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JAPAN AS AN EMERGING POWER IN THE WORLD ECONOMY

by Hideo Sato

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I. Introduction

The world of today is markedly different from the world of the 1950s and the 1960s. The Cold War, which significantly defined the international relations of the postwar period, has virtually come to an end at Malta. This latest thaw in the Moscow-Washington relationship and the democratization process in Eastern Europe and the Soviet Union have immediately affected political and economic equations in Europe, and they will also have considerable impact on the rest of the world. During the Cold-War era, the United States had an obvious reason to maintain substantial military presence in Europe, Asia and other parts of the world. Moreover, in order to maintain the cohesion of the Western coalition against the Soviet bloc, it had a strong foreign-policy incentive for guaranteeing "free trade for the free world." Now with Gorbachev's perestroika and the democratic changes in the Eastern bloc, the United States may have become less willing to maintain its military commitment overseas and more willing to pick fights with Japan and other traditional allies over bilateral economic issues.

Another important systemic change has to do with the relative decline of the American economic hegemony in the recent past, as reflected in the declining U.S. industrial competitiveness and macro-economic position. In the immediate postwar years the United States enjoyed international competitiveness in practically all domestic industries. But over the years it has lost comparative advantage in an increasing number of them, such as textiles in the 1950s, steel

in the 1960s, household electronics in the mid-1970s, automobiles in the late 1970s, and now even high-technology industries, such as semiconductors and advanced structured materials. In 1955, the share of the U.S. gross national product in the total world GNP was about 40 percent, but it has been reduced to about 23 percent today. Until 1984, the United States had been the world's largest creditor nation. But since then it has turned into the world's largest debtor nation. These are undeniable facts. Under these circumstances, one cannot help assuming that the United States may now be not only less willing, but also less able economically, to bear the cost of maintaining peace and the liberal economic order which has brought about enormous prosperity to Japan and other trading partners.

The way the Bush Administration has been handling the Persian Gulf crisis triggered by the Iraqi invasion of Kuwait in summer 1990 indicates that the United States is still willing to exercise leadership for the sake of restoring peace and justice in a far-away land. Indeed, without the timely and effective American leadership, it might have been impossible to mobilize the multilateral forces in the Gulf under the United Nations auspices for the purpose of enforcing economic sanctions against Iraq. One must remember, however, that the Middle East produces much of oil consumed by the United States (as well as other countries) and therefore it is strategically too important an area to be ignored. One should also note that this time the United States has asked Saudi Arabia, Japan and other rich countries to share the economic cost of maintaining the multilateral forces.

The purpose of this paper is to discuss the possible role of Japan in the changing world. But this subject cannot be effectively dealt with in isolation from the future role of the United States. Will the United States continue to exercise dominant leadership in the world, despite the systemic changes mentioned above? If so, Japan's role will be necessarily minor and will not very much deviate from the passive role it has played so far. Joseph S. Nye argues that the United States still has the basic capacity to lead and that no potential rival has the resources, tangible or intangible, to take up the role the Americans have played in the postwar world. The only question for him is whether or not the Americans have the will to lead.¹ William Zimmerman expresses a similar view more emphatically. Now that the Soviet Union is no longer qualified to be a superpower, he contends that "only the United States has the blend of military resources, economic capability, and the less tangible elements that make for effective political power internationally that makes for superpower status." As in arithmetic, he says "two minus one equals one" in world politics.²

On the other hand, if the United States is to substantially scale down its role hereafter, as suggested by Paul Kennedy and others, then Japan will have to play a much more significant role than before, as the world's second largest economic power. In any case, we need to ask where the world is heading and where it should head in terms of leadership structure before discussing specific tasks for Japan.

II. Four Scenarios for the World Economy

1. Pax Americana To Be Restored

Many Americans naturally hope to restore Pax Americana as they saw it from the immediate postwar years to the first half of the 1960s. This desire is often reflected in the statements of those American officials who call for a "strong America." One may rightly argue that Pax Americana is still intact, particularly in the military arena, but its economic costs are outrunning America's means precisely because of the relative decline of the U.S. economic power. The key question here is how effectively the United States can reduce its trade and budget deficits and restore industrial competitiveness. But the record so far has not been impressive. "It is not yet clear," as Ezra Vogel said a few years ago, "that America has the political will to overcome the decades of complacency that stemmed from the unique period following World War II, when, as the only major power not severely damaged, it could succeed economically without special efforts."³ In a similar vein, Alice Rivlin of the Brookings Institution says that it may be no longer possible to restore the unusually advantageous circumstances which the United States enjoyed at the end of the Second World War, and that hereafter "winning" for the United States should mean "advancing together" with other major countries through expansion of trade.⁴ For these people, the question is not how to restore the American hegemony, but rather how to prevent further decline.

2. Pax Nipponica

What is said above notwithstanding, few would disagree with Nye's observation that no country has become large and powerful enough to replace the United States as hegemonic power. It is true that Japan's relative position in the world economy has steadily improved and that Japan is now the world's largest creditor and largest aid donor. Japan's trade surplus in 1986 amounted to 4.7 percent of its GNP. Even during the heyday of Pax Britannica in the nineteenth century, Great Britain's trade surplus was 3.8 percent of its GNP, and America's largest trade surplus after the Second World War was 4.0 percent of the GNP. Nevertheless, Japan's GNP is still roughly three fifths of the American GNP and its trade surplus has been gradually decreasing since the peak of 1986. Besides, the Japanese economy is basically a "fragile blossom," as Zbigniew Brzezinski once noted.

Here some discussion of the concepts of sensitivity and vulnerability in international economic interdependence may be in order. Sensitivity involves degrees of responsiveness within a given policy framework, and means "liability to costly effects imposed from outside before policies are altered to try to change the situation." On the other hand, vulnerability can be defined as "an actor's liability to suffer costs imposed by external events even after policies have been altered."⁵ If one state could shift to domestic and other sources at moderate cost, and the other state had no such alternative, the latter would be more vulnerable than

the former. Within the framework of free trade, America's sensitivity is greater than Japan's sensitivity in the bilateral trade relationship because Japanese industries are generally more competitive than American counterparts.

However, Japan's vulnerability is much greater than American's vulnerability because any major disruption of the bilateral trade would be not only more costly to Japan but also would make it more difficult for Japan to find alternative markets for manufactured products and alternative suppliers of raw materials and agricultural products. Most of the manufactured products being imported from Japan by the United States could be produced by American companies at home. The United States is much less dependent on the Japanese market for its raw materials and agricultural commodities than Japan is on the American supply of these goods. Hence, the United States can significantly lower its sensitivity and increase Japan's sensitivity by changing its basic trade policy from support for free trade to protectionism. Japan has vulnerability in the monetary area as well. Since Japan's reserves are mostly in American dollars, the actual value of such assets could be drastically reduced in the event of a major dollar depreciation(though this kind of vulnerability could be gradually reduced in the long run, as discussed later).

For these reasons, the establishment of Pax Nipponica would not be a realistic possibility, even if the United States and other countries should let it happen, which would be very unlikely in view of Japan's "mercantilistic" image overseas. Fortunately, no serious opinion leaders in Japan advocate this particular scenario.

One can also think of a scenario of United Europe or United Germany exercising the necessary world leadership. For one thing, the combined GNP of the European Community members alone is already larger than the American GNP. But Europe will be long preoccupied with the problem of integration and United Europe, if achieved in the foreseeable future, would still lack the cohesion and coherence in policy-making required of a hegemonic leader. United Germany, which emerged on October 3 this year, would have to tackle serious internal economic and social problems for some time to come. Besides, it is unlikely for Germany to come to exercise dominant leadership divorced from the context of the European Community.

3. Competing Economic Blocs?

If major economic powers in the world cannot cooperate with one another in sustaining an open international economic system, they might end up establishing regional economic hegemony by creating their own exclusive economic blocs, as we saw in the 1930s.

