

AD-A254 053



2

# Japan and Her Regional Rivals

Chung-in Moon  
Department of Political Science  
University of Kentucky

DTIC  
ELECTE  
AUG 20 1992  
S D



This document has been approved  
for public release and sale; its  
distribution is unlimited.

Prepared for  
*Changing East-West Relations: Implications for East and Southeast Asia*  
A Conference Sponsored by  
The Defense Academic Research Support Program (DARSP) and  
The United States Pacific Command  
April 1991

92-23084



92 8 19 011

**REPORT DOCUMENTATION PAGE**

REPORT SECURITY CLASSIFICATION <b>UNCLASSIFIED</b>		1b RESTRICTIVE MARKINGS	
SECURITY CLASSIFICATION AUTHORITY		3 DISTRIBUTION / AVAILABILITY OF REPORT	
DECLASSIFICATION / DOWNGRADING SCHEDULE		UNLIMITED	
PERFORMING ORGANIZATION REPORT NUMBER(S) ONE		5. MONITORING ORGANIZATION REPORT NUMBER(S)	
NAME OF PERFORMING ORGANIZATION DEFENSE ACADEMIC RESEARCH PROJECT PROGRAM (DARSP)	6b OFFICE SYMBOL (if applicable) DEE-4	7a. NAME OF MONITORING ORGANIZATION SAME AS 6a	
ADDRESS (City, State, and ZIP Code) IA/DEE-4 WASHINGTON, DC 20340-5485		7b. ADDRESS (City, State, and ZIP Code) SAME AS 6c	
NAME OF FUNDING / SPONSORING ORGANIZATION DARSP	8b OFFICE SYMBOL (if applicable) DEE-4	9. PROCUREMENT INSTRUMENT IDENTIFICATION NUMBER N/A	
ADDRESS (City, State, and ZIP Code) SAME AS 6c		10 SOURCE OF FUNDING NUMBERS	
		PROGRAM ELEMENT NO.	PROJECT NO.
		TASK NO.	WORK UNIT ACCESSION NO.
TITLE (Include Security Classification) JAPAN AND HER REGIONAL RIVALS			
PERSONAL AUTHOR(S) NONE			
TYPE OF REPORT FINAL	13b TIME COVERED FROM _____ TO _____	14. DATE OF REPORT (Year, Month, Day) APRIL 1991	15. PAGE COUNT 18
SUPPLEMENTARY NOTATION			
COSATI CODES		18 SUBJECT TERMS (Continue on reverse if necessary and identify by block number)	
FIELD	GROUP	SUB-GROUP	
		ASIA, JAPAN, PACIFIC, DEFENSE, SECURITY	
ABSTRACT (Continue on reverse if necessary and identify by block number) WORKSHOP PRESENTATION: CHANGING EAST-WEST RELATIONS: IMPLICATIONS FOR EAST AND SOUTHEAST ASIA			
DISTRIBUTION / AVAILABILITY OF ABSTRACT <input checked="" type="checkbox"/> UNCLASSIFIED/UNLIMITED <input type="checkbox"/> SAME AS RPT. <input type="checkbox"/> DTIC USERS		21. ABSTRACT SECURITY CLASSIFICATION UNCLASSIFIED	
NAME OF RESPONSIBLE INDIVIDUAL LYSA M. SLATER, LT/USN		22b. TELEPHONE (Include Area Code) 202-373-3343	22c. OFFICE SYMBOL DEE-4

# Japan and Her Regional Rivals

**Chung-in Moon**

**Department of Political Science  
University of Kentucky**

## Introduction\*

The contemporary international system is undergoing profound structural transformations. German unification, the dramatic dissolution of the Warsaw Pact, the new detente between Washington and Moscow, and the metamorphosis of the expansionist Soviet Union into an ordinary state struggling for national unity and economic survival have radically restructured the international political landscape. The coming end of the Cold War is visible all over the world, from the remote corner of the Baltic Sea to the Pacific.

The emergent dissolution of the bipolar structure of the international system, coupled with economic insolvency of nations, has shifted the attention of world politics from geostrategic concerns to geo-economic ones. National wealth, welfare, and quality of life have begun to prevail over traditional national security concerns. In the absence of acute military threats emanating from rigid superpower rivalry, such a shift might be considered predictable. It is more so due to the mounting domestic political pressures on economic issues.<sup>1</sup>

The questionable nature of American hegemony in world politics has also contributed to shifting the hierarchical ordering of national values. World political, military, and economic order in the post-war period has been shaped and sustained by American hegemonic leadership. The conjunction of military and economic power in the US and its willingness to exercise leadership through the provision of international public goods have

cultivated cohesive security ties and close economic cooperation between the US and her allies in the West. Over the past two decades, however, profound changes have taken place as the disjunction of military and economic power has weakened the foundation of US hegemony. The US is neither able nor willing to bear the costs of leadership, resulting in erratic, parochial, and imprudent conduct of foreign policy, undermining its legitimacy as preeminent global leader. Recent controversies over the issues of sharing defense burdens and protectionism exemplify this trend. Despite the decisive victory in the Gulf War, the gradual transformation of the US from hegemon to ordinary nation seems irreversible, portending the uncertain and precarious future of world politics.<sup>2</sup>

It is this rather sudden change in structural parameters of the international system that has renewed worldwide attention to Japan and her international role.<sup>3</sup> Against the backdrop of waning US hegemony, Japan has emerged as a new economic superpower with the second largest economy, one of the highest per capita incomes, the greatest net international financial assets, technological superiority, and ever increasing international competitiveness. Can Japan assume global leadership by replacing the US? While *Pax Nipponica* is less plausible, largely due to the lack of military capability,<sup>4</sup> Japanese leadership in the Asia-Pacific region has been accepted as a *fait accompli*. As Paul H. Kriesberg neatly epitomizes, "Many Asians are looking for some new ark which will keep them afloat, and most look toward Japan."<sup>5</sup> Can Japan be a new ark in the Asia-Pacific region? Would countries in the region accept Japan's new leadership role? How would the coming end of the Cold War influence the pattern of interactions between Japan and her regional economic partners?

\* I would like to thank Sangtae Kim and Chang Ho Lee for their research assistance.

Dist	AVAILABILITY OF Special
A-1	

This paper is designed to explore these questions by looking into the evolving patterns of economic interactions between Japan and her regional rivals in the context of a changing international system. The first part of this paper examines the nature of Japanese regional economic dominance in historical perspective. The second and third sections trace the origins and shifting patterns of competitive advantages between Japan and her regional rivals, and delineate empirical dimensions of their competition. The fourth explores options available to Japan for dealing with regional economic challenges by elucidating the dynamic interplay of international system and domestic structure. Finally, the paper discusses the overall implications of Japanese management strategies and her regional rivals' responses in the context of changing East-West relations.

### **I. Japan and Her Regional Economic Dominance**

Japan's economic dominance in Asia is not novel, but has shown a long historical trajectory. By taking advantage of being the first East Asian modernizing state through the Meiji Restoration in 1864, Japan attempted to create her own sphere of influence in the regional economy. Japan's victory in both the Sino-Japanese War in 1895 and the Russo-Japanese War in 1904 opened wide the window of opportunities for her imperial expansion in the Asian continent. The weakening of European powers following the Great Depression and the traditional isolationism of the US further fostered the Japanese colonial ambition.

