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# Japan and the World: Japan's Contemporary Geopolitical Challenges – A Volume in Honor of the Memory and Intellectual Legacy of Asakawa Kan'ichi

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KOHNO/ROSENBLUTH

# JAPAN and the WORLD

Japan and the World



Japan's Contemporary Geopolitical Challenges  
*In Honor of the Memory and Intellectual Legacy of  
Asakawa Kan'ichi*

edited by

**Masaru KOHNO**

and

**Frances ROSENBLUTH**

YALE CEAS

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# Japan and the World



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*In Honor of the*

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*Foreword*  
*Asakawa Kan'ichi's Legacy*

A century has passed since Professor Asakawa Kan'ichi first took up the lectern at Yale University in 1907. His rise to a position of such prominence in American society was a feat unmatched by the thousands of his generation in Japan who went abroad to study, to make a mark for themselves, and to help their fledgling nation pull itself up by its bootstraps to stand alongside the major powers of the world. In America, Professor Asakawa found a country and a people that he loved. He made a comfortable and distinguished place for himself at Yale University, the very pinnacle of American academia—and my own alma mater. Yet, his life was torn between the love of his mother country and his adoptive country. He reconciled this conflict by championing closer friendship between Japan and the United States, by tirelessly explaining Japan to Americans and America to the Japanese, and, ultimately, by giving each country insights into itself.

Professor Asakawa's resume would show him to be a historian, a legal scholar, author, and a sometime interpreter and diplomatic adjunct. Yet his legacy is much greater—one of a visionary of unrivaled dimension. Early on, in the exuberant days of Japan's coming of age after its victory in the Russo-

Japanese war, Professor Asakawa penned *Japan's Crisis* in 1909. It was a warning to Japan that its foreign policy designs would one day lead it to war with the United States. In essence, he laid out the course of events and wrote the history that was to occur over the next 30-plus years. The clarity of his observations in *Japan's Crisis* remains instructive today. I consider myself to be one of Asakawa's students.

Alas, despite his unflagging efforts to the contrary, his warnings went unheeded as he painfully endured decades of the inexorable playing out of his predictions. If he had a fault, it was in his idealism, his confidence that others could see with the same clear eye.

Today, 60 years after his passing, we celebrate Professor Asakawa even more for his other vision, the one he never got to see come true. That was the vision of Japan and the United States, in an alliance of friendship and goodwill, that work shoulder-to-shoulder toward the ideals that Professor Asakawa had envisioned for the whole world.

Ryozo Kato  
Former Ambassador of Japan



## *Abbreviations and Acronyms*

ADB	Asian Development Bank
AFTA	ASEAN Free Trade Area
AMF	Asian Monetary Fund
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
BBC	British Broadcasting Corporation
BIS	Bank for International Settlements
BOJ	Bank of Japan
CA	California
CBSG	Central Bank Study Group
CEFP	Council on Economic and Fiscal Policy
CLO	Cabinet Legislative Office
CMI	Chiang-Mai initiative
DC	District of Columbia
DPJ	Democratic Party of Japan
DSP	Democratic Socialist Party
EAC	East Asian Community
EEZ	exclusive economic zone
EPA	economic partnership agreements
EU	European Union
FSA	Financial Services Agency
FTA	Free Trade Agreements
FY	Fiscal Year
GA	[UN] General Assembly
GATT	General Agreement on Tariffs and Trade

GDP	gross domestic product
HSBC	from Hongkong and Shanghai Banking Corporation
IBRD	International Bank for Reconstruction and Development
IFI	international financial institution
IIP	indices of industrial production
IL	Illinois
ILO	International Labor Organization
IMF	International Monetary Fund
JAMA	Japan Automobile Manufacturers Association
JASSO	Japan Student Services Organization
JCP	Japan Communist Party
JDA	Japan Defense Agency
JETRO	Japan External Trade Organization
JNSC	National Security Council of Japan
LDP	Liberal Democratic Party
LNG	liquified natural gas
MA	Massachusetts
METI	Ministry of Economy, Trade, and Industry
MEXT	Ministry of Education, Culture, Sports and Technology
MIT	Massachusetts Institute of Technology
MITI	Ministry of International Trade and Industry
MMD	medium-sized multi-member districts
MOF	Ministry of Finance
MOFA	Ministry of Foreign Affairs
NAFTA	North American Free Trade Agreement
NJ	New Jersey
NY	New York
ODA	Overseas Development Administration

OECD	Organization for Economic Cooperation and Development
OECF	Overseas Economic Cooperation Fund
PPP	purchasing power parity
PR	proportional representation
PRC	People's Republic of China
SACO	Special Action Committee on Okinawa
SDF	Self Defense Forces
SDPJ	Social Democratic Party of Japan
SMD	single-member district
SNTV	single non-transferable vote
TSE	Tokyo Stock Exchange
UFJ	Bank of Tokyo-Mitsubishi UFJ
UK	United Kingdom
UN	United Nations
UNDP	United Nations Development Program
UNICEF	United Nations Children's Fund
UNSC	United Nations Security Council
US	United States
USSR	Union of Soviet Socialist Republics
VIE	voluntary import expansion
WFP	World Food Program
WTO	World Trade Organization
WWI	World War I
WWII	World War II







PART I

Japan, Then and Now



# 1

*Japan and the World:  
An Analysis of Japan's Place in World Affairs  
In Honor of the Memory and Legacy of  
Asakawa Kan'ichi*

Masaru Kohno  
Frances Rosenbluth

Japan sits atop dynamic tectonic plates not only in a geological sense but in a geopolitical sense as well. Since the 7th century (or perhaps even earlier), Japan's legal, political, social, and cultural systems have been constructed, deconstructed, and reconstructed under the influence of earthquake-like shocks originating on the neighboring Asian continent. In the modern era, with technological advancements in commerce and communication, Japan has had to situate itself between the East and the West. Japanese polity, society, and lifestyles have all evolved from two dynamic forces pulling from distinct directions, one from the Asian side and the other from the European-American side.

In some ways, the geopolitical situation surrounding Japan has not altered very much. Today, Japan's gargantuan neighbors, China and Russia, are capable of causing enormous earthquakes politically and even militarily. For a time during the cold war, Japan and the rest of the world shivered at the thought of a possible global conflagration between the communist and anti-communist camps. Now, without communism to unite them, China and Russia nevertheless remain colossal powers, casting a shadow over the entire Japanese territory.

Japan, of course, has caused plenty of earth-shaking events of its own in the modern period, even if in anticipatory reaction to perceived threats from the neighboring giants. Japan fought many devastating wars: against China in 1894–95 over influence in Korea; against Russia in 1904–05 over Korea and Manchuria; and taking on China and the Allied Powers in the 1930s and 1940s over Manchurian resources and Southeast Asian oil supplies.

One of the greatest challenges for scholars of East Asia, and indeed for concerned citizens of the region, is to understand the causes of war to avoid repeating the disasters that consumed East Asia in the 19th and 20th centuries. This volume, written in tribute to the late Asakawa Kan'ichi, takes up first the life and work of this remarkable scholar who was such an astute observer of his times. The Japan of Asakawa's day was bent on regional domination, however insistently the government justified domination on defensive grounds. Asakawa warned against defensive aggression because of the reactions he knew it would elicit from Japan's neighbors, great and small. This is sage advice for hegemonies of any era. But, if Asakawa had been writing about Japan's contemporary foreign policy environment, he would have noticed two radically different factors that would have influenced his advice. First, Japan is now a democratic country in which the military is subject to civilian control, shifting the spotlight from the hubris of generals to the decision-making capacity of the voting public. Second, the international economic integration that had just begun in his day has now vastly increased the costs of outright military conflict for the countries of the region, and the stakes are higher than ever. Asakawa was a historian of Japan's deep past who understood that new circumstances require new prescriptions, and it is in this spirit that we honor his legacy.

*Asakawa Kan'ichi:  
Lineage of His Thought on Peace and Diplomacy*

A century ago, when Asakawa Kan'ichi, a professor of Japanese economic history at Yale, wrote as a concerned citizen about Japan's foreign policy, East Asian geopolitics was particularly volatile. The center of gravity in world politics, as he saw it in 1904, was moving from the club of rich colonizers that had tried to carve up the world among themselves, to the free flow of trade and investment that would underwrite prosperity for all. Although this belief surely qualifies Asakawa as a liberal, he had a realist's view of why liberalism would prevail. The old-style powers, such as Russia and France, would be balanced by the newcomers, such as the United States and Japan, that were disadvantaged by the old spheres of influence. The "jealousy of the powers" had broken apart the system on which colonial imperialism rested.

Writing in 1904,<sup>1</sup> Asakawa harbored hope for a world of free trade and international justice—a world order that looked strikingly Kantian.<sup>2</sup> By forcing Russia out of Manchuria, he believed Japan had become a "midwife" for this new order in which Japan would help to police the territorial integrity of both China and Korea. By 1909, however, when he wrote *Japan's Crisis*, Asakawa had become disillusioned with the Japanese government's foreign policy designs. The government showed no interest in setting up a timetable for returning to China the Liaotung Peninsula that Japan had acquired from Russia. Japan had turned out to be a fox guarding the chicken coop, but the other foxes would have none of it, and eventually the world went to war. Unfortunately, there are many ways that cartels can fail, some less peaceful than others.

In the final year of his life, Asakawa marveled at the ability of countries to misunderstand not only each other, but themselves. In his own words, "I find, once again, how little the unconscious habits of the mental workings of nations are

understood to one another, indeed, how little each is aware of its own.”<sup>3</sup> If only the Japanese government had been able to foresee the price tag on its territorial ambitions, they would have chosen the peaceful course that he had urged forty years earlier. But making these calculations requires two processes: discerning what other countries are likely to do under various scenarios and weighing the possible options with respect to domestic politics. The opportunities for miscalculation are myriad at both levels.

Had Asakawa been a political scientist, he might have theorized about the way different domestic political institutions shape the decision making environment more systematically. A large body of literature, originating in Kant’s philosophy and now known collectively as the “democratic peace” theory, posits that democracies are less likely to wage war because the decision-making public internalizes the costs of fighting. Until Japan became a full-fledged democracy after World War II, the argument goes, it remained a threat to the rest of the world because a few men who did not themselves bear the costs of war made the decisions about the blood that others would shed and the sacrifices that others would bear. The military leaders who seized the reins of government in 1932 plunged Japan into a war that the Japanese public would not have wanted, had they been given access to the facts.

Unlike in Asakawa’s day, since the end of WWII Japan has become a full-fledged democracy, with a long-established record of elections, parliamentarism, and civilian control of the military. Asakawa, if he were alive, would likely be more optimistic about Japan’s foreign policy conduct. In today’s world, China and North Korea, not Japan, maintain regimes in which governments are not accountable to the public in any meaningful sense. Asakawa would likely conclude, in his Kantian intuition, that Japan is less likely to be a primary source of international tension and conflict in the region than these autocratic

neighbors. He would likely focus on the ways that democratic politics can also go awry and seek to shore up Japan's commitment to peace through international economic and political exchange.

Kant himself, the grandfather of the "democratic peace" theory, was not, in fact, as enamored of majoritarian democracy as he was of representative republicanism. Kant shared the classical view, expounded by Thucydides in his description of the Peloponnesian War, that unchecked majorities (as in Athens) could be warlike, excitable, and prone to making bad decisions.<sup>4</sup> Kant thought that it was not democracy per se but representative government, which separated information-gathering from decision-making and decision-making from execution, that would inject appropriate doses of caution into decisions about war and peace.

Since the time of Kant, political theorists have come to consider more subtle ways that democracies can vary, including the ways electoral rules shape the accountability of politicians to their voting publics. It is possible to make more nuanced predictions about Japan's future course, taking into consideration some of the major institutional changes that have occurred in recent years. For example, now that Japan has changed its electoral rules—since 1994—to a largely majoritarian system, Japan's foreign policy decision-making is in some ways more problematic in ways that would cause Kant and Asakawa to worry. For example, there may be insufficient checks in the new system to avoid the pitfalls of ill-informed and fickle majorities. On the other hand, parties are forced to appeal to the median voter, which pushes public policy towards moderate positions in the political middle (even though the disappearance of a strong left may also weaken the resistance to hawkish leadership). Moreover, Japan has become integrated into international economic institutions and norms that set the stage for a constructive give-and-take between Japan and the world. In the

following chapters of this volume, we return to these substantive questions that would have fascinated Asakawa.

*Japan's Challenges: Past and Present*

In the 21st century, Japan continues to face an environment in which the raw materials of Asia and the markets of China are vital to its prosperity. The new element in the picture is China's spectacular rise as a power in its own right, unseating Japan's longstanding position of regional dominance.

Ancient China, though a magnificent dynastic empire and a constant source of cultural inspiration, was never a territorial threat to Japan. Japanese rulers kept an eye on the Korean peninsula against the possibility of Chinese encroachment, and the Mongols of the 13th century were thwarted by "divine winds," while Toyotomi Hideyoshi's ill-fated invasion in the 16th century proved not only unsuccessful but unnecessary.

In the 18th century, when western powers forcibly opened East Asia to trade and investment, China's feeble political system disintegrated while Japan's Meiji leaders built Japan into a world class power. The tables turned, of course, when WWII left Japan prostrate, but America's fear of worldwide communism ensured Japan's security, at least until Japan got back onto its feet. The difference now is that China is continuing to grow while the US and Japan no longer have anticommunism as a reason for their military alliance.

Japanese businesses welcome and prosper from China's growing buying power, to be sure. As the liberal theory of international relations predicts, actors with an interest in another country's prosperity are reliable voices for peace.<sup>5</sup> But, as international realists point out, China's growing military shadow is unsettling nonetheless because capabilities can, in theory, influence intentions. If bargaining power comes from the relative costs and benefits of using force, China is clearly gaining an advantage. The Japanese feeling of unease is amplified by China's



persistent nettling on the history question and its implacable opposition to a more prominent role for Japan in the United Nations Security Council.

So, today, Japan once again faces a thorny foreign policy environment, albeit one different from the world Asakawa inhabited. China, no longer a helpless victim of predatory powers, is asserting a leadership role grounded in resources accumulated from remarkable economic achievement. Japan, meanwhile, has only recently begun pulling out of an extended economic malaise, after the collapse of asset markets inflated by years of protectionist regulation and unduly optimistic monetary policies.

The source of tension between China and Japan centers not so much on economic philosophies and policies but on the more nebulous issue of which country will be regional leader, will be deferred to, and will influence outcomes big and small. Unlike in the post cold war period, the United States cannot be counted on to take Japan's well-being as seriously as it once did. Japan now has the enormously complex task of balancing US goodwill, still needed but less assured, against China's inexorable increase in global clout. The majoritarian cast of Japan's new electoral rules forces greater attention on issues with broad appeal, and creates new domestic accountability mechanisms that shape foreign economic and security policies. Japan is entering some uncharted geopolitical waters as a democratic nation, and it is important to understand how newly structured political parties will navigate the shoals of national pride and prudence.

### *The Plan of the Book*

The book that follows has two primary goals. The first, presented in Part I, celebrates the life and intellectual legacy of Asakawa Kan'ichi. Born in 1874 in Nihonmatsu in northern Japan, Asakawa was the son of a samurai in a "rebel" province that

initially defied the Meiji leaders' overthrow of the Tokugawa. Asakawa may have been disaffected with domestic politics, or perhaps he became aware of the possibilities for learning overseas that had long been closed to Japanese. Inspired by whatever combination of incentives, this brave young man traveled alone to the United States where he mastered English, eventually became the first Japanese to earn a Ph.D. from Yale, and, in 1903, became the first professor of Japanese history at Yale.

In chapter 2, Agawa Naoyuki writes of "Asakawa Kan'ichi's American Journey: Its Time and Place in the History of Japanese Foreign Policy." Agawa points out that, if we break the 150 years of the US-Japan relationship into three, 50-year periods—from 1853 through 1898, from 1898 through 1951, and from 1951 to the 21st century—Asakawa's life straddled much of the first and second periods. Asakawa's personal struggle to understand and interpret Japan's role in the world provides a lens through which to view Japan's geopolitical challenges and compare the challenges of that time with those Japan faces today. Asakawa's 1909 book, *Japan's Crisis*, criticized Japan's aggressive policy in Manchuria after the Russo-Japanese war and urged that Japan continue to respect China's sovereignty and territorial integrity. Today, the tables have turned and Japan feels threatened by China as never before. How Japan deals with these new feelings of insecurity in the face of China's rise to power will have profound consequences, not only for Japan, but also for the rest of the world.

In chapter 3, Kambayashi Ryo and Hamada Koichi discuss Asakawa's primary area of scholarship, medieval Japanese economic history, which places Japan's economic and political development in comparison with that of the west. Asakawa provides a model of the comparative historical method. His thesis, that Japan's multi-tiered property arrangements reflected peasants' bargains with overlords for protection in exchange for a portion of harvests, is at odds with the Marxist interpretation

of Japanese history that stressed oppression and peasant misery. Asakawa's view, though derided or ignored by postwar Japanese historians for several decades, has now become in its key elements the standard view of Japanese economic history.

In chapter 4, Yabuki Susumu provides a series of vignettes of Asakawa's life and work. Yabuki gives us a glimpse, often in Asakawa's own words, of his spirited debate with his Japanese detractors, as well as Asakawa's ongoing conversations with government officials and others about Japanese foreign policy choices. Yabuki makes the case that Asakawa played a central but little known role in the Portsmouth Treaty negotiations that ended the Russo-Japanese War. He did so by influencing the thinking of two Yale professors whose memo to the Japanese negotiating team provided key settlement provisions. Asakawa remained bitterly disappointed, until his death in 1948, that Japan failed to honor China's and Korea's sovereignty as pledged in the Portsmouth Treaty.

Parts II and III of the book turn to Japan's contemporary challenges, both economic and military. Part II examines the effects of global economic integration on Japanese political economy, making the case that Japan has become harnessed to international institutions and norms in a way that furthers the prospects of a peaceful world. In chapter 5, Leonard Schoppa argues that international engagement has caused values to change so that Japan has shifted its foreign economic policy from a neomercantilistic to a largely neoliberal one. Beginning in the 1970s when Japan began running chronic trade surpluses, Japan endured decades of pressure from its trading partners, principally the United States, to open Japanese markets to trade and investment. Since the mid-1990s, Japan's political and economic elite has advocated economic liberalization without pressure from abroad. This chapter documents the transformation of Japan's economic ideology through the process of accommodating to foreign pressure.

In chapter 6, Jennifer Dwyer argues that the discipline of the international market will help Japan maintain its commitment to responsible monetary policy making despite short term domestic political pressures to undo liberalizing reforms. She examines the first decade after the adoption of the 1997 Bank of Japan Law, which gave the central bank independence from the government and removed Ministry of Finance influence over monetary policy. The chapter examines why the Bank of Japan has been able to retain its independence despite many political and economic challenges and argues that both domestic institutional restructuring and international ideational and financial market trends may provide support for the bank's continued independence. This chapter emphasizes that the slow transformation of Japan's political economy is shaped by not only domestic concerns, but also global economic integration, competitive market pressures, and the development of internationally accepted norms and standards regarding effective economic management.

Chapter 7, by Phillip Lipsy, explains the curious fact that Japan has a larger voice in the World Bank than the IMF, despite Japan's status as the second largest donor behind the United States to both institutions. Lipsy argues that Japan (or any country other than perhaps the United States) is constrained in its individual exercise of power by its need to maintain the global integrity of the very institution it wishes to change. The World Bank gives Japan a voice commensurate with its financial contributions because Japan could, if rebuffed, take its money out of the World Bank and support aid initiatives through the Asian Development Bank or other outlets. In contrast, the IMF gives Japan less bargaining leverage because of the public goods nature of the international monetary system: Japan cannot benefit from international monetary stability without an institution that has the global reach of the International Monetary

Fund (IMF). Japan needs the IMF more than it needs Japan, whereas the reverse is true in the case of the World Bank.

One might conclude from these three chapters that Japan is constrained by an interlocking web of international rules and norms in a way that advantages not only the world, but Japan itself.

The rest of the book, in Part III, focuses on the challenges Japan faces regionally and globally. In chapter 8, Kent Calder describes Japan's and China's strategic competition for energy resources and considers its implications. China and Japan once had largely complementary economies, with China supplying Japan with raw materials and labor intensive manufactured products, and Japan supplying China with high technology and high value-added products and services. Now that China has undergone extensive industrialization, Japan and China increasingly find themselves competing for the same scarce resources to fuel their economies. Conflict over resources has become chronic and requires astute political management on both sides, which is often lacking.

In chapter 9, Gregory Noble provides a window on the Japanese business community's view of Sino-Japanese relations. This chapter pits realist theories of international relations (focusing on power and resources) against liberal ones (that consider business incentives) by examining the evolving stance of Japanese business executives and organizations towards China. Competition with China has increased in the manufacturing sector as well as in competition for resources, but on balance, the profits that Japanese companies earn in their ventures in China are powerful inducements to keep Sino-Japanese political relations on an even keel. As in the period before World War II, Japanese businesses are worried about the effects of rising nationalism in both countries on the bilateral relationship.

In chapter 10, Frances Rosenbluth, Saito Jun, and Annalisa Zinn take up the question of Japanese nationalism and ask whether Japan's neighbors ought to fear signs of its rise. In the eyes of Japan's neighbors, Japan shows a shocking lack of remorse for the depredations of World War II. Text book revisions, visits to the Yasukuni Shrine to the war dead, and talk of revising Japan's "peace constitution" signal to them a callous disregard at best; at worst, they are harbingers of rising nationalism that may once again become aggressive. The authors conclude that there is less reason for concern than these straws in the wind might suggest. Although the Japanese public increasingly favors an active foreign policy, there is no increase in feelings of national pride or support for the government, right or wrong. Instead, the rise in general interest in foreign policy is on account of Japan's new electoral rules, adopted in 1994, which give politicians incentive to appeal to voters on the basis of public policy issues, in both foreign and domestic policy. But the geopolitical constraints on Japan are real, and the public recognizes that Japan has little choice but to retain US goodwill while exploring foreign policy independence at the margins.

In the final chapter, Margarita Estévez-Abe, Hikotani Takako, and Nagahisa Toshio explain the causes and consequences of increased prime ministerial power over foreign policy in Japan. In recent years, beginning with Prime Minister Koizumi, Japan's prime minister has begun to exert more influence than in the past on the formulation and execution of foreign policy. Was this the result of Koizumi's personal charisma and effectiveness, or does it reflect a more fundamental change in Japan's political decision making? This chapter brings evidence from party and electoral politics to bear on this question, and argues that the electoral rule change of 1994 gives party leaders more control of resources, such as party nominations, with which to control the party platform. The consequences are interesting to contemplate, but it remains to be seen if the prime minister's foreign

policy control provides an avenue for the public to hold the government more closely in check, given his electoral vulnerability, or if he will be able to manipulate public opinion more easily than before. Democratic politics includes elements of both phenomena, and competition by a viable opposition seems crucial to ensuring the strength of a popular check.

Taken together, the chapters in Part III find that regional and global challenges that Japan faces are real, but Japanese preferences are complex, and many important industries are determined to keep the relationship harmonious. Moreover, the recent willingness of Japanese political elites to discuss foreign policy in public is a reflection of new electoral incentives rather than evidence, for example, that the Japanese citizenry is itching to initiate conflict with China. A modern-day Asakawa would not worry that warmongering elites could rise to power, let alone provoke an engaged but ultimately moderate electorate to demand war.

### *Conclusion*

Japan has become politically majoritarian and economically neoliberal, giving Japan more structural resemblance to the United States and the United Kingdom than was true in its mercantilist past. Japan's economy is reorganizing around more fluid capital and labor markets and is beginning to shed its predatory image. These structural changes would have given Asakawa cause for optimism. At the same time, Japan is confronting a new geopolitical challenge especially in the rise of China as a regional and global power. Although the dangers of resurgent Japanese militarism are minimal, it is also possible that populist majoritarianism in Japan and elsewhere may entail a more subtle threat to peace in Asia by raising the temperature of domestic debates around foreign policy issues. On balance, as these essays collectively suggest, vigorous democratic debate and competition within Japan will be important contributors to

regional and world peace. But Japan, like all majoritarian countries, would do well to embed itself in international institutions and treaties to restrain potentially volatile majorities.

### *Notes*

- 1 *The Japan-Russia Conflict*.
- 2 Immanuel Kant (in *Perpetual Peace*, 1794) held out hope that a world of trading nations would be peacefully inclined, because trade gives exporters an interest in the prosperity of importing nations. This early statement of the “liberal peace” echoed Montesquieu’s views about the pacifying force of “*doux commerce*.”
- 3 Asakawa letter to Stokes, 1948.
- 4 John Ferejohn and Frances Rosenbluth forthcoming, “Warlike Democracies,” *Journal of Conflict Resolution*.
- 5 This idea is at least as old as Montesquieu’s logic of “*doux commerce*” (*Spirit of the Laws*, 1752) and Immanuel Kant’s prescription for perpetual peace (*Perpetual Peace: A Philosophical Sketch*, 1795).





PART II

The Life and Work of  
Asakawa Kan'ichi



## 2

### *Asakawa Kan'ichi's American Journey: Its Time and Place in the History of Japan-US Relations*

Agawa Naoyuki

This chapter will place Asakawa Kan'ichi in a historical context. More specifically, it will trace Asakawa's American journey and the evolution of the relationship between Japan and the United States for the first one hundred years of its existence. It will also compare Asakawa's background in Japan and his experiences in America with those of his contemporaries and reflect on their collective memories.

Dr. Asakawa Kan'ichi, the first Japanese professor at Yale University, is remembered today as a great historian and prophet who foresaw and warned against the deterioration of Japan-US relations and the eventual clash between the two powers. His book published in 1909, *Japan's Crisis*,<sup>1</sup> criticized Japan's policy in Manchuria after the Russo-Japanese War. It urged Japan to continue to respect China's sovereignty and territorial integrity as well as to adhere to the principles of the open door and equal market opportunities in China.

However, as the New Testament states, "No prophet is accepted in his country." (Luke 4:24.) Asakawa's warning was not heeded. His plea for Japan to undertake a less selfish and more principled China policy did not resonate among his fellow

Japanese citizens and had little impact on the future course of Japan's foreign policy.

Worse still, Asakawa felt increasingly isolated at Yale in his personal life. Born a son of a samurai shortly after the collapse of Shogun's regime, he embarked on his studies at Dartmouth and Yale as a promising young scholar. He seemed destined, on his return home, to become a future leader of a young Japan. At the time, the bilateral relationship between Japan and the United States was still at an innocent, romantic stage.

By the time Asakawa decided, for a variety of reasons, to stay on in the United States, however, he found himself caught between the two countries that had already ceased to be trusting friends. Rather, they had begun to perceive and treat each other as suspicious neighbors and potential enemies. Late in his life, Asakawa had to witness his prophecy proven to be all too accurate. From a distance, he watched as his home country attacked Pearl Harbor and was heavily bombed, including two atomic bombs dropped on Hiroshima and Nagasaki. He saw Japan in total devastation when the war was over.

Asakawa observed and analyzed the course of history and the forces behind it in an impassionate and objective fashion. At the same time, however, Asakawa was a product of that history. Asakawa became the Asakawa we know today because of where and when he lived in the history of the bilateral relationship. He tried to overcome the inevitable course of history, but was also bound and limited by it.

And yet, Asakawa was not a mere prisoner of the forces of history that initially caused the two countries to contact each other and eventually led them to war. He was neither powerless nor resigned to it. He tried to, and believed that we could transcend the differences and difficulties between the two countries and achieve something more lasting, more universal, and more principled than the mere flow of events might dictate. It is precisely because of his guarded optimism that we continue to

learn lessons from his thoughts sixty years after his passing. We remember them as we try to maintain and improve our bilateral relationship in a global context. This is why his American journey is still remembered and cherished.

### *Asakawa's American Journey and Japan-US Relations*

Asakawa's life parallels the first one hundred years of Japan-US relations. Official Japan-US relations began with the arrival of Commodore Perry and his East India Fleet in the Edo Bay in 1853. Hence, the year 2003 was the 150th anniversary of that visit. These 150 years of the bilateral relationship can be broken roughly into three fifty-year periods: the first period is from 1853 through 1898, the second from 1898 through 1951, and the third from 1951 through 2001. The relationship can be said to be in its fourth fifty-year period at the present time.

Asakawa lived through most of the first two fifty-year periods. He was born in 1874 in the town of Nihonmatsu, Fukushima, approximately 130 miles north of Tokyo. It was twenty years after Commodore Perry's second visit to Edo Bay and the conclusion of the Treaty of Kanagawa, the first treaty Japan entered with any Western power.

He arrived in San Francisco in 1895 for the purpose of studying at Dartmouth College. It was the year in which China ceded Taiwan to Japan as a result of the Sino-Japanese War, and three years before Spain ceded the Philippines to the United States as a result of the Spanish-American War. Because of these respective territorial acquisitions, Japan and the United States suddenly found themselves physically facing each other across a relatively narrow strait, a reality that transformed the nature of the bilateral relationship. Thus began the second fifty-year period.

Asakawa married an American woman in 1905, the year of the Battle of Tsushima and Japan's victory in the Russo-Japanese War. Two years later, he started teaching at Yale. He died in

1947, two years after the end of the Pacific War and four years before Japan regained independence to usher in the third fifty-year period.

Asakawa's life began during the first half of the first fifty-year period of Japan-US relations. This was a period during which Japan and the United States continued to deal with each other in a manner that was mostly cordial and friendly. He came to study in the United States toward the very end of this first period.

He finished his education at Dartmouth, studied at the Yale graduate school, and returned to Dartmouth to teach, all at the beginning of the second fifty-year period. When he subsequently began to teach at Yale, he observed and worried that American public opinion toward Japan had quickly turned from being very favorable before and during the Russo-Japanese War to being rather negative after the war. This was, he accurately analyzed, because Japan had tried to monopolize Manchuria.

During this period, he lost his American wife, failed to get a teaching position in Japan, and was frustrated that he was not promoted to a full professorship at Yale, which did not come until 1937. He tried to avert the coming war between the two countries to no avail by drafting a letter from President Roosevelt to Emperor Hirohito in November 1941. He saw the war from a distance and died before the third fifty-year period had started.

In short, Asakawa personally witnessed the evolution and deterioration, successes and failures of the bilateral relationship during the first one hundred years of the bilateral relationship. Moreover, these ups and downs in the relationship were closely linked to his personal life.

### *The Civil War of 1868–1869 and the Fate of Rebel Samurai*

In this connection, it is important to note that Asakawa's life and his American journey were greatly impacted by the three

wars that occurred during the first one hundred years of the bilateral relationship. They are the Civil War of 1868–1869 in Japan, the Russo-Japanese War of 1904–1905, and the Pacific War of 1941–1945.

The significance for Asakawa of the latter two wars requires no explanation. The Russo-Japanese War marked a turning point in the history of the bilateral relationship. Asakawa attended the Portsmouth Peace Conference as an observer and seems to have played a significant role in formulating the peace treaty, according to Dr. Yabuki Susumu's studies. It was also the aftermath of this war that made Asakawa deeply worried over the future course of the relationship. The Pacific War was the end result of everything that Asakawa had feared back in 1909 might happen between his home country and his host country. It is, however, the War of 1868–1869 in Japan that eventually induced and enabled Asakawa and many other young Japanese of the period to come and study in the United States.

The arrival of the black ships led by Commodore Perry destabilized the political situation in Japan. The already weakened Shogun government eventually collapsed. The last Shogun returned sovereignty to the emperor in 1867. However, the samurai from the south, who both supported and were supported by the emperor, had not yet begun to fight. Many were descendants of the samurai who had fought against and lost to the Tokugawa troops in the battle of 1600. They moved into Edo in 1868, took over the Shogun's castle without a fight, and there declared the establishment of the Meiji government. They then marched on to the north.

Samurai in the north, who had long been loyal to the Tokugawa Shogunate, refused to surrender and decided to fight back. The War of 1868–1869 was therefore a war to determine whether the new Meiji government was to survive and succeed in starting the modern Empire of Japan. In the end, the emperor's army prevailed. The Meiji Restoration was accomplished.

The victory of the emperor's army in this war against the troops loyal to the old Shogun regime, like the victory of the Union troops four years earlier against the Confederate troops in the United States, meant profound changes in the lives of thousands of Japanese people. It ushered in the modernization of Japan's political and social systems. It kicked off a rapid industrialization of Japan's economy. It allowed a cautious and guarded liberalization of Japan's politics, religions and culture while restoring and reformulating the ancient Imperial system. Samurai from the far away prefectures of Satsuma and Choshu rose to the top government positions in Tokyo in their newly-donn'd western clothes.

At the same time, however, it also meant hardship for and discrimination against those in the north who had fought on the other side of the cause. In fact, to this date their dead have not been enshrined in the Yasukuni Shrine. Having fought a war against the emperor, they were labeled rebels. Like the Southerners in the Reconstruction era in the United States, the northern samurai suffered callous and unjust treatment from the new government. It was natural that they clung for a long time to their bitter memories of the War of 1868–1869. Some of those feelings still linger today.

Incidentally, samurai in general, northern and southern, did not fare well under the new Meiji government, except those who managed to form a new elite class surrounding the emperor. They lost their privileged status and identity as samurai in the newly arrived modern society. Lower class samurai in particular, deprived of regular salaries based on the rice harvest, faced severe economic hardship.

In fact, many samurai from Satsuma and elsewhere who fought as members of the emperor's army during the War of 1868–1869 failed to adapt to the new system and felt betrayed. Some of them eventually rebelled against the Meiji government and were brutally crushed by the regular army of the new



regime in 1870s. Many of the government soldiers who put down the Satsuma rebellion in 1877 were former rebel samurai, who had been attacked by the Satsuma samurai eight years earlier.

Therefore, it was a handicap to be a son or daughter of a poor samurai in the early Meiji era, especially if one was from a former rebel prefecture in the North. They had little hope of joining the new Meiji establishment regardless of their level of education and intellectual capability. Naturally, they had to find another way to achieve their respective goals. America provided one such alternative.

### *Rebels' Sons and Daughters Go to America*

It is a curious phenomenon that many of the Japanese who studied in the United States in the early Meiji era were indeed the sons and daughters of those samurais who had fought on the side of Shogun during the War of 1868–1869. For instance, Sutematsu Yamakawa, who at age twelve was one of the five young girls the Meiji government sent to the United States to study, was actually a daughter of the prime minister serving the Lord of Aizu, a staunch supporter of Shogun. Tsuda Umeko, who was Sutematsu's best friend and the youngest of the five girls sent to the United States (she was merely seven years old when the mission departed Yokohama), was also a daughter of a samurai in the Shogun government. Tsuda stayed and studied in the United States for eleven years living with an American family. She converted to Christianity, and returned to Japan to found Japan's first Christian women's college, Tsuda College.

Nitobe Inazo, who later authored one of the most widely read books on Japan in the United States before World War II, *Bushido, The Soul of Japan*, was a son of a samurai from Morioka, a former rebel prefecture. One of his classmates at the Sapporo Agricultural College was Uchimura Kanzo, also a son of a samurai from the north. Both Nitobe and Uchimura later

went to study in the United States—Nitobe at Johns Hopkins and Uchimura at Amherst.

Asakawa was a son of a samurai serving the Lordship of Nihonmatsu, a rebel prefecture. His mother's late husband, the only son of the Asakawa family, was a samurai and a member of a large, radical, anti-West group who was killed during an armed rebellion in 1864. His grandfather, the head of the Asakawa family, lost his life fighting the emperor's army during the siege of the Nihonmatsu castle in 1869. In a primogeniture society such as pre-WWII Japan, this meant that the Asakawa family would die out. Therefore, Asakawa's father, the second son of a separate family, married his mother and adopted the Asakawa name, a traditional way to continue the family.

Of course, young Japanese from the winning side of the War of 1868–1869 also went to study abroad. At the beginning of the Meiji era, the Japanese as a whole were extremely eager to learn from the West. Many went abroad to study. However, those from the former rebel prefectures had an added incentive to go abroad.

As stated above, former rebels had a much lower chance of entering the new government and being appointed to high positions. This does not mean, however, they were banned from the government. In fact, there were some notable cases of former rebel leaders being appointed as high-ranking officials in the Meiji government. Still, the new government was, for the most part, saturated with samurai from Satsuma, Choshu, and other pro-Imperial prefectures. They formed powerful and impenetrable factions within the government. For the samurai of the former rebel prefectures, receiving a quality education abroad and returning home with new scientific, engineering, medical, and other advanced knowledge, as well as the skills to speak and write a foreign language was an alternative way to seek rewarding career opportunities.

America had sent a large number of missionaries to Japan to convert many of the samurai to Christianity and seemed a natural destination for Japanese Christian samurai. In fact some, like Uchimura, were terribly disappointed upon arrival to find a gilded-age America that was materialistic, corrupt, and filthy. He had thought he would encounter the “city on the hill,” a spiritual sanctuary full of pious souls.

Nevertheless, America was a much more open and welcoming society than some European countries for the rebel samurai's sons and daughters. Most of the government sponsored students went to Europe to study where they established contacts with the elites of the host countries. Rebel samurai's sons had no such contacts and could not compete with the elite Japanese students. In America, however, philanthropic Christians often volunteered to assist poor young students from Japan, financially or otherwise. They did so particularly if the students confessed the Christian faith. Niijima Jo, the founder of Doshisha University, went to Boston in 1868 without knowing anybody there, and met Mr. and Mrs. Hardy, wealthy Boston merchants and active Christian philanthropists. Impressed with Niijima's determination to study Christianity, they paid for all his educational expenses at Phillips Academy, Amherst College, and the Andover Theological Seminary. Financial assistance from American Christians was a great help to the poor samurai students from Japan.

Moreover, Japanese students without adequate educational funds could find jobs in America to pay for at least part of their tuition, fees, and living expenses. Katayama Sen, a later Communist who died in Stalin's Moscow in 1933, worked his way through various American colleges between 1884 and 1896 and published a book on his return to Japan entitled *A Guidebook for America*.<sup>2</sup> In it, he urged young Japanese to study in the United States because, as he stated, “America has sympathy for

those poor students who have a strong desire to study.” He continued:

Those who were born in log cabins and shined shoes yesterday are now cabinet secretaries. You students, you who do not mind hard work. Go to America! America will provide you with an opportunity for studying.<sup>3</sup>

This message must have sounded enchanting to the rebel samurai’s sons who were poor, but eager to study.

### *Asakawa Arrives in the United States*

It is with this background and tradition that Asakawa arrived in America in 1895. His father, a rebel samurai, and his second mother, a Shinto priest’s daughter (his mother died when he was three), told him the stories of his family members, relatives, and friends fighting against the emperor’s army. They instilled in him a classical education and samurai spirit. He became a persevering, stoical, and hard-working young adult.

He received training in the English language from a British teacher and converted to Christianity before departing for the United States with the guidance of Yokoi Tokio, a Yale-educated minister, himself a son of a famous samurai scholar, Yoko Shonani. Yokoi’s friend in the United States, William Tucker, the president of Dartmouth College, became Asakawa’s sponsor at Dartmouth and Yale.

Needless to say, Asakawa became a reputable scholar because of his intellectual ability and hard work. But that hard work was rooted in his samurai tradition. In short, he was a fine example of a rebel samurai’s son going to study in the United States.

Asakawa, however, arrived in the United States a little late to carry out the simple, happy story of a samurai’s son going east and coming home a success story. Nitobe, Katayama and Uchimura had all started their study in the United States in

1884, some ten years before Asakawa. They tended to have positive views of America. True, Uchimura was indeed deeply disappointed with the reality of the seemingly materialistic, gambling, violent, corrupt, and race-discriminating American society in the 1880s. But that was partly because before his arrival in America he had mistakenly visualized it as a holy land full of pious spirits. Nitobe and Katayama also faced their share of discrimination, suffered economic hardships, and felt isolated while in the United States. Nevertheless, they talked positively about America when they went home. Their experiences in America were overall fruitful, stimulating, and rewarding.

Asakawa felt positive about America, too. He wrote a series of articles for a Japanese magazine about his initial experiences at Dartmouth. He praised his physically and spiritually healthy fellow students, appreciating how welcoming they were to a student from an island kingdom in the Far East. He later listed strong points of Americans in his book, *Japan's Crisis*. In that sense, he was a product of the first fifty-year period of the bilateral relationship when the two countries and two peoples looked at each other positively. Racial discrimination may have existed in some circumstances against Asians, but Americans as a whole looked favorably and positively at Japan and treated the Japanese well.

This generally favorable environment for Japanese students to study and work began to change soon after Asakawa's arrival in the United States. This was partly because both the United States and Japan had begun to play much bigger roles in the international power game in the Far East. This was also because of a more organized anti-Japanese movement on the West Coast of the United States that centered on the exclusion of Japanese immigrants. The two countries were no longer romanticized and benevolent strangers to each other, but potentially threatening rivals. Thus, the second fifty-year period began.

*Asakawa during the Second fifty-year Period*

Asakawa was keenly aware of this change in the American public's perception of the bilateral relationship. He was personally involved in an effort to improve American public opinion toward Japan in connection with Japan's going to war with Russia. Asakawa conducted a series of lectures, wrote articles, and published a book in English, *The Russo-Japanese Conflict: Its Causes and Issues*,<sup>4</sup> supporting Japan's position during the war. His main message was that Japan was fighting this war to protect China's sovereignty and territorial integrity as well as equal market opportunities for all powers in China. He assured the Americans that Japan had no territorial ambition and no intent to monopolize Manchuria.

After the war, however, there were signs that Japan was not going to keep its promises. Japan began to monopolize Manchuria. American views of Japan changed. This came as very bad news for Asakawa. In his letter in 1908 to Okuma Shigenobu, his mentor and founder of his alma mater, Waseda, Asakawa pointed out that "a sudden shift in American opinion toward Japan is an unbelievable phenomenon, one that has no precedent since the beginning of history."<sup>5</sup> Deeply dismayed, he published a book in Japanese, *Japan's Crisis*, in 1909, warning his fellow Japanese that the direction Japan was heading was a dangerous path to take, one that would eventually lead to a confrontation with the United States. Asakawa's warning went unheeded.

With such a drastic change of mood, he seems to have become disillusioned with his experience in supporting Japan's decision to go to war against Russia only to be betrayed by his own government after the war. According to Igarashi Takashi, he voiced his skepticism about various efforts by some Japanese intellectuals to regain the trust of Americans and to improve the American public opinion toward Japan.<sup>6</sup> In his letter to Okuma Shigenobu in 1913, he categorically stated:

Many of the exchange programs [including Japan-US Exchange Professorship Program, the Japan Society in New York and "Ki'itsu Kyokai," a Japanese private association dedicated to the convergence of the Western and Eastern philosophy and religions] are shallow in content, engaged only in temporary socializing activities, and have extremely weak foundational principles. True [American] intellectuals will laugh at them, causing more harm than good.<sup>7</sup>

He thus criticized others' efforts to improve the relationship through dialogues, admittedly in a somewhat condescending manner. He himself, however, decided not to be personally involved in public diplomacy any more. In his letter to a Yanai Yasushi in 1912, he stated:

In recent years, a few Japanese (including exchange professor Nitobe) began to discuss current Japanese situations. They do it because there is no other to do it, which worries me. I myself, however, would rather that others did it, for I am in the process of concentrating on my research in an even more accurate and purely academic manner. No matter how hard one tries to deal with current issues, the [American] listeners would take my presentations with the assumption that I am not free from Japanese biases. If so, even if such efforts attract the attention of many, and even if that is good for Japan, they will be of little academic value. Benefits from such undertakings, if any, are of temporary nature and doubtful value. That is what I experienced through my lectures and writings during and after the Russo-Japanese War. ... Such speeches and publications are not expected to have a long term impact on Japan-US relations.<sup>8</sup>

Coinciding with his disillusionment with Japan's foreign policy and his decision to concentrate on academic work, Asakawa had to face a series of hardships in his personal life during the second fifty-year period. First, his American wife,

Miriam, passed away in 1913. They had been married for only eight years and they had no children. Asakawa was left alone.

Five years after Miriam's death, he met Sophia Arabella Irwin in Tokyo and fell in love with her. Bella, as she was called, was born in Japan in 1883. Her father was an American businessman and her mother a Japanese woman whom her father met in the early days of Meiji in Yokohama. Asakawa asked Bella to marry him, but Bella did not say yes. He did not give up and continued to court her love across the sea until 1924 when she finally declined. Asakawa was devastated.

Asakawa actively tried to get a job in Japan without success. This was perhaps partly because he was lonely after Miriam's death and partly because he was willing to move to Tokyo if Bella said yes. One year after Miriam's death, when Okuma became prime minister of Japan, Asakawa wrote a letter to him indicating that he would be happy to go home and work for Japan in whatever field if he could be involved in important national matters.<sup>9</sup> He also wrote a series of letters between 1920 and 1924 to his mentor, Tsubouchi Shoyo, requesting a teaching position at Waseda.<sup>10</sup> Asakawa complained that he had very few students to whom he could teach Japanese history at Yale and expressed his belief that he would be more usefully engaged at Waseda. Despite repeated and sometimes desperate pleas, Asakawa's request was not granted. He stopped writing for a teaching position after 1924, when Bella finally refused his proposal.

Asakawa was also unhappy about the way Yale treated him as a teacher. He was appointed a full-time lecturer at Yale in 1907 and promoted to Assistant Professor of East Asian History in 1910. After World War I, Yale faced some serious financial difficulties and, in 1921, his salary was cut in half, to less than what it had been at Dartmouth between 1902 and 1907. He was hard-pressed financially and understandably eager to move to Waseda at the time. He finally was made Assistant Professor of



History in 1927 and was promoted to Associate Professor of History in 1930. However, he was then appointed Research Associate in History in 1933. Asakawa took this as a demotion and in 1936 wrote a letter complaining about this decision to the president of Yale, J.R. Angel:

The matter concerns the title Research Associate which was granted to me some time ago. People would say that it was a promotion of insured permanency of tenure. For that I am thankful. I am infinitely grateful to the University, and to this country in general, ...

[Despite my dedication to Yale] I find myself, probably definitively, adorned with a title which is special and belongs to a side corridor. I see it is an honor; but, in light of my long striving to be worthy of a place in the main roster, the title means to me an ignominious defeat ....

[N]one [of my fellow Japanese scholars] could escape the impression that I had been side-tracked or shelved. And their interpretation? They may either attribute this to my personal deficiency, which interpretation can be no more than of personal significance, or ascribe it to an enormity in others, an interpretation which I should fear to translate in bare terms. ... [A]ccording to the second [interpretation], I might escape personal reproach at the cost of a dangerous prejudice attributed to quarters where it did not exist. And yet those who entertained this thought might think that it only confirmed the inference that had gradually been strengthened in their minds by successive events that have occurred in other relations. ...<sup>11</sup>

Asakawa is vaguely hinting that his fellow Japanese would interpret this decision as an instance of racial discrimination against a Japanese professor at Yale. Perhaps because of this letter, he was finally made Professor of History in 1937, thirty years after he started teaching at Yale.

There is no indication whatsoever that he was subjected to racial discrimination at Yale. In fact, Yale treated him in a most cordial and professional manner to his last day. However, even Asakawa may have suspected that there could have been a racial reason why he was not promoted to a full professorship for such a long time.

In fact, it appears that Asakawa was sometimes overwhelmed by the swelling of anti-Japanese feelings in the United States, among both the general public and policy makers during this period. He knew that Japan's policy towards China was often a source of the negative American public opinion toward Japan. For instance, he wrote a letter in 1915 to Prime Minister Okuma and warned against American reaction to Japan's lease in the Shandong peninsula in China, succeeding to the German interest there before WWI.<sup>12</sup> He was outraged when Japan submitted a note to China listing twenty-one items of mostly unreasonable demands soon thereafter.

Nevertheless, he seems to have felt that Japan's policy in China was not the only cause for a growing negative sentiment toward Japan. He wrote a letter in 1921 to Haniwara Masanao, Japan's deputy foreign minister and representative to the Washington conference, and Hayashi Gonsuke, Japan's ambassador to the United Kingdom, and told them that widespread anti-Japanese feeling in the West was a result of an international Jewish conspiracy.

If I may freely express my guess, this powerful group has an objective of expanding its influence worldwide. Its one temporary, but important, tactic is the exclusion of Japan. In order to do so, it aims at severing the Anglo-Japan alliance and isolating Japan at the proposed [Washington] international conference. Then, it will seek to thwart Japan's economic and political expansion and, if necessary, will stop foreign investment in Japan. ... Which group is it? It is the Jews.<sup>13</sup>

He referred in a separate letter to Haniwara to the Protocol of the Elders as translated by Henry Ford.<sup>14</sup> Although he correctly concluded that this was a fake, he nevertheless stated that it explained Jewish objectives rather well. Whether he received some anti-Semitic influence from his fellow Americans at Yale and whether he genuinely believed it, one cannot tell. Nevertheless, it is shocking to find the same Asakawa, who had written *Japan's Crisis* and so calmly analyzed international politics, advocating such naked anti-Semitic feelings.