In summer 1987, the European Community decided to enact the so-called "Single European Act," stipulating the creation of a unified market within the Community by the end of 1992. In early October, 1987, two years after the free trade pact with Israel went into effect, the United States concluded an even more far-reaching agreement with Canada. It called for phasing out tariffs in 10 years and reducing barriers in services, agriculture, energy, high technology and investment. Now the United States is in the process of concluding a similar free trade agreement with Mexico. Canada is the United States' largest trading partner, and the United States is Mexico's largest customer. Some American officials even talk about establishing a "North American common market."

In late 1989, Japan's monthly trade with Asia surpassed its trade with the United States for the first time in modern history; Japanese trade with the new industrial countries in the region is now firmly above its trade with the European Community. "After a decade of strategic investments," writes an American reporter, "Japan is moving to a new dimension of dominance over the booming new markets of East Asia, with its U.S. and European rivals hardly anywhere in sight."⁶

One wonders if these recent developments indicate that the world is actually moving in the direction of competing economic blocs, away from the multilateral free trading system. One could argue that an enlarged integrated market would mean greater self-sufficiency and the countries involved might

develop an incentive to discriminate against countries outside the market. A good example here is the European Community's Common Agricultural Policy(CAP) with its system of variable import levies. There is a danger that the fully integrated European market after 1992 might introduce similar arrangements in non-agricultural sectors as well. Hence, some people talk of "Fortress Europe" after 1992. The Canada-U.S. Free Trade Agreement could also be considered as a prelude to a united and more protectionist North America. For instance, one of Canada's major objectives in concluding the free trade agreement with its southern neighbor was apparently to avoid getting hurt by a new source of protectionism in the United States.

On the other hand, the free trade agreement between Canada and the United States might have just the opposite effect. The agreement, put into effect in early 1989, could become a model and a building block for a viable multilateral free trade system. According to a Canadian government document, the agreement "reflects the commitment of both governments to liberalize trade on a global basis through the Multilateral Trade Negotiations under the General Agreement on Tariffs and Trade." While lowering trade barriers between Canada and the United States, the agreement "will not raise barriers to other countries," and "third countries will continue to enjoy MFN(most-favored-nation) access to both markets." In return for secured and expanded access to the U.S. market, Canada must open up its market to additional competition, resulting "in a strengthened and more competitive Canadian economy with an increasingly valuable and affluent market," providing "increased opportunities for other trading partners." It is still too

early to correctly evaluate the results of the agreement, but reactions outside North America have not been particularly negative.

In addition to what is suggested above, one can also point out that a more integrated North American or European market would mean that third countries might develop a stronger incentive to invest there, if only to bypass trade protectionism, and such increasing foreign investment in North America or in the European Community might end up expanding trade as well. In fact, Japanese investment in both North America and Europe, as well as in East Asia, has been sharply increasing in recent years. Consequently, it is difficult to conclude that the world is moving in the direction of competing economic blocs simply because of the latest developments in North America, Europe and East Asia. And one can realistically think of the formation of non-exclusive blocs within the basic framework of multilateral free trade.

At the same time, given the weakening role of the GATT in maintaining free trade over the last couple of decades, one cannot entirely discard the scenario of competing economic blocs. It is true that the GATT has been instrumental in lowering the average tariff rate for manufactured products from about 40 percent in the immediate postwar period to 5 percent today, as well as in expanding global trade from \$61 billion in 1950 to \$2 trillion in 1984. But one sees an increasing number of measures which ignore or bypass GATT rules. Managed trade divorced from the GATT's control is becoming prevalent and so-called "voluntary restraint" agreements between importing and exporting countries

are increasing in number. For instance, four out of the ten largest traded products in the world (automobiles, steel, textiles and apparel) are under managed trade, largely in the form of voluntary export-restraint agreements. About 100 signatory nations conduct 80 percent of world trade, but only about 20 percent of total is conducted under the GATT rules. This reflects the frustration on the part of trading nations with the GATT's inability to control protectionist waves and to resolve trade disputes. The resolution adopted by the GATT Ministerial Conference held in November, 1982, stated that "the multilateral trading system is facing a serious crisis." Much had been expected of the Uruguay Round, the eighth round of multilateral trade negotiations which started in Punta Dela Este in 1986. Unfortunately, the talks ended in failure in early December, 1990, unable to reach agreement on a global free trade accord, mainly because of a bitter fight between the United States and the European Community over farm subsidies. It is an open question whether the talks will be able to get back on track in early 1991.

4. A Joint Leadership System

If we find none of the three options - the restoration of Pax Americana, Pax Nipponica, and competing economic blocs - feasible or desirable, then what other scenario is there for the future in terms of world leadership structure, particularly in the politico-economic arena? To the extent that the United States is no longer sufficiently willing and able to bear the cost of maintaining a stable international economic and political order by itself alone, we may have to depend on a system

of plural leadership by major economic powers, with the United States retaining its relative dominance. In this situation the United States would be primus inter pares (first among equals) and that would mean the least departure from the status quo. Japan would be a core member of this joint leadership system, along with other advanced industrialized countries which could basically overlap with the membership of the current seven-nation summit.

Similar ideas have been expressed by various people.

C. Fred Bergsten has called for a "Big-Three Steering Committee" for the world economy, involving the United States, Japan, and Europe.⁸ Stanley Hoffmann advocates "a deal to redistribute power - now still largely in the hands of the United States - among the main actors in the international financial and economic organizations, the United States, Japan, and the European Community."⁹ Robert Kuttner has also suggested:¹⁰

In some respects, a U.S.-dominated grand alliance was simpler and stabler than a plural system. But, for better or worse, a plural system is where we are headed. America cannot afford to "bear any burden, pay any price" to defend liberty and safeguard its interests - at least not single-handedly. Rather than going broke resisting that reality, the United States should seize the moment and work to build a stable, plural world order.

In any case, once important policymakers in key countries came to embrace this joint leadership scenario and have a common vision of the world they hope to help build together, they would

be in a better position to manage specific economic issues more cooperatively than before. But the shift from the American hegemony to the joint leadership system would not necessarily be easy. First of all, the United States would need to part company with its hegemonic mentality and refrain from projecting its own policy framework as "universal." It would also need to closely consult and coordinate its views with key countries in the making of decisions that concern them and the rest of the world. In recent years the United States has had a tendency to ask Japan and the European Community for greater burden sharing in different policy areas. But "to get burden sharing Washington will have to accept power sharing," and this means "a louder voice for the new economic superpowers in the councils of the world's major organizations - and an end to the American twin roles of master strategist and paymaster."¹¹ Sadako Ogata provides an incisive analysis of power relations in multilateral development banks in the 1980s and underscores the point that the United States policy to reduce its financial support for the banks, while determined to retain its power, greatly complicated the negotiating process.¹² Of course, those members of the joint leadership system other than the United States would need to be more willing to share burdens and responsibilities for the sake of global collective goods by making necessary policy changes despite possible domestic opposition.

How strong has been the actual movement in the direction of the joint leadership? It is true that we have seen growing conscious efforts to coordinate economic and other policies among

the trilateral countries of Western Europe, North America and Japan. Most visible among them is the summit conference of seven industrialized nations plus the European Commission that has been held annually for the past sixteen years. While the summit has not resolved substantively difficult issues, it still remains an important forum for top-level policy coordination. It is worthy to note that the latest summit held in Houston , Texas in summer 1990 paid substantial attention to such new issues as global warming and economic assistance to the Soviet Union and Eastern Europe. Needless to say, there has been an increasing number of bilateral and multilateral forums at ministerial and working levels to exchange views and coordinate trade and monetary policies. As seen in the efforts of G-2, G-5, and G-7, industrialized countries have been trying to stabilize currency exchange rates, and the Louvre accord of February 1987, however ineffective it may have been, was one such serious attempt. Hence, one could say that there has been some tangible movement toward a joint leadership system.

Unfortunately, there have been centrifugal forces working as well. The United States and the European Community have been frequently in conflict over agricultural trade and subsidy policies. The European Community and its member countries have been wrangling with Japan over their bilateral trade deficits and access to the Japanese market; they have often imposed outright restrictions on Japanese imports. But, trade conflicts between the United States and Japan have been particularly

bitter and acrimonious since 1985. Of late, bilateral tensions have gone up over the Japanese aid package for the Gulf crisis, which Washington has considered "too little, too late." All this means that we need to step up deliberate efforts to pave the way for a viable joint leadership system. What then will be the role of Japan in this important endeavor?