Japanese colonial expansion was dictated by the doctrine of the Greater East Asian Coprosperity (Taitoa Kyoaikeng), which aimed at creating a new regional division of labor, enclosed within a yen bloc. In this context, North China and Manchuria became the source of raw materials for Japan; Korea and Taiwan, suppliers of rice and tropical products. The incorporation of these countries into the Japanese hegemonic sphere in turn offered a vast protected market for Japanese products. At the same time, Japan sought self-sufficiency in raw materials and oil through the incorporation of southeast Asia. This regional economic system under Japanese hegemony lasted until Japan's defeat by the US in the World War II.<sup>6</sup>

By the end of World War II, regional hegemonic

leadership had been transferred from Japan to the US as Japan and the Asia-Pacific region were incorporated into the American sphere of influence. Unlike Japanese imperial domination, the US played the role of a benign hegemon by allowing Japan and countries in the region to enjoy free-rider status in both security and economic arenas. In the name of containment, the US provided Japan with military protection. Through the creation of a liberal international economic order, the US also allowed Japan to have unrestricted access to markets in the US and Western Europe, while permitting Japan to protect her own market. Japanese violation of the reciprocity principle of the GATT has been tolerated by virtue of US strategic interests.<sup>7</sup>

In the shadow of US hegemony, Japan regained her economic strength and has reemerged as the dominant economic power in the region. Over the past two decades, countries in the region have become more dependent on Japan than on the US. This shifting pattern of regional economic leadership is visible in the areas of trade, investment, and technology. As Table 1 illustrates, all nations in the region show high import dependence on Japan. Japan accounted for 31.5 percent of Chinese total imports in 1989, while import dependence of the East Asian Newly Industrialized Countries (NICs) on Japan is also very high (Taiwan 30.7 percent, South Korea 28.4 percent, Singapore 21.3 percent, Hong Kong 15.3 percent). ASEAN countries are equally dependent on Japan for importation of capital and intermediate goods. With the exception of the Philippines and Hong Kong, Japan has remained the largest source of imports for all the nations in the region throughout the 1980s.

Japan's economic dominance can also be seen in the export dependence of countries in the region on Japan. Among the East Asian NICs, South Korea shows the highest degree of export dependence, in which Japan accounted for 21.6 percent of her total exports in 1989. Taiwan (13.7 percent), Hong Kong (6.2 percent), and Singapore (8.5 percent) reflect a relatively moderate degree of export dependence on Japan, while in comparison, ASEAN reveals a much higher degree of export dependence. In particular, over 40 percent of Indonesia's exports went to Japan in 1989. The Philippines (20.1 percent), Malaysia (16.9 percent), and Thailand (15.9 percent) followed suit. China and the Soviet Union are also very reliant on Japanese export markets, which accounted for

<b>Table 1: Japan and Her Regional Rivals: A Trade Profile</b>				
	<b>1988 (Rank)<sup>a</sup></b>		<b>1989 (Rank)</b>	
	<b>Export</b>	<b>Imports</b>	<b>Export</b>	<b>Imports</b>
<b>South Korea</b>	12,000 (2) (19.8 %)	15,929 (1) (30.7%)	13,457 (2) (21.6%)	17,449 (1) (28.4%)
<b>Taiwan</b>	8,783 (2) (14.5%)	14,830 (1) (29.9%)	9,073 (2) (13.7%)	16,031 (1) (15.3%)
<b>Hong Kong</b>	28,853 (3) (5.3%)	93,008 (2) (16.9%)	32,501 (3) (6.2%)	85,755 (2) (15.3%)
<b>Thailand</b>	1,732 (2) (15%)	3,377 (1) (26%)	2,545 (2) (15.9%)	1,901 (2) (11.7%)
<b>Singapore</b>	6,828 (3) (8.6%)	19,365 (1) (21.9%)	7,448 (3) (8.5%)	20,668 (1) (21.3%)
<b>Malaysia</b>	3,504 (3) (19.5%)	2,750 (1) (21.7%)	3,577 (3) (16.9%)	3,816 (1) (23%)
<b>Indonesia</b>	7,393 (1) (43.1%)	3,596 (1) (28%)	8,088 (1) (41.7%)	3,427 (1) (25.4%)
<b>Philippines</b>	980 (2) (17.2%)	1,149 (2) (16.6%)	1,416 (2) (20.1%)	1,503 (2) (17.4%)
<b>Soviet Union</b>	3,131 (2) (12.6%)	2,772 (3) (11.7%)	2,326 (3) (11.4%)	2,192 (4) (11.3%)
<b>China</b>	9,486 (1) (37.2%)	9,860 (1) (34.5%)	6,567 (1) (35.5%)	8,134 (1) (31.5%)

(in US \$ million)

(a) Japan's Rank.

Source: Recalculated from MITI, *Tsusho Hakusho (MITI Whitepaper)* (Tokyo: MITI, 1990).

35.5 percent of Chinese total exports and 11.4 percent of the Soviet in 1989. The variation between the East Asian NICs and ASEAN is attributable in part to the NICs' export diversification efforts and Japanese protectionism targeted at manufactured exports from the NICs.

Given the current level of import and export dependence, it may well be said that Japan has become the number one trading partner of nearly all countries in the region, including China and the Soviet Union. Along with this concentration, the shifting nature of sectoral composition of trade has made the regional economy more dependent on Japan. In the past, the regional trading system was characterized by a vertical division of labor in which exchanges of raw materials and finished manufactured goods took place between Japan and the regional trading partners. Since the 1970s, this traditional division of labor has been replaced by the intra-industrial processing division of labor. The shift has deepened trade item concentration of the regional economy vis-à-vis Japan in the areas of

capital and intermediate goods as well as parts and components, which cannot be easily diversified for alternative sourcing.

Japanese economic dominance becomes even more pronounced when the pattern of her foreign direct investment in the region is examined. As the dependencia school has persistently hypothesized, foreign direct investment involves a subtle form of structural dependency, which distorts the overall configuration of the host nations' economic structures by undermining their autonomy through direct foreign ownership and control of the means of production. As Table 2 indicates, Japan invested a total of \$32.2 billion in Asia during the period 1951-1988. The largest recipient of Japanese direct investment was Indonesia (\$9.8 billion), followed by Hong Kong (\$6.16 billion), Singapore (\$3.81 billion), and South Korea (\$3.24 billion). The US used to be the leading investing nation in the region, but since 1985, Japan has begun to outpace the US, except in the Philippines, Taiwan, and Singapore. In terms of sectoral composition, the manufacturing

sector constitutes the largest portion of Japanese foreign direct investment (\$12.27 billion), followed by the commerce and services sector (\$11.9 billion). Investment in resources development shows a relatively lower ratio (\$7.3 billion; 22.8 percent).

The sheer size of Japanese foreign direct investment itself is sufficient to influence and even control the regional economy. More important is its changing composition, which has molded the regional economy to the strategic needs of Japanese government and big business. Japanese investment in the region has undergone three phases. The first

and improve competitive conditions of host countries through transfer of technology and know how.<sup>9</sup>

The third phase came in the wake of the 1985 revaluation of the Japanese yen. The strong yen coincided with the overall liberalization of the services sector and drove Japan to penetrate the financial, banking, commerce, and real estate markets in the region. Japan's capital market penetration has been especially noticeable. The big four securities firms in Japan (Nomura, Daiwa, Nikko, and Yamaichi) have all expanded their reach

**Table 2: Japanese Foreign Direct Investment in Asia (1951-88)**

	NICs			ASEAN					China	Rest of Asia	Total
	Hongkong	South Korea	Taiwan	Singapore	Indonesia	Thailand	Malaysia	Philippines			
<b>Manufacturing</b>	492	1589	1473	1990	2955	1456	1350	510	349	207	12,371
<b>Resources Development</b>	33	21	4	5	6441	38	179	455	48	119	7343
<b>Commerce and Services</b>	5515	1506	246	1744	400	416	294	144	1575	85	11,925
<b>Others</b>	127	132	68	73	8	82	11	11	64	12	588
<b>Total</b>	6167	3248	1791	3812	9804	1992	1834	1120	2036	423	32,227

(in US \$ million)

Source: *Far Eastern Economic Review*, 3 May 1990, 48.

