

American University in Cairo

AUC Knowledge Fountain

Archived Theses and Dissertations

5-1-1998

The role of Japanese development assistance in Japan's foreign policy

Mai Mohamed AbdelMoniem

The American University in Cairo AUC

Follow this and additional works at: https://fount.aucegypt.edu/retro_etds



Part of the [Political Theory Commons](#)

Recommended Citation

APA Citation

AbdelMoniem, M. (1998). *The role of Japanese development assistance in Japan's foreign policy* [Thesis, the American University in Cairo]. AUC Knowledge Fountain.

https://fount.aucegypt.edu/retro_etds/1280

MLA Citation

AbdelMoniem, Mai Mohamed. *The role of Japanese development assistance in Japan's foreign policy*. 1998. American University in Cairo, Thesis. *AUC Knowledge Fountain*.

https://fount.aucegypt.edu/retro_etds/1280

This Thesis is brought to you for free and open access by AUC Knowledge Fountain. It has been accepted for inclusion in Archived Theses and Dissertations by an authorized administrator of AUC Knowledge Fountain. For more information, please contact fountadmin@aucegypt.edu.

**"THE ROLE OF JAPANESE
OFFICIAL DEVELOPMENT
ASSISTANCE IN
JAPAN'S FOREIGN POLICY"**

**MAI MOHAMED ABDEL
MONIEM**

1998

Thesis
1998/57
57

The American University in Cairo
The School of Humanities and Social Studies

**"The Role of Japanese Official Development Assistance in
Japan's Foreign Policy"**

A Thesis Submitted to

The Political Science Department
In partial fulfillment of the requirement for
The degree of Masters of Arts

By
Mai Mohamed AbdelMoniem
Bachelor of Arts

May/1998

The American University in Cairo

1998
57

The Role of Japanese Official Development Assistance in
Japan's Foreign Policy

A Thesis Submitted By Mai Mohamed AbdelMoniem
to the Department Of Political Science
May/1998

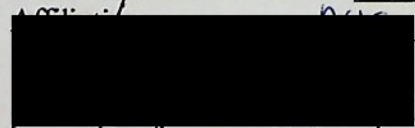
In partial fulfillment of the requirements for the
Degree of Masters of Arts

has been approved by

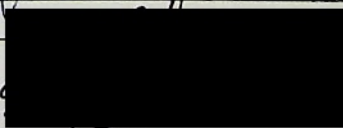
Dr. Earl Sullivan
Thesis Committee Advisor
Affiliation POLS

Dr. Ivan Ivekovic
Thesis Committee Reader
Affiliation AUC

Dr. Trevor Parfitt
Thesis Committee Reader


Department Chair

4 June 98
Date


Dean

June 4, 1998
Date

THE AMERICAN UNIVERSITY IN CAIRO

LIBRARY

Theses

Declaration to be signed by the author.

NAME... Mai Mohamed Abdel Moniem.....
TITLE OF THESIS... The role of Japanese Official
Development Assistance in Japan's Foreign
Policy.....
DEPARTMENT... P. Science..... YEAR... 1998... [Library no.....]

Please sign and date ONE of the following paragraphs:

1. The thesis may be consulted in the Library and photocopied.

Signed.. [Redacted] Date... 31 June / 1998

OR

2. The thesis may be consulted in the Library, but may not be photocopied. The restriction on photocopying will cease two years after the date below, unless I apply for, and am granted, its renewal.*

Signed..... Date.....

OR

3. The thesis may neither be consulted nor photocopied without written permission from me, or from the appropriate Head of Department if I cannot be contacted. This restriction will cease three years after the date below, unless I apply for, and am granted, its renewal.*

Signed..... Date.....

* Application for renewal of restrictions will be considered by the Librarian, the appropriate Head of Department and the Chairman of the Academic Board or his nominee.

Table of Contents

Introduction to Thesis	1
Chapter One: The Role of ODA within the Yoshida Doctrine	19
Chapter Two: Broadening the Scope of ODA: The Effect of the 1970s Upheaval	36
Chapter Three: ODA after the Plaza Accord	55
Chapter Four: The Role of ODA in the Post Cold War Era: The Economic Security Dimension	69
Chapter Five: The Role of ODA in the Post Cold War Era: The Military Security Dimension	82
Conclusion	105
Bibliography	118

To my parents, Dalia, Lamyia, Nihal, Haytham for your love and support

To Ashraf for helping me

List of Abbreviations

APEC	Asian Pacific Economic Cooperation
ARF	Asian Regional Forum
ASEAN	Association of East Asian Nations
DAC	Development Assistance Committee
EAEG	East Asian Economic Group
EPA	Economic Planning Agency
GATT	General Agreement on Tariff and Trade
JETRO	Japan External Trade Organisation
JICA	Japan International Cooperation Agency
MDBs	Multilateral Development Banks
MITI	Ministry of International Trade and Industry
MNC	Multinational Corporations
MST	Mutual Security Treaty
NAFTA	North American Free Trade Association
NSC	National Security Council
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
OECF	Organization for Economic Cooperation Funds
SDF	Self Defense Forces
UN	United Nations

Introduction

Japan's foreign policy is considered an "enigma" (Funabashi 8). Its vagueness rests on the status of being an "economic giant and military dwarf" (Funabashi 11). Its prowess in the international economic field is not matched politically (Funabashi 8-9). While aggressive Japanese trade and foreign investments have penetrated all regions of the globe, the Second World War legacy, its anti-war stance and insular cultural attitudes are seen as the reason behind the country's passive or "reactive" foreign affairs perspective (Yasatomo 35-43).

In 1987, Japanese investors bought nearly \$66.1 billion worth of assets in the United States. In the EU, the sum stood at \$25 billion out of an overall investment portfolio amounting to \$241 billion (Nelson 7). Indeed the impact of Japan's meteoric rise in international economic relations has been profound, transforming our traditional concepts of power (Nelson 7). Yet, its weak response to international security matters such as the recent Gulf crisis paints an opposite picture. Despite its \$13 billion contribution to the UN authorized operation, the Japanese government was unable to send its Self-Defense Forces to participate in the affair. It seemed incongruous given the fact that the Middle East region supplied nearly 70% of the country's crude oil imports (Nkrumah al-Ahram Weekly, 29 August-4 September 1996 p 8).

While Japan's economic power and influence in the global economy wealth have generated intense scholarly interest, the country's asymmetrical posture has intensified the debate as to the direction and nature of Japan's role in international relations. It has also been a factor behind the deep divisiveness and contradiction in scholarly views highlighting the "scholarly frustration" in identifying the nature of the country's political affairs (Drifte 5). This is exemplified in the three models that have been frequently used to depict the nature of Japan's international role: a) Japan as an international free rider; b) Japan as an international supporter; c) Japan as an international challenger (Inoguchi 26).

The concept of "free riding" is rooted in mercantilist assumptions. According to this idea, Japan is seen as a nation that acquired its economic success by maximizing the benefits and opportunities available in the international economic system but has given very little in return. Within this context, Japan accrued most of the political, military and economic goods available by allying with the United States. The United States has supported Japan militarily and economically yet critics have pointed out that Japan has done little in return. It has been reluctant to share some of the burdens by transforming its economic capability into a 'forward-looking' international diplomatic initiative (Inoguchi 26).

The second school contends that Japan is actually benefiting at the *cost of the* United States. Concentrating on the *aims* and *consequences* of its international economic policies, it is seen as the main factor behind the economic decline of its industrial partners, particularly that of the United States. It has risen not only as a threat in the global trading sector but has overtaken the financial markets as well. Moreover, Japan is seen as bent on completing its hegemonic plan by converting its economic success into military prowess, challenging that of the US (Inoguchi 26).

This model clearly fails and is no longer applicable when assessing the impact of the recent recession on the Japanese economy. The "bubble economy"¹ ended in 1992 yet little since has helped to overturn the recession tide. One of the biggest worries has been the effect of bad loans on the financial sector and consequently on the rest of the ailing economy. Japan has been engulfed by a crippling bank debt crisis reaching nearly Y79 trillion in 1997 (Economist December 20 1997 p 83). Added to this are fears of an industrial "hollowing out" as a result of extensive overseas investment in the wake of the yen appreciation, rising unemployment, aging population and a shrinking labor pool. These are just some of the most pressing issues facing the government today (Asher 227-30).

¹ A bubble economy overemphasises converting economic production to capital investment (Wood 72).

A less extreme version is held by the third school, which argues that Japan has acted internationally on the basis of cooperation rather than conflict. The latter has in fact increased its burden sharing within the US-Japanese framework. Japan has taken a more active diplomatic initiative within the region and internationally (Inoguchi 26). By the 1980s, there was a marked growth of its Official Development Assistance Program. In 1989, the ODA budget was doubled, reaching nearly \$40 billion. In FY 1990, this amount was increased to nearly \$50-60 billion (Sakurai 145). It has enhanced its military capability albeit only on the basis of defense and has taken a cooperative stance towards the issue of trade with its economic partners (Inoguchi 26). The 1992 "Global Partnership" policy adopted by both President Bush and Prime Minister Miyazawa and the addition of the Cross Services and Acquisition Agreement to the Mutual Security Treaty framework indicate a similar trend in the Post Cold War era (Langdon 84; Economist June 14 1997 p 67)

Which model best describes Japan? Focusing on the role of ODA, specifically the bilateral dimension, in Japanese foreign policy can attain clarity on the issue. It has been a central theme in the nation's economic and political strategies since the early days of the Post World War Two era. Yet its role within the *overall context* has been very much neglected. By concentrating on the dynamics of its development, important insights can be attained to explain the perspective and strategy taken by Japan.

ODA has been enhanced as a crucial foreign policy tool aimed at maintaining the nation's economic and security interests. By focusing on the dynamics and development of ODA from its inception to the present era, a clearer understanding of the direction and role of the nation's foreign policy perspective can be attained. This will also reflect on the degree of importance that can be attached to the role of aid within the scope of Japan's international relations. Focus on the genesis and development of ODA enables us to see that Japanese policy is not static.

Dynamics of ODA point to the evolutionary change of Japanese foreign policy *within* the framework of its alliance with the United States. The author contends that the direction that Japan

has taken during the Cold War period has been that of a transference from an *international free rider* to an *international supporter* rather than an *international challenger* within the context of its Alliance framework with the United States. Under the policy of 'international cooperation' Japan has emphasized the transformation of its economic power as the basis of its nascent political influence regionally and internationally. ODA has been instrumental in transforming Japan's gains into international responsibilities albeit at a slower rate than desired by its G-7 partners. However this has accelerated in the Post Cold War period. Under the aegis of the 1996 Tokyo Declaration, the role of economic instruments as a means of securing its interests have been emphasized rather than de-emphasized.

Theoretical perspectives

Japan's international outlook can be described as a pattern of continuity and change. Continuity is present in the role of the US-Japanese military security pact as the 'central nexus' of Japanese foreign policy. One author has described it as the "prism" through which Japan sees the world (Funabashi 7). Developments have taken place *within* this parameter during the Cold war period and even after its demise.

In classical balance of power theory, nations form alliances with other states "...who cannot readily dominate them" to "...prevent stronger powers from dominating them" (Walt 70). Applying this to the case of the Mutual Security Treaty (MST), Japan actively allied *with* rather than *against* a superpower. Yet given the logic of the theory, Japan should have allied with lesser powers such as Great Britain and France to counterbalance the rise of the two emerging superpowers namely the USSR or the USA.

On the other hand, the theory of bandwagoning provides a more satisfactory explanation of Japanese alliance behavior. Its thesis simply posits that weak states will join stronger states when facing an external intimidation. These temporary arrangements, since alliances tend to wane during

time of peace, are seen as a means of assuring the security of weaker states. Furthermore, Stephen M. Walt argues that:

Of course, excessive confidence in allied support will encourage weak states to free ride, relying on the efforts of others to provide security. Free riding is the optimal policy for a weak state, because its efforts will contribute little in any case (74).

This "optimal" option seems to explain the Yoshida strategy that used the MST as a means of maintaining Japanese defense expenditure to the minimum while pursuing its primary objective: economic development (Pyle 22-25).

However, bandwagoning theory gives a partial rather than complete explanation. Why did Japan ally itself with the country that has been responsible for the Nagasaki and Hiroshima tragedies? Why did Japan's leaders not opt to ally with the Soviet Union, the other superpower? Nor can it explain why the alliance did not fall apart after the Soviet threat collapsed in 1990.

Furthermore, while the theory aptly describes why alliances are made, its sweeping generalization does not sufficiently cover more complicated arrangements. In the case of the MST, it leaves little room to explain the effect of the US occupation on Japan and its subsequent influence on the country's politics and society nor does it adequately cover the United States role in cementing the alliance after the occupation ended. The theory depicts actors as free to jump in and out of alliances without allowing theoretical room for more complicated entanglements. In other words it is too simple to explain the development of a very complex bilateral relationship seen in the case of Japan and the United States.

Classical realist assumptions inadequately explain the Yoshida Doctrine. Revolving around the concept of national interest, realists posit that state actions are determined by this goal. The role of diplomacy and the military is to serve this ultimate objective (Morgenthau 542-544). If so, then

how can the "institutionalization" of the anti-war clause, a corner stone of the Yoshida doctrine, be explained? The doctrine's massive impact on the thinking of the future political generations of the Japanese leaders has relegated it as the basic framework whose parameters are the limits by which political and economic policy issues are articulated and implemented (Pyle 24-26). It has laid the ground for succeeding Japanese governments who have consistently used limitations such as the 1 percent ceiling on military expenditure and the three non-nuclear principles, to augment its pacifist stance (Pyle 25-27). To reverse the realist logic, Japan has voluntarily forfeited a crucial foreign policy tool.

The neo-realist paradigm provides a possible explanation of this apparent paradox. While classical realists leave little room for the role of economics, neo-realists acknowledge and incorporate it (Rosecrance 348-49). Japan's foreign policy during the post World War Two period follows a "mercantilist" orientation emphasizing "...a priority of national economic objectives over considerations of global economic efficiency" (Gilpin 293). Within this perspective, the "national interest" or what Gilpin defined, as "...what its political and economic elite determines it to be" is to pursue economic empowerment through economic means (Gilpin 293). It "maximizes" its role in the international economy "...at the expense of the others" (Gilpin 293). Japan protected its industries in a global liberal economic context (Gilpin 404).

A look into Shigeru Yoshida's policy in the years following the end of the American Occupation posits a similar direction. The legacy of the Yoshida doctrine espoused economic nationalism as the means by which Japan could develop its economy. Its race to "catch up with the West" emphasized the need to turn away from the prospect of remilitarization. Although the Pacifist constitution was forced on the nation by the US Occupation authorities, its nation-wide acceptance created the necessary political consensus on the issue of Pacifism (Pyle 26-27).

This also explains Yoshida's most enduring legacy, namely the US-Japanese alliance that allowed US troops to remain in Japanese bases as a means of assuring Japan's security and lessening

the burden of defense spending (Pyle 24). Although the US considered an alliance with Japan as vital to the containment of the Soviet Union and communism in general, the main motivation for Japan was securing American economic and military support behind its quest for economic development (Funabashi 7). Realist assumptions that posit that nations "are active in international politics are continuously preparing for, actively involved in, or recovering from organized violence in the form of war" do not explain the continued resistance by the Japanese government to complete remilitarization despite heavy pressure exerted by the United States (Koehane and Nye 171). It also consistently refused to join any collective military arrangement up to the peacekeeping operation in Cambodia (Pyle 24).

Although the American policy on the issue was based on the dictates of the Cold War, Japan placed a priority on domestic economic issues (Rix 22). Using its strategic importance vis a vis the United States, Japan was capable of using the alliance to advance its economic goals (Pyle 24-25). Hence under its mercantilist outlook, one can argue that the development of Japan's defensive capabilities during this period have been at an incremental pace and aimed mainly to appease the United States rather than on the basis of national interest (Rix 22). By securing the alliance, backed militarily and economically by US hegemony, Japan strove to benefit from the international liberal system while contributing very little (Nelson 7-8).

ODA's development during that period followed suit. Starting out as war reparations and later developing as a small aspect of Japan's "economic cooperation" program, aid giving was primarily used as a commercial tool (Dower 193). It was vital in opening up crucial Asian markets as targets for Japanese manufacturing industries (Dower 193). The economic policy of "export or die" meant that Japan was aggressively carving out strategic market niches to advance its international trade activity. Another pillar of the doctrine was assuring continuous and easy access to sources of critical raw materials and energy resources given the country's acute vulnerability in that respect. It was also the means by which Japan could gain membership in critical international

organizations such as the Development Assistance Committee (DAC) and the Organization for Economic Cooperation and Development (OECD). As Wan pointed out, aid was the means by which Japan "purchased" international recognition for its economic achievements" (Wan 91).

The Impact of Interdependency on the US-Japanese Alliance

While neo-realism provides a viable explanation for the first two decades, it falters in the wake of Japan's response to the international upheavals of the 1970s. From the 1970s to the 1980s, Japan's foreign policy underwent an evolution from narrow mercantilism to internationalization. The series of regional and international shocks during the seventies forced Japan to take a more active international and regional role on the basis of supporting the Alliance framework through increasing its share of "burden-sharing"(Orr 745).

The theory of complex interdependence gives a more appropriate explanation behind Japan's decision to support rather than continue to "free ride". Joseph Nye contends that the concept of interdependence entails vulnerability and sensitivities of one actor to the action of another. Interdependence marks an equitable distribution of power between two or more states. An unequal "diffusion of power" will result in the formation of a "dependent" relationship where mutual harm or benefits are not equally reciprocal (Koehane and Nye 138).

Nye's basic premise is that the nature of economic transactions today have transformed the realist notion of conflict as a means to a) preserve or; b) enlarge the power of a state. It posits that in the world of increased interdependency, cooperation rather than conflict is the best means of settling disputes. As relations between nations grow more complex as a result of increased economic transaction in all sectors, the benefits of utilizing force to maintain interests lessens (Koehane and Nye 138).

The humiliating defeat in the Vietnam War emphasized the diminishing capabilities of the United States at the regional level. The Guam Doctrine outlined decreasing US military intervention

in the Asian region (Buckley 134-35). American lessening tolerance, seen in President Nixon's New Economic policies, was vividly highlighted during the unprecedented textile dispute with Japan (Buckley 129).

In response of these changes, the Japanese government strove to support the alliance for multiple reasons. Over the years the economic aspect of the relationship had been quietly growing in importance. On the one hand, the US represented the largest market for Japanese products. On the other, the Japanese were also very well aware of the fact that it was the principal guarantor of the existing international liberal economic system that served as the "launching pad" for Japan's economic success. Japan was to benefit more by supporting the existing relationship than by allowing it to break down (Funabashi 7-8).

The elevation of the economic aspect of the bilateral relationship on parity with its security aspect is indicated by Japan's conciliatory response to the textile dispute (Buckley 129). It was an indication "...[that] the "low politics" of trade now rival the "high politics" of base and military cooperation (Buckley 123). In other words, the traditional hierarchical classification given to security matters was slowly breaking down, or to use the interdependency jargon it indicated "...a lack of clear hierarchy amongst multiple issues" (Koehane and Nye 182).

Faced with constitutional and political constraints placed on the Self-Defense Forces, Japan's rational alternative lay with accentuating rather than delinking from the bilateral relationship. Alongside coordination with the United States, Japan increased its active support through aid. However, the distinction has been the transformation of aid from a commercial tool to having political strategic purposes as seen in the formulation of the Comprehensive Security Policy (Orr 745-746).

Yet one cannot count out the geo-political factors behind Japan's decision to augment the alliance. Given the nature of Japan's economic structure (heavily dependent on trade) and natural resource vulnerability it relegated the nation highly sensitive to any disruption to the world economic

system. It also highlighted the extent of Japan's dependency on the smooth running of the international liberal system (Akaha 107).

In that light, ODA's linkage to Japan's pursuit of easy access to raw materials and energy resources has been accentuated during the upheavals of the 1970s. At the regional level and in the wake of the 1973 and 1979 Oil Crisis, the new American international policy directives pushed Japan to play a greater role. However, Japan was painfully aware that its pre-World War Two history alongside lack of domestic consensus constrained it from projecting its power militarily (Morrison 145). In response, Tokyo used aid as a means to placate tension and maintain its interests (Yoshitsu 9).

The economic success of Japan, recognized in the 1985 Plaza Agreement, served to further accentuate these considerations. The occasion spelled out several points: a) increased Japan's influence in global economic affairs; b) the increase of Japanese foreign direct investments as a result of the yen appreciation, marking the transformation of Japan's international economic policy from heavy trading to heavy investment; c) Japan's success increased criticism against it as many nations still believed it was lagging behind when it came to taking responsibilities (Funabashi 165).

Increased interdependence as a result of its worldwide investments enhanced Japan's sensitivity to foreign criticism. The Japanese reacted to the trade conflict issue by implementing "opening up" packages under the aegis of the Internationalization process and which aimed at changing the cultural, political and economic structure of the country (Higashi and Lauter 51). Despite the tensions and increased protectionist rhetoric, cooperation was the favored means of settling disputes. The convergence of interests meant that negotiations were not entirely the scene of continuous capitulation but were also marked by compromise. An example is the 1984 Japan-US Yen-Dollar Committee, in which the Japanese had agreed to liberalize their financial system. Regarding this as an opportunity to redress the trade surplus problem, the Reagan Administration

agreed to quell calls for protectionist legislation and decrease pressure for increased defense spending by the Japanese government (Gilpin 322).

At the international level, under the banner of Internationalization, Japan doubled its ODA spending and by 1989 surpassed the United States as the largest global aid donor. The security dimension was stepped up as Japan increasingly came to grant aid to Cold War allies on the basis of strategic concern; but foremost in order to uphold its commitment to the United States (Akaha 333). National interest came to encompass international interest and aid was the appropriate method of emphasizing that principle (Funabashi 149). In other words it reflected the "blurred" parameters of national interest (Koehane and Nye 182).

These actions clearly deny grounds for arguments that posit the creation of a "Pax Nipponica" (Wan 85). Should Japan's ruling elite decide to move in such a direction, then the nature of its international endeavor would be aimed at taking over global leadership from rather than supporting the United States. It negates the explanation of Japan's foreign policy on the basis of hegemonic stability theory which postulates the prevalence of one state in all the domains of power such as the military, economy, politics, and culture and its ability to assert "...equilibrium and political leadership to the international system" (Wan 91; Meeks 19). Simultaneously, Japan could have opted to continue to "free ride" on the United States. Instead it moved to support its ally's global hegemony (Wan 97).

The Post Cold War Era

The demise of the Cold War structure only served to intensify the debate concerning the nature and future direction of the relationship between the US and its industrialized allies (Meeks 32-35). The collapse of the Soviet Union has highlighted the strains placed on the United States (Brown 544). Faced with a large trade deficit, weakening international competition in manufacturing and

social problems it seemed to indicate that the United States has reached its "imperial overstretch" (Akaha and Langdon 268).

Scholarly attention has focused on the new international political environment (Meeks 31-32). On the one hand, the new era has ushered in the elevation of economics as a security issue highlighted by the trade dispute that erupted between the three major economic powers, namely the United States, the EU, and Japan (Akaha 92). The phenomenal success of the latter two created a shift from the traditional notion of power, which emphasizes military capability (Nye 29). The second Gulf War signaled lessening American resolve to unilaterally fulfill its international projects. It indicated a hardening of its "policy of reciprocity" in handling international security matters (Wan 98).

For theorists interested in hegemonic stability and transition, the new era indicated the end of the American hegemony and possibly the rise of a Pax Nipponica (Nye 29). Critics discount this possibility in this age. On the one hand, the theory faces an inherent problem: its thesis revolves around only two credible case studies, namely Great Britain and the United States (Nye 50). On the other, supporters of complex interdependency argue that the level of economic integration, complexity of economic relationships, new technology and the proliferation of non-state actors in the international political-economic arena have served to diminish state control. To use Nye's definition, this "power diffusion" has considerably lessened traditional state monopoly over such sectors such as trade and finance. Consequently, hegemony becomes obsolete since states are no longer capable of securing authority over traditional sources of power (Nye 184-185). Simultaneously it has meant that clear-cut realist definition of "national interest" is no longer credible in this new state of international affairs (Nye 184-185).

On the other hand, while some neo-realists agree that interdependence has changed the political and economic landscape of international relations, it has not been enough to completely transform the traditional parameters of national interest (Gilpin 343). According to thinkers such as

Robert Gilpin, contrary trends threaten the continuity of the international economic interdependence process. Japan and Newly Industrialized Countries (NICs) mercantilist competition, sectoral protectionism and economic regionalism in the formation of European Union and increasing calls for the creation of an Asian bloc are dangers "...that should not be minimized" (Gilpin 343). From that vantage, the liberal economic order is in peril in the wake of the "emergence of economic nationalism" (Gilpin 343). In this instance the future trend indicates the formation of competing economic blocs each vying for their area of interest (Gilpin 343-344).

While Gilpin predicts the proliferation of heavily protected regional economic blocs, more optimistic views see the reverse, claiming that the effect of interdependence is more than superficial. The implication is a new form of relationship between the actors. By "blurring" the lines of national interest, cooperation rather than conflict suits the interests of the involved states (Nye 175). Practically speaking, the distinction lies with fact that complex interdependency between the EU, Japan and the United States have relegated the utility of force as means of settling disputes as virtually "impossible" (Nye 175).

El-Seoudi agrees and points to the Gulf crisis as an appropriate illustration to the emerging type of relationship between the three partners. The incident highlighted the diminishing capability of the United States but accentuated the economic based power enjoyed by Japan and the EU. Their financial contributions were critical for the success of operation Desert Storm. Their emerging influence was highlighted by the manner in which the Allied effort was conducted. The effort was of coordination rather than a unilateral U.S initiative (Seoudi 9-10).

For some structuralists, the effect of interdependence on the movement of relations between the three major powers has been to enhance coordination (Meeks 35). According to Meeks, the demise of the bi-polar era and the G-7 endeavors to compliment their economic relations invites this possibility. In other words, the EU and Japan would serve to supplement American military strength with their economic capability (Meeks 35).

A Case for Interdependency

While few can deny the marked economic power or, "fungible power", of Japan and the EU and its impact on international diplomacy, interdependence and the nature of Japan's and the EU's global influence have reflected the rise of economics on par with military power (Nye 188). Nye argues that despite Japan and the EU economic clout, both lack the military capability which the US enjoys (Nye 32-33). Or, as Akaha and Langdon have pointed out, "the United States is the strongest of the major Powers" (Akaha and Langdon 268).

In this respect, issues of interest between them are multiple and what was yesterday's "low politics" have become the "high politics" of today. Tsuneo Akaha argues that one of the emerging trends in the Post Cold War is "...the primacy of economic development both as foundation of political legitimacy domestically and as a determinant of the pattern of international relations" (Akaha 92).

Such a development is echoed in President Clinton's pledge "...to make the economic security of our nation a primary goal of our foreign policy" (Stokes and Aho 134). This refocusing on international economic matters has put Japan's liberalization efforts under the limelight (Gilpin 342-3). Economics in the new era seemed to be what ideology was during the Cold War. Serious discord seemed inevitable in the wake of the trade dispute between Japan and the United States. The Japanese government's decision to resist American demands to open the auto and auto-part industry reflected a switch from their usual conformist attitude on the matter. The Clinton administration threats to impose sanctions were also indicative of Washington's toughened stance (Stokes 283-284).

The fundamental links governing the economic relations between the three major powers have served to enforce cooperation and coordination. The substantial overseas Japanese investments in the EU and the US and vice versa have blurred the notion of "national interest" (Nye 175).

Calculated differently, Japan and the EU, on the basis of mutual benefit or harm, have more influence on the United States than previously (Sato 186).