III. The Role of Japan as a "Trading State"

According to David Rapkin, Japan suffers from a "legitimacy deficit" overseas, which may impair Japanese efforts in exercising international leadership, and sources of this problem include "the legacy of militarism and colonialism, a mercantilistic reputation; and disbelief that Japan can articulate universalizable norms, values, and principles."¹³

The lack of universalizable values and principles would not necessarily be a handicap for Japan in exercising leadership as one of the key countries. Besides, Japan already shares such fundamental values as freedom, democracy, and human rights with the United States, Western Europe and other civilized countries.

Japan's militaristic legacy certainly constrains its relations with the neighboring Asian countries, and any Japanese regional initiative tends to look suspect in the eyes of these

countries. Naturally, they are wary of increasing Japanese economic influence in the region, and some even wonder if Japan is again attempting to build the Greater East Asia Co-Prosperity Sphere, its master plan to control the region during the 15 years it spent at war with Asia and the Western allies. Although Japan allocates only about one percent of its gross national product to defense, its economy is so large that spending on the armed forces ranks third in the world, behind the United States and the Soviet Union. This factor and the memory of Japan's military aggression in the past seem to contribute to the Asian perception of Japan as a potential security threat.¹⁴

A strong aversion to militarism and anything military has been internalized in the minds of many Japanese themselves in reaction to the tight thought control by the pre-war military regime, as well as to the scourge of war itself. This is why the Kaifu government has been reluctant to send even unarmed personnel of the Japanese Self-Defense Force to the Persian Gulf for fear of creating a precedent for bypassing the long-held Japanese policy of not sending military units abroad. In any case, it will be essential for Japan to face up to the dark side of Japanese modern history and sincerely demonstrate its repentant attitude in public education and in public speeches by its politicians and officials, in order to win trust and respect from its Asian neighbors.¹⁵ And Japan's contributions to the world would have to be basically

non-military in nature. In fact, this would be perfectly in tune with the dictate of the changing world because, as Richard H. Solomon put it in a recent address, "We now face a future in which technological and commercial capabilities more than military strength are the significant determinants of state power and influence." "National security," he said, "is ever more reckoned in terms of economic and environmental concerns."¹⁶ In short, what Richard Rosecrance calls "the military-political world" is giving way to "the trading world," and thus Japan would be able to provide a potentially useful model as a "trading state."¹⁷

However, the mercantilistic reputation does present a very serious handicap for Japan as a "trading state." Utmost efforts need to be exerted, therefore, in order to erase this image and also to make other countries realize that Japan is a reliable leader committed to reciprocal and multilateral free trade. First and foremost, it is incumbent on Japan to reduce the enormous size of its global trade surplus, which was about \$64 billion in 1989. The surplus has been decreasing¹⁸ gradually from the peak of about \$83 billion in 1986, but more conscious efforts would be needed (though part of the blame for the large Japanese surplus lies with the United States, as discussed later).

The problem is not merely the number, however. It also has to do with the degree of access foreigners have (or perceive to have) to the Japanese domestic market. The former West Germany also has a large global trade surplus, greater in 1989 than Japan's, though Japan's GNP is twice as large. Yet Germany has not been subject to the same kinds of criticism as Japan receives. This may be partly because the most of the German trade surplus is with other European countries and it is more evenly spread out than in the case of the Japanese surplus. But it may also be that the German market is actually more open, or at least easier to have access to for various reasons, including linguistic and cultural reasons. For example, foreign direct investment in the former West Germany accounted for 17 percent of its assets in 1989. The same figure in Japan was 1 percent - and acquisitions are not getting any easier in foreign perceptions. German cars are highly competitive, yet 30 percent of the autos sold in Germany were imports. In Japan, the figure was 4 percent.¹⁹

Over the years Japan has substantially liberalized its market, increased manufacturing imports, and its economic growth has been increasingly based on domestic market expansion. Obviously, this kind of movement in the right direction could be deliberately accelerated. It would be also extremely

important for Japan to play a more active role in preserving the multilateral free trade system from which it has greatly benefited. A "trading state" in a protectionist world would be like a fish out of water. Japan could have exercised a greater leadership in the Uruguay Round to make it a success. Instead, Japan was more or less isolated over its protectionist policy on rice. In the post-Uruguay Round period, it would have to make a better performance in its efforts to strengthen the GATT system.

In any case, the "legitimacy deficit" is not something that Japan could not overcome. Apart from practicing and promoting free trade in general, Japan would do well to carry out the following tasks to pave the way for a viable joint leadership system: (1) accept a greater responsibility in international financial markets: (1) sustain economic growth and promote open regional cooperation in the Pacific Rim; (3) make more effective use of foreign aid; (4) take the initiative in combatting environmental problems; (5) and better manage U.S.-Japan relations.

1. Accepting a Greater Responsibility in International Financial Markets

Japan became the world's largest international creditor in 1985.

This status remains unchanged and will continue to remain so in the foreseeable future, despite recent ups and downs of international stock and bond markets. Yet, the yen is used relatively little in international transactions, with the dollar continuing the dominance it has had throughout the postwar period. America's role as a large international debtor obviously creates problems when the dollar figures so dominantly. Rapid inflation in the United States could lead to a reduction in the real value of dollar-denominated assets around the world, reducing America's debt burden. As large creditors, Japanese firms and the Bank of Japan would be losers. Allowing the American currency to continue to dominate international transactions today is like "keeping a fox in charge of the henhouse." Consequently, it has been argued that the role of the Japanese currency should be substantially increased in international financial markets, at least to the extent of the relative size of Japan's GNP in the world. Moreover, if the yen can achieve a much higher profile internationally, Japanese policymakers will be forced to face the prospect of taking international repercussions even more into account.

In 1984 Ronald McKinnon proposed the idea of a tripolar monetary system, with the United States, then West Germany, and Japan coordinating their money supply in order to control destabilizing fluctuations in the global supply of money. The three major centers of economic power, accounting for nearly two-thirds of the industrialized world's output, agree upon and set a target for the growth of the world's money supply. Each would direct its domestic monetary policy toward exchange-rate stabilization, expanding and contracting the money supply as necessary

to maintain monetary values. Together, these three "hard currency" countries would in effect impose a rule of global monetary growth on the rest of the world, ensuring a stable and noninflationary increase in world liquidity.²⁰ A similar idea has been proposed by the Japan International Forum, which has called for a more active Japan's role in a plural reserve system, with the U.S. dollar, the Deutsch Mark (or ECU), and the yen acting as key currencies. This idea seems compatible with the concept of the joint leadership system proposed earlier.

Assuming that the proposed idea is worth serious consideration, we come back to the earlier point that the role of the yen will have to be substantially increased in actual international economic transactions. In short, the yen should be further internationalized. Among other things, internationalizing the yen would involve an increased share of yen-denominated exports and imports, and an increased share of the yen as a reserve currency in the world.

The United States invoices virtually all its exports in dollars; West Germany's figure came to 81.5 percent in 1987, the latest year for which data were available. Similarly, imports were several times more likely to be denominated in home-country currencies in the case of the United States and West Germany than in Japan's case. In 1989 34.7 percent of Japanese exports and 14.1 percent of Japanese imports involved yen-based transactions (Table 1).

Table 1.

Percentage of Japan's Trade Denominated in Yen, 1970-89

	<u>Exports</u>	<u>Imports</u>
1970	0.9%	0.3%
1975	17.5	0.9
1980	29.4	2.4
1985	35.9	7.3*
1989	34.7	14.1

*Fiscal year.

Source: Fuji Research Institute

At the end of 1988, the U.S. currency's share of reserves was 63.3 percent, far above the share of the American GNP in the world which was 21.3 percent. The Deutsch Mark's share of reserves was 16.2 percent, still considerably above the German GNP share of 5.3 percent. By contrast, Japan's share of reserves was only 7.2 percent in 1988, far below its GNP share of 12.5 percent.