Incidentally, it is interesting to note that the Japanese who came to America later than Asakawa in the second fifty-year period had a more realistic, but much less sympathetic attitude toward America. For instance, Tani Joji, a popular writer who spent six years in America between 1918 and 1924, had very different views on this country. He came to study at Oberlin College at age eighteen. He quickly dropped out of college and worked on a variety of menial jobs, such as hotel bellboy, sailor, butler, and waiter, throughout the United States. In the process, he got to know many Japanese immigrants at the bottom of American society. When he returned to Japan, he wrote a series of stories collectively entitled, *The American Japs*,<sup>15</sup> in a humorous yet critical fashion. To him, discrimination against barely English-speaking, poor, uneducated Japanese immigrants was a fact of life in the 1920s, and something that one had to cope with every day. That was not a perspective Asakawa could have had.

In short, the second fifty-year period was a difficult time for Asakawa, both personally and in terms of the overall bilateral relationship. Yet he did not give up the hope that the worst could be averted. That is why he continued to write to Japan and volunteered to draft a letter to the emperor in 1941 on behalf of President Roosevelt (who did not take up the offer). His every effort and warning were ultimately futile. The Japanese attacked Pearl Harbor on December 7, 1941.

### *Conclusion*

In a sense, Asakawa was lucky to be where he was during the Second World War. He did not have to fight, nor did he have to starve. Although he was an enemy alien, he was not forced to leave the United States. His freedom was mostly unrestricted. He continued to teach.

After Asakawa retired from Yale in 1942, he continued his quiet retired life on campus. He heard the news that Japan had accepted the Potsdam Declaration and surrendered to the Allied Powers in August 1945. By this time, he had reflected on his life and the tumultuous nature of the bilateral relationship that had shaped his own journey. He put his reflections in his diary in English on January 1, 1946:

As one reads a whole set together of one's own past records of self-reflection, an unavoidable feeling is one of revulsion from the impression one receives of one's having taken oneself too seriously for these successive years. The erstwhile person appears to have regarded himself as a demigod, a center of the universe.<sup>16</sup>

Asakawa knew that sometimes he had been too rigid, too serious, too samurai-like in the past. He had always been logical and persuasive, but he now seemed to realize that that was not enough to persuade others to take certain actions. That was certainly the case with Bella when he asked her to marry him. It may have been the same with his fellow Japanese and American citizens when he tried to persuade them not to fight.

One of the most reflective passages among Asakawa's writings is found in a letter he wrote to a woman known as G.W. in July 1946:

Now in this season of the year, late Spring and early Summer, I feast my eyes with another marvelous sight on every bright afternoon around six o'clock, when the

sunlight falls nearly horizontally. Shadows of dogwood trees are cast upon the walls directly behind them. These trees are not particularly pretty as a rule, but their shadows! What beauty of every line of them: the curves and forks of trunks and limbs, the individual leaves and their *ensemble!* These shadows have opened my eye to the real beauty hidden in the humble tree itself, and educated me deeply to respect it.<sup>17</sup>

In this letter, there is an absence of the tone found in many of the letters and writings of Asakawa—desperately trying to achieve something, both in his personal life and in the bilateral relationship. The world continued on. He sounds like the Tang dynasty Chinese poet Du Fu, who recited: “The nation shattered, mountains and river remain;/city in spring, grass and trees burgeoning.” (translation by Burton Watson)

We remember Asakawa as a great historian and a prophet. In these capacities, he was a great man. And yet, it may be fitting to remember him as an individual, a rebel samurai's son, who struggled through difficult times between Japan and the United States. He was imperfect in many ways. He was clumsy in some ways. He made mistakes. He was sometimes preachy and condescending, the very negative characteristics that he often attributed to the Americans.

And yet, he was sincere. He tried to overcome his weaknesses. He never gave up trying to overcome the gap between the two countries, on a personal as well as national level. He never ceased to be an optimist. He may have been lonely, but, in the end, he was content. He did not see the bilateral relationship regain its momentum after the war, but deep down he may have sensed it. That was his American journey.

## Notes

- 1 Asakawa Kan'ichi, *Nihon no Kaki*. 1987. Tokyo: Kodansha. Originally published by Jitsugyō no Nihon-sha in Tokyo in 1909.
- 2 Sen Katayama. 1902. *Tobei An'nai*.
- 3 *Ibid.*
- 4 Asakawa Kan'ichi. 1904. *The Russo-Japanese Conflict: Its Causes and Issues*. Boston and New York: Houghton Mifflin; London: A Constable Co.
- 5 Letter of Asakawa Kan'ichi to Shigenobu Okuma of May 21, 1908. *Letters Written by Dr. Kan'ichi Asakawa*. 1990. Ed., The Committee for the Publication of Dr. Kan'ichi Asakawa's Letters. Tokyo: Waseda University Press, 174.
- 6 Takashi Igarashi. 1993. A Study of Kan'ichi Asakawa: His Critical Comments on U.S.-Japan Cultural Exchange. In *The World of Kan'ichi Asakawa, the Immortal Historia*, ed., The Asakawa Research Committee. Tokyo: Waseda University Press.
- 7 Draft letter of Asakawa Kan'ichi to Shigenobu Okuma of May 18, 1913. *Letters Written by Dr. Kan'ichi Asakawa*, 199.
- 8 Draft letter of Asakawa Kan'ichi to Yasushi Yanai of April 21, 1912. *Letters Written by Dr. Kan'ichi Asakawa*, 191.
- 9 Draft letter of Kan'ichi Asakawa to Shigenobu Okuma of May 3, 1914. *Letters Written by Dr. Kan'ichi Asakawa*, 206.
- 10 Draft letters of Kan'ichi Asakawa to Shoyo Tsubouchi of June 20, 1920; July, 1920; May 15, 1921; August 20, 1922; April 15, 1923; August 12, 1923; August 24, 1924. *Letters Written by Dr. Kan'ichi Asakawa*, 274, 279, 290, 311, 316, 319, 328.
- 11 Draft letter of Kan'ichi Asakawa to J.P. Angell of September 17, 1936. *Letters Written by Dr. Kan'ichi Asakawa*, 77.
- 12 Draft letter of Kan'ichi Asakawa to Shigenobu Okuma of January 10, 1915. *Letters Written by Dr. Kan'ichi Asakawa*, 220.
- 13 Draft letter of Kan'ichi Asakawa to Masanao Haniwara and Gonsuke Hayashi of August 1, 1921. *Letters Written by Dr. Kan'ichi Asakawa*, 293.
- 14 Draft letter of Kan'ichi Asakawa to Masanao Haniwara of August 28, 1921. *Letters Written by Dr. Kan'ichi Asakawa*, 296.

- 15 For example., Joji Tani, "Meriken Jappu Shoubai Orai," *Shin Seinen*, July–December 1927.
- 16 Recollections by Asakawa on January 1, 1946. In *Letters Written by Dr. Kan'ichi Asakawa*, 186.
- 17 Draft letter of Kan'ichi Asakawa to G.W. of July 3, 1946. *Letters Written by Dr. Kan'ichi Asakawa*, 161.







# 3

## *Asakawa Kan'ichi as an Economic Historian of Medieval Japan*

KAMBAYASHI Ryo  
HAMADA Koichi

Modern scholarship has converged on the views of medieval Japan espoused long ago by Asakawa Kan'ichi: that the medieval economy was decentralized, contractual, and multilayered. This view has not always prevailed. In the 1960s, Marxist historians Ishimoda Tadashi and Nagahara Keiji asserted that the relationship between lords and peasants was that of an oppressive serfdom (*No-do*).<sup>1</sup> Nagahara did not cite Asakawa's opinion, either because of ignorance or because he regarded it as evidence that was counter to his own theory.

Meanwhile, the English language literature on medieval Japan, written during the 1960s by John Hall, Jeffrey Mass, Edwin Reischauer, and others, maintained that Japanese feudalism was quite similar to decentralized western European feudalism, because the relationship between seignior and tenant was mutual.<sup>2</sup> They based their analyses in large part on their understanding of Asakawa's books and articles.

Asakawa himself, however, maintained that Japanese feudalism was quite different from Western feudalism. He pointed out that medieval Japan was a complicated society that allowed multiple legal principles to coexist and that the feudal system in Japan was transitional and unstable. Asakawa found more

egalitarian, horizontal relationships by observing the actual documents of the Iriki village.

Since the 1970s, as a reaction against Marxist historiography, Amino Yoshihiko, Fujiki Hisashi, and other Japanese scholars have developed a different view about Japanese feudalism. They contend that the feudal system in Japan was basically more liberal than had been assumed by scholars, particularly those in the *Ko-za-Ha* school represented by Nagahara. Amino developed an antithesis to the Marxian theory, in which he showed that many farmers “voted with their feet” to enter into contractual relations with land owners or managers such as monasteries and noble families. In exchange for protection, farmers paid these owners and managers a portion of their harvests. In this view, Amino echoed a thesis that had been previously developed in Asakawa’s work.<sup>3</sup>

Asakawa’s work has now received the positive reevaluation that it deserves. In the chapter that follows, we provide a sketch of Asakawa’s view of Japanese economic history and briefly consider the implications for our understanding of Japan’s economic roots. We focus on the formation of feudal institutions, the mainstays in Japan’s history, in particular the eras of Heian and Kamakura. The issues below are regarded as topics of economic history, but, at the same time, they are also part of legal history because they involve the nature of contracts between tenants, warriors, and the state. From a wider perspective, the issues concerning the history of political economy are crucial because they involve the discussion of social classes and the total political structure of the medieval age in Japan.<sup>4</sup>

### *Taika Reform and the Land System.*

In 645 A.D., the so called Taika Reformers attempted to reorganize Japan’s economic and legal framework based on several key institutional features imported from China. The basic prin-

principles of the Ritsuryo System then introduced can be summarized in several components.<sup>5</sup>

1. All the land was owned by the state in the name of the emperor.
2. A centralized administrative government was established.
3. All farmland was rendered to the state and re-allotted to the owners (*Han-den-Shu-ju*).
4. Land was organized into hamlets or villages (*Sato*) with units of 50 houses.
5. The government created new local governments led by a governor (*Koku-shi*) who was chosen not so much according to clan (*uji*) connections but by political considerations. Thus the reform attempted to eclipse the traditional clans that had been in power and concentrate power in the emperor and his (her) entourages.

The reform succeeded politically in weakening the old clans in favor of the emperor. It failed as an economic reform, however, for many reasons.

First, the agricultural technology that produced rice and miscellaneous cereals during the medieval period was undeveloped. It required rotation farming, and, because of the uneven order of cultivation (*Kata-Arashi*) or bad weather, a considerable portion of land was left in an unstable condition. The tenants readily left and abdicated their responsibilities. The land allotments made by the Taika Reform easily became wasteland. In short, the rules did not fit well with small-scale farming. Of course, agricultural technology progressed during the medieval period, but the pace of progress remains a subject of controversy.

Second, the capacity of the governments was limited. Not only the central government but also the provincial offices lacked sufficient administrative capability to keep pace with the changing conditions of land and tenants. Although the purpose

of the reform was to increase incentives for reclaiming the wasteland rather than reinvesting intensively in the direct application of an economic and legal system from the Chinese dynasty, the foreign system was not appropriate for the environment in Japan, and it therefore failed.

*The Development of  
Manorial Lands (“Sho, Shoen”) in the Heian Period*

As a natural reaction to the failure of the Ritsuryo System, the Japanese manorial land system known as *Sho* made its modest appearance in the 8th century and evolved through the 12th century. Scholars distinguish two types of manors.

The first is *Immune Sho*.<sup>6</sup> Once a piece of land had been registered by the government, under the Ritsuryo System it was directly controlled by imperial, or central, institutions. This formal practice did not provide sufficient incentive for peasants to pursue productive activities because of the ever present possibility that provincial governments would intervene or confiscate their land. In the presence of an excess supply of tenants, the provincial governors (*Koku-shi*), for example, were motivated to abuse the use of land for short-term profit. Accordingly, the government began to collect a first tax immunity for part of newly cultivated land (*Men-den*) and subsequently declared “administrative immunity” for a part of the land.

The second is *Sho of private origin*. Farmers could cultivate unused land, but it was typically beneficial for them not to register the land with the government. Without authorization by the government, however, neighbors and bandits could pilfer crops and steal the land. To protect their land, farmers entrusted or released partial rights to the land to the patronage of a person with influence or to an institution that played the role of a seignior (*Ryo-ke*). This “commendation” of land (*Ki-shin*) was a kind of mutual contract, which transferred partial rights of land and defined the obligation of the parties. Asakawa points

out, "They divided and redivided landed interest, it would be seen, as far as they dared, and conveyed them from person to person with great freedom" (Asakawa 1918, 85). For example, when the first patronage did not have enough influence to ward off invasion of the rights to the land, an owner recommended partial-partial rights to a person of higher influence (*Hon-ke*). Usually (functionally) divided rights of land are called *Shiki* (task or authority in specific functions of administration), and the main corpus of the *Sho* system was the complicated nexus of *Shiki*.

These two origins of *Sho* were logically independent of each other, and *Sho of private origin* was not necessarily "immune." By the 12th century, each of these two kinds of *Sho* accounted for about half of all Japanese fields.

Since farmers had a choice to register a part of their newly cultivated land with the government in exchange for immunity, or with a private institution with specified assignments to the *Shiki*, the distinction between the two origins appeared to be a simple decision: to whom should farmers release their rights to protect their land, to private persons or governments? We should remember, however, the relationships connecting a commendor and a commende were legally different in the two systems. On the one hand, the relationship in *Sho of private origin* was under bilateral and private contract. On the other hand, the immunity was granted by the public authority of imperial institutions. The scholarship of Japanese history, as expressed in Asakawa's work and in the work of his predecessor, Nakada Kaoru, insists it is important to recognize the distinction between the two types of origins and also the two types of nexus in the *Sho* system.<sup>7</sup>

The relationship between the government and a seignior became crucial to the management of an individual *Sho*. Normally a seignior had personal servants called *Ge-nin*. Asakawa stressed that seigniors used the transfer of *Shiki* as rewards to servants (*On-kyu*) and explained, "The surrender of a *shiki* by one person

of a lower station to another of a higher was termed *ki-shin*, which may be translated almost literally as ‘commendation’; a *shiki* granted by a higher person to a lower, for the purpose either of the management or of the economic exploitation of the *sho*, was often known as *on-kyu* meaning benevolent gift, for which we shall use the term benefice. It will at once be observed that there was a wide difference, in their institutional origin, between commendation and conferring of benefice” (Asakawa 1914, 11).

In the Heian period, the *Sho* system had been constructed as a network of *Shiki* often through voluntary divisions and transfers of *Shiki*, and sometimes by coercion of transformation. Thus, there were two main origins for exchanges of *Shiki*: imperial institutions and private mutual contracts. In addition, there was another sub-origin: the granting of personal rewards.

#### *The Role of Warriors in the Kamakura Period*

Generally it is difficult to define the term “feudal system” precisely because this historical concept that originally comes from medieval Europe has been interpreted in many different ways and abused everywhere in the world. Of course there are definitions of feudalism by scholars including Max Weber, Karl Wittfogel, and others. Asakawa asserts that the main point of feudal society is the connection between warriors and land rights, and he proposes three necessary conditions of the feudal system (Asakawa 1918, 78–79):

1. The ruling class should consist of groups of fighting men, each group chained together by links of a personal bond of mutual service.
2. The division of all the classes, including the warrior class, should coincide with their private tenures of land.
3. In the general political life of the society as a whole these private tenures of land should condition the exercise of public right and obligations; and the superior rights of land

should fall into the hands of the privately armed men, who should accordingly assume all the public functions of state.

In Japan, the groups of warriors have been called *Bu-shi*, and they established their own "state" in Kamakura in 1192. The governance during the Kamakura period and in the following periods when governments were ruled by fighting men or warriors are often called "feudal systems" in Japanese style.

The *Sho-gun* retained vassals, or *Go-ke-nin*, who provided military service.<sup>8</sup> This relationship was originally personal, one-sided, and demanded almost unconditional obedience (*Chu-gi*). It did not logically include a mutual economic contract. In *The Documents of Iriki*, Asakawa comments, "Before the prevalence of the true fief, the grounds for loyalty to one's lord was more purely personal and moral and less material than in the later ages" (p. 53). The mutual contractual element in the feudal system in Japan came about when this patriarchal relationship began to utilize the transfers of *Shiki* to reward the vassals' service (*Go-on-Ho-ko*) in personal relationships in the seignior families. The lord-vassal absolute relationship came first, and then the commendation-patronage elements supplemented it.

At the same time, because the Shogunate possessed one of the strongest influences, some seigniors as well as cultivators commended their partial rights to ask the Shogunate for its patronage (*Hon-ryo-An-do*). In this case, the commendation-patronage relationship came first, and the lord-vassal relationship followed.

In short, the patriarchal lord-vassal relationship became intertwined with the commendation-patronage relationship, and, as a result, the feudal system in medieval Japan emerged. As Asakawa comments, "When some of the [*shiki*] eventually passed into the hands of the private warrior—another independent and partly illegal product of the age—feudal developments became at length possible" (Asakawa 1929, 3).

*The Centralization of Feudal Japan*

Not only Asakawa but also almost every historian has observed a trend toward centralization in medieval Japan. Although *Shiki* had been freely tradeable under a patriarchal relationship, the transferability of *Shiki* became limited during the Kamakura period, even in cases where the land had originally been commended or contributed by the vassals.

The rights of a vassal as a land steward (*Ji-to-Shiki*) were limited. The vassal was not given complete command of the territory, and the tenants held some partial remaining rights to the land. Those vassals who originally had been personal subordinates and had been subsequently given *Shiki* did not have a strong command of the actual economic life in their territory. The Kamakura Shogunate, the *Minamoto*-family, was regionally based in the eastern part of Japan. After the fall of the *Taira* family, many eastern vassals were given *Shiki* of western provinces in Japan, but their power as landlords was quite limited. Irikiin, the source of *The Documents of Iriki*, was an excellent example of this kind of territory. Of course, those vassals who commended their land to a Shogunate generally had a stronger influence in their own territory.

Although the rights of land stewards were limited, they gradually gathered or centralized several *Shiki*, which were related to certain domains to build up the total ownership of a piece of land (*Ichi-en-Chi-gyo*). But the centralization of feudal Japan progressed slowly. There were still *Shiki*-holders who were subject to social relationships other than the one-sided lord-vassal relationship. For example, imperial institutions as well as their tenants kept their own *Shiki* over the territory, and they were not vassals of the Shogunate. In addition, Japan encountered no invaders from foreign countries except for the failed Mongolian attacks (*Gen-ko*) at the end of the 13th century. There was little compelling need to construct a strong centralized military organization.



Asakawa notes that the centralization of feudal Japan was completed by the end of the 16th century by the “unifiers,” Oda Nobunaga and Toyotomi Hideyoshi.<sup>9</sup> There is still controversy among scholars regarding the timing of the completion. It is common knowledge, however, that feudal Japan made slow but steady progress toward centralization.

*Asakawa's Legacy in  
Current and Prospective Studies in Economic History*

Asakawa's views about the transitional nature of feudal Japan suggest fascinating avenues for future research.

1. There were two contrasting relationships: one based on one-sided personal obedience and the other on mutual economic contracts. Many historians, including Asakawa himself, assumed that the former dominated the latter throughout medieval history. Was it possible that the benefit of mutual economic contracts outweighed the adoption of an efficient form of institution in medieval Japan? Economics sees every social interaction that develops as based on lines that rationality dictates. Family interactions, criminal interactions, and even love interactions follow this logic. In this respect it would be interesting to understand why a one-sided personal obedience relationship, which could be inefficient, continued to thrive in medieval Japan.
2. The feudal system and the intensity of agricultural innovations may not have had unilateral causality, but it is possible to consider that they developed simultaneously. Considerable controversy remains about the degree of agricultural innovation that occurred in the latter half of the 12th century in medieval Japan. This was before the warriors established their own government. According to Furushima Toshio and Kimura Shigemitsu, among others, Japanese feudalism had developed because of major agricultural innovations. The

opposite hypothesis maintains that agricultural development was delayed until the 17th century because political centralization was crucial for property rights. More work remains to be done to sort out these competing hypotheses.

### Notes

- 1 For example see Keiji 1961 and 1990 and Ishimoda 1946.
- 2 For example see John Hall 1966 and Jeffrey Mass 1976.
- 3 “In the course of the next four hundred years, *sho* so far increased in number and in immunity at the expense of the state, that, at the end of the twelfth century, their extent probably equaled that of the public domain.” Asakawa 1918, 83.
- 4 We appreciate the devoted and painstaking work of translation from English to Japanese of the two volumes by Asakawa; *The Early Institutional Life of Japan* and *The Documents of Iriki*, done recently by Professor Yabuki Susumu. His translations greatly facilitated our understanding of the contributions of Asakawa Kan’ichi. We also hope that the glossary of translated historical words that follows the notes will help the understanding of this chapter.
- 5 *Ritsuryo* means “penal and civil codes.” Historians named the political order, which was “stabilized, statue-based, and aristocratic” and which had been established by the early 700s as a Ritsuryo System. See Totman 2000 chapter 4. The historical concepts represented by Japanese words have not been fully translated into another language. For medieval Japan, Hall 1983 offers a useful comparison and glossaries about terminology. For the convenience of readers, at the end of this chapter we include some terms translated by Hall 1983. Therefore, we do not provide a detailed explanation for each Japanese concept in this chapter.
- 6 This word was used by Asakawa. See Asakawa 1914, section 3.
- 7 For example, see Kaoru 1906.
- 8 Usually the English words “lord and vassal” are used to describe the groups of fighting men in the European feudal system. For simplicity, we express *Sho-gun* as “lord” and *Go-ke-nin* as “vassal.”
- 9 Since the 1580s Toyotomi Hideyoshi had collected documents on landholding and income and recorded the data for his own purposes.

*Glossary (from John Whitney Hall, 1983)*

(In Hall the alphabetical rule of Japanese expression [*romaji*] is different from the one in this chapter.)

- Bushi* Class of persons performing warrior functions.
- Gokenin* Shogunal houseman or retainers; a pledged vassal of the shogun.
- Honke* Guarantor or protector of a *shoen*. The highest ranking *shoen* office held by only the highest ranking aristocrats or greatest religious institutions (original explanation from Mass 1976). Some *shoen* had both a *honke* and *ryoke*, a similar high-ranking proprietor. In such cases, one of the two took the *nengu* and established control. As a general term of familial relationship, the main house in an extended lineage, with power or authority over the branches (*bunke*).
- Jito* Warrior overseer appointed by the Kamakura *bakufu* to collect *shoen* tax and supervise local police duties. The most important local figure during the Kamakura period, the *jito* lost his importance in the Muromachi period (original explanation from Mass 1976).
- Kenchi* Cadastral survey; land survey.
- Kokushi* Under the Ritsuryo System, providential administrative officials sent from the central government. Originally included were the four ranks of governor status, but, by medieval times, *kokushi* referred to the governor alone.
- Ritsuryo* A term referring to the legal codes adopted from China in the seventh and eighth centuries; by extension, the bureaucratic system of national, imperial rule established by those codes.
- Shiki* "Right" or "office." Originally a function or office with attached requisites; later the right to designated income (with or without duties) quality of *shiki* eventually gave way to one that was private and permanent; post often became hereditary. Several *shiki* holders might jointly "possess" an individual unit of land (original explanation from Mass 1976). Thus a single piece of

cultivable land had divided tenures and divided income rights attached to it. Each *shiki* included the power to administer at a specified level, and low-ranking *shiki*, such as the *myoshu shiki*, became saleable in the Muromachi period.

- Shoen* A landed estate. Having no satisfactory English translation, it is well to leave it as much as possible in Japanese. In documents it appears as “-*sho*,” a suffix to a place name. Privately held, the *shoen* had a public aspect as the dominant unit of local land administration from the late Heian through early Muromachi periods. *Shoen* were held in proprietorship by a central, absentee overlord, but other local rights were simultaneously held at several levels. No single person could claim full possession of a *shoen* in a private sense.
- Shogun* A leader of the warrior estate; head of the *bakufu*. Abbreviation of the title *seiitaishogun*.

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# 4

## *Asakawa Kan'ichi's View of History*

YABUKI Susumu

*The Legend of the Asakawa Cherry Tree*

Kan'ichi would memorize two pages of the English-English dictionary daily, then literally “devour” the pages, a practice in those days not uncommon. When the last pages were gone and only the covers were left, Kan'ichi buried them at the foot of a cherry tree on the school campus. The tree was known as the Asakawa Cherry Tree.

*G.G. Clark,  
Classmate of 1899, Dartmouth College*

The story in the epigram about devouring an entire dictionary provides an early glimpse of Asakawa Kan'ichi's intense commitment to scholarship. This remarkable man lived out a life-long passion for historical knowledge. His integrity as a scholar was matched by his integrity as a human being, and throughout his life he dedicated his efforts to exploring peaceful solutions to the problems of the world in which he lived.

This chapter begins with some vignettes of Asakawa's scholarship on medieval Japan and its reception in Japan and elsewhere. Sections 3 and 4 turn to Asakawa's vision for peace in Asia and his unsung role in the Portsmouth Treaty.

*The Reception of Asakawa's Scholarship in Japan*

Asakawa's scholarship on medieval Japanese history was not immediately appreciated in Japan. In the first place, many Japanese historians questioned the credentials of a scholar of Japanese history who had been trained abroad. In 1915, in response to a derisive comment by a Japanese historian on his analysis of Japanese feudalism, Asakawa wrote a spirited defense: (1) Overseas scholars have the liberty to think freely, which might not always be the case in Japan. (2) Overseas scholars have advantageous opportunities to practice comparative history. (3) The disadvantage of scant materials can be at least partly compensated for by intensive analysis and interpretation. Finally, he proposed, as long as domestic scholars cooperate with overseas scholars studying Japanese history, we can offer treasures in Japanese history for the development of humanity.<sup>1</sup> To be dismissed by one's compatriots must have stung, but Asakawa consoled himself with his motto that "Science will always prefer the white light of truth to the red glare of a flame."<sup>2</sup>

After World War II, Japanese historiography was strongly Marxist in orientation, which provided other grounds on which to dismiss Asakawa's scholarship. In 1961, with support from the Ministry of Education, Professor Nagahara Keiji<sup>3</sup> organized a research team to Iriki, the feudal domain that Asakawa had studied. Nagahara had undoubtedly chosen the Iriki village among many villages because he knew Asakawa's works. After conducting his own research on Iriki, Nagahara advanced a conclusion about the oppressiveness of serfdom in medieval Japan that was at odds with Asakawa's thesis about the contractual nature of peasant-lord relations.<sup>4</sup> Nagahara wrote a book<sup>5</sup> in his last years in which he evaluated eminent historians who had contributed to the development of Japanese history. Asakawa's name does not even appear in those pages. Many followers of Nagahara, including liberal scholars, followed his



lead and ignored Asakawa's achievements. Only in recent years, with a new generation of scholarship focusing on social and cultural history, has Asakawa's emphasis on peasants' resourcefulness become fully appreciated. Among economic historians, Asakawa's interpretations of medieval land contracts have been accepted more or less as conclusive.

### *Asakawa's Citizen Diplomacy*

Although Asakawa was a historian of a rather arcane subject, he was deeply interested in public policy and international peace. In the early twentieth century, the growing rivalry between Russia and Japan captured his attention, not only for the sake of Japan's welfare, but because he feared that a Russian/French cabal could cannibalize China and close off much of Asia to vital trade and investment.

In August 1905, when the Russo-Japanese negotiations were deadlocked, Asakawa, then 31 years old, stayed at the Wentworth Hotel and watched the conference as an observer. A local newspaper, the *Boston Herald*, carried an interview with Asakawa on August 24, 1905 in which he was quoted as saying that the powers owed it to the world to conclude an early peace. He was of the view that Japan should not demand more than was necessary to ensure its safety for the future, to obtain full and free access for it to the markets of Manchuria, and to secure a dominating influence over Korea. On the other hand, Russia should not submit to any terms that would jeopardize its honor or wound its dignity as a nation. "As to indemnity, I am unable to say whether Japan is entitled to one or not. As I understand her terms, she does not desire to inflict any penalty upon Russia. All she asks is the mere repayment, in whole or in part, of the costs she has been put to by having had to wage war."

Asakawa's opinions on Russo-Japan treaty negotiation were not welcomed by the Japanese correspondents who were

covering the negotiation process. Fukutomi Masatoshi criticized Asakawa by his pen name, Seison, in his article, "US correspondence, episode on peace talk" in a Japanese newspaper, *Tokyo Asahi Shimbun* on October 30, 1905.

Asakawa is a graduate from Yale University and now is teaching oriental politics as a lecturer at some school in the US. His name card carries "Ph.D. and Lecturer." He won't speak Japanese even to Japanese people and speaks only English to anybody. He interacts with many white people and explains peace negotiations, staying in the Wentworth Hotel in Portsmouth. He argues "Japan definitely does not want any indemnity. Although abandoning money seems contrary to Japanese public opinion, we should neglect public opinion in the case of a grave international problem of this sort. The Japanese government should decide according to its own wisdom."

(my translation)

Fukutomi went on to suggest that Asakawa could be an agent of the Japanese government.

Otherwise, how could he stay at a high class 5 dollar per night hotel? We Japanese correspondents are quite angry with him, and would like to bring him down a few pegs. Unfortunately, he won't speak Japanese. We are afraid to quarrel with him in English lest we be overheard and bring shame on Japan's honor.

(my translation)

Asakawa was a young lecturer at Dartmouth College at the time, having completed a Ph.D. in history from Yale University in 1902. His dissertation was on *The Early Institutional Life of Japan*, which examined the political reforms of 645 A.D. Beyond being a historian of medieval Japan, he was also a knowledgeable scholar of international relations. Asakawa had published *The*

*Russo-Japanese Conflict; Its Causes and Issues* with Houghton Mifflin in the United States and A. Constable & Co. in Britain in 1904. His articles, "Some of the Issues of the Russo-Japanese Conflict" and "Some of the Events Leading up to the War in the East" appeared in the *Yale Review* in May and August 1904. His motivation seemed genuinely patriotic to his home country, Japan, but he had no relations with the Japanese government. Asakawa could afford to stay in a luxury hotel in Portsmouth because his accommodations were provided by William J. Tucker, the president of Dartmouth College, who was Asakawa's mentor.

Another actor at Portsmouth was Sakai Tokutarō, assistant to Baron Kaneko Kentarō who was one of the architects of the Meiji Constitution. On February 24, 1904, Baron Kaneko left Yokohama port with two assistants, Sakai and Suzuki, and stayed in the United States about twenty months. Their mission was public relations activity in the United States by order of Marquis Itō Hirobumi, who was then president of the Privy Council. Itō decided to dispatch Kaneko to the United States immediately after the declaration of the war against Russia. On October 3, 1904, Sakai wrote a letter to his close friend, Anson Phelps Stokes, Secretary of Yale University, asking for help after two naval battles at Yellow Sea on August 10 and off Ulson on August 14.

Good news continues to come from the seat of the war, but there is absolutely not the slightest hope for early settlement. What is the feeling or sentiment among the learned scholars in New Haven as to what terms of peace Japan should make, etc.? What do you think about it yourself? I should like to hear it from you sometime. We are in constant touch with home through wire. Everything there is bright and cheerful. After the war is over, I thoroughly believe that Christian work in Japan will make a great stride. ...<sup>6</sup>

Sakai and Stokes had been classmates at the Cambridge Theological School where they had become close friends. In addition to their personal friendship, Sakai probably approached Stokes because the *Yale Review* had carried Asakawa's articles on the Russo-Japan confrontation in 1904.<sup>7</sup> Sakai and Kaneko may have thought that Yale scholars knew about and were interested in the Russo-Japan confrontation.

In reply to Sakai, Stokes promised to consult with two or three Yale professors and to get back to him.<sup>8</sup> Stokes spoke with a professor in international law, Theodore Woolsey, and an associate professor in oriental history, Frederic W. Williams,<sup>9</sup> asking them to submit their suggestions in writing by adding that he had a reason to believe that any proposals they cared to make might have an "important bearing on the result." Woolsey replied to Stokes on October 14 1905:

Of course we cannot speak for the faculty of the University. We only give our individual views. Moreover our points of view are somewhat different. But our conclusions are in the main so nearly identical that after consultation we have agreed to formulate them as a single draft, which I beg to enclose.

We infer from circumstantial evidence that the Woolsey and Williams memo was deeply influenced by the views of Asakawa. When Asakawa wrote his book *Russia-Japan Conflict*, Williams contributed a preface. Less is known about the personal relationship between Asakawa and Woolsey, but there are many citations of Asakawa's writings in Woolsey's lecture notes on international relations in the Far East.<sup>10</sup> We may assume that both Williams and Woolsey at least were readers of Asakawa's analysis of the Russia-Japan conflict in the *Yale Review*.

Stokes replied to his old friend Sakai within a week.<sup>11</sup>

Under the proposed terms, given in detail below, Russia would agree to limit her Asiatic fleet, confirm China's title to

Manchuria, transfer the lease of Port Arthur to Japan, allow Japan to establish "such protectorate or other control over Korea as the two may agree upon," and surrender to Japan all the Russian naval vessels interned in neutral ports at the close of hostilities. No indemnity is to be required of Russia (though she would turn over to Japan valuable railroad property) and there would be no cession of Siberian territory. However, if an indemnity were demanded, Japan might be expected to hold Vladivostok temporarily as security.<sup>12</sup>

Although this narrative suggests that Asakawa played a crucial role in the Portsmouth treaty negotiations, his name has all but disappeared from the diplomatic record. One reason, apparently, is that Asakawa asked Stokes not to mention him by name when, during the war, Harold Phelps Stokes was compiling Stokes's writings about Yale's involvement in the Portsmouth Treaty.<sup>13</sup>

Asakawa wrote to Stokes on May 16, 1948:

I thank you very much for sending me the pamphlet on the story of the Yale suggestions as to a place arrangements between Japan and Russia made in 1905. I feel honored to be included among its recipients of the small number of copies you printed. I have read the piece with great interest, and profited from knowing for the first time what T.R. [Theodore Roosevelt] wrote to Germany and France at the beginning of the war. I may have told you that I was present throughout at the hotel at Portsmouth, where the peace conference was being held, and after saw the envoys of both sides as well as the chief news reporters including Cortesi, Sir Wallace, and Dr. Morrison, that, in a later year, I met T.R. and talked with him on a phase of the conference, and that, in Japan, I also briefly interviewed Komura.<sup>14</sup>

Stokes replied to Asakawa on May 21, 1948:

Of course I hope you realize that the only reason I did not refer to you by name was that you wrote me during the war requesting that your name should not be used in connection of the incident.<sup>15</sup>

*Justice is Born from Jealousy of the Powers*

Throughout the Russo-Japan war, the US Secretary of State, John Hay, appealed for the respect of China's sovereignty and for equal access to trade with China. The powers agreed upon these principles, which Asakawa interpreted to mean that the weakness of China and the mutual jealousy of the powers became the mother of justice.<sup>16</sup> Asakawa thought that Japan should return the Liaodong Peninsula to China 25 years following the agreements.

Asakawa was hopeful that Japan would make good on its promises to respect the territorial integrity of its neighbors. In his book on the Russo-Japanese war, Asakawa wrote:

It is remarkable how little the spirit of Japan's policy, which the writer has attempted to express in this sentence, is understood among the people here. A vast majority of people, not excluding recognized writers and speakers on the East, seem to ascribe to Japan certain territorial designs, particularly in Korea. It is not remembered that Japan was the first country to recognize the independence of Korea, the cause of which also cost Japan a war with China. The present war with Russia is waged largely on the same issue, for it is to Japan's vital interest to keep Korea independent. From this it hardly follows that Japan should occupy Korea in order not to allow her to fall into the hands of another power. If Korea is really unable to stand on her feet, the solution of the difficulty does not, in Japan's view, consist in possessing her, but in making her independence real by developing her resources and recognizing and strengthening her national institutions. It is in

this work that Japan's assistance was offered and accepted. It would be as difficult for any impartial student not to see the need of such assistance as to confuse it with annexation. It would, however, be entirely legitimate to regard the task as extremely difficult and dangerously prone to abuse.<sup>17</sup>

We know, from Asakawa's 1909 book, *Japan's Crisis*, that he became dismayed with the Japanese government's failure to respect China's sovereignty and territorial integrity and its refusal to make good on its promises made in 1905 to respect Jay's principles of open door and equal access in China. When Asakawa wrote a letter of thanks to Stokes in May 1948, he concluded his letter with these words:

I am interested most of all in the fact that, both in the account and the conduct of Japan then and afterward, I find, once again, how little the unconscious habits of the mental workings of nations are understood to one another, indeed, how little each is aware of its own. Words and acts of each betray ... the sad limitations in both respects, ... limitations that are the root causes of national and international comedies and tragedies throughout human history. The condition can improve only with extreme slowness. All my studies of history during decades have pointed to the single problem of the process of the formation of each social mind, and of the peculiar manner of its historical manifestations. The infinite number of concrete facts is to me but a brush with which to sweep away the cobweb of the student's own mind for the clarification of the fundamental problem.<sup>18</sup>

Written only three months before his death in August 1948, this passage captures both Asakawa's enduring hope for peace and understanding among nations on the one hand, and his awareness of the domestic and international roots of war on the other. To the end of his days, he kept his optimism and realism in productive tension.

*A Historical Note about Asakawa's Edited Works*

After Asakawa passed away in 1948, the Committee for the Publication of Dr. Asakawa Kan'ichi's works was organized under the chairmanship of Matsukata Saburō on February 2, 1954. The Ministry of Education promised financial support in May, and Yale University released copyrights in June. Under these conditions, the Japan Society for the Promotion of Science (Nihon Gakujutsu Shinkōkai) agreed to support publication.<sup>19</sup> The Committee announced that the English section would be preserved in its original form. But, regarding the Japanese section, a committee extensively edited the materials. That is, besides correcting errors based on original material, it adopted two policies for editing; (1) it would record all existing Iriki documents, (2) all documents would be filed under the title of the possessor, e.g., the Iriki-in, the Terao, the Okamoto, the Tōgō, the Ketō-in, the Tsuruda, the Taki, and so on. Most casual readers might believe that these policies created no problems. Indeed nobody had raised concerns until 2005, when I discovered the faults. In fact, the two policies should be understood as an alteration of the original work and the creation of a new version. The first document that Asakawa selected was the *Order of the head of Go-dai in, 1135*. The last documents were (A) the *Memorandum of the Shōgun's council, 1867*; and (B) the *shogun's memorial to the throne, 1867*. Regarding these last two documents, Asakawa noted that "the editor regrets that he decided to include (A) and (B) in the present No. too late to enable him to add their original texts to the Japanese section of this volume."<sup>20</sup> The Japanese section had already been printed in Tokyo in 1925. Therefore Asakawa could not add the two Japanese texts, when he completed the English section in 1929. Asakawa regretted this because the last *Shōgun's* memoranda are the very symbols of the end of feudal Japan. The joint letter of four *daimyōs*' proposing voluntarily to yield their hereditary



domains to the imperial government is not sufficient to end the feudal regime in Japan.

Thus, it was certainly Asakawa's intention that the enlarged Tokyo version should at least include the *Shōgun's* two memoranda. Although the volumes of the new edition comprise 2.4 times more pages than the original Yale version, they do not include the above mentioned two short memoranda by the last *Shōgun*. Another defect of the new edition is the order of arrangement of the documents. First we should check Asakawa's method. The reason Asakawa put the *Order of the head of Godai in, 1135* on the first page is very clear: the key-word *Iriki* appeared for the first time in all the documents of Japanese history. Therefore he put it in the first place. *The Documents of Iriki* must start from this document, which contains the name of *Iriki*. Then what should be placed in the last position? Asakawa put the four *daimyōs'* joint letter in the Japanese section of the original Yale edition. But as soon as he found the last *Shōgun's* two memoranda, he immediately translated, added footnotes, and placed them in the last place of the English section. From the *Godai in* document to the last *Shōgun's* memoranda, he arranged the documents in chronological order, so we can read them as the development of feudalism. But the new enlarged Tokyo edition is not in chronological order. Rather, it is arranged according to the original possessors, so readers cannot read it like a story, but only use it as a source book. Thus Asakawa's original intention was severely distorted. The members of the editing group probably had not read the original English version, so they could not even recognize their own mistakes. The enlarged Tokyo version carried three articles by professors of the Historiographical Institute at the University of Tokyo, Professors T. Nishioka, K. Hōgetsu, and R. Takeuchi.<sup>21</sup> Unfortunately they did not mention even a few words about the contents of the *Documents of Iriki*. They had not yet read the book. Nor had the members of the committee. After the

enlarged Tokyo version appeared in 1955, some people began to read the Japanese section. However, no reader opened Asakawa's English notes, which Asakawa had regarded as the substance of the book, as he stated in his Japanese preface. His "substance" was almost completely neglected until the notes were translated into Japanese in 2005.

At long last, Asakawa's work has enjoyed resurgent interest in recent years for at least two reasons. The rise of China as a massive power in Asia underscores Asakawa's recognition of the importance of diplomacy in maintaining peace in Asia. His work on economic history, too, has stood the test of time, outliving faddish detours into ideologically driven theory that held up Japanese academe for years. It is bittersweet that Asakawa is finally getting the visibility and recognition that he always deserved, and that would have served his countrymen so well in his own time.

*Notes:*

- 1 *Shi-gaku Zasshi*, February, 1915. Professor Kuroita Katsumi (1874–1946) compiled *Kokushi Taikei*, vols. 1–64 in 1929–1964. He also cooperated with Asakawa to select 'Gifts of the Yale Association of Japan,' located at the Beinecke Library in 1934. Asakawa's original article appeared in the *American Historical Review*, vol. 1, no. 1. His refutation of Kuroita was published in *Nihon Hōken-seido no Kigen ni tsukite* (On the origin of feudal land tenure in Japan), *Shi-gaku Zasshi*, May 1915. In criticizing the political pressures for "correct interpretations" under which Japanese scholars struggled, Asakawa was referring to the "Seibun Problem" (正閏問題). In 1911, The Ministry of Education revised a history textbook for primary schools. Mr. Sadakichi Kita (1871–1939), who was then the editor of the textbook in the Ministry, was criticized by the Imperial Diet and left the Ministry. Asakawa's close friend, Mr. Sanji Mikami (1865–1939), Professor of History, University of Tokyo, also resigned the post of supervisor. Mr. Kita's "mistake" had been to write of the Northern and Southern courts in an even handed way, but the Ministry of Education's official view was first that only the Northern Court had

- legitimacy. Later the official view changed to support the Southern Court's legitimacy. Through letters from Mikami to Asakawa, it is clear that Asakawa understood this trouble very clearly.
- 2 Japan Old And New: An Essay on what New Japan owes to the Feudal Japan, *The Journal of Race Development*, vol. 3 no. 1, July, 1912.
  - 3 Professor Emeritus of history, Hitotsubashi University. A popular historian majoring in medieval Japan. (1922–2004).
  - 4 Chū-sei Son-raku no Kōzū to Ryōshu-sei (The structure of villages and lord system in the medieval Japan), in his book, *Chū-sei no Shakai to Keizai*. Tokyo: University of Tokyo Press, 1962, pp. 152–214.
  - 5 *20 Seiki Nihon no Rekishi-gaku* (Historical science of Japan in the 20th century), Yoshikawa Kōbunkan, 2003.
  - 6 Anson Phelps Stokes's brother, Harold, edited and published his brother's memoir on the Portsmouth Treaty. Harold Phelps Stokes, "Yale, the Portsmouth Treaty and Japan," 1948, mimeograph, pp. 6–7, in Asakawa Papers, Yale Library.
  - 7 In 1999, a Japanese historian, Shiozaki described how Asakawa's analysis was appreciated among intellectuals. According to Shiozaki, "The *New York Times* editorial highly appreciated Asakawa's article of the *Yale Review* in May 1904. His book *Russia-Japan Conflict* was also reviewed by the *New York Times*, *Nation*, *Dial*, *Review of Reviews*, *American Sociology*, *Yale Review*, and *Outlook*. Every review appreciated the author's objective and fair attitude about researching data and description by avoiding patriotic sentiments as a Japanese citizen. ... However, these journals were circulated only among intellectuals, and the number of readers was limited. Asakawa's argument did not reach out to ordinary American people." (excerpt and translation by author) Shiozaki Satoshi, "American View on Asakawa's article." *Newsletter* from Asakawa Research Committee, No. 37, June 1999.
  - 8 Harold Phelps Stokes. *Yale, the Portsmouth Treaty, and Japan*, 1948, p. 8.
  - 9 Williams was a son of Samuel Wells Williams who served as interpreter for Commodore Perry.
  - 10 A Japanese historian, Yukimi Masui, associate professor of Kei-ai University, discovered this connection between Woolsey and Asakawa when going through Woolsey's lecture notes.

- 11 Six letters from Stokes to Sakai are preserved in the Asakawa Papers in Yale Library, Diplomatic Record Office of the Ministry of Foreign Affairs of Japan and Fukushima Prefectural Library. The title of the documents is “The case of dispatching Barons Suematsu and Kaneko to Europe and the United States for enlightening the respective related nations’ public opinions.” (my translation)
- 12 On the same day, Stokes wrote Sakai another letter stating that Woolsey and Williams were of the same view except with respect to the Russian navy. Woolsey proposed to limit the Russian naval fleet to a maximum 50 thousand tons. Williams did not think Russia would accept this proposal. Stokes’s letter to Sakai, October 14, 1904, in Asakawa Papers, Yale Library; also the Diplomatic Record Office of the Ministry of Foreign Affairs of Japan.
- 13 In 1998, a Japanese journalist, Shimizu Yoshikazu, wrote about “The man who disappeared from Portsmouth history.” Shimizu was intrigued by an episode that had taken place at the home of Anson F. Stokes on March 8, 1905, when he invited Baron Kaneko and Yale professors to a dinner party. When Kaneko referred to Russia as Japan’s worst enemy, some unnamed Japanese guest replied, “Oh no, Japanese worst enemy is (Japan’s own) swollen head.” Shimizu guessed that this unnamed guest must be Asakawa, but the curator of the Yale East Asian Library collection, Kaneko Hideko, found through research that it was Baron Kaneko’s assistant, Barnaba Tokutarō Sakai, who had made this comment. Anson’s brother, Harold, edited and publish his brother’s memoir on the Portsmouth Treaty. Harold Phelps Stokes, “Yale, the Portsmouth Treaty, and Japan,” 1948, mimeograph, pp. 6–7, in Asakawa Papers, Yale Library.
- 14 *Collected Letters of K. Asakawa*, (Asakawa Kan’ichi Shokanshū). Tokyo: Waseda University Press, p. 171.
- 15 Stokes’ letter in Asakawa Papers, Fukushima Prefectural Library. Unfortunately Asakawa’s letter mentioned here, is not included in *Collected Letters of K. Asakawa*.
- 16 Asakawa Kan’ichi, *Nihon no Kaki* (Japan’s crisis moment), originally published by Jitsugyō no Nihon-sha in 1909. Quotation is from a republished version by Kōdansha Bunko in 1987, p. 34.
- 17 Asakawa Kan’ichi. 1904. *The Russo-Japanese Conflict, its Causes and Issues*, Introduction, Boston and New York: Houghton Mifflin; London: A Constable Co. pp. 52–53.

- 18 *Collected Letters of K. Asakawa*, pp. 171–72.
- 19 Saikan Shidai (explanation for the reprint edition), dated December 22, 1955. *The Documents of Iriki*, Tokyo version, pp. 4–5.
- 20 *The Documents of Iriki*, p. 379, Yale version.
- 21 *The Documents of Iriki*, pp. iii-xix, Tokyo version.





PART III

Japan  
and the World Economy





# 5

## *Gaiatsu, Learning, and Japan's Emerging Economic Liberalism*

Leonard J. Schoppa

In the 1970s and 1980s, Japan earned the moniker “reactive state” for the way in which its foreign economic policy tended to move mostly in response to strong foreign pressure from the United States, known internationally by the Japanese term *gaiatsu* (Calder 1988). Japanese officials showed few signs that they recognized that capital and trade liberalization, deregulation, and other economic reforms urged by the United States might actually *benefit* the country. They were seemingly blind to the fact that the postwar process of trade liberalization had played such a critical role in fostering Japan’s own economic success. Japan did remove trade and investment barriers during these decades, reducing tariffs on many goods and eliminating quotas on beef and oranges. It seemed to adopt these policies, however, only when faced with strong pressure from the United States, often giving in at the last minute after facing strong threats.

Since the mid-1990s, however, Japan has been much more *proactive* in its foreign economic policy. Starting in 1994, when Prime Minister Hosokawa Morihiro refused to budge in the face of strong pressure from President Clinton at their summit meeting in Washington, Japan began saying “no” to American

trade pressure in sectors ranging from autos to film to semiconductors. At about the same time, it began removing regulatory and trade barriers, supporting multilateral trade liberalization, and negotiating free trade agreements—all on its own initiative. Although the fact that Japan began taking these initiatives at the same time it was saying “no” to the United States suggests that its emerging economic liberalism had little to do with American *gaiatsu*, this chapter develops the opposite argument. The growing tendency of Japanese elites to see economic liberalization as being in Japan’s own interest is the product of a long term *learning* process set in motion by earlier market-opening trade pressure, reinforced by the “school of hard knocks” Japan endured over its decade and a half of economic stagnation.