phase involved investment in the assembly of low value manufactures and textiles, mostly concentrated in the East Asian NICs in the late 1960s and the early 1970s. This investment pattern was a result of an offshore production strategy designed to cope with high labor costs and with such domestic public policy pressures as strong anti-pollution legislature. The second phase, which took place roughly between mid-1970s and mid-1980s, focused on investments in the assembly of more capital and technology intensive manufactured goods and manufacture of their parts and components. The move was motivated by new strategic thinking couched in the intra-industrial division of labor involving the processing division of labor, international subcontracting, and outward processing through subsidiaries of big Japanese companies.<sup>8</sup> MITI claims that this pattern of investment was designed to improve host countries' structural trade deficits through export promotion, expand employment creation in the host nations, enhance on-site supply of parts and components,

in the region's capital markets by establishing both regional funds and country specific funds.<sup>10</sup>

Japan's expanding investment and financial networks in the region have incorporated both the East Asian NICs and ASEAN countries more tightly into the Japanese sphere of economic influence, inducing them to be more reliant on her for market outlets, capital, parts and components, and technology. Given the size of her assets in the region, Japan could also be vulnerable to host countries. In reality, however, there is an apparent asymmetry of vulnerability between Japan and her hosting nations. Japan is far less vulnerable simply because her foreign direct investment is relatively well diversified. The East Asian NICs accounted for only 5.5 percent of Japan's overseas investment, while ASEAN received 5.4 percent during the period. The US remains the largest recipient of Japanese foreign direct investment (46.4 percent), followed by Europe (20.1 percent) and Latin America (14 percent). Furthermore, less than 5 percent of the output by Japanese manufacturers

took place outside Japan in 1988, compared with 21 percent for the US and 17 percent for West Germany.<sup>11</sup> Therefore, Japanese foreign direct investment in the region does not entail vulnerability interdependence.

Another important indicator of Japan's regional economic leadership derives from the expanding size of her foreign aid. As of 1988, Japan's foreign aid reached \$10 billion, exceeding that of the US (\$8.6 billion). Japan became the number one donor nation of development assistance in the world. Since 1975, the largest portion (almost two thirds) of Japanese foreign aid has been allocated to Asia, in which ASEAN remained the largest recipient. In terms of individual countries, China received the largest portion, followed by Indonesia, Thailand, the Philippines, and Malaysia. Although Japanese foreign aid does not involve military assistance, Japan can considerably influence the economy of recipient nations through a set of conditionalities such as the "Buy Japan" policy. Increasing foreign aid has also enhanced Japan's political clout in the region.<sup>12</sup> Indeed, as Kriesberg predicted, Japan is emerging as a new ark for the countries in the region.

Finally, Japan has been able to consolidate her regional leadership through the dissemination of ideas<sup>13</sup> and technology,<sup>14</sup> gradually replacing the US in these areas. Geographic proximity, linguistic and cultural similarities, personal networks, and a proven record of economic performance have driven the region's economic partners to gravitate around Japan. The Japanese model of economic development is being actively emulated, and Japanese technology is preferred more over that from any other country. Such dependence in ideas and technology is making countries in the region more susceptible to Japanese manipulation.

## **II. Shifting Patterns of Development Strategies and Competitiveness**

By all accounts, Japan maintains the preeminent position in the regional economy. However, this does not mean the complete subjugation of the regional economy to Japan. As Japan tries to prevail over the regional economy through the intra-industrial division of labor, investment and financial networks, development assistance, and technological dependence, countries in the region, especially the East Asian NICs, have persistently defied such a move and have realigned themselves

to challenge Japan's dominance. Entering the 1980s, the East Asian NICs have emerged as visible and credible economic rivals to Japan.

This newly emerging regional economic rivalry can be attributed to sectoral adjustment difficulties, originating from overlapping patterns of economic development strategies. As Table 3 illustrates, the vertical interindustrial division of labor involving the exchange of raw materials and manufactured goods characterized the traditional regional trade pattern in the 1950s, and made intraregional trade rather complementary. Even in the 1960s and 1970s, the intraregional trade showed a complementary, rather than conflictual, pattern. While Japan was the innovator and the pace setter, the East Asian NICs followed the Japanese lead, exploiting lower labor costs and emulating its technological and process innovations. The region as a whole developed through cascading "follow the leader" policies. This "flying geese" pattern of regional trade development not only fostered intraregional interdependence, but also prevented severe sector contestation and frictions. Shifting comparative advantage operated relatively smoothly to allocate investment activities.<sup>15</sup>

This traditional division of labor does not appear to work as smoothly any longer, however. All countries in the region, regardless of level of development, have attempted to move into more value-added, capital, and technology intensive industries. Japan, the East Asian NICs, and ASEAN are all promoting cutting edge industries, such as semiconductors and computers, while protecting sunset and transitional industries, such as steel and textiles. Instead of following the market logic, maintaining both sunrise and sunset industries has become a new industrial motto in the Asia Pacific countries. As a result, the logic of conventional comparative advantage has weakened, and surplus capacity has become a new reality of the region's economy. In contrast to the vertical "flying geese" pattern, a horizontal "swarming sparrow" pattern of development has become prevalent, further deepening economic competition and frictions between Japan and her regional rivals.<sup>16</sup>

Several factors account for this shifting pattern of development strategies and competitive advantage in the region.<sup>17</sup> First is the increased speed of the product cycle as a result of technological change. The "flying geese" model implies that the regional

	1950s	1960s	1970s	1980s
<b>East Asian NICs</b>	ISI (Import Substituting Industrialization)	Export Promotion (Light, Labor Intensive)	Heavy Industrial Drive	Diversification of Export Strategies; Offshore Production
<b>ASEAN</b>	Primary Commodity Production	Primary Commodity Production	Export Promotion; Labor Intensive	Export Promotion; Labor and Capital Intensive; Heavy Industrial Production
<b>Japan</b>	ISI Labor Intensive, Light Industry Export	Export Drive; Heavy Industry; Light Industry	High Tech; Cutting Edge Industrial Export Drive; Offshore Production	High Tech; Cutting Edge Export Drive; Offshore Production
<b>Regional Pattern</b>	Vertical Division of Labor: Complementary	Flying Geese Pattern; Emerging Competition Between Japan and NICs	Flying Geese Pattern; Competition Between Japan and NICs, NICs and ASEAN	Vertical Intra-industrial Division of Labor; Coexistence of Competition and Complementarity; Swarming Sparrow Pattern

industrial hierarchy was shaped largely by technology. This regional division of labor based on differential levels of technological development has become increasingly blurred, however. In 1978, an influential Japanese economic newspaper, *Nihon Keizai Shimbun*, conducted a survey of 67 Japanese leading machinery manufacturers' assessments of the technological level of the East Asian NICs and ASEAN countries in 40 critical machinery items.<sup>18</sup> The survey revealed that ASEAN countries were no match, but that the East Asian NICs did pose serious threats to Japan. South Korea was singled out as the most formidable technological rival. A large technological gap (10 years) existed only in three items (computers, aerospace industry, and bearings), and South Korea could catch up with Japan in the other 37 items in less than five years. In view of the current development, the assessment turned out to be very accurate. Taiwan, Hong Kong, and Singapore have also shown a similar pattern of technological catch up with Japan, enhancing their competitiveness.

What facilitated this new development? Easy access to advanced technology, the integration of international financial markets, and the expansion of Japanese offshore production have shortened the duration of the product life cycle. Furthermore, the relatively free flow of knowledge, coupled with a rapid improvement of research and development infrastructure in the Asian Pacific countries, has

helped them graduate rather quickly from the stage of imitation and assimilation toward innovation of technological frontiers. This increasing technological parity has resulted in conversion of interests in the development of certain cutting edge, high tech industries, and thus deepened competition with Japan.