Table 2

Share of National Currencies in IMF Members'
Official Foreign Exchange Holdings, 1973-88

	<u>1973</u>	<u>1975</u>	<u>1980</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
U.S. Dollar	76.1%	79.4%	68.6%	69.4%	64.2%	66.0%	66.8%	63.3%
Deutsche Mark	7.1	6.3	14.9	12.3	14.9	14.9	14.7	16.2
Japanese Yen	0.1	0.5	4.3	5.6	7.8	7.6	7.1	7.2
Pound Sterling	5.6	3.9	2.9	3.0	3.1	2.8	2.7	3.1
French Franc	1.1	1.2	1.7	1.0	1.3	1.2	1.2	1.7
Swiss Franc	1.4	1.6	3.2	2.1	2.3	1.9	1.6	1.5
Other	8.6	7.1	4.4	6.6	6.4	5.5	5.9	7.0

Source: International Monetary Fund, Annual Report.

How can one try to internationalize the yen or increase its role in international economic transactions? Japan cannot simply force foreign governments and companies to make a greater use of the yen. What Japan can do is to make the Japanese currency more attractive by further opening up Japanese capital markets. For instance, financing bonds, the most important short-term Japanese government security, still

are not widely traded and are issued with below-market interest rates, thus dramatically reducing their appeal for foreign and Japanese investors alike. Thus, the Bank of Japan ends up holding up a disproportionate share. These instruments, as a safe and a potentially highly liquid type of security, normally would be considered a principal means by which foreigners could place bets on the yen; equivalent securities perform this function in the United States regarding the dollar. However, the Ministry of Finance, which probably would have to pay higher interest rates to attract investors, has resisted successfully both foreign and Bank of Japan pressure to introduce changes in this instrument. ²¹

2. Promoting Economic Growth and Open Regional Cooperation in the Pacific Rim

As suggested earlier, national security is increasingly reckoned in economic terms today. We may also add that sustaining economic growth and prosperity can be a credible deterrent to aggression and military instability in the long run. It is no secret to us that the most dramatic feature of East Asia over the last few decades has been its remarkable economic success. As a result, many have spoken of the Pacific century and the Pacific Rim as the world of the future. We know that in East Asia dynamic economic growth is no longer a purely Japanese phenomenon. The "four tigers" of Asia (Korea, Taiwan, Singapore, and Hong Kong) as a group have annually registered among the world's highest growth rates, and they have become

major players in international trade. Indeed, the continuing economic transformation of East Asia is encouraging the trend toward pluralistic and democratic political systems. Where in Eastern Europe and the USSR change has been driven by economic failure, much of the ferment in Asia is a product of the region's dramatic successes, of its tremendous economic dynamism. We have watched the breathtaking growth of democracy in South Korea and Taiwan, as well as in the Philippines, over the past few years. Even China is a case in point: It was the reforms launched in 1978 that fostered a decade of 10 percent annual growth; an economic expansion which created the social and political pressures that exploded on June 4, 1989 at Tiananmen Square.

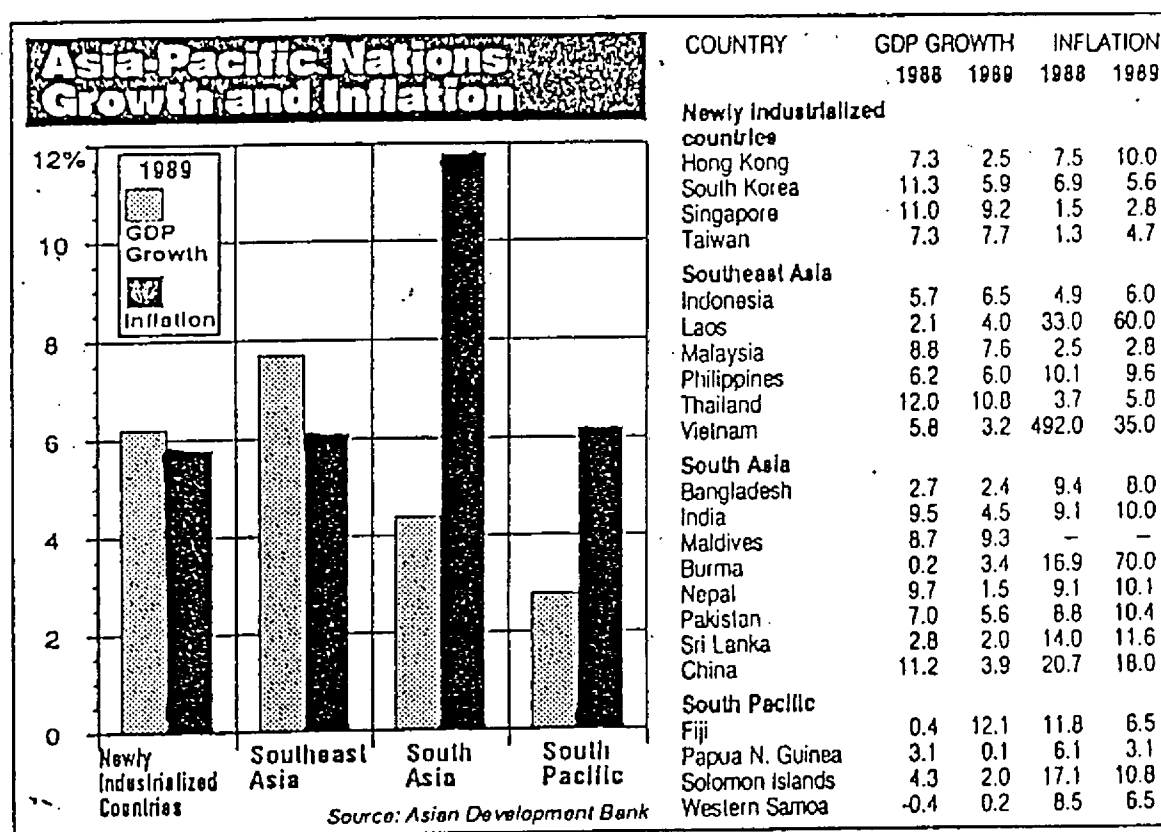
The high economic growth of East Asia, particularly that of the ANIEs (Asian Newly Industrialized Economies), has been largely dependent on trade and investment relations with the United States and Japan.

It is important to note, however, that the share of U.S. imports from these countries has been far larger than that of Japanese imports. In 1987, for instance, the U.S. share was 35.1 percent, while Japan's share was only 11.5 percent. On the other hand, the share of Japanese exports to these countries in the same year was 26.4 percent of the total, whereas the U.S. share was 16.2 percent. As a result, the United States registered a substantial deficit of \$37.2 billion, while Japan had a surplus of \$21 billion. 22

Assuming that economic prosperity will enhance prospects for democracy and peace in the region, the United States and Japan would do well to continue to provide market access (as well as technology and capital) to the ANIEs and other countries in Asia. As stated earlier, however, the United States may be less economically capable of paying the cost of sustaining the economic growth of the region, and it presumably has a weaker foreign-policy incentive of doing so in view of the decline in the perceived threat coming from Moscow.

As shown in Table 3, DGP growth in the ANIEs has substantially slowed down over the last few years, partly because of reduced demand for manufactured goods in the industrialized countries as well as because of severe infrastructure bottlenecks. It is here that Japan could step in, and more actively share burdens and responsibilities as "import absorber." This means that Japan would need to make further conscious efforts to open its market, expand domestic demand, and increase manufacturing investments abroad.

Table 3.