Before proceeding, let me clarify what I mean by Japan’s emerging economic liberalism. I am *not* saying that Japan has completely liberalized its economy and is on an uncontested path toward free trade. I *am* saying that Japan’s elite—its economic bureaucrats, leading opinion-makers, and some of its politicians—have shifted their beliefs about which economic policies are likely to produce the best performance for Japan. Fifteen years ago, even in the first several years after the collapse of the bubble, the broad consensus was that Japan’s system of “convoy capitalism” (lifetime employment; the main bank system; *keiretsu* business groups; and regulation and management by the government designed to keep this entire convoy moving steadily ahead) was a superior form of capitalism that promised faster growth with more economic stability than the alternative models found in Europe and North America. Japanese officials such as the Ministry of Finance’s (MOF) Sakakibara Eisuke loudly touted this model in meetings with foreign officials and within international organizations.

Today, in contrast, the conventional wisdom in Japan has turned against the old Japanese model, as is suggested by the following passage from the 1996 report of the Deregulation

Subcommittee of the government's Administrative Reform Committee:

The fundamental principle is consumer sovereignty. What gets produced, and how, should be decided not by producers and producer associations and bureaucrats but by the choices that citizens make in the marketplace and the responses of creative entrepreneurs to those choices. Our existing system is based on the false premise that the interests of citizens are best served if bureaucrats regulate; that they should take the lead in balancing demand and supply in order to protect and monitor established producers and ensure stable and orderly markets. That is wrong. The aim should be to promote healthy competition through appropriate and transparent rules, such as product liability rules written from the consumer's point of view, thus avoiding the feather-bedding of inefficient existing producers and encouraging vigorous new entrants.

(quoted in Dore 2000, 160–61)

This passage, similar in tone and content to ones that can be found in dozens of advisory council and business group reports published since the mid-1990s (Dore 1999), clearly rejects the idea that the best way for Japan to maximize its economic welfare is through government regulation and protection of existing domestic producers. Instead, what Japanese government and other economic elites in recent years have been repeating over and over is that Japan needs to embrace domestic and international *rules-based market competition* as a means of restoring economic growth and competitiveness.

Japan's emerging economic liberalism, however, involves more than rhetoric or ideas. Just as the Great Depression turned Americans against protectionism in ways that were *institutionalized* at the domestic and international levels (Goldstein 1993), the rejection of the idea that convoy capitalism represents a superior model for Japan is starting to produce domestic and

international laws such as the Big Bang financial reforms and the new World Trade Organization (WTO) dispute settlement system that will have long-lasting effects on the nation's foreign economic policy.

In addition to advancing this characterization of what has changed in Japan, this study also advances a specific argument, built on constructivist international relations theory, about *why* economic liberalism is emerging in Japan. Economic liberalism has become the new orthodoxy in Japan, I argue, through a process of elite learning that can be traced back to the earlier era of *gaiatsu*, when American trade officials lectured self-confident and skeptical Japanese about the virtues of free trade and market competition.

Much of the constructivist literature on social learning, or ideational change, has described this process as something that goes on within domestic society. Legro (2000a), for example, describes how the process of social learning requires that a society go through a two-step process that is fraught with "collective ideation" problems. First, society has to come to an agreement that the old orthodoxy is inadequate, and second, it has to embrace en masse a new orthodoxy. It is because both of these steps are difficult for groups to negotiate, he argues, that orthodoxies tend to be durable once formed. Nevertheless change is likely, he argues, when a society experiences a disaster despite having followed a policy line suggested by the old orthodoxy *and* when a new set of ideas is ready made to explain the past mistakes and recommend an alternative course.

Legro describes these processes as "endogenous to the ideational structure" and suggests that they take place primarily *within* a given society, illustrating this argument by contrasting how the United States failed to make the leap from isolationism to internationalism after World War I, but did make this shift after World War II (Legro 2000b). A key difference between the two cases, he argues, was that the United States tried to follow

policies suggested by the isolationist orthodoxy in the lead-up to World War II, and got sucked into that terrible conflagration anyway. The presence of a coherent alternative vision for the nation thus combined with this “learning experience” to lay the basis for a new orthodoxy in the years after the war.

Although Legro correctly points us to an important part of the learning process—Japan would not likely be shifting to a new liberal orthodoxy if it had not experienced its longest and deepest recession of the postwar period—he unnecessarily restricts our focus to the process going on within domestic society. Extensive research in social psychology informs us that individual learning does not happen merely through individuals’ experiences of “hard knocks,” but inevitably involves *social* processes in which those who are learning interact with peers and teachers (Checkel 2001). We should not be surprised, therefore, that learning relevant to foreign policy similarly involves patterns of social interaction *across borders* (Haas 1990; Finnemore 1996; Keck and Sikkink 1998). In this article I explore how Japan’s emerging economic liberalism has been influenced by Japanese elites’ interactions with American economic officials and non-Japanese staff of international organizations. Japan’s moves toward liberalization in the 1990s, I argue, have not been a product of coercion, lower transaction costs, or other material factors emphasized by realists and liberal institutionalists, but have instead resulted from elites’ *social*, cross-border learning.

Let me emphasize: I do not consider this learning to have been a passive process in which meek Japanese officials learned at the feet of American teachers. Far from it! Japanese officials in the 1980s were self-confident about the superiority of their model. They had been hearing lectures about the magic of free markets from Americans for decades, going back to the Occupation years, but they had stuck stubbornly to the Japanese model. Nevertheless, even as years of hectoring by the United States trade negotiators provoked trade officials and politicians

to offer heated defenses of Japanese policies, they exposed them to the ideas of neoclassical economics—to arguments about how consumers, as well as producers and national income, all suffer when inefficient domestic producers are sheltered from foreign and domestic competition. When the Japanese economy turned sour in the 1990s, Japanese officials had plenty of old “class notes” to consult as they sought to diagnose the problem. This learning process was helped along by how Japanese officials themselves used liberal language and ideas, at first for purely defensive reasons aimed at countering American trade pressure, and by their defensive embrace of WTO and the Organization for Economic Cooperation and Development (OECD) multilateralism.

### *The Reactive State Pattern*

When Japan gained admission to the General Agreement on Tariffs and Trade (GATT) in 1955 and the OECD in 1964, it assumed a variety of obligations requiring it to remove, reduce, or reconfigure barriers to trade and foreign investment. Its admission to the OECD obliged Japan to eliminate restrictions on foreign direct investment, where under GATT rules, Japan was, in principle, expected to replace quantitative restrictions on trade, which were particularly numerous in the agricultural sector, with tariffs. These rules were based on neoclassical economic ideas about how competition, including international competition fostered by foreign investment and trade, improves economic efficiency, enhances productivity, and propels economic growth. There is no evidence, however, that the Japanese who led the nation into these organizations did so because they shared these ideas. On the contrary, the extended period of mostly bilateral negotiations required to force Japan, through the use of threats and deadlines, to comply with these basic obligations of its membership in GATT, and the OECD helped

earn the nation its “reactive state” reputation (Kusano 1983; Calder 1988; Mason 1992).

The initial negotiations wherein Japan resisted United States pressure to live up to its GATT and OECD commitments set the pattern for a long series of market-opening negotiations, stretching from the 1970s into the 1980s. Japan also resisted United States pressure to improve access to markets for American semiconductors, auto parts, satellites, supercomputers, construction, flat glass, paper, wood products, retail stores, financial services, telecommunications equipment, medical products, tobacco, and lawyers. In each of these cases, negotiations followed a set pattern (Campbell 1993). The United States would raise objections, usually beginning in late March of a given year when the Office of the US Trade Representative was required to list outstanding foreign trade barriers. It would initiate an investigation under US trade law that set specific deadlines a year or so in the future and invite Japan to participate in bilateral talks aimed at “resolving” the dispute. The Japanese side would initially deny that there was any problem and grumble about American unilateralism, but always agreed to talk (at least until the mid-1990s).

In the early months of these talks, Japanese officials would insist that the difficulties US producers had expanding their Japanese market share was not due to Japanese barriers but to a lack of effort on their part. They would also explain why change was impossible. United States officials, meanwhile, would muster statistical evidence showing how US firms had much larger market shares in neutral markets than in Japan and warn the Japanese about how Congress was likely to “go protectionist” unless barriers were removed. They would also add some lectures about how liberalization would benefit to Japanese consumers and the economy as a whole. Japanese negotiators continued to defend existing policy. Then, as pressure built in the final days before a deadline, Japan offered enough last-minute

concessions to allow US officials to declare that they were satisfied.

Japanese liberalization in these cases was always grudging, offering no more than the minimum policy change to satisfy American negotiators, often at the very last minute. When announcing trade deals, Japanese officials rarely even pretended that Japan might actually benefit from the agreed policy changes. They listened to the lectures from the Americans about the benefits of free trade and market competition, but they stuck stubbornly to their beliefs that Japan's model—with an extensive role for the government in managing competition so that Japan could move up the product cycle to dominate the most technologically sophisticated industries—was superior to American-style capitalism (Johnson 1982; Heginbotham and Samuels 1998; Tilton 1996). When Japanese officials conceded, under duress, to open markets, they made it clear that they had agreed to this only because the nation's most important trading partner and ally was demanding that it do so. Trade liberalization was simply a price Japan had to pay to maintain access to the US market and to retain the American security guarantee (Calder 1988; Mikanagi 1996).

### *The Legitimation of Liberal Economic Views*

Analysts studying Japanese economic policy have often asserted that national elites were more influenced by the economic ideas of Friedrich List than those of Adam Smith and David Ricardo (Fallows 1994; Samuels 1994). List emphasized how late developing countries needed to develop economies of scale behind protective trade barriers before facing competition with more advanced industrialized nations. The state also needed to help industries coordinate investment, through cartels and regulations, to speed the pace at which they developed scale economies and technological capabilities. Japanese industrial policy was long based on these List-inspired ideas. Given Japan's back-



wardness, the state needed to step in to limit “excessive competition,” regulate market entry, and coordinate investment so that industry could develop the economies of scale and technology needed to compete with larger and more technologically advanced foreign firms (Johnson 1982). Not surprisingly, given the predominance of these views, few Japanese elites in the 1970s and 1980s subscribed to neoclassical views about the benefits of free trade and competition.

Of course, ideas similar to List’s were also once dominant in the United States. Alexander Hamilton, in the nation’s founding years, had emphasized the need for the state to assist industry by providing trade protection. As recently as the 1920s, the idea that trade protection was the best way to safeguard the nation’s economic interests was predominant in the United States. As noted above, however, the United States rejected this set of ideas after the disaster of the Great Depression and World War II, embracing in its place (embedded) liberal ideas closer to those of Smith and Ricardo (Ruggie 1982; Goldstein 1993).

In Japan, too, the learning process owed a great deal to the nation’s experience of its “Great Recession” in the 1990s, but learning began in 1980s when the nation’s economy was still outperforming that of the United States. Japanese officials at that time still believed in the superiority of the Japanese model, but, faced with a growing number of bilateral market-opening disputes and an impatient United States Congress, they put into practice a technique all good school children learn: the best way to avoid a teacher’s ire is to tell her what she wants to hear. Reagan administration officials, many of whom were neoliberal ideologues, were particularly prone to lecture Japanese about the virtues of free markets. Prime Minister Nakasone Yasuhiro was toying with this philosophy himself with his emphasis on budget-cutting “administrative reform” (Ohtake 1994). He decided that one way to get the Americans off his back would be to organize a blue ribbon commission that would produce a

document loaded with liberal policy proposals. With this aim in mind, he appointed a commission chaired by the former head of the Bank of Japan, Maekawa Haruo. Nakasone had deliberately staffed the group with reformist, market-oriented economists and intellectuals, knowing they would propose a reform vision that would please American critics of Japanese trade policy. That his audience was primarily foreign is also suggested by his decision to request that the commission complete its reports just in time to deliver them during “Ron-Yasu” summit meetings.

The reports were indeed a marked departure from earlier economic policy reports. Calling for “policies based upon market mechanisms,” the Maekawa Commission urged the government to promote deregulation based on the idea that there should be “freedom in principle, restrictions only as exceptions.” Rather than relying on increased exports to propel the economy forward, it urged, the government should “strive for economic growth based on domestic demand” in areas like housing and social infrastructure. Such changes were necessary, it argued, not because Americans demanded them, but because “the time has come for Japan to make a historical transformation in its traditional policies on economic management. ... There can be no further development for Japan without this transformation” (Maekawa Commission 1987, 22–30).

At the time, the Maekawa reports were widely dismissed as “window dressing,” both inside Japan and in the United States. The private advisory organ had no legal standing obliging the government to follow its recommendations, so its pretty words about how Japan would benefit from market-oriented reform were seen as little more than an attempt to distract American critics so they would not notice how slowly Japan was actually changing. Over time, however, the reports did have an impact. Japanese reformers involved in their preparation referred to them to back up their arguments, and US officials brought them up during subsequent bilateral talks, especially during the

Structural Impediments Initiative between 1989 and 1993 (Armacost 1996; Schoppa 1997).

Although the Maekawa Commission and the stubborn recession of the early 1990s had made liberal ideas about trade and competition more legitimate within Japan by the time the Clinton administration took office in 1993, the Japanese elite could not yet be called converts. Faced with post-bubble problems in the financial system, the cabinet led by Miyazawa Kiichi had propped up the stock market and banking system instead of allowing market forces to accelerate the structural adjustment of the economy, and once again the Japanese were relying on growing trade surpluses to plug the demand gap. When it took office the Clinton team thus stepped up the pressure, vowing to force Japan to accept voluntary import expansion (VIE) targets as the primary means of opening the nation's markets.

Unwilling to accept VIES, Japanese economic officials once again planned to use American liberal economic ideas to deflect bilateral pressure. When the Clinton team pressed Miyazawa to accept targets during his spring 1993 visit to Washington, the prime minister and officials traveling with him spoke from a well-coordinated script. VIES would require the Japanese government to *increase* its intervention in the nation's economy at a time when it was trying to move to a more free market approach, they said. Japan was finally trying to live up to the liberal ideals America had been selling for so long. It was now on the side of "free trade," whereas the *Americans* were pushing "managed trade." The Japanese continued this line of rhetoric through the conclusion of the auto dispute in the summer of 1995, to good effect (Lincoln 1999). They ultimately won the Europeans and other third parties over to their side as they isolated the Clinton team internationally, a strategy that helped Japan fend off VIE demands.

Although this Japanese attempt to hide behind the "free trade" banner was again mostly a public relations exercise, the

rhetoric had consequences. Having claimed that the Japanese government was moving away from market intervention, Japanese officials involved in the framework talks with the Clinton administration risked being ridiculed unless they could show that the government was indeed liberalizing the economy. Partly to fend off accusations of this kind, the prime minister who had replaced Miyazawa after elections in July 1993, Hosokawa Morihiro, quickly charged another blue ribbon commission with mapping out a reform plan. He instructed it to report back by December so that he would have something in hand before he had to travel to the United States. Hosokawa modeled the new commission on the earlier Maekawa Commission, inviting Hiraiwa Gaishi, head of Keidanren, to head the panel and bringing on board reformist economists such as Nakatani Iwao.

The Hiraiwa Commission report again featured liberal ideas about how Japan needed deregulation, market-opening, and competition to propel its recovery from the post-bubble recession (Nakatani and Ohta 1994). This time, however, the commission took more care to assure that the momentum that had built up during its high profile deliberations would not be lost as soon as its meetings ended. It urged the creation of a deregulation promotion headquarters, the government's commitment to a five-year deregulation action program, and the publication of annual deregulation white papers—recommendations that were all adopted by the Hosokawa cabinet in the early months of 1994 (Carlile 1998). By institutionalizing its ideas in this way, it thus helped guarantee that the public would be seeing a steady stream of pro-market advisory council reports from the government over the succeeding years.

Critics of Japanese economic policy have belittled the initial deregulation plans of the mid-1990s as little more than repackaged, bureaucratic initiatives (Carlile and Tilton 1998). A narrow focus on the immediate results misses, however, the longer-term consequences of Japan's decision to trumpet liberal

rhetoric and ideas in reports such as these. Within months of the Hiraiwa Commission's adjournment, one of its leading members, Nakatani, was loudly bemoaning the failure of the commission to live up to its rhetoric (Nakatani and Ohta 1998). A few years later, Takenaka Heizō, another reformist economist who played a leading role on the Economic Strategy Council under Prime Minister Obuchi Keizo, similarly lambasted the government for failing to match its rhetoric with deeds. These advocates of market-oriented reform did not just write books, they appeared over and over again on television, gaining a wide audience for their views and virtual celebrity status—especially as Japan relapsed into recession after 1997 and again after 2000. In each case, they had a larger audience than they would have because they appeared as “I-told-you-so” prophets, arguing that the economy's difficulties grew out of the nation's failure to fully enact their pro-market policy packages.

By the end of the decade, liberal ideas were the new orthodoxy in Japan. Policy was not yet aligned with these ideas, but everywhere one looked one saw government reports, best-selling books, and television commentators criticizing regulations and trade protection for stifling economic growth and touting rule-based market competition as the tonic for what ailed the nation. Not just Nakatani and Takenaka, but other reform economists and intellectuals, such as Sakaiya Taichi (1999), Katō Kan (1997), and Noguchi Yukio (1995), all wrote hot-selling books featured in cascading displays in Tokyo's bookstore windows.

Meanwhile the government continued to churn out economic policy reports, by this time independent of the US-Japan negotiating calendar, urging Japan to embrace competition, individualism, and risk-taking. Particularly notable was the language chosen by two advisory councils organized by Prime Minister Obuchi Keizō after the economy hit a new low amid fears of a financial crisis in the summer of 1998. Neither of these

reports was motivated by a desire to give the Americans some pretty prose to distract them from bilateral trade demands. As the panels deliberated in 1998 and 1999, US-Japan economic relations were as relaxed as they had been in many years. Obuchi convened the panels simply to provide the government with blue prints for the future that would guide Japan's own efforts to restore the economy to health as it entered the new century.

The first panel, organized immediately after Obuchi took office, was headed by businessman Higuchi Hirotarō. It was the Economic Strategy Council, charged with the urgent and immediate task of recommending how Japan could right-end an economy that was on the brink of a financial crisis and suffering from deflationary tendencies. The panel's recommendations again emphasized competition. It blamed Japan's economic problems on the prevalence of "moral hazard" situations "where consequences do not change regardless of whether people try to do their best." It called for reforms that would introduce a "competitive society with soundness and creativity" in place of the old "convoy system" (Economic Strategy Council 1999, 19).

Also interesting was the report issued by a follow-up panel, the Prime Minister's Commission on Japan's Goals in the 21st Century (2000), that was tasked by Obuchi with the job of fleshing out a longer term vision. In a section titled "Realizing Japan's Potential," the commission wrote:

The other essential change is to redefine and rebuild the relationship between private and public space in civil society. This means first and foremost promoting individuality and individual initiatives: unleashing sturdy individuals who are free, self-reliant, and responsible .... These tough yet flexible individuals will participate in and expand public forums on their own initiative, creating a dynamic public space. The public space thus cultivated will provide individuals with more diverse choices and opportunities. This will lead to the

emergence of individuals and a society that take risks more boldly, address pioneering challenges, and are more creative and imaginative. (p. 2)

Elsewhere, the report speaks about the need for Japan to replace a governance system where exalted officials look down on citizens with a new contractual relationship where “the people” delegate authority to their government (pp. 6–7). If the Maekawa and Hiraiwa reports sometimes read like the work of a student trying to use words and phrases that would please the teacher, these more recent documents, prepared mostly for consumption by the Japanese public, suggested that Japanese elites had internalized liberal ideals.

### *Defensive Multilateralism*

Before turning to the consequences of this ideational shift, we need to consider another channel through which American aggressive bilateral trade pressure led Japanese economic elites to imbibe liberal economic ideas. By the mid-1990s, Japan was among the most enthusiastic cheerleaders of the WTO (Pekkanen 2001a and 2001b; see also Davis and Shirato 2007). During their tense standoff with the United States over the auto dispute, Japanese negotiators presented themselves as the defenders of the multilateral trade order against American aggressive unilateralism. When the United States attempted to pressure Japan into negotiating bilaterally to resolve their subsequent dispute over photographic film, Japan again insisted that all such disputes needed to be referred to the WTO. More recently, Japan stepped forward during the lead-up to the new Doha Round as a leading advocate of WTO reforms designed to end abuses of anti-dumping remedies.

Japan's embrace of multilateralism in the 1990s certainly contrasted with its slow compliance with GATT and OECD rules in the 1960s and 1970s and suggested that the nation “had seen

the light” and changed its views on its own. In fact, the conversion had been very much assisted by the United States, which, through insistent bilateral demands, drove Japan to seek refuge in multilateralism. Japanese government officials are quite frank to admit that they turned to the GATT and WTO in self-defense.<sup>1</sup> In the late 1980s, after Congress added a “Super 301” provision targeting Japan under US trade law, Japanese officials began considering how best to counter the intolerable trend toward escalating demands. At about the same time, GATT signatories were considering ways to improve the organization’s dispute settlement mechanism. Japanese officials quickly realized that proposed reforms, which after adoption eliminated the ability of losing parties to veto dispute panel rulings and reduced opportunities for delay, provided another means for them to deflect bilateral demands. Because the United States too was backing the reforms, they could insist that American officials live up to their commitment by referring all subsequent disputes to this body. They could also counter any American threat to impose sanctions unilaterally with a threat to challenge such a move before a WTO panel (Schoppa 1999).

Japanese officials also worked to channel bilateral disputes involving competition policy and regulatory harmonization into the OECD, another venue for discussing issues in a multilateral setting. Competition policy was not something the WTO had traditionally handled. Faced with American demands that therefore these issues needed to be handled bilaterally, Ministry of International Trade and Industry (MITI) officials proposed the OECD as an alternative forum for dealing with these issues. MITI officials also sought to improve their ability to resist bilateral pressure to harmonize regulations on *American* standards by turning to the OECD as a forum in which the Japanese could point to a number of competing regulatory standards closer to those employed in Japan.



Though motivated primarily by defensive concerns, Japan's embrace of multilateralism again had consequences. One of the most interesting consequences was the effect of this strategy shift on Japanese officials sent to staff these international organizations and negotiate under their jurisdiction. Whereas the most promising young officials in the Ministry of Foreign Affairs (MOFA) and the Ministry of Economy, Trade, and Industry (METI) had, in the past, been routed through key positions dealing with the bilateral relations since the late 1980s, these ministries have promoted to the most senior positions officials with extensive experience in multilateral economic organizations. Officials admit that this personnel shift reflected their conscious decision to put more emphasis on multilateralism in order to counter American trade pressure.<sup>2</sup>

Like the decision to incorporate liberal rhetoric into government reports, this strategy had ideational consequences. It is well known that international organizations like the International Monetary Fund (IMF), WTO, and OECD share an organizational culture that emphasizes neoclassical economics. Though John Williamson (1990) was referring mostly to the Washington-based international organizations (the IMF and World Bank) when he coined the term "Washington Consensus," the phrase captures just as well the economic ideology of the OECD (based in Paris) and WTO (Geneva). Each of these institutions employs large number of economists, most of them trained in the United States even if they are not American themselves. The policies they recommend include privatization of state-owned enterprises, deregulation, and labor market reforms. By sending fast-track young officials to serve in these institutions for periods of two or more years, the government assumed the risk that they might absorb some of these ideas that were so contradictory to the pre-1990 conventional wisdom in Tokyo.

Some of them clearly did. One example is Kawamoto Akira, a young METI official who was sent in 1995 to serve on the staff of the OECD in Paris. In that capacity, one of his duties was to assist in the preparation of the *OECD Review of Regulatory Reform in Japan*, published in 1999. Over an extended period, he was required to respond to criticism of Japanese policy based largely on neoclassical ideas about the benefits of competition. Although his job was to make sure Japan did not come off looking too bad in the report, he had to phrase his defenses in terms that appealed to the permanent OECD staff. The daily experience, he reports, convinced him that Japan needed far-reaching reform.<sup>3</sup> While in Paris, he wrote a mass-market book titled *Regulatory Reform: Competition and Cooperation* (1998), emphasizing Japan's need to harness competitive market forces in order to deal with its economic problems. After he returned from Paris, he was tasked first with helping to draft the ministry's White Paper, sketching out its overall policy vision. In 2001, he was given a job where he had an opportunity to put his ideas into practice. As head of the Electricity Market Division, he helped draft new regulations for the electricity sector that have introduced (a limited degree of) market competition into a sector that had previously been dominated completely by regional monopolies (Schoppa 2006).

Such experiences, shared by many other young economic officials, have helped further consolidate the ideational shift toward the acceptance of neoclassical views on economic causes and effects within the Japanese government. My experience talking with economic bureaucrats over the past ten years suggests that most of the under-45 generation, as well as many of those above this level, now accept the view that market competition, facilitated by ample international trade and investment, is required to make mature economies such as Japan's more productive and wealthy. Older and retired bureaucrats such as Sakakibara (1999) may still tout the advantages of Japan's

state-led approach, but his views are now in the minority among government officials—not just in METI and MOFA but also in MOF.

### *The Consequences of Ideational Change*

Changes in economic ideas, of course, do not in themselves constitute changes in policy. Though Japanese bureaucrats and other elites now accept the idea that coddling incumbent firms through regulation and trade protection imposes costs on society, they are frequently unable to move reforms based on these ideas through the policy process in the face of inertia built up over many years of running the economy based on the Japanese model. Indeed, actual change in economic policy happens slowly, with the government hesitant to unleash market forces that might lead to cascading bankruptcies and rising unemployment and promise to hurt most those constituencies tied most closely to the ruling Liberal Democratic Party (LDP).

Nevertheless, the shift in ideas I have described has already had two consequences that have started to move actual policy outcomes in a liberal direction and make continued movement in this direction likely in the future. First, liberal economic reforms have reached the top of the policy agenda. Scholars of public policy have long emphasized how policy change depends critically on which alternatives are on the table (Kingdon 1984). The predominance of liberal economic ideas in Japan today guarantees that whenever there is enough energy to generate policy change, reforms almost always involve further relaxation of regulations and opening of markets. Second, liberal ideas are being institutionalized through changes in domestic and international law in ways that promise to shape policy for years to come.

Both of these causal mechanisms through which ideas shape policy can be seen at work in the example of Prime Minister Hashimoto Ryutaro's Big Bang reforms. Announced in the fall

of 1996, this initiative was designed to make Japanese financial markets “free, fair, and global.” Interestingly, neither Hashimoto nor the chief architect within the Ministry of Finance, Sakakibara, was regarded as a liberal. Yet, faced with the need to do *something* about the hollowing out of Japanese financial markets, they turned to the set of proposals that happened to be on the agenda—all of which involved introducing more competitive market forces into financial markets. Just a decade earlier, when the MOF had been pressured to liberalize financial markets, it had done so in ways that actually *increased* officials’ discretionary power by creating “more rules” (Vogel 1996). This time, with the dominant ideology having shifted to a point where most economic elites saw a need for Japan to *constrain* bureaucratic discretion and rely on market forces, the policy package Hashimoto announced took a genuinely liberal form.

Though phased in more slowly than the British Big Bang of the Thatcher years, with the final measures not implemented until 2003, the package lived up to this promise. Firms previously operating in segmented markets for various banking services (city, trust, and long-term credit), various types of insurance (casualty, life, and third sector), and securities are now free to compete across all of these boundaries. Previously strictly regulated fees for these services were liberalized so that firms can compete based on price. All foreign exchange restrictions were eliminated, allowing capital to flow across borders with no restrictions. The government guarantee that had previously promised no bank would be allowed to fail was removed (Laurence 2001). These reforms have already had a major impact on this area of business, with foreign firms playing a much larger role in a wider range of financial services and Japanese firms having to worry much more than in the past about the possibility of bankruptcy if they fail to compete.

The Big Bang also illustrates how ideas, once institutionalized, can have broad and long-lasting effects. Once dismantled,

the government cannot easily recreate the convoy. Once the reforms began to be implemented in the late 1990s, the government was no longer able to keep the weakest firms in banking, securities, and insurance afloat. And once firms in the financial sector saw that their survival was at risk, they stopped supporting the weakest, most over-leveraged firms in retail, construction, and manufacturing. That both financial and nonfinancial firms now face the possibility of bankruptcy means they cannot afford to overlook opportunities to buy good foreign products at a cheaper price or enter into partnerships with competitive foreign firms. This shift in incentives affecting the procurement and business strategies of Japanese firms has already played a major role in opening up what were once closed markets in Japan.

The role of ideas could also be seen at work in the term of Koizumi Jun'ichiro as prime minister. Faced with stubborn debt and deflation problems, Koizumi embraced a reformist vision that was even more closely attuned to the new liberal orthodoxy than Hashimoto's Big Bang. He could have emphasized increased spending on unemployment insurance and other measures of this type, designed to reassure voters nervous about the economy's continued poor performance, but instead he, too, focused on a set of reforms that were largely based on liberal economic principles. His slogan, "structural reform without sanctuaries," told voters he wanted to help accelerate the pace at which the economy adjusted to market forces. Though it promised pain in the short term, the idea was popular enough to help him win approval ratings that topped 80 percent early in his term and were high enough even in 2005 to allow him to challenge opponents of liberal reforms inside the LDP.

The specific reforms he stressed, too, were liberal ideas, including a freeze on government debt issuance and the privatization of public corporations—including Japan Highway, the Japan Housing Finance Agency, and the mail, banking, and

insurance services provided by the postal service. Koizumi had a decidedly mixed record in his efforts to push forward this liberal reform agenda (Schoppa 2006). His attempt to restructure Japan Highway in a way that would constrain its ability to finance extensive new road construction failed. On the other hand, the Japan Housing Finance Agency was restructured in a way that took it completely out of the business of providing new housing loans. It now operates primarily through its role in the secondary markets, like Fannie Mae. Koizumi's most famous achievement—the privatization of Japan Post, secured by expelling rebel LDP Diet members from the party and calling an early election in 2005—is not as clear a victory for liberal reform as was advertised at the time. To secure the passage of this legislation, Koizumi was forced to accept a number of compromises that have limited the entry of new competitors in mail services and have dragged out the process of privatizing postal financial services to such a degree that it remains unclear whether the restructured Japan Post will begin rechanneling its massive financial assets away from the traditionally favored, government-affiliated clients (Maclachlan, 2006). My point here is not that liberal economic ideas have triumphed over all opposition, but that they set the agenda in such a way that policy change since 2000 has moved mostly in a liberal direction whenever political energy has created an opening.

The final set of economic policies that can be linked to Japan's emerging economic liberalism are those that deal directly with trade: the proposals for Japan to participate in an expanding array of bilateral, and now region-wide, free trade areas (Manger 2005; Pekkanen 2005; and Noble in this volume). Bilateral Free Trade Agreements (FTA) have now been completed with Singapore, Mexico, Malaysia, and the Philippines, and additional bilateral deals are in the works. And these bilateral deals are now being supplemented by regional deals, starting with a recently-signed FTA linking Japan and Association of Southeast

Asian Nations (ASEAN), that may lead eventually to wider regional agreements including China, Korea, India, Australia, New Zealand, and maybe even the United States.<sup>4</sup> These agreements are clearly driven in part by forces outside Japan, and cannot be attributed solely to a shift in ideas among Japanese elites. Japan's interest in FTAs began when other nations (Mexico and Singapore) came to METI with proposals, and its willingness to consider one with ASEAN as a whole had much to do with that organization's earlier decision to sign one with China. But the rapid pace with which they have accumulated is also a reflection of METI's view, heavily influenced by liberal economic ideas, that Japan cannot afford to be left behind as the United States and Europe gain advantages by widening and deepening their own regional free trade networks (Krauss 2000). METI officials see these free trade areas not only as opportunities to expand export markets for Japanese goods and assist transnational Japanese firms with operations spread across the region but also as opportunities to bring import competition to bear on inefficient Japanese industries in ways that force them to become more competitive. Free trade is now seen within METI as a vital part of its effort to accelerate structural adjustment of the economy.

Of course, Japan's regional trade policy continues to be constrained by politicians and ministries that do not share METI's enthusiasm for structural adjustment. Singapore became Japan's first FTA partner in large part because it does not have an agricultural sector that threatens to challenge Japan's inefficient producers. While the power of farmers' material interests trumps Japan's emerging economic liberalism in many cases (as it has in the United States and Europe), this should not distract us from the fact that outside of agriculture these agreements promise to markedly increase trade volumes, investment flows, and international competition—exactly what liberal economic doctrine prescribes.

### *Conclusion*

This chapter has argued that Japan's shift toward a more proactive foreign economic policy is a product of a complex learning process that has convinced Japanese economic elites that the nation's economic interests now lie in dismantling convoy capitalism and introducing market forces. Rather than waiting for pressure from the United States to force it to adopt these policies, these ideas are generating home-grown initiatives like the Big Bang, structural reform without sanctuaries, and regional free trade agreements that are opening Japan up to foreign and domestic competition *for its own sake*. Whereas recent initiatives have been "home-grown," however, the process of ideational change that has helped produce them was in part the product of Japan's earlier interactions with the United States. Its efforts to deflect *gaiatsu* by setting up liberal advisory councils and using liberal rhetoric ended up legitimizing these views, especially after Japan's economy entered its decade-long slump. At the same time, when it sought to channel negotiations into multilateral institutions, it ended up exposing the new generation of fast-tracked economic officials to the liberal ideas that dominate these institutions. We cannot make sense of Japan's shift toward a proactive foreign economic policy without appreciating the role *gaiatsu* played in speeding and directing Japan's learning process.

This last claim is perhaps the most likely to be challenged by skeptical readers. Isn't it possible that the shift in ideas I have described here is best explained by the economic difficulties that confronted Japan during the 1990s? American trade pressure and related interactions among American and Japanese economic elites were not necessary to bring about the shift because it was bound to happen in view of the economic difficulties Japan was confronting. Readers who are themselves believers in orthodox neoclassical economic ideas are likely to conclude that it was only "natural" that Japanese elites turned



to market competition as the alternative to the Japanese model when that system was so obviously failing.

I agree that the nation's economic difficulties, like American difficulties during the Great Depression, were a major cause of the ideational shift. To assume that therefore Japan was destined to learn that the American model was superior, however, is to ignore the inherent difficulties nations face when an old orthodoxy is overthrown. Rejection of the old approach does not lead automatically to the acceptance of a new one because there are usually several contending approaches. The extensive attention paid to the United States because it was Japan's primary interlocutor in trade and economic diplomacy, and the way in which this led the Japanese government to parrot liberal ideas, played a critical role in making American-style liberal capitalism the "focal point" as Japanese elites searched for alternatives to the floundering Japanese model.

We cannot rerun the 1990s without American influence to see if Japan would have settled so quickly on liberalism as *the* alternative to the Japanese model, purely due to its economic difficulties. The best we can do is to consider a counterfactual. What if Japan's primary interlocutor during these years had been Europe? The problems Japan has faced in the 1990s have not been merely those of efficiency but also of economic insecurity and associated tendency of consumers to hold back on consumption. If Japan had been heavily engaged in economic negotiations with Europe during these years, isn't it possible that the European welfare state might have emerged as the orthodox answer to Japan's economic worries?

Of course this is not how history unfolded. Instead, the loudest *gaiatsu* came from the United States, and Japan tailored its response to the American audience. The government peppered its publications with nods to the economic efficiency of markets; economic negotiators sought to counter the Americans by portraying themselves as champions of free trade; and the

nation sent its brightest young officials to participate in multi-lateral economic institutions. It should not surprise us that these strategic reactions to American pressure led Japan to hone in on American-style capitalism as the primary alternative to the Japanese model.

### *Notes*

- 1 Interviews with two retired, senior Ministry of Economy, Trade, and Industry (METI) officials, 1996 and 1998.
- 2 Interview with MITI and Ministry of Foreign Affairs (MOFA) officials, 1996 and 1998.
- 3 Interview with Kawamoto Akira, 1999.
- 4 Burton 2007.

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# 6

## *Bank of Japan Independence at Ten Years: Searching for Mechanisms of Change*

Jennifer Holt Dwyer

This chapter examines the consequences of the new Bank of Japan (BOJ) Law of 1997 to explore the mechanisms through which individual institutional reforms such as this might lead to meaningful change in Japan's political economy over time. Although Japan adopted a plethora of reforms in the 1990s, this study focuses on the case of central bank reform. The case confronts the additional puzzle of how the BOJ has managed to maintain its newly legislated independence even though it has come under unprecedented criticism during this time. The Bank has not achieved the monetary policy or political stability outcomes that dominant theoretical arguments about central bank independence predict. That the Bank of Japan was under fire for not producing the expected macroeconomic stability does not prove that the BOJ was doing anything wrong. Monetary policy in deflationary times is nearly impossible. This study proposes that central bank independence in Japan has been supported by continuing domestic political uncertainty, as well as some of the longer term consequences of the legal reform. These include changes in relevant actors' institutional interests, new distributions of political and informational advantages, and the persistence of central bank

independence as the internationally recognized marker of quality central banking.

This investigation concerns path dependency. But, rather than looking at how the past constrains what came next, this study is designed to identify some of the ways present institutional relationships are likely to impact Japan's political economy going forward. It is motivated, in part, by the ongoing debate over whether governing institutions, deeply embedded in social and political networks, change significantly through institutional reform, or whether this embeddedness and the associated institutional interdependence effectively prevent institutional change much beyond a reproduction of the existing socio-political relationships. In the extreme, this research questions whether the well-known political economy characteristics we all dutifully learned as defining what is unique about Japan, will ever give way to something we would recognize as fundamentally different. If this more radical redirection of a national political economy is possible, then it behooves us to search for the mechanisms through which this transformation takes place. Although only one case, this study of central bank reform illustrates how even a single reform can lead to change in the broader political economy over time as actors' interests, as defined by their organization affiliations, change and information flows adjust to new institutional patterns, both of which contribute to new politics. In this way our understanding of how the policy of central bank reform may have transformed politics over time should shed light on the extent to which the 1990s decade of reform may eventually lead to what we all recognize as quite different political economy.

The study begins with a very brief review of how the BOJ reform emerged as an electoral strategy in the midst of the politically turbulent 1990s. It then discusses the extent to which the reform did not lead to the outcomes most predicted by the central bank independence literature, namely price stability and



a depoliticization of monetary policy. What has happened is that monetary policy has failed to stem deflation, and the BOJ has been subject to an almost unbroken flood of criticism and second guessing at both the domestic and international levels. After briefly identifying some of the domestic and international developments that undoubtedly added to the difficulties for the newly independent BOJ, the chapter explores some of the circumstances that have supported the continuation of BOJ independence over this period despite the above mentioned difficulties. Taken together, these sections emphasize that, even though most lawmakers who supported the new law may not have intended to significantly alter the distribution of economic policymaking power in Japan, the new BOJ law, in combination with other reforms adopted at the same time, may have a more lasting impact than many expected. The final section discusses predictions for the near-term future of the BOJ independence.

*The New Bank of Japan Law:  
The Unexpected Child of Domestic Political Uncertainty*

The bursting of the asset bubble economy in Japan in 1990 left in its wake disruptions in both the economic and political arenas.<sup>1</sup> In 1993, for the first time in 38 years, the ruling Liberal Democratic Party (LDP) lost its longstanding position as the ruling party in Japan's Diet. Although the LDP's absence from government was short lived, and they came back to power within a year as part of a coalition government, by 1996, when most of the debates about reforming the central bank took place, Japan was being governed by its fifth prime minister in three years. Further complicating the calculations of Japan's political party strategists was the government's adoption of electoral reforms in 1994. In short, domestic political uncertainty was greater than it had been at any time in the postwar period, as evidenced by the almost constant formation and reformation

of political parties and coalition governments during this three year period.<sup>2</sup>

These developments encouraged politicians from many parties to search for something to turn the electoral tide in their favor. In particular, the LDP was desperate to do well in the upcoming 1996 lower-house elections and beyond, having lost four seats and watched a new party win 18 in the 1995 upper-house election. Given Japan's economic decline since 1990, the rising awareness of the non performing loan problem and *Jusen* crises from 1995, and the exposure of numerous administrative scandals, the LDP leadership was looking for some way to deflect the electorate's anger and prove they were as "reformist" as the explicitly reform-oriented newer parties. For their part, the other parties, as well as the general population, placed most of the blame for Japan's plight on what was viewed as the LDP's poor oversight of excessively powerful Ministry of Finance (MOF) bureaucrats. It was under these circumstances that granting the Bank of Japan greater independence became an attractive electoral tactic for both the LDP and the opposition.

The new BOJ law was formally adopted in 1997 and took effect in 1998. The most important aspects of the new law were that it granted independence and imposed transparency requirements. Although central bank independence is generally understood to mean independence from the government as a whole, in the midst of the unprecedented wave of criticism of bureaucrats during this period, most of the official deliberations and newspaper reports emphasized freeing the BOJ from institutional dependencies that enabled the MOF to influence monetary policy. Generalizing, non-LDP politicians leaders supported this reform because they viewed it as a first step in diminishing the LDP's influence through its close ties to the MOF. The LDP leaders supported it because it offered a way to shift blame for Japan's poor economic performance to the MOF, placate those demanding far greater MOF reform, and counter criticism that

the LDP was not adequately reformist to address Japan's litany of problems.

As emphasized above, central bank reform was put on the agenda in Japan primarily because of the domestic political circumstances described above; neither multilateral agreements nor *gaiatusu* played any role. Nevertheless, the process was significantly influenced by international financial market and ideational trends. First, by the mid-1990s, Japan was losing its competitiveness as an international financial center, and this development concerned those who were considering central bank reform. Specifically, foreign financial firms that had rushed into Japan in the 1980s to take advantage of abundant capital and skyrocketing stock and real estate markets began relocating businesses to other parts of Asia. Although foreign firms did not represent a large share of the domestic market, they did bring asset and liability management skills, secondary debt market experience from the US savings and loan meltdown, and other types of financial expertise that Japanese financial firms and financial market regulators increasingly sought as Japan's financial sector problems increased. On the other hand, and somewhat ironically, the percentage of Japanese shares owned by foreigners rose to a new peak in 1996, and these foreign shareholders were among the most active traders. As a result, the potential impact of foreign participation in Japan's financial markets, or lack thereof, was greater than a simple measure of foreigner-owned market share would suggest. At the international level, the declining competitiveness of Japan as a financial center was evident when Japanese financial institutions and some firms were downgraded by credit-rating agencies, and Japanese banks were charged a significant "Japan premium" to borrow in overseas markets. As the years passed, Japanese firms that had once dominated the international league tables began dropping down the lists. Taken together, these developments created greater awareness in Japan of the potential

costs of an increasingly negative assessment of Japan's financial markets and institutions by international financial market actors. This sentiment was captured most clearly in the almost mantra-like repetition of the argument that Japan needed reforms that would prevent "transaction flight" and "the hollowing out" of Japan's financial system by appealing to internationally mobile financial market actors.

A second way that the international environment shaped central bank reform in Japan was by presenting a clear internationally embraced standard of what a quality central bank should look like. In the 1990s, the virtual consensus, embraced most ardently by financial market participants and the media, was that a central bank should be legally independent.<sup>3</sup> Although the emergence of independence as the international marker for quality central banking did not *cause* central bank reform in Japan, once politicians had decided to pursue reform, all debates were circumscribed by the anticipated market incentives and credibility-enhancing benefits of adopting an internationally accepted standard. Japan's lawmakers, who were trying to restore the government's reputation for good economic governance and re-establish Japan's position as an internationally attractive financial market, readily recognized that their options regarding the content of the new law were constrained. At the very least, the existence of a clear international norm forced those who were opposed to central bank reform to fight an intellectual battle that extended far beyond a narrow discussion of the appropriateness of these qualities for Japan's central bank.

Efforts to approximate international best practices and increase the attractiveness of Japan's financial markets were central to the BOJ reform process.<sup>4</sup> Official and scholarly accounts of deliberations suggest the same.<sup>5</sup> The Central Bank Study Group (CBSG) Secretariat outlined the groups' fundamental thinking as "in this age of advancing globalization and marketization nothing is more important than for the central

bank to earn the confidence of the global market, ... and this requires securing monetary policy independence.”<sup>6</sup> Not surprisingly, the BOJ’s statement on the CBSG report concludes that the new law must be consistent with the concepts and ideas found in recent central bank reforms in other major developed countries, and that these standards should be aggressively pursued to gain greater public and market credibility.<sup>7</sup> In the end, Japan’s lawmakers agreed.

An examination of the impact of international financial markets and ideational trends on the new law highlights three interesting anomalies. First, one can see the disjuncture between political rhetoric and policy choice. BOJ reform arose out of politicians’ efforts to gain electoral advantage by at least rhetorically reasserting their control over economic policymaking and doing so specifically by reducing the influence of the MOF bureaucrats through BOJ reform. Yet, much to the chagrin of some politicians after the fact, they did not pass legislation to make the central bank directly responsive to the Diet. Instead, they granted the bank legal independence, which effectively reduced their influence over monetary policy as well. Second, this adoption of an international standard is noteworthy because, in the 1980s, many if not all financial market reforms quite clearly deviated from international trends in favor of policies that closely reflected Japan’s unique regulatory style.<sup>8</sup> Third, and finally, this outcome reminds us not to underestimate the extent to which capital mobility and international financial market integration change the calculation of the costs and benefits associated with seemingly domestic policy options. In this case, the decision to highlight independence and transparency in the BOJ law demonstrates that international market-players’ perceptions and ideational trends can influence policy options within even large, advanced, industrial economies, including one with a history of implementing reform in a distinctly “Japanese way.”

*Did Bank of Japan Independence Fulfill Expectations?*

One way to assess the consequences of central bank reform is to ask whether the new BOJ law fulfilled the expectations embedded in the central bank independence literature. There are two particularly prominent arguments, one that emphasizes anticipated economic benefits, the other, political ones. During the past ten years, however, central bank independence seems to have failed to produce either one in Japan. It has, however, enabled politicians to deflect blame onto the BOJ and serves, at least superficially, as evidence of Japan's gradual adoption of international financial market standards.

The first argument builds from the well recognized correlation between high central bank independence and low inflation in the Organization for Economic Cooperation and Development (OECD) countries. It proposes that central bank independence enables a government to credibly commit not to stimulate growth in the short term through surprise monetary shocks, which can cause higher inflation in the longer term.<sup>9</sup> In short, central bank independence is considered desirable because it creates low and stable inflation rates, and these provide the best foundation on which to promote sustained growth. Since low inflation benefits growth, and growth benefits governments, governments are increasingly choosing central bank independence. In this literature, before the 1990s Japan was considered a statistical outlier, because Japan had one of the world's lowest rates of inflation and healthy growth, despite having one of the most "dependent" central banks according to various comparisons.<sup>10</sup>

Given this broad expectation of the economic benefits of central bank independence, one seemingly straightforward way to assess the BOJ's performance since 1998 is to ask whether monetary policy has successfully reduced inflation, stabilized prices, and promoted growth. Unfortunately, the answer is no, no and no. Strictly speaking, we cannot assess the BOJ's manage-

ment of inflation per se under the new law because Japan has found itself caught in the most prolonged bout of deflation since the Showa Depression.<sup>11</sup> During virtually all of postreform period, price stability has been fleeting at best, and growth has been below potential. The gross domestic product (GDP) deflator has been negative almost without interruption since 1995, before the new BOJ law took effect, and continues through today.<sup>12</sup> This situation has left Japan with a shrinking economy, increased the real debt burden in many cases, and strained the macroeconomy.<sup>13</sup> Given the uniqueness of deflation in the post-WWII period, however, there was, for a long time, virtually no scholarship or experience for the BOJ to draw on in its efforts and thus no expectations regarding central bank independence and deflation specifically.<sup>14</sup>

Speaking less literally, however, whether one judges independence as having resulted in a “better” monetary policy depends largely on one’s view on what a central bank should do to halt deflation. If one accepts the argument that the central bank’s zero interest rate policy, and later its quantitative easing and government bond purchases, are all a bank can do, because more easing would be akin to pushing on a string, then he might conclude that independence prevented those who wanted more expansionary monetary policy from creating false expectations.<sup>15</sup> If, on the other hand, one accepts the argument made by quite a large number of non-BOJ economists that inflation targeting, purchases of alternative assets, or other non-conventional means of further easing are absolutely necessary to end deflation, then the BOJ’s independence, expressed through its opposition to these policies, certainly seems to have made things worse.<sup>16</sup>

Although the debates over what the BOJ did that was right or wrong are extensive and beyond what I can address here, suffice it to say, the BOJ came under unprecedented criticism throughout this entire ten year period. From the very beginning

in 1998, critics claimed that then-Governor Hayami Masaru was not doing all that was necessary to fight deflation. In particular, he was criticized for talking down the effectiveness of the zero interest rate policy and suggesting he might end it not long after it was implemented. He was criticized for ending zero interest rate policy in August 2000 and overruling the government's motion for a postponement to do so, and for an overall unwillingness to try unconventional means to end deflation. In particular, critics were frustrated by what some interpreted as the BOJ's inflexibility for the wrong reasons. Some saw this unwillingness to compromise as an effort to establish credibility early by quashing any doubts that the new BOJ would behave as independently as the law allowed, or as a way to put pressure on the government to more aggressively pursue structural reform.<sup>17</sup> Although I do not presume here to offer a definitive answer, taking the abundance of criticism into account, one would be hard pressed to conclude that independence served Japan particularly well under these circumstances.