Along with technology, differential wage levels are another important factor enhancing the international competitiveness of Japan's regional rivals. A 1986 survey of wage levels in the region indicates the Japanese worker's monthly wage in the manufacturing sector was \$1,600. An average monthly wage for the East Asian NICs was \$420, with only \$123 for ASEAN countries in the same year.<sup>19</sup> This implies that Japanese wages are almost four times higher than that of the East Asian NICs and thirteen times higher than ASEAN countries. While democratization in the East Asian NICs since 1987 has sharply increased wage levels in the manufacturing sector, they remain far short of Japan's level. This wage differential is likely to continue for a while, leaving Japan's regional rivals with a greater competitive edge.

Apart from these factor conditions, corporate strategies also constitute an integral part of a nation's international competitiveness. Aggressive and risk taking marketing strategies, constant product and process innovation, and the overall size of firms are important determinants of corporate

successes. Japan's regional rivals show divergent patterns of corporate strategies. While South Korea follows the Japanese model through a high level of business concentration, Taiwan is characterized by a decentralized corporate structure in which small and medium sized firms play a key role in export drive. Hong Kong and Singapore fall in between. This diverse strategic pattern of regional rivals' firms could pose threats to Japan on two fronts. While big business-led South Korean firms could undercut Japanese Shogoshosha in big ticket items such as automobiles, shipbuilding and computers, Taiwanese firms could undermine Japanese small and medium sized firms in relatively low end items.

Technology and related market factors are necessary but insufficient conditions for increasing the international competitiveness of Japan's regional rivals. Following the Japanese model of economic development, states in the East Asian NICs and ASEAN have played an important role in promoting international competitiveness by creating "arbitrary comparative advantage" through a concerted orchestration of industrial, trade, and science and technology policies.<sup>20</sup> Ultimately, it is the pursuit of competitive advantage by states through aggressive trade and industrial policies that threatens Japan and fosters a new type of mercantile competition in the region.

Behind the state's orchestration of the national economy lies the Gerschenkronian paradox.<sup>21</sup> Being later industrializers, the East Asian NICs and ASEAN countries are driven by a "catch up mentality." For the East Asian NICs, catching up with Japan has become a national slogan, while ASEAN is preoccupied with catching up with the NICs. The regional pattern of competition has produced a "multiple catch up" structure, fostering upward mobility in the regional economy.<sup>22</sup> Moreover, the East Asian NICs and ASEAN are enjoying the advantage of being later industrializers by learning from past mistakes of Japanese economic development. This "catch up" structure, colored with national pride and bitter historical memories of Japanese colonial domination, has made the regional rivals all the more assertive and aggressive in competing with Japan.

A recent survey conducted by MITI concluded that competition from the regional rivals, especially the East Asian NICs, is quite real and formidable.<sup>23</sup> Of 26 strategic export items, Japan still retains a strong

competitive edge in only ten items vis-à-vis the East Asian NICs. While Japan and the East Asian NICs compete tightly over six items, the East Asian NICs have taken over the remaining ten items. While export strength of the East Asian NICs consists largely of relatively labor-intensive items such as toys, apparel, sporting goods, and consumer electronics, since the mid-1980s, Japan has been gradually losing her competitive grip in such capital and technology intensive items as material handling equipment, farm machinery, shipbuilding, telecommunication equipment, and electronic parts and components. In contrast, ASEAN countries are still no match, but pose threats to Japan and the East Asian NICs in selected labor-intensive goods such as apparel.

### **III. Japan and Emerging Regional Economic Rivalry: Empirical Dimensions**

The confluence of changing factor conditions, aggressive corporate strategies, interventionist state practices, and combative catch up mentality has gradually upgraded the international competitiveness of Japan's regional rivals. How has this shifting competitiveness been translated into actual market performance? Are threats from the East Asian NICs real or contrived? To what extent do they pose real economic challenges to Japan? In what follows, we shall examine these questions by looking into empirical data concerning the changing shares in world export markets, US markets, and Japanese markets.

Since economic rivalry between Japan and her regional competitors has taken place on the global scale, the analysis of their relative strength and performance in world export markets seems the first logical step to elucidate the pattern of the rivalry. It is more so because both Japan and her regional rivals have pursued export-led economic growth strategies. Thus, the larger the market share by the regional rivals, the greater the degree of economic competition. Table 4 presents an overview of changing world export market shares by groups of countries in selected manufactured goods.

Judged from the rate of export expansion in world markets, the East Asian NICs, if not ASEAN, indeed pose quite formidable challenges to Japan. The share of the East Asian NICs in the world's total manufactured exports was 1.67 percent in 1965, quite insignificant compared with Japan's 8.01

		1965	1975	1984
<b>Manufactured Goods</b>	Japan	8.01	11.16	15.73
	East Asian NICs	1.67	3.42	8.80
	ASEAN	0.08	0.45	1.26
	United States	17.65	14.57	13.55
	European Community	39.55	40.14	33.81
<b>Machines</b>	Japan	6.71	12.34	21.70
	East Asian NICs	0.53	1.87	6.70
	ASEAN	0.01	0.20	0.73
	United States	24.15	19.58	17.64
	European Community	39.37	38.29	29.71
<b>Electric and Electronic Goods</b>	Japan	9.62	13.44	27.10
	East Asian NICs	1.07	5.29	13.35
	ASEAN	0.01	0.36	2.40
	United States	21.05	16.63	17.28
	European Community	42.12	39.22	24.18
<b>Steel</b>	Japan	15.97	24.57	24.69
	East Asian NICs	1.07	5.29	13.35
	ASEAN	0.01	0.03	0.14
	United States	7.83	5.94	2.39
	European Community	51.55	47.80	41.07

(World Export Total=100)

Source: Toshio Watanabe, *Nishi Taiheiyō no Zidai (The Age of Western Pacific)*, 109.

percent. Within less than two decades, however, the East Asian NICs have increased their share to 8.8 percent, an expansion of almost 800 percent, reaching more than one half of Japan's share in 1984. Since the mid-1980s, the gap between Japan and the East Asian NICs has been further narrowed. The relative share of, and the rate of increase in, manufactured exports from ASEAN remained meager throughout the period. The expansion of manufactured exports from the East Asian NICs has not, however, accompanied trade-off relationships with Japan. Though limited, Japan also increased her share from 8.01 percent in 1965 to 15.73 in 1984. This implies that the East Asian NICs did not seriously undercut Japan's market share. On the contrary, they have taken over market shares previously held by the EC and the US, both of which experienced relative declines in their manufactured exports during the period. Nevertheless, the East Asian NICs have been responsible for slowing Japanese export expansion in world markets.

Sectoral composition of manufactured exports

reveals an interesting trend. The East Asian NICs have become more competitive in electronic and electric goods. While Japan showed a three-fold expansion in her market share in this sector, the East Asian NICs recorded almost a thirteen times increase during 1964-1984. The 1985 yen revaluation has further strengthened the competitive edge of the East Asian NICs in these items. The East Asian NICs have also been catching up with Japan in steel. While Japan accounted for 24.69 percent of world steel exports in 1984, the share of the East Asian NICs reached 13.35 percent, more than one half of Japan's share. Since the mid-1980s, the Japanese steel industry has shown sagging export performance in face of increasing competition from the East Asian NICs. In machinery, however, the East Asian NICs are still far behind Japan. Apart from these critical components of manufactured goods, the East Asian NICs have shown a remarkable export performance in other capital and technology intensive goods such as semiconductor chips, shipbuilding, and automobiles.

