

---

## Global Issues

The interaction of Japan and the United States is not confined to the economic issues discussed in the previous chapters. These two largest and richest economies in the world have special responsibilities with respect to the provision of international public goods in the economic, political, and security realms. Because of their unique histories, however, the two countries have played very different roles in these fields, and these differences have at times created tensions in their bilateral relationship.

Of the many political and cultural differences between Japan and the United States, the key asymmetry that conditions their responses to the whole panoply of global issues has been Japan's defeat in the Second World War and the emergence of the United States as a global superpower. Following its defeat, Japan adopted, under US pressure, a Constitution that renounces war and narrowly circumscribes the role of the military in Japanese society.<sup>1</sup> Under the leadership of Prime Minister Shigeru Yoshida, Japan in effect became a military vassal of the United States: During the Cold War, Japan allied itself with the United States, and continues to permit the stationing of US forces on its soil to this day. Under Yoshida and his successors, Japanese foreign policy became, in effect, commercial policy.

The collapse of the Soviet Union and the end of the Cold War, however, undercut the primary public justification for this arrangement. More than

---

1. Article 9 of the Japanese Constitution states that "the Japanese people forever renounce war as a sovereign right of the nation and the threat or use of force as a means of settling international disputes . . . land, sea, and air forces, as well as other war potential, will never be maintained."

a decade later, the two governments continue to search for a security arrangement that is acceptable both to their respective publics and to the rest of Asia, which continues to harbor concerns about both Japanese military ambitions and the regional role of the United States.

During the Cold War, one response to Japan's atrophied role in international security affairs was to promote a larger Japanese role in development assistance, often under the rubric of "burden sharing," "comprehensive security," and the like.<sup>2</sup> However, as the Japanese economy developed and Japan became a more important commercial rival to the United States, some Americans began to criticize this arrangement—in which the United States played the difficult and costly role of security guarantor, while Japan acted as a regional benefactor, using its aid programs to promote its own national commercial interests—as "neomercantilist" (Pyle 1992) and "economic warfare" (Huntington 1993). Likewise, some in Japan began to question the country's lack of influence in international financial institutions (IFIs) when it was outspending the United States on development assistance in relative terms, and, from 1991 onward, in absolute terms as well.<sup>3</sup>

After the collapse of the Soviet Union, a rough foreign policy consensus embodying a number of elements began to emerge in Japan. The maintenance of the United States-Japan security alliance was deemed central. Ironically, the end of the Cold War coincided with increased perceptions of North Korean threats and uncertainty about the future aims and development of China. As Green (2001) observes, a poll conducted at the end of 1999 showed higher support for the United States-Japan alliance than at any time since 1984. Yet polling data also show considerable support for reducing the US military presence in Japan—this appears to be a combination simply of NIMBY (not in my backyard) objections and a recognition among the Japanese public that US forces on Okinawa are in large part deployed for potential missions well outside Japan's immediate security concerns (Hosokawa 1998).

In parallel to the rising level of security anxiety, there was a dissipation of some of the idealism that had marked Japanese security policy since the end of the Second World War, and a growing acceptance of the legitimacy of the Japan Self-Defense Forces (JSDF). Yet there was little consensus as to the appropriate mission of the JSDF, and a constitutional revision, which would be needed for the JSDF to play a more conventional national security role, remained highly controversial.

---

2. See Balassa and Noland (1988, chap. 7) for examples of such Cold War-era statements and rationalizations.

3. E.g., in 1980, Finance Minister Michio Watanabe stated at the joint World Bank-IMF annual meetings that "appropriate adjustments need to be made so that each member's quota share reflects its economic reality" (quoted in Green 2001, 233).

At the same time, there was a renewed interest in, and commitment to, Asia. However, Japan confronted a situation in which there was an absence of regional organizations such as the European Union or North Atlantic Treaty Organization (NATO) to mediate historical enmities. Moreover, despite the continued reliance on the United States, there was a desire for a more “independent” foreign policy stance. The desire for greater independence and a larger regional role, and the need for Asian institution building, created possibilities for conflict with the United States in the context of the continued US security guarantee and its quasi-hegemonic position in the post-Cold War world.

Put differently, since the late 1980s changing circumstances have rendered obsolete implicit arrangements that were in place for a half-century. It is not surprising that the ongoing process of reorienting the bilateral relationship to better reflect current reality has proven to be complicated, and at times painful. In this chapter, we examine the roles of Japan and the United States in the provision of several international public goods. The maintenance of a liberal, rules-based international trade system is one of these, and was discussed in chapter 5 in the context of trade policy. Here, we first consider the international financial arena, including issues involving the international financial architecture and development assistance. We then move on to a topic of great sensitivity, the security issue, which for both countries turns on issues of self-identity at home and legitimacy abroad. Finally, we take on other issues of global cooperation, such as public health and the environment. As decades of discussions of “burden sharing,” and more recently of “responsibility sharing,” have demonstrated, ultimately each country’s roles in these areas are a product of its unique historical circumstances, and cannot be disentangled from the other’s in any meaningful way.

## **International Finance**

The US dollar has been the key currency of the international financial system since the Second World War. By necessity, US policy took foreign considerations into account, even if they conflicted with domestic objectives. In this respect, the US situation has been unique. The Bretton Woods system for financial capital established at the end of the war did not embody the presumption of the trade system, namely, that goods should flow freely across borders subject to limited government intervention in the form of tariffs. Instead, it was recognized that, to facilitate macroeconomic management, governments could restrict cross-border movements of capital and the overseas use of their currencies. Japan, like other countries in the immediate postwar period, maintained controls on capital flows, and the yen was not freely convertible in international markets.

In Japan, bank loans were the principal source of capital for industrial firms. To the extent that the industrial sector engaged in international trade, it did so by exporting from domestically located production facilities (i.e., Japanese firms were exporters, not multinationals with global production networks). The upshot was that both the banks and firms had a common interest in the maintenance of a stable, internationally competitive exchange rate, and had no particular interest in promoting the use of the yen outside Japan. Furthermore, the subordination of the Bank of Japan to the Ministry of Finance, and the high degree of access of the large banks to MOF officials, meant that these private preferences were readily transmitted to Japanese policymakers (Henning 1994).

Over time, changes in the external environment and the nascent globalization of the Japanese industrial sector contributed to shifts in the underlying preferences of the private sector. Controls on both the inflow and outflow of capital were kept in place until a process of liberalization was begun in 1979. However, beginning in the early 1980s, the “internationalization” of the yen became the subject of contentious negotiations between the US and Japanese governments, with the US side pressing Japan to undertake policies more rapidly to promote the international use of the Japanese currency, including lifting restrictions on the euro-yen market, encouraging the development of a short-term market in government securities and forward markets in the yen, and creating a market in bankers’ acceptances (Frankel 1984).<sup>4</sup>

In fact, the use of the yen as an invoice currency and reserve currency did subsequently increase during the next decade, though not as rapidly as the increase in Japanese income or Japanese capital outflows. Japanese policy remained ambivalent, reflecting diverse private and bureaucratic preferences. Although parts of the private sector and parts of the Ministry of Finance pressed for a more prominent role for the yen, the highly regulated nature of Japan’s domestic financial markets, and a lack of trust in Japanese authorities taking international considerations into account in setting policy, acted as a brake on this process.<sup>5</sup>

Nevertheless, the growth of intraregional trade and the increasing use of the yen as an invoice currency by Japanese multinational firms encour-

---

4. As Frankel (1984) makes clear, the US government had a variety of motivations in pursuing capital-market liberalization in Japan. At the time, the US government was running large budget deficits, and some officials were most interested in selling US government debt in Japan. They were interested in encouraging capital outflow to finance the US government deficit. Others wrongly believed that there would be a net inflow of capital into Japan, contributing to a yen appreciation and taking pressure off import-competing sectors in the United States.

5. See Ito (1993), Hamada (1994), and Moreno (1996) on the internationalization of the yen and Japanese policy. See Council on Foreign Exchange and Other Transactions (1999) for an example of pro-internationalization views from the Ministry of Finance.

aged the notion of a “yen bloc” in Asia, harkening back to the Greater East Asian Co-Prosperty Sphere of the 1930s. The alarmist tone of the popular discussion is captured by the cover headline on the 5 August 1991 international edition of *Newsweek*: “The Yen Bloc: Asia’s Message to Washington: Sayonara, America.”<sup>6</sup>

Rather than a discriminatory bloc, what in fact developed during the 1990s was a disjuncture between the real and financial sides of the economies in Asia. On the real side, Asian economies became more and more integrated with Japan, as Japanese multinational firms created production networks in Asia, with Japan supplying high-value-added components for assembly into finished products in lower-wage Asian locations. Japanese banks increased their presence in the Asian economies in parallel. At the same time, as the Asian economies developed, shifting their export profiles toward more sophisticated manufactures, they more and more competed with Japanese-based production in world markets, especially in the United States, and earned export receipts primarily in US dollars (Noland 1997c). The Asian economies were increasingly tied to Japan as a source of intermediate inputs and finance (with the loans sometimes denominated in yen), whereas the ultimate export destination was the United States, and the export receipts were in US dollars.

Most critically, rather than abandoning the dollar as the “yen bloc” paranoiacs expected, Asian countries implicitly or explicitly pegged their own currencies to the dollar, despite the importance of Japan to their economies. As Ito, Ogawa, and Sasaki (1998) demonstrate, the weight of the yen in an optimal currency basket for the Asian countries was higher than the actual weight accorded to the yen in exchange rate management; as a consequence, these economies were subject to external shocks when the yen-dollar exchange rate moved.<sup>7</sup> In the early 1990s, they encountered difficulties paying back yen-denominated loans as the yen appreciated

---

6. Plus ça change, plus c’est la même chose. The term “yen bloc” is often used rather loosely, conflating Japan’s increasing intraregional trade during the period with the notion that the yen would play a predominant role in regional finance. See Maidment (1989), Frankel (1993), Melvin and Peiers (1993), Petri (1993), Kwan (1994), and Aggarwal and Mougoue (1996) for analyses of regional integration and the yen bloc idea.

7. During the 1990s, the Thai baht was fixed in the narrow range of 25.2-25.6 to the US dollar. The Malaysian ringgit was allowed a bit more flexibility, staying within a 10 percent band of 2.5-2.7 ringgit to the dollar. The Philippine peso moved within a 15 percent band of 24-28 to the dollar until 1995, when it was fixed at 26.2. Indonesia maintained a crawling peg, and the currency was allowed to depreciate in nominal terms from 1,900 rupiah to the dollar in 1990 to 2,400 rupiah to the dollar at the beginning of 1997. The South Korean won followed a controlled float, but was held within a narrow range of 770-800 won to the dollar from early 1993 to mid-1996, when it was allowed to depreciate about 10 percent.

against the US dollar, and in the mid-1990s they began to lose export competitiveness as the yen depreciated.<sup>8</sup>

Anecdotal evidence suggests that profit margins on much of this lending were extremely thin, and, according to Bank for International Settlements (BIS) figures, as the Japanese banks' financial situations deteriorated in the second half of 1995, they began to withdraw from Asia.<sup>9</sup> This capital outflow (along with a variety of other factors) contributed to the crisis that began in Thailand in July 1997 and quickly spread throughout the region.<sup>10</sup> It is precisely a replay of this scenario of financial-market shocks emanating from a weak Japanese economy that the United States and the rest of the world continue to face.