For Japan, to de-link from the United States and still attempt to maintain its global interests would require an establishment of its hegemonic leadership something akin to what "...the United States displayed in its peak phase in the early Cold War" (Langdon 84-85). Phillip Meeks argues that this would require Japan to develop an offensive military arsenal, reciprocally open its market, and advance an international orientated culture (Meeks 84). Yet Japan faces constraints on all three fields. It lacks the necessary political consensus to fully remilitarise. Tokyo's decision to prolong maintaining US troops has been met with stiff resistance in Okinawa. Moreover, given Japan's colonialist past, Asian neighbors are very wary of its military intentions (Tang 7). This means that constraints are placed on its role as a regional power even though the Asian region still projects elements of instability in the Post Cold War era (McNaugher 194).

Japan also finds it equally difficult to liberalize its economy. To do so, would entail uprooting many traditional practices that have kept the social fabric together. Structural changes could adversely effect the foundation of the national economy (Gilpin 334). This is directly linked to the constraint inherent in Japanese leadership namely their "insular" culture (Akaha and Langdon 274). To use Nye's term, Japan lacks "soft power" or cultural power such as seen in the case of the United States (Nye 194). The proliferation of new economic actors such as multinational corporations (MNC's) and international organizations in today's world would hinder any Japanese motive to construct a global hegemony (Nye 182-184).

Japan's ruling elite has moved towards accentuating its supportive role to the United States. There is a general consensus within the Japanese ruling elite that Japan still needs the leadership of the United States to maintain its global interests (Wan 101-102). Japanese MNC's and the powerful *Kiedernan* (Japan's Business association) have stepped up their demands for tariff reductions although this has been met with considerable resistance from the agriculture lobbies fearing harm

from the process (Wan 102). Even mercantilists within the LDP, have agreed to increase Japan's international contribution to avoid the prospect of US economic retaliation (Wan 102). In other words, the "gains" accrued from its joint links with its industrialized partners are more than its "losses" and hence the need to maintain them (Wan 102).

With this the Japanese government has sought to cooperate with the United States in the formulation of a suitable regional security order. The 1992 Bush-Miyazawa "Global Partnership" thesis aims at cementing Japan cooperation with the United States in establishing a "New World order" (Langdon 84). In the 1996 Tokyo Declaration President Clinton and Prime Minister Hashimoto agreed to extend the MST. From the United States perspective, the level of interdependence between the two economies and the economic strategic value of the Asian region served to increase US conviction to continue its Cold War security system (Hanami 599; Stokes and Aho 124).

Japan has made steps to increase its contribution to the alliance. Under the Acquisition and Cross Services Agreement, Japanese SDF have increased their logistical support *beyond* the country's territory. Simultaneously, it has increased its UN involvement, making an unprecedented decision to dispatch the SDF in overseas UN operations (Curtis 226). However, these developments have not gone on without heavy criticism particularly from the Chinese and South Korean quarters (Tang 7).

A more "soft" approach has been aid giving. Given the nature of Japan's constraints, economic diplomacy seems to be the favored track. Apart from the military and UN diplomacy option, it generates much less controversy. It has been instrumental in laying a viable regional security system and maintaining international interests such in the case of the Middle East (Nkrumah al-Ahram Weekly 29 August-4 September 1996 p8; McNaugher 209-210).

The research that follows takes a comprehensive look into the affairs of the Japanese nation from the Post World War Two era to the present one in an effort to understand the country's present

and future perspective on international affairs. Tracing the role of ODA within the context of the US-Japanese security framework will be the theme of this effort. The first chapter will focus on the role of ODA within Japan's post World War Two policies. It will highlight the factors involved in the inception of the Yoshida paradigm. The chapter will also attempt highlight the aims of the "economic cooperation" program in light of Japan's overall economic and foreign policy during the post World War Two period.

The second chapter will discuss the international incidents that have pressured Japan's foreign policy transformation during the 1970s decade. With this the author will attempt to retrace the subsequent effect of the decade's upheavals on ODA policy and purposes. The chapter will also look into the role of aid in helping Japan meet the challenges it faced, particularly in the case of the first and the second Oil Crisis, Sino-US rapprochement, and the results of PM Tanaka's visit to the ASEAN region.

The third chapter will look into the role of ODA within the 1980s given the effect of the Plaza Accord on Japan's foreign policy perspective. It discusses the role of aid in the context of the on going trade dispute between Japan and its industrialized partners, in light of its effort to initiate regional integration in East Asia. Furthermore, the chapter will look into how ODA served to fashion Japan's supporter nation status within the context of the Mutual Security Alliance framework during the last half of the 1980s decade.

The fourth chapter will target the effect of the Post Cold War era on Japan's international economic policies. It will also highlight how aid has been instrumental in accentuating US-Japanese cooperation over global economic matters. The fifth chapter will reflect on the implications of the emerging political environment from a military security perspective. The chapter will look into the challenges facing the US-Japanese security alliance and will discuss the political and economic factors that served to transplant the Cold War security relationship into the new era. The chapter will also discuss Japan's broadened role in light of the Cross-Services and Acquisition Agreement and the

constraints it faces in projecting military power in the region. Within that context, the chapter will highlight the continued supremacy of aid as a foreign policy option despite the incremental changes it has adopted within the alliance framework. The conclusion will sum up the perspectives that govern Japan's foreign policy today and give an indication as to the possible future directions the nation may take given these inferences.

Chapter One

The Role of ODA within the Yoshida Doctrine

Just as the United was once the colony of Great Britain but is stronger of the two, if Japan becomes a colony of the United States, it will eventually become the stronger (Pyle 22).

Premiere Yoshida

The American decision to use the atomic bomb on Nagasaki and Hiroshima was successful in hastening Japan's unconditional surrender (Dower 155). Although US military planners considered that the war in Asia could still go on for a while, the State Department previously initiated extensive research and planning on Japan's Allied occupation (Dower 165). With Japan's surrender finalized in August 1945, the Truman administration set out to establish SCAP (Security Council for the Allied Powers). From the onset, the policies of the SCAP were clear in its policy directives (Dower 165). Its immediate goal was to ensure that Japan was not to re-emerge as a future threat to the United States or the international community (Smith 34).

In its first two years, the SCAP administration, headed by General Douglas MacArthur was to have "...unusual leeway" in the running of the Occupation (Dower 165). Indeed, the SCAP enjoyed a great deal of autonomy during that period since general policy directives formed in Washington were allowed to be interpreted "liberally" by its members (Dower 165). The members, but particularly General MacArthur, played a crucial role in the formation of the Occupation policy framework that would lay down the socio-political foundations for post war Japan (Dower 165). With SCAP enjoying relative autonomy, the ideological leanings of General MacArthur, characterized by euro-centrecism and idealism, had a large influence in the nature and purpose of the Occupation plans (Dower 166).

The occupation's primary considerations were to implement changes that would ensure the

eradication of what Assistant Secretary of State Acheson claimed was the Japanese "will to war" (Dower 179). Based on this directive, the SCAP set out to abolish the pre-war social structure through policies of demilitarization and democratization that would de-link Japan from its pre-war roots (Dower 166).

As relations between the two Cold War adversaries began to worsen towards the end of the 1940s, American perspectives on Japan's strategic role continued to evolve. Moving away from the concept of "denying" Japan to the Soviet Union, American policy makers began to regard it as a key Cold War regional "ally" (Dower 179). Fears of communist takeover of the entire region brought about calls within the US administration for the development of a containment strategy to fend off such threats (Dower 179). In line with the theme of "strategic offensive in the west and strategic defensive in the east", Assistant Secretary of State Dean Acheson began to speak of the concept of the "offshore island link" that would function as a defense line against communist aggression (Dower 180- 83).

The genesis of that strategic perspective was based on the growing debate on *how* to incorporate Japan into the anti-Communist camp. Opinions ranged from ensuring Japan's alliance through the extension of the Occupation period to those who considered that this was guaranteed by offering a non-punitive peace settlement. In that line of thinking, the American emphasis on the continuation of using Japan's military bases had begun to take a more urgent turn (Dower 181). However, the fundamental transformation was seen in the growing acceptance by the American government to the idea of Japan rearming itself. As one author aptly stated, "[t]his transformation from savage enemy to "freedom-loving was breathtaking in many ways" (Dower 157).

Japan's incorporation into US security system in Asia was seen as necessary aspect of the defense strategy. The National Security Council (NSC) 49 proposed that the Occupation must be ended quickly. In other words, Japan was to take a more "active" security role in that it was to be fully integrated economically and militarily rearmed (Dower 186). Its evolution from foe to ally was

made more apparent in Japan's designation in a report of the Committee on Appropriations of the House of Representatives as the "west coast" of the United States (Dower 185-86).

The economic equivalence of this thinking was emphasized in the earlier policy recommendations of the Martin Plan. Its proposals were incorporated later on in a series of reports presented by the National Security Council and State Department. Plans for developing the concept of regional economic integration between Japan and the Asian region were set forth (Dower 185). It was intended to set out a viable framework for stimulating Japan's economy in an attempt to boost its position as an anti-communist ally (Dower 183). Within this context, the Sino-Japanese axis was regarded by Japanese and American policy-makers as the most complimentary for Japan's needs. Trade with China was believed by the American experts to be "inevitable" given the magnitude of the latter's market potential, availability of raw materials and its geographical proximity to Japan (Dower 191). There was also a strategic dimension to the issue as many Americans hoped that by cultivating this economic linkage, it would indirectly help to gravitate China's communist government towards the Western camp. Some went as far as suggesting economic integration of Japan with Korea and Manchuria (Dower 184).

As relations between China and the United States soured, the South East Asian region quickly gained importance as an alternative source for Japan's economic needs. Just before the Korean war erupted, the United States began to discuss the possibility of developing a triangular relationship between itself, the South East Asian region and Japan (Dower 184). The necessity of promoting the political and the economic security of the region were regarded not only as vital for Japan's industrial plans but also an indirect promotion for Western European trade earnings. Within the context of the "Great Crescent" plan, the South East Asian region would export its raw materials and receive Japanese and European goods (Dower 185). However, the fragility of many of the East Asian economies and fresh memories of Japanese atrocities slowed down developments in this respect. Instead the necessary boost for Japan's ailing industries came from the massive American

military procurement orders during the Korean War in 1951. Through the next ten years this economic relationship provided nearly \$5.5 billion for the Japanese economy (Dower 193).

The Korean War was regarded by Prime Minister Shigeru Yoshida as "a gift from the gods" (Pyle 25). United States demand for "special military procurements" provided a much-needed boost for the ailing Japanese economy (Pyle 25). However, the Korean War accelerated the pace towards achieving what the Japanese government had most wanted namely independence (Smith 67). The outcome of the longstanding peace settlement debate within the United States government was a consensus recommending a non-punitive arrangement with Japan (Dower 189). The price for such a decision was cutting off Sino-Japanese relations. Despite China's absence during the San Francisco Conference, Japanese officials expected to resume relations with Beijing. However, Japan was forced to forfeit that when the United States threatened to prolong the Occupation should it not recognize the Chaing Kai-shek Regime (Dower 192). Japan's hopes for normalization with its Communist neighbors were firmly eliminated after it agreed to a bilateral security arrangement with the United States (Smith 67).

Japanese Post WW2 Foreign Policy: The Yoshida Strategy

The Korean War and Japan's acquiescence over the issue of Taiwan marked its firm entrenchment as a Cold War ally to the United States. Simultaneously, it came to signify the crystallization of Japan's foreign policy in the Cold War era. The dynamics behind the negotiations that took place before the Peace Conference and the signing of the Mutual Security Treaty (MST) outlined the foundations on which Japan's international strategy during the Cold War era would be based on. Its creation was to be attributed to its primary architect, Shigeru Yoshida (Pyle 23).

Achieving Japan's independence was by no means a gift on a silver platter, but rather one that was achieved through the use of Yoshida's pragmatism, compromise, and resistance to American demands. As indicated above, the first issue in which Japan was forced to capitulate to United States

demands was over China. Earlier plans of re-integrating Japan's economy with the Asian region had included, almost exclusively, the resumption of the Sino-Japanese trade to its prewar level. As relations between China and the United States entered a tense period prior to the eruption of the Korean War, Japan was forced to agree to US demands for an economic embargo against China (Dower 191). The assumption held by Yoshida was that relations with China were to resume after the end of the Korean War (Dower 191). The United States government, on the other hand, was moving in the opposite direction. Wanting to ensure itself that all its allies will continue this temporary embargo indefinitely, it worked to extend trade controls on all of the communist bloc. Through mechanisms such as the CHINCOM (China committee), the CG (Committee Group) and the CONCOM (Coordinating Committee) anti-Communist allies were to accept exacting trade sanctions on the Soviet Union and all its allies. Despite its willingness to resume relations with China, Japan agreed to place severe trade restrictions on China as demanded by the United States (Dower 192). As one author pointed out:

Japan did not simply agree to adhere to the list of embargo items that other nations agreed upon, it actually was forced to agree to much more extensive restrictions on trade with China than any of America's other allies (Dower 192).

The US Senate had initiated a petition demanding that Japan sever all diplomatic links with communist government of China and recognize the Kuomintang regime or risk prolonging its occupation indefinitely. In the Yoshida letter, the Japanese government had quickly opted for the former, officially recognizing the Formosa government just before it regained its independence in 1952 (Dower 233).

With China effectively out of the picture, Japanese government officials were forced to focus

on the alternative, namely the South East Asian region. The problem however, was the high degree of sensitivity attached to the issue given the fact that most of these countries were former Japanese colonies. Moreover, most of them had still held bitter memories of the atrocities committed by the Japanese colonial administrators. During the peace conference Secretary of State Foster Dulles proposed that war reparations, in the form of Japanese manufactured goods, be extended to the region as an olive branch. It was also to play a critical role in opening up channels for Japan's industries to enter the South East Asian markets. In other words war reparations became the vital instrument used to "penetrat[e]" the economies of the latter (Dower 193).

Yoshida's government was also forced to compromise over Okinawa's sovereignty as a quid pro quo basis of ending U.S occupation. As early as 1947, the government and the Emperor had secretly agreed to waive their sovereign hold over Okinawa in return for independence (Dower 170). Yoshida, in his negotiations with the American government, agreed to offer the latter continuous control over the military bases as an insurance policy (Pyle 22).

However, Yoshida's policy regarding rearmament was not so conciliatory. Aware of the weak bargaining position of Japan, Yoshida relied heavily on the strategic importance of his country (Pyle 24). Given the dynamics of the Cold War system he was convinced that the US had to continue its military presence in the region as well as Japan. Within that line of thought, resuming Japan's militarization was not necessary since the threat posed by the Soviet Union and China had dictated the continuation of US military presence in the region. Yoshida offered Japanese bases to the latter knowing that this will serve the pragmatic goal of ensuring Japan's security. For Yoshida the primary national goal was to assure economic recovery. The burden of defense expenditure would only protract Japan from reaching that aim (Pyle 24).

This "economic nationalism" was the basis of his counter negotiations with the American Secretary of State. The latter, on arriving to Tokyo, preliminarily expected the National Defense Forces to be increased to 300,000. Yoshida resisted, arguing that full rearmament was not possible

due to public opinion, which had come to accept the nation's self-imposed pacifism. The Prime Minister also relied heavily on the constitutional restraints on the matter citing article nine which prohibited rearmament (Pyle 24).

Prime Minister Yoshida also pointed to the negative economic consequences of remilitarization. One of the negotiation points was that the Japanese economy was too weak to support a heavy defense plan. This had indirect benefits since the United States was better off with an economically healthy ally than one that was not. Yoshida's thesis was that by de-emphasizing defense spending Japan will be able avoid a "...thirty-eighth parallel in heart of Japanese society"(Pyle 25). Further pressure was placed on the United States Secretary of State by arguing effectively that any sign of rearmament will only be greeted with great alarm from the Asian neighbors seeing it as a resumption of hegemonic intentions by Japan (Pyle 24).

The end result of the rearmament negotiations was that Yoshida agreed to a "minimalist concession" as a means to gain US acceptance (Pyle 26). Within that scope, the Japanese Prime Minister agreed to increase the NDF forces to a troop level of 75,000. Yoshida also succeeded in preventing Japan from joining any collective security arrangement in fear that could pull it in the direction of increasing its international obligations. From as early as the Korean War, Japan resisted engaging itself in any military arrangement other than servicing American procurement orders, a tactic that helped stimulate its depressed economy (Pyle 25).

The signing of the Mutual Security Treaty was the culmination of these negotiations. The treaty permitted the United States to establish military bases in Japan. The United States also had the right to veto any third party's presence in Japanese territory and the right to intervene in any internal situation that threatened the security of the Japanese nation (Pyle 27). Simultaneously, the United States issued the Military Security Act that pressured the Japanese government to upgrade and expand its army (Pyle 25-26). Although the American government asked for an increase of 300,000 to the troop level of the National Defense Forces, Yoshida conceded by upgrading it to only 110,000.

Passing the Defense Agency Establishment legislation and the Self-Defense Forces Act, the NDF were renamed as the National Security Forces and a Defense Agency was created as a controlling body of the NSF (Pyle 26). In the mean time, the Diet moved to prevent the SDF from engaging in any overseas military operations. These concessions guaranteed Japan the aid but it was to be directed towards economic recovery plans rather than the military establishment, as was wished by the US (Pyle 26).

The MST solidified an arrangement guaranteeing Japan's secure ties to the United States within the Cold War global context. It also meant that the Japan could reap the benefits of an international system built and led by the US hegemony. As one author remarked:

The US-Japan alliance in the Post war era provided both the security and a market for Japanese products. Japan's economic miracle required protection. For many Japanese, the lessons are clear, Japan prospered when it followed the leadership of the world's most liberal economic power. Hence a strategy was born, cherished and developed into almost an axiom (Funabashi 7).

This "axiom" has been the focal point of the Yoshida legacy, laying the blueprint for the future political generations of Japan. Opponents of this strategy defined the alliance as Yoshida's acceptance of a "subordinate independence" relegating abnormal rights to the United States (Pyle 27-28). Japan's foreign policy was to follow the strict guidance of the United States in all international affairs. The alliance became the "prism" by which Japan conducted its foreign affairs (Funabashi 8). In this realm, political and security matters took the back seat as the nation was geared towards economic recovery. The concept of "economic nationalism" had been institutionalized developing into the *idee fixe* of Japan's international policy. In other words Japan's international economic policy was its international foreign policy (Yasutomo 9).

Japan's Economic Policy 1952-70

The overriding objective of the post occupation government was to prioritize domestic interests over international obligations. Although pessimistic about the future of Japan given its lack in natural resources, the post war industrial plans, based mostly on the recommendations made during the occupation period, proved to be an unqualified success. It helped establish Japan's meteoric success to almost mythological levels. The reasons were multiple, namely a combination of sound domestic economic policy such as the decision to switch from light to heavy industries investing heavily in steel, iron and electricity industries (Smith 110).

This was done with close coordination at all three levels; or as others have termed it the "iron triangle" of joint cooperation between the government, bureaucracy and business (Wood 15). The former two played a guiding role in the formation and implementation of economic plans. Government intervention methods were used and bureaucracy guidance such in the case of the MITI was strong. One example would be the compensatory policies applied to sunset industries (light industries) to ease the process of replacement. Loans to boost heavy capital investment were given at low rates to private business. Infant industries were heavily protected from foreign competition, by applying high tariffs on foreign produced goods and curtailing foreign investment. The first two decades witnessed tremendous economic growth with GNP growth reaching an annual rate of 10%. New steel industries created the necessary spillover effect in key manufacturing sectors such as automobiles, electrical appliances and shipbuilding. By 1960, Japan transformed itself into the owner of the largest ship building industry in the world (Smith 111-12).

Other external reasons determined the success of Japan's economic policies, primarily the nature of international economic conditions existing at that time. With US economic and political hegemonic backing, stability and success of the international liberal system was assured, symbolized in the formation of the Bretten Wood system and the GATT (Komiyo and Itoh 180). Yet here was where the basic contradiction lay. Despite its neo-mercantilist perspective, Japan's export program

largely depended on the continuation and maintenance of free market policies in the global market. The Bretten Wood system was crucial in keeping the yen deflated, hence helping to boost Japanese exports. The GATT provisions for lowered tariffs later secured in the 1967 Kennedy rounds assured successful market penetration for Japanese export goods (Komiyoh and Itoh 180). Coupled with depressed value for raw materials and energy resources, Japan was guaranteed an import supply at low prices. Moreover, Japan's status as a "late comer" within the industrialized group proved to be equally beneficial since access to technological transfer at that time was both easy and cheap. It also meant that it would employ the latest and most modern machinery giving it a competitive edge (Inoguchi 29)

Apart from the international economic conditions, the role of US participation in Japan's economic goals was critical. The United States was anxious not only to secure Japan as a military shield against the regional threat of the Soviet Union and China, but wanted to enhance the economic capability of the country as well (Buckley 112). Whereas US approval stemmed from a strategic perspective, for Japan, the alliance ensured not only military protection but economic benefits as well. The United States was willing to *indulge* Japan by allowing it to continue with its protectionist policies. Despite apparent lack of reciprocity at trade levels, it was given unlimited access to the US markets in an attempt to boost its export capacity (Inoguchi 30). Whenever talks centered on Japan's protectionist tariff policies, the US quietly acquiesced to Japan's claims of economic "uniqueness" and needs. Given the strategic value of the latter, apart from an occasional subtle budging, there was little effective action on the American part (Buckley 112). As Roger Buckley pointed out, "[t]o retain Japan's friendship there was not anything but the gentlest of comment and the politest of encouragement (Buckley 112)."

US pressure was also critical in allowing Japan membership in the General Agreement on Trade and Tariff (GATT) in 1956, despite initial hostility by other industrialized members. With US backing, Japan was capable of entering key international economic organizations such as the

Development Assistance Committee (DAC) and Organization for Economic Cooperation and Development (OECD). It was a signal that Japan was to rejoin the international community and be part of the critical decision-making guaranteed for the international economic heavyweights (Rix 28).

Genesis of Japanese ODA

Another pillar of Japan's economic policy has been its successful use of aid giving for commercial purposes. Since the occupation period, the overriding concern of the American administration and the Japanese government was to ensure continuous market access and imports of raw materials for its nascent manufacturing industries (Dower 185). With China effectively out of the picture under the CONCOM agreements, attention refocused on the South East Asian region. Under the earlier directive of Secretary of State John Foster Dulles's proposal to use reparations as an olive branch, aid giving later termed as "economic cooperation," was created (Rix 23). Within the context of Yoshida's policy directives, the economic cooperation program was specifically tailored to meet and fulfill Japan's economic needs. In other words, the program's role was more of a foreign economic policy tool than a charitable endeavor (Dower 185).

Technical assistance amounting to nearly \$1.5 billion was disbursed to several Asian countries from 1955-59 and the first Japanese loan was given to the World Bank Consortium for India. The Ministry of International Trade and Industry (MITI) described economic cooperation or *kaizai kyorkuko* as several things ranging from investment, government assistance to private enterprises, capital exports, to credit extension. However "aid" in the sense of a financial transaction that would benefit the recipient more than the donor was largely lacking (Rix 23-24).

This introverted perspective was reflected in the MITI 1958 report, where economic cooperation was defined as a tool primarily to promote trade. It was seen as a critical element ensuring the smooth operation of the country's external economic policy (Rix 26). Hence the priority attached to Japan's "aid" was not developing South-North relations or considering the dictates of

Cold War strategic conditions but rather the dictates of the country's domestic needs (Rix 26). As Alan Rix argues,

MITI recommendations for increasing the quantity and the quality of economic cooperation were designed primarily to further not the development of the recipient nations but Japan's own trade and economic ends (Rix 26).

Apart from securing initial relations with the region, economic cooperation proved to be critical in cementing links on a long-term basis. In line with Yoshida's "economic nationalism", the emphasis on creating ties were mainly commercial rather than political or cultural (Morrison 145). Other than the United States, which constituted the largest market and source of raw materials for Japan, it stood as the first to second largest trader with the Asian region (Morrison 428).

Simultaneously, in the time span of two decades, Japan not only successfully penetrated the markets of the region but also established itself as a critical economic player (Nelson 106). This need to play a key economic role converged with US proposals for increased Japanese activity in the region. However, the US emphasis was more strategic than commercial, accentuating the need to contribute to the economic development and security of the region as a means to ward off the threat of communism. From the Japanese perspective, although the idea of using aid to establish a "regional sphere of influence" was considered by PM Ikeda, it was resisted (Orr 744).

Given the controversial nature of the military issue, Japanese leaders shied away from any arrangement that would spark public disapproval. During the negotiations concerning the revision of the MST arrangements in 1958, Prime Minister Kishi pointed to the "Japanese aversion to war". In a note to The United States, the Prime Minister referred to the "resentment against Japan's subordinate position to US under Japan-US security treaty arrangements" (Buckley 80). These sentiments proved

to be the catalyst for the 1960 crisis. Earlier, Secretary of State John Foster Dulles noted that these

This process [renegotiation] requires most careful study and preparation if it is not to precipitate strong Japanese public and Socialist Party demands for such sweeping revisions in the Treaty [are such] that our entire security relationship could be placed in jeopardy (Buckley 85).

The new revised arrangements were successful in reversing “the anomalies of the past” by removing the United States legal power to intervene at will and allowed Japan to use third parties for defense (Buckley 92). However, massive protestations by the Japanese people, stiff opposition from the Left-wing parties and divisions within the LDP ranks threatened to abort the security relationship (Buckley 88-89). It was only after a difficult ratification process that the Treaty provisions receive parliamentary approval (Buckley 94). With this, given the Japanese reluctance to support the alliance through military means, aid giving was regarded as a small, but nevertheless, alternative source for what was termed as “burden-sharing” (Buckley 114).

However, Japan’s willingness to secure its economic interests through financial contributions were largely Asia-centric, excluding nearly any other non-regional country. Indeed based on these two push factors Japan succeeded, by the middle 1960s, to establish herself as the primary aid donor in the South East Asian region. At the bilateral level, such in the case of Indonesia, Japan surpassed the United States as the primary aid giver. Japan’s importance to the regional members was enhanced as the United State’s aid policy became less generous consisting mainly of military rather than financial assistance (Morrison 439).

The multilateral dimension was more low-toned since Japan feared inciting apprehension amongst the regional countries. The ADB is a case in point. Although Japan was a key founder of the regional bank, Asian members refusal to allow the headquarters of the bank to be situated in Tokyo

was a symbolic reminder that Japan's colonial past was not easily forgotten. Despite the fact that its contributions to the bank were in parity with the United States -nearly \$200 million- it chose to take a more low key approach in the political-economic machinations of the bank (Yasatomo 83).

Japanese aid was also critical in initializing the co-option of the North East Asian region into the economic dynamics of its Southern counterpart. In the case of South Korea, Japanese economic cooperation was a critical element in the country's development policies. Between 1965-70 Japan overtook the United States as the principal aid donor to the country (Nelson 107). Similar to Japan's case, Cold War strategic dictates were behind the United States endeavor to secure South Korea's economic success. Between the period of 1947 and 1974, the United States spent an accumulative amount of \$12.5 billion poured into the rehabilitation and reconstruction of the South Korean economy (Orr 744).

Japanese aid presence was felt after the signing of the peace treaty in 1965. South Korea's political importance was reflected in its labeling it as one of the few "Special Relationships" cases within the Japanese ODA bureaucratic politics (Rix 235). This is not surprising given the historical and cultural proximity between the two countries. It explains Japan's anxiousness to play a role in the developmental process of the country. In the first five year plan (1962-66) Japan covered over 29% of the finances required by the government. In the second five year plan (1967-71), it dipped to a 20% and in the third five year plan (1972-76), it was called on by the South Korean government to provide over 30% percent the finances (Orr 744). Since normalization, South Korea ranked as the one of the top five recipients of Japanese ODA. Another signal of the country's importance has been the top ministerial meetings between the two countries acting as an annual forum in which aid commitments by the Japanese were made in consultations with the Korean government (Rix 235-6).