"Those who dominate US markets will dominate world markets."<sup>24</sup> This dictum is widely shared among businessmen and scholars in Japan and the East Asian NICs. The importance of the American market can never be overemphasized for these export-based economies, not only because of its size and openness, but also because of its variety and rich consumer tastes. No doubt, Japan has been, and still is, the number one exporter into US markets. By the mid-1980s, however, Japan's dominant position in US markets was gradually eroding. The East Asian NICs' share in US manufactured import markets was 3.6 percent in 1964, while Japan accounted for 19.5 percent. By the mid-1980s, however, this gap in US market share was substantially reduced. The share of the East Asian NICs increased to 15.9 percent in 1985, quite comparable to that of Japan (28 percent). ASEAN's share also increased to 5 percent in 1985 from virtually nil in 1964. When exports from the East Asian NICs and ASEAN are combined (20.9 percent), it is quite sufficient to provoke Japan's concerns.<sup>25</sup>

Given increasing Japanese foreign direct investment in the US, which is linked to offshore production and marketing strategies, the changing market share noted above could be misleading. Furthermore, several new constraints have emerged to impede East Asian NICs export competitiveness in US markets. First, the removal of GSP (Generalized Systems of Preference) benefits from the East Asian NICs since 1989 has dealt a critical blow to their export performance. Second, the US conduct of strategic trade policy specifically targeting the East Asian NICs has also undermined their export expansion in the US. Third, the East Asian NICs began to lose their competitive edge in labor-intensive goods due to wage increases. Despite these constraints, the East Asian NICs have been undercutting Japan's market share through steady penetration in high value-added manufactured goods involving automobiles, semiconductor chips, and electronic goods.

Finally, the degree of regional rivals' import penetration into Japanese domestic markets can serve as another important indicator of determining the nature of economic competition between Japan and her regional trading partners. Contrary to conventional wisdom, Japan is not a trading state, and her export dependency is surprisingly low. Japan's ratio of exports to GNP was 17.9 percent in

1988, which is quite low compared to South Korea's 43.3 percent and Taiwan's 59.1 percent.<sup>26</sup> Put differently, the mainstay of the Japanese economy lies in domestic markets, not export markets. For this reason, Japan has shown very sensitive reactions to foreign import penetration in her domestic markets. As the ongoing the SII (Structural Impediment Initiatives) negotiations reveal, however, penetrating Japan's domestic markets is not easy. Non-tariff barriers are stiff, and psychological legacies of infant industry protection, defensive extramarket institutions, highly concentrated distribution networks, tough production standards, and a myriad of bureaucratic factors have all hampered foreign import penetration of Japanese domestic markets.<sup>27</sup> The East Asian NICs and ASEAN countries are no exception to this rule.

These barriers notwithstanding, the East Asian NICs have shown steady increases in their exports to Japan, rising more than three times, from \$8 billion in 1982 to \$27.1 billion in 1989 (in current dollars). Equally remarkable is the changing composition of exports to Japan. Until the early 1980s, raw materials, foodstuffs, and labor-intensive manufactured goods constituted the majority of such exports. Since 1982, however, the lion's share of their exports to Japan has come from manufactured goods. For example, more than three quarters (75.5 percent) of the East Asian NICs' exports to Japan in 1989 was manufactured goods (SITC 5-8). ASEAN is far less threatening. While ASEAN's exports to Japan have rapidly increased since the 1970s, the majority of its exports are composed of raw materials, foodstuffs, and low end manufactured goods. Manufactured goods accounted for only 23 percent of ASEAN exports to Japan in 1989.<sup>28</sup>

To what extent do the East Asian NICs pose threats to domestic manufacturers in Japan? The threats seem minimal. Three factors explain this. First, the ratio of the East Asian NICs' import penetration is less than 10 percent, and, therefore, their exports to Japan do not provoke any serious industrial injuries in terms of industrial dislocation, corporate bankruptcies, and unemployment. Second, the mechanism of Japan-centered intra-industrial division of labor further dilutes the intensity of economic threats from the regional rivals. As Edward Lincoln notes perceptively, the expansion

of Japanese imports of manufactured goods from the East Asian NICs has resulted from offshore procurement of parts and components or assembled goods through international subcontracting or Japanese-owned subsidiaries in the region.<sup>29</sup> Third, increases in East Asian NICs' exports to Japan have been followed by a concomitant rise in the import of parts and components as well as intermediate and capital goods from Japan, which has in turn contributed to regional rivals' deteriorating bilateral trade deficits with Japan. For example, South Korea exported \$4 billion worth of semiconductor chips in 1990, but imported \$3.8 billion worth of related capital and intermediate goods from Japan in the same year. The same can be said of automobiles, electronics, machinery, and shipbuilding, South Korea's big ticket export items.<sup>30</sup> This was the result of the deceptive mechanism of a so called horizontal and mutually beneficial processing division of labor. In view of the above, threats from the East Asian NICs to Japanese domestic markets are more contrived than real.

In sum, the evolving pattern of development

strategies, trade and industrial policy, technological innovation, corporate strategies, and catch up mentality has considerably improved the competitive posture of the regional rivals vis-à-vis Japan. Nevertheless, these economic challenges remain mixed. In world and US export markets, the regional rivals, especially the East Asian NICs, can pose real threats to Japan. Yet, Japanese domestic markets remain largely intact, and threats from the East Asian NICs are by and large contrived. They will continue to face enormous hurdles in expanding their import penetration of Japanese domestic markets.

#### IV. Managing Regional Challenges: Options for Japan

Japan has shown sensitive responses to economic challenges from the region, especially the East Asian NICs. Mass media, research institutes, scholars, and policy makers have all reminded the Japanese public of imminent threats from the region, and have begun to seek measures to cope with them.<sup>31</sup> However, techniques of managing regional

**Table 5: Management Options for Japan: Six Scenarios**

	Policy Choice	Security Environment	Ideology/Domestic Structure	Implications
Unilateral	Protectionism Technonationalism Vertical Intra-industrial Division of Labor	Cold War Structure	Defensive Mercantilism; Bureaucratic Dominance	Free-riding Inertia; Collective Action by Regional Rivals; Increasing <i>Gaiatsu</i> ; External Adaptations
Regional Bigemonic Regionalism	Dollar-Yen Bloc Pacific Economic Community	Extended Cold War Structure	Tight Regionalism; Free Market; Political Realists (Ozawa Ichiro?)	Continuing Japanese Demilitarization; Lack of Support from US and ASEAN
Japan-centric Regionalism	Yen Bloc Asian Trading Bloc under Japanese Hegemony	Post-Cold War Structure	Tight Regionalism; Bloc Economic Logic; Regional Mercantilism; Ultraconservatives (Ishihara Shintaro)	The Revival of the Greater East Asian Coprosperity; Mixed Responses from Regional Rival Military Revival (?)
Consortium Regionalism	Current APEC Model	Post-Cold War Structure	Loose Regionalism; Soft Keynesianism Bureaucrats; Middle-of-the-Road Politicians	Diluted Japanese Leadership; PRC & Soviet Included; Coordination & Collective Management Problems; Provision of Collective Goods Problematic
Multilateral <i>Status Quo</i> Multilateralism	Reinforcing GATT/IMF	Extended Cold War Structure	Free Market; Soft Keynesianism; Internationalist Forces (Nakasone-Maekawa Commission)	US Defection; Management Difficulty
Triple Alliance	Japan; EC; US	Post-Cold War	Collective Leadership; Free Market	Inherent Instability; Eventual Incorporation of Regional Rivals

economic challenges are contingent largely upon Japan's overall strategic positioning in the international economic system. Table 5 presents six possible scenarios for Japan's strategic positioning: unilateral, regional (bigemonic, consortium, Japan-centric), and multilateral (status quo and triple alliance).<sup>32</sup>

The first plausible scenario is Japan's continuing adherence to a unilateral approach, which would be characterized by an adversarial policy posture.<sup>33</sup> Trade protectionism is the most salient aspect of this approach. Under this scenario, Japan might intensify, or maintain, the current level of formal and structural trade barriers, fundamentally undermining the East Asian NICs' market penetration in Japan. Technonationalism is also likely to be strengthened under this posture.<sup>34</sup> MITI has already begun to reinforce safeguard measures to minimize the domestic repercussions of the "boomerang effects" associated with technology transfer to trading partners.<sup>35</sup> The trend might continue, reinforcing selective screening of technology transfer to the East Asian NICs in order to dampen the pace of technological catch up. Unilateral management is also likely to realign the patterns of Japanese foreign direct investment, fueling intense debates inside Japan on the effects of increasing foreign direct investment: Until recently, foreign direct investment was perceived to be beneficial because of high wage costs, the strong yen, and mounting protectionist pressures from importing nations. However, the outflow of capital and technology through foreign direct investment has recently been accused of creating "donut effects" and a "hollowing out," in which the core of Japan's national economic vitality is shipping out to her economic rivals.<sup>36</sup> Growing flight and relocation of Japanese capital away from the East Asian NICs to ASEAN reflect this changing domestic mood in Japan.