It is somewhat ironic that BOJ independence seems not to have improved economic outcomes under deflationary conditions, because it is doubtful that independence would have significantly improved monetary policy under normal conditions either. This is in part because, as explained above, the BOJ had successfully managed inflation for many years as a dependent bank, a record *The Economist* described as "second to none."<sup>18</sup> Moreover, the evidence concerning political business cycles strongly suggests that the cycles that associate elections with economic expansion in Japan occurred not because politicians stimulated monetary policy prior to elections, which would justify independence, but rather because politicians were opportunistic and called elections when the economy was doing well.<sup>19</sup> Finally, further support for this general claim comes from studies showing that central bank independence has little impact on the inflation rates in most of the industrialized coun-



tries because they tend to have relatively open trade relations, large financial sectors, and relatively complacent labor unions.<sup>20</sup> In short, the broad political economy context in Japan was already supporting a low inflation policy, so central bank reform was not necessary for low inflation and growth.

If central bank independence did not produce clear economic benefits, did it at least produce the anticipated political ones? One prominent argument proposes that as liberalization makes monetary policy more difficult, governments increase central bank independence as a means to reduce intraparty or intracoalition conflict over monetary policy and avoid punishment from veto players who are hurt. The argument claims that the elimination of monetary conflicts should enable parties and coalitions to stay together and in power longer.<sup>21</sup> Central bank independence should depoliticize monetary policy because the goals are specified in law and important decisions about implementation are removed from the hands of politicians (or bureaucrats) and handed over to, in Japan's case, the BOJ's newly empowered Policy Board.

Unfortunately, again, the BOJ reform has not produced the anticipated outcome. Quite the contrary. Since 1998 there has been a more intense and far more public debate about monetary policy than at any other time in the post-wwII period. As suggested above, debates by economists over the best monetary policy in a deflationary environment seemingly appear in every newspaper and on every channel. Moreover, these positions are mirrored in disagreements among reformist and more traditional politicians over how much the BOJ can be expected to do without more structural reform in other parts of the economy.<sup>22</sup>

In part, this politicization was encouraged by the law itself. To improve transparency, Article 54 of the new law requires that the BOJ governor report to the Diet twice a year. However, as one central bank official described it, for the BOJ governor,

the new law requires jumping from the frying pan right into the fire.<sup>23</sup> During his five years in office, Governor Hayami was called to appear before the Diet or a political committee more than eighty times a year, for several hours in most instances, and more than once a day for some periods. One close associate lamented that politicians were requiring the governor to spend so much of his time driving back and forth and in meetings that they were leaving him no time to work.<sup>24</sup>

Needless to say, these calls before the Diet were not to congratulate the governor for a job well done. Rather, politicians have been extremely vocal and public in their criticism of the BOJ's response to a number of issues, but perhaps most notably, its long resistance to inflation targeting or pursuing an alternative more expansionary policy to fight deflation. Some politicians have become so frustrated with the newly independent BOJ that they have proposed amending the new Bank of Japan Law to require more accommodation of government plans in general, or to include an inflation-targeting requirement in particular.<sup>25</sup> Not surprisingly, when Prime Minister Koizumi Jun'ichiro was considering whom to choose as governor to replace Hayami in March 2003, politicians in this camp wanted him to consider only candidates who would commit to adopt a more expansionary policy. Because Governor Fukui's 5-year term expired in March of 2008, the Japanese press is abuzz with reports that politicians are considering demanding inflation-targeting credentials or some similar commitment from the next BOJ Governor.

The criticism of BOJ monetary policy does not come only from politicians. Bureaucrats in the MOF and the Financial Services Agency (FSA) have also clearly expressed frustration with what they consider the BOJ's unwillingness to contribute more to improving the current economic situation. In return, the BOJ has publicly disagreed with these representatives about how best to stop deflation and how aggressively the government

should be in its efforts to close down failing banks, require disclosure, and force consolidation of the banking industry. Moreover, both former-Governor Hayami and Governor Fukui Toshihiko have had occasion to remind bureaucrats and the public that no one will be allowed to interfere in monetary policy discussions. Cross-institution criticism was not absent in the past, but both the sheer quantity and harsh quality of this mutual finger pointing increased significantly after 1998, suggesting that prior to independence some of these disagreements would have been handled behind closed doors and managed largely by the MOF.

Finally, this increased politicization is in part a result of the newly decentralized economic policy-making environment in Japan since 1998. On the one hand, for officials in the MOF, the BOJ, and the FSA, publicly criticizing the policies of others is no longer as threatening to one's career as long as it furthers the interests of one's organization.<sup>26</sup> On the other hand, and more importantly, public discussion and debate of economic policies are now more necessary because there is as yet no effective director of national economic policymaking to replace the coordinating function played by the MOF during the prereform period.

The extensive reorganization of government ministries and agencies in January 2001 was designed in part to put the reins of economic policymaking clearly in the hands of the prime minister's cabinet office, and specifically in the hands of the Cabinet Office Council on Economic and Fiscal Policy (CEFP) and the Minister of State for Economic and Fiscal Policy.<sup>27</sup> The idea behind this structure was that councils and ministers not associated with a particular ministry would be better able to consider the broad national interest. Thus far, however, the effectiveness of this new organization structure is unclear. Takenaka Heizo, who held the position of the Minister of State for Economic and Fiscal Policy for most of this period, was

considered, for at least the first part of his tenure, not to have the political connections necessary to control the economic agenda. He was repeatedly forced to step back from or revise his proposals. Although there is not yet enough research to determine the effectiveness of CEEP, it is only logical that if the cabinet office does not provide effective coordination, officials from various organizations will have more incentive to try to win support for their own preferred outcomes by taking their views public.

In sum, central bank independence does not seem to have reduced overt conflict about monetary policy. However, it is possible that the criticism heaped on the BOJ is somewhat more show than substance. That is, once monetary policy was handed over to the BOJ, politicians, bureaucrats, and possibly even cabinet members concluded that they could enhance their standing among relevant constituents if they criticized the BOJ. That is easier to do if they do not have authority or responsibility for achieving those outcomes. In other words, central bank independence might, ironically, allow greater expression of interest diversity among party members and across coalitions because they can address particularistic interests without having to forge a common policy position. This increased politicization does not make sense according to the two models of central bank independence reviewed above. It does make sense if the motivation for the new BOJ law were not rooted in a preference among politicians for central bank independence per se, but rather in a desire to redirect public anger and survive elections by offering a voter-targeted expression of their “commitment” to tackle Japan’s tough problems, if only the (unreasonable) independent BOJ would let them.

*Why Has the Road Been So Rocky  
for the Independent Bank of Japan?*

When recognizing the criticism of the BOJ, one must also keep in mind the nearly unbelievable challenges the newly independent BOJ has faced. These challenges are summarized below as those related to institutional reorganization and those related to economic interdependence. During this ten year period, Japan has been buffeted by a large number of political and economic difficulties. And virtually every one of them has made life difficult for the BOJ as well.

First, the new BOJ law was one reform in a huge wave of reforms and reorganizations. Within a few years on either side of the BOJ law, the government implemented electoral reform, financial system reform, civil service reform, and administrative reform. Most relevant for this study, the institutional actors charged with economic policymaking changed significantly. Where there was formerly only the MOF in consultation with the long-dominant LDP, now there are an independent BOJ and independent FSA, a very different MOF, a fractured LDP, and a more executive-like Cabinet Office with a CEFP. Another way to look at this situation is to realize that Japan adopted so many of these reforms because, at approximately this same time, each leg of Japan's so-called ruling triumvirate of big business, the bureaucracy, and the LDP had broken. The business sector was torn between those who were still internationally competitive and zombie borrowers unable to pay their debts. The monetary functions of the MOF had been given to the BOJ and its supervisory functions to the FSA. The LDP had lost control of the Diet for the first time in decades and was struggling to learn coalition politics. With such a through shake-up of the existing institutional order, it is not surprising that monetary policy did not always develop smoothly.

Second, the economy in Japan and beyond has experienced tremendous turmoil. In addition to the stock market decline

and nonperforming loans, Japan experienced its first bank failures in years, the government ran up gargantuan debts, and East Asia experienced a currency crisis that reverberated around the world. The financial system was in shambles, so that monetary policy officials, also charged with financial system stability, had to remember the implications of policy for banking sector viability. Growth was not leading to larger paychecks, so citizens were not happy. Now, when the BOJ is making suggestions to increase rates, higher oil prices and the US sub-prime mortgage crisis are adding further complications to estimations of what it will take to get the Japanese economy back on its feet and on a low-inflation growth trajectory. In short, we should show a little mercy for the bank. Its first ten years have been by any measure extremely challenging.

*Should We Expect Bank Independence to Last?*

Despite ten years of extremely difficult political and economic circumstances and the ongoing criticism of its policies, I expect the BOJ to maintain its legal independence and further develop as a central economic policymaking actor over time. Three variables lead me to this conclusion: the codification of independence in law; the impact of new institutional forms on actors' interests and power resources; and the persistence of central bank independence as a marker of good economic governance.

First, legal codification matters. In the new law, the government has stated in writing its goals and policymaking expectations and has formally handed over discretion to the bank. This alone adds some robustness to BOJ independence. Having made the public argument that revision of the law was necessary and justified, unmaking the law or otherwise reducing legal independence would require an awkward public retraction of these same claims. Equally important, by defining the bank's legal responsibilities and obligations in writing, the new law facilitates

more precise expectations by all parties about future policy and policymaking behavior.<sup>28</sup> Moreover, the transparency provisions in the law enable the bank to justify itself on a regular basis and to make clear to the public if someone is encroaching on their jurisdiction. When others have criticized the BOJ's monetary policy, the bank has not been shy about reiterating the clear stipulation of its legal independence over monetary policy decisions. In sum, the law should strengthen the durability of central bank independence through its provision of legitimacy, its coordination of expectations, and its specification of the standards against which deviations from the law could be readily recognized. As Carey notes, "The act of writing down rules can contribute to their binding force."<sup>29</sup>

In addition, revoking independence would require lawmakers to agree on monetary policy thereafter, which would not be easy under the political and economic circumstances in which Japan finds itself in today. With Japan's currently split Diet unable to agree on much of anything, the prospects for a revision of the BOJ law seem slim indeed. As the conflict management literature outlined above suggests, when policy preferences are so diverse that creating an independent central bank makes electoral sense, then it is expected that unmaking that negotiated agreement and finding a replacement would be at least equally difficult, although certainly not impossible. Central bank independence will be strengthened to the extent that veto players in Japan make it more difficult to change the law than to change the policy.<sup>30</sup> In this sense, the persistence of alternative views among lawmakers is ironically a good thing for central bank independence at the moment.

Second, institutional affiliations inform the underlying interests and power resources of economic policymaking actors, and institutional reforms are expected to change some of these.<sup>31</sup> Over time these new institutional interests and resources become the exogenous constraints on future policy options.

Accordingly, the new BOJ law and its altered links to the broader political economy can be expected to impact the preferences and political resources not only of BOJ officials, but also politicians, CEFP members, and FSA and MOF officials. It is quite plausible that those in leadership positions outside the BOJ will find that their personal and professional interests are best served by not being responsible for monetary policy. Thus, for example, although the MOF consistently resisted granting BOJ greater independence during earlier efforts as well as during 1996 and 1997, it is possible that once personnel rotations have relocated those who lost power and prestige because of the new BOJ law, the MOF leadership will find that its new institutional form has redefined its field of vision, its mission, and its preferences concerning monetary policymaking.

Specifically, MOF officials may recognize that having handed over responsibility for monetary policy, they are now free from most of the related criticism and political pressure and able to embrace fiscal policy as their primary reason for being. This outcome would uphold existing research that shows that MOF officials are particularly concerned with maintaining at least procedural autonomy, even at the expense of substantive issues,<sup>32</sup> and that increased politicization causes officials “to shy away from impossible tasks and to formalize its responsibilities for the tasks that remain.”<sup>33</sup> Similarly, as Bernhard’s conflict avoidance argument mentioned above suggests, BOJ independence enables politicians to largely avoid direct responsibility for the increasingly difficult task of setting monetary policy not only in an internationally integrated, but also a deeply deflationary economic environment. In short, it is more likely that once MOF, FSA, and other officials and politicians become accustomed to the benefits of a more narrowly defined set of responsibilities and the freedom to gain political points for criticizing a monetary policy, they will become more avid supporters of central bank independence.



As Riker has pointed out, however, outcomes depend not only on preferences but also on power.<sup>34</sup> With the revision of the BOJ law, the robustness of the central bank's independence was supported further by an increase in power resources provided by this new institutional form. Just as institutions shape meaning, identities, and ideas, they also shape the distributions of relative power that will influence outcomes in the future.<sup>35</sup> The BOJ is expected to gain some relative political advantages through the reform, because the new law provides the means to develop a significant information advantage over the MOF and others. BOJ officials no longer need to share as much information with the MOF, and their excessive response to the transparency requirement enables them to use their publications and public statements to directly explain their policies and convince others of their views.<sup>36</sup>

The BOJ's political skills and relative political resources are likely to improve over time as well. One of the first things the BOJ did when it anticipated independence was to establish a Diet liaison section charged with attending to politicians' questions. The vast majority of politicians have far less expertise in finance than do BOJ officials. Thus, during many sessions in which BOJ officials were asked to explain how the financial system works, these liaison teams were able to explain the BOJ's thinking behind policy decisions.<sup>37</sup> Thus, despite some politicians' obvious disagreements with BOJ policy, over time this day-to-day interaction has increased the BOJ's access to and relationships with politicians from all parties. This is quite a radical transformation from the pre-central bank independence period when the BOJ's political resources were minimal. Finally, drawing from prospect theory and the idea of hysteresis, although BOJ officials had been reluctant to pursue independence too aggressively for fear of damaging their careers and relationships with the MOF if they failed, it is not unreasonable to predict that now that the BOJ has tasted independence, they

will be much more aggressive in trying to preserve their independence than they were in trying to obtain it.<sup>38</sup> Conversely, once MOF officials become accustomed to life without responsibility for monetary policy, they will be less motivated to regain it. Taken together, the impact of a new institutional form is expected—over time—to change the preferences and the relative power resources available to the relevant actors in ways that will perpetuate central bank independence.<sup>39</sup>

Third, central bank independence in Japan will be supported in the international context. This includes a near-universal ideational consensus concerning the desirability of central bank independence and the very different but equally powerful economic incentives expressed by the preference of international financial market participants to do business in countries with independent central banks.<sup>40</sup> Given the degree of Japan's integration into the international political economy, this political and economic context must also be taken into consideration in the evaluation of the likelihood of continued independence in the future. In the case of the Bank of Japan, I would argue that the supports provided by this international context are not trivial.

Taking the ideational variable first, consensual knowledge not only informs policymakers, but also provides legitimacy for certain outcomes.<sup>41</sup> This is in part because, like institutions, dominant ideas can constrain one's vision about equally good or better alternatives. In the Japanese case, it is certainly true that for years many Japanese in and out of government seemed willing, if not eager, to resist neoliberal ideology and liberal financial market trends so avidly supported by the United States and the United Kingdom. Nevertheless, having codified its commitment to central bank independence, it would be more difficult for Japan's government to blatantly reject what it identified as the many reasons to adopt this international standard. Before the reform, foreign governments and market actors

generally interpreted Japan's political economy as slowly leaving behind "traditional" ways and anticipating some movement towards, though not convergence with, an international standard. In its discussions about the need to change the BOJ law, the Japanese government repeatedly noted that this consensus existed and the importance of bringing Japan's central bank law into line with it. Thus, short of a radical change in scholarship about the desirability of central bank independence,<sup>42</sup> the international ideational consensus on the purported benefits of central bank independence should add intellectual backing and international legitimacy to other domestic supports for continued independence of the bank. Even if the scholarship changed, the codification and altered interests and political resources described would make a sudden shift away from legal central bank independence unlikely.

An additional other international variable that is expected to help perpetuate central bank independence in Japan is the international financial market's preference for countries with independent central banks. The most common explanation for this preference is that, for debtor countries in particular, central bank independence is important as a signal that the government will not allow inflation to threaten growth or diminish the value of the government assets held by investors.<sup>43</sup> In this regard, the Japanese case might seem unrelated, given that Japan is still a large creditor nation with a surplus of domestic savings. Nevertheless, over the past decade, the Japanese government has run deficits, creating a debt-to-GDP ratio of greater than 150%. Given the downgrading of Japanese debt by the leading credit-rating agencies in 1998, it is not unreasonable to assume that as outstanding debt increases, so does the MOF's concern with how to keep interest rates low and manage repayment in the future. Certainly by 2003, when the rating of Japan's government debt was downgraded below the ratings for Greece and Botswana, the Japanese government was acutely aware of how the

international financial markets' perception of Japan's economy could impact its bottom line. In short, although the MOF does not like some of the BOJ's policies, it must consider the international financial market repercussions if MOF-BOJ debates become too vociferous. Similarly, blatant disagreements between the two do not encourage confidence in the value of the yen.

The government's concern with its growing debt is not the only reason it will accommodate international financial market preferences for an independent central bank. As mentioned above, it was unquestionably more important for Japan to create an internationally attractive financial market in the late 1990s and beyond than it had been at any time before. Before 1980, Japanese financial institutions and financial market regulators were quite happy to have very limited participation by foreign financial institutions and foreign investors. In the 1980s, the Japanese government offered only token reforms to placate foreign demands for more. During the 1990s, however, the attractiveness of Japan's financial markets declined precipitously, and many foreign firms delisted from the Tokyo Stock Exchange (TSE) or otherwise pulled out of Japan's financial markets. The government's concern with the "hollowing" of Japan's financial markets was discussed above as a factor in the government's decision to grant greater central bank independence. Since 1998, however, the situation has not improved significantly. Rather, the government is ever aware of the roles played by foreign firms, investors, and financial market experts who bring to Japan greater experience in risk management, corporate debt workouts, the securitization of low-performing loans, and the venture capital financing that some would say Japan's financial system sorely needs.<sup>44</sup> For these reasons I expect the government to demonstrate, however grudgingly, that it has and will continue to abide by central bank independence as a readily recognizable symbol of its commitment to better management of the Japanese economy.

Finally, it is unlikely that the government will revise the BOJ law. It is clear, however, that maintaining the law does not necessarily require upholding all aspects of the law in practice. Bell and Maxfield offer ample case-study evidence that legal central bank independence does not ensure *de facto* independence.<sup>45</sup> Rather, I expect that the BOJ's monetary policy discretion will be contested for the foreseeable future. Specifically, I expect two emergent patterns to persist. First, the Diet will continue to pressure the BOJ to accommodate its generally more liberal preferences through greater intervention in the selection of the governor and vice governor. At present, this is manifest in the opposition approval of certain former bureaucrats by some politicians or their insistence that the next appointments be given only to those who express a firm commitment to inflation targeting. Just as *Roe v. Wade* has become a litmus test for Supreme Court Justices in the United States, inflation targeting is likely to become the litmus test in Japan for some time. This is especially likely because "inflation targeting" seems to be close to the consensus policy prescription for fighting deflation.

I expect to see politicians continue to criticize the BOJ as a means to garner electoral support in this era of heightened political uncertainty. At the moment, the Diet is split, with the LDP controlling the lower house and the Democratic Party of Japan (DSP) controlling the upper house. Because they have been deadlocked on a variety of issues and the political maneuvering is intense, the BOJ offers politicians in almost every party an easy scapegoat for constituents' complaints about the inadequate economic recovery. It seems likely that the BOJ will provide this target for as long as the Japanese economy drags along.

### *Conclusion*

The new BOJ law came about primarily because of the perception by different party politicians in the governing coalition that

they would not win the upcoming election unless they demonstrated through action their commitment to reform Japan's troubled domestic financial and administrative institutions. Increasing central bank independence enabled politicians to look reformist, deflect blame at home, and restore credibility overseas. The government built the new law around the principles of independence and transparency because it wanted to communicate to domestic constituents and the international economic community that it was "cleaning up its act." The BOJ reform showed that the government embraced legitimate and internationally compatible steps towards more effective economic management that it hoped would increase the international competitiveness of Japan's financial markets and domestic economy.

Despite a first decade of poor monetary policy performance and unending criticism from many quarters, the persistence of central bank independence might be explained by small transformations in actors' interests that arise through institutional change that is coupled with the continuing international acceptance of central bank independence as a marker for quality central banking. This argument that the independence of the BOJ may prove more robust than current circumstances suggest assumes, however, that the economy does not turn significantly worse. The near term may well offer the greatest challenge, and it is not certain whether the BOJ will be able to maintain both legal and practical independence, given the very unusual monetary, financial, and political uncertainty Japan currently faces.

One must remember that securing political support is necessary for even legally independent central banks, and much will depend on the next governor. Unfortunately, during the central bank's first five years of independence, Governor Hayami's seemingly stubborn demeanor fueled criticism of the bank, and seemed to alienate the banks' supporters and ultimately undermined the bank's credibility. That being said, the circum-

stances under which he was expected to launch this new organization were simply brutal. Scandals and the financial crises escalated just as he took office, and politicians and bureaucrats engaged in unusually public and heated public debates. On March 20, 2003, Mr. Hayami was replaced by Governor Fukui who, despite his reputation as a Hayami conservative, was initially welcomed as politically more sophisticated and open-minded about alternative strategies. As Governor Fukui approaches the end of his five-year tenure (March 2008), however, that honeymoon glow has faded and the BOJ is still criticized for not communicating clearly.<sup>46</sup> As a result, although pressures are building to find the right new governor, the political environment is not promising.<sup>47</sup> The next governor's term may well determine whether the BOJ can successfully transition into a central bank that works in the political world but does not become a product of it.

### *Notes*

- 1 This section draws from Dwyer 2004a.
- 2 Curtis 1999 offers a detailed discussion of politics in this period.
- 3 The impact of international ideational trends on financial market reforms is discussed in greater detail in Dwyer 2004b. On the development of independence and transparency as international central banking standards see Marcussen 2003, especially page 3, Maxfield 1997, and Forder, 1998. In addition to ignoring the transparency aspect of the standard, this discussion admittedly leaves aside debates about the wisdom of this consensus and distinctions between legal and practical independence.
- 4 Personal interviews 2003 and 2004.
- 5 In addition to the Central Bank Study Group proceedings, see Nakakita (1999:51–56), Bank of Japan (1996), Cargill et al. (2000:94–96), the minutes of the Bank of Japan Law Subcommittee meetings, January 10, 1997, and January 14, 1997, Diet deliberations 140th Session, Lower House Finance Committee May 7, 1997, and May 9,

- 1997, the 136th Lower House General Meeting May 21, 1996, and the 139th Lower House General Meeting December 3, 1996.
- 6 CBSG Proceedings October 3 1996.
  - 7 Bank of Japan 1996.
  - 8 Vogel 1996.
  - 9 See Rogoff 1985, Barro and Gordon 1983, and Woolley 1984.
  - 10 For discussion of what constitutes central bank independence, see, for example, Berger, de Haan, and Eijffner 2001, Woolley 1984, or Lohman 1997. Cargill, Hutchinson, and Ito (2000:85) compare assessments of BOJ independence.
  - 11 Kojima 2002.
  - 12 The brief reprieve in FY 1997 was due to the consumption tax increase. Cabinet Office 12/5/2007 (<http://www.esri.cao.go.jp/jp/sna/qe073/rdef-q0731.csv>).
  - 13 Ito and Mishkin 2004:5.
  - 14 In 2003 Cargill and Parker argued that excessive attention to central bank independence might exacerbate the threat of deflation.
  - 15 E.g., Okina 1999, Okina and Shiratsuka 2004.
  - 16 Ito and Mishkin 2004 outline many of these criticisms.
  - 17 Ito and Mishkin 2004, offer a review of this critical literature. See also Cargill, Hutchinson, and Ito 2000 and Posen 2000:205.
  - 18 "A Yen for Independence," *The Economist*. November 16, 1996, 341(7992):77–80.
  - 19 Inoguchi 1979, cited in Cargill, Hutchinson, and Ito 1997, chapter 7.
  - 20 Franzese 1999:666.
  - 21 Bernhard 1998; Bernhard and Leblang 2002; Hallerberg 2002.
  - 22 Shiozaki, 2000.
  - 23 Interviews 2004.
  - 24 Interviews 2004. The current Governor Fukui Toshihiko negotiated a schedule closer to that of the Chairman of the US Federal Reserve.
  - 25 "LDP wants to set target for inflation," *The Japan Times*. November 3, 2001. The BOJ opposes inflation targeting and views it as an illegal constraint on its independence.



- 26 This is a relative statement, recognizing that compared to US or UK debates, disagreements in Japan still tend to be couched in relatively mild terms. Also this is more true for MOF and BOJ officials, who will most likely stay with their organizations throughout their career, than for FSA officials who, depending on their rank, might return to the MOF later in their careers or have their retirement posts determined through the MOF.
- 27 Mulgan, 2002, Chapter 3. The Council is in charge of the formulation of economic and fiscal policies and is modeled after the US White House Council of Economic Advisors. The Council is chaired by Prime Minister and has up to eleven members, including related ministers, the Governor of the Bank of Japan, and members from the academic and private sector.
- 28 Carey, 737.
- 29 Carey, 757.
- 30 Lohmann cited in Keefer and Stasavage 2002; 753.
- 31 North 1981, Hall and Taylor 1996.
- 32 Rosenbluth 1993, McKean 1993, Vogel 1996.
- 33 McKean 1993:103.
- 34 Riker 1980.
- 35 Knight 1992, Hall and Taylor 1996.
- 36 Unfortunately, their economic information is not always accurate. "Inside View: Experts Question BOJ's Ability to Assess Economy. *Nikkei Financial Daily*. September 14, 2007.
- 37 Interviews 2003, 2004.
- 38 Hardin 1982:82–83.
- 39 To clarify, I am not arguing that this institutional form is necessarily self-reinforcing in the natural institution sense as described in Knight 1992.
- 40 This broad acceptance of the association of central bank independence with quality economic governance does not mean that this idea is necessarily correct. That issue is beyond the scope of this paper.
- 41 Marcussen 1998.
- 42 Some of which is emerging.
- 43 Maxfield 1994.

- 44 I do not mean to exaggerate the welcome offered to foreign firms; there are still many Japanese, both in and out of government, who prefer to keep Japanese business among the Japanese. Widespread criticism of foreign firms looking for “fire sales” of Japanese firms provides evidence of this, as well as an almost mirror image to American complaints about Japanese buying US properties in the 1980s.
- 45 Bell 2001; Maxfield 1994 and 1997.
- 46 “BOJ Politicians must improve lines of communication.” *Nikkei Weekly*. February 12, 2007.
- 47 This upcoming selection process will be particularly difficult and important because the governor and the two vice governors’ terms expire at the same time, and the split Diet has already failed to approve several other attempted appointments.

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# 7

## *Japan's Shifting Role in International Organizations*

Phillip Y. Lipsky

Since the Meiji Restoration, a desire for international status and recognition has critically shaped Japanese foreign policy. After defeat in World War II delegitimized colonialism and militarism as means to this end, Japanese foreign policy has focused on peaceful means of attaining international preeminence. These include, e.g. pursuit of economic growth under the Yoshida Doctrine, provision of official development assistance to developing countries, and dissemination of Japanese traditions and social norms through cultural diplomacy. Japan has also become a key contributor to major international organizations such as the United Nations (UN), International Monetary Fund (IMF), and World Trade Organization (WTO). However, although Japanese financial contributions to international organizations have grown significantly, formal recognition of Japan's international stature in such organizations has not necessarily followed. Emblematic is Japan's inability to obtain a permanent seat on the UN Security Council, but Japan also lags behind in other key measures, such as the number of employees and high-ranking officials in major international organizations.

In this chapter, I will analyze Japan's relationship with international organizations in the broader international relations context. As scholars of organizations have noted, institutions frequently exhibit path dependence—a tendency for initial conditions to persist despite changes in underlying factors. As I will demonstrate in section two, path dependence has been pervasive in international organizations. Despite considerable shifts in geopolitical and economic realities since the end of World War II, international organizations have lagged behind in important respects. Nonetheless, institutional change (or the lack thereof) has not been uniform across institutional settings. As I will argue in section three, Japan's ability to secure a greater role in international organizations has been mediated by formal institutional rules and the strength of Japan's bargaining position vis-à-vis other member states. In the fourth section, I will focus specifically on Japan's relative bargaining power in the Bretton Woods Institutions—the IMF and World Bank—and argue that the availability of credible outside options has contributed to greater relative success in the World Bank. The final section will present a brief conclusion.

### *Rigidity of International Organizations*

Scholars of institutions have long recognized the tendency for institutions to “lock in” initial conditions, even after considerable shifts in underlying realities (Arthur 1989; David 1994; Goldstone 1998; Pierson 2000). This tendency has also been observed in institutionalization at the interstate level, particularly in terms of extending the stabilizing effects of hegemony beyond the apex of hegemonic power (Krasner 1976; Keohane 1984; Ikenberry 2001). Such institutional rigidity can be helpful for maintaining continuity and stability in the international system. However, it can also produce glaring discrepancies between a state's perception of its place in the international order and its ability to obtain preferred outcomes in institutional settings.

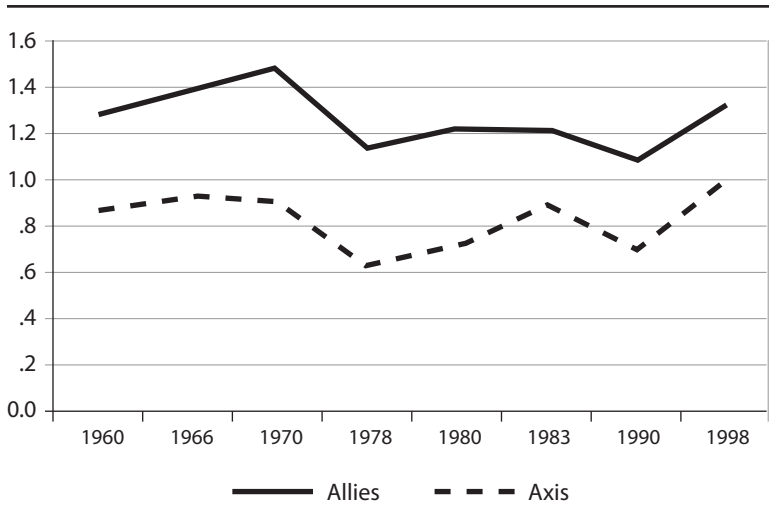


Being on the losing side of World War II, Japan was absent from the negotiating table in the initial bargaining over much of the postwar institutional architecture. In effect, as a late-mover, Japan has been “locked out” of some positions of influence in major international organizations. For example, the IMF and the World Bank officially came into being at a conference of twenty-nine allied nations at Bretton Woods, New Hampshire in 1944. Despite the large number of nations present at the inception, the core details of the Bretton Woods institutions were hammered out through a series of compromises between rival plans developed by Harry Dexter White of the US Treasury on one hand and Lord Keynes of Great Britain on the other.<sup>1</sup> The birth and the initial mandate of the institutions were essentially the result of a bargaining negotiation between the financial authorities of the United States and Great Britain. As a consequence since inception, the top leadership positions of the IMF and World Bank have gone by convention respectively to a European and a US national. This has made it difficult for a Japanese national to be placed at the helm of either institution.<sup>2</sup>

The voting shares of the IMF have also exhibited a tendency to overrepresent inception members and underrepresent postinception members (Rapkin et al. 1997). Figure 7.1 separates Group of Seven (G7) states into Allied and Axis powers, according to their affiliation during World War II and plots shares of IMF voting power as a proportion of shares of world gross domestic product—the most straightforward measure of a country’s weight in the global economy. By this measure, the wartime Axis powers (Germany, Italy, Japan) have lagged behind their actual place in the world economy despite the passing of half a century and dramatic shifts in economic realities. In contrast, the former Allied powers (Canada, France, United Kingdom, United States) remain overrepresented.<sup>3</sup>

Similarly, employment at international organizations has tended to favor nationals from the victorious powers of World

**Figure 7.1** *G7: Ratio of International Monetary Fund voting shares to shares of world gross domestic product*

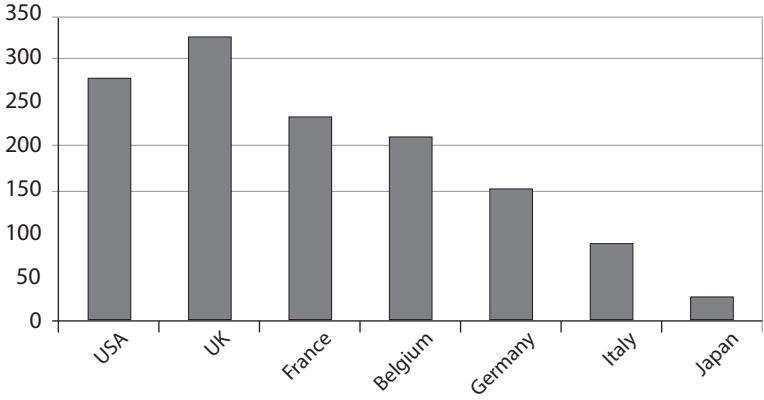


*Note:* Allies include Canada, France, United Kingdom, and United States. Axis includes Germany, Italy, and Japan. GDP is nominal. Data from International Monetary Fund and Rapkin et al. (1997).

War II at the expense of defeated powers. Figure 7.2 plots the number of “leading people” in international organizations by country of nationality as compiled in 2003 by the Union of International Associations. As the graph indicates, employment of nationals from Germany, Italy and Japan lags behind other key states including substantially smaller states such as Belgium. Figure 7.3 plots the same information by educational background of the employee. Employees educated in all of the city of Tokyo are only a fraction of those educated in single academic institutions, such as Harvard or Yale.

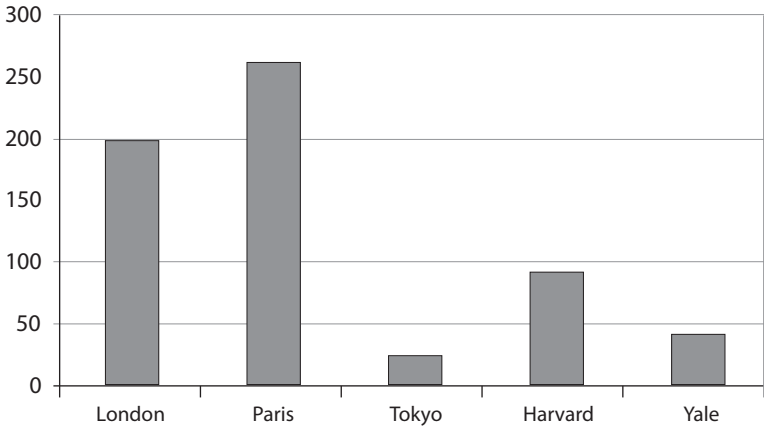
This discrepancy likely has multiple causes—for example, due to limited labor market mobility, Japanese nationals have traditionally faced greater obstacles and risk in pursuing full-time employment at international organizations. However, there are several institutional factors that tend to make employment

Figure 7.2 Number of "leading people" in international organizations



Source: Union of International Associations.

Figure 7.3 Educational background of "leading people" in international organizations



static. Most notably, the distribution of institutional headquarters tilts towards countries, such as France and the United States, that played important roles in institution building in the postwar period. The presence of institutional headquarters can facilitate the employment of host-country nationals for a variety of reasons. Among them: (1) reducing hardship for nationals who can continue to reside in their home country; (2) greater visibility and opportunities to establish contacts with current employees; (3) self-reinforcing network effects, e.g., due to the tendency for current employees to prefer new hires with similar training or skills. In addition, the location of an institutional headquarters can also affect the ideological leanings of an international organization and its consequent policy output. Notably, the orthodoxy of the US Treasury and Bretton Woods institutions in the 1990s espousing sound macro and liberal market policies as a prerequisite to economic growth acquired the location-specific appellation—"The Washington Consensus."

Another major international organ that has come under heavy criticism for insufficiently reflecting international realities is the UN Security Council. The five permanent members of the Security Council—China, France, Russia, the United Kingdom, and the United States—have remained static since the inception of the Security Council despite fairly dramatic shifts in underlying geopolitical conditions. While it is difficult to construct a single measure that accounts for the geopolitical weight of a state in the international system, the case for including Japan is strong. According to one widely cited measure, the Composite Index of National Capability collected by the Correlates of War project, Japan has outranked France and the United Kingdom since roughly the 1970s and has been on a par with Russia since the collapse of the Soviet Union.<sup>4</sup> A similar argument, based on material capabilities, could be made for including Germany and India. Nonetheless, reforming the Security Council has proved difficult despite repeated attempts.

Japan has been particularly affected by rigidity in international organizations since the end of World War II. Through rapid postwar reconstruction and economic growth, Japan rose through the ranks of world powers during the late 20th century, emerging as the number two economy and number one provider of official development assistance by the late 1980s. However, this meteoric rise did not immediately translate into greater status and recognition in major international organizations. Although Germany and Italy have shared a similar predicament, their representation in the European Union provides some advantages that Japan has lacked—e.g., by virtue of being a European, a German national, Horst Köhler, was selected as the managing director of the IMF from 2000 to 2004.

This lack of progress has not been due to a lack of initiative or leadership on the part of Japanese policy makers. In several major international organizations established after the reemergence of Japan as an important international player, Japanese policy makers have played an active role that is commensurate with the country's geopolitical and economic influence. In the World Trade Organization (WTO), Japan has occupied an important agenda-setting position as part of the "G4" along with Canada, the European Union, and the United States. Japan was also a founding member and has been an active participant in the G7/G8. Perhaps most significant, Japan has played a major leadership role in the Asian Development Bank (ADB) since its inception.

Japan has also made significant progress within organizations to which it has been a latecomer. Although still underrepresented, Japanese nationals have gained ground in major UN organs, for example more than doubling their numbers in the International Labor Organization (ILO), United Nations Development Program (UNDP), United Nations Children's Fund (UNICEF), and World Food Program (WFP) from 1995 to 2007. Japanese nationals have also occupied important leadership

roles in international organizations as epitomized by the former United Nations High Commissioner for Refugees, Ogata Sadako. Japanese voting shares in the IMF and World Bank have also gradually moved towards a better reflection of Japan's weight in the world economy.

*Variations in Japan's Position in International Organizations*

Although Japan has demonstrated important leadership and secured some notable gains in international organizations, progress has not been uniform across institutional settings. In this section, I will argue that the degree of Japanese success has been affected by three key factors: the initiative of Japanese policy makers in pressing for greater recognition; institutional rules; and Japan's bargaining leverage. The third point will be further elaborated in the fourth section.

Greater recognition for Japanese interests in international organizations has rarely been automatic. In most cases, redistributing key measures, such as voting shares or employment arrangements, is a zero sum game. If the presidency of an organization is given to one nation, another nation will be prevented from occupying the same position. Increasing the voting power of one nation will inevitably decrease the voting power of another. In an organ such as the UN Security Council, it is possible to add new permanent members without eliminating existing members. However, even in such an additive case, the inclusion of new members will have a dilutive effect on the voting power of existing members, particularly if the new members are given a veto. Hence, favorable changes in the status quo of international organizations have generally materialized through the diplomatic initiatives of Japanese policy makers. However, as can be seen in Japan's repeated efforts to secure a permanent Security Council seat, this is hardly a sufficient condition.

The success of Japanese efforts has also been mediated by institutional rules. UN Security Council reform presents a particular challenge. The conditions required for UN Security Council reform are described in Article 108 of the UN Charter:

Amendments to the present Charter shall come into force for all Members of the United Nations when they have been adopted by a vote of two thirds of the members of the General Assembly and ratified in accordance with their respective constitutional processes by two thirds of the Members of the United Nations, including all the permanent members of the Security Council.

This Article effectively sets two preconditions for institutional reform: two-thirds majority support within the General Assembly (GA), and unanimous support among the P5 veto holders—China, France, Russia, the United Kingdom, and the United States. Practically speaking, this sets a high bar for UN Security Council reform. Any reform effort must be palatable not only to states with divergent interests, such as the United States, China, and Russia, but also a supermajority of developing countries within the General Assembly.

Comparatively speaking, the institutional rules governing voting shares in the IMF and World Bank are more conducive to reform. Voting shares are subject to periodic review, obviating the need for time-consuming lobbying to get institutional reform on the agenda. Reform requires a supermajority vote, but because votes are roughly allocated by economic weight, developed countries carry a disproportionate share of votes, and only the United States has veto power. In addition, because voting power is weighted, there is greater room for compromise and less scope for bargaining failure due to issue indivisibility.<sup>5</sup> Whereas Japan has made gradual gains in IMF and World Bank voting shares since the 1980s, progress on the UN Security Council has proven difficult.

Finally, Japan's bargaining leverage has not been uniform across institutional settings. From a material standpoint, Japan's economic heft is not matched by a commensurate military capability. Although Japan has made profuse financial contributions to international organizations, it has been criticized on occasion for being unwilling to put its personnel in harm's way, a limitation dictated by the Japanese constitution. However, bargaining leverage does not arise from material capabilities alone. In the following section, I will contrast Japan's efforts in the IMF and World Bank and argue that the comparative attractiveness of outside options in development lending has resulted in more favorable bargaining outcomes for Japan.

#### *Japan in the Bretton Woods Institutions*

The IMF and the International Bank for Reconstruction and Development (IBRD) of the World Bank<sup>6</sup> have virtually identical *de jure* rules for the distribution of voting power. Voting power is largely determined according to the share of subscriptions held by each member state.<sup>7</sup> In turn, subscription shares are to broadly reflect a country's standing in the world economy, measured through such indicators as GDP, trade, reserves, and the variability of current receipts. In both institutions, redistributions can occur as part of a general increase in capitalization or on an ad hoc basis for individual countries. Both institutions require a supermajority to approve any change in subscription shares.<sup>8</sup> However, the *de facto* process for redistributing shares involves a highly politicized bargaining process.<sup>9</sup> Although specific formulas are used as guidelines for calculating subscription shares, the formulas themselves have been the subject of much wrangling. "It was said that there are one hundred twenty ways by which to calculate a country's quota" (Ogata 1989, 12). Officially, subscription shares in the IBRD are to be derivative of and parallel to those in the IMF. However, significant discrepancies have developed over time due to divergent interstate



bargaining outcomes. This case is therefore useful for isolating the effect of external bargaining power on institutional rigidity.

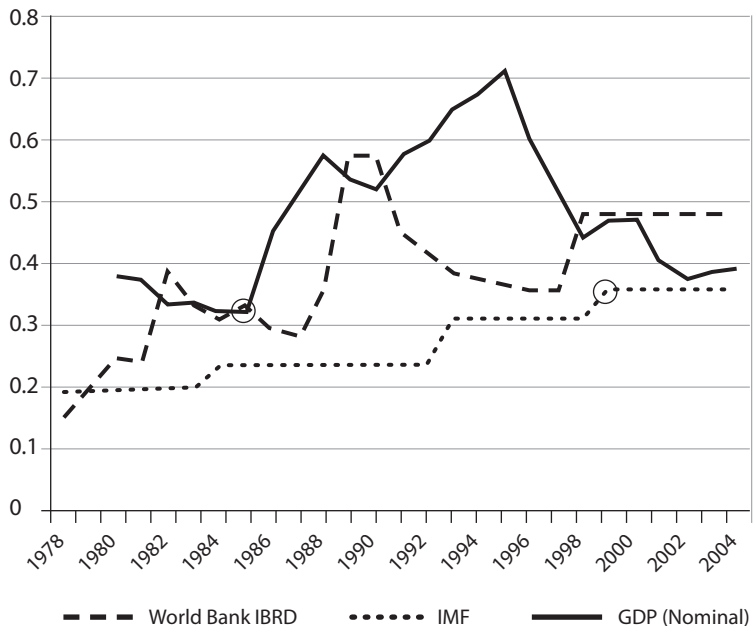
As I have argued elsewhere (Lipsky 2008), the main policy area of the World Bank—development lending—has generally produced greater institutional competition compared to the policy area of the IMF—balance of payments lending. Among other reasons, balance of payments lending is more likely to require broad coverage of international economic conditions and necessitate the imposition of conditionality, making it advantageous to delegate responsibility to a universalistic institution such as the IMF. Consequently, in the field of development lending, myriad regional development agencies perform functions similar to the World Bank,<sup>10</sup> and a host of creditor states provide bilateral development assistance through domestic aid agencies. In contrast, balance of payments lending has been generally dominated by the IMF, with occasional assistance from other international financial institutions (IFIs) and creditor states.

Hence, a member state that is dissatisfied with the status quo in the World Bank will generally find attractive outside options through which development lending can be funneled. Similar outside options for an IMF member are comparatively limited—for example, were Japan to attempt a bailout of Korea, it would face the unattractive prospect of having to lend unconditionally or impose politically explosive conditions on the Korean government and private institutions. Therefore, dissatisfied states in the World Bank are more likely to be able to exert bargaining leverage through the credible threat of exit—e.g., by withholding funds or channeling resources into alternative institutions (Muthoo 1999; Voeten 2001; Gehlbach 2005). Given this relative bargaining advantage, Japan and other dissatisfied states are predicted to achieve greater success in obtaining preferred redistributive outcomes in the World Bank over the IMF.

*Japan's push for greater status in the Bretton Woods institutions*

In the early 1980s, Japanese policymakers initiated a campaign for greater representation and voice in the Bretton Woods institutions. Japanese representatives made it clear that they felt the existing distribution of shares failed to reflect the underlying economic reality.<sup>11</sup> In particular, Japan pushed for unambiguous number two status in terms of voting shares in each institution, with an unofficial target set at approximately 8% of shares.<sup>12</sup> Simultaneously, Japan pushed for greater representation of its nationals as employees and greater ideological recognition for the merits of the “Asian Development Model.”

Figure 7.4 *Relative shares: Japan vs. USA*



Japanese officials pursued an unusually aggressive bargain strategy, threatening to withhold financial contributions to the institutions if its objectives were not met.<sup>13</sup> In this section, I will argue that, consistent with my theoretical predictions, Japan has generally achieved greater success in the World Bank than in the IMF in terms of formal representation as well as influence over outcomes.

### *Japan's subscription shares*

Figure 7.4 shows the ratio of Japan's shares of world GDP and subscriptions vis-à-vis the United States.<sup>14</sup> After it initiated its campaign for greater representation, Japan's share in the World Bank increased considerably from a level comparable to its IMF share. By the late 1980s, Japan's subscription shares in the Bank had moved to the 7%–10% range, and Japanese officials considered their primary objective accomplished.<sup>15</sup> In comparison, IMF quota shares have consistently lagged behind. Japan's attainment of unambiguous number two status in each institution is indicated by the two circles in figure 7.4. This goal was attained in 1985 for the IBRD but not until 1998 for the IMF, a lag of thirteen years.<sup>16</sup>

### *Qualitative evidence*

Qualitative evidence reinforces the observed trend in voting shares. Specifically, Japan has successfully exerted a degree of ideological influence within the World Bank, particularly in reference to the merits of the "Asian Development Model" with the Asian Development Bank (ADB). Japanese authorities have also pursued development approaches tailored to Asian needs in the ADB and through bilateral aid, a credible outside option vis-à-vis the World Bank. This cannot be said of the IMF, as became painfully apparent during the Asian financial crisis with respect to the Asian Monetary Fund (AMF). Japanese influence over IMF conditionalities was severely limited. Proposals

for an AMF did not come to fruition, and bilateral lending by Japanese authorities provided very limited competition against the IMF.

In the early 1990s, Japan pressured the World Bank to move away from its traditional neoclassical approach that emphasized economic liberalization and “shock therapy” for the new post-Soviet republics. A formal statement of this criticism came in 1991 with the issuance of “Overseas Economic Cooperation Fund Occasional Paper No. 1,” which emphasized government-oriented growth measures and sharply criticized the World Bank orthodoxy. Around this time, Japan was still riding high in the bubble economy and revisionist accounts touting the merits of the Japanese or Asian model proliferated. Japan’s criticism of the World Bank followed these lines. Japan also had the ability to promote its developmental philosophy through its own foreign aid channels as well as the ADB, giving further reason for the World Bank to take Japan’s perspective seriously. The significance of the OECF paper is demonstrated by the fact that it prompted a response, albeit a negative one, from then-World Bank chief economist, Lawrence Summers. World Bank president Lewis Preston is said to have remarked, “If there is a system out there that is a better mousetrap than the one we’ve got, we ought to use it” (Awanohara 1995, 174).

Japan took the further step of funding the famous “East Asian Miracle” study, which examined the rapid growth of Asian economies and conceded that government-led growth can result in rapid, egalitarian growth under some conditions. Although the miracle report provided many caveats, including the probable inapplicability of the Asian model to countries lacking an efficient bureaucracy, Japan demonstrated considerable initiative and leadership by proposing and getting the World Bank to carry through with the study (Awanohara 1995, 166–77).