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Countries of the Asia-Pacific region are very much disparate in size, level of development, economic objectives, culture, and political tradition. In view of this regional diversity and rapidly changing politico-economic environments today, it may be necessary for Japan and other developed countries, ANIEs, and developing countries of the region to get together periodically to discuss and coordinate economic policies for the purpose of facilitating sustained economic growth in the region. Over the last few years there have been calls for some form of enhanced regional cooperation, including a proposal to form an Asian and Pacific free trade zone to counter Europe 1992 and the Canada-U.S. FTA. However, because of the very diversity of this region, it would not be practical to institutionalize formal policy-making bodies along European lines. Moreover, such a move would be contrary to the spirit of the GATT, as explained earlier. Any Japanese initiative in such a direction would also seem suspect in the eyes of other Asian countries. The Asia-Pacific Economic Cooperation Conference(APEC), which held its first meeting in Canberra in December 1989 and its second meeting in Singapore in July 1990, is mainly a forum for discussion on economic issues and policies. Consequently, it appears to be a much better alternative. While promoting such regional economic cooperation, Japan as a global trading state has an important interest at stake in seeing to it that this region remain open to the rest of the world. In this sense, it might perhaps be a good idea to invite the European Community to future APEC meetings as an observer.

In some quarters we hear calls for a system of collective security in Asia - an advocacy inspired by the European experience of a region-wide Conference on Security and Cooperation(CSCE). However, one has to cast doubt on the utility of an all-Pacific security grouping. The sources of tension that remain in the region(as well as the nature of the security challenges one anticipates in the years ahead) do not easily lend themselves to region-wide solutions. When one looks at the key determinants of stability in Asia - the confrontation on the Korean Peninsula, the narrowing Sino-Soviet differences, or the Indochina conflict - in each case it is difficult to see how a Helsinki-type institution would be an appropriate forum for enhancing security or promoting conflict-resolution. It is economics, not security, that holds the promise of bringing a new cohesion to the region.

What has been said above does not necessarily mean that Japan has no security role to play in the region. While playing basically non-military roles , it cannot avoid sharing some defense burdens with the United States within the framework of the mutual security treaty. One may say that the most important security task of Japan is to help the United States remain a Pacific power by lightening its burdens through increasing the host-nation support for U.S. troops to be kept in Japan at a gradually reduced level in the future. Japan's own defense expenditure could be frozen or gradually decreased as the Northern Islands issue with the Soviet Union and other pending political issues in the region get resolved. In the meantime, any drastic disarmament(or rearmament)on Japan's part might be even destabilizing and politically unwise. Sooner or later, though, Japan

would have to define "minimum deterrence" for itself, while helping the United States function as a balancer in the region. As for Japan's extra-regional security role, it would do well to provide some personnel for U.N. peacekeeping, if at a symbolic level, in addition to monetary contributions commensurate with its economic power.

3. Making More Effective Use of Foreign Aid

Japan's ODA (official development assistance) budget in 1990 is about \$10 billion, and Japan has been for the past two years the largest donor of foreign aid among the 18 nations that comprise the OECD's Development Assistance Committee. The Japanese Foreign Ministry's annual report showed that Japan's net ODA disbursements along with other official flows, private flows and grants by private voluntary agencies totaled \$24.1 billion in 1989, a 12.6 percent increase. Private flows, which represented about 56 percent of Japan's net financial disbursements to developing countries, totaled \$13.5 billion in 1989, up 5.3 percent. Japan's share in the net flow of financial resources to developing countries was 22.1 percent last year, off slightly from 23.1 percent in 1988. As a share of gross national product the net Japanese outflow rose to 0.85 percent in 1989 from 0.75 percent the year before. But, confined to the ODA outflow, the figure would go down to 0.32 percent, still below the DAC average of 0.35 percent.²³ Even quantitatively, therefore, there is still a lot of room for improvement.

Japan has a long way to go when it comes to qualitative improvements in its ODA disbursements. For instance, Japan's outlays for technical assistance are still relatively small by international standards (see Table 4).

Table 4.

Comparison of Technical Assistance Provided by Members of
Development Assistance Committee, 1988

(in millions of dollars)

<u>Country</u>	<u>Total ODA (A)</u>	<u>Bilateral Aid (B)</u>	<u>Technical Assistance (C)</u>	<u>Share</u>	
				<u>C/A</u>	<u>C/B</u>
United States	\$10,141	\$6,765	\$2,127	21.0%	31.4%
Japan	9,134	6,422	1,093	12.0	17.0
France	6,865	5,601	2,422	35.3	43.2
West Germany	4,731	3,172	1,594	33.7	50.3
Italy	3,183	2,408	286	9.0	11.9
United Kingdom	2,645	1,430	642	24.3	44.9
Canada	2,342	1,579	403	17.2	25.5
Netherlands	2,231	1,552	631	28.3	40.7
Sweden	1,529	1,054	207	13.5	19.6
Australia	1,101	622	203	18.4	32.6
Norway	985	572	86	8.7	15.0
Denmark	922	478	95	10.3	19.9
Switzerland	617	445	103	16.7	23.1
Finland	608	380	25	4.1	6.6
Belgium	597	423	176	29.5	41.6
Austria	302	163	68	22.5	41.7
New Zealand	105	93	49	46.7	52.7
Ireland	57	22	13	22.8	59.1
DAC Total	48,094	33,180	10,222	21.3	30.8

Note: DAC data exclude administrative costs and subsidies to nongovernmental organizations from technical assistance.

Source: Organization for Economic Cooperation and Development, Development Assistance Committee, Development Co-Operation: 1989 Report.

The OECD's Development Assistance Committee does not count administrative costs in technical assistance disbursement figures for its 18 member countries; thus, Japan's spending for technical cooperation was calculated as just under \$1.1 billion in 1988 (instead of about \$1.4 billion, as calculated by the Japanese government). This amount was smaller than either that of France, the United States or West Germany, although Japan ranked as the second-largest ODA provider that year. Moreover, the ratio of Japan's technical assistance to total ODA -- 12 percent -- was one of the smallest among DAC member countries, which averaged 21.3 percent that year. In terms of helping developing nations with people power and not just money, Japan ranked 14th on the basis of technical assistance to total ODA in 1988.

At the end of 1988 the amount of long-term debts held by developing countries reached one trillion dollars, constituting about 40 percent of their GNP on the average. Also, their debt-service-ratio amounted to about 24 percent. Their payment of interests and principals was close to \$40 billion in the same year. 24 Because of the rising oil prices triggered by the Persian Gulf crisis, their economic difficulty is further increasing. Under these circumstances, Japan would do well to direct a larger portion of its ODA to these debt-ridden developing countries than it has thus far, particularly to those poor countries south of Sahara and in South Asia. The share of outright grants in Japan's

ODA disbursements is still small (17.4 percent of total ODA and about 23 percent of bilateral aid in 1989). In disbursing aid to these countries Japan might as well substantially increase the grant element, while basically maintaining the current-level ratio between loans and grants in providing aid to most other countries, including those in Southeast Asia where a largest portion of ODA money is disbursed), with a view to sustaining and increasing their incentive for self-help.

Japan is one of the world's largest trade surplus countries, but most of the surplus money is in the hands of the private sector (commercial banks and enterprises). Such private capital tends to flow to the advanced industrialized countries and prosperous NIEs where the so-called "country risk" is low and profitability is high. In this sense, the government must strengthen and expand trade-insurance and investment-insurance systems, so that more private money could flow to poor and indebted countries that desperately need foreign capital. With regard to heavily indebted middle-income countries, including Brazil, Mexico and other Latin American countries, it would be very important for Japan to work closely with the United States, the European Community, and international financial organizations, as well as with Japanese banks, in order to administer a multilateral debt-reduction and aid package more effective and realistic than the so-called "Baker Plan" or the "Brady Plan." It is about time Japan proposed its own ideas and strategies to come with this kind of problem and put them on the international agenda, instead of passively reacting to American proposals. In this respect, the "Miyazawa Plan" was a small but important step in the right direction.