Such a unilateral approach is an outright extension of traditional mercantile ideology, predicated on two conditions: freeriding under continuing American hegemony amidst the extended Cold War bipolarity, and bureaucratic dominance in Japanese domestic political structure. In view of recent international and domestic changes, it is highly unlikely that Japan will be able to retain this stance. Changing East-West relations and the waning US toleration of Japan's freeriding, mounting *gaiatsu*

(outside pressure) from the international community, and the shifting nature of domestic politics will no longer allow Japan to practice unilateral, mercantile policies. Should Japan be committed to this posture, however, formidable anti-Japanese coalitions are likely to emerge. The East Asian NICs may form a coalition with the Soviet Union and China, both of which have declared themselves part of the Pacific economy. In fact, South Korea and Taiwan have been expanding economic cooperations with these new entrants in the regional economy. Chances are also high for the US, ASEAN, and other countries in the region to join this anti-Japanese economic bloc.

Thus, a unilateral management strategy is the worst case scenario, and is highly unlikely. Outside pressure and collective retaliation aside, Japan's sheer economic size and growing domestic awareness of her international and regional leadership role will probably not permit the continuation of the mercantile momentum. In this sense, Japan is more likely to tilt toward one of those regionalist solutions. Three regionalist options: bigemonic, consortium, and Japan-centric regionalist solutions.

Bigemonic regionalism refers to the formation of an economic bloc through Japan-US collective leadership in the region. Tight regionalism comprising the dollar-yen bloc, free trading system, and other shared burdens of regional public goods, characterizes this option.<sup>37</sup> This scenario presupposes several preconditions: an extended cold war structure, shared leadership between the US and Japan, continuing Japanese adherence to political realism, and collaboration with other regional actors. Japan has been most enthusiastic about this model, but the US has been reluctant to form this type of regional arrangement not only because of its questionable feasibility, but also because of American unwillingness to bear the costs of leadership in a new integrative system. ASEAN has shown very little interest in, and has been even suspicious of, the regional arrangement, both for lack of immediate gains, and due to adversarial security implications. Should Japan pursue this option, however, the East Asian NICs have everything to gain in terms of expanded market and secure supply of raw materials, and, therefore, no opposition is anticipated.<sup>38</sup>

A second option involves patterns of consortium

**regionalism** founded on a loose coalition of major economic powers in the region. Instead of Japan taking a leadership position, the US, Japan, the Soviet Union, China, and the East Asian NICs can form a less tight regional organization or regime through which they can coordinate their macroeconomic, industrial, and trade policies. This pattern could mean the extension of the current Asia Pacific Economic Council (APEC) model. In the post Cold War period, this regional economic arrangement could be a more desirable and realistic option. Such an arrangement can smoothly coopt and incorporate China and the Soviet Union in the capitalist economic sphere, and can also reduce the costs of creating regional collective goods for parties involved. Under this option, no serious domestic political opposition can be envisaged in Japan. Since the arrangement presupposes the decentralization of economic power and collective management, Japan's regional rivals are likely to favor it. Nevertheless, due to its very soft regionalistic character, the consortium formula will be less effective in managing economic conflicts and discord.

The third possible scenario is the rise of Japan-centric regionalism. Given the increasing trend toward bloc economies, the formation of a Japan centered trading bloc under yen hegemony cannot be ruled out. To counterbalance the Deutschemark bloc in Europe and a shrinking US dollar bloc in North America, Japan could deliberate on the yen bloc. Despite the haunting wartime memory of the Greater East Asian Coprosperity Sphere, some ASEAN countries are increasingly supportive of this idea. As multilateral negotiations over the Uruguay Round failed, Malaysian Prime Minister Mahathir proposed an Asian trading bloc to counter the emergence of protectionism and regionalism.<sup>39</sup> The East Asian NICs are, however, less enthusiastic about the proposal in fear of Japan's economic dominance. Japan herself is very much divided over the issue. Ultra-conservatives such as Ishihara Shintaro advocate such an option,<sup>40</sup> while mainstream political leaders and bureaucrats are much more cautious about the idea simply because the move could entail several negative implications such as an outright rejection of US regional leadership and the likelihood of Japanese remilitarization, further fragmentation of the world trading system, and increasing burdens of

leadership. At present, Japan is not likely to form such a bloc, but in the medium and long run, this scenario is very plausible.

Finally, Japan can seek multilateral alternatives to cope with global, regional, and domestic economic problems. There are two possibilities. One involves efforts to sustain and even revive the current world economic arrangements wrapped in the GATT and IMF. Over the past two decades, multilateral regimes have become too weak to enforce the rules of the game in the period of rapid industrial change. Japan can revive such multilateral arrangements by becoming a constructive supporter. All the parties, including the East Asian NICs and ASEAN, would welcome such a move. Since Nakasone, Japan has actively engaged in various efforts to revive the existing multilateral economic arrangements: accommodating external demands consistent with the principles, rules and procedures of the GATT more assertively; strengthening her decision-making power in the IMF; expanding overseas development assistance.<sup>41</sup> Two factors have, however, impeded Japanese efforts to internationalize her economy and to support multilateral economic regimes. One is the mercantile inertia and domestic political dynamics associated with it. The other is defection by the US.

Contrary to conventional wisdom, Japanese political leadership proved to be relatively weak and ineffective in inducing a more open national economy. Its efforts to graduate Japan from the infant, mercantile inertia have been fundamentally constrained by reactions from a ruling coalition composed of powerful bureaucrats, political cliques, and clusters of industrialists.<sup>42</sup> The domestic political backlash produced by liberalization and structural reforms is likely to deter such a movement. Import liberalization of farm products has cost the LDP rural support, while the imposition of a sales tax as part of a fiscal reform has weakened urban middle class support. This domestic rigidity emanating from the rise of political pluralism could hinder Japan's move toward multilateralism. Equally important is the unpredictable nature of the US posture. Since the Tokyo Round, the US has become increasingly impatient with multilateral solutions, tilting toward bilateral initiatives couched in the principle of strategic reciprocity. As long as these two factors persist, adopting the multilateral option in the short

run may be difficult.

Should the revival of the current multilateralism fail, Japan may seek the formation of a triple alliance with the US and Western Europe. As Fred Bergsten argues, this tripolar cooperation involves US willingness to promote shared leadership, and the willingness of Japan and Western Europe to assume the costs and benefits of leadership.<sup>43</sup> Multilateral regimes can be reshaped and realigned along the pattern of interactions among these three poles. Of course, this tripolar arrangement would be inherently unstable, and presupposes the dissolution of the Cold War system. Nevertheless, this is the emerging picture of the world economy. The East Asian NICs and ASEAN will be forced to accommodate such an arrangement.

We have so far examined six options available to Japan. What option is Japan likely to choose? The choice is a function of the dynamic interplay of the changing international system and the domestic political structure. At present, Japan is sandwiched between mounting outside pressure for liberalization and structural reforms and formidable domestic coalitions favoring the protectionist stance. In order to cope with these pressures, for the time being, Japan is likely to continue her traditional policy practices: minimum commitment, domestic adaptation, and muddling through. This will lead to the ambivalent, opportunistic pursuit of unilateral and multilateral approaches, which could increase conflict potential with her regional trading partners, clouding the future of regional economic cooperation and harmony.