The crisis brought to the fore the issue of Japan's role, both institutionally and through the use of its currency. As in the previous discussion of trade policy, in the finance and development sphere there is a similar set of themes: disagreement over substantive and key leadership issues, and a possible Japanese and Asian desire to go their own way. The focal points have been Japanese and Asian dissatisfaction over the performance of the US government and the Washington-based International Monetary Fund during the Asian financial crisis, subsequent debates over reform of what has come to be known as the "international financial architecture," and proposals for regional initiatives that could run counter to policy emanating from "Washington."<sup>11</sup>

## The Asian Financial Crisis

Tokyo and Washington clearly reacted differently to the Asian crisis, reflecting differences in ideology, national interests, and perhaps under-

---

8. After the crisis, Japanese authorities continued to promote basket-peg policies as a means of advocating the international, or at least regional, use of the yen. See Ueda (1998) and Noland et al. (1999) for further discussion of exchange rate shocks in the Asian financial crisis.

9. For overviews, see Ostrom (1998); Baily, Farrell, and Lund (2000); and Green (2001). According to BIS figures, Japanese banks reduced their exposure to the rest of Asia by an estimated \$30 billion in 1998, accounting for roughly 30 percent of the net capital outflow the region experienced in 1998. By 1999, nearly half of the Japanese banks that had been operating in Asia in mid-1997 had pulled out, and according to Bank of Japan figures, Japanese bank lending to Asia was 40 percent below its 1997 level. The Japanese withdrawal was initially offset by increased European lending, but as the crisis exploded in the second half of 1997, the Europeans also pulled out.

10. See Noland et al. (1999) for an account of the crisis and its effects, and Kaminsky and Reinhart (2000) for a discussion of the role of Japanese bank lending in regional contagion.

11. Many in Asia regard the IMF as a front for the US government and do not distinguish between the actions and positions of the two entities. In part this reflects ignorance, but in part it is an understandable response to the predominant influence that the United States wields in the IMF, and the fact that in the case of South Korea, the IMF program conditionality

standings of the crisis. The US government initially underestimated the severity of the crisis, with President Clinton describing it as “a glitch in the road” at the APEC summit in November 1997.<sup>12</sup> Furthermore, relative to Japan, the United States was unsympathetic to the capital channeling and cronyism that had contributed to the crisis; and again relative to Japan, US banks and financial institutions had less at stake in the region. Crudely put, the US government initially regarded the crisis as a modest regional affair, largely of the Asians’ own making. Thailand was stunned by the initial US refusal to come to its financial assistance at the onset of the crisis, in contrast to the United States’ forthcoming stance vis-à-vis Mexico during its crisis of 1994-95.<sup>13</sup> It was only after the crisis spread to South Korea and threatened to spread to Brazil and Russia that the United States was shaken out of its complacency.

Asian disappointment with US reticence was compounded by what are widely regarded as fundamental mistakes in the IMF programs that actually exacerbated the crisis.<sup>14</sup> These perceptions—that the United States was an unreliable ally, and that the economic prescriptions being written by Washington were at best incompetent and at worst malevolent—created an opportunity for Japanese leadership on regional financial issues, despite the fact that the sluggish growth of the Japanese economy, the yen depreciation of 1995-97, and the weakness of the Japanese banking sector contributed to the crisis in the first place.<sup>15</sup> Taking advantage of this opportunity, in September 1997 Japan proposed an Asian Monetary Fund (AMF). The fund was reportedly to be capitalized at \$100 billion.

---

included items of direct mercantilist interest to Japan and the United States but of questionable relevance to the financial crisis.

12. Like many of us, the president later changed his tune, in a 14 September 1998 speech to the Council on Foreign Relations describing the Asian crisis as “the biggest financial challenge facing the world in a half century.” This also turned out to be wrong.

13. The United States participated in the “second line of defense” associated with the second IMF program in Thailand. However, even this participation was purely symbolic, inasmuch as the US Department of the Treasury fought the actual use of second-line funds and has never disbursed a dime.

14. Joseph E. Stiglitz, at the time the chief economist of the World Bank, contemporaneously put forward serious criticisms of the IMF programs (Stiglitz 1998, 1999). To cite another example, Masaru Yoshitomi, dean of the Asian Development Bank Institute, described the IMF’s program in Indonesia as having made the situation “even worse” (Dow Jones, 25 June 2001). For a detailed analysis of one IMF program, see Noland (2000a, chap. 6).

15. In the interest of brevity, these statements blur distinctions among Asian countries. In Indonesia, in particular, some segments of the society actually welcomed the IMF, which was regarded as less cozy with the Suharto regime than the World Bank. At possibly the other extreme, there was a widespread view in South Korea that the IMF program was a deliberate attempt to subvert the South Korean economy, which was believed to pose a threat to the United States in sectors such as automobiles. Indeed, in South Korea, the crisis is commonly referred to as “the IMF crisis.”

The idea was that the regional fund could quickly disburse funds without regard to quota limitations and policy conditionality, as was the case with IMF lending.

The proposal was blocked by Chinese, IMF, and US opposition, with “Washington” fearing that an AMF would degrade the *global* financial system by undercutting the IMF, whereas China opposed it out of geopolitical rivalry.<sup>16</sup> (It did have the effect of spurring the US Department of the Treasury to redouble its efforts to secure an IMF quota increase, as is discussed below.) The MOF then came back with the New Miyazawa Initiative (named for Finance Minister Kiichi Miyazawa), a \$30 billion financial assistance plan for the region that consisted largely of sovereign debt guarantees, trade credits, and low-interest loans, which could be interpreted as an action comparable to the United States’ support of Mexico in 1994-95<sup>17</sup> (see box 6.1). Cynics claimed that this was simply a backdoor means of providing public funds to Japanese banks and corporations through their Asian subsidiaries.<sup>18</sup> There is probably some truth to this, but whatever the motivation, Japan extended more official assistance to strapped economies in Asia than did the United States. At the same time, it should be noted that in 1998-99 exports from the most heavily affected Asian economies to the United States rose, while those to Japan fell. In essence, the United States enabled trade, while Japan provided aid.<sup>19</sup>

## Asian Regionalism

In November 1997, the Southeast Asians invited the heads of government from China, Japan, and South Korea to attend the ASEAN summit in Kuala Lumpur.<sup>20</sup> The next year this “ASEAN+3” group met again in Hanoi, and China took the lead in proposing that the group explore possibilities for financial cooperation. The following year in Manila, the

---

16. See Altbach (1997), Hamada (1999), and Green (2001) for further discussion. Green argues that beyond the international opposition to the plan, the AMF proposal was opposed by large parts of the MOF itself.

17. The “old” Miyazawa Initiative was a 1980s debt-crisis plan (see Green 2001 for details). The government of Japan subsequently announced that, beyond the “New Miyazawa Initiative,” an additional ¥2 trillion would be made available for sovereign loan guarantees. This money, if disbursed, would offset the roughly \$30 billion of net lending that Japanese banks withdrew from the region in 1998.

18. Green quotes an unnamed MOF official as saying that the Miyazawa Initiative was “one part of the overall measures to resolve the financial situation in Japan” (2001, 255). See also Goad (1998).

19. The two countries cooperated in 1998 in funding the Asian Growth and Recovery Initiative through the multilateral development institutions. Japan followed this up in 2000 with proposals for debt relief for the world’s poorest countries, as is discussed below.

20. See Henning (forthcoming 2002) for a detailed history of Asian monetary cooperation.

### **Box 6.1 The New Miyazawa Initiative**

After the AMF idea was rejected, at an APEC finance ministers' gathering in October 1998, Japanese Finance Minister Kiichi Miyazawa announced a new initiative to assist the five most heavily affected Asian crisis countries. Under the plan, dubbed the New Miyazawa Initiative (the first Miyazawa Plan was a 1980s debt-crisis plan), Japan pledged \$30 billion, half for short-term trade finance and loans, and half for medium- to long-term lending. The modalities of these commitments included use of Export-Import Bank of Japan (JEXIM) loans, acquisition of sovereign bonds issued to Asian governments by JEXIM, and concessional loans through Japan's budget for official development assistance.

The actual disbursement of funds was done through a very bureaucratic process, and ironically, the long-term money was exhausted before the short-term money. Indeed, the convoluted nature of the process led to complaints by the supposed beneficiaries, and some skepticism about disbursement figures released by the Ministry of Foreign Affairs and the true magnitude of "additionality" (Castellano 1999a, 1999b, 2000b).

A second part of the plan aimed at increasing the use of the yen internationally, by encouraging other Asian countries to hold the yen as a reserve currency as part of basket-peg exchange rate policies, and to encourage greater use of the yen-denominated financial instruments such as "Samurai" bonds in private markets. Operationally, JEXIM would guarantee private bank loans to Asian countries, and guarantee sovereign bonds issued by Asian governments. In March 1999, the Board of the Asian Development Bank approved the establishment of an Asian Currency Crisis Support Facility underwritten by Japan.

group formally identified items for cooperation, and after 2 years of dormancy, Japan's Ministry of Finance resuscitated a watered-down version of the AMF proposal in the spring of 2000 (Kuroda 2000). The Japan-dominated Asian Development Bank (ADB) floated a report stressing the need to "seriously consider" an AMF—a position from which it subsequently backed away.<sup>21</sup> The problem was in some ways similar to the one that confronts Japan with respect to FTAs: it did not want to be perceived as originating the policy proposal, but rather as responding to the entreaties of others, a predilection that Rix (1993) described as "leadership from behind." In the case of the AMF, Japanese officials invariably described the AMF as an ASEAN and Japanese proposal. It is not surprising that Thailand has emerged as Japan's most reliable ally in this regard.

The ASEAN finance ministers did indeed consider the proposal in their meeting in Brunei in March 2000, but shelved it in favor of a less ambitious regional currency-swap arrangement involving China, Japan, and South

---

21. See Asian Development Bank (2000). ADB President Tadao Chino later tried to clarify, stating that there may be a role for an AMF, but that the IMF should remain the lead agency in handling future crises (IMF, Morning News, 12 April 2000). The ADB would later announce that improved regional conditions and the growth of the swap networks had lessened the urgency of establishing an AMF.

Korea, while agreeing to conduct a “study on the modalities and mechanisms for a regional financing arrangement to supplement the existing international facilities.”<sup>22</sup>

At the ADB annual meeting held in Chiang Mai, Thailand, in May 2000, the ASEAN+3 agreed to what came to be known as the “Chiang Mai Initiative,” a three-part cooperative framework instituting a network of bilateral medium-term (up to 1 year) foreign exchange credit arrangements among the central banks, undertaking regional macroeconomic surveillance, and committing to technical assistance. This time, the opposition from the United States and the IMF was muted. Although the amounts committed to the so-called Network of Bilateral Swap Arrangements to date are modest, in the future this arrangement could involve much larger mutual currency supports (Bergsten 2001a).<sup>23</sup> Unlike the precrisis swap arrangements, which were designed merely to provide liquidity against collateral (such as US Treasury bonds), the new system of extending hard currency loans in exchange for local currencies carries real exchange rate risk. In addition, the Asian countries are contemplating exchange rate stabilization schemes and new “early warning systems” to head off future crises.

To some, this appears to be the AMF by incremental means. Apart from the politics, such an organization could be justified on several grounds. First, it is clear that currency crises and their associated trade shocks have a strong regional component (Kaminsky and Reinhart 2000). This means that countries have a particular interest in the financial stability of their neighbors—which suggests that surveillance may be more effective on the regional, rather than global, level. Second, as a practical matter, recent bailouts have had a strongly regional flavor: the United States committed significant resources to the Mexican bailout of 1994-95, while Japan put forth most of the bilateral support in the Asian financial crisis. In financial terms, creating an Asian regional organization would not be difficult (the

---

22. Before the Asian crisis, a number of central banks had established currency swap and repurchase (“repo”) agreements, but these were easily swamped by the crisis. Agreements among the members of the organization of East Asian and Pacific central banks and the organization of Southeast Asian central banks were deepened and expanded in January 2000, and once again in May 2000. Apart from emergency lending by the Asian Development Bank, preexisting regional institutions did not play major proactive roles in the crisis. APEC and ASEAN were largely developed by their members’ foreign ministries; their finance ministries (in particular the US Treasury, in the case of APEC) have remained unenthusiastic, and neither organization has a highly developed financial component, although the Manila Framework Group, which was created by APEC, has had a modest role in the region since 1997. Rhetorically, at least, both organizations have continued to support liberalization, however, and they may have served to constrain backsliding.