Japan has generally refrained from attaching political conditions to its aid on the grounds of noninterference in the internal political affairs of other countries. This traditionally apolitical aid policy may need to be reevaluated in light of global changes and the growing influence of Japan's significant aid program on world politics. One idea suggested by the Japanese Foreign Ministry is that the country may want to adopt an economic assistance policy more directly linked to the values of freedom and democracy. For instance, special considerations may be given to those countries that are seriously working toward greater democracy. Conditionality may also be attached to use of aid money for peaceful purposes. Namely, Japan could deny economic assistance to developing countries that spend an inordinate amount of military measures not justified by changing world conditions. Basically, it will be important for Japan to articulate its aid objectives and to demonstrate to the world that it, too, is very much interested in promoting universalizable values and principles. The concept of what may be called "reversed strategic aid" would be perfectly in line with the role of Japan as a trading state. On his January 1990 tour of Eastern Europe, Prime Minister Toshiki Kaifu announced a nearly \$2 billion package of financial and technical assistance for Poland and Hungary, while generally pledging Japan's support for the political and economic reforms taking root in Eastern Europe. The Japanese government has also indicated plans to assist Cambodia economically if the conflicting factions in that country agree to a political settlement. Moreover, the Japanese Foreign Ministry's budget proposal for fiscal year 1991 for the first time included a

request for funds aimed at assisting the Soviet Union, with the proposed aid being specifically directed toward supporting the perestroika program and the exchange of youth and advisors. ²⁵ These developments suggest that Japan's aid program already may be heading in the new direction suggested above, and such movement in the right direction might as well be further encouraged and strengthened. In any case, Japan would do well to better articulate its aid philosophy, in addition to emphasizing "humanitarian" and other general considerations.

4. Taking the Initiative in Combatting Environmental Problems

Over the past few years the world has become keenly aware of various environmental problems that threaten the earth's ecosystems. These include acid rain, global warming, destruction of the atmospheric ozone layer, spread of deserts, and destruction of rain forests.

Japan is often perceived as a major villain in this area, perhaps because it is a large importer of logs and timber as well as a chief exporter of industrial finished goods, including automobiles. It is not generally reported, however, that the United States and West European countries import most of tropical logs and timber from Latin America and Africa where 81 percent of the world's tropical forests had been destroyed between 1978 and 1981. The share of Japanese log imports from Africa was two percent of the all logs shipped from there, and that from Latin America was 0.7 percent in 1986. Japan imports most of needed logs

and timber from Asia, occupying about one half of the exported logs and timber from this region, though about 95 percent of the tropical forest resources get consumed domestically within the exporting countries.²⁶ Nevertheless, Japan is facing export embargoes of tropical logs from Indonesia and the Philippines, and it has been forced to turn to Malaysia for supply. Having become aware of resource-trade problems as such, the Japanese government is now supporting a major examination by the Pacific Economic Cooperation Council(PECC) of the sustainability of tropical forests in Southeast Asia.²⁷

Among the various environmental problems mentions above, global warming is considered most threatening. Destruction of the ozone layer has also been considered very serious, but a number of agreements and treaties have already been worked out on this question among many countries, including Japan, the United States, and EC countries. Carbon dioxide is believed responsible for 55 to 60 percent of the greenhouse effect, which could lead to global warming and cause serious flooding as sea levels rise, crop production falls and thousands of species are driven into extinction. "The time for words is over. It is now time for action, because we are in a race against time," said French Prime Minister Richel Rocard at a major conference on global warming held in Geneva in late autumn 1990.

In 1988 Japan emitted 296.9 million net tons of CO₂, compared to a figure of 1,445.2 million net tons for the United States as a whole or 5.8 tons per capita (see Table 5 for metric equivalence).

Table 5.

Carbon Dioxide Emissions in Japan, United States and World, 1968-88

(in millions of metric tons)

	<u>Japan</u>	<u>United States</u>	<u>World</u>
1968	154.0	1,081.0	3,596
1973	250.7	1,275.4	4,647
1978	260.2	1,300.9	5,082
1983	239.9	1,149.4	5,084
1984	264.3	1,187.5	5,260
1985	254.2	1,201.3	5,379
1986	248.9	1,204.5	5,561
1987	246.9	1,257.5	5,680
1988	269.8	1,310.2	5,893

Source: Carbon Dioxide Information Analysis and Research Program, Oak Ridge (Tenn.) National Laboratory

On October 23, 1990, the Japanese government adopted a target of stabilizing carbon dioxide emissions at 1990 levels by the year 2000 and keeping other so-called greenhouse gases, such as methane and nitrous oxide, at their current levels. The stabilization goal aims at both per capita emissions, estimated at about 2.4 to 2.5 tons for the average Japanese in 1988, and aggregate CO₂ discharges,

figured by Japanese officials to be about 342 million tons in 1990.

At the Geneva conference that immediately followed the Japanese decision, Japan and 18 West European nations announced plans to freeze or cut greenhouse gas emissions by 2000. It is noteworthy that the United States has been refusing to come up with a policy addressing CO₂ emissions; it refused to agree to specific targets for freezes and reductions in gas emissions in the final ministerial declaration in Geneva. ²⁸ The United States is more concerned about the economic costs of such policy than about maintaining the global environmental order, which is an obvious departure from its traditional role as hegemon.

Japan is in a position to take the initiative in combatting global warming and other environmental problems. This is an area where Japan's leadership would not be perceived as a threat to other countries. Japan's pollution control measures are more advanced than those in many other countries. In surviving two major oil crises, Japan has developed effective energy conservation technology. Japan is one of the very few countries in the world that has successfully resolved the dilemma between economic growth and environmental control. Executive Director Strong of the U.N.-sponsored environmental conference to be held in Brazil in 1992 is quoted as saying, "Japan should be a good model for conserving energy while sustaining economic growth." Indeed, as the authors of Japan's global warming program stressed, "...it is essential for Japan to take the lead in global efforts through international cooperation by making use of its advanced technology and ample experience in the conservation of the environment." ²⁹

5. Better Managing U.S.-Japan Relations

If the world's first and second largest economies fail to manage their bilateral relations, the setting up of a viable joint leadership system will be reduced to a mere pipe dream. But the current situation does not allow us to be optimistic. In a related context, Under Secretary of State for Economic Affairs Richard McCormack stated in his address to a U.S.-Japan forum on November 1, 1990: ³⁰

Japan has become a domestic issue in the United States. We see polls which label Japan as a greater threat to this country than the Soviet Union is. Part of the reason for this is the correct perception that the Soviet military threat has decreased. But it also reflects a two-fold concern about our economic position; apprehension that the U.S. is in decline, and that the Japanese have gained economic strength against us....The U.S. has a many-sided relationship with the Japanese cooperation in aid, in multilateral fora, on political issues, and in terms of their contributions to U.S. forces in Japan. But the weakness in our relationship has for years been in trade and economic matters. Unless our economic relationship is on a sound footing, our two countries cannot have a true partnership, especially in an era when economics and the importance of markets are crowding out the Cold War as mass-based issues of concern. Our deficit with Japan is coming down, but a 40,000 million dollar trade deficit with Japan is still politically unsustainable.

Reducing the bilateral trade imbalance is not easy. Japan has made a series of market opening concessions and the value of the yen in relations to the dollar has substantially appreciated since the G-5 intervention in the exchange-rate market. Yet, the U.S. deficit has not come down as much as we hoped (see Table 6).

Table 6.

U.S. Trade with Japan, 1985-1989					
(in millions of dollars, seasonally unadjusted)					
	Exports* (f.a.s.)	Change Over Year-Earlier Period	Imports (Customs)	Change Over Year-Earlier Period	Trade Balance
1985	\$22,631	-4.0%	\$68,783	20.4%	\$-46,152
1986	26,882	18.8	81,911	19.1	-55,030
1987	28,249	5.1	84,575	3.3	-56,326
1988	37,725	33.5	89,519	5.8	-51,794
1989	44,494	17.9	93,553	4.5	-49,059
1988 January	2,715	52.1	6,357	7.7	-3,642
February	2,958	45.4	7,098	4.0	-4,141
March	3,193	49.3	7,408	8.9	-4,215
April	3,047	40.4	7,245	6.0	-4,198
May	2,961	37.6	6,685	-3.6	-3,724
June	3,355	46.3	7,556	3.0	-4,201
July	3,280	28.1	7,329	-0.2	-4,049
August	3,298	24.1	7,672	5.9	-4,375
September	3,110	28.3	7,058	4.1	-3,948
October	3,260	36.2	8,441	6.4	-5,182
November	3,234	22.6	8,191	14.1	-4,958
December	3,316	10.5	8,478	13.5	-5,162
1989 January	3,125	15.1	6,733	5.9	-3,608
February	3,258	10.1	7,763	9.4	-4,506
March	4,104	28.5	8,440	13.9	-4,335
April	3,677	20.7	7,537	4.0	-3,860
May	3,610	21.9	7,927	18.6	-4,317
June	4,073	21.4	7,871	4.2	-3,798
July	3,866	17.8	7,855	7.2	-3,990
August	3,917	18.8	7,859	2.4	-3,942
September	3,502	12.6	7,743	9.7	-4,241
October	3,699	13.5	8,603	1.9	-4,904
November	3,759	16.2	7,774	-5.1	-4,014
December	3,904	17.7	7,449	-12.1	-3,545

*Domestic and foreign merchandise, including Department of Defense shipments.