At the international level, economic cooperation also served as the means of moving Japan into crucial international economic forum centers such as the DAC and OECD. The basic reason behind this initiative was, a) to establish recognition of Japan's economic success; and b) to gain

was a symbolic remainder that Japan's colonial past was not easily forgotten. Despite the fact that its contributions to the bank were in parity with the United States -nearly \$200 million- it chose to take a more low key approach in the political-economic machinations of the bank (Yasatomo 83).

Japanese aid was also critical in initializing the co-option of the North East Asian region into the economic dynamics of its Southern counterpart. In the case of South Korea, Japanese economic cooperation was a critical element in the country's development policies. Between 1965-70 Japan overtook the United States as the principal aid donor to the country (Nelson 107). Similar to Japan's case, Cold War strategic dictates were behind the United States endeavor to secure South Korea's economic success. Between the period of 1947 and 1974, the United States spent an accumulative amount of \$12.5 billion poured into the rehabilitation and reconstruction of the South Korean economy (Orr 744).

Japanese aid presence was felt after the signing of the peace treaty in 1965. South Korea's political importance was reflected in its labeling it as one of the few "Special Relationships" cases within the Japanese ODA bureaucratic politics (Rix 235). This is not surprising given the historical and cultural proximity between the two countries. It explains Japan's anxiousness to play a role in the developmental process of the country. In the first five year plan (1962-66) Japan covered over 29% of the finances required by the government. In the second five year plan (1967-71), it dipped to a 20% and in the third five year plan (1972-76), it was called on by the South Korean government to provide over 30% percent the finances (Orr 744). Since normalization, South Korea ranked as the one of the top five recipients of Japanese ODA. Another signal of the country's importance has been the top ministerial meetings between the two countries acting as an annual forum in which aid commitments by the Japanese were made in consultations with the Korean government (Rix 235-6).

At the international level, economic cooperation also served as the means of moving Japan into crucial international economic forum centers such as the DAC and OECD. The basic reason behind this initiative was, a) to establish recognition of Japan's economic success; and b) to gain

access to areas where important political-economic policies were outlined (Yasutomo 7). The challenge lay in the fact that by entering these economic organizations Japan was laying itself open to criticism regarding its approach to aid giving. Initially it resisted the pressure to enhance the quality or increase the quantity of its aid, by using the predictable argument of "being unique" claiming that given its domestic economic priorities, Japan can only give aid within its means. It also resisted pressure to define "aid-giving" precisely but rather continued to blur the distinction between what constituted as "aid" with the somewhat broader concept of economic cooperation. However after a while Japanese ODA came to be categorized as a combination of grants, technical assistance and loans as opposed to other overseas official flows which included investments and private credits (Rix 28-9).

Given the mercantile purposes attached to Japanese assistance, external pressure particularly from other DAC members, increased demanding an upgrading in ODA quality. Statistics reflected Japan's poor performance. From 1960-68, ODA rose only from 0.24% to 0.25%, whereas total financial flows, which constituted official and private sources, recorded an increase from 0.53% to 0.73% from the year 1960 to 1968. Within this context Japan had the highest OOF standing in contrast to other DAC members, while in terms of ODA it was the lowest in ranking being the fifth and the seventh in 1960 and 1968 respectively (Rix 33-34).

While technical assistance increased from \$2.4 million to \$13.7 million between 1961 and 1968, they remained the smallest portions in comparison to the rest of the DAC members standing at 3.8% than the average of 23.3%. Moreover ODA was criticized for being overtly biased, concentrating heavily on in the region of Asia particularly the South East Asia reflecting Japan's economic strategic interests (Rix 33). While Other Official Flows (OOF) in terms of investment had increased to regions in Latin America, Middle East and Africa the lion share went to Asia standing at around 56%, with actual ODA flows fluctuating at a considerable 90-75% between the period of 1963-75 (Rix 34). From 1955-77 nine out of the ten largest recipients were Indonesia, India, South

Korea, Thailand, Philippines, Bangladesh, Burma and Malaysia. The only non-regional country was Egypt following the Oil Crisis of 1973 (Rix 223).

By 1969, 73.8% of total flows went to Asia while ODA had reached 100% commensurate with the "division of labor" mentality that was supported by many in the government ministries (Rix 222). The concept considered that contribution by DAC members should be focused on regions it shared most links with. Hence in the case of Japan, East Asia would be the natural candidate (Rix 222).

Yet, while the United States began urging for more strategic oriented contributions under the aegis of "burden-sharing", the Japanese perspective tended to favor the economic dimension in its links with the region (Orr 744). In line with the Yoshida thesis, this heavy emphasis on Asian ODA to be committed for commercial purpose is but a logical outcome. It explains why most of the finances directed to the region have constituted mostly of loans and little as grants. In addition, almost all of the loans were tied to either Japanese products or businesses. Moreover they were specialized to favor certain sectors of economic activity that Japanese had a competitive edge in such as infrastructure projects, construction and hydroelectric works (Rix 226-7).

Conclusion

The philosophy of the Yoshida doctrine was based on a choice to achieve the optimum benefits for Japan given the existing international relations structure and circumstances surrounding the nation at that time. It was seen as a viable means of guaranteeing Japan's security both economically and militarily. By depending on a global hegemon for security, Japan was free to pursue its economic development unhindered by burdensome defense budgets nor external threats to its territorial integrity.

Within that line of thinking aid giving in the first two decades was a mirror image of the country's mercantilist foreign policy. Its inception was created for *precisely* that purpose. ODA was

instrumental in rejoining Japan as a full member of the international community. Yet its primary target was to ensure the smooth machinations of Japan's international economic policy both in the realm of trade and membership in key international economic forums. It was neither an act of charitable responsibility nor borne out of strategic dictates of the Cold War. The latter element was injected *as a result* of burgeoning US pressures on Japan to increase its "burden-sharing." With an acute lack of national consensus regarding remilitarization, aid quickly became a viable alternative method of contributing to the Alliance framework, albeit not considered enough by its DAC partners.

Chapter Two

Broadening the Scope of ODA: The Effect of the 1970s Upheavals

Whether we like to admit it or not, there will be no free world and no free trading system if the United States does not preserve them for us...The best Japan can aspire to is 'vice-president' (Pyle 451).

Naohira Amaya, former MITI counselor

Major regional and international shifts characterized the 1970s, contrary to the stability and security Japan enjoyed during the previous two decades. A major factor behind Japan's altered international perspective were a series of *gaitsu* or international pressures forcing it to take a more forward-looking diplomatic initiative in an attempt to maintain its global and regional interests (Yasatomo 6-7). Within this context ODA, was to witness an elaboration in its role from a foreign economic policy tool to that of a political-strategic instrument (Yasatomo 7-8).

The Effect of the Nixon Shocks:

The outcome of the Vietnam War severely tested the thesis of Pax Americana. Military defeat alongside declining economic performance, stagflation, rising unemployment and poor competitiveness in the world market put a question mark regarding the extent of US hegemonic capability. Within the US domestic scene there was growing debate over the merits of the country's existing international political and economic strategy (Saxonhouse 294). Public sentiments, which leaned towards increased protectionism, were consequently reflected in the policies of the new Nixon administration. Priority was placed on asserting domestic needs over and above international obligations (Buckley 121-122).

At the economic level, interpretation of this introverted mood meant that the United States was less willing to continue its 'benevolent' attitude concerning its allies trading policies (Buckley 122). As economic realities began to filter through American strategic thinking, the issue of the trade imbalance between the US and Japan began to take greater weight. It was a direct response to the first recording of a \$2 billion US balance of trade deficit with Japan in 1971 (Saxonhouse 294).

As its economy lurched further, the US increasingly regarded the Bretten Wood system as an obstacle to the country's competitiveness in the international market. The dynamics of the monetary

system were seen as one of the primary reasons behind the poor competitiveness of the manufacturing sector (Saxonhouse 298). The system as a whole ensured the massive capital outflow of dollars from the US in the form of international investment yet it hindered its export capacity. Inversely, by helping deflate currencies such as the Yen and the German Mark the system ensured the boosting of their export capability (Saxonhouse 299). Under Nixon's New Economic Policy, the dollar's convertibility to gold was officially ended (Saxonhouse 299).

The Japanese-American textile dispute was another determinant of this decision (Buckley 127). Since the late 1950s and towards the end of 1960s, the US was complaining about the "imbalances" within this particular sector (Buckley 123). Although the issue dated back to the 1950s, its reemergence in 1969 ultimately created unprecedented tension between the two partners. It was an indication that the customary American flexibility over bilateral economic matters was lessening in the face of worsening economic performance (Buckley 122-23). For many in the United States, the textile industries weak competitiveness was a result of Japanese dumping policies. Under pressure, the US government demanded that Japan to institute the system of Voluntary Export Restrictions (VER) on specific textile produce to redress trade inequality (Komiya and Itoh 193-4). In retrospect, the dispute reflected the growing importance of economic issues on the US-Japanese agenda (Buckley 122-23). As one expert pointed out:

What the first San Francisco generation saw as largely irrelevant has since become increasingly usable and important, the 'low politics' of trade now rival the 'high politics' of base and military cooperation (Buckley 123).

Negotiations over the issue grew more controversial and complicated incorporating other aspects of the relationship. No longer could the two parties talk of bilateral topics on an one by one

basis but rather there appeared to be an overlapping of issues indicating the increasing intertwining of military affairs with the economic relationship between the two allies (Buckley 124).

The situation was not helped by the slow response of the Japanese government to the potential crisis. Domestic pressure was a reason behind its reluctant posture. Strong resistance coming from the Japanese textile workers forced the government to bow to the demands of its interest groups. The United States reacted by threatening to exercise the option of applying the Trading With The Enemy Act, slapping a 10% tariff on all imported foreign goods. Pressure from the American side mounted when the trade negotiations coincided with the scheduled talks over Okinawa. Seeking concessions, the American administration threatened to prolong their control over the islands (Buckley 128-9).

The result was an agreement that satisfied the demands of the United States (Buckley 129). The Japanese government, realizing the potential damage to the alliance, was forced to concede to the demands (Komiya and Itoh 194). Under the Japan-US Textile Agreement, Japan agreed to a series of export restrictions on textile products (Komiya and Itoh 195). The incident was a testimony to what many in the United States were beginning to realize: Japan was a political ally but potentially an economic enemy, presenting a "serious challenge" to American industries (Buckley 124).

US military engagements were also linked to Nixon's international policy changes. His definition of the new Guam doctrine outlined that:

We are not involved in the world because we have commitments; we have commitments because we are involved. Our interests must shape our commitments rather than the other way round (Hellman 333).

From the perspective of its East Asian allies, the doctrine signaled America's lessening resolve to participate in fighting off internal insurgencies. The logic of the new US directive implied that its allies should enhance their individual military capability (Morrison 418). Japanese alarms over the Doctrine's implications were heightened even more with Nixon's next "revolution" namely the sudden

rapprochement with Communist China. Japan was not informed of this sudden move, creating great embarrassment to the Sato government, which consistently supported close and conformist ties with the United States (Buckley 131). By ignoring Japan on the issue of China "...public opinion felt that the nation had been penalized for its two decades of loyalty (or subservience)" (131 Buckley). Moreover Japan situation was further complicated by the fact that it complied to earlier US demands to establish relations with the government of Taiwan.

Another calculation made by the Japanese was that the recent *rapprochement* might strengthen the Sino-American axis at the expense of Japan-United States relations. With China now an ally to the United States, there were fears in Japan that its strategic status vis a vis Washington would become less important despite receiving assurances from Nixon that "old friends" would not be neglected (Buckley 132).

Prime Minister Tanaka's Visit to the ASEAN Region In 1974

The second "shock" was the violent public reaction to Prime Minister Tanaka's visit to the ASEAN countries in 1974. From the Japanese perspective it altered their preexisting view regarding the ASEAN region creating a turning point in relations between the two (Morrison 145). As one author pointed out:

[The riots have] challenged some cherished Japanese notions: that Japan could serve as a bridge between the East and the West, that Japan's economic growth in and of itself was appreciated was beneficial to the region as a whole and that the separation of economics from other aspects of relations was a successful formula for avoiding the political problems with Asian neighbors (Morrison 420).

The riots were a result of accumulated resentment towards Japanese businesses and investments in the region. The latter was regarded by many in the region as a contributing factor to the

region's economic instability (Morrison 420). The "over presence" of Japanese businesses, especially in the area of resource extraction, was seen as just another form of the colonial Co-Prosperity Sphere (Nelson 129). Within the scope of Japanese foreign resource-related investments, the Asian region occupied the greatest number. Asians also complained of the business tactics employed by the Japanese. Rightly or wrongly, it was perceived as the reason behind the destruction of indigenous industries such as the textile industries in Malaysia and Indonesia (Nelson 120).

Lack of reciprocity over trade meant that Japanese industries, already heavily protected, could compete freely without hindrance while its ASEAN counterparts could not enjoy the same benefits. Aid, mostly tied, was also regarded with suspicion and seen as another ploy to enforce the already existing economic imbalances. Moreover, Japanese investments tended to target certain sectors (mainly extraction of natural resources) while neglecting others. They were also considered a contributing factor behind the increasing environmental degradation in the region. Socially, their tendencies to favor making business with certain ethnic groups such as Chinese communities have helped increase already existing inter-racial tension (Nelson 121-22).

The results of this suppressed anger were violent demonstrations in Indonesia and Thailand, where students burnt Japanese effigies, and public demonstrations demanded an embargo on Japanese goods. It was a rude awakening to the negative ramifications of its Asian policy. Rooted on the insular perspective of the Yoshida doctrine, the Japanese government tended to emphasize economic links with the region while keeping a political distance. The visit served to vividly highlight the cultural and political alienation existing between it and its Asian neighbors (Morrison 420).

The Middle East Crisis

At the international plane, the 1973 Middle East Oil Crisis was a critical challenge to the capabilities of Japanese diplomacy (Yoshitsu 1). It dramatically highlighted the limitations of their post World War Two strategy of "separation of economics from politics" which, with the exception of the United States, downplayed the importance of cultivating strong political links with any other region.

Indeed, Japanese leaders were at a loss as to how to deal with the situation when the oil embargo was declared (Yoshitsu 2).

In support of Egypt's military assault in the Yom Kippur war, key Arab countries initiated a gradual reduction of their oil production. With its acute lack of raw materials and energy resources, Japan stood to lose the most amongst the industrialized nations. Japan's dependence on fuel as an energy resource reached 70.8% in 1970 from a mere 17.7% in 1953 is one indicative illustration (Shimizu 27). Of that portion, the Middle East countries provided nearly 85% of its oil imports reflecting the importance of the region to the Japanese economy (Shimizu 27).

Japan received diverse supplies from Indonesia whose exports provided 16% of the country's fuel needs (Morrison 430). Iran's oil potential was also regarded as another attractive alternate being the major factor behind Tokyo's strive to cultivate strong political and economic ties with the Shah's government (Yoshitsu 7). There was a conscious effort, particularly by the MITI, to lessen the control of the major oil companies by encouraging private sector investments in the oil industry. Examples of such were the Arab Oil Company in Saudi Arabia and the Japanese-Iranian Petrochemical Complex (JIPC) initiated by 1970 (Hamauzu 55-6). Yet despite its diversification attempts, the Middle East region still remained the critical supplier for Japan's oil needs (Shimizu 27).

However, up until the embargo, the workings of the international resource market was very conducive to Japan's economic plans, which centered on switching from light to heavy industrialization. The development of the supertanker helped lower freight costs considerably, providing access to distant areas of strategic resources (Shulman 37). Coupled with the oil glut of the 1950s and 1960s decade, Japan was able to receive supplies at very low prices (Sugihara 4).

Continuous and undisturbed access to energy resources and raw materials was one of the twin pillars of Japan's international economic policy (Rix 25-26). Yet there were many weak links in its attempts to draw emergency plans. Until the '73 Crisis, Japan, locked in its quest to recover and develop its economy, dealt with the Middle East region on the basis of the "separation of politics from economics" policy. It believed that steering clear from the political tensions of the region, it could

maintain economic and resource links successfully. However, that meant weak contacts at the governmental level and little familiarity of the Japanese with the political dynamics of the region (Yoshitsu 1-2).

The structure of Japan's oil trade was equally vulnerable. Supply links were mainly between its oil refineries and Western oil companies based in the Middle East region. Long-term contracts drawn out were with the latter rather than with the host governments. In the wake of the embargo, oil companies were forced to cut nearly 44% of their long-standing supply to Japan (Yoshitsu 7). Moreover because of the country's pacifist stance, Japan's supply routes went undefended. Hence, Japan's crucial maritime links were left open to any possible obstruction or disturbance (Hellman 326).

Japan's Economic Diplomacy: Adapting To Changing Circumstances

Japan's attempt to deal with the new set of regional and international crises ultimately challenged it to discard old habits and accentuate others. Yet this was to be done through the main pillar of its foreign policy, namely the framework of its relationship with the United States. Despite the upheavals caused by the series of economic and political 'shocks' of the Nixon administration, the reaction of Japan was to reinvigorate the existing alliance. The reasons were multiple. The United States stood as the most important economic partner for Japan, importing a great majority of latter's exports and receiving the bulk of its foreign direct investment.

The security dimension was another element reflecting Japan's dependency on the United States. With the constraints posed by the Constitution and public aversion to the military political consensus on the issue of increased military spending was largely lacking. There was a tendency to shy away from this highly controversial issue, favouring to maintain the status quo and implement changes only at a gradual pace (Inoguchi 40-41). Moreover, self-imposed constraints such as banning of any exports of weaponry and limiting defence spending to 1% reflected the continued strength and longevity of the Yoshida doctrine (Pyle 25-27).

In the wake of the changes in US East Asian policy, there was simultaneous pressure on Japan to increase its contributions to the alliance. The concept of 'burden-sharing,' already earlier proposed previously by the Kennedy and Johnson administrations, took a more critical turn as the United States urged Japan to a more active political and economic presence in the region (Buckley 136). To quell calls for increased defence expenditure given the controversial nature of the military defence issue, Japanese officials regarded that the alternative route lay with increasing foreign economic assistance (Orr 740). From that juncture, aid was to become a matter of coordination between the two in an attempt to bolster US objectives in the region (Orr 755). It was simultaneously seen as the tentative means of converting their growing economic power into diplomatic influence (Orr 755).

It was only after heavy consultation with the United States, that Japan immediately moved to normalise relations with Communist China. Apart from the initial surprise and anger felt at the sudden announcement of Sino-American rapprochement, the Japanese were eager to extend relations with Beijing (Buckley 133). The prospects of endless economic possibilities created the so-called 'China fever' (Ijiri 640).

Political recognition was the means of elaborating on the already existing trade relations between the two countries. Although the United States previously demanded that Japan give full recognition to Taiwan and apply economic sanctions on the mainland government, Japan succeeded in circumventing these limitations. Policies such as "separation of politics from economics" helped maintain "unofficial" Sino-Japanese relations during the previous two decades. In 1957 the trade volume between the two countries was greater than that between Japan and Taiwan. In 1962 trading agreements such as the Liao Chengzhi-Takazaki Tatsumosuke arrangement were made. Moreover exports from Japan to China in 1958 totaled Y57 billion and increasing nearly 40% by 1963 (Wang 625-6).

Long considered as economically strategic, given the abundance of its natural resources, China was considered as a vital element in Japan's quest for resource security. Discovery of oil reserves propelled the Japanese government to propose a 'barter deal' in exchange for critical fuel supplies from

China. Already by 1973 the latter was exporting fuel to Japan (Wang 626). Ultimately, after many twists and turns in negotiations, the Long Trade agreement, extending over a period of eight years, was signed in 1978. It was to oversee the exchange of \$10 billion worth of oil to Japan and who in return was to export manufacturing plants and machinery to China (Wang 626-7).

The yen loan also reflected the equal -if not superior- political strategic factor within their overall perspective on the relationship. The aid aspect within the Agreement was also calculated as a supportive factor behind Chinese Premier Deng's economic modernisation effort. Loans amounting to nearly \$1.3 billion were given in the form of project loans affiliated to the Long Term Agreements (632 Wang 632).

Secondly, China was a regional force that had to be reckoned with. From the Cold War perspective it was invaluable as a "counterweight" to the Soviet threat. Aid was seen as a vital means of enhancing China's "buffer" role by helping it modernize economically. More so aid was regarded as equally critical in maintaining internal stability in China by helping it smoothly transform under the new economic modernization program. By doing so Japan would ensure the continued stabilization of the East Asian region (Wang 632).

Although Japanese reaction to the US-China détente has been largely conformist, there have been notable exceptions. Despite invigorating its links with China, Japan's fears of 'losing out', as a result strengthening American-Chinese relations, continued. In an attempt to enhance its position vis a vis the United States, Japan began to seek open relations with Moscow. However, negotiations were soon aborted when the parties could not come to an agreement over the terms of the peace treaty (Buckley 134).

Another incident revolved around American reaction to the Long-Term agreement. The US fearing Japan's neglect of the ASEAN region, objected to the conditions of yen loans extended to China. This was seen as facilitating the expansion of Japanese economic presence in the region. US wanted the loans to carry higher interest rates but Japanese officials refused to comply and proceeded on with prior arrangements. However, this rare individual stance was tempered with the articulation of

the three Ohira principles in which Japan promised that; a) Japanese policy on China will not conflict with policies of Western nations; b) Sino-Japanese trade relations will not overshadow ASEAN; c) Japan will not embark on any military trade with China (Wang 638). This also reflects China's capability to be an element of convergence or divergence within the alliance relationship (Oksenberg 104).

On the international plane, Japan's fine balance between the alliance demands and its individual interests were to be critically tested in its initial handling of the Middle East crisis. Until the embargo, Japan's policy of "separating politics from economics" was largely successful in allowing it to avoid embroilment in the political affairs of the region. The "minimal" requirement of its existing foreign policy towards the region was to maintain a balanced relationship with both Arab states and Israel. On the diplomatic front, Japan quietly affirmed the provisions of the resolution 242 and supported the Palestinian right to self-determination after the 1967 Six-Day war. However, this fact was not obvious to the other actors, since the Japanese stance remained vague enhanced further by its government officials "scattered" statements on the issue (Yoshitsu 1-2)

Policy changes were demanded when Japan, faced with the embargo, was forced to take clear diplomatic steps in hope of securing its interests. From the start, one of the primary considerations was balancing its acquiescence to Arab states demands and not risk alienating its relations with Israel (Yoshitsu 3). Moreover, the American factor was equally significant in that Japanese officials did not want to risk anger from their ally if appearing to be too "pro-Arab" (Yoshitsu 4). Hence their two step reaction to the crisis. Former Prime Minister Miki was dispatched to the region, visiting key Arab capital cities in an attempt to "explain" Japan's dire situation and its support of the 242 resolution. Secondly, aid was given as a 'good will' gesture. Roughly, \$280 million were disbursed to Egypt, aimed at updating the Suez Canal. With regards to Saudi Arabia, ODA was mostly given in the form of technical assistance seen in the 1975 construction of the Al Jubail complex (Yoshitsu 9). Japan signed a long-term loan agreement with Iraq in which it agreed to provide credits amounting to Y2 billion. Since 1969, relations between Tokyo and Tehran were described as "special" because of the high level of

investment poured by Japan into the oil potential of Iran. During Japanese Foreign Minister Miki's visit to Tehran, the latter was able to secure a promise from the Shah that Iran will not join the embargo (Yoshitsu 7)

Apart from enhancing Japan's axis with key Arab states, the issue of recognition of Palestinian rights was much thornier. Although Japan effectively did so earlier on, too much 'emphasis' on its part could risk alienating the United States. In its talks with Secretary of State Henry Kissinger, Japanese leaders attempted to "explain" its situation by emphasizing the extent of its economic vulnerability (Yoshitsu 4). As Yoshitsu pointed out:

By stressing resource vulnerability, the Prime Minister and the Foreign Minister evidently hoped to win reluctant acceptance at least to minimize US criticism on their diplomacy towards the Middle East region (Yoshitsu 5).

Fears of American criticism were the determining factor behind Japan's decision to abstain in the United Nations resolution on granting PLO observer status (Yoshitsu 15). This was hesitant stance was to become bolder in 1975. Reasons for Japan's decision to enhance its relations with the Palestinian Organization were multiple. Given the strategic importance attached to the region, the Japanese government saw it as necessary to seek solutions to the endemic problems. This perspective was particularly supported by the then Prime Minister Miki who regarded the key to Middle East long-term stability was finding an effective solution to the Palestinian-Israeli conflict. From this perspective, the focus inevitably came upon the Palestinian Liberation Organization (PLO) who was seen as a critical factor in regional affairs. With this, attempts at opening dialogue with the Organization were begun (Yoshitsu 15).

Another related but more distant factor, was Japan's latent fear of the PLO becoming a "second China". It seemed to many Japanese officials that the sudden decision by the US to recognize China could also be repeated with the PLO. Rather than risk being 'left out in the cold', Japanese

ministers wanted to cultivate a relationship beforehand and hinted that they would be willing to allow the Organization to open an office in Tokyo (Yoshitsu 15-16).

However, there were limits attached to this initiative. The Japanese government was only willing to confer informal rather than relegate full diplomatic recognition to the Organization. Its explanation was that the PLO was only one of the parties representing the Palestinian people (Yoshitsu 17). It seemed that the real reason behind this decision was that the US would object to such a move. After a series of negotiations between the two, the Japanese agreed on opening a PLO office in Tokyo short of a diplomatic status. Simultaneously, it affirmed the Palestinians right to self-determination but significantly added that the state of Israel also had the right to exist (Yoshitsu 22).

With the second Oil Crisis, the 1979 Iranian revolution effectively removed the Shah's government considered by Western countries and Japan as the "lynchpin of security". Contrary to the other Western countries (with the exception of Germany) Japan was in a more favorable condition vis a vis the new regime. Culturally, it was the only non-Western industrial nation and from a historic perspective it had no prior colonial relations with Iran (Takahashi 84).

From the Japanese side, efforts at maintaining cordial relations even after the Revolution stemmed from the fact that Iran was considered an economically strategic country for a number of reasons. First, Iran was considered as a vital alternative source to Arab fuel. Secondly, Iran is a critical link in Japan's oil supply routes. Nearly 70% of Japan's oil passes through the Strait of Hormuz situated south of Iran, hence lending it geopolitical importance (Meeks 43)

Thirdly, since 1969, Japan invested heavily in Iran. The Japan Iranian Petrochemical Complex (JIPC), initiated in 1970 was Japan's largest overseas investment scheme amounting to nearly \$2 billion in value (Yoshitsu 41). From as early as 1970, Japan reacted to the Shah's anxiousness to enhance his country's investment potential by proposing plans for a joint Japanese-Iranian petrochemical project. As mentioned above, the JIPC attracted government support since it was considered as a means of creating independent oil supplies circumventing the control of the major oil

companies (Takahashi 89). Under heavy governmental financial backing, the Mitsui Corporation, along with nearly 100 other firms, moved to implement the project's construction. (Yoshitsu 41).

From the very start success of the project was doomed. Plans were stopped after Iran pressured OPEC to hike oil prices in 1972, initiating spiraling costs due to rising inflation (Takahashi 89). Construction was resumed in 1977 but was temporarily halted after the revolution in 1979. However, the new government did not regard Japanese businesses as a threat and exempted the JIPC from nationalization (Takahashi 90). Japanese government, under heavy lobbying from the Mitsui Corporation, labeled the resumption of the project as a "national interest". It was also seen as a means of cementing relations with the new regime (Takahashi 90).