Partly as a function of this institutional history, the World Bank was less enthusiastic about the IMF’s prescriptions during

the Asian financial crisis, which emphasized orthodox measures such as market liberalization and structural reform. Until the verge of the crisis, World Bank economists gave Asian economies such as Indonesia a clean bill of health in what was called a “halo effect,” based on the impressive track record of economic growth (Blustein 2001, 92–96). World Bankers and ADB staff were also severely critical of the IMF during the crisis for sharing minimal information and dictating policies despite asking the development organizations to contribute vast sums to the rescue packages. Then-World Bank chief economist Joseph Stiglitz was particularly vocal in his criticism of the IMF’s policy prescriptions.<sup>17</sup>

Japan’s ideological imprint was much more limited within the IMF. This remained the case more than half a decade after the commission of the “East Asian Miracle” report. Throughout the Asian financial crisis, Japan adopted a stance that treated the crisis as one of short-term capital movements rather than structural problems requiring major reform, particularly in the direction of market liberalization. However, IMF conditionality repeatedly emphasized orthodox policies contrary to Japan’s position. Then-vice minister for international affairs Sakakibara Eisuke recounts the negotiations with the IMF in October 1997 over Indonesia as follows:

At the time, the main issue at stake was whether to construct a “large package” dictating large-scale reform of the Indonesian economy and exceeding the \$17.2 billion Thai package, or a “small package” focusing on stabilization of the exchange rate. ... It is true that Suharto’s regime was corrupt, and we also believed that the National Car Project should be eliminated—however, we were opposed to the IMF sticking its nose into these sorts of political or structural problems.

Sakakibara goes on to describe how he and his deputy, Watanabe Tatsuro, engaged in a two hour-long “very heated

argument (*dai-gekiron*)” with the IMF mission chief on October 16 threatening that “if you ignore the opinion of the Japanese government to this extent, we will have to consider our options ...”<sup>18</sup> However, despite this overt intervention by the highest-level international financial authorities in Japan, IMF policy did not budge.

*The Asian Development Bank and the Asian Monetary Fund*

The Asian Development Bank (ADB) and the Asian Monetary Fund (AMF) are two regional organizations proposed by Japan in the policy area of the World Bank and IMF. An examination of the fate of these two institutions provides additional support for the perspective that they operate in policy areas with different degrees of feasible outside options.

The ADB was established in 1966. Yasumoto (1983) notes that “Japan [has adopted] an unusually active, initiative-taking stance ... [playing] a leading and critical role in the establishment and subsequent administration of the Asian Development Bank” (p. 3). Not only is Japan the largest shareholder and contributor to the Bank, but it also provides 11% of the staff and has held the presidency since the Bank’s inception. Woo Cumings (1995) also points to direct Japanese leadership at the policy level, noting that “in recent years Japanese nationals have headed strategic planning as well as program units” (p. 241). This may seem a moot point given that the ADB is a regional institution and Japan is the largest economy in Asia. However, the membership of the ADB includes the United States as well as fifteen European countries representing the core leadership of the Bretton Woods institutions. Japan’s willingness to commit to an active leadership role in the ADB is indicative of how Japan might act in other international organizations if not otherwise constrained.

Japan maintains considerable influence over ADB policy, and as a consequence, development projects tend to adhere

more closely to Japanese economic views compared to those of the West. "The ADB's Asian directors [like Japan] tend to take a realistic view born out of the development experience in their respective countries" (Woo-Cumings 1995, 245). This has produced conflicts with ADB creditors espousing more orthodox perspectives, most notably the United States. The ADB provides a multilateral channel through which Japan can provide development assistance according to a philosophy closer to its own compared to that of the World Bank.

Unlike the ADB, the Asian Monetary Fund was proposed during the height of the Asian financial crisis but never came into existence. According to Sakakibara (2000, 180–82), the Japanese Ministry of Finance began serious work on the AMF proposal following the IMF-sponsored Thai support meeting held in Tokyo on August 11, 1997. He asserts that an "Asian sense of solidarity" pervaded this meeting and became a key factor in his decision to promote the AMF plan. The Thai bailout package exposed IMF underfunding and served as a model for the AMF by demonstrating that pooling abundant Asian reserves could be an effective strategy in dealing with financial crises. The AMF would also obviate tedious and time-consuming consensus building in the future by automating commitments.

The US Treasury acted immediately after obtaining information on the AMF and actively opposed it. According to Sakakibara, then-Deputy Treasury Secretary Larry Summers called him directly at his residence at midnight and angrily began, "I thought you were my friend" (2000, 185). During a heated two-hour conversation, Summers allegedly criticized the plan for excluding the United States and allowing for action autonomous of the IMF. The United States saw the enforcement of IMF conditionality as crucial to resolving the Asian crisis, and perceived the AMF as encouraging needless moral hazard and duplication of IMF functions.

The AMF presented a conundrum for Japanese officials. Japanese actions during the Asian crisis, including the AMF, reflected frustration with its inability to obtain desired outcomes with the IMF. As part of the new Miyazawa initiative, Japan took the unusual step of providing a small amount of bilateral balance of payments lending to Malaysia, a country that had rejected IMF orthodoxy and imposed capital controls. After the crisis, Japan also initiated the Chiang-Mai initiative (CMI), which would provide limited amounts of bailout lending to Asian economies in crisis. However, Japanese policy has, by and large, sought to tie AMF and CMI financing to IMF lending rather than create an alternative source of conditionality. This was one of the factors that ultimately undermined the AMF. If the AMF were to be merely a supplemental financing mechanism with no independence vis-à-vis the IMF, a regional institution would be unnecessary, and supplementing the resources of the IMF would do.

Nonetheless, the AMF proposal produced a rare moment when a regional alternative to the IMF appeared credible. This emergence of a potential outside option brought about adjustment on the side of the IMF. Sakakibara (2000, 186) suggests that the United States enticed Asian nations away from the AMF using promises of increased IMF quotas. These quota adjustments occurred in 1998 to the benefit of Asian nations, including Japan, which finally secured an independent number two position above that of Germany. In addition, Japan benefited from the opening of the IMF regional office for Asia and the Pacific in Tokyo, which, one observer notes, "is quickly developing into the locus of regional IMF activities such as economic surveillance" (Rowley 1997).



*Alternative explanations*

Before concluding this section, I will address several alternative explanations. Although each contains some element of truth, none of these alternatives provides a full account of the evidence.

First, a neorealist scholar of international relations might argue that Japan's comparative success in the World Bank reflects underlying power asymmetries in the respective institutional areas. Put another way, Japan's influence in international institutions may simply reflect discrepancies between Japan's economic power in the area of development and balance of payments lending. In terms of Overseas Development Administration (ODA), Japan was the number one donor for much of the 1990s, dramatically increasing its aid at a time when other developed nations were beset by aid fatigue. Comparatively speaking, Japan's position in international finance has weakened after the bursting of the bubble, leaving the United States in a position of hegemony (Simmons 2001). Although there is probably some truth to this explanation, it fails to account for several elements of the empirical evidence. For one, if institutions merely reflect underlying economic strength, Japan should have been much more influential in the World Bank during the 1990s, and its voting share should have exceeded or come closer to that of the United States. In addition, the timing of events would also appear to be inconsistent with a realist account. Japan's financial strength peaked in the early 1990s and declined rapidly thereafter, while levels of foreign aid remained strong until very recently. However, Japan's voting strength in the IMF rose gradually from 4.18% in 1980 to 5.6% in 1990 to 6.15% in 1998. Voting shares in the World Bank rose more quickly, although Japan did not become the number one donor until 1992.

Second, one might argue that Japan's influence in each of the Bretton Woods institutions is a function of *effort*. Perhaps Japan has tried more tenaciously to secure influence in the

World Bank than in the IMF. Again, there is some truth to this hypothesis. Japan's efforts to secure greater representation in the World Bank appear to have come slightly earlier in the 1980s compared to similar efforts vis-à-vis the IMF (Rapkin et al. 1997). The lag, however, is not greater than a few years and hardly explains discrepancies that subsequently continued for more than two decades. Reflecting the importance Japan placed on representation in the IMF, then-prime minister Hashimoto Ryutaro issued a statement in 1989 that Japan would find it difficult to finance the institution unless given "the proper ranking to reflect our economic power."<sup>19</sup> Despite this explicit threat to reallocate resources, Japanese representation in the IMF continued to lag behind that in the World Bank. In addition, effort provides very little leverage over the distinct fates of the ADB and the AMF, which were both promoted vigorously by Japanese financial officials. Finally, explanations based on effort suffer from an endogeneity problem—if Japanese officials realize that securing preferred outcomes in the IMF are prohibitively difficult, their efforts will naturally be redirected towards the World Bank.

Third, a critic might argue that the observed phenomena are due to historical accidents or purely incidental factors. As in any case study, nonsystemic factors undoubtedly had a large impact on the policy outcomes analyzed—e.g., the personalities and styles of Summers and Sakakibara surely made a difference in how the Asian Crisis was handled. However, a more systematic analysis of cross-national voting shares yields similar results—shares in the World Bank have exhibited greater flexibility over time than shares in the IMF for all member states (Lipsy 2008). It should also be noted that the salience of outside options in bargaining has been established in a wide range of theoretical and empirical applications (Muthoo 1999; Voeten 2001; Iversen and Rosenbluth 2006; Johns 2007).

### *Conclusion*

Japan has increasingly become a major player in the international organizational architecture, although significant challenges remain. In relative terms, Japan's economic and geopolitical weight is likely to have peaked in the early 1990s. As such, Japan's representation in financial institutions is no longer likely to present a glaring discrepancy with economic reality. However, Japan's inability to secure a permanent seat on the UN Security Council will likely remain problematic into the future. Whereas institutional rigidity is a great obstacle for rising powers, it is a boon for declining powers. Much as the United States did after World War II, Japan will have much to gain from further institutionalizing its influence and leadership while it still remains in a position of preeminence.

Japan's experience in facing institutional rigidities also holds important lessons for how existing organizations can accommodate new rising powers such as China and India. It is likely that Asia will become an increasingly critical center of economic and geopolitical activity in the coming decades. Power transitions can be notoriously destabilizing for the international system, often producing geopolitical tensions (Organski 1958; Kennedy 1987) or economic turbulence (Kindleberger 1986). If major international organizations allow for smooth power transitions, such destabilization may be mitigated. On the other hand, if such institutions are overly resistant to change, the international organizational architecture may prove to be brittle.

### *Notes*

- 1 Cohen 1977, p. 90
- 2 For example, Japan nominated but ultimately withdrew Sakakibara Eisuke for the managing directorship of the IMF in 2000. Finance Minister Miyazawa Kiichi noted that: "The nomination of Dr. Sakakibara reflected Japan's position that the IMF, as a truly global financial institution, should determine its Managing Director based on a

candidate's ability to lead this institution in the right direction and not based on his/her country of origin." (IMF External Relations Department, "Mr. Yoshimura's Statement on The Withdrawal of the Nomination of Dr. Sakakibara For Managing Director of the IMF," March 14, 2000).

- 3 This is, in part, because the IMF quota formulas incorporate measures besides GDP, including share of world trade and reserves. However, the quota formulas themselves have historically been subject to negotiation among major quota holders, and actual quota shares do not necessarily reflect outcomes of the quota formulas. For an excellent discussion, see Boughton 2001.
- 4 Singer, et al. 1972 (v. 3.02).
- 5 See Fearon 1998.
- 6 I will use IBRD and World Bank interchangeably in the subsequent text.
- 7 There is also a very small fixed component distributed equally to all members of 250 voting shares to each member.
- 8 The exact threshold has been adjusted over time to maintain the veto of the United States as its voting share declined. Currently, it is at 85%.
- 9 Among others, see Horsefield 1969; Garritsen de Vries 1985, 511–43; Rapkin et al. 1997; Boughton 2001, 849–75.
- 10 Among others, one may point to the Asian Development Bank, Inter-American Development Bank, Central American Bank for Regional Integration, African Development Bank, Islamic Development Bank, European Bank of Reconstruction and Development, Council of Europe Development Bank, Caribbean Development Bank.
- 11 "Because of the insufficient adjustment of quota shares during the previous General Reviews of Quotas, the present quota does not necessarily reflect changes of the economic realities of member countries. Appropriate adjustments of quota shares should be an integral part of the coming Eight Review of Quotas." Statement by Mayekawa Haruo (Alternative Governor of the Fund and the Bank of Japan), *Summary Proceedings of the IMF-World Bank Annual Meetings*, 1981, p. 59. "I would like to emphasize that an extensive adjustment of quota shares among member countries would be an indispensable precondition in implementing the eight quota increase, in order that

- member countries shall cooperate with the Fund in accordance with their relative economic positions in the world economy and thus allow the Fund to function smoothly." Statement by Watanabe Michio (Governor of the Fund and the Bank of Japan), *Summary Proceedings of the IMF-World Bank Annual Meetings*, 1982, p. 59.
- 12 Rapkin et al. 1997, 178.
  - 13 Ibid. 177–178.
  - 14 Using this ratio controls for changes in distribution shares caused by the entry of new member states. Raw voting shares behave similarly. Nominal GDP is used rather than purchasing power parity (PPP) because this is the input used by the IMF in its quota formulas.
  - 15 By 1989 and 1990, policy statements from Japanese officials reflected dissatisfaction with Japan's position in the IMF but not in the World Bank. See statements by Ryutaro Hashimoto, *Summary Proceedings of the Annual Meeting of the IMF and World Bank*, 1989 and 1990.
  - 16 Interviews with current Japanese Ministry of Finance officials indicate that Japan now considers its representation in both institutions (as of 2005) to be adequate.
  - 17 See, for example, Joseph Stiglitz, "The Insider—What I learned at the world economic crisis." *The New Republic*, 2000.
  - 18 Sakakibara, 2000 (my translation).
  - 19 Hobart Rowen, "Japanese Intensify Push for Higher IMF Ranking," *Washington Post*, 26 September 1989.

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PART IV

Japan's Strategic Response  
to Regional and Global  
Challenges



# 8

## *Sino-Japanese Energy Relations: Prospects for Deepening Strategic Competition*

Kent E. Calder

Together, Japan and China are the economic, and potentially the political, giants of Asia, locked in a complex political-economic scorpion's dance. They account for approximately two-thirds of the economic product of the region and more than half of its military spending. Sino-Japanese trade is among the most vigorous and dynamic on earth and has more than doubled over the past five years.

Despite their deep and growing economic ties, however, China and Japan have an increasingly wary geopolitical relationship that is dangerous, globally important, and remarkably misunderstood. Throughout history, hierarchy has helped structure the bilateral relations of these giants: one was always clearly more prosperous or powerful than the other. In classical days it was China; for over a century following the Meiji restoration, Japan was generally preeminent.

Only in the past half decade has the unprecedented prospect of simultaneous Chinese and Japanese power and affluence begun to materialize. A less-developed China has been growing

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rapidly, while a more affluent and mature Japan has remained relatively stagnant, with a population that in 2005 began an unprecedented peacetime decline. The classical conditions for a chronic security dilemma and balance of power struggle between mature and rising powers, which some liken to the Anglo-German rivalry on the eve of World War I, have come steadily into view.<sup>1</sup>

Geopolitical tensions between China and Japan have many dimensions. The “shadows of reunification” in the Taiwan Straits and the prospect of impending geopolitical change on the Korean peninsula are two of the clearest.<sup>2</sup> The rapid progress of Chinese missile technology and Japan’s countervailing commitment to missile defense cooperation with the United States are another expression of tensions between China and Japan.

In a world of tightening markets for oil and gas, however, animated by China’s explosive economic growth, the energy dimension of Sino-Japanese rivalry appears increasingly salient. Yet the prospects for energy cooperation are also rising. Energy ties are an especially interesting aspect of the Sino-Japanese relationship because they are a powerful “double-edged sword,” with the potential to sharply leverage either cooperation or conflict between these two giants.

### *Contrasting Resource Endowments*

Japan is singularly deficient in energy resources, with only 59 million barrels of proven oil reserves—about a ten-days supply at current rates of consumption.<sup>3</sup> Apart from some small oil deposits in Niigata Prefecture on the Japan Sea coast and some low-quality coal in Hokkaido, Japan is almost singularly bereft of hydrocarbons. Indeed, it has been a large-scale importer of oil since the late nineteenth century, and constraints on its oil imports were a major *casus belli* in December 1941.<sup>4</sup> Currently a full 99 percent of its entire oil and gas supply must be imported.

China, in contrast, is significantly better endowed with domestic energy resources, including coal reserves that rival those of the United States as the largest on earth and significant oil reserves as well. Indeed, China remains the world's sixth largest oil producer,<sup>5</sup> continuing to draw heavily on large north-eastern fields, such as Daqing, that are only slowly moving toward depletion. And it is the world's largest coal producer as well as its largest consumer of coal. Yet environmental and infrastructural problems, compounded by a Chinese reluctance to offer foreign investors the incentives necessary to access state-of-the-art drilling technology, prevent China from realizing its full domestic energy production potential.

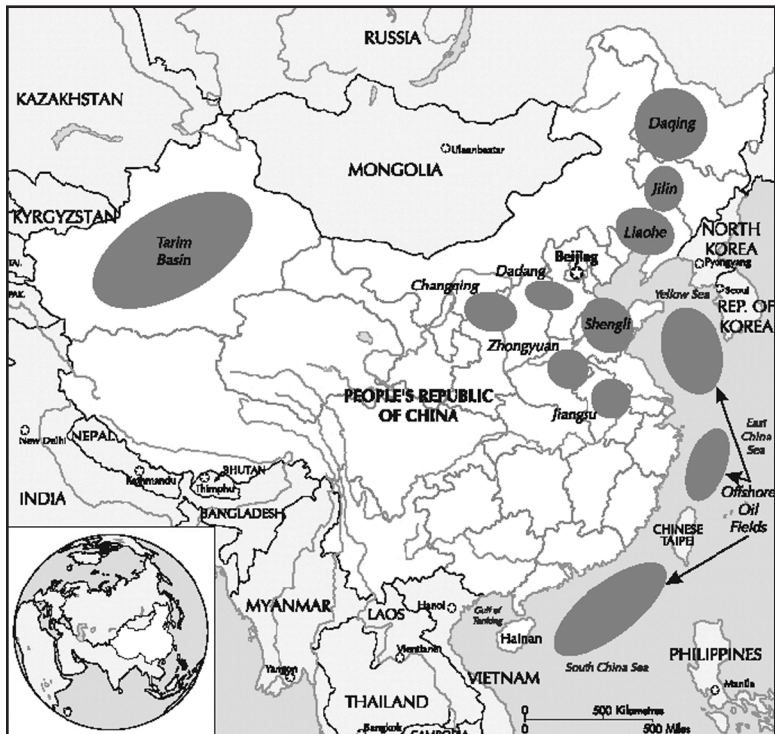
The major Chinese domestic reserves, of oil in particular, are located in the north and the west, as indicated in Figure 8.1. Meanwhile, energy demand is surging in the south and the east, where the bulk of China's newly affluent middle class is concentrated. The railways and pipelines needed to transport oil, coal, and natural gas from one part of the country to another remain under-developed, and in a woeful state of disrepair. Offshore oil fields in the East and South China Seas could provide a partial escape from these painful energy dilemmas, but they often present problems of their own in the form of territorial disputes with China's neighbors.

China's coal reserves, as indicated above, are even more massive than its substantial oil deposits, and the country depends on coal for seventy percent of total primary energy consumption.<sup>6</sup> Yet, as in the case of oil, transportation also stands as a significant barrier to full exploitation of those deposits. Long-distance transportation, of course, is especially cumbersome, since coal is so bulky. The largest coal fields are in the northeast—particularly in Shandong and Shansi—whereas the most rapidly expanding energy demand is several hundred miles to the south, along the southeastern coast.

### *Differing Energy Security Imperatives*

Flowing from their differing resource endowments and positions in the global political economy, China and Japan have contrasting conceptions of energy security. The details have varied somewhat across their respective modern histories and produced broad contrasts in incentive structures. These contrasting imperatives animate the shifting patterns of cooperation and conflict that have emerged over the past two generations of interaction between these two great powers of Asia.

Figure 8.1 *China's complex energy geography*



Source: US Department of Energy Office of Fossil Energy.

Japan has by far the largest economy in Asia, with a GDP of well over \$4 trillion. Reflecting its huge economy and its radical lack of domestic energy reserves, Japan also has by far the largest oil imports in the region, at over 4 million barrels per day, as well as liquified natural gas (LNG) imports that reach roughly half of the entire world's total. These imports of both oil and gas flow heavily from the Middle East, where Japan gets nearly 90 percent of its oil and approximately one-third of its gas. The bulk of energy imports flow through either Japanese trading companies or multinational energy firms, since the private-sector Japanese energy producers are not well developed.

Although its economy is massive, Japan is not growing rapidly, and has not been doing so for more than fifteen years. In energy, compared to China, it is the "pioneer," rather than the "pursuer," having established its presence in previous years and feeling only a limited need to expand.<sup>7</sup> Japan's energy interests are conservative and entrenched, especially in the Persian Gulf. Geopolitically, those interests are safeguarded by the United States, Japan's principal global ally, making Japan relatively comfortable with dependence on extended sea lanes from the Gulf to Yokohama that are dominated by the US Navy.

China's energy security imperatives are decisively different from Japan's. Most fundamentally, China has much more rapidly expanding energy needs, flowing from its relatively small, but explosively growing economy. China's oil consumption, for example, rose 2.9 percent in 2005, compared to only a 1.4 percent increase in Japan.<sup>8</sup>

In absolute terms, China's energy demand remains surprisingly small, relative to its huge population, due to low per-capita energy consumption. In 2005, China consumed less than seven million barrels of oil per day, little more than one third the total of the United States, although slightly more than Japan's 5.36 million barrels per day.<sup>9</sup> Yet this aggregate demand seems fated to grow massively in the future, as Chinese per

capita energy consumption is still only one-fifth of US and one-tenth of Japanese levels. Thus, a major energy security imperative for China is necessarily to think about *new sources* of energy—both geographical and functional—to feed an economic machine that is fated to be much larger in a decade or two than it is today.

Although China (PRC) faces a much stronger *supply-expansion imperative* than does Japan, it does not confront such an extreme scarcity of domestic energy resources. As noted earlier, China has relatively substantial domestic energy reserves, particularly of coal. In the short-term, China's energy security problem has a much larger *infrastructural* component than does Japan's. China badly needs railways, ports, and pipelines to transport energy. Japan already has them.

The third major difference between Japan and China's energy incentive structure is geopolitical. Japan is a close ally of the United States, with its commanding influence in the global sea lanes, whereas China remains on delicate terms with Washington. Consequently, China tends to see its energy security as enhanced by overland pipelines that avoid the sea lanes that America dominates. Beijing especially favors overland pipelines from adjoining nations, such as Russia and Kazakhstan, in a way that island Japan does not.

### *A History of Energy Cooperation*

Ironically, in view of recent geopolitical rivalries, yet understandably, considering national resource endowments, Japan and China have a long history of energy cooperation. China began exporting oil to Japan in 1974, half a decade before the economic acceleration impelled by the Four Modernizations. This Sino-Japanese energy supply entente continued for thirty years. Reflecting their close geopolitical alignment from the early 1970s until Tiananmen, China and Japan were energy partners for nearly two decades.



The Soviet Union, to be sure, competed strongly with China for the Japanese oil and gas market. In 1972, for example, the Soviet Union proposed that Japan provide credits of up to \$2 billion for the construction of a pipeline from the Tyumen oil field in western Siberia to the Pacific port of Nakhodka and that the USSR supply Japan with an estimated annual flow of 40 million tons of crude oil. The Russians also proposed a second trans-Siberian railway to transport the crude oil over much of the distance that would have been covered by the pipeline.

China, nevertheless, provided more realistic energy supply prospects to Japan. Oil was discovered in the 1970s in the Bohai Gulf and Yellow Sea areas, only 400 miles from Japan by tanker. The Tyumen fields, by contrast, were 3,100 miles from Japan and required complex combined rail and tanker transport. Reflecting these Sino-Japanese geographical complementarities, under the 1978 long-term trade agreement, China agreed to supply Japan with a goal of 7 million tons of oil the first year and then 47 million tons in five years. Japan imported not only oil from China, but also coal.<sup>10</sup>

When Moscow reduced its promised level of oil from the Tyumen fields, Beijing not only countered with a higher offer, but was also able to do so without asking for large-scale credits from Japan. As late as 1990, China was exporting \$1 billion of oil annually to Japan—representing over half of China's worldwide oil exports, and 7.2 percent of Japan's total oil imports.<sup>11</sup> This tradition of organizing energy trade through cooperative long-term trade agreements started in 1978. These agreements have been repeatedly extended every five years, with the latest version, signed in December 2005, extended to 2010.<sup>12</sup>

Chinese oil exports to Japan following the oil shocks of the 1970s were attractive to both nations. For Japan, they allowed diversification away from the Western majors, which controlled around 65 percent of Japanese oil imports during this period. Imports from China also provided Japan with a way to offset

the strategic vulnerabilities of large-scale dependence on the Middle East, while gaining increased leverage in bargaining for lower prices with the producer countries and oil majors. For influential Japanese manufacturers, such as Nippon Steel, energy imports from China also provided a means of increasing Japanese manufactured exports, by linking Chinese oil exports to China's steel, industrial plant, and machinery imports from Japan.<sup>13</sup>

For China, oil exports to Japan provided foreign exchange and also access to Japanese technology. Between 1972 and 1974, just as oil exports to Japan were about to begin, Japan concluded agreements for the sale of seventeen industrial plants to China, with a value of \$470 million, including fertilizer and petrochemical factories. These oil supplies gradually expanded into gas exports as well. Indeed, a consortium of Japanese companies, led by Bridgestone, negotiated with China for the construction of a liquifaction plant near a gas field in the Takang area capable of producing 300,000 tons of liquefied natural gas (LNG) per year for export back to Japan.

Amid this symbiotic energy interdependence, both China and Japan de-emphasized their complex and conflicting territorial claims against each other. China, for its part, strove to lure Japan away from the USSR through its energy exports, leaving disputes over the East China Sea and the Diaoyu/Senkaku issues to the side. Japan, on the other hand, refrained from exploring resources in the East China Sea, both because it expected to continue oil flows from China and also because its own companies had been frustrated in their search for offshore oil.

*China's Expanding Economy  
Changes the Geopolitical Landscape*

This felicitous energy symbiosis between Japan and China continued into the 1990s. As noted above, in 1990 Japan still imported over \$1 billion annually in oil from China. This Chinese

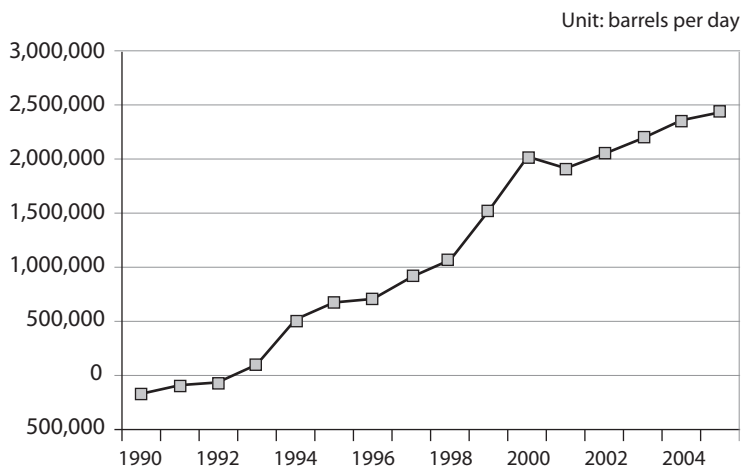
oil was attractive to Japan not so much for its quality—Saudi light was more attractive for gasoline, aviation fuel, and many other sophisticated applications—but because of the trade expansion opportunities that it created for Japanese trading companies. Oil generated hard currencies for Chinese producers and indirectly for the Chinese government, which could in turn be exchanged for the technology, plants, and machinery needed to propel China's industrial development.<sup>14</sup>

Ultimately it was the explosive, sustained economic growth triggered by the Four Modernizations, generating enormous and rapidly growing new energy demand, that critically deepened energy rivalries between Japan and China. Despite substantial domestic reserves, geographical imbalances, coupled with related infrastructural weaknesses, prevented local Chinese producers from supplying their country's own internal demand. Given China's massive domestic coal reserves, the new rivalries across the East China Sea not surprisingly centered on oil and gas.

In 1993, China's long-standing global oil trade surplus turned to deficit. That imbalance steadily deepened over the ensuing decade, as noted in Figure 8.2. By the end of 2005, China was importing a net 3.38 million barrels/day, or roughly two-thirds of Japan's massive total.<sup>15</sup>

Between 2000 and 2005, rising Chinese oil demand accounted for slightly more than one-third of global demand increases.<sup>16</sup> Fueled by rising automobile ownership and surging petrochemical production, China's oil consumption passed Japan's in 2002 and, by 2005, was nearly seven million barrels per day, compared to 5.4 million BBL/day for Japan. Virtually all of the incremental demand was supplied from imports, due to the domestic supply constraints discussed above.

As shown in Figure 8.3, the prospects are strong for substantial future increases in Chinese oil demand, fueled by industrial and consumer demand, as well as lingering inefficiencies and

Figure 8.2 *China's net oil imports*

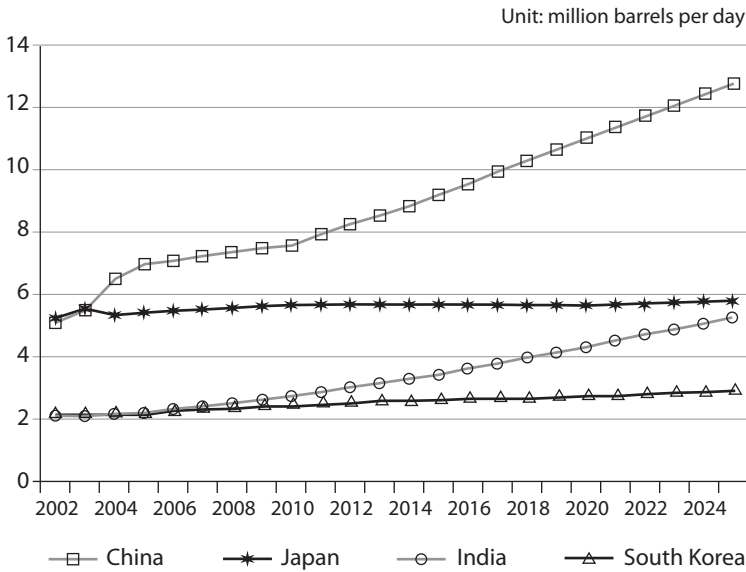
Source: *China's Statistical Yearbook* (until 2003) and *BP Statistical Review of World Energy*, 2005 and 2006 editions (until 2005).

price misalignments. Gasoline in China, for example, retailed for \$1.80 a gallon in mid-2005 and remains substantially below world prices.<sup>17</sup> Refiners, for their part, continually complain about price controls that inhibit needed investment. Chinese currently consume approximately two barrels of oil per person per year, compared to 28 barrels in the United States, and China's usage will inevitably rise.

### *The Deepening Reality of Sea Lane Dependence*

Japan has been dependent on energy sea lanes from Southeast Asia and the Middle East throughout its modern history. China, as its oil and gas imports steadily rise, is following a similar, if less pronounced course. In 2002, China imported nearly 70 million tons of crude oil, yet only 7 percent of this total—mainly from Russia and Kazakhstan—arrived by rail. The rest—

Figure 8.3 Strong prospects for rising Chinese oil demand



Source: US Department of Energy. *Annual Energy Outlook*, 2005 edition.

a full 93 percent, or close to two million barrels a day—came by sea.

Energy sea lane dependence stirs little anxiety in Japan and is an increasingly important economic rationale for its close political alliance with the United States.<sup>18</sup> Yet sea lane dependence is inherently disquieting for many in China, as has been noted, due to China’s strategic vulnerability at sea. Apart from more obvious political-military considerations, China has other unique vulnerabilities flowing from its rising sea lane dependence that are of national concern. Only 10 percent of its imported oil comes in Chinese tankers, with 90 percent being shipped to China by foreign fleets. And between 80 and 85 percent of China’s oil imports come through the Straits of Malacca, only 1.5 miles wide at its narrowest point. Handling 11 million barrels of oil and 40 billion cubic meters of natural gas

daily, the Straits are a natural target for terrorists and an interdiction point in the event of prospective conflict with foreign partners.

The historical record suggests that China fears energy dependence on the broader world, and that it has some reason to do so. Soviet advisors in the 1950s played a major role in the Chinese oil industry, and their departure following the Sino-Soviet split of 1960 precipitated severe energy shortages in China. It also left China dependent on the Soviet Union, a new adversary, for more than half of its refined oil product consumption. China has also been sobered by the post-Soviet use of both oil and natural gas as a geopolitical lever in Russia's dealings with neighbors, such as the Ukraine, Moldova, and even Belarus, over the past decade.

Chinese analysts appear to see the United States as a prospective threat to China's energy security, although Beijing's rapidly escalating energy needs may also have reinforced China's short-term inclination to avoid confrontation with Washington.<sup>19</sup> There is no nation powerful enough to balance the United States, and the American Navy dominates the 7,000-mile sea lanes from Shanghai to the Straits of Hormuz through which half of China's oil supplies must pass. Economic sanctions have become an important tool of American policy in the post-cold war world. In the view of some Chinese observers, China's vulnerability to US economic pressure and relative lack of allies could restrict its options on such strategically and politically important issues as Taiwan. At a minimum, as they see it, the United States appears disinclined to address issues of Sino-American energy interdependence in a positive spirit, as evidenced by the rejection of China National Oil Corporation's bid for Unocal in the summer of 2005.

*Reducing Energy Vulnerability:  
Sino-Japanese Approaches in Comparative Perspective*

Conceptually speaking, Japan and China should have at least five strategic options for reducing vulnerability to prospective international pressure in the energy area: (1) increasing energy efficiency; (2) functional diversification away from oil, in favor of nuclear power, hydroelectric power, and natural gas, the supply of which is generally less susceptible to sea lane interdiction; (3) geographical diversification of energy supplies; (4) reducing reliance on international majors, while conversely increasing the share of energy imports flowing through domestically owned or controlled intermediaries; and (5) developing the military capability to independently protect domestic energy supplies.

Among the foregoing possible alternatives, the two countries have adopted a markedly different mix of approaches to the problem of assuring energy security. This important reality concentrates the arena of prospective bilateral confrontation over energy into a small number of critical areas, such as offshore oil development in East Asian waters and competition over pipelines and third-country concessions. The divergence in Japanese and Chinese approaches, however, also builds complementarities between them that could well open avenues for future cooperation.

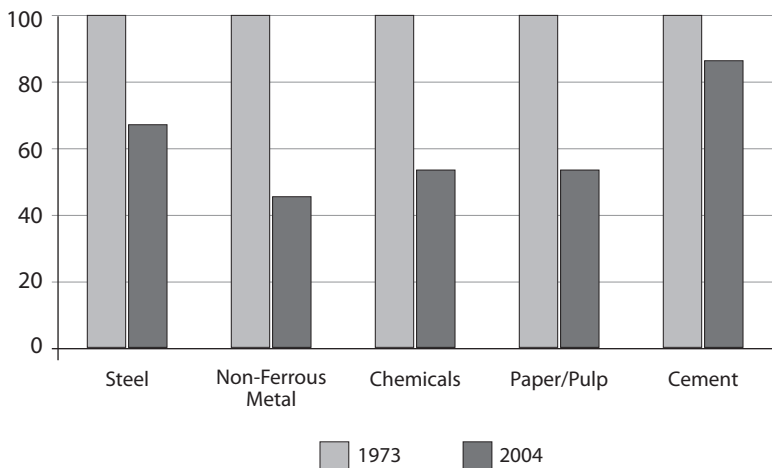
Japan has given strong priority to domestic industrial transformation as a primary means of coping with problems of energy security. In this regard, three policy priorities have been especially important: (1) energy efficiency; (2) development of alternative energy forms that enhance energy independence; and (3) industrial structure transformation toward knowledge-intensive sectors and away from energy-intensive areas. Together, initiatives in these areas have allowed Japan to remarkably reduce the energy intensity of its economy since the mid-1970s. This rising efficiency, coupled with more than a decade of economic

stagnation, has significantly moderated the need that Japan felt so keenly a generation ago to compete aggressively in global energy and raw-materials markets.<sup>20</sup>

Intrasectoral improvements in Japanese energy efficiency since the oil shocks of the 1970s have been especially impressive, as shown in Figure 8.4. Overall indices of industrial production (IIP) per unit of energy consumed in Japan have dropped nearly 40 percent from levels of the 1970s.<sup>21</sup> In non-ferrous metal production, for example, in 2004 Japan consumed only 45.8 percent as much energy per unit of production as in 1973. In chemicals this ratio was 53.1; in paper/pulp 53.6; in steel 67.5; and in cement 86.1.<sup>22</sup>

Industrial structure transformation—away from energy-intensive materials sectors, such as steel and petrochemicals, and toward areas that consume little energy, such as elec-

Figure 8.4 Japan's improvement in energy efficiency



Note: Calculated with 1973 figure as 100.

Source: Energy Conservation Center. *Handbook of Energy and Economic Statistics in Japan*, 2006 edition, pp. 68–69.



tronics—has also helped to substantially reduce aggregate energy demand in Japan. Overall, non-raw material-intensive industries in Japan have grown nearly twice as fast as their raw material intensive counterparts since the mid-1970s. This differential was especially sharp during the 1975 to 1985 decade and was strongly encouraged by industrial policy.<sup>23</sup> As a consequence, the share of materials industries in Japanese industrial production fell from 33 to 21 percent during the period from 1975 to 2005, while those of less energy-consuming metals and machinery sectors has grown from 30 to 53 percent.<sup>24</sup>

Japan has also pursued active alternative energy policies that increase autonomy from hydrocarbon imports. The most significant among these policies has been support for nuclear power that has few equals anywhere else in the world, apart from France, Sweden, Russia, and South Korea. In 1973 only 0.6 percent of Japan's primary energy supply was provided by nuclear power, but that ratio rose to a high of 13.7 percent in 1998.<sup>25</sup> After years of economic uncertainty, political controversy, and deregulation during and just after the Asian financial crisis, the Japanese government has recently begun to re-emphasize nuclear power and rebuild the policy consensus to support it.

The conventional wisdom regarding Japanese foreign economic policy has long emphasized its mercantilist character and the formidable effectiveness of Japanese state strategy in dealing with international economic matters.<sup>26</sup> What is striking in the energy area, however, is how *little salience* state corporations or government policy companies have in Japan, and how weakly they are supported by state power. In comparison with China, or even the United States, what has been remarkable, until the coming of the Abe Shinzo administration, is not the scope of Japanese government efforts at energy diplomacy, but rather the lack thereof, and the relative ineffectiveness of such efforts that have been made.<sup>27</sup>

Japanese and Chinese approaches diverge sharply with respect to the three final options discussed above for assuring energy security. With respect to geographical diversification, Japan has heretofore largely accepted the long-term market logic of reliance on Middle Eastern oil supplies. It has consistently relied on a small number of producers in the Persian Gulf—particularly Saudi Arabia, the United Arab Emirates, and Iran—for well over 80 percent of its total imports.<sup>28</sup>

China, in sharp contrast to Japan, has made substantial efforts to diversify away from the Middle East, resulting in a dependence ratio in 2005 on that region of only around 45 percent, or little more than half that of Japan. Although China has, to some degree, exploited geopolitical tensions between the United States and Iran to encroach on Japan's traditional special relationship with the latter country,<sup>29</sup> what is far more striking is the vigor of its new relationships with African energy producers with which Japan is virtually uninvolved. China procured nearly one-third of its oil imports from Africa in 2005;<sup>30</sup> the continent is only a marginal supplier for Japan. Indeed, in 2006 and 2007, Angola competed closely with Saudi Arabia as the largest exporter in the world of oil to China. Chinese oil imports from Angola in 2005, at over 7 million tons annually, were far more than triple what they had been in 2002.

Reflecting its deepening energy interdependence with Africa, China has given a substantial priority to that continent in its diplomacy, which has, in turn, further deepened the already substantial energy interdependence between the two. In late 2006 Beijing sponsored an Africa-China summit conference in China, which forty-eight African heads of government attended.<sup>31</sup> Chinese President Hu Jin-Tao has also given considerable precedence to African energy producers in his own personal summit diplomacy. He has been to Africa three times already, making a point of visiting such nations as Angola and Nigeria, which are major oil exporters to China. Japanese Prime

Minister Koizumi Jun'ichiro, more concerned about obtaining African support for Japan's bid to become a permanent member of the United Nations Security Council (UNSC), visited no major energy producers at all in his African travels.

China has also utilized national policy companies much more actively and effectively than has Japan. China National Oil Company, in particular, has become extremely active overseas, evolving into a major market player in Africa and Kazakhstan, for example. China National Oil Company has received substantial government support in that effort. Japanese energy development companies have been less dynamic, although diplomatic cross-pressures in Iran and elsewhere have at times slowed their advance. Although nominally a Socialist nation, China has used market mechanisms, such as initial public offerings that capitalize on favorable long-term demand prospects in its energy future, to leverage the strength of public policy companies such as China National Oil Company in international markets.

#### *Flashpoints of Sino-Japanese Competition*

Although direct Sino-Japanese energy competition over the past decade has been surprisingly subdued due to a domestic, transformation-oriented Japanese energy strategy, there is a good chance that bilateral rivalry will intensify substantially in the future. Rapidly rising Chinese hydrocarbon demand, interacting with broader geostrategic tensions, could be an important catalyst. Another could be an increasingly coherent and insistent Japanese energy diplomacy, the outlines of which became visible and increasingly clear-cut under the Abe administration.

The most dramatic recent manifestation of Sino-Japanese energy competition has been close to home in the East China Sea. Estimates vary regarding actual reserves, but both oil and gas deposits appear to be substantial. Chinese estimates range from 175 trillion to 210 trillion cubic feet of gas, whereas Japanese estimates of oil suggest "well over 94.5 billion barrels of quality

oil.”<sup>32</sup> The attractiveness of these reserves to China, in particular, is enhanced by their close proximity to areas of rapid energy demand increase along China’s southeastern coast, as shown in Figure 8.1 for which there are few alternative sources of supply. The East China Sea gas reserves are especially attractive to China, given the high efficiency of gas as a residential fuel and its favorable environmental characteristics.

The political origins of the Sino-Japanese energy conflict in the East China Sea are rooted in the geography and its relationship to the recent evolution in international principles for governing exploitation of submarine resources. Under the UN International Law of the Sea, the exclusive economic zone (EEZ) of a nation is 200 nautical miles from that nation’s continental shelf. In the East China Sea, however, the widest separation between China and Japan is only 360 nautical miles. China and Japan have adopted different criteria for setting their conception of EEZs in the area: Japan has adopted the median line principle, and China has insisted on configuring its EEZ based on the prevailing continental shelf in the relatively shallow East China Sea waters.<sup>33</sup>

The flashpoint for conflict has recently been the Chunxiao/Shirakaba gas fields that lie only four kilometers on the Chinese-side of the median line and where China began serious exploratory operations in May 2004. In May 2005, Japan’s Ministry of Economy, Trade, and Industry (METI) authorized Japanese firms to explore in contested areas. In September 2005, Chinese warships appeared at the now active fields on the eve of Japan’s national elections. Between November 2006 and January 2007 China began actually tapping both oil and gas from these East China sea fields and supplying it to mainland China, despite Japanese protests.

The outcome of this dispute remains uncertain, but prospects are rising for a compromise agreement. China needs the gas as well as funding for large-scale development. Japan, under

Prime Minister Abe Shinzo, appeared to desire some symbolic relaxation of tensions with China, as evidenced by Abe's October 2006 visit to Beijing, even as Japan prepares to counter China on broader security matters and attain its acquiescence in an enhanced Japanese military posture. High-level discussions have been informally bringing the two nations closer on this issue since the fall of 2006.

Other important flashpoints for conflict—prospectively less tractable than the East China Sea—clearly remain. Among the most difficult concern energy relations with Russia, especially with respect to pipeline diplomacy. China's energy imports from Russia have been rising; Russia became China's fifth largest oil supplier in 2004. Yet Japan also has strong aspirations to access Russian gas reserves—nearly one-third of the world's proven total, and oil as well.

Between 2003 and 2005 the two countries fought a bitter and ultimately inconclusive bidding war for a pipeline to access the Angarsk oil field just north of Lake Baikal. Although favoring Japan over China in 2004, in April 2005 Moscow virtually rejected a \$12 billion Japanese offer to help finance the pipeline<sup>34</sup> in favor of a lesser Chinese bid and backed away from a position favoring a limited territorial deal with Japan that it had maintained for more than a decade. Ultimately, still wanting to secure as many Asian customers as possible, Russia decided to branch the prospective 4,188-kilometer pipeline at Skovorodino near the Russian-Chinese border, the midpoint of the entire route. Doing so would supply 20 million tons of oil a year to China and 10 million tons to be transferred by rail to the Pacific coast to Japan. Construction under this compromise plan started in April 2006.<sup>35</sup>

During 2006, Russia forced two major Japanese trading companies, Mitsubishi and Mitsui, into an unfavorable renegotiation of the strategic and long-standing Sakhalin II liquefied natural gas project. Russia used nominal environmental concerns

as a wedge, with Chinese energy concerns a complicating background factor for Japan's energy aspirations.

Iran is another potential flashpoint in Sino-Japanese energy relations. In Iran, both Japan and China received major, separate oilfield development concessions during the period from 2003 to 2005—the Japanese at Azadegan and the Chinese at Yadaravan.<sup>36</sup> Yet the Iranians have strong incentives, in the context of the continuing nuclear crisis, to force the Japanese and Chinese to compete with each other. China's strong geopolitical ties with Iran and Japan's difficulty in matching them due to the US-Japan alliance are a particular frustration for Japanese aspirations that could seriously complicate Sino-Japanese and even US-Japan relations.

In the longer run a crucial issue in Sino-Japanese energy relations must inevitably be the respective roles of the two Asian giants in the Persian Gulf. Japan currently is by a substantial margin the largest customer in the world for Persian Gulf oil, but China's rapidly rising demand will almost certainly alter that situation. How Sino-Japanese rivalries work themselves out in the Gulf, especially as Chinese energy demand rises to many times its current levels and as the nature of American involvement in the Middle East changes are questions of utmost importance for the global geopolitical future. That was clearly on the mind of Japanese policymakers as Prime Minister Abe Shinzo prepared for a major diplomatic trip to the Middle East in May 2007. That the rivalry has already begun is clear from developments in Iran discussed above and the competition between the two during the 2004 to 2007 period to sign free-trade agreements with the Gulf Cooperation Council states of the Persian Gulf.<sup>37</sup>

### *Cooperative Prospects: Too Little, Too Late?*

Looking to the future, there are clearly deepening competitive prospects looming in Sino-Japanese energy relations, especially

in Russia and the Middle East. Sino-Japanese competition could be exacerbated by still undetermined conflicts in the East China Sea, perhaps interacting with territorial issues, or a Taiwan crisis. To what extent can revived cooperative ventures, building on the substantial successes of Japan in the 1970s and 1980s in energy conservation, now blaze a pathway of global importance that China can emulate?

The prospects for revived cooperation—different from the 1970s and 1980s, but nevertheless consequential—appear relatively good, especially if they are encouraged by the United States. China clearly needs Japanese energy-conservation technology, as well as access to the disputed East China Sea fields. And for its own broader political and diplomatic reasons, the Abe government appeared bent on building bridges in nonmilitary fields to China.

Besides energy conservation, clean energy technology is a field for prospective cooperation. As previously mentioned, 70 percent of Chinese primary energy consumption is coal, and the air pollution it generates impacts Japan in the form of acid rain. This grim reality has driven the two countries to cooperate since 1992 in clean coal technology through METI's Green Aid Plan. In 2003, Japan and China set up a joint venture, Fushun Hubo Clean Coal Co., Ltd., to produce clean coal in Fushun City in Liaoning province.<sup>38</sup>

The high priority that China is coming to assign to energy and environmental matters where Japan can meaningfully cooperate was dramatically expressed in Prime Minister Wen Jia Bao's March 2007 opening address at the National People's Congress in Beijing.<sup>39</sup> Wen reaffirmed the central importance of rapid economic growth as a national priority but also warned that growth could be seriously constrained by energy and environmental problems. China's current five-year plan calls for a 20 percent reduction in energy consumption per unit of GDP, but Wen noted that that goal had not been met in the first year

of the program. He called for redoubled efforts in energy conservation and the reduction of pollution discharge levels.

An additional area for potential enhanced cooperation is nuclear energy. In 2006, China announced that it would speed up the construction of nuclear power plants from the current 8,700 megawatts capacity to 40,000 megawatts by 2020.<sup>40</sup> In the same year, Japan also announced its plan to raise the nuclear power ratio of total electric power production from 29 percent in 2004 to 30–40 percent in 2030. Japan reaffirmed the importance of civilian nuclear cooperation as a major area for energy cooperation with Asia, including China.<sup>41</sup>

The only question is whether the geostrategic tensions and the cycle of grass-roots mistrust between the two Asian giants have escalated to such a point that the sort of pragmatic accommodations that are so much in the global interest will be politically possible. The United States, while reaffirming its alliance with Japan as its principal Pacific ally, needs to reaffirm that it sees the importance of Sino-Japanese, and indeed US-Sino-Japanese, energy cooperation.<sup>42</sup>

### Notes

- 1 See Nicholas Kristof, "The Rise of China," *Foreign Affairs*, November/December 1993, 72(5).
- 2 See Kent E. Calder, "Simmering Sino-Japanese Rivalries," *Foreign Affairs*, April/May, 2006:1–11.
- 3 In 2004 Japan consumed about 5.35 million barrels. See US Department of Energy, *Country Analysis Brief*, at: <http://www.eai.doe.gov/emeu.cabs/china.html>.
- 4 Dean Acheson predicted an oil embargo against Japan in response to its invasion of Indochina in 1940, an act that helped precipitate the Pearl Harbor attack of December 1941. See Daniel Yergin. 1991. *The Prize: The Epic Quest for Oil, Money, and Power*. New York: Simon and Schuster.