23. Some specific new arrangements were announced at the ADB annual meeting in Honolulu in May 2001. See Kim, Ryou, and Wang (2000) and Henning (forthcoming 2002) for good overviews of these issues.

Asian countries possess nearly \$1 trillion in official reserves), especially if China and Japan were to commit significant resources. Indeed, this last point may be the strongest reason for an Asian institution: It would provide a venue for building regional confidence and trust.

The great potential disadvantage of the organization would be the threat it could pose to the globally oriented IMF, and it is not surprising that this emerged as a point of contention as the details of the Chiang Mai Initiative were worked out. For an AMF to succeed, lending conditionality would have to be carefully worked out with the IMF. If it were to lend in the absence of conditionality, the existence of a large pool of public money would create moral hazard on a gargantuan scale and would in all likelihood lead to the eventual collapse of the IMF system, because the IMF would be overwhelmed by the moral hazard problems that such AMF lending would fuel.<sup>24</sup> This is, in the words of Rose (1999), “an argument for a *good* AMF, not an argument for *no* AMF” (emphasis in the original). In May 2001 it was confirmed that the new financial arrangements would be “complementary” or “supplementary” to the IMF, and that only 10 percent of the funds could be drawn before triggering IMF linkage.

Until the organization develops a credible surveillance mechanism, it will remain subservient to the IMF. However, if it does develop effective surveillance, this could put Japan in a very difficult bind: It will be caught between the United States and the rest of Asia, with the latter pressuring it to put its considerable financial resources squarely behind the regional organization.

Today, the Chiang Mai Initiative has wide support in Japan. However, should the initiative evolve toward a robust AMF, Japan’s external bind would be manifested internally in a split between, on one hand, Asia-oriented regionalists and critics of the “Washington consensus,” who would support Japan’s taking an assertive posture in the regional organization; and, on the other hand, those who would regard Japan’s economic and security interests as better served by a continued orientation toward the United States and the global institutions.<sup>25</sup>

## The Global System

Parallel to this discussion of greater regional cooperation in Asia has been a more general discussion about what should be done to reform the financial architecture in general, and the IMF in particular. Again, the United States has led the international debate (although Japan, the Euro-

---

24. In a May 2001 speech, MOF Vice Minister Haruhiko Kuroda indicated that US concerns about moral hazard were well-founded and that crisis prevention should be the focus.

25. For the definition of the “Washington consensus,” see Williamson (1990).

pean Union, and the United States did cooperate in the formation of the Group of Twenty (G-20), a group of systemically significant economies convened to consider international financial architectural reform. As was mentioned above, in the spring of 1998, the specter of an AMF spooked the US Treasury into pushing the US Congress to increase the US quota commitment to the IMF. It was argued that, although the existing set of institutions might be suboptimal, it was unwise to reorganize the fire department in the midst of a fire (e.g., Noland 1998b). The political quid pro quo for Congressional approval of the quota increase was the establishment of a panel of outside experts, the International Financial Institution Advisory Commission, charged with assessing the public-sector international financial institutions. This commission, chaired by longtime IMF foe Allan Meltzer (it came to be known as the Meltzer Commission), was time-bound to issue its report in March 2000.

The US Treasury Department—anticipating that the commission would issue a strongly market-oriented critique of the international financial institutions—attempted to preempt the commission by issuing its own reform recommendations, many of which had originally been proposed in a Council on Foreign Relations Task Force report (CFR 1999). The Clinton administration proposal, initially articulated in Summers (1999) and developed at length in US Treasury (2000), calls for the IMF to phase out long-term lending, and to take on a more narrow crisis-prevention mission than its current activities encompass. In particular, it calls for the IMF to serve as a quasi-lender of last resort, loaning significant amounts at “prices to encourage rapid repayment” (Summers 1999, 6). At the same time, it seems to support the same kind of intrusive conditionality that proved so controversial in the Asian crisis, arguing that “issues of social cohesion and inclusion . . . should be addressed as a condition for IMF support” (Summers 1999, 6).<sup>26</sup> Eventually the Treasury dropped its insistence on eliminating the long-term lending facility.

When the Meltzer Commission report was released in March (IFIAC 2000), as expected, the majority report reflected a near obsession with the notion of moral hazard and called for greatly restricting the IMF to functioning as a quasi lender of last resort to prequalified countries; a wholesale downsizing and reorganization of the system of multilateral development banks; and the abolition of such institutions as the Multilat-

---

26. The Treasury position is unclear on this point. Some have interpreted this ambiguity as reflecting a desire by the Clinton administration in general, and Treasury in particular, to preempt the Meltzer Commission report, while at the same time preserving support from Congressional members concerned about labor, human rights, etc. On this point, the Meltzer Commission report’s majority statement would abolish policy conditionality (“the IMF would not be authorized to negotiate policy reform”), whereas the minority dissent defends this practice, without specifying the policies on which it is appropriate to condition IMF lending. See Goldstein (2001) for an evaluation of IMF conditionality.

eral Investment Guarantee Agency (traditionally headed by a Japanese national) and the multilateral development banks' private-sector arms, such as the World Bank Group's International Finance Corporation.

Japanese (and European) government reaction, as might be expected, has been sympathetic to neither the "less money with more conditions" thrust of the Summers proposal nor the "moral hazard über alles" stance of the Meltzer Commission. Japanese Finance Minister Kiichi Miyazawa described as "unrealistic" the idea of limiting the IMF's lending activities to short-term emergency credits.<sup>27</sup> In his address to the March 2000 meeting of the Manila Framework group, MOF Vice Minister Hirohiko Kuroda called for the IMF to limit the inclusion of structural reform conditionality in its assistance packages, despite the fact that Japan benefited from the abolition of South Korea's "import-diversification program" as part of South Korea's December 1997 standby agreement. This stand would be consistent with previous Japanese attempts to substantively influence the IFIs in the direction of greater sympathy to state intervention in economic life than that embodied in the "Washington consensus."

Japan and the United States found more agreement on a second issue, however. Influence within the IMF is largely a function of the weighted voting scheme in its Executive Board. These weights are determined by a country's quota, or the amount of foreign exchange it makes available to the IMF. For more than two decades, Japan has been signaling what it regards as its underweighting within the IMF Executive Board. In 1990, a general capital increase produced a realignment of relative quotas, and Japan moved up from fifth place to share second place with Germany, behind the United States. The Summers proposal recommends a recalculation of member quotas (the basis for weighted voting within the organization and, in principle, determining the amount of resources that a country can call upon in a crisis).<sup>28</sup> This could have important implications for Asia, inasmuch as most Asian countries (with the notable exception of China) would appear to be underweighted (and European countries similarly overweighted). In this respect, the United States and Japan appear to be on the same side.<sup>29</sup> Nevertheless, it proved difficult diplomatically

---

27. Quoted in Castellano (2000d).

28. The quota constraint on borrowing was bent for Mexico in 1994 under US pressure, and was broken dramatically during the Asian crisis, when South Korea was permitted to borrow nearly 20 times its quota.

29. In his speech to the Manila Framework Group, Kuroda argued that "a reassessment of the quota distribution to reflect the changes in the global economy is urgently needed" (*Financial Times*, 22 March 2000), a position reportedly reaffirmed by Minister of Finance Kiichi Miyazawa and Bank of Japan Governor Masaru Hayashi in the IMF's International Finance and Monetary Committee the following month.

The real problem appears to be the overweighting of Europe. Japan's economy is half as large as that of the United States or European Union, but its quota (6.2 percent) is one-third of the US quota (17.2) and only one-fifth of Europe's (33.8 percent). The problem with quota

to allocate to Japan the unambiguously second largest IMF national quota. South Korea is even further underweighted, and other Asian countries such as Thailand are arguably so, constraining their access to IMF resources, and limiting their influence in its Executive Board.

This issue came to a head in the struggle over who would succeed Michel Camdessus as managing director of the IMF. Despite Japan's rising financial contributions to the organization, no Japanese national has held this top leadership post.<sup>30</sup> Traditionally, the managing director job has gone to a European, while the presidency of the World Bank has gone to an American. A Japanese has traditionally led the Asian Development Bank. (The other regional development banks are also led by nationals from the region.) After protracted internal negotiations, the European Union nominated a German, Caio Koch-Weser, for the post. In the meantime, while the Europeans were negotiating, in a break from previous practice, Japan put forward its own candidate, Eisuke Sakakibara, a former MOF vice minister and a promoter of the Asian Monetary Fund. Some other Asian countries (though notably not China) were convinced to give token public support to his candidacy.<sup>31</sup> A disparate coalition of developing countries would eventually nominate a third candidate, the acting managing director, Stanley Fischer. After no consensus was achieved in the IMF Executive Board, in a second iteration of the process, the European Union nominated another German, Horst Köhler, the United States indicated his acceptability, and he received the endorsement of the Executive Board.

It is a bit hard to know what to make of the Japanese action. Sakakibara was well known for his nationalistic views, and under the circumstances was surely unacceptable to the United States (and many others). In 1990 he published a book, *Beyond Capitalism*, which touted the superiority of the Japanese noncapitalist market economy. Later, in a speech delivered during a 1996 visit to Washington directly addressing issues of financial

---

reallocation would not be giving Asia a greater share; it would be how to reduce the European share while preserving the historical prerogatives of individual countries. Simply treating the EU member countries (or, alternatively, the European Central Bank members) as a single member could result in the European quota exceeding that of the United States. This would not only be unacceptable to the United States on diplomatic grounds, but in theory it would require moving the IMF and World Bank headquarters to Brussels (which no one wants), because the charter states that the organizations' headquarters must be located in the capital of the largest member. See IMF (2000) for an extensive analysis of the quota issue.

30. Expectations of increased Japanese influence had been rising for some time. At the peak of the bubble economy, a September 1989 *Euromoney* cover story announced that "Japan Takes Over the IMF" and went on to predict that a Japanese national would succeed Managing Director Michel Camdessus. When the time came, Camdessus was reappointed.

31. In the end, only Thailand voted for Sakakibara, while China supported Koch-Weser, and the others, following the US example, abstained.

management and development, he dismissed the advisability of financial market liberalization, curtailment of government-led capital channeling, and reorientation of financial systems away from bank-centered indirect systems and toward market-centered direct finance (Sakakibara 1996). The following year he characterized the Thai crisis as demonstrating that “the Washington consensus [on the Bretton Woods institutions] was over” (quoted in Green 2001, 247) and led a ham-handed attempt to create an AMF. During the 1998 MOF financial scandal, he received a formal warning (see box 3.2). The fact that Japan promoted such a controversial figure could be interpreted as an indication of just how weak the Japanese pool of potential candidates for important international positions actually is.

It appears that the nomination was not meant to be taken at face value, but rather to signal Japan’s unwillingness to accept the continued European stranglehold on the managing director job.<sup>32</sup> Sakakibara said as much himself, describing his candidacy as “symbolic” and stating that Japanese authorities had launched his candidacy despite knowing “that the chance of my getting the position was very low.” Indeed, if a Japanese national did secure the managing director position, Japan would come under pressure to release its hold on the ADB presidency—to another Asian country (i.e., not to the European Union or United States).<sup>33</sup>

This fiasco, coming on the heels of the Moore-Supachai debacle at the WTO, vividly illustrated the fundamental bankruptcy of the national “reservation” system for selecting the senior leaders of the international institutions.<sup>34</sup> In this sense, the Japanese action should be regarded as a success, even if it did not yield short-run benefits. That said, it appears that Japan continues to punch below its weight in the IFIs, focusing on a narrow agenda of getting Japanese nationals into high-level appointments and engaging in an intellectually quixotic attempt to define a “new development paradigm,” as described below.

