorous search for principles around which a new order can be constructed, a search that has emerged with full force out of the confusion following the "loss" of Indochina. By and large the measures that have been adopted are all fully appropriate policy adjustments conducive to the stabilization of the Southeast Asian region.

New Implications for Japan-U.S. Cooperation

As the relative importance of Southeast Asia in U.S. foreign policy seems to have dropped virtually to zero in the wake of historical developments, its importance for Japan has increased proportionately. This turnabout will no doubt pose new questions and problems to be worked out in the context of the Japan-U.S. relationship. The psychological impact on Japan has been subtle but profound. It has been somewhat of a revelation for the Japanese to discover that there is a region from which the U.S. can withdraw at will, but Japan cannot.

The end of the Vietnam War entailed no reduction at all in the relative weight of Southeast Asia in Japanese foreign-relations priorities. While this came as a surprise to many, it was, in a way, only natural. As always, for a number of reasons, Southeast Asia remains central to Asian international relations.

In the first place, while it seemed momentarily that the U.S. had washed its hands of Asia, it soon became clear that complete abandonment of Southeast Asia was not being contemplated. The "New Pacific Doctrine," elucidated by President Ford in Hawaii on his return from a December 1975 China visit, with stopovers in the Philippines and Malaysia, formally indicated the American intention to continue a form of Southeast Asian policy within a framework of the principle of selective response. The announcement of that doctrine gave a psychological boost to those who harbored apprehensions about what seemed to be an American abandonment of the region and in the process stabilized a certain dimension of the Asian situation. Since then, while it may be little more than lip service, the U.S. has moved toward substantive acknowledgment of ASEAN. The Americans have also made diplomatic contact with the new regime in Vietnam. These are laudable efforts from the Japanese point of view. It is still highly uncertain whether Japan is capable of pursuing an independent policy in Southeast Asia, particularly if the U.S. loses all interest, but as the above events indicate, American involvement has so far been maintained at a satisfactory level.

Secondly, post-Indochina Southeast Asia has provided an arena for unbridled competitive intervention on the part of the Soviet Union and China in response to what they perceive as a regional "power vacuum." This has sustained Southeast Asia's diplomatic importance in a new context. The Sino-Soviet dispute is being acted out not only in Indochina but in the ASEAN region as well, and with considerable ardor. Ironically, this fact alone has tended to stem any decline in the attention centered on the region.

Third, having engaged the U.S. in war and come out on top, Vietnam has rapidly attained the position of the foremost military power in the region.

Given its peculiar brand of political ideology, there seems to be the possibility, at least in terms of international images, that it could again become a threat to neighboring states. The Vietnamese government has also maintained a relative inclination toward the Soviet Union, as is evident in the recent heightening of tension between Vietnam and China over the Paracel and Spratly islands. That inclination, in turn, introduces a new element into great power relations. It is impossible now to speak of stability in Asia without taking Vietnam into account, and that constitutes a new and decisive factor in the continued international importance of the Southeast Asian region.

Fourth, we must not forget Japan's own Asian diplomacy. Following the normalization of relations with China in September 1972, Japan has continued, especially in Asia, to strengthen its so-called independent diplomacy. Relations were successfully established with North Vietnam in September of 1973 and by capitalizing on such events as the Shōsei-Maru incident, Japan has also made contacts with North Korea that augur well for the future. Japan's Asian diplomacy has been remarkably successful, moving ahead of the U.S. on all fronts. The independent diplomatic stance first emerged with the reversion of Okinawa to Japanese control. The question of why it has achieved such successes only in Asia is a promising topic for further research, but at any rate, it is hardly surprising that the rationale for an independent diplomacy developed parallel with a stronger sense of responsibility toward the Southeast Asian region. Certainly the Japanese are not immune to the belief that areas important for them also have global strategic significance; and the region of Southeast Asia, through which passes 80% of Japan's oil imports and 40% of its total trade, is indeed vitally important for this country. It is undeniable, however, that we **have been** slow to recognize that fact.