Source: Department of Commerce

The problem is that, as it takes two to tango, it takes both countries' efforts to reduce the trade imbalance. As U.S. officials have often admitted, a large part of the trade-imbalance problem has been made in the United States; one thinks of the federal budget deficit, declining industrial competitiveness, lack of aggressive marketing efforts, etc. In addition to further liberalization and expansion of the Japanese market, Japan could step up direct investment in the United States in the form of building manufacturing plants. The Japanese automobile and other industries have been moving in that direction. In the long run this would have a moderating impact on Japan's export growth, provided that most of the necessary parts are procured within the United States as well. One has to remember that investment, as well as trade, should be a two-way street and it would be important to encourage and facilitate U.S. direct investment in Japan so as not to allow the widening of the investment gap. As shown in Tables 7 and 8, both Japanese direct investment in the United States and U.S. investment in Japan have been steadily increasing; the latter was former's 47.87 percent in 1985, and the ratio increased to 59.44 percent in 1989.

Table 7.

Japan's Foreign Direct Investment Position
in the United States, Yearend 1985-1989

(in millions of dollars)

	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>
Total	\$19,313	\$26,824	\$35,151	\$53,354	\$69,699
Mining	7	*	*	*	*
Petroleum	31	34	-2	-79	68
Manufacturing	2,738	3,578	5,345	12,222	17,255
Food Products	159	158	164	302	397
Chemicals	268	279	575	1,137	2,420
Metals	562	471	599	2,323	3,304
Machinery	715	1,052	1,527	2,542	4,960
Other	1,033	1,618	2,481	5,917	6,173
Wholesale Trade	11,796	13,687	15,352	18,390	20,486
Retail Trade	251	290	326	346	519
Banking	2,160	2,704	3,513	3,895	4,441
Finance	51	2,087	2,115	2,863	5,830
Insurance	119	*	*	*	*
Real Estate	1,536	2,941	6,098	10,017	14,294
Other	622	1,306	2,140	5,374	6,397

*Suppressed to avoid disclosure of data on individual companies.

Source: Department of Commerce

Table 8.

U.S. Direct Investment Position in Japan,
Yearend 1985-1989

(in millions of dollars)

	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>
Total	\$9,235	\$11,472	\$15,684	\$17,927	\$19,341
Petroleum	2,184	2,712	2,642	3,356	3,194
Manufacturing	4,584	5,439	8,107	8,941	9,959
Food Products	128	157	371	334	286
Chemicals	1,311	1,591	2,159	2,423	2,508
Metals	82	130	175	186	186
Electric Machinery	331	475	744	1,070	1,177
Nonelectric Machinery	1,664	1,809	*	2,775	2,624
Transport Equipment	625	699	1,231	1,298	2,313
Other	443	579	*	854	866
Wholesale Trade	1,581	2,173	2,933	3,485	3,301
Banking	178	204	333	263	214
Finance, Insurance					
and Real Estate	520	686	1,231	1,291	1,981
Services	83	109	157	224	248
Other	104	149	281	366	363

*Suppressed to avoid disclosure of data on individual companies.

Source: Department of Commerce

Another approach that would be more feasible than a bilateral FTA would be for the two countries to address themselves on specific questions of structural changes that would identify, and remove barriers to market-determined trade and investment flows. The so-called Structural Impediments Initiative(SII) was basically in line with this approach, though somehow more attention was paid to Japanese structural barriers. In June, 1990, the United States and Japan concluded a year of intensive talks with a joint report, committing both countries to comprehensive measures to reduce structural impediments to the flow of trade and investment. The report was not an end in itself but the beginning of ongoing process. The United States asked Japan to commit itself to change in six areas of structural impediments: savings and, investment balance, the distribution system, land use policies, exclusionary business practices, and pricing. For its part, Japan asked the U.S. side to address its budget deficit, low savings rate, and educational and worker training questions. In short, both sides "interfered" into internal affairs of the other country. This is somewhat inevitable in view of deepening international economic interdependence and increasing bilateral economic integration which Robert Gilpin refers to as the "Nichibei economy."³¹ No doubt, the SII process would further enhance such integration, which would help mitigate bilateral economic conflicts in the long run. However, the question of how far and to what extent we could interfere into the other country's internal affairs needs to be addressed carefully, and the two countries would do well to share the fruits of the SII process with other countries in a MFN fashion.

In any case, the SII talks represented one of the few exceptions in the postwar bilateral relationship because it had been mostly Washington making demands on Tokyo. Japan also made demands on the United States and the latter accommodated some of the demands in the SII negotiations. This provides a good model for Japan's future dealings with Washington. Japan could be more self-assertive in dealing with the United States because Americans are more used to resolving issues through argumentation and debate. Avoiding issues for fear of confrontation would only add to confusion and misunderstanding. Part of effective leadership is being articulate and being able to initiative moves. Robert Samuelson wrote in the Washington Post a few years ago: "Great Nations do not negotiate so much as they initiate. Japan is a great nation. It should begin acting like one." He hits the nail on the spot. Such an attitude would be a precondition for Japan to establish a working global partnership with the United States, even within the framework of the joint leadership system.

VI. Domestic Constraints

Assuming that the specific tasks suggested above are truly worthwhile and necessary, can Japan's domestic political system allow it to carry them out effectively? Can Japan shift its basic foreign policy stance from reactive to pro-active directions? Will Japan be willing to allocate its economic, financial and technological resources for the causes which may not promote, or may not seem to promote, immediate and tangible domestic interests? It may be difficult to find many Japanese who can answer these questions clearly in the affirmative. Consequently, we will need to discuss Japanese domestic constraints that may impede Japanese leaders' attempt at exercising effective international leadership, even within the framework of a plural leadership system.

We have already pointed out that Japan's experience of the scourge of World War II forced it to maintain a low profile in international politics in the postwar period the country was long preoccupied with efforts at economic reconstruction and development through promotion of exports. Moreover, as a major Cold-War ally of the United States it did not have to conduct active international diplomacy, dependent as it was on the U.S. security umbrella, low-cost American technology, and easy access to the world's richest and largest market. The United States, for its part, had a strong foreign-policy incentive and a sufficient economic capability to be nice and generous to Japan. Until the

early 1960s, the United States had conveniently fitted into the role of the superior partner vis-à-vis Japan, the older brother from whom much had been received and from whom much continued to be expected, as it were in an amae (dependence) relationship in which the stronger would have indulgence for the weaker party. In the late 1960s and thereafter, however, the relaxation of East-West tensions and the relative economic decline of the United States have made it increasingly difficult for Washington to continue to play the role of the big brother. Nevertheless, many Japanese continue to expect special indulgence from the United States. Japan has become so much used to depending on the United States that it has become extremely difficult, if not perhaps impossible, to develop an independent political will for exercising international leadership.³³

It has also been pointed out that Japanese political institutions tend to deter Japan from exercising dynamic leadership. First of all, the Japanese prime minister has much less policymaking flexibility than the U.S. president. It is not simply because Japan has a parliamentary cabinet system while the United States has a presidential system. Margaret Thatcher, a prime minister under basically the same parliamentary cabinet system, had long exercised effective leadership, both domestically and internationally, at least until several months before she was forced out of office very recently.