In the long run, however, Japan will be forced out of this ambivalent posture, not only because of intensifying outside pressure, but also because of lateral pressure originating from the expanding size of the economy and national economic interests associated with it. This being the case, Japan is most likely to choose the combination of Japan-centric regionalism and a triple alliance. The Japanese economic dominance in the region is an irreversible trend, and could evolve into yen hegemony, which would foster an alliance with a unified European economy and a greater American economy comprising Canada and Mexico through bilateral free trade agreements. Thus, the combination of regional hegemony and global collective leadership is likely to be the most plausible scenario for Japan in the medium and long term. The regional rivals,

especially the East Asian NICs, would resist in the beginning, but will eventually be incorporated into the Japanese hegemonic system. Such incorporation will not, however, guarantee harmony and cooperation. It will remain largely up to Japan's regional economic design and management to mediate between the European style of regional economic integration and a naked neo-imperialism resembling the Greater East Asian Coprosperity Sphere void of military domination.<sup>44</sup>

### Conclusion

Japan is the dominant economy in Asia, and countries in the region have deepened their dependent ties with her in terms of trade, investment, and technology. Entering the 1980s, however, Japan has faced growing economic challenges from the East Asian NICs, which have significantly undercut Japan's share in world and US export markets. Japan has responded to these challenges by strengthening the intra-industrial division of labor, reenforcing protectionism and technonationalism, and diverting investment away from its regional rivals.

Changing structural parameters of the international system, characterized by declining American hegemony and the end of the Cold War, are projecting a new regional political and economic landscape: a call for greater regional and global leadership for Japan and the creation of new political and economic spaces for the East Asian NICs. In view of this changing international environment, Japan needs to get out of the closet of unilateral mercantilism and to assume the burden of regional and global leadership. Otherwise, the emergent economic rivalry between Japan and her regional trading partners may escalate to intense frictions and conflicts, resulting in new global and regional coalitional realignments, which would work against Japanese interests.

### Endnotes

<sup>1</sup>See Selig S. Harrison and Clyde V. Prestowitz, Jr., "Pacific Agenda: Defense or Economics?" *Foreign Policy* 79 (Summer 1990): 56-76.

<sup>2</sup>The rise and decline of US hegemony has been the subject of intense scholarly debates. For the hegemonic decline school, see Paul Kennedy, *The Rise and Fall of the Great Powers* (New York: Random House, 1988); Robert Gilpin, *War and Change in the International System* (Cambridge: Cambridge University Press, 1981); Robert Keohane, *After Hegemony* (Princeton: Princeton University Press, 1984). Those who oppose the declining school

include: Bruce Russett, "The Mysterious Case of Vanishing Hegemony: Or, Is Mark Twain Really Dead?" *International Organization* 39, no. 2 (Spring 1985): 207-231; Charles Doran, *Systems in Crisis: New Imperatives of High Politics at Century's End* (Cambridge: Cambridge University Press, 1991); Susan Strange, "The Persistent Myth of Lost Hegemony," *International Organization* 41, no. 4 (Autumn 1987): 551-573. Nau, Nye, and Rosecrance also disagree with the theme of declining US hegemony by focusing more on intention and willingness of the US to lead the world. See Joseph Nye, Jr., *Bound to Lead: The Changing Nature of American Power* (New York: Basic Books, 1990); Richard Rosecrance, *America's Economic Resurgence: A Bold New Strategy* (New York: Harper and Row, 1990); Henry Nau, *The Myth of America's Decline: Leading the World Economy into the 1990s* (London: Oxford University Press, 1990).

<sup>3</sup>For discussions on Japan's international leadership, see John H. Makin and Donald Helman (eds.), *Sharing World Leadership?: A New Era for America and Japan* (Washington, DC: American Enterprise Institute, 1989); Akira Iriye and Warren I. Cohen, eds., *The United States and Japan in the Postwar Period* (Lexington: University of Kentucky, 1989); Richard Rosecrance and Jennifer Taw, "Japan and the Theory of International Leadership," *World Politics* XLII, no. 2 (January 1990): 184-209; Kenneth Pyle, "Japan, the World and the Twenty-first Century," in Takashi Inoguchi and Daniel Okimoto, eds., *The Political Economy of Japan, Vol. II* (Stanford: Stanford University Press, 1988), 446-486.

<sup>4</sup>In order for *Pax Nipponica* to be realized, Japan should emerge as a "pole", with formidable military capability, namely, nuclear power. See John H. Mearsheimer, "Back to the Future: Instability in Europe After the Cold War," *International Security* 15, no. 1 (Summer 1990): 7.

<sup>5</sup>*Washington Post*, 1 January 1989, B2.

<sup>6</sup>For a concise overview of Japanese imperial expansion, see Ramon Myers and Mark Peattie, eds., *The Japanese Colonial Empire: 1895-1945* (Princeton: Princeton University Press, 1984).

<sup>7</sup>For a succinct discussion of Japan's freeriding behavior, see Rosecrance, *America's Economic Resurgence*, 142-148.

<sup>8</sup>On the intra-industrial division of labor, see Watanabe Toshio and Kajiwara Hirokazu, *Asia Suiheibungyo no Zidai (The Age of Asian Horizontal Division of Labor)* (Tokyo: JETRO, 1983).

<sup>9</sup>Ministry of Trade and Industry, *Tsushou Hakusho (The MITI White Paper)* (Tokyo: MITI, 1990), 269.

<sup>10</sup>*Far Eastern Economic Review*, 29 March 1990, 59.

<sup>11</sup>*Far Eastern Economic Review*, 3 May 1990, 48.

<sup>12</sup>Recent Japanese diplomatic efforts to resolve the Cambodian conflict exemplifies this tendency. For an overview of Japanese overseas development assistance, see Suzuki Nagatoshi, ed., *Nihon no Kezai Kyoryoku (Japan's Economic Cooperation)* (Tokyo: Azia Keizai Kenkyusho, 1989). *New York Times*, 7 March 1989, is also a good source.

<sup>13</sup>Contrary to conventional wisdom, East Asian economic development models approximate Japan more than the US, revealing an American outfit with Japanese ethos. This is largely due to the dissemination of Japanese ideas through personal networks cultivated during the Japanese colonial period. For other Japanese impacts involving state structure and industrial strategies, see Bruce Cumings, "The Origins and Development of the Northeast Asian Political Economy: Industrial Sectors, Product Cycles, and Political Consequences," *International Organization* 38, no. 1 (Winter 1984): 1-32.

<sup>14</sup>For the pattern of intra-regional technological transfer, see

Saito Masaru, *Gizutsuiten no Kokusai Seizi Keizai Kaku: Azia Taiheiyou Zidai no Nihon no Senryaku (The International Political Economy of Technology-Transfer: Japan's Strategy for the Age of Asia-Pacific)* (Tokyo: Touyou Keizai Shimbunsha, 1986); Korean Institute of Science and Technology, *Dongbuka Gyunjekwon ui Hyungsung gwa Hankuk ui Gisulbunup Junryak Yonku (A Study of the Formation of Northeast Asian Economic Zone and South Korea's Technological Division of Labor)* (Seoul: KIST, Research Report #89-20, 1989).

<sup>15</sup>The "flying geese" model was first implied by Kaname Akamatsu, "The Historical Pattern of Economic Growth in Developing Countries," *Developing Economics* 1, no. 1 (March/August 1962): 3-25. For its elaboration, see Saburo Okita, "Pacific Development and its Implications for the World Economy," in James Morley, ed., *The Pacific Basin: New Challenges to the US* (New York: Academy of Political Science, 1986), 26-27.