- 5 *BP Statistical Review of World Energy*. 2006 edition. [available online] <http://www.bp.com/productlanding.do?categoryId=6842&contentId=7021390>.
- 6 *Ibid.*
- 7 On this terminology, applied in another industrial context, see Daniel Okimoto. 1983. *Pioneer and Pursuer: The Role of the State in the Evolution of the Japanese and American Semiconductor Industries*. Stanford: Stanford University Northeast Asia-United States Forum on International Policy.
- 8 *BP Statistical Review of World Energy*. June 2006 edition, p. 11.
- 9 *Ibid.* Japan, of course, had a nominal GDP over three times the size of China, although its oil demand was less than one-third greater.
- 10 Tanaka Akihiko website on legal documents regarding Sino-Japanese relations: <http://www.ioc.u-tokyo.ac.jp/~worldjpn/documents/texts/JPCH/19780216.O1J.html>.
- 11 *China Daily*, at: <http://www.chinadaily.com.ch/en/doc>.
- 12 Japan-China Economic Association website: <http://www.jc-web.or.jp/lt/2.htm>.
- 13 Tanaka Akihiko website on legal documents regarding the Sino-Japanese Relations: <http://www.ioc.u-tokyo.ac.jp/~worldjpn/documents/texts/JPCH/19780216.O1J.html>.
- 14 See the Japan-China Economic Association website: <http://www.jc-web.or.jp/lt/2.htm>.
- 15 *BP Statistical Review of World Energy*. June 2006 edition, p. 20.
- 16 *BP Statistical Review of World Energy*. 2006 edition. [available online] <http://www.bp.com/productlanding.do?categoryId=6842&contentId=7021390>.
- 17 Under criticism from economists, the Chinese government has raised retail gasoline prices twelve times since 2003. Under converse pressure from consumers, however, it announced a price cut, even though retail prices had not yet reached global market levels. *South China Morning Post*, 15 January 2007.
- 18 See Kent E. Calder. 1996. *Pacific Defense: Arms, Energy, and America's Future in Asia*. New York: William Morrow.

- 19 See Aaron L. Friedberg. 2006. "Going Out": *China's Pursuit of Natural Resources and Implications for the PRC's Grand Strategy*. Vol. 17, No. 3. Seattle: National Bureau of Asian Research September, p. 30.
- 20 On this earlier tendency, see Raymond Vernon. 1983. *Two Hungry Giants: The United States and Japan in the Quest for Oil and Ores*. Cambridge, Massachusetts: Harvard University Press.
- 21 Agency for Resources and Energy, Japan's Ministry of Economy, Trade and Industry. *Energy White Paper*, 2006 edition. [Available online] <http://www.enecho.meti.go.jp/topics/hakusho/2006Energy-HTML/html/i2120000.html>.
- 22 Energy Conservation Center. *Handbook of Energy and Economic Statistics in Japan*, 2006 edition, 68–69.
- 23 Energy Conservation Center. *Handbook of Energy and Economic Statistics in Japan*, 62–63.
- 24 Ministry of Economy, Trade, and Industry Agency for Resources and Energy. *Energy White Paper*, 2006 edition. Available online at: <http://www.enecho.meti.go.jp/topics/hakusho/2006EnergyHTML/html/i2120000.html>.
- 25 Energy Conservation Center. *Handbook*, 36.
- 26 Chalmers Johnson. 1982. *MITI and the Japanese Miracle*. Stanford: Stanford University Press.
- 27 On the effectiveness of the American state in energy diplomacy, see Stephen Krasner. 1978. *Defending the National Interest: Raw Materials Investments and US Foreign Policy*. Princeton: Princeton University Press. From 2005 to 2007, Krasner served as director of policy planning in the US State Department.
- 28 In 2004, 89.5 percent of Japan's oil imports came from the Middle East, including 26.2 percent from Saudi Arabia, 25 percent from the United Arab Emirates, and 15 percent from Iran. See *Ibid.*, 152–53.
- 29 For example, China approached Iran during the negotiations between Japan and Iran concerning Azadegan oil field interests. Although Iran threatened Japan with the prospect of turning Japanese contracts over to the Chinese if Japan did not accede to Iranian terms, Teheran did not, in fact, do so.
- 30 *Financial Times*, October 19, 2006.
- 31 *AFP*, November 5, 2006.

- 32 Selig S. Harrison. 2005. Seabed petroleum in Northeast Asia: Conflict or cooperation? In *Seabed Petroleum in Northeast Asia: Conflict or Cooperation*, pp. 5–6. Washington DC: Woodrow Wilson International Center for Scholars.
- 33 On the technical details of this conflict, see Selig Harrison. *Seabed Petroleum in Northeast Asia*.
- 34 *Kyodo News*, May 19, 2005 and April 27, 2005.
- 35 *Kyodo News*, April 28, 2006.
- 36 In October 2004, state-controlled Sinopec, one of China's three major oil companies, concluded a \$70 billion, 30-year deal with the Iranians to develop the Yadaravan oil field and buy 250 million tons of liquefied natural gas.
- 37 China began discussions with the Gulf Cooperation Council in 2004, followed by Japan in 2006. Both China and Japan hope to finalize with the Gulf Cooperation Council during 2007. See *Financial Times*, September 8, 2006; and *Financial Times*, January 18, 2007.
- 38 *Sinocast China Business Daily News*, October 13, 2003.
- 39 See *New York Times*, March 5, 2007.
- 40 *AFP*, March 24, 2006.
- 41 The other areas for cooperation included energy conservation, clean coal technology, alternative energy, and energy storage. See Agency for Natural Resources and Energy. *New National Energy Strategy (Digest)*. 2006. [Available online] <http://www.enecho.meti.go.jp/english/index.htm>.
- 42 A positive step was taken in this direction with the December 2006 Beijing energy ministerial meeting, involving energy ministers from Japan, China, South Korea, India, and the US They discussed energy security, stability, and sustainability, including cooperation in clean-coal and nuclear technology. For a summary, see *Xinhua News Agency*, December 18, 2006.





# 9

## *Japan's Business Community in Sino-Japanese Relations*

Gregory W. Noble

After several years of increasing fridity under Prime Minister Koizumi Jun'ichiro, relations between Japan and its Northeast Asian neighbors seem to have thawed somewhat. Soon after assuming office in September 2006, new Prime Minister Abe Shinzo visited China and then held talks with Chinese and South Korean leaders. China's ambassador to Japan, Wang Yi, reported, "The political stalemate has been broken." After years of conflict over Koizumi's visits to Yasukuni Shrine, Beijing and Tokyo had "finally overcome this political impediment damaging bilateral relations" (*Xinhua*, December 12, 2006). The Chinese and Korean governments responded only in the lowest key to Abe's proposals to revise Japan's pacifist constitution and inject a patriotic, or nationalistic, tenor to its educational system. For his part, Prime Minister Abe reported satisfaction that China had for the first time "positively evaluated" Japan's 60-year record of peaceful postwar development and its determination to continue peaceful development (Budget Committee, House of Representatives, October 10, 2006). Even Japanese diplomats highly suspicious of Chinese intentions agreed that Abe's visit to China had gone extremely smoothly, and emphasized that China's approbation of postwar Japan

marked a crucial turning point (author interviews in Beijing, November 2006). The succession of Fukuda Yasuo as Prime Minister in September 2007 further eased relations.

These recent breakthroughs come against a broader background of diplomatic and economic cooperation in East Asia. Japan signed a series of free trade or “economic partnership agreements” (EPA), mostly in East Asia. It actively participated in the first East Asian Summit, where Kuroda Haruhiko, president of the Asian Development Bank (ADB) and formerly Japan’s Vice Minister of Finance for International Affairs, called for deeper and more rapid regional integration (ADB press release, November 15, 2006). The next month Kawai Masahiro, Kuroda’s deputy and professor of economics of the University of Tokyo, received front-page coverage in the *New York Times* (December 8, 2006) for advocating regional monetary cooperation: “We believe that some US dollar depreciation would be necessary, and collective joint appreciation of the East Asian countries could be needed” to manage that decline (see also Kawai 2005). Further East Asian summits occurred in the Philippines and Singapore. The preliminary agreement reached at the Six-Party talks in February 2007 held the first promise of resolving the North Korean nuclear crisis since the Bush administration took office a half dozen years earlier.

Despite recent cause for cautious optimism, skepticism about prospects for Sino-Japanese relations and regional cooperation runs deep. The Japanese government constantly complains about the Chinese military budget and Chinese naval activities. Popular opinion in Japan about China has fallen to all-time lows, while attitudes toward Korea, always volatile, have grown frostier. East Asian integration has not excited much popular interest in Japan, but to the extent they know about it, citizens seem skeptical or hostile. The United States has continually pushed Japan to step up military cooperation with the clear intent of constraining, if not containing, China.

The academic community has taken a generally skeptical stance on prospects for regional integration, arguing that existing regional institutions and schemes amount to little more than paper agreements and talking shops.

How should we understand this contrast between deeply embedded skepticism and recent upturns? No doubt those upturns stem at least in part from random fluctuation in the political arena. As recently as the spring of 2005, anti-Japanese demonstrations swept Chinese cities, and renewed conflict could easily break out over recently renewed coverage of the "rape of Nanking"; "comfort women," the subject of a resolution passed by the American House of Representatives; or any number of contentious contemporary issues, including maritime explorations around disputed territories, such as Tokdo/Takeshima or the Senkaku/Diaoyudao islands.

At the same time, something deeper and longer-term in orientation is going on. Japan is reacting to changes and demands in the region, most of them indirectly reflecting the economic and diplomatic rise of China. However, these reactions do not stem primarily from pressure or inducement from China itself, which until recently remained ambivalent about Sino-Japanese relations and regional integration. The influential Japanese business community and related parts of the bureaucracy are laying the ground for more regional cooperation and preparing for a more multilateral future. Their stance is driven by the perception that regional trade and investment are highly integrated and that pressures to cooperate on financial and monetary affairs will accelerate as the dollar depreciates and gradually loses its centrality in East Asia. The most immediate concern of the business community is signing a series of high-quality bilateral economic partnership agreements. But business leaders also see a need to accommodate long-term moves toward some kind of East Asian community and a more multilateral international order (Noble 2008). This development

is consistent with the argument of Jacobs and Page (2005) that business elites exert a disproportionate influence on foreign policy. It can also be seen as supporting Solingen's (2005) contention that outward-oriented coalitions are more likely to support regional integration.

### *Hostility and Skepticism toward China and Asia*

Despite the recent, and possibly temporary, upturn in Sino-Japanese relations, the degree of suspicion, hostility and fear (particularly on the Japanese side), cannot be underestimated. For the Japanese public, China conjures up images of authoritarianism, military expansion, crime, insecurity, environmental destruction, and clashing collective memories. Specific conflicts, such as the Shenyang Consulate issue of 2003 (Wan 2003) and the anti-Japanese riots of 2005 (Lam 2005) pile on top of recurring tensions over visits to Yasukuni Shrine, the editing of history textbooks, and incursions by Chinese submarines into Chinese waters. The Japanese public is particularly sensitive to a number of issues that receive less foreign press coverage but are favored topics of local media reports, such as economic competition from inexpensive and sometimes unsafe Chinese products and the grossly exaggerated role of foreigners in Japan's energetically hyped but largely nonexistent crime wave.<sup>1</sup> Public attitudes reflect, in part, a downward spiral (at least until very recently) of aggressive and even hostile comments by the governments or leading politicians of the Northeast Asian countries. Starting in the mid-1980s, Japanese attitudes toward China deteriorated sharply, particularly following the repression of protestors near Tiananmen Square on June 4, 1989 and the anti-Japanese demonstrations of 2005. In 2007, only 34 percent of Japanese respondents reported a feeling of "affinity" (*shinkinkan*) toward China, and only 26 percent regarded relations between the two countries as good (Naikakufu 2007).



In contrast, Japan has experienced fewer direct conflicts with Southeast Asian countries since the end of the Vietnam War. Association of Southeast Asian Nations (ASEAN) countries have had little occasion to voice criticisms of Japan, and popular images of Southeast Asia in Japan have steadily improved. By 2007, 51 percent of Japanese adults reported that relations with Southeast Asia were good, and 44 percent claimed to feel a sense of affinity.

Two points about these opinion polls deserve to be highlighted. First, foreign relations generally drive popular attitudes, which helps account for the otherwise puzzling volatility in "affinity." Second, with regard to most countries and regions, such as North America, Europe, and Southeast Asia, the state of bilateral relations receives significantly higher ratings than does affinity; the only exceptions appear to be small and friendly Australia and New Zealand, which elicit reports of both positive relations and affinity from about two-thirds of the Japanese public. In contrast, when it comes to China, affinity clearly exceeds perceptions of bilateral relations, suggesting that Japanese do, in fact, feel a degree of underlying regional identity with their Northeast Asian neighbors despite deep political conflicts.

Opinion surveys specifically about Japanese attitudes toward the East Asian community turn out to be surprisingly difficult to find (for a review of survey research in the region, see Minato 2008). One online poll taken in July 2006 reports overwhelming opposition, with negative opinions outweighing supportive views more than two to one.<sup>2</sup> The results may just reflect the generally right-wing slant of on-line polls and the blatant bias of the wording, but, to some degree, they probably also reflect a tendency in Japan to see the idea of East Asian regional cooperation as inevitably driven and dominated by China.

Certainly, anti-Chinese sentiment is so pervasive on the Japanese right as to constitute an obsession. For example, in the

twelve issues of the widely circulated journal *Seiron* that Fuji-Sankei published in 2006, the lead article (the article printed on the spine of the journal), featured the word “China” seven times, always pejoratively. The orientation of Hiramatsu Shigeo, a specialist on the Chinese military featured regularly in *Seiron* and other conservative journals, emerges clearly from the title of his 2006 book *China will Annex Japan* (Hiramatsu 2006). Just in case any readers remained in doubt as to the gravity of the perceived threat facing Japan, the next year he published a new volume entitled *China Plunders Japan* (Hiramatsu 2007). As the publisher explains, “This book analyzes China’s plot not just to plunder Japan’s land and waters but to take its economic power, its technological power, and its very soul.”<sup>3</sup>

Although it is tempting to view such works as the product of extremist crackpots, their authors are not necessarily marginal figures, nor is their social impact trivial. Hiramatsu was director of the third research office at the National Institute of Defense Studies and a professor at Tokyo’s Obirin University. Tokyo University Library holds 26 of his works in its collections, most of them published by the respectable mainstream publisher Keisoushobo. *China will Annex Japan* racked up strong sales for a hardcover book on foreign policy and defense: as of March 1, 2007, it ranked 9,688 out of the millions of titles listed on the Japanese site of Amazon.com. Nor are Hiramatsu’s hyperbole and paranoia unique. The head of the Liberal Democratic Party’s (LDP’s) Policy Affairs Research Council recently told reporters that,

[i]f Taiwan goes funny, in the next twenty years or so we may become the number 20th-odd province of China. ... After the Shanghai World’s Fair ends in 2010, China may raise its head in an unpeaceful way. If Taiwan were to fall completely under its control, it is inevitable that Japan would be next.

(*Mainichi Shimbun*, February 26, 2006)

In contrast, conservatives have paid relatively little attention to the concept of East Asian regional cooperation, perhaps because they reject the idea out of hand. Conservative commentator Yayama Taro devoted a *Sankei Shimbun* column (December 22, 2005) to the subject, warning readers: "Don't be taken in by China's 'East Asian Community' ploy." Development economist Watanabe Toshio sounded a similar warning about the dangerous, bizarre, fantasy of an East Asian community (Watanabe 2005:206–19), but whereas center-left journals such as *Ronza* provided considerable coverage and *Sekai* published a special issue (January 2006) on the occasion of the first East Asian summit, the conservative journals largely ignored the summits.

If the Japanese government has not adopted a stance as negative as that of conservative commentators or even the mass public, it has certainly expressed great concern about developments in China. The lack of transparency and continuing double-digit increases in Chinese military spending, occurring at a time of budgetary constraint in Japan, come in for special criticism as evidence of hostile intent, as do reported incursions of Chinese vessels into areas claimed as territory or exclusive economic zones by Japan (Boeicho 2006:41–42, 140). China's successful test of its ability to destroy a satellite in space raised alarm in both Tokyo and Washington, not least because the tardy response by China's leadership raised doubts about civilian control of the military in China.

These views are certainly amenable to contestation. Chinese military increases come after a long period of restraint, and the share of military spending in government outlays has remained flat, just as Japan's "one-percent of GDP" cap allowed large increases in military spending during Japan's rapid growth period. Moreover, China's increased military investments also reflect its enormous size, its myriad security concerns, and the rapid rise in civilian salaries. Whereas Japan remains under the

protection of the world's dominant military power, China views the United States as a security threat, and its own defense budget is dwarfed by that of the US. Furthermore, Japan and especially the United States also have numerous "extra" allocations for defense that are not always transparent (cf. Kaplan 2007). Moreover, Chinese military "incursions" typically involve contested territory or economic zones. Although the United States and Russia have also destroyed satellites and resisted Chinese calls to demilitarize space, these considerations are virtually never aired in Japan. Yet as long as China's military capacity increases rapidly, includes missiles tipped with nuclear weapons, and remains under the control of an authoritarian government with an historical grudge (justified or not) against Japan, concern in Japan is unlikely to abate.

Nor is the United States government inclined to allow those concerns to fade. In response to pressure and encouragement from the United States, Japan has embarked on a series of policy revisions designed to support American military activities and particularly to help counter China. Japan under Abe worked to redefine the Constitution to justify collective defense, and eventually to revise the constitution itself. The United States has explicitly named the last as a prerequisite for Japan to qualify for a permanent seat on the UN Security Council (Wu 2006).

Since about 2003 Japan has routinely cloaked references to regional cooperation with invocations of universal values of democracy, liberalism, and human rights. Japan has exhibited little evidence of introspection on what exactly might constitute liberalism or how to export democracy and apparently not the least attention to the government's own polls, which show that only one Japanese in five puts priority on basing foreign policy on promotion of democracy and human rights—fewer than half the respondents who favor traditional themes of promoting peace, resolving regional disputes, and attending to global problems such as environmental protection (Naikakufu 2007: 41).

Japan's recent selective focus on democracy and human rights represents a break with decades of promoting relations with Southeast Asia and other regions where fully democratic (much less liberal) regimes were (and still are) far from a majority. No doubt the sentiments of Japanese leaders are sincere. In a 2006 meeting between Foreign Minister Aso Taro and Indonesian Vice President Muhammad Jusuf Kalla, for instance, Aso took the virtually unprecedented step of raising human rights issues with a major regional trade partner and supplier. All the same, it is clear that "universal values" have come into favor largely as a tool to delegitimize China and justify Japan's position of leadership in Asia (Green 2006:106–8), and that their invocation remains tentative and selective (Katsumata 2006).

In sum, Japanese public opinion demonstrates considerable skepticism if not hostility toward China. The rising military capabilities of China and the aggressive responses of the American and Japanese governments have contributed to a rising cycle of distrust and fear. Despite recent efforts by the Japanese and Chinese governments to calm the waters, public opinion remains at best guarded. To the extent that they are aware and have an opinion, Japanese citizens apparently have mixed to jaundiced views of regional cooperation, while most academics have been skeptical about the prospects for regional integration.

### *China stands up (yet again)*

Despite widespread uneasiness in Japan, the issue of cooperation with China and Asia refuses to go away. After a relative lull in the late 1990s, Chinese economic growth accelerated again just as China entered the World Trade Organization (WTO) in late 2001. China became by far the largest supplier of imports to Japan. The weakness of domestic demand after the bursting of the bubble economy made Japanese firms increasingly dependent on exports. In 2007, for the first time, Japanese exports to China (including Hong Kong) surpassed exports to the United

States. Asked to cite the most important challenge of their work in China, Japanese corporate and government officials in China immediately cited the fact that major Japanese companies operating in China now receive more than half of their revenues from the domestic market and expect that share to continue rising steadily (author interviews in Beijing, November 2006 with Japan External Trade Organization [JETRO], Japan Automobile Manufacturers Association [JAMA]). With continued growth, revaluation of the yuan, and a partial shift from investment to consumption, China is on track to replace the United States as a source of marginal growth in global consumption by 2014 (Garner 2005).

As recently as 2001, Japanese companies earned 76 percent of their profits at home, 12.4 percent in the Americas, and 6.7 percent in Asia-Pacific. By 2005 the home market share had declined to 70.8 percent, despite a strong recovery in corporate profits, whereas the Asian-Pacific share almost matched that of the Americas, 10.0 percent to 10.8 percent. Despite dissatisfaction with inadequate protection of intellectual rights, concerns about rising wages and decreasing tax breaks, and tentative evidence that some firms are seeking to avoid putting all of their baskets in one market by diversifying to Vietnam, Japanese firms remain overwhelmingly more interested in expanding their activities in China than elsewhere (JETRO 2007:6, 8).

Initially, skeptics wondered whether China could withstand the shock of entering the WTO, and if it would abide by the unprecedentedly draconian conditions under which it was admitted (Lardy 2002). Predicting the demise of China or its economy has been a boom industry in Japan. Perhaps the most telling is a defiant text by the extraordinarily prolific and rabidly anti-Chinese writer, Ko Bunyu (Huang Wenxiong), a Taiwanese resident of Japan. After predicting China's collapse in 1989 and renewing his bet in 1994, he titled his third version *Even So, China will Collapse* (Huang 2004).

For Japanese business leaders, though, China's extraordinary economic performance after entering the WTO and its successful combination of rapid growth with macroeconomic stability suggest two things. First, despite all the challenges facing China, underestimating the resilience of the Chinese economy and the rule of the Communist Party could be costly. Second, the Chinese economy has grown so important to Asia and the world that it is not in Japan's interests for China to collapse. For Japan's neighbors South Korea, a vital if occasionally prickly ally, and Taiwan, China is the largest export market and the major target for direct foreign investment.

If the rise of China has combined opportunity with threat, it also carries important implications for Japan's vital relationship with ASEAN. The re-ignition of Chinese growth raised fears that ASEAN would lose foreign direct investment and export markets, or at the least that the speed of Chinese entry would create losers as well as winners and force jarring adjustments in neighboring economies in the process (Eichengreen and Tong 2006; Ravenhill 2006), complicating life for Japanese investors. Governments in ASEAN feel the need for economic and political balancing and developmental assistance so that they can engage China without being overwhelmed by it. Thus they welcome a role for Japan as a balance even as they reject efforts to contain China.

### *Japanese Domestic Politics and Regional Cooperation*

Japanese political leaders have consistently endorsed the principle of East Asian community. Prime Minister Hashimoto Ryutaro's announcement of a "Hashimoto doctrine" during a 1997 trip to ASEAN countries inadvertently contributed to the creation of ASEAN+3. Five years later, on the occasion of another Southeast Asian visit, Prime Minister Koizumi delivered an "extraordinarily important" policy speech in Singapore (Tanaka

2005:57). The day after signing with Singapore Japan's first economic partnership agreement (EPA), Koizumi proclaimed,

[o]ur goal should be the creation of a "community that acts together and advances together." And we should achieve this through expanding East Asia cooperation founded upon the Japan-ASEAN relationship. ... The first step is to make the best use of the framework of ASEAN+3.<sup>4</sup>

The LDP not only accepted this vision, but ran on it. Item 107 of the party's electoral manifesto for the 2005 election to the House of Representatives committed the party to "exercise solid leadership in 'Asian diplomacy': we will improve and strengthen relations with such neighboring countries as China and South Korea and promote the concept of an Asian 'community.'"<sup>5</sup> In a keynote address to an association of Asian political parties held in Seoul in 2006, the director of the LDP's international division received a "magnificent" round of applause for his explication of the LDP's approach to furthering the creation of an East Asian Community.<sup>6</sup> Incoming Prime Minister Abe advocated active Japanese leadership to promote East Asian cooperation, while Ministry of Economy, Trade, and Industry (METI) Vice-Minister Watanabe Hiromichi advanced the Ministry's line that foreign policy toward Asia and other dynamic regions, along with enhancement of productivity and innovation, constituted the three pillars of Japanese economic policy (statements at House of Councilors Committee on Economy, Industry, and Employment, November 8, 2006).

Differences of emphasis are not hard to find, of course. Kyuma Fumio, head of the Japan Defense Agency, promoted the idea of incorporating political dialogue and persuasion into the East Asian Community (EAC) concept (House of Councilors Committee on Diplomacy and Defense, November 30, 2006). In contrast, Takebe Tsutomu, LDP Cabinet Secretary at the end of the Koizumi administration, viewed EAC largely through the



prism of countering China. He emphasized the need to include India and Australia to balance China, staunchly defended Koizumi's visits to Yasukuni, brushed off Korean concerns about Japanese foreign policy, and expressed great satisfaction at the enthusiastic attitude toward Japan in Vietnam (press conference at LDP, August 22, 2006).

Foreign Minister Aso Taro, also known for his hard-line stance toward China, chose to make a virtue of necessity. While defending East Asian engagement and socialization against skeptics, the perennial prime ministerial candidate argued for mobilizing Japanese resources to garner recruits for a universal values campaign along a vast Eurasian "arc of freedom and prosperity." He championed Japan's leadership and experience and its ability to serve as a "thought leader" for the region. Despite his constant talk of universal values, he emphasized that Japan would not impose its values on others and would not always completely agree about values even with the United States (House of Representatives Foreign Affairs Committee, December 13, 2006).

Other parties also have largely supported the concept of community building in East Asia. The LDP's coalition partner, Komeito, traditionally has had closer ties to China, so emphasizing East Asia comes naturally (House of Representatives Budget Committee, October 10, 2006). The opposition Democratic Party of Japan has been highly supportive of the concept in principle, though it insists that agreements with other Asian countries not lead to an influx of foreign workers competing with its constituents (House of Representatives Plenary Meeting, October 26, 2006).

*The Japanese Business Community:  
Preferences, Organization, Influence*

Milner (1988) notes that multinational corporations tend to resist protectionism, since it reduces their ability to maneuver

freely in the global marketplace to access inexpensive resources. Frieden and Rogowski (1996) add a simple hypothesis to predict the stance of political interests to economic integration: owners of factors of production that are in abundance at home, such as capital or innovation-intensive industries in rich countries, or unskilled labor in poor countries, are likely to favor expansion of trade and investment as an opportunity to attain higher returns, whereas owners of scarce factors, such as low-skilled labor in wealthy countries, are likely to resist the intensified competition (for historical evidence comparing general and sector-specific factors of production, see Hiscox 2001). Thus, it is not surprising that in the United States and the United Kingdom, large financial firms and oil companies, which have global business operations and have developed a strong competitive edge, have been among the major backers of global liberalization. But globalization is not always the primary concern of firms with cross-border operations. Rugman (2005) shows that most “multinational” firms remain overwhelmingly national, earning the vast majority of their sales and profits from one country or region, or at most two. This helps explain Chase’s finding (2003) that multinationals often support regional trade accords rather than insisting on integration only at the global level.

How well do these approaches predict the preferences of Japanese firms toward East Asian integration? With a few modifications, quite well. As Frieden and Rogowski (1996) would expect, farmers, small businesses, and organized labor, all of which represent scarce factors in Japan, are highly skeptical of measures to open the Japanese market in return for greater regional integration.

Unlike the case in the Anglo-American countries, however, the financial sector, and particularly the banking sector, has not been an active proponent of regional integration. The solution to this apparent puzzle is straightforward. Notwithstanding the

massive hoard of domestic savings that appeared in the 1980s to give Japanese banks a crushing advantage, the financial sector has not developed the skills and structures to compete effectively in the rest of Asia, much less in advanced markets. Japan has an abundance of capital, but not an abundance of financial skills. After the bursting of the financial bubble, nonperforming loans hobbled Japanese banks, which sharply contracted their loans to Asia during the Asian financial crisis. The record-low interest rates used to combat the recession then undermined the profitability of Japanese banks. Megamergers designed to sop up excess capacity also delayed the introduction, integration, and upgrading of the information technology necessary to compete with American and British banks. Japanese banks lagged far behind in securitization and other efforts to move beyond simple deposit-and-loan operations. Only after overcoming the nonperforming loans problem in 2003 and 2004 did Japanese banks recover profitability and begin to re-engage Asia, though still not quickly enough to keep pace with the expansion of Western banks. On the eve of the Asian financial crisis, Japanese banks accounted for almost one-third of all credit extended to Asia by banks reporting to the Bank for International Settlements (BIS); in 2005 the Japanese share barely topped 10 percent (Takayasu 2006:26).

Japanese banks cannot afford to ignore China and Asia forever, of course. Already there are some signs of heightened engagement. Japanese banks are rapidly expanding their support for the activities of Japanese investors in China (author interview, JETRO, Beijing, November 2006). In mid-2006, Bank of Tokyo-Mitsubishi UFJ, which controls more assets than any other bank in the world, invested 180 million dollars to acquire a stake in Bank of China (press release, June 1, 2006). At the end of the year, it took advantage of the opening of the banking market specified under China's WTO entry to establish a new Chinese subsidiary. At the same time, Sumitomo Mitsui Bank expanded

its network in China and established a new China division separate from its Asia division. Its research and consulting subsidiary, Japan Research Institute, pumps out a stable of publications on the Chinese and Asian economies. On balance, though, Japan's bank-dominated financial system is just beginning to reestablish a serious presence in Asia, and especially in China, and lags far behind Western financial firms such as HSBC, Bank of America, Goldman Sachs, and Credit Suisse.

Similarly, energy firms play only a modest role as advocates of regional integration (Tanabe, ed. 2004). Gas and electricity companies, particularly Tokyo Gas and Tokyo Electric, see cooperation with other regional countries as a way to maintain their bargaining power as the world market for liquefied natural gas expands beyond its initial base in Japan and Asia. Although the Northeast Asian countries compete vigorously for gas supplies, they can sometimes act as allies when it comes to pipelines and expensive facilities. Japanese gas users, in particular, have been caught between instabilities arising from energy deregulation and cross-entry at home and the need for long-term contracts in the capital-intensive gas business. Japanese companies also have a huge technological lead in energy efficiency and clean plant technology, which they hope to sell to China and the rest of Asia, although lack of funding and concerns about intellectual rights protection have largely impeded big deals so far. In addition, Japan lacks the global oil companies that are so important in orienting the United States and the United Kingdom to world markets. Much more than gas, oil is a genuinely international commodity, the biggest producers of which are in the Middle East and Central Asia, well to the west of East Asia. Government-backed attempts to match the oil majors have been oriented to production rather than distribution and have not proven successful.

Rather than banks and energy concerns, the most prominent Japanese supporters of regional integration are integrated

trading houses (*sogo shosha*) and manufacturers. The *shosha* have been active in Asia for well over a hundred years. They are particularly active in supplying imports of energy and other commodities. In less developed countries, such as Thailand, Indonesia, or China, they play an even more important role in organizing regional trade in components and raw materials. Wherever markets are imperfect and institutions such as banks and capital markets immature—as in most of the developing world—*shosha* find profitable opportunities.

*Shosha* executives have long served as leaders in major business organizations and have enjoyed intimate contacts with government. *Shosha* have worked in an informal and low-key manner throughout Southeast Asia (Katzenstein 2005). In relations with China, *shosha* have taken a somewhat more open role, actively combating “China threat” arguments in Japan, and urgently calling for Japan to catch up in China:

Japanese companies should be more concerned about the possibility that they [unlike Western firms] will be left outside the growing market in China rather than a hollowing-out of domestic industries due to increased investment in China.

(Japan Foreign Trade Council 2003:9)

The most active supporters of cooperation in the East Asian region are Japan's manufacturing firms, especially automobile producers and electronics firms. The steel industry, an important supplier to both, but especially to automobile producers, is another force for integration. Auto and electronics assemblers sell a growing share of their output in Asia, and they have developed an intricate division of labor in Asia, increasingly centered on China. Textile firms also are quite regionalized, and chemicals are moving into Asia as well, but in general those sectors are much less economically dynamic and are still at least as concerned with serving and protecting the home market as exploiting opportunities in Asia. Even Japan's famed

electronics industry has struggled recently, failing to keep up with American firms in either innovation (Anchordoguy 2005) or the flexible, efficient use of Asian production networks (Ernst 2006). A good indication of the relative interest of Japan's business circles in regional integration comes from the membership of the Council on East Asian Community, whose fifteen corporate sponsors include Tokyo Electric Power, Toyota, two steel-related companies, three *sogo shosha*, several electronics firms, and a couple of miscellaneous financial institutions, including the politically active Orix, but no banks.<sup>7</sup>

By and large, Japanese firms make their case on regional integration by way of industry associations and especially the two main peak associations, Nippon Keidanren and Keizai Doyukai. As the primary agglomeration of Japan's largest firms and major industry associations, Keidanren has long enjoyed privileged access to Japan's ruling party and its prime ministers. Its elaborate organizational structure covers virtually the entire Japanese economy and a wide range of policy areas. Keizai Doyukai is much leaner. Its membership of individual executives rather than companies and associations gives it greater freedom to speak boldly at the cost of a degree of representativeness and accountability.

The influence of the peak associations has fluctuated over time. From roughly 1960, Japanese fiscal, regulatory, and financial policy tilted away from big business to favor the small businesses and independent professionals that provided the primary backing (along with farmers) of the ruling party (Calder 1988). In response to incessant criticisms of incestuous relations between government and business, in 1993 Keidanren relinquished its role of establishing quotas for political campaign contributions from large firms and industry associations to the ruling party. Combined with political instability and weak profits, contributions from leading firms sagged. A number of observers declared that the once formidable influence of Keidan-

ren had declined as the economy grew more diverse and internationalized (Mori 1986; Vogel 1999).

Starting from the mid-1990s, however, Keidanren began an active and effective counterattack on policy issues, and, in 2002, it resumed political contributions. Once dominated by the heads of domestically-oriented industrial firms, leadership of the Keidanren turned to companies from the internationally traded goods sector, though service firms remain underrepresented. Toyoda Shoichiro headed Keidanren from 1994 and 1998, and his successor as chairman of Toyota, Okuda Hiroshi, assumed the top spot in 2002. Keizai Doyukai, once the butt of puns on its name (“*What* kind of association?”) also staged a strong resurgence. The top figures at Keizai Doyukai were not only externally oriented but were often trained in the United States or stationed there for long periods; many of them hailed from the tiny share of Japanese companies with a large or even majority ownership by foreign shareholders. Not surprisingly, they staked out a more consistently and aggressively neoliberal line than did Keidanren (Noble 2006). In addition to Keidanren’s not inconsiderable staff of policy analysts, the two organizations enjoy tight links with a dense network of academics, experts, and government officials, particularly at METI and the Ministry of Finance (MOF).

With the reorganization of the Japanese government, pioneered by Prime Minister Hashimoto in the late 1990s and implemented from 2001, the peak associations gained a valuable new point of institutional access. The new Council on Economic and Fiscal Policy (CEFP) consists of up to ten members, as many as half of whom can come from outside of the government. Under Prime Minister Mori, two economists and two business executives assumed the private sector posts, an allocation unchanged under Prime Ministers Koizumi, Abe and Fukuda. The first two business executives appointed were Toyota’s Okuda Hiroshi, and Ushio Jiro, founder of Ushio Corporation, a large

producer of halogen lights and other electrical and optical products, and chairman of Keizai Doyukai from 1995 to 1999. With the inauguration of the Abe administration, the two private sector posts passed on to Niwa Uichiro of the *shosha* Itochu and Mitarai Fujio, chair of Canon and head of Keidanren, thus solidifying the sense that one of the CEEP posts would automatically belong to the preeminent peak organizations. Both Mitarai and Niwa had been long-time residents of the United States (23 years and 9 years, respectively), and both had earned reputations as tough, American-style managers.

The power and prestige of the auto and electronics industries are important assets for the peak associations and for Japanese business, whose reputation took a heavy hit during the Heisei recession. Toyota and Canon, in particular, appeal to a wide range of constituents: highly profitable global leaders in their fields, no one can accuse them of being crony capitalists or minions of Japan, Incorporated. At the same time, their facility at manufacturing, high rates of investment in research, development, and design, and commitment to employment and corporate allies in Japan shield them from the usual criticisms leveled against neoliberal globalists.

Some analysts put more emphasis on the role of lobbying by specific Japanese firms and industries in pursuing EPAs and regional trade arrangements (Manger 2005; Solis 2003; Pekkanen 2005). Others, such as METI negotiator Sekizawa Yoichi (Sekizawa 2008) downplay the role of individual firms, instead highlighting changes in the overall economic environment, including the growth of unilateralist approaches to trade in the United States and gridlock at the WTO, and the effect of those changes on the thinking of Japanese agencies. On many issues, however—including the important role played by Keidanren, in which executives from Toyota have played a crucial role in recent years—analysts largely agree.



*The business community's policy proposals on regional cooperation*

The preferences and priorities of Japan's corporate circles regarding regional integration are transmitted in an impressive stream of reports and policy recommendations from Keidanren and Keizai Doyukai.<sup>8</sup> The two organizations generally advocate similar policies, although the former, with its greater resources, issues more reports, whereas the Keizai Doyukai often stakes out a somewhat bolder stance on economic reform. Their approaches are largely consistent with the policies of the LDP; indeed, it is not always easy to tell who is influencing whom. Not surprisingly, both lobby to liberalize labor markets, lift protection for agriculture, cut expenditures, and, if additional revenues must come from somewhere, increase taxes on consumption rather than on corporate or personal income. Both strongly support the US-Japan security alliance, and, in recent years, both have supported constitutional revision and enhanced defense capabilities. However, whereas Keidanren under Mitarai seems to have moved to the right, vigorously ratifying Prime Minister Abe's calls to inculcate patriotism and revise the constitution (Keidanren 2007a), Doyukai has, if anything, pulled back. Recent reports emphasize comprehensive security, human security, and multilateralism. They refer positively to pacifism, expressed some doubts about the American invasion of Iraq even before it turned into an obvious debacle, and simply call for "consideration" of constitutional revision (Keizai Doyukai 1999; 2004a; 2004b; 2006a).

When it comes to relations with China and East Asia, the stance of the business associations becomes clearer. Keizai Doyukai forthrightly, if diplomatically, opposed Prime Minister Koizumi's trips to Yasukuni shrine and repeatedly insisted that Japan take a comprehensive and diplomatic approach not just to Yasukuni but to historical consciousness and other regional issues. Chairman Kitashiro Kakutaro strongly endorsed Prime

Minister Abe's ambiguous but well-received pledge to Korea and China that he would deal with the Yasukuni issue "appropriately" (Keizai Doyukai 2006b; Kitashiro press conference, October 11, 2006). Keidanren did not issue an explicit statement calling on Prime Minister Koizumi not to visit Yasukuni, but, according to press reports, in 2006 Chairman Okuda engaged in a round of mini-shuttle diplomacy between Koizumi and Chinese leaders that may well have contributed to Koizumi's lower-key approach to his last visit as prime minister (wearing a business suit, refraining from entering the main hall, and professing to visit as a "private citizen," Kyodo, October 22, 2006).

In a joint "message" to the Japanese and Chinese governments, Keizai Doyukai (2006b) called for a forward-looking, "comprehensive strategic partnership" that could "advance together" on a variety of issues in East Asia and the world. The emphasis on Asia shows up in the committee work that is at the heart of the Doyukai's activities. In recent years, of the five regional subcommittees, the first covers Asia and the second handles China, the only country allocated its own subcommittee. *Shosha* executives have headed both subcommittees.<sup>9</sup> Similarly, Keidanren (2006a) advocates a foreign policy that "on the foundation of the Japan-US Alliance, unfolds a diplomatic and commercial strategy emphasizing the Asia-Pacific region."

The attitude of Keidanren, the business community, and the Japanese business-academic-diplomatic establishment toward East Asian integration is best revealed by examining the content and evolution of the report of the "Okuda mission" commissioned by Prime Minister Obuchi Keizo and delivered to the ASEAN+3 meeting in November 1999 (「アジア経済再生ミッション」報告書, 1999), and Keizai Doyukai's report advocating active creation of an integrated East Asian region (Keizai Doyukai 2006c). Okuda led a high-powered group of eight, including two respected economists, two prominent former

bureaucrats (Gyoten Toyo of the Ministry of Finance and Okamoto Yukio of Foreign Affairs), the chairman of Mitsubishi Bank, and Bank of Japan official Fukui Toshihiko, soon to be named vice chair of Keizai Doyukai and then governor of the Bank of Japan (BOJ). During its intensive eleven-day schedule, the mission officially met with nearly 200 people in South Korea and Southeast Asia.

As a response to the Asian financial crisis, it is hardly surprising that the Okuda Report recommends measures to monitor and moderate short-term capital flows and calls for strengthened Japanese aid and assistance. Similarly, the appeal for increased internationalization of the yen trods familiar ground, while the push for trade liberalization and free trade areas and EPAS is consistent with Japan's new campaign of bilateral liberalization and the EPA negotiations with Mexico and Singapore. Even the references to "the deepening of economic interdependence" are unremarkable. More surprising is the prominent appeal to the "common destiny of the Asian countries" and the emphasis on the importance of opening up not just Southeast Asia and Korea, but Japan itself, most notably to long-term inflows of "human talent" (人材), so that Japan would become "a country open to the people of Asia."

In retrospect, though, the most remarkable aspect of the report is what is missing: any reference to China. After the acceleration of growth and quadrupling of trade that followed China's accession to the WTO in 2001, that omission would not be repeated. By 2005, Kohara, still an official at the Ministry of Foreign Affairs (MOFA), published an elaborated version of the Okuda report (Kohara 2005), tellingly entitled *The East Asian Community: The Growth of Chinese Power and Japan's Strategy*, and draped with an effusive and affirmative blurb from Keidanren's Okuda. Kohara highlights the huge increase in regional trade integration and the influence of the North American Free Trade Agreement (NAFTA) and the European Union. He

ritualistically affirms the importance of ASEAN, virtually ignores Korea, and devotes most of his attention to a sympathetic recounting of China's recovery (復権) of its natural place as the center of Asia.

Kohara accepts that in the foreseeable future China's economic influence will match the United States globally, and that it will soon surpass that of the United States in East Asia, but rejects the possibility that China could create a hegemonic regional order. While repeatedly reaffirming the crucial role of the US-Japan Alliance, he also periodically chides the United States for its hegemony, unilateralism, and market fundamentalism. He acknowledges the severe governance problems facing ASEAN and even the EU, but he rebuts the argument that Asia's diversity renders regional cooperation impossible. Instead, he argues for the primacy of political will and the possibilities for evolutionary expansion of cooperation. And while advocating functionalist "open regionalism," including participation by India and perhaps even the United States, he accepts that ASEAN+3 will be the key organizational representation of regional activity.

Six months later, shortly after the first East Asian summit, Keizai Doyukai published "Recommendations for the Realization of East Asian Community" (Keizai Doyukai 2006c). The report notes the "power shift" accompanying the rise of China and the rapid increase in regional interdependence, and asserts that diplomacy toward East Asia must form a "third pillar" in Japanese foreign policy, after the United Nations and the US-Japan Alliance. The report calls for the development of an "equal partnership" with East Asian countries, including a comprehensive effort to reduce problems of contending historical consciousness. It emphasizes that the failure of ASEAN countries, and not just China and Korea, to support Japan's bid for a permanent seat on the UN Security Council, even after all the aid Japan has given them, indicates a need to accentuate efforts to cultivate trust through evolutionary cooperation in a variety

of functional areas, beginning with economic liberalization. It also avers (twice) that it will be important to reduce the opposition of the United States, whose security blanket remains essential to East Asian stability, by maintaining and upgrading Asia-Pacific Economic Cooperation (APEC), and supporting flexible, functional participation of nonregional countries.

The Doyukai report holds fast to a set of basic philosophical precepts (理念), including democracy, market economy, and basic human rights, but it accepts that for the time being the precepts are values and goals rather than prerequisites for cooperation. It notes that even in Europe, regional cooperation has taken fifty years, and expects that East Asia will have to develop its own, unique form. Thus, the immediate task is accelerated liberalization and movement toward bilateral and regional EPAs, which will build up trust and patterns of cooperation at the same time that they happily facilitate the production networks of the Japanese corporations that belong to Keizai Doyukai and Keidanren, all the while keeping the support (or at least avoiding the opposition) of the United States. At any rate, the report reasons, the rapidly increasing size and integration of East Asia dictate that Japan must take an active part in creating an East Asian community, and improvement of Sino-Japanese relations is a prerequisite to attaining that goal.

*Asian economic integration, in practice, will be catalyzed by  
autos and steel*

Two interrelated themes stand out in these reports: the growing centrality of East Asia, and the need for an aging, slow-growing Japan to create a more dynamic, flexible, and innovative economy. The business associations hope that linking Japan more closely to a dynamic Asia can reignite Japanese growth. The most immediate technique is signing economic partnership agreements that facilitate the growth of Japanese firms, particularly in industries such as autos and electronics that

have developed elaborate production networks in Asia that would gain from increased economic openness and integration. EPAs are not limited to East Asia, of course—Mexico was a crucial early case—but Asian countries have been the most numerous and important partners for Japan, and EPAs are intimately linked to other regional developments, such as the ASEAN Free Trade Area (AFTA). The auto industry, in particular, is central to Japan's economy, and its leaders, as noted above, have been centrally ensconced in the policy-making process. Even after Okuda Hiroshi stepped down as head of Keidanren and as one of two private members of the CEEP, his successor at Toyota, Cho Fujio, served as a vice chairman of Keidanren. The share of Japanese automobile production occurring outside Japan has been increasing for years and is now over half; among the overseas production areas, Asia surpassed North America in 2006 (Japan Automobile Manufacturers Association 2007:68)

In the 1960s and 1970s, protectionism in Southeast Asia forced Japanese auto firms to establish assembly operations in each local market. Frustrated with the small volumes and inefficiency, the Japanese auto makers constantly pushed for liberalization and were important forces behind the ASEAN free trade agreement (AFTA) and various industrial complementarity schemes. Initial progress was slow, but the Asian financial crisis accelerated the rate of liberalization, as did the rise of China as an alternative receptacle for foreign investment and even as a competing site for export of small vehicles. Where Southeast Asian countries once dragged their feet on AFTA and carved out numerous exceptions, particularly in autos, after the crisis they began to accept that long-term liberalization was inevitable (Legewie 2000).

Japan's EPA negotiations pushed the process further. Although details vary from country to country (and as of mid-2008 had not entirely been completed in the cases of Indonesia), the basic outline is similar:<sup>10</sup> tariffs on most parts are eliminated

or reduced immediately, while most others face elimination within five to seven years, along with most tariffs on steel imports (covering 50 percent of Japanese steel exports to Thailand, and 63 percent to Malaysia). Tariffs on remaining parts and assembly are to expire by 2015 (in a few cases, assembly operations are subject to future negotiations). In other words, in return for maintaining a few more years of protection for local assembly operations, most of which are owned by Japanese automakers, the ASEAN countries have agreed to a radical liberalization of trade in auto parts and crucial components, such as steel.

If Japanese auto firms have indirectly driven the bilateral and regional process of integration in Southeast Asia, in China they have largely reacted to multilateral and domestic initiatives: WTO entry and Chinese industrial policy. The move of Japanese auto firms into China was slow and reluctant, despite a request for assistance from Deng Xiaoping at the end of the 1970s. As a result, they fell behind Volkswagen and then General Motors. In the late 1990s, Toyota established an initial base in Tianjin, and in 2002 Nissan took a leading stake in Dongfeng, then China's second largest auto producer. Since then, the major development has been the conglomeration of Japanese firms in Guangdong, a rich coastal province far from the central government. China now hosts more Japanese parts firms than does the United States, and Guangdong is overtaking the traditional leader, Shanghai. In 2007, China produced nearly nine million motor vehicles, surpassing Japan as the second largest auto market in the world. By conservative estimates, it will pass the United States within a decade.

Building on their overall competitive strengths, Japanese auto firms are gaining market shares in China, and now control about one-third of the market. Led by Honda's Guangzhou operation, they have already begun small-scale shipments to Europe and Japan, and they see more exports as inevitable.

Japanese auto manufacturers express dissatisfaction with many aspects of the Chinese auto environment, including inadequate protection of trademarks, designs, and patents; excessive, arbitrary, and unstable regulation; controls on foreign investments and joint venture arrangements for assembly operations; and the threat of overinvestment by state-owned domestic companies. They also worry about instability in Chinese politics and Sino-Japanese relations. To counteract these dangers and tensions, they have worked to establish good relations with local governments—municipal officials in both Tianjin and Guangzhou see Toyota and other Japanese automakers as crucial contributors to the local economy—and to influence central governments in China and Japan. Concerns and reservations notwithstanding, they clearly recognize the current and future centrality of China to the auto industry and the necessity for regional cooperation (author interviews, Tianjin 2002; JAMA Beijing Office, November 2006).