However, despite the Japanese governments pledge to inject \$500 million (funded by the Organization for Economic Cooperation Funds and the Export Import Bank of Japan) into the project, the hostage crisis involving American diplomats created another obstacle. The United States applied an immediate economic embargo and urged its allies to follow suit. Again, Japan was forced to walk a thin line between balancing American sensitivities and maintaining its individual interests. Arguing that the project was "...an anchor that prevented Iran from being driven into the arms of the Soviet Union" work on the project was resumed shortly thereafter despite eliciting American anger (Takahashi 91). The Mitsui corporation was forced to abandon the project altogether when war broke out between Iraq and Iran (Takahashi 92).

The JIPC case was indicative of Japan's constant pursuit of security in resources and access to raw materials. During the late 1960s and 1970s, Japanese foreign direct investment concentrated heavily on this field. Rich resource regions such as South East Asia and even Latin America were the primary targets. In the latter case, both Brazil and Peru were the two biggest recipients of Japanese Foreign Direct Investment. Hence it is not surprising to note that they were also the largest recipients of Japanese aid within the Latin American region (Rix 240-41).

This was indicative of the characteristic joint cooperation between the government and the private sector in allocating aid for the funding of such projects. In 1976, an aid arrangement was signed

between Brazil and Japan amounting to nearly Y3,000 million. In return Japan was to develop an aluminum refinery and smelter integrated with a pulp mill and harbour. Later, nearly Y5,000 million were used by the Japan International Cooperation Agency (JICA), to build a maize farm (Rix 240-41).

This was also similar to the case of Indonesia, long considered by many Japanese officials as strategic given its natural resource wealth. An example of how Japan tied its aid to its quest for raw materials was the Mitsugoro maize farms and the development of the Asahan project in 1967 which included an integrated hydroelectric and aluminum smelter scheme. The government handled 70% of the funding while private banks covered the rest. The OECF alone undertook to provide a grant of Y26,250 million. When cost problems began to appear due to increased inflation, the Japanese government took a similar position as was done in the case of the JIPC and declared the Asahan project as a "national project" (Rix 235-6).

Hence, while aid was used to achieve resource security it was simultaneously directed to avoid disruption from accessing it as seen in Japan's reaction to the instability in the Middle East. The eruption of the Iranian revolution complicated another major regional development namely the Camp David accords. It added another crisis to the already tense inter-state relations in the region. The decision of Arab states decision to boycott Egypt coupled with Israel's adoption of policies that contradicted the terms of the Accord propelled Japan to take an active regional initiative, which again targeted the PLO (Yoshitsu 23).

From the Japanese perspective, the uncompromising stance of the American administration would only serve to further the PLO's polarisation. From a strategic point of view, this situation could push the Organisation to seek the support of the Soviet Union (Yoshitsu 32). Knowing that American response would be lukewarm at best, there were overriding reasons for the Japanese to push ahead quietly. In several ways, it was recognised that the second Middle East crisis posed an indirect threat to Japanese security. As the region grew unstable, the Japanese government feared that this could push the American government to increase its regional military presence at the expense of its position in Asia. In

consequence, this situation could propel the US to step up its pressure on Japan to increase its military capability (Yoshitsu 33).

Seeking with the European Community to influence the US and Israel, Japan urged a change in policy but to no avail. Taking an individual step in 1981, Japan decided to invite PLO chairman Yasser Arafat to Japan. However, aware of possible American criticism, the visit was to be made on an unofficial basis. With the invitation sent out by the parliament's League for Japanese-Palestinian Friendship Arafat was presented to PM Suzuki in a "private capacity" (Yoshitsu 35-36).

The political strategic dimension of aid, already enhanced during the first Oil Crisis was once again highlighted after the Iranian revolution. The role of ODA in maintaining Japanese interests and help support the alliance was evident after the 1979 Soviet invasion of Afghanistan. Japan, fearing a possible confrontation between the two Superpowers, provided assistance to "countries bordering conflict" as a means of containing Soviet regional ambitions. For the Japanese this "adventuristic" act was penalized with the abrogation of two investment projects amounting to nearly \$1.2 billion. The action was not unilateral but came in support of US initiated economic sanctions against the Soviet Union (Yoshitsu 67). Based on the oil and fuel potential of the country, Japan strove to balance the act by continuing previously started oil and gas exploration projects (Yoshitsu 69).

With the policy of "countries bordering conflict" Pakistan received Y32 billion while an accumulated amount of \$170 million were given to Turkey between the years of 1979 -81. Nearly \$4.5 million, and later enhanced with a further \$1.6 million, were given to Pakistan as financial support for Afghan refugees. Aid, was also given to South East Asian countries, also considered as vulnerable to Soviet intervention. Special emissaries were dispatched to both regions and in the case of the South East Asia the stress was laid on the need to enhance economic relations between it and Japan (Yoshitsu 74). As a sign of Japan's awareness of its growing economic influence, aid to Vietnam was cut off after its invasion of Cambodia while Thailand received \$2 million to assist the influx of Cambodian refugees into the country (Yoshitsu 74).

ASEAN

The instability of the Middle East had only served to highlight to the Japanese the strategic value of the South East Asian region (Morrison 417-18). Another major reason behind Japan's move to reinforce its relations with the region came under the heading of "burden sharing". In light of the decreasing US military presence in the region, pressure was stepped up on Japan to increase its political and economic presence in the region (Buckley 136). Despite the criticism of its low defence budget, given the legal and political restraints placed on the SDF, any sign of using force to maintain its regional interests would have been vehemently opposed by wary Asian neighbours (Morrison 422). The most powerful resistance would have been from the Chinese quarters. The latter tacitly approved of the existing American-Japanese alliance arrangement since it was regarded as a check on any hegemonic intentions by Japan (Tang 7).

Apart from the continuous nudging by the United States, increased Japanese activity in the region was slowly being accepted by the ASEAN members. The latter was ready to strengthen relations with Japan for a number of reasons. The implications of the Guam doctrine and the fall of the governments of South Vietnam and Kampuchea to communist regimes highlighted US military retreat. The retreat seemed to be economic as well given the collapse of the Bretten Wood system and decreasing American aid to the region. Despite the uneasy feelings felt towards Japan, it seemed the most likely candidate for regional leadership (Morrison 419-420).

Through ASEAN's "external dialogues" Japan saw the chance to reinvigorate its relationship with the Association. The Japanese government started by "softening" its ODA conditions such as increasing the level of its untied aid and pledging to enhance the quantity of aid disbursement. In 1975, PM Miki Takeo unveiled the "Asian Marshall plan" in which Japan aimed to assist in doubling rice production throughout the region through the help of Japanese financial and technical assistance (Yasatomo 7).

Later in the year Foreign Minister Kosaka announced Japan's intention of mediating between ASEAN and countries of Indochina. However, the most "explicit" step taken towards enhancing the

ASEAN-Japanese axis was, based on the previous "heart to heart" diplomacy, the formulation of the Fukuda Doctrine. The latter consisted of stepping up aid giving in view of the decreasing role of US and Russian assistance to the region. It had provided what Japan regarded "...as a statement of its political interests in the South East Asian region" (Morrison 422).

The fact that economic diplomacy was the main characteristic of the doctrine reflected Japan's quest to balance its assurance to the ASEAN countries of its good intentions while satisfying American demands for greater burden sharing (Morrison 425). The doctrine formally renounced the inclusion of a military dimension as part of its regional diplomacy. PM Tanaka also pledged \$1 billion in aid to the region. He further promised that Japan would work to contribute to the economic and political stability of the region through intensifying trade and investment links with the region (Morrison 421).

The doctrine signified the supremacy of economic diplomacy over and above the military option. Japan saw itself as becoming not only the guarantor of Asia's economic development but the bridge between communist Indochina states and those of ASEAN. The significance of aid as an agent of influence was seen in Japan's decision to cut off aid from Vietnam after its invasion of Kampuchea in 1979. More so was the ascendancy of Japan as the top aid donor in the region. With 45% of ODA devoted to the ASEAN region, it effectively overtook the US position in a matter of a few years (Morrison 421-22).

Given these regional and international developments, the policy outcome was the formulation of the 1980 "Comprehensive Security Policy". Its main thesis rested on three security pillars namely; a) self defense; b) building a positive regional security environment; c) ensure a complimentary international environment that would be conducive to Japan's security (Akaha 325). This process was to be done by seeking international security through non-military means while at the same time emphasizing the nonmilitary aspects of security such as economic and natural resources (Yasatomo 9). Although not specifically worded, aid giving was to be linked increasingly to strategic matters (Akaha 333). Moreover, it was not to be confined to the Asian region as Japan slowly stepped up its international presence. Under the aegis of 'burden sharing' development assistance was to be given to

countries that were considered vital to peace and stability of the world with. Major recipients included non-ASEAN and North East Asian recipients such as Egypt, Jordan, Turkey, Sudan and Zimbabwe (Orr 748-9)

A sign of the broadening ODA bracket is evident in the case of Egypt. After the 1973 oil embargo the latter quickly became the largest non-Asian recipient to receive aid from Japan. Starting from 1978, the Organization of Economic Cooperation Fund began disbursing aid on a yearly basis. The initial sum grew from Y30 billion in 1978 to Y50 billion in 1983. From 1982 onwards, Japanese financial assistance has become a continual aspect in the country's economic five-year plans (Fuwa 140).

However, despite the positive intentions of Japan's regional policy it continued to receive criticism. Most of the aid was still largely confined to the Asian region. Moreover, most of the aid were in the form of "tied loans" criticized as "...a tool of commercial expansion". For some in the Asian region Japanese aid was another form of "imperialism". Despite its growing importance, there still lacked any form of coherent policies or "philosophy" that would explain the aims and goals for such expenditure (Akaha 332). Moreover weaknesses such as the lack of coordination between the ministries and small number of experts inhibit any form of developments (Akaha 332)

Conclusion

From the Japanese perspective, the series of regional and international crisis during the 1970s decade reflected a major shift in the international environment. The Nixon 'shocks', the demise of the Bretten Wood system and the new Guam Doctrine bespoke of a declining US hegemony. Combined with the regional backlash against Japanese investments and the first and second Oil Crisis in the Middle East highlighted the need for Japan to take a more active role in the international and regional arena, forcing it to abandon its "separation of economics from politics approach". The continuing factor in this was the fact that this was done within the structure of its relationship with the United States.

On the other hand, the changes were reflected in Tokyo's growing belief that it had to step up its support for the alliance. In other words, the complete reliance on the United States, as enjoyed in the past two decades, was not feasible anymore. Although this did not constitute as a break from the Yoshida strategy as reflected in the Japanese move to enhance the bilateral relationship. Yet given the new international and regional developments, and foremost the shifts within the alliance structure itself as seen in the series of 'Nixon shocks', demanded more input than before.

With the new concept of 'burden-sharing' the US stepped up its demand for Japan to increase its defence expenditure. Yet given the military and political constraints imposed on the SDF, the alternative route lay with increasing aid giving. With this it increased its supportive role within the alliance structure as Japan stepped up its economic assistance to enhance US Cold War position.

As US hegemonic capabilities gradually retreated, the Japanese response was a tentative diplomatic initiative aimed at maintaining its number one priority: maintaining links vital for maintaining its resource and energy security interests. Japan's endeavor to achieve resource security is clearly indicated in its diplomatic response to the crisis in the Middle East and shifts in the Asian through policies such as "countries bordering conflict", and the Fukuda doctrine. Although Japan's position during these incidents were highly cautious, especially in the case of the Middle East, it was largely effective in 'containing' any further developments that would harm its interests. Economic diplomacy was also the most suited within the Asian context. Many neighbors were still strongly suspicious of Japan's hegemonic intentions. Internally, there were a series of political and legal restraints already placed on the nation's military arm. The result of this meant that the chief option lay in nurturing the country's economic power as the basis for regional and international influence. It also laid the foundations for accentuating ODA's strategic dimension.

Chapter Three

The Role of ODA after the Plaza Accords

*The time has come for Japan to make a historic transformation
in its traditional lifestyle.*

Maekawa Report

At the dawn of the 1980s Japan was at the threshold of transforming itself into a global economic powerhouse (Pyle 84). With the 1985 Plaza liberalization arrangement, the yen was allowed to float leading to its sharp appreciation. Combined with the deregulation of Japan's financial markets in 1986 these events catapulted the country into the status of the world's leading creditor nation (Buckley 149). By 1989, Japanese public and private financial flows reached \$1,771 billion (Sakurai 145). In terms of its financial and corporate power by the middle 1980s Japan owned 32.9% of the top global corporations. If one compares it to the European community, it held 45.3% of the largest international firms (Meeks 49-50). The country's economic prominence was further magnified by the worsening debt crisis in the developing world, hitting the trillion-dollar mark (Sakurai 146).

However, with recognition of the country's undisputed economic prowess came vehement criticism particularly from its closest ally the United States (Higashi and Lauter 30). Trade disputes between the two countries was not a new issue. There have been tensions during the early and late part of the 1970s between the two partners over the textile industries. However this "third wave" of trade tension in the 1980s witnessed an unprecedented escalation (Komiya and Itoh 202). As one author described it, "the Japan-US trade conflict has turned into a Japan-US economic conflict" (Komiya and Itoh 212). In 1978 US trade deficit with Japan stood at \$8 billion, in 1983 it quickly rose to \$20 billion and tripled in 1987 to reach nearly \$60 billion.

Although economic relations between the two countries were far too complex, an "oversimplified" deficit problem quickly became the focus of an intense American media and public scrutiny accusing Japan of "free riding" at the expense of the United States (Inoguchi 24). The avalanche of Japanese investments, as a result of the yen's appreciation, in the United States did not help the situation (Higashi and Lauter 57). To many Americans this was seen as a hostile take over of the United States (Inoguchi 25).

Amongst this "Japan bashing," early negotiations between the two countries centered on American demands for unilateral concessions and the liberalization of the Japanese economy

(Buckley 146). From then on the trade issue has been extended into a wider territory of economic issues by the succeeding American administrations (Komiya and Itoh 212). The result has been the diversification of the negotiations into several tracks with one track covering bilateral macroeconomics matters, the Structural Impediment Initiative focusing on socio-economic activities acting as invisible barriers to foreign competition, and thirdly, negotiation to correct of "imbalances" based on individual sectors (Janow 60-1)

Apart from the industrialized partners, the ASEAN also stepped up their criticism with regards to Japan's international economic policy (Morrison 429). A combination of Japan's industrial shift from manufacturing to low energy consuming high technology and ASEAN's adoption of export substitution programs concentrating less on primary products, dropped the level of overall trade between the two. As ASEAN sought alternative destinations, pressure was stepped up to induce Japan to change its investment behavior in the region by emphasizing the manufacturing sector rather than concentrating on raw material extraction (Morrison 429-430). Simultaneously, pressure was applied on Japan to import manufactured goods produced in the region (Morrison 430).

Japan's Response to the US-Japanese Trade Disputes: The Internationalization Process

It was the political and economic implications of the trade dispute that triggered Japan's response to US demands with a series of concessions. Japan's reliance on the American market as the foremost destinations for its exports was even more accentuated given the extent of Japanese investment poured into the country. The security dimension also played a part, since Japan's relied on the United States for the its defense. For many Japanese leaders voluntary export restrictions were seen as necessary concessions to balance off security burdens handled by the United States (Komiya and Itoh 218). More latent was the fear of instigating erosion to the liberal international economic system. The Japanese were well aware that they were the first to lose in such a situation (Komiya and Itoh 217-18).

While some regarded this action as "unfair" seeing it as tantamount to having "...encroached into the internal affairs of Japan" concessions were made especially over the

auto industry (Komiya and Itoh 217). In 1981, Japan agreed to unilaterally restrict car production to 1,680,000 in the city of Nagoya (Buckley 141). In 1984 steel exports were limited to 5.85% and in 1985 cars production was voluntarily restrained at 2,300,000 units despite bitter resentment (Buckley 146). Later, during President Bush's visit to Japan in 1992, the Japanese government promised to increase the imports of US car part supplies up to \$19 billion in FY 1990-94 up from \$9 billion (Janow 66). The Japanese government has acquiesced to American demands to open the tobacco industries that employed nearly 90,000 workers agreeing to lower 20 % tariff on tobacco despite resistance from the agriculture lobby groups or *zoku* (Higashi and Lauter 93).

Under Prime Minister Nakasone, these initiatives were made part and parcel of his Internationalization process. It involved not only an attempt to respond to international criticism but to initiate change within the Japanese society as a means harmoniz[ing]" it with the international community (Pyle 94; Higashi and Lauter 66). The strongest push factor was the importance of initializing adaptive economic policies in the face of the emerging international economic conditions (Pyle 117-18). The trade disputes between Japan and its industrialized partners raised the specter of protectionism already seen in the angry responses within the American congress. Moreover, the accentuation of the chronic Third World debt problem that reached the trillion-dollar mark highlighted the fragility of the global liberal economic system (Yasatomo 9). Japan's transformation as a number one creditor nation enhanced its stake in the global international system (Lincoln 134).

As early as 1980 the MITI issued a report emphasizing the need to support international trade and increase its imports of manufactured goods (Higashi and Lauter 100-1). The 1986 Meakawa report proposed several general guidelines namely some of which included the liberalization of the financial market, increase of foreign imports of manufactured goods and increasing ODA as a mode of international contribution and double foreign direct investment by the year of 1992 (Higashi and Lauter 103-4).

Apart from the external situation, there were other conspicuous domestic pressures produced as a result of the 1985 Plaza Accord. The appreciation of the yen has induced the need to shift

Japan's manufacturing base outside its territories to offset the rising capital and labor costs. Related to the latter has been the issue of Japan's aging population projecting a significant shrinking of the labor pool in the near future (Lincoln 141). Moreover, characteristic of a 'bubble economy', land prices which had increased dramatically acted as collateral thereby encouraging further investment (Lincoln 136).

The political interpretation of this economic transformation has been that the Japanese could no longer maintain its insular attitude with regards to the world. Previously as a trading nation, distance could be maintained since this form of economic activity a limited range of contact channels with any other nation and hence required no deep understanding of the political or economic dynamics of the recipient country (Lincoln 134-35). As one author states:

To put the matter at the elemental level, the management of workers in Tennessee requires far more interaction or understanding than does the export of cars from Japan to the US (Lincoln 135).

Aid, Trade and Investment:

As a result of these factors, by the middle 1980s, Japanese FDI was growing at the annual average rate of \$8-10 billion. So huge were the financial outflows from Japan that there were growing fears of a possible "hollowing out" Japan's industries. Government officials were fairly optimistic regarding this phenomenon as beneficial in the long run in not only circumventing protectionism (particularly in the US and the EU) but in helping speed the shift from concentration on secondary to tertiary industries (Higashi and Lauter 101-2). With this Japanese FDI was mostly concentrated on three top regions namely the US, EU and Asia respectively. However, while FDI to the latter was far less than that spent in the former two, the Asian region was seen as strategic for different reasons. The region offered comparatively lower labor costs and strategically became more important given the ongoing trade disputes between Japan and its Western partners (Unger 156).

In a space of a few years, the region has become the new "platform base" for Japan's manufacturing industries. In the 1990 Committee For Asia-Pacific Economic Research interim report, the need to broaden Japan's "...narrow vision of prosperity" was emphasized (Pyle 134). Yet this process was actually in place since the middle 1980s. Japan's regional investment structure already underwent major changes as focus began to shift quickly from resource extraction projects to manufacturing. In the period of 1985 - 1990 out of 340 Japanese electronic companies 240 were built in the East Asian region (Unger 159).

The MITI New Asian Industrial Development (New AID) plan aimed to relocate Japanese industries to the region to take advantage of the lower labor costs. Yet this was not to be done haphazardly. Rather, virtues of establishing regional economic integration were beginning to be emphasized. In one report, the EPA report stated that Japan should "mastermind" the comprehensive integration and development of the region's economy. Japanese think tanks envisioned a "flying geese" model in which Japan will lead followed by Newly Industrialized Countries, ASEAN, and China. This "benign division of labor" was to be conducted through the careful utilization of "economic cooperation," as a means to facilitate this action (Pyle 134-35). In one report, the Ministry of Foreign Affairs gave a more articulate viewpoint on this stating:

The development of vigorous business activity by the private sector is vital to the advancement of developing countries and it is important to recognize that aid can contribute to the creation of an environment for such activity through the improvement of industrial and social infrastructure (Unger 160).

This synthesis of trade, investment, and aid was explained by government officials as a new form of international assistance (Unger 162). It seemed to be widely accepted and welcomed by several Asian countries as seen in Malaysia's PM Mahatir's "Look East" policy (Vogel 167). In general Japanese FDI to the ASEAN region was flagging due to the unstable economic and political environment in many of the member countries. However, under a series

of government initiatives Japanese investment in the region began to increase (Higashi and Lauter 211).

Reflecting the characteristic mode of close cooperation between the Japanese government, bureaucracy and businesses, incentive programs to encourage FDI in the Asian region were begun. One example is the Japan Overseas Development Institutions (JODC) funded by both public and private sources. The organization technical assistance is instrumental in advancing the training of local labor. It also offers financial supports for small Japanese firms. In the case of the MITI, aid assistance was extended as a means of enhancing the economic environment of the region. The typical approach of the MITI New AID plan involved targeting countries with potentially complementary and competitive industries. The second step required negotiations with the host government outlining Japanese assistance in developing the country's industrial capacity. If the response is positive, then detailed specifications for such plans are outlined and aid is disbursed to assist Japanese investment plans (Pyle 136). While aid was seen as a necessary building block for a suitable investment environment, the JETRO created the Joint Investment Schemes aimed at giving consultations to middle to small Japanese firms investing in the region (Higashi and Lauter 211-12). This was buttressed even further by funds exemplified in the program offered to Japanese overseas investors by the export-import bank in 1986 (Unger 159).

ASEAN's growing importance vis a vis Japan was seen in the fact that it received nearly 31% of the overall regional Japanese FDI. In a space of a few years, Japan became the number one investor in the region, surpassing both the United States and the EU. Another example of ASEAN's importance was seen in the creation of the 1987 ASEAN-Japan Fund amounting to \$2 billion in reserves (Unger 159). In the case of the JODC, nearly three-quarters of its services were situated in the East Asian region. Of that proportion, nearly half was concentrated in the ASEAN region (Unger 160). The configuration of aid disbursement to the Asian region gives further indication. On the whole, the Asian region receives 50-65% of Japanese ODA in which 45% of this is disbursed to the ASEAN members (Unger 159-60).

Some have pointed out that the above, at Japan is effectively laying the foundations for the formation of a region. The use of trade, investment, and aid, Japan is to all intents and purposes creating a region and interdependence of the regional economies. Moreover, one can see in the Japanese ministries have dubbed "a benign division of labour" which seems to point towards the establishment of a pattern amongst the region, their respective comparative advantage- an idea not far different from the "prosperity Sphere" (Koppel and Plummer 1044).

Although too early to separate fact from fiction, the arguments suggested the opposite. Firstly, Japan itself has resisted coining this to create an economic bloc. Japan's global links, specifically with regard to the region, are considered more vital (Chittiwatanpong 210). Furthermore, although Japanese leadership is an important contributing factor in the development of the region, many major players are involved as well. The region has long been of vital interest to the United States, Canada and Europe suggesting that Japan does not have leadership over the economic affairs of the region (Howe 663).

Secondly, although Japan stands as the most nation and the top contributor of aid and investment to the region, one cannot ignore the importance of the United States, and to a lesser extent, Europe as important economic actors. Although overall trade with the region is not substantial, the considerable amounts made by the two highlights them as significant economic actors within the region over a period of time (Howe 667). In light of the slow response by Japan to open its market for manufactured goods, the United States has become the number one destination for many exports (Howe 665). Moreover a great deal of economic strategic importance is placed on the region by the ASEAN countries since this lessens their dependence on the Japanese market (Koppel and Plummer 1046).

A third but vital missing element is the relevant status and role in the region's economic dynamics. The latter has continually opposed the concept of a regional bloc. From their viewpoint, an acceptance of such would be tantamount to approval for Japanese-or

American dominance (Funabashi 108). Indeed resurgence of Japanese investments to the ASEAN region did not spell the same for China. The main factor behind this sluggish move is attributed to the unstableness of the Chinese economy. The earlier decision by the Chinese government to cancel contracts with Japanese firms created a negative impression on many Japanese businessmen. China's share of Japanese FDI remained largely at 1.1% in 1985 (Wang 629).

The Chinese government since has been trying to woo Japanese investments by agreeing to sign a preferential tax treaty as a sign of improving investment climate in the country. In 1986 the government announced other measures which included more flexible labor laws and lower labor costs. The 1988 treaty was concluded between the two governments giving national treatment to Japanese business people operating and investing in China (Wang 629-30)

Lack of reciprocity was also characteristic of Sino-Japanese trade relations, with China relying heavily on Japanese exports, which reached as much as 24% in 1980. On the other hand Chinese exports constituted only nearly 4% of the Japanese market (Howe 679). Moreover, of the total Japanese exports, China represented only 3% of the Japanese sales in 1989 while for China nearly 15-20% of its sales. Japan's stronger economic position vis a vis China is further exemplified in the fact that 70% of the latter's debt is to be paid back to Japan (Wang 627).

While the asymmetric economic relationship between the two convey a picture of dominance by Japan, the political relationship speaks of the opposite. The dynamics of Japanese aid to China portray a different picture. Over the past ten years China has established itself as one of the top recipients of Japanese aid. Yet unlike the case of ASEAN where economic interests largely determined aid activity. The factors are different when evaluating the Sino-Japanese relationship. Following the Y1 billion credit in 1979, PM Nakasone, during his visit to China in 1984, pledged a second yen loan amounting to an equivalent of nearly \$1.9 billion. This was further increased to Y810 billion when PM Takeshita visited Beijing in 1988 (Wang 631-32). The continuation of the yen loans were responses to several bilateral issues. Apart from the strategic considerations given China's position vis a vis the Soviet Union, aid was a means of

diverting tension between the two countries. Indeed some have described Japan's response to Chinese criticism, as "kowtowing" to the latter's demands (Ijiri 659).

When Chinese officials stepped up their complaints over their trade deficit with Japan and fears over the country's increasing military expenditure, PM Takeshita responded by offering the third substantial yen loan (Ijiri 641). A similar incident followed PM Nakasone's decision to visit the Yasakuni shrine on an official basis causing uproar in China at both the official and public level. PM Nakasone responded by canceling his second visit later in the year (Ijiri 649). The same Japanese response was made in the aftermath of the Tianenmen Square incident. Japanese official response was at best "vague" drawing criticism from other Western countries and it reluctantly agreed to suspend the third yen loan in support of the US-led sanctions (Ijiri 656). However, in the Houston G-7 summit Japan worked hard and succeeded in bringing about tacit agreement from other members to resume its aid to China (Yasatomo 11-12)

While some have explained Japan's reactions on the basis of cultural "indebtedness" and feeling of guilt given the legacy of the Second World War, strategic interest also played a part (Ijiri 639). For Japan, it was the long-standing firm belief that continued assistance would help facilitate stability and peace within China (Yasatomo 12). This viewpoint was later echoed in the 1991 MITI report on China outlining that it was vital to increase bilateral economic relations, enhance its position vis a vis Japan as a source of energy supply and market for Japanese goods. Furthermore it was a viable means of ensuring the non-isolation of China linking this with peace and stability in the East Asian region (Wang 632).

Laying Foundations for Regionalism or Reinforcing Bilateralism?

Given the effect of the trade dispute on the bilateral relationship, Japan's increased involvement in the Asian region, particularly at the economic level, was seen as a sign of Japan's eventual breakup from the bilateral relationship. Yet a deeper scrutiny would reflect otherwise.