<sup>16</sup>The "swarming sparrow" pattern was suggested by Chung-in Moon, "Conclusion: A Dissenting View on the Pacific Future," in Stephan Haggard and Chung-in Moon, eds., *Pacific Dynamics: International Politics of Industrial Change* (Boulder: Westview Press, 1989), 361-362.

<sup>17</sup>Factors influencing national competitive advantage are drawn from Michael E. Porter, *The Competitive Advantage of Nations* (New York: Free Press, 1990), chapter 1.

<sup>18</sup>Nihon Keizai Shimbunsha, *Asno Raibar--Oiaegeru Azia no Kikai kougyo (Tomorrow's Rivals--Asian Machinery Industry Catching Up)* (1979), requoted from Watanabe and Kajiwara, *Azia Suihei*, 16.

<sup>19</sup>MITI, *Tsushou Hakusho* (1988), 13.

<sup>20</sup>On the concept of "arbitrary comparative advantage," see John Zysman and Laura Tyson, eds., *American Industry in International Competition* (Ithaca: Cornell University Press, 1984), chapter 1; William Cline, ed., *Trade Policy in the 1980s* (Washington, DC: Institute of International Economics, 1983), 155-158.

<sup>21</sup>Alexander Gerschenkron, *Economic Backwardness in Historical Perspective* (Cambridge: Harvard University Press, 1966).

<sup>22</sup>The analogy of "multiple catch up" structure is drawn from Watanabe and Kajiwara, *Azia Suihei*, 14-15.

<sup>23</sup>MITI, *Keizai Kyoryoku no Genshyou to Mondaiten (Present Status and Problems of Economic Cooperation)* (Tokyo: MITI, 1987), 216-217.

<sup>24</sup>Ishida Masaru, *Nichi-Kan Sangyomasaisu (Japan-Korean Industrial Friction)* (Tokyo: Keirin Shobou, 1987), 226.

<sup>25</sup>JETRO, *Nihon no Seihinyunyo no Dokou 1987 nen 1-6 Gatsu (Trend in Japan's Manufactured Imports January-June, 1987)* (Tokyo: JETRO, 1987), 39.

<sup>26</sup>MITI, *Tsushou Hakusho* (1990), 233.

<sup>27</sup>For a recent overview, see Edward Lincoln, *Japan's Unequal Trade* (Washington, DC: Brookings, 1990); Bela Balassa and Marcus Noland, *Japan in the World Economy* (Washington, DC: Institute of International Economics, 1988), 49-76.

<sup>28</sup>MITI, *Tsushou Hakusho* (1990), 233.

<sup>29</sup>*Far Eastern Economic Review*, 21 June 1990, 66.

<sup>30</sup>*Hankuk Ilbo*, 29 December 1990.

<sup>31</sup>MITI, JETRO, and Institute of Developing Economies (Azia Keizai Kenkyusho), among others, have led this campaign. See Watanabe Toshio, *Nishitaiheiyou no Zidai: Azia Shinsangyokukuka no Seizikeizai gaku (The Age of Western Pacific: The Political Economy of Asian Newly Industrializing*

Countries) (Tokyo: Bungei Shunshyu, 1989); Onouchi Chikara, ed., *Nihon no Taibei Tai Azia Keizai Kankai Dou Kangaeruka* (Thinking Japan's Economic Relations with the US and Asia) (Tokyo: Ochyanomizu Shobou, 1986); Ishida Masaru, *Nich-Kan*.

<sup>32</sup>The construction of these scenarios is drawn partly from Takashi Inoguchi, "Four Japanese Scenarios for the Future," *International Affairs* 65, no. 1 (Winter 1988/89): 15-28.

<sup>33</sup>On the concept of adversarial trade, see Peter Drucker, "Japan's Choice," *Foreign Affairs* 65, no. 5 (Summer 1987): 928.

<sup>34</sup>On the concept of technonationalism, see Robert Reich, "The Rise of Technonationalism," *The Atlantic Monthly* (May 1987), 63-69.

<sup>35</sup>The term "boomerang effects" was coined by Miyoei Shinohara, *Industrial Growth, Trade and Dynamic Patterns in the Japanese Economy* (Tokyo: University of Tokyo Press, 1982), 71-86.

<sup>36</sup>"Hollowing out effects" were first raised by Yukuo Ajima, a labor union leader in Japan. See his contribution to *Nihon Keizai Shimbun*, 15 September 1986.

<sup>37</sup>To some extent, the existing proposals on regional economic integration in the Pacific such as Kojima's The Pacific Free Trade Area (PAFTA), Drysdale and Patrick's Organization for Pacific Trade and Development (OPTAD), and Ohira's Pacific Basin Cooperation (PBC) are in principle predicated on this Japan-US condominium. See Moon, "Conclusion...", 368-370.

<sup>38</sup>See Japan Center for International Exchange, *The Pacific Community Concept: Views from Eight Nations* (Tokyo: JCIE, 1980).

<sup>39</sup>*Far Eastern Economic Review*, 31 January 1991, 32-33.

<sup>40</sup>Ishihara Shintaro and Morita Akio, "No" to Ieru Nihon (*The*

*Japan that Can Say No*) (Tokyo: Kobunsha, 1989). Its English version is now available. Shintaro Ishihara, *The Japan That Can Say No: Why Japan Will Be First Among Equals* (New York: Simon and Schuster, 1991).

<sup>41</sup>See Masaru Tamamoto, "The Japan That Can Say Yes: Groping for a World Role," *World Policy Journal* 7, no. 3 (Summer 1990): 494-98; Yasusuke Murakami and Yutaka Kosai (eds.), *Japan in the Global Community: Its Role and Contribution on the Eve of the 21st Century* (Tokyo: University of Tokyo Press, 1986); Kenneth Pyle, "Japan's New Internationalism: Struggling with the Burden of History," in Kozo Yamamura, ed., *Japanese Investment in the US: Should We Be Concerned* (Seattle: Society for Japanese Studies, 1989).

<sup>42</sup>Karel G. Van Wolfren, *The Enigma of Japanese Power* (New York: Macmillan, 1989); Clyde V. Prestowitz Jr., *Trading Places: How We Allowed Japan to Take the Lead* (New York: Basic Books, 1988).

<sup>43</sup>*Far Eastern Economic Review*, 21 June 1990, 66.

<sup>44</sup>Given the coming end of the Cold War, Japanese remilitarization is likely to be influenced more by domestic politics and resulting realignment of military thinking. In this regard, Michael M. Mochizuki identifies four basic schools of military thinking prevalent in Japan: military realism, Japanese Gaulism, political realism, and unarmed neutralism. Obviously, the rise of Japanese Gaulism, the dominant view among ultraconservatives such as Ishihara Shintaro, can lead to the revival of the Greater East Asian Coprosperity Sphere with military power. See Michael Mochizuki, "Japan's Search for Strategy," *International Security* 8, no. 3 (Winter 1983-84): 152-179.

## **About DARSP**

The Defense Academic Research Support Program (DARSP), initiated in 1982, provides a vehicle for direct contact and scholarly exchange between defense analysts and noted experts on the Third World. DARSP is managed by the Academic Research Center of the Defense Intelligence College, a professional, accredited, degree-granting institution, concentrates exclusively on the Third World, and supports only unclassified research.

The views contained in this document are those of the authors and should not be interpreted as necessarily representing the official policy, either

expressed or implied, of the Defense Intelligence College, the Department of Defense, or the US Government.

For more information on DARSP or additional copies of these papers, please write: Defense Academic Research Support Program (DARSP), Academic Research Center, Defense Intelligence College, ATTN: DARSP Manager, Washington, DC 20340-5485.

This paper was compiled and edited by Steven R. Dorr and LT Neysa M. Slater, USN.

**The views contained in this document are those of the author and should not be interpreted as necessarily representing the official policy, either expressed or implied, of the Defense Intelligence College, the Department of Defense, or the US Government.**