The Japanese prime minister's cabinet is composed of fellow politicians, long-time colleagues who frequently have their own political power bases as leaders or senior representatives of rival intra-party factions. At least constitutionally, the Japanese prime minister has sole power to designate and remove other ministers and he is clearly the central figure in his cabinet. In fact, though, party elders and major faction leaders play an unduly influential role in the making of the cabinet because the prime minister is under pressure to respect a factional balance among cabinet members. Therefore, he seldom directly fires a minister. He removes a minister, if he must, as part of a general cabinet reshuffle and such reshuffles are almost annual.

On the other hand, the U.S. president's cabinet members are clearly his subordinates, brought to prominence by him, usually lacking independent political bases, and thus dependent on his support and confidence if they are to play leading roles in the administration. The president can, and does, act above and around cabinet members, depleting their authority. Thus, when the president gives an order to jump to his cabinet, as a joke goes, they can only ask "How high?" The Japanese premier is much less free to ignore ministers in their sphere of formally designated responsibility. And if the president is expected to exercise visible leadership, get out front on issues, the prime minister is more often seen as the overseer of a broad-participatory decision process, remaining at the center and somehow moving things forward, but avoiding "arbitrary" actions.³⁴

The prime minister also needs to keep relations with the opposition within tolerable bounds. Until recently, his numerical majority in the Diet was sufficient to enact most legislation cabinet submits. However, the opposition parties could - and often did - employ a variety of tactics to delay legislation and to underscore their opposition. It was considered improper for the premier to use his majority bluntly, so the views and interests of opposition politicians were frequently considered and to some degree accommodated. Should a premier seek - as did Nobusuke Kishi in 1960 - to force through a controversial matter like renewal of the U.S.-Japan security treaty, he would risk a strong public reaction against such "tyranny of the majority." Such a reaction drove Kishi out of office. Similarly, soon after the government of Noboru Takeshita used his Diet majority to pass a sales tax law by disregarding opposition-party views, his party suffered a major defeat in the House of Councilors election in summer 1989, resulting in a loss of majority status in the Upper House. This has made it even more difficult for the government to pass a law without necessary support of the opposition, as reflected in the recent failure of the Kaifu government to get his proposed "U.N. Peace Cooperation Law" approved by the Diet.

Another domestic factor constraining Japan's international leadership capability has to do with the inordinate influence of the administrative bureaucracy in Japanese policymaking. Max Weber said that above every bureaucracy is a political system that sets the goals. The role of civil servants is supposedly to

help achieve the goals set by their political master through use of their functional or technical expertise. In Japan, however, bureaucrats often take an active part in the policy formulation process as well as in the policy implementation process.

In the United States, bills may be drafted by congressmen or the president's White House staff, as well as the various departments of the federal government. But in Japan, the overwhelming majority of bills are drafted by bureaucrats in the ministries. Since 1955, for instance, about 90 percent of all successful legislation has been cabinet-sponsored and drafted within the ranks of the bureaucracy. The number of bills submitted by individual Diet members has been very few and the passage rate of such legislation has been extremely low. The bureaucratic penetration of the policymaking process in Japan can be explained by the tradition of bureaucratic rule in prewar Japan, partly during the Meiji era when bureaucrats appointed by the Emperor controlled the government, with party politicians mostly playing second fiddle. Under the postwar constitution, government officials became "public servants" but tradition dies hard.³⁵ In recent years, the relative influence of party politicians is said to have increased over career bureaucrats. But, compared with other countries, the bureaucracy in Japan still exert major influence in Japanese policymaking.

Further exacerbating the leadership problem is the Japanese cultural emphasis on consensual decisionmaking. It is extremely time-consuming for Japanese political leaders to build consensus for a major policy change, particularly on issues with high interests at stake for powerful domestic interest groups. Consequently, Japan is often seen abroad as resorting to deliberate "delaying tactics," even though the officials have been desperately trying to build consensus for necessary policy changes. And when Japan does finally come up with some policy changes, they tend to be considered "too little, too late." In the wake of the Iraqi invasion of Kuwait, Japan decided to provide a total contribution of \$4 billion to the multinational defense forces and to "front-line states," including Egypt, Turkey and Jordan. This Japanese contribution was substantial, and second only to Saudi Arabia and Kuwait in size. Yet Japan has been repeatedly criticized in the United States. It is mainly because Japan's announcement of its contribution came too slowly for many Americans who value swift and decisive action; it took six weeks from the time of the Iraqi invasion for Japan to announce its full package.³⁶

Because of the consensual nature of Japanese decisionmaking, it has been much easier for Japanese leaders to respond to foreign demands than to initiate policy changes on their own merits. Former Prime Minister Takeshita once emphasized the importance of working toward "Japan that can contribute to the world." As a general foreign policy slogan, it was widely accepted. But when it came to

to specific policy changes that might hurt Japan and powerful Japanese interest groups in the short run, not many people were actually in favor. So even though the Japanese government and a wide majority of party politicians supported the idea of making the Uruguay Round a success the Diet went on to pass a resolution in September, 1988, "not to allow a single grain of rice into Japan."

V. Conclusion

What has been said so far does not necessarily mean that Japanese politicians never exercise active leadership in policy-making. They do so selectively. Many of the postwar prime ministers achieved or launched at least one major policy initiative, often over the initial objection or reluctance on the part of the bureaucracy. Ichiro Hatoyama resumed diplomatic relations with the Soviet Union in 1956. Hayato Ikeda launched his "Income Doubling Plan" as he took over the premiership from Kishi in 1960. His plan later proved more than successful. Eisaku Sato got Richard Nixon to agree to the reversion of Okinawa on Japanese terms in 1969. Kakuei Tanaka normalized relations with China and also launched his plan to remodel the Japanese archipelago in 1972, though he did not exactly succeed in the latter attempt. Yasuhiro Nakasone vigorously pushed for major administrative reforms. Even Kaifu exercised fairly effective leadership in handling some foreign-policy issues, including the SII (Structural Impediments Initiative) talks with the United States. He miserably failed with regard to

the Persian Gulf crisis, but another prime minister with a stronger political power base and a sounder grasp of international relations, might have been able to engineer a more effective response response to the crisis.

Having said the above, we cannot always count on such individual or idiosyncratic leadership quality of Japanese leaders. To the extent possible, therefore, we would need to make necessary institutional reforms so that the Japanese government could find it relatively easier to exercise international leadership. Among others, one thinks of the following reforms:

1. Put into practice a new electoral system for the national parliament by combining proportional representation and single-member districts, as recently proposed by the Electoral Reform Deliberation Council. This would help candidates substantially reduce campaign expenses and help the Liberal Democratic Party (and other parties) dissolve factionalism:

2. Let the prime minister appoint to the cabinet at least a few outstanding people from outside the Diet membership, and those Diet members who join the cabinet must be selected on the basis of policy skills and expertise, not necessarily based on the intra-factional balance or on the number of times elected to the Diet.

3. Once appointed to the cabinet, the same people should be in principle allowed to stay there as long as the same prime minister remains in power. This would give them necessary time to learn the job ; so that they could better lead the bureaucracy and develop longer personal relations with their foreign counterparts.

4. Let cabinet members answer Diet interpellations for and not let bureaucrats answer them on their behalf. This would force cabinet members to learn his job, while freeing bureaucrats from time-consuming Diet sessions so that they could better assist political leaders with regard to substantive policy problems.

5. Appoint special policy assistants (possibly with cabinet rank) to the prime minister from outside the bureaucracy (from business, academic and journalistic communities, as well as from among retired bureaucrats). This would help the prime minister better coordinate policy problems and enable him to receive fresh, expert advice free from bureaucratic-organizational biases.

6. Japan's education system, including the entrance-examination system and college-level teaching methods, should be changed so as to produce more creative, articulate, and leadership-oriented citizens who could assume effective political leadership for Japan in future generations.

All this is easier said than done. But we should remember that men can change their political environments if they have a strong enough will and like-minded people working together. In this sense, it would be important for internationally-minded opinion leaders from various professions to combine their conscious efforts to create healthy internal pressures for change.

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