From the economic perspective, Japan's relatively closed markets have hampered full integration with the East Asian region. Politically, Japan's colonial legacy and its deep

psychological mark over its neighbors constrain any move towards establishing unilateral leadership in the region (Morrison 443). Its insular culture also serves to inhibit comprehensive contacts relying instead on Western languages as a means of connecting with Asian countries (Morrison 444). In this respect, Japan has enhanced its regional role but, as one scholar pointed out, lacks the tools "...to create a viable Japanese order in the ASEAN region" (Morrison 444). Rather, the Japanese outlook on the matter regarded its presence as that of a "supporter" nation to the United States rather than an alternative leader. The aim of the concept was to seek US-Japanese collaboration in creating a "Western" rather than Eastern-oriented regional order (Morrison 444-45).

This is also clearly seen in Japan's response to the growing bilateral trade friction with the United States. Fearing a spill over effect on the security dimension of the relationship, the Japanese government responded by attempting to enhance the alliance and reinforce their supportive role. From Prime Minister's Suzuki's term of the US-Japanese relation as an "alliance", this was later boldly stepped up to Prime Minister Nakasone's description to that of an "an unsinkable fortress" (Inoguchi 40-41). It reflected a somewhat radical departure given the customary reluctance to accentuate the military dimension of the relationship in fear of provoking public disapproval. From providing nearly 40% of the expenditure, the Japanese government agreed to bear nearly 50% of the costs for maintaining US troops stationed in the country by 1990. In 1983, the Japanese government agreed to circumvent the ban on weaponry exports by allowing the transfer of dual purposes technology to the United States. Under the US defense Initiative the Japanese government agreed to jointly produce the FSX fighters (Akaha 327).

Encouragement to step up defense expenditure as proposed during Nakasone's leadership was met with strong resistance. In his attempt to extend defense expenditure beyond the 1% ceiling, the consequent controversy and disapproval by the opposition and members of the LDP reflected the strength of the Yoshida doctrine (Pyle 103).

Similar steps towards enhancing bilateral relations came towards the end of the 1980s. In the wake of the changes that were occurring within the Soviet Union and Eastern Europe, Prime

Minister Takeshita and President Bush jointly stated the formation of a "Global Partnership" in 1989 (Jihua 187). Later in the year, Europe was included into the arrangement with that laying the foundation of a tripolar system (Jihua 187). It was an indication that with Japan's "supportive leadership" it wanted to participate in the "construction" of an emerging global order (Jihua 187).

Japan's global contribution lay in elaborating the aid component as a viable means for "burden sharing". One example was the role of Japan's financial contributions within President Reagan's Strategic Defense Initiative whereby aid was increasingly disbursed to states who were considered as Cold War allies (Buckley 148). An example of this was seen in the \$4 billion aid given to South Korea as defense-related assistance. Under the 1987 Kuranari doctrine, aid was disbursed in the Pacific region *specifically* to contain the Soviet threat (Yasatomo 10). The basic thrust of these changes comes in light of Japan's belief that US declining international role should and could be avoided through increasing its global responsibilities (Sakurai 152).

Yet support was not to be confined to the Asian region alone. In this respect the Japanese perspective included a larger role in global affairs. In 1988 PM Takeshita proposed the 3 pillars emphasizing: a) the strengthening of Japan's assistance to global peace; b) the elaboration of ODA and; c) stepping up international cultural exchange. The latter reflected and reiterated in a 1989 Ministry of Foreign Affairs report that given the dependence of Japan on an interdependent global system and its position as the world's number one creditor nation, Japan has to play "...a significant role in the global economy" (EPA 1997 Report 3).

In light of the "opening up process" advocated by the Internationalization program and fears over the spiraling debt crisis, ODA contributions increased dramatically (Sakurai 143). In a space of a few years as Japan established itself as the world's largest creditor nations. It simultaneously became the top international aid donor (Sakurai 143). In 1989, the ODA budget was doubled reaching nearly \$40 billion. In FY 1990, this amount was increased to nearly \$50-60 billion (Sakurai 145).

Although half of the contributions are directed to the Asia, the ODA bracket increasingly began to step up its contributions to other regions in the world (Sakurai 150). An example is Japan's response to the upheavals of Eastern Europe in 1989. Reflecting the strong strategic coloring of Japan's aid giving, countries such as Poland and Hungary received nearly \$400 million and \$200 million respectively. A year later, PM Kaifu pledged to assist the latter two with a \$1 billion aid package (Akaha 333).

Although Japanese aid has been mostly funneled on a bilateral basis, the eighties decade witnessed its increasing multilateralization through MDB's or Multilateral Development Banks. MDB's have been complimentary to Japan needs for several reasons. On the one hand, it became the most suitable venue for Japan to project its economic strength. In the middle 1980s Japan successfully pushed itself as the number two shareholder in the IMF and IBRD and the EBRD (Yasatomo 70).

Furthermore, MDB's are seen as means by which the country's knowledge of the outside world can be enhanced and policies articulated (Yasatomo 123). Although this would be witnessed later in the Post Cold War era, there were nascent attempts reflecting increasing self-confidence on its part. One example was Japan's increasing self-perception as "Asia's spokesperson" questioning the merits of the Western-orthodox development model within the IMF. Although it was not posited as a direct challenge it indicated Japanese increasing to articulate their ideas (Yasatomo 124). Yet these steps was not indicative of an outright challenge between it and the United States. Japan's quiet acceptance of American opposition to increase its OCR shares or ordinary capita resources within the ADB (Asian Development Bank) is reflective of the priority attached in maintaining close cooperation with the United States (Yasatomo 86).

Another illustration is Japan's response to the debt crisis was to support the Baker plan and allocate nearly \$30 billion or so called "recycled funds" to developing countries between 1986-87. This included \$3 billion to the IMF as Special Drawing Rights and an extra \$2 billion for the World Bank for technical assistance. In 1989, this was increased to nearly \$35 billion. In 1988

Japan unveiled the Miyazawa plan which offered the extension of nearly \$50 billion to ease the debt-rescheduling problem (Yasatomo 102-103).

It is significant to note that despite the initial reservations expressed by the United States to the Miyazawa plan, Japan quietly accepted the Brady proposal and which was very similar to its Japanese counterpart. During the Arche summit, held in the same year, Japan pledged to increase its recycling funds to nearly \$65 billion up from \$30 billion (Yasatomo 103).

This was also seen in Japan's participation in the EBRD. Although it had no part in the bank's formation, it regarded its membership as "supportive" gesture for the Western European countries and indicative of its cooperation with the United States (Yasatomo 103). Japan's self-perception as a member of a group was highlighted further in the case of the Tienanman incident, Japan's resumption of its bilateral and multilateral aid to China came only *after* receiving tacit approval from the G-7 members (Yasatomo 122).

Conclusion

The 1980s witnessed increasing economic friction between the United States and Japan. With the former increasingly becoming less tolerant to allow Japan to free ride, economic discord threatened the eventual breakup of the relationship. Despite the efforts made by the Japanese government during the 1970s, it was simply not enough. With the alliance on shaky grounds, apart from increasing its FDI investments to the US and EU to circumvent increasing protectionism, one of Japan's responses has been to accentuate its economic links with the Asian region as seen in the manufacturing industrial shift from Japan to the Asian region.

As the world's largest creditor nation, substantial financial flows in the form of trade, investment and aid were stepped up to increase the economic integration of the region. This process has been dubbed as the Japanese attempt to "mould" the area into a regional economic bloc with Tokyo at its center, as an alternative to its floundering alliance with the United States. However, one of the constraints are suspicions long-held by many Asian countries against Japan. Aware of this, the latter acknowledges that unilateral action, whether at both the security and economic level, will be met with heavy resistance.

Moreover, there is resistance to such an idea by the Japanese themselves. The response to the idea of creating a regional bloc has been lukewarm. For many, such a move is seen as likely to enhance and increase protectionist trends. Hence, the explanation behind Japan's resistance to an Asian economic bloc concept remains subsumed under the bilateral relationship.

From Tokyo's security perspective, the continuation of American leadership is necessary. The military security pact guarantees Japan's defense against aggression. Yet, the trade issue has highlighted the interrelationship of trade and security. Japan's concessions in the face of American demands concerning trade were rooted in fears of a possible American retaliation at the security level. Indeed the process of internationalization seems targeted to reassure the US of Japan's contribution to the alliance as much as to the world economy. The 1989 "Global Partnership" concept with the United States was reflective of Japan's move to articulate its role within a newly emerging global order.

Yet one cannot dismiss the country's individual needs. The development of Japan as the world's largest creditor nation heavily involved in the global economic dynamics, the economic decline of the United States and the debt crisis suggested to the Japanese that the stakes have grown even higher. The amounts of Japanese foreign direct investment spread around the world and its near total reliance on external sources for raw materials and energy accentuate its dependent position on the world economy. Hence, Japan cannot afford to stand inert. Given this concentric perspective on its security position, bilateral aid has been considerably stepped up.

Chapter Four

The Role of ODA in the Post Cold War Era: The Economic Security Dimension

It is the help extended to the developing countries to stand on its own economically and grow that ensures Japan's "open national interests". ODA is essential as a means to achieving this end, and deserves particularly emphasis from a national strategy perspective in Japan as a non-military civilian superstate (Economic planning Agency Committee on Economic Cooperation Policy Interim Report 1997 p2).

From the Japanese perspective, the collapse of the Soviet Union heralded major changes at the regional and the international level. Foremost were the ramifications this event held for the US-Japanese alliance. The latter's focal position within the Japanese foreign policy perspective traditionally functioned as a "prism" by which the international environment was evaluated (Funabashi 8). However, most of the focus was to be inward since the collapse of the communist threat meant that the *raison d'être* of the bilateral security relation was no longer there. With the Alliance structure specifically built upon the Cold War premise, the ensuing debate on both sides of the Pacific came to concentrate on the adaptability of the existing security structure to the new international environment (Brown 544).

The collapse of the Cold War structure highlighted to the Japanese the slow but imminent decline of the United States, their primary economic partner and guarantor of their defense security (Brown 544). Yet this process of reevaluation was also motivated by a crisis situation that threatened to bring an end to the forty-year-old relationship (Brown 544-45). Foremost was Japan's weak response to the Second Gulf crisis. Although Japan's \$13 billion contribution to the UN Desert Storm operation placed it as the fourth largest provider, it was not enough to cover for its minuscule military participation inviting heavy criticism from the international community and particularly the United States. Locked within the Yoshida paradigm, strong public pacifism and the opposition's success in aborting the government's peacekeeping operations legislation in 1990 reflected Japan's "indecisive response" to the

international incident. This "public relations disaster" hastened debate within Japan concerning the type and scope of its role within the new international environment (Brown 544-46).

With the security dimension undergoing a process of heavy reevaluation, the volatile issues plaguing the bilateral economic relations resurfaced to overshadow all other issues. Despite the much-publicized US "victory" over the USSR, the effort placed by the former during the Cold War took its toll (Gilpin 21). Entering the 1990s, it seemed that the United States was submerged in economic difficulties, rising unemployment, worsening trade deficit, burgeoning debt (reaching a trillion dollars), ailing manufacturing sector, and rising crime (Brown 544). Disparity between the economic performance of the latter and its Asian ally was brought to sharp relief when comparing Japan's healthier economic situation at that time. By then it was the world's second largest economy after the United States (Meeks 48). By 1991, Japanese firms controlled 32.9% of the top 3000 firms. Of the top 25 top global firms, Japan held 11 (Meeks 49). Its FDI outflow in 1990 and 1991 was \$50 and \$31 billion respectively (JETRO: Japan's FDI Outflow by Country/Region for FY 1995-1997).

This seeming invincibility of the Japanese economic success was echoed earlier by Thailand's Prime Minister's Chaitichai Choochavan proclamation that "[t]he World Economic war is over. Japan has won" (Koppel and Plummer 1043). This feeling was also reflected in the increasingly confident attitude of the Japanese. Tension with the United States escalated when Japanese officials scathingly put down America's economic malaise. One prominent Japanese politician accused American workers of being "too lazy" while Prime Minister Miyazawa claimed that Americans "may lack a work ethic" (Brown 556).

Against this background, the bilateral economic dimension took precedence over military security issues. The burgeoning US-Japanese trade account deficit, reaching nearly \$50 billion by 1992 and \$66 billion in 1994, was not resolved and continued to grow (Stokes and Aho 126; Stokes 283). As a result, Japan became the target of an American public backlash. Previous efforts such as the internationalization program was criticized as being superficial in substance and yielding results that were few and piecemeal (Itoh 235). For the most part,

Japanese markets were seen as still largely closed to foreign competition (Itoh 235). Threatening a 100% tariff on Japanese car exports, an escalation of a "trade war" between the two seemed imminent as Washington stepped up pressure on the Japanese auto and auto part sector. One explanation behind the American insistence was that by 1994 Japanese auto products covered 58% of the US trade deficit with Japan or the equivalent of \$38.3 billion (Stokes 283).

The gradual elevation of the trade issue and the increased pressure applied by the United States was sharply highlighted during the 1992 visit of President Bush to Japan. The fact that most of his delegation comprised of top executives from the car manufacturing industries was meant to send a message to the Japanese government (Tamamoto 50). Within the US domestic scene there was increasing political rhetoric directed mostly against Japanese trade unfairness aggravated further by public demands demanding protectionist measures to safeguard domestic economic interests. While Cold War strategic priorities helped to absorb bilateral economic problems, the new era "...diminish[ed] rationale for US-Japanese military cooperation [and] no longer compensated for hostility over trade" (Langdon 78).

The subsequent manifestations of these sentiments in the formation of the NAFTA (North American Free Trade Agreement) and the Maachstricht treaty efforts for closer unification by the EU alerted the Japanese to the emergence of a more hostile global economic environment (Stokes 132). The developing trends seemed to encourage the proliferation of regional blocs threatening the dissolution of the foundations of a liberal global economic something they have always considered as a negative rather than positive development (Bartholomew, FEER 25 July 1991 p13). Even the leading supporter of the global economic liberalism, the United States, seemed to swing towards another era of Isolationism (Stokes 132).

NAFTA's creation came amidst American threats to impose trade sanction not only on Japan but other Asian countries such as South Korea and Thailand and Indonesia. In 1992 the United States trade deficit with China was \$18 billion, it stood at \$9.5 billion with Taiwan and \$2 billion with South Korea (Stokes and Aho 126). The unwillingness to tolerate these disparities increased with the newly elected Clinton administration. The latter's policy to "get

our economic house in order" underlined the growing importance of the trade issue with the new president pledging to "mak[e] the economic security issue of our own nation a primary goal of our foreign policy" (Janow 74; Stokes and Aho 134). President Clinton's warning to Japanese Prime Minister Kiichi Miyazawa that there was a need for "an elevated attention to economic relations" between the two countries indicated the aggressive economic orientation of the new American administration (Janow 74-75).

A second but vital obstacle to US-Japan economic relations has been the regionalization trend initiated by the Japanese. Through heavy Japanese foreign direct investment, the latter effectively succeeded in creating integrated economic ties with the Asian region. With the yen appreciation or *endaka* as of the 1986 Plaza Accord, substantial sums, in the form of FDI capital, poured into neighboring countries at levels approaching \$54.4 billion in 1989 from a mere \$16.7 billion in 1980 (Stokes and Aho 126).

The economic-strategic importance of the region is reflected in the type of the investments made, as concentration rapidly switched from the traditional emphasis on raw materials to that in the manufacturing sector. Cumulative flows of Japanese FDI in Asia's manufacturing sector reached \$32 billion in 1994 up from \$17 billion in 1990 (Ministry of Finance Statistics on Japan's Direct Investment In East Asia by Manufacturing Industries and Imports Of Manufactured Goods and Machinery and Transportation Equipment 1996). In the context of on-going trade dispute amongst the industrialized nations, Asia was the area where Japan could "hedge their bets" (Stokes and Aho 129). Japan has been successful in carving a niche for itself as the key regional economic player. Using an influx of investment, it succeeded in situating itself comfortably within one the most dynamic economic regions in the world (Cambodia Times February 18-Mar 2 1996 p1).

A manifestation of these trends is Japanese penetration in the manufacturing industry in East Asia establishing the latter as the 'launching pad' for Japanese manufactured goods. Another indication is the region's emergence as the second largest recipient of Japanese FDI after the United States, a position traditionally occupied by the Western European region. Indeed the flow of investment received by Asia was 18.5% in 1993 whereas the EU enjoyed

second place being recipient to 22% of the total FDI. In 1994, Asia's share increased to 23% whereas Europe dropped to 15.2% hence occupying third position. By 1995 the Asian region received 24% in 1995 while the European region share rose slightly to 16%. (Ministry of Finance: Trends of Japanese Direct Investment by Key Countries 1993-1995)

Ideological considerations have also played a role. The Gulf crisis debacle instigated a controversial but nevertheless growing political debate within Japan's political domestic scene over the type and direction of strategy the country should pursue in the new international environment. (Brown 455-48). So called "Regionalists" argued for the abandonment of the bilateral alliance in favor of concentrating on cultivating Japan's political leadership over the region, or as some have termed it, establishing itself as the "spokesperson" for the Asian region within the G-7 (Brown 458). From the economic perspective the group envisioned leading Asia on the basis of a "harmonious division of labor" (Brown 546). This process was to be based on the Japan's substantial economic clout used to "mould" the region through the effective use of the tools of "economic cooperation". Indeed the latter concept, comprising of trade, aid, and investment, was already implemented during the latter half of the 1980s but was to receive further invigoration in the present one (Unger 159).

In a recent MITI report, economic cooperation is singled out as a strategic tool aimed at enhancing the country's international economic interests - one of which is to buttress the economic dynamism of the Asian region (MITI: Future Issues Concerning Japan's International Industrial Policies 1997). It states that:

[E]conomic cooperation [is]reflective of national interest seen as increasingly important tool for our country to maintain and improve its economic vigor as it faces megacompetition. Based on this view Japan should place high priority on and efficiently to advance a number of activities. One is to reinforce collaboration with emerging markets such as Asia and to help their sustainable growth (p 9).

From this perspective aid was to play a vital role in enhancing and harmonizing the flow of investment into the various Asian countries. On the one hand it would benefit the business milieu for Japanese investment. On the other it would place the latter in a more favorable light in terms of competition and positive response by the host country. In other words, this interplay of aid and investment, or what can be termed as a "synergy effect" produces the best means by which security goals and investment opportunities for Japanese businesses converge (Foerster 1). An example of the role of aid in enhancing the business environment for Japanese FDI is reflected in the case of China. While erratic economic policies by the latter were major factors behind the slow response of Japanese investors in the previous decade, the situation changed as confidence in Economic Modernization program grew dramatically, increasing the number of businesses set up (Vogel 170-171).

Focusing on the ASEAN region, Japanese investments in Malaysia accounted for 29% of the country's FDI inflow in 1990. In the Philippines alone, Japan's share reached 33%, in Indonesia it claimed 26% and in Thailand it was 34% (Morrison 151.) Given the magnitude of Japan's investment stake in the region aid was considered as a vital component in meeting economic security objectives of the country. While the MITI report, noted above, stressed the region's importance from a business aspect, the Economic Planning Agency viewpoint focused on the energy security linkage stating bluntly that:

East Asian countries are achieving economic development with Japanese economic cooperation as one factor. This is producing economic expansion in the Asian-Pacific region, which is also benefiting Japan economically. One effect of this process was the fact that it enabled Japan to obtain stable supply materials and other industrial inputs. In other words economic cooperation has also contributed to our economic development through its effect on the supply of resources (EPA Interim Policy Report on Economic Cooperation 1997 p3)

With these dual objectives in mind, bilateral ODA amounts disbursed have been substantial. Indeed Asia remains the highest recipient receiving, on average, nearly 60-65% of Japan's overall international contribution (ODA Annual Report 1994 p108). Within the region, the largest portion of Japanese ODA concentrates mainly between the ASEAN and the Northeast Asian area which together account for the bulk. In 1993 South East Asian share stood at nearly 30% while its Northeast Asian counterparts received nearly 18% (ODA Annual Report 1994 p108). One significant characteristic is the special concentration given to China, which since 1982 has established itself alongside Indonesia as the number one recipient of Japanese aid (ODA Annual Report 1994 p26).

In terms of ODA loaning, the Asian region takes the lion's share reaching 80% in 1993 reflecting the underlying economic thesis (ODA Annual Report 1994 p109; Koppel and Plummer 1045). Following the previous yen loans made in the late 1970s and 1980s, Prime Minister Kaifu pledged a further Y129.6 billion loan in 1991 (Wang 635-6). In 1993 the Japan Export-Import Bank created a loan fund of nearly \$8 billion for both China and Indonesia (Vogel 173). By 1991 it owed 50% of China's outstanding debt, highlighting Japan's economic clout (Wang 637). Japanese funding has been a critical factor in Indonesia's debt servicing program (Koppel and Plummer 1050).

Although Asian countries such as Hong Kong and South Korea may account as "aid graduates", the aim of ODA seems to be more politically oriented than strictly economical (Organization of Economic Cooperation Fund Report on the Environment surrounding OECF: the Aid Requirements of Developing Countries and Various Development Issues p1-2). However, given the recent financial crisis that has engulfed the region, economic considerations will again be stressed (al-Hayat Wednesday 11 February 1998 p14). Aid is also seen as an expansive mechanism by which underdeveloped Asian countries can be integrated economically. It also plays a vital role in including economies beyond the East and West Asian frontiers. This logic is clearly articulated in the 1997 Economic Planning Agency Committee on Economic Cooperation Interim Policy Report stating:

In addition to the East Asian countries which already receive much of our ODA, relatively underdeveloped Asian countries and countries reaching out to Asia to form a Pan-Pacific economic region, and looking further, countries bordering on the Indian Ocean, including South African countries which have strong cultural ties to South Asia, should receive attention (EPA: February 1997 Committee On Economic Cooperation Interim Policy Report p5).

Apart from the magnitude of economic activity achieved between Japan and its neighbors, an important psychological factor has also contributed to these recent developments. The traditional suspicion held against Japanese activity and its intentions is slowly dissipating. One example of this is reflected in the Malaysian Prime Minister Mahatir's proposal for the creation of a East Asian Economic Group (EAEG). It was a counter response to the creation of NAFTA and the unification process in the EU by setting up an "Asian only" regional economic grouping. The proposal mainly rested on the establishment of close economic coordination between the East Asian countries including Japan and named Tokyo as the planning centre, something that caused some worry amongst Europeans and Americans (Unger 165-66). This comes in sharp contradiction to the earlier opposition of East Asian countries to place Tokyo as the headquarters of the Asian Development Bank (ADB) despite the considerable contribution made by the Japanese government (Yasatomo 83).

Another reason behind Asia's regionalization trend is the fact that the strong bilateral trade relations traditionally enjoyed between the Asian countries and the US is slowly weakening in response to the increasing diversification. This situation is supported by the increasing multilateralization within the region especially amongst countries of the Indo Chinese region, ASEAN, and the NIEs. Intra-regional investments by ASEAN countries and the NIES investments have increased to countries such as Malaysia and Indonesia. In 1990, the NIEs accounted for 48% of Malaysia's investments while the case of the Philippines, NIEs accounted for 40% of FDI investment (Morrison 151). However, in terms of trade, the United

States stands as the largest market for ASEAN exports. In that respect, Japan is still considered relatively closed to East Asian manufactured goods (Koppel and Plummer 1046).

The Role of Aid: Supporting Multilateralism or Regionalism?

While the above may indicate a strong movement towards economic regionalism, the nature of Japan's interests stresses multilateralism. One critical factor to consider is the magnitude of Japanese dependence on the world economy particularly with regard to securing energy and raw materials. The country's long-standing quest for resource security meant that links of supply remain diverse. Although it succeeded in establishing the Asian region as one of the critical areas for oil supply such with the case of China and Indonesia the bulk of their imports (70%) still remains with the Middle East region (Morrison 430; Mizutani 107).

Another strong determinant is the magnitude of Japanese overseas investment poured into the world economy in the last three decades. These substantial assets are not solely concentrated on one region but are diversified roughly between the three major economic regions namely North America, with the United States taking the lion share, the Asian region, and EU (MITI Summary of White Paper on International Trade 1996 p1-3).

Looking into the US-Japan axis, the degree of economic interdependency between the two is another crucial factor to consider. In the post World War Two period, the United States has been its top trading partner (Hanami 599). Moreover, the United States is the number one recipient of Japanese FDI for the past four decades actually increasing in the last two. Indeed Japanese investment outflow to the United States remained constant at 40-44% in the period of 1993-1995 with little difference from its previous share of 46% in 1987 (Howe 670). The Japanese acceptance to partially open the sacrosanct rice market is a powerful symbolic gesture. The significance of the Japanese decision is more apparent when considering the fact that rice has been categorized as a "strategic commodity" (Itoh 995-998).

Moreover, contrary to the notion of the "Japanese threat" to the American economy Japanese investments in the United States have actually been a contributing factor in enhancing American manufacturing competitiveness, particularly in sectors such as car

manufacturing and computer hardware. On the other side of the Pacific, inflow of American FDI into Japan has been rising (Wood 157).

The complexity and depth of interdependence between the two countries has been a vital determinant behind The 1992 Miyazawa-Bush Global Partnership policy. The framework indicates Japanese willingness to continue its support for the United States. It also highlights their efforts in maintaining the global liberal economic regime (Wan 102-3). This is evident in the role of the US-Japanese axis in establishing a multilateral economic framework for the Asian-Pacific region as seen in the case of the APEC (Asian Pacific Economic Community). It is seen as the most appropriate forum to secure the interests of the various member states. For the United States, its membership secures its part in the economic dynamics of the region. For the Japanese it is the nearest manifestation of their "open regionalism" concept (Funabashi 111). Hence, the governing Japanese outlook encourages overlapping rather than strict divergence between the various regional blocs (MITI Summary of White Paper on International Trade 1996 p1-3). Looking closely it seems a natural progression and articulation of the older notion of "open regionalism" (Funabashi 105). The Japanese Vice Minister of Foreign Affairs Nakagawa comment on this during the Davos symposium sums up Japanese viewpoint:

For example, Japanese personal computers manufactures are assembling their products in Taiwan from CPU's made in the USA, liquid crystals made in Japan, hard disk drive made in the Philippines, mother boards in Taiwan, and exporting end products to the world market including the Japanese market (Transcript of Speech 31 January 1998 p2).

One positive attribute of the APEC is that it allows for increasingly integrated trade and investment links amongst key economic players such as the US and the EU, and East Asia (MITI White Paper On International Trade and Investment 1996 p1-2). For the fast developing East Asian economies, the APEC framework strikes an appropriate "political balance" since it

assures their interests by emphasizing the emerging economic power of the region (Funabashi 104). Given the 'inclusiveness' of the APEC structure links between the various trading partners will be maintained without encouraging any further regional divisions (Funabashi 111).

In response to American suspicions over Prime Minister Mahatir's suggestion for the formation of the EAEG, the Japanese decided ignore the plan (Morrison 157). The other indication is Japan's response to the recent Asian financial crisis. Despite the calls by several East Asian countries, urging Japan to bail them out of the crisis the latter has opted for the IMF initiative to take over. It should be noted that this has not always been the case. Indeed Japan's initial response to the crisis was to propose for the establishment of a regional fund that would support the IMF (Tett, Financial Times 22 September 1998 p1). The Japanese Minister of Finance was quick to assure that the fund will function as a "supplementary organization" and "...will not be competing" with the IMF (Tett, Financial Times 22 September 1998 p1).

It would have seemed incongruous if Japan did not move swiftly. Japan is not only the region's biggest investor but is also the largest financial lender in the region. Moreover according to recent indications in Malaysia and Thailand, yen-based debts have increased steadily over dollar denominated loans (Stokes 285-6). For the time being the Japanese are willing to allow the matter to be resolved under the G-7 aegis. Japan's proposal seems to have been aborted after the IMF, the EU and the US expressed their "unease" (Barber, Financial Times 23 September 1997 p 6).