## Development Assistance

In large part, the international financial issues involve policy toward emerging markets. Explicitly concessional assistance toward less-developed countries has historically been an important part of the international economic policies of both Japan and the United States. This was particu-

---

32. See Reuters, 10 March 2000, and the *Financial Times*, 24 March 2000, for the quotes.

33. The problem for Japan is that, given the quota-weighted voting system, no other Asian country (with the possible exception of China) could provide major support for a Japanese candidacy at the IMF in exchange for Japanese support in the ADB.

34. See Kahler (2001) for recommendations for reforming the system of selecting senior leaders of international institutions.

larly important during the Cold War, when the developing world was an important venue for East-West rivalry. As with other parts of the Cold War legacy, Japan and the United States are engaged in an ongoing process of reorienting their policies to reflect the changing realities of the post-Cold War world.

From a US perspective, the United States is using its aid program in its multilateral and bilateral dimensions to support the globally desirable social aims of peace, democratization, and development, whereas Japan plays a far more narrowly targeted mercantilist game. The questionable programmatic nature of the Japanese program simply fuels this sense of grievance on the part of the United States, whether justified or not. This issue has lain dormant since the hysteria over a “yen bloc” reached its peak in the early 1990s. However, the issue of foreign assistance could be expected to emerge as another point of contention during the next flare-up in Japan-United States economic tensions. This could be particularly acute if aid issues became linked to security issues.

## Multilateral Programs

Part of the Cold War policy pursued by the West was to support friendly regimes with concessional financial assistance, in large part through loans disbursed by national, regional, and global public-sector financial institutions. With the end of the Cold War, the justification for such lending and the fiction of repayment declined *pari passu*. Debt relief caught the public imagination (especially in the United Kingdom and United States), and by the late 1990s an international political consensus had emerged that some official debt forgiveness was in order—although considerable intellectual controversy remained as to whether debt relief was a particularly effective means of fostering economic development.

The Highly Indebted Poor Countries (HIPC) Initiative—begun under the auspices of the World Bank and IMF in 1996—became the centerpiece of the debt relief enterprise. Country eligibility was determined largely according to the debt-export ratio and per capita income, making only the poorest of countries eligible. If external debt was calculated to be unsustainable, multilateral official lenders—including the World Bank, regional development banks, and IMF—were to undertake a reduction in their claims, whereas provisions covered debts owed to bilateral official lenders and commercial lenders.<sup>35</sup> According to the World Bank, “the net-present value of public debt in the 33 countries likely to qualify (approximately \$90 billion) would be reduced by about half after HIPC and tradi-

---

35. Multilateral and bilateral creditors are expected to each bear roughly 48 percent of HIPC’s costs, with commercial creditors accounting for the rest (International Development Association and International Monetary Fund 2001, table 6).

tional debt relief" (World Bank 2001, 4). In return for debt forgiveness, HIPC countries must undertake poverty reduction measures under World Bank and IMF supervision. In fact, before debt relief, the participating countries on average spent more on debt service than on health and education combined. Since debt relief, spending on social services has increased markedly.

So who will pay for these good works? In the case of the multilateral creditors, which are financial intermediaries, funding for debt relief has come from a combination of national contributions to the HIPC Trust Fund and, secondarily, IMF gold sales. The European Union and Japan will bear the predominant costs of relief of official bilateral debt, whereas the United States will absorb relatively little cost through this channel, reflecting the high grant component of US official development assistance (ODA). Funding for the HIPC Trust Fund has come primarily from the European Union and the United States, with Japan contributing only about a third as much (International Development Association and International Monetary Fund 2001, tables 11 and 15).

Although it is not an exaggeration to argue that there is an international political consensus behind HIPC—support for the initiative appears to be the only position on which the US Treasury, the Meltzer Commission (in both its majority and minority reports), and the Japanese Ministry of Finance agree—there have been differing degrees of enthusiasm for the project. For understandable reasons, of the major creditor countries, the United Kingdom and United States, which have active public movements for debt relief and little official lending (and hence bear little of the burden of debt forgiveness), have been the most accepting; in contrast, the governments of France and Japan have been the least enthusiastic. Initially the Japanese Foreign Ministry stated that countries that asked for complete debt relief would not be eligible to receive fresh loans, and in at least one case, the Japanese ambassador to a country considering participating in the HIPC scheme stated that Japan would cut off aid if that country applied. In part, this can be attributed to Japan's historical emphasis on loans as a vehicle for development assistance and emphasis on the need to repay loans. More to the point, most HIPC participants are in sub-Saharan Africa—a region of little strategic interest to the Japanese government and little financial exposure to Japanese firms.

Differing attitudes toward the HIPC effort point to a broader problem, similar to that encountered with respect to the IMF: although Japan has increased its funding to the multilateral development organizations, its influence over policy remains limited. At the World Bank and its soft-loan window, the International Development Association, Japanese contributions have increased relative to the US contribution, although the United States remains the largest contributor. Influence within these organizations is largely determined by the extent of financial contributions,

and the United States has maintained blocking power over major policy issues. Furthermore, by custom the president of the World Bank is an American, and, as discussed above, the managing director of the IMF, its sister institution, is a European. No high-ranking positions in either organization are traditionally reserved for a Japanese citizen. The one multilateral financial institution where the Japanese are dominant is the ADB. Although the United States and Japan hold equal capital shares, the president is customarily a Japanese national.

Japanese nationals make up less than 2 percent of IMF staff and less than 1 percent of World Bank staff—figures far below the shares of Japan’s financial contributions. This disjuncture between Japanese financial contributions and staffing levels has resulted in at least one public threat to reduce funding for UN agencies (though not for the IFIs, per se) (Hamada 1999).<sup>36</sup> It is sometimes argued that a shortage of qualified Japanese personnel willing to enter the international civil service hampers attempts to increase Japanese influence in these organizations. Although this may have been true in the past, there is no reason for it to be true in the future. In the short run, the relatively early retirement age in the Japanese civil service means that there is a pool of former senior government officials who could undoubtedly be induced to enter into international civil service with the proper incentives. The problem is that they tend to be generalists, and few meet the professional standards and qualifications of the IFIs. In the long run, a support system of incentives and rewards for service in international organizations could be more fully integrated into career advancement ladders. International leadership requires the development and support of such a capacity.

This matter is not purely an issue of national representation, however; there also is an ideological component. Japan has a history of trying to push the IFIs toward more interventionist policies. In the late 1980s and early 1990s, Japanese officials expressed uneasiness with the ideological basis of staff work at the IFIs and the notion of policy conditionality, and undertook a number of actions aimed at reorienting the ideological basis of policy in the IFIs. For example, the MOF cosponsored seminars with the IMF in which Japanese representatives promoted the virtues of stated capital channeling to developing-country policymakers. Japanese officials were highly critical of the World Bank’s 1991 *World Development Report*, which emphasized the advisability of relying on market mechanisms to spur growth; it issued a rebuttal, “Issues Relating to the World

---

36. According to N. Tanaka, Japan provides “nearly 25 percent of the [OECD’s] funding but only 5 percent of the administrative staff and virtually none of the initiatives in meetings” (1992, 27). In 1999, Japan’s UN ambassador, Yukio Sato, indicated that funding for international organizations would be put at risk if Japan did not receive a proportionate number of positions for its nationals—although the real constraint is a lack of qualified Japanese applicants (Green 2001).

Bank's Approach to Structural Adjustment," which criticized what it regarded as the Bank's free-market orthodoxy and which pushed industrial policies and capital channeling as an alternative. The Overseas Economic Cooperation Fund (OECF) responded by underwriting World Bank research activities that yielded the controversial *East Asian Miracle* study (World Bank 1993).<sup>37</sup> (Later, it would finance a second World Bank project along these same lines in the wake of the Asian crisis, in an attempt to influence IFI policy and secure an intellectual imprimatur for Tokyo's policies.) The MOF then underwrote the establishment in Tokyo, not Manila, of the Asian Development Bank Institute, a think tank charged with developing an alternative development paradigm.

## Bilateral Programs

In addition to these multilateral activities, both Japan and the United States have maintained extensive programs of bilateral engagement, ranging from trade and investment insurance and facilitation programs to pure grants. Historically, US aid has primarily gone to geostrategically important countries, without a great deal of weight placed either on relative need or programmatic effectiveness. For example, in 1999, the five largest recipients of US aid were Israel, Russia, Egypt, Ukraine, and Bosnia and Herzegovina (OECD 2001). Only about a sixth of US aid goes to the 48 least-developed countries. In recent years, in addition to the traditional goals of supporting security, economic development, and providing for humanitarian relief, US policymakers have taken on the additional tasks of supporting the economic and political transformation of formerly socialist countries, addressing transnational problems such as communicable diseases, and promoting democracy abroad (Lancaster 2000).

For Japan, a whole panoply of aid programs has been justified in terms of *keizai kyoryoku* ("economic cooperation"), without much regard for the degree of concessionality or their explicit mercantilist rationale. As one observer put it, "making the world safe for Japanese business is seen as a perfectly worthy goal of national policy" (Johnstone 1998, 91). Taken together, these programs are large; are focused on Asia; could be characterized by a high degree of bureaucratic fragmentation, rivalry, and questionable effectiveness; and have been continually questioned by outside observers, who have wondered if they are more about Japanese commercial interests than development.

Among the bureaucratic actors are the Japan Bank for International Cooperation (JBIC), created through the merger of the Export-Import

---

37. See Wade (1996) and Terry (2001) for detailed descriptions of the origins of the *East Asian Miracle* study and Japanese government involvement. The essays contained in Fishlow et al. (1994) are readable critiques of the study itself.

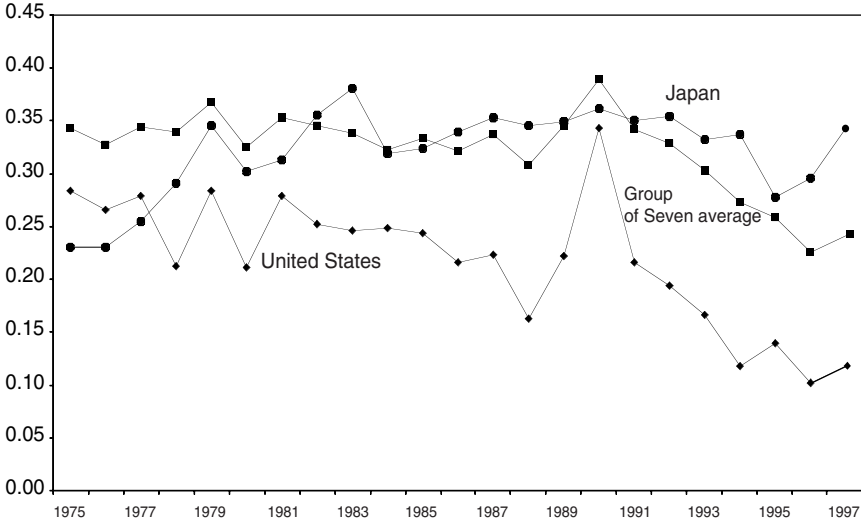
Bank of Japan (JEXIM), supplier of loans to support exports, imports, and overseas investment projects, and the Overseas Economic Cooperation Fund (OECF). In addition to providing concessional loans to developing-country governments, JBIC also provides limited lending, equity investments, and guarantees to Japanese private-sector-led projects in developing countries. The Japan External Trade Organization (JETRO), heavily subsidized by METI, promotes Japanese exports and, important in this context, technology transfer to developing countries. The Japan International Development Organization (JAIDO), established in 1989 by the Japanese government and the Japan Federation of Economic Organizations (Keidanren), provides equity support, loan guarantees, and consulting services for Japanese private-sector projects in developing countries. The Japan Overseas Development Corporation (JODC) promotes trade and investment in developing countries by Japanese small and medium-sized enterprises and supports personnel exchanges, mainly in the form of Japanese experts dispatched to developing countries. The Association for Overseas Technical Scholarship (AOTS) underwrites programs to bring trainees from developing countries to Japan (Johnstone 1998).