It appears that the "joint communique" issued at the close of Prime Minister Fukuda's meeting with President Carter during his March visit to Washington drew different reactions in the two countries concerned. Particularly paragraph five, the longest element, attracted far more serious public

attention in Japan than in the U.S. That paragraph included the confirmation that both the U.S. and Japan are "prepared to continue providing cooperation and assistance in support of the efforts of the ASEAN countries toward regional cohesion and development." In Japan, this provision was interpreted as public admission that American responsibility in Southeast Asia had been transferred onto the shoulders of Japan. It is unclear whether this interpretation is merely over-cynical, or eminently realistic. The concern for Southeast Asian affairs now evinced by the U.S. is very modest compared to the zeal shown by Japan. Moreover, there is very little evidence that the Japanese government has made active efforts to bolster American concern. It appears, in other words, that in the same manner as Europe has Africa, and the U.S. has Latin America, Japan is presently acquiring its own "hinterland" in Southeast Asia.

Japan is now at the point where it must decide whether to be content with that situation or make renewed efforts to resist the tide of history. It seems, however, that the inability of Japanese to fully comprehend the overall schema of American Asian policy is causing considerable irritation. Let us turn to an analysis of present Japanese images of U.S. policy toward Asia.

Two of the many policies announced by President Carter around the time of his inauguration drew particularly keen attention in Japan: the general matter of "human-rights diplomacy" and the problem of withdrawing American forces from South Korea. "Human-rights diplomacy" has been seen in Japan as a strategy concerned primarily with the Soviet Union, one that is likely to be quite effective against that nation and the Eastern European bloc. But it is further believed that the U.S. has been forced to play this important trump card because of an unfavorable military balance vis-à-vis the Soviet Union. President Carter also seems preoccupied with the Soviet problem and insufficiently concerned about the impact that policy may exert in the developing regions of Asia. So, whereas on the one hand the effectiveness of "human-rights diplomacy" is given due recognition, it is impossible for Japan as an Asian nation to grant that policy unreserved support.

Regarding the withdrawal of American troops from South Korea, however, Japan's response is typical of cases in which regional military balances are upset. In other words, the Japanese approach to military issues, even those which directly affect Japanese security, is to pose as an uninvolved bystander. It was this propensity that was reflected in Prime Minister Fukuda's dismissal of troop withdrawals as "fundamentally a bilateral issue between the U.S. and the Republic of Korea." At the same time, Japanese public opinion has become accustomed to thinking of Japan's security in terms of reliance on other powers, and tends to welcome unconditionally any arrangement that promises to maintain a military balance in the area. Therefore, a negative reaction arose automatically against recent American moves with regard to the Korean peninsula.

It is also true that anything approaching free and open debate on the issue of troop withdrawals is inhibited by the very fact that it is not just a military problem, but a Korean one as well. Public discussion on such issues is muted and never adequately penetrating. It is therefore impossible to expect a consensus to emerge. That being the case, it is all too easy for Japanese attitudes on the question to be taken by the American public as irresponsible and irrational. It is necessary to point out, however, that most Japanese are seriously concerned by what they discern to be a lack of clarity with regard to how and why American troops are being withdrawn from the Korean peninsula.

One can also detect a deeply-rooted feeling that President Carter and those around him are oblivious to Asia and also insensitive to what is happening there. That is not incomprehensible if seen as an aspect of the psychological aftereffects of the Vietnam War. At any rate, Japanese continue to believe that in principle the U.S. is proceeding apace to withdraw from Asia. More exactly, Japanese generally feel that American policy in Asia is limited completely to the big-power level of relations among the Soviet Union, China and Japan, to the exclusion of active concern for more mundane affairs. One even hears the pathetic lament that it will be extremely difficult for Japan and the U.S.

to cooperate in making a contribution to any processes transpiring in Asia below that level, such as economic development. Be that as it may, what most Japanese want from the Carter administration is some clearer statements outlining its vision of the future with regard to Asian policy. Dissatisfaction is rising in Japan over what seems to be the American government's tendency to make important policy decision affecting Japan without adequately explaining essential points.