Despite the heavy criticism received by Japan during the recent Davos Economic Summit over its lack of initiative, this silence seems to indicate quiet acquiescence to an IMF led initiative (Hasry, al-Hayat February 10 1998 p13). It was a viewpoint later echoed in Prime Minister Hashimoto's speech during the recent ASEAN Kuala Lumpur meeting which emphasized the need for the ASEAN group to accept and follow the IMF guide lines (Economist December 20 1997 p 84-85). Its "spokesperson" role seems to have been set-aside after PM Hashimoto was quick to express his disapproval, alongside other G-7 members, of

President Suharto's decision to form a currency-board system (Soloman, Wall Street Journal, 23 February 1998 p13).

Japan's inertia may also be the result of domestic factors. Apart from the verbal encouragement to acquiesce to IMF guidelines and the stillborn regional fund proposal, Japan has done little. The only unilateral action taken has been the \$2 billion aid package to the region. This included a \$1 billion aid package to the ailing Indonesian economy (al-Hayat 21 February 1998 p13).

Despite the urgings by South East Asian countries and the United States for a demand-driven economy especially in the face of the regional crisis, it may prove to be difficult for Japan to ease the crisis given the country's on going domestic recession (al-Hayat Saturday 21 March 1998 p11). The earlier pledge to make Japan an "absorber country" seems difficult given the conflict of interests restructuring has created (Funabashi 7-8). On the one hand the government has responded to outside demands by issuing a series of administrative and structural reform programs. One has been the Program For Creating and Reforming the Economic Structure along with the Action Plan for Rectifying High Cost Structure aimed at promoting dynamism and deregulation in the finance, land, housing, employment, labor, welfare and medical care sector. However, the results are still criticized by the World Trade Organization as being not enough (CNN 28 January 1998).

One explanation behind the sluggishness of the liberalization process and seeming ineffectual government responses to outside demands is rooted in the competing interests within the Japanese society. A good example is the government's sensitive position as it struggles to assure the interest of the agriculture sector - traditionally opposed to the process- and large MNC's who encourage liberalization (Wan 102). The process seems more difficult and complicated given the effects of the recession and which succeeding governments seem unable to resolve. The engulfing debt crisis reaching nearly Y79 trillion in 1997 is crippling the financial sector. Industrial hollowing out, rising unemployment, aging population and shrinking labor pool are some of the most demanding issues facing the government and society (The Economist November 1 1997 p 93).

Geopolitics is another reason why Japan regards the US presence in the region's economic and military affairs as imperative. Difficulty in emulating an Asian regional bloc unilaterally led by the Japanese is rooted on the diverse cultural, geographical and political relations between the Asian countries (Howe 663). Another major constricting factor is Japan's colonial legacy, which still invokes negative feelings from many Asian countries. Countries such as South Korea are greatly suspicious of Japan's power. (Morrison 153). China still holds ambivalent attitude towards the creation of regional bloc. For the Chinese this is seen as another mean of inviting the establishment of American and Japanese hegemony in the area (Akaha 108).

This was recently reflected in its negative response to Japan's proposal to establish an emergency fund, insisting rather that the fund be linked to the IMF effort (Barber, Financial Times September 23 1997 p6). The strength of the US factor in Japanese calculations is exemplified in its decision to extend its aid to Vietnam *only after* the American elections in 1992 (Morrison 157).

From other side of the Pacific, the United States seems keen in protecting its share of the economic stake. Earlier held fears of whether the US would resort to isolationism as a means of tackling its economic problems, has been settled as the new Clinton administration "strategy for renewal plan" takes a global approach. Based on President Clinton's pledge to tackle the global trade issue at all levels, the US economic initiative has followed suit (Brown 556). From a global multilateral perspective, the new Administration has pledged that it will "[remain] the world's strongest engine of growth" and that it must "be the engine of global growth and be the leader" (Janow 73). The Clinton's administration's decision to maintain US troops in the region is a reflection of American eagerness to maintain their economic role in the region (Funabashi 107).

Chapter Five

The Role of ODA in the Post Cold War Era: The Military

Security Dimension

“It is no longer a matter of either US or Japanese hegemony; it is a cohegemony (bihegemony) or, a little more generally, a “Pax consortis”(Taira 262)

Koji Taira

With the collapse of the Soviet Empire, the US-Japanese security relationship was to witness major challenges threatening its longevity. Built within the confines of the Cold War structure, the alliance faced a legitimacy gap (Langdon 80). It seemed that all of a sudden American soldiers stationed around the world as one author pointed out “[had] no clear idea where to go” (McNaugher 186). Without any just cause for remaining in the region, an American military withdrawal from the Asia seemed imminent (McNaugher 186). In 1990, the Pentagon announced that it planned to reduce US military troop level in the Asian pacific region by nearly 12-13%, or numerically, 14-15,000 from the overall level of 114,079 (Akaha 94). Apart from the immediate 11-12% reduction in troop levels, further decreases were expected by the mid-1990s (Langdon 75).

As the previous chapter highlighted, the decision was equally connected to economic matters. The end of the Cold War’s ideological clash amongst the Superpowers and the emergent global environment enhanced what some have termed as “the primacy of economic development both as a foundation of political legitimacy domestically and as a determinant of the pattern of international relations” (Akaha 92).

From the American perspective, years of treating economic matters as secondary to military security issues took its toll. As the country faced the burdens of rising unemployment, rising social crime, weakening manufacturing performance and burgeoning trade deficit,

government attention focused on domestic needs (Langdon 85). From that vantage point, rationale for maintaining troops abroad was increasingly harder to find (Langdon 76). The increasing importance of economic matters in the government's agenda was outlined by President George Bush's statement that "[t]he principal challenge now facing the United States is to compete in a rapidly changing, expanding global market" (Brown 572). President Clinton took a step further and declared "...the economic of our nation [would be considered] as the first pillar" (Brown 582).

This emerging trend was highlighted vividly during the second Gulf War. The United Nations success in defeating Iraq was possible because of the concerted military and financial effort between the United States forces and its allies (Langdon 85). It seemed that the performance of the United States was "...that of the strongest of the Major powers rather than a hegemon" (Langdon 85).

Apart from highlighting the US need for support in fulfilling its international obligations, these changing attitudes shifted attention to the economic matters between the US and its primary allies. Consequently, trade matters between Japan and the United States were brought to the fore. While strategic considerations served as a cushioning effect during the Cold war era, its weakened role in the new one failed to curtail the escalating tensions between the two partners (Langdon 80-81).

As the recession deepened in the United States, Japan became its "scapegoat". Heightened media sensationalism and political rhetoric called for retaliatory measures against Japanese trade policies. In a poll conducted in 1992, almost 70% of those interviewed singled out the degree of Japanese investment in the United States and the trade surplus issue as the most serious "threat" to the country (Langdon 81). Japan's alarm at these developments increased with the creation of the North American Free Trade Association (NAFTA), a move indicative of the protectionism mood sweeping the United States (Brown 572).

From a security perspective relations went through a tense period as well. The image of Japan as a "free rider" intensified as a result of its weak response to the second Gulf War. Constitutional constraints and lack of political consensus aborted the government's attempt to

push for the participation of the SDF in the UN operation. Capable of only sending a small logistical team, Japan was at the receiving end of a tirade of criticism particularly from the United States. Despite the \$13 billion contribution to the UN operation its "checkbook diplomacy" was considered as not enough (Mahbubani 129).

Tension increased later on when American marines in Okinawa raped a thirteen-year-old girl. The incident instigated a demonstration of nearly 85,000 people in the island demanding the removal of US forces. Okinawa's hostile reception was vividly illustrated by the petition signed by nearly half a million of the island's population demanding for change in the alliance treaty (Economist September 14 1996 p 39). Later in a non-binding referendum, 90% of the voters sought for US troop reduction (Economist September 14 1996 p 39).

One of the repercussions of the Gulf war "debacle" was to open the highly controversial debate over Japan's role and future strategy as a global power within the new international environment. Political think tanks, media people, politicians, and independent intellectuals carried out this intense re-evaluation process. Given the centrality of the US-Japan bilateral relations within Japanese foreign policy it was not surprising that it occupied a focal position within the debate. The emerging viewpoints were varied in nature signaling a current of change. The extremity in opinions also signified that consensual political support for the Alliance could no longer be considered as a foregone conclusion. In other words, extending the structure of the bilateral relationship into the Post Cold War era was not to be taken for granted (Brown 546).

On the one hand there were growing calls for Japan's break away from Alliance structure. This so-called "Regionalization" school of thought regarded the new international climate as the most appropriate time to enhance Japan's leadership role within the Asian region. Using its considerable economic clout, Japan would convert this politically by establishing itself as the "spokesperson" for the Asian nations within the G-7 forum. One other form of diplomatic initiative would be to contribute fully in the creation of a viable multilateral regional security order at both the military and economic level (Brown 546-549).

It was a reflection of Japan's growing confidence in projecting its leadership worldwide but with specificity to the Asian-Pacific region. One suitable example was the then Minister of Foreign Affairs Nakayama's proposal to extend the ASEAN Post Ministerial Conference as a forum for discussing regional security matters. Although the idea was refused at first by the East Asian countries it was later gradually accepted, indicating a gradual acceptance of the South East Asian countries of Japanese involvement in security affairs (Smith, FEER June 9 1994 p 9). Top Japanese foreign affairs officials regard the "ASEAN angle" of the ARF as one of the first tentative step towards building a regional security forum something along the lines of the European Conference on Security and Cooperation (Smith, FEER June 9 1994 p9-10).

A related viewpoint called for the involvement of the Japanese SDF within some form of a UN headed regional peacekeeping. Already by 1992 the government successfully passed legislation allowing the SDF to participate in UN peacekeeping operations. One of its first foreign tasks was the peacekeeping operation in Cambodia, as one observer stated "Japan's involvement in the Cambodian peace-keeping operation proved that the Self-Defense Forces are not the Imperial Army" (Smith, FEER June 9 1994 p9).

Another indication of Japan's growing enthusiasm for regional leadership is illustrated by the so called Miyazawa doctrine which pledged that Japan will play an active role in creating multilateral security arrangements within the region. This was considered as a marked difference from the previous Fukuda doctrine which stated that Japan would only project its influence through "constructive non-military means" (Brown 552).

On the other hand, the "Bilateralist" school of thought strongly supported the continuation of security relations with the United States. The reasoning presented revolve around the constraints face Japanese regional leadership. Foremost is the effect of Japan's colonial "legacy" (McNaugher 190-91). From a security perspective, Asian suspicions of Japan's intentions renders its resort to any unilateral leadership action, as one expert put it, "... most improbable" (Brown 552). Any decision to fully remilitarize the SDF would only serve to risk

escalating regional tension and instigate a fanatical military buildup amongst the Asian nations (Brown 552-523).

Another factor encouraging continuing bilateral links is the effect of the level of Japan's economic interdependence with the global market. Despite the high degree of Japanese FDI poured into the Asian region and high level of trade, Japanese economic interests are far flung. These links are considered as critical given its high degree of interdependence with regions such as North America, particularly the United States, and Europe. Japanese leaders are also aware of the fact that establishing an Asian economic bloc would only serve to erode the international liberal economy and whose smooth machinations is vital for their international assets (Funabashi 12). As one prominent journalist argued:

Japan must not delude itself into believing that its identity can be developed in purely regional terms, its economy sustained in an Asian bloc and its political ambition in integration in the area. While the Asian region is priority within Japanese military and economic security spectrum, interdependence with the international economy force a broadening of the parameter (Funabashi 18).

One extreme offshoot of the Bilateralist camp is the prestigious Ozawa committee that calls for Japan to establish itself as a "normal" state within the international community. The main thesis of their argument rests on the belief that Japan should enhance its international contribution as a means of building up its international stature as a global leader. Although the committee still believes that maintaining security links with the United States is still imperative, it urges Japan to accentuate its participation in the UN. Under the banner of "Active Globalism" it emphasizes that Japan's should extend its involvement in the UN from peacekeeping operations to peace enforcement operations, such as those conducted during the second Gulf war (George 571).

Japan's Choice: Supportive Leadership

Despite "Regionalists" calls for the full reassertion of unilateral Japanese military and political leadership within the Asian region, the strategic direction that has been taken by the Japanese ruling elite rests on the continuation and enhancement of the bilateral axis (Wan 98). American participation is critical given Japan's shortcomings in extending unilateral power in the region. Its colonial legacy casts a shadow on its actions. Its neighbors, particularly South Korea and China, have been the primary victims of Japan's brutality during the Second World War still carry deep resentful feelings (McNaugher 191). Japanese officials are aware that any move to increase its defense capabilities could spark military tensions in the region. The situation is not helped by the fact that little has been done by the Japanese government to redress the situation (Roy 154). Despite the historic visit of the Japanese emperor to Thailand, Malaysia, and Indonesia in 1991, no public apology was given (Chittiwatanapong 215). Leading intellectuals in the National Institute for Defense Studies argued that:

US forces are symbolic of the treaty. Their withdrawal would raise the question of the credibility of US commitment....if the US reduces its security commitment in Japan, conflict amongst Russia, China, Korea and Japan is inevitable (Brown 558).

Fragile relations in the region are further threatened by multiple sources of instability (McNaugher 194-96). North Korea's nuclear program and its decision to fire the No Dong 1 missile is a major source of worry (Hughes 80). Another critical security issue is Russia's domestic instability and the potential negative security repercussions of this on the region (Menon 60). While Japanese analysts speculate on the future trends in Russia, the spotlight is focused mainly on China (McNaugher 194). Whether scrutinized by the Japanese or the ASEAN members, the common belief is that it is the region's "wild card" (Mcnaugher 194). Given the enormous economic capacity of the country and its high level of military spending,

the crux of their worries rests on the nature of strategic path Beijing may embark on in the future (McNaugher 194).

For the time being US participation under the aegis of the security alliance serves as the necessary stabilizing "anchor" in the region. Yet despite the consensus within Japan and its Asian neighbors that US military presence is necessary, there is an acceptance that it cannot provide the arrangements it did during the Cold War period (Garrett and Glaser 389). US adoption of a "policy of reciprocity" has meant that its actions will be in concert with its allies, leaving room for the Japanese to step up their contributions in security and economic matters (Wan 98).

One option available for the Japanese is increasing their defense burdens. The need to do so was emphasized during the North Korean crisis. The Japanese coalition Prime Minister's Hosakawa and Taro considered the firing of the No Dong missile as a "security threat". Apart from the direct threat it posed to the Japanese nation, the crisis highlighted the weaknesses of the American regional security system (Hughes 86). North Korea succeeded in creating tension between the United States and South Korea, which regarded the Agreed Framework with the Pyongyang government as "concessionary" (Hughes 86). Moreover, the US seemed unable to apply economic sanctions in the face of Chinese and Japanese opposition (Hughes 86). Coupled with the ongoing bilateral trade conflict and the Okinawa rape incident it highlighted vulnerability of US security system in the region (Hughes 87).

Stepping up its military cooperation, Tokyo agreed to back any possible blockade with logistical help. Although it previously refused US offers for Theatre Missile Defense (TMD) cooperation, it hurriedly changed its position as a means to augment American security presence in the region (Hughes 90). The most daring step taken yet has been the 1996 Cross Services and Acquisition Agreement added to the MST framework and which allows Japan to take extend its logistical backup beyond the territory and 1000 nautical miles limit (Economist June 14 1997 p67).

Despite these developments, several constraints inhibit the possibility of further expansion in Japan's defense role. Although the United States welcomed the move, Japan's Asian

neighbors have been alarmed at these recent developments. Regarding this as a covert ploy by the Japanese government to gain direct military interference in regional security affairs, China immediately voiced its disapproval (Economist June 14 1997 p68). For the latter, the Tokyo Deceleration gives more room for both the United States and Japan to patrol Chinese territories especially the Taiwan Straits (Garrett and Glaser 389). United States military presence is actually welcomed by China since it serves constrains Japanese militarism and assures Asian neighbors of China's good intentions. Yet, it regards Tokyo's expanded role as a "redefinition of the alliance [that] will help Japan in some way to move forward"(Garrett and Glaser 389). With Japan agreeing to TMD in joint cooperation with the United States, Beijing's suspicions have increased. Despite Tokyo assures that North Korea nuclear threat is the reason the Chinese have angrily stated that "the target of TMD in the region is certainly Chinese missiles and nuclear weapons, not North Korea" (Garrett and Glaser 393).

China is not the only neighbor worried. In 1991, a South Korean defense White Paper voiced its concern over Japan's expanding military capabilities (Brown 552). The North Korean's are especially sensitive carefully scrutinizing Japanese defense policies. Earlier in 1987, North Korea's national paper Nodong Shinmun was quick to criticize Japan's burgeoning military spending as a step towards remilitarization with imperialistic intentions (Roy 1281). This also seems an indication that some of the most important regional players such as the two Korea's and China will not comply to the terms of the Miyazawa doctrine which promises Japan's involvement in establishing the "future order of peace and security for their [Asian]region" reflecting a "... resistance to overturning the Fukuda doctrine" (Brown 552). This has not fallen on deaf ears, Tokyo is fully aware of the fact that any attempts to switch its military from a defensive to an offensive posture could spark tensions in the region (Roy 152). In a speech delivered to the Japanese American Society, Koichi Kato, Secretary-General of the Liberal Democratic Party aptly stated:

This spring the United States appropriately sent its Carrier groups near the [Taiwan] strait in an effective demonstration of its interest in the peaceful settlement of issues between

Taiwan and the Mainland, and its opposition to the use of military force. But what if Japan had sent its Naval Self-Defense Forces towards Taiwan in support of the US force (Kato, FEER August 15 1996 p28)?

Simultaneously, the lack of domestic political consensus surrounding the military issue makes it more difficult for Japan to pursue this option (Roy 151). The Okinawa rape case highlighted the deep passivity of the Japanese public. It also reflected their less than tolerant attitude towards the American troops stationed in the country (Economist September 14 1996). Apart from the political and legal inhibitions facing full militarization, Japan's economic success provides a powerful example of why the results of embarking on a military path may not be as fruitful. Hence when comparing the options available to China and Japan as regional powers one finds that the latter has very little room to maneuver in. As one author aptly pointed out "there is a double standard in East Asia: a Chinese military buildup while not welcomed is acceptable; a Japanese defense buildup is not" (Roy 156).

Japan's difficulty in mediating over the Spratlys Island dispute is a suitable example. The issue represents a dual challenge for Tokyo. The geo-strategic importance of the South China Seas for Japan's economy attaches a security importance to the matter. Secondly, the dispute serves as a "litmus paper" for Japan to enhance its political role within regional affairs (Er 996). Tokyo was eager to initiate mediation after the Philippines government requested Japan to help in dissuading China from repeating the Mischief reef incident (Er 1005). However, its unilateral resolve was met with stiff resistance from the Chinese, who were deeply suspicious of its intentions (Er 1003). Beijing considered these efforts as another ploy to mask Japan's hegemonic interests (Er 999).

This attitude has been the primary reason behind Japan's decision to supplement its bilateral dialogue on the matter with multilateral diplomacy specifically through venues such as the ARF and Workshops on the South China Sea Disputes (Er 1004). This has also been met with resistance. Despite its potential financial and technological contributions to the matter, China has opposed Japan's participation in the Workshops meetings (Er 1006). It also

seems awkward that a country such as Laos would be invited rather than the region's major economic power (Er 1007).

In addition to the external factors that inhibit an expanded defense role, Japan's military faces inherent weaknesses. Despite repeated assertions that Japan is secretly building a formidable military with a budget that has placed it as the third largest spender after the United States and Russia, nearly 40% of the budget expenditure has been spent on personnel. Another reason behind the inflated figures is due to Japan's self-sufficiency policy regarding military manufacturing. Most products, such as the F-15s cost double that of its US counterpart (Hanami 596). Since "[a] substantial budget does not easily translate into a substantive fighting force" looking deeper into the issue one would find that the SDF stands as 25th largest in the world after Ethiopia, Thailand and Spain (Hanami 595).

Limited training has been another problem facing the SDF. The latter lack "realistic training". Limited ranges available for firing and ammunition exercises due to the crowded living conditions constrain the army's practices. As a result, the joint army maneuvers are seriously inhibited (Hanami 595). Due to the local fishing activities, the navy practices are limited to the winter season. In the case of the air force, the densely populated conditions of the country have limited the fighting range to only 500 miles (Hanami 595-56).

In terms of the calibre of the recruits, the SDF does not attract the best available students in the country. Moreover, a very small portion of the population is enlisted. If one compares it to other Western countries, Japan's percentage is 0.2%, while France and the United States is around 1% and Britain and Germany are 0.57% and 0.81% respectively (Hanami 595).

Japan's Second Option: Participation in UN Peace Keeping Forces

Another venue for stepping up Japanese contribution has been the United Nations. In June 1992, the Miyazawa government was successful in pushing legislation enabling the SDF to participate in UN operations. Such a decision has been heralded as a new stage in its "...evolution as an international power" (George 560). Given the constitutional restriction, the issue has sparked intense controversy questioning the legality of sending troops beyond the

borders of the country. The developments are regarded as "new departure" since it means that for the first time the Japanese SDF will be able to participate in overseas operations. It also means that Japan is now becoming a contributor to rather than merely being a recipient of international security (George 570).

Although there is no specific legal prohibition on deployment for non-forcible purposes, the "evolving" interpretation of what is permissible is the function of not only legal limitations but political will as well (George 562). The decision to involve the SDF came after the Gulf Crisis "debacle" in which Japan received heavy criticism from the international community, particularly the United States, for not participating fully in the UN operation. The move to redress the situation was also borne out of a growing conviction within Japan's ruling elite for greater participation in international affairs (Transcript of Hasakawa speech to the American-Japanese Society in Washington March 1996).

As Japan strives to increase its international presence, it has not been shy in voicing its wish to gain a permanent seat in the United Nations Security Council. Sending the SDF on international operations, and its endeavor to remove the war clause from the UN Charter is seen as a means of elevating Japan's international status and increasing its prestige as a global power. Japan's 1993 financial contributions to the United Nations have ranked it second after the United States in most agencies (ODA Annual Report 1994 p159). Some voices such as the Ozawa committee regard Japan's UN links as a sign of the former moving towards reestablishing itself as "normal" state (George 565-566).

However despite the new steps that have been taken, there are several limitations. One cannot discount the reactive factor in Japan's response. The decision to include peacekeeping activity to the SDF scope of activity, has been another way of complying with American demands for more "burden sharing". The result has been a concoction that balances the pacifist sentiments of the Japanese public to the demands of its ally. Projecting the PKO bill as a "constructive gesture for world peace" the decision was "gift wrapped" to make it more palatable to the public (George 567).

Moreover, the SDF activity is severely curtailed as a result. The conditions laid out for its activities state that the SDF will: a) participate only after warring parties agree to its involvement; b) the SDF will suspend their peacekeeping operation in the event of the cease-fire ending and; c) that they will use weapons only on the basis of self defense. Moreover, the legislation does not allow the SDF participation in operations such as the Gulf War or what are termed as "sovereign military operations" conducted under the aegis of the UN (George 565).

Another potential obstacle is the reaction of Japan's neighbors to these new developments. The Chinese government has been quick to point out that this is yet another ploy for Japanese resurgent militarism. It fears that this development could pave the way for gradual switch in Japan's defensive military posture to an offensive one. Moreover, this development gives Japan the ability to fully integrate itself in the security affairs of the region (Garrett and Glaser 396).

These fears seem unfounded given the fact that the SDF/PKO activity has evolved in the realm of diplomacy and not the military. The primary architect behind the new SDF role has been the Ministry of Foreign Affairs and not the Defense Agency. Moreover, the decision is seen as a "political gesture" rather than a sign of a military defense buildup. Even though some have supported Japan to adopt "active pacifism," on the basis that Article 9 contradicts the terms of the UN charter containing an obligation to join in a collective security arrangement, such radical interpretation would incite a political upheaval (George 573).

The strong pacifist sentiments of the Japanese public are further reinforced by their insular attitudes. In a poll conducted in 1992 in Japan reflected that only 23 percent of the public approved of SDF involvement in international UN operations (George 573). In a four nation poll the Japanese projected their more insular perspectives when asked to cite three of the most powerful countries in the world after the US: 38% named China, 24% for Japan while 12% cited Europe. The American public on the other hand placed Japan in second place 28%, Europe in third place with 26% and China in fourth with 25%. When asked if whether the public approved of UN peacekeeping operations, 50% of the Japanese public said no while 33% approved. When asked if whether they approve of Japan joining these operation only 33%

agreed, a marked difference from the 59% approval given by the American public (Luck 247-248).

Japan's Third Option: Aid diplomacy

Even though Japan attempts to step up its military and PKO activity to augment the American security system in Asia, internal and external obstacles that face these options remain very strong. In this respect, the restraints placed on Japan will continue to highlight the importance of economic diplomacy as a viable alternative tool of diplomacy (Akaha and Langdon 272). Given the strong controversy surrounding its defense forces, and the wary response to its UN related activities, ODA stands as the least contentious issue (Zhou 343).

While Japanese officials have resisted in the past to attach economic assistance with politics, aid giving as a strategic tool has been sharpened in the wake of the Gulf War. In the 1991 Summary Review of Japan's White Paper on ODA, the strategic aspect of aid giving was officially stated claiming that:

Official development assistance is an important component of Japan's foreign policy and Japan is determined to make ODA a medium for its participation in these order-building effort of the world. This determination was put to the test during the Gulf Crisis. Japanese aid during the crisis was designed to contribute promptly flexibly and directly to the restoration of peace in the region. Japan will need to continue improving on its aid schemes and strengthening its implementing capacity.

The Gulf crisis and the dramatic reforms in Central and Eastern Europe and the Soviet Union have led to the emergence of a national consensus in Japan that this country's aid should play a more active role in the achievement of world peace, stability and democratization (Mizutani 113)

Greater articulation of this trend was seen in the formulation of the ODA charter in 1991, laying out for the first time a "philosophy" behind aid giving (See Appendix). Critics have pointed out that although standards have been set for aid giving, Japan has shown a poor record of actually following them (Arase 945). Although aid to Haiti was suspended after the

coup d'état in 1992, the Japanese government has been less strict on human rights issues nearer to home (Mizutani 115). Despite it being initially cut off, aid to China was shortly resumed after the Tiananmen incident. During the Houston G-7 summit in 1990, Japan "plead[ed]" resumption of its \$6 billion dollar aid package to China (Arase 944).

Aid was also shortly resumed to Burma even after the military government's brutal crackdown on demonstrators (Arase 946). In the case of East Timor, despite calls by opposition parties on the Miyazawa government to tie aid with human rights progress, the Prime Minister pledged to the Indonesian President Suharto that "Japanese economic aid to other countries will not be linked to the implementation of human rights" (Arase 947).

Despite the criticism levied against it, particularly over its less than zealous effort to uphold democratic principles, aid has proven to be a powerful agent of influence at the diplomatic level. At the regional level, one example is the role of aid within Sino-Japanese relations. During the Cold War period, Japan adopted a passive stance vis a vis China on the basis of its "constructive engagement" policy (37 Green and Self). The conviction within Tokyo was that a peaceful relationship with China served Japan's interest best. History played a predominant factor with many Japanese feeling of a sense "cultural indebtedness" towards the Chinese and guilt over their colonial past. On the economic side, Japan's interest in China's enormous resource wealth did not waver. With Japan's technological and capital power, integration was favored given the "complimentary economic structures" between the two countries (Green and Self 41-42).

The series of Yen loans extending back to 1979, served to realize these potentials and simultaneously harmonize bilateral relations. Based on its commercial liberalism thesis, aid previously was used as an incentive. The fact that Japan was the largest financial donor to China enhanced its influence on the decision of the latter. An exemplification of this is PM Kaifu's "carrot and stick" strategy of using the third Yen package, amounting to nearly Y129.6 billion, as a means of urging Beijing to join the Non Nuclear Proliferation Treaty (Akaha 108).