For the Japanese steel industry, China is not only a crucial market, it is also an increasingly dominant force in the global industry. Through 1973, the Japanese steel industry was a remarkable success. Second only to the Soviet Union in size, it led the world in efficiency, quality, and technological sophistication. The oil shocks brought the growth of demand to an end, but after a brief lag, the Japanese industry responded effectively. It concentrated on higher-end products, shed tens of thousands of jobs without laying off core workers, and increased productivity. In the 1990s, it added almost no new capacity, but by focusing on high quality sheets for the triumphant Japanese auto industry, it further improved productivity and regained profitability.

At first, China was a positive factor for Japan. As China began to reform and open up, demand for Japanese steel boomed. A consortium led by Nippon Steel used Japanese loan aid to construct Baoshan, China's most advanced mill, in



Shanghai. The extraordinary expansion of the Chinese steel industry was mostly positive for Japan. True, China began to displace some imports from Japan, and, by bidding up the cost of iron ore and other inputs, it pressured Japanese steel producers, particularly smaller firms producing ordinary steel for the construction market. But a huge wave of demand for steel in China drove up prices for steel products throughout the world. Starting in 2003, "China demand" helped propel Japanese integrated steel producers to record profits.

By 2006, however, the rise of China, the consolidation of the steel industry in Europe, and the lack of investment in new plants at home made it clear that Japan was no longer in the driver's seat. China produced one-third of global output—three and one-half times as much as Japan—and emerged as the world's largest exporter. Although the Chinese mills remained far behind Japan in quality assurance, product diversity, and technological sophistication, they made steady progress, and increasingly supplanted imports of cold-rolled steel for auto bodies and appliances. Posco, the leading steel producer in South Korea and a vital alliance partner for Nippon Steel, rapidly expanded production of steel in China, mainly for autos.

The Chinese market has also become crucial for the Japanese steel industry. In 2004, Nippon Steel took a 38 percent share in a 6.5 billion yuan (roughly 850 million dollars) joint venture in Shanghai with Baoshan Steel (50 percent) and Europe's Arcelor (12 percent), to produce 1.7 million tons annually of cold-rolled coated sheets for car bodies. Demand has been so strong that the venture is likely to expand production. Baoshan is also producing cold-rolled steel on its own. JFE Steel, Japan's second largest producer, has sought for years to obtain permission to build an integrated mill in Guangzhou, near the Japanese auto joint ventures. In 2006, while waiting for the license, it took a majority share in a more modest 20 billion yen facility to cold-roll 400,000 tons of sheets per year,

mainly for auto (Development Bank of Japan 2006). In 2007 it announced plans to invest another 170 million dollars to produce 1.7 million tons of cold-rolled sheets and 400,000 tons of surface-treated steel, mainly for sale to Japanese-affiliated auto producers in Guangdong (*Asahi Shinbun*, March 7, 2007). Projects to reduce emissions and energy consumption by the gigantic Chinese steel industry, some funded by Japanese aid, are also important markets for Japanese steel producers and their suppliers. The bottom line, though, is clear: China is now the dominant force in the world steel industry. Japanese firms still enjoy a long lead in technology, but their domestic market is barely growing. Having sacrificed investment for profitability, their plants and workers are aging, and their technological lead is gradually shrinking. Already, their prosperity depends critically on how they interact with China.

*“Human talents” and vitality*

If one recurring theme in business reports on East Asia is the need to participate in Asian growth and integration, another is the desire to use Asian energy to ignite dynamism and innovation at home. Japanese business circles express acute concern about the aging population. They worry not only about the contractionary pressures on aggregate demand and tax revenues, but also about the need to upgrade the skills and outlook of the Japanese workforce. Without new blood, Japanese companies will find it difficult to maintain the vitality of the domestic workforce, much less supply the ever-growing army of Japanese subsidiaries in Asia with Japanese-speaking locals capable of supplementing and replacing managers and executives dispatched from Japan.

Keidanren’s 145-page report “Land of Hope, Japan,” issued in 2007, provides a detailed discussion of human capital. Though the report attracted considerable attention for its strong affirmation of Prime Minister Abe’s call to increase the teaching of

patriotism in the schools, fewer readers seem to have noticed its forthright proposals on the interchange of “human talents” (like most political discourse in Japan, the report studiously avoids words such as “immigration” and “foreign labor”; Keidanren 2007:29, 72, 105). Keidanren urges the government to (1) increase the share of foreign students in Japan’s tertiary education sector to the Organization for Economic Cooperation and Development (OECD) average of 6.5 percent from the current 2.7 percent; (2) create a system of permanent residency to provide greater stability for foreign workers; and (3) mobilize Overseas Development Administration (ODA) and other resources to expand Japanese language training overseas, and prepare foreign professionals in nursing and other fields to pass Japan’s professional qualifications. Keizai Doyukai has issued several reports with complementary themes, including one with the sprightly title “How to Make Japan a Place Where Non-Japanese People Want to Visit, Study, and Work” (Keizai Doyukai 2002).

Labor issues have been a significant component of EPA negotiations with the Philippines, Thailand, and Indonesia, but they are not the real interest of Japanese business associations. The Philippine agreement includes provisions for the entry of up to 400 nurses and 600 care givers (介護師) over the first two years. The agreement mandates three or four years of work experience (respectively) prior to arrival, stipulates that the workers be paid at least as much as equivalent Japanese health employees, and requires that the Philippine workers pass professional exams in Japanese to maintain their right to reside in Japan.<sup>11</sup> Interviews with Philippine nurses and care givers suggest that even if nurses could learn enough Japanese to pass the exams, most would find Japan less attractive than the United States or the Gulf states, where they could speak English and earn much higher salaries. The care givers, who have fewer international alternatives and face lower licensing requirements,

might find Japan somewhat more attractive (*Asahi Shinbun* October 26, 2006). Either way, the numbers look to remain extremely limited. Similarly, loosening entry requirements for Thai cooks, dancers, and boxers is unlikely to contribute significantly to stemming the decline in Japan's work force.<sup>12</sup>

The real interest of major Japanese employers does not lie in expanding the supply of relatively unskilled labor or even nurses. That is merely a minor price to pay for completing EPAS that facilitate Japanese exports. Indeed, to the extent that unskilled workers, such as the South Americans of Japanese descent, have a difficult time fitting into Japanese society, large employers would rather limit or decrease their numbers so as to reduce the social backlash against increasing the supply of the highly educated, Japanese-speaking foreigners they do want (Keidanren 2007b; Keidanren 2006b; *Newsweek International*, September 11, 2006; AP January 20, 2007). The business associations call on the Japanese government to increase funding for scholarships, student housing, and Japanese language training, and they urge Japanese universities to establish new English-based courses to attract foreign students. In early 2008, Prime Minister Fukuda and the education ministry responded with plans to triple the number of foreign students in Japan's tertiary education system to 300,000.<sup>13</sup> The business associations also urge member companies to undertake a variety of reforms both abroad and in Japan, including changes to evaluation and compensation systems, to make themselves more attractive to foreign students in China and Southeast Asia, who currently prefer to work for European and American multinationals.

In practice, the foreigners that fill Japanese employment needs at home and abroad overwhelmingly will be Asian, particularly Chinese. As of 2007, over 90 percent of foreign students in Japan came from Asia, almost 80 percent of them from Northeast Asia. Chinese alone accounted for over 60 percent of the total, up from 44.5 percent in 1999, while Koreans made up

another 15 percent. Chinese and Koreans also dominate the total foreign population in Japan and the most skilled visa positions, such as engineer, professor, and intracompany transfer. On average, Korean students master spoken Japanese most easily, whereas students from China and Taiwan (the third largest group at four percent) have the strongest command of *kanji*. Chinese and Koreans are far more likely to blend into Japanese society, dominating the rolls of newly naturalized citizens and spouses of Japanese citizens.<sup>14</sup> In sum, as Japanese corporations accelerate their search for foreign students and professionals who can enliven Japanese companies at home and ease communications between Japanese headquarters and overseas subsidiaries, they will find the majority of them coming from Northeast Asia, particularly China.

### *Conclusion*

After initial reluctance, the Japanese business community has embraced the notion that Japan must actively participate in a process of East Asian regional integration. Although many in Japan remain wary of China and skeptical of regional cooperation, executives from the steel, electronics, trade, and especially automobile industries, often working through Keidanren and Keizai Doyukai, and with the support of METI, have taken the lead in pushing for economic partnership agreements and regional cooperation within the ASEAN+3 framework.

The stance of Japanese business leaders responds to increasing levels of regional interdependence, most dramatically manifested in the Asian financial crisis, to regionalization in other parts of the world, and most of all to China's economic rise. China looms ever larger as a final market for Japanese firms and has exerted a powerful influence on vital Japanese trade partners in ASEAN and Korea. ASEAN countries see regional cooperation as a way to maintain their unity and bargaining strength and to draw in and socialize China rather than constrain and alienate

it. The Japanese business community has come to accept that while Asian countries want to balance China, they also want to balance other powers and will show China a degree of deference (cf. Vuving 2006). Japan has attempted to maintain an inclusive and flexible approach to membership in regional organizations and to infuse them with universal values of democracy, human rights, and market economics, but the business community has accepted that the ASEAN+3 countries will constitute the core of regional cooperation, and that values will serve as goals and norms rather than preconditions.

These conclusions raise some questions.

1. Is the Japanese business community really so pro-Asia and pro-China? Solis (2006), for example, reports that, in interviews, Japanese businesses express decidedly mixed feelings about China. While unquestionably true, this conclusion does not negate the larger point: whether or not the Japanese like it, China has already arrived as a major economic force. The key point is not the degree of emotional closeness (which, as noted above, has fluctuated widely), or the absence of conflict, but perceptions of interests and long-term trends. At one point, many Japanese half-wished China would fall apart. Some on the right wing still hold on to that dream, but businesses have concluded that the collapse of China is unlikely. Moreover, it would be extremely unwelcome now that China accounts for a rapidly increasing share of the exports of Japan and its most important trade partners.
2. Will business challenge the mainstream consensus on the necessity of maintaining and strengthening the US-Japan security alliance in favor of a more exclusively Asian orientation? The documents and interviews reveal no sign of that. Rather, the business community is trying to carve out more space for intensive interaction with China and a bit more room to maneuver vis-à-vis the United States. Busi-

ness leaders are trying to make regional institutions more useful and are certainly leaning toward engagement rather than containment. And the business community is reminding everyone that, in the long-run, Japan will have to adjust to a multipolar world.

3. Will East Asia drop the dollar and move toward a unified regional currency? The key variable is the Chinese financial system. If and when China can reform its banking system and build up at least a modest bond market, it should be able to rely more on flexible interest rates and less on quantitative controls and a rigid foreign exchange rate (Kroeber 2007). Once China loosens or breaks the quasi-peg to the US dollar, and liberalizes restrictions on capital flows, other Asian countries will be much more likely to cut away from the dollar, probably initially to a basket of currencies in which the Euro will compromise a much higher share, possibly even surpassing that of the dollar (Shimizu 2005; Chinn and Frankel 2008). The significance of the American market as a final absorber of East Asian exporters, already slowly declining, will drop sharply, and the yen and the yuan will play more important roles in East Asian commerce. Given the huge regional disparities in level of development and the reluctance of sovereign nations to relinquish monetary autonomy, East Asia is unlikely to converge on a single currency in the foreseeable future (cf. Cohen 2003), although many Japanese academics and policy-oriented economists point to currency unification as an ultimate goal (Shirai 2005). Still, pressure for regional cooperation on financial and monetary matters will increase (Eichengreen 2007). As the regional financial structure evolves, developments in Beijing will loom at least as large as those in Washington. Japanese businesses are preparing for that day.

### Notes

- 1 Amnesty International Japan, [http://secure.amnesty.or.jp/multiculture/f\\_crime.pdf](http://secure.amnesty.or.jp/multiculture/f_crime.pdf); Hamai and Ellis 2007.
- 2 <http://www.yoronchousa.net/result/1445>, accessed 7 February 2007.
- 3 <http://www.php.co.jp/bookstore/detail.php?isbn=978-4-569-69000-1>.
- 4 Japan and ASEAN in East Asia: a sincere and open partnership. 14 January 2002 (<http://www.mofa.go.jp/region/asia-paci/pmvo201/speech.html>).
- 5 [http://www.jimin.jp/jimin/jimin/2005\\_seisaku/12oyakusoku/index.html](http://www.jimin.jp/jimin/jimin/2005_seisaku/12oyakusoku/index.html).
- 6 [http://www.jimin.jp/jimin/daily/06\\_09/07/180907a.shtml](http://www.jimin.jp/jimin/daily/06_09/07/180907a.shtml).
- 7 <http://www.ceac.jp/e/e-membership.html>.
- 8 Available at <http://www.keidanren.or.jp/japanese/policy/index.html> and <http://www.doyukai.or.jp/policyproposals/list2008.html>.
- 9 <http://www.doyukai.or.jp/about/committee.html>.
- 10 [http://www.meti.go.jp/policy/trade\\_policy/epa/index.html](http://www.meti.go.jp/policy/trade_policy/epa/index.html).
- 11 <http://www.mhlw.go.jp/bunya/koyou/other07/07-2.html>.
- 12 [http://www.meti.go.jp/policy/trade\\_policy/epa/data/JTEPA\\_gaiyo.pdf](http://www.meti.go.jp/policy/trade_policy/epa/data/JTEPA_gaiyo.pdf), p. 9.
- 13 <http://www.kantei.go.jp/jp/hukudaspeech/2008/01/18housin.html>; [http://www.mext.go.jp/b\\_menu/shingi/chukyo/chukyo4/gijiroku/019/08020606.htm](http://www.mext.go.jp/b_menu/shingi/chukyo/chukyo4/gijiroku/019/08020606.htm).
- 14 Japan Student Services Organization 2007 (JASSO); <http://www.moj.go.jp/NYUKAN/nyukan67-4.pdf>.

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# 10

## *Japan's New Nationalism: The International and Domestic Politics of an Assertive Foreign Policy*

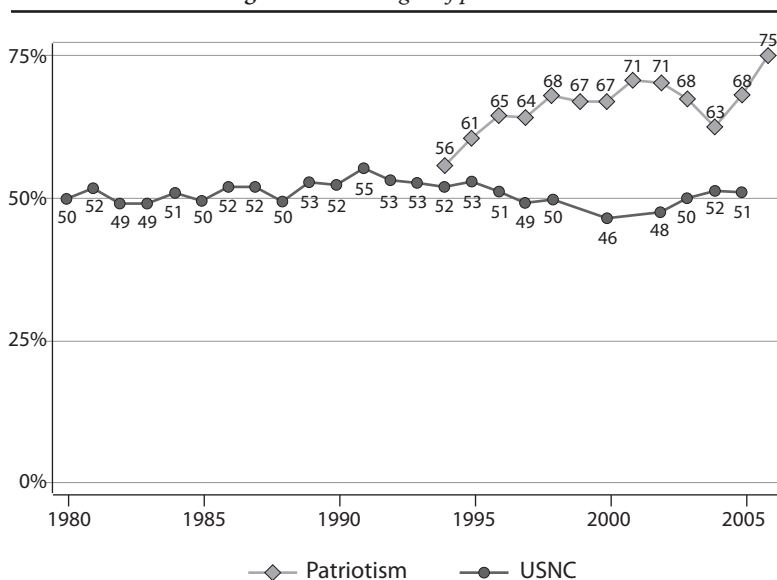
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The world has wondered what to make of the growing support in Japan for a more active foreign policy. Successive prime ministers have braved a barrage of criticism from China and Korea and paid annual visits to the Yasukuni War Memorial on August 15, the date of Japan's surrender in World War II and for Japan's war victims the most sensitive date on which such a visit might take place. Although Japanese public opinion is mildly critical of state visits to the shrine, the same public also shows increasing irritation with China's and Korea's steady drum beat of criticism of any sign of insufficient contrition, in shrine visits or in history text books, for Japan's wartime aggression fifty years ago. Popular comic books that bash China and Korea are also troubling signs (e.g., Kobayashi 1998; Yamano 2005). This chapter seeks to understand the nature of Japan's new nationalism and the reasons behind it. What, if any, is the connection between Japan's wrangles with its neighbors over wartime history and the Japanese public's growing inclination to throw off the paper constraints of the constitution's peace clause?

There are several explanations for the rising tide of nationalist feeling in Japan. The first stresses changes in Japan's

international environment that have put the Japanese public on edge, including the end of the Cold War, the rise of China as a military power, and North Korea's erratic behavior (e.g., Nakanishi 2006). A second explanation focuses on domestic politics. Some scholars think it is significant that the leadership mantle is passing to a new generation that is unencumbered by war guilt (e.g., Mikuriya 2007). Others note that the collapse of the Japan Socialist Party has muted a consistent voice against militarization (Yamaguchi 2004). Still others suggest that growing income inequality gives politicians an incentive to seek electoral support on nonmaterial grounds, such as national pride and identity (Chua 2003; Shayo 2005).

Figure 10.1 *Strength of patriotism*



Note: Percentage of respondents who regard themselves patriotic and support Japan's permanent seat in the U.N. Security Council.

Source: Cabinet Office (<http://www8.cao.go.jp/survey/index-sha.html>).



Both international and domestic levels of analysis afford trenchant insights into changing Japanese attitudes towards foreign policy. But there is a puzzling asymmetry in public opinion across different dimensions of foreign policy that remains unexplained. Although Japanese show growing interest in an active foreign policy, proxied in this figure by the percentage of respondents who think Japan should be a permanent member of the United Nations Security Council, this is not matched by a growing national pride or willingness to support the government's foreign policy, "right or wrong."

Japan's national pride, moreover, has not only remained stable over recent decades, but it is not particularly high by international standards. By Organization for Economic Cooperation and Development standards, Japanese citizens are lukewarm in popular support for their government "through thick and thin," and the percentage has changed very little in the past decade.

We begin our investigation of this puzzle with the observation that, although international events prompt assessments of changing security interests, voters develop opinions about these events in the context of national debates about desirable policy responses. We have grown accustomed to thinking of Japanese voters as uninterested in foreign policy issues because potential global threats in the past have not produced spikes in Japanese foreign policy interest since the parties on the left mobilized students to demonstrate against the US-Japan treaty revision in 1970. We suggest that voter passivity was the norm because Japan's electoral rules until 1993 gave politicians of the ruling party incentives to cultivate donors and loyal groups of voters with regulatory and personalistic favors rather than to appeal to them on the basis of broad policy issues. The electoral rule change in 1994 did two things. It is more efficient in interparty competition for single-member-district or party-list seats to take a stance on policies, domestic and international. The

competition between the two largest parties pushes platforms towards the middle of the political spectrum, creating a moderate bias. It is not so much that a resurgent Japanese national identity is being stoked, but the process of information provision and debate is drawing voters into foreign policy decision making in novel ways.

If our argument is right, Japanese voter support for an active security policy reflects a new public engagement with foreign policy issues, which has not been part of the scene in Japanese electoral politics for many years.

### *Sizing up Japanese Nationalism*

In common usage, nationalism means something like patriotism—an allegiance to one's nation state, perhaps, but not necessarily overlaid with identification with an ethnic people who make up that nation's population (Smith 1999). Scholars of nationalism, including Benedict Anderson (1983) and Ernest Gellner (1997), have noted that nationalism is a distinctly modern phenomenon, because the literacy and communication required to "imagine a national community" were not present

**Table 10.1:** *Cross-national comparison of pride in history*

Country	Agree 1995 (%)	Agree 2003 (%)	Change (%)
Germany-West	33.7	39.1	5.4
Germany-East	30.9	40.5	9.6
Great Britain	89.3	88	-1.3
United States	87.6	92.2	4.6
Sweden	67.3	68.3	1
Russia	81.8	82.6	0.8
Canada	83.8	91.8	8
Japan	76.8	75.6	-1.2

*Note:* The questionnaire asks if the respondent is proud of the country's history.

*Source:* International Social Survey Programme (1995, 2003).

over large territorial spaces in times past. Michael Hechter (2000) and Keith Darden (2006) point to the crucial role of modern governments to inculcate national sentiments that, once absorbed, are never lost. Maruyama Masao (1946) drew the same conclusion about the Japanese sense of nation: that it was created only with the Meiji's conscious program of binding local allegiances to a new, centralizing state. Japan's geographic insularity made it relatively easy to create and sustain the cultural homogeneity that supports a sense of nation (Wilson 2001).

Ohnuki-Tierney (2002) points out, however, that nationalism is a deceptively obscure concept, for our comfort with the word in ordinary parlance blinds us to the multiple ways the term is used. Sometimes nationalism refers to the patriotic support of a polity in which one lives, regardless of the particular government in power. Nationalism may also mean identification with an ethnic people that can border on xenophobia. Still others mean by nationalism an expansionist ideology that implies the willingness to use force against other nations should

**Table 10.2:** *Public support for the government even when it is wrong*

Country	Agree 1995 (%)	Agree 2003 (%)	Change (%)
Germany-West	16.7	25.5	8.8
Germany-East	25	26.4	1.4
Great Britain	24.4	20.7	-3.7
United States	32	36.4	4.4
Sweden	23.9	14	-9.9
Russia	61.7	57.9	-3.8
Canada	15.3	19.1	3.8
Japan	22.8	24.7	1.9

*Note:* The questionnaire asks if the respondent should support the government even if it is wrong.

*Source:* International Social Survey Programme (1995, 2003.)

the opportunity arise. The challenge in studying Japanese nationalism is to grasp what sorts of sentiments Japanese have about their nation and see how these square with the perceptions of Asian neighbors about those sentiments.

Japan's Asian neighbors cite a number of indicators of rising Japanese nationalism. In this section we focus on three of the most prominent: Japanese textbook revisionism, state visits to the Yasukuni war shrine, and growing popular support for revising Article IX. To anticipate our results, we find little evidence that these phenomena signify mounting xenophobia, resurgent militarism, or an anti-status quo foreign policy orientation. Rather, the public's views of Japan's foreign policy remain moderate while showing a willingness to accept a larger responsibility for Japan's own defense in the face of growing international uncertainties. Japan's new domestic political climate, we suggest, has brought these strategic issues to the forefront of electoral politics for the first time in decades.

### *The textbook controversy*

Japan's Ministry of Education, Culture, Sports and Technology (MEXT) reviews and authorizes textbooks every four years for use in Japanese public and private school curricula. This is a role the government education bureaucracy has undertaken since the Meiji Restoration. Although the Japanese Supreme Court ruled in 1997 that the government ought to interfere with the writers' views and school boards' choices as little as possible, the authorization process itself was not unconstitutional.<sup>1</sup> The government's oversight of school textbooks has been a lightning rod for Asian countries' ire at what they perceive as Japan's anemic remorse for the devastation and horrors wreaked on neighboring countries by the Japanese military during World War II. In 1982, a particularly rancorous exchange over Japanese textbooks led the Japanese Ministry of Education to include a provision in textbook guidelines that the sensitivity of Asian

nations to wartime history be taken into account. But China and Korea, in particular, have often objected to textbook passages that understate the horrors of the war, including the Rape of Nanking, the testing of biological warfare on Chinese citizens, and the forcible recruitment of Asian women to service the sexual needs of Japanese soldiers.

Recently, Asian feelings were inflamed by a new “revisionist” textbook approved by the Japanese government in 2001 and again in 2005 that explicitly rejects a “masochistic view” of history and portrays Japan’s war in Asia in largely defensive terms.<sup>2</sup> In 2005, the *China Daily* called the offending textbook “an unfit teaching tool,” a “political provocation,” and went on to comment that “without a consensus on the history issue and other disputes, the Asian peoples cannot place their trust in Japan’s desire to play a bigger role in world affairs.” (BBC News 2005). Undeterred, the Liberal Democratic Party (LDP) government approved legislation in April 2006 that would make “nurturing love of country” an explicit aim of public education.

For our purposes, the questions are whether Japan’s textbook revisionism is a harbinger of renewed nationalist fervor in Japan, and how we would know if it were. Note that only eighteen schools out of more than 40,000 nationwide chose to adopt the particular textbook that provoked such furor in 2001 and 2005. This means at most 0.04% of Japanese middle-school students learn history through this lens. To the disappointment of the right-wing publishing company that produced the book, the vast majority of Japanese school boards have rejected the textbook in favor of others that give a more full-bodied account of Japanese brutality in Asia. In most of the municipalities where the new textbook was adopted, groups of parents and concerned citizens petitioned against the book’s use. Some LDP politicians and Japanese government officials are sympathetic to self-congratulatory history, to be sure, but opposition parties in the Diet have challenged the government at every turn, and

the textbook disputes do not appear to signal a rising tide of militarist nationalism among the Japanese public at large.

*Yasukuni visits*

If China and Korea take textbook revisionism as a sign of callous disregard for the feelings of Asian populations victimized by Japanese military expansion, they view official visits by Japanese politicians to the Yasukuni Shrine as bald endorsements of Japan's militarist past at the highest levels of power. Prime Minister Koizumi Jun'ichiro visited Yasukuni Shrine every year while he was in office, from 2001 to 2006. More exasperatingly to Japan's Asian neighbors, he often paid an official visit on August 15, the anniversary of Japan's surrender, which also happens to be the day Asian countries celebrate the end of the war. The governments of China and Korea issued formal protests at each of Koizumi's official visits, and, in 2005, Korea temporarily withdrew its ambassador to Japan to underscore the point.

It may be, as some observers have noted, that the Chinese and Korean governments enjoy the popular support in their countries that Japanese insensitivity generates for them (Widome 2006). But, at a minimum, official visits to Yasukuni Shrine seem to signify a government willingness to irritate neighboring countries that see themselves as war victims. The Yasukuni visits raise the broader question of whether the Japanese government was pandering to nationalist public opinion at home, or whether the LDP was trying to cook up a new batch of nationalism. If support for Yasukuni visits was already high, politicians could score easy points by braving foreign ire to make the trip. Alternatively, perhaps the government sought to stoke nationalism as a way of distracting the public from economic woes, particularly those at the losing end of economic restructuring, if economic losers are more likely to identify with nationalist causes. Perhaps Japan's prolonged economic

malaise has given rise to spontaneous expressions of nationalism by economic losers who gain psychic satisfaction from belonging to a winning cause, or perhaps politicians have managed to stoke nationalist opinion as a way to generate political support around nonmaterial issues.

That Japanese public opinion, particularly among urban voters, has remained mildly negative towards these official visits casts doubt on broader claims about playing the nationalism card to a broad domestic audience. Business leaders were also concerned about inciting the antagonism of neighboring trading partners. In 2006, Okuda Hiroshi, a Toyota executive and head of the Japan Business Federation (Keidanren) officially expressed misgivings about the prime minister's official visits to Yasukuni Shrine. Hojo Kakutaro, chairman of the Japan Association of Corporate Executives (Keizai Doyukai) followed soon thereafter with a similar statement.

The majority of LDP Diet members do not, in fact, visit Yasukuni Shrine. LDP Diet members' visits to Yasukuni in recent years do not indicate an upward trajectory, and it seems clear that LDP members are sensitive to the range of views within their constituencies about Yasukuni. Consider the behavior of LDP incumbents in the summer of 2004. The portion of LDP Diet members who showed up in person or sent their proxies to the shrine on August 15 for the war defeat anniversary event

**Table 10.3:** *Public opinion concerning prime ministers' visits to Yasukuni Shrine*

<u>Date</u>	<u>yes</u>	<u>no</u>	<u>Don't know/ not applicable</u>	<u>number</u>
September 21–22, 1985	51.7%	24.9%	23.5%	2,257
August 15–6, 2006	52.6%	39.1%	8.3%	1,104

*Note:* The questionnaire asks, "Are you in support of the recent prime minister's visit to Yasukuni Shrine?"

*Source:* *The Yomiuri Shimbun*, October 7, 1985; August 17, 2006.

was about 40%. The LDP is a long-standing catch-all party, and Diet members represent mixed constituents in terms of religious faith. These incumbents are not only supported by Shintoists, who are enthusiastic about increasing governmental involvement in Yasukuni, but also by other competing religious sects that advocate establishment of a nonreligious commemorative facility for war casualties. Soka Gakkai is among the largest non-Shintoist group and the organizational cornerstone of Komei Party, the LDP's junior coalition partner since 1999. A significant portion of LDP legislators sent their proxies to the shrine instead of showing up in person: 25.7% of lower house single-member district (SMD) incumbents and 29.5% of upper house district incumbents. By sending a proxy, the legislator was trying to maintain a friendly relationship with the Shintoists. By not appearing in person, they avoided blame from Soka Gakkai and other religious groups.<sup>3</sup>

Former Prime Minister Koizumi had cultivated the US-Japan alliance throughout his terms in office, which gave him room to snub the feelings of Asian neighbors. His championing of the interests of urban voters also bought him some freedom on symbolic issues, such as the Yasukuni Shrine, which had deep and special meaning for rural voters. Prime Minister Abe Shinzo was a more genuine believer in what Harvey Mansfield would call "a manly history" of Japan. But the voting public chastised him in the 2007 Upper House elections for over-emphasizing foreign policy, which put future prime ministers on notice.

### *Article IX*

Article IX is a product of institutional design that the American occupiers soon came to rue. Chapter II, Article IX of the constitution is entitled "Renunciation of War" and reads,

Aspiring sincerely to an international peace based on justice and order, the Japanese people forever renounce war

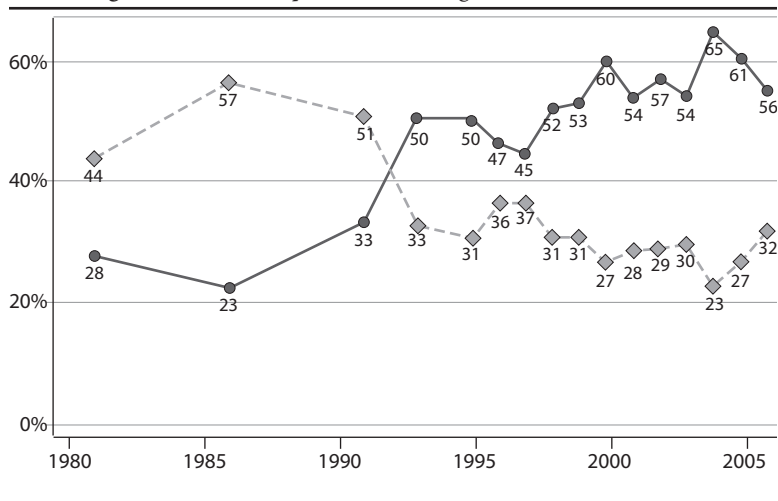


as a sovereign right of the nation and the threat or use of force as means of settling international disputes. In order to accomplish the aim of the preceding paragraph, land, sea, and air forces, as well as other war potential, will never be maintained. The right of belligerency of the state will not be recognized.

A peace pledge made sense to the victors in 1947 seeking to avoid the possibility of resurgent Japanese militarism, but, by 1950 when the United States had changed its priority to combating communism worldwide, the Americans would have preferred for Japan to put considerable resources into US-directed military spending. But, unlike other democratization measures such as economic deconcentration, constitutional entrenchment of the peace pledge in the form of Article IX made remilitarization difficult for the Americans to demand. Prime Minister Yoshida Shigeru won his place in history by using the American-made constitution to rebuff American requests for full-scale Japanese remilitarization and saving the government budget for civilian purposes (Yoshitsu 1982).

The "Yoshida Doctrine," which called for spending as little as possible on defense while paying as much as necessary to keep the United States willing to hold the nuclear umbrella, allowed Japan to keep defense expenditures within more-or-less 1% of GDP for the entire postwar period. But even 1% is a staggering amount of money when the denominator is as enormous as Japan's economy. Measured in terms of current dollars, Japan's defense expenditures are now the second largest in the world, after the United States. To be sure, Russia and China have far more military personnel under arms, and Japan lacks their offensive capability. But Japan long ago ceased to be a pacifist country in any meaningful sense of the word.

Public opinion in favor of revising the constitution has been increasing since the mid 1980s and finally tipped into a majority position in the mid 1990s.

**Figure 10.2** *Public opinion concerning constitutional revision*

Source: *The Yomiuri Shimbun*, Various Issues.

Along with an openness for constitutional revision is growing public approval for teaching about defense and foreign policy in schools. But mainstream opinion still opposes nuclear armament or going it alone outside the US-Japan security treaty framework. The Japanese public is willing to own up to a reality that is already here: Japan is an enormous, but defensive and status-quo-favoring military power, and Article IX is a flagrant falsehood. The groups that favor going nuclear or preach the glories of military aggrandizement have never been more on the fringe than they are today, but their voices are heard in the unfamiliar cacophony that is public debate.

### *Competing Explanations*

The international environment is the first place to seek explanations for Japan's changing domestic mood. The end of the Cold War raises questions about American commitment to Japanese

interests in the Asian/Pacific region. Meanwhile, the rise of China as an economic and military power may outpace the ability of economic engagement and integration to sustain stakes in mutual prosperity. North Korea is an additional wild card in the whole mix.

In the view of neorealist (or structural realist) theory, states compete constantly for power and security, and their pursuit of these goals is shaped exclusively by the structure of the anarchic international system, namely the number of state actors in the system and the relative distribution of capabilities or power among them (Waltz 1979). Neorealist Kenneth Waltz predicted that Japan would possess a nuclear weapon sooner or later (Waltz 1993). States with similar capabilities seek to balance one another in an attempt to avoid war, whereas weaker states, again in an attempt to avoid war, either bandwagon with their stronger rivals or pass the buck by relying on the balancing efforts of their stronger allies.

While a balanced system is generally stable, it is nevertheless marked by interstate competition with the ever-present potential for war, as illustrated by the concept of the security dilemma. The security dilemma exists when many of the means by which a state tries to increase its security decrease the security of others. It consists of an action-reaction process in which states build up their military capabilities in response to build-ups by their adversaries (Herz 1950; Jervis 1976).

Unbalanced systems can also be marked by the security dilemma. There are two main reasons why such systems are supposedly more prone to war than balanced systems. First, in the view of defensive realists (Waltz 1979), the larger number of great powers and differences in capabilities in unbalanced multi-polar systems translate into more uncertainty about relative capabilities and, consequently, a great likelihood that deterrence will fail to prevent a war. Second, in the view of offensive realists (Mearsheimer 2001), the more powerful states in an unbalanced

multipolar system are likely to make a bid for hegemony, and this bid, being expansionist and a challenge to the status quo, is likely to constitute or at least provoke interstate war.

It may be that Japan increasingly views China's quest for regional hegemony in Asia with alarm because rising powers tend to be "revisionist" or inclined to change the status quo through territorial or economic expansionism. This yields the following *Neorealist Hypothesis*: Japan's quest for "normal country" status is motivated by its desire to create a balanced multipolar system in East Asia. We should therefore observe that Japan's military build up has been a temporal and substantive response to China's military build up, signs of threat from North Korea, and indications of the United States's diminishing role as the offshore balancer to East Asia's potentially revisionist states. Japan's interest in creating a balance of power with China may be heightened by the growing tensions between the two countries, which have focused on competition for raw materials and markets, and for which Japanese textbooks and other signs of Japan's perceived lack of remorse are merely a lightning rod for Chinese competitiveness. As a corollary to the hypothesis, we should observe that Japan's military build up has been in response to incidents of tension with China and North Korea.

The rising public support in Japan for an active foreign policy does indeed coincide roughly with these changes in Japan's geopolitical position. But, oddly enough, Japan's defense spending seems unrelated to either one. The LDP government has held Japan's military expenditures steady at 1% of GDP before and after the Cold War, and before and after China's debut on the international scene as a great power. The government, it would seem, remains sufficiently confident of the US defense commitment to avoid a military buildup on an even bigger scale that would only alarm Japan's neighbors and fuel an explosive regional security dilemma. This fact, of course, serves to endorse rather than refute the Japanese government's neorealist calcu-

lations about the costs and benefits of going it alone without the United States. What neorealism cannot explain, however, is why the Japanese public has become more interested in these issues and is willing to take a more active part in foreign policy debates.<sup>4</sup> For that, we must abandon the neorealist fiction of a unitary rational actor and consider the domestic level of analysis.

An alternative, prominent domestic explanation rests on a conception of the temporality of culture. Postwar pacifism is passing from the scene along with the generation that most keenly felt the sting of defeat and misery of rebuilding out of the rubble of wartime devastation. The young, unburdened by traumatic war memories, have grown up in an age of prosperity and see only the anomaly of military might sheathed in a constitutional clause that “forever renounce[s] the right to wage war.”

The flaw in this argument is that support for an active foreign policy has been growing across age cohorts in Japan and, indeed, older voters are somewhat more rather than less supportive of an active foreign policy.

**Table 10.4:** *Public opinion concerning Self-Defense Forces' capacity (February 2006)*

Age	Increase	Remain same	Shrink	Don't know	number
20–29	9.8%	62.1%	8.5%	19.6%	235
30–39	15.4%	62.1%	11.1%	11.4%	298
40–49	10.6%	64.7%	13.3%	11.4%	360
50–59	18.5%	62.3%	6.3%	12.9%	459
60–69	17.2%	60.5%	7.7%	14.6%	466
70+	20.5%	59.1%	3.9%	16.6%	308
All ages	16.5%	65.7%	9.4%	8.3%	
Total					2,126

*Note:* The questionnaire asks, “Should the capacity of the Self-Defense Forces be increased, stay the same, or be reduced?”

*Source:* Cabinet Office (<http://www8.cao.go.jp/survey/h14/h14-bouei/2-3.html>).

*Electoral Competition and Political Discourse*

While there may be elements of truth in both the externalist and cultural explanations of Japanese nationalism, the “cool nationalism” we have outlined points to a third factor: the rules of electoral competition, in place since 1994, that push politicians to take a stand on issues of national significance, whether foreign or domestic policy. Before 1994, Japan’s multi-member district electoral rules forced any party seeking to gain or maintain a legislative majority to run multiple candidates in most districts. Politicians of the majority Liberal Democratic Party could not run for office on a common party platform, for that would fail to provide voters with a way to allocate their votes across the co-partisans. Instead, the candidates ran for office by appealing to narrow groups of voters based on personal familiarity and pecuniary favors of various kinds. The result was corrupt politics in which politicians often sold regulation, tax breaks, or budget subsidies to the highest bidder and used the ensuing campaign contributions to run labor- and money-intensive electoral campaigns. The name of the game for politicians was to be on the party committees in charge of construction, agriculture, commerce, or budget. By contrast, there was little enthusiasm for foreign policy or defense, because investing in foreign policy expertise had scant electoral value to Japanese politicians. To an odd degree for one of the world’s largest economies, foreign policy and defense debates were absent or deficient in national election campaigns (Nagahisa 1994).

Japanese politics is no longer devoid of foreign policy debate and discussion. Since 1994, electoral competition has redirected attention to differences among parties from differences among candidates of the same party. In the place of the old multi-member districts, the new system combines 300 single-member districts with 180 seats allocated to party lists according to proportional representation. In the single-member districts, the candidate who gains more support than the next candidate

wins the seat, placing a premium on candidates who can present voters with broadly appealing policy platforms. Similarly, parties win seats on proportional representation lists according to how well they convince voters of the merits of their policies for advancing Japan's security and welfare.

Prior to electoral reform, the most popular LDP committees on which to get membership and leadership assignments were those associated with regulatory or budgetary favors to dispense in home districts: agriculture, construction, and commerce. There was little demand among LDP members to sit on foreign affairs or defense committees because they came with little access to electorally vital resources (Inoguchi and Iwai 1987). Now that politicians must woo voters to a greater extent on the basis of issues, these committees with jurisdiction over national policy have taken on more importance for politically ambitious politicians. Evidence for this change is hard to measure directly because committee assignments are no longer rationed. Because anyone in the LDP can attend any committee, we do not have records of committee membership. But a look at committee chairmanships suggests that, unlike prior to electoral reform when committee chairmen tended to be second-tier LDP leaders, foreign affairs and defense committees today are chaired by politicians, such as Shiozaki Yoshihisa, who are considered to be of prime ministerial timber.

Ideally, we would run two experiments to test our argument. First, how would Japan's "new nationalism" differ in a post-Cold War world without electoral reform? Second, would the foreign policy discourse differ had geopolitics remained relatively constant while electoral rules changed? Obviously, we cannot know the answer to either question for certain, which cautions against drawing tight inferences in a complex world. Much else matters, but circumstantial evidence points to a discernible impact of electoral rules.

*Conclusions*

Japan's new nationalism, we have argued, is a decidedly "cool nationalism" that reflects the calculations of a newly engaged citizenry about appropriate responses to Japan's changing international environment. Japan's geopolitical circumstances provide grist for domestic debate, but it is the new electoral environment at home that gives politicians an incentive to draw voters into this debate. As a result, voters have grown accustomed to thinking about Japan's foreign policy choices and have expressed preferences for an open-eyed and self-conscious but clearly defense-oriented posture. What is novel about Japanese foreign policy making is not the outcomes (getting rid of Article IX will not open the flood gates of pent up militarist longings). Opinion polls show no signs of growing national pride or an edgy discomfort with the geopolitical status quo that could spill over into support for a new round of military adventurism. Voter preferences are changing at the margin towards a more proactive role in foreign policy and in favor of changing Article IX to fit with the realities of Japanese military power and roles. But support for the US-Japan security alliance also remains strong, and, for now, the public favors only incremental increases in defense spending along the lines of the old formula of keeping the United States happy.

Politics is not only about cool calculations; it is of course possible that Japan's nationalism could turn hot under some conditions. Although there are few signs yet of politicians stoking emotional fires under national identity, it is possible that growing income inequality, for example, could tempt politicians to invoke nationalist symbolism to curry electoral favor. In addition, some worry that Japan's irritation with China's and Korea's constant harping could grow into full blown fury. Nationalism in China and Korea, by comparison with that in Japan, is "hot" in the sense that it translates into high values of national pride and is easily mobilized for angry protests and



denunciations of countries such as Japan. There is some danger, perhaps, that persistent anti-Japanese rhetoric could turn the Japanese public's current "apology fatigue" into virulent xenophobia.

There are, nevertheless, reasons to doubt the hot nationalism scenario. In the first place, Japan's new electoral rules push the two largest parties to target their appeals to the middle of the political spectrum. Although there is a vocal minority of right-wing fanatics in Japan that wants to relive the glory days of regional expansion, this voice is ridiculed in mainstream discourse. Second, most voters appreciate that Japan's geopolitical situation is extremely constraining. Venting public rage at China's or Korea's opportunistic use of wartime history would not expand Japan's security or livelihood. For now, and for the foreseeable future, Japanese recognize the limits of their room for maneuver, but are moving to get rid of parchment pledges, such as Article IX, that are out of line with the existing reality of a massive, but defensive, Japanese military presence in the world.

### *Notes*

- 1 The Supreme Court ruling came in response to a challenge from the historian, Ienaga Saburo, against the government's censorship of his depiction of Japanese military brutality in the war against China from 1937 to 1945. The Court was characteristically diplomatic by agreeing to the ministry's oversight role while urging forbearance.
- 2 Ishiyama 2003. The principal author of this new textbook is a former leftist historian who rejected Japan's self-abnegating view of history during a sabbatical year in the United States. For more about this unapologetic textbook, see the publishing company's web page at <http://www.tsukurukai.com>.
- 3 There are nine upper house proportional representation (PR) incumbents who visited the Yasukuni Shrine on August 15 in person. They are incumbents endorsed by the Izokukai, Shintoists, and Self Defence Force affiliates. There is only one PR incumbent who sent a proxy.

None of the remaining 25 PR incumbents sent their proxy or showed up in person.

- 4 For that matter, one might also ask why the Japanese public was not visibly worried about the Soviet threat during the Cold War. In Japanese opinion polls, the Soviet shooting down of a Korean civilian aircraft in 1983 did not translate into a desire for a more active security policy.

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# 11

## *Japan's New Executive Leadership: How Electoral Rules Make Japanese Security Policy*

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Japan's political leadership has assumed a new character. Ranking politicians are becoming increasingly visible, "extroverted" figures, enamored of cameras and sound bites, and seeking constant media exposure. Although former Prime Minister Koizumi Jun'ichiro did not create this trend, he certainly perfected it, introducing a practice of twice-daily appearances in front of television cameras. Subsequent prime ministers, Abe Shinzo and Fukuda Yasuo, have inherited this legacy. Indeed, the Japanese prime minister's image now appears everywhere. At election time, more LDP candidates today want to have the image of a popular prime minister in their election posters. Even when there is no election, we see fashionably dressed prime ministers modeling in government-issued advertisements about energy conservation and the tourism industry.

More importantly, however, Japanese political leaders are becoming more assertive and vocal on security and foreign policy issues. Since the end of WWII, Japan's level of activity in the sphere of international security commitments has been quite low. However, with the end of the Gulf War and especially the period during the Koizumi administration, Japan has substantially increased its security commitments. Recent developments

in Japanese defense policy, including the deployment of Self Defense Forces (SDF) to Iraq in 2003, would not have happened were it not for the leadership of Prime Minister Koizumi. More politicians appear to actively debate foreign policy in the media, making frequent appeals to, of all things, their foreign policy expertise.

There are several reasons for this change: the end of the US-Soviet bipolar system; the emergence of external threats, including terrorism and the proliferation of weapons of mass destruction; the decline in the Japanese public's anti military sentiment and the rise of a new type of "nationalism," especially among young people. All of these changes are good explanations for the recent upturn in Japan's security efforts. However, they do not fully explain why Japan has chosen to act at this point in time, given that Japan has always faced pressure to do more both internationally and domestically.

This chapter argues that two different sets of institutional reforms are crucial for explaining the emergence of what we call "extroverted" leaders in Japan and Japan's increased participation on the global security front. The first set of institutions concerns electoral rules; the second, legislative rules that affect the relative political capacity of the prime minister. In Japan, both institutions have experienced major reforms since the mid-1990s, significantly altering the parameters of politics. We attribute the recent emergence of increasingly "extroverted" Japanese political leaders and the expansion of Japan's global security commitments to the new institutional context that emerged as a result of these changes, and to the rise of political leaders who were able to take advantage of these institutions.<sup>1</sup>

Obviously, issues of national security, defense, and foreign affairs have been foremost considerations for Japanese politicians since the end of the Cold War and have increased since the first Gulf War. Moreover, Japan has faced a series of external

shocks in recent years that might explain the more assertive character of its defense policies. These include the launching of North Korean test missiles, the violation of Japanese territorial waters by Chinese and North Korean vessels, increased tensions with North Korea over abduction cases, and the terrorist attacks of September 11<sup>th</sup>.

Since the 1990s, Japan has taken legislative actions to expand the role, functions and geographical scope of its Self Defense Forces (SDF) and developed a framework for security actions in a national emergency. Japan is also considering establishing a new system for intelligence and strategic planning. The reasons for Japan's expanded security commitments and assertive foreign policy are twofold: major institutional changes and the rise of political leaders who were able to take advantage of those new institutions. Structural reforms have also affected security and foreign policy issues have come to be regarded by Japanese politicians. For politicians who aspire to ascend to the leadership positions in their respective parties or to become prime minister, security and foreign policy issues have taken on a distinctly different importance in the changed institutional context.

The reform in 1994 of the old electoral system—in particular, the creation of single-member districts—has made it possible for Liberal Democratic Party (LDP) electoral candidates to talk more openly about their positions on security concerns and foreign policy issues. Under the old electoral rules—medium-sized, multi-member districts combined with a single nontransferable vote—these issues were totally disjointed from any electoral efforts. Any engagement with security and foreign policy issues simply meant “wasted efforts” as far as electioneering by the LDP politicians was concerned. Security and foreign policy issues were also secondary concerns for any ambitious political leader aspiring to become prime minister. For a long time, the race to the throne had been determined not by policy expertise, demonstrated capacity to lead the nation,

or even effective communication skills, but simply by the dynamics of intraparty factions (*habatsu*).

The new electoral system, however, has changed the incentives of the rank-and-file, favoring more effective, charismatic leaders who can better attract voters. This change, in turn, has made it worthwhile for prime ministers and those who aspire to join the ranks to speak of national interests and demonstrate their “leadership” skills. Media exposure and a politician’s image as a strong defender of Japan’s national interests in dealing with other countries and potential foreign threats have become twin attractions for the ambitious. The introduction of single-member districts and proportional representation in the Lower House made it possible for the LDP leader to control the party nomination process in ways that were impossible under the old system. In short, by the early 2000s, Japan’s leaders found themselves in a very different institutional context. Not only did they encounter new incentives that favored “extroverted” leaders, but they realized that leaders who were willing to take advantage of their new, expanded position had new institutional resources at their disposal.

### *Politics Under the Old Electoral System*

Almost twenty years ago, Kent Calder observed in his classic book on Japanese politics, *Crisis and Compensation*, that Japan’s old electoral system was not conducive to politicians’ involvement in security and foreign policy issues.<sup>2</sup> His chapter on foreign policy, appropriately titled “The Residual: Defense,” discusses how it was not in the interest of Japanese politicians to invest their time and influence in defense policy matters. The old electoral system combined medium-sized multi-member districts with a single non-transferable vote (MMD/SNTV). Under this system, a voter could cast only one vote for one candidate in an electoral district where there are plural winners. Votes once cast for one candidate were not transferable to others,



even when the former already had enough votes to win. For a political party, gaining more than one winner from almost every district was necessary to form an absolute majority of the House. However, only the LDP was in a position to take advantage of this system. Because it was able to field multiple candidates in almost every district, the party enjoyed sufficient support to be able to send all the LDP candidates to the Diet.