The JBIC, which supplies loans to support exports, imports, and overseas investment projects, is large—more than 13 times larger than the Export-Import Bank of the United States. According to Johnstone (1998), JBIC and METI programs support 36 percent of Japanese exports, whereas the comparable respective figures for France and the United States are 15 and 2 percent.

Most JBIC activity supports either Japanese exports or FDI by Japanese firms, with more than half of these funds disbursed in Asia. That said, the degree of “additionality” embodied in this activity is questionable, inasmuch as it reproduces financing undertaken by the private sector in other countries. Indeed, this could be regarded as yet another instance in which Japanese public-sector financial institutions squeeze out possibly more efficient and less socially risky activities by private-sector institutions.

Japan’s foreign aid program is also quite large. The OECD definition of financial assistance is that grants or loans have economic development or welfare as their primary objective, and carry concessional financial terms (i.e., a grant element of at least 25 percent). For purposes of comparison, financial assistance to developing countries is often expressed in the donor’s currency as a percentage of GNP. As Japan grew richer, the share of Japanese national income devoted to ODA rose over time, and by the 1990s exceeded the average of the G-7 (figure 6.1), though at roughly a third of 1 percent, it remained far below that of historically generous nations such as Denmark (1.0 percent), Norway (0.91 percent), and the Netherlands (0.85 percent), and the UN’s target of 0.7 percent. Even so, the Japanese aid budget has been declining in recent years, a victim of

**Figure 6.1 Official development assistance, 1975-98 (percent of GNP)**



Sources: Organization for Economic Cooperation and Development, Development Assistance Committee; World Bank, *World Development Indicators*, February 2000; IMF, *International Financial Statistics*, March 2001.

poor Japanese economic performance and a lack of enthusiasm in the business community for the “softer” emphasis on social capacity building and environmentally oriented projects.<sup>38</sup> By comparison, the United States has historically been one of the least generous donor countries, and today it ranks dead last in its share of GDP devoted to ODA among the 22 members of the OECD’s Development Assistance Committee, behind even poorer countries such as Portugal and Greece.

As the yen has appreciated since the 1970s, the Japanese contribution in dollar terms has grown substantially. Today, Japan is easily the largest aid donor in dollar terms, at more than \$13 billion, despite reductions in its aid budget in the late 1990s (table 6.1). Most Japanese aid is in the form of yen-denominated loans, and at times countries have had trouble repaying these debts during periods of yen strength, through no fault of the Japanese official lenders.<sup>39</sup> Moreover, despite international calls to focus aid on the least-developed countries, Tokyo’s most recent (1999) programmatic review reiterated its strategic emphasis on East Asia and intention to reemphasize aid flows to this region.

38. MOFA’s “soft” agenda appears to lack the same domestic political support as METI’s more commercially oriented program. Some Japanese corporate leaders have gone so far as to call for “re-tying” aid (cf. Altbach 1998), and in FY1999 the share of tied loans did in fact increase to its highest level in 10 years (Castellano 2000c).

39. During the early 1990s, Asian countries encountered difficulty in repaying such yen-denominated loans. China went so far as to request that Japanese official development assistance be denominated in US dollars; Japan refused.

**Table 6.1 OECD Development Assistance Committee, members' official development assistance (ODA), 1998**  
(millions of dollars)

Country	ODA	Country rank by ODA	ODA as percent of GDP	Country rank by ODA as percent of GDP
Denmark	1,747	8	1.00	1
Norway	1,327	12	0.91	2
Netherlands	3,232	6	0.85	3
Sweden	1,580	10	0.70	4
Luxembourg	111	22	0.64	5
France	6,946	3	0.49	6
Belgium	908	14	0.37	7
Japan	13,175	1	0.35	8
Switzerland	897	15	0.34	9
Finland	407	17	0.33	10
Germany	6,653	4	0.31	11
United Kingdom	4,227	5	0.31	12
Canada	1,739	9	0.30	13
Spain	1,529	11	0.28	14
Australia	960	13	0.27	15
New Zealand	129	21	0.25	16
Austria	516	16	0.24	17
Portugal	259	18	0.24	18
Ireland	198	19	0.24	19
Italy	2,446	7	0.21	20
Greece	179	20	0.15	21
United States	9,580	2	0.12	22
All countries	44,770		0.24	

OECD = Organization for Economic Cooperation and Development.

Source: OECD data.

In fact, China has been the recipient of large aid flows from Japan. This is becoming more controversial in Japan in light of the rapid growth of Chinese military expenditures, the privatization of some public-sector projects supported by Japanese ODA, and the portrayal in China of this aid as being war reparations.<sup>40</sup> Aid to China was reduced in the FY2002 budget.

Although the scale of Japanese activities is large, observers both inside and outside Japan have expressed reservations about the lack of programmatic vision and the quality of the programs. For one thing, a much lower

40. Indeed, 1995 Chinese nuclear tests led to a temporary suspension of Japanese grants to China. Japanese aid to Burma has also been controversial, causing frictions with Western countries since the late 1980s.

percentage of Japanese assistance takes the form of grants (only about a half), relative to the OECD average (and more than 95 percent for the United States). Japanese officials have responded that there is not the same cultural tradition of charity in Japan, and it is felt that loans, for which repayment is expected, will be used more wisely than grants. Besides, in recent years Japanese grants to both multilateral and bilateral sources have at times exceeded the entire aid budget of France, the world's third largest donor.

A second concern involves programmatic implementation. The Japanese programs are administered by a plethora of bureaucratic organizations, variously under the auspices of the EPA, MOF, MITI, and MOFA, with considerable overlap in their missions and a history of bureaucratic rivalry in program implementation. The 2001 bureaucratic reorganization gave MOFA primary responsibility for coordinating aid programs.

Although the size of the Japanese ODA program grew rapidly, the number of staff remained roughly constant, and over the course of a decade, the amount of funding per staff increased fivefold, greatly exceeding that observed in other major donors. Add fragmented administration and the relative lack of experience or specialized skills among the Japanese staff, and the picture that emerges is of an overwhelmed bureaucracy experiencing difficulty discharging its duties to disburse funds and oversee project implementation. Indeed, employees of private-sector ODA contractors have been known to work full time in government aid offices (Craib 1994). These conditions have contributed to slow disbursement of funds, allegations of *de facto* aid tying, and periodic revelations of money wasted due to corruption, mismanagement, and poor project implementation in recipient countries (Johnstone 1998).

Finally, there are suspicions among many observers that the Japanese foreign aid program is undertaken primarily to support Japanese commercial interests—as is arguably the case elsewhere. Indeed, the Japanese aid program did have its origins in early postwar programs largely aimed at securing raw materials for the Japanese economy in exchange for Japanese-produced manufactures. Despite recent emphases on social capacity and institution building, and environmentally oriented projects, lending activities remain significantly concentrated on large, capital-intensive infrastructure projects, more so than in the case of other major donors.<sup>41</sup>

Japanese firms arguably have a comparative advantage in these projects, and throughout the 1970s, aid was explicitly tied to the purchase of Japanese products. Although the share of explicitly tied aid has fallen in recent years (the share of explicitly tied aid fell from 100 percent in the

---

41. Ironically, among the most prominent manifestations of “greener” aid has been Japan’s effort to encourage atmospheric pollution abatement in China, in response to acid rain in Japan generated by dirty power plants in China, many of which were built with Japanese official assistance (Green 2001).

early 1970s to less than 5 percent in the early 1990s, and despite its recent increase, remains well below the US figure), it is often argued that this understates the effective degree of tying that occurs.<sup>42</sup> Indeed, the government of Japan has given skeptics ample ammunition on this point—for example, MITI’s promotion in the late 1980s of the New Asian Industrial Plan (or “Asian Brain”) proposal, which explicitly envisioned an aid-supported MITI coordination of Asian countries’ industrial policies to promote Japanese commercial interests, or its late-1990s plans to use ODA as a “pump primer” for FDI by Japanese firms. As former Prime Minister (and future Finance Minister) Kiichi Miyazawa stated in 1997, “Development assistance should be linked to private sector money. Because our aid was untied, it didn’t show a Japanese face. We should reduce aid while coming up with more effective ways of dispensing it.”<sup>43</sup>

What this does is create another potential flashpoint in Japan-United States relations. From the standpoint of Japan, it is a major contributor to development assistance at both the multilateral and bilateral levels, yet has virtually no influence over the policy of the multilateral institutions or even initiatives such as HIPC. It is, in effect, getting little political return on its investment, and domestic support for international assistance is fading as the Japanese economy remains in the doldrums.

## Security Issues

Although Japan emphasized the economic dimension of its foreign policy, traditional military security has remained the core concern of the United States. During the Cold War, this division of roles suited Japan well. But even Japan’s Shigeru Yoshida, who became Prime Minister in 1948, recognized that Japan would eventually outgrow the “Yoshida Doctrine” of minimal rearmament, close association with the United States, and focus on economic recovery.<sup>44</sup> In the security sphere, successive Japanese governments interpreted Article 9 of the Constitution as affirming the constitutionality of maintaining standing armed forces to deter aggression,

---

42. On implicit and explicit aid tying, see Doherty (1987), Ensign (1992), Arase (1995), Hatch and Yamamura (1996), and Evans and Oye (2001). In May 2001, members of the OECD Development Assistance Committee reached an agreement on circumscribing aid-tying after 3 years of negotiations. However, Japan was successful in getting consultancy services excluded from the agreement, claiming that its consultancy sector was too weak to compete internationally. This loophole may allow Japan to continue to effectively tie large infrastructural projects, inasmuch as it is alleged that in the past project feasibility studies have been used to write specifications to advantage particular providers and to keep such providers abreast of preproject developments.

43. The *Nikkei Weekly*, 9 June 1997.

44. Pyle (1992) argues that the Yoshida Doctrine was a “cynical” foreign policy that even Yoshida came to regret. See also Ozawa (1994) on this point.

but strictly limiting their role to the defense of the home islands. The constitutional prohibition against collective self-defense effectively prevented Japan from joining military alliances such as the Southeast Asia Treaty Organization or the Security Treaty between Australia, New Zealand, and the United States. And as a matter of policy, during the Cold War, the Japanese government declined to participate in UN peacekeeping activities—a restriction that Japan would gradually loosen in the 1990s.

Given the circumscribed role of the military, Japan relied heavily on the United States for military protection and for defense of its vital strategic interests abroad, taking shade, as some Japanese politicians put it, under the largest tree (Green 2001). The centerpiece of this relationship is the 1960 Treaty of Mutual Cooperation and Security, which lays out a set of reciprocal obligations. Under the treaty, the United States promised to defend Japan in case of attack. In turn, Japan agreed to consult with the United States about regional security problems, maintain forces to deter aggression (subject to the constitutional limitation), and come to the assistance of US forces if attacked in Japan. The treaty does not obligate Japan to participate in regional security schemes, nor come to the aid of the United States if US forces are attacked outside Japan.

The modus operandi of security cooperation is operationalized in the Guidelines for Japan-US Security Cooperation and the Status of Forces Agreement (SOFA). These documents spell out the division of labor between the two countries' armed forces under various contingencies and set forth Japan's obligation to furnish, without cost, areas and facilities for US forces in Japan. In the 1960 agreement, the United States, in turn, agreed to bear "without cost to Japan" the remaining expenses associated with maintaining the troops. Pursuant to these agreements, the United States provides a conventional and nuclear security umbrella over Japan, and maintains a presence of about 47,000 troops, mostly garrisoned on the far southerly island of Okinawa.

By the late 1980s, before the end of the Cold War, the United States-Japan security relationship was coming under noticeable stress. Japan imports roughly 70 percent of its oil from the Middle East, and this oil dependency encouraged a diplomatically solicitous posture vis-à-vis the producing nations. In the cases of the boycott of Iranian oil after the seizure of the 1979 US embassy and sanctions against alleged state-sponsored terrorism, Japan acceded to the US position only after substantial prodding.<sup>45</sup> Similarly, Japan made substantial efforts to placate Iran during the 1987 hostilities in the Persian Gulf, refusing to support the proposed

---

45. Yet, it should be recognized that, unlike some NATO allies, Japan did eventually support United States-initiated sanctions after the seizure of the US embassy in Tehran and the Soviet invasion of Afghanistan. As one observer put it, Japan participated in the United States-led Olympic boycott and economic sanctions, "while less principled Western allies rushed in to accept Soviet contracts that would have otherwise gone to Japan" (Reed 1983, 57).

trade embargo, or send minesweepers. Eventually, after months of deliberations on the constitutionality of support for the Gulf minesweeping effort, Japan agreed to provide about \$10 million worth of electronic navigation equipment to the naval forces involved.

These events coincided with Japan's emergence during the latter part of the Cold War as a commercial rival of the United States. It was not lost on many observers that Japanese defense expenditures were low by international standards (Balassa and Noland 1988, table 7.1). In effect, Japanese defense expenditures have been politically fixed at 1 percent of GDP—meaning that, in relative terms, during this period Japanese expenditures lagged behind not only major European countries such as France (3.9 percent), Germany (3.1 percent), Italy (2.2 percent), and the United Kingdom (5.1 percent), but even small or neutral countries such as Sweden (2.8 percent), the Netherlands (3.1 percent), and Norway (3.1 percent).<sup>46</sup> In some quarters, this was taken as evidence that Japan was getting a “free ride”—using its aid budget to promote its commercial interests while sheltering under the US security umbrella.<sup>47</sup>

These stresses mutated, but did not disappear, with the end of the Cold War and a decade of subpar Japanese economic performance. Indeed, the outbreak of the Gulf War in 1990 amounted to a significant shock to the system (see box 6.2). As A. Tanaka put it, “Japan appeared totally unprepared to make timely and meaningful responses to this first international crisis of the post-Cold War era” (1995, 92). Green describes a situation in which “Japanese officials failed to predict the onset of the war, failed to predict the overwhelming victory of the United States, and then failed to send personnel to the conflict in spite of unprecedented international pressure to do so” (2001, 17). Instead, Japan's contribution was limited to financial support, leading one Japanese observer to liken the United States to samurai of the Tokugawa period who, although allowed to bear arms, were poor, whereas Japan is like the *chonin* (merchants) who, although without formal political authority, were rich (Hamada 1994). An American observer quipped, “Now we know the meaning of collective leadership: the United States leads, and the United States collects” (Bergsten 1991, 1).<sup>48</sup>

---

46. The 1 percent figure for Japan is a bit of a fudge; if broader NATO accounting conventions were used, Japanese expenditures would rise several tenths of a percent. The main reason is that the NATO definition includes pension costs, and 40 percent of JSDF personnel are officers with sizable pensions. Indeed, the Japanese figure would rise by another two-tenths of a percent if pre-JSDF (i.e., Imperial Army) pensions were included. In absolute terms, Japanese military expenditures are the fourth highest in the world, behind the United States, France, and the United Kingdom.

47. For contemporaneous examples, see Sullivan (1981) and comments contained in MacIntosh (1987).

48. See Pyle (1992), Lincoln (1993), and Funabashi (1999) for more details.

## **Box 6.2 The Gulf War**

Japanese officials initially downplayed the Iraqi invasion of Kuwait, indicating that there was no reason to send troops and opining “the whole thing may be a ploy by the U.S. to sell arms to Saudi Arabia and Israel to bolster the sluggish U.S. defense industries” (quoted in Lincoln 1993, 221). Once the United Nations moved toward an embargo of Iraq, Japan got in line, and Tokyo attempted to identify nonmilitary ways to contribute to the allied effort, while providing modest financial assistance.

The results were dreadful. As allied troops gathered in the Persian Gulf region, Prime Minister Toshiki Kaifu publicly promised a medical team of 100 specialists, but only 26 could be found, and even these quickly returned home before hostilities commenced. The idea of using Japanese aircraft to airlift home third-country refugees (mainly from South Asia and the Philippines) who had fled Kuwait was floated by the foreign ministry, but opposed by the transport ministry. Tokyo then pledged to transport food, water, and medical supplies, but negotiations between the foreign ministry, the transport ministry, and Japan Airlines resulted in a “convoluted plan,” which eventually was scrapped (Ozawa 1994, 37). The possibility of using ships was mooted, but withdrawn when the longshoremen’s union objected. The possibility of using JSDF aircraft was raised, but this too was eventually rejected. In the end, the government of Japan chartered a US airline to transport the supplies.

As Japan dithered, international pressure to contribute to the effort increased, and eventually the Ministry of Finance effectively took control of the Gulf War policy. Japan boosted its financial contribution to the war effort to \$13 billion (financed by a tax increase), though not before a Japanese government spokesperson had announced that Japan would not be “a cash dispensing machine” and the US House of Representatives had overwhelmingly voted to begin removing US troops from Japan unless the Japanese paid all basing costs, despite the fact that Japan already provided the most generous host support of any security partner, at a cost of roughly \$5 billion annually.

In the context of its abysmal failure to formulate any meaningful nonfinancial policy, Japan’s contribution was derided as “checkbook diplomacy,” both at home and abroad. Legislation was introduced to allow JSDF personnel to participate in UN peacekeeping operations after hostilities had ended, but the government was unwilling to push it through political opposition in the Diet, and it was not passed until 1992—well after the war had ended.

Perhaps the diplomatic fallout from the war is best conveyed by the following anecdote: “After the war, a JSDF official had a conversation with an American officer who had actually fought at the front. When the talk turned to the role that Japan had played in the war, the JSDF officer strongly defended Japan’s contribution: ‘Japan sent no personnel but each citizen gave more than \$100 to the effort.’ His calculation was based on Japan’s \$13 billion total contribution, including aid given to Gulf region nations. The American officer answered, ‘Fine, I’ll give you \$100 and you go fight in my place’” (Ozawa 1994, 38-39). Never had \$13 billion bought so little goodwill.

### **Box 6.3 The North Korean nuclear crisis**

In March 1993, North Korea announced its intention to withdraw from the Nuclear Non-Proliferation Treaty, and in May it test-fired a Nodong missile capable of hitting population centers in Western Japan. In December 1993, a leaked US National Intelligence Estimate concluded that North Korea had developed one or two nuclear weapons. In May 1994, North Korea began unloading spent fuel rods from its nuclear reactor at Yongbyon, a possible precursor to the manufacture of nuclear weapons. North Korea and the United States were headed toward a possible military confrontation over the North Korean nuclear program.

Despite the obvious threat that a combination of nuclear weapons and missile-delivery systems would present to Japan, US officials were stunned by the reactions of their Japanese counterparts when they began serious contingency planning in the spring of 1994. Although any large-scale US military action on the Korean peninsula would require the use of US bases in Japan, prospects for Japanese assistance beyond this passive role were highly uncertain. Prosaic requests such as simplified customs procedures at Narita Airport, or the use of tugboat services if damaged US ships broke down, were refused. Japan Maritime Self-Defense Force officials indicated that they would be unable to provide ships for minesweeping or surveillance unless directly attacked or provided legal cover by a UN mandate. Embassy sources privately reported that it was even unclear whether damaged US planes, unable to return to their bases in Japan, would be permitted to land at Japanese civilian airports, or whether Japanese civilian hospitals could be used to treat evacuees should the military medical system be overwhelmed. To the exasperated Americans' dismay, this was the Gulf War redux. As one former MOFA official observed, "Japan has been a genius at disappointing its allies" (Okazaki 2001).

The following year, the alliance received another wake-up call in the form of a military confrontation between the United States and North Korea (see box 6.3).<sup>49</sup> At the same time that Japan and the United States were fumbling to deal with the North Korean threat, the two countries were embroiled in an increasingly acrimonious trade dispute on autos and parts, which would culminate in Japan calling the US sanctions bluff in the WTO (as was detailed in chapter 5). The possibility of a nuclear war was defused by former President Jimmy Carter's June 1994 visit to Pyongyang, while the prospects for its paler trade variant were obviated by President Clinton's climb-down on sanctions the following year. Nevertheless, it was apparent to many that there had to be a better way.

A combination of substantive problems and a sense that increased effort had to be made on security concerns to offset the corrosive trade relationship contributed to a bilateral security review, which came to be known as the Nye Initiative (after US Assistant Secretary of Defense Joseph Nye). This effort culminated in the April 1996 Clinton-Hashimoto

---

49. See Ozawa (1994), Funabashi (1999), Noland (2000a), and Green (2001) for additional details.

Joint Security Declaration, which reaffirmed the importance of the alliance to regional security and stability and the US commitment to a 100,000-troop, forward-deployed presence in Asia; initiated a review (completed the following year) of the Guidelines for US-Japan Security Cooperation to focus on regional cooperation in response to regional contingencies; agreed to a new Acquisition and Cross-Servicing Agreement; agreed to return key US military installations on Okinawa in the context of a continuing US presence; and promised to work together to induce China to play a constructive regional role.

The revised 1997 guidelines refocused the alliance on regional contingencies, and addressed some of the problems encountered in the Gulf War and Korean crises. The revisions provided for 40 areas of cooperation, including Japanese minesweeping of sea lanes; intelligence gathering; Japanese rear-area support for the United States in regional crises, including search and rescue missions; logistics support, including round-the-clock US use of Japanese hospitals, ports, and airfields, and the provision of fuel and equipment; and the use of Japanese vessels to evacuate Japanese citizens from conflict areas. However, for all the plethora of detail, the document leaves key terms, such as “surrounding areas” and “rear area,” undefined. The Chinese immediately criticized Tokyo for failing to carve out Taiwan from potential areas of conflict covered under the agreement.

Japan and the United States were able to reach a new accommodation—despite Japanese public outrage over the horrific rape of an Okinawan schoolgirl by three US servicemen in September 1995—in part because of increasing Japanese unease over North Korean and Chinese ambitions (in March 1996, China fired missiles into the Taiwan Strait) and the absence of any real multilateral security structures in Asia.<sup>50</sup> In the words of one observer, “Japan has no place else to go” (Green 2001, 22).

The political leadership in Japan, possibly motivated by that recognition, has devoted increasing resources to rearmament. In the words of one analysis, “the wall that separates Japan’s armed forces from being a potent military force is paper thin,” with the JSDF representing a large, modern force backed by considerable technological and industrial might.<sup>51</sup> In particular, in recent years Japan has greatly increased its force projection

---

50. The rape affected the substantive negotiations by increasing pressure on the United States for base consolidation. It was followed by additional sexual assaults and further regrettable incidents involving US personnel on Okinawa in subsequent years. See Wanner (1997a, 2000), Bandow (1998), Funabashi (1999), and Howell (1999) for discussion. See Dixon (1999) and Rozman (2000) on the absence of effective regional security arrangements. Pyle (1992) traces this lacuna back to Yoshida’s reluctance to involve Japan in integration efforts, as occurred in Western Europe.

51. “Will Japan Re-Arm?,” *Stratfor*, 28 May 2001, <http://www.stratfor.com/home/promo/0105282155>.

capabilities. It has acquired Airborne Warning and Control System aircraft; is in the process of increasing its aerial refueling capacity; and has concluded an agreement with Singapore to use bases there during a crisis.

In 1997, the Defense White Paper first publicly addressed regional security issues rather than focusing on areas immediately around Japan. That said, the constraints on Japan taking on a greater regional security role seem to be more political than technological. The United States-Japan alliance is still not a fully functioning military alliance, and the hope that Japan and the United States can develop a special relationship along the lines of that between the United Kingdom and United States contained in the "Armitage Report" (IISS 2000) would seem to be wishful thinking, at least in the medium run, as the report's authors acknowledge. Although one day Japan may become the "UK of the East" or Prime Minister Nakasone's "unsinkable aircraft carrier," that day is a long way off.

## Looking Toward the Future

Japan's postwar foreign policy has been marked by the centrality of economics and financial contributions. Today, Japan maintains the largest official reserves in the world of nearly \$400 billion, and these resources convey a potentially huge role to influence global financial developments. Yet paradoxically, the country's slowing growth and worsening fiscal position have contributed to a national malaise.

The limits of *keizai kyoryoku*—the primary tool for promoting Japan's vision of a regional order—have become clear. The two principal beneficiaries have been China and Indonesia, and one is disintegrating and the other is emerging as Japan's principal security challenge. Concerns over the Japanese government budget have already begun to affect this core aspect of its foreign policy, as evidenced by recent cutbacks in foreign assistance, to cite one example.<sup>52</sup> Continued subpar economic performance could lead to cutbacks in host-nation support for US military bases in Japan. More generally, dwindling resources and the vision of receding influence could fuel more insistent demands to rectify the status quo, for example, for increased Japanese influence in the IFIs, or for political quid pro quos for Japanese financial contributions in other venues. As Green observes,

The debate in Tokyo is about how to maintain Japan's diplomatic "weight" in the world at a time of declining relative power. The domestic pressure will almost

---

52. In discussions about the 2001 budget, some senior policymakers in the LDP floated the notion of cutting the aid budget by 30 percent and terminating assistance to China. In the end, the budget was cut by only 3 percent. Another 10 percent cut was adopted for FY2002, and aid to China has been considerably reduced.

certainly increase for the Japanese government to get more influence for its money. Phrases like “no taxation without representation” and prioritizing “national interest” are now far more common in the halls of the Diet and the government than the phrases “international contribution” and “obligation” that characterized spending on international affairs in the late 1980s and early 1990s. (2000, 2)

At the same time, while the more shrill calls for burden sharing have diminished, the fact remains that Japan spends considerably less than the other industrial countries on responsibility sharing, and this issue is unlikely to disappear (table 6.2). The world is confronted by a Japan that possesses huge financial resources, self-doubt about its economic future, and a highly uncertain political will to use resources to influence external events.

A key variable in how this tension is resolved will be the outcome of Japan’s ongoing process of self-definition and internal political realignment. Mochizuki (1998) identifies the two dominant strains in the internal Japanese debate as those wishing to see Japan become a more “normal country” and those espousing the notion of a “civilian power.”<sup>53</sup> The normal-country perspective, which was greatly strengthened by Japan’s politically traumatic experience in the Gulf War, emphasizes the need for constitutional revision to permit Japan to play a more reciprocal role in the United States-Japan military alliance. Supporters of this perspective envision Japan cooperating with the United States and South Korea in the case of military action on the Korean peninsula, and strengthening Japanese capabilities to play a more effective balancing role vis-à-vis China.<sup>54</sup>

Some who take this position also emphasize the importance of reinvigorating multilateral security institutions (including the United Nations). Japan made a push for a permanent seat on the UN Security Council in the early 1990s, but the initiative did not come to fruition, owing to the reluctance of the other members to grant a permanent seat to a country that did not commit combat troops to peacekeeping operations (PKOs),

---

53. The “normal-country” position is frequently associated with Ozawa (1994), but many others support variants of this position; the notion of a “civilian power” was first proposed by Maul (1990) and subsequently popularized by Funabashi (1991, 1992). Mochizuki (1998) also identifies two weaker tendencies: those who support a “pacifistic state” and those supporting the notion of Japan as “a great autonomous power.” To be clear, when we advocate treating Japan as a “normal country,” we mean it in the generic sense—not in the special sense of the phrase invoked here.

54. Both Ozawa (1994) and the editors of the *Yomiuri Shimbun* have proposed draft constitutional revisions. *Yomiuri* polling showed that in 1993 for the first time a majority of respondents favored constitutional revision, mostly in the context of clarifying the constitutionality of JSDF participation in collective security (in the form of UN missions) and collective defense (providing reciprocal military support to the United States). Green (2000) notes that 90 percent of Diet members under the age of 50 support constitutional revision. Prime Minister Koizumi has raised the possibility of constitutional revision.

**Table 6.2 Responsibility sharing among the major industrial nations, 1998 (dollars)**

Country	Millions of dollars			As percent of GDP			Per capita		
	Defense spending	ODA	Total	Defense spending	ODA	Total	Defense spending	ODA	Total
France	40,241	6,947	47,188	2.8	0.5	3.3	684	118	802
Germany	32,867	6,654	39,521	1.5	0.3	1.9	401	81	482
Italy	22,969	2,447	25,416	2.0	0.2	2.2	399	42	441
Japan	36,695	13,176	49,871	1.0	0.3	1.3	290	104	395
Netherlands	6,873	3,232	10,105	1.8	0.8	2.6	438	206	644
Norway	3,122	1,328	4,450	2.1	0.9	3.0	704	300	1,004
United Kingdom	36,780	4,228	41,008	2.7	0.3	3.0	623	72	694
United States	263,373	9,580	272,953	3.2	0.1	3.3	974	35	1,010

ODA = official development assistance.

Sources: [http://www.defenselink.mil/pubs/allied\\_contrib99/chartill-3.html](http://www.defenselink.mil/pubs/allied_contrib99/chartill-3.html); World Bank, *World Development Indicators*, February 2000.

and, if the number of seats were to be expanded, the desire of some developing countries for any expansion of permanent seats to include some of them. (Current policy permits deployment of JSDF personnel only with the unambiguous permission of countries receiving the forces—even in the case of UN-mandated peacekeeping, humanitarian relief, or emergency evacuation.)<sup>55</sup> China opposed the bid, declaring Japan “unfit” to sit on the Security Council, though it is unclear to what extent this reflected genuine Chinese animosity toward Japan, and how much was motivated by rivalry for regional leadership and political expedience. In South Korea, the Japanese textbook controversy led the National Assembly in July 2001 to adopt unanimously a resolution calling on the government to oppose any Japanese attempt to secure a seat on the Security Council.

The “civilian power” view regards the ideals embodied in the constitution as worth preserving and supports an increasingly “independent stance” and the reduction of the US military presence in Japan, especially on Okinawa. Yet Japan has made little progress proactively on a long agenda of nonmilitary international activities, for which Japan has substantial technical capacity, though evidently not the political will (Lincoln 1993).

Underlying this debate is a considerable ambivalence among the Japanese elite about Japan’s relationship with the United States and the nature of Japanese democracy. As Berger eloquently puts it,

The decisive element behind Japanese security behavior has been the emergence of a peculiar culture of antimilitarism. This culture is based on lingering doubts in the Japanese general public as well as in considerable segments of the nation’s elite regarding the strength of Japanese democracy and its ability to control the armed forces. In a very real way, the Japanese defense debate has been more a debate regarding the strength of Japanese democracy than a discourse on how to best meet external military threats. (1999, 191)

He is not alone in this assessment. Both Katzenstein (1996) and Hook (1996) concur that the cultural politics of the Yoshida Doctrine are so deeply embedded that domestic political realignment, not Japan’s external security situation, will drive changes in Japanese security policy.

---

55. A Japan Maritime Self-Defense Force minesweeping flotilla was dispatched to the Persian Gulf in 1991, and a Japan Ground Self-Defense Force construction battalion was sent to Cambodia in 1992-93 as part of UN peacekeeping efforts. Japanese personnel subsequently participated in PKOs in Mozambique and the Golan Heights, and the humanitarian relief effort in Zaire. Japan notably did not provide personnel for peacekeeping efforts in East Timor (although it did provide money), claiming that Japanese participation in the East Timor PKO would violate the 1992 law’s requirement that peacekeepers have to be invited by the receiving country—despite the Indonesian government’s acceptance of a multinational peacekeeping force under UN auspices.

This is not to say that external developments will have no impact on Japan. With regard to the United States, there appear to be two obvious variables that could affect the internal debate within Japan. First, if, as is likely, Japan's emergent foreign policy takes on a more multilateral, legalistic, United Nations-centric character, this could bring it into conflict with the increasingly unilateralist character of US foreign policy. In 1999, the US Senate rejected the Comprehensive Test Ban Treaty (CTBT). And the United States has failed to ratify the Land Mine Treaty; is considering legislation that would undercut its commitment to the Rome Statute on war crimes to the International Criminal Court; has rejected a draft agreement to enforce an international ban on biological weapons; is demanding that an agreement on international trafficking in small arms be watered down; and has stated its unwillingness to ratify the Kyoto Protocol on global warming, which is engendering a particularly negative reaction in Japan, given its role in the negotiation of the protocol.<sup>56</sup> Moreover, the United States is likely to abrogate the Anti-Ballistic Missile (ABM) Treaty, and its proposal for national missile defense (NMD) was harshly criticized at the 2000 Nuclear Non-Proliferation Treaty Review conference. Moreover, although UN PKOs are a focal point of the Japanese debate over its security role, the United States has shown little enthusiasm for participation in these activities in recent years. In each case, opponents of the international agreements could cite weaknesses in the agreements or special circumstances that could justify derogation by the United States, and in the specific case of the Kyoto Protocol the United States has indicated its willingness to search for new mutually acceptable options. Nevertheless, taken as a whole, it would appear that the United States is out of step with the rest of the international community, and it is this assessment that could fuel tensions with Japan.

These tendencies are likely to be accentuated by the Bush administration, which has evinced skepticism about international cooperation. The 2001 failure of the United States to secure seats on the UN Human Rights Commission and International Narcotics Control Board has called into question the US commitment to pay its UN arrears. Indeed, given the ambivalent Japanese attitudes toward the United States, US unilateralism could encourage the strengthening of both the extreme "pacifistic state" and "autonomous great power" tendencies, which are at present marginalized in the Japanese internal debate. Conversely, the perception of significant diminution of the US security commitment to Asia (e.g., a sudden reduction in forward-deployed US forces) could unsettle Japan and have a similar effect of radicalizing its internal debate on security issues.

---

56. Regarding the Kyoto Protocol, Prime Minister Koizumi took a conciliatory line during the June 2001 summit, but later agreed with the Europeans to move forward with the treaty, despite US objections.

The most obvious, foreseeable points of tension in this regard are the interrelated debates over the ABM Treaty, theater missile defense (TMD), and NMD. Japan is a self-declared nonnuclear power, which, after some hesitation, signed and ratified the CTBT. The United States-Japan discussions over TMD began in earnest in 1993, in the wake of the North Korean Nodong missile test. Progress was slow, however, due to concerns about cost, effectiveness, and Chinese objections, but received another boost in 1998 when, without warning, the North Koreans test-fired a long-range Taepodong missile over the main Japanese island of Honshu. One of the Japanese government's responses was to formally announce the country's participation in the United States-led TMD research and development program (though it has not committed to production and deployment).<sup>57</sup> The subsequent US push for the larger NMD program has raised similar issues on the Japanese side (cost, effectiveness, Chinese objections), and thus far the Japanese government has remained noncommittal.

The second obvious potential source of tension is economic. It is taken as axiomatic that tensions in the trade arena make cooperation in other areas more difficult, and it would be difficult to argue that bad economic relations make for good security relations.<sup>58</sup> At the same time, there is little evidence to support the contention that trade conflict inevitably erodes security cooperation.<sup>59</sup> The Nye Initiative, which resulted in the joint declaration and the guidelines revisions, was undertaken in part to compensate for problems on the trade side, and was part of a conscious ratcheting down of trade tensions by the Clinton administration. This is simply to say that there is a degree of endogeneity in response and a role for political leadership in alliance management.

As the preceding discussion has made clear, there is ample room for rivalry and tension between Japan and the United States in the economic and security spheres. As a consequence, in the interests of alliance manage-

---

57. See Cronin, Giarra, and Green (1999), Green and Dalton (2000), Harris and Cooper (2000), and Green (2001) for more discussion of ballistic missile defense issues in the context of the Japan-United States relationship. It is interesting to note that, although the North Korean missile launch boosted Japanese interest in TMD, in the context of Japan's ambivalence about the United States and interest in greater self-reliance, it also helped increase Japanese public support for its indigenous spy satellite program (Wanner 1999a, 1999d).

58. For example, Mochizuki writes: "Current trade imbalances, both bilateral and regional, between Japan and the United States can have a corrosive effect on American domestic support for the bilateral security relationship. . . . An aggressive U.S. trade policy will inevitably strain political relations with Japan and may make Japanese leaders somewhat more reluctant to work with the United States on security-related issues" (1999, 244).

59. An analytically distinct, though related, issue involves military procurement. Japan and the United States have a history of tension in this area, often related to the aerospace sector, e.g., Japan's desire to develop and build its own fighter plane, the FSX. See Samuels (1994), Alexander (1995), Green (1995), Stone (1999), Rubenstein (1999), and Chinworth (1999) for more on this issue.

ment, there have been compensatory efforts to promote cooperation in other, less contentious areas. So, for example, the 1993 Framework Agreement contained a section on “A Common Agenda for Cooperation in Global Perspective.” This agenda sought to identify avenues for bilateral cooperation in the global arenas of environmental protection, new technology, human resources, population control, and AIDS.

It is hard not to be a little cynical about this effort. On the Japanese side, subsequent Japanese leaders did not evince the same degree of diplomatic commitment to these issues as they did to the more traditional economic and security concerns. (In this respect, they differ from their European counterparts, who at times have given high prominence to these sorts of global issues in their diplomacy with the United States.) On the US side, the Clinton move was seen to some as a fillip to the recently installed Assistant Secretary of State Global Affairs Timothy Wirth, a political ally of the president’s. Seven years later, in August 2000 at the Republican Party convention, eventual Bush administration Deputy Secretary of State Richard Armitage cleared the air, stating:

The United States is not solely responsible for the resolution of problems which we have not caused. Our priorities would be first the well-being and security of our nation and our allies and our friends. But if we attempt to be all things to all people, we’ll end up doing very little for anyone. It is the height of insincerity to suggest that AIDS is at the top of our national security list. To suggest that it’s at the height of our national security agenda is cynical.<sup>60</sup>

The June 2001 joint statement by President Bush and Prime Minister Koizumi, having addressed first security and then economics, concluded with the traditional invocation of the two countries’ shared commitment to tackle the global threat of AIDS and to seek to find common ground on the vexing issue of global warming.

Besides the United States, there are at least two other countries that could have a significant role in how Japanese foreign policy and the United States-Japan security alliance evolve: North Korea and China.<sup>61</sup> The 2001 Defense White Paper identifies North Korea as Japan’s primary security concern (JDA 2001). Its nuclear and missile programs and naval incidents in the Japan Sea are the most immediate source of discomfort for Japan, and have facilitated closer Japanese security cooperation with both the United States and South Korea. In December 1998, a North Korean submarine, presumably sent into South Korean waters to land

---

60. See [http://www.foreignpolicy2000.org/convention/archives/\\_Larmitage.html](http://www.foreignpolicy2000.org/convention/archives/_Larmitage.html).

61. Japan has significant national interests beyond these two countries, most notably its unresolved territorial dispute with Russia over four southern Kurile islands (the Northern Territories, in Japanese discourse). For overviews focusing on China and North Korea, see Wanner (1999b, 1999c), Harris and Cooper (2000), and Green (2001). On the Japan-Russia territorial dispute, see Wanner (1997b).

saboteurs, was discovered by South Korean air reconnaissance. Rather than killing the crew, scuttling the sub, and committing suicide, the North Korean commander fled south toward Japan with South Korean air and sea vessels in pursuit. The sub sank 30 miles outside Japanese territorial waters, obviating the need for a Japanese response. Things went differently 4 months later, when Japanese Maritime Safety Agency coast guard vessels discovered and fired upon two antennae-laden vessels thought to be North Korean spy ships. The incident sparked an emergency midnight cabinet meeting that authorized Japan Maritime Self-Defense Force ships to give chase under Article 82 of the Self-Defense Force Law. The North Koreans got away.<sup>62</sup>

In the long run, however, China may play a more important role. Wariness of China is on the rise in Japan, stemming from a number of factors. First has been China's generally harsh rhetoric toward Japan. This rhetorical antagonism, together with Japanese perceptions of relative decline *via-a-vis* China and unease with globalization, has stimulated the rise of a new, reactionary, inward-looking identity politics, as evidenced by Prime Minister Koizumi's August 2001 visit to the Yasukuni Shrine. This domestic political development is likely to contribute to more conflictual Sino-Japanese relations. Second, concern about China was given a significant boost by China's 1996 firing of missiles into the Taiwan Strait. Historically, Japan has had better political relations with Taiwan than either North or South Korea, and the Japanese were shocked by what they regarded as Beijing's bellicosity.<sup>63</sup> A third factor has been repeated Chinese naval incursions into Japan's exclusive economic zone, though unlike the North Korean incursions into Japan's territorial waters, these are permitted under the Law of the Sea, and might be likened to US aerial surveillance of China. These concerns have been heightened by the rapid increase in Chinese military expenditures, the new Chinese emphasis on high-technology warfare, and China's alleged role in proliferation of weapons of mass destruction and their delivery systems (JDA 2001).

Enhanced cooperation between Japan and the United States has not been welcomed by either Pyongyang or Beijing. The Chinese criticized both the 1996 United States-Japan Joint Security Declaration and the 1997 Security Guidelines revision, and have objected vociferously to bilateral cooperation on TMD and the possibility of cooperation on NMD. The Chinese believe that these missile defense schemes are aimed at them. They see TMD as fostering Taiwanese independence by rendering ineffective their ballistic missile threat against the island, and NMD as negating their nuclear forces and promoting US hegemony and Japanese remilitari-

---

62. See Cossa (1999), Wanner (1999b), and Hughes (2000) for further details.

63. See Green (2001) for evaluations of contemporary China-Japan relations, and Arase et al. (2001) for polling data indicating growing mistrust between China and Japan.

zation. Their likely response is to accelerate the modernization and deployment of their nuclear-armed missiles (to preserve their deterrent against these presumably imperfectly effective systems), while exploring the possibility of developing their own antimissile system, possibly in collaboration with Russia.<sup>64</sup> In the extreme case, China might attempt preemptive military action against Taiwan before the deployment of an extended deterrence-enhancing US NMD system.

Of course, the impact of TMD and NMD on security affairs in Northeast Asia is ambiguous, owing to uncertainties about the effectiveness of the technologies and the reactions of the state actors. Japanese analysts understand that the missile defense programs potentially enhance Japanese security by reducing terrorist or blackmail threats and increasing the credibility of US extended deterrence (Ogawa 2000). At the same time, the deployment of missile defenses could spark a regional arms race. As one commentary put it, Japan at present “is like a poker player who keeps anteing up and waiting to see the next card before deciding to stay in the game or fold” (Medeiros 2001, i).

How the future relationship between China and Japan plays out will depend on Chinese behavior, both internally and externally. Greater transparency in military affairs, restraint with respect to Taiwan, and evolution toward greater political liberalization internally would likely assuage Tokyo’s concerns and contribute to greater Japanese independence vis-à-vis the United States.<sup>65</sup> (Conversely, if the United States were to behave harshly toward China, Tokyo would distance itself from Washington.) However, if China were to use force against Taiwan, the result would be to deepen Japan’s wariness of China, and provoke the same sort of reactions as did the North Korean missile tests. Increases in internal repression could have a similar, though less dramatic, effect on Japanese perceptions of China.

Even trade relations are becoming an irritant, with one analyst going so far as to argue that bilateral trade frictions could have a similar effect on Sino-Japanese relations (Silver 2000). In April 2001 Japan placed safeguard restrictions on Chinese exports of shiitake mushrooms, leeks, hand trowels, and tatami rushes used to make mats. China responded by imposing 100 percent tariffs on Japanese cars, mobile phones, and air conditioners. Regardless of the merit, the Japanese should not have been surprised; China had engaged in similarly disproportionate retaliation against South Korea in a comparable dispute over trade in garlic a year earlier.

The dispute could be interpreted as revealing as much or more about the political capture of trade policy in Japan as about Sino-Japan relations. Nevertheless, the ease with which such economically negligible sectors

---

64. For examples of such Chinese views, see Gu (2000), Chu (2000), and Medeiros (2001).

65. See Kato (1999) for suggestions for China-Japan military confidence-building measures.

were able to obtain protection and put significant Japanese economic interests at risk may say something about the general unease in Japan with respect to China. Yet, as in the case of Japan-United States relations, we are skeptical that trade relations are likely to have such a direct impact on national security issues. Indeed, if the two countries could surmount their political differences, their natural economic complementarity could be the basis of highly mutually beneficial economic relations (Xie 2001). China's prospective entry into the WTO should curb its tendency toward disproportionate retaliation, calming this aspect of Sino-Japanese relations.

A potential Chinese challenge for regional leadership is yet another source of prospective tension. Although there is lingering unease with Japan in much of Asia, Japan is, after all, a relatively stable, predictable, bourgeois democracy. Presumably, this contributes to greater legitimacy and acceptance, at least in comparison with authoritarian, and possibly expansionist, China. Regional apprehension toward a more assertive China could be sparked by territorial disputes (e.g., Taiwan, the Spratly Islands) between China and its neighbors. The presence of ethnic Chinese minorities in many neighboring Asian countries could further complicate a Chinese bid for regional leadership. If nothing else, however, China has shown that it is willing to play its cards—something that Japan seems reluctant to do.

## Conclusions

The Second World War and its aftermath still hang heavily over Asia more than a half-century after the end of the war and of Japan's empire. It turned the United States into the predominant regional power that it remains today. It poisoned Japan's relations with its neighbors, which remain awkward and ambivalent.

This legacy remains unresolved within Japan as well. The Cold War provided a convenient rationale for the Yoshida Doctrine of minimal rearmament, close association with the United States, and a focus on commercial policy. With the end of the Cold War, Japan—and, by extension, the United States and Japan's neighbors—have been forced to reassess Japan's place in the world.

Japan is confronted with a slew of global and regional issues in the areas of trade, finance, development, and security. It has enormous financial resources and considerable institutional capacity that potentially could be brought to bear on these problems. The effective exercise of Japanese power is constrained, however, by its internal politics, and its ongoing process of national self-definition.

The rise of China is likely to force the issue. China's ascendancy poses challenges for Japan in the economic, diplomatic, and security fields. The

degree of interdependence and cooperation between Japan and the United States is such that the emergence of China will inevitably have significant repercussions for the bilateral relationship, affecting, for example, how the United States might regard the development of regional economic institutions in Asia. Specific policy recommendations for enhanced bilateral cooperation in managing China's integration into the international system, as well as other bilateral economic and security issues, are taken up in chapter 7.