As the dynamics of the Sino-Japanese axis changed due to the new international environment, so has the role of ODA within the relationship. China's wariness of its neighbor's expanded military role, particularly in light of the new Cross Services and Acquisitions Agreement intensified tension between the two countries (Jun, Beijing Review November ii 1996 p7-8). Moreover, economics has played a part in heightening these feelings. As Japan recorded its first ever \$14 billion trade deficit with China in 1995, some Japanese have voiced fears that increasing interdependence could lay the Japanese economy vulnerable to the China's economic problems. Simultaneously, the military connection to China's economic development has made Tokyo wary of the consequences of economic empowerment (Green and Self 50).

These calculations have produced a noticeable shift in Japanese attitudes towards China becoming less accommodating. While, Japanese aid was used in the past to complement Tokyo's "kowtowing" posture, it has been transformed as a punishing stick aimed at pacifying any aggressive behavior by the Chinese (Economist, September 6 1997 p 39). After China's nuclear testing in 1995, Japan responded quickly by cutting of its bilateral aid. Although it was resumed three months later, Japanese government officials have been uncharacteristically candid in their view over the matter (Green and Self 36-7). General Secretary of the LDP, Kaicho Kato described the Chinese decision "...[a] behavior that cannot be tolerated" (Kato, FEER August 15 1996 p28).

Aid was also similarly used with regards to the Hong Kong turnover. With a \$25 billion-investment stake in the city-state, the Japanese government does not want to see a possible curtailment on Hong Kong's capitalist activity. Japan's Consul General Hideaki Ueda "urged" the Beijing government "to honour their agreements" while using the withdrawal of aid as a pressure point (Gilley, FEER May 29 p 28). Aid diplomacy compliments Japan's "soft approach" to security matters and is reflected in its decision to refrain from directly intervening in the Hong Kong matter. As Ueda pointed out:

We don't make sharp comments on every aspect, like human rights activists. Compared to the US, our approach is a bit soft. But in private meetings we are always urging the Chinese to honor their agreements (Gilley, FEER May 29 p 28).

Aid was also a vital aspect of Japan's response to the North Korean crisis. As Japanese military analysts assessed the impact of the crisis on the American regional security system, Tokyo's reaction has been to issue a policy that would "supplemen[t]" the US position (Hughes 87). Despite the differences between the two over the economic embargo, Tokyo agreed to cooperate militarily. It also agreed to provide logistical help in enforcing a blockade should negotiations fail (Hughes 88-89). Simultaneously, it has moved to seek Chinese mediation in the negotiations (Hughes 90).

However, Japanese experts regard economic integration as the vital means of bridging the security gap in the Korean peninsula. Based on the logic of commercial liberalism, economic assistance was used as an incentive for North Korean government by sending 300,000 tons of rice aid after the floods. Tokyo's position on extending more aid to North Korea was tied to the progress made on the nuclear issue (Hughes 94). In this instance, aid was used to hasten normalization with Pyongyang and encouraging the latter to respond more positively.

Aid also played a vital role within the Russo-Japanese axis. Normalization between the two countries was stymied pending agreement over territorial disputes. Attempts to reach a breakthrough have not been successful with each side attaching nationalistic importance to the issue of the Northern and Kuril Islands. On a quid pro quo basis, Japan consistently used its economic clout, especially aid, as a means of attracting Moscow's consent to hand over the territories. This "carrot and stick" strategy was especially relevant during the Gorbachev era when the Soviet president sought to enhance bilateral relations in an attempt to win Japanese economic support for *Perestroika*. The Japanese responded by sending, ex-Secretary General of the LDP, Ozawa Ichiro, on an official visit to Moscow proposed a deal in which a \$26 billion economic package would be given in return for the Northern Territories (Drifte 128).

However, due to Gorbachev's politically weak position at that time and his reliance on the intelligentsia and the army, who are traditionally uncompromising over the Kuril issues, the deal did not come through (Menon 61-2; Driete 128).

The same scenario repeats itself in the Yeltsin presidency, which faces considerable pressure from the army and ultranationalist groups not to compromise. It was the primary reason behind Yeltsin's decision to postpone his scheduled trip to Tokyo in 1992. Although it was resumed later, the Russian president was careful not raise the matter (Menon 64-65).

Multilaterally, aid has been used by the Japanese to advance their position vis a vis Russia over the Northern Island matter. As the Soviet empire quickly crumbled, Japan's and the United States initial cautious approach in providing aid was criticized by the Western "camp" who wanted to provide speedy assistance (Yasatomo 164). Japan's strategic position over the aid issue was a means to put pressure on Moscow to comply over the unsolved territorial dispute (Yasatomo 164).

Yet despite the sharp differences between it and countries such as Germany and France over Russia, the Japanese were eager to present the issue within the multilateral forum as a means of accentuating their viewpoint over the matter. As one author pointed out "[Japan wanted to] mak[e] the bilateral issue a G-7 issue" (Yasatomo 165). It was also another means of seeking closer coordination with the US. Before Washington's policy switch on the matter, both agreed to oppose Gorbachev's presence in the London G-7 summit, similarly resisting sending large aid to the country and stood against Russia's membership in the IBRD/EBRD (Yasatomo 165).

Despite the change in the US policy, Japan was still insistent on its position creating "essential differences" between it and its industrialized partners. US mediating between the two ultimately influenced the magnitude and direction of aid giving by the Japanese (Yasatomo 166). In 1991, a \$2.5 billion aid package and \$50 million for humanitarian assistance were advanced to the Russian government (Okawara 61). Alongside the financial aid, technical assistance in the areas of nuclear and natural energy was pledged to the Gorbachev government (Akaha 174). Moreover, little of the \$2.5 billion aid package was

actually given after the Soviet Empire crumbled. Japanese officials cited "lack of progress" regarding the Northern Islands as one reason and Russia's economic uncertainty as another (Menon 63).

The G-7 platform has also been used by the Japanese to expand the integration process of the Asian economies. Looking beyond the eastern region, the Japanese have been eager to accommodate the newly independent Central Asian Republics. Applying its "spokesperson" role, Japan persistently sought to place the Central Asian Republics in the DAC list (Yasatomo 167).

Another incident revolved around Japan's invitation of President Suharto to attend the G-7 meeting. When other members objected to the proposal Prime Minister Miyazawa resolved the situation by meeting the Indonesian president outside the meetings and sending the Deputy Foreign Affairs Minister to Jakarta to give a briefing on the discussions. Japan's stance over these issues reflects its "spokesperson of Asia" role it has delegated for itself. It also reflects its "division of labour" approach to aid giving (Yasatomo 167).

Aid has also been critical in maintaining Japan's international interests. Before the Gulf crisis, the Middle East region was already receiving 10% of Japan's ODA. In 1988, \$173 million was donated to Egypt, \$134 million to Turkey, \$107 million to Syria and \$60 million to the Sudan (Mizutani 104). Although Japan's reliance on the region for crude oil imports dropped from 80 to 70%, the economic security importance to the area was not lessened (Mizutani 107). In the wake of Iraq's invasion of Kuwait, Japan responded by immediately disbursing \$2.5 billion to the countries of the region specifically Egypt, Jordan, Turkey and Syria (Mizutani 113).

In the case of Egypt, Japan has taken measures to alleviate the negative effect of the crisis on the country's economy. Apart from \$600 million aid package, the Japanese eased their OECF loaning conditions considerably. Whereas previously Japanese officials were insistent that loans would not be rescheduled until Egypt reached an agreement with the IMF, negotiations became considerably more flexible after the Gulf Crisis (Mizutani 141). In 1993, Japanese ODA to Egypt rose from \$110.6 to \$275.1 million standing as the second largest

amount after the United States. Despite the fluctuations, Japanese aid disbursements to Egypt have remained among the top 5 donor position (Japanese Consulate Fact Sheet on Japan-Egypt Relations March 1997).

With regards to the Middle East peace process, Japan was invited to attend the multilateral negotiations. It quickly set up a Palestinian Development Fund within the UNDP for Gaza and the West Bank regions. Foreign Minister's Ikeda visit to the region in 1996 encompassed Egypt, Syria, Jordan and Israel was an attempt to initiate a more active Japanese role within the Peace process. It was also a sign that an effort was made in "understanding" the position of the Arab countries, something lacking due to the "mental distance" that governs Japanese-Arab relations. Apart from the cultural gap, Japanese careful handling of American sensitivities has also played a part in diluting its political activity in the region (Nkrumah al-Ahram Weekly 29 August -4 September 1996 p8)..

Typical of Japan's "soft approach" is its economic oriented support of the peace process. In light of its support of the "land for peace" concept, financial contributions have been disbursed to the Palestinian National Authority (PNA). A total amount of \$220 million has been donated to the latter comprising of \$176 million and \$42 million in direct cash (Nkrumah al-Ahram Weekly 29 August to 4 September 1996 p8).

However, despite the burgeoning role of ODA, Japan's economic recession has raised some difficulties in maintaining its financial capacities. In the 1997 EPA Committee on Economic Cooperation Policy Report, "clarifi[cation]" of "the significance of economic cooperation" was made (EPA Report 1997 p2). In a detailed fashion, the significance of ODA was linked to Japan's "dependence in an increasingly interdependent world". The "long-term" significance of ODA in maintaining Japan's economic and political interests were outlined especially with regards to the Asian region and the debt problem of the developing countries (EPA Report 1997 p 3-4).

The significance of the report lies in the fact that it outlined the new paths for Japan's aid giving. While Japan stands as the second largest contributor to organizations such as the IMF, Japan's problem is that it has "[in]sufficient involvement in decision-making in international

organizations" (EPA Report 1997 p5). Hence greater articulation of Japanese policies and confidence in enacting them is needed (EPA Report 1997 p5). This "time to step up" thesis is especially important given the need by the public to understand the rationale behind such contributions during a painful recession period (EPA Report 1997 p10).

The report also articulated the need for a more "effective" and "efficient" disbursement of ODA, signifying the "transition from quantity to quality" such as increasing the number of personnel, better understanding of the conditions facing the recipient country and long-term emphasis on projects set up with the latter (EPA Report 1997 p10-11). The committee also highlighted the significance of greater coordination with the private sector in developing sectors such as the infrastructure and establishing "South-South" cooperation in which aid "graduate" countries would begin to extend aid contributions as well (EPA Report 1997 p12-13).

New Concept or Better Articulation of Past Activities?

While the above may suggest the 'shrinking' of ODA activities, the proposals set by the committee do not forge new paths since most of their recommendations have been in action since the Cold War period. Japanese ODA still remains the highest in the world. Despite the recession, it was allocated a 4.8% increase in the 1993-97 5th Medium Term Target, raising the ODA budget to \$70-75 billion. In 1992, Japan's financial contributions to multilateral agencies increased by 31.6% (Drifte 112-13). The 1992 Global Partnership Action Plan included arrangements to enhance joint cooperation over aid signifies the latter role in enhancing joint US-Japanese policies (Drifte 114-115).

Emphasis on the Asian region has always been a strong characteristic of their aid giving. This 'division of labor mentality' has been one of the sources of friction with other DAC members since the early Cold War period (Rix 33). Moreover, employing the private sector in development projects has also been a strong feature of Japanese ODA dynamics. Government backing for private run projects, such as JIPC or Asahan, has been on going for quite a while (Rix 237; Takahashi 87-89). A large share of ODA is allocated exclusively to infrastructure

projects, industry, mining, and construction (Drifte 115). Japanese "philosophy" with regards to this matter is that it supports laying foundations for sound development (Drifte 115).

Ironically, the commercial orientation of Japanese ODA has been always criticized by recipient and other donor countries (Rix 29-30). Loans and technical assistance have been more liberally disbursed than grants with few exceptions. Even with the importance attached to the Asian region, the latter share of "tied" aid is the biggest (ODA Annual Report p109). The official explanation is that high interests encourage developing countries to cultivate "self-help" policies (Drifte 115).

To re-launch Japanese manufacturing industries in the East Asian region the combination of aid, trade, and investment, was extensively used to realize this goal (Unger 159-60). While the report emphasized the need to outline Japanese interests more clearly, self-interest has rarely been an absent consideration. The humanitarian aspects were not the main worry when Japan sought G-7 "approval" for its decision to extend its aid to China after the Tiananmen massacre. The same was done in the case of Burma and Indonesia (Arase 944-46). Japan's 'point of concentration' has always been regions of security significance such as in the case of the Middle East and Asia (MITI Report: Future Issues Concerning International Trade and Industry Policies 1997 p9). As the MITI report bluntly stated "economic cooperation is reflective of national interest" (MITI Report: Future Issues Concerning International Trade and Industry Policies 1997 p9). The significance of ODA's position within the country's foreign policy spectrum is not lost when considering the "vital" role aid plays. As the report stated:

It is not a foregone conclusion, therefore, that economic cooperation should be increased when the current accounts surpluses increases and decreased when the surpluses decreases. Economic Cooperation should be decided from a different point of view (EPA Report 1997 p3).

Conclusion

Despite the challenges the collapse of the Cold War structure posed to the American-Japanese security relationship, the level of interdependency between the latter and geopolitical factors governing the Asian region have helped maintain the relationship. Simply put, Japan needs the United States. Several constraints face any attempt to project the country's economic might militarily. On the regional front, Japan's colonialist legacy is far from forgotten and, though feelings are thawing, Japanese involvement in regional security matters still meets stiff resistance. In addition, maintaining the US security umbrella still serves to alleviate heavy defense burdens especially at a time when Japan's economy witnesses a deep recession.

However, the United States "policy of reciprocity" meant that Japan has to step up its contributions to cover the gaps. Its expanded role within the 1996 Cross Services and Acquisitions Agreement has raised suspicions amongst its Asian neighbors. On the domestic front, the issue of increased defense spending generates intense controversy, the Okinawa case is a testament to that. It seems that Japan's endeavor to enhance its "hard power" options still faces great challenges.

On the other hand, Japan's "soft power" options are not free from inhibitions. China and South Korea have voiced their disapproval over the SDF's new founded UN peacekeeping activity. With this, economic cooperation, particularly ODA enjoys greater acceptance. The benefits are not only commercial. Aid giving as a tool of diplomacy has proven to be effective in the political security realm. Despite the economic downturn, it still continues to occupy a leading position within the country's foreign policy spectrum.

Appendix

“1) The ODA of Japan is provided based on (1) humanitarian consideration towards such problems facing the developing country as poverty and famine cannot be ignored (2) recognition of the fact of interdependency among the nations of the international community in the sense that stability and further development of the developing countries are indispensable to the peace and prosperity of the entire world.

2) In the course of the Gulf crisis and its aftermath, questions on the armaments of the developing countries, the necessity of enhancing international towards arms control and disarmament etc. have attracted attention both inside and outside Japan. It is, therefore, considered appropriate and important to clarify the basic view of the Government regarding its ODA in relation to such questions

3) Based upon the basic ideas mentioned in paragraph 1 above, the Government of Japan henceforward will pay full attention in the implementation of ODA to the following points: Trends in military expenditure by the recipient countries from the viewpoint that the developing countries are expected to allocate their own financial, human, and other resources appropriate to their economic and social development and to make full use of such resources.

Trend in development, production etc. of mass destruction by the recipient country from the viewpoint of strengthening the efforts by the international community for prevention of proliferation of mass destructive weapons such as atomic weapons and missiles. Trend in the export and import of weapons by the recipient countries from the viewpoint of not promoting international conflicts.

4) Efforts for promoting democratisation and the introduction of market-oriented economy and situation on securing basic human rights and freedom by the recipient countries, and make its decision aid, taking into account comprehensively such factors as bilateral relations with the recipient countries, the international situation including the security environment in which the recipient countries are place, aid needs, economic and social situation of the recipient country etc (Mizutani 115-116)”. ”

Conclusion

The collapse of the Cold War structure has given rise to intense scholarly speculations and questions regarding the nature of the emerging global order (Meeks 41-42). The Gulf War was the experimental lab for the new emerging trends. The concerted effort of the Western powers indicated the "decline" of American hegemony and its lessening will to unilaterally resolve its international projects. Simultaneously, it was a practical exemplification of the transformation that was changing our traditional concepts of power. With Japan and the EU bearing the bulk of the UN operation, it highlighted the elevation of economics on par with military power (Seoudi 22-23). As Tsuneo Akaha and Frank Langdon argue, this emerging reality is "...the most crucial question raised about the posthegemonic world" (Akaha and Langdon 265).

Within this context, Japan occupied intense scholarly attention. The latter has been a source of profound interest due to its meteoric economic success (Meeks 41). Japan has always stood apart simply because it is the only non-Western country that has managed to join the G-7 elite (Nelson 55). It is also a power that carries the burden of its World War Two atrocities, something not easily forgotten by Asian countries (Pyle 3). These configurations have been the basis of its international posture since the Cold War era, namely a budding Asian power that has formally denounced its "will to war" and has relied on American security to fend off the Soviet threat and assure its neighbors of its good intentions (Pyle 20). This is a partial explanation as to why Japan has remained for so long obscure in the eyes of many. Phrases such as "economic power, military dwarf" and "First class economy with economy class politics" reflect the opaqueness one meets when attempting to analyze the country's affairs (Funabashi 1).

With the collapse of the Soviet Empire, speculations regarding Japan grew. All of a sudden, the cloak of the Cold War has vanished leaving bare the fissures that threatened the cornerstone of its foreign policy, namely the American-Japanese security alliance (Langdon 77-78). The Gulf War highlighted a "pax Consortis" but it also shed light on the trade problems affecting relations amongst

the major industrialized countries (Mizutani 123; Langdon 78). The economic dispute that lay latent during the second half of the Cold War era now erupted with full force especially within the US-Japanese axis. The potential effects of the trade disputes between the two largest economies are profound and the future of the international economic system lays hostage (Iwata 111).

The alliance also covers a region that is still not free from security problems with the North Korean nuclear issue as one example. China's reemergence as a regional power is another worry, aggravated even further by the country's newfound economic success (McNaugher 194, 204). Beijing's decision to carry out nuclear testing and its aggressive behavior over the Spratlys Islands issue has raised question marks about the country's future intentions (McNaugher 195). The Middle East crisis has always indirectly posed a threat to Japan's security by allowing United States troop diversion from the East Asian region. Moreover, problems in the Arab world also place a direct threat to the free flow of nearly 70% of Japan's crude oil consumption (Mizutani 107).

What is Japan's position on all these developments? Scholars have differed as to the course on which Japan will embark. Hegemonic stability theorists suggested the rise of a Pax Nipponica overtaking the United States (Nelson 45). Neo-realists have predicted that trade differences will accentuate divisions amongst competing economic blocs (Gilpin 337). This research has attempted to find an answer by applying a comprehensive approach. In doing so, it has analyzed Japan's diplomacy from the Post World War Two period to the era we live in today. The theme of this research has been to trace and understand Japan's diplomatic actions through one of its most widely used instruments of foreign policy namely Official Development Assistance. Simply put, ODA is the mirror that reflects the dynamics of the country's international perspective throughout the past since the post World War Two era into today's world. The research has yielded several conclusions.

Becoming a Supporter Nation

Since the latter half of the Cold War period, Japan has altered its status from "free riding" to supporting the United States. During the post World War Two, the Yoshida doctrine reversed Japan's

national goal from militarism to economic development. Its pragmatic outlook allowed it to seek the maximum benefits available within the existing international order. Aware of the country's strategic value within the Cold War context, Premier Yoshida opted to forge a close security alliance with the United States. Institutionalizing pacifism, the doctrine resisted Japan's membership in any collective security arrangement seeking to rely only on the US military umbrella. This kept Japan's own defense capabilities to the minimum. The Yoshida principle of "separating economics from politics" reflected the country's insular attitude towards achieving its economic development goal. This was not made without sacrifices. Japan's ruling elite had accepted a "subordinate position" within the Mutual Security Treaty (Pyle 24-27).

With the Yoshida Doctrine as a guide, Japan was to embark on a vigorous economic rehabilitation program. Its "export or die" mentality demanded continuous access to overseas markets and free flow of energy and raw material imports. Within these parameters, Japanese ODA was borne. As a non-military instrument of diplomacy it was in reestablishing diplomatic relations with ex-colonies in the Asian region. The decision to use aid as an instrument of foreign policy was itself a reflection of the constraints facing Japan. With Japanese atrocities still fresh in the minds of its neighbors, any decision to maintain its regional interests militarily would have been vehemently opposed (Dower 193).

Following the dictates of the country's foreign perspective, ODA, or "economic cooperation" at that time, followed a narrow neo-mercantilist thesis resisting tying it with political conditions (Buckley 114). Nearly 100% of its recipients were Asian countries and most of its aid was either "tied" or consisted of loans. Even though aid giving was used to enable Japan to enter into prestigious economic international organizations as recognition of its success, Japan continually resisted enhancing the qualitative aspects of its ODA and enlarging it to include non-Asian recipients (Rix 42-4).

While Japan's ruling elite marked out the Post World War mercantilist strategy, the effect of economic integration particularly with the United States would force Japan to abandon its "free riding" strategy. Geopolitical considerations were also powerful factors behind Japan's decision. Chapter 2

examined Japan's response to the upheavals of the 1970s decade. The new Nixon doctrines, the result of the Vietnam War and the strategic "revolutions" in the form of US-USSR Détente and Sino-American Rapprochement, shook the foundations of the alliance. Also, the textile trade disputes awakened the Japanese to the elevation of economic matters within the bilateral agenda (Buckley 129).

Japan's response was to support rather than end or continue its "free riding" on the United States by paying more attention to Washington's demand for more "burden sharing". The calculations were such that Japan stood to lose more than gain should the alliance break up. The United States market was the largest absorber of its export products. Moreover, it was the guarantor of the international liberal economic system whose demise would deprive Japan of a trading system that has enabled it to achieve its recent success (Wan 102).

With Japan's Self Defense Forces facing constitutional and political limitations, US forces were still needed to maintain regional security. With this, aid giving was seen as the means by which Japan could augment American Cold War strategies. Concepts such as "countries bordering conflict" and the 1980 Comprehensive Security outline clarified Japan's economic role in maintaining international order.

It also signified Japan's usage of the "soft power" approach in its diplomacy. Extending aid assistance was seen as the credible means of establishing an active Japanese diplomacy *within* the US-Japanese security relationship. The 1973 Oil crisis was the first testing ground. Given the level of Japan's dependence on oil imports from the region, Tokyo's reaction was to enhance its relations with the Arab countries through economic means, disbursing generous amounts of aid (Yoshitsu 9). On the diplomatic front, it implicitly adopted the Palestinian stance and agreed to open a PLO office in Tokyo (Yoshitsu 15). However, it must be pointed out that while such endeavor reflected tentatively an "individual" Middle East policy by the Japanese government, American sensitivities remained a powerful factor in their diplomatic calculations (Yoshitsu 15).

A similar framework was also adopted with regard to Asia. The disastrous results of PM Tanaka's visit to the ASEAN region in 1974 shed light on the weak links in Japan's Asian policy. Tokyo's

response was to unveil the 1979 Fukuda Doctrine in which a \$1 billion-dollar aid package was promised to the countries of the region. The significance of the Doctrine rested on Japan's pledge to project power in the region through non-military means (Morrison 421-22).

Overlapping Regionalism

Chapter 3 highlighted how the Plaza Accord served to accentuate Japan's "supporter nation" role. The economic implications of the yen's appreciation deepened Japan's ties with its industrialized partners through the massive outflow of Japanese FDI. Yet as integration amongst the EU, Japan and the US economies increased, dispute over various trade issues mounted (Funabashi 165). Tokyo's response was the so-called "Internationalization" process aimed at gradually opening up the Japanese economy. To ignore international demands for freer markets, particularly by the United States, would risk eroding the international liberal economic system (Iwata 111).

There was also growing conviction amongst Japan's ruling elite that the country's trade and investments relied on the free flow of the global market. The country's resource vulnerability is another powerful factor. Given these circumstances, Japan's economy would be the first victim of any protectionist backlash. It is also been the main reason why the Japanese have been reluctant to describe their heavy investment and aid activity in the Asian region by the late 1980s as laying the foundations for a regional bloc. Given its strong economic ties with the United States and the EU, Japan cannot confine itself only to an Asian economic bloc, preferring to maintain "open regionalism" (Langdon and Akaha 278).

However, the intentions have not always matched the actions and results. The painful effect of the liberalization policies was hampered by competing domestic interests forcing successive governments to search for a middle ground. It has been the main reason why the Japanese have been slow to respond to outside criticism.

Another complication is the fact that the territorial connotations of "national interest" became more difficult to apply as Japan's economic interdependence, particularly with its industrialized partners, deepened. While agriculture lobbies fought against liberalization, powerful multinational corporations stepped up their encouragement (Wan 102). It is an indication that the fine line between what is considered "national" and "international" is fast becoming indistinguishable.

A third but vital determinant is the insular or *Sakoku* attitude of the Japanese people hampered the internationalization process from achieving genuine results (Itoh 235). These "psychological barriers" are the products of deep-rooted culture and history of the nation disallowing liberalism from actually occurring (Itoh 236).

While the process of internationalization process faced difficulties, Japan attempted to close the gap through the least controversial way, namely increasing its international contributions. By 1989, its ODA budget surpassed that of the United States marking Japan as the world's top aid donor. Multilaterally, Japan has carefully cultivated its "supportive" status by positioning itself as the number two contributor to major international organizations. Seeking close coordination with its ally, aid to Cold War allies was stepped up as a means of enhancing its "burden sharing" (Akaha 333).

Hegemony as Obsolete

As Chapter 4 and 5 indicated, interdependency has been a powerful factor behind the continuation of the bilateral relationship, despite the economic and security challenges it faced in the wake of the Post Cold War era. The degree of economic integration, even within the military dimension, has pushed the United States and Japan to maintain the alliance framework. This obviously refutes claims that Japan is laying foundations for worldwide dominance in the new era and interdependence is the reason. Joint interests between it and its industrialized partners and closer integration with the East Asian region has expanded the territorial parameters of national interest. This conceptual transformation that has and is still taking place as a result of greater interdependency renders the use of force, as a diplomatic option, obsolete. It seems inconceivable today that Japan would use force against

the United States, Europe or countries of the ASEAN region given the level of economic interests that tie it to them.

Another effect of Japan's expanding national interests is that government control over critical economic sectors is no longer a foregone conclusion. While there has been intense speculation over the tightly coordinated government, bureaucracy and businesses triad, the conflict of interest between the various economic forces within the Japanese society, and varying opinions within Japanese political parties over the liberalization process, indicates that government decisions are reached through negotiation and mediation (Wan 100-3). Within this process, the international interests of powerful Japanese corporations have inserted factors and issues that are determined beyond national borders (Wan 100).

Taking this into the international political arena, it exemplifies Nye's argument that the technological transformations and proliferation of new economic and political actors such as MNC's and non-governmental organizations diminished traditional state monopoly over key economic domains. This new reality serves to curtail the creation of a global Japanese hegemony on par with a Pax Americana or a Pax Britannica.

A fourth factor to be considered is Japan's unique power configuration that inhibits it from fulfilling a crucial prerequisite of hegemony, namely a superior military force. While some scholars have heralded the primacy of economics to military rivalry in the new era, security calculations are necessary especially in the Asian region (Langdon and Akaha 265). The reemergence of China, and the North Korean nuclear issue are just two of the factors of instability (McNaugher 194, 204). Japan is aware that any unilateral move on its part will not only be resisted but could spark off military escalation and confrontation.

Tokyo is painfully conscious of the fact that its World War Two legacy remains as a powerful constraint (McNaugher 190-91). From that respect, supporting the United States as a "number two" nation would serve the same purpose of maintaining the liberal global economic order and assure security over its interests (Taira 256-257). From the American perspective, interdependence with Japan

has given an economic rationale for the US to maintain security in the region (Hanami 599). Furthermore, instability could potentially disrupt an area that is economically vital for the United States (A A Final Report 259).