Under the old electoral rules, more than one LDP candidate typically ran from the same district, generating fierce intraparty competition. In such an electoral context, individual LDP politicians were pressed to distinguish themselves from their fellow LDP candidates in the same district. Talking about foreign policy and security issues at election times made little sense. Candidates either had to state a position in accordance with their party's platform, which prevented them from emphasizing their differences, or adhere to different foreign and security policies and risk making the party incoherent. For politicians campaigning in a MMD/SNTV system, discussions of foreign affairs and security policies added little in the way of advantage to one's campaign.

*Medium-sized, multi-member districts and the single, nontransferable vote*

Electurally speaking, the winning strategy under the MMD/SNTV involved organizing loyal political machines based on personal networks. At the level of individual LDP candidates, the development and maintenance of such political machines consisted of enacting policies that favored the key industries and actors that made up those political machines. At the level of the LDP as a whole, it was more desirable that individual LDP members should specialize in "divisible" policy areas to maximize the overall LDP's seat share. Such a strategy permitted multiple LDP Diet members within the same electoral district to co-exist: they could either develop their own political machines in

different geographical areas within the same district (centered in their home towns, for example), or specialize in sectoral policy areas, such as agriculture, construction, or commerce to divide up the conservative constituencies within the same district.<sup>3</sup> In general, however, under this system, legislators tended to become indifferent to large-scale national and global policies, involved as they were in providing “pork-barrel” programs to their local electorate. Security and foreign policies, considered to be more “indivisible” policies, simply did not generate electoral advantage under the old electoral system.

The old electoral system also decentralized power within the LDP, weakening the role of the party president of the ruling party—the prime minister—and his cabinet. The LDP, in practice, was like a federation of small parties with the president as a symbol of the federation and the secretary general as a coordinator among the small parties. The combination of MMD/SNTV meant that party nominations were secondary to individual candidates. Candidates needed more than a party nomination, because they had to seek personal votes under a SNTV system. Often, backing from a faction leader was sufficient to enter an electoral race against LDP incumbents. Faction leaders, in their turn, possessed strong incentives to expand the membership base of their faction in the Diet as a means of increasing their influence over the selection of the next party president (that is, the prime minister). The faction not only aided individual candidates in electoral campaigns, but also helped them in fund raising and the allocation of positions within the LDP and the cabinet. *Habatsu* factions functioned essentially as mini-parties within the LDP.

Despite their usefulness under the MMD/SNTV, factions came at a price. They weakened the LDP party leadership and thus, by extension, the prime minister and his cabinet. The absence of a party leader’s control over the party label resulted in his inability to sanction rank-and-file politicians who disagreed

with him. Faction leaders directly controlled the rank-and-file but not the party leadership. This meant that no decision could be reached without their consent. Faction leaders, in turn, made sure that their influence was institutionalized in three ways. First, they institutionalized unanimity rules for the most important policy decisions within the LDP. Second, they ensured that all post allocations within the party and the Cabinet were jointly determined. Third, they imposed selection rules for the party president, which magnified the influence of factions.

It is ironic that faction leaders, who themselves aspired to become the LDP party president and prime minister, tried their best to tie the hands of the party president and the prime minister by institutionalizing the presence of multiple veto players within the LDP government. During the postwar period, the selection of the LDP president typically took the form of back-stage negotiations among faction leaders or elections whose rules favored votes by *habatsu* factions. These rules included restrictive requirements for candidacy and voting methods whereby Diet members' votes became the determining factor of the result. LDP Diet members were required to enlist the endorsements of more than twenty Diet members to secure their candidacy for the Party Presidential race. Although the rules changed from time to time, for most of the postwar period, the election of the LDP party president involved votes by local LDP branches and Diet members. In the actual counting of the votes, Diet members' votes were given heavier weight. This ensured that faction leaders who controlled the votes of their members gained a disproportionate power to influence the outcome.

By facilitating the entrenchment of numerous political factions and interests, the MMD/SNTV system allowed small parties to win seats in the Diet, thus rendering it difficult to replace the existing government. Like the proportional representation system, which distributes seats to parties according

to numbers of votes they gained, the SNTV made winners of candidates who had placed third or even fourth in an election. As a result, although small parties easily maintained their seats in the Diet, it became difficult for them to increase their share of seats. On the other hand, since the biggest party tended to monopolize power, it seemed that collusion between politicians, bureaucrats, and businessmen took place more frequently.

The above-mentioned rules of the game shaped the incentive structure of “very ambitious” political leaders angling to become prime minister one day. It was not a photogenic face, policy expertise, or communication skills that recommended one to become a prime minister; rather it was amassing political capital within the confines of *habatsu* factions that increased one’s chance of making it to the top. The complex set of rules for electing an LDP party president—the prime minister—also ensured that there was no link between a voter’s choice of a candidate in her own electoral district and the actual Prime Minister elected by the Diet.

#### *Electoral Reform and the Electoral Campaign Law*

The new electoral rules introduced in 1994 and implemented in 1996 changed the institutional parameters of how one became a Diet member, LDP party president and/or prime minister. First of all, reforms eliminated SNTV from the Lower House, giving way instead to a mixed system whereby voters are given two votes—one for the single member district (SMD) and the other for the proportional representation (PR) district. Of the 500 Lower House Diet members, 300 and 200 are elected in the SMD-tier and the PR-tier, respectively. The 200 PR seats are allocated to 11 regional PR districts (=district magnitude ranging from 6 to 29). The Lower House PR system permits voters to cast their vote only for a specific party rather than an individual candidate.

Although the Lower House began implementing a mixed system in the 1996 elections, the Upper House had already been

using a similar system since 1983. As a result of the changes implemented in that year, roughly one-fifth of the Upper House was elected in SMD, with the remaining four-fifths elected in MMD using two different methods: two-fifths of the Upper House were elected in the old MMD/SNTV districts, whereas the remaining two-fifths were elected by the proportional representation rule with a closed party list.<sup>4</sup>

The elimination of intraparty competition at the polls—completely from the Lower House and three-fifths in the Upper House—significantly affected intraparty dynamics. It removed institutional obstacles that had weakened the previous LDP party leadership vis-à-vis rank-and-file politicians and, more importantly, faction leaders. After the introduction of the new mixed system, the LDP leadership began developing basic rules about candidate nomination. The LDP has restricted the candidacy of those who have lost their SMD seats for two consecutive elections. Those who lost their SMD seat were not included in the PR list in the following electoral cycle. The LDP also introduced strict age restrictions in the PR-tier. Unlike in the medium-sized, multi-member districts, where individual LDP politicians “owned” their home grounds, the party began to assert its “property right” over SMDs. Whereas factions could formerly field their own candidates without seeking official party nominations, under the new system they were forced to compete for the single official nomination in each district. This is to say, the president had the final say when it came to choosing a candidate. Thus, the role of the factions in candidate nomination drastically declined.

Moreover, political parties began buckling down, issuing new types of pledges and “manifestos” that covered many different policy fields, including national security. With manifestos, voters effectively gained a standard of accountability by which parties could be judged, based on how well they implemented stated policies. Since the 2003 general election, party

manifestos have become a reliable guide for voters to choose a candidate, although of course, manifestos are not the only criterion that determines voting behavior.<sup>5</sup> Today, elections without manifestos do not exist on the national and the local levels, and hence, the activities of politicians seem more policy oriented and consistent with party platforms than before.<sup>6</sup>

Through legislation of the Political Party Subsidies Law, the president gained the power to provide government subsidies to party members. Furthermore, political donations to individual politicians were strongly regulated by the Political Funds Control Law in 1994. With the revision of the Electoral Campaign Law, state subsidies were introduced to be paid to political parties according to the number of their Diet members.<sup>7</sup> This provision strengthened the financial role of the central party organization vis-à-vis its members, at the expense of the factions. Eventually, these factions lost their role as fund-raising institutions.<sup>8</sup>

Nothing demonstrated the full impact of the institutional change and the newly strengthened power of the executive more than what happened in the 2005 general elections. Koizumi Jun'ichiro, the LDP president at the time, refused to nominate LDP incumbents who, as official LDP candidates, had opposed his postal service-privatization policies.<sup>9</sup> Instead, he recruited new faces from the bureaucracy, academia, and the business community, fielding them as *shikaku*—assassins—in the election. The strategy worked, and many of Koizumi's opponents were forced out of the LDP and fell to the *shikaku*. After the election, the prime minister went ahead with his privatization plans, to be decided in the Diet by newcomers who had replaced his old antagonists. This bold decision reflects the new institutional context at least as much as the unique personality of Koizumi as a leader.<sup>10</sup>

Although there have been dynamic party realignments, an administration without the LDP has not yet appeared after the new electoral system was put into place in 1996. Furthermore,

there are still six parties in the Diet, although the new electoral system was supposed to create a two-party system. However, it is possible to say that two parties, the majority party (LDP) and the opposition Democratic Party of Japan (DPJ), almost constitute a two-party system because they occupy 85 % of the seats in both Houses. What is more, the power of the Social Democratic Party of Japan (SDPJ) and the Japan Communist Party (JCP) in the Diet has sharply decreased. This implies that their power to oppose any possible increase in security commitments has also declined. Although some former SDPJ members who later joined the DPJ hold considerable policymaking power within the party, they promised in the process of forming a joint parliamentary group in 1998 to follow policies produced by the mainstream DPJ members when it came to security issues.<sup>11</sup> This point suggests that, on the security front, the LDP and DPJ do not have significant ideological disparities.

Political reform has made legislators more policy oriented, strengthening the power of the party president and weakening the resistance of leftist parties toward security enhancement. These factors have combined to give the prime minister a more favorable environment in which to expand security commitments if he deems it necessary.

#### *New Incentives for Rank-and-File and Ambitious Politicians*

Since the 1996 elections, the majority of politicians have run as the single official party in SMD or purely on the party ticket. (The Upper House changed its rules in 2003 to reintroduce SNTV in the 50-member-seat, nationwide district.) Three important changes occurred as a result. One, rank-and-file politicians developed a strong preference for a popular policy platform and party president. The change in the incentives of the rank-and-file eventually led to changes in the methods to elect the LDP party president. Two, the new SMD and the closed party list PR removed old constraints on individual politicians, making it

electorally viable to specialize in nondivisible policy issues, such as security, defense and foreign policy. Three, the new rules also affected the most ambitious within the party. The new institutional context has also changed the calculations of LDP Diet members who are aspiring to become party president (i.e., prime minister).

*The new preference for “popular” party leaders*

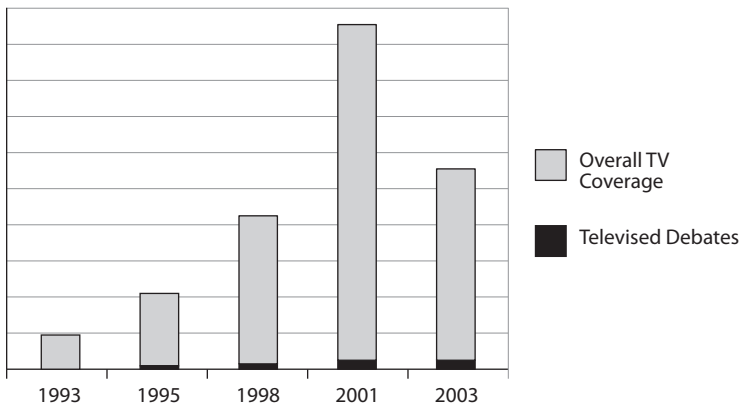
The new electoral system has increased the electoral importance of the party leader. Now voters cast their vote not only for one of multiple LDP district candidates on the basis of personal connections, but also for a specific party (as in the closed party list PR-tier) or for a single party candidate (in the SMD-tier). In the closed party list PR-tier, voters have only cues from the party leader’s statements and any formal or informal party platform that a specific party puts out. In the SMD-tier, even a popular, well-known individual candidate has to run as an official party candidate if she is to be effective at all as a Diet member. For less well-known candidates, the reputation of their party becomes a crucial factor in determining their electoral chances. A popular policy platform and a popular leader’s face thus become important assets at the polls. In many ways, casting a vote for a specific party in the PR-tier and casting a vote for a particular candidate in the SMD-tier means voting for the respective party leader to become prime minister.

Rank-and-file politicians, for totally selfish reasons, developed an incentive to choose a popular party leader capable of becoming both a good prime minister and appealing to the electorate. The increased importance of the party president with regard to the electoral fortunes of the rank-and-file also brought about a further weakening of the factions as a mechanism to select party leaders. In 1995, for the first LDP presidential election that took place after the 1994 electoral reform, the rank-and-file strongly opposed the usual behind-the-scenes



negotiations among faction leaders to select a new party president. Elections were thus called, and candidates such as Koizumi Jun'ichiro ran without faction backing. The factions' role declined more visibly when Kajiyama Seiroku left the Obuchi faction in the 1998 round of the party leader selection to run for party president against his former faction leader, Obuchi Keizo.<sup>12</sup> That Kajiyama gathered more than one hundred votes from his fellow LDP Diet members suggests that some members ignored the instructions of their faction leaders and voted for Kajiyama instead. In the process of selecting a party president, policy debates also surged in importance. Again, this is consistent with the fact that the rank-and-file need either a popular leader or a popular policy platform to advance their own electoral chances. Figure 11.1 shows that public debates among candidates for the LDP party presidency became a new norm after 1995.

Figure 11.1 Media coverage of LDP presidential race



Note: The black bar represents the number of times debates among candidates for the LDP presidential race were televised. The gray bar represents the overall TV coverage of the presidential race, as listed in *TV Guide*. Only those years in which the LDP held elections to select their leader are included.

*The removal of disincentives for cultivating security-related policy expertise*

Policy areas such as defense, security and foreign policies used to be very unpopular among LDP Diet members. This was because policies that addressed the collective good of the whole nation were “nondivisible” and so gave zero electoral returns under the MMD/SNTV mechanism, which required constant oiling of one’s personal political machine by distributing “pork.” Under the old electoral rules, any time and effort spent cultivating expertise in these areas was seen as time wasted. The 1994 Electoral Reform removed the disincentives for efforts to cultivate expertise in nondivisible issue areas. After the Lower House elections in 1996, Japanese politicians, as a rule, became freer to pursue their interests in the issues of security, foreign policy, and defense. In other words, Japanese politicians today face fewer penalties against engaging in policy debates in these areas. The upgrading of ministerial positions related to defense/security and foreign policies that have taken place since the

**Table 11.1:** *Comparison of experience of the posts related to the policy of which minister takes charge*

	<u>Japan Defense Agency</u>	<u>Ministry of Foreign Affairs</u>	<u>Ministry of Finance</u>	<u>Ministry of Economy, Trade, and Industry</u>
1981–1996	30.0%	36.4%	60.0%	33.3%
Post-electoral reform, 1997–1999	33.3%	66.7%	66.7%	66.7%
Post-abolishing of Government Commis- sioner System, 2000–	75.0%	60.0%	75.0%	20.0%

*Source:* Kokkai Binran.

*Note:* The first period is from the Suzuki Zenko cabinet to the first Hashimoto Ryutaro cabinet. The second period is from the second Hashimoto Ryutaro cabinet to the first Obuchi Keizo cabinet. The third period is from the first Obuchi Keizo cabinet (reshuffled) to the Abe Shinzo cabinet.

institutional reforms also support the view presented here (Table 11.1 and Table 11.2).

Furthermore, the demise of the factions and new political reforms that strengthened the position of politicians vis-à-vis the bureaucracy also increased the political value of gaining policy expertise. Recall that under the old MMD/SNTV system, electoral needs necessitated the presence of factions. As was previously argued, with the main institutional infrastructure eliminated as a result of the 1994 reforms, factions continued to weaken. This meant that factions also began to lose control over the allocation of positions within the LDP and the cabinet. Under the faction-based allocation of positions, one's policy expertise mattered very little. As the political fortunes of the factions waned, other important political reforms were implemented that further weakened faction-based politics. Put simply, these reforms increased possible political return on policy expertise and were generally aimed at concentrating power in the hands of elected officials rather than bureaucrats.

**Table 11.2:** *Four indicators of the Japan Defense Agency ministers in four periods*

	<u>Number of terms elected</u>	<u>Experience of minister</u>	<u>Experience of Sanyaku</u>	<u>Defense- related posts</u>
1981–1996	6.05	20.0%	0.0%	30.0%
Post-electoral reform, 1997–1999	5.33	33.3%	0.0%	33.3%
Post-abolishing of Government Commis- sioner System, 2000–	6.38	37.5%	25.0%	75.0%

*Source:* *Kokkai Binran*.

*Note:* The first period is from the Suzuki Zenko's cabinet to the first Hashimoto Ryutaro's cabinet. The second period is from the second Hashimoto Ryutaro's cabinet to the first Obuchi Keizo's cabinet. The third period is from the first Obuchi Keizo's cabinet (reshuffled) to the Abe Shinzo's cabinet.

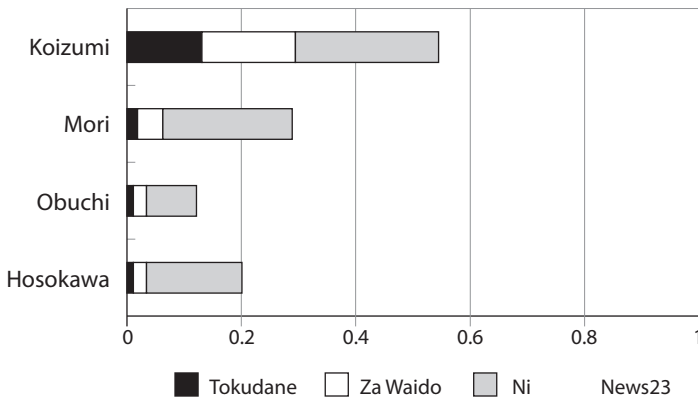
As part of these reforms, the government commissioner (*seifu-iin*) system was abolished, whereby bureaucrats were appointed as special commissioners to take part in Diet sessions to answer questions in lieu of their ministers. Instead, the cabinet was significantly expanded to appoint more Diet members as junior ministers. The new emphasis on the importance of policy expertise was highly compatible with the removal of disincentives for policy specialization. Furthermore, in the context of a new power struggle between faction leaders and the party president, the latter, in his capacity as prime minister, began to use policy expertise as a requirement for appointing his cabinet ministers and advisors—a newly created position in the wake of political reforms in the late 1990s.

*New incentives for the ambitious*

The changes discussed so far have also affected the most ambitious of the Diet members—the party leader or prime minister and those next in line. The new demands from rank-and-file politicians for a popular leader changed the terms of competition for the prime ministership. A successful contender had to clear the hurdle of a series of public, televised debates in which fellow party members attempted to evaluate how he might fare in the public eye. A new, aspiring leader thus had to be a photogenic, skilled communicator. Once elected party president and prime minister, he had to maintain his popularity to secure his own reelection as prime minister and, more immediately, help his party win the election. Figure 11.2 illustrates how prime ministers have become increasingly exposed to the media, providing evidence to the claim put forth here that the new institutional context is making Japanese leaders more extroverted.

The need to attract media attention in terms of leadership style and policy content has made certain security and foreign policy issues a highly desirable tool for candidates to demon-

Figure 11.2 Media exposure of prime ministers



Source: Ikuo Kabashima Seminar's data on the number of times Prime Minister and his cabinet was listed in the program guide for the four major news shows. The figure was provided to Estévez-Abe by Taku Sugawara, and is based on the data collected by students in Ikuo Kabashima's seminar.

Note: Tokudane, Za Waido, NewsStation (Ni) and News23 are all names of TV news programs. The figure was provided to Estévez-Abe by Taku Sugawara, and is based on the data collected by students in Ikuo Kabashima's seminar.

strate their leadership qualities. It is important to note here that the top-down nature of certain policy issue areas has made them attractive policy areas for the leader to fall back on. Former Prime Ministers Koizumi Jun'ichiro's and Abe Shinzo's attention to the issue of the kidnapping of Japanese nationals by North Korean authorities in the 1970s and 1980s provides a good example of this new extroversion in response to international demands. In this context, the greater concentration of power in the prime minister and his cabinet—the results of the political reforms in the late-1990s—means that political leaders not only have a new incentive to be extroverted in security and foreign policy issues, but also a greater capacity for exercising leadership.

*Institutional Resources  
and the Prime Minister's New Capabilities*

John Campbell once called Japanese defense policy “the politics of indecision.”<sup>13</sup> The 1991 Gulf War was one example of this indecisiveness, when Japan’s financial contributions to the Allied forces (in excess of \$15 billion) were criticized as being “too little, too late.” A lack of prime ministerial leadership, the inattention of rank-and-file politicians, and bureaucratic turf battles were cited as primary reasons for the Japanese government’s failure to respond to the crisis.

Japan’s response after the 9/11 attacks came in stark contrast to the case of the Gulf War. Within a week, Prime Minister Koizumi announced the Seven Basic Measures of the Japanese government, which included sending the Self Defense Forces (SDF) to Afghanistan in support of US and coalition forces. Within two months, the Anti-Terrorism Special Measures Law passed the Diet, enabling the Seven Basic Measures to be implemented. Soon after the legislation, Japan dispatched SDF vessels to the Indian Ocean and began supporting the United States and other forces in fueling and in radio detection and ranging. Although the law was enacted as temporary legislation with a two-year term limit, the Diet extended the term for two more years in 2003, another year in 2005, and again in 2006.

Why did such a major change in policy occur? New incentives for Japanese politicians to be more “extroverted,” together with their enhanced capabilities to exercise leadership, are the key factors that brought about this change. The political reforms in the late 1990s concentrated power in the prime minister and cabinet and brought about changes in the legislative process.

*Enhanced statutory authority of the cabinet and its secretariat*

Although the Japanese government had undergone continuous small administrative reforms since the 1960s to enhance the power of the cabinet and the prime minister, it was Hashimoto

Ryutaro who, as prime minister, planned a dramatic reform and implemented it in 1997 as the minister for administrative reform. The purpose of the reform, clearly articulated in the final report from the Administrative Reform Conference, was to establish an administrative system better able to make comprehensive, strategic and agile decisions, primarily by creating a mechanism to enhance the leadership of the prime minister.<sup>14</sup>

The revisions of the Cabinet Law in 2000 further strengthened the institutional authority of the prime minister and the cabinet secretary, giving them the “right to propose (*hatsugi ken*)” important basic policies at cabinet meetings<sup>15</sup> and to “plan and draft plans (*kikaku ritsuan*).<sup>16</sup>” These changes gave the cabinet secretariat legal authority to initiate policy independently from ministries and to preside over the policy-making and coordination process.

Since then, more than ten pieces of legislation have been initiated and administered by the cabinet secretariat, including the Anti-Terrorism Special Measures Law of 2001.<sup>17</sup> Before 2000, only two laws were administered (*shokan*) by the cabinet secretariat—the Cabinet Law, and the Law on the Security Council of Japan. From the point of view of the individual ministries, giving up the authority to “initiate” laws is not a small matter: the “initiation” of laws means that the ministry in charge will write the draft of the bill itself, which eventually will define the law’s bureaucratic scope. That ministers would generally prefer to keep matters related to what they see as their own “turf” in their own hands is understandable. So was their strong resistance to this change during the deliberation of Hashimoto’s administrative reform.<sup>18</sup>

The importance of the change, on the other hand, extended not just to the ministries, but to politicians as well. Giving the cabinet secretariat the authority to administer laws meant that old legislative processes could be changed. Traditionally, when the government initiated a bill, the relevant ministry would

negotiate with the ruling party prior to cabinet approval. This meant that different *zoku* politicians had a chance to influence the content of the bill before it was introduced to the Diet.<sup>19</sup>

In contrast, under the new rules, the prime minister's leadership in the legislative process is enhanced, whereas the old *zoku* influence is diminished. The cabinet secretariat, with its new statutory authority and with the blessing of the prime minister, could (1) gain informal cabinet approval before negotiation with the party, (2) deal with multiple *zoku* at once and diminish one *zoku's* leverage, and (3) prior to introduction of the bill to the Diet and even prior to negotiation with the LDP, negotiate with coalition partners and opposition parties as a representative of the cabinet and the prime minister. Although not all bills would be or should be introduced in this fashion, that the prime minister has gained a legislative capacity, to be used at his discretion, is of great significance.

*Enhanced organizational capacity of the cabinet secretariat*

Strengthened statutory authority does not guarantee enhanced cabinet leadership unless those who support the cabinet, politicians, and bureaucrats, have the capacity to fulfill their role. Initiating and administering a law is not an easy task, since it requires enough expertise to draft a bill and to be able to deal with the Diet deliberations. The increased attention to the positions of Chief Cabinet Secretary (*kanbo chokan*) and Deputy Chief Cabinet Secretary (*kanbo fukuchokan, seimu*) is an admission of the fact. When the cabinet secretariat administers a law, the Chief Cabinet Secretary must respond to questions at the Diet. In addition, he must also serve as the cabinet spokesperson, giving press conferences twice a day. A reflection of his increased importance, the Chief Cabinet Secretary is now officially listed above the five remaining cabinet members in order of succession to the prime minister and has, in effect, become the deputy prime minister.<sup>20</sup>



The role of the administrative Deputy Chief Cabinet Secretary (*kanbo fukuchokan, jimu*) has increased alongside the expanded role of the Chief Cabinet Secretary. Administrative Deputy Chief Cabinet Secretaries are usually selected from the Ministry of Home Affairs and have a much longer tenure than prime ministers. Therefore, their institutional memory has been crucial to prime ministers, especially at the beginning of their administration.

However, it is obvious that these three people cannot do the job of supporting the prime minister by themselves, especially given the enhanced statutory authority of the cabinet secretariat. The staff members working for the cabinet secretariat, mostly bureaucrats seconded from ministries, were generally considered to be fighting on their home ministry's bureaucratic turf in the secretariat, and such organizational arrangements were not conducive to overcoming the turf battles to work for the prime minister and his cabinet. A number of measures were taken to overcome this problem.

The first was the establishment of a cabinet office to support the cabinet secretariat in making plans and arrangements to integrate the policies of each ministry as well as the policies of new councils within the cabinet office, such as the Council on Economic and Fiscal Policy. Furthermore, a number of new politically appointed positions were introduced. With an executive order, the prime minister could now appoint many personal assistants to the prime minister.<sup>21</sup> In addition, the prime minister could now appoint up to five special advisors instead of three. The appointment of Okamoto Yukio, a former Ministry of Foreign Affairs (MOFA) official, to be in charge of Iraq reconstruction during the Koizumi administration is one example. Even more significant, perhaps, is that the three new positions of assistant chief cabinet secretaries have become politically appointed positions.

The second measure to assist the prime minister was a drastic organizational reshuffling. The three offices of Internal

Affairs (headed by a Ministry of Finance official), External Affairs (Foreign Affairs), and National Security Affairs (Japan Defense Agency) were abolished and replaced by three Assistant Chief Cabinet Secretary (*naikaku kanbo fukuchokan ho*) positions, under whom would work about 100 staffers. Although some division of labor among the three does still exist, and only former bureaucrats have been appointed as the Assistant Chief Cabinet Secretaries, it has been argued that the fact that they can be politically hired and fired has heightened the sense of loyalty to the prime minister. Furthermore, ad hoc policy groups were established for issues involving more than one ministry. These groups are formed and dissolved as necessary, and their legal standings vary by laws, government orders, or without any legal basis. For example, in the case of Iraq policy, the “Supporting Iraqi Reconstruction” room was established. The establishment of the ad hoc group contributed to the increased size of the secretariat, which is currently approximately 700.

Third, the Security Council of Japan, long considered an ineffective, rubber-stamping institution, gained a new life. Established in 1956 as the Defense Council, the Security Council’s role, as written, was “when asked by the Prime Minister, to deliberate on important matters related to the security of Japan and to respond (present a plan) to the Prime Minister,” as well as to “voluntarily offer advice to the Prime Minister on matters related to national defense.” In 1986, the role of “responding to national emergencies” was added to its job description, when Prime Minister Nakasone Yasuhiro tried to revamp the moribund institution, renaming it the Security Council.

The Security Council, however, did little of that. Defense Council (later Security Council) meetings were not held at times when important security policy decisions were made, such as the revision of the US-Japan Security Treaty, or in critical emergency situations, such as the defection of a Soviet fighter pilot to Hokkaido in 1976. Instead, they were held two or

three times per year, primarily to discuss matters concerning the defense budget. Furthermore, due to its institutional legacy of having been established to restrain the power of Prime Minister Yoshida Shigeru and the pre-war military, it was considered not a means to enhance the power of the prime minister or to utilize the Self Defense Forces but instead to keep a watchful eye over the two.

The 2001 central government reform opened new possibilities for the Security Council. The statutory authority and organizational capacity of the cabinet secretariat, which had long been in charge of administrating Security Council meetings, was enhanced. More importantly, Prime Minister Koizumi and his staff began to consider the Security Council an important mechanism not only for building consensus among its members but for creating momentum for the government to come up with a concrete plan and announce its intentions to the public.

Furthermore, although relatively unnoticed, the Law on the Security Council of Japan was revised alongside the passing of the Emergency Law in 2003. It has now been written into law that the Security Council is in charge of identifying an emergency situation and coming up with basic guidelines (*taisho kihon hoshin*) to deal with the situation. To effectively fulfill this role, the Contingency Response Committee (*jitai taisho senmon iinkai*),<sup>22</sup> a committee consisting of bureau-chief level officials of relevant ministries and the Joint Chief of Staff of the SDF, was established. Although (fortunately) this committee has not yet convened in an emergency situation, committee members have met on a regular basis (once a month). Members say that the meetings have been successful and contribute to interagency coordination.<sup>23</sup>

In sum, the capacity of the prime minister, the cabinet, and the cabinet secretariat has been strengthened, both in terms of institutional (statutory) authority and organizational capacity. This has made possible major changes in the legislative process.

The cabinet secretariat is now in charge from the beginning to the end, giving the prime minister more capacity to exercise top-down leadership.

*Japan's ideal circumstances for reform*

It is important to point out that although these institutional changes would not have happened without the desire of the political leaders to become more “extroverted,” Japan was in a particularly good position to achieve reform. First, the financial crunch faced by the government after the burst of the economic bubble was great enough to drive the public, the politicians, and the bureaucrats to believe that Japan needed to “trim the fat” from the government and reorganize it to be more efficient and productive. Although there were many methods recommended, almost all political parties, the media, and policy think tanks believed administrative reform was a necessity.

Second, Hashimoto Ryutaro, who became prime minister in 1996, was well-versed in policy matters, especially in administrative reform, since he had finished privatization of the national railways in 1987 as the Minister of Transport. Hashimoto once stated that he would achieve the administrative reform even if he were “covered with flames.”

On the other hand, it is unclear whether he was able to take advantage of the enhanced power of the prime ministership and presidency provided by the administrative and the electoral reforms. He faced serious struggles with LDP members whose vested interests would be damaged by the reforms. These struggles were often reported through the media, but the public could not see how they would be settled as the reforms progressed.

That Hashimoto preserved the institution of faction-based appointments in organizing his cabinet implies that his leadership was under the influence of factions. He might have muddled through by adopting and balancing demands from the factions

who sought to maintain their vested interests. It is also conceivable that although factions were superficially supportive of the reforms in public where no one would dare to oppose them, they resisted the leader when the reforms brought them substantial detriments. At any rate, Hashimoto successfully laid all the groundwork for the reform. However, because he left office after a loss in the Upper House election in 1998, he did not enjoy the benefits of the new system created through the reforms he had labored to install.<sup>24</sup>

But these institutional changes will not matter if political leaders do not utilize the new capacity now at their disposal. In the next section, we will examine how extroverted leaders actually utilized the new set of institutions in the Diet and expanded Japan's security commitments.

#### *Extroverted Leaders:*

##### *Administrative Change and Increased Security Commitments*

The power of the LDP president and the prime minister was enhanced by electoral and administrative reforms. These institutional changes alone, however, do not guarantee strong leadership. An institution is no more than a tool. How well or poorly it is used depends on the intention and capability of the user.

It is hard to tell whether Obuchi Keizo, who succeeded Hashimoto, and Mori Yoshiro, who succeeded Obuchi, mastered the new systems, because their terms in office were simply too short. In contrast, it would be hard to deny that Koizumi Jun'ichiro made skillful use of the new systems in advancing his reforms and implementing his pledges.<sup>25</sup>

Koizumi was a member of Mori's faction. As a candidate, Koizumi always maintained a relatively independent position, earning a reputation for being ruthless—a "*henjin*" or strange fellow—within the LDP. He ran unsuccessfully for LDP president twice before finally winning in 2001. In his losses, he had the smallest number of votes among the candidates because he did

not or could not depend on the power of the factions. He became president because he took advantage of the new electoral system for LDP president.<sup>26</sup>

In 2001, after the change in electoral rules for the presidency, LDP chapters, except those in Hiroshima and Yamaguchi, decided that to select their top leader behind closed doors—as they had done in the selection of Mori Yoshiro—would damage the LDP's popularity. They agreed to conduct voluntary preliminary elections in their prefectures and accordingly gained three ballots each in the main election, where every Diet member has one ballot. Whereas other candidates placed less significance on the preliminary elections, Koizumi seized them as an opportunity to initiate remarkable campaigns aimed at the public as well as LDP members. He chose as an assistant Tanaka Makiko, who enjoyed almost as much popularity among the public as Koizumi himself.<sup>27</sup> He finally won first place in 43 out of 47 prefectures in the preliminary elections and became the LDP president with twice as many ballots as Hashimoto, who came in second in the main election.

After Koizumi took office, he made skillful use of the system Hashimoto and his successors had created. He first took the unprecedented step of organizing his cabinet with no consideration of factional demands. The appointment of Takenaka Heizo to the Council on Economic and Fiscal Policy is an even more dramatic example of Koizumi's leadership. As a special minister, Takenaka effectively played manager with directions from the chair of the council, Koizumi himself. The council established a basic policy for, and took the initiative of compiling, the budget, a task that had long been part of the duties of the Ministry of Finance. Furthermore, the council played a controlling role in major policies, such as financial system reform, promotion of administrative decentralization, regulatory reform, reform of the taxation system, privatization of the postal system, economic growth strategies, and so on.

Decisions in the council were often made without the agreement of the ruling parties, including the LDP, and even without discussion with the parties. Koizumi, in short, had established a top-down decision-making style.<sup>28</sup> Although he often faced resistance from the LDP as well as from opposition parties, he overcame it with his authorized power and strong public support.<sup>29</sup> LDP Diet members were afraid that strong resistance to Koizumi would potentially keep them off the list of official nominees and lead to the erosion of their public support. In fact, this did happen in 2005 after privatization of the postal system was voted down by legislators in the Upper House.<sup>30</sup>

Koizumi also took strong initiatives in terms of foreign and security policy, although nothing too conspicuous. The initiative he took in diplomacy with North Korea was well received. The process of getting back the abduction victims from North Korea, which included Koizumi visiting Pyongyang on two separate occasions, was led not by the Foreign Ministry but, in fact, by the cabinet secretariat.<sup>31</sup> In the process of legislating the Special Anti-Terrorism Law, Koizumi gained the consent of the LDP without a party review and before submitting the bill, which had been prepared by a special team within the cabinet secretariat.<sup>32</sup> Furthermore, when Japan dispatched the SDF to Iraq, Koizumi decided unilaterally to support the United States and organized a special task force to prepare a bill without preliminary explanation to the ruling parties.<sup>33</sup> All of these actions were considered departures from the traditional bottom-up and consensus style of policy formation.

Although it was realized during the Abe administration, the upgrade of the Defense Agency to the Ministry of Defense had long been a pending issue and was largely implemented under Koizumi. Within the Minister of Defense's new, expanded responsibilities were the right to call cabinet meetings, make budget requests to the Ministry of Finance, and even enact ministry ordinances under his/her own name.

Moreover, it was under Koizumi that the possibilities of establishing a National Security Council of Japan (tentatively JNSC) modeled after that of the United States, and of developing high quality intelligence services, began to be discussed. Although they have not yet been realized, the government, the LDP, and even the DPJ are currently developing studies on these issues.<sup>34</sup> If the JNSC and intelligence community were established, the power of the prime minister would be further enhanced, although again, the performance of the system would depend on the executive's ability to utilize them.<sup>35</sup>

It is noteworthy, at any rate, that most distinct shifts in the security policies of Japan were achieved under Koizumi's administration, from 2001 to 2006. This might be simply because his term was longer than those of his predecessors or because a cluster of external demands occurred during the period. However, it is also plausible that his initiative, powered by the institutional changes, made quick decision-making possible and helped resolve pending issues. His performance may also have inspired policymakers and bureaucrats engaging in security issues, who had been weary of the complicated and slow-moving decision-making process. Koizumi actually utilized the new set of institutions to respond to the attacks on September 11, 2001.

#### *Antiterrorism Legislation after 9/11: A Case Study*

The Japanese government responded to the attacks on September 11 in ways unthinkable in the past in terms of speed, content, performance, and, most importantly, in terms of who "took charge." The top-down legislative procedure instituted by Koizumi was almost the reverse of the traditional legislative procedure. The process may be examined in two stages: immediate response and pre-Diet negotiation, and Diet session and policy implementation.<sup>36</sup>



*Stage I: Immediate response and pre-Diet negotiation*

Three aspects are worth noting in the initial stage of policy making:

- The cabinet secretariat (Furukawa Study Group and staff), rather than individual ministries, drafted the initial response plan.
- The Security Council was effectively used by the prime minister to speed up the legislative procedure.
- The influence of LDP politicians was intentionally minimized.

First, the staff of the cabinet secretariat responded swiftly and effectively immediately after news of the attack came in. This response was facilitated by the newly enhanced organizational capabilities. Furukawa Teijiro, the Deputy Chief Cabinet Secretary (administrative), initiated what was later called the Furukawa Study Group, bringing together two bureau chiefs from MOFA, the administrative vice minister of the Defense Agency and the Defense Policy Bureau chief, the vice minister of the Cabinet Legislative Office (CLO), and the two Assistant Chief Cabinet Secretaries (one from MOFA, one from the Japan Defense Agency [JDA]). The inclusion of the CLO official was especially crucial because it prevented the CLO from intervening in later stages and creating a political nightmare.<sup>37</sup> This group was especially instrumental in drafting the six-point response plan (September 12) and the seven measures (September 19).

Second, on the evening of September 11, Shinzo Abe, then Deputy Chief Cabinet Secretary, proposed to hold an emergency Security Council meeting. A surprise to many, it was the first time that the Security Council had convened in the case of an international emergency situation. According to author interviews with one of the Assistant Chief Cabinet Secretaries, Abe had been eager to revamp the Security Council even before the

9/11 attacks. Another official mentioned that Koizumi was also thinking about utilizing the Security Council, especially in lieu of a full cabinet meeting, to speed up decision making. He also suggested that this process—convening the Security Council immediately after a crisis, drafting guidelines for a response, seeking full cabinet approval of government measures, establishing of response headquarters in the cabinet secretariat, and coordinating implementation policies by headquarters—should become the de-facto response scenario for later contingencies.

Third, LDP politicians were intentionally excluded from the initial response process. In fact, the cabinet secretariat staff had explained the government's plans to the two coalition partners and the opposition before eventually presenting the plan to the Bukai within the LDP. In addition, because everyone agreed that speed was important, a joint council meeting (including Defense, Foreign Affairs, and cabinet committees) was held, effectively minimizing opposition from committee members. This was Koizumi's strategy, given that he was well aware of the strong support he had from the public. However, this strategy was mainly possible because the initial response had been quick and the government plan had been effectively drafted within the cabinet secretariat, rather than in separate ministries.

*Stage II: Diet deliberation and policy implementation*

In the second stage, the following two aspects are worth noting:

- the cabinet secretary and the prime minister responded to the most important questions in the policy debate;
- in the proceedings, speed was valued over consensus.

Within the Diet, the cabinet secretary and the prime minister himself fielded the most difficult questions on the response plan, whereas the Defense Agency and MOFA officials provided information on the details. This happened because the cabinet secretariat sponsored the bill (in his capacity as the

bill's initiator and administrator), but the process had the added effect of giving the impression to the public that the prime minister and his cabinet were fully in charge.

Second, speed was prioritized over full consensus. Once again, Koizumi and his staff did not try very hard to gain support from unsatisfied LDP party members or to come up with a compromise with the DPJ. In the end, public opinion polls show that this strategy did not hurt the prime minister much. In both Stage I and II, Prime Minister Koizumi took every opportunity to speak directly to the public, giving speeches at every turn of event. This helped secure public support for his top-down leadership in a way that former prime ministers were typically reluctant to do.

### *Conclusions*

Although it is undeniable that Japan has enhanced its security commitments in this decade, theories differ markedly as to why. Since the Gulf War, Japan has faced dynamic changes in international structures and frightful events, such as the September 11<sup>th</sup> bombings and missile launchings by North Korea. Events such as these, combined with diminishing antimilitary sentiment among a Japanese public born long after World War II have likely pressured Japan to increase its security efforts. Most Japanese people feel external threats and express their support for the SDF and the US-Japanese Security Treaty in order to defend Japan.

Nonetheless, in this chapter we have argued that the most essential factor favoring Japan's new international "extroversion" has been domestic institutional reform. Political leaders, especially the prime minister, have gained a new capacity to take a strong hand and be actively involved in foreign policymaking. With a new, streamlined decision-making process, the Japanese government has gained an improved capability for quick, effective action. Furthermore, the prime minister can accentuate

certain issues over others, as Abe did with the North Korean abduction issue, and can even determine policy direction if he wishes. In addition to electoral reforms, which have meant that politicians must increasingly be able to seek and win public support, this increased capacity for institutional “extroversion” has given politicians further incentives to become more “extroverted” in terms of both policy style and policy preference. This fact will accelerate the politicization of the defense policymaking process in Japan and has a few notable implications for the alliance relationship with the United States.

First, the shift from bureaucratic to political leadership in defense and foreign policy means that more actors will be interested in getting involved in defense matters. Although more attention should generally mean an increased appreciation for the alliance, there is a risk that Japan’s actions will be less predictable and possibly more volatile. When bureaucrats ran the show, for better or worse, continuity was the rule not the exception.<sup>38</sup> From now on, however, when there is political will, foreign policy decisions will be made more quickly and more decisively (as in the case of sending SDF troops to Iraq). The downside may be that the volatility may not be desirable in a stable alliance partner.

Second, public opinion will matter more in decision making, a possible concern for the US-Japan alliance. As we have argued, political leaders have, out of necessity, become more sensitive to what the public wants. According to the Cabinet Administrative Office Poll and a survey of SDF officers and the civilian elite, conducted by Hikotani,<sup>39</sup> although the general public is generally supportive of the US-Japan alliance relationship, their support is not as strong as that of elites or SDF officers, who stand as guarantors of the “administrative alliance.” Therefore, as public opinion begins to matter more and more, officials in both countries must maintain an awareness of its potential political consequences.

## Notes

- 1 Special thanks to Frances Rosenbluth, Yale University, for the opportunity to write this chapter, and Peter Li, the National University of Singapore, Kaneko Masafumi and Mohara Jun, PHP research Institute, who helped the chapter from various aspects of Japan.
- 2 See Calder (1988), chapter 10.
- 3 Tatebayashi (2004) provides empirical evidence to show that this kind of “dividing” votes indeed occurred. Also see Cox, Rosenbluth and Thies (1999) on faction.
- 4 The PR was introduced to the large nationwide district after the 1983 elections. Prior to this change, SNTV applied.
- 5 The National Council for Building a New Japan, a volunteer group that consists of business people, academics, labor union members, journalists, and bureaucrats began in 2004 to hold a symposium to evaluate party manifestos before every national election. Many other organizations, including the media, inaugurated similar events. These activities have focused public attention on manifestos.
- 6 See Nagahisa (1995), especially chapter 5.
- 7 This reform also increased the penalty on politicians for violating campaign regulations.
- 8 Takenaka Harukata shows that the financial role of *habatsu* almost immediately dropped as a result. (Takenaka 2006, 155). This reform had little effect on highly concentrated parties such as the Japan Communist Party (JCP) and the Clean Government Party (*Komeito*). The JCP in particular has always had a sound financial basis based on its revenue from subscriptions to its party paper, *The Red Flag* (Akahata).
- 9 For more details on the 2005 election, see Estévez-Abe (2006).
- 10 For a view that emphasizes the role of political leadership, see Richard Samuels, *Machiavelli's Children* (2003).
- 11 See Uesugi (2006), p. 175.
- 12 See Otake (2003).
- 13 See Tomita and Sone (1983), pp. 71–100.
- 14 The final report from *Gyosei kaikaku kaigi* (the Administrative Reform Conference) published in December 1997.
- 15 Revised Article 4 of Cabinet Law.

- 16 Revised Article 12 of Cabinet Law.
- 17 The 1992 International Peace Cooperation Law was initiated by the Cabinet Secretariat, but was not administered by them.
- 18 Shinoda (2004).
- 19 A *zoku* politician is one who has served in one or more politically appointed posts at a given ministry, usually offering valuable expertise to factions within the LDP.
- 20 Formerly, the upper limit was five.
- 21 *Jitai taisho senmon iinkai* consists of a Deputy Cabinet Secretary (political), a Deputy Cabinet Secretary (administrative), *naikaku kiki kanri kan*, *naikaku kanbo fukuchokan ho*, *naikaku joho kan*, bureau-chief (*kyokuchō*) level bureaucrats from the Ministry of Defense, National Police Agency, Coast Guard, Ministry of Land and Transportation, Resource and Energy Agency, Ministry of Economics and Industry, Ministry of Finance (Director of Customs Bureau and *zaimukan*), MOFA, Ministry of Justice, *shobocho*, and the Chief of the General Staff Office. There is also a subcommittee (director level), called the *renraku chosei kaigi*.
- 22 The proposal by the former Prime Minister Abe's expert study group to establish a "National Security Council" is not so much a radical departure from the past, as often reported, but rather a continuation of the recent changes discussed above. The main differences are: (1) fewer official members of the Security Council (prime minister, cabinet secretary, foreign minister, defense minister, plus more ministers as deemed necessary); (2) politicians as National Security Advisors (instead of politically appointed Assistant Chief Cabinet Secretaries with former defense bureaucrats currently playing that role); (3) meetings on a regular basis (twice a month); (4) a secretariat of about 10 to 20, including private sector experts and SDF officers (possibly smaller than the current staff size).
- 23 He left the office because of the bad performance of the economy and an increase in the rate of unemployment caused by a rise in the consumption tax.
- 24 Otake (2006) argues that a strong prime minister makes systems to strengthen his power but the system does not strengthen the power of the prime minister. He is correct because a strong man can make a system to empower him; but he is also wrong because this does not explain why he is as strong as such a system.

- 25 Iijima (2006), p. 6. Takenaka (2006), p. 142.
- 26 Iijima (2006), pp. 3–4, argues that such a campaign was the only way for Koizumi, a politician who lacked strong support within the Diet, to have a chance to win.
- 27 Many political scientists and journalists point out this as a proof of the enhanced power of the prime minister. See Otake (2006), p. 252, Takenaka (2006), pp. 173–177, Iijima (2006), p. 319, for example.
- 28 Otake (2006) argues that Koizumi took advantage of policies and the media to get public support. See also Iijima (2006), p. 38 and Mikuriya (2006).
- 29 The official nomination as a tool was used to discourage disaffection of the Kato group in 2000. Takenaka (2006) argues that Koizumi, as the leader of Mori faction that discouraged the defection, learned how to use the tool.
- 30 Shinoda (2007). Iijima (2006), pp. 143–158. Uesugi (2006), pp. 117–42.
- 31 Shinoda (2007). Otake (2006) p. 168.
- 32 Otake (2006), p. 179. Suzuki (2006), pp. 16–17.
- 33 Abe Shinzo advocated establishment of the JNSC in August 2006, one month before being elected as prime minister. After taking office, he organized a special conference to establish it in 2008. According to an official in the SDF, the main purpose of the JNSC is to strengthen power of the prime minister in decision making on security issues. In 1997, 2004, and 2005, three separate government councils submitted papers stressed the importance of creating an intelligence community. The paper submitted in 2005 focuses particularly on this issue. The PHP Research Institute also published an original report on the subject in 2006.
- 34 In this regard, Otake's argument that a strong prime minister creates systems to strengthen his power is quite reasonable.
- 35 Shinoda (2006), Ina (2002).
- 36 Interview with Furukawa in Shinoda (2006), pp. 88–89.
- 38 Masahiro Akiyama, then Director of Defense Policy Bureau of the Japan Defense Agency (JDA), calls this shift "from administrative alliance to political alliance." He reflects that he wrote a letter to Joseph Nye in 1995 during the Special Action Committee on Okinawa (SACO) negotiations mentioning that it may be the last time that bureaucrats have the "silent leadership" over defense policy, given

the increasing tendency of politicians to take the lead in defense policy. It is interesting in retrospect that he had predicted what was likely to happen next. See Akiyama pp. 82, 2002.

- 39 *Reisen go no Jieitai to Shakai: Jieikan Bunmin Elito Ishiki Chosa no Bunseki* (The self defense forces and society after the Cold War: analysis of the SDF officer-civilian elite opinion survey), with Hitoshi Kawano. *Boei Daigakko Kiyo* 92:March 2006.

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Asakawa Kan'ichi*

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