Japanese are also seriously concerned about the normalization of U.S.-China relations. From the standpoint of Japan's policy of maintaining equal diplomatic distance from China and the Soviet Union, the American failure to enter into extremely close relations with China has not been unwelcome. Yet, the recent rise of anti-Soviet sentiment in Japan has paralleled American moves toward closer ties with China and other events such as rehabilitation of Teng Hsiao-p'ing, and against that background one is beginning to hear new diplomatic possibilities, including the scenario of "collusion among Japan, the U.S. and China." Public opinion is split in this regard, with one side advancing the view that amicable relations with the Soviet Union should be stressed despite that country's recent toughness in negotiations with Japan, and the other espousing cooperation with the U.S. in approaching China and restraining the Soviet Union.

With regard to the Sino-Soviet split, most feel that the U.S. is interested in keeping the dispute going, and will employ all possible diplomatic means to maintain it. Based on that assumption, it is not surprising that some are apprehensive that Japan may be used as a diplomatic pawn in such an effort. At any rate, under circumstances in which the American anti-Soviet trend has become increasingly apparent under President Carter, these trends confront Japan with another perplexing matter to be dealt with in the context of China policy. For that reason, too, the impetus in Japan toward a dialogue with present-day America is strong. In what manner and under what circumstances does the U.S. consider itself a Pacific power? The Japanese people are greatly

troubled by this question, and we should strive to dissolve their fears as soon as possible.

Japan's Policy Toward Southeast Asia

Japan's recent demarche in the realm of Southeast Asian policy was not necessarily a response to American desires. Rather, it resulted from the convergence of a number of historical circumstances. Japan's foreign policy line began to change in 1973 when preparations were being made for former Prime Minister Tanaka's January 1974 visit to the ASEAN nations. Hence it is evident that even before the conclusion of the Vietnam War, the Japanese government had begun to anticipate the course of history. In fact, negotiations toward the establishment of diplomatic relations were initiated at about that time with the Hanoi government. That burst of "independent diplomacy" was further reinforced by the oil shock that descended upon the world in the autumn of 1973. Following that event, Tanaka's visit to Southeast Asia provided an occasion for the people of that region, who had lost all hope for the future, to retaliate bitterly against a Japan they perceived as interested only in a flashy brand of resource diplomacy. Rather than dampening Japan's concern for that region, however, the riots that greeted Tanaka in Djakarta served to encourage a stance that was more refined and receptive than ever before.

The fall of Vietnam in April of 1975 precipitated an overall reassessment of the conditions under which Japan could enjoy greater freedom of action. Hence that event confirmed and reinforced an approach that had already begun to emerge -- an independent search for "freedom of action" instead of total reliance on an international order constructed by the U.S.

The final and decisive element in the development of an active Japanese policy toward Southeast Asia was the first ASEAN summit conference of February 1976. That conference created a situation in which Japan, regardless of past difficulties, had to have an articulate policy toward ASEAN. Japanese understood the historical significance of the first ASEAN summit conference

in a dual sense. In the first place, the meeting "legitimized" the ASEAN organization itself and the efforts it had made up to that time. Secondly, by giving concrete substance to ASEAN as a regionalist bloc, the conference granted credibility to the view that Southeast Asia would divide into two opposing camps.

In addition, Japan was forced to take another look at not only the ASEAN nations but the other nations of the area, including the three Indochinese nations and Burma. In effect, Japan began to formulate a systematic approach to the Southeast Asian region as a whole.

ASEAN itself began to make great strides following the February 1976 summit conference. Several points should be noted as characteristic of the changes that organization has experienced in the past year or so. In the first place, its member nations have recovered from the psychological shock occasioned by the fall of Vietnam, and have developed the confidence to preserve a system that is different from that adopted by the Indochinese nations. Secondly, ASEAN has increasingly become an economic as opposed to a political entity. Prior to the summit conference, and partially as a result of the Vietnam War, ASEAN had often spoken out in a political vein, advancing concepts of neutrality, and so on. Since last February, however, concern for trade has been increasingly conspicuous. Henceforth it is desirable when discussing issues relating to ASEAN to treat it as primarily concerned with policy.

Thirdly, the ASEAN countries now have greater expectations with regard to Japan. Behind this development is the increasing clarity of the American departure from Asia under the Carter administration, and the earnest pleas for Japanese participation and know-how from the ASEAN countries as they embark on industrialization projects. Nevertheless, the change in attitude since the visit of former Prime Minister Kakuei Tanaka three years ago is a very welcome development from the Japanese point of view. Of course, Japan has not completed its formulation of systematic policy toward Southeast Asia. The decision has been made, however, that Japan should respond actively to the

changes that have taken place within the region. There remains a sharp divergence of views among Japanese on the subject of Southeast Asian policy, but in fact Japan's postwar Asian policy has never been based on a national consensus. Anyway, the time certainly has come for Japan to do something positive with regard to that region.

Prime Minister Fukuda's recent tour of Southeast Asia, and the "Fukuda Doctrine" he presented in Manila, reflect in concentrated form the changes that have taken place in Japanese attitudes toward Southeast Asia. Japan first sought to respond idealistically and philosophically to the new Southeast Asia, taking up concrete policy alternatives only secondarily. The "philosophy of accommodation" which Japan currently has in mind is composed of various elements. The following list might seem somewhat visionary, but its components can all be found in the 7 August "Japan-ASEAN Joint Communiqué."

First, ASEAN will have to be seen in a global context. It must be considered as one element in Japan's overall policy approach to relations with developing nations, or the north-south problem. Last year's UNCTAD convention provided an opportunity for ASEAN economic policy to be integrated with the philosophy of a new international economic order. That organization's approach to the issue of a common fund for primary products is particularly forceful. Nine of the ten "hard core items" included therein are relevant to the ASEAN countries, and a couple of them, copper and rubber, are for ASEAN alone. Hence it is certainly understandable that ASEAN has become avidly concerned with the north-south problem.

Secondly, vast changes have taken place in the expectations levied on Japan by the Southeast Asian nations, and Japan finds it necessary to be receptive. The common demands of all ASEAN countries may be listed as follows, with the emphasis on the first three: 1) Cooperate in joint ASEAN industrialization projects. 2) Provide access to the Japanese market for ASEAN products, both primary and manufactured. 3) Introduce an export indemnity system in order to stabilize the prices of primary products. 4) Give favorable treatment with regard to accumulated debts. 5) Provide access to the capital market for

Southeast Asian nations.

When economic relations between Japan and ASEAN are considered in context of the new stance of that organization, and especially when the Japanese and ASEAN standpoints are juxtaposed against one another, what might be called a "perspective gap" rises in bold relief. An important aspect of that gap, of course, is the spectacular size of the Japanese economy in comparison with the ASEAN countries. From the perspective of Japan, they are of relatively little consequence but, conversely, from the viewpoint of the ASEAN nations, Japan is of critical importance, particularly with regard to Southeast Asian products and industry. Trade figures provide an apt illustration of this disparity. ASEAN nations account for about 10 percent of total Japanese imports and exports, 15 percent of resource imports, and 20 percent of private investment. From the ASEAN side, however, Japan absorbs 30 percent of the total import and export trade that ASEAN nations carry on with many different countries, and 100 percent of specific export-oriented resources.

A second important aspect of the "perspective gap" has to do with Japanese preconceptions. When expansion of trade between Japan and the ASEAN nations is considered as a way to respond to charges concerning excess exports and one-sided trade, the assumption has tended to be that if Japan cooperates in the development of natural resources for later importation, the trade imbalances will be rectified. However, the error of this preconception has finally been realized. Japan already maintains an unfavorable trade balance with resource-exporting countries such as Indonesia and Malaysia, and so when development and import of resources is further accelerated the result in the case of those countries is merely to heighten the excess of their exports to Japan over imports. Conversely, Japan then tends to compensate by further exacerbating its favorable trade balance vis-à-vis those nations in the region that lack resources. Japan must remain sensitive to the difference between those ASEAN nations which have resources and those which do not, and carefully consider economic cooperation and aid policy toward them with that distinction in mind.

Thirdly, in the interest of peace and stability in the Southeast Asian region, relations of peaceful coexistence must be established between the ASEAN nations and the countries of Indochina, despite accumulated antagonism and their differing political and social systems. At the present time, Indochina is still quite hostile toward ASEAN. The establishment of peaceful relations between the two blocs would not only play an extremely significant role in the maintenance of stability in the region, but it would also affect the degree of independence the three Indochinese nations are able to manifest in their relations with the Soviet Union and China. Peace is eminently desirable as an impetus toward a healthy degree of autonomy in the region as a whole. Japan has a useful function in that regard by utilizing every available opportunity to convey the peaceful intentions of the ASEAN countries to the Indochinese side. It can also keep ASEAN apprised of the true intentions and inward-looking tendencies of the Indochinese nations, thereby allaying needless tension in both blocs.

It is likely that Japan will face a number of collateral problems in the process of acting out the role of facilitator in bringing about a new, "open" Southeast Asia. Aside from domestic public opinion, Japan's diplomacy could be upset by unpredictable factors such as political instability in the region, developments in the Sino-Soviet dispute, and so on. Among those factors also is the direction that American diplomatic interests will take in Southeast Asia. That factor has a direct bearing on the conditions for Japan's "freedom of action," and we must continue to watch closely. Of particular concern is the American approach to the three nations of Indochina. Japan must continue to call upon the U.S. to play a constructive role throughout Southeast Asia.

Frankly speaking, Japan would unconditionally welcome the development of a more intimate dialogue between Washington and Hanoi. The first step toward a constructive role for the U.S. in Southeast Asia must be the establishment of stable relations with the U.S. government. One hopes that the U.S.

will become a little more sensitive to historical change.

Japan and the U.S. must achieve a common understanding with regard to Southeast Asia. In my view that understanding should incorporate the following elements. In the first place, the exercise of hegemony by any great power in the region is perceived by the ASEAN and Indochinese nations as inimical to their interests. Secondly, all the nations of Southeast Asia, including those of Indochina, require economic cooperation from the West. Thirdly, while they continue to be under the influence of China and the Soviet Union, the nations of Indochina will most likely escape Sino-Soviet domination, and proceed along independent lines. Further, they will probably become socialist countries with a higher degree of freedom than is evident in the Eastern European bloc. On those points, at least, it should be possible for Japan and the U.S. to agree, and on that basis to follow similar policies with regard to Southeast Asia.

The Role of the U.S. in Japan's Asian Policy

Four major policy issues have emerged in the context of Japan's approach toward Asia: 1) the establishment of an organically integrated strategy toward the Soviet Union and China; 2) the development of scenarios for the long-term stability of the Korean peninsula; 3) the execution of a Southeast Asian policy directed toward the peaceful coexistence between the Indochinese and ASEAN blocs; 4) the development of a uniquely Japanese policy toward the north-south problem in accordance with the philosophy of a new international economic order that emerged from last year's fourth UNCTAD convention.

The first two are matters of concern for not only Japan but the U.S. as well, and they therefore require an intimate exchange of views. Of course our two nations cannot expect to proceed in lock step on these two issues.

Indeed Japanese are very much aware of the differing interests of Japan and the U.S. in certain areas. On the other hand, Japan is concerned lest those conflicting interests give rise to widely divergent policies, and hence Japan will diligently try to provide input to the American policy-making

process in the form of Japanese judgments and desires.

The latter two issues have arisen only recently, and the prime minister's visit to Southeast Asia, climaxing in announcement of the "Fukuda Doctrine," was the first step in an effort to address those issues with full attention to their close interrelationship. Japan is still a neophyte at this sort of diplomacy, but is seriously trying to make concrete progress.

Of course, no one contemplates developing a policy that would totally take the place of the U.S. Japan will modestly seek to use its economic cooperation as a supplement to American naval power, thereby bolstering the overall "resiliency" of the region. Japanese are aware that the clumsiness of their earlier forays into Southeast Asia has thus far made it difficult to establish relationships of complete mutual trust and confidence. That being the case, it would be most unfortunate for Japan if a simplistic notion to the effect that Japan is creating a "hinterland" or a sphere of influence in Southeast Asia should become widespread.

Nonetheless, in the short run Japan will be unable to avoid the image that it has suddenly strengthened its policy with regard to Southeast Asia. The mistaken rumor that Japan is attempting to reactivate the concept of a "Greater East Asian Co-prosperity Sphere" must continually be combatted, even though under present international circumstances it is very difficult to accurately convey Japan's true intentions to other nations.

The fundamental elements of present-day Japanese thinking with regard to foreign affairs are, first, the complete rejection of coldwar-type thought patterns based on the assumption of East-West conflict, and a serious response to the north-south problem as an international economic issue. Second, with regard to situations which are still locked in "coldwar" confrontation, Japan will seek to encourage a dialogue between the parties to conflict, conscientiously maintain relations of equality with all the countries involved, aiming at the early realization of peace formulas. Rather than striving to remain a neutral bystander vis-à-vis all international conflicts, including

the Korean confrontation and the Sino-Soviet dispute, Japan will most likely attempt to deepen its level of interaction with both parties.

Thirdly, as a nation unable to exercise military force as an instrument of diplomacy, Japan will most likely rely increasingly on economic power in that regard. The problem is that previous attempts to convert economic power into effective diplomatic negotiating strength have failed. Japan's ability to unleash a torrent of exports has invited anti-Japanese sentiments, and its patterns of importing also, especially primary goods, have drawn extreme antipathy because of the capricious buying habits of private trading companies. Japan-Australian trade relations provide an excellent example. Japan has not yet succeeded in cultivating strong confidence even in the economic realm.

Broadly speaking, the American image of Japan as irresponsible and lacking in confidence might remain influential for some time to come. There are, however, reasons for Japan's actual lack of confidence and tendency to minimize responsibility. There are still some rules and mechanisms leftover from the Asian international order unilaterally constructed by the U.S. in the years after World War II which Japan has difficulty dealing with. The U.S. does not appreciate the extent to which they affect Japanese policy.

Most likely Japan will continue to refuse unilateral responsibility for any region of Asia. That is not because we wish a "free ride" on the diplomatic efforts of the U.S., but rather because we recognize our own limitations. On the other hand, Japan will no doubt continue to seek out new ways to make a contribution. The many new commitments made by Prime Minister Fukuda during his visit to Southeast Asia exemplify that effort. Japan certainly will continue to develop its "independent diplomacy" in the Asian region.

Nevertheless, we feel we must persuade the U.S. that it is only through Japanese-American harmony and cooperative effort that Japan's Asian policy can be carried out more effectively, for by and large that is indeed the case. Japan urgently hopes that the U.S. will take a close look at the remaining vestiges of the Asian order it constructed, and reflect upon whether it

might still be possible to do something in the interest of peace and stability in the region.

Particularly with regard to Asian policy, Japan and the U.S. are able to play complementary roles, Japan can do what the U.S. cannot and vice versa. The working out of those roles requires a deep, mental effort and an "unremitting dialogue." In other words, both parties must go beyond the "transfer-of-burdens" formula and move to a higher plane of mutual responsibility.

In conclusion, it seems to me that the crisis faced by both Japan and the U.S. is a crisis of leadership. We can only be apprehensive with regard to the instability of the Liberal Democratic party government in Japan and the inward-looking orientation of the American White House. On the other hand, the crisis of leadership in both countries can be viewed as the product of an evolutionary process toward maturity in civil society in general, and in that case it is futile to attempt to reverse the tide. Perhaps the most important thing is that crisis or not, the leaders of both nations honestly strive to maintain their capacity for reasoned judgment in foreign affairs. It seems to me that the future of Asia will largely be determined by the ability of Japanese and American leaders to make political judgments with a high degree of discretion and breadth of vision apart from domestic political considerations.

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