The Concentric Approach to Japan's Security

While the above factors have been forceful in transplanting the Cold war alliance into the new era, the new context has brought about de facto changes. As argued in Chapter 5, Japan is mindful that the US role has become that of a broker rather than that of a hegemon adopting a policy of reciprocity (Langdon and Akaha 269). In order to cement the relationship, Japan has increased its military burdens, stepped up its UN activity and other multilateral activity especially within the Asian region, and sharpened aid as a strategic tool of diplomacy.

However, despite the incremental changes two challenges remain to be overcome. On the one hand, Japan's unique circumstances severely constrain it from exercising the normal diplomatic options such as the use of force (Langdon and Akaha 267). So sensitive is its colonial legacy that its recent Self Defense Forces peacekeeping activity has raised suspicions amongst its neighbors. The Cross-Services and Acquisition Agreement rang alarm bells in China and South Korea (Garrett and Glaser 389). Apart from the external obstacles, domestic factors such as legal inhibitions, deep-seated public passivism, and political divisiveness strongly discourage militarism. Within this context, economic diplomacy remains the least controversial weapon of diplomacy and is the most flexibly used.

However, Japan's endeavor to reorient, to use Kenneth Pyle's phrase, its "national purpose" faces difficulty given the deep recession that has hit Japan's economy. With the United States adopting a "results oriented" approach on trade matters, the issue has taken a more serious turn after the recent Asian financial meltdown. Despite the recent economic events, Japan is aware that remaining the "odd man out" will only worsen the situation. Even though resilient, Japan cannot afford to remain closed to the outside world given the state of its global economic engagements (Pyle 5).

A Reformed Yoshida Doctrine: Weak Prospects for Full Militarization

Given these developments does the Yoshida Doctrine apply at the present? Japan has let go of its free riding status, a corner stone of the post World War Two strategy, and adopted a supporter nation position vis a vis the United States, stepping up its international contributions considerably. Its new military responsibilities proposed by the Cross Services and Acquisitions Agreement extends Japan's defense cooperation beyond the self imposed limits of the 1000 nautical miles radius, a break from the "defensive defense" principle of the Doctrine.

While this suggests the abandonment of the Yoshida paradigm, the research concludes that these actions indicate a reformation of the Yoshida doctrine based on the evolution of Japan's role *within* the framework of the security alliance. Matters, after all, rarely remain static in the world of politics. What has occurred is a gradual development of Japan's responsibilities on an incremental basis as a means of adapting to the altering international political environment. Yet, the parameters are the same.

The MST remains the *idee fixe* of Japan's foreign policy and the American factor plays a crucial role in the country's diplomatic calculations. Japan response to American demands for greater burden sharing has been a strong reason why its international contributions have been stepped up. Its internationalization process was a means to appease an ally.

Within the present era, reduced American military obligations induced Japan to seek greater responsibilities to augment the relationship. Although Japan has engaged itself in collective security arrangements, its participation is limited and means expand its activities quickly arouses domestic controversy. Moreover, its forces are the smallest amongst the Western powers, as chapter 5 highlighted, the geographical limitations, deep public pacifism, and aversion to militarism severely limits the SDF training and fighting capabilities. The controversy stirred by the SDF peacekeeping activity reflected weak political will to push for drastic changes.

For the time being, the debate over Japan's future strategy has been won over by the Bilateralist camp and consensus built upon that. The future prospects for Japan's full remilitarization remains

weak. Given the external and internal constraints facing this option, the possibilities of Japan becoming a "normal nation" free to expand its defensive posture into an offensive one remain unlikely.

The Future of Sino-Japanese Relations

Although China's future is considered as a "wild card", this description also applies to Sino-Japanese relations. The collapse of the Soviet Union and changing American international policies pressured Japan to take a more active regional role. Beijing has been wary of these developments, especially in light of the 1996 Cross Services and Acquisitions agreement. The Japanese are similarly worried about China's future intentions specifically its high defense expenditure. The result has been increased wariness on both sides. As chapter 3 and 4 highlighted, the nature of Japan's economic assistance to the Chinese has changed from "kowtowing" to "soft containment".

Is conflict imminent between the two? This possibility remains weak because of two reasons. As Chapter 5 stressed, American presence in the region plays a critical stabilizing force in the region and South East Asian countries and China welcome its presence. American military presence assures ASEAN and China of Japan's peaceful intentions and simultaneously pacifies fears regarding Chinese regional hegemonic intentions. While some may question the longevity of US military presence in the region, the elevated status of economic security in American foreign policy has added a new rationale. The new challenges facing the US-Japanese security alliance rests on both countries success in maintaining regional stability and building a viable multilateral security framework including China.

One reason why a trilateral relation framework could be very possible is that the financial and investment requirements of China's economic liberalization program are a powerful incentive to keep cordial relationships with Japan and the United States. As indicated in chapter 4 and 5, the Japanese enjoy an economic leverage since their ODA and bank loans to China remain the highest amongst the Industrialized countries. Moreover, Japanese and American investments and trade have increased rapidly in the past years increasing the rate of China's economic integration with the rest of the region.

Hence while increasing Sino-Japanese tensions have raised worries, one has to consider the implications of China's economic development program on its foreign policy.

New Implications: A Model for the future?

What then lies beyond? Yoichi Funabashi suggests that, despite its unique circumstances, Japan is capable of projecting a new type of power (11-19). Its pacifism could be used to define a new era in which non-military issues have climbed to the top of the global security agenda (Akaha 11). The dichotomy of Japan's postwar economic success and its disastrous prewar military strategy serves to highlight the short-term gains of militarization and high defense expenditures. In a world in which conflict is very much existing, economic development rather than military strength can become a more pragmatic approach to building power.

It also provides a new kind of logic to the concept of power. Koji Taira pointed out that "[h]ere prewar Japan sinned against its own ethics by overzealous imitation of Western imperialism. Chastened postwar Japan has returned to the ethical fold of Asia" (256). Ethics here stand for the Confucian manner of conducting affairs, which stresses pragmatism rather than the Western concept of competition (Taira 256). Japan's success may very well be served by becoming the second and not first leader (Taira 259).

While some may question the longevity of Japan's success without American support, or its continuation of "free riding" US security, maybe what we are witnessing is a "new breed of power" in which the two cannot be distinguished. As Taira aptly pointed out, maybe what could be developing is an *enmeshment* of interests or, "...US policymakers now link[ing] the strategy of the United States to the sum of Japanese and US economies" (Taira 262). In this sense, this question may stand as obsolete given the level of common interests that join both countries together. That is not to suggest that conflict over issues has become invalid, yet the loss of not cooperating has become greater than the gains accrued by pursuing a narrow vision of national interest.

Cynics may argue that such arrangements are just another mode of shaping and sustaining the international environment for the benefit of the very few. Given the erratic and selfish nature of politics, this statement does hold ground to some extent. However, with idealism being farfetched, the expanding nature of national interest may prove to be an alternative course for North-South relations. From that perspective, Japan's international outlook offers a new approach to seeking benefits.

Its economic oriented diplomacy may prove successful in dissuading conflict and encouraging cooperation. Its manner in dealing with regional problems through its "soft containment" strategy can be more effective than utilizing force. In a time when countries are rapidly changing their national goals to economic development, Japan's proposal of trade, aid, and investment offers more tangible benefits than ideological beliefs and East Asia is a prime example. Although Japanese aid was once considered a tool of imperialism, East Asian governments have welcomed its reformed economic strategies in the 1980s. The "Look East" policy of PM Mahatir and proposals for the E/EEA with Tokyo as its central coordinator is a long cry from the days that met PM Tanaka in his 1974 ASEAN tour. From the Japanese perspective, less hostility paved the way for a more continuous foreign investment environment in the region.

Chapters 3 and 4 indicate how Japan's economic cooperation policy has been instrumental in shaping the economic dynamism of the region. Japan's political benefits from this are that it has been a powerful diplomatic weapon which firmly established the country as the focus of the Pacific region. Another positive consequence of this is that lower Asian countries want to be engaged in this process. In this respect, Japanese aid, trade, and investment has been successful in cultivating a more cooperative political environment in the region. The one exception of which is "Japan's role in the Asian Monetary Fund (AMF) or Japanese working together with Indonesia working towards the creation of AMF" is a monetary institution that the government has been reluctant to fund because of its high cost.

Chapter 5 is a summary of the book's findings. It has been found that Japan's economic cooperation policy has been instrumental in shaping the economic dynamism of the region. The government's reluctance to fund the AMF is a monetary institution that the government has been reluctant to fund because of its high cost.

relationship can produce impressive results. Combining this with concepts such as "borderless economy", "open regionalism", and "open national interests" it reflects the country's continuous and inescapable need for economic growth. Its expansive nature also lay grounds for a broader horizon that potentially includes far-flung areas. In this respect, Japan's outlook is inclusive rather than exclusive and economics intensely shapes the way. Japan in many ways may offer us something unique, namely a healthy dose of pragmatism.

Bibliography

Books

- Akaha, Tsuneo, Japan's Security in the Posthegemonic World: Opportunities and Challenges, eds. Tsuneo Akaha and Frank Langdon, Japan in the Post-hegemonic World, Boulder: Lynne Reinner, 1993.
- American Assembly, Final Report of the Eighty-Fourth American Assembly, ed. Gerald L. Curtis, The United States, Japan and Asia, New York: W.W. Norton and Company, 1994.
- Brown, Seyom. The Faces of Power: United States Foreign Policy from Truman to Clinton. New York: Columbia University Press, 1994.
- Buckley, Roger. US-Japan Alliance Diplomacy: 1945-1990. Cambridge: Cambridge University Press, 1992.
- Chittiwatanapong, Prasert, Japan's Role in the Posthegemonic World: Perspectives from South East Asia, eds. Tsuneo Akaha and Frank Langdon, Japan in the Post-hegemonic World, Boulder: Lynne Reinner, 1993.
- Curtis, Gerald L., Meeting the Challenges of Japan in Asia, ed. Gerald Curtis, The United States, Japan, and Asia, New York: W.W. Norton and Company, 1994.
- Curtis, Gerald L. and et. al, Final Report of the Eighty-Fourth American Assembly, ed. Gerald L. Curtis, The United States, Japan, and Asia, New York: W.W. Norton, 1994.
- Dower, John W. Japan in War and Peace: Selected Essays. New York: New Press, 1993.
- Drifte, John W. Japan's Foreign Policy in the 1990s: From Economic Superpower to What Power? New York: St Martin's Press, 1996.
- Funabashi, Yoichi, introduction, Japan's International Agenda for the 1990s, eds. Yoichi Funabashi, Japan's International Agenda for the 1990s New York: New York University Press, 1994.
- Foerster, Andreas and et al., Support Schemes for German and Japanese Direct Investment In China: Implications for German Development Cooperation and Foreign Economic Policy Reports and Working Paper 12/ 1995, German Development Institute E-Mail DIE Berlin@t-online.de
- Fuwa, Yoshitaro, appendix, Japan's Aid Experience with Egypt: A Case Study, eds. Kaoru Sugihara and J.A. Allen, Japan in the Contemporary Middle East, London: Routledge, 1993.
- Gilpin, Robert, Three Models of the Future, eds. Robert J. Art and Robert Jervis International Politics: Enduring Concepts and Contemporary Issues, 3rd ed. New York: Harper Collins, 1992.

- _____, The Emergent International Economic Order, eds. Robert J. Art and Robert Jervis, International Politics: Enduring Concepts and Contemporary Issues, 3rd ed. New York: Harper Collins, 1992.
- _____, The Debate about the New World Economic Order, eds. Danny Unger and Paul Blackburn, Japan's Emerging Global Role, Boulder: Lynne Reinner, 1993.
- _____. The Political Economy of International Relations. Princeton, New Jersey: Princeton University Press, 1987.
- Hamauzu, Tetsuo, The Changing Structure of Oil Connections, eds. Kaoru Sugihara and J.A. Allen, Japan in the Contemporary Middle East, London: Routledge, 1993.
- Hellman, Donald C., Japan's Security and Postwar Japanese Foreign Policy, ed. Robert A. Scalapino, The Foreign Policy of Modern Japan, Berkeley: University of California Press, 1977.
- Higashi, Lauter and G.P. Lauter, The Internationalisation of the Japanese Economy (Boston: Kluwer Academic, 1987).
- Inoguchi, Takashi, The Ideas and Structures of Japan's Foreign Policy: Looking Ahead with Caution, eds. Takashi Inoguchi and Daniel I. Okimoto, Political Economy of Japan: The Changing International Context, Stanford: Stanford University Press, 1988.
- Iwata, Kazumasa, Rule Maker of World Trade: Japan's Trade Strategies and the World Trading System, ed. Yoichi Funabashi, Japan's International Agenda for the 1990s New York: New York University Press, 1994.
- Janow, Merit E., Trading with an Ally: Progress and Discontent in US-Japanese Trade Relations, ed. Gerald L. Curtis, The United States, Japan, and Asia, New York: W.W. Norton and Company, 1994.
- Jihua, Zhou, Japan's Foreign Policy Choices for the Twenty-first Century: A Chinese Perspective, eds. Tsuneo Akaha and Frank Langdon, Japan in the Posthegemonic World, Boulder: Lynne Reinner, 1993.
- Koehane, Robert O. and Joseph S. Nye, Jr., Complex Interdependence and the Role of Force, eds. Robert J. Art and Robert Jervis, International Politics: Enduring Concepts and Contemporary Issues, 3rd ed. New York: Harper Collins, 1992.
- Komiyoh, Ryutaro and Motoshige Itoh, Japan's International Trade and Trade Policy: 1955-1984, eds. Takashi Inoguchi and Daniel I. Okimoto, The Political Economy of Japan: The Changing International Context, Stanford: Stanford University Press, 1988.
- Langdon, Frank, The Posthegemonic Japanese-US Relationship, eds. Tsuneo Akaha and Frank Langdon, Japan in the Posthegemonic World: Boulder: Lynne Reinner, 1993.
- Lincoln, Edward J., Japan Trade and Investment Issues, eds. Danny Unger and Paul

- Blackburn, Japan's Emerging Global Role, Boulder: Lynne Reinner, 1993.
- McNaugher, Thomas L. US Military Forces in East Asia: The Case for Long-Term Engagement, ed. Gerald L. Curtis, The United States, Japan, and Asia, New York: W.W. Norton, 1994.
- Meeks, Philip J., Hegemons in History, eds. Tsuneo Akaha and Frank Langdon, Japan in the Posthegemonic World, Boulder: Lynne Reinner, 1993.
- _____, Japan and Global Economic Hegemony, eds. Tsuneo Akaha and Frank Langdon, Japan in the Posthegemonic World, Boulder: Lynne Reinner, 1993.
- Mizutani, Makoto, Japan's Aid Programme and the Middle East, eds. Kaoru Sugihara and J.A. Allen, Japan in the Contemporary Middle East, London: Routledge, 1993.
- _____, appendix, Japan's Aid Policy Towards the Middle East following the Gulf Crisis, eds. Kaoru Sugihara and J.A. Allen, Japan in the Contemporary Middle East, London: Routledge, 1993.
- Morganthau, Hans J. Politics Amongst Nations. 4th ed. New York: Alfred. A. Knopf, 1968.
- Morrison, Charles E., Japan and the ASEAN Countries: The Evolution of Japan's Regional Role, eds. Takahashi Inoguchi and Daniel I. Okimoto, The Political Economy of Japan: The Changing International Context, Stanford: Stanford University Press, 1988.
- _____, South East Asia and US-Japan Relations, ed. Gerald L. Curtis, The United States, Japan, and Asia, New York: W.W. Norton and Company, 1994.
- Nelson, William R. Japan's Growing Power over East Asia and the World Economy: Ends and Means. Houndmills: Macmillan Press, 1990.
- Nye, Joseph S. Jr. Bound to Lead: The Changing Nature of American Power. New York: Basic Books, 1990.
- Okawara, Yoshio, Japan's Global Responsibilities, eds. Danny Unger and Paul Blackburn, Japan's Emerging Global Role, Boulder: Lynne Reinner, 1993.
- Oksenberg, Michel The China and the Japanese-American Alliance, ed. Gerald L. Curtis, The United States, Japan, and Asia, New York: W.W. Norton, 1994.
- Pyle, Kenneth B. The Japanese Question: Power and Purpose in the New Era. Washington D.C: AEI Press, 1992.
- Rix, Alan. Japan's Economic Aid: Policy-Making and Politics. London: Croom Helm, 1981.
- Rosecrance, Richard, The Trading State- Then and Now, eds. Robert J. Art and Robert Jervis, International Politics: Enduring Concepts and Contemporary Issues, 3rd ed., New York: Harper Collins, 1992.
- Sakurai, Makoto, Japan's Role in Economic Cooperation and Direct Foreign Investment,

- ed. Yoichi Funabashi, Japan's International Agenda in the 1990s, New York: New York University Press, 1994.
- Sato, Seizaburo, International Regimes, Regional Organisations and Alliances: Their Contributions to International Order, eds. Trevor Taylor and Seizaburo Sato, Security Challenges for Japan and Europe in a Post-Cold War World: Future Sources of Global Conflict, 4 vols. London: Royal Institute of International Affairs, 1995.
- Saxonhouse, Gary R., The World Economy and Japan Economic Foreign Policy, ed., Robert A. Scalapino, The Foreign Policy of Modern Japan, Berkeley: University of California B. Press, 1977.
- Shimizu, Hiroshi, The Japanese Trade Contact with the Middle East: Lessons from the pre Oil Period, eds. Kaoru Sugihara and J.C. Allen, Japan in the Contemporary Middle East, London: Routledge, 1993.
- Shulman, Frank Joseph, Japanese-Middle Eastern Economic Relations Before the First Oil Shock, ed. Ronald A. Morse, Japan and the Middle East in Alliance Politics, Washington D.C: University Press of America, 1986.
- Smith, Dennis B. Japan Since 1945: The Rise of an Economic Superpower. Houndmills: Macmillans Press, 1995.
- Stokes, Bruce and C. Michael Aho, Asian Regionalism and US Interests, ed. Gerald L. Curtis, The United States, Japan, and Asia, New York: W.W. Norton, 1994.
- Sugihara, Kaoru, Japan and the Middle East and the World Economy: A Note on the Oil Triangle, eds. Kaoru Sugihara and J. A. Allen, Japan in the Contemporary Middle East: London: Routledge, 1993.
- Tamamoto, Masaru, The Japan that wants to be Liked: Society and International Participation, eds. Danny Unger and Paul Blackburn, Japan's Emerging Global Role, Boulder: Routledge, 1993.
- Takahashi, Kazuo, The Iran-Japan Petrochemical Project: A Complex Issue, eds. Kaoru Sugihara and J. A. Allan, Japan in the Contemporary Middle East, London: Routledge, 1993.
- Unger, Danny, Japan's Capital Exports: Moulding East Asia, eds. Danny Unger and Paul Blackburn, Japan's Emerging Global Role, Boulder: Lynne Reinner: 1993.
- Vogel, Ezra F., Japan as the Number One in Asia, ed. Gerald L. Curtis, The United States, Japan, and Asia, New York: W.W. Norton, 1994.
- Walt, Stephen M., Alliances: Balancing and Bandwagoning, eds., International Politics: Enduring Concepts and Contemporary Issues, New York: Harper Collins, 1992.
- Wood, Christopher. The End of the Japanese Inc. and how the New Japan will Look. New York: Simon and Schuster, 1994.
- Yoshitsu, Michael M., The Strategic Costs of Oil Dependence, ed. Donald A. Morse, Japan

and the Middle East in Alliance Politics, Washington D.C: University Press of America, 1986.

_____. Caught in the Middle East: Japan's Diplomacy in Transition.
Lexington: D.C. Heath and Company, 1984.

Articles

Akaha, Tsuneo, "Japan's Comprehensive Security: A New East Asian Environment," Asian Survey 31 (April 1991): 324-40.

Arase, David, "Japanese Policy Toward Democracy and Human Rights in Asia," Asian Survey 33 (October 1993): 935-52.

Asher, David L, "What Became of the Japanese Miracle," Orbis (Spring 1996): 215-34.

Barber, Lionel, "Japan Pushes for Regional Rescue Fund," Financial Times 23 Sept. 1997: 1+.

Bartholomew, James, "Japan Finds Voice on Soviet Aid Issue: Carrots for Gorbachev" Far Eastern Economic Review 25 July. 1991: 13.

Brown, Eugene, "The Debate over Japan's Strategic Future: Bilateralism Versus Regionalism" Asian Survey 33 (June 1993): 543-59.

Cambodia Times, "Japanese Traders Launch Investment Drive in Asia," Feb. 18. 1996: 1-2.

CNN, World Trade Organisation Urges Japan go for Wider Economic Reforms," Jan 28. 1998: 1. customnews.cnn.com/cnews/pna.show_archive?p_section_name=world&p_category_name=Asia&p_subc

Economist, "Japan Makes a Stand, Sort of," Dec 20. 1997: 83-85.

_____, "Okinawa Speaks (Okinawans Vote for Cut in America's Military Facilities on the Island)," Sept 14. 1996: 34+.

_____, "Japan's War with China Revisited (China Finds US-Japan Security Treaty Unacceptable)," Sept 6. 1997: 39-40.

Er, Lam Peng, "Japan and the Spratly Dispute: Aspirations and Limitations," Asian Survey 36 (October 1996): 995-1010.

Funabashi, Yoichi, "Bridging Asia's Economics-Security Gap," Survival 38 (Winter 1996-1997): 101-16.

Garrett, Banning and Bonnie Glaser, "China's Apprehensions about Revitalisation of the US-Japanese Alliance," Asian Survey 37 (April 1997): 383-402.

Gilley, Bruce, "Polite but Firm: Japan's Economic Clout Gives It a Voice on the Handover,"

- Far Eastern Economic Review 160 29 May. 1997: 29.
- George, Aurelia, "Japan's Participation in UN Peacekeeping Operations: Radical Departure or Predictable Response," Asian Survey 33 (June 1993): 560-75.
- Green, Michael J. and Benjamin L. Self, "Japan's Changing China Policy: From Commercial Liberalism to Reluctant Realism," Survival 38 (Summer 1996): 34-58.
- Hanami, Andrew K., "The Emerging Military Industrial Relationship in Japan and the US Connection," Asian Survey 33 (June 1993): 592-609.
- al-Hayat, "Musuluun Yabaniyuun Yazouruun indonesiyah wa Singhafora Li Dars Hajm al-Musaadat al-Matlouba," Feb 21. 1998: 1+.
- al-Hayat, "al-Wilayat al-Mutahida Takhid al-Yaban Ala Taqdeem Hawafiz Maliyah," Mar 21 1998: 1+.
- Howe, Christopher, "China, Japan and Economic Interdependence in the Asian Pacific Region," China Quarterly 124 (December 1990): 639-61.
- Hughes, Christopher W., "The North Korean Nuclear Crisis and Japanese Security" Survival 38 (Summer 1996): 79-103.
- Husry, Ruba, "Inkisam Fi Davos Howl Asbab al-Azma al-Asyawayah wa Kaifiyat al Kharoug Minha," al-Hayat, Feb 10: 1+.
- Ijiri, Hidenori, "Sino-Japanese Controversy Since the 1972 Diplomatic Normalisation," China Quarterly 124 (December 1996): 662-693.
- Itoh, Mayumi, "Japan's Abiding Sakuko Mentality," Orbis (Spring 1996): 235-245.
- _____, "Kome Kaikoku and Japanese Internationalisation," Asian Survey 34 (November 1994): 991-1001.
- Jun, Da, "True Threat Comes from Those Trumpeting 'China Threat,'" Beijing Review 11 November. 1996: 7-8.
- Kato, Koichi, "View from the North" Far Eastern Economic Review 159 15 August. 1996: 28.
- Luck, Edward C., "Layers of Security: Regional Arrangements, the United Nations, and the Japanese-American Security Treaty," Asian Survey 35 (March 1995): 237-52.
- Mahbubani, Kishore, "Japan Adrift," Foreign Policy 88 (Fall 1992): 126-44.
- Menon, Rajan, "Japan-Russia Relations and North-East Asian Security," Survival (Summer 1996): 59-78.
- Moffett, Sebastian, "Back to the Barracks: Okinawa Keeps Fighting, but Japan Quietly Rearms," Far Eastern Economic Review 159 19 September. 1996: 16-17.
- Nkrumah, Gamal, "Chrysanthemum and Crescent," al-Ahram Weekly 29 Aug. 1996:8.

- Orr, Robert M. "The Aid Factor in US-Japan Relations," Asian Survey 28 (July 1998): 740-56.
- Roy, Denny, "Hegemon on the Horizon? China's Threat to East Asian Security," International Security 19 (Summer 1994): 149-68.
- _____, "North Korea's Relations with Japan: The Legacy of War," Asian Survey 28 (December 1988): 1280-93.
- Seoudi, Hala, "The EEC, USA, and Japan," Political Science Research Papers 1 (January 1994): 1-31.
- Smith, Charles, "Security: A New Beginning (ASEAN Regional Forum)," Far Eastern Economic Review 157 9 June. 1994: 46-7.
- Solomon, Jay, "Indonesia Shelves Currency-Board Proposal," Wall Street Journal Europe Feb 23, 1998: 13.
- Stokes, Bruce, "Divergent Paths: US-Japan Relations Toward the Twenty-first Century," International Affairs 72 (April 1996): 281-91.
- Tang, Duan, "China-US-Japan Triangle: A Critical Relationship," Beijing Review 7 April. 1997: 7-8.
- Tett, Gillian, "Japan Tries to Calm Fears Over Regional Fund," Financial Times Sept 24 1997: 1.
- Wan, Ming, "Spending Strategies in World Politics: How Japan Has Used Its Economic Power in the Past Decade," International Studies Quarterly 39 (1996): 85-108.
- Wang, Qingxin Ken, "Recent Japanese Economic Diplomacy in China: Political Alignment in a Changing World Order," Asian Survey 33 (October 1993): 935-52.
- Zhou, Xiaoming, "Japan's Official Development Assistance Program: Pressures to Expand," Asian Survey 31 (April 1991): 341-351.

Documents

- Japan External Trade Organisation, Outflow of Investment by Major Countries/ Regions, <http://www.jetro.go.jp/WHITEPAPER/Invest98/f01.html>.
- Japan Ministry of Industry and International Trade, Future Issues Concerning International Trade and Industry Policies 1997, <http://www.miti.go.jp/intro-e/a22310/e.html>.
- Japan Ministry of Industry and Finance, Summary of White Paper on International Trade 1996/Chapter 2, <http://www.jef.or.jp/news/wp1996/fig2-4.gif>.
- Japanese Ministry of Industry and International Trade, Remarks by Vice-Minister

Nakagawa at Davos Symposium, World Economic Forum, 31 January 1998,
<http://www.mitigo.jp/press-e/f210001e.html>.

Japan Economic Planning Agency, Committee on Economic Cooperation Policy June 1997,
<http://www.epa.go.jp/e-e/doc/e1997bg11.html>.

Japan Embassy in Egypt Fact Sheet, Japan-Egypt Relations, March 1997.

Japanese Defence Agency, Japan-US Cooperation in Equipment and Technology, http://www.Jda.go.jp/policy/fwork/jndp/1_1_e.html.

Japanese Overseas Development Assistance, Annual Report, 1994.

Japanese Ministry of Finance, Trends of Japanese Direct Investment by Key Countries/Regions, <http://www.mof.go.jp/english/files.htm>.

Japanese Ministry of Foreign Affairs, Rebuilding the US-Japan Security Structure.
Keynote Address by ex-Prime Minister Morihiro Hosokawa in Seattle, Washington
March 12 1996, <http://www.us-japan.org/jassw/what/archive/96/031296Hosokawa.html>.

AMERICAN UNIV. IN CAIRO LIBRARY
3 8534 00